

NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY

FINANCIAL STATEMENTS

June 30, 2009 and 2008

(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, 2009

BOARD OF DIRECTORS

Lowell Irby, President
Jose Cano, Vice-President
Jackie Golombowski, Secretary
Steve Black
Priscilla Riggs
Dan Flores
Esther Marquez
Millie Pogna
Annadelle Sanchez
Kathy Knoll
Tim Crone

New Mexico School Boards Association
New Mexico School Administrators
National Education Association
National Education Association
Governor's Appointee
New Mexico Superintendents Association
Governor's Appointee
Public Education Department
Governor's Appointee
Educational Institution at Large
American Federation of Teachers

OFFICIALS OF THE NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY

Sammy J. Quintana
Christy Edwards
Robert P. Romero

Executive Director
Deputy Director
Comptroller



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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.
Tracy Ann Stoddart, 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, 2009 and 2008, 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, 2009, 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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 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 23, 2009 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.

A handwritten signature in black ink, appearing to read "Barracough & Associates, P.C.", written in a cursive style.

November 23, 2009

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

Required Supplementary Information

June 30, 2009

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, 2009, compared to the year ended June 30, 2008. 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 \$6,688,967.

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 28 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 27 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, 2009

NMPSIA's total assets for the year ended June 30, 2009 decreased by approximately \$15.6 million. The majority of this decrease can be attributed to a combination of the use of cash reserves in the Employee Benefits Program of \$24.4 million and an increase in cash reserves in the Risk Program of \$8.8 million.

Long-term investments showed a loss of approximately \$6.7 million compared to losses of \$3.2 million in fiscal year 2008. During fiscal year 2009 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 Benefits Program's losses represents the largest share at \$4.0 million and the Risk Program with the balance of \$2.7 million. The long-term investments have gained into fiscal year 2010 with additional gain of almost \$3.3 million incurred through October 31, 2009. As encouraging as these recent gains might sound, the forecast for NMPSIA's long term investments indicate a lengthy recovery period for the financial markets. 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. In fiscal year 2009 both the LGIP and bank rates of return dropped dramatically with short term interest income being far less than originally projected. The flexibility to meet daily cash requirements continues to be the most important advantage of these Money Market accounts.

Total liabilities increased by approximately \$4.7 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 a decrease in medical claims payable as of June 30, 2009. In fiscal year 2009 premium revenue increased by \$21.4 million largely due to major medical premium increases which went into effect on February 1, 2008 at a rate of 8.75% and \$5 million in additional risk premiums, a 10% increase over fiscal year 2008.

In fiscal year 2009 premium expenses increased by almost 6.1% or, \$1.9 million, as compared to fiscal year 2008, 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 \$1.1 million of the total increase.

General administrative and servicing expenses accounted for less than 6.5% of the NMPSIA's total expenses in fiscal year 2009 and as compared to 6.9% for fiscal year 2008.

NMPSIA did not receive any General Fund Appropriation in fiscal year 2009 or 2008.

NMPSIA had no capital asset addition during 2009 and no capital asset additions during 2008. NMPSIA did not issue any short term or long debt during 2009 or during 2008.

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 \$344,164,000 was required. There were budget adjustment requests required for the year ended June 30, 2009 to increase the personnel salaries by \$32,900 and a corresponding decrease in other costs of \$32,900.

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

Required Supplementary Information

June 30, 2009

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. Historically, NMPSIA medical and prescription claims have trended at a rate less than the national average. The fund balance created by this positive claim trend was greatly exceeding the targeted 5% claim fluctuation reserve level. During its March 2008 rate setting meeting, the Board of Directors approved a reduction in the Blue Cross Blue Shield premium rate from 9.9% to 5.5%. Blue Cross Blue Shield represents about 2/3 of the medical enrollment. The difference in the premium was intended to be offset by the use of fund balance. At the time of this decision, the fund balance was \$28.8 million. Medical claims for the first nine months of Fiscal Year 2008 averaged \$18.6 million. From April 1st to June 30th, the average grew to \$23.2 million, a difference of \$4.6 million per month primarily driven by increased utilization. At that point, the premiums had been distributed to the school districts and had been the basis of their budget request for fiscal year 2009. In addition, the findings of the Fiscal Year 2009 Actuarial Report will require an increase to the Incurred But Not Reported (IBNR) reserves of \$1.4 million, resulting in a negative ending fund balance in the amount of \$8.9 million.

The Risk Program experienced an increase in premium revenue of \$5.0 million which can be attributed to a 10% increase in premiums assessed member entities in Fiscal Year 2009. This increase in premiums was an attempt to offset a fund balance deficit of almost \$4.0 million projected at the end of fiscal year 2008 and restore the Risk Program fund balance to a positive amount. This increase in revenue was reduced substantially by losses in long term investments of \$2.7 million. This revenue increase, decreases to projected property and liability claims and a moderate increase in claims reserves will result in an ending fund balance for the Risk Program of \$12 million.

During 2009 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 change was an attempt to reflect the interest income earning power, which in 2008 computed at the rate of 3.5%, of the fund's cash reserves. The rate for fiscal year 2009 was lowered to 2.5% based on the rate of return on the cash reserves realized.

There were no major large Risk Program Property losses experienced by NMPSIA during this policy period. However, since historically large property losses have been related to perils caused by "ACTS OF GOD" (e.g. hail, floods, snowstorms, wind, etc.), this cannot be used in our projections for future policy years. Coupled with no significant property losses and a continuing "soft" worldwide property insurance market, NMPSIA experienced a significant positive turnaround in surplus from Fiscal years 2007 and 2008. Furthermore, NMPSIA's underwriting standards have become increasingly strict due to insurers and reinsurers requiring more detailed inspection reports, compliance with hazard mitigation recommendations, and with current comprehensive building appraisals.

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

Required Supplementary Information

June 30, 2009

On the liability side of the Risk Program, sexual molestation claims continue to occur, although at a reduced frequency rate, but severity is a growing concern. These "shock" losses are impossible to predict and are extremely difficult to fund accurately. The expected settlement costs arising from an established legal case precedent involving punitive damages, is 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 as well. Similar to molestation cases, while frequency has lessened, severity of the settlements has increased. NMPSIA places great emphasis on training school district supervisory personnel, however, employee turnover makes this a challenging goal.

The future for Workers' Compensation is markedly different from Property & Liability projections. Claims frequency and severity have increased dramatically due to several factors: 1) Prescriptions costs are escalating. One contributing factor is physicians are prescribing narcotics as quickly as they use to prescribe aspirin. 2) Overall medical costs are spiraling out-of-control. New Mexico's average is growing faster than regional costs. In the year 2000, prescription costs were 10% of the overall workers' compensation health care cost. By year 2008, the costs were 18%. 3) The Medicare, Medicaid and SCHIP Extension Act of 2007 will limit the number of claims that can be settled, will limit any benefit the employer might have for settling the claim and there are steep fines for violations. 4) Aging workforce – Medical costs are increasing with our ageing work force. There has been an increase in repetitive motion injuries. NMPSIA seems to be the beneficiary of pre-existing degenerative changes with employees that are contributing to an increase in both frequency and severity in injuries.

Due primarily to no large Property & Liability losses during this fiscal year NMPSIA expects no increases in premiums assessed to its members for the next fiscal year. The revised projections for FY2010 are \$16,127,500. Requested for FY2011-\$16,000,000 with no premium increase requested.

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

Required Supplementary Information

June 30, 2009

The following table summarizes the financial position of NMPSIA's operations as of and for the years ended June 30, 2009 and 2008.

	2009	2008	Increase (Decrease)
Cash and investments	\$ 50,200,266	\$ 59,003,000	\$ (8,802,734)
Other current assets	903,155	1,002,609	(99,454)
Total current assets	<u>51,103,421</u>	<u>60,005,609</u>	<u>(8,902,188)</u>
Investments-long term	27,235,717	33,924,684	(6,688,967)
Capital assets, net	445,117	472,144	(27,027)
Total non current assets	<u>27,680,834</u>	<u>34,396,828</u>	<u>(6,715,994)</u>
Total assets	<u>\$ 78,784,255</u>	<u>\$ 94,402,437</u>	<u>\$ (15,618,182)</u>
Reserve for losses	\$ 23,183,780	\$ 21,790,347	\$ 1,393,433
Other current liabilities	4,629,722	7,387,250	(2,757,528)
Total current liabilities	<u>27,813,502</u>	<u>29,177,597</u>	<u>(1,364,095)</u>
Total noncurrent liabilities-reserve for losses	<u>47,168,861</u>	<u>41,132,617</u>	<u>6,036,244</u>
Total liabilities	<u>74,982,363</u>	<u>70,310,214</u>	<u>4,672,149</u>
Net assets-invested in capital assets	445,117	472,144	(27,027)
Net assets-restricted for future claims	3,141,222	23,424,168	(20,282,946)
Net assets-unrestricted	215,553	195,911	19,642
Total net assets	<u>3,801,892</u>	<u>24,092,223</u>	<u>(20,290,331)</u>
Total liabilities and net assets	<u>\$ 78,784,255</u>	<u>\$ 94,402,437</u>	<u>\$ (15,618,182)</u>

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

Required Supplementary Information

June 30, 2009

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Premium revenue and other	\$ 322,243,662	\$ 295,971,681	\$ 26,271,981
Claims loss and loss adjustments	282,339,224	256,578,465	25,760,759
Premium expense	32,386,066	30,525,844	1,860,222
Insurance services	20,551,392	19,768,309	783,083
General administrative and other expenses	<u>1,315,792</u>	<u>1,229,696</u>	<u>86,096</u>
 Total operating expenses	 <u>336,592,474</u>	 <u>308,102,314</u>	 <u>28,490,160</u>
 Operating (loss) income	 (14,348,812)	 (12,130,633)	 (2,218,179)
 Nonoperating revenues and expenses	 <u>(5,941,519)</u>	 <u>390,694</u>	 <u>(6,332,213)</u>
 Changes in net assets	 (20,290,331)	 (11,739,939)	 (8,550,392)
 Net assets, beginning of year	 <u>24,092,223</u>	 <u>35,832,162</u>	 <u>(11,739,939)</u>
 Net assets, end of year	 <u>\$ 3,801,892</u>	 <u>\$ 24,092,223</u>	 <u>\$ (20,290,331)</u>

BALANCE SHEETS

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,538,584	\$ 6,841,871
New Mexico State Treasurer's State Fund Investment Pool	343,231	322,204
Investments		
New Mexico State Treasurer's Local Government		
Investment Pool	45,318,451	51,838,925
Accrued interest receivable	12,072	103,748
Receivables from excess insurers and others, net	634,903	642,861
Prepaid expenses and deposits	256,180	256,000
	<u>51,103,421</u>	<u>60,005,609</u>
NON CURRENT ASSETS		
Investments -long-term	27,235,717	33,924,684
Capital assets, net of accumulated depreciation	445,117	472,144
	<u>27,680,834</u>	<u>34,396,828</u>
Total current assets	<u>51,103,421</u>	<u>60,005,609</u>
Total non current assets	<u>27,680,834</u>	<u>34,396,828</u>
Total assets	<u>\$ 78,784,255</u>	<u>\$ 94,402,437</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Reserves for losses and loss adjustment expenses	\$ 23,183,780	\$ 21,790,347
Unearned premium revenue and carrier advances	127,119	106,848
Due to insurance carriers for claims paid	3,062,252	5,838,723
Accounts payable	1,353,876	1,360,090
Accrued payroll	19,685	17,360
Accrued compensated absences	66,790	64,229
	<u>27,813,502</u>	<u>29,177,597</u>
Total current liabilities	27,813,502	29,177,597
NON CURRENT LIABILITIES		
Reserve for losses and loss adjustment expenses	47,168,861	41,132,617
	<u>47,168,861</u>	<u>41,132,617</u>
Total liabilities	<u>74,982,363</u>	<u>70,310,214</u>
NET ASSETS		
Restricted for future benefits	3,141,222	23,424,168
Invested in capital assets	445,117	472,144
Unrestricted	215,553	195,911
	<u>3,801,892</u>	<u>24,092,223</u>
Net assets	3,801,892	24,092,223
Total liabilities and net assets	<u>\$ 78,784,255</u>	<u>\$ 94,402,437</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
REVENUES		
Participant premiums	\$320,131,794	\$293,757,863
Settlement reimbursements and rebates	<u>2,111,868</u>	<u>2,213,818</u>
	<u>322,243,662</u>	<u>295,971,681</u>
EXPENSES		
Losses and loss adjustment expenses, net of excess recoveries	282,339,224	256,578,465
Premiums for health maintenance organizations, life, disability, dental insurance, property/liability, workers' compensation, and boiler and machinery	32,386,066	30,525,844
Insurance servicing and administration fees	20,551,392	19,768,309
General and administrative	<u>1,315,792</u>	<u>1,229,696</u>
	<u>336,592,474</u>	<u>308,102,314</u>
	<u>(14,348,812)</u>	<u>(12,130,633)</u>
NONOPERATING REVENUES AND EXPENSES		
Investment income, gains and (losses)	(6,131,289)	7,870
Other (expenses) income, net	191,363	387,463
(Loss) on disposal of fixed assets	<u>(1,593)</u>	<u>(4,639)</u>
	<u>(5,941,519)</u>	<u>390,694</u>
	<u>(20,290,331)</u>	<u>(11,739,939)</u>
Net assets, beginning of year	<u>24,092,223</u>	<u>35,832,162</u>
Net assets, end of year	<u>\$ 3,801,892</u>	<u>\$ 24,092,223</u>

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Participant premiums collected	\$320,160,023	\$293,485,763
Reimbursement of losses from excess insurers and rebates	2,111,868	2,213,818
Losses and loss adjustment expenses paid	(274,854,667)	(256,745,728)
Premiums paid to health maintenance organizations, life, disability, dental, property/liability, workers' compensation, and boiler and machinery carriers	(35,162,537)	(29,185,010)
Amounts paid to third party administrators and other vendors	(21,898,138)	(20,988,004)
Net cash flows (used in) operating activities	<u>(9,643,451)</u>	<u>(11,219,161)</u>
Cash flows from non-capital financing activities - other	<u>191,363</u>	<u>387,463</u>
Cash flows from investing activities:		
Interest, dividends, gains and losses, net, on investments	<u>649,354</u>	<u>3,247,006</u>
Net cash flows provided by investing activities	<u>649,354</u>	<u>3,247,006</u>
Cash flows from capital activities:		
Net cash flows (used in) capital activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,802,734)	(7,584,692)
*Cash and cash equivalents at beginning of year	<u>59,003,000</u>	<u>66,587,692</u>
*Cash and cash equivalents at end of year	<u>\$ 50,200,266</u>	<u>\$ 59,003,000</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 FLOWS - CONTINUED

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating earnings (losses) to net cash provided by (used in) operating activities		
Operating income	\$ (14,348,812)	\$ (12,130,633)
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities:		
Depreciation expense	25,434	25,795
Increase (decrease) in reserves for losses and loss adjustment expenses	7,429,677	(167,263)
Increase (decrease) in receivables from excess insurers and others	7,958	(299,314)
(Decrease) in prepaid expenses and deposits	(180)	-
Increase in unearned premium revenue	20,271	27,214
(Decrease) increase due to insurance carriers for claims paid	(2,776,471)	1,340,834
(Decrease) in accounts payable and accrued payroll	(3,889)	(26,283)
Increase in accrual compensated absences	<u>2,561</u>	<u>10,489</u>
Net cash provided by operating activities	<u>\$ (9,643,451)</u>	<u>\$ (11,219,161)</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

For the year ended June 30, 2009, the net decrease in the fair value of investments was \$6,688,968. There were no realized gains on investments for the year ended June 30, 2009.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

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 10 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. Outstanding receivables at year end due from participants and excess insurers are fully collectable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009 and 2008

NOTE A - ORGANIZATION AND OPERATIONS - CONTINUED

NMPSIA did not receive any appropriations or bond proceeds from the State of New Mexico in 2009 and 2008, 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, 2009 and 2008

NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED2. 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:

	2009	2008
Cash and cash equivalents	\$ 4,538,584	\$ 6,841,871
New Mexico State Treasurer's State Funds Investment Pool	343,231	322,204
New Mexico State Treasurer's State Government Investment Pool	45,318,451	51,838,925
	<u>\$ 50,200,266</u>	<u>\$ 59,003,000</u>

Cash in bank accounts is insured up to \$250,000 per bank at June 30, 2009. 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, 2009 and 2008

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 pages 22 and 23 for further information) except for \$1,697,486 being held in the Reserve Contingency Fund.

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, 2009.

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 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 2007 fiscal year and thereafter, 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, 2009 and 2008

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, 2009 and 2008

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 \$50,167,834 and \$44,583,384 at June 30, 2009 and 2008, respectively. The indicated discounted losses and loss adjustment expenses are \$47,168,861 at June 30, 2009 and \$41,132,617 at June 30, 2008. Discounting is based on estimated payment dates and an appropriate assumed rate of return. The estimated unpaid losses as of June 30, 2009 and 2008 were discounted using an interest rate of 2.5% and 3.5% for 2009 and 2008, respectively.

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

There was one budget adjustment request required to increase the budget for personal services for \$32,900 and the corresponding \$32,900 decrease in other costs during the year ended June 30, 2009.

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 (CONTINUED)

June 30, 2009 and 2008

NOTE B - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED12. Estimates (Continued)

At June 30, 2009, NMPSIA has total current and non-current reserves for losses and loss adjustment expenses in the amount of \$70,352,641. 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 2010.

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. The net asset deficit for the benefits function of NMPSIA of (\$8,848,428) will be resolved by higher premiums and cost controls on benefits paid.

14. Reclassifications

Certain 2008 balances have been reclassified to conform with the 2009 presentation.

NOTE C - CAPITAL ASSETS

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

	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009
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	96,703	-	(27,571)	69,132
	<u>877,134</u>	<u>-</u>	<u>(27,571)</u>	<u>849,563</u>
Accumulated Depreciation				
Building	(321,870)	(20,684)	-	(342,554)
Furniture	(83,120)	(4,750)	25,978	(61,892)
	<u>(404,990)</u>	<u>(25,434)</u>	<u>25,978</u>	<u>(404,446)</u>
Total	<u>\$ 472,144</u>	<u>\$ (25,434)</u>	<u>\$ (1,593)</u>	<u>\$ 445,117</u>

Depreciation expense of \$25,434 and \$25,795 is included in general and administrative expenses on the financial statements for the years ended June 30, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009 and 2008

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, 2009, 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, 2008 to July 1, 2009, 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, 2009 and 2008 and the related provisions for the years ended June 30, 2009 and 2008, may not ultimately be the actual cost of settling all unpaid claims.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2009 and 2008

NOTE E - 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
	2009	2008	2009	2008	2009	2008	
Estimated reserves for claims	\$ 23,183,780	\$ 21,790,347	\$ 30,084,343	\$ 25,024,873	\$ 20,083,491	\$ 19,558,111	\$ 73,351,614
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)	\$ 23,183,780	\$ 21,790,347	\$ 30,084,343	\$ 25,024,873	\$ 20,083,491	\$ 19,558,111	\$ 73,351,614
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)	\$ 21,790,347	\$ 19,571,526	\$ 25,024,873	\$ 24,347,671	\$ 19,558,111	\$ 22,750,023	\$ 66,373,331
Incurred losses and loss adjustment expenses	239,480,988	236,980,329	12,207,000	10,929,000	11,329,000	10,173,000	263,016,988
Provision for insured events of the current year	(796,440)	2,413,593	3,566,508	2,930,844	1,950,745	(4,275,224)	4,720,813
(Decrease) increase in provision for events of prior years	238,684,548	239,393,922	15,773,508	13,859,844	13,279,745	5,897,776	267,737,801
Total incurred losses and loss adjustment expenses	216,297,208	215,960,810	3,420,862	3,037,853	6,917,569	6,126,105	226,635,639
Payments (net of amounts receivable pursuant to excess insurance contracts)	20,993,907	21,214,291	7,293,176	10,144,789	5,836,796	7,237,672	34,123,879
Losses and loss adjustment expenses attributable to events of the current year	237,291,115	237,175,101	10,714,038	13,182,642	12,754,365	13,363,777	260,759,518
Less discount factor	-	-	2,302,980	2,568,040	695,993	882,327	2,998,973
Reserves for losses and loss adjustment expenses at end-of-year (undiscounted)	\$ 23,183,780	\$ 21,790,347	\$ 27,781,363	\$ 22,456,833	\$ 19,387,498	\$ 18,675,784	\$ 70,352,641
Less discount factor	-	-	-	-	-	-	-
*Reserves for losses and loss adjustment expenses at end-of-year (discounted)	\$ 23,183,780	\$ 21,790,347	\$ 27,781,363	\$ 22,456,833	\$ 19,387,498	\$ 18,675,784	\$ 70,352,641
Less discount factor	-	-	-	-	-	-	-
Reserves for losses and loss adjustment expenses at end-of-year (discounted)	\$ 23,183,780	\$ 21,790,347	\$ 27,781,363	\$ 22,456,833	\$ 19,387,498	\$ 18,675,784	\$ 70,352,641

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009 and 2008

NOTE F – CASH AND INVESTMENTS

NMPSIA follows GASB statement No. 40 “Deposit and Investment Risk Disclosures” for the years ended June 30, 2009 and 2008. NMPSIA investments held by the State Investment Council at June 30, 2009 and 2008 were as follows:

	2009		2008	
	Benefits	Risk	Benefits	Risk
S & P Index - ETF	\$ 6,411,094	\$ 4,274,036	\$ 8,688,467	\$ 5,792,275
Non US Developed Markets	823,194	548,806	1,228,436	818,972
Emerging Markets	1,402,136	934,735	2,048,226	1,365,452
SMID - ETF	1,567,397	1,044,922	2,085,723	1,390,470
Core Bonds	6,137,594	4,091,803	6,303,953	4,202,710
Total	<u>\$ 16,341,415</u>	<u>\$ 10,894,302</u>	<u>\$ 20,354,805</u>	<u>\$ 13,569,879</u>

The carrying amounts of NMPSIA’s deposits at financial institutions as of June 30, 2009 and 2008 were \$4,538,584 and \$6,841,871, respectively. Bank balances before reconciling items were \$4,545,045 and \$6,846,591 at June 30, 2009 and 2008, 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 2009 and 2008 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, 2009 and 2008 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 either direct obligations of the United States or are backed by the full faiths and credit of the United States government or are agencies sponsored by the United States government that have AAA credit quality ratings. 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, 2009 was 43 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, 2009 and 2008

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.

NMPSIA has recorded a loss from its investment in the New Mexico Local Government Investment Pool, (NMLGIP). In September 2008, NMLGIP reportedly had 23% of the pool (\$281.7 million) invested in the Reserve Primary Fund. On September 17, 2008 Standard & Poor's lowered the Reserve Primary Fund (Reserve) rating from AAAM to Dm because of its exposure to Lehman Brothers Holdings, Inc., which declared bankruptcy, and caused a material decline in net assets. The rating for the Reserve was completely withdrawn on January 6, 2009 and Standard & Poor's dropped the pools rating from AAAM to Dm and back to AAAM on March 5, 2009.

NMLGIP created a Reserve Contingency Fund to hold that portion of a participant's pool holdings that were attributable to the Reserve position as of September 15, 2008, that had not yet been recovered. NMLGIP has reported that approximately 84% of the Reserve Contingency Fund will be recovered. Funds held in this non-interest bearing account will remain restricted and unavailable until recovery of the final payout amount from the Reserve and the final reconciliation by NMLGIP.

As of June 30, 2009, NMPSIA had \$45,318,451 still invested in NMLGIP, of which \$1,697,486 was being held in the Reserve Contingency Fund. NMPSIA has recorded a loss of \$274,316 related to this investment in the Reserve Contingency Fund.

Total investment income and gains from investment is as follows:

	<u>2009</u>	<u>2008</u>
Investment Income	\$ 557,679	\$ 3,210,085
Unrealized (loss) gain	<u>(6,688,968)</u>	<u>(3,202,215)</u>
Total investment (loss) income	<u>\$ (6,131,289)</u>	<u>\$ 7,870</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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009 and 2008

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, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Administrative fees of Health Care Providers	\$ 14,007,636	\$ 12,693,167
Third party administrations claims processing and other management fees	5,270,237	5,772,556
Wellness management services	<u>1,273,519</u>	<u>1,302,586</u>
	<u>\$ 20,551,392</u>	<u>\$ 19,768,309</u>

NOTE H - RETIREMENT PLANPlan 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, 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.

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, 2009, 2008, and 2007 were \$152,107 (including \$46,876 of employee contributions), \$145,563 (including \$44,977 of employee contributions), and \$125,121, (including \$38,667 of employee contributions), respectively, equal to the amount of the required contributions for each year. As of July 1, 2009 the employee will contribute 8.92% and NMPSIA 15.09%.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009 and 2008

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

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.

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, 2009, 2008 and 2007 were \$12,369, \$11,823, and \$10,124, respectively, which equal the required contributions for the years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009 and 2008

NOTE J - ACCRUED COMPENSATED ABSENCES

NMPSIA accounts for accumulated annual and sick leave on the accrual basis. Employees are entitled to accumulate annual leave at a graduated rate based on years of service. 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).

Upon termination of employment, sick pay for hours accumulated for 600 hours is forfeited and vacation pay is limited to payment of 240 hours at 100% of the employee's hourly wage. Sick leave is payable semiannually to qualified employees for hours accumulated over 600 hours but not over 720 at 50% of the employee's hourly wage. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at 50% of the employee's hourly wage. A detail of accrued compensated absences is as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
Annual leave	\$ 55,979	\$ 49,738	\$ 48,469	\$ 57,248
Sick leave	8,250	22,949	21,657	9,542
Total accrued compensated absences	<u>\$ 64,229</u>	<u>\$ 72,687</u>	<u>\$ 70,126</u>	<u>\$ 66,790</u>

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, 2009 and 2008 was \$20,592 and \$18,383 respectively. Remaining lease payments under the leases are as follows:

Fiscal Years June 30:

2010	\$ 18,468
2011	7,894
2012	<u>652</u>
	<u>\$ 27,014</u>

NOTE L - DUE FROM OTHER STATE AGENCIES

There were no amounts due from or due to other state agencies at June 30, 2009 and 2008.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009 and 2008

NOTE M - OPERATING TRANSFERS

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

SHARE #	2009		2008	
	From	To	From	To
Administration Fund (34900)	\$ -	\$ 1,310,000	\$ -	\$ 1,228,400
Benefits Fund (3500)	655,000	-	614,250	-
Risk Fund (35100)	655,000	-	614,150	-
	<u>\$ 1,310,000</u>	<u>\$ 1,310,000</u>	<u>\$ 1,228,400</u>	<u>\$ 1,228,400</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

In June 2007, GASB issued Statement 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for the NMPSIA fiscal year ending June 30, 2010. NMPSIA has not assessed the future impact on its financial statements due to this GASB pronouncement.

In March 2009, GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for the NMPSIA's fiscal year ending June 30, 2011. This statement provides clearer, more structured fund balance classifications and clarifies the definitions of existing governmental fund types. NMPSIA has not assessed the future impact on its financial statements due to this GASB pronouncement.

NOTE P – SUBSEQUENT EVENTS

NMPSIA has evaluated subsequent events through November 23, 2009, which is the date the financial statements have been issued and have determined no events require disclosure or adjustment to the financial statements.

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

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

	June 30, 2009			
	Total	Original	Budget	Variance
	Actual	Budget	as	Favorable
			Amended	(Unfavorable)
Revenues				
Employee insurance and other insurance premiums	\$ 320,131,794	\$ 335,603,900	\$ 335,603,900	\$ (15,472,106)
Interest (loss) and other state funds	(5,856,973)	1,663,000	1,663,000	(7,519,973)
Miscellaneous income	2,303,231	1,622,000	1,622,000	681,231
Other financing sources	1,310,000	1,310,000	1,310,000	-
Subtotal	<u>317,888,052</u>	<u>340,198,900</u>	<u>340,198,900</u>	<u>\$ (22,310,848)</u>
Cash balance carryforward	-	3,965,100	3,965,100	
Total	<u>317,888,052</u>	<u>\$ 344,164,000</u>	<u>\$ 344,164,000</u>	
Expenditures				
Personal services	880,667	\$ 853,900	\$ 886,800	\$ 6,133
Contractual services	333,436,808	341,741,600	341,741,600	8,304,792
Other costs	224,487	258,500	225,600	1,113
Other financing uses	1,310,000	1,310,000	1,310,000	-
	<u>335,851,962</u>	<u>\$ 344,164,000</u>	<u>\$ 344,164,000</u>	<u>\$ 8,312,038</u>
Excess of revenues over expenditures	(17,963,910)			
Adjustment from modified accrual to accrual basis:				
Audit adjustment to adjust claims expense for reserve for losses and loss adjustment expenses	(2,022,517)			
Depreciation expense	(25,434)			
Audit adjustment to increase compensated absences	(2,561)			
Loss on disposal of fixed assets	(1,593)			
Loss on investment in New Mexico Local Government Investment Pool	<u>(274,316)</u>			
Total adjustments to reconcile to GAAP	<u>(2,326,421)</u>			
Changes in net assets	<u>\$ (20,290,331)</u>			

New Mexico Public Schools Insurance Authority

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

	June 30, 2009			Cash Balance
	<u>Benefits</u>	<u>Risk</u>	<u>Administration</u>	<u>Per Bank</u>
Interest bearing checking accounts:				
Bank of America:				
Employee benefits contribution depository	\$ 360,507	\$ -	\$ -	\$ 360,507
Employee benefits disbursement account	-	-	-	-
Risk depository account	-	2,630,699	-	2,630,699
Risk disbursement account	-	-	-	-
Money Market - Benefits	999,988	-	-	999,988
Money Market - Risk	-	553,852	-	553,852
Total cash balance per bank	<u>1,360,495</u>	<u>3,184,551</u>	<u>-</u>	<u>4,545,046</u>
Reconciling items:				
Less outstanding checks	<u>(6,462)</u>	<u>-</u>	<u>-</u>	<u>(6,462)</u>
Total cash and cash equivalents per the balance sheet	<u>\$ 1,354,033</u>	<u>\$ 3,184,551</u>	<u>\$ -</u>	<u>\$ 4,538,584</u>
New Mexico State Treasurer's State Fund Investment Pool			<u>\$ 343,231</u>	

The outstanding warrants at June 30, 2009 was not provided to NMPSIA by the State Treasurer's Office.

New Mexico Public Schools Insurance Authority

PLEGDED COLLATERAL BY BANK

June 30, 2009

Bank of America

Total amount on deposit in bank:

Employee benefits contribution depository	\$ 360,507
Employee benefits desbursement account	-
Risk Depository account	2,630,699
Risk disbursement account	-
Money market - Benefits	999,988
Money market - Risk	<u>553,852</u>
Total on deposit in bank	4,545,046
Less FDIC insurance coverage	<u>250,000</u>
	<u>\$ 4,295,046</u>
50% collateral requirement	<u>\$ 2,147,523</u>
Collateral - 5.5% Fannie Mae mortgage backed pool, due 5-1-33 CUSIP #31385XAZO	\$ 146,570,229
Collateral - 6.5% FNCL, due 12-1-38 CUSIP #31416BSU3	<u>38,877,146</u>
Total collateral position held by Bank of America, North Carolina	<u>\$ 185,447,375</u>
Under insured/collateralized	<u>N/A</u>

New Mexico Public Schools Insurance Authority

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

June 30, 2009

	<u>Benefits</u>	<u>Risk</u>	<u>Administration</u>	<u>Total</u>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,354,033	\$ 3,184,551	\$ -	\$ 4,538,584
New Mexico State Treasurer's State Fund				
Investment Pool	-	-	343,231	343,231
Investments				
New Mexico State Treasurer's Local				
Government Investment Pool	408,668	44,909,783	-	45,318,451
Accrued interest receivable	659	11,413	-	12,072
Receivables from excess insurers and others, net	499,541	135,362	-	634,903
Prepaid expenses and deposits	-	256,180	-	256,180
Total current assets	<u>2,262,901</u>	<u>48,497,289</u>	<u>343,231</u>	<u>51,103,421</u>
NON CURRENT ASSETS				
Investments – long-term	16,341,415	10,894,302	-	27,235,717
Capital assets, net	-	-	445,117	445,117
Total non current assets	<u>16,341,415</u>	<u>10,894,302</u>	<u>445,117</u>	<u>27,680,834</u>
Total assets	<u>\$ 18,604,316</u>	<u>\$ 59,391,591</u>	<u>\$ 788,348</u>	<u>\$ 78,784,255</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Reserves for losses and loss adjustment expenses	\$ 23,183,780	\$ -	\$ -	\$ 23,183,780
Unearned premium revenue and carrier advances	127,119	-	-	127,119
Due to insurance carriers for claims paid	2,952,966	109,286	-	3,062,252
Accounts payable	1,188,879	123,794	41,203	1,353,876
Accrued payroll	-	-	19,685	19,685
Accrued compensated absences	-	-	66,790	66,790
Total current liabilities	<u>27,452,744</u>	<u>233,080</u>	<u>127,678</u>	<u>27,813,502</u>
NON CURRENT LIABILITIES				
Reserve for losses and loss adjustment expenses	-	47,168,861	-	47,168,861
Total liabilities	<u>27,452,744</u>	<u>47,401,941</u>	<u>127,678</u>	<u>74,982,363</u>
NET ASSETS				
Reserved for future benefits (deficit)	(8,848,428)	11,989,650	-	3,141,222
Invested in capital assets	-	-	445,117	445,117
Unrestricted	-	-	215,553	215,553
Net assets (deficit)	<u>(8,848,428)</u>	<u>11,989,650</u>	<u>660,670</u>	<u>3,801,892</u>
Total liabilities and net assets	<u>\$ 18,604,316</u>	<u>\$ 59,391,591</u>	<u>\$ 788,348</u>	<u>\$ 78,784,255</u>

New Mexico Public Schools Insurance Authority

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

	June 30, 2009			
	Benefits	Risk	Administration	Total
REVENUES				
Participant premiums	\$ 265,344,858	\$54,786,936	\$ -	\$320,131,794
Settlement reimbursements and rebates	2,111,868	-	-	2,111,868
Total revenues	267,456,726	54,786,936	-	322,243,662
EXPENSES				
Losses and loss adjustment expenses, net of excess recoveries	258,635,138	23,704,086	-	282,339,224
Premiums for health maintenance organizations, life, disability, dental insurance, property/ liability, workers compensation, and boiler and machinery	10,791,085	21,594,981	-	32,386,066
Insurance servicing and administration fees	16,720,927	3,830,465	-	20,551,392
General and administrative	-	-	1,315,792	1,315,792
Total expenses	286,147,150	49,129,532	1,315,792	336,592,474
Operating income (loss)	(18,690,424)	5,657,404	(1,315,792)	(14,348,812)
NON OPERATING REVENUES AND EXPENSES				
Investment income, gains and (losses)	(3,864,668)	(2,266,621)	-	(6,131,289)
Other income	191,358	5	-	191,363
(Loss) on disposal of fixed assets	-	-	(1,593)	(1,593)
Total non operating revenues	(3,673,310)	(2,266,616)	(1,593)	(5,941,519)
Transfers in (out)	(655,000)	(655,000)	1,310,000	-
CHANGES IN NET ASSETS	(23,018,734)	2,735,788	(7,385)	(20,290,331)
Net assets, beginning of year	14,170,306	9,253,862	668,055	24,092,223
Net assets, end of year	\$ (8,848,428)	\$11,989,650	\$ 660,670	\$ 3,801,892

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.

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)

June 30, 2009 and 2008

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, 2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net earned required contribution and investment revenues	\$ 83,675,893	\$ 113,226,166	\$ 134,184,354	\$ 159,878,879	\$ 205,245,507	\$ 226,321,224	\$ 241,727,367	\$ 270,132,104	\$ 265,841,170	\$ 283,917,670
Unallocated expenses	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	7,859,548
Estimated incurred claims and expenses, end of policy year	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	260,759,518
Net paid (cumulative) as of:										
End of policy year	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	226,635,659
One year later	91,738,197	109,183,634	126,509,002	138,413,265	164,024,706	175,015,767	188,019,560	201,295,193	212,461,499	
Two years later	94,064,906	111,764,157	129,992,270	144,622,956	165,771,526	177,301,518	189,307,772	202,879,462		
Three years later	95,160,709	114,064,770	133,376,544	145,880,000	167,172,873	177,392,784	190,670,395			
Four years later	95,777,445	115,128,808	134,030,090	146,156,244	167,561,754	177,895,449				
Five years later	96,582,765	115,429,810	134,765,453	146,333,048	168,876,591					
Six years later	96,979,590	116,462,856	135,640,823	146,459,483						
Seven years later	97,290,362	116,686,632	135,972,786							
Eight years later	97,458,374									
Nine years later	97,567,327									
Re-estimated net incurred claims and expenses:										
End of policy year	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	260,759,518
One year later	70,979,814	99,731,710	128,634,160	151,394,699	170,336,697	193,823,598	207,472,874	245,005,575	258,321,274	
Two years later	68,730,604	99,627,298	126,713,257	149,135,282	166,511,403	190,220,890	200,852,606	242,895,889		
Three years later	67,452,951	98,247,475	125,076,800	147,246,770	164,216,083	186,471,439	200,561,399			
Four years later	66,794,449	97,005,188	123,737,450	146,498,071	162,541,137	186,195,071				
Five years later	66,264,821	96,150,562	123,934,734	144,366,530						
Six years later	66,244,726	95,931,153	122,980,056	144,173,395						
Seven years later	65,639,269	95,616,237	123,045,232							
Eight years later	65,661,595	95,750,342								
Nine years later	65,728,059									
Increase (decrease) in estimated net incurred claims and expenses from end of original policy year	\$ (20,383,408)	\$ (20,145,133)	\$ (8,045,425)	\$ (9,775,081)	\$ (10,100,874)	\$ (15,732,643)	\$ (12,906,103)	\$ (12,234,128)	\$ (5,400,249)	\$ -



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Rick W. Reynolds, C.P.A.
Katherine M. Rowe, C.P.A.
Tracy Ann Stoddart, 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, 2009 and 2008, which collectively comprise the New Mexico Public School Insurance Authority's basic financial statements and have issued our report thereon dated November 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

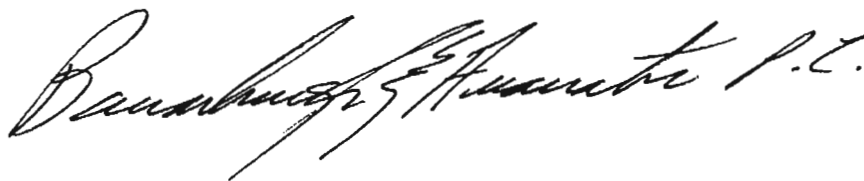
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by NMPSIA's internal control.

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.



November 23, 2009

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

June 30, 2009

Exit Conference

An exit conference was held on December 3, 2009 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.