

REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

NEW MEXICO RETIREE HEALTH CARE AUTHORITY

June 30, 2019

MOSSADAMS

Table of Contents

	PAGE
Official Roster	1
Report of Independent Auditors	2–4
Management's Discussion and Analysis	5–9
Financial Statements	
Statement of fiduciary net position	10
Statement of changes in fiduciary net position	11
Notes to financial statements	12–31
Required Supplementary Information	
Schedule of revenues and expenses – budget and actual: administrative fund	32
Schedule of revenues and expenses – budget and actual: benefits fund	33
Schedule of changes in net OPEB liability	34
Schedule of employer contributions	35
Schedule of investment returns	36
Supplementary Information	
Schedule 1 - Combining schedule of fiduciary net position by functional activity	37
Schedule 2 - Combining schedule of changes in fiduciary net position by functional activity	38
Schedule 3 - Schedule of investment fees	39
Other Information	
Schedule 4 - Combining schedule of general and administrative expenses by functional activity	40
Schedule 5 - Combining schedule of state general fund investment pool	41
Schedule 6 - Schedule of appropriations	42
Report of Independent Auditors 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*	43-44
Schedule of Findings and Responses	45-46
Schedule of Prior Year Findings	47
Exit Conference	48

New Mexico Retiree Health Care Authority

OFFICIAL ROSTER

June 30, 2019

Board of Directors

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

Staff

David Archuleta	Executive Director
Neil Kueffer	Deputy Director
Peggy Martinez	Chief Financial Officer

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Report of Independent Auditors

The Board of Directors
New Mexico Retiree Health Care Authority
Brian S. Colón, Esq.
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of fiduciary net position and changes in fiduciary net position of New Mexico Retiree Health Care Authority (the Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of New Mexico Retiree Health Care Authority as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of revenues and expenses – budget and actual: administrative fund, schedule of revenues and expenses – budget and actual: benefits fund, schedule of changes in net OPEB liability, schedule of employer contributions, and schedule of investment returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule 1 – Combining schedule of fiduciary net position by functional activity, Schedule 2 – Combining schedule of changes in fiduciary net position by functional activity, and Schedule 3 – Schedule of investment fees (collectively, the supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The Schedule 4 – Combining schedule of general and administrative expenses by functional activity, Schedule 5 – Combining schedule of state general fund investment pool, and Schedule 6 – Schedule of appropriations are presented for the purposes of additional analysis and are not a required part of the financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
November 22, 2019

INTRODUCTION

The New Mexico Retiree Health Care Authority (the Authority) fosters quality of life and peace of mind by responsibly administering affordable, secure health care benefits for public retirees and their families. The Authority's management has provided this discussion and analysis of the financial activities of the Authority for the year ended June 30, 2019. The narrative offers an overview of the financial reporting requirements, financial highlights, budgetary analysis, and comparative information. Financial data has been provided for the year ended June 30, 2018 for comparative purposes.

FINANCIAL REPORTING REQUIREMENTS

The Authority's financial statements have been prepared in conformity with standards published by the Government Accounting Standards Board (GASB) for retiree health systems. The basic financial statements presented comprise the following:

- **Statement of Fiduciary Net Position** – The statement of fiduciary net position provides a snapshot of the retiree health trust. It reports the Authority's assets, liabilities, and net position restricted for postemployment benefits other than pensions at the end of the fiscal year.

- **Statement of Changes in Fiduciary Net Position** – The statement of changes in fiduciary net position presents the additions and deductions to the net position restricted for postemployment benefits other than pensions and is a summary of the Authority's transactions occurring during the fiscal year.

- **Notes to the Financial Statements** – The notes to the financial statements are an integral part of Authority's financial statement presentation and provide additional information not readily evident in the statements as presented.

- **Required Supplementary Information** – The required supplementary information provides a detailed and informative analysis about the financial condition of the trust administered by the Authority.

- **Supplementary Information** – The supplementary information contains additional information not required by the GASB but has been deemed useful in evaluating the Authority's overall financial condition.

FINANCIAL HIGHLIGHTS

The Authority's statement of fiduciary net position can be summarized as follows:

	June 30, 2019	June 30, 2018
ASSETS		
Cash and cash equivalents	$ 41,121,683	$ 27,886,281
Contributions and other receivables	18,235,784	18,185,310
Investments with New Mexico State Investment Council	722,651,689	636,916,028
Capital assets, net	1,230,241	1,488,569
Total assets	783,239,397	684,476,188
LIABILITIES		
Reserve for loss and loss adjustment expense	21,653,000	21,695,000
Other current liabilities	4,416,831	4,731,733
Retiree premiums received in advance	420,575	393,161
Total liabilities	26,490,406	26,819,894
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	$ 756,748,991	$ 657,656,294

The Authority's statement of changes in fiduciary net position can be summarized as follows:

	Year Ended June 30, 2019	Year Ended June 30, 2018
ADDITIONS		
Contributions	$ 305,112,035	$ 297,070,343
Investment income	41,663,496	49,757,591
Tax administration suspense fund revenue	26,256,221	26,256,221
Medicare Part D rebates and other	26,625,941	30,255,096
Total additions	399,657,693	403,339,251
DEDUCTIONS		
Premiums and claims paid	296,459,494	320,403,577
Expenses and other	4,105,502	4,748,021
Total deductions	300,564,996	325,151,598
NET INCREASE IN NET POSITION	$ 99,092,697	$ 78,187,653

Net position increased by approximately $99.1 million, or 15.1%, during fiscal year 2019 compared to fiscal year 2018. The increase during the current year is primarily due to the following:

- The fair value of investments increased by $85.7 million, or 13.5% due to net appreciation in the fair market value of the Authority's investment portfolio and investment purchases that occurred during the year.
- Cash balances increased by $13.2 million, or 47.5% due to timing of transfers made to the trust fund held by the New Mexico State Investment Council.
- Contributions increased by approximately $8.0 million, or 2.7%, from the prior fiscal year. This is due to an increase in retiree contributions. Contributions by source were as follows:

	Year Ended June 30,	
	2019	2018
Retirees	$ 172,270,192	$ 167,949,226
Employer	88,516,368	85,401,662
Employee	44,258,184	42,700,831
Employer buy-ins revenue	-	939,677
Employer buy-ins interest portion	67,291	78,947
Total contributions	$ 305,112,035	$ 297,070,343

- Claims paid and expenses decreased by $24.6 million, or 7.6%, during fiscal year 2019 compared to fiscal year 2018. This decrease was driven by a reduction in pharmacy benefit spending, as a result of a new pharmacy benefit management contract effective July 1, 2018.

The Authority reported an estimated net OPEB liability of $3,242,388,746 and $4,348,354,815 as of June 30, 2019 and 2018, respectively, representing a decrease of $1,105,966,069 during the year ended June 30, 2019. The decrease is the result of a change in assumption related to the blended discount rate, assumed participation rates, projected growth in healthcare costs, and an increase in the plan's fiduciary net position. The net OPEB liability as of June 30, 2019 is comprised of the Authority's total OPEB liability of $3,999,137,737 calculated by the Authority's independent actuaries, offset by the plan's fiduciary net position of $756,832,642. As of June 30, 2019, the plan's fiduciary net position as a percentage of the total OPEB liability (funded status) was 18.92%, an increase 5.79% compared to the 13.14% funded status as of June 30, 2018.

BUDGETARY ANALYSIS

The fiscal year 2019 operating budget authorized expenditures totaling $335.4 million, including $1.9 million in personal services and employee benefits, $332.5 million in contractual services, and $585 thousand in other expenses. Actual expenditures totaled $299.3 million, supported by revenues and investment earnings totaling $358.8 million, resulting in an increase in net position of $99.0 million. Highlights are as follows:

- Program Support – The program ended fiscal year 2019 with a $165 thousand surplus generated by $90 thousand in savings from the personal services and employee benefits category, $55 thousand savings in the contractual services category and $21 thousand in savings from the other category.

CURRENTLY KNOWN FACTS, DECISIONS, AND CONDITIONS

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

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

At the beginning of fiscal year 2019, the Authority was projected to begin deficit spending in 2020 with a reported solvency period through 2037 (18-years). This projection assumed the following: an increase in premiums charged to retirees in accordance with medical trend (8% Pre-Medicare / 6% Medicare Supplement) beginning January 2018, an expansion of lower costing resources made available for Pre-Medicare retirees, the implementation of value-based purchasing arrangements for certain procedures, increased in prescription drug cost sharing, and the continued growth in participation in Medicare Advantage plans.

Based on the continued leadership by the Board of Directors, the June 2019 solvency analysis revealed continued improvements to the financial condition of the agency including an extended solvency period through 2044, compared to 2037, despite increased participation, a reduction in revenues received from the TAA Fund and limited growth in employee and employer contributions.

These improvements are evidence of the Board's commitment to providing affordable healthcare benefits for public retirees, limiting growth in liabilities, and extending the solvency of the program for future participants. This commitment is demonstrated each year through the actions taken by the Board in an effort to balance revenues and expenditures by pursuing value-based reimbursement purchasing arrangements for all services, administration of programs aimed at preventing future costs and cost-effective procurement strategies. In addition, several key actuarial assumptions were reevaluated during the year and adjustments were made by the Authority's independent actuary that resulted in a significant reduction to the net OPEB liability reported by the Authority and improvement in the Authority's funded status.

The solvency analysis indicates continued improvements to the financial outlook of the program, on a pay-as-you-go basis. However, the solvency analysis and reporting requirements associated with GASB Statements No. 74 and No. 75 continue to indicate significant long-term challenges associated with the financing of retiree healthcare benefits.

FUTURE CHALLENGES

The Authority continues to face a significant number of challenges as growth in the cost of providing healthcare continues to outpace growth in the funding sources used to support the program - specifically, limited growth in employee and employer contributions, uncertainty with regard to prescription drug containment strategies at the federal level, combined with medical and prescription drugs trends specific to a retiree population.

New Mexico Retiree Health Care Authority
Statement of Fiduciary Net Position
June 30, 2019

ASSETS	
Interest in State General Fund Investment Pool	$ 41,121,683
Receivables	
Contributions - employers, employees, and retirees, net	12,656,585
Due from other agencies	2,188,018
Due from charter schools	283,049
Accounts receivable - rebates and Medicare Part D	2,260,695
Buy-in obligations receivable	847,437
Total receivables	18,235,784
Investments with State Investment Council	
U.S. Large Cap Index Pool	99,580,511
Non U.S. Emerging Markets Index Pool	69,359,864
Non U.S. Developed Markets Index Pool	96,262,803
Private Equity Pool	81,385,706
Credit and Structured Finance Pool	105,998,505
Real Estate Pool	73,120,655
Small/Mid Cap Active Pool	12,925,911
Real Asset Pool	34,679,544
Core Bond Pool	149,338,190
Total investments	722,651,689
Capital assets, net of accumulated depreciation	1,230,241
Total assets	783,239,397
LIABILITIES	
Accounts payable	4,227,359
Payroll liabilities	65,568
Compensated absences	123,904
Reserve for loss and loss adjustment expense	21,653,000
Retiree premiums received in advance	420,575
Total liabilities	26,490,406
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	$ 756,748,991

See notes to financial statements.

New Mexico Retiree Health Care Authority
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2019

ADDITIONS	
Contributions	
Retirees	$ 172,270,192
Employer	88,516,368
Employees	44,258,184
Employer buy-ins interest portion	67,291
Total contributions	305,112,035
Investment income	
Net appreciation in fair value of investments	40,735,665
Interest adjustment on State General Fund Investment Pool	927,831
Total investment income	41,663,496
Other	
Tax administration suspense fund revenue	26,256,221
Medicare Part D subrogation and rebates	26,625,941
Total other	52,882,162
Total additions	399,657,693
DEDUCTIONS	
Premiums and claims paid	296,459,494
General and administrative expenses	2,921,370
Losses and loss adjustment accrual decrease	(42,000)
Refunds to retirees	962,603
Depreciation expense	263,529
Total deductions	300,564,996
NET INCREASE IN NET POSITION	99,092,697
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	
Beginning of year	657,656,294
End of year	$ 756,748,991

See notes to financial statements.

Note 1 – Retiree Health Care Act Plan

The New Mexico Retiree Health Care Authority (the Authority) was formed on February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Retiree Health Care Fund (10-7C-1-19 NMSA 1978) which was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents, and surviving spouses) who have retired or will retire from public service in New Mexico.

The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees. Employees of the Authority participate in the plan.

The Act created a governing Board of Directors (the Board) comprised of not more than 12 members. Membership of the Board includes the following:

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

2. The director of the Educational Retirement Board (ERB) or the ERB director's designee;

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

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

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

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

7. The executive secretary of the Public Employees' Retirement Association (PERA) or the PERA executive secretary's designee;

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

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

Note 1 – Retiree Health Care Act Plan (continued)

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

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

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

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

The Board may enter into contracts or arrangements with consultants, professional persons or firms as may be necessary to carry out the provisions of the Act. Other legal duties of the Board are defined by Section 10-7C-7 of the Act.

The plan has 305 participating employers and 154,177 current members, including active employees, terminated eligible members, retirees, and surviving spouses. The following schedule summarizes the number of members enrolled in the plan as of June 30, 2019:

Plan membership	
Current retirees and surviving spouses	52,179
Inactive and eligible for deferred benefit	10,916
Current active members	91,082
	154,177
Active membership	
State general	17,097
State police and corrections	1,830
Municipal general	17,538
Municipal police	3,159
Municipal FTRE	1,966
Educational Retirement Board	49,492
	91,082

The Authority operates and administers the plan from the following funds:

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

Benefit Fund (38100): Created by the Act (10-7C-1 to 10-7C-19 NMSA 1978). The purpose of this fund is to provide core group and optional healthcare and life insurance benefits for current and future retirees and their dependents as mentioned above.

Note 1 – Retiree Health Care Act Plan (continued)

The Authority is an independent agency of the State of New Mexico. The funds administered by the Authority are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. The Authority's financial information should be included with the financial presentation of the State of New Mexico.

The Authority has developed criteria to determine whether other state agencies, boards or commissions which benefit the members of the Authority should be included within its financial reporting entity. The criteria include, but are not limited to, whether the Authority exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service, and special financing relationships. Based on these criteria, management has determined that no other such entities should be included in its financial reporting entity. The Authority does not have any component units.

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

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

Current retirees are required to make monthly contributions for individual basic medical coverage. The Board may designate other plans as "optional coverages." See Section 10-7C-13, NMSA 1978 for more details.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The Authority's financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. The economic resource measurement focus is used for all assets, deferred outflows, liabilities, deferred inflows, revenues, expenses, gains, and losses. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recorded at the time liabilities are incurred. Contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Note 2 – Summary of Significant Accounting Policies (continued)

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

Accounts Receivable and Employer Buy-Ins
Accounts receivable derived from employers and participants consist of amounts due from employers and for contributions relating to payrolls paid prior to June 30, 2019 and amounts due from retirees for monthly premiums. Advance premiums from retirees are recorded as unearned revenues.

Qualified employers previously declining participation may elect to buy-in under 10-7C-1, NMSA 1978. Upon meeting requirements and approval, the employer will pay a determined amount to compensate the Authority and other participants for prior periods of nonparticipation and for additionally incurred liabilities. Payments can be lump sum or on the installment method for up to 13 years and are in addition to regular monthly contributions.

Investments
The Authority accounts for its investments in accordance with GASB No. 40, *Deposit and Investment Risk Disclosures* (GASB No. 40) and GASB No. 72, *Fair Value Measurement and Application* (GASB No. 72). Please refer to the financial statements of the State Investment Council and the State Treasurer's Office for full disclosures, including security credit ratings for investment assets that conform to GASB No. 40 requirements. The Authority is subject to the Uniform Prudent Investor Act, NMSA 45-7 and has structured their investment policy to comply to NMSA 45-7.

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

Income Taxes
The Authority provides an essential governmental function to its participants as described in Section 115 of the Internal Revenue Code (the Code) and therefore considers the Authority exempt from federal income taxes pursuant to the Code.

Net Position Restricted for Postretirement Benefits Other Than Pensions
The plan's net position and State of New Mexico pension tax revenue are restricted to provide for payment of claims and premiums in future years and to continue to provide health benefits to eligible retirees. All fiduciary funds revenue, including pension tax, is held in trust for qualified retirees. These funds are not available to the State of New Mexico for appropriation for other purposes. The restrictions on the plan net position are deemed to be legally enforceable and, therefore, the net position is reported

Note 2 – Summary of Significant Accounting Policies (continued)

as restricted pursuant to GASB standards. When restricted and unrestricted resources are available for the same purpose, it is the policy of the Authority to first apply the unrestricted resources.

Program Revenue
Program revenue shown on the accompanying statement of changes in fiduciary net position consists primarily of contributions received from retirees, employers, and employees, including amounts received and accrued from employer buy-ins. Operating revenue is distinguished from non-operating revenue by considering the core purpose of the Authority to provide comprehensive group health insurance. As a result, contributions received from participants are considered operating revenues.

Budgetary Process and Budgetary Basis of Accounting
The Authority prepares its budget on the accrual basis. Investment gains and losses, depreciation, and changes in incurred but not reported (IBNR) claim expenses are not budgeted. An operating budget is submitted annually for approval to the Budget Division of the New Mexico Department of Finance and Administration (DFA) and reviewed by the Legislative Finance Committee. The Authority submits two budgets reflecting the Health Benefits Administration Fund and Program Support Fund. The legal level of budgetary control is at the functional level. Budget Adjustment Requests must be reviewed by the Department of Finance and Administration. Administrative line item expenditures may legally exceed amounts budgeted; however, the total budget category expenditures may not legally exceed approved budget category amounts.

Use of Estimates
The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Upcoming Accounting Standard
GASB Statement No. 87, *Leases,* increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the year ending June 30, 2021. The Authority is currently examining the impact, if any, to its current accounting policies and financial reporting from this Statement.

Net OPEB Liability
The net OPEB liability and the plan's actuarial valuation were calculated by the Authority's independent actuary as of June 30, 2019. The plan's valuation and measurement of the total OPEB liability and related net OPEB liability were performed in accordance with GASB No. 74 requirements at the request of the Authority.

Note 2 – Summary of Significant Accounting Policies (continued)

Net Pension Liability and Related Pension Amounts
The State of New Mexico has implemented GASB No. 68, *Accounting and Financial Reporting for Pensions*.

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

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

Postemployment Benefits – State Retiree Health Care Plan
Compliant with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State of New Mexico has implemented this standard for the fiscal year ended June 30, 2019.

The Authority, as part of the primary government of the State of New Mexico, is a contributing employer to the plan on behalf of the Authority's employees and for persons who have retired from certain public service positions in New Mexico. The OPEB plan is administered by the Authority. The State has determined the State's share of the net OPEB liability to be a liability of the State as a whole, rather than any agency or department of the State, and the liability will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the CAFR of the State of New Mexico.

Information concerning the net liability, benefit expense, and benefit-related deferred inflows and deferred outflows of resources of the primary government will be contained in the State of New Mexico CAFR for the year ended June 30, 2019 and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico 87501.

Note 3 – Interest in State General Fund Investment Pool

Contributions and other funds received by the Authority are held by the New Mexico State Treasurer and pooled with the State General Fund Investment Pool. The Authority can withdraw its funds from the State Treasurer as needed, and therefore considers them to be cash equivalents. All earnings on deposits are retained by the State General Fund; therefore, from the Authority's perspective, the cash balances are non-interest bearing and stated at cost. Money deposited by the Authority with the State Treasurer is pooled and invested by the State Treasurer. The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the $250,000 in insurance coverage provided by federal agencies. Accordingly, the State Treasurer requires that depository financial institutions provide additional collateral for such investments. The collateral generally is in the form of marketable debt securities and is required in amounts ranging from 50% to 102% of the par value of the investment dependent upon the institutions operating results and capital. Collateral for the fiscal account is required in amounts equal to 50% of the average investment balance. To obtain pledged collateral, investment risk, and insurance coverage information for the Department's State Treasurer deposits, a copy of separately issued financial statements can be obtained from the State Treasurer's Office. All collateral is held in third-party safekeeping.

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

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

By state statute, the DFA is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller / Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project's objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate, and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank-to-book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Remediation Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

Note 3 – Interest in State General Fund Investment Pool (continued)

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

The Authority employs cash management practices and techniques to monitor and verify the Authority's cash position. The cash management processes of the Authority include: regular monitoring of the agency's share of the General Fund Investment Pool (GFIP) reflected by DFA/FCD in the SHARE accounting system; monthly reconciliation of all cash activities to the GFIP balance and full book-to-bank reconciliations; effective internal controls over authorized cash related activities; and utilization of effective cash forecasting methods. Through the design and implementation of procedures noted above, the Authority has determined there has been no material impact to its interest in the Pool.

The fair value of the cash and cash equivalents maintained in the Pool with the New Mexico State Treasurer's Office is as follows:

Fund	SHARE Fund No.	Balance June 30, 2019
Benefits Fund	38100	$ 40,833,580
Administrative Fund	38000	288,103
Total interest in State General Fund Investment Pool		$ 41,121,683

This Pool represents cash and short-term investments. The State Treasurer invests excess cash balances on behalf of certain earmarked funds of state agencies identified by State statute and local governments. Interest earnings are distributed based on average outstanding cash balances for local governments and the state agencies where interest is allowed to be earned. All other interest earnings are transferred to the State General Fund. Currently, there are no limitations or restrictions on withdrawals on the investment in the Pool.

Credit Risk and Interest Rate Risk

The New Mexico State Treasurer pools are not U.S. Securities and Exchange registered. The State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10(I) though 6-10-10(O) and Sections 6-10-10(1)(A) and (E), NMSA 1978. At the end of each month, all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and length of time the funds amounts were invested. The end of the fiscal year credit risk rating and the weighted-average maturity (interest risk in number of days) is available on the State Treasurer's Website at www.nmsto.gov. Participation in the local government pool is voluntary.

Note 4 – Receivables

The Authority receives contributions monthly from employers who remit the employer and the employee portions. Contributions are statutory, based on the gross payroll reported by each employer for the month. Because gross payroll can change in any month, the Authority does not bill the participating employers but depends on monthly reporting and contributions remitted from employers. Accounts receivable also includes amounts to be received for Medicare Part D. There is no allowance for uncollectible receivables recorded as of June 30, 2019, as management deems any uncollectible amounts as immaterial.

As of June 30, 2019, the buy-in receivable includes notes receivable from Sierra County. The remaining balance on the note is $847,437. The obligation is receivable monthly over 13 years at a 7.5% fixed interest rate, maturing in June 2030. The current and long-term portions on the Sierra County note are $51,557 and $795,880, respectively. The City of Rio Rancho buy-in receivable was paid off in January 2019.

Revenue is transferred from the New Mexico Taxation and Revenue Department in accordance with NMSA 1978, Section 7-1-6.30 and NMSA 1978, Section 7-1-6.56. Monies are transferred on the month following the month due, and any amount due to the Authority that is not received by June 30 is accrued. Transfers from the New Mexico Taxation and Revenue Suspense Fund are based on an additional amount of $3.0 million per year with a 12% per annum increase of carryforward contribution amounts beginning July 1, 2002. However, in 2016 legislation altered the law governing this appropriation and removed the $3.0 million per year and froze the 12% annual increases until July 1, 2019. For the year ended June 30, 2019, revenues totaled $26,256,221. As of June 30, 2019, amounts due from other governments consist of balances due from the Taxation and Revenue Department (Business Unit: 33300; Fund: 83200) totaling $2,188,018 and accrued reversions receivable from the Benefits Fund totaling $165,785.

Note 5 – Investments and Fair Value Measurements

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

The Authority's Board of Directors has adopted an investment allocation policy. The Board is authorized to review and amend the investment allocation policy from time to time to meet the Authority's long-term objective. Investments are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status.

Note 5 – Investments and Fair Value Measurements (continued)

The following schedule summarizes the current investment allocation policy as of June 30, 2019:

Asset Class	Target Allocation
U.S. core fixed income	20%
Credit and structured finance	10%
U.S. equity - large cap	20%
Non U.S. - developed equities	12%
Non U.S. - emerging markets	15%
Private equity	10%
Real estate	5%
Real return	5%
U.S. equity - small/mid cap	3%
	100%

The Authority accounts for its investments in accordance with GASB No. 72, *Fair Value Measurement and Application*, which establishes fair value standards for certain investments held by governmental entities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investments are measured at fair value on a recurring basis which is based upon the Authority's share of NMSIC's pooled investments. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

Note 5 – Investments and Fair Value Measurements (continued)

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used as of June 30, 2019.

The Authority invests in a number of investment pools offered by the NMSIC. Each pool is comprised of units of participation of unlimited quantity. The pools are held in NMSIC's name. No unit in the pool has priority or preference over any other unit and represents an equal beneficial interest in the pool. The valuation the Authority's units in the investment pool is provided by the NMSIC on a monthly basis and represents the fair market value as of that date. Therefore, management has determined that all the investments are measured at Net Asset Value as a practical expedient (NAV practical expedient).

The table below summarizes the investments valued at NAV practical expedient and other pertinent liquidity information:

Investments Measured at NAV Practical Expedient	Fair Value June 30, 2019	Redemption Frequency	Redemption Notice Period
U.S. Large Cap Index Pool	$ 99,580,511	Daily	5 business days
Non U.S. Emerging Markets Index Pool	69,359,864	Daily	5 business days
Non U.S. Developed Markets Index Pool	96,262,803	Daily	5 business days
Private Equity Pool	81,385,706	Twice per year	9 months
Credit and Structured Finance Pool	105,998,505	4 times per year	3 months
Real Estate Pool	73,120,655	Twice per year	6 months
Small/Mid Cap Active Pool	12,925,911	Daily	5 business days
Real Asset Pool	34,679,544	Twice per year	6 months
Core Bond Pool	149,338,190	Daily	5 business days
	$ 722,651,689		

The U.S. Large Cap Index Pool is a passively managed portfolio and seeks to invest in U.S. equities with large market capitalizations. Daily redemptions are allowed provided the Authority gives a Notice of Intent to redeem the units five business days in advance unless $5 million or more is requested, then 30 days' notice is required.

The Non-U.S. Emerging Markets Index Pool is a passively managed portfolio benchmarked against the MSCI Emerging Market Free Index and invests in emerging market equities around the globe. Daily redemptions are allowed provided the Authority gives a Notice of Intent to redeem the units five business days in advance unless $5 million or more is requested, then 30 days' notice is required.

The Non-U.S. Developed Markets Active Pool is actively managed by four investment managers (each focused on large-cap value, large-cap core, large-cap growth, and small-cap value). The pool is benchmarked against the MSCI EAFE Index. Daily redemptions are allowed provided the Authority gives a Notice of Intent to redeem the units five business days in advance unless $5 million or more is requested, then 30 days' notice is required.

Note 5 – Investments and Fair Value Measurements (continued)

The Credit & Structured Finance Pool invests in various classes of fixed income securities oriented toward credit. The role of this pool is to provide growth of capital and income generation. The pool is managed by investment managers outside the NMSIC. NMRHCA is allowed to redeem this investment four times per year but not less than one month since the last redemption. Notice of Intent to redeem is required three months in advance. There is a 12-month lockup period on this investment class.

The Real Estate Pool contains open- and closed-end comingled real estate funds, dominated by stable, core real estate properties. The pool's objective is to match the rate of return on the NCREIF-ODCE index, plus a small premium from active management. The pool seeks to provide modest growth of capital, income generation, and provide diversification from equities and fixed income investment pools. Redemption notices are required six months in advance and are only allowed twice per year. The redemptions cannot occur within three months of each other. There is an 18-month lockup period on this investment class.

The Private Equity Pool contains more than 100 private equity funds diversified across the different sectors of private equity and seeks to provide a higher rate of return than the Venture Economics All Private Equity Index. The pool's main goal is to provide growth of capital. There is a 24-month lockup period on this investment class with 9-month Notice of Intent to redeem. Redemptions are allowed twice a year and no less than three months apart.

The U.S. Small/Mid Cap Index Pool is passively managed in comparison to the Russell 2000 Index portfolio. Daily redemptions are allowed provided the Authority gives a Notice of Intent to redeem the units five business days in advance unless $5 million or more is requested, then 30 days' notice is required.

The Real Asset Pool is managed across 34 funds with 18 managers. The pool seeks to provide a higher rate of return than the Real Assets CPI + 300 bps benchmark. Redemption notices are required six months in advance and are only allowed twice per year. The redemptions cannot occur within three months of each other. There is an 18-month lockup period on this investment class.

The Core Bond Pool seeks to exceed returns of the Barclays US Aggregate Bond Index through active external management using complementary core-plus strategies. Redemptions are permitted up to 5 days prior to month-end. Redemptions larger than $5 million require 30 days' notice.

The investment and administrative fees are deducted from the ending investment account balance on a monthly basis in accordance with the joint powers agreement. For the year ended June 30, 2019, the annual money-weighted rate of return on the Authority's investments, net of related investment expenses, was 5.80%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 6 – Capital Assets

A summary of capital asset balances and activity during the year ended June 30, 2019 is as follows:

Description	Balance at June 30, 2018	Additions	Deletions	Transfers	Balance at June 30, 2019
Furniture and equipment	$ 203,408	$ 5,200	$ -	$ -	$ 208,608
Information technology	2,031,450	-	-	-	2,031,450
	2,234,858	5,200	-	-	2,240,058
Accumulated depreciation	(746,288)	(263,529)	-	-	(1,009,817)
	$ 1,488,570	$ (258,329)	$ -	$ -	$ 1,230,241

Depreciation expense totaled $263,529 for the year ended June 30, 2019, of which $9,705 of depreciation was allocated to the Administrative Fund while $253,824 was allocated to the Benefits Fund.

Note 7 – Accrued Vacation and Sick Leave

Accumulated vacation, compensating time, and sick leave earned and not taken are recorded as an expense in the current year. Vacation earned and not taken is cumulative; however, upon termination, vacation is limited to 240 hours (30 days). Sick pay accumulated in excess of 600 hours, not to exceed 120 hours, is payable semiannually to qualified employees at a rate equal to 50% of the employee's hourly wage.

Balance June 30, 2018	Leave Accrued	Leave Used	Balance June 30, 2019	Amount Due Within One Year
$ 108,847	$ 69,431	$ (54,374)	$ 123,904	$ 88,813

Note 8 – Reserve for Losses and Loss Adjustments

The amount shown on the accompanying statement of fiduciary net position as reserve for losses and loss adjustment expenses is an actuarially calculated estimate of the ultimate costs of settling all incurred, but not reported claims as of June 30, 2019, while the amount shown on the accompanying statement of changes in fiduciary net position as losses and loss adjustment expenses represents the change in this estimate during the year ended June 30, 2019. These reserves represent, in management's opinion, the best estimate of the ultimate cost of settling all reported and unreported claims. A range of variability exists around the best estimate of the ultimate cost of settling all unpaid claims. Accordingly, the amount reflected in the accompanying financial statements may not ultimately be the actual cost of settling all unpaid claims, and the difference may be significant.

Note 8 – Reserve for Losses and Loss Adjustments (continued)

As of June 30, 2019, the estimated claims liability for claims incurred but not reported (IBNR) totaled $21,653,000. This estimated liability represents liability for outstanding claims for services rendered prior to July 1, 2019 and paid after June 30, 2019.

Note 9 – Net OPEB Liability

The components of the net OPEB liability of the Authority are as follows:

	June 30, 2019
Total OPEB liability	$ 3,999,137,737
Plan fiduciary net position	756,748,991
Net OPEB liability	$ 3,242,388,746
Plan fiduciary net position as a percentage of the total OPEB liability ("funded status")	18.92%

The total OPEB liability was determined by an actuarial valuation as of June 30, 2019 using the following actuarial assumptions:

Valuation date	June 30, 2019
Actuarial cost method	Entry age normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.50% for ERB; 2.50% for PERA
Projected payroll increases	3.25% to 13.50% based on years of service, including inflation
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Healthcare cost trend rate	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 years for Medicare medical plan costs

Note 9 – Net OPEB Liability (continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. The target allocation and projected arithmetic real rates of return for each major asset class, net of assumed inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions are summarized as follows:

Asset Class	Long-Term Rate of Return
U.S. core fixed income	2.1%
U.S. equity - large cap	7.1
Non U.S. - emerging markets	10.2
Non U.S. - developed equities	7.8
Private equity	11.8
Credit and structured finance	5.3
Real estate	4.9
Absolute return	4.1
U.S. equity - small/mid cap	7.1

The discount rate used to measure the total OPEB liability is 4.16% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2039. The 7.25% discount rate, which includes the assumed inflation rate of 2.50%, was used to calculate the net OPEB liability through 2039. The index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher was used beyond 2039, resulting in a blended discount rate of 4.16%.

The following presents the net OPEB liability, calculated using the discount rate of 4.16%, as well as what the Fund's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

1% Decrease (3.16%)	Current Discount (4.16%)	1% Increase (5.16%)
$ 3,966,222,871	$ 3,242,388,746	$ 2,673,387,007

Note 9 – Net OPEB Liability (continued)

The following presents the net OPEB liability calculated using the current trend rates as well as what Fund's net OPEB liability would be if it were calculated using a trend rate that is 1% point lower or 1% point higher than the current rate:

1% Decrease	Current Trend	1% Increase
$ 2,699,497,654	$ 3,242,388,746	$ 3,677,049,973

Note 10 – Pension Plan (Public Employees Retirement Plan)

Plan Description – Substantially all of the Authority's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). 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 or on PERA's website at www.pera.state.nm.us.

Funding Policy – Plan members are required to contribute 8.92% of their gross pay. The Authority is required to contribute 16.99% of gross covered salary. The contribution requirements of plan members and the Authority are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature. The Authority's contributions to PERA for the year ended June 30, 2019 totaled $211,666, equal to the amount of the required contribution for the year.

Note 11 – Post–Employment Benefits (State Retiree Health Care Plan)

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

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

Note 11 – Post–Employment Benefits (State Retiree Health Care Plan) (continued)

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

Funding Policy – The Act authorizes the Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service-based subsidy rate schedule for the medical, plus basic life plan, plus an additional participation fee of five dollars ($5) if the eligible participant retired prior to the employer's 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 Authority or viewed on their website at www.nmrhca.state.nm.us.

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

The Act is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced plan during the fiscal year ended June 30, 2019, the statute required each participating employer to contribute 2% of each participating employee's annual salary; each participating employee was required to contribute 1% of their salary. In addition, pursuant to Section 10-7C-5(G) NMSA 1978, at the first session of the Legislature following July 1, 2014, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Act.

The Authority's contributions to the plan for the year ended June 30, 2019 totaled $25,885, which equals the required contributions for the year.

Note 12 – Joint Powers Agreements

The Authority has entered into two joint powers agreements:

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

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

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

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

Note 13 – Optional Coverages

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

Note 14 – Legally Required Reserves

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

Note 15 – Commitments and Contingencies

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

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

In June 2017, the Authority entered into several service contracts with healthcare providers. The total amount of these contracts approximates $296,400,000 for costs expected for fiscal year 2019.

The Authority's main office leases its office space at 4308 Carlisle NE in Albuquerque for a ten-year period ending September 2020. The Authority also leases office space under a three-year lease extension inside the PERA (a related party) building located at 33 Plaza La Prensa in Santa Fe. The PERA building lease expires in August 2020. The Authority has a four-year equipment lease for one mailing machine through June 30, 2021 and a copier lease for two machines through June 30, 2020. All leases are operating leases. Lease expenses totaled $167,803 for the year ended June 30, 2019.

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

2020	$ 159,285
2021	71,941
2022	1,460
	$ 232,686

Note 16 – Operating Transfers

The following operating transfers occurred between the Authority's functional activities during the year ended June 30, 2019:

	Benefits 38100 From (To)	Administration 38000 From (To)
Administration appropriation	$ (3,047,600)	$ 3,047,600
Reversion of administration	165,785	(165,785)
	$ (2,881,815)	$ 2,881,815

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

Note 17 – Appropriations, Budget Adjustments, and Reversions

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

The Authority recorded a $3,047,600 appropriation from the Benefits Fund to the Administration Fund for fiscal year 2019 (NM-HB2, Section 3). As of June 30, 2019, reversions totaling $165,785 are accrued from the Benefits Fund.

Required Supplementary Information

New Mexico Retiree Health Care Authority
Schedule of Revenues and Expenses – Budget and Actual: Administrative Fund
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Investment income	$ -	$ -	$ 21,922	$ (21,922)
Total revenues	-	-	21,922	(21,922)
EXPENSES				
Personal services/employee benefits	1,937,500	1,937,500	1,847,630	89,870
Contractual services	566,300	566,300	511,124	55,176
Other	543,800	543,800	523,061	20,739
Total expenses	3,047,600	3,047,600	2,881,815	165,785
TRANSFERS				
Transfers in - Intra agency from SHARE 38100	3,047,600	3,047,600	3,047,600	-
Transfers out - Intra agency to SHARE 38100 - reversion	-	-	(165,785)	165,785
Net transfers	$ 3,047,600	$ 3,047,600	$ 2,881,815	$ 165,785
NET CHANGE (budgetary basis)			$ 21,922	
Depreciation			(9,705)	
NET CHANGE (GAAP basis)			$ 12,217	

New Mexico Retiree Health Care Authority
Schedule of Revenues and Expenses – Budget and Actual: Benefits Fund
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Retiree contributions	$150,517,618	$150,517,618	$ 172,270,192	$ (21,752,574)
Employer/employee contributions	128,325,056	128,325,056	132,774,553	(4,449,497)
Pension taxes	29,406,944	29,406,944	26,256,221	3,150,723
Investment income	60,000	60,000	906,179	(846,179)
Miscellaneous revenue	27,230,682	27,230,682	26,625,670	605,012
Total revenues	335,540,300	335,540,300	358,832,815	(23,292,515)
EXPENSES				
Personal services/employee benefits	-	-	-	-
Contractual services	332,450,700	332,450,700	296,459,494	35,991,206
Other	42,000	42,000	39,555	2,445
Total expenses	332,492,700	332,492,700	296,499,049	35,993,651
TRANSFERS				
Transfers in - Intra agency from SHARE 38000 - reversion	-	-	165,785	165,785
Transfers out - Intra agency to SHARE 38000	(3,047,600)	(3,047,600)	(3,047,600)	-
Total transfers	$ (3,047,600)	$ (3,047,600)	$ (2,881,815)	$ 165,785
NET CHANGE (budgetary basis)			$ 59,451,951	
Gain on investments excluding interest			40,735,665	
Employer buy-ins revenue and interest portion			67,291	
Change in IBNR liability			42,000	
Refunds - retirees			(962,603)	
Depreciation			(253,824)	
NET CHANGE (GAAP basis)			$ 99,080,480	

New Mexico Retiree Health Care Authority
Schedule of Changes in Net OPEB Liability
Year Ended June 30, 2019

	Year Ended June 30,		
	2019	2018	2017
TOTAL OPEB LIABILITY			
Service cost	$ 156,597,766	$ 188,372,284	$ 265,229,268
Interest	208,666,100	199,583,585	187,563,383
Differences between expected and actual experience	(754,197,414)	(145,524,098)	(210,435,519)
Changes in assumptions	(535,456,730)	(225,363,066)	(958,756,001)
Change of benefit terms	14,004,267	-	-
Claims and premiums	(295,383,494)	(320,403,577)	(294,107,402)
Retiree's contributions offset to claims and premiums	172,270,192	167,949,226	153,464,136
Medicate Part D and rebates offset to claims and premiums	26,625,941	30,255,096	26,944,632
NET CHANGE IN TOTAL OPEB LIABILITY	(1,006,873,372)	(105,130,550)	(830,097,503)
TOTAL OPEB LIABILITY - BEGINNING	5,006,011,109	5,111,141,659	5,941,239,162
TOTAL OPEB LIABILITY - ENDING (a)	3,999,137,737	5,006,011,109	5,111,141,659
PLAN FIDUCIARY NET POSITION			
Contributions - employee and retiree	216,528,376	210,650,057	196,393,352
Contributions - employer	88,516,368	85,401,662	85,858,432
Net investment income	41,663,496	49,757,591	67,759,695
Other revenue	52,949,453	57,529,941	55,556,164
Claims and premiums paid	(296,417,494)	(321,479,577)	(294,393,452)
Administrative expenses	(4,147,502)	(3,672,021)	(4,179,901)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	99,092,697	78,187,653	106,994,290
PLAN FIDUCIARY NET POSITION - BEGINNING	657,656,294	579,468,641	472,474,351
PLAN FIDUCIARY NET POSITION - ENDING (b)	756,748,991	657,656,294	579,468,641
NET OPEB LIABILITY (a) - (b)	$ 3,242,388,746	$ 4,348,354,815	$ 4,531,673,018
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL OPEB LIABILITY	18.92%	13.14%	11.34%
COVERED PAYROLL	$ 4,172,928,635	$ 4,290,616,760	$ 4,165,647,340
NET OPEB LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	77.70%	101.35%	108.79%

NOTE:

2019: Changes in assumptions and differences between expected and actual experience include adjustments resulting from an increase in the discount rate from 4.08% to 4.16%, decrease in expected participation rates for future retirees from 75% to 60%, and a decrease in the spousal coverage rate for future male retirees from 55% to 35%.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years with available information.

New Mexico Retiree Health Care Authority
Schedule of Employer Contributions
Year Ended June 30, 2019

Year Ended June 30,	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contributions Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	$ 85,858,432	$ 85,858,432	$ -	$ 4,165,647,340	2.06%
2018	$ 85,401,662	$ 85,401,662	$ -	$ 4,290,616,760	1.99%
2019	$ 88,516,369	$ 88,516,369	$ -	$ 4,172,928,635	2.12%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years with available information.

Actuarial methods and assumptions used:

Actuarial cost method	Entry age, level percent of pay, calculate
Amortization method	Level percent of payroll
Remaining amortization period	30 years open (non-decreasing)
Asset valuation method	Market value of assets
Actuarial assumptions	
Investment rate of return	7.25%
Inflation rate	2.50%
Salary increases	3.25%-13.50%

New Mexico Retiree Health Care Authority
Schedule of Investment Returns
Year Ended June 30, 2019

Year Ended June 30,	Annual Money - Weighted Rate Of Return
2017	13.98%
2018	9.06%
2019	6.53%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years with available information.

Supplementary Information

New Mexico Retiree Health Care Authority
Combining Schedule of Fiduciary Net Position by Functional Activity
June 30, 2019

	Benefits 38100	Administration 38000	Eliminations	Total
ASSETS				
Interest in State General Fund Investment Pool	$ 40,833,580	$ 288,103	$ -	$ 41,121,683
Receivables				
Contributions - employers, employees, and retirees	12,656,585	-	-	12,656,585
Due from other governments	2,188,018	-	-	2,188,018
Due from charter schools	283,049	-	-	283,049
Accounts receivable - rebates and Medicare Part D	2,260,695	-	-	2,260,695
Buy-in obligations receivable	847,437	-	-	847,437
Due from other funds	165,785	-	(165,785)	-
Total receivables	18,401,569	-	(165,785)	18,235,784
Investments with New Mexico State Investment Council				
U.S. Large Cap Index Pool	99,316,565	263,946	-	99,580,511
Non-U.S. Emerging Markets Index Pool	69,176,020	183,844	-	69,359,864
Non U.S. Developed Markets Index Pool	96,007,651	255,152	-	96,262,803
Private Equity Pool	81,169,987	215,719	-	81,385,706
Credit and Structured Finance Pool	105,717,547	280,958	-	105,998,505
Real Estate Pool	72,926,843	193,812	-	73,120,655
Small/Mid Cap Active Pool	12,891,650	34,261	-	12,925,911
Real Asset Pool	34,587,623	91,921	-	34,679,544
Core Bond Pool	148,942,357	395,833	-	149,338,190
Total investments	720,736,243	1,915,446	-	722,651,689
Capital assets, net of accumulated depreciation	1,203,844	26,397	-	1,230,241
Total assets	781,175,236	2,229,946	(165,785)	783,239,397
LIABILITIES				
Accounts payable	4,138,215	89,144	-	4,227,359
Payroll liabilities	-	65,568	-	65,568
Compensated absences	-	123,904	-	123,904
Reserve for loss and loss adjustment expense	21,653,000	-	-	21,653,000
Retiree premiums received in advance	420,575	-	-	420,575
Due to other funds	-	165,785	(165,785)	-
Total liabilities	26,211,790	444,401	(165,785)	26,490,406
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	$ 754,963,446	$ 1,785,545	$ -	$ 756,748,991

New Mexico Retiree Health Care Authority
Combining Schedule of Changes in Fiduciary Net Position by Functional Activity
Year Ended June 30, 2019

	Benefits 38100	Administration 38000	Eliminations	Total
ADDITIONS				
Contributions				
Retiree	$ 172,270,192	$ -	$ -	$ 172,270,192
Employer/employee	132,774,552	-	-	132,774,552
Employer buy-ins interest portion	67,291	-	-	67,291
Total contributions	305,112,035	-	-	305,112,035
Investment income				
Net appreciation in fair value of investments	40,735,665	-	-	40,735,665
Interest	905,909	21,922	-	927,831
Total investment income	41,641,574	21,922	-	41,663,496
Other				
Taxation administration fund revenue	26,256,221	-	-	26,256,221
Medicare Part D subrogation and rebates	26,625,941	-	-	26,625,941
Total other	52,882,162	-	-	52,882,162
Total additions	399,635,771	21,922	-	399,657,693
DEDUCTIONS				
Premiums and claims	296,459,494	-	-	296,459,494
General and administrative expenses	39,555	2,881,815	-	2,921,370
Losses and loss adjustment expenses	(42,000)	-	-	(42,000)
Refunds to retirees	962,603	-	-	962,603
Depreciation	253,824	9,705	-	263,529
Total deductions	297,673,476	2,891,520	-	300,564,996
Transfers in (out), net	(2,881,815)	2,881,815	-	-
NET CHANGE	99,080,480	12,217	-	99,092,697
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS				
Beginning of year	656,048,751	1,607,543	-	657,656,294
End of year	$ 755,129,231	$ 1,619,760	$ -	$ 756,748,991

New Mexico Retiree Health Care Authority
Schedule of Investment Fees
Year Ended June 30, 2019

Investment Class	Value of Investment	Management Fees
Large Cap Index	$ 99,580,511	$ 8,964
Non US Dev Index	96,262,803	32,953
Non US Emg Index	69,359,864	83,748
Small Mid Cap	12,925,911	74,062
Credit and Structure	105,998,505	-
Core Bond	149,338,190	104,266
Private Equity	81,385,706	-
Real Estate	73,120,655	41,052
Real Asset	34,679,544	-
	$ 722,651,689	$ 345,045

Other Information

SCHEDULE 4

New Mexico Retiree Health Care Authority

Combining Schedule of General and Administrative Expenses by Functional Activity

Year Ended June 30, 2019

	Benefits 38100	Administration 38000	Total
GENERAL AND ADMINISTRATIVE EXPENSES			
Professional services	$ -	$ 1,313,056	$ 1,313,056
Employee benefits	-	534,574	534,574
Operating costs	39,555	451,075	490,630
Contractual services	-	511,124	511,124
Repairs and maintenance	-	6,778	6,778
Supplies	-	38,429	38,429
In-state travel	-	20,027	20,027
Out-of-state travel	-	6,752	6,752
	$ 39,555	$ 2,881,815	$ 2,921,370

New Mexico Retiree Health Care Authority
Combining Schedule of State General Fund Investment Pool
June 30, 2018

	Benefits 38100	Administration 38000	Total
INVESTMENT BALANCES PER DFA			
New Mexico State Treasurer			
Share Fund 34300-38100	$ 40,833,580	$ -	$ 40,833,580
Share Fund 34300-38000	-	288,103	288,103
	$ 40,833,580	$ 288,103	$ 41,121,683

SCHEDULE 6

New Mexico Retiree Health Care Authority
Schedule of Appropriations
Year Ended June 30, 2019

Description	Authority	Appropriation Period	Share Fund	Total Appropriation	Prior Year Expenditures	Current Year Expenditures	Current Year Reversion Amount
Program support for Administrative Fund	Laws 2018 House Bill 2, Chapter 73 Section 4	2019	38000	$ 3,047,600	$ -	$ 2,881,815	$ 165,785

According to 10-7C-16 NMSA 1978, funds to administer the New Mexico Retiree Health Care Act are to be made by an operating budget adopted by the Board, adopted by the State Budget Division, and pursuant to appropriation by the Legislature. The appropriated amounts to SHARE Fund 38000 are recorded as transfers between Benefit Fund (38100) and the Administrative Fund (38000). See Note 17. Unexpended amounts under the special appropriation are not recognized until all eligibility requirements have been fulfilled under the appropriation including the expenditure of allowable amounts.

MOSSADAMS

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
New Mexico Retiree Health Care Authority
Brian S. Colón, Esq.
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of fiduciary net position and changes in fiduciary net position of New Mexico Retiree Health Care Authority (the Authority), a component unit of the State of New Mexico, as of and for the year ended June 30, 2019, and the related notes to the financial statements,, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 22, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2019-001. The Authority's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Moss Adams LLP

Albuquerque, New Mexico
November 22, 2019

New Mexico Retiree Health Care Authority
Schedule of Findings and Responses
Year Ended June 30, 2019

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted?	No

FINANCIAL STATEMENT FINDINGS

2019-001 Funded Status (Previously reported as 2018-001) (Other Matter)

Condition – The New Mexico Retiree Health Care Fund's (the Plan's) funded status was approximately 19% as of June 30, 2019 and historical contribution rates have been consistently below the actuarially determined contribution rates. While the Plan's low funded status does not represent an internal control deficiency or risk of material misstatement to the financial statements, the long-term sustainability of the Plan is jeopardized.

Criteria – Management of the Authority has a fiduciary responsibility over the long-term sustainability of the Plan.

Effect – The Plan's funded status directly impacts the net OPEB liability reported by the Authority and the allocated liabilities recorded by each of the participating employers.

Cause – The Plan was not adequately funded at its inception, and the Authority has not made sufficient changes to the its funding policies to ensure long-term sustainability.

Recommendation – We recommend that management and those charged with governance of the Plan work with legislators and other funding sources to develop and adopt a funding policy to improve the funded status and position the Plan for long-term financial sustainability. Management should work with the Authority's actuary or a consultant to consider alternatives for plan provision changes or enhancing contribution levels to develop a long-term sustainable funding solution.

Management's Response – In November 2018, the Board of Directors adopted a rule change limiting the growth in future liabilities by implementing a minimum age requirement and increasing the years of service needed to receive the maximum subsidy provided to retirees. NMRHCA will also pursue an increase in employee and employer contributions from 3 to 3.5 percent of payroll during the 2020 legislative session.

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC – OTHER

None

New Mexico Retiree Health Care Authority

Schedule of Prior Year Findings

Year Ended June 30, 2019

RESOLUTION OF PRIOR YEAR FINDINGS

2018-001 - Repeated

An exit conference was held on November 22, 2019 in a closed session, with the following in attendance:

New Mexico Retiree Health Care Authority Personnel and Board Members:

Tom Sullivan, President (by phone)
Joe Montano, Vice President
Jan Goodwin, Board Member
Terry Linton, Board Member
Pamela Moon, Board Member
David Archuleta, Executive Director
Neil Kueffer, Deputy Director
Peggy Martinez, Chief Financial Officer
Jenny Haikin, Financial Accountant/Auditor
Greg Archuleta, Director of Communications and Member Management

Moss Adams LLP:

Kory Hoggan, CPA, Partner, Engagement Leader
Aaron Hamilton, CPA, Assurance Senior Manager

The Authority is responsible for the contents of the financial statements. Moss Adams LLP assisted with the preparation of the financial statements.