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NEW MEXICO RETIREE HEALTH CARE AUTHORITY

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

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C O N T E N T S

C O N T E N T S - C O N T I N U E D

New Mexico Retiree Health Care Authority

OFFICIAL ROSTER

June 30, 2016

Board of Directors

Tom Sullivan, Board President	Superintendents' Association of NM
Joe Montano, Vice-President	NM Association of Educational Retirees
Doug Crandall, Secretary	Retired Public Employees of New Mexico
Tim Eichenberg	State Treasurer of New Mexico
Wayne Propst	Public Employees' Retirement Association
Therese Saunders	NEA-NM, Classroom Teachers Association
Jan Goodwin	Educational Retirement Board
Wayne Johnson	NM Association of Counties
Terry Linton	Governor Appointee

Staff

Mark Tyndall	Executive Director
David Archuleta	Deputy Director
Debbie Vering*	Chief Financial Officer

*Resigned effective February 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
New Mexico Retiree Health Care Authority
and
Mr. Timothy Keller
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying Statement of Plan Net Position and Statement of Changes in Plan Net Position for the fiduciary activities of the New Mexico Retiree Health Care Authority (NMRHCA or the Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the New Mexico Retiree Health Care Authority's basic financial statements as listed in the table of contents. We have also audited the Combining Schedules of Plan Net Position by Functional Activity, Changes in Plan Net Position by Functional Activity and the Schedules of Revenues and Expenses – Budget and Actual by Functional Activity presented as supplementary information as of and for the year ended June 30, 2016 as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary activities of the New Mexico Retiree Health Care Authority, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the combining financial statements and budgetary comparisons referred to above present fairly, in all material respects, the plan net position of the functional activities of NMRHCA as of June 30, 2016 and the respective changes in plan net position and respective budgetary comparisons by functional activity for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements of the New Mexico Retiree Health Care Authority are intended to present the net position and changes in net position of only that portion of the fiduciary activities of the State of New Mexico that is attributable to the transactions of the New Mexico Retiree Health Care Authority. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2016, and the changes in financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified for this matter. The Agency's financial statements are included in the financial statements of the State of New Mexico

As discussed in Note B12, the State of New Mexico, as a single employer, has implemented GASB 68, *Accounting and Financial Reporting for Pensions*, in the June 30, 2016 Comprehensive Annual Financial Reports (CAFR). Accordingly, there is no allocation of the proportional share of the net pension liability to individual agencies or to the Agency's governmental funds. All other required footnotes and other disclosures required by Governmental Accounting Standards Board are included in the State of New Mexico CAFR for June 30, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and the other post-employment benefits schedules of funding progress and contributions from employer and other contributing entities' contributions on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements, the combining schedules of plan net position and changes in plan net position by functional activity, and the budgetary comparisons by functional activity. The other supplementary information and schedules required by 2.2.2 NMAC as listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The vendor information for purchases exceeding $60,000, required by 2.2.2 NMAC, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Atkinson & Co., Ltd.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 18, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

The New Mexico Retiree Health Care Authority (NMRHCA or the Authority) offers the following overview and analysis of the financial position of the Authority and the results of operations for the year ending June 30, 2016. As of this date, the Authority provided health coverage for approximately 59,736 retirees and their dependents. Data for FY15 is provided for comparative purposes. The financial statement elements do not differ greatly from those presented in prior years.

FINANCIAL REPORTING REQUIREMENTS

- Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, as adopted by the Authority July 1, 2001. It requires that financial statements include both government-wide financial statements and fund statements and that operations be accounted for in a single trust fund of the fiduciary type.

- GASB Statement No. 43, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, as adopted by the Authority for the year ended June 30, 2007. Under this provision, the Authority is considered a cost sharing multi-employer arrangement equivalent to a trust. It further requires certain detailed information in its financial statements, including disclosure of unfunded liabilities to help users to assess changes to the funded status of the Authority. A GASB 43 analysis is performed by NMRHCA biannually. The most recent analysis is FY16.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as adopted by the Authority for the year ended June 30, 2013. It introduces a fundamental change to the reporting elements that make up the statement of financial position.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources for the year ending June 30, 2014. GASB 65 was adopted by the Authority for the year ending June 30, 2014.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* revises existing guidance for governments that provide their employees with pension benefits. A principal change is the requirement for some governmental agencies to record a pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements for multiemployer cost sharing plan. The Authority is a participating member of the Public Employees Retirement Association (PERA) multiemployer cost sharing plans. It has been decided by the State of New Mexico Department of Finance and Administration that the Authority is not required to record a pro rata share of unfunded actuarial accrued liability. GASB 68 is applicable for years beginning after June 15, 2014 and was adopted by the Authority for the year ending June 30, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED
(UNAUDITED)

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

CONDENSED STATEMENTS OF ASSETS, LIABILITIES AND PLAN NET POSITION

The Authority's assets, liabilities and net position can be summarized as follows as of June 30, 2016 and 2015 (please note that the Authority has no long-term liabilities):

	2016	2015
Cash and cash equivalents	$ 10,834,755	$ 7,820,999
Accounts and other receivables	14,242,996	14,505,541
Buy-in obligation receivable	310,310	426,888
Investments with State Investment Council	466,657,944	433,818,425
Capital Assets, net	2,074,205	1,124,899
Due from other governments	10,314,114	4,642,473
Total assets	$ 504,434,324	$ 462,339,225

	2016	2015
Reserve for loss and loss adjustment expense	$ 19,577,000	$ 17,718,000
Other current liabilities	6,773,002	2,177,665
Retiree premiums received in advance	5,609,971	436,965
Total liabilities	31,959,973	20,332,630
Plan net position:		
Net invested in capital assets	2,074,205	1,124,899
Plan net position held in trust for other post employment benefits, restricted	470,400,146	440,881,696
Total plan net position	472,474,351	442,006,595
Total liabilities and plan net position	$ 504,434,324	$ 462,339,225

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED (UNAUDITED)

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

CONDENSED STATEMENTS OF CHANGES IN PLAN NET POSITION

	2016	2015
Contributions and other revenue	$ 295,935,365	$ 281,909,045
Taxation administration suspense fund revenue	29,518,783	26,677,484
Investment (loss) income	(2,131,790)	9,885,180
Total additions	323,322,358	318,471,709
All operating expenses relating to premiums and claims	292,854,602	262,504,511
Change in plan net position	$ 30,467,756	$ 55,967,198

The breakout of contributions from retirees, employers and employees was as follows:

	2016	2015
Retirees	$ 145,372,189	$ 134,665,651
Employer	86,029,296	84,119,101
Employee	43,014,680	42,059,582
Employer buy-ins interest portion	28,064	38,342
Total contributions	$ 274,444,229	$ 260,882,676

Revenues from employer buy-ins are accrued in full upon entry into the Authority. There were no employers who entered the plan during 2016.

COMMENTARY

NMRHCA plan net position increased from $442 million in FY15 to $473 million in FY16.

- Investment holdings continue to increase despite investment losses as transfers to the long-term investment account ($35 million) resulted in continued growth to the fund for FY16.
- Cash balances increased by $3 million due to timing of transfers made the trust fund held by the State Investment Council.
- Reserves for loss and loss adjustments as well as other current liabilities increased by $6.5 million. Reserves for loss and loss adjustments measures the outstanding liabilities for covered services received prior to July 1, 2016 and paid after June 30, 2016. While the increase in current liabilities is the result of the timing associated with end of year payments.

COMMENTARY - CONTINUED

- Expenditures related to the health benefits administration program increased by $30 million compared to FY15, primarily related to increases in prescription drug costs, medical services (pre-Medicare and Medicare) and other voluntary benefits. These increases can be attributed to a combination of enrollment growth and medical trend.

BUDGETARY ANALYSIS

The FY16 approved operating budget totaled $299.6 million, including $1.9 million in personal services and employee benefits, $294 million in contractual services, $692 thousand in the other category, and $3 million in the other financing uses category. Actual expenditures totaled $292.0 million supported by revenues of $325.5 million for a difference of $33.5 million, highlights are as follows:

- Healthcare Benefits Administration Program – the program approached the limits of its budget authority, but did not need to submit a budget adjustment request or exceed the amounts allowed per Laws 2015, Chapter 101, Section 4.
- Program Support - ended FY16 with a $109 thousand surplus generated by $28 thousand in savings from the personal services and employee benefits category, $49 thousand savings in the contractual services category and $38 thousand savings from the other category.

CAPITAL ASSET ACTIVITY

NMRHCA made purchases of hardware and professional services related to the development of a new eligibility, billing and accounting system. These expenditures were capitalized and will begin the amortization process upon implementation. NMRHCA did not acquire any additional capital assets in FY16.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

The New Mexico Retiree Health Care Act was enacted in Sections 10-7C-1 through 10-7C-19 NMSA 1978, for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service in the State and their eligible dependents. The Authority offers both pre Medicare and Medicare plans to eligible retirees, as well as ancillary coverage including dental, vision, and life insurance. The Retiree Health Care Act provides that the benefits offered to retired public employees may be modified, diminished, or extinguished by the Legislature, and that the Act does not create any contract, trust or other rights to public employees for health care benefits. Financing is provided through the setting of premiums for retirees by the NMRHCA Board of Directors and the allocation of governmental revenue streams by the Legislature on a "pay as you go" basis.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS – CONTINUED

NMRHCA administers the New Mexico Retiree Health Care Act. It has a funding base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, and amounts distributed annually from the Taxation Administration Suspense Fund ("TAA Fund").

During the second half of FY16 (January 1st through June 30th), NMRHCA increased rates on all self-insured medical plans in accordance with medical trend (8 percent on the pre-Medicare Plans and 6 percent on the Medicare Supplement), further reduced dependent subsidies (38 percent down to 36 percent for spouses and domestic partners and 25 percent to 12.5 percent for multiple dependents), and reduced retiree subsidies by 1 percent.

Based on the leadership by the Board of Directors, the June 2016 solvency analysis revealed continued improvements to the financial condition of the agency including an extended solvency period through 2036, compared to 2035 the previous year, despite increases in participation, limited growth in payroll and investment losses. However, actions taken by the Board including reductions in subsidies provided to pre-Medicare retirees (65 percent to 64 percent), spouses/domestic partners (38 percent to 36 percent), and multiple dependent children (25 percent to 12.5 percent) beginning January 1, 2016; combined with the adoption of a timeline to phase out the free basic life insurance policies provided to retiree who started in the program prior to December 31, 2012 supported the continued improvement.

Based on the GASB Statement 43 valuation as of June 30, 2016, and assuming that the NMRHCA Fund is an equivalent arrangement to an irrevocable trust and, hence using a discount rate of 5 percent, the unfunded actuarial accrued liability ("UAAL") has been calculated to be approximately $3.8 billion while the Annual Required Contribution (ARC) increased to $303.6 million, compared to $292.6 million in 2015. Both the UAAL and the ARC are higher than the 2014 evaluation.

While the solvency valuation indicates continued improvements to the financial outlook of the program, on a pay-as-you-go basis, the GASB report identifies significant growth in the value of the program's projected long-term liabilities, compared to the value of the assets held by the program as of June 30, 2016. However, the GASB report does not account for future revenues dedicated to the program as prescribed by State Statute.

The Board of Directors continues to identify and evaluate cost containment solutions, investment strategies and other financing sources in order to reduce future liabilities and insure the long-term viability of the program. Since 2012, the Board has implemented a strategic plan to limit the growth in plan costs and increase investments in the trust fund, while offering a variety of comprehensive medical plans serving pre-Medicare and Medicare eligible retirees. Specific actions taken by the Board include: establishing a minimum age and years of service requirement (does not apply to PERA enhanced plans); reducing retiree subsidies, reducing spousal/domestic partners subsidies; elimination of family coverage subsidies; increase cost sharing on prescription drug coverage; increase cost sharing on pre-Medicare plans; and

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS – CONTINUED

implementation of an enhanced wellness program. Additionally, the agency has pursued legislation requesting increases in employee and employer contributions, which has failed to make it through the entire legislative process.

Lastly, the Board has taken action to begin converting the basic life insurance policies granted to retirees who enrolled in the program prior to December 31, 2012, to optional/supplemental life insurance thereby eliminating a significant liability.

Future Challenges

The New Mexico Retiree Health Care Authority continues to face a significant number of challenges as the cost of providing health care continues to grow at a rate in excess of the growth from the available funding sources. Specifically, limited growth in employee and employer contributions combined with cost trends related to providing prescription drug coverage to a retiree group.

New Mexico Retiree Health Care Authority

STATEMENT OF PLAN NET POSITION

June 30, 2016

ASSETS	
Interest in State General Fund Investment Pool	$ 10,834,755
Receivables	
Accounts receivable - employers, employees and participants	11,440,316
Due from other governments	10,314,114
Accounts receivable - rebates and Medicare Part D	2,802,680
Buy-in obligations receivable - short term	125,620
Buy-in obligations receivable - long term	184,690
Total receivables	24,867,420
Investments with State Investment Council	
Fixed income core plus bonds	97,529,337
Large cap index equities	95,707,828
Emerging markets	62,771,623
Non US equities	50,315,313
Private equity	50,150,805
Credit and Structure	47,567,632
Real Estate	27,815,334
Absolute return	22,594,042
Small/mid cap	12,206,030
Total investments	466,657,944
Capital assets	
Software development costs	2,031,450
Furniture and equipment	180,978
Less accumulated depreciation	(138,223)
Total capital assets	2,074,205
Total assets	$ 504,434,324

The accompanying notes are an integral part of these financial statements.

LIABILITIES	
Accounts payable	$ 6,622,835
Payroll liabilities	59,866
Compensated absences	90,301
Reserve for loss and loss adjustment expense	19,577,000
Retiree premiums received in advance	5,609,971
Total liabilities	31,959,973
Commitments and contingencies	-
PLAN NET POSITION	
Net investment in capital assets	2,074,205
Plan net position held in trust for other post employment benefits, restricted	470,400,146
Total plan net position	472,474,351
Total liabilities and plan net position	$ 504,434,324

The accompanying notes are an integral part of these financial statements.

New Mexico Retiree Health Care Authority

STATEMENT OF CHANGES IN PLAN NET POSITION

For the year ended June 30, 2016

ADDITIONS	
Contributions	
Retirees	$ 145,372,189
Employer	86,029,296
Employees	43,014,680
Employer buy-ins interest portion	28,064
Total contributions	274,444,229
Investment losses	
Interest adjustment on on State General Fund Investment Pool	28,691
Net decrease in fair value of investments	(2,160,481)
Total net investment losses	(2,131,790)
Other additions	
Tax administration suspense fund revenue	29,518,783
Medicare Part D and rebates	21,183,916
Subrogation, refunds and miscellaneous	307,220
Total other additions	51,009,919
Total additions	323,322,358
DEDUCTIONS (ADDITIONS)	
Premiums and claims	288,039,248
General and administrative expenses	2,941,531
Losses and loss adjustment accrual increase	1,859,000
Depreciation expense	14,823
Total deductions	292,854,602
Change in plan net position	30,467,756
Plan net position, restricted, beginning of year	442,006,595
Plan net position, restricted, end of year	$ 472,474,351

The accompanying notes are an integral part of these financial statements.

NOTE A – FINANCIAL REPORTING ENTITY

The New Mexico Retiree Health Care Authority (NMRHCA or the Authority) was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated (NMSA 1978), as amended, to administer the Retiree Health Care Fund (10-7C-1-19 NMSA 1978) which was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico. The New Mexico Retiree Health Care Act created a governing Board composed of not more than 12 members. The membership composition is as follows:

1. One member who is not employed by or on behalf of, or contracting with, an employer participating in or eligible to participate in the New Mexico Retiree Health Care Act (10-7C-1 to 10-7C-19 NMSA 1978), and who shall be appointed by the Governor to serve at the pleasure of the Governor;

2. The education retirement director or the education retirement director’s designee;

3. One member to be selected by the Public School Superintendent’s Association of New Mexico;

4. One member who shall be a teacher who is certified and teaching in elementary or secondary education to be selected by a committee composed of one person designated by the New Mexico Association of Classroom Teachers, one person designated by the National Education Association of New Mexico and one person designated by the New Mexico Federation of Teachers;

5. One member who shall be an eligible retiree of a public school and who shall be selected by the New Mexico Association of Retired Educators;

6. One member who shall be an eligible retiree of an institution of higher education participating in the Retiree Health Care Act and who shall be selected by the New Mexico Association of Retired Educators (the institutions of higher education do not currently have the requisite number of participants for board representation);

7. The executive secretary of the Public Employees’ Retirement Association or the executive secretary’s designee;

8. One member who shall be an eligible State government retiree and who shall be selected by the Retired Public Employees of New Mexico;

9. One member who shall be an elected official or employee of a municipality participating in the New Mexico Retiree Health Care Act to be selected by the New Mexico Municipal League;

10. One member who shall be an elected official or employee of a county participating in the Retiree Health Care Act to be selected by the New Mexico Association of Counties;

NOTE A – FINANCIAL REPORTING ENTITY – CONTINUED

11. The State Treasurer or the State Treasurer's designee; and

12. One member who shall be a classified State employee selected by the Personnel Board in response to statutory amendment.

Every member of the Board serves at the pleasure of the party or parties that selected that member. The Board elects from its membership a president, vice president, and secretary.

The Board may enter into contracts or arrangements with consultants, professional persons or firms as may be necessary to carry out the provisions of the New Mexico Retiree Health Care Act.

Other legal duties of the Board are defined by Section 10-7C-7 of the New Mexico Retiree Health Care Act.

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* establishes the standards for defining and reporting on the financial entity. GASB 14 defines the financial reporting entity as consisting of the primary government organization for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A primary government is any State government or general-purpose local governments, consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. NMRHCA is an independent agency, not under executive control, however it is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State.

Because NMRHCA is a self-funded, mainly self-insured entity pursuant to Section 10-7C, NMSA 1978, NMRHCA is not construed to be transacting insurance activity otherwise subject to the laws of the State of New Mexico that regulate insurance companies and therefore, not subject to minimum statutory reserve requirements.

Employer and employee contributions to NMRHCA total 3 percent for non-enhanced retirement plans and 3.75 percent of enhanced retirement plans of each participating employee's salary as required by 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in NMRHCA.

Current retirees are required to make monthly contributions for individual basic medical coverage. The Board may designate other plans as "optional coverages." See section 10-7C-13.

The Authority has no component units.

NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting

NMRHCA uses the accrual basis of accounting required by GASB 43. The economic resource measurement focus is used for all assets (both financial and capital) deferred outflows, liabilities - deferred inflows, revenues, expenses, gains and losses. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recorded at the time liabilities are incurred. Employer contributions to the Authority are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

2. Basis of Presentation

The significant accounting policies are summarized in Note A and include accounting standards adopted in recent years as detailed below.

The Authority implemented Government Accounting Standards Board (GASB) Statement No. 62 *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"* which codifies preexisting authoritative guidance from all sources into GASB standards and edits such standards for the government environment as appropriate. It further eliminates the election for proprietary fund and business type reporting entities to apply certain Financial Accounting Standards guidance after November 30, 1989.

The Authority implemented Governmental Accounting Standards Board Statement No. 63 *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* (GASB 63). Deferred outflows of resources consumed and deferred inflows of resources received and available are now included in the elements that make up a statement of net financial position reporting the residual of all elements in a statement of financial position. The statement of financial position of the Authority conforms to the presentation requirements of GASB 63.

The Authority implemented Governmental Accounting Standards Board Statement No. 65 *"Items Previously Reported as Assets and Liabilities"* (GASB 65), which changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources. There were no deferred outflows or inflows of resources to separately report at June 30, 2016.

The Authority implemented Governmental Accounting Standards Board Statement No. 72 *"Fair Value Measurements and Application"* (GASB 72), which requires certain assets and liabilities to be measured at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement is effective for periods beginning after June 15, 2015.

NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Presentation – Continued

The Authority implemented Governmental Accounting Standards Board Statement No. 76 (GASB 76), The *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. This Statement is effective for FY 2016, and should be applied retroactively.

3. Program Revenue

Program revenue shown on the accompanying Statement of Changes in Plan Net Position consists primarily of contributions received from retirees, employers and employees including amounts received and accrued from employer buy-ins. Operating revenue is distinguished from non-operating revenue by considering the core purpose of NMRHCA to provide comprehensive group health insurance. As a result, contributions received from participants are considered operating revenues.

NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Interest in State General Fund Investment Pool

Interest in State General Fund Investment Pool include NMRHCA's pro rata share of liquid internal investment pools to include cash on deposit held by the New Mexico State Treasurer. Deposits with the State Treasurer are required to be collateralized at a minimum level of 50 percent. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits and the market value of purchased investments. The only checking account is a zero balance lock box depository at the State Fiscal Agent and monies are transferred daily to the State Treasurer.

5. Property and Equipment

Acquisitions of property and equipment and improvements and replacements of equipment with an initial individual cost of at least $5,000 beginning in 2006 (per Section 12-6-10 NMSA 1978) and subsequent, and $1,000 for years prior to 2006 and an estimated useful life in excess of one year are capitalized at cost. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets. The useful lives are ten years for furniture and office equipment and three to seven years for computer equipment.

6. Income Taxes

NMRHCA provides an essential governmental function to its participants as described in Section 115 of the Internal Revenue Code and therefore considers the organization exempt from federal income taxes pursuant to the Code.

7. Budgetary Process and Budgetary Basis of Accounting

The Authority prepares its budget on the accrual basis except that investment gain and loss and changes in incurred, but not reported claims expenses are not budgeted. Depreciation and investment income are not budgeted. An operating budget is submitted annually for approval to the Budget Division of the Department of Finance and Administration and reviewed by the Legislative Finance Committee. The Authority submits two budgets reflecting the Health Benefits Administration Fund and Program Support Fund. The legal level of budgetary control is at the functional level. Budget Adjustment Requests (BAR) must be reviewed by the Department of Finance and Administration. Administrative line item expenditures may legally exceed amounts budgeted; however, the total budget category expenditures may not legally exceed approved budget category amounts. One BAR was filed in FY16 reallocating expenditures from contractual services to other uses.

NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Accounts Receivable and Employer Buy-Ins

Accounts receivable derived from employers and participants consist of amounts due from employers and for contributions relating to payrolls paid prior to June 30, 2016 and amounts due from retirees for monthly premiums. Advance premiums from retirees are recorded as unearned revenues.

Qualified employers previously declining participation may elect to buy-in under 10-7C-1 NMSA 1978. Upon meeting requirements and approval, the organization will pay a determined amount to compensate the Authority and other participants for prior periods of nonparticipation and for additionally incurred liabilities. Payments can be lump sum or on the installment method for up to thirteen years and are in addition to regular monthly contributions.

9. Investments

The Authority follows GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (GASB 40). Please refer to the financial statements of the State Investment Council and the State Treasurer's office for full disclosures, including security credit ratings for investment assets that confirm to GASB 40 requirements. The Authority has no cash accounts except for a lock box arrangement for which deposits are transferred daily to the State Treasurer.

10. Restricted Plan Net Position

Plan net position and State of New Mexico pension tax revenue are restricted to provide for payment of claims and premiums in future years and to continue to provide health benefits to eligible retirees. All fiduciary funds revenue, including pension tax, is held in trust for qualified retirees. These funds are not available to the State of New Mexico for appropriation for other purposes. The restrictions on the plan net position are deemed to be legally enforceable under GASB standards. When restricted and unrestricted resources are available for the same purpose, it is the policy of NMRHCA to first apply the unrestricted resources.

11. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include claims incurred but not reported liability (IBNR), net other postemployment benefits (OPEB) obligation and the unfunded accrued actuarial liability (UAAL) for postemployment benefits. These estimates are subject to continual change.

NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. OPEB Actuarial Valuation

The Authority's Post Retirement Employee Benefits (OPEB) program actuarial valuation was conducted by the Segal Company, Phoenix, Arizona, as of June 30, 2016. The valuation was performed in accordance with GASB Statement No. 43 and 45 requirements at the request of the Authority. The valuation is conducted every two years.

13. GASB 68 Implementation

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions,* the State of New Mexico (the State) has implemented the standard for the fiscal year ending June 30, 2016.

The Authority, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, total pension liability exceeds plan net position resulting in a net pension liability. The State has determined the State's share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund of the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

NOTE C – GASB NO. 43 – CURRENT STANDARDS FOR THE AUTHORITY

The Government Accounting Standards Board (GASB) has issued Statement No. 43, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*. GASB 43 requires uniform reporting standards for OPEB plans, and is applicable to stand alone financial reports of OPEB plans established as trusts. The standard applies to the New Mexico Retiree Health Care Authority, who administers the New Mexico Retiree Health Care Act for participating public employees and employers for the State of New Mexico and issues plan financial statements thereon. NMRHCA implemented GASB Statement No. 43 for the year ended June 30, 2007.

Management will review the statement requirements on an ongoing basis for effects on operations.

NOTE C – GASB NO. 43 – CURRENT STANDARDS FOR THE AUTHORITY – CONTINUED

The legislation establishing NMRHCA specifically did not intend to create formal trust relationships among the participating employees, retirees, employers and the Authority administering the New Mexico Retiree Health Care Act Section 10-7C-1 through 19 NMSA 1978. However, the substantive plan created by the Act contains all requisite elements to be considered as the equivalent of a trust arrangement. These elements include irrevocable contributions to the plan, plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan, and plan assets are legally protected from creditors of employers or the plan administrator. Additionally, there is no provision for any participating government entity to withdraw membership and all risks and costs including benefit costs are shared and are not attributed individually to employer, and a single contribution rate applies to employers. The Authority received a legal opinion that the manner of legal organization of the Authority is substantially equivalent to a trust. As such, this requires the Authority to apply GASB 43 as a multi-employer cost sharing plan. The plan net position of the Authority is reported as restricted per GASB 46 and 10-7-C-14 NMSA 1978.

As a multi-employer cost sharing plan, the Authority presents two required financial statements and two schedules of historical trend information. The financial statements generally are the same as the fiduciary fund financial statements previously issued. There are requirements for frequency and timing of actuarial valuations, as well as actuarial methods and assumptions that are acceptable for financial reporting. The Authority has obtained actuarial valuations at least biannually and a single actuarial valuation covers all plan members. The Authority will make various disclosures including the schedules of funding progress and required employer contributions presented as required supplementary information. Available information in relation to plan membership is as follows for June 30, 2016 and 2014.

	June 30, 2016	June 30, 2014
Plan membership:		
Current retirees and surviving spouses	49,550	47,319
Inactive and eligible for deferred benefit	11,515	11,710
Current active members	98,577	96,069
	159,642	155,098
Active membership:		
State general	20,251	19,046
State police and corrections	1,842	1,784
Municipal general	20,806	19,810
Municipal police	3,721	3,492
Municipal FTRE	2,231	1,959
ERB	49,726	49,978
	98,577	96,069

NOTE C – GASB NO. 43 – CURRENT STANDARDS FOR THE AUTHORITY – CONTINUED

The funded status of the plan as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
June 30, 2016	471,978,347	4,277,042,499	3,805,064,152	11.04%	4,271,183,612	89%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of findings progress, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC), an amount that will be actuarially determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years using an open ended amortization.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits does not incorporate potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation Date:	June 30, 2016
Actuarial cost method:	Entry age normal, level percent of pay, calculated on individual employee basis

NOTE C – GASB NO. 43 IMPLEMENTATION – CONTINUED

Amortization method:	30-year open-ended amortization, level percent of payroll
Remaining amortization period:	30 years as of June 30, 2016
Asset valuation method:	Market value of assets
Actuarial assumptions:	
Discount rate:	5.00%
Projected payroll increases:	3.50%
Health care cost trend rate:	8% from July 1, 2009 to July 1, 2018, decreasing by 0.5% for each year until it reaches an unlimited rate of 5%

GASB Statement No. 45

GASB Statement No. 45 requires accrual accounting for employers for retiree welfare benefits, principally healthcare. NMRHCA has adopted GASB 45 for the year ended June 30, 2009 and has implemented it under the multi-employer cost sharing plan conditions.

Participating employers, including NMRHCA, upon their implementation of the related GASB 45, are required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made. Requirements to disclose the funded status and funding progress of the employer's plan and actuarial methods and assumptions used can be satisfied by referencing the Authority's financial statements each year.

The following changes in assumptions were made for the year ended June 30, 2016:

- This report was revised to incorporate an updated mortality, disability, turnover and salary scale and retirement assumptions were updated to reflect changes recommended in the most recent experience study.

- Per capita costs and trends on these costs were updated.

NOTE D – RETIREE HEALTH CARE ACT PLAN

NMRHCA's plan is a multi-employer defined benefit health care plan established under the New Mexico Retiree Health Care Act (10-7C-1 to 10-7C-19, NMSA 1978).

Administrative Fund (38000): Created by 10-7C-16 NMSA 1978. The purpose of this fund is to provide administrative support to carry out the purpose of the Benefit Fund and the New Mexico Retiree Health Care Act. This fund is not financed by the general fund; it is financed and reverts to the Benefit Fund (38100).

Benefit Fund (38100): Created by the New Mexico Retiree Health Care Act (10-7C-1 to 10-7C-19 NMSA 1978). The purpose of this fund is to provide core group and optional healthcare and life insurance benefits for current and future retirees and their dependents. See below for further explanation of the New Mexico Retiree Health Care Act.

The Act provides comprehensive core group health insurance for persons who have retired from public service in New Mexico. The purpose is to provide eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees. Employees of NMRHCA participate in the plan.

The post-employment benefit accrual basis revenues and expenses excluding IBNR balances relating to the approximately 59,736 retirees participating in the plan for the year ended June 30, 2016 consisted of:

Retiree/employer/employee contributions	$ 274,444,229
Premiums and claims	(288,039,248)
Net expenditures	$ (13,595,019)

Discount Prescription Drug Program (81000): Created by 10-7C-17 NMSA 1978. The purpose of this fund is to administer the discount prescription drug program. The purpose of the discount prescription drug program is to reduce the cost of prescription drugs for covered participants. This is a nonreverting fund.

NOTE E – INTEREST IN THE GENERAL FUND INVESTMENT POOL

Investments of the Authority also consist of its interest in the State Treasurer State General Fund Investment Pool (SGFIP), which is managed by the New Mexico State Treasurer. The fair value of the investments maintained at the New Mexico State Treasurer's Office at June 30, 2016 is as follows:

Fund	SHARE Fund No.	Fair Value June 30, 2016
Benefits Fund	38100	$ 10,793,879
Administrative Fund	38000	23,988
Discount Prescription Fund	81000	16,888
General Fund Investment Pool		$ 10,834,755

See also Note W for more information on the SGFIP at June 30, 2016.

Due to the fiduciary and specialized nature of the Authority, a supplementary system of the general ledger accrued account balances, including SGFIP balances have been maintained and reconciled to SHARE since the inception of SHARE for all deposits received by the Authority. Additionally, a large percentage of the Authority's disbursements are made by wire transfer in larger amounts to contractors and to the investment custodian, which are validated during the year. The Authority's administrative fund is reverting, which does not permit a carryover balance from year to year. All such reversions have been audited from the inception of SHARE. The State Treasurer has confirmed the Authority's interest in the SGFIP and the Authority no longer is subject to risk of adjustment due to the SGFIP not being reconciled. See Note W.

<u>Interest Rate Risk</u> - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

<u>Credit risk</u> - The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2016.

NOTE F – ACCOUNTS RECEIVABLE

The Authority receives contributions monthly from employers who remit the employer portion and the employee portion withheld from employees. Contributions are statutory, based on the number of employees reported by each employer for the month. Because the number of employees can change in any month, the Authority does not bill employers. The Authority depends on monthly reporting and contributions from employers. Accounts receivable also includes amounts to be received for Medicare Part D. There is no allowance for uncollectible receivables recorded at June 30, 2016, as management deems any uncollectible amounts as immaterial.

NOTE G – BUY-IN OBLIGATION RECEIVABLE

As of June 30, 2016, buy-in receivables include the following:

City of Rio Rancho	$	290,716
City of Bloomfield		19,594
	$	310,310

These obligations are receivable monthly over 13 years at 7.5% interest. The current and long-term portions are as follow:

Current portion	$	125,620
Long-term		184,690
	$	310,310

NOTE H – DUE FROM OTHER GOVERNMENTS

As of June 30, 2016, amounts due from other governments include the following:

Education Retirement Board (35200)	$	5,175,229
Taxation & Revenue Department (33300)		5,138,599
Second Judicial District Court (23200)		286
	$	10,314,114

NOTE I – PENSION TAX REVENUE AND PENSION TAX RECEIVABLE

Revenue is transferred from the New Mexico Taxation and Revenue Department in accordance with NMSA 1978, Section 7-1-6.30 and NMSA 1978, Section 7-1-6.56.

Transfers from the New Mexico Taxation and Revenue Suspense Fund are based on an additional amount of $3,000,000 per year with a 12 percent per annum increase of carryforward contribution amounts beginning July 1, 2002. Monies are transferred on the month following the month due and any amount due to NMRHCA that is not received by June 30 is accrued. All amounts accrued are received by NMRHCA after year-end. For the year ended June 30, 2016, the total revenue was $29,518,783.

NOTE J – FAIR VALUE MEASUREMENTS

NMRHCA maintains a joint powers agreement with the New Mexico State Investment Council to provide investment services in accordance with guidelines listed in NMRHCA's Investment Policy. NMRHCA monies are invested in accordance with the NMSA Section 6-8-9. NMSIC issues a separate, publicly available financial report that includes financial statements and required supplementary information.

During fiscal year 2016, NMRHCA adopted the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application,* which establishes fair value standards for certain investments held by governmental entities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investments are measured at fair value on a recurring basis which is based upon NMRHCA's share of NMSIC's pooled investments. *Recurring* fair value measurements are those that Government Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2 — Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;

NOTE J – FAIR VALUE MEASUREMENTS – CONTINUED

- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full-term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2016.

The investment portfolio is comprised of equity securities (common stock), mutual funds, and pooled investments with the SIC and is recorded in the financial statements at fair value. The corresponding unrealized gain or loss in the fair value in relation to cost is accounted for as a separate item in the statement of revenues, expenses, and changes in net position.

During 2016, the Authority used quoted market prices in an active market to determine the fair value of debt and equity securities and mutual funds. These measurements are classified within Level 1 of the fair value hierarchy. The Institute uses the classifications of investment pools provided by the SIC. These measurements are classified within levels of the fair value hierarchy as follows:

- Investments in the Large Cap Active Pool – Level 1
- Investments in the Large Cap Index Pool (Investments are in a commingled fund) – Level 2
- Investments in Small/Mid Cap Active Pool – Level 1
- Investments in Non US Developed Markets Index Pool – Level 1
- Investments in Non US Emerging Markets Index Pool – Level 1
- Investments in Core Plus Bonds Pool – Level 2
- Investments in Credit & Structured Finance Pool, Real Estate Pool, Absolute Return Pool and Private Equity Pool – Level 3

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE J – FAIR VALUE MEASUREMENTS – CONTINUED

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the GASB 72 *Fair Value Measurements and application*, fair value hierarchy in which the fair value measurements fall at June 20, 2016.

		Fair Value Measurements Using		
Investments	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments held with the New Mexico State Investment Council (SIC) pooled funds:				
Core Plus Bonds Pool	$ 97,529,337	$ -	$ 97,529,337	$ -
Cap Index Pool	95,707,828	-	95,707,828	-
Non US Emerging Markets Index Pool	62,771,623	62,771,623	-	-
Non US Equities	50,315,313	50,315,313	-	-
Private Equity Pool	50,150,805	-	-	50,150,805
Credit and Structured Finance Pool	47,567,632	-	-	47,567,632
Real Estate Pool	27,815,334	-	-	27,815,334
Absolute Return Pool	22,594,042	-	-	22,594,042
Small/Mid cap Active Pool	12,206,030	12,206,030	-	-
Total investments	$ 466,657,944	$ 125,292,966	$ 193,237,165	$ 148,127,813

The Level 2 investment pools are valued using a pricing technique that values the funds based on their relationships to similar assets. Private equity, credit and structure, real estate, and absolute return investment pools categorized as Level 3 are valued based on per capital account as received from the investment companies. Information relating to NMSIC's use of derivatives is not made available to NMRHCA.

The calculation of the net decrease in the fair value of investments is as follows for the year ended June 30, 2016:

Fair value as of June 30, 2015	$ 433,818,425
Add: Contributions	35,000,000
Add: Net market decreases during fiscal year 2016	(2,160,481)
Less: Withdrawals	-
Fair value as of June 30, 2016	$ 466,657,944

NOTE J – FAIR VALUE MEASUREMENTS – CONTINUED

GASB 72 requires additional disclosure for certain types of investments that calculate net asset value per share but are not publicly traded to assist in understanding the nature and risk of these investments by major category. The table below summarizes the fair value and other pertinent liquidity information of investments at June 30:

2016	Fair Value	Redemption Frequency	Redemption Notice Period
Core Plus Bonds	$ 97,529,337	Daily	Five business days
Cap Index Pool	95,707,828	Daily	Five business days
Non US Emerging Markets Index Pool	62,771,623	Daily	Five business days
Non US Equities	50,315,313	Daily	Five business days
Private Equity Pool	50,150,805	Daily	Five business days
Credit and Structured Finance Pool	47,567,632	Daily	Five business days
Real Estate Pool	27,815,334	Daily	Five business days
Absolute Return Pool	22,594,042	Daily	Five business days
Small/Mid cap Active Pool	12,206,030	Daily	Five business days
	$ 466,657,944		

At the request of the Authority, the State Investment Council provided the investment fees of $421,094 charged during the year ending June 30, 2016. Such fees are deducted from the ending investment account balance on a monthly basis in accordance with the joint powers agreement (See Note P).

NOTE K – CAPITAL ASSETS

A summary of capital asset activity at June 30, 2016 is as follows:

Description	Balance at 6/30/2015	Additions	Deletions	Balance at 6/30/2016
Furniture and equipment	$ 180,978	$ -	$ -	$ 180,978
Software in development	1,067,321	964,129	-	2,031,450
Total capital assets	1,248,299	964,129	-	2,212,428
Accumulated depreciation	(123,400)	(14,823)	-	(138,223)
Capital assets, net	$ 1,124,899	$ 949,306	$ -	$ 2,074,205

NOTE K – CAPITAL ASSETS – CONTINUED

Depreciation expense was $14,823 for the year ended June 30, 2016 of which $10,437 of depreciation was allocated to Administrative Fund while $4,386 was allocated to Benefits Fund. The software development is not yet placed in service and is not depreciated as of June 30, 2016

NOTE L – ACCRUED VACATION AND SICK LEAVE

Accumulated vacation, compensating time and sick leave earned and not taken are recorded as an expense in the current year in accordance with GASB Statement No. 16. Vacation earned and not taken is cumulative; however, upon termination, vacation is limited to 240 hours (30 days). Sick pay accumulated in excess of 600 hours, not to exceed 120 hours, is payable semiannually to qualified employees at a rate equal to 50 percent of the employee's hourly wage. The total vacation and sick leave accrual at June 30, 2016 was $90,301.

Balance as of June 30, 2015	Additions	Deletions	Balance as of June 30, 2016	Amount Due Within One Year
$ 90,551	$ 82,871	$ 83,121	$ 90,301	$ 67,851

NOTE M – RESERVE FOR LOSSES AND LOSS ADJUSTMENTS

The amount shown on the accompanying Statement of Plan Net Position as reserve for losses and loss adjustment expenses is an actuarially calculated estimate of the ultimate costs of settling all incurred, but not reported claims as of June 30, 2016, while the amount shown on the accompanying Statement of Changes in Plan Net Position as losses and loss adjustment expenses represents the change in this estimate during the year ended June 30, 2016. These reserves represent, in management's opinion, the best estimate of the ultimate cost of settling all reported and unreported claims. A range of variability exists around the best estimate of the ultimate cost of settling all unpaid claims. Accordingly, the amount reflected in the accompanying financial statements may not ultimately be the actual cost of settling all unpaid claims and the difference may be significant.

Reserve for losses and loss adjustments including current portion at June 30, are as follows:

	Balance as of June 30, 2015	Balance as of June 30, 2016	Current Portion
Estimated Claims Liability	$ 17,718,000	$ 19,577,000	$ 19,577,000

The increase in the estimated claims liability or "incurred but not reported reserve" (IBNR reserve) of $1,859,000 was attributable to a change in claim patterns over time. The most recent number represents liability for outstanding claims for services rendered prior to July 1, 2016 and paid after June 30, 2016.

NOTE N – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT PLAN

1. Plan Description

Substantially all of the Authority's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees' Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

2. Funding Policy

Plan members are required to contribute 8.92 percent of their gross pay. The Authority is required to contribute 16.99 percent of gross covered salary. The contribution requirements of plan members and the NMRHCA are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature. NMRHCA's contribution to PERA for the years ended June 30, 2016, 2015 and 2014 was $219,899, $203,251, and $196,976, respectively, equal to the amount of the required contributions for each fiscal year.

NOTE O – POST–EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description. The New Mexico Retiree Health Care Authority (NMRHCA), as an employer, contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by NMRHCA. The NMRHCA provides healthcare insurance and prescription drug benefits to retired employees of participating employers, their spouses, dependents, and surviving spouses and dependents. The NMRHCA Board was established by the New Mexico Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during the period of time made contributions as a participant in NMRHCA plan on the person's behalf, unless that person retires before the employer's NMRHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

NOTE O – POST–EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED

NMRHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the New Mexico Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the NMRHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service-based subsidy rate schedule for the medical, plus basic life plan, plus an additional participation fee of five dollars ($5) if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100 percent of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from NMRHCA or viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to NMRHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the NMRHCA fund in the amount determined to be appropriate by the Board.

The New Mexico Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5 percent of each participating employee's annual salary; and each participating employee was required to contribute 1.25 percent of their salary. For employees that were not members of an enhanced plan during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2 percent of each participating employee's annual salary; each participating employee was required to contribute 1 percent of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2014, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The NMRHCA's contributions to NMRHCA for the year ended June 30, 2016, 2015, and 2014 were $25,886, $23,934, and $23,785, respectively, which equal the required contributions for each year.

NOTE P – JOINT POWERS AGREEMENTS

NMRHCA has entered into two joint powers agreements:

1. An agreement exists between NMRHCA and the New Mexico State Investment Council (NMSIC) under which, NMSIC acts as the investment manager of the Retiree Health Care Fund for NMRHCA and will invest NMRHCA's long-term reserves and provide services in accordance with the guidelines provided in NMRHCA Investment Policy. The agreement was effective June 25, 1992, and continues in force until terminated by either party upon 30 days written notice to the other party. NMRHCA renewed the agreement effective December 8, 2011.

   The funds under management are invested by NMSIC in accordance with the provision of NMSA 1978, Sections 6-8-1 through 6-8-16. Fees charged for investment services are netted from investment income provided by NMRHCA on a monthly basis.

   NMRHCA policy determines the amount to invest with NMSIC. NMRHCA maintains ownership of all securities and cash balances on deposit in NMRHCA's accounts at the New Mexico State Treasurer's Office, the fiscal agent bank and the custodial bank. NMRHCA is responsible for all audits performed relating to its financial records, including all investment transactions.

2. An agreement exists among NMRHCA, New Mexico Public Schools Insurance Authority, Albuquerque Public Schools, and the State's Risk Management Division of the General Services Department (collectively, the Interagency Benefits Advisory Committee). The purpose is to authorize the parties to exercise their common powers to provide and administer health care insurance programs, and to implement the purposes of the Health Care Purchasing Act. Each agency acts as its own fiscal agent for cost purposes. The agreement was effective March 15, 1999, and continues in force until terminated by any party upon 90 days written notice to the other parties.

NOTE Q – OPTIONAL COVERAGES

Beginning September 1, 1993, NMRHCA offered eligible retirees voluntary coverages: two dental plans, a vision plan, and supplemental life. The plans are a pay-all basis by the retiree, whereby the retiree pays monthly for the entire premium for any optional coverages opted for and NMRHCA in turn pays the optional plan provider the monies collected from the retiree. Therefore, the revenue generated through the collection of optional premium dollars by NMRHCA is a direct dollar-for-dollar pass through to the providers of optional coverages. Revenues are recorded as retiree contributions and expenses are recorded as premiums in the financial statements.

NOTE R – LEGALLY REQUIRED RESERVES

There is no stated monetary reserve requirement. Under Section 10-7C-8, the Board of the Authority is charged with determining what is to make up the long-term reserves. Those long-term reserves are to be placed in investments pursuant to Section 6-8-1 through 6-8-16 NMSA 1978.

NOTE S – COMMITMENTS AND CONTINGENCIES

1. Legal Proceedings

NMRHCA is subject to various legal proceedings, claims and liabilities that arise in the ordinary course of the operations, including personnel matters. In the opinion of NMRHCA management and legal counsel, the ultimate resolution of such matters will not have material adverse impact on the financial position or results of operations of NMRHCA.

2. Risk Management

NMRHCA is exposed to various risks of loss for which NMRHCA carries insurance (Auto; Employee Fidelity Bond; General Liability; Civil Rights and Foreign Jurisdiction; Money and Securities; Property; and Workers' Compensation) with the State of New Mexico Risk Management Division (RMD). The Authority pays premiums to participate in the State Insurance Program. Coverages are designed to satisfy the requirements of the State tort claims. Also, any claims are processed through RMD. There are no pending or threatened legal proceedings at year-end.

3. Contracts

In June 2016, NMRHCA entered into several service contracts with health care providers. The total amount of these contracts approximates $300,000,000 for costs expected for fiscal year 2017.

4. Lease Agreements

NMRHCA's main office leases its office space at 4308 Carlisle NE in Albuquerque for a 10-year period ending September 2020. The Authority also leases office space at 810 San Mateo in Santa Fe; however, this lease expired on September 30, 2015 and was not renewed. As a result, NMRHCA signed a 2-year lease for space inside the PERA (related party) building located at 33 Plaza La Prensa in Santa Fe for 2 year period ending September 2017. The lease has an option to renew for an additional 3 years. The Authority has a 4-year equipment lease for two mailing machines ending October 30, 2019 and August 30, 2016. The Authority has a 4-year copier lease for two machines ending February 5, 2019 and June-30, 2016. All leases are operating leases.

Future minimum operating lease commitments are as follows for years ending June 30:

2017	$ 130,814
2018	124,910
2019	122,558
2020	115,259
2021	28,272
	$ 521,813

Total lease expense for 2016 is $182,788.

NOTE T – OPERATING TRANSFERS

The following operating transfers occurred between the NMRHCA functional activities during the year ended June 30, 2016:

	Benefits 38100 From (To)	Administration 38000 From (To)
Administration appropriation	$ (3,012,900)	$ 3,012,900
Reversion of administration	109,334	(109,334)
	$ (2,903,566)	$ 2,903,566

The purpose of the transfers was to fund appropriations, to revert unused appropriations between funds, and was made on a routine basis.

NOTE U – APPROPRIATIONS, BUDGET ADJUSTMENTS AND REVERSIONS

NMRHCA submits annually for approval an Administrative Budget Request as part of the operating budget. The Department of Finance and Administration and the Legislative Finance Committee (LFC) reviews the request and the Legislature takes action to approve and/or amend the Authority administrative request. Appropriated amounts are then transferred into the Administrative Fund from the Benefits Funds. Unused appropriations from the Benefits Fund to the Administration Fund, if any, revert back to the Benefits Fund, but unused appropriations from the State General Fund to the Discount Prescription Drug Program Fund do not revert back to the State General Fund per 10-7C-18 NMSA 1978.

NMRHCA recorded a $3,012,900 appropriation from the Benefits Fund to the Administration Fund for fiscal year 2016 (Laws 2015, Chapter 101, Section 4). An amount of $109,334 is accrued for reversion for fiscal year 2016 to the Benefits Fund. No State General Fund appropriation was made to the Discount Prescription Drug Program for fiscal year 2016 (Laws 2015, Chapter 101, Section 4). The Discount Prescription Drug Program is non-reverting fund. A special appropriation of $1,946,300 for the replacement of the Retiree Benefit Software System is in place and the appropriation expired June 30, 2016. The Authority over expended the special appropriation by $192,353.

NOTE V – SUBSEQUENT EVENTS

During the 2016 State of New Mexico legislative session, the legislature voted to eliminate the additional $250,000 monthly amount received from the pension tax revenue starting January 1, 2017 and voted to not have an annual 12% increase for the next two years starting July 1, 2017.

NOTE V – SUBSEQUENT EVENTS – CONTINUED

Subsequent events have been evaluated through November 18, 2016, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2016. Management believes no additional material subsequent events have arisen that would require adjustment or disclosure.

NOTE W – GENERAL FUND INVESTMENT POOL NOT RECONCILED

State law (Section 8-6-3 NMSA 1978) requires the Authority's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Authority consist of an interest in the State General Fund Investment Pool (SGFIP or Pool) managed by the New Mexico State Treasurer's Office. Claims on the Pool are reported as assets by the various agencies in the Pool.

In June 2012, an independent diagnostic report revealed that Pool balances had not been reconciled at a "business unit by fund" level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled "Current State Diagnostic of Cash Control," also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

By state statute, the New Mexico Department of Finance & Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Various efforts have been made to reconcile the SGFIP from July 2006 to January 2013. Through correspondence, DFA provided an update through October 2015 as follows. The Financial Control Division (FCD) of DFA now has an operational model that effectively compares statewide claims against the SGFIP and resources held at the State Treasurer's Office. This process has been operational since March 2015, and FCD now has data points beginning with January 2015 business.

During 2016, FCD was able to reinstate $100 million of the amount that recorded as a loss contingency. Additionally for fiscal year 2016, FCD is able to assert the following points:

1. The calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< $200k standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP;
3. All claims will be honored at face value.

NOTE X – NEW ACCOUNTING STANDARDS

GASB 74

Governmental Accounting Standards Board Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans is intended to enhance the decision-usefulness of the financial reports of OPEB plans, their value for assessing accountability and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. GASB 74 basically parallels GASB 67 and replaces Statements No. 43 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. GASB 74 requires enhanced note disclosures and is effective for financial statements for fiscal years beginning after June 15, 2016 (FY 17). GASB 74 will directly affect the accounting and disclosures required by the Authority. Management has not yet fully determined the impact of GASB 74.

GASB 75

Governmental Accounting Standards Board Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB 75 is effective for fiscal years beginning after June 15, 2017 (FY18). Management has not yet fully determined the impact of GASB 75.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER AND OTHER CONTRIBUTING ENTITIES' CONTRIBUTIONS (UNAUDITED)

June 30, 2016

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
June 30, 2006	$ 154,538,668	$ 4,264,180,967	$ 4,109,642,299	3.62%	$ 4,073,731,873	101%
June 30, 2008	170,626,271	3,116,915,900	2,946,289,629	5.47%	4,020,508,902	73%
June 30, 2010	176,922,935	3,523,664,871	3,346,741,936	5.02%	4,001,802,240	84%
June 30, 2012	227,487,895	3,915,114,104	3,687,626,209	5.81%	3,876,220,608	95%
June 30, 2014	377,087,017	3,740,367,299	3,363,280,282	10.08%	3,941,587,760	85%
June 30, 2016	471,978,347	4,277,042,499	3,805,064,152	11.04%	4,271,183,612	89%

Note: The schedule of funding progress is based on healthcare laws and regulations existing at June 30, 2016.

FACTORS AFFECTING AMOUNTS AND TRENDS REPORTED

The sixth actuarial study based on GASB 43 requirements has been completed and increases are reported for the year ended June 30, 2016 in the UAAL. Factors in these reported increases are as follows:

Both the UAAL and the AAL are higher than the 2014 evaluation. Major factors in this determination include the ratio of assets to the actuarially accrued liability (the funded ratio), updates to the vesting schedule including a minimum retirement age and gradual elimination of subsidies provided for the basic life insurance benefit.

SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITIES' CONTRIBUTIONS

Plan Year Beginning	Annual Required Contributions	Actual Contributions Employers	Percentage Contributed
July 1, 2008	$ 275,517,523	$ 94,059,722	34.1%
July 1, 2009	286,538,244	96,816,528	33.8%
July 1, 2010	297,999,753	114,847,107	38.5%
July 1, 2011	326,994,988	120,873,224	37.0%
July 1, 2012	340,074,787	142,053,551	41.8%
July 1, 2013	353,657,828	135,388,449	38.3%
July 1, 2014	367,804,141	149,277,185	40.6%
July 1, 2015	292,656,765	156,670,251	53.5%
July 1, 2016	303,631,394	159,862,801	52.7%
July 1, 2017	317,546,941	Not made yet	N/A

SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF PLAN NET POSITION BY FUNCTIONAL ACTIVITY

June 30, 2016

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Eliminations	Total
ASSETS					
Short-term investments with State Treasurer	$ 10,793,879	$ 23,988	$ 16,888	$ -	$ 10,834,755
Receivables					
Accounts receivable - employers, employees and participants	11,440,316	-	-	-	11,440,316
Due from other governments	10,314,114	-	-	-	10,314,114
Accounts receivable - rebates and Medicare Part D	2,802,680	-	-	-	2,802,680
Buy-in obligations receivable	310,310	-	-	-	310,310
Due from other funds	109,334	-	-	(109,334)	-
Total receivables	24,976,754	-	-	(109,334)	24,867,420
Long-term investments with State Investment Council					
Fixed income core plus bonds	97,174,775	354,562	-	-	97,529,337
Large cap index equities	95,359,889	347,939	-	-	95,707,828
Emerging markets	62,543,421	228,202	-	-	62,771,623
Non US equities	50,132,395	182,918	-	-	50,315,313
Private equity	49,968,485	182,320	-	-	50,150,805
Credit and Structure	47,394,703	172,929	-	-	47,567,632
Real Estate	27,714,213	101,121	-	-	27,815,334
Absolute return	22,511,903	82,139	-	-	22,594,042
Small/Mid cap	12,161,656	44,374	-	-	12,206,030
Total investments	464,961,440	1,696,504	-	-	466,657,944
Capital assets					
Software development costs	2,031,450	-	-	-	2,031,450
Equipment and furniture	21,931	159,047	-	-	180,978
Less accumulated depreciation	(10,775)	(127,448)	-	-	(138,223)
Total capital assets	2,042,606	31,599	-	-	2,074,205
Total assets	$ 502,774,679	$ 1,752,091	$ 16,888	$ (109,334)	$ 504,434,324
LIABILITIES					
Accounts payable	$ 6,519,498	$ 103,337	$ -	$ -	$ 6,622,835
Payroll liabilities	-	59,866	-	-	59,866
Compensated absences	-	90,301	-	-	90,301
Reserve for loss and loss adjustment expense	19,577,000	-	-	-	19,577,000
Due to other funds	-	109,334	-	(109,334)	-
Retiree premiums received in advance	5,609,971	-	-	-	5,609,971
Total liabilities	31,706,469	362,838	-	(109,334)	31,959,973
PLAN NET POSITION	471,068,210	1,389,253	16,888	-	472,474,351
Total liabilities, deferred inflows and plan net position	$ 502,774,679	$ 1,752,091	$ 16,888	$ (109,334)	$ 504,434,324

SCHEDULE 2

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF CHANGES IN PLAN NET POSITION BY FUNCTIONAL ACTIVITY

For the year ended June 30, 2016

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Eliminations	Total
ADDITIONS					
Contributions					
Retiree	$ 145,372,189	$ -	$ -	$ -	$ 145,372,189
Employer/employee	129,043,976	-	-	-	129,043,976
Employer buy-ins interest portion	28,064	-	-	-	28,064
Total contributions	274,444,229	-	-	-	274,444,229
Investment losses					
Interest adjustment	27,888	803	-	-	28,691
Net decrease in fair value of investments	(2,152,626)	(7,855)	-	-	(2,160,481)
Total net investment losses	(2,124,738)	(7,052)	-	-	(2,131,790)
Other additions					
Taxation administration suspense fund revenue	29,518,783	-	-	-	29,518,783
Medicare Part D and rebates	21,183,916	-	-	-	21,183,916
Subrogation, refunds and miscellaneous	306,407	813	-	-	307,220
Total other additions	51,009,106	813	-	-	51,009,919
Total additions	323,328,597	(6,239)	-	-	323,322,358
DEDUCTIONS					
Premiums and claims	288,039,248	-	-	-	288,039,248
General and administrative expenses	37,965	2,903,566	-	-	2,941,531
Losses and loss adjustment expenses	1,859,000	-	-	-	1,859,000
Depreciation	4,386	10,437	-	-	14,823
Total deductions	289,940,599	2,914,003	-	-	292,854,602
Transfer (out) in, net of reversion	(2,903,566)	2,903,566	-	-	-
Change in plan net position	30,484,432	(16,676)	-	-	30,467,756
Plan net position, beginning of year	440,583,778	1,405,929	16,888	-	442,006,595
Plan net position end of year	$ 471,068,210	$ 1,389,253	$ 16,888	$ -	$ 472,474,351

New Mexico Retiree Health Care Authority

SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL (ACCRUAL BUDGET BASIS)

For the year ended June 30, 2016

	Fund 38100			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Retiree contributions	$ 135,600,400	$ 135,600,400	$ 145,372,189	$ 9,771,789
Employer/employee contributions	109,440,700	109,440,700	129,072,040	19,631,340
Pension taxes	29,256,200	29,256,200	29,518,783	262,583
Investment income	26,700	26,700	27,888	1,188
Miscellaneous revenue	22,300,000	22,300,000	21,490,323	(809,677)
Total revenues	296,624,000	296,624,000	325,481,223	28,857,223
EXPENSES				
Personal services/employee benefits	-	-	-	-
Contractual services	294,610,841	294,310,841	289,003,377	5,307,464
Other	40,000	70,000	37,965	32,035
Total expenses	294,650,841	294,380,841	289,041,342	5,339,499
TRANSFERS				
Transfers in - Intra agency from SHARE 38000 - reversion	-	-	109,334	109,334
Transfers out - Intra agency to SHARE 38000	(3,012,900)	(3,012,900)	(3,012,900)	-
Total transfers	$ (3,012,900)	$ (3,012,900)	(2,903,566)	$ 109,334
Net change in plan net position (budgetary basis)			33,536,315	
Capital outlay - software development			964,129	
Depreciation			(4,386)	
Gain on investments excluding interest			(2,152,626)	
Change in IBNR liability			(1,859,000)	
Change in plan net position, GAAP basis			$ 30,484,432	

New Mexico Retiree Health Care Authority

SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL (ACCRUAL BUDGET BASIS) – CONTINUED

For the year ended June 30, 2016

	Fund 38000			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Employer/employee contributions	$ -	$ -	$ -	$ -
Pension taxes	-	-	-	-
Investment income	-	-	803	803
Other financial sources	-	-	813	813
Total revenues	-	-	1,616	1,616
EXPENSES				
Personal services/employee benefits	1,920,200	1,920,200	1,898,648	21,552
Contractual services	485,200	470,200	420,658	49,542
Other	607,500	622,500	584,260	38,240
Total expenses	3,012,900	3,012,900	2,903,566	109,334
TRANSFERS				
Transfers in - Intra agency from SHARE 38100	3,012,900	3,012,900	3,012,900	-
Transfers out - Intra agency to SHARE 38100 - reversion	-	-	(109,334)	109,334
Total transfers	$ 3,012,900	$ 3,012,900	2,903,566	$ 109,334
Net change in plan net position			1,616	
Gain on investments excluding interest			(7,855)	
Depreciation			(10,437)	
Change in plan net position, GAAP basis			$ (16,676)	

New Mexico Retiree Health Care Authority

SCHEDULE OF REVENUES AND EXPENSES –
BUDGET AND ACTUAL (ACCRUAL BUDGET BASIS) – CONTINUED

For the year ended June 30, 2016

	Fund 81000			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Employer/employee contributions	$ -	$ -	$ -	$ -
Pension taxes	-	-	-	-
Investment income	-	-	-	-
General fund appropriation	-	-	-	-
Total revenues	-	-	-	-
EXPENSES				
Personal services/employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other financial uses	-	-	-	-
Other	-	-	-	-
Total expenses	$ -	$ -	-	$ -
Net change in plan net position			-	
State general fund reversion expense			-	
Change in plan net position, GAAP basis			$ -	

This fund was not budgeted for FY16 due to no activity in recent years.

OTHER SUPPLEMENTARY INFORMATION

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES BY FUNCTIONAL ACTIVITY

For the year ended June 30, 2016

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Total
GENERAL AND ADMINISTRATIVE EXPENSES				
Professional services	$ -	$ 1,295,547	$ -	$ 1,295,547
Employee benefits	-	603,101	-	603,101
Operating costs	37,965	471,423	-	509,388
Contractual services	-	420,658	-	420,658
Repairs and maintenance	-	47,186	-	47,186
Supplies	-	45,177	-	45,177
In-state travel	-	17,902	-	17,902
Out-of-state travel	-	2,572	-	2,572
Total	$ 37,965	$ 2,903,566	$ -	$ 2,941,531

New Mexico Retiree Health Care Authority

COMBINING SCHEDULE OF STATE GENERAL FUND INVESTMENT POOL

For the year ended June 30, 2016

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Total
Investment balances per DFA-New Mexico State Treasurer				
Share Fund 34300-38100	$ 10,793,879	$ -	$ -	$ 10,793,879
Share Fund 34300-38000	-	23,988	-	23,988
Share Fund 34300-81000	-	-	16,888	16,888
Reconciling items - none	-	-	-	-
	$ 10,793,879	$ 23,988	$ 16,888	$ 10,834,755

Please see Note E for more information.

New Mexico Retiree Health Care Authority

SCHEDULE OF APPROPRIATIONS

For the year ended June 30, 2016

Description	Authority	Appropriation Period	Share Fund	Total Appropriation	Prior Year Expenditures	Current Year Expenditures	Current Year Reversion Amount
Program support for Administrative Fund	Laws 2015 House Bill 2, Chapter 101 Section 4	2016	38000	$ 3,012,900	$ -	$ 2,903,566	$ 109,334
Replace Retiree Benefits System (Care View)	Laws 2012 House Bill 2, Chapter 19 Section 7	2013-2016	38100	$ 1,946,300	$ 1,174,524	$ 771,776	$ - *

According to 10-7C-16 NMSA 1978, funds to administer the New Mexico Retiree Health Care Act are to be made by an operating budget adopted by the Board, adopted by the State Budget Division, and pursuant to appropriation by the Legislature. The appropriated amounts to SHARE Fund 38000 are recorded as transfers between Benefit Fund (38100) and the Administrative Fund (38000). See Note T. Unexpended amounts under the special appropriation are not recognized until all eligibility requirements have been fulfilled under the appropriation including the expenditure of allowable amounts.

* The Authority spent $192,353 of its own funds in addition to the current year expenditures of $771,776 on the Care View project which is to replace the current retiree benefits system. See Finding 2016-001.

New Mexico Retiree Health Care Authority

SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING $60,000 (UNAUDITED)

For the year ended June 30, 2016

The Chart below identifies contracts listed by type of procurement, amount and brief description. The amount of awarded contract differs greatly from amount of the amended contract given the multi-year nature of each contract listed.

Agency Number	Agency Name	Agency Type	RFP#/Contract #	Type of Procurement	Vendor Name	Did Vendor Win Contract?	$ Amount of Awarded Contract	$ Amount of Amended Contract	Physical Address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work
34300	Retiree Health Care Authority	State Agency	Multi-Year 13-343-0381-0001	Request for Proposal	BlueCross & BlueShield of New Mexico, a Division of Health Care Svcs Corp., A Mutual Legal Reserve Co.	Winner	$ 47,600,000.00	$ 424,575,000.00	BlueCross BlueShield of New Mexico 5701 Balloon Fiesta Parkway NE Albuquerque, NM 87113	Yes	No	Procure health insurance for non-Medicare NMRHCA retirees, spouses and dependents
34300	Retiree Health Care Authority	State Agency	Multi-Year 13-343-0381-0004	Request for Proposal	BlueCross & Blue Shield of New Mexico (Medicare Advantage Plan) (Lovelace Insurance Co. thru 06/01/2014)	Winner	$ 1,250,000.00	$ 13,145,000.00	BlueCross BlueShield of New Mexico 5701 Balloon Fiesta Parkway NE Albuquerque, NM 87113	Yes	No	Procure fully-insured Medicare Advantage products (with RX coverage) for NMRHCA retirees and spouses.
34300	Retiree Health Care Authority	State Agency	Multi-Year 13-343-0381-0005	Request for Proposal	Presbyterian Health Plan, Inc. (Medicare)	Winner	$ 1,250,000.00	$ 24,575,000.00	Presbyterian Health Plan, Inc. 2501 Buena Vista SE PO Box 27489 Albuquerque, NM 87125-7489	Yes	No	Procure Medicare health insurance for NMRHCA retirees
34300	Retiree Health Care Authority	State Agency	Multi-Year 13-343-0381-0006	Request for Proposal	Presbyterian Health Plan, Inc. (Non-Medicare)	Winner	$ 16,000,000.00	$ 154,225,000.00	Presbyterian Health Plan, Inc. 2501 Buena Vista SE PO Box 27489 Albuquerque, NM 87125-7489	Yes	No	Procure health insurance for non-Medicare NMRHCA retirees, spouses & dependents
34300	Retiree Health Care Authority	State Agency	Multi-Year 14-343-0381-0001	Request for Proposal	UnitedHealthcare Insurance Company	Winner	$ 1,500,000.00	$ 6,015,000.00	UnitedHealthcare Insurance Company 9800 Healthcare Lane MN006 W010 Minnetonka, MN 55343	Yes	No	Provide Medicare Advantage with Prescription Drug Benefit coverage for retirees and spouses.
34300	Retiree Health Care Authority	State Agency	Multi-Year 13-343-0381-0011	Request for Proposal	Delta Dental of New Mexico	Winner	$ 2,560,000.00	$ 24,475,000.00	Delta Dental of New Mexico 2500 Louisiana NE, Suite 600 Albuquerque, NM 87110	Yes	No	Procure Dental services for NMRHCA retirees, spouses and dependents

New Mexico Retiree Health Care Authority

SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING $60,000 (UNAUDITED) - CONTINUED

For the year ended June 30, 2016

State Agency	Multi-Year 13-343-0381-0007	Request for Proposal	United Concordia Companies	Winner	$ 5,100,000.00	$ 40,900,000.00	United Concordia Companies 6301 Indian School Rd. NE Albuquerque, NM 87110	Yes	No	Procure dental services for NMRHCA retirees, spouses and dependents
State Agency	Multi-Year 13-343-0381-0002	Request for Proposal	Davis Vision	Winner	$ 890,000.00	$ 7,972,500.00	Davis Vision 6301 Indian School Road, Suite 200 Albuquerque, NM 87110	Yes	No	To procure Vision services for NMRHCA retirees, spouses, and dependents
State Agency	Multi-Year 13-343-0380-0002	Request for Proposal	The Segal Group	Winner	$ 250,000.00	$ 1,000,000.00	The Segal Group 1230 West Washington Street, Suite 501 Tempe, AZ 85281	Yes	No	Procure Actuarial Services for NMRHCA
State Agency	Multi-Year 50-350-14-05767	Request for Proposal	Standard Insurance Co.	Winner	$ 11,500,000.00	$ 11,500,000.00	The Standard Insurance Company 900 SW 5th Ave., Portland OR 97204	Yes	No	Provide Group Term Life Insurance for NMRHCA Retirees
State Agency	Multi-Year 15-343-0381-0002	Request for Proposal	Express Scripts, Inc.	Winner	$ 26,100,000.00	$ 160,000,000.00	Express Scripts, Inc. One Express Way St. Louis, MO 63121	Yes	No	Procure Pharmacy Benefit Management Services for Retirees, Spouses and Dependents
State Agency	30-343-00-00442	Request for Proposal	POD, Inc.	Winner	$ 1,372,882.50	$ 1,372,882.50	POD, Inc. 5971 Jefferson St NE Suite 101 Albuquerque, NM 87109	Yes	No	REBIS Upgrade and Enhancement Project
State Agency	60-343-15-00499	Request for Proposal	Blue Cross and Blue Shield of New Mexico	Non-award	$ -	$ -	Blue Cross and Blue Shield of New Mexico 5701 Balloon Fiesta Parkway NE Albuquerque, NM 87113	Yes	No	Dental and Vision coverage
State Agency	60-343-15-00499	Request for Proposal	Cigna Healthcare	Non-award	$ -	$ -	Cigna Healthcare 8505 E Orchard Rd. 5T1 Greenwood Village, CO 80111	No	No	Medical coverage
State Agency	60-343-15-00499	Request for Proposal	HealthSCOPE Benefits	Non-award	$ -	$ -	HealthSCOPE Benefits 27 Corporate Hill Drive Little Rock, AR 72205	No	No	Medical coverage
State Agency	60-343-15-00499	Request for Proposal	Mayo Clinic Health Solutions	Non-award	$ -	$ -	Mayo Clinic Health Solutions 4001 41st Street NW Rochester, MN 55901-8901	No	No	Medical coverage
State Agency	60-343-15-00499	Request for Proposal	MetLife	Non-award	$ -	$ -	Metlife 6400 S Fiddlers Green Cir., Suite 220 Greenwood Village, CO 80111	No	No	Dental and Vision coverage

New Mexico Retiree Health Care Authority

SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING $60,000 (UNAUDITED) - CONTINUED

For the year ended June 30, 2016

State Agency	60-343-15-00499	Request for Proposal	United Healthcare	Non-award	$ -	$ -	United Healthcare 1 East Washington St., Suite 1700 Phoenix, AZ 85004	No	No	Vision coverage
State Agency	60-343-15-00499	Request for Proposal	United Healthcare	Non-award	$ -	$ -	United Healthcare 1 East Washington St., Suite 1700 Phoenix, AZ 85004	No	No	Pre-Medicare coverage
State Agency	60-343-15-00499	Request for Proposal	VSP (Vision Service Plan)	Non-award	$ -	$ -	VSP (Vision Service Plan) 3333 Quality Drive, M/S 115 Rancho Cordova, CA 95670	No	No	Vision coverage
State Agency	2016-IBAC-0001	Request for Proposal	The Segal Group	Winner	$ 315,000.00	$ -	The Segal Company 1230 West Washington Street, Suite 501 Tempe, AZ 85281	No	No	Actuarial services
State Agency	2016-IBAC-001	Request for Proposal	Aon Risk Solutions	Non-award	$ -	$ -	Aon Risk Insurance Services West, Inc. 6501 Americas Parkway NE, Suite 650 Albuquerque, NM 87110	No	No	Actuarial services
State Agency	2016-IBAC-001	Request for Proposal	USI Insurance Services LLC	Non-award	$ -	$ -	USI Insurance Services LLC 245 N Waco, Ste 412 Wichita, KS 67202	No	No	Actuarial services
State Agency	2016-IBAC-001	Request for Proposal	Arthur J Gallagher & Co.	Non-award	$ -	$ -	Gallagher Benefit Services Inc. 6399 South Fiddler's Green Circle Greenwood Village, CO 80111	Yes	No	Actuarial services
State Agency	2015-IBAC-0001	Request for Proposal	Arthur J Gallagher & Co.	Non-award	$ -	$ -	Gallagher Benefit Services 6399 South Fiddler's Green Circle, Ste 200 Greenwood Village, CO 80111	Yes	No	Consultant for Medical, Dental, Vision Plan Procurement
State Agency	2015-IBAC-0001	Request for Proposal	HUB International	Non-award	$ -	$ -	HUB International Insurance Services Inc. 7770 Jefferson NE, Suite 101 Albuquerque, NM 87109	Yes	No	Consultant for Medical, Dental, Vision Plan Procurement
State Agency	2015-IBAC-0001	Request for Proposal	The Segal Group	Winner	$ 62,000.00	$ -	The Segal Company 1230 West Washington Street, Suite 501 Tempe, AZ 85281	No	No	Consultant for Medical, Dental, Vision Plan Procurement

atkinson
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
New Mexico Retiree Health Care Authority
and
Mr. Timothy Keller
New Mexico State Auditor

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the comptroller general of the United States, the accompanying Statement of Plan Net Position and Statement of Changes in Plan Net Position for the fiduciary activities of the New Mexico Retiree Health Care Authority (NMRHCA or the Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the New Mexico Retiree Health Care Authority's basic financial statements as listed in the table of contents. We have also audited the Combining Schedules of Plan Net Position by Functional Activity and Changes in Plan Net Position by Functional Activity and the Schedules of Revenues and Expenses – Budget and Actual by Functional Activity presented as supplementary information as of and for the year ended June 30, 2016 as listed in the table of contents and have issued our report thereon dated November 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NMRHCA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMRHCA's internal control. Accordingly, we do not express an opinion on the effectiveness of NMRHCA's internal control.

A *deficiency in internal control exists* when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and question costs as items 2016-001 and 2016-002.

NMRHCA Responses to Findings

NMRHCA's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. NMRHCA's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NMRHCA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 18, 2016

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2016

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified

INTERNAL CONTROL OVER FINANCIAL REPORTING

Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted?	Yes

FINANCIAL STATEMENT FINDINGS

None

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER

2016-001 – Over expending data processing appropriation (Other Noncompliance)
2016-002 – Mileage and per diem (Other Noncompliance)

RESOLUTION OF PRIOR YEAR FINDINGS

None

CURRENT YEAR FINDINGS

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER NONCOMPLIANCE

Finding 2016-001 – Over expending data processing appropriation (Other Noncompliance)

Statement of Condition:

According to the Laws 2012 House Bill 2, Chapter 19 section 7, New Mexico Retiree Health Care Authority received a data processing appropriation of $1,946,300 to replace the retiree benefit system. The period of completion was extended with the Laws 2014 Senate Bill 313, Chapter 63 Section 7 through June 30, 2016. Upon completing the retiree benefit system project, management determined the expenditures against the data processing appropriation exceeded the appropriated amount by $192,353 and self-reported the exceed appropriation to the Department of Finance and Administration.

Criteria:

According to 6-6-6 NMSA 1978 (Unannotated), the budget is binding and no amounts should be allowed or approved that are in excess of the budget.

Cause of Condition:

The budget code for the expenditures relating to the data processing appropriation were not monitored appropriately. Additionally, the Authority did not transfer the appropriated cash into the cash general ledger for the data processing appropriation budget code which would have provided the balance available to spend on the appropriation.

Effect of Condition:

The effect of the condition is an over expended amount of $192,353 which could have been made available for the funding of future benefit costs.

Recommendation:

We recommend that management implement policies and procedures to establish regular budget review and monitoring including special budget codes as well as transferring the appropriated amounts to the specific budget code cash account provided by the Department Finance and Administration.

Management's response:

During the 2012 Legislative Session, the New Mexico Retiree Health Care Authority received a Data Processing Appropriation (Laws 2012, 2nd Regular Session, Chapter 19, Section 7) for the REBIS upgrade and enhancement project totaling $1,946,300. Beginning in FY15, NMRHCA staff began to capitalize professional services expenditures related to the programming and development of system. When these expenditures were capitalized, SHARE basically reversed the expenditures and freed up budget authority, providing NMRHCA staff with the impression

CURRENT YEAR FINDINGS

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER NONCOMPLIANCE

Finding 2016-001 – Over expending data processing appropriation (Other Noncompliance) – continued

Management's response – continued:

that expenditures were well below authorized amounts. In order to prevent a similar instance from occurring in the future, if and when, a Special or Data Processing Appropriation is received, the CFO will establish a department-level budget in SHARE that will allow us to track expenses independently of our overall program-level budgets.

Finding 2016-002 – Mileage and per diem (Other Noncompliance)

Statement of Condition:

For two out of the twenty mileage and per diem payments tested, prior written permission to reimburse actual expense did not appear to have been provided.

Criteria:

According to 10-8-4K NMSA 1978 (Unannotated), certain persons of the local public body are entitled to actual reimbursements for per diem expenses with prior written permission.

Cause of Condition:

Prior written permission was not given before the reimbursement of actual per diem expenses.

Effect of Condition:

The Authority was not in compliance with the State of New Mexico mileage and per diem regulations and provided reimbursements of actual expenses approximating $48.

Recommendation:

We recommend that management implement policies and procedures to establish that when actual per diem expenses are anticipated that the Authority provide prior written permission before the expenses are incurred.

Management's response:

The Board of Directors will consider the following options in fiscal year 2017: 1. Amend board policies and procedures to include approval of "actuals" for board members related to the annual meeting upon review and adoption of those policies and procedures each year or 2. NMRHCA staff will remind board members to seek executive director/board president approval by email prior to the submission of "actual" expenses for meals and lodging at our annual board meeting.

EXIT CONFERENCE

June 30, 2016

An exit conference was held on November 16, 2016, in a closed session, with the following in attendance:

NM Retiree Health Care Authority Personnel and Board Members

Jan Goodwin, Board Member, Audit Committee Chairperson

Tom Sullivan, Chairman

Terry Linton, Board Member

Mark Tyndall, Executive Director

David Archuleta, Deputy Director

Josefina Roberts, Chief Financial Officer

Greg Archuleta, Director of Communications and Member Management

Atkinson & Co., Ltd. Personnel

Martin Mathisen, CPA, CGFM, Audit Director

David Thomas, CPA, Audit Manager

The basic financial statements have been prepared by Atkinson & Co., Ltd. with assistance from the New Mexico Retiree Health Care Authority, who is responsible for their content.

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