

**NEW MEXICO PUBLIC SCHOOLS  
INSURANCE AUTHORITY**

**FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

**(With Independent Auditors' Reports Thereon)**



*Barraclough & Associates, P.C.*  
Certified Public Accountants & Consultants

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New Mexico Public Schools Insurance Authority

**OFFICIAL ROSTER**

June 30, 2008

**BOARD OF DIRECTORS**

Lowell Irby, President	New Mexico School Boards Association
Jose Cano, Vice-President	New Mexico School Administrators
Jackie Golombowski, Secretary	National Education Association
Steve Black	National Education Association
Priscilla Riggs	Governor's Appointee
Dan Flores	New Mexico Superintendents Association
Esther Marquez	Governor's Appointee
Millie Pogna	Public Education Department
Gene McCracken	AFT New Mexico
Annadelle Sanchez	Governor's Appointee
Kathy Knoll	Educational Institution at Large

**OFFICIALS OF THE NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY**

Sammy J. Quintana	Executive Director
Christy Edwards	Deputy Director
Robert P. Romero	Comptroller

"22 Years of Excellence"



*Barraclough & Associates, P.C.*  
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**Principals**  
John E. Barraclough, Jr., C.P.A.  
Annette V. Hayden, C.P.A.  
Sandra M. Shell, C.P.A./A.B.V., C.V.A.  
Joseph A. Sisneros, C.P.A.

**Managers**  
Douglas W. Fraser, C.P.A.  
Laura Parker, C.P.A.  
Rick W. Reynolds, C.P.A.  
Katherine M. Rowe, C.P.A.  
Rhonda G. Williams, C.P.A.

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mr. Hector Balderas, New Mexico State Auditor  
and  
Board of Directors  
New Mexico Public Schools Insurance Authority

We have audited the accompanying financial statements of the business-type activities of the New Mexico Public Schools Insurance Authority, as of and for the years ended June 30, 2008 and 2007, which collectively comprise New Mexico Public Schools Insurance Authority basic financial statements, as listed in the table of contents. We also have audited the budgetary comparison information presented as supplementary information for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the New Mexico Public Schools Insurance Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note A, the financial statements of the New Mexico Public Schools Insurance Authority are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the State of New Mexico that is attributable to the transactions of the New Mexico Public Schools Insurance Authority. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows, where applicable for the years then ended in conformity with accounting principles generally accepted in the United States of America.

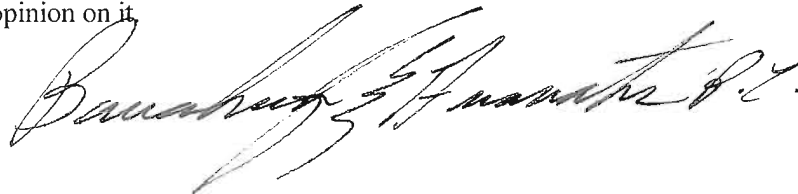
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the New Mexico Public Schools Insurance Authority as of June 30, 2008 and 2007, and the respective changes in financial position, and cash flows for the years then ended and its respective budgetary comparison for the year ended, June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2008 on our consideration of the New Mexico Public Schools Insurance Authority internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 are not a required part of the basic financial statements of the New Mexico Public Schools Insurance Authority, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the basic financial statements and the budget comparison presented as Schedule 1 in the supplemental information. The supplementary information included in Schedules 2 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information in those schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information included in Schedule 6 is also presented for purposes of additional analysis and is not a required part of the financial statements of the New Mexico Public Schools Insurance Authority. This information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

November 10, 2008

A handwritten signature in black ink, appearing to read "Barraclough & Associates, P.C.", is written over a faint, larger version of the same text.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

Required Supplementary Information

June 30, 2008

This section represents a discussion and analysis of the financial performance of the New Mexico Public Schools Insurance Authority (NMPSIA) for the year ended June 30, 2008, compared to the year ended June 30, 2007. Please read it in conjunction with the basic financial statements, which follow this section.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

NMPSIA's basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental entities that act as a business type operation such as an insurance pool.

**Balance Sheet** – This statement presents information reflecting NMPSIA's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The balance sheet is categorized as to current and non-current assets and liabilities. For purposes of the basic financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectable or becoming due within twelve months of the statement date. NMPSIA's long-term investment portfolio strategy is to hold investments which exceed one year in maturity or equity holdings with long-term gains in mind. NMPSIA's long-term investment portfolio has decreased by \$3,202,215.

**Statement of Revenues, Expenses, and Changes in Net Assets** – This statement reflects NMPSIA's operating revenues and expenses, as well as non-operating revenues during the operating year. The major source of operating revenues is premium income, with major sources of operating expenses being claims expense both for medical and risk claims, premiums paid for vision, life, disability, property/liability and workers' compensation excess coverage. The change in net assets for an enterprise fund is similar to net profit or loss for an insurance company. See page 10 of the financial statements.

**Statement of Cash Flows** – The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating, capital and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year. See pages 11 and 12 of the financial statements.

**Statement of Budgetary Basis Revenues and Expenditures – Budgetary and Actual** reflects NMPSIA's budgetary basis of accounting and NMPSIA was in compliance with its budget. See page 27 of the financial statements.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data in the financial statements. The notes to the financial statements can be found on pages 13 through 26 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information including the Schedule of Cash and Cash Equivalents, Schedule of Pledged Collateral and financial information on the three functional activities of NMPSIA. Unaudited ten-year development information is also presented.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED) (Continued)**

Required Supplementary Information

June 30, 2008

NMPSIA's total assets for the year ended June 30, 2008 decreased by approximately \$10.5 million. The majority of this decrease can be attributed to a combination of the use of cash reserves in the Employee Benefits Program of \$19.7 million and increases in cash reserves in the Risk Program of \$8.0 million.

Long-term investments showed a loss of approximately \$3.2 million compared to gains of \$9.7 million in fiscal year 2007. During fiscal year 2008 NMPSIA's long-term investment portfolio was managed by the State of New Mexico Investment Council and are invested in their Core Bond, Large Cap Index, Non US Developed markets, Emerging Markets and Med/Small Cap funds. The long-term investments continue to depreciate into fiscal year 2009 with additional losses of almost \$7 million incurred through October 31, 2008. The Benefits Program's losses represents the largest share at \$4.2 million and the Risk Program with the balance of \$2.8 million. Forecasts indicate a lengthy recovery period for the financial markets which, in turn will greatly diminish NMPSIA's fund balance going into future fiscal years. NMPSIA's short term funds are invested in the State Treasurer's Local Government Investment Pool (LGIP). NMPSIA also has two Money Market accounts with the fiscal agent bank, one for the Employee Benefits Program and one for the Risk Program, in an attempt to provide more flexibility for daily cash requirements. These accounts were also expected to provide an alternative to the State Treasurer's LGIP accounts with rates of return comparable to those provided by the LGIP. The flexibility to meet daily cash requirements continues to be the most important advantage of these Money Market accounts.

Total liabilities increased by approximately \$1.2 million in the current year. This modest increase was largely due to a decrease in claims reserve for property, liability and workers' compensation, and increases in Incurred But Not Reported reserves for the employee benefits program and an increase in medical claims payable as of June 30, 2008. The increase in fiscal year 2008 premium revenue was primarily a result of an increase in major medical premiums of \$10 million. Originally scheduled for an 11% increase on October 1, 2007, major medical premium increases were deferred until February 1, 2008 at a rate of 8.75%.

In fiscal year 2008 premium expenses increased by almost 6.4% or, \$1.2 million, as compared to fiscal year 2007, for workers' compensation, property and liability excess insurance coverage. The majority of the increase was due to the increase in property and liability excess insurance premiums assessed by the insurance carriers in an attempt to recoup losses for previous periods and the anticipation of continued large losses. However, increases in property values for school districts statewide also contributed with property excess insurance premiums accounting for almost \$900,000 of the total increase.

General administrative and servicing expenses accounted for less than 6.9% of the NMPSIA's total expenses in fiscal year 2008 and as compared to 7.1% for fiscal year 2007.

NMPSIA did not receive any General Fund Appropriation in fiscal year 2008 or 2007.

NMPSIA had no capital asset addition during 2008, and \$12,686 of capital asset additions during 2007. NMPSIA did not issue any short term or long debt during 2008 or during 2007.

NMPSIA's budget is on a modified accrual basis of accounting. Depreciation expense is a GAAP expense but not for budgetary purposes. An original budget of \$321,515,700 was required. There were budget adjustment requests required for the year ended June 30, 2008 to increase the personnel salaries by \$36,000 and contractual services by \$5,000

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED) (Continued)**

Required Supplementary Information

June 30, 2008

The Employee Benefits Program began Fiscal Year 2008 with a healthy fund balance of \$34 million. The approved budget for the Employee Benefits Program intended an amount of \$7.3 million of fund balance be utilized to reduce the medical premium increases to an amount below 10%. As the new plan year date of October 1, 2007 grew nearer, the fund balance continued to improve and, as a result, the planned medical premium increase was deferred from October 1, 2007 to February 1, 2008. This deferred premium increase would result in the use of an additional \$2 to \$3 million in fund balance. As Fiscal Year 2008 grew to a close, a spike in medical claims payments caught the NMPSIA staff and contracted benefits consultant by surprise. Medical claims for the first nine months of Fiscal Year 2008 averaged \$18.6 million. From April 1<sup>st</sup> to June 30<sup>th</sup>, the average grew to \$23.2 million, a difference of \$4.6 per month. As a result of the deferment of the premium increase and the increase in claims expenses, a revenue deficit of \$17.5 million was incurred. In addition, the findings of the Fiscal Year 2008 Actuarial Report will require an increase to the Incurred But Not Reported (IBNR) reserves of \$2.2 million, resulting in a total revenue deficit of \$19.7 million and an ending fund balance of \$14.2 million. The Risk Program experienced a revenue surplus of almost \$4.0 million which can be attributed to higher premiums assessed in Fiscal Year 2008 in an attempt to restore the Risk Program Fund Balance to a positive amount. This actual revenue surplus and decreases to claims and Incurred But Not Reported reserves of \$4.1 million will result in an ending fund balance for the Risk Program of \$9.3 million.

During 2008 NMPSIA the methodology for accounting for the Risk Program's reserve for losses and loss adjustment expenses from an Estimated Outstanding Losses basis (undiscounted) to a discounted (present value) basis was continued. This method is an attempt to reflect the interest income earning power, which in 2007 computed at the rate of 3.5%, of the fund's cash reserves. The rate for the next fiscal year may be lower based on the rate of return on the cash reserves realized.

Since 2003, NMPSIA management of the medical and dental costs have focused on cost containment. These include minor cost-shifting to members via higher co pays, strong rebate arrangements under our prescription plan, and incentives for our member to take a Health Risk appraisal and access to disease management programs. Given the recent increase in medical claims activity and the likelihood that this trend will continue into future fiscal years, the cost shifting to the members may require more drastic plan changes.

Risk Program Property losses experienced by NMPSIA participants for flood and water damage will probably preclude substantial rate relief in NMPSIA's property insurance program. The uncertainty of catastrophic losses from "ACTS OF GOD" (e.g. hail, floods, snowstorms, wind, etc.), coupled with the fact that the softening of the property insurance market has not materialized for larger risks with known catastrophic exposures, means that NMPSIA will once again face excess property insurance rate increases. Because the world reinsurance market continues to operate with reduced capacity and with billions of dollars in prior year losses to recoup, NMPSIA expects to see increases in the 10% to 20% range in the immediate future. Furthermore, underwriting standards have become increasingly strict, and carriers are requiring detailed inspection reports, compliance with hazard mitigation recommendations, and recent, comprehensive building appraisals.



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED) (Continued)**

Required Supplementary Information

June 30, 2008

On the liability side of the Risk Program, sexual molestation settlements have become more expensive at the same time that the frequency of these cases has slightly diminished. The expected settlement costs arising from a newly established precedent involving punitive damages are troublesome going forward, without legislative relief. NMPSIA will continue its loss control efforts in this area and will seek the appropriate legislative changes in the upcoming session. Employment related civil rights claims continue to increase in cost. Similar to molestation cases, while frequency has lessened, the severity of the settlements have worsened. NMPSIA places great emphasis on training school district supervisory personnel. However, employee turnover makes this a challenging goal.

Based upon current trends, we anticipate no significant increase in the number of Worker's Compensation claims reported for the next fiscal year, but do anticipate an approximate 4% increase in overall costs. This is mainly due to an increase in medical costs resulting from inflation and an increase in indemnity benefits due to yearly State-mandated increases.

The anticipated increases in excess insurance coverage will be partially offset by improvements in the claims history for property, liability and workers' compensation payments. NMPSIA expects no increases in premiums assessed to its members for the next two fiscal years with short falls in premium revenue being covered by the use of fund balance which is expected to remain very healthy going into Fiscal Year 2009 and 2010.

New Mexico Public Schools Insurance Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED) (Continued)**

Required Supplementary Information

June 30, 2008

The following table summarizes the financial position of NMPSIA's operations as of and for the years ended June 30, 2008 and 2007.

	2008	2007	Increase (Decrease)
Cash and investments	\$ 59,003,000	\$ 66,587,692	\$ (7,584,692)
Other current assets	1,002,609	740,216	262,393
Total current assets	<u>60,005,609</u>	<u>67,327,908</u>	<u>(7,322,299)</u>
Investments-long term	33,924,684	37,126,899	(3,202,215)
Capital assets, net	472,144	502,578	(30,434)
Total non current assets	<u>34,396,828</u>	<u>37,629,477</u>	<u>(3,232,649)</u>
Total assets	<u>\$ 94,402,437</u>	<u>\$ 104,957,385</u>	<u>\$ (10,554,948)</u>
Reserve for losses	\$ 21,790,347	\$ 19,571,526	\$ 2,218,821
Other current liabilities	7,387,250	6,034,996	1,352,254
Total current liabilities	<u>29,177,597</u>	<u>25,606,522</u>	<u>3,571,075</u>
Total noncurrent liabilities-reserve for losses	<u>41,132,617</u>	<u>43,518,701</u>	<u>(2,386,084)</u>
Total liabilities	<u>70,310,214</u>	<u>69,125,223</u>	<u>1,184,991</u>
Net assets-invested in capital assets	472,144	502,578	(30,434)
Net assets-restricted for future claims	23,424,168	35,158,172	(11,734,004)
Net assets-unrestricted	195,911	171,412	24,499
Total net assets	<u>24,092,223</u>	<u>35,832,162</u>	<u>(11,739,939)</u>
Total liabilities and net assets	<u>\$ 94,402,437</u>	<u>\$ 104,957,385</u>	<u>\$ (10,554,948)</u>

New Mexico Public Schools Insurance Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED) (Continued)**

Required Supplementary Information

June 30, 2008

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Premium revenue and other	\$ 295,971,681	\$ 289,902,194	\$ 6,069,487
Claims loss and loss adjustments	256,578,465	234,261,935	22,316,530
Premium expense	30,525,844	29,538,703	987,141
Insurance services	19,768,309	19,118,695	649,614
General administrative and other expenses	<u>1,229,696</u>	<u>1,075,471</u>	<u>154,225</u>
Total operating expenses	<u>308,102,314</u>	<u>283,994,804</u>	<u>24,107,510</u>
Operating (loss) income	(12,130,633)	5,907,390	(18,038,023)
Nonoperating revenues and expenses	<u>390,694</u>	<u>9,768,613</u>	<u>(9,377,919)</u>
Changes in net assets	(11,739,939)	15,676,003	(27,415,942)
Net assets, beginning of year	<u>35,832,162</u>	<u>20,156,159</u>	<u>15,676,003</u>
Net assets, end of year	<u>\$ 24,092,223</u>	<u>\$ 35,832,162</u>	<u>\$ (11,739,939)</u>

**BALANCE SHEETS**

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 6,841,871	\$ 33,986,318
New Mexico State Treasurer's State Fund Investment Pool	322,204	250,346
Investments		
New Mexico State Treasurer's Local Government		
Investment Pool	51,838,925	32,351,028
Accrued interest receivable	103,748	140,669
Receivables from excess insurers	642,861	343,547
Prepaid expenses and deposits	<u>256,000</u>	<u>256,000</u>
 Total current assets	 <u>60,005,609</u>	 <u>67,327,908</u>
<b>NON CURRENT ASSETS</b>		
Investments -long-term	33,924,684	37,126,899
Capital assets, net of accumulated depreciation	<u>472,144</u>	<u>502,578</u>
 Total non current assets	 <u>34,396,828</u>	 <u>37,629,477</u>
 Total assets	 <u>\$ 94,402,437</u>	 <u>\$ 104,957,385</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Reserves for losses and loss adjustment expenses	\$ 21,790,347	\$ 19,571,526
Unearned premium revenue and carrier advances	106,848	79,634
Due to insurance carriers for claims paid	5,838,723	4,497,889
Accounts payable	1,360,090	1,383,628
Accrued payroll	17,360	20,105
Accrued compensated absences	<u>64,229</u>	<u>53,740</u>
 Total current liabilities	 29,177,597	 25,606,522
<b>NON CURRENT LAIBILTIES</b>		
Reserve for losses and loss adjustment expenses	<u>41,132,617</u>	<u>43,518,701</u>
 Total liabilities	 <u>70,310,214</u>	 <u>69,125,223</u>
<b>NET ASSETS</b>		
Restricted for future benefits	23,424,168	35,158,172
Invested in capital assets	472,144	502,578
Unrestricted	<u>195,911</u>	<u>171,412</u>
 Net assets	 <u>24,092,223</u>	 <u>35,832,162</u>
 Total liabilities and net assets	 <u>\$ 94,402,437</u>	 <u>\$ 104,957,385</u>

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

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
REVENUES		
Participant premiums	\$293,757,863	\$288,167,858
Settlement reimbursements and rebates	<u>2,213,818</u>	<u>1,734,336</u>
Total revenues	<u>295,971,681</u>	<u>289,902,194</u>
EXPENSES		
Losses and loss adjustment expenses, net of excess recoveries	256,578,465	234,261,935
Premiums for health maintenance organizations, life, disability, dental insurance, property/liability, workers' compensation, and boiler and machinery	30,525,844	29,538,703
Insurance servicing and administration fees	19,768,309	19,118,695
General and administrative	<u>1,229,696</u>	<u>1,075,471</u>
Total expenses	<u>308,102,314</u>	<u>283,994,804</u>
Operating (loss) income	<u>(12,130,633)</u>	<u>5,907,390</u>
NONOPERATING REVENUES AND EXPENSES		
Investment income, gains and losses	7,870	9,759,934
Other (expenses) income, net	387,463	8,679
(Loss) on disposal of fixed assets	<u>(4,639)</u>	<u>-</u>
Total nonoperating revenues	<u>390,694</u>	<u>9,768,613</u>
Changes in net assets	(11,739,939)	15,676,003
Net assets, beginning of year	<u>35,832,162</u>	<u>20,156,159</u>
Net assets, end of year	<u>\$ 24,092,223</u>	<u>\$ 35,832,162</u>

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

## STATEMENTS OF CASH FLOW

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Participant premiums collected	\$293,485,763	\$287,846,683
Reimbursement of losses from excess insurers and rebates	2,213,818	1,734,336
Losses and loss adjustment expenses paid	(256,745,728)	(230,412,370)
Premiums paid to health maintenance organizations, life, disability, dental, property/liability, workers' compensation, and boiler and machinery carriers	(29,185,010)	(27,715,617)
Amounts paid to third party administrators and other vendors	<u>(20,988,004)</u>	<u>(20,480,254)</u>
Net cash flows provided by (used in) operating activities	<u>(11,219,161)</u>	<u>10,972,778</u>
Cash flows from non-capital financing activities - other	<u>387,463</u>	<u>8,679</u>
Cash flows from investing activities:		
Interest, dividends, gains and losses, net, on investments	<u>3,247,006</u>	<u>3,616,960</u>
Net cash flows provided by investing activities	<u>3,247,006</u>	<u>3,616,960</u>
Cash flows from capital activities:		
Net cash flows (used in) capital activities	<u>-</u>	<u>(12,686)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,584,692)	14,585,731
*Cash and cash equivalents at beginning of year	<u>66,587,692</u>	<u>52,001,961</u>
*Cash and cash equivalents at end of year	<u>\$ 59,003,000</u>	<u>\$ 66,587,692</u>

\*Includes investment in the New Mexico State Treasurer's Local Government Investment Pool, New Mexico State Treasurer State Funds Investment Pool and money market funds.

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

**STATEMENTS OF CASH FLOW - CONTINUED**

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of operating earnings (losses) to net cash provided by (used in) operating activities		
Operating (loss) income	\$ (12,130,633)	\$ 5,907,390
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities:		
Depreciation expense	25,795	29,077
Reserves for losses and loss adjustment expenses	(167,263)	3,849,565
Receivables from excess insurers and others	(299,314)	(287,695)
Unearned premium revenue	27,214	(33,480)
Due to insurance carriers for claims paid	1,340,834	1,823,086
Accounts payable and accrued payroll	(26,283)	(324,297)
Accrual of compensated absences	10,489	9,132
Net cash provided by operating activities	<u>\$ (11,219,161)</u>	<u>\$ 10,972,778</u>

**NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:**

For the year ended June 30, 2008, the net decrease in the fair value of investments was \$3,202,215. There were no realized gains on investments for the year ended June 30, 2008.

For the year ended June 30, 2007, the net increase in the fair value of investments was \$6,123,373. There were no realized gains on investments for the year ended June 30, 2007.

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008 and 2007

**NOTE A - ORGANIZATION AND OPERATIONS**

The New Mexico Public Schools Insurance Authority (NMPSIA) was formed April 5, 1985 under the New Mexico Public School Insurance Authority Act of the New Mexico Statutes Annotated (NMSA 1978), as amended, as an insurance fund to provide health, disability, and life insurance (benefits) coverage and property, casualty, and workers' compensation insurance (risk) coverage to participating public schools, school board members and retirees, and public school employees within the State of New Mexico. Because NMPSIA is a self-insurance pool pursuant to Section 22-2 NMSA 1978, NMPSIA is not construed to be transacting insurance activity otherwise subject to the laws of the State of New Mexico that regulate insurance companies. Therefore, NMPSIA is not subject to minimum statutory reserve requirements.

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

NMPSIA has developed criteria to determine whether the participating public schools should be included within its financial reporting entity. The criteria include, but are not limited to, whether NMPSIA 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 this criteria, management of NMPSIA has determined that no other such entities should be included in its financial reporting entity and no component units are included in these financial statements.

Participation in NMPSIA is mandatory unless the school district is granted a waiver by NMPSIA. Once NMPSIA has awarded insurance contracts, no school district may withdraw from NMPSIA for the entire term of the contract. Upon withdrawal from NMPSIA, there is no refund of premiums. NMPSIA's own insurance coverage is also included as part of the pool.

The participants pay premiums for workers' compensation, and property and casualty coverage based on their own experience in the pool in past years. If the premium for a policy year does not cover the claims paid for that participant during the year, no additional premium will be assessed for that year. However, the next years' premiums will be increased to cover the excess claims. Premiums for health coverage are based on the experience of the total pool and are assessed on a premium per participating employee basis. Employees of all participants pay premiums based on a single premium schedule. Approximately 70 retired school board members participate and pay 100% of their premiums. Thus, there is no liability for post retirement benefits recorded. If premiums assessed in one year do not cover the claims of that year, the premium schedule may be adjusted upward for the next year.



**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2008 and 2007

**NOTE A - ORGANIZATION AND OPERATIONS - CONTINUED**

NMPSIA did not receive any appropriations or bond proceeds from the State of New Mexico in 2008 and 2007, respectively. Any unexpended or unencumbered funds remaining at the end of the fiscal year do not revert to the State of New Mexico. Investment earnings are budgeted to fund general and administrative expenses. Excess investment earnings are used to offset premiums to participants and increase reserves.

Activities of NMPSIA are largely performed by third party administrators under contractual arrangements. These activities are as follows:

**Benefits** – encompasses activities to provide health, disability, and life insurance coverage to enrolled employees and retired employees of the participants. (SHARE #35000)

**Risk** – encompasses activities to provide property, casualty, and workers' compensation insurance coverage to the participants. (SHARE #35100)

**Administration** – encompasses expenses incurred to administer NMPSIA's activities. (SHARE #34900)

**NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of NMPSIA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units as prescribed by the Governmental Accounting Standards Board (GASB). NMPSIA adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement 34). With the implementation of GASB Statement 34, the NMPSIA has prepared required supplementary information titled "Management's Discussion and Analysis" which precedes the basic financial statements, has prepared a balance sheet classified between current and noncurrent assets and liabilities, and has categorized fund equity as invested in capital assets, restricted, and unrestricted. There was no financial statement impact to NMPSIA for the implementation of GASB Statement 34.

1. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. All operations of NMPSIA are accounted for as an enterprise fund. Enterprise funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to outside parties. NMPSIA applies all applicable Financial Accounting Standard Board pronouncements issued prior to November 30, 1989 for accounting and reporting of its operations in accordance with GASB 20.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2008 and 2007

**NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operating of these funds are included on the balance sheet.

The accrual basis of accounting is used by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to participants for premiums. Principal operating expenses are the costs of providing insurance coverage, administrative costs and depreciation of capital assets. Transactions not included as operating activities for the statements of cash flows are classified as non operating revenues and expenses in the statements of revenues, expenses, and changes in net assets.

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

3. Statements of Cash Flows and Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include checking accounts, money market accounts and amounts on deposit in the New Mexico State Treasurer's Local Government Investment Pool and State Funds Investment Pool with original maturities of three months or less. A summary of cash and cash equivalents that reconciles to the statement of cash flows is as follows at June 30:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 6,841,871	\$ 33,986,318
New Mexico State Treasurer's State Funds Investment Pool	322,204	250,346
New Mexico State Treasurer's State Government Investment Pool	<u>51,838,925</u>	<u>32,351,028</u>
	<u>\$ 59,003,000</u>	<u>\$ 66,587,692</u>

Cash in bank accounts is insured up to \$100,000 per bank. As required by state law, 50 percent of the uninsured balance is required to be secured by pledges of qualifying securities held by the depository. Funds with the State Treasurer are required to be collateralized at a minimum level of 50 percent. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2008 and 2007

**NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Investment in the New Mexico State Treasurer's Local Government Investment Pool and Long-Term Investments

The Board of NMPSIA shall determine which money of NMPSIA constitutes long-term reserves for investment purposes. The State Treasurer shall invest the money in the fund that does not constitute the long-term reserves of the fund in accordance with the applicable provisions of Chapter 6, Article 10.

Investments in the New Mexico State Treasurer's Local Government Investment Pool (Pool) are carried at cost, which approximates market, plus accrued interest and are secured by obligations of the U.S. government or its agencies. Interest income is allocated to NMPSIA on the basis of its invested balance to the Pool's total invested balance. Amounts can be withdrawn by NMPSIA on demand. (See page 22 for further information)

The New Mexico State Treasurer's State Fund Investment 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. For additional GASB 40 disclosure information related to the State Fund Investment Pool, please see the audit report of the New Mexico State Treasurer for the year ended June 30, 2008

The State Treasurer deposits public monies with New Mexico financial institutions in denominations which generally are in excess of the \$100,000 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 institution's operating results and capital. Collateral for the fiscal agent account is required in amounts equal to 50% of the average investment balance.

NMPSIA had funds that represented the long-term reserves invested in stocks and bonds formerly managed by independent third parties following NMPSIA's investment policy. During fiscal year 2004, stewardship of all funds were transferred to the New Mexico State Investment Council.

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, with increases or decreases in fair market value recognized in the statements of revenues, expenses, and changes in net assets at the end of each month. Fair value is based on quoted market value at year-end. Investment transactions are recorded on the trade date. Dividends are recognized as income when declared.

5. Capital Assets

Capital assets consist of premises and equipment which are stated at cost, less accumulated depreciation. Capital assets are defined by the state as assets which have a cost of \$5,000 acquired during the 2008 and 2007 fiscal years and \$1,000 or more at the date of acquisition for prior years. Purchased assets are valued at historical cost. Donated assets are recorded at their fair market value at the date of donation. There is no debt related to capital assets. Depreciation is computed using the straight-line method over the estimated

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2008 and 2007

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

5. Capital Assets (Continued)

useful lives of the assets. The cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Generally, estimated useful lives are as follows:

Building improvements	10 – 30 years
Building	30 years
Computer equipment	3 – 7 years
Furniture and fixtures	7 years

6. Participant Premiums

Participant premiums for benefits coverage are recognized as revenue on a pro rata basis over the applicable contract period. Premiums for risk coverage are recognized as revenue in the applicable contract period (coincides with the fiscal year).

7. Excess Insurance Premiums

Excess insurance premiums for risk coverage are recognized as expense in the applicable contract period (coincides with the fiscal year). Premium adjustments for retrospectively adjusted excess insurance policies are estimated and recorded as revenue or expense over the period of policy coverage.

8. Reserve for Losses and Loss Adjustment Expenses

Insurance losses and related loss adjustment expenses are charged to operations as incurred. The reserves for losses and loss adjustment expenses are determined based upon case-basis evaluations and actuarial projections, and include a provision for claims incurred but not reported. The actuarial projections of ultimate losses on reported claims and the estimate of claims incurred but not reported are based on a composite of NMPSIA’s experience and benefits, property, casualty, and workers’ compensation insurance industry data, which supplements NMPSIA’s historical experience and includes the effects of inflation and other factors. Losses are reported net of estimated amounts recoverable from excess insurance, salvage and subrogations, and the deductible portion of claims. Adjustments to the probable ultimate liability for losses and loss adjustment expenses are made continually, based on subsequent developments and experience, and are included in operations as made.

During 2003, NMPSIA changed its methodology for accounting for its risk fund reserve for losses and loss adjustment expenses from an undiscounted basis to a discounted basis. The change was made to adjust the reserves to present value and to better reflect income.

In the opinion of NMPSIA’s management and NMPSIA’s independent actuary, the reserves for losses and loss adjustment expenses are reasonably stated to cover the present value of the ultimate net cost of loss adjustment expenses.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2008 and 2007

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

8. Reserve for Losses and Loss Adjustment Expenses (Continued)

As discussed above, NMPSIA's management has discounted the losses and loss adjustment expenses for property, casualty, and workers' compensation to present values. Estimated outstanding losses were determined by NMPSIA's actuary to be \$44,583,384 and \$47,102,694 at June 30, 2008 and 2007, respectively. The indicated discounted losses and loss adjustment expenses are \$41,132,617 at June 30, 2008 and \$43,518,701 at June 30, 2007. Discounting is based on estimated payment dates and an appropriate assumed rate of return. The estimated unpaid losses as of June 30, 2008 and 2007 were discounted using an interest rate of 3.5% for 2008 and 2007.

9. Income Taxes

NMPSIA provides an essential governmental function to its members as described in Section 115 of the Internal Revenue Code and is exempt from federal income taxes pursuant to the Code.

10. Budgetary Process

An operating budget is submitted annually for review to the Public Education Department, the Budget Division of the Department of Finance and Administration and the Legislative Finance Committee, State of New Mexico. The budget is prepared on a modified accrual basis and monthly modified accrual basis reports of receipts and expenditures are required to be submitted to the state. This modified accrual basis used for budget purposes differs from the accrual basis of accounting in that purchases of fixed assets are recorded as expenditures and depreciation and compensated absences are not recorded. Also any accounts payable that does not get paid by the statutory deadline must be paid out of next year's budget. There were no differences between GAAP and budgetary basis accounts payable amounts. Budget amendments must be reviewed by the Department of Finance and Administration. For the administrative function budget, line item expenditures within budget appropriation unit may legally exceed amounts budgeted; however the budget appropriation unit expenditures may not legally exceed the total approved budget amount. There are no legal restrictions on the Benefits and Risk functions' expenditures.

11. Budget Adjustments

These were budget adjustment requests required totaling \$82,200; \$36,100 to increase the budget for personal services and \$5,000 for contractual services and the corresponding \$41,100 increases in other funding sources and uses during the year ended June 30, 2008.

12. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual results may differ from those estimates.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

**NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**12. Estimates (Continued)

At June 30, 2008, NMPSIA has total current and non-current reserves for losses and loss adjustment expenses in the amount of \$62,922,964. The allocation of current and non-current is an estimate. Due to the uncertainty of future claims, this amount could significantly change in fiscal year 2009.

13. Net Assets

Restricted net assets are to provide payments of claims and expenses in future years due to the legislation establishing NMPSIA and these funds are not available to the State of New Mexico for appropriation for other purposes. Unrestricted net assets consist of net assets not restricted to pay claims and expenses or invested in capital assets.

14. Reclassifications

Certain 2007 balances have been reclassified to conform with the 2008 presentation.

**NOTE C - CAPITAL ASSETS**

Capital assets consist of premises and equipment and the balances are as follows at June 30:

	Balance at July 1, 2007	Additions	Deletions	Balance at June 30, 2008
Assets not being depreciated				
Land	\$ 235,000	\$ -	\$ -	\$ 235,000
Art	1,765	-	-	1,765
Assets being depreciated				
Building and building improvements	543,666	-	-	543,666
Furniture	141,983	-	(45,280)	96,703
	<u>922,414</u>	<u>-</u>	<u>(45,280)</u>	<u>877,134</u>
Accumulated Depreciation				
Building and building improvements	(301,186)	(20,684)	-	(321,870)
Furniture	(118,650)	(5,111)	40,641	(83,120)
	<u>(419,836)</u>	<u>(25,795)</u>	<u>40,641</u>	<u>(404,990)</u>
Total	<u>\$ 502,578</u>	<u>\$ (25,795)</u>	<u>\$ (4,639)</u>	<u>\$ 472,144</u>

Depreciation expense of \$25,795 and \$29,077 is included in general and administrative expenses on the financial statements for the years ended June 30, 2008 and 2007, respectively.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2008 and 2007

**NOTE D - EXCESS INSURANCE**

NMPSIA has entered into contracts with various commercial excess insurance carriers to minimize exposure on risks above NMPSIA's self-insurance retention.

As of June 30, 2008, the per occurrence self-insurance retention for workers' compensation losses and the property and casualty losses is \$750,000.

Property and casualty aggregate losses are self-insured up to certain amounts during each policy year. Each coverage part maintains a separate aggregate limit and is reinsured by commercial excess insurance carriers. For the policy year July 1, 2007 to July 1, 2008, the property policy aggregate limit is unlimited. The liability policy aggregate limit is \$10,000,000. The aggregate limit limits the annual amounts that NMPSIA would be responsible for in funding its self-insured losses.

**NOTE E - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES**

The reserves for losses and loss adjustment expenses represent, in management's opinion, the best estimate of the ultimate cost of settling all reported and unreported claims. The actuarial projections of ultimate losses on reported claims and the estimate of claims incurred but not reported are based on a composite of NMPSIA's experience and benefits, property, casualty and workers' compensation insurance industry data. However, due to the historical experience of NMPSIA, there exists a range of variability around the best estimate of the ultimate cost of settling all unpaid NMPSIA claims. Accordingly, the amount reflected in the accompanying financial statements as reserves for losses and loss adjustment expenses at June 30, 2008 and 2007 and the related provisions for the years ended June 30, 2008 and 2007, may not ultimately be the actual cost of settling all unpaid claims.

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

## NOTE - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

Components of the reserves for losses and loss adjustment expenses are as follows:

	Benefits		Workers' Compensation		Property and Casualty		Total
	2008	2007	2008	2007	2008	2007	
Estimated reserves for claims	\$ 21,790,347	\$ 19,571,526	\$ 25,024,873	\$ 24,347,671	\$ 19,558,111	\$ 22,755,023	\$ 66,373,331
Less estimated amounts recoverable pursuant to excess insurance contracts on specific and aggregate loss occurrences	-	-	-	-	-	-	-
Reserves for losses and loss adjustment expenses at end-of-year (undiscounted)	\$ 21,790,347	\$ 19,571,526	\$ 25,024,873	\$ 24,347,671	\$ 19,558,111	\$ 22,755,023	\$ 66,373,331
Changes in the reserves for losses and loss adjustment expenses are as follows:							
Reserves for losses and loss adjustment expenses at beginning of year (undiscounted)	\$ 19,571,526	\$ 17,786,547	\$ 24,347,671	\$ 22,848,356	\$ 22,750,023	\$ 22,030,405	\$ 66,669,220
Incurred losses and loss adjustment expenses	236,980,329	208,197,429	10,929,000	9,856,752	10,173,000	13,071,554	258,082,329
(Decrease) increase in provision for events of prior years	2,413,593	977,554	2,930,844	4,794,292	(4,275,224)	4,241,348	1,069,213
Total incurred losses and loss adjustment expenses	239,393,922	209,174,983	13,859,844	14,651,044	5,897,776	17,312,902	259,151,542
Payments (net of amounts receivable pursuant to excess insurance contracts)							
Losses and loss adjustment expenses attributable to events of the current year	215,960,810	207,326,430	3,037,853	2,835,428	6,126,105	8,494,357	225,124,768
Losses and loss adjustment expenses attributable to events of prior year	21,214,291	18,063,574	10,144,789	10,316,301	7,237,672	8,093,927	38,596,752
Total payments and adjustment expenses	237,175,101	225,390,004	13,182,642	13,151,729	13,363,777	16,588,284	263,721,520
Reserves for losses and loss adjustment expenses at end-of-year (undiscounted)	21,790,347	19,571,526	25,024,873	24,347,671	19,558,111	22,755,023	66,373,331
Less discount factor	-	-	2,568,040	2,516,668	882,327	1,067,325	3,450,367
*Reserves for losses and loss adjustment expenses at end-of-year (discounted)	\$ 21,790,347	\$ 19,571,526	\$ 22,456,833	\$ 21,831,003	\$ 18,675,784	\$ 21,687,698	\$ 62,922,964
							\$ 63,090,227



## NOTES TO FINANCIAL STATEMENTS (Continued)

June 30, 2008 and 2007

## NOTE F – CASH AND INVESTMENTS

NMPSIA follows GASB statement No. 40 “Deposit and Investment Risk Disclosures” for the years ended June 30, 2008 and 2007. NMPSIA investments held by the State Investment Council at June 30, 2008 and 2007 were as follows:

	2008		2007	
	Benefits	Risk	Benefits	Risk
S & P Index - ETF	\$ 8,688,467	\$ 5,792,275	\$ -	\$ -
Non US Developed Markets	1,228,436	818,972	2,067,947	1,378,641
Emerging Markets	2,048,226	1,365,452	2,181,073	1,454,049
SMID - ETF	2,085,723	1,390,470	-	-
Core Bonds	6,303,953	4,202,710	4,313,491	2,875,661
Large Cap Index	-	-	10,786,963	7,191,303
Mid/Small Cap	-	-	2,926,671	1,951,100
Total	<u>\$ 20,354,805</u>	<u>\$ 13,569,879</u>	<u>\$ 22,276,145</u>	<u>\$ 14,850,754</u>

The carrying amounts of NMPSIA’s deposits at financial institutions as of June 30, 2008 and 2007 were \$6,841,871 and \$33,986,318, respectively. Bank balances before reconciling items were \$6,846,591 and \$34,063,345 at June 30, 2008 and 2007, respectively. The custodial credit risk for deposits is the risk that in the event of a bank failure, NMPSIA’s deposits may not be recovered. The bank balances for 2008 and 2007 were insured or collateralized with securities held by a third party for the pledging financial institution in NMPSIA’s name in an amount not less than 50% of the uninsured balance in accordance with State law. NMPSIA was not exposed to collateral risk at June 30, 2008 and 2007 since the Bank had pledged more securities than funds on deposit.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to change in market interest rates. NMPSIA has exposure to interest rate risk by its investment in the Core Bond holdings with the State Investment Council.

The State Treasurer Local Government Investment Pool is not SEC registered. Section 6-10-10 I, NMSA 1978 empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are issued by the United States government or by its departments or agencies sponsored by the United States government. The Local Government Investment Pool investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The weighted average maturity of the Local Government Investment Pool at June 30, 2008 was 46 days, which reduces the pool’s interest rate risk. The Local Government Investment Pool is rated AAA by Standard & Poor’s.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2008 and 2007

**NOTE F – CASH AND INVESTMENTS – CONTINUED**

The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the local government investment pool is voluntary.

Total investment income and gains from investment is as follows:

	<u>2008</u>	<u>2007</u>
Investment Income	\$ 3,210,085	\$ 3,636,561
Unrealized (loss) gain	<u>(3,202,215)</u>	<u>6,123,373</u>
Total investment income	<u>\$ 7,870</u>	<u>\$ 9,759,934</u>

NMPSIA does not engage in any securities lending arrangements, reverse repurchase agreements or in the use of derivatives.

All investments are managed by the New Mexico State Investment Council which is audited annually. That report can be obtained by writing to the New Mexico State Investment Council, 2055 S. Pacheco, Suite 100, Santa Fe, New Mexico 87505.

**NOTE G - INSURANCE SERVICING AND ADMINISTRATION AGREEMENTS**

NMPSIA has entered into agreements with third parties for claims administration, administration of excess insurance contracts, accounting, administrative services, and related matters. These agreements are generally renewable on an annual basis. Fees for such services for the years ended June 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Administrative fees of		
Health Care Providers	\$ 12,693,167	\$ 12,596,009
Third party administrations claims		
processing and other management fees	5,772,556	4,873,745
Wellness management services	<u>1,302,586</u>	<u>1,648,941</u>
	<u>\$ 19,768,309</u>	<u>\$ 19,118,695</u>

**NOTE H - RETIREMENT PLAN**

Plan Description

Substantially all of NMPSIA’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits,

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2008 and 2007

**NOTE H - RETIREMENT PLAN (CONTINUED)**

Plan Description (Continued)

survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA at [www.pera.state.nm.us](http://www.pera.state.nm.us).

Funding Policy

Plan members are required to contribute 7.42% of their gross salary. NMPSIA is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and NMPSIA are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. NMPSIA's contributions to PERA, for the years ending June 30, 2008, 2007, and 2006 were \$145,563 (including \$44,977 of employee contributions), \$125,121, (including \$38,667 of employee contributions), and \$117,465, (including \$36,301 of employee contributions), respectively, equal to the amount of the required contributions for each year.

**NOTE I - POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

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

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employers' 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 as least four years.

The RHCA 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 Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2008 and 2007

**NOTE I - POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN  
(Continued)**

*Funding Policy (continued)*

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee’s annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after January 1, 1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The NMPSIA’s contributions to the RHCA for the year ended June 30, 2008, 2007 and 2006 were \$11,823, \$10,124 and \$9,540, respectively, which equal the required contributions for the years.

**NOTE J - ACCRUED COMPENSATED ABSENCES**

NMPSIA accounts for accumulated annual and sick leave on the accrual basis. In accordance with State law, NMPSIA has recorded a liability included in accrued compensated absences for each employee for annual leave up to 240 hours at 100% of the employee’s hourly wage. State law requires that sick leave be accrued for each employee for hours in excess of 600, but not over 720 (a maximum of 120 hours). Four of NMPSIA’s employees at June 30, 2008 and five NMPSIA’s employees at June 30, 2007 had sick leave in excess of 600 hours. An accrual of \$8,251 and \$4,467 was recorded in 2008 and 2007, respectively.

	Balance June 30, 2007	Addition	Deletions	Balance June 30, 2008
Annual leave	\$ 49,273	\$ 48,050	\$ 41,344	\$ 55,979
Sick leave	4,467	13,064	9,281	\$ 8,250
Total accrued compensated absences	<u>\$ 53,740</u>	<u>\$ 61,114</u>	<u>\$ 50,625</u>	<u>\$ 64,229</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

June 30, 2008 and 2007

**NOTE K - COMMITMENTS AND CONTINGENCIES**

NMPSIA leases a vehicle, a phone system and other office equipment for use in its operations under operating leases. Total rent expense paid for the years ended June 30, 2008 and 2007 was \$18,383 and \$12,086 respectively. Remaining lease payments under the leases are as follows:

Fiscal Years June 30:

2009	<u>\$ 8,292</u>
	<u><u>\$ 8,292</u></u>

**NOTE L - DUE FROM OTHER STATE AGENCIES**

There were no amounts due from or due to other state agencies at June 30, 2008 and 2007.

**NOTE M - OPERATING TRANSFERS**

The following operating transfers occurred between the NMPSIA functional activities during the years ended June 30:

<u>SHARE #</u>	<u>2008</u>		<u>2007</u>	
	<u>From</u>	<u>To</u>	<u>From</u>	<u>To</u>
Administration Fund (34900)	\$ -	\$ 1,228,400	\$ -	\$ 1,102,300
Benefits Fund (3500)	614,250	-	551,200	-
Risk Fund (35100)	614,150	-	551,100	-
	<u>\$ 1,228,400</u>	<u>\$ 1,228,400</u>	<u>\$ 1,102,300</u>	<u>\$ 1,102,300</u>

These annual transfers were to pay for administration fund operating costs as approved by the NMPSIA board and by the budgetary process.

**NOTE N - LITIGATION**

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

**NOTE O – ACCOUNTING STANDARD PRONOUNCEMENTS**

GASB issued Statement 45 "Accounting and Financial reporting by Employers for Post Employment Benefits Other than Pensions" which is effective for the NMPSIA fiscal year ended June 30, 2008. The NMPSIA belongs to the Retiree Health Care Authority and makes contributions based on State law. Implementation of GASB 45 had no impact on its June 30, 2008 financial statements.

## New Mexico Public Schools Insurance Authority

**STATEMENT OF BUDGETARY BASIS REVENUES  
AND EXPENDITURES - BUDGET AND ACTUAL**

June 30, 2008

	Total Actual	Original Budget	Budget as Amended	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Employee insurance and other insurance premiums	\$ 293,757,863	\$ 307,890,600	\$ 307,890,600	\$ (14,132,737)
Interest and other state funds	7,870	1,429,900	1,471,000	(1,463,130)
Miscellaneous income	2,601,281	2,400,000	2,400,000	201,281
Other financing sources	1,228,400	1,187,300	1,228,400	-
Subtotal	<u>297,595,414</u>	<u>312,907,800</u>	<u>312,990,000</u>	<u>\$ (15,394,586)</u>
Cash balance carryforward	-	8,607,900	8,607,900	
 Total	 <u>297,595,414</u>	 <u>\$ 321,515,700</u>	 <u>\$ 321,597,900</u>	
 <b>Expenditures</b>				
Personal services	\$ 836,494	\$ 806,500	\$ 842,600	\$ 6,106
Contractual services	308,922,765	319,318,900	319,323,900	10,401,135
Other costs	175,141	203,000	203,000	27,859
Other financing uses	1,228,400	1,187,300	1,228,400	-
	<u>311,162,800</u>	<u>\$ 321,515,700</u>	<u>\$ 321,597,900</u>	<u>\$ 10,435,100</u>
 Excess of revenues over expenditures	 (13,567,386)			
 Adjustment from modified accrual to accrual basis:				
Audit adjustment to adjust claims expense for reserve for losses and loss adjustment expenses	1,868,370			
Depreciation expense	(25,795)			
Audit adjustment to increase compensated absences	(10,489)			
Loss on disposal of fixed assets	<u>(4,639)</u>			
 Total adjustments to reconcile to GAAP	 <u>1,827,447</u>			
 Changes in net assets	 <u>\$ (11,739,939)</u>			

## New Mexico Public Schools Insurance Authority

**CASH AND CASH EQUIVALENTS - RECONCILIATION  
FROM BOOKS TO FINANCIAL STATEMENTS**

June 30, 2008

	<u>Benefits</u>	<u>Risk</u>	<u>Administration</u>	<u>Cash Balance Per Bank</u>
Interest bearing checking accounts:				
Bank of America:				
Employee benefits contribution depository	\$ 87,727	\$ -	\$ -	\$ 87,727
Employee benefits disbursement account	-	-	-	-
Risk depository account	-	112,045	-	112,045
Risk disbursement account	-	-	-	-
Money Market - Benefits	5,263,691	-	-	5,263,691
Money Market - Risk	-	1,383,128	-	1,383,128
Total cash balance per bank	<u>5,351,418</u>	<u>1,495,173</u>	<u>-</u>	<u>6,846,591</u>
Reconciling items:				
Less outstanding checks	<u>(4,720)</u>	<u>-</u>	<u>-</u>	<u>(4,720)</u>
Total cash and cash equivalents per the balance sheet	<u>\$ 5,346,698</u>	<u>\$ 1,495,173</u>	<u>\$ -</u>	<u>\$ 6,841,871</u>
New Mexico State Treasurer's State Fund Investment Pool			<u>\$ 322,204</u>	

The outstanding warrants at June 30, 2008 was not provided to NMPSIA by the State Treasurer's Office.

## New Mexico Public Schools Insurance Authority

**PLEDGED COLLATERAL BY BANK**

June 30, 2008

Bank of America

Total amount on deposit in bank:

Employee benefits contribution depository	\$	87,727
Employee benefits disbursement account		-
Risk Depository account		112,045
Risk disbursement account		-
Money market - Benefits		5,263,691
Money market - Risk		<u>1,383,128</u>
Total on deposit in bank		6,846,591
Less FDIC insurance coverage		<u>100,000</u>
		<u>6,746,591</u>
50% collateral requirement		<u>3,373,296</u>
Collateral - 5.5% Fannie Mae mortgage backed pool, due 5-1-33 CUSIP #31385XAZO		<u>36,276,700</u>
Total collateral position held by Bank of America, North Carolina		<u>36,276,700</u>
Under insured/collateralized		<u><u>N/A</u></u>



## SUPPLEMENTARY INFORMATION

<u>Fund</u>	<u>Agency #</u>	<u>SHARE#</u>
Benefits	342	35000
Risk	342	35100
Administration	342	34900

## New Mexico Public Schools Insurance Authority

**ASSETS, LIABILITIES, AND NET ASSETS INFORMATION  
BY FUNCTIONAL ACTIVITY**

	June 30, 2008			
ASSETS	Benefits	Risk	Administration	Total
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 5,346,698	\$ 1,495,173	\$ -	\$ 6,841,871
New Mexico State Treasurer's State Fund Investment Pool	-	-	322,204	322,204
Investments New Mexico State Treasurer's Local Government Investment Pool	16,799,711	35,039,214	-	51,838,925
Accrued interest receivable	33,568	70,180	-	103,748
Receivables from excess insurers and others, net	494,894	147,967	-	642,861
Prepaid expenses and deposits	-	256,000	-	256,000
Total current assets	22,674,871	37,008,534	322,204	60,005,609
<b>NON CURRENT ASSETS</b>				
Investments – long-term	20,354,805	13,569,879	-	33,924,684
Capital assets, net	-	-	472,144	472,144
Total non current assets	20,354,805	13,569,879	472,144	34,396,828
Total assets	<u>\$ 43,029,676</u>	<u>\$ 50,578,413</u>	<u>\$ 794,348</u>	<u>\$ 94,402,437</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Reserves for losses and loss adjustment expenses	\$ 21,790,347	\$ -	\$ -	\$ 21,790,347
Unearned premium revenue and carrier advances	106,848	-	-	106,848
Due to insurance carriers for claims paid	5,797,821	40,902	-	5,838,723
Accounts payable	1,164,354	151,032	44,704	1,360,090
Accrued payroll	-	-	17,360	17,360
Accrued compensated absences	-	-	64,229	64,229
Total current liabilities	28,859,370	191,934	126,293	29,177,597
<b>NON CURRENT LIABILITIES</b>				
Reserve for losses and loss adjustment expenses	-	41,132,617	-	41,132,617
Total liabilities	28,859,370	41,324,551	126,293	70,310,214
<b>NET ASSETS</b>				
Reserved for future benefits	14,170,306	9,253,862	-	23,424,168
Invested in capital assets	-	-	472,144	472,144
Unrestricted	-	-	195,911	195,911
Net assets (deficit)	14,170,306	9,253,862	668,055	24,092,223
Total liabilities and net assets	<u>\$ 43,029,676</u>	<u>\$ 50,578,413</u>	<u>\$ 794,348</u>	<u>\$ 94,402,437</u>

## New Mexico Public Schools Insurance Authority

**REVENUES, EXPENSES, NON OPERATING REVENUES AND EXPENSES, AND NET ASSETS  
INFORMATION BY FUNCTIONAL ACTIVITY**

	June 30, 2008			
	Benefits	Risk	Administration	Total
<b>REVENUES</b>				
Participant premiums	\$243,976,803	\$49,781,060	\$ -	\$293,757,863
Settlement reimbursements and rebates	2,213,818	-	-	2,213,818
<b>Total revenues</b>	<b>246,190,621</b>	<b>49,781,060</b>	<b>-</b>	<b>295,971,681</b>
<b>EXPENSES</b>				
Losses and loss adjustment expenses, net of excess recoveries	239,393,922	17,184,543	-	256,578,465
Premiums for health maintenance organizations, life, disability, dental insurance, property/ liability, workers compensation, and boiler and machinery	10,447,596	20,078,248	-	30,525,844
Insurance servicing and administration fees	15,353,440	4,414,869	-	19,768,309
General and administrative	-	-	1,229,696	1,229,696
<b>Total expenses</b>	<b>265,194,958</b>	<b>41,677,660</b>	<b>1,229,696</b>	<b>308,102,314</b>
<b>Operating income (loss)</b>	<b>(19,004,337)</b>	<b>8,103,400</b>	<b>(1,229,696)</b>	<b>(12,130,633)</b>
<b>NON OPERATING REVENUES AND EXPENSES</b>				
Investment income, gains and (losses)	(510,151)	518,021	-	7,870
Other income	386,675	788	-	387,463
(Loss) on disposal of fixed assets	-	-	(4,639)	(4,639)
<b>Total non operating revenues</b>	<b>(123,476)</b>	<b>518,809</b>	<b>(4,639)</b>	<b>390,694</b>
Transfers in (out)	(614,250)	(614,150)	1,228,400	-
<b>CHANGES IN NET ASSETS</b>	<b>(19,742,063)</b>	<b>8,008,059</b>	<b>(5,935)</b>	<b>(11,739,939)</b>
Net assets, beginning of year	33,912,369	1,245,803	673,990	35,832,162
Net assets, end of year	<u>\$ 14,170,306</u>	<u>\$ 9,253,862</u>	<u>\$ 668,055</u>	<u>\$ 24,092,223</u>

Note: The information above reflects the functional activities of NMPSIA and includes transfers of reserves as approved and authorized by management, the Board of Directors, and the New Mexico State Legislature.

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008 and 2007

The following table illustrates how NMPSIA's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by re-insurers) and other expenses assumed by NMPSIA as of the end of each of the last ten years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues.
- (2) This line shows each fiscal year's other operating costs, including overhead and claims expense not allocable to individual claims.
- (3) This line shows NMPSIA's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that occurred triggered coverage under the contract (called policy year).
- (4) This section of ten rows shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This section of ten rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether the latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the incurred claims currently recognized in less mature policy years.

The columns of the table show data for successive policy years.

New Mexico Public Schools Insurance Authority

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED) - CONTINUED

Ten Years Ended June 30, 2008

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net earned required contribution and investment revenues	\$ 85,985,457	\$ 85,675,893	\$ 113,226,166	\$ 134,184,354	\$ 159,878,879	\$ 205,245,507	\$ 226,321,224	\$ 241,727,367	\$ 270,132,104	\$ 265,841,170
Unallocated expenses	3,293,503	3,553,197	3,777,327	4,127,303	4,095,461	5,354,061	7,332,282	7,612,117	7,598,157	8,304,838
Estimated incurred claims and expense, end of policy year	82,534,388	86,111,467	115,895,475	131,090,657	153,948,476	172,444,085	201,927,714	213,467,502	255,130,017	263,721,520
Net paid (cumulative) as of:										
End of policy year	66,121,394	69,326,351	91,866,504	107,714,016	133,357,121	152,865,399	171,668,631	183,096,907	197,057,681	208,882,151
One year later	78,529,234	91,738,197	109,185,634	126,509,002	138,413,265	164,024,706	175,015,767	188,019,560	201,295,193	
Two years later	80,139,979	94,064,906	111,764,157	129,992,270	144,622,936	165,771,526	177,301,518	189,307,772		
Three years later	79,322,926	95,160,709	114,064,770	133,376,544	145,880,000	167,172,873	177,392,784			
Four years later	79,807,522	95,777,445	115,128,808	134,030,090	146,136,244	167,561,754				
Five years later	80,842,939	96,582,765	115,429,810	134,765,453	146,333,048					
Six years later	81,196,499	96,979,590	116,462,856	135,640,823						
Seven years later	81,229,367	97,290,362	116,686,632							
Eight years later	81,311,928	97,458,374								
Nine years later	81,311,476									
Re-estimated net incurred claims and expenses:										
End of policy year	82,534,388	86,111,467	115,895,475	131,090,657	153,948,476	172,444,085	201,927,714	213,467,502	255,130,017	263,721,520
One year later	67,991,238	70,979,814	99,731,710	128,634,160	151,394,699	170,336,697	193,825,598	207,472,874	245,005,575	
Two years later	66,300,190	68,730,604	99,627,298	126,713,257	149,135,282	166,511,403	190,220,890	200,852,606		
Three years later	64,673,128	67,452,951	98,247,475	125,076,800	147,246,770	164,216,083	186,471,439			
Four years later	64,336,038	66,794,449	97,005,188	123,737,450	146,498,071	162,541,137				
Five years later	64,033,816	66,264,821	96,150,562	123,934,734	144,366,530					
Six years later	63,666,207	66,244,726	95,931,155	122,980,056						
Seven years later	63,361,543	65,639,269	95,616,237							
Eight years later	63,301,400	65,661,595								
Nine years later	63,185,804									
Increase (decrease) in estimated net incurred claims and expenses from end of original policy year	\$ (19,348,584)	\$ (20,449,872)	\$ (20,279,238)	\$ (8,110,601)	\$ (9,581,946)	\$ (9,902,948)	\$ (15,456,275)	\$ (12,614,896)	\$ 10,124,442	\$ -



*Barraclough & Associates, P.C.*

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Annette V. Hayden, C.P.A.  
Sandra M. Shell, C.P.A./A.B.V., C.V.A.  
Joseph A. Sisneros, C.P.A.

**Managers**

Douglas W. Fraser, C.P.A.  
Laura Parker, C.P.A.  
Rick W. Reynolds, C.P.A.  
Katherine M. Rowe, C.P.A.  
Rhonda G. Williams, C.P.A.

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

Mr. Hector H. Balderas, New Mexico State Auditor  
and  
Board of Directors  
New Mexico Public Schools Insurance Authority

We have audited the financial statements of the business-type activities of the New Mexico Public Schools Insurance Authority, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the New Mexico Public School Insurance Authority's basic financial statements and have issued our report thereon dated November 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Mexico Public Schools Insurance Authority's (NMPSIA) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NMPSIA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NMPSIA's internal control over financial reporting.

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

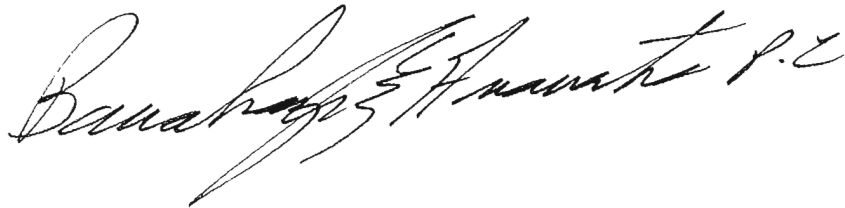
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by NMPSIA's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the New Mexico Public Schools Insurance Authority's financial statements are free of material misstatements, 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 the 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of management, the board of directors of New Mexico Public Schools Insurance Authority, the State Auditor, the Department of Finance and Administration and the New Mexico State Legislative is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Barbara J. Hume, P.C.", is written in a cursive style.

November 10, 2008

New Mexico Public Schools Insurance Authority

**STATUS OF PRIOR YEAR AUDIT FINDING AND  
EXIT CONFERENCE**

June 30, 2008

**Exit Conference**

An exit conference was held on December 4, 2008 to discuss the current report. There were no current year or prior year auditors' findings. Those in attendance were as follows:

New Mexico Public Schools Insurance Authority

Sammy J. Quintana, Executive Director  
Christy Edwards, Deputy Director  
Robert P. Romero, Comptroller  
Lowell Irby, President of the Board  
Kathy Knoll, Board Member  
Esther Marquez, Board Member

Barracough & Associates, P.C.

Douglas W. Fraser, CPA, Senior Audit Manager

The financial statements were prepared by Barracough & Associates, P.C. with assistance provided by NMPSIA personnel. NMPSIA is responsible for the fair presentation of the financial statements.

Barracough & Associates, P.C. would like to acknowledge the courtesy and assistance extended to us during the course of the audit.