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ESPANOLA, NEW MEXICO
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STATE OF NEW MEXICO
HEALTH POLICY COMMISSION

Financial Statements
Year Ended June 30, 2009

(With Independent Auditors' Report Thereon)

STATE OF NEW MEXICO

HEALTH POLICY COMMISSION

**Financial Statements
Year Ended June 30, 2009**

(With Independent Auditors' Report Thereon)

INTRODUCTORY SECTION

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

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June 30, 2009**

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**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

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**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Official Roster
at June 30, 2009**

<u>Name</u>	<u>Title</u>
<u>Commission Members</u>	
Frank Hesse, MD	Member
Eric Kraska, MD	Member
Karen Kotch, PA	Member
Kim Maxwell	Member
Dawn Brooks	Member
Vacant	Member
Vacant	Member
Vacant	Member
Vacant	Member
<u>Administration</u>	
Vacant	Executive Director
Kristine "Kooch" Jacobus	Acting Executive Director
Peggy Schummers	Chief Financial Officer

FINANCIAL SECTION



Macias, Gutierrez
& Co., P.C.

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Member AICPA, NMSCPA*

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INDEPENDENT AUDITORS' REPORT

Frank Hesse, M. D., Chairman
Health Policy Commission
and
Honorable Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying financial statements of the governmental activities, the major fund, and the budgetary comparison statement for the General Fund of the Health Policy Commission (Commission) as of and for the year ended June 30, 2009, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 2, the financial statements of the Commission are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities, the major fund, and the budgetary comparison statement for the General Fund that are attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2009, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Health Policy Commission as of June 30, 2009, and the respective changes in financial position thereof and the budgetary comparison statement for the General Fund for the year then ended 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 October 28, 2009 on our consideration of the Commission's internal control over financial reporting and 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages vii through xi is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic and supplementary information financial statements of the Health Policy Commission. The introductory section and Schedule of Performance Data are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Performance Data 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 basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Macias, Gutierrez & Co., CPAs, P.C.

Macias, Gutierrez & Co., CPAs, P.C.
Espanola, New Mexico
October 28, 2009

**New Mexico Health Policy Commission
Management's Discussion and Analysis
(required supplementary information)
June 30, 2009**

The New Mexico Health Policy Commission (HPC), administratively attached to the New Mexico Department of Finance and Administration (DFA), offers this narrative and analysis of the financial and functional activities of the Health Policy Commission, for the state fiscal year ended June 30, 2009, as a supplement to the HPC's Annual Audit Report.

General Highlights

In fiscal year 2009, the Health Policy Commission was appropriated \$1,293,500 - \$1,265,500 from the general fund for its normal annual appropriation, \$25,700 from the general fund for the compensation package and \$1,200 in revenues from the sale of specialized HIDD reports. This amount represents a 3% decrease from the previous fiscal year's appropriation.

As in prior years, the HPC's original appropriation was accounted for in three expenditure categories as follows: \$1,048,300 was allocated to salaries and benefits, \$31,900 to contractual services and \$213,300 to other operating costs. See final budget amounts on page xi.

Actual expenses supported by legislative appropriations in state fiscal years 2009 and 2008 are noted as follows:

Expenditure Category	FY 2009	FY 2008	Change
Salaries and Benefits	932,944	\$1,019,083	(8%)
Contractual Services	20,695	\$58,390	(65%)
Other Costs	312,804	\$242,215	29%

The assets of the HPC, exceeded liabilities as the close of the most recent fiscal year by \$74,811 (net assets). Of this amount, \$62,473 (unrestricted net assets) will be used to meet the Commission's ongoing obligations to citizens and creditors.

The HPC's capital assets are limited to its personal computer hardware, software and server and are historically valued at \$21,952 and net of accumulated depreciation, \$12,338. The HPC leases the building from which it conducts business.

The HPC's long-term liabilities, entirely comprised of compensated absences payable, decreased by \$33,436 during the current fiscal year. There was no other long-term debt at June 30, 2009.

At year-end, the HPC's accounts payable was \$55,324. Accrued payroll, payroll taxes and benefits payable are noted as \$32,222. \$391 was owing to the State General Fund resulting from unexpended funds, refunds and miscellaneous revenue. Compensated absences due within one year totaled \$18,597.

Agency Highlights

In state fiscal year 2009, the Health Policy Commission continued to provide leadership and staffing for legislative bills, memorials and compliance to numerous statutorily mandated requirements for the collection and analysis of New Mexico health care data.

**New Mexico Health Policy Commission
Management's Discussion and Analysis
(required supplementary information)
June 30, 2009**

The HPC participated in and/or provided leadership on the following memorials: HJM7 - Continue Obstetric Health Care Task Force, HJM57 - Voluntary Health Insurance Exchange Study, SJM1 - Health Care Services Common Interest Meeting, SJM55 - Study Social Worker Demand and Education, HM58 - Breastfeeding Student Mother Needs, HM71 - Health Care Professional Disaster Response, SM71 - Evaluate Drug Policy Approaches. The HPC also participates as a member of the following: the Tele-Health Commission, J-1 Visa Program, Regional Health Information Systems (RHIO), Department of Veterans Services LFC Hearing Report, Medicaid Advisory Committee and Women's Health Task Force/Women's Advisory Council. The HPC supported and continues to participate in the Comprehensive State-wide Strategic Health Plan, Behavioral Health Collaborative, Behavioral Health Purchasing Collaborative and the Tele-Health Alliance.

In compliance with its mandate to "promote optimal health to improve the quality of life for New Mexico residents", the Health Policy Commission worked on or published the results of numerous projects, including informational brochures in state fiscal year 2009. These include the County Financing of Health Care Report, the NMHPC Annual Report, the Geographical Access Data System & Selected Health Professionals in NM 2007 Report, the 2007 Hospital Inpatient Discharge Data (HIDD) Report, Quick Facts, and Health Policy Commission Policy Recommendations.

The HPC also played a very active role during the 2009 New Mexico Legislature by analyzing 240 bills during the 60-day legislative session. Although almost all bills analyzed by the HPC were health care and insurance related, the HPC staff also analyzed budget, economic, state employee and other related bills.

Overview of the Financial Statements

The Basic Financial Statements

In compliance with requirements of accounting principles generally accepted in the United States of America (GAAP) and 2.2.2 New Mexico Administrative Code (NMAC) Section 2.2.2.10 A. (2)(b) the Commission's basic financial statements include the:

- Government-wide financial statements;
- Fund financial statements;
- Budget comparison statement; and
- Notes to the financial statements

The Management's Discussion & Analysis (MD&A) is included as required supplementary information (RSI).

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with broad overview of the Commission's finances, in a manner similar to private sector business reporting. These statements report information about the overall government without displaying individual funds or fund types. They distinguish between governmental activities and business-type activities. However the HPC does not have any business-type activities to report.

**New Mexico Health Policy Commission
Management's Discussion and Analysis
(required supplementary information)
June 30, 2009**

The *statement of net assets* inclusively presents current and long-term assets and liabilities with the difference between the assets and liabilities reported as net assets. The *statement of activities* presents all changes in net assets as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore revenues and expenses are included in this statement for some items that will only result in cash flows in future fiscal periods, earned but unused vacation leave.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Health Policy Commission, like other local governments and state agencies, uses fund accounting in compliance with finance related legal requirements. Although revenues have been segregated into four cost centers, the HPC maintains only one individual government fund. Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund statements focus on near-term inflows and out-flows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government agency's near-term financing requirements.

Because the focus of government funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for government activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statements of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The HPC maintains only one individual governmental fund, the general fund. Information is presented in the governmental fund balance sheet and in the governmental statement of revenues, expenditures and changes in fund balances for the general fund.

Budgetary Comparison Statement

The budget comparison statement presents the original and final appropriated budget for the reporting period as well as actual inflows and outflows stated on the budgetary basis. A separate column reports the variance between the final budget and actual amounts. As required by the Office of the State Auditor under 2.2.2 (NMAC) Section 2.2.2.10 O (1) through (3) a Statement of Revenues and Expenditures – Budget and Actual has been presented. The Health Policy Commission general fund consists of one individual SHARE fund. The individual fund budget comparison statements has been included in the basic financial statements in order to demonstrate budget compliance at the SHARE fund level, and to comply with the audit scope requirements of 2.2.2 (NMAC) Section 2.2.2.10 A (2)(b).

Government-wide financial information is displayed in the tables below. Comparative information from the previous year is included for the reader's information.

Health Policy Commission's Net Assets

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Current and other assets	\$ 169,007	\$ 329,815	\$ (160,808)
Capital assets	<u>12,338</u>	<u>5,228</u>	<u>7,110</u>
Total assets	<u>181,345</u>	<u>335,043</u>	<u>(153,698)</u>

**New Mexico Health Policy Commission
Management's Discussion and Analysis
(required supplementary information)
June 30, 2009**

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Other liabilities	106,534	273,381	166,847
Long-term liabilities	<u>-0-</u>	<u>26,533</u>	<u>26,533</u>
Total liabilities	<u>106,534</u>	<u>299,914</u>	<u>193,380</u>
Net assets			
Invested in capital assets	12,338	5,228	7,110
Unrestricted	<u>62,473</u>	<u>29,901</u>	<u>32,572</u>
Total net assets	<u>\$ 74,811</u>	<u>\$ 35,129</u>	<u>\$ 39,682</u>

Total net assets increased due to the changes in liabilities resulting from reduced staffing due to the hiring freeze and mandated budget reductions, which then resulted in the need to reduce leased space in anticipation of the continued reduction in future appropriations resulting from the overall economy.

Health Policy Commission's Changes in Net Assets

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
General Revenue			
State General Fund appropriation	\$ 1,233,300	\$ 1,276,766	\$ (43,466)
Other appropriations	25,700	41,700	(16,000)
Charges for services	<u>1,977</u>	<u>1,222</u>	<u>755</u>
Total general revenues	<u>1,260,977</u>	<u>1,319,688</u>	<u>(58,711)</u>
Expenses			
Personal Services/Employee Benefits	899,508	1,017,719	118,211
Contractual	20,695	58,390	37,695
Other	301,478	264,606	(36,872)
Depreciation	<u>4,210</u>	<u>4,302</u>	<u>92</u>
Total expenses	<u>1,225,891</u>	<u>1,345,017</u>	<u>119,126</u>
Changes in net assets increase	35,086	(25,329)	60,415
Net assets, beginning (as restated)	<u>39,725</u>	<u>60,458</u>	<u>(20,733)</u>
Net assets, ending	<u>\$ 74,811</u>	<u>\$ 35,129</u>	<u>\$ 39,682</u>

As a result of the continued budget cuts for the fiscal year, starting with a reduced appropriation compared to the prior year, the overall expenses were reduced, which also added to the increase in the total net assets. In compliance with NM Statutes, the Health Policy Commission adopts an annual appropriated budget for its general fund. As a result, a comparison of the HPC's original, final and expended budget is available in the budgetary comparison statement.

General Fund Budgetary Comparison Highlights - Expenditures

The original budget for Fund #669-615 was adjusted between personnel, contractual services and other costs expense categories and an overall budget reduction of 2.5% or \$32,300. The following reflects actual to budget comparisons for the current fiscal year.

**New Mexico Health Policy Commission
Management's Discussion and Analysis
(required supplementary information)
June 30, 2009**

	Original Budget	Final Budget	Actual
Personnel Services	1,048,300	932,100	932,944
Contractual Services	31,900	21,300	20,695
Other Costs	213,300	307,800	312,804
Total	\$ 1,293,500	\$ 1,261,200	\$ 1,266,443

Notes to Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide financial statements. The notes to financial statements can be found on pages 8 through 19 of this report.

Capital Assets

The Commission's investment in capital assets is \$12,338 (net of accumulated depreciation). This investment in capital assets consists mainly of data processing equipment. Major capital assets events during the current fiscal year included the following:

Capital outlay purchases	\$ 11,320
Capital asset deletions	\$ 37,395
Depreciation expense totaled	\$ 4,210
Accumulated depreciation deletions	\$ 37,395

Long-term Debt

The Health Policy Commission had long-term debt at June 30, 2009 amounting to \$18,597 of compensated absences determined to be a current liability based on the amount of the June 30, 2008 balance used during FY09.

Economic Factors and Next Year's Budget

Based on the statewide revenue projections for FY09, the executive branch requested a flat budget for the HPC in FY10. At the conclusion of the FY09 legislative session, the FY10 budget was cut by \$400,000. As this analysis was being prepared, there were further budget reductions to the FY10 budget being proposed at 3 to 7.5% or \$25,000 to \$62,000.

Request for Information

This financial report is designed to provide a general overview of the New Mexico Health Policy Commission's finances for all those interested in the Commission's finances. If you have any questions about this report or need additional information contact:

New Mexico Health Policy Commission
2055 South Pacheco, Suite 200
Santa Fe, New Mexico 87505
(505) 827-6201

STATE OF NEW MEXICO
HEALTH POLICY COMMISSION

Exhibit A

Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>
<u>Assets</u>	
Current assets:	
Interest in State General Fund Investment Pool (note 3)	\$ 82,471
Prepaid postage (note 4)	<u>86,536</u>
Total current assets	169,007
Noncurrent assets:	
Capital assets, net of depreciation (note 5)	<u>12,338</u>
Total assets	<u>181,345</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	55,324
Accrued salaries payable	16,735
Payroll taxes payable	6,006
Payroll benefits payable	9,481
Due to State General Fund (note 6)	391
Compensated absences payable (note 7)	18,597
Long-term liabilities:	
Compensated absences payable (note 7)	<u>-</u>
Total liabilities	<u>106,534</u>
<u>Net Assets</u>	
Invested in capital assets (note 5)	12,338
Unrestricted	<u>62,473</u>
Total net assets	<u>\$ 74,811</u>

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

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

Exhibit B

**Statement of Activities
Year Ended June 30, 2009**

	Governmental Activities
Expenses:	
General government:	
Personal services and employee benefits	\$ 899,508
Contractual services	20,695
Other	301,478
Depreciation expense	<u>4,210</u>
Total expenses	<u>1,225,891</u>
General revenues:	
General Fund appropriation, net of current-year reversions (\$-0-)	1,233,300
Other appropriations	25,700
Other state funds	<u>1,977</u>
Total general revenues	<u>1,260,977</u>
Change in net assets	<u>35,086</u>
Net assets, beginning, as originally reported	35,129
Prior-period adjustment (note 8)	<u>4,596</u>
Net assets, beginning, as restated	<u>39,725</u>
Net assets, ending	<u><u>\$ 74,811</u></u>

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

STATE OF NEW MEXICO
HEALTH POLICY COMMISSION

Exhibit C

Balance Sheet - Governmental Funds
June 30, 2009

	<u>General Fund</u>
<u>Assets</u>	
Interest in State General Fund Investment Pool (note 3)	\$ 82,471
Prepaid postage (note 4)	<u>86,536</u>
Total assets	<u>\$ 169,007</u>
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable	\$ 55,324
Accrued salaries payable	16,735
Payroll taxes payable	6,006
Payroll benefits payable	9,481
Due to State General Fund (note 6)	<u>391</u>
Total liabilities	<u>87,937</u>
Fund Balance:	
Fund balance (note 9):	
Reserved for prepaid postage	86,536
Unreserved/undesignated	<u>(5,466)</u>
Total fund balance	<u>81,070</u>
Total liabilities and fund balance	<u>\$ 169,007</u>

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

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2009**

Total fund balance-Governmental funds \$ 81,070

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital assets used in governmental activities are not
current financial resources and, therefore, are not
reported in the Governmental Funds Balance Sheet.

These assets consist of:

Machinery and equipment	\$ 11,822	
Data processing equipment	10,130	
Accumulated depreciation	<u>(9,614)</u>	12,338

Some liabilities are not due and payable in the current
period and, therefore, are not reported in the Governmental
Funds Balance Sheet.

These liabilities consist of:

Compensated absences payable	<u>(18,597)</u>
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Net assets of governmental activities \$ 74,811

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

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

Exhibit D

**Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
Year Ended June 30, 2009**

	<u>General Fund</u>
Revenues:	
Other state funds - miscellaneous	\$ 1,977
Total revenues	<u>1,977</u>
Expenditures:	
General government:	
Current:	
Personal services and employee benefits	932,944
Contractual services	20,695
Other	301,478
Capital outlay	<u>11,320</u>
Total expenditures	<u>1,266,437</u>
Excess (deficiency) of revenues over expenditures	<u>(1,264,460)</u>
Other financing sources (uses):	
General Fund appropriations (note 14)	1,233,300
Other financing sources (note 14)	25,700
General Fund reversion-FY09 (note 6)	<u>-</u>
Total other financing sources (uses)	<u>1,259,000</u>
Net change in fund balance	<u>(5,460)</u>
Fund balance, beginning, as originally reported	81,934
Prior-period adjustment (note 8)	<u>4,596</u>
Fund balance, beginning, as restated	<u>86,530</u>
Fund balance, ending	<u><u>\$ 81,070</u></u>

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

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Government-Wide Statement of Activities
Year Ended June 30, 2009**

Net change in fund balance-Governmental Funds \$ (5,460)

Amounts reported for governmental activities in the
Statement of Activities are different because:

Capital outlays are reported as expenditures in
governmental funds. However, in the Statement of
Activities, the cost of capital assets is allocated over
their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Depreciation expense	(4,210)
Capital outlay	11,320

Some items reported in the Statement of Activities
do not require the use of current financial resources
and, therefore, are not reported as expenditures in
governmental funds. These activities consist of:

Decrease in compensated absences payable	<u>33,436</u>
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Change in net assets of governmental activities	<u>\$ 35,086</u>
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The accompanying notes are an integral part of the financial statements.

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

Exhibit E

**Statement of Revenues and Expenditures
Budget (GAAP Basis) and Actual
Year Ended June 30, 2009**

	General Fund			Variance with Final Budget Positive (Negative)
	Original Approved Budget	Final Approved Budget	Actual	
Revenues:				
Intergovernmental revenue:				
General appropriations	\$ 1,265,600	\$ 1,233,300	\$ 1,233,300	\$ -
Miscellaneous revenue	1,400	1,400	927	(473)
Other state funds	800	800	1,050	250
Other financing sources	25,700	25,700	25,700	-
Total revenues	1,293,500	1,261,200	<u>\$ 1,260,977</u>	<u>\$ (223)</u>
 Prior-year funds re-budgeted	<u>-</u>	<u>-</u>		
	<u>\$ 1,293,500</u>	<u>\$ 1,261,200</u>		
Expenditures:				
General government:				
Current:				
Personal services and employee benefits	\$ 1,048,300	\$ 932,100	\$ 932,944	\$ (844)
Contractual services	31,900	21,300	20,695	605
Other	213,300	307,800	312,804	(5,004)
Other financing uses	-	-	-	-
Total expenditures	<u>\$ 1,293,500</u>	<u>\$ 1,261,200</u>	1,266,443	<u>\$ (5,243)</u>
Reconciliation to Exhibit D:				
FY 2008 accounts payable-request to pay prior year bills			(10,703)	
Current-year prepaid postage usage			<u>10,697</u>	
			<u>\$ 1,266,437</u>	

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

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

1. History and Organization

The Health Policy Commission (Commission) was created by Laws of 1991, Chapter 72 (Section 9-7-11.2, NMSA 1978) and is administratively attached to the Department of Finance and Administration. The Commission facilitates the analysis and planning required to realize New Mexico's health policy of assuring that basic health services are available, accessible and culturally appropriate to all New Mexicans regardless of financial status. The Commission also administers the NM Health Information Systems Act, (24-14A-1 to 24-14A-10, NMSA 1978) for the collection of analysis and dissemination of information pertaining to factors affecting health for use in planning, policy making and making information available to consumers.

2. Summary of Significant Accounting Policies

The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes US GAAP for governmental units. The more significant of the Commission's accounting policies are described below.

In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements-Management's Discussion and Analysis-For State and Local Governments*. This Statement provided for the most significant change in financial reporting in over twenty years and was phased in based on size of government.

As required, the Commission implemented the provisions of GASB No. 34 effective July 1, 2001 and also, as required, implemented GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*.

A. Financial Reporting Entity

The Health Policy Commission is legally separate and fiscally independent of other state agencies. Although the Director is hired by and serves at the pleasure of the Commission, that person has decision-making authority, the power to manage the activities of the Commission, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The Health Policy Commission is not included in any other governmental "reporting entity" as defined in Section 2100, ***Codification of Governmental Accounting and Financial Reporting Standards***. Included within the reporting entity is the Health Policy Commission as described above. There are no component units. Other Executive Branch entities of government are excluded because they are established separately by statutes.

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

2. Summary of Significant Accounting Policies (cont'd)

B. Basic Financial Statements – GASB Statement No. 34

The basic financial statements include both government-wide (based on the Commission as a whole) and fund financial statements. The GASB No. 34 reporting model focus is on either the Commission 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) categorize primary activities as either governmental or business type activities. The Commission has only governmental type activities. Neither fiduciary funds nor component units that are fiduciary in nature are included in the government-wide financial statements.

The government-wide Statement of Net Assets reflects an economic resources measurement focus and accrual basis of accounting which incorporates long-term assets as well as long-term debt and obligations. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The Commission has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those 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 reduced gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function. The Health Policy Commission includes only one function (general government). General revenues (General Fund appropriation, transfers-in from other state agencies, other state funds, etc.) normally cover the net cost (by function). Historically, the previous model did not summarize or present net cost by function or activity. This government-wide focus is more on the sustainability of the Commission as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The governmental fund statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Health Policy Commission's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the government-wide presentation.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available or use, generally it is the Commission's policy to use restricted resources first, then unrestricted resources, as they are needed.

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

2. Summary of Significant Accounting Policies (cont'd)

C. Basis of Presentation – Fund Accounting

The financial transactions of the Commission are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures and other financing sources or uses. The Commission does not have any debt service requirements. The compensated absences liability is not included in the fund financial statements. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type and reported by generic classification in the accompanying financial statements. GASB Statement No. 34 sets forth minimum criteria for the determination of major funds based on a percentage of the assets, liabilities, revenues or expenditures. The general fund is always considered a major fund. The Commission uses the following fund types:

GOVERNMENTAL FUND TYPES

The focus of Governmental Fund measurement (in the fund financial statements) is based upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the Commission.

General Fund - the General Fund (SHARE Fund #669-615 - reverting) is the general operating fund of the Commission. It is used to account for all financial resources except those required to be accounted for in another fund.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures or expenses 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 on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

Modified Accrual – All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or expected to be received within sixty days of year-end to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

There are no interfund transactions to be eliminated.

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

2. Summary of Significant Accounting Policies (cont'd)

E. Budgets and Budgetary Accounting

The New Mexico State Legislature makes annual appropriations to the Commission. Legal compliance is monitored through the establishment of a budget (modified accrual basis). Expenditures may not legally exceed appropriations for each budget at the appropriation unit level. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration (DFA) within the limitations as specified in the General Appropriation Act. The budget amounts shown in the financial statements are both the original appropriation and the final authorized amounts as legally revised during the year. The Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. By September 1st, the Commission prepares a budget request by appropriation unit to be presented to the next legislature.
2. The appropriation request is submitted to the Department of Finance and Administration's Budget Division and to the Legislative Finance Committee (LFC).
3. DFA makes recommendations and adjustments to the appropriation request which become the Governor's proposal to the Legislature.
4. LFC holds hearings on the appropriation request, also submitting recommendations and adjustments before presentation to the Legislature.
5. Both the DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised at the appropriation unit level of the Commission as a whole and changes are approved by the DFA.
7. The Commission's budget for the fiscal year ended June 30, 2009 was amended in a legally permissible manner by transferring between appropriation units as the need arose during the fiscal year.
8. Appropriations lapse at the end of the fiscal year except for those amounts related to goods and services received by June 30.
9. The General Fund budget is adopted on a modified accrual basis per the General Appropriation Act, Laws of 2008, except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) that must be paid out of the next year's budget. There were no such payables for FY09. However, the Commission had FY 08 payables amounting to \$10,703 chargeable to the FY09 budget. Therefore, there are differences between the budget basis and fund financial statements. The reconciliation appears on Exhibit E. Also, actual expenditure appropriation units Personal Services/Employee Benefits and Other exceeded the approved budget amounts by \$844 and \$5,004, respectively.

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

2. Summary of Significant Accounting Policies (cont'd)

E. Budgets and Budgetary Accounting (cont'd)

In accordance with the requirements of Section 2.2.2.10, A(2)(b) of 2.2.2 NMAC Requirements for Contracting and Conducting Audits of Agencies and the allowance made by GASB 34, footnote 53, the budgetary comparison statement has been included as a part of the basic financial statements.

F. Net Assets

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt, if applicable), restricted and unrestricted.

Investment in capital assets (net of related debt) – is intended to reflect the portion of net assets which are associated with capital assets less outstanding capital asset related debt. The Commission has no debt related to capital assets.

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

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

G. Interest in State General Fund Investment Pool

The Commission has defined cash and cash equivalents to include the Interest in State General Fund Investment Pool with the State Treasurer.

H. Capital Assets

Capital assets are tangible assets that are used in operations and that have initial useful lives that extend beyond a single reporting period. Capital assets are reported in the Statement of Net Assets at historical cost or estimated fair value on the date of donation, if donated. The Commission does not undertake major capital projects involving interest costs during the construction phase. There is no debt related to capital assets. Capital assets are depreciated using zero salvage value and the straight-line method over their estimated useful lives.

Before the 2005 legislative session, only items costing more than \$1,000 were capitalized. Effective June 19, 2005, House Bill 1074 amended Section 12-6-10, NMSA 1978, to increase the capitalization threshold to items costing more than \$5,000. Repairs and maintenance expenses are charged to operations when incurred and major betterments and replacements are capitalized. Computer software which is purchased with data processing computer equipment is included as part of the capitalized data processing computer equipment in accordance with 2.20.1.9 C (5). Other software purchased is capitalized and depreciated separately.

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

2. Summary of Significant Accounting Policies (cont'd)

H. Capital Assets (cont'd)

The major classifications of capital assets and their related depreciable lives are as follows:

<u>Asset</u>	<u>Years</u>
Machinery and equipment	5-10
Data processing equipment (including software)	3-5
Furniture and fixtures	10

I. Accrued Compensated Absences

Employees are entitled to accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours of annual leave may be carried forward after the pay period beginning in December and ending in January. When employees terminate, they are compensated at their current hourly rate for accumulated unpaid annual leave as of the date of termination, up to a maximum of 240 hours.

Employees are entitled to accumulate sick leave at a rate of 3.69 hours per pay period. There is no limit to the amount of sick leave which an employee may accumulate. State agencies are allowed to pay fifty (50) percent of each employee's hourly rate for accumulated sick leave over 600 hours up to 120 hours. Payment may be made only once per fiscal year at a specified pay period in either January or July.

Nonexempt employees accumulate compensation time for hours worked in excess of forty hours per week, based on their regular hourly rate. Such overtime must be pre-approved by management. Payment of this liability can be made by compensated leave time or cash payment. At June 30, 2009, there was no compensation time owed to any employee. In accordance with GASB 16, accrued compensated absences consist of accumulated annual leave and related salary payments (employers' matching FICA and Medicare payroll taxes).

The compensated absences liability is presented in two parts, a current portion and long-term portion, in the government-wide financial statements. The current portion is the amount expected to be expended during fiscal year 2010 and is an estimate management determined by the average of the last five fiscal years. Based on this estimate, for the year ended June 30, 2009, there is only a current portion of the compensated absences liability and no long-term portion.

J. Reversions

Unexpended balances are generally reverted to the State General Fund. Laws of 2008, states that unexpended balances of the State General Fund appropriation to the Commission shall revert. There were no unexpended balances at June 30, 2009. Accordingly, no reversions have been recorded in the current year for General Fund appropriations. Also, unexpended and unencumbered balances of special appropriations are reverted when required by law.

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

3. Interest in State General Fund Investment Pool

Interest in State General Fund Investment Pool of the Commission at June 30, 2009:

<u>Account Name</u>	<u>Fund Type</u>	<u>Agency/ Fund No.</u>	<u>Balance per Financial Statements</u>
State Treasurer: Health Policy Commission	General	669-615	\$ 82,471

All funds are on deposit with the State Treasurer in the State General Fund Investment Pool (SGFIP). In general, state statutes require that all deposits held by the State Treasurer be collateralized at a minimum level of 50 percent. Collateral pledged to secure these deposits is monitored by the State Treasurer's Office (STO). The STO issues separate financial statements that disclose the collateral pledged to secure these deposits. The State Treasurer has the power to invest money held in demand deposits and not immediately needed for the operation of state government in securities in accordance with Sections 6-10-10 I through P, NMSA 1978 as amended. The State Treasurer with the advice and consent of the state board of finance can invest money held in demand deposits and investments not immediately needed for the operation of state government in:

- (a) Securities issued by the United States (U.S.) government or by its departments or agencies and direct obligations of the U.S. or are backed by the full faith and credit of the U.S. government or agencies sponsored by the U.S. government;
- (b) Contracts for the present purchase and resale at a specified time in the future, not to exceed one year or, in the case of bond proceeds, not to exceed three years, of specific securities at specified prices at a price differential representing the interest income to be earned by the state. No such contract shall be invested in unless the contract is fully secured by obligations of the United States or other securities backed by the United States having a market value of at least one hundred two percent of the amount of the contract. The securities required as collateral shall be delivered to a third-party custodian bank and delivery shall be made simultaneously with the transfer, no later than the same day the funds are transferred. The contracting bank, brokerage firm or institutional investor must have a net worth in excess of five hundred million dollars.
- (c) Contracts for the temporary exchange of state-owned securities for the use of broker-dealers, banks or other recognized institutional investors in securities, for periods not to exceed one year for a specified fee rate. No such contract shall be invested in unless the contract is fully secured by exchange of an irrevocable letter of credit running to the state, cash or equivalent collateral of at least one hundred two percent of the market value of the securities plus accrued interest temporarily exchanged. The collateral required for either of the forms of investment in sections (b) and (c) shall be delivered to the fiscal agent of New Mexico or its designee **contemporaneously with the transfer of funds or delivery of the securities at the earliest time industry practice permits**, but in all cases, settlement shall be on the a same-day basis. Neither of the contracts in (b) or (c) shall be invested in unless the contracting bank, brokerage firm or recognized institutional investor has a net worth in excess of five hundred million dollars.

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

3. Interest in State General Fund Investment Pool (cont'd)

- (d) Any of the following investments in an amount not to exceed forty percent of any fund that the state treasurer invests:
- (1) commercial paper rated "prime" quality by a national rating service, issued by corporations organized and operating within the U.S.;
 - (2) medium-term notes and corporate notes with a maturity not exceeding five years that are rated A or its equivalent or better by a nationally recognized rating service and that are issued by a corporation organized and operating in the U.S.; or
 - (3) an asset-backed obligation with a maturity not exceeding five years that is rated AAA or its equivalent by a nationally recognized rating service.
- (e) Shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above provided that the investment company has total assets under management of at least one billion dollars and the investments made by the State Treasurer pursuant to this paragraph are less than five percent of the assets of the investment company; or
- (f) Individual, common or collective trust funds of banks or trust companies that invest in U.S. fixed income securities or debt instruments authorized pursuant to (a), (b), and (d) above, provided that the investment manager has assets under management of at least one billion dollars and investments made by the state treasurer pursuant to this paragraph are less than 5% of assets of the individual, common or collective trust fund.

Public funds to be invested in negotiable securities or loans to financial institutions fully secured by negotiable securities at current market value shall not be paid out unless there is a **contemporaneous transfer of the securities** at the earliest time industry practice permits, but in all cases, settlement shall be on a same-day basis either by physical delivery or, in the case of uncertificated securities, by appropriate book entry on the books of the issuer, to the purchaser or to a reputable third-party safekeeping financial institution acting as agent or trustee for the purchaser, which agent or trustee shall furnish timely confirmation to the purchaser. For additional disclosure information regarding the investment in the State Treasurer's GFIP, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2009, review the State Treasurer's Investment Policy at <http://www.stonm.org/ReportsandPolicies/Policies>, and review Sections 2.60.4.1 through 2.60.4.15 of the New Mexico Administrative Code, regarding Investment of Deposits of Public Funds Depository Bank Requirements, Collateral Level Requirements, and Custodial Bank Requirements.

4. Prepaid Expenses

Prepaid expenses include prepaid postage. The majority of the prepaid postage was purchased in prior years. The reported fund balance reservations indicate that prepaid postage does not represent available expendable resources.

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

5. Changes in Capital Assets

A summary of changes in capital assets is as follows:

	<u>Balance 7/1/08</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Deletions</u>	<u>Balance 6/30/09</u>
Machinery and equipment	\$ 19,783	\$ 5,530	\$ -	\$ (15,183)	\$ 10,130
Accumulated depreciation	(17,725)	(2,150)	-	15,183	(4,692)
Data processing equipment	28,244	5,790	-	(22,212)	11,822
Accumulated depreciation	(25,074)	(2,060)	-	22,212	(4,922)
Totals	<u>\$ 5,228</u>	<u>\$ 7,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,338</u>

There is no debt related to capital assets. Depreciation expense for the year was \$4,210.

6. Due to State General Fund

Section 6-5-10 NMSA 1978 requires all unreserved, undesignated fund balances in reverting funds and accounts revert to the State General Fund by September 30 of each year. An agency may adjust the reversion within forty-five days of release of the audit report.

The current year reversion and amounts due to the State General Fund are as follows:

Fiscal year general appropriation reversions (budget basis surplus)	
Org P702	
FY2009 unexpended balance	\$ -
Total current-year reversion	-
Miscellaneous receipts/reimbursements	
FY2008-miscellaneous revenue	123
FY2008 refunds	268
Total Due to State General Fund	<u>\$ 391</u>

7. Changes in Compensated Absences Payable

A summary of changes in compensated absences payable is as follows:

	<u>Balance 7/1/08</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/09</u>	<u>Amount Due Within One Year</u>
Compensated Absences Payable	<u>\$ 52,033</u>	<u>\$ 15,164</u>	<u>\$ (48,600)</u>	<u>\$ 18,597</u>	<u>\$ 18,597</u>

The Commission's general fund is used to pay compensated absences. The long-term portion of compensated absences payable is \$-0-.

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

8. Prior-period adjustment

The prior-period adjustment (\$4,596) is a result of an overstatement of expenditures and accounts payable at June 30, 2008 for requests to pay prior-year bills. The original request booked was \$15,299 but actual bills paid in FY09 were \$10,703.

9. Fund Balance

Reservations of fund balance of governmental funds 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 appropriable for future expenditures. Specific reservations of the fund balance account are reserved for prepaid postage. This reserve indicates that prepaid postage does not represent available expendable resources. Also, the unreserved/undesignated deficit fund balance of \$5,466 is a result of net unrealized revenues (\$223) and net expenditure unfavorable variance (\$5,243).

10. Operating Leases

The Commission has operating leases for office space, equipment (postage meter and copier) and one vehicle lease (year-to-year). The office lease and postage meter terms are four years from 7/1/09 through 6/30/13. The office lease is \$5,417 per month and provides for an annual escalation of 3%. The postage meter is \$80 per month. The copier lease is \$437 for 60 months from 9/1/08 through 8/31/13. Operating lease expenditures for these leases for the year ended June 30, 2009 totaled \$134,521. Future annual payments under operating leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2010	\$ 71,210
2011	73,152
2012	75,161
2013	77,230
2014	874
Thereafter	-
	<u>\$ 297,627</u>

11. PERA Pension Plan

Plan Description. Substantially all of the State of New Mexico, Health Policy Commission's full time employees participate in a public employee retirement system authorized under the Public Employees' Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees' Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan.

The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P. O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

11. PERA Pension Plan (cont'd)

Funding Policy. Plan members are required to contribute 7.42% of their gross salary. The State of New Mexico, Health Policy Commission is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Health Policy Commission are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Commission's contributions to PERA for the fiscal years ended June 30, 2009, 2008, and 2007 were \$99,932, \$109,992 and \$92,421, respectively, equal to the amount of the required contributions for each fiscal year.

12. Post-Employment Benefits

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

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

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

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

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Notes to Financial Statements
June 30, 2009**

12. Post-Employment Benefits (cont'd)

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RCHA based on one of two formulas at agreed-upon intervals. The RCHA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RCHA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Health Policy Commission's contributions to the RCHA for the fiscal years ended June 30, 2009, 2008 and 2007 were \$7,831, \$8,359 and \$7,242, respectively, which equal the required contributions for each fiscal year.

13. Risk Management and Litigation

The Commission is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been passed which allow RMD to insure, self-insure or use a combination of both.

For the past several years, the RMD has elected to self-insure and has not obtained liability coverage from commercial insurance companies. The RMD has effectively managed risk through various employee education and prevention programs. Risk management expenditures for the Commission are accounted for in the general fund. Any claims are processed through RMD.

There are no pending or known threatened legal proceedings involving material matters to which the Commission is a party.

14. Operating Transfers

	<u>From</u>	<u>To</u>	<u>Purpose</u>
Dept. of Finance and Admin (Fund #853)	\$ 1,233,300		Regular Appropriation Compensation Package
Dept. of Finance and Admin (Fund #620)	25,700		
Health Policy Commission (Fund #615)		\$ 1,259,000	
Health Policy Commission (Fund #615)	\$ -		Current-year reversion
Dept. of Finance and Admin (Fund #853)		\$ -	

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Schedule of Performance Data
June 30, 2009**

<u>Type</u>	<u>Measure</u>	<u>FY09 Target Level</u>	<u>FY09 Year-End Result</u>	<u>Met Target</u>	<u>Year-End Results Narrative</u>
Output	Number of health-related bills analyzed during the legislative session	200	240	X	The Health Policy Commission analyzed 240 health related bills during the legislative session. Ninety percent (90%) of the bills analyzed met the 24 hour turnaround.

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

Dr. Frank Hesse, Chairman
Health Policy Commission
and
Honorable Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico 87505

We have audited the financial statements of the governmental activities, the major fund, and the budgetary comparison statement for the General Fund of the Health Policy Commission (Commission) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 28, 2009. 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 Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under **Government Auditing Standards** and which are described in the accompanying schedule of findings and responses as item 2009-1.

The Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Office of the State Auditor, the New Mexico State Legislature and its committees and the New Mexico Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Gutierrez & Co., CPAs, P.C.

Macias, Gutierrez & Co., CPAs, P.C.
Española, New Mexico
October 28, 2009

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Schedule of Findings and Responses
June 30, 2009**

	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
Overexpended Budget Appropriation Units	E	N/A	2009-1
Follow-up on Prior Year Findings:			
Reversion	D	2007-1	Resolved

*** Legend for Current Year Findings:**

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters involving Internal Control Over Financial Reporting
- D. Material Instance of Noncompliance
- E. Immaterial Instance of Noncompliance

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Schedule of Findings and Responses
June 30, 2009**

2009-1

Overexpended Budget Appropriation Units

Criteria

Per Sections 6-3-1 through 6-3-25, NMSA 1978 budgetary control for expenditures/other financing uses is at the appropriation unit level for all state agencies. Any budget overexpenditure at the appropriation unit level is a violation of Department of Finance and Administration (DFA) rules and regulations.

Condition

During our audit of modified accrual budgetary expenditures compared to budget, we noted that actual expenditure appropriation units Personal Services/Employee Benefits and Other exceeded the approved budget amounts by \$844 and \$5,004, respectively.

Cause

The cause appears to be an oversight by Commission staff.

Effect

The Commission has violated DFA rules and regulations.

Recommendation

We recommend that the Commission maintain and enforce budgetary control to ensure that no budget appropriation unit is overexpended.

Planned Corrective Actions

“Staff will monitor budgeted appropriations through the use of separate spreadsheets on a weekly basis, then daily during the last quarter of the fiscal year and not rely on the budget balances in the SHARE Commitment Control unit.”

**STATE OF NEW MEXICO
HEALTH POLICY COMMISSION**

**Exit Conference
June 30, 2009**

Financial Statement Preparation

The financial statements and notes to the financial statements were prepared by the independent certified public accountants performing the audit. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that the records are current and in balance. Management has reviewed and approved the financial statements and notes to the financial statements.

* * * * *

EXIT CONFERENCE

The financial statements and the auditors' reports were discussed at an exit conference held on October 27, 2009 with the following in attendance:

Health Policy Commission

Eric Kraska, MD, Commission Member
Sam Howarth, PhD, Executive Director/CFO
Peggy Schummers, Office Manager

Audit Firm

James R. Macias, CPA
George M. Gutierrez, CPA