

NEW MEXICO
DEPARTMENT OF
HEALTH

**FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION**

JUNE 30, 2006

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Official Roster
June 30, 2006**

Department Officials

June 30, 2006

Secretary	Michelle Lujan-Grisham
Deputy Secretary - CFO	Duffy Rodriguez
Deputy Secretary	Jennifer Stone
Deputy Secretary	Jessica Sutin

Division Directors

Administrative Services Division	Adolfo Alarid
Behavioral Health Services	Karen Meador
Chief Information Officer	Bob Mayer
Chief Medical Officer	Dr. Ron Voorhees
Developmentally Disabled Community Services	Sam Howarth
Division of Health Improvement	Katrina Hotrum
Human Resource Bureau	Daniel Jacobs
Internal Audit	Dennis DeVary
Legal Counsel	Jeff Rein
Public Health Division	Kristine Suozzi
Scientific Laboratory Division	David Mills

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

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INDEPENDENT AUDITORS' REPORT

Ms. Michelle Lujan-Grisham, Secretary
 State of New Mexico
 Department of Health and
 Mr. Domingo Martinez, CGFM
 New Mexico State Auditor

We have audited the accompanying basic financial statements of the governmental activities and the major fund, the major fund budget comparison and the aggregate remaining fund information of the State of New Mexico Department of Health (the Department) as of and for the year ended June 30, 2006, which comprise the Department's basic financial statements as listed in the table of contents. We also have audited the program budget comparison of the department presented as supplementary information as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of New Mexico that is attributable to the transactions of the Department.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Department as of June 30, 2006, and the respective changes in financial position thereof, and the budgetary comparison for the

Ms. Michelle Lujan-Grisham, Secretary
State of New Mexico
Department of Health and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

major governmental fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective program budget comparisons of the Department as of June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2006, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the basic financial statements and the budgetary comparisons of the Department. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the schedules listed as other supplementary schedules in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Department. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Mayne + Company, LLC
December 13, 2006

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Management's Discussion and Analysis
For the Year Ended June 30, 2006**

The following Management's Discussion and Analysis, or MD&A, for the State of New Mexico, Department of Health (the Department) introduces the basic financial statements and provides an analytical overview of the Department's financial condition and results of operations as of and for the year ended June 30, 2006. Additionally, the MD&A provides a discussion of significant changes in the account categories presented in the entity-wide Statement of Net Assets and Statement of Activities. This summary should not be taken as a replacement for the basic financial statements.

The MD&A is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued June 1999; GASB Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus, an amendment to GASB Statements No. 21 and No. 34 issued in June 2001; and GASB Statement No. 38, Certain Financial Statement Note Disclosures issued in 2001.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

Although the Department is one of several agencies within the government of the State of New Mexico, the focus of this financial report is only on the Department and not the State of New Mexico taken as a whole. The financial statements include the following three elements: (1) Management's Discussion and Analysis, (2) the Basic Financial Statements, and (3) Other Supplementary Information. The basic financial statements include two kinds of statements that present different views of the Department:

- The first two statements are entity-wide financial statements that report information about the Department's overall financial condition and results of operations, both long-term and short-term, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Department's assets, liabilities, and net assets. All revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or disbursed. The remaining statements are fund financial statements.
- Governmental funds statements, including the Balance Sheet and the Statement of Revenues, Expenditures, and Change in Fund Balance, focus on individual parts of the Department, reporting the Department's financial condition and results of operations in more detail than in the entity-wide statements, and tell how general government services were financed in the short term as well as what remains for future spending. Emphasis is on the general and major funds. Other governmental funds are summarized in a single column.
- Statement of Revenues and Expenditures – Budget and Actual Modified Accrual (GAAP Budgetary Basis) reports the original approved budget, final approved budget, and actual results presented on the modified accrual budgetary basis of reporting for the general fund and all major funds. A separate column is presented to report any variances between the final budget and actual amounts.
- Statement of Fiduciary Net Assets provides information about the financial relationships in which the Department acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.
- Additional details about the basic financial statements are found in the Notes to the Financial Statements, Required Supplementary Information and the Other Supplementary Information sections.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Management's Discussion and Analysis
For the Year Ended June 30, 2006**

FINANCIAL ANALYSIS OF THE DEPARTMENT AS A WHOLE

The following condensed financial information was derived from the entity-wide financial statements and compares the current year to the prior year:

Significant factors impacting the Department's financial position and results of operations during the year ended June 30, 2006 are as follows:

**Table A-1
The Department's
Net Assets**

	2006 Governmental Activities	2005 Governmental Activities	Increase (Decrease)	Percentage Change
Cash, restricted and non-restricted	\$ 2,255,456	\$ 28,479,880	\$ (26,224,424)	(92.08%)
Other Current Assets	62,002,846	47,702,899	14,299,947	29.98%
Non-current Assets	<u>25,378,475</u>	<u>28,280,016</u>	<u>(2,901,541)</u>	<u>(10.26%)</u>
Total Assets	<u>\$ 89,636,777</u>	<u>\$ 104,462,795</u>	<u>\$ (14,826,018)</u>	<u>(14.19%)</u>
Current Liabilities	\$ 54,532,164	\$ 74,310,313	\$ (19,778,149)	(26.62%)
Long-term Liabilities	<u>51,314</u>	<u>-</u>	<u>51,314</u>	<u>100%</u>
Total Liabilities	54,583,478	74,310,313	(19,726,835)	(26.55%)
Net Assets:				
Invested in Capital Assets	25,378,475	28,280,016	(2,901,541)	(10.26%)
Restricted for Grantors and Other	2,255,456	10,558,877	(8,303,421)	(78.64%)
Unrestricted (deficit)	<u>7,419,368</u>	<u>(8,686,411)</u>	<u>16,105,779</u>	<u>(185.41%)</u>
Total Net Assets	<u>\$ 35,053,299</u>	<u>\$ 30,152,482</u>	<u>\$ 5,017,608</u>	<u>16.25%</u>

**Table A-2
Changes in the
Department's Net
Assets**

	2006 Governmental Activities	2005 Governmental Activities	Increase (Decrease)	Percentage Change
Revenues:				
<u>Program revenues</u>				
Federal Grants	\$ 136,925,177	\$ 120,807,116	\$ 16,118,061	13.34%
Patient Service Revenue	87,441,584	66,045,895	21,395,689	32.40%

**STATE OF NEW MEXICO
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**Management's Discussion and Analysis
For the Year Ended June 30, 2006**

Other	25,849,724	28,006,070	(2,156,346)	(7.70%)
<u>General revenues</u>				
General fund appropriations	272,992,584	257,283,016	15,709,568	6.11%
General fund reversion	(1,729,717)	(1,720,320)	(9,397)	0.55%
Special appropriations	<u>11,569,216</u>	<u>12,545,561</u>	<u>(976,345)</u>	<u>(7.78%)</u>
Total Revenues	533,048,568	482,967,338	50,081,230	10.37%
Expenses:				
Public Health	522,306,201	487,001,424	35,304,777	7.25%
Depreciation	4,694,955	4,205,308	489,647	11.64%
Loss on Capital Assets	134,252	38,002	96,250	253.28%
Increase in compensated absences	<u>1,012,343</u>	<u>-</u>	<u>1,012,343</u>	<u>100.00%</u>
Total Expenses	528,147,751	491,244,734	36,903,017	7.51%
Increase (decrease) in Net Assets	4,900,817	(8,277,396)	13,178,213	(159.21%)
Beginning Net Assets	<u>30,152,482</u>	<u>38,429,878</u>	<u>(8,277,396)</u>	<u>(21.54%)</u>
Ending Net Assets	<u>\$ 35,053,299</u>	<u>\$ 30,152,482</u>	<u>\$ 4,900,817</u>	<u>16.64%</u>

- Current Assets decreased by \$11,924,477 or 15.57 percent. Cash declined due to multi-year appropriations for FY 06 as a result of Laws of 2006 appropriations being \$8.3 million less than FY 05. We also realized more timely billing by Human Services Department for our Developmentally Disabled Medicaid waiver payables which were paid earlier. Beginning with fiscal year 2005, the General Appropriation Act established the modified accrual basis of accounting for governmental funds as the budgetary basis of accounting. Because of a change in accounting policy DOH requested vendors to submit invoices for goods and services for payment before July 30th of each year. This resulted directly in \$20 million less in cash and an off-set of \$20 million reduction in Accounts Payable. Our accounts receivable (and due from other organizations) saw an increase of \$14 Million from the prior year or 29.79%. There was a \$9 million increase in funds due from federal grants and \$5 million is an increase due from patient receivables. Future periods should reflect a normal level of activity once the full effect in the change of our accounting basis is completed. Similar improvements were also realized in the following categories:
 - Current Liabilities,
 - Total Liabilities,
 - Restricted Net Assets,
 - Total Net Assets, and
 - Increase In Net Assets.
- Capital Assets and Investment In Capital Assets decreased by \$2,901,541 or 10.26 percent due to \$4,694,955 in depreciation expenses that were off-set by \$1,927,564 in additional capitalized assets.
- Total Assets decreased by \$14,826,018 or 14.19 percent due to two major items of: \$2,901,541 decrease in capital assets. Along with a reduction in multi-year appropriations in FY 06 of

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Management's Discussion and Analysis
For the Year Ended June 30, 2006**

\$8,300,000 that were not carried over into FY 07 as restricted cash. See discussion under Current Assets above.

- Current Liabilities decreased by \$19,778,149 or 26.62 percent due to a reduction of our Accounts Payables from the prior year as explained before. See discussion under Current Assets above.
- Long-Term Liabilities increased by \$51,314. The increase represents the estimated long-term portion of our compensated absences as calculated based upon usage in prior years of our estimated liabilities.
- Total Liabilities decreased by \$19,726,835 or 26.55 percent. See discussion under Current Liabilities above.
- The Department's Restricted Net Assets declined by \$11,204,962 or 28.85% from \$38,838,893 in June 30, 2005. This decline is related to the reduction of Capital Assets by \$3 million and \$8.3 million in multi-year appropriations decline at year-end in restricted cash. See discussion under Current and Capital Assets above.
- Unrestricted Net Assets increased by \$16,105,779 or 185.41 percent this increase is related directly to the reduction of restricted Net Assets and the change in fund balance by \$9 million that was the direct result of the Department Income being larger than Expenses in fiscal year ending June 30, 2006.
- Total Net Assets increased by \$4,900,817 or 16.25 percent. See discussions under Current Assets, Restricted Net Assets and Unrestricted Net Assets above.
- Program Revenues increased by \$35,357,404 or 16.46 percent which reflect \$16 million in increased funding awarded by the federal government primarily in the area of immunization and vaccines. Another \$21 million increase in patient service charges from increased patient loads and higher rate charges. There was \$13.3 million dollars and \$2.9 million that was recovered from recoveries through Maximus. These were off-set by a reduction of \$2 million in Fees, penalties, rentals and other revenue sources. These revenue sources are expected to continue into the future.
- Program Expenses increased by \$35,304,777 or 7.25 percent, attributable to increased provision of services to the people of New Mexico. The increased cost of these services breakdown as follows: Personal Services & Benefits increased by \$6.6 million dollars of which \$4.6 million or 2.5 % was from average annual raises of 2.5% and \$2 million was from an increase in the cost of benefits related to state government picking up a larger portion of employee health insurance and other benefits. The Department saw an increase of \$6.5 million dollars related to additional contract and service costs with General Services Department (\$2 million) \$3 million for Developmentally Disabled and \$1.5 million for Bio-Terrorism services. Other increased expenses include \$18 million for immunization and vaccines, \$3 million for Public Health Division in Aids treatment and prevention and Women, Infant and Children expenses and \$1.5 million for prior year expenses that were billed by and paid to the General Services Department.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Management's Discussion and Analysis
For the Year Ended June 30, 2006**

- The excess of Program Expenses over Total Revenues of \$14,776,453 or 41.85% is explained in the Program Revenues and Program Expenses comments above.
- General Fund Appropriations increased by \$15,709,568 or 6.11 percent over the prior year's appropriations. The increases were related to \$5 million in contingency funding for Developmentally Disabled Medicaid waivers program; \$6 million for Developmentally Disabled services over the prior year. \$1.3 million for raises. \$2 million to cover additional Health Care costs; another \$1 million was appropriated for the Family, Infant and Toddlers program; and \$2 million in School Based Health Care.
- Special appropriations totaling \$11,569,216 were fairly flat from fiscal year 2005 with a small decline of \$976,345.
- Other Sources, including Transfers In decreased by \$2,039,554 or 7.28 percent as the result of Federal Tax Relief funds and Special Appropriations not received in the current year.
- Total Reversions to State General Fund, related to current and prior special appropriations, of \$1,729,717 was recorded. See discussion under Current Liabilities above.
- Change in Net Assets increased by \$13,178,213 or 159.21 percent due, in part, to an additional \$5 million for Developmental Disabled, \$3.3 million for additional appropriations for Personnel Services and Benefits, along with additional revenue due to higher patient billings and an increase in clients. See discussion under Current Assets above.

FINANCIAL ANALYSIS AT THE FUND LEVEL

The following analysis was derived from the fund financial statements and compares the current year fund balances to the prior year:

	Fund Balance			
	Current Year June 30, 2006	Prior Year June 30, 2005	Increase/ (Decrease)	Percentage Change
General Fund – Reserved	\$18,412,603	\$14,777,202	\$3,635,401	24.60%
General Fund – Unreserved	(30,922)	(10,381,692)	10,350,770	99.70%
Total	\$18,381,681	\$ 4,395,510	\$13,986,171	318.19%

There were no changes in percentage attributable to assets and liabilities for FY 2006 from FY 2005.

GENERAL BUDGETARY HIGHLIGHTS

Original budgeted revenues and expenditures for Federal and Other State Funds were increased by \$24,076,234 during the year ended June 30, 2006, from \$503,733,000 to \$527,809,234 primarily because of revenue increases in federal funding of \$16 million, \$5 million in contingency for Developmentally Disabled in the State General Fund, rebasing and additional patient billings for \$13.3 million. Along with an increase in budgeted expenses in Personnel and Other Benefits of

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Management's Discussion and Analysis
For the Year Ended June 30, 2006**

\$3.3 million Contract Services of \$6.5 million. Additionally the department received \$3,081,427 in revenue from severance tax bonds and tobacco settlement funds for infrastructure improvements.

The five percent increase limitation placed on other state funds as set forth in the Laws of 2005, Chapter 33, Section 10 was met with an overall increase of \$939,900 or less than one percent due to increased revenues from private insurances.

PERFORMANCE MEASURES

The Department collects data to measure success in meeting performance measure targets to address the requirements for the Accountability in Government Act (AGA), Sections 6-3A-1 through 6-3A-8 NMSA 1978. Performance measures outlined in the General Appropriation's Act, Laws of 2005, Chapter 33, Section 4 for the year ended June 30, 2006 were:

<u>TYPE</u>	<u>MEASURE</u>	<u>TARGET</u>	<u>RESULT</u>
Prevention and Health Promotion:			
Outcome	Rate of 4:3:1:3:3 immunizations coverage among children nineteen to thirty-five months.	83%	78%
Long Term Care Services:			
Outcome	Rate of abuse, neglect and exploitation per one hundred patients in department operated long-term care facilities as confirmed by the division of health improvement.	<1.5%	4.99%
Developmentally Disabled Community Services:			
Efficiency	Number of days between eligibility determination and service initiation for developmentally disabilities Medicaid waiver clients	98 days	17.8 days
Licensing, Certification and Oversight:			
Efficiency	Percent of community-based program incidents investigations completed within forty-five days	98%	91.25%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Total capital assets, net of depreciation, for the Department make up 28.3 percent of the Department's total assets. The Department has no infrastructure assets.

Total compensated absences at June 30, 2006 are \$7,356,618. The estimated amount to be paid from General Fund appropriations within one year is \$7,305,304 or 99.3 percent, with \$51,314 or 0.7 percent expected to be paid after one year. There was no significant activity to report for compensated absences during the year ended June 30, 2006.

NEXT YEAR'S BUDGET AND RATES

The Department depends primarily on appropriations from the New Mexico State General Fund. The State Legislature appropriated \$295,334,500 for the fiscal year 2007 operating budget in the Laws of 2006, Chapter 109, Section 4 comprised of \$288,048,500 for operations, \$3,552,700 for

**STATE OF NEW MEXICO
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**Management's Discussion and Analysis
For the Year Ended June 30, 2006**

compensation packages, and a total of \$2,405,000 non-recurring appropriation in the Laws of 2006, Chapter 109, Section 5. Additionally, Laws 2006, Chapter 110, Section 23 appropriated \$4,881,000 for recurring expansion items with the most significant being: \$1,000,000 to create the Trauma Fund; \$659,000 for the STOP program at NMBHI; \$500,000 for School Based Health Centers; and \$500,000 for childhood immunizations.

The Department requested \$300,155,500 in general fund operating budget for fiscal year 2008 - an increase of \$17,640,900 or 6.2 percent over fiscal year 2007 – to offset the cost of a salary increase (\$2,935,600); \$7,850,000 for base increases (\$5,800,000 for the Developmentally Disabled program); \$9,860,000 for base program expansion (\$3,500,000 to reduce the Developmentally Disabled program waiting list); \$7,650,000 for new program initiatives (\$1,400,000 for immunizations; \$1,750,000 for Autism training and multi-disciplinary evaluations; \$1,250,000 for the Family, Infant & Toddlers program). Additionally, the Department requested \$4,300,000 in special appropriations (\$1,000,000 for Obesity, and \$2,800,000 for Anti-Viral); and \$15,150,000 in supplemental appropriation requests for fiscal year 2007 (\$14,400,000 for the Developmental Disabilities program, and \$750,000 ResCare).

CURRENTLY KNOW FACTS, DECISION OR CONDITIONS

The State as whole implemented the SHARE accounting system on July 1, 2006. This implementation required the Department to develop a new reporting structure, and new procedures for processing transactions through the State's control agencies. This implementation included the implementation of a Federal Grants Module; however, training for the module implementation has not yet been completed, and is scheduled to be completed in January 2007. As a result the Department had to request extensions to normal reporting deadlines

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designated to provide New Mexico residents, taxpayers, customers, legislators and vendors with a general overview of the Department's finances and to demonstrate the Department's accountability for the funding it receives. If you have any questions about this report or need additional information, contact:

Duffy Rodriguez
Deputy Secretary of Finance and Administration
New Mexico Department of Health
Harold Runnels Building
1190 St. Francis Drive, Suite S-4200
P.O. Box 26110
Santa Fe, NM 87502
Phone 505-827-2500

Basic Financial Statements

Government-Wide Financial Statements

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

Exhibit 1

**Statement of Net Assets
June 30, 2006**

	Governmental Activities
ASSETS:	
Current	
Cash - restricted	\$ 2,255,456
Accounts receivable, net	12,521,616
Other receivables	1,587,576
Due from federal grants	29,370,331
Due from other funds	300
Due from other agencies	12,559,343
Inventory	5,891,538
Prepaid expenses and others	72,142
Total Current Assets	64,258,302
Non-Current Assets	
Capital assets, net of accumulated depreciation	25,378,475
TOTAL ASSETS	\$ 89,636,777
LIABILITIES:	
Current	
Cash overdraft	\$ 4,768,365
Accounts payable	30,233,988
Accrued payroll and employee benefits payable	7,178,182
Due to other funds	500
Due to state general fund	1,759,594
Due to other agencies	82,285
Funds held for others	474,140
Deferred revenue	2,727,072
Compensated absences - due within one year	7,305,304
Other	2,734
Total Current Liabilities	54,532,164
Non-Current	
Long term compensated absences - due in more than one year	51,314
TOTAL LIABILITIES	54,583,478
NET ASSETS:	
Invested in capital assets	25,378,475
Restricted for:	
Grantors and other governments	2,255,456
Unrestricted	7,419,368
TOTAL NET ASSETS	35,053,299
TOTAL LIABILITIES AND NET ASSETS	\$ 89,636,777

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Exhibit 2

Statement of Activities
For the Fiscal Year Ended June 30, 2006

		<u>Governmental Activities</u>
PROGRAM EXPENSES:		
Public health	\$	522,306,201
Depreciation Expense		4,694,955
Loss on Capital Assets Disposals		134,252
Increase in compensated absences		<u>1,012,343</u>
 Total program expenses	 \$	 528,147,751
 PROGRAM REVENUES:		
Federal operating grants	\$	136,925,177
Patient service charges		87,441,584
Fees, penalties, rentals and other		<u>25,849,724</u>
 Total Program revenues	 \$	 <u>250,216,485</u>
 Net program (expense) revenue	 \$	 (277,931,266)
 GENERAL REVENUES:		
General fund appropriations	\$	272,992,584
General fund reversion, FY 2002		(52,649)
General fund reversion, FY 2003		(40,518)
General fund reversion, FY 2005		(238,293)
General fund reversion, FY 2006		(1,398,257)
Special appropriations		<u>11,569,216</u>
 Total General revenues		 282,832,083
 Change in net assets		 4,900,817
Net assets at beginning of year		<u>30,152,482</u>
 Net assets at end of year	 \$	 <u>35,053,299</u>

The notes to the financial statements are an integral part of this statement.

Fund Financial Statements

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Exhibit 3

Balance Sheet
Governmental Fund
June 30, 2006

	Total Governmental Funds
ASSETS:	
Restricted cash	\$ 2,255,456
Accounts receivable, net	12,521,616
Other receivables	1,587,576
Due from federal grants	29,370,331
Due from other agencies	12,559,343
Due from other funds	300
Inventory	5,891,538
Prepaid expenses and others	72,142
TOTAL ASSETS	\$ 64,258,302
LIABILITIES AND FUND BALANCE:	
LIABILITIES:	
Cash overdraft	\$ 4,768,365
Accounts payable	30,233,988
Accrued payroll and Employee benefits payable	7,178,182
Due to state general fund	1,759,594
Due to other agencies	82,285
Due to other funds	500
Funds held for others	474,140
Deferred revenue	5,879,878
Other	2,734
TOTAL LIABILITIES	\$ 50,379,666
FUND BALANCE:	
Fund Balance:	
Reserved	\$ 18,412,603
Unreserved	(4,533,967)
TOTAL FUND BALANCE	13,878,636
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 64,258,302

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Exhibit 4

Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Fund
For the Fiscal Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of net assets are different from the way they are shown on the balance sheet as follows:

Fund Balance - Governmental Funds Balance Sheet	\$	13,878,636
Capital assets, net of accumulated depreciation		25,378,475
Severance tax bond drawdowns not received prior to August 31, 2006 therefore reflected as Deferred Revenue for Fund Financial Statements.		116,791
Revenue timing between modified accrual and full accrual basis of accounting that resulted in additional deferred revenue being reflected on the Balance Sheet, FY 2006		3,036,015
Some liabilities are not due and payable in the current period and are therefore not reported in the funds:		
Compensated absences payable not recorded in the governmental fund balance sheet		<u>(7,356,618)</u>
Net Assets of Governmental Activities (Statement of Net Assets)	\$	<u>35,053,299</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Exhibit 5

**Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Fund
For the Fiscal Year Ended June 30, 2006**

	Total Governmental Funds
REVENUES:	
Federal operating grants	\$ 133,887,119
Patient service charges	87,441,584
Fees, penalties, rentals and other	<u>25,898,824</u>
Total revenues	<u>\$ 247,227,527</u>
 EXPENDITURES - Current and Capital Outlay:	
Personal services and employee benefits	\$ 188,008,860
Contractual services	156,051,999
Other	104,655,042
Capital outlay - capitalized	1,927,564
Capital outlay - non-capitalized	<u>331,015</u>
Total expenditures	450,974,480
Other financing uses	69,602,004
General fund reversions - fiscal year 2003	52,649
General fund reversions - fiscal year 2004	40,518
General fund reversions - fiscal year 2005	238,293
General fund reversions - fiscal year 2006	<u>1,398,257</u>
Total expenditures and other financing uses	<u>\$ 522,306,201</u>
Other financing sources:	
State appropriations	
Operating	\$ 272,992,584
Bond Proceeds	
Other	<u>11,569,216</u>
Total other financing sources	<u>\$ 284,561,800</u>
Revenues over (under) expenditures and other financing uses	9,483,126
Fund balance at beginning of year	<u>4,395,510</u>
Fund balance at end of year	<u>\$ 13,878,636</u>

The notes to the financial statements are an integral part of this statement.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

Exhibit 6

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund to Statement of Activities
For the Fiscal Year Ending June 30, 2006**

Net Change in fund balances - Governmental Fund (Statement of Revenues, Expenditures and Changes in Fund Balance)	\$ 9,483,126
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>In the Statement of Activities compensated absences (sick leave and annual leave) are measured by the amounts earned during the year. In the Governmental Fund, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The increase for the liability not recorded in the balance sheet of the governmental fund for the year is:</p>	(1,012,343)
<p>The Statement of Revenues, Expenditures and Changes in Fund Balance reflects earned revenue on the modified accrual basis of accounting. There was revenue received after August 31, 2006 that for accrual basis of accounting is reflected as earned on the Statement of Activities but was not received timely for the accrual basis of accounting.</p>	3,036,015
Reversal of prior year's deferred revenue on full accrual.	(3,689,932)
Differences in prior years between modified and full accruals.	(165,889)
Differences in prior years between modified and full accruals.	34,692
Severance tax bond drawdowns not received prior to August 31, 2006, therefore reflected as Deferred Revenue for Fund Financial Statements.	116,791
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and is reported as depreciation expense. In the current period, these amounts are:</p>	
Capital outlay - capitalized	1,927,564
Less: Prior year adjustment for depreciation expense	(102)
Current year Depreciation Expense	(4,694,853)
Excess (deficiency) of Capital outlay over depreciation expense	(2,767,391)
<p>Gains and losses on disposition of capital assets (see note 4):</p> <p>In the Statement of Activities loss on disposal of capital assets is measured based on the difference between the book value of a capital asset and the proceeds received upon disposal; in the governmental fund however, proceeds were \$632 and they are not a reconciling item.</p>	
	(134,252)
Changes in net assets of governmental activities (Statement of Activities)	\$ 4,900,817

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Exhibit 7

**Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2006**

REVENUES:	BUDGETED AMOUNTS		ACTUAL AMOUNT BUDGETARY	FAVORABLE (UNFAVORABLE) VARIANCE
	ORIGINAL	FINAL	BASIS	
Federal Grants	\$ 123,847,890	\$ 140,004,948	\$ 133,887,119	\$ (6,117,829)
State General Fund-Appropriations				
Regular Operating	267,866,000	272,866,000	272,992,584	126,584
Other	2,000,000	6,005,500	11,569,216	5,563,716
Patient Service Revenue	84,142,066	91,108,715	87,441,584	(3,667,131)
Fees, penalties, rentals and other	25,877,044	17,824,071	25,898,824	8,074,753
Total revenues	503,733,000	527,809,234	531,789,327	3,980,093
Prior year fund balance budgeted	-	14,156,688	-	(14,156,688)
TOTAL	\$ 503,733,000	\$ 541,965,922	\$ 531,789,327	\$ (10,176,595)
EXPENDITURES:	BUDGETED AMOUNTS		ACTUAL AMOUNT BUDGETARY	FAVORABLE (UNFAVORABLE) VARIANCE
	ORIGINAL	FINAL	BASIS	
Personal services and employee benefits	\$ 187,609,300	\$ 192,105,145	\$ 188,008,860	\$ 4,096,285
Contractual services	150,240,381	170,675,480	156,052,000	14,623,480
Other	103,701,401	112,503,010	106,913,621	5,589,389
Total Expenditures	441,551,082	475,283,635	450,974,481	24,309,154
Other Financing Uses	62,181,918	66,682,287	69,602,004	(2,919,717)
Total Expenditures and Other Financing Uses	503,733,000	541,965,922	520,576,485	21,389,437
Revenues over (under) expenditures and other financing uses	\$ -	\$ -	\$ 11,212,842	\$ 11,212,842

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Exhibit 8

Statement of Fiduciary Net Assets
June 30, 2006

	<u>Trust</u>	<u>Agency</u>	<u>Total Fiduciary Fund Type</u>
ASSETS			
Cash	\$ 133,513	\$ 640,328	\$ 773,841
Due from Other Funds	500	-	500
Inventory	<u>6,235</u>	<u>-</u>	<u>6,235</u>
TOTAL ASSETS	<u>\$ 140,248</u>	<u>\$ 640,328</u>	<u>\$ 780,576</u>
LIABILITIES			
Due to Other Funds	\$ -	\$ 300	\$ 300
Funds Held for Others	<u>140,248</u>	<u>640,028</u>	<u>780,276</u>
TOTAL LIABILITIES	<u>\$ 140,248</u>	<u>\$ 640,328</u>	<u>\$ 780,576</u>
NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Exhibit 9

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year ended June 30, 2006

Patient
Trust Fund

ADDITIONS

Contributions:

Employer	
Plan members	457,800
Private donation	<u>0</u>
Total contributions	<u>457,800</u>

DEDUCTIONS

	<u>471,052</u>
	471,052
<u>Change in net assets</u>	<u>(13,252)</u>
Net assets - beginning	<u>153,500</u>
Net assets - ending	<u>\$ 140,248</u>

The notes to the financial statements are an integral part of this statement.

Notes to Financial Statements

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Notes to the Financial Statements
June 30, 2006**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the State of New Mexico Department of Health (Department) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting standards.

The GASB has issued Statement 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statement 37, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*, and Statement 38 *Certain Financial Statement Note Disclosures*. These standards establish new financial reporting requirements for state and local governments throughout the United States of America. The statements require new information and restructuring on much of the information presented in past audited financial statements.

The Department is responsible for the fair presentation of the accompanying financial statements in conformity with accounting principals generally accepted in the United States of America. The Department has implemented these standards beginning with the fiscal year ended June 30, 2002. With the implementation of GASB Statement 34, the Department has prepared required supplementary information titled Management's Discussion and Analysis, which precedes the basic financial statements. The more significant of the Department's accounting policies are described below:

A. Reporting Entity

The State of New Mexico Department of Health (Department) is a cabinet department of the executive branch of government created by state statute under Chapter 9, Article 7 NMSA 1978. The Department's administrative head is the Secretary who is appointed by the Governor with the consent of the Senate and serves in the Governor's executive cabinet.

The Governmental Accounting Standards Board (GASB) has set forth criteria to be used in determining financial accountability. These criteria include the State of New Mexico's ability to appoint a voting majority of an organization's governing body and either the ability of the State to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

The Department is part of the primary government of the State, and its financial data should be included with the financial data of the State. However, the State does not at present issue an audited *Comprehensive Annual Financial Report* inclusive of the various state departments, agencies, institutions and organizational units which are controlled by or dependent upon the New Mexico legislature or its constitutional officers that make up the State's legal entity.

Chapter 12, Article 6 1978 NMSA, requires the financial affairs of every agency to be thoroughly examined and audited each year and a complete written report to be made.

For financial reporting purposes the Department has been defined as an integral part of the State's Executive Branch, and the accompanying financial statements include all funds over which the Secretary has the following oversight responsibilities:

**STATE OF NEW MEXICO
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**Notes to the Financial Statements
June 30, 2006**

Financial interdependency
Ability to significantly influence operations
Accountability for fiscal matters
Selection of governing authority
Designation of management

The Department of Health has its budget appropriated by the legislature during the State's annual legislative session. For fiscal 2006 the budget was appropriated in nine program areas, shown below:

Program area one (P001) – Prevention, Health Promotion and early Intervention:
Public Health Division
WIC Program

Program area two (P002) – Health System Improvement and Public Health support Health Services:
Public Health Division

Program area three (P003) – Special Needs Population Behavioral Health Interventions:
Emergency Preparedness
Emergency Medical Services

Program area four (P004) - Special Needs Population Long Term Care:
Scientific Laboratory Division (UNM campus)
Runnels Building Pharmacy (Santa Fe)

Program area five (P005) - Behavioral Health Services
Office of Facility Management (Santa Fe)
Turquoise Lodge (Albuquerque)
Behavior Health Institute (Las Vegas)
New Mexico Rehabilitation Center (Roswell)
Sequoyah Adolescent Treatment Center (Albuquerque)

Program area six (P006) – Long Term Care Services
Fort Bayard Medical Center (Silver City area)
Los Lunas Community Programs (Los Lunas)
State Veterans Home (Truth or Consequences)

Program area seven (P007) – Developmentally Disabled Community Services

Program area eight (P008) – Licensing, Certification and Oversight

Program area nine (P009) – Administrative

Included with the Department's General Fund and meeting all five of the oversight responsibilities listed above are the Department's administrative offices and operating divisions.

**STATE OF NEW MEXICO
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**Notes to the Financial Statements
June 30, 2006**

The Programs are subdivided into bureaus for management control purposes but for financial reporting and budgetary accounting purposes are subdivided into "Activities".

Services provided by the seven medical and long-term care facilities are:

Behavioral Health Institute – Las Vegas - Inpatient treatment for mentally ill and substance abuse patients as well as long term nursing home care for the geriatric and chronically ill.

Fort Bayard Medical Center - Nursing care for geriatric, chronically ill and patients in need of intensive treatment for chemical dependency. Management for the Fort Bayard Medical Center was contracted to Geo Care, Inc. in FY 2006.

Los Lunas Community Programs - Treatment and training for the developmentally disabled in a community setting.

New Mexico State Veterans Home - State home for veterans of service in the armed forces of the United States.

New Mexico Rehabilitation Center – Providing vocational training and rehabilitation therapy to physically handicapped persons.

Sequoyah Adolescent Treatment Center - Inpatient rehabilitation treatment for adolescents who have committed statutory offenses.

Turquoise Lodge - Inpatient treatment center for substance abuse patients.

In May 2002, Governmental Accounting Standards Board issued Statement No 39. The statement established standards for identifying a component unit through evaluation of the reporting entity and significance of certain related party transactions, defined as potential component units. Depending on the results of the GASB 39 evaluation, financial information of related parties determined to be component units could be required to be included in the financial statements of the reporting entity.

In evaluating how to define the Department for financial reporting purposes, management has evaluated the Department's potential component units. The basic, but not the only, criterion for including a potential component unit as part of the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant aspects of this responsibility are the selection of governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of the criterion involves considering whether the activity benefits the Department. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Department is able to exercise oversight responsibilities. In the financial statements, discrete presentation entails reporting component unit financial data in a column separate from the financial data of the Department. Based on the application of these criteria, there are no component units included in these financial statements.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Notes to the Financial Statements
June 30, 2006**

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements of the State of New Mexico Department of Health (Department) conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The basic financial statements include both government-wide (based on the Department as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new model focus is on either the Department as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorized primary activities as either governmental or business type. The Department is a single purpose government entity and has no business type activities. In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are presented using the current financial resources measurement focus and the modified accrual basis of accounting, which incorporates long term assets and receivable as well as long-term debt and obligations.

The Department's governmental activities follow FASB Statements and interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Department has elected not to follow FASB Statements and interpretations issued after November 30, 1989.

The government-wide Statement of Activities reflects both the gross and net cost per functional category, which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation expense on capital assets) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. All internal activity has been removed from the financial statements.

The net cost by function is normally covered by general revenue. The Department utilizes nine programs and does employ indirect and direct cost allocation as applicable in the financial statements.

The government-wide focus is more on the sustainability of the Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Emphasis is on the major funds of the governmental category. Non-major funds are summarized into a single column. The Department's only governmental fund is its General Fund which is considered a major fund.

The governmental fund in the fund financial statements is presented on a current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed more appropriate to demonstrate legal and covenant compliance, to demonstrate the source and use of liquid resources and to demonstrate how the Department's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different

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**Notes to the Financial Statements
June 30, 2006**

measurement focus and basis of accounting than the government-wide statements governmental column, a reconciliation is presented on Exhibit 4 and Exhibit 6, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

The Department's General Fund is a reverting fund.

The focus of the revised model is on the Department as a whole and the fund financial statements, including the major individual fund of the governmental category.

The financial transactions of the Department are recorded in the General fund, each of which is considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses and other financing sources or uses. Government resources are allocated to, and accounted for, in the fund based upon the purpose for which they are to be spent and the means by which the spending activities are controlled.

The following fund types are used by the Department:

GOVERNMENTAL FUND TYPES:

All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period. Due to their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. The following is a description of the Governmental Funds of the Office:

General Fund

The General Fund is the general operating fund of the Department. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is funded from appropriations from the State of New Mexico General Fund, special appropriations and Federal grants.

Special Revenue Fund

Special revenue funds are used to account for revenue sources that are legally restricted to expenditures for specific purposes. The Department currently has no special revenue funds.

FIDUCIARY FUND TYPES:

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**Notes to the Financial Statements
June 30, 2006**

Agency Fund

The Department also has Agency Funds which are trust accounts that are held for clients. They are not available for use by the Department but are held for clients. They use the full accrual basis of accounting.

C. Measurement Focus and Classification of Funds

Individual funds have been established as stipulated by legal provisions or by administrative direction. The funds presented are classified as follows:

Governmental Fund accounts for the acquisition, use and balances of expendable financial resources and the related current liabilities. Governmental fund types use the flow of current financial resources measurement focus. Included in this classification is the General Fund, which is the Department's operating fund that accounts for all financial resources except those required to be accounted for in another fund.

Fiduciary Funds account for assets held by the state in a trustee capacity or as an agent for individuals, other governmental units or other funds. Included in this fund category are the Department's expendable trust and agency fund types. Expendable trust funds are classified for accounting purposes in essentially the same manner as agency fund types, using the same measurement focus and basis of accounting. Agency funds are custodial in nature; thus, they do not measure results of operations. The expendable trust fund is comprised of the five long-term care facilities trust funds from which the patients buy personal items. The primary funding sources are canteen sales and contributions. The agency fund is composed of the five long term care facilities trust funds for their patients' checking, savings and burial accounts. These funds are not incorporated into the government-wide financial statements. Fiduciary funds use the accrual basis of accounting.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, and then unrestricted resources as they are needed.

Non-Current Governmental Assets/Liabilities

GASB Statement 34 eliminates the presentation of Account Groups but provides for these records to be maintained and incorporates the information into the government-wide Statement of Net Assets.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are presented using the "economic resources" measurement focus and the accrual basis of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenditures are recognized when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and

**STATE OF NEW MEXICO
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**Notes to the Financial Statements
June 30, 2006**

liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB 33. The governmental funds in the fund financial statements utilize the modified accrual basis of accounting. Under this method, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual — that is, when they become both measurable and available to finance expenditures of the current fiscal period; available meaning collectible within sixty (60) days or soon enough thereafter to be used to pay liabilities of the current period.

Contributions and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. All other revenues are recognized when they are received and are not susceptible to accrual.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are not accrued as current liabilities but as non-current liabilities. Expenditures charged to federal programs are recorded utilizing the cost principles described by the various funding sources. When an expenditure is incurred for purposes for which both restricted and unrestricted net assets are available, the Office first uses restricted resources and then unrestricted resources.

When all applicable requirements are met, revenue is recognized when money is disbursed.

E. Reservations and Designations

The accounting for the actual revenue and expenditures for budgetary purposes beginning July 1, 2004 were changed to the modified accrual method of accounting from the budgetary non-accrual basis of accounting. In conjunction with this change in the basis of accounting, encumbrances are no longer reflected in the expenditures of the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, beginning July 1, 2004.

Reservations of fund balance are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Under the guidance provided by Office of the State Auditor – Audit Rule - 2.2.2.12 A (5) (a), (b) NMAC 2005, encumbrances are to be reflected as a reservation of fund balance but are not to be reflected as restricted in the governmental wide financial statements. Specific reservations of fund balance accounts are summarized below:

Reserved for special monies-These reserves were created to restrict the use of all resources contributed to or earned by these funds through laws created by the State legislature.

Reserved for inventories and prepaid expense-This reserve was created to represent the portion of fund balance that is not available for expenditures because the Department expects to use the resources within the next budgetary period.

F. Assets, Liabilities and Equity

1. Cash

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**Notes to the Financial Statements
June 30, 2006**

The Department maintains cash accounts with the Office of the State Treasurer and at various commercial institutions statewide. Amounts on deposit with the commercial institutions are fully insured by the Federal Deposit Insurance Corporation up to \$100,000. Amounts over \$100,000 must be secured in accordance with 6-10-17, NMSA 1978.

The Department is required by statute to deposit any money received into the State Treasury. Balances maintained at the end of each day are pooled and invested by the State Treasurer in repurchase agreements. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, categories of risk involved and the market value of purchased investments, which may differ from the cash deposited by the Department (refer to Schedule 3 – Pledged Collateral and Schedule 2 – Schedule of Cash Accounts.) All pledged securities for the Department are held in the name of the New Mexico State Treasurer by the Federal Home Loan Bank of Dallas, Texas an independent custodian. Custodial credit risk is the risk that, in the event of failure of the counterparty, the Department will not be able to recover the value of its cash that is in the possession of an outside party. The Department's cash balances are not exposed to custodial credit risk. All are fully collateralized and the collateral is held in the Department's name.

2. Inventory and Prepaid Items

Inventory is valued at cost using the first-in, first-out method. Inventory consists of expendable supplies held for consumption and pharmaceuticals held for patient use at the medical and long-term facilities.

The costs are recorded as expenditures when consumed rather than when purchased. Reported inventory of the General Fund is equally offset by fund balance reserve, which indicates that it does not constitute "available spendable resources" even though they are a component of current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

3. Capital Assets

Property, buildings and equipment purchased or acquired at a value of \$1,000 or greater prior to July 1, 2005 are capitalized. Capital Assets acquired after June 30, 2005 are only capitalized if they acquisition amount was \$5,000 or more. Assets are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful live of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed when incurred. Depreciation on all assets including software is provided on the straight-line basis over the following estimated useful lives with no salvage value:

	<u>Years</u>
Furniture/Fixtures	7 to 10
Data Processing Equipment	3 to 5
Equipment	5 to 10
Vehicles	5 to 10
Building improvements	10 to 20

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June 30, 2006**

Effective July 1, 2005 a change in policy implemented by the State of New Mexico concerning Capital Assets occurred. The State changed the value for which an asset maybe capitalized from \$1,000 to \$5,000. The Department of Health concurred with this policy change and is currently only capitalizing those items acquired after June 30, 2005 costing \$5,000 or more. Those assets acquired and capitalized prior to July 1, 2005, are still being depreciated under the previous policy.

In addition to the assets owned by the Department, it utilizes buildings, furniture and equipment that are owned by the Property Control Division of the State of New Mexico General Services Department. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB 34 requires the recording and depreciation of infrastructure assets, such as roads, bridges, etc. The Department does not own any infrastructure assets. There is no debt related to the Department's capital assets.

4. Compensated Absences

Vacation, compensatory and sick time is reported as a liability in the government-wide financial statements, with expenses being reported during the period that leave is accrued. It is the policy of the Department to permit employees to accumulate earned but unused vacation and sick pay benefits. The fund financial statements reports expenditures during the period that employees are actually paid, or when compensated absences are liquidated with expendable financial resources from the operational portion of state general fund appropriations. These expenditures are paid from the Department's General Operating Fund 100 (CAS 061).

Qualified employees are entitled to accumulate vacation leave according to a graduated schedule of 80 to 160 hours per year, depending upon the length of service and the employee's hire date. A maximum of thirty working days (240 hours) of such accumulated annual leave may be carried forward into the beginning of the calendar year and any excess is lost.

When employees terminate, they are compensated for accumulated unpaid annual leave as of the date of termination, up to a maximum of thirty days.

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave which an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid for 50% of accrued sick leave in excess of 600, up to 720 hours, not to exceed 120 hours (net 60 hours can be paid). In the case of retired employees, up to one-half of 400 hours exceeding 600 can be paid. Sick leave balances related to general fund operations in excess of 600, but not more than 1000, hours have been recorded at 50% of the employee's hourly rate in the general fund.

Compensatory time may be granted by the Department to employees when overtime is needed. Employees not exempt from the FSLA may accrue up to 240 hours at the rate of one and one-half (1 ½) hours for each hour worked. The time will either be paid or taken as time off at the employee's election unless notified by the employer that it will only be taken as compensatory time off.

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FSLA exempt employees may only accrue up to 80 hours a year at a rate of one times (1.0) the hours worked. The exception for this will be supervisory nurses who will accrue their hours at the rate of one and one-half the normal rate (1 ½). The Department of Health policy is to also permit the exempt employees to elect to be reimburse by cash or take time off unless notified by the employer that it will only be taken as compensatory time off.

In addition to the basic current hourly pay rate, the accrual of compensated absences includes the Department's estimated costs of payroll taxes.

6. Net Assets

The government-wide financial statements utilize a net asset presentation. Net Assets are categorized as investment in capital assets less outstanding liquid assets (net of related debt), restricted and unrestricted.

Investment in Capital Assets (net of related debt) - is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Office has no debt related to capital assets.

Restricted Assets - are liquid assets (generated from revenues and not bond proceeds), which have third-party (statutory, bond covenant or granting agency) limitation on their use.

County-Supported Medicaid Fund created by Section 27-10-3 NMSA 1978 to institute or support primary care health care services in underserved areas. These funds are restricted by law and do not revert in any fiscal year.

Licensure of Health Facilities Civil Monetary penalties authorized by Section 24-1-5 NMSA 1978 to be used for proceedings pursuant to the Health Facilities Receivership Act. These funds are restricted by law and do not revert in any fiscal year.

Vital Statistic fees created by Section 24-14-29 NMSA 1978. These funds are restricted by law and must be transferred to the CYFD Day-Care Fund and the State General Fund in proportions set forth in Section 24-14-29.D. Any remaining funds are monies that have not been disbursed to the appropriate entity.

Computer Systems Enhancement Fund, Laws of 2005, Chapter 33, Section 24. These funds are restricted by law and do not revert in any fiscal year.

For start up of School Based Health Centers, Laws of 2005, Chapter 33, Section 5 for the planning and implementation of a school based health centers. These funds are restricted by law and do revert in any fiscal year.

To cover budget shortfalls/restorations, Laws of 2005, Chapter 33, Section 6. These funds are restricted by law and do revert in any fiscal year.

Capital Projects, Laws of 2005, Chapter 347, Section 42, tele-health capital projects, school-based/DOH health facilities Improvements, web-based 24-hour health care

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hotline, health facilities renovate statewide. These funds are restricted by law and do revert in any fiscal year.

Senate Bill 190 – Laws of 2005, Chapter 34, Section 7, equestrian program services for DD children and adults in Dexter; establish stroke centers in hospitals statewide; suicide prevention programs; to review, establish and monitor public health and social services delivery programs for low income residents; to implement an expanded diabetes education program in NW New Mexico; for the very special arts program; gather data on gambling addiction; to establish a clinical teaching institute for nurses, to expand screening tests for newborn infants. These funds are restricted by law and do revert in any fiscal year.

Hospital Integration Program and INPHORM Project, Laws of 2001, Chapter 64, Section 8. These funds are restricted by law and do revert in any fiscal year.

Hospital Integration Program and INPHORM Project, Laws of 2002, Chapter 4, Section 7. These funds are restricted by law and do revert in any fiscal year.

Hospital Integration Program and INPHORM Project, Laws of 2003, Chapter 76, Section 7. These funds are restricted by law and do revert in any fiscal year.

Emergency Medical Services Fund authorized by Section 24-10A-3 NMSA 1978 to make monies available to municipalities and counties for use in the establishment and enhancement of local emergency medical services. These funds are restricted by law and do not revert in any fiscal year.

Facilities Systems Enhancement Project authorized by Laws of 2003, Chapter 76, Sec. 7, (17). Any funds not expensed or encumbered are to revert in FY04. A partial reversion is to be made in FY 06 for unencumbered and unspent funds in FY 05. The remaining amount is encumbered in FY05 and was carried over to FY 06 budget.

Jobs and Growth Tax Relief Reconciliation Act of 2003. This is federal funding passed through from the Department of Finance and Accounting. The funds were awarded by the U.S. Department of the Treasury pursuant to Section 401(b) of the Jobs and Growth Tax Reconciliation Act of 2003. This was authorized by the legislature in Laws of 2003 Chapter 76, Section 3, Subsection I. Monies provided from federal funds for programs specified by the Department and approved by the state budget division. These are federal funds and do not revert. Fund, however, that remain unspent can be reassigned by the Department of Finance and Administration to another project or department as needed.

Unrestricted Assets are assets that do not have third-party (statutory, bond covenant or granting agency) limitations on their use.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of

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the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

8. Intra-fund Activity

Intra-fund receivables or payables at year-end are netted as part of the reconciliation to the governmental-wide financial statements.

Note 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The state legislature makes annual appropriations to the Department. Legal compliance is monitored through the establishment of an annual budget for the General Fund.

The following are the procedures followed in establishing the budgetary data presented in the financial statements:

1. The Department submits a proposed budget to the New Mexico state legislature for the fiscal year commencing the following July 1. The state legislature must approve the budget prior to its legal enactment.
2. The expenditures and encumbrances of each category may not legally exceed the budget for that category. Budgets are controlled at the "category" level within activities (personal services and employee benefits, professional services and other expenditures).
3. Any adjustment to the budget must be submitted to and approved by the State of New Mexico Department of Finance and Administration in the form of a budget adjustment request.
4. The budget is adopted on a modified accrual basis of accounting that is consistent with generally accepted accounting principles (GAAP). This change was implemented with the Laws of 2004, Chapter 114, Section 3, paragraph N and paragraph O. This change is effective for fiscal years beginning July 1, 2004. In prior years the budgetary basis of accounting was not considered a GAAP basis of accounting. Budgetary comparisons presented in the financial statements are now presented on a basis which is consistent with generally accepted accounting principles (GAAP).
5. The Department has been designated as a "reverting agency" by the New Mexico state legislature and, therefore, unencumbered balances in state agency accounts remaining at the end of the fiscal year from appropriations made from the State General Fund shall revert to the State General Fund, unless otherwise indicated in the General Appropriation Act or otherwise provided by law.

B. Revenue Recognition

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State General Fund appropriations are recognized in the year the appropriation is made. Receivables are recognized as revenue in the year the transfers for services which gave rise to the receivable are provided.

C. Program Revenue

Program revenues include program specific operating grants from federal sources or other state agencies. No allocation of indirect expenses is made by function as costs not accounted for by activity are considered immaterial.

Federal Grants - revenues are recognized when appropriate expenditures are incurred or accrued by the Department.

Patient Service Revenue and Contractual Adjustments - patient services revenues are recorded at the established rates of the medical facilities and hospitals but are reduced by "contractual adjustments" to recognize allowances for charity services, provisions for uncollectible accounts and charges that otherwise exceed payments from Medicare, Medicaid, private or other resources. Medicare and Medicaid payments accounted for approximately 90% of net patient service revenues received in 2005.

Amounts receivable and payable under reimbursement from "third-party payor" agreements, primarily Medicare and Medicaid, are subject to examination and retroactive adjustment by a third-party payor. Provisions for estimated retroactive adjustments by the third-party payor are provided in the period the related services are rendered. Any difference between the amounts accrued and settled is reflected in operations in the year of settlement.

The facilities are paid for substantially all inpatient services rendered to Medicaid and/or Medicare program beneficiaries under prospectively determined rates-per-discharge. Accordingly, to the extent that costs incurred (exclusive of other defined capital costs and certain education costs of the rehabilitation centers which continue to be paid on the basis of reasonable costs) for services rendered to Medicare and Medicaid patients exceed the determined payment rates, they are not recoverable from the Medicare and Medicaid programs or their beneficiaries. The facilities' payment classification of patients under the prospective system is subject to review based on validation audits by third parties.

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NOTE 3. DETAILED NOTES ON ALL FUNDS

A. RESTRICTED CASH

The restricted cash balance as disclosed in the financial statements are monies that are constrained through legislative fiat for purposes specific to serving the people of New Mexico.

Restricted cash balances are monies that are constrained by legislative fiat for very specific purposes in order to provide services to specific segments of the people of New Mexico.

Restricted cash, shown discreetly on our balance sheet, consist of the following at June 30, 2006:

Vital Statistics fees (Section 24-14-29)	\$ 77,176
Severance Tax Bonds	1,544,394
Birth and death certificate fees	34,997
Foster Grandparents - Las Vegas Medical Center	29,750
Emergency Medical Services Fund (Section 24-10A-3)	271,321
Cigarette Tax, Laws of 2003, Ch. 341, Sec. 4, Paragraphs A, B, C, D, E	188,945
Hospital Integration Program & INPHORM Proj. Chapter 64, Sec. 8, Laws of 2001	199,492
Capital Projects-General Fund Laws of 2005, Ch.347, Section 42, Sickle Cell Council, School Based/DOH Facilities Improvement.	1,941,000
Computer Systems Enhancement Fund, Laws of 2005, Ch. 33, Sec. 7(23) extended to FY07	83,421
Computer Systems Enhancement Fund, Laws of 2005, Chapter 33, Section 7(22) extended to FY07	23,806
Implement Website vital records, Birth and Death System, Laws of 2005 Ch. 33, Section 7(24)	<u>366,085</u>
Total restricted cash	\$ 4,760,387
less: Negative cash balance	<u>(2,429,254)</u>
Restricted cash as disclosed on the balance sheet	<u>\$ 2,331,133</u>

B. ACCOUNTS RECEIVABLE

The accounts receivable and the related allowance for uncollectible accounts for the General Fund as of June 30, 2006 are as follows:

	<u>Accounts Receivable</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net Accounts Receivable</u>
General Fund:			
Scientific Laboratory	\$ 430,315	\$ 41,896	\$ 388,419
Behavioral Health Services - Wesst Corp.	118,199	81,665	36,534
Turquoise Lodge	846,554	836,853	9,701
Las Vegas Medical Center	8,540,461	2,925,123	5,615,338
Los Lunas Community Programs	1,815,221	181,522	1,633,699
Fort Bayard Medical Center	3,675,329	1,223,208	2,452,121
New Mexico Rehabilitation Center	1,162,115	803,061	359,054
New Mexico Veterans Home	1,187,280	113,525	1,073,755
Sequoyah Adolescent Treatment Center	<u>1,302,301</u>	<u>349,306</u>	<u>952,995</u>
TOTALS	<u>\$ 19,077,775</u>	<u>\$ 6,556,159</u>	<u>\$ 12,521,616</u>

The allowance for uncollectible accounts has been established from experience based on the records of the respective activities.

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C. CAPITAL ASSETS

Capital Assets are fixed asset purchased for long term use through the expenditure of capital outlay budget. Capital assets activity for the year ended June 30, 2006 are as follows:

	<u>Balance June 30, 2005</u>	<u>Reclassification Adjustment</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Capital assets, not being depreciated:					
Land	\$ 114,558	\$ (54,858)	\$ -	\$ -	\$ 59,700
Capital assets, being depreciated:					
Land Improvements	191,785	47,911	-	-	239,696
Building and Structures	42,369,017	-	200,315	45,148	42,524,184
Autos and Trucks	5,818,017	-	210,949	857,399	5,171,567
Data Processing Equip.	20,344,853	-	552,421	547,814	20,349,460
Machinery & Equip.	15,062,594	6,947	800,447	1,587,931	14,282,057
Furniture and Fixtures	2,286,241	-	163,432	62,581	2,387,092
Total capital assets being depreciated	\$ 86,072,507	\$ 54,858	\$ 1,927,564	\$ 3,100,873	\$ 84,954,056
Less accumulated depreciation for:					
Land Improvements	(9,843)	(214,402)	(2,458)	-	(226,703)
Building and Structures	(28,048,801)	-	(1,128,826)	(39,444)	(29,138,183)
Autos and Trucks	(4,994,742)	-	(189,924)	(842,038)	(4,342,628)
Data Processing Equipment	(14,422,531)	69	(2,065,418)	(520,643)	(15,967,237)
Machinery & Equipment	(9,415,953)	(3,132)	(906,208)	(1,529,159)	(8,796,134)
Furniture and Fixtures	(1,015,179)	(1,043)	(183,511)	(35,337)	(1,164,396)
Total Accumulated Depreciation	(57,907,049)	(218,508)	(4,476,345)	(2,966,621)	(59,635,281)
Governmental activities net depreciable capital assets.	<u>28,165,458</u>	<u>(163,650)</u>	<u>(2,548,781)</u>	<u>134,252</u>	<u>25,318,775</u>
Governmental activities net total Capital Assets	\$ 28,280,016	\$ (218,508)	\$ (2,548,781)	\$ 134,252	\$ 25,378,475

The Department's general governmental operations are conducted in buildings owned by the State of New Mexico. Such buildings include the Harold Runnels Building in Santa Fe and those buildings used by the medical and long-term care facilities and Scientific Laboratory. The Public Health Offices and WIC offices may or may not be rented from either the counties under joint powers agreements or from private contractors.

Depreciation expense includes a \$102 adjustment that relates to prior year balances.

D. COMPENSATED ABSENCES

Compensated absences consist of annual leave, sick leave and comp time earned by Department employees and are disclosed in the financial statements. The changes in compensated absences are recorded in the financial statements as follows:

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Current Portion	\$ 6,212,976	\$ 9,545,472	\$ 8,453,144	\$ 7,305,304
Non-Current Portion	131,299	-	79,985	51,314
Total Compensated Absences	\$ 6,344,275	\$ 9,545,472	\$ 8,533,129	\$ 7,356,618

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E. DUE FROM AND DUE TO OTHER AGENCIES

Transactions that occur among state agencies under legislative mandate, exchange transactions and other situations are accounted for in the financial statements which make up the due from and the due to other state agencies. The Due from and due to other agencies balances at June 30, 2006 other agencies balances at June 30, 2006 consist of the following:

D.O.H. CAS		Other Agency's		Amount
<u>Fund #</u>	<u>Due from other state agencies</u>	<u>Fund #</u>		<u>Amount</u>
061	Human Services Department	052	\$	5,556,068
061	Energy, Minerals and Natural Resources Department	199		151,714
061	Department of Transportation	007		62,180
061	Department of Education	057		8,995
061	Department of Finance and Administration	761		183,700
061	Environment Department	064		35,572
061	State Investment Council	601		41,113
061	Department of Finance and Administration	853		6,520,000
			\$	<u>12,559,342</u>

D.O.H. CAS		Other Agency's		Amount
<u>Fund #</u>	<u>Due to other state agencies</u>	<u>Fund #</u>		<u>Amount</u>
502	Children, Youth and Families Department	911	\$	82,285
			\$	<u>82,285</u>

F. RENTAL EXPENSE

The Department leases equipment under operating leases. Operating leases do not give rise to eventual property rights or lease obligations and, therefore, the effect of the lease obligations are not reflected in the Department's liabilities. Operating leases are subject to future appropriations and are cancelable by the Department at the end of each fiscal year. The Department has commitments for lease obligations for the following periods in the following amounts:

Fiscal Year(s) <u>Ending June 30th...</u>	Committed Lease <u>Obligations</u>
2007	\$ 4,483,715
2008	2,868,989
2009	2,483,037
2010	2,248,965
2011	1,856,037
2012 - 2016	4,586,552
2017 - 2021	
Total	<u>\$ 18,527,295</u>

Rental expenditures for the fiscal year ended June 30, 2006 were \$4,654,757.

The Department did not enter into any capitalized leases in FY 06 or have leases that are required to be capitalized.

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G. DEFERRED REVENUE

Deferred revenue consists of monies that have been received by the Department but have not yet earned by the conclusion of the the fiscal year. The lian's share of deferred revenue results from special legislative appropriations.

	Original Appropriation	Outstanding Encumbrances	Deferred Revenue (Receivable) 2005	Receipts (reversions)	Current Year Revenue	Deferred Revenue 2006
Special State Appropriations						
Supplemental Appropriation from County-Supported Medicaid Fund, Chapter 31, Laws of 1992	\$ -	\$ -	\$ -	\$ 2,735,553.00 (647,316)	\$ 2,088,237.00	\$ -
INPHORM Project, Ch.64. Sec 8,(21). Laws of 2001	3,100,000	-	40,551	(40,551)	-	-
INPHORM Project, Ch.4, Sec 7(20), Laws of 2002	1,550,000	-	12,098	(12,098)	-	-
INPHORM Project Laws of 2005 Ch.33 Sec 7(25) extending thru FY06 Laws of 2004 Ch.114 Sec 8(28) extending of Laws of 2003, Chapter 76, Sec 7(16)	500,000	89,251	89,251	365,000	254,759	199,492
Facilities System Enhancement Project, Ch.76, Sec 7 (17) L: Laws of 2005, Ch.33, Sec 7(22)	1,500,000 750,000	-	40,518	(40,518) 200,000	-	-
Laws of 2005, Ch.33, Sec 7(22) Computer System Enhancement Fund	1,000,000	-		155,000	71,579	83,421
Section 401(b) of the Jobs and Growth Tax Relief Reconciliatic Ch. 76, Sec 3, Subsection 1, Laws of 2003	3,100,000	-	326,232	(72,423)	253,809	-
Laws of 2005, Chapter 33, Section 6(12) Fund Shortfalls for Fort Bayard, NM Veterans Home and Los Lunas	5,745,400	-	177,611	- (81,449)	96,162	-
Laws of 2005 Ch.33 Sec.5(81) for Jackson Disengagement	330,000	-	330,000	-	330,000	-
Laws of 2005, Ch.33, Sec.5(82)for Actuarial Analysis of Statewide Drug Purchases	150,000	-	150,000	-	150,000	-
Laws of 2005, Ch.33, Sec.5(83) for Receiverships	500,000	-	500,000	-	500,000	-
Laws of 2005, Ch.33, Sec.5(84) for a Statewide Domestic Violence Victimization Survey	200,000	-	200,000	-	200,000	-

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	<i>Original Appropriation</i>	<i>Outstanding Encumbrances</i>	<i>Revenue (Receivable) 2005</i>	<i>Receipts (reversions)</i>	<i>Current Year Revenue</i>	<i>Deferred Revenue 2006</i>
Laws of 2005, Ch.33 Sec.5(85) for Extended outreach related to the State Immunization Registry System	\$ 25,000	\$ -	\$ 25,000	\$ -	\$ 25,000	\$ -
Laws of 2005, Ch.33, Sec.5(86) for Start-up of School-based Health Centers	2,000,000	-	2,000,000	- (96,620)	1,903,380	-
Laws of 2005, Ch.33 Sec.5(87) for Start-up pilot expenses for the Hepatitis C collaborative health services project	500,000	-	500,000	-	500,000	-
Laws of 2005, Ch.33 Sec.5(88) for a Breast Cancer Environmental Study	300,000	-	300,000	-	300,000	-
Laws of 2005, Ch.33, Sec.7(24) Website Vital Records Birth and Death System	1,000,000	-	-	1,000,000	633,915	366,085
Laws of 2005, Ch.34 Sec.(13) Subsection G (Senate Bill 190) for Dona Ana County Behavioral Health Services (Sec. 15 reduced appropriations by 5%)	285,000	-	285,000	-	285,000	-
Laws of 2005, Ch.347, Sec.42 (Capital Projects - GF 059)	4,826,000	-	4,826,000	- (4,798)	2,880,202	1,941,000
Laws of 2005, Ch. 341, Memorandum of Agreement 06-019	175,000	-	-	(61,732)	(175,000)	113,268
Laws of 2005, Ch.34, Sec. 7 Subsection G (SB190)	2,175,500	-	-	2,175,500 (350,967)	1,824,533	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(350,967)</u>	<u>-</u>	<u>-</u>
Total State Appropriations including reversion amounts	<u>\$ 29,711,900</u>	<u>\$ 89,251</u>	<u>\$ 9,802,261</u>	<u>\$ 5,222,581</u>	<u>\$ 12,297,770</u>	<u>\$ 2,727,072</u>

The revenue recognition policies for special state appropriations are such that when monies are received they are classified as deferred revenue until wholly or partially spent.

Most of the time, monies relating to special state appropriations are received at the beginning of the fiscal year or during the year. As expenditures occur, the amounts originally posted as deferred revenue are re-classified as earned revenue.

Most, if not all, special appropriations contain legislative guidelines to ensure the money is being spent in concert with its intended purpose. There may also be time limitations on the period in which the money may be spent. For instance, some special appropriations contain language that mandate that any unspent, unencumbered balance must revert to the general fund by a specified date.

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H. RESERVED FUND BALANCE

Found in the equity section of the balance sheet, reserved fund balance includes reserves for encumbrances, prepaid postage, and inventory so that left over balances will not be spent inappropriately and is contracted to legislative intent.

Reserved fund balances consist of the following:

		<u>General Fund</u>
Encumbrances	\$	12,110,480
Inventory and Prepaid Expense		5,963,680
Other		338,443
	\$	<u>18,412,603</u>

Encumbrances consist of funds committed to providers of goods and services that are contracted to be provided to the Department.

I. FUNDS HELD IN TRUST BY OTHERS

The Department is an income beneficiary of a portion of the State Permanent Fund designated specifically for the Behavioral Health Institute in Las Vegas and receives 2/7 of the income from investments in the State Permanent Fund derived from the Charitable, Penal and Reformatory Act for the Behavioral Health Institute in Las Vegas and the Los Lunas Community Programs (1/7 of \$72,554,735 each). The trust principal is managed by the State Investment Council and, because the funds are not controlled by the Department, they are not reflected in the accompanying financial statements. The value of the Department's interest in the State Permanent Fund at June 30, 2006 and the increase in unrealized appreciation and the income received for the year follow:

	<u>Interest in fund at June 30, 2006</u>	<u>Income received in 2006</u>
State Permanent Fund -		
Las Vegas Medical Center	\$ 19,977,520	\$ 917,171
Charitable, Penal and Reformatory Act:		
Las Vegas Medical Center	10,860,737	1,316,464
Los Lunas Community Programs	10,860,737	1,059,455

J. OTHER FINANCING USES

Other financing uses, as shown in Exhibits 5 and 7, include the following:

Medicaid match	\$	68,752,842
Payments to regional care provider		<u>849,162</u>
Total Other Financing Uses	\$	<u>69,602,004</u>

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K. DESCRIPTION OF FEES, PENALTIES, INTEREST AND OTHER

Fees, penalties, rentals and other revenues per Statement 5, Statement of Revenues, Expenditures and Changes in Fund Balance, are broken down as follows:

Fees and licenses	\$ 4,575,739
Mental health program revenue	3,263,356
Rental revenue and land income	3,308,937
Bond revenue	260,448
Prior year cash balance budgeted	7,385,624
Received from other agencies	6,746,231
Penalties	357,923
Interest	564
Total per Exhibit 5	<u>\$ 25,898,822</u>

L. REVERSIONS

As detailed in the deferred revenue note, the following reversions of special appropriations accrued during fiscal year 2006:

Laws of 2002, Ch. 64, Section 8	\$ 40,551
Laws of 2002, Ch. 4, Section 7	12,098
Laws of 2003, Ch. 76, Section 7	40,518
Laws of 2005, Ch. 33, Section 6	32,679
Laws of 2005, Ch. 33, Section 6	48,770
Laws of 2005, Ch. 33, Section 5	96,620
Laws of 2005, Ch. 34, Section 7	40
Laws of 2005, Ch. 34, Section 7	3,066
Laws of 2005, Ch. 34, Section 7	84,512
Laws of 2005, Ch. 34, Section 7	142,500
Laws of 2005, Ch. 34, Section 7	5
Laws of 2005, Ch. 34, Section 7	2,923
Laws of 2005, Ch. 34, Section 7	72,475
Laws of 2005, Ch. 34, Section 7	275
Laws of 2005, Ch. 34, Section 7	45,172
Laws of 2005, HB 2, Section 4	647,316
Laws of 2005, Ch. 347, Section 42	2
Laws of 2005, Ch. 347, Section 42	4,796
Fund 558, AIDS waiver, FY 2006	217,106
Fund 558, AIDS waiver, FY 2005	238,293
Total	<u>\$ 1,729,717</u>

The Department did not have any additional reversions for FY 2006. The amounts above are payable within 45 days of the release of this audit by the Office of the State Auditor. Total reversions related to special appropriations equal \$1,729,717. The Department's general funds revert.

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M. OPERATING TRANSFERS DURING FISCAL 2006

DOH FUND	AGENCY NAME	AGENCY CODE	CAS FUND	TRANSFERS IN	TRANSFERS OUT	PURPOSE
059	STATE BOARD OF FINANCE	341	001	\$ 160,448	\$	SEVERANCE TAX BOND FUNDING
059	STATE BOARD OF FINANCE	341	229	100,000		SEVERANCE TAX BOND
059	GENERAL SERVICES DEPT.	350	285	801,000		SPECIAL APPROPRIATION
059	DEPT. OF CULTURAL AFFAIRS	505	698		20,000	SCHOOL BASED HLTH FAC. CAPITAL PROJECT
059	GENERAL SERVICES DEPT.	350	125		15,000	INFRASTRUCTURE REPAIRS
059	DEPT. OF FINANCE AND ADMINISTRATION	341	853	4,826,000		GENERAL FUND APPROPRIATIONS
061	INVESTMENT COUNCIL	337	601	998,083		LAND GRANT PERMANENT FUND
061	DEPT. OF FINANCE AND ADMINISTRATION	341	620	1,352,300		GENERAL FUND APPROPRIATIONS
061	LAND COMMISSION MAINTENANCE	539	098	549,405		LAND INCOME DISTRIBUTION
061	HUMAN SERVICES	630	901	302,000		HIPPA FUNDS
061	DEPT. OF FINANCE AND ADMINISTRATION	341	853		509	REVERT FUNDS FOR STALE-DATED WARRANT CANCEL.
061	TAXATION AND REVENUE DEPT.	333	172		3,846	COOP FUNDING FOR LEASE
061	CHILDREN, YOUTH AND FAMILIES	690	067		79,430	PROGRAM FOR DOMESTIC VIOLENCE
061	CORRECTIONS DEPT.	770	915		1,000,000	BEHAVIORAL HEALTH SERVICES
061	CHILDREN, YOUTH AND FAMILIES	690	067		196,300	BEHAVIORAL HEALTH SERVICES
061	CHILDREN, YOUTH AND FAMILIES	690	067		47,500	DOMESTIC VIOLENCE SVS
061	DEPT. OF FINANCE AND ADMINISTRATION	341	853		1,720,320	REVERSION FY05
061	CORRECTIONS DEPT.	770	907		95,000	TRAINING/TREATMENT OF HEPATITIS C.
061	AGENCY ON AGING	624	049		50,000	INDEPENDENT CONSTITUENT SVS PROGRAM
061	HUMAN SERVICES DEPT.	630	052		176,194	FEE-FOR-SERVICE BASIS
061	AGENCY ON AGING	624	049		20,000	FUNDS FOR LONG TERM SERVICES CARE
061	DEPT. OF FINANCE AND ADMINISTRATION	341	853		39,568	REVERSION STALE DATED WARRANTS
061	DEPT. OF FINANCE AND ADMINISTRATION	341	625		282,632	FEDERAL RELIEF FUND - FEDERAL SOURCE
061	CHILDREN, YOUTH AND FAMILIES	690	067	500,000		FAMILIES FIRST PROGRAM
061	CHILDREN, YOUTH AND FAMILIES	690	067	437,000		SCHOOL BASED MENTAL HLTH SVCS.
061	DEPT. OF EDUCATION	924	672	45,824		STUDENT NUTRITION PROGRAM
061	DEPT. OF FINANCE AND ADMINISTRATION	341	009	1,720,000		INTEGRATED DATA SYS. - SPEC. APPROP.
061	DEPT. OF FINANCE AND ADMINISTRATION	341	021	2,735,553		CSMF DISTRIBUTION
061	DEPT. OF FINANCE AND ADMINISTRATION	341	761	18,539		REVERSE ACCRUAL OF LAND INCOME DIST.
061	DEPT. OF FINANCE AND ADMINISTRATION	341	761	1,080,011		PERMANENT FUND INCOME DIST.
061	DEPT. OF FINANCE AND ADMINISTRATION	341	761	451,936		LAND INCOME DISTRIBUTION
061	DEPT. OF FINANCE AND ADMINISTRATION	341	853	104,500		DATA ON GAMBLING IN THE STATE
061	DEPT. OF FINANCE AND ADMINISTRATION	341	853	208,945,300		GENERAL FUND APPROPRIATIONS
476	AGENCY ON AGING	624	768		68,513	FUNDS FOR LONG TERM SERVICES CARE
502	DEPT. OF FINANCE AND ADMINISTRATION	341	853		630,855	BIRTH AND DEATH
502	CHILDREN, YOUTH AND FAMILIES	690	911		1,163,261	BIRTH AND DEATH
502	DEPT. OF FINANCE AND ADMINISTRATION	341	853		10	REVERSION STALE DATED WARRANTS
507	DEPT. OF FINANCE AND ADMINISTRATION	341	801		13,289	VITAL RECORDS RECEIPTS
558	DEPT. OF FINANCE AND ADMINISTRATION	341	853	65,426,500		GENERAL FUND APPROPRIATIONS
756	DEPT. OF FINANCE AND ADMINISTRATION	341	853	3,475,900		GENERAL FUND APPROPRIATIONS
				<u>\$294,030,299</u>	<u>\$5,622,227</u>	

The Department has distinct types of operating transfers, depending on the purpose. For example, the transfers to DFA and CYFD Fund 502 birth and death certificates are monies that the Department collects for certificates sold to the public. By statute, these funds actually belong to DFA and CYFD and are transferred out periodically.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Notes to Financial Statements
June 30, 2006**

N. FUNDS HELD FOR OTHERS

The category funds held for others consists of those funds that are appropriated to the Department and donated from other sources for the Department to be used for special grants. Since these funds are assets of the Department until grants are approved they are not considered fiduciary funds or agency funds. The category consists of the following balances as of June 30, 2005:

Foster Grandparent Program - Behavior Health Services - Las Vegas	\$	19,326
Receivership		188,683
Emergency Medical Services - Funding for emergency supplies and capital assets to counties and municipalities.		<u>266,131</u>
Total fund held for others	\$	<u>474,140</u>

O. CASH OVERDRAFT

The Department overdrew its General Operating account Fund 061 cash account as of June 30, 2006 by \$4,768,355.

P. DUE TO AND FROM OTHER FUNDS

The interfund balances represent payments made by the respective funds on behalf of the others.

	<u>DUE FROM</u>	<u>DUE TO</u>
General Fund	\$ 300	\$ 500
Agency Fund	-	300
Trust Fund	<u>500</u>	<u>-</u>
Total	<u>\$ 800</u>	<u>\$ 800</u>

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Notes to the Financial Statements
June 30, 2006**

Note 4. OTHER INFORMATION

A. Retirement Plans, Deferred Compensation Plan, and Post Employment Benefits:

Retirement Plans

Public Employees Retirement Association (PERA)

Plan Description. Substantially all of the Department's full-time employees participate in a public employee retirement system authorized under the Public Employee's Retirement Association Act (PERA) (Chapter 10, Article 11 NMSA 1978). The PERA is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, 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. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, and N.M. 87503-2123.

Funding Policy. Plan members are required to contribute 7.42% of their gross salary. The Department is required to contribute 16.59% of the gross salary. The contribution requirements of plan members and the Department is established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Department's contributions to PERA for the years ending June 30, 2006, 2005 and 2004 were \$20,321,350, \$19,843,174, and \$19,075,449, respectively, equal to the amount of the required contributions for each year.

Educational Retirement Act (ERA)

Plan Description. Some of the Department's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (ERA) (Chapter 22, Article 11 NMSA 1978). The ERA is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. ERA issues a separate, publicly available financial statements and required supplementary information. That report may be obtained by writing to ERA, P.O. Box 26129, Santa Fe, N.M. 87502.

Funding Policy. Plan members are required to contribute 7.6% of their gross salary. The Department is required to contribute 8.65% of the gross salary. The contribution requirements of plan members and the Department are established under Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Department's contributions to ERA for the year ending June 30, 2006 and June 30, 2005 were \$166,034, and \$219,249.

Deferred Compensation

The State of New Mexico offers state, local government, and school district employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The plan is available to all state employees and those local government and school district employees whose employers have elected to participate in the plan. The plan permits

**STATE OF NEW MEXICO
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**Notes to the Financial Statements
June 30, 2006**

participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are the property of the participant.

Employees of the Department are making contributions to the Deferred Compensation Plan. Neither the Office nor the State of New Mexico make any contributions to the Deferred Compensation Plan. All contributions withheld from participants by the Office have been paid to PERA who administers the plan.

Retiree Health Care Act (RHCA)

The Retiree Health Care Act (RHCA) (10-7C-1 to 10-7C-16, NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The purpose is to provide eligible retirees, their spouses, and surviving spouses and dependents with health insurance 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 of eligible retirees.

Monies flows to the Retiree Health Care Fund on a "pay-as-you-go" basis from eligible employers and eligible retirees. Eligible employers consist of institutions of higher education, school districts, or other entities participating in the public school insurance authority and state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Education Retirement Act, the Magistrate Retirement Act or the Public Employees Retirement Act.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during this time made contributions as a participant in the Retiree Health Care Act (NMRHCA) on the persons' behalf, unless that person retires before the employers NMRHCA effective date in which event, the time period for employees and employer contributions shall become the period of time between the employer's effective date and the date of retirement; or (2) retirees defined by the act who retired prior to July 1, 1990 as well as former state legislators who served at least two years.

Each participating employer makes employee contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the fund an employee's contribution equal to 0.65% of the employees' salary. For the medical plus basic life plan and an additional participation fee of five dollars (\$5.00) if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

Contributions from participating employers and participating employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the NMRHCA. The employer, employee, and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Notes to the Financial Statements
June 30, 2006**

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd, NE, Suite 104, Albuquerque, NM 87109.

During the fiscal year ended June 30, 2006, the Department remitted \$1,597,452 in employer contributions and \$798,726 in employee contributions. In fiscal year ended June 30, 2005 the amounts remitted were \$1,559,223 in employer contributions and \$779,611 in employee contributions.

Accounting for Termination Benefits

The Department except for the benefits that are provided under the employees annual leave, sick leave and prepaid post-retirement insurance benefits that are disclosed in the notes above and recorded as a liability in the Governmental Wide Financial Statement no early retirement or post-retirement termination Benefits occurred in the fiscal year ending June 30, 2006.

B. Contingencies

The Department, as a State Agency defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the General Services Department of the State of New Mexico. The Office of Risk Management Division pays annual premiums for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the State of New Mexico.
2. Coverage to protect the State of New Mexico's property and assets; and
3. Fringe benefit coverage for State of New Mexico employees.

In the case of civil actions or claims against the Department for financial damages, the Department's certificate of insurance with Risk Management does not cover civil rights claims for back wages but does cover civil rights claims for other compensatory damages.

The Department of Health is engaged in litigation for declaratory and injunctive relief to obtain Developmental Disabilities and Disabled and Elderly home and community-based medicaid waiver services for three individual plaintiffs and other similarly situated persons. The trial court has ruled against the defendants on their main defenses. Even though the Department has lost this decision, in similar litigation in other jurisdictions in the United States the courts decisions are holding that states have limited or lack of liability in this area. In the event this decision is reversed, the plaintiffs could conceivably take appeals all the way to the U.S. Supreme Court. If the U.S. Supreme Court finds for the plaintiffs, the Department could be ordered to pay fees and costs associated with the decision as well as provide services to developmentally disabled and other disabled persons who are on waiting lists for services under an injunction. The range of potential loss cannot be reasonably estimated at this time.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Notes to the Financial Statements
June 30, 2006**

The Department of Health is involved in a tort claim suit for damages against the Department arises from plaintiff's actions in picking up bio-hazardous waste. The potential loss cannot be reasonably estimated at this time.

The Department of Health is involved in a law suit where as the plaintiff is alleging that while a patient at the New Mexico Behavior Health Institute in Las Vegas he was physically and sexually assaulted, by possibly another patient. The Department has a potential loss in this case not to exceed \$60,000.

C. Subsequent Events

The Department of Health entered into an agreement in June 2006 where as the New Mexico Finance Authority would loan the department \$2,000,000, of which \$1,000,000 would be used for New Mexico Behavior Health Institute in Las Vegas, and \$1,000,000 for the New Mexico Rehabilitation Center in Roswell. The funds advanced in July 2007 are for the start-up cost for planning the renovating of old buildings and for new construction.

The Department received invoices after year-end from the Department of Human Services (HS) for Developmentally Disabled Waivers Program for prior years. The invoices were for the state matching portion that is paid by the Department to HS as the bills are paid by Medicaid. The invoices are for several prior years and the future amounts cannot be reasonably estimated. 6-10-4 B. NMSA 1978 states "Appropriations to the human services department for Medicaid payments may be expended by that department for Medicaid obligations for prior fiscal years." The appropriations are made to the Department for the purpose to pass through the funds to HS per a Joint Powers agreement specifically for the Medicaid Waiver.

The Department received invoices for payment after July 31, for which there was sufficient budget to pay The State of New Mexico requires that they be charged to FY 2007 budget. GAAP requires these expenditures be charged to FY 2006 therefore they are recognized as FY 2006 expenditures in the Financial Statements. Other invoices not received by December 13, 2006 could not be reasonably estimated and were not projected. The following amounts are expenditures and payables received by December 13, 2006 that were posted to our accounting records in FY 2007 and therefore will require a reversal in FY 2007 for the Financial Statements.

Medicaid Waivers Obligation	\$ 3,924,945
Approval to Pay Prior Years in FY 2007	<u>461,309</u>
Total	<u>\$ 4,386,254</u>

D. Risk Management

The Department is exposed to various risks of loss related to tort, theft of, damage to, or destruction of assets, errors or omissions, employer obligations and natural disasters for which the Department carries insurance (Workers Compensation, Unemployment Compensation, Employee Liability, Transportation Property and Bond Premium) with the State of New Mexico Risk Management Division (RMD) of the General Services Department. Insurance premiums are allocated to and paid by all budgeted activities within the general fund. During the fiscal year ended June 30, 2006, total insurance premiums paid to the Risk Management Division were \$3,013,679.

Supplementary Statements

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Statement 1

Statement of Revenues and Expenditures - Modified Accrual (GAAP Basis)
Budget and Actual
By Program Area
For the Fiscal Year Ended June 30, 2006

PROGRAM AREA ONE
PREVENTION, HEALTH PROMOTION AND EARLY INTERVENTION

REVENUES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Federal Grants	\$ 64,893,500	\$ 77,019,000	\$ 75,664,273	\$ (1,354,727)
State General Fund-Appropriations				
Regular Operating	38,822,900	38,822,900	38,822,900	-
Other	-	559,750	2,194,230	1,634,480
Patient Service Revenue	6,469,700	8,508,396	7,105,390	(1,403,006)
Fees, penalties, rentals and other	12,193,700	1,239,300	5,522,962	4,283,662
Total revenues	122,379,800	126,149,346	129,309,755	3,160,409
Prior year fund balance budgeted	-	5,703,847	-	(5,703,847)
TOTAL	\$ 122,379,800	\$ 131,853,193	\$ 129,309,755	\$ (2,543,438)
EXPENDITURES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Personal services and employee benefits	\$ 30,357,900	\$ 30,797,336	\$ 29,705,975	\$ 1,091,361
Contractual services	28,357,200	34,366,746	30,303,806	4,062,940
Other	63,360,200	66,304,623	62,763,636	3,540,987
Total Expenditures	122,075,300	131,468,705	122,773,417	8,695,288
Other Financing Uses	304,500	384,488	87,394	297,094
Total Expenditures and Other Financing Uses	122,379,800	131,853,193	122,860,811	8,992,382
Revenues over (under) expenditures and other financing uses	\$ -	\$ -	\$ 6,448,944	\$ 6,448,944

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Statement 1

Statement of Revenues and Expenditures - Modified Accrual (GAAP Basis)
Budget and Actual
By Program Area
For the Fiscal Year Ended June 30, 2006

PROGRAM AREA TWO
HEALTH INFRASTRUCTURE

REVENUES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Federal Grants	\$ 1,601,000	\$ 1,945,200	\$ 1,412,624	\$ (532,576)
State General Fund-Appropriations				
Regular Operating	30,823,700	30,823,700	30,823,700	-
Other	2,000,000	2,993,500	6,969,725	3,976,225
Patient Service Revenue	155,700	155,700	240,837	85,137
Fees, penalties, rentals and other	538,500	1,538,500	959,805	(578,695)
Total revenues	35,118,900	37,456,600	40,406,691	2,950,091
Prior year fund balance budgeted	-	2,293,569	-	(2,293,569)
TOTAL	\$ 35,118,900	\$ 39,750,169	\$ 40,406,691	\$ 656,522
EXPENDITURES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Personal services and employee ben	\$ 16,646,500	\$ 17,372,800	\$ 17,097,665	\$ 275,135
Contractual services	14,863,400	18,637,369	15,990,244	2,647,125
Other	3,109,000	3,210,000	3,085,141	124,859
Total Expenditures	34,618,900	39,220,169	36,173,050	3,047,119
Other Financing Uses	500,000	530,000	520,000	10,000
Total Expenditures and Other Financing Uses	35,118,900	39,750,169	36,693,050	3,057,119
Revenues over (under) expenditures and other financing uses	\$ -	\$ -	\$ 3,713,641	\$ 3,713,641

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Statement 1

Statement of Revenues and Expenditures - Modified Accrual (GAAP Basis)
Budget and Actual
By Program Area
For the Fiscal Year Ended June 30, 2006

REVENUES:	PROGRAM AREA THREE SURVEILLANCE AND RESPONSE			
	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY	(UNFAVORABLE)
				VARIANCE
Federal Grants	\$ 15,592,500	\$ 17,904,893	\$ 17,588,675	\$ (316,218)
State General Fund-Appropriations				
Regular Operating	9,675,700	9,675,700	9,829,284	153,584
Other		1,532,000	1,090,373	(441,627)
Patient Service Revenue	1,496,800	1,496,800	115,364	(1,381,436)
Fees, penalties, rentals and other	643,400	643,400	1,473,571	830,171
Total revenues	27,408,400	31,252,793	30,097,267	(1,155,526)
Prior year fund balance budgeted	-	492,745	-	(492,745)
TOTAL	\$ 27,408,400	\$ 31,745,538	\$ 30,097,267	\$ (1,648,271)
EXPENDITURES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY	(UNFAVORABLE)
			BASIS	VARIANCE
Personal services and employee ben	\$ 11,138,900	\$ 11,358,900	\$ 10,533,670	\$ 825,230
Contractual services	9,724,100	12,607,099	12,209,607	397,492
Other	6,527,300	7,713,939	7,242,702	471,237
Total Expenditures	27,390,300	31,679,938	29,985,979	1,693,959
Other Financing Uses	18,100	65,600	47,500	18,100
Total Expenditures and Other Financing Uses	27,408,400	31,745,538	30,033,479	1,712,059
Revenues over (under) expenditures and other financing uses	\$ -	\$ -	\$ 63,788	\$ 63,788

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Statement 1

Statement of Revenues and Expenditures - Modified Accrual (GAAP Basis)
Budget and Actual
By Program Area
For the Fiscal Year Ended June 30, 2006

PROGRAM AREA FOUR
TESTING AND PHARMACEUTICAL

REVENUES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u> <u>BASIS</u>	(UNFAVORABLE) <u>VARIANCE</u>
Federal Grants	\$ 2,108,300	\$ 2,108,300	\$ 2,067,925	\$ (40,375)
State General Fund-Appropriations				
Regular Operating	6,037,200	6,037,200	6,037,200	-
Other	-	235,750	357,157	121,407
Patient Service Revenue	-	31,000	-	(31,000)
Fees, penalties, rentals and other	3,375,500	3,536,500	3,765,844	229,344
Total revenues	11,521,000	11,948,750	12,228,126	279,376
Prior year fund balance budgeted	-	641,283	-	(641,283)
TOTAL	\$ 11,521,000	\$ 12,590,033	\$ 12,228,126	\$ (361,907)
EXPENDITURES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u> <u>BASIS</u>	(UNFAVORABLE) <u>VARIANCE</u>
Personal services and employee ben-	\$ 6,595,100	\$ 6,846,250	\$ 6,787,655	\$ 58,595
Contractual services	587,600	928,606	904,275	24,331
Other	4,338,300	4,714,177	4,633,648	80,529
Total Expenditures	11,521,000	12,489,033	12,325,578	163,455
Other Financing Uses	-	101,000	-	101,000
Total Expenditures and Other Financing Uses	11,521,000	12,590,033	12,325,578	264,455
Revenues over (under) expenditures and other financing uses	\$ -	\$ -	\$ (97,452)	\$ (97,452)

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Statement 1

Statement of Revenues and Expenditures - Modified Accrual (GAAP Basis)
Budget and Actual
By Program Area
For the Fiscal Year Ended June 30, 2006

PROGRAM AREA FIVE
BEHAVIORAL HEALTH SERVICES

REVENUES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Federal Grants	\$ 27,129,500	\$ 27,129,500	\$ 24,673,631	\$ (2,455,869)
State General Fund-Appropriations				
Regular Operating	78,515,500	77,245,500	77,245,500	-
Other	-	270,750	570,750	300,000
Patient Service Revenue	28,318,800	28,598,568	28,632,611	34,043
Fees, penalties, rentals and other	5,957,000	6,753,000	7,637,826	884,826
Total revenues	139,920,800	139,997,318	138,760,318	(1,237,000)
Prior year fund balance budgeted	-	2,510,779	-	(2,510,779)
TOTAL	\$ 139,920,800	\$ 142,508,097	\$ 138,760,318	\$ (3,747,779)
EXPENDITURES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Personal services and employee ben	\$ 62,410,700	\$ 60,414,152	\$ 59,774,153	\$ 639,999
Contractual services	66,660,600	68,212,173	63,262,433	4,949,740
Other	9,569,800	12,595,272	13,129,485	(534,213)
Total Expenditures	138,641,100	141,221,597	136,166,071	5,055,526
Other Financing Uses	1,279,700	1,286,500	1,275,730	10,770
Total Expenditures and Other Financing Uses	139,920,800	142,508,097	137,441,801	5,066,296
Revenues over (under) expenditures and other financing uses	\$ -	\$ -	\$ 1,318,517	\$ 1,318,517

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STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Statement 1

Statement of Revenues and Expenditures - Modified Accrual (GAAP Basis)
Budget and Actual
By Program Area
For the Fiscal Year Ended June 30, 2006

PROGRAM AREA SIX
LONG TERM CARE SERVICES

REVENUES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Federal Grants	\$ 3,197,890	\$ 3,197,890	\$ 3,156,178	\$ (41,712)
State General Fund-Appropriations				
Regular Operating	8,406,400	9,676,400	9,649,400	(27,000)
Other		23,750	23,750	-
Patient Service Revenue	38,071,166	38,071,166	38,509,557	438,391
Fees, penalties, rentals and other	1,381,044	1,686,471	1,695,960	9,489
Total revenues	51,056,500	52,655,677	53,034,845	379,168
Prior year fund balance budgeted	-	547,783	-	(547,783)
TOTAL	\$ 51,056,500	\$ 53,203,460	\$ 53,034,845	\$ (168,615)
EXPENDITURES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Personal services and employee ben-	\$ 37,458,600	\$ 38,090,797	\$ 37,612,225	\$ 478,572
Contractual services	2,619,081	3,697,620	3,316,005	381,615
Other	10,973,801	11,406,656	10,373,972	1,032,684
Total Expenditures	51,051,482	53,195,073	51,302,202	1,892,871
Other Financing Uses	5,018	8,387	-	8,387
Total Expenditures and Other Financing Uses	51,056,500	53,203,460	51,302,202	1,901,258
Revenues over (under) expenditures and other financing uses	\$ -	\$ -	\$ 1,732,643	\$ 1,732,643

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Statement 1

Statement of Revenues and Expenditures - Modified Accrual (GAAP Basis)
Budget and Actual
By Program Area
For the Fiscal Year Ended June 30, 2006

PROGRAM AREA SEVEN
DEVELOPMENTALLY DISABLED COMMUNITY SERVICES

REVENUES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Federal Grants	\$ 3,359,600	\$ 3,659,600	\$ 3,280,217	\$ (379,383)
State General Fund-Appropriations				
Regular Operating	84,168,900	89,168,900	89,168,900	-
Other	-	190,000	187,037	(2,963)
Patient Service Revenue	5,947,100	9,522,800	7,060,140	(2,462,660)
Fees, penalties, rentals and other	-	250,000	1,862,040	1,612,040
Total revenues	<u>93,475,600</u>	<u>102,791,300</u>	<u>101,558,334</u>	<u>(1,232,966)</u>
Prior year fund balance budgeted	-	1,150,914	-	(1,150,914)
TOTAL	<u>\$ 93,475,600</u>	<u>\$ 103,942,214</u>	<u>\$ 101,558,334</u>	<u>\$ (2,383,880)</u>
EXPENDITURES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Personal services and employee ben	\$ 6,010,200	\$ 9,419,300	\$ 8,984,465	\$ 434,835
Contractual services	25,246,800	29,107,714	27,597,153	1,510,561
Other	<u>2,259,000</u>	<u>1,489,000</u>	<u>1,513,233</u>	<u>(24,233)</u>
Total Expenditures	33,516,000	40,016,014	38,094,851	1,921,163
Other Financing Uses	<u>59,959,600</u>	<u>63,926,200</u>	<u>67,391,131</u>	<u>(3,464,931)</u>
Total Expenditures and Other Financing Uses	<u>93,475,600</u>	<u>103,942,214</u>	<u>105,485,982</u>	<u>(1,543,768)</u>
Revenues over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,927,648)</u>	<u>\$ (3,927,648)</u>

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Statement 1

Statement of Revenues and Expenditures - Modified Accrual (GAAP Basis)
Budget and Actual
By Program Area
For the Fiscal Year Ended June 30, 2006

PROGRAM AREA EIGHT
LICENSING, CERTIFICATION AND OVERSIGHT

REVENUES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u> <u>BASIS</u>	(UNFAVORABLE) <u>VARIANCE</u>
Federal Grants	\$ 1,679,900	\$ 2,420,597	\$ 1,058,268	\$ (1,362,329)
State General Fund-Appropriations				
Regular Operating	4,471,000	4,471,000	4,471,000	-
Other	-	-	-	-
Patient Service Revenue	2,747,300	3,547,300	4,293,962	746,662
Fees, penalties, rentals and other	<u>1,269,000</u>	<u>1,356,000</u>	<u>1,924,729</u>	<u>568,729</u>
Total revenues	10,167,200	11,794,897	11,747,959	(46,938)
Prior year fund balance budgeted	-	551,944	-	(551,944)
TOTAL	<u>\$ 10,167,200</u>	<u>\$ 12,346,841</u>	<u>\$ 11,747,959</u>	<u>\$ (598,882)</u>
EXPENDITURES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u> <u>BASIS</u>	(UNFAVORABLE) <u>VARIANCE</u>
Personal services and employee ben	\$ 8,014,200	\$ 8,214,200	\$ 8,053,235	\$ 160,965
Contractual services	297,000	1,307,641	996,818	310,823
Other	<u>1,741,000</u>	<u>2,710,000</u>	<u>2,478,888</u>	<u>231,112</u>
Total Expenditures	10,052,200	12,231,841	11,528,941	702,900
Other Financing Uses	<u>115,000</u>	<u>115,000</u>	<u>104,055</u>	<u>10,945</u>
Total Expenditures and Other Financing Uses	<u>10,167,200</u>	<u>12,346,841</u>	<u>11,632,996</u>	<u>713,845</u>
Revenues over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 114,963</u>	<u>\$ 114,963</u>

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Statement 1

Statement of Revenues and Expenditures - Modified Accrual (GAAP Basis)
Budget and Actual
By Program Area
For the Fiscal Year Ended June 30, 2006

PROGRAM AREA NINE
ADMINISTRATION AND POLICY

REVENUES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Federal Grants	\$ 4,285,700	\$ 4,619,968	\$ 4,985,328	\$ 365,360
State General Fund-Appropriations				
Regular Operating	6,944,700	6,944,700	6,944,700	
Other		200,000	176,194	(23,806)
Patient Service Revenue	935,500	1,176,985	1,483,723	306,738
Fees, penalties, rentals and other	518,900	820,900	1,056,087	235,187
Total revenues	<u>12,684,800</u>	<u>13,762,553</u>	<u>14,646,032</u>	<u>883,479</u>
Prior year fund balance budgeted	<u>-</u>	<u>263,824</u>	<u>-</u>	<u>(263,824)</u>
TOTAL	\$ <u>12,684,800</u>	\$ <u>14,026,377</u>	\$ <u>14,646,032</u>	\$ <u>619,655</u>
EXPENDITURES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Personal services and employee ben	\$ 8,977,200	\$ 9,591,410	\$ 9,459,817	\$ 131,593
Contractual services	1,884,600	1,810,512	1,471,659	338,853
Other	<u>1,823,000</u>	<u>2,359,343</u>	<u>1,692,916</u>	<u>666,427</u>
Total Expenditures	<u>12,684,800</u>	<u>13,761,265</u>	<u>12,624,392</u>	<u>1,136,873</u>
Other Financing Uses		265,112	176,194	88,918
Total Expenditures and Other Financing Uses	<u>12,684,800</u>	<u>14,026,377</u>	<u>12,800,586</u>	<u>1,225,791</u>
Revenues over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,845,446</u>	<u>\$ 1,845,446</u>

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Statement 1

Statement of Revenues and Expenditures - Modified Accrual (GAAP Basis)
Budget and Actual
By Program Area
For the Fiscal Year Ended June 30, 2006

TOTAL ALL PROGRAM AREAS

REVENUES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Federal Grants	\$ 123,847,890	\$ 140,004,948	\$ 133,887,119	\$ (6,117,829)
State General Fund-Appropriations				
Regular Operating	267,866,000	272,866,000	272,992,584	126,584
Other	2,000,000	6,005,500	11,569,216	5,563,716
Patient Service Revenue	84,142,066	91,108,715	87,441,584	(3,667,131)
Fees, penalties, rentals and other	25,877,044	17,824,071	25,898,824	8,074,753
Total revenues	503,733,000	527,809,234	531,789,327	3,980,093
Prior year fund balance budgeted	-	14,156,688	-	(14,156,688)
TOTAL	\$ 503,733,000	\$ 541,965,922	\$ 531,789,327	\$ (10,176,595)

EXPENDITURES:	BUDGETED AMOUNTS		ACTUAL AMOUNT	FAVORABLE
	ORIGINAL	FINAL	BUDGETARY BASIS	(UNFAVORABLE) VARIANCE
Personal services and employee ben	\$ 187,609,300	\$ 192,105,145	\$ 188,008,860	\$ 4,096,285
Contractual services	150,240,381	170,675,480	156,052,000	14,623,480
Other	103,701,401	112,503,010	106,913,621	5,589,389
Total Expenditures	441,551,082	475,283,635	450,974,481	24,309,154
Other Financing Uses	62,181,918	66,682,287	69,602,004	(2,919,717)
Total Expenditures and Other Financing Uses	503,733,000	541,965,922	520,576,485	21,389,437
Revenues over (under) expenditures and other financing uses	\$ -	\$ -	\$ 11,212,842	\$ 11,212,842

Other Supplementary Schedules

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

Schedule 1

**Schedule of Reconciliation to DFA
For the Fiscal Year Ended June 30, 2006**

DFA maintains certain records in order to exercise financial control over many state agencies, including the Department. DFA's records are maintained substantially on a cash basis. In addition, reconciliation of amounts reflected by DFA to the amounts shown in these financial statements for various accounts follows:

	<u>GENERAL FUND</u>			
	<u>Cash</u>	<u>Accounts Payable</u>	<u>Accrued Payroll & Employee Benefits Payable</u>	<u>Fund Balance Reserved for Encumbrances</u>
Per DFA	\$ (2,681,104)	\$ -	\$ 7,178,182	\$ 22,024,706
Cash on our Books	142,826	-		
Petty cash and change funds	25,369	-		
Reclassify encumbrances that were actual liabilities at June 30, 2006	-	9,914,226		(9,914,226)
Other adjustments	-	20,319,762	-	-
Balances per the Financial Statements:	<u>\$ (2,512,909)</u>	<u>\$ 30,233,988</u>	<u>\$ 7,178,182</u>	<u>\$ 12,110,480</u>

PER DFA:

<u>DFA FUND CODE</u>	<u>Cash</u>	<u>Accounts Payable</u>	<u>Reserved for Encumbrances</u>
059	\$ 1,544,394	\$ -	\$ 279,265
061	(4,844,248)	-	19,329,963
502	34,997	-	
558	312,432	-	2,415,478
756	271,321	-	-
Subsidiary Totals	<u>\$ (2,681,104)</u>	<u>\$ -</u>	<u>\$ 22,024,706</u>

See Auditor's Notes

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 2

Schedule of Individual Deposit Accounts
June 30, 2006

<u>Account Title</u>	<u>Depository</u>	<u>Balance Per Bank</u>	<u>Reconciling Items</u>	<u>Reconciled Balance Per Books</u>
Health District Offices Petty Cash in Banks (checking accounts):				
Dona Ana County	Wells Fargo Bank	\$ 734	\$ (34)	\$ 700
Sunland	Wells Fargo Bank	600		600
Tucumcari	Wells Fargo Bank	600		600
Clovis	NM Bank & Trust - Clovis	600		600
Silver City	Wells Fargo Bank	304	296	600
Carlsbad	Carlsbad National Bank	800		800
Taos	First State Bank of Taos	400		400
Deming	Wells Fargo Bank	1,000		1,000
Roswell	Wells Fargo Bank	1,000		1,000
Alamogordo	First National Bank of Alamogordo	600		600
San Miguel	Bank of Las Vegas	500		500
Artesia	Wells Fargo Bank	303	71	374
Rio Arriba	Valley National Bank, Espanola	500		500
Hobbs	Wells Fargo Bank	802	(3)	799
Santa Fe	Bank of Santa Fe	500		500
Las Cruces	Wells Fargo Bank	913	237	1,150
TOTAL PETTY CASH		\$ 10,156	\$ 567	\$ 10,723

Title X/ Family Planning Depository Clearing (checking accounts):

Farmington	Bank of America	\$ 846	\$	\$ 846
Grants	Grants State Bank	247		247
Clovis	Wells Fargo Bank	241		241
Tucumcari	Wells Fargo Bank	232		232
Ruidoso	Ruidoso State Bank	264		264
Ft. Sumner	Citizens Bank of Clovis, Ft. Sumner	150		150
Alamogordo	Wells Fargo Bank	640		640
Las Vegas	Bank of Las Vegas	135		135
Clayton	Farmers' and Stockmen's Bank, Clayton	100		100
Taos	First State Bank of Taos	259		259
Raton	International State Bank, Raton	253		253
Espanola	Community Bank - Espanola	238		238
T or C	Bank of the Southwest, T or C	120		120
Anthony/Chaparrel	First Security/Wells Fargo Bank	241		241
Socorro	First State Bank, Socorro	102		102
Los Alamos	Los Alamos National Bank	152		152
Estancia	Wells Fargo Bank	174		174
Lordsburg	Western Bank, Lordsburg	100		100
Los Lunas	Wells Fargo Bank	945		945
SE Heights/NE Valley	Wells Fargo Bank	1,088		1,088
Portales	Portales National Bank	520		520
Sunland Park	First Security/Wells Fargo Bank	100		100

Title X/ Family Planning Depository Clearing (continued):

Roswell	Wells Fargo Bank	\$ 777	\$	\$ 777
Carlsbad	Carlsbad National Bank	1,509		1,509

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 2

Schedule of Individual Deposit Accounts
June 30, 2006

Artesia	First National Bank of Artesia	2,301		2,301
Lovington	Lea County State Bank	718		718
Silver City	Wells Fargo Bank	207		207
Hobbs	Lea County State Bank	1,753		1,753
Gallup	Western Bank of Gallup	209		209
Las Cruces	Wells Fargo Bank	1,241		1,241
Total Title X/Family Planning		<u>\$ 15,862</u>	<u>\$</u>	<u>\$ 15,862</u>

Vital Statistics Depository Clearing (checking accounts):

Roswell	Wells Fargo Bank	\$ 5,690	\$	\$ 5,690
Clovis	Wells Fargo Bank	2,190		2,190
Farmington	Bank of America	6,049		6,049
Las Cruces	First Security/Wells Fargo Bank	11,090		11,090
Deming	Wells Fargo Bank	1,377		1,377
Gallup	Western Bank of Gallup	2,840		2,840
Hobbs	Lea County State Bank	3,085		3,085
Socorro	First State Bank, Socorro	766		766
Taos	First State Bank of Taos	945		945
Carlsbad	Carlsbad National Bank	2,795		2,795
Las Vegas	First National Bank of Las Vegas	765		765
Santa Rosa	Wells Fargo Bank	446		446

Vital Statistics Depository Clearing (continued):

Silver City	Wells Fargo Bank	\$ 2,185	\$	\$ 2,185
Raton	International State Bank, Raton	1,260		1,260
Alamogordo	First National Bank of Alamogordo	2,925		2,925
Albuquerque	Wells Fargo	32,769		32,769

Total Title X/Family Planning

\$ 77,177 \$ \$ 77,177

District Health Office Totals

\$ 93,039 \$ \$ 93,039

General Fund Bank Accounts (checking accounts):

Turquoise Lodge	Bank of the West	\$ 63	\$ (26)	\$ 37
NM Rehab Center	Bank of America	(18)	18	
BHI - LV	Bank of Las Vegas	17,226	12,524	29,750
BHI - LV	Bank of Las Vegas	34	9,966	10,000
BHI - LV	First National Bank of Las Vegas	253,060	(253,060)	
FBMC	Bank of America	143,048	(143,048)	
FBMC	Bank of the West	1,347	(1,347)	
Los Lunas	Wells Fargo Bank	11,918	(1,918)	10,000
Veterans Center	Bank of the Southwest, T or C	14,761	(14,761)	

Total General Fund Banks:

\$ 441,439 \$ (391,652) \$ 49,787

Total General Fund, including District Health Offices:

\$ 534,478 \$ (391,652) \$ 142,826

General Fund-State Treasurer (with CAS fund numbers)

Capital Project - 059	State Treasurer	\$ 2,781,356	\$ (1,236,962)	\$ 1,544,394
Operating Fund - 061	State Treasurer	7,254,573	(12,098,821)	(4,844,248)
Birth & Death - 502	State Treasurer	32,242	2,755	34,997

See Auditor's Report

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

Schedule 2

**Schedule of Individual Deposit Accounts
June 30, 2006**

Medicaid Waiver - 558	State Treasurer	8,761,501	(8,449,069)	312,432
EMS - 756	State Treasurer	<u>320,022</u>	<u>(48,701)</u>	<u>271,321</u>
Total General Fund-State Treasurer		\$ 19,149,694	\$ (21,830,798)	\$ (2,681,104)
Total General Fund		\$ 19,694,328	\$ (22,221,883)	\$ (2,527,555)
 Trust and Agency Funds-Banks (checking accounts):				
BHI - LV	Bank of Las Vegas	\$ 62,523	\$ 324	\$ 62,847
BHI - LV	Bank of Las Vegas	244,639	(19,678)	224,961
NM State Employees Cha	Wells Fargo Bank of NM - Albuquerque	75,440		75,440
BHI - LV	Bank of Las Vegas	47,540	80	47,620
FBMC	Bank of America - Silver City	111,328	(4,319)	107,009
FBMC	Bank of America - Silver City	14,889	(589)	14,300
FBMC	Bank of America - Silver City	40,756		40,756
Los Lunas Hospital	Wells Fargo Bank of NM - Los Lunas	36,097	(2,101)	33,996
Veterans Center	Bank of the Southwest, T or C	38,906	(837)	38,069
Veterans Center	Bank of the Southwest, T or C	94,441	(5,861)	88,580
Veterans Center	Bank of the Southwest, T or C	21,060	(1,500)	19,560
Los Lunas Community	Wells Fargo Bank of NM - Los Lunas	17,923	(201)	17,722
Sequoyah	Bank of America - Silver City	<u>1,265</u>	<u>639</u>	<u>1,904</u>
Total Trust and Agency Funds-Banks		\$ 806,807	\$ (34,043)	\$ 772,764
Department Total - all funds		\$ 20,501,135	\$ (22,255,926)	\$ (1,754,791)
 Reconciliation to financial statements:		General		Trust and
		Fund		Agency
Total		\$ (2,527,555)		\$ 772,764
Petty cash and change funds on hand		<u>14,646</u>		<u>1,076</u>
		\$ (2,512,909)		\$ 773,840
 Total cash per Balance Sheet				
Cash		\$ (4,768,365)		
Cash - restricted		<u>2,255,456</u>		
Total		\$ (2,512,909)		

See Auditor's Report

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

Schedule 3

**Schedule of Pledged Collateral
June 30, 2006**

	Bank of Las Vegas	First National Bank of Las Vegas	Bank of America	Wells Fargo	Bank of the SW	All other banks	Accounts at State Treasurer	Total
Total Amount of Deposit	\$ 372,597	\$ 253,825	\$ 318,163	\$ 209,267	\$ 169,288	\$ 28,301	\$ 19,149,694	\$ 20,501,135
Less FDIC	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(28,301)	-	(528,301)
Total Uninsured Public Money	272,597	153,825	218,163	109,267	69,288	-	19,149,694	19,972,834
50% Collateral Requirement	136,299	76,913	109,082	54,634	34,644	-	9,574,847	9,986,419
State Agency Collateral Listing:		A	A	A	A		B	A & B
Bonds:								
US Treasury Notes CUSIP #912828DR8, maturity 4/15/10	479,510	-	-	-	-	-	-	479,510
FNMA - CUSIP #31359MQPI, maturity 11/15/06	484,690	-	-	-	-	-	-	484,690
Total Pledged	964,200	-	-	-	-	-	-	964,200
Over/(Under) Pledged	\$ 827,901	A	A	A	A	A	B	\$ 827,901

A: These accounts are reported monthly from a pool list of State Agency Deposits for the State of New Mexico. Account totals are pledged as part of the New Mexico Pool. Detail of pledged collateral specific to this agency is unavailable because the banks commingle pledged collateral for all state funds it holds. However, the State Treasurer's Office Collateral Bureau monitors pledged collateral for all state funds held by state agencies in such authorized bank accounts.

B: This amount is held at the Office of the State Treasurer and is detailed in the report of the Office of the State Treasurer who's audit is covered by a separate report. Detail specific for the collateral is commingled by the Office of the State Treasurer and they monitor the adequacy of the funds pledged for collateral to ensure they are fully covered as required by the Laws of the State of New Mexico and related statutes.

Custodian:
Federal Home Loan Bank - Dallas

Location:
Dallas, Texas

Name Security in:
New Mexico State Treasurer

The deposits are fully secured since they are in the name of the New Mexico State Treasurer and are held at a separate depository institution that is not affiliated with the depository institution.

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 4

Schedule of Joint Powers Agreements
June 30, 2006

JPA #	Participants	Responsible Party	Description of Activity	Beginning Date of Agreement	End Date of Agreement	Total estimated amount of Agreement	Portion of amount from DOH	Amount DOH contibuted in FY 06	Participant responsible for audit	Fiscal Agent	Agency reporting revenues and expenditures
The following is a list of Joint Powers Agreements in which the Department of Health has entered. The Department of Health is a New Mexico government agency where revenues and expenditures are reported. There is no third party fiscal agent involved.											
06.665.JPA 0.0002	NM - Department of Health (DOH) NM Environment Department (ED)	DOH, ED	Conduct a Waterborne Disease Surveillance Project. (Both receive 1/2 of Federal Funds)	4/7/2006	9/30/2009	Sche	\$ 210,060	\$ -	DOH, ED	DOH, ED	DOH, ED
05.665.0005 .0093. A1	NM - Department of Health (DOH) City of Albuquerque (ALBQ)	DOH/ALBQ	Implementation of the ATR program in the greater Albuquerque area and an outreach program for five pueblos.	8/31/2005	8/2/2008	4,284,193	4,284,193	4,222,193	Not stated	Not Stated	Not Stated
99.665.6800 .0020 A8	NM - Department of Health (DOH) NM-School for the Visually Handicapped (NMSVH)	NMSVH	To support and coordinate services to children under 4 who have a vision loss and their families.	7/1/2004	Ongoing	60,000	60,000	60,000	DOH, SVH	SVH	SVH
95-29	NM - Department of Human Services (HS) NM - Department of Health (DOH)	HS, DOH	Service coordination, early intervention developmental services, early intervention therapy services	6/1/1995	Ongoing	2,339,819	2,339,818	2,339,818	HS, DOH	None	HS, DOH
04.665.4200. 0185	NM - Department of Health (DOH) Sandoval County Commissioners (SCC)	SCC	SCC to provide quarters for DOH that will allow for DOH to provide health services to SCC residents .	9/8/2003	9/7/2033	564,767	164,767	-	SCC	None	SCC, DOH
04.665.4200 0311 & amd.01	NM - Department of Health (DOH) Village of Hatch - (Hatch)	Hatch	Hatch to provide quarters for DOH that will allow for DOH to provide health services to Hatch residents	11/14/2003	12/31/2033	429,800	429,800	-	Hatch	None	Hatch, DOH
04.665.4200 0504	NM - Department of Health (DOH) San Miguel County (SMC)	SMC	SMC to provide quarters for DOH that will allow for DOH to provide health services to SMC residents .	6/1/2004	6/30/2007	50,000	50,000	-	SMC	None	DOH, SMC
02.665-6200 122 A III	NM - Department of Health (DOH) NM - Corrections Dept. (CD)	CD	To admi ister the transitional programs in the Albuquerque and Las Cruces areas.	11/29/2001	Ongoing	1,000,000	1,000,000	1,000,000	CD	None	CD
04.665.1100 0019	NM - Department of Health (DOH) NM - Department of Transportation (DOT)	DOT	Cordinated transportation services in Valencia County.	6/10/2004	12/31/2033	5,000	5,000	-	DOT	DOT	DOT
06.665.0100 0013	NM - Department of Health (DOH) The Navajo Nation - (NN)	NN & DOH	To control the transmission of sexually transmitted diseases in the Navajo Reservation & NW NM.	7/1/2005	6/30/2006	60,000	60,000	27,878	NN, DOH	None	NN, DOH
06.665 0005 0900 A2	NM - Department of Health (DOH) NM - Department of Public Safety (DPS)	DOH	Enforcement of New Mexico State Tobacco Products Act, and educate merchants of the laws	7/1/2005	6/30/2006	114,000 annually till cancelled	114,000	114,000	DPS	DPS/DOH	DPS
94.665.5500 0001 Revised	NM - Department of Human Services (HS) NM - Department of Health (DOH)	HSD	Designate the reponsibilities for operation of the home and community based waiver.	6/9/2003	6/30/2007	304,500 1,120,000	304,500 297,265,104	87,394 78,832,628	DOH, HSD	HSD	DOH, HSD
04.665.4200	NM - Department of Health PHD (DOH)	DDPC	Gather data for Data Sets on those	3/4/2004	3/31/2007	7,500	7,500	-	DDPC	DDPC	DOH, DDPC

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 4

Schedule of Joint Powers Agreements
June 30, 2006

JPA #	Participants	Responsible Party	Description of Activity	Beginning Date of Agreement	End Date of Agreement	Total estimated amount of Agreement	Portion of amount from DOH	Amount DOH contibuted in FY 06	Participant responsible for audit	Fiscal Agent	Agency reporting revenues and expenditures
0442	NM - Developmental Disabilities Plan. Council.		with disabilities as Children and youth and provide reports on data.								
01.665.6800.0260 A5	NM - Department of Health - LTSD (DOH) NM - School for the Deaf	DOH	To support and coordinate services to children under 4 who have hearing losses and their families.	7/1/2005	ongoing	\$ 50,760 annually till cancelled	\$ 50,760	\$ 30,760	DOH/SFD	SFD	SFD
05.665.0100.0170	NM - Department of Health (DOH) The Navajo Nation - (NN)	NN	To improve the management of tuberculosis infection and disease.	1/1/2005 Retroactive	6/30/2006	29,456	29,456	27,688	DOH	None	DOH
95.665.6200.0949 A13	NM - Department of Health (DOH) University of New Mexico (UNM) NM - Department of Education (DED)	DOH	To provide training and technical assistance to providers in developmental evaluations for individuals under age 4.	4/19/1999	Ongoing	1,339,000	1,189,000	1,119,750	DOH	None	DOH
05.665.0005.0091 A-3	NM - Department of Health (DOH) Santa Fe County (SFC)	DOH	To plan, design and construct a facility for delivery of behavioral health services in SFC.	4/25/2005	9/29/2008	325,918	325,918	187,959	SFC	SFC	SFC
05.665.0100.0014	NM - Department of Health (DOH) Lincoln County (LC)	LC	LC to provide quarters for DOH that will allow for DOH to provide health services to LC residents .	9/21/2004	9/30/2034	20,000	20,000	-	DOH, LC	DOH, LC	DOH, LC
05.665.0100.0008	NM - Department of Health (DOH) Socorro County (SC)	SC	SC to provide quarters for DOH that will allow for DOH to provide health services to SC residents .	7/13/2004	7/31/2034	20,000	20,000	-	DOH, SC	DOH, SC	DOH, SC
04.665.4200.0311	NM - Department of Health (DOH) Village of Hatch (VH)	VH	VH to provide quarters for DOH that will allow for DOH to provide health services to VH residents	11/14/2003	12/31/2033	29,800	29,800	-	DOH, VH	DOH, VH	DOH, VH
04.665.4200.00185	NM - Department of Health (DOH) The Board of County Comm Sandoval County	SA	SA to provide quarters for DOH that will allow for DOH to provide health services to SA residents .	9/8/2003	12/31/2033	300,010	300,010	-	DOH, SA	DOH, SA	DOH, SA
06.665.0009.00013	NM - Department of Human Services (HS) NM - Department of Health (DOH)	HS	DOH to receive Medicaid reimbursement for services DOH provides at its facilities and offices.	11/30/2005	6/30/2007	196,200	196,200	-	DOH, HS	DOH	DOH
3.37	NM - Department of Human Services (HS) NM - Department of Health (DOH)	HS	Designate the administrative, fiscal and programmatic responsibilities for the operations of the NM Home and Community Based Waiver program.	10/15/2003	10/15/2008	-	-	-	HS	HS	HS
06.665.0300.00001	NM - Department of Health (DOH) NM - Children, Youth and Family Dept.(CYFD)	DOH	Provide domestic violence services at the Esperanza Shelter.	2/1/2006	6/30/2006	47,500	47,500	47,500	CYFD	DOH	CYFD
06.0200.0001	NM - Department of Health (DOH) Belen Consolidated Schools	DOH BCS	Implement a Dropout Prevention Project for Belen Consolidated Schools.	Not signed by DFA	6/30/2006	25,000	25,000	25,000	BCS	BCS	BCS
06.665.0200.0003	NM - Department of Health (DOH) Espanola Public School	DOH EPS	Implement a Dropout Prevention Project for Espanola Consolidated	Not signed by DFA	6/30/2006	49,000	49,000	49,000	EPS	EPS	EPS

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 4

Schedule of Joint Powers Agreements
June 30, 2006

JPA #	Participants	Responsible Party	Description of Activity	Beginning Date of Agreement	End Date of Agreement	Total estimated amount of Agreement	Portion of amount from DOH	Amount DOH contibuted in FY 06	Participant responsible for audit	Fiscal Agent	Agency reporting revenues and expenditures
			Schools.								
94.665.62. 955 A-1	NM - Department of Health (DOH) NM - Childeren, Youth and Family Dept.(CYFD)	CYFD	To identify functions of the Department of Health-BHSD and CYFD concerning children's behavioral health services in NM.	2/6/2001	Ongoing	\$ 227,240	\$ 227,240	\$ 227,400	CYFD, DOH	CYFD	CYFD, DOH
05.665.0100 0.0210	NM - Department of Health (DOH) NM - Department of Human Services (HS)	DOH	DOH and HSD to exercise their duties and obligations to women, children and families under the Social Security Act, OBRA 1989	3/24/2005	6/30/2006	40,000	20,000	-	DOH	DOH, HSD	DOH, HSD
06.665.0100 0.0029	NM - Department of Health (DOH) NM State Agency on the Aging (AA) and Long Term Services Department	DOH	Implementation of the Independent Constituent Services Program	5/3/2006	Perpetual	50,000	50,000	-	AA, DOH	AA, DOH	AA, DOH
05.665.0100 0.0022	NM - Department of Health (DOH) The Navajo Nation	DOH	Improve the management of T.B. infection in the Navajo Nation Population.	1/1/2006	12/31/2006	29,600	29,600	1,400	DOH	DOH	DOH, NJN

See Auditor's Report

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

Schedule 5

**Schedule of Changes in Assets and Liabilities for Agency Funds
For the Fiscal Year ended June 30, 2006**

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Las Vegas Medical Center:				
Asset - Cash	\$ 305,905	\$ 1,639,865	\$ 1,673,189	\$ 272,581
Liability - funds held for others	<u>305,905</u>	<u>1,639,865</u>	<u>1,673,189</u>	<u>272,581</u>
Los Lunas Center Community Programs				
Asset - Cash	<u>57,621</u>	<u>484,506</u>	<u>508,131</u>	<u>33,996</u>
Liability - funds held for others	<u>57,621</u>	<u>484,506</u>	<u>508,131</u>	<u>33,996</u>
Fort Bayard Medical Center:				
Asset - Cash	<u>134,485</u>	<u>1,351,454</u>	<u>1,337,973</u>	<u>147,966</u>
Liability - funds held for others	<u>134,485</u>	<u>1,351,454</u>	<u>1,337,973</u>	<u>147,966</u>
New Mexico Veterans Center:				
Asset - Cash	<u>118,651</u>	<u>879,889</u>	<u>890,100</u>	<u>108,440</u>
Liability - funds held for others	<u>118,651</u>	<u>879,889</u>	<u>890,100</u>	<u>108,440</u>
Sequoyah Adolescent Treatment Center				
Asset - Cash	<u>1,385</u>	<u>16,673</u>	<u>16,153</u>	<u>1,905</u>
Liability - funds held for others	<u>1,385</u>	<u>16,673</u>	<u>16,153</u>	<u>1,905</u>
Administrative Services Division				
Asset - Cash	<u>42,300</u>	<u>107,076</u>	<u>73,936</u>	<u>75,440</u>
Liability - funds held for others	<u>42,300</u>	<u>107,076</u>	<u>73,936</u>	<u>75,440</u>
All Agency funds:				
Assets:				
Cash	<u>660,347</u>	<u>4,479,463</u>	<u>4,499,482</u>	<u>640,328</u>
Total assets - agency funds	<u>660,347</u>	<u>4,479,463</u>	<u>4,499,482</u>	<u>640,328</u>
Total fiduciary assets	<u>\$ 660,347</u>	<u>\$ 4,479,463</u>	<u>\$ 4,499,482</u>	<u>\$ 640,328</u>
Liabilities:				
Funds held for others	<u>660,347</u>	<u>4,479,463</u>	<u>4,499,482</u>	<u>640,328</u>
Total Liabilities - agency funds	<u>\$ 660,347</u>	<u>\$ 4,479,463</u>	<u>\$ 4,499,482</u>	<u>\$ 640,328</u>

The notes to the financial statements are an integral part of this statement.

Single Audit Section

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 6

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Agency or Pass Through #	Expenditures
Department of Agriculture:			
National School Lunch Program	10.555		\$ 8,995
WIC INFX EBT			
2002	10.557		4,556
2003	10.557		5,459
2004	10.557		69,126
WIC Special Peer Counselor	10.557		7,766
WIC Administration			
2004	10.557		(72)
2005	10.557		3,021,343
2006	10.557		7,719,782
			-
WIC Food			
2005	10.557		11,144,652
2006	10.557		27,179,318
WIC Infrastructure EBT			
2002	10.557		37,968
2003	10.557		45,489
2004	10.557		650,139
2003	10.557		-
WIC BREAST FEEDING PEER COUNSELOR	10.557		152,612
Commodity Supplemental Food Program Administration			
CSFP '05	10.565		752
CSFP '06	10.565		10,283
Commodity Supplemental Food Program			
CSFP '05	10.565		312,767
CSFP '06	10.565		737,330
Farmers Market - Food			
2005.	10.572		324,750
			-
Farmers Market - Administration			
2005	10.572		2,741
2006	10.572		62,097
			-
Total Department of Agriculture			\$ 51,497,853

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 6

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Agency or Pass Through #	Expenditures
Department of Education:			
Infants and Toddlers 2006	84.181		\$ 2,765,784
Drug Free Schools 2003	84.186		21,687
2005	84.186		<u>685,723</u>
Total Department of Education			\$ <u>3,473,194</u>
Department of Health & Human Services:			
Bioterrorism-HRSA 2005	93.003		\$ 1,296,469
2006	93.003		2,160,987
Bio Terrism Chem Agents	Unknown		702
OMH State Partnership '06	93.006		58,443
Childrens Oral Healthcare 2005	93.110		11,116
2006	93.110		71,652
CISS-SECCS Planning 2005	93.110		-
2006	93.110		136,915
State Systems Development Initiative Grant 2005	93.110		2,724
2006	93.110		78,149
Tuberculosis 2005	93.116		245,400
2006	93.116		168,729
Violence Free Youth Partnership 2005	93.126		4,661
Co-op Agreement for Primary Care Services 2006	93.130		118,486
2007	93.130		30,480
Rape Prevention & education 2005	93.136		256,400
2006	93.136		229,484

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STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 6

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Agency or Pass Through #	Expenditures
Violent Death Reporting System			
2005	93.136		\$ 48,450
2006	93.136		146,079
Child & Adolence Health Through Prevention & Early Inter			
2006	93.136		95,519
Public Health Injury Surv. & Prev.			
2006	93.136		77,740
PATH			
2006	93.150		300,000
New Mexico State Based Prevention Disability			
2006	93.184		324,633
			-
Capacity Building Project to Prevent Disability			
2007	93.184		86,163
Title X Family Planning			
2005	93.217		2,010,349
2006	93.217		1,450,621
Title X Family Planning Fees			
2005	93.217		77,341
2006	93.217		26,434
State Treats Needs Assessment Study (CSAT)			
2005	93.230		22,853
			-
DATA INFRASTRUCTURE GRANT			
2004	93.230		40,143
SBIRT			
2004	93.230		1,220,919
2005	93.230		2,571,679
MCHS - Abstinence Educaton Program			
2004	93.235		295,134
2005	93.235		319,671
Abstinence Education Grant '06			
	93.235		181
State Based Birth Defects			
2005	93.238		144,488
Rural Hospital Flexibility Program			
2005	93.241		33,952
2006	93.241		194,390

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STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 6

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Agency or Pass Through #	Expenditures
DIACS			
2005	93.243		\$ 7,111
2006	93.243		371,664
NM Youth Suicide Prevention & Early Interv.			
2006	93.243		1,831
NM SPF			
2005	93.243		75,266
2006	93.243		1,040,841
New Mexico State Incentive Cooperative Agreement			
2005	93.243		160,412
2006	93.243		611,993
Mental Health Transformation - CYFD	93.243		15,218
Data Infrastructure			
2005	93.243		2,910
2006	93.243		38,603
Disaster Mental Health			
2005	93.243		2,837
Purchasing Collab. Evaluation	93.243		1,473
Newborn Hearing			
2005-06	93.251		65,077
Rural Access to Emergency Devices Act			
Rural Access to Emergency Devices Act '06	93.259		200,595
Occupational Health Surveillance			
2005	93.262		36,187
Immunization Program Statewide			
Immunization Program '04	93.268		1,284,106
Immunization Program '05	93.268		1,197,684
Immunation Program Vaccine FFY '05	93.268		9,836,876
Immuation Program Vaccine FFY '06	93.268		11,260,036
ATR Project			
2005	93.275		53,710
2006	93.275		6,557,871
Biomonitoring			
2006	93.283		340,856
BT Surveillance & Response '04	93.283		13

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STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 6

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Agency or Pass Through #	Expenditures
PRAMS 06	93.283		\$ 92,254
CDP & PGM'S			
2005	93.283		20,943
2006	93.283		2,165,683
Public Health Preparedness and Response for Bioterrorism			
2005	93.283		4,368,003
2006	93.283		6,488,282
EMERGING INFECTIONS PROGRAM			
2005	93.283		467,112
2006	93.283		371,786
National Cancer Prevention			
2005	93.283		21,934
2006	93.283		4,022,475
Environmental Health Tracking			
2005	93.283		1,062,158
EPI Lab Surveillance and Response			
2005	93.283		346,994
2006	93.283		284,128
Addressing Asthma			
2005	93.283		125,893
2006	93.283		337,315
Environmental & Health Effect Tracking Project			
2004	93.283		293,793
2005	93.283		238,880
CDC STATE ASSESSMENT INITIATIVES			
2005	93.283		42,637
2006	93.283		137,472
Small Rural Hospital Improvement			
2005	93.301		9,196
2006	93.301		130,760
Clinical Lab Impact Assistance			
2005	93.777		18,683
2006	93.777		59,596
Title 18 Medicare Hospital Insurance			
2005	93.777		220,963
2006	93.777		1,051,772

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STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 6

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Agency or Pass Through #	Expenditures
DIDSC 2004	93.779		\$ 699,772
Background Checks Pilot Program 2005 2,006.00	93.799 93.799		83,456 239,084
State Office of Rural Health 2006	93.913		213,336
Ryan White Title II HIV Care 2006 2007	93.917 93.917		3,422,795 31,294
HIV/AIDS Prevention 2005 2006	93.940 93.940		1,354,173 1,155,512
Hiv/Aids Surveillance 2005 2006	93.944 93.944		126,082 145,084
PRAMS '07	93.946		16,081
HRSA Trauma	93.952		36,000
Community Mental Health Services Block 2004 2005 2006	93.958 93.958 93.958		116,070 1,784,671 657,468
Substance Abuse, Prevention and Treatment Block 2004 2005	93.959 93.959		3,391,206 4,781,036
Sexually Transmitted Disease 2005 2006	93.977 93.977		313,183 316,471
Diabetes 2006 2007	93.988 93.988		380,365 104,312
Preventive Health Services Block 2005 2006	93.991 93.991		540,687 1,153,826
Healthier Schools - '05	93.991		100

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 6

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Agency or Pass Through #	Expenditures
Maternal and Child Health Services Block			
2005	93.994		\$ 4,534,965
2006	93.994		4,393,010
Adolescent Health '05	93.994		142
Title V Healthier Kids Fund			
2005	93.994		14,790
2006	93.994		173,898
Health Program For Refugees			
2003	96.212		1,362
Border Health Office	N/A		271,442
STD Screening in Long Haul Truck Drivers			
2005	Unknown	U501CCU300860	30,671
2006	Unknown	U501CCU300860	109,295
Adult Blood Lead '05	Unknown		16,517
 Department of Health & Human Services- Passed Through NM Human Services Dept,			
Title 19 Medical Assistance Program			
2005	93.778	JPA - 96-22	130,512
2006	93.778	JPA - 96-22	811,540
Title 19 Nurse Aide Training			
2005	93.778	JPA - 96-22	7,011
2006	93.778	JPA - 96-22	<u>38,250</u>
Total Department of Health & Human Services			<u>\$ 101,494,887</u>
 U.S. Department of the Treasury - Section 401 (b) of the Jobs & Growth Reconciliation Act of 2003			
	None		<u>305,787</u>
TOTAL COST REIMBURSEMENT GRANTS			<u>\$ 156,771,721</u>

See Auditor's Report

STATE OF NEW MEXICO
DEPARTMENT OF HEALTH

Schedule 6

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Agency or Pass Through #	Expenditures
OTHER GRANTS:			
VA REIMBURSEMENT	64.015		\$ 442,166
VA REIMBURSEMENT	64.015		113,740
FOSTER GRANDPARENTS	94.011		<u>231,457</u>
Total other grants			\$ 787,363
Total Grant Expenditures			\$ 157,559,084

Amounts of funds included in schedule above in the form of non-cash assistance (vaccines)

Immunization Program Vaccine FFY'05	93.268		\$ 9,836,876
Immunization Program Vaccine FFY'06	93.268		11,260,036
Total non-cash assistance			\$ 21,096,912

Basis of Accounting: The Schedule of Expenditures of Federal Awards was prepared using the same basis of accounting as the accompanying financial statements.

Reconciliation of federal awards of expenditures

Total Grant Expenditures		\$ 157,559,084
Total Non-Cash Assistance	93.268	(21,096,912)
Revenue not earned Exhibit 6 (GASB 33 Timing) (Deferred Revenue)		(3,036,015)
Other		<u>460,962</u>
Total Revenue Federal Operating Grants - Exhibit 5		\$ 133,887,119

Note 1: Basis of presentation: The above Schedule of Expenditures of Federal Awards consists of the federal grant activity of the Department of Health, and is presented using the Modified Accrual Basis of Accounting, as defined by the Governmental Accounting Standards Board. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic, combining, and individual fund financial statements.

Note 2: Loans outstanding / Non-Cash Assistance

The Grants Office does not make loans to others or provide non-cash assistance.

Note 3: Subrecipients

Of the federal expenditures presented in the schedule the Grants Office provided federal assistance to localities under the Homeland Security Grant.



**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**

MEYNER'S +
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Ms. Michelle Lujan-Grisham, Secretary
State of New Mexico
Department of Health and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the financial statements of the governmental activities and the major fund of the State of New Mexico Department of Health (the Department) as of and for the year ended June 30, 2006. We also have audited the financial statements of each of the Department's fiduciary funds as presented in the individual fund financial statements, and the program budget comparisons of the Department presented as supplementary information as of and for the year ended June 30, 2006, and have issued our report thereon dated December 13, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect the Department's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1 and 06-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error of fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Ms. Michelle Lujan-Grisham, Secretary
State of New Mexico
Department of Health and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. .

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 immaterial noncompliance and other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 06-3 through 06-8.

This report is intended solely for the information and use of the audit committee, management, the Office of the State Auditor and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Meigners + Company, LLC

December 13, 2006



**INDEPENDENT AUDITORS
REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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Ms. Michelle Lujan-Grisham, Secretary
State of New Mexico
Department of Health and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Compliance

We have audited the compliance of the State of New Mexico Department of Health (the Department), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Ms. Michelle Lujan-Grisham, Secretary
State of New Mexico
Department of Health and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinions on compliance and to test and report internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grant agreements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-8.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, the Office of the State Auditor, and federal award agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Meiners + Company, LLC

December 13, 2006

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2006**

Resolved Findings

04-1 – TRAVEL AND PER DIEM

04-2 – ACCOUNTS RECEIVABLE

04-3 – OUTCOME BASED CONTRACTS

04-4 – MEDICAID COST REPORTS

04-09 – SOURCE CODE 26 LABOR ALLOCATION

04-11 – LATE FSR 269 REPORT

04-13 – PERA INSURANCE FORM

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2006**

Summary Schedule of Prior Year Audit Findings

Repeat Findings Financial Statement Audit

04-7 – CAS FUND

Repeat Findings and Questioned Costs – Major Federal Awards Program Audit

04-8 – SUSPENSION AND DEBARMENT (Modified)

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Summary of Audit Results
Year Ended June 30, 2006**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the New Mexico Department of Health (Department).
2. There were no instances of noncompliance material to the financial statements disclosed during the audit of the Department.
3. There was one reportable condition identified during the audit of the Department that is not considered to be material to the financial statements of the Department.
4. There were no reportable conditions in the internal control over major programs disclosed by the Department.
5. There were no audit findings that the auditor is required to report under 510(a) of Circular A-133.
6. The auditors' report on compliance for the major federal award programs for the Department expresses an unqualified opinion.
7. The programs tested as the major programs included:

U.S. Department of Agriculture	
Women, Infants & Children (WIC)	10.557
U.S. Department of Health and Human Services	
NM State Incentive Coop Agreement '04	93.243
Access To Recovery (ATR) Project	93.275
Substance Abuse Prevention & Treatment	93.959
Maternal and Child Health (MCH)	93.994
8. The threshold for distinguishing Types A and B programs was \$3,000,000.
9. The Department was determined to be a low-risk auditee.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2006**

B. Findings – Financial Statement Audit

04-7 CAS Funds

Statement of Condition - The Department's financial statements do not comply with the State Auditor's rule 2.2.2.12(2)

Criteria - The State Auditor's rule 2.2.2.12(2) requires that "The individual central accounting system funds be shown in the combined financial statements.."

Cause - The current accounting system is over twenty years old and is not capable of providing the flexibility required by the State Auditor rule.

Effect - The Department is not in compliance with State Auditor's rule 2.2.2.12(2).

Recommendation - The Department needs to determine if other options are available to allow management to create the schedule required by the State Auditor or possibly purchase new accounting software capable of providing the information to comply with the rule.

Response - We concur with this finding but due to time constraints and implementation of SHARE we were unable to extract the data from our records to reflect the information as required.

The Department did not keep its books by state treasurer's account in the past, but will be doing so beginning July 1, 2006 in the new People Soft accounting system.

06-1 Federal expenditure, drawdown and receipts reconciliation

Statement of Condition - The grant department did not reconcile the federal expenditures and the federal drawdowns and receipts

Criteria - The grant department is to reconcile all expenditures, drawdowns and receipts on a timely basis in order to have financial information that is relevant and reliable.

Cause - The department did not reconcile the grants due to internal turnover and lack of personnel trained in the process.

Effect - Financial reports issued are likely to contain errors and may not contain reliable information

Recommendation - We recommend the Department implement and enforce a policy that requires all grants to be reconciled quarterly at a minimum. The policy should include a system of review to insure the data is correct.

Response - The department concurs, and the Grants Unit will review all reconciliations on a monthly basis and the Financial Accounting Bureau will review the reconciliations monthly to ensure timely reconciliation.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2006**

06-2 Free Rent Non Profit Organizations - Women's, Infants and Children

Statement of Condition - While performing test work associated with the audit of the Women, Infants and Children (WIC) program, we discovered one non-profit organization is utilizing space at the Northwest Valley Public Health WIC Office in Albuquerque, NM without a formal joint powers agreement or a formal lease agreement.

Criteria - Per Section 12-6-6 NMSA 1978, governments cannot donate goods and services except for those items that are disposed of under the guideline of the procurement codes. Based upon the test work performed, there are no joint power agreement, formal lease agreements nor payments made for rent by the non profit organization that use space at a Department facility.

Effect - The Department is not in compliance with Section 12-6-6 NMSA 1978. That resulted in a loss of revenue for the Department.

Cause - An employee circumvented the Property Control Division (General Services Department) rules established for state agencies maintaining property.

Recommendation - We recommend that the Department establish a review process monthly or quarterly for their off-site facilities to ensure greater internal control over property management. This process could be performed by the internal audit function.

Response- 24-4-2 NMSA, 1978 requires counties to provide office space to the health department for operation of the county health office. The space in question belongs to Bernalillo County and not the Department. This finding is more appropriately addressed to Bernalillo County.

06-3 Improper Write-Off of Accounts Receivable - New Mexico Rehabilitation Center

Statement of Condition - The Department wrote-off the amount of accounts receivable for the New Mexico Rehabilitation Center.

Criteria - The New Mexico Constitution, Art. IV, Sec. 32, provides that:

No obligation or liability of any person, association or corporation held or owned by or owing to the state, or any municipal corporation therein, shall ever be exchanged, transferred, remitted, released, postponed or in any way diminished by the legislature, nor shall any such obligation or liability be extinguished except by the payment thereof into the proper treasury, or by proper proceeding in court.

Cause - Lack of a uniform account receivable policy or procedure.

Effect - Non-compliance with the New Mexico Constitution, ART.IV Sec 32 and incorrect balances in the financial statements for accounts receivable and allowance for uncollectibles.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2006**

Recommendation - Implementation of strict policies and procedures to obtain an accurate amount of accounts receivable and allowance for uncollectibles, which prohibit the write-off of amounts deemed uncollectible.

Response - The department concurs and will implement the recommendation immediately.

06-4 Fixed Asset Accounting – Fixed Asset Deletions

Statement of Condition - Fixed asset deletions require the authorization of the governmental entity through a written notification to the State Auditor duly sworn and under oath.

Criteria - Per NMAC, Audit Rule 2006, Sec. 2.2.2.10W a written notification to the State Auditor must be submitted at least 30 days prior to any disposition, of the proposed disposition duly sworn and subscribed under oath by each member of the authority approving the action.

Cause - Lack of a formal fixed asset disposition policy or procedure.

Effect - Non-compliance with NMAC SEC 2.2.2.10W.

Recommendation - Policies and procedures should be implemented by the Department to ensure compliance with the New Mexico State Auditor Rule.

Response – The department concurs and will implement the recommendation immediately.

06-5 Procurement of goods and services

Statement of Condition - The Office of Health Emergency Management requested a warrant be issued to a vendor before the goods were delivered or services rendered.

Criteria - Non-compliance with Authority to Issue Warrants, 2.20.6.8(8) NMSA 1978 that states "All payments to vendors shall be accurate and timely *and be for services already rendered or goods received* and accepted by the state agency as complying with the contract or purchase order."

Cause - The Office of Health Emergency Management did not ensure that the goods and services were delivered before a request for payment was issued.

Effect - The Department was not in compliance with 2.20.6.8 NMSA 1978,

Recommendation - Management should ensure that all goods and services have been received or rendered before a preparing a payment voucher.

Response - The department concurs and the matter has been appropriately addressed.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2006**

06-6 Procurement of Goods and Services

Statement of Condition - Per examination of two deposits related to patient service charges at the New Mexico Behavioral Institute, a certain amount of revenue (\$1,256,657) that was received during the month of July 2006 was not posted to SHARE until the month of December 2006.

Criteria - Per Department of Finance and Administration's *Model Accounting Practices*, Volume 1, Chapter 3B, Section 3.1D, agencies must recognize and record revenue in the accounting period in which they become susceptible to accrual to meet management's needs, meet federal reporting requirements, and comply with State law. Revenues become susceptible to accrual when they are measurable and available (the cut-off for revenue recognition should not exceed ninety days).

Cause - Due to the confusion and complexity surrounding the implementation of SHARE by the Department, revenue was not recorded in a timely manner

Effect - The Department did not properly record revenue in a timely manner, thus revenue was not accurately stated until December 2006.

Recommendation - To ensure that revenue is posted timely, the Department should ensure that its personnel are adequately trained in the complexity of SHARE in order to perform their duties.

Response - The Department concurs that the revenue was not transferred to the State Treasurer within the 24 hour turn around time required by law.

06-7 Invalid Encumbrances and Reversions

Statement of Condition - During budget testwork we noted that there were numerous invalid encumbrances as of June 30, 2006 not removed from the budget.

Criteria - Per Section 6-5-10, NMSA 1978 states that all invalid encumbrances be included in the reversion calculation.

Cause - The Department did not record the reversion due to their negative cash balance at year end.

Effect - The Department has invalid encumbrances at the end of June 30, 2006. The Department did not record a reversion to the State General Fund due to their negative cash balance at year end.

Recommendation - We recommend that the Department work with Department of Finance and Administration, and Legislative Finance Committee to assist in obtaining additional appropriations.

Response - The Department in FY 05 reverted over \$6 million dollars to DFA that was for future bills from Department of Human Services related to Developmental Disabled waivers

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2006**

program. We had also budgeted our available cash from FY 1999 through FY 2006 without taking into account the account payables that were to be paid from the prior years' budgeted appropriations. This resulted in a negative fund balance of over \$8 million as of June 30, 2005. We also anticipate receiving several million dollars in additional billings from the Department of Human Services related to Developmental Disabled waivers for prior years.

Due to these reasons and the fact that we have asked at this time for a supplemental appropriation to cover prior years' shortfall, we do not feel that it is appropriate to make a reversion for the unexpended appropriations until we have adequate funds on hand to make the reversion to the State General Fund.

06-8 Expenditures In Excess Of Approved Budget

Statement of Condition - During budget test work we noted Program Area 7, Developmentally Disabled Community Services' expenditures exceeded the approved budget by \$1,543,768.

Criteria - The Department's accounting system should have the ability to continuously compare the expenditures including the estimate of accrued Medicaid billings to the approved budget.

Cause - The Department did not accrue the Medicaid billings..

Effect - The Department exceeded the approved budget due to the receipt of those Medicaid billings.

Recommendation - We recommend that the Department reconcile the program expenditures and estimate the accrued expenses on a timely basis, this will eliminate budget overruns. It should also have a better understanding of expenditures are going to be billed in order to get a better accrual.

Response - The Department is billed for at least 18 months after the expenditures are incurred by Developmentally Disabled providers to the Medicaid program. Section 6-10-4 B NMSA 1978 permits the Department to pay for current year's Medicaid billings out of future year's budgeted revenue sources that are not received by June 30th of that year. The Department feels that despite the fact we exceeded our budget we were still in compliance with the law because of the exception granted by Section 6-10-4 B NMSA 1978. The Department is going to request a meeting with the State Controller and the State Auditor's Office to resolve this issue before fiscal year-end 2007

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2006**

C. Findings and Questioned Costs – Major Federal Awards Program Audit.

04-8 Suspension and Debarment

CFDA No. 93.268 Immunization Program

CFDA No. 93.917 Ryan White Title II HIV Care

CFDA No. 93.958 Community Mental Health Service

Statement of Condition – One of the vendors used for purchases of goods and services for a federal program was not tested for suspension and debarment.

Criteria - Per OMB A-133, Section I, programs receiving federal funds are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions included procurement contracts for goods or services equal to or in excess of \$100,000 and any non-procurement transactions.

Cause - Inconsistent use and retention of Suspension and Debarment forms occurred due to lack of centralized control over vendor selection for purchase of goods and services for a federal program.

Effect - Non - compliance with procurement, suspension, and debarment requirements.

Recommendation - Management should ensure that vendors are not included in the suspension and debarment list by either requesting certification statements from vendors or examining the list of suspended and debarred parties provided on the Internet.

Department Response Update - In fiscal year 2005 it was determined that a centralized Contracts & Grants Bureau was needed to oversee the Department's federal grant and contracting processes. This Bureau was put in place in July 2005 and revised policies and procedures will be issued in early 2006 that will include providing evidence to the Contracts & Grants Bureau of completion of the Suspension and Disbarment form to ensure compliance.

06-1 Federal expenditure, drawdown and receipts reconciliation

All Federal Awards

Statement of Condition - The grant department did not reconcile the federal expenditures and the federal drawdowns and receipts

Criteria - The grant department is to reconcile all expenditures, drawdowns and receipts on a timely basis in order to have financial information that is relevant and reliable.

Cause - The department did not reconcile the grants due to internal turnover and lack of personnel trained in the process.

Effect - Financial reports issued are likely to contain errors and may not contain reliable information

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2006**

Recommendation - We recommend the Department implement and enforce a policy that requires all grants to be reconciled quarterly at a minimum. The policy should include a system of review to insure the data is correct.

Response - The department concurs, and the Grants Unit will review all reconciliations on a monthly basis and the Financial Accounting Bureau will review the reconciliations monthly to ensure timely reconciliation.

**STATE OF NEW MEXICO
DEPARTMENT OF HEALTH**

**EXIT CONFERENCE
June 30, 2006**

The Department of Health exit conference was held on December 18, 2006, and was attended by the following:

Representing Department of Health:

Duffy Rodriguez	Deputy Secretary for Finance and Budgeting
Adolfo Alarid	Administrative Services Division Director
Don Wittman, CPA	Financial Manager
James W. Chadburn, CPA	Financial Coordinator
Evelyn C. Velasquez	Financial Coordinator
Eileen Marrujo-Gallegos	Financial Coordinator

Representing Meyners & Company

Georgie Ortiz, CPA, CGFM	Audit Director
Javier Machuca, CPA, CGFM	Audit Manager

These financial statements were primarily prepared by the management of the Department of Health with assistance from Meyners & Company.