

**NEW MEXICO PUBLIC SCHOOLS
INSURANCE AUTHORITY**

FINANCIAL STATEMENTS

June 30, 2011 and 2010

(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, 2011

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
Diana Roper	National Education Association
Priscilla Riggs	Governor's Appointee
Dave Willden	New Mexico Superintendents Association
Esther Marquez	Governor's Appointee
Millie Pogna	Public Education Commission
Annadelle Sanchez	Governor's Appointee
Kathy Knoll	Educational Institution at Large
Tim Crone	American Federation of Teachers

OFFICIALS OF THE NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY

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

"26 Years of Excellence"



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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.

INDEPENDENT AUDITORS' REPORT

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, 2011 and 2010, 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, 2011, 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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 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 28, 2011 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 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Also the accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of New Mexico Public Schools Insurance Authority. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting records used to prepare the 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 5 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 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Required Supplementary Information

June 30, 2011

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, 2011, compared to the year ended June 30, 2010. 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 increased by \$6,553,466.

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 29 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 28 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 and financial information on the three functional activities of NMPSIA. Unaudited ten-year development information is also presented. New for NMPSIA in the 2011 fiscal year is the Schedule of Expenditures of Federal Awards as NMPSIA received \$1,500,000 in federal funds.

New Mexico Public Schools Insurance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Required Supplementary Information (Continued)

June 30, 2011

NMPSIA's total net assets for the year ended June 30, 2011 increased by \$17,404,238. The majority of this increase can be attributed to a combination of surpluses of \$15.7 million in the Employee Benefits Program and \$1.6 million in the Risk Program. Even though revenues were below the original projections for the Employee Benefits Program (\$277.3 million compared to \$286.3 million projected), claims expenditures of \$236.5 million were less than the projected amount of \$257.5 million by \$21 million, almost twice the shortfall in revenues. The Risk Program fared much better generating \$60.3 million in revenues as compared to the projected amount of \$56.5 million, a difference of \$3.8. The Risk Program also experienced a similar reduction in claims expenses incurring a total of \$25.9 million as compared to a projected amount of \$27.4 million, a favorable difference of \$1.5 million.

The long-term investments portfolio had gains of approximately \$5.8 million compared to gains of \$5.0 million in fiscal year 2010. During fiscal year 2011 NMPSIA's long-term investments 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 gains represented the largest share at \$3.5 million and the Risk Program with the balance of \$2.3 million. 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. However, the spread in yield rates between the fiscal agent bank accounts and the LGIP accounts have been minimal. The flexibility to meet daily cash requirements continues to be the most important advantage of these Money Market accounts. In fiscal year 2011, both the LGIP and the fiscal agent bank yield rates remained constant, however short term interest income was far less than originally projected.

Total liabilities decreased by approximately \$650,000 in the current year. This decrease was largely due to a decrease in the Risk Program claims reserve for property, liability and workers' compensation and decreases in Incurred But Not Reported reserves of \$587,500. The Employee Benefits Program experienced an increase in Incurred But Not Reported reserves of \$49,800. Fiscal year 2011 premium revenue of \$266.2 million was almost identical to the fiscal year 2010 amount of \$265.4 million. In fiscal year 2011, both major medical premiums and risk premiums were held flat and no increases were assessed to the school districts, charter schools and other educational entities.

In fiscal year 2011 risk premium expenses increased by 18% or, \$4.4 million as compared to fiscal year 2010. Workers' compensation, property and liability excess insurance coverage accounted for the majority of the increase at \$2.8 million. The increase in property and liability excess insurance premiums assessed by the insurance carriers is an attempt to recoup losses for previous periods and the anticipation of continued large losses. Increases in property values for school districts statewide also contributed with additional property excess insurance premiums accounting for over \$1.6 of the total increase.

New Mexico Public Schools Insurance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Required Supplementary Information (Continued)

June 30, 2011

General administrative and servicing expenses accounted for less than 6% of NMPSIA's total expenses in fiscal year 2011 as compared to 6.9% for fiscal year 2010.

NMPSIA did not receive any General Fund Appropriation in fiscal year 2011 or 2010.

NMPSIA had no capital asset additions during 2011 and \$10,680 during 2010. NMPSIA did not issue any short-term or long debt during 2011 or during 2010.

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 \$344,947,100 was required. There were no budget adjustment requests required for the year ended June 30, 2011.

The Employee Benefits Program during the first half of fiscal year 2009 conducted an analysis of actual and projected revenues and expenditures which indicated that a sizable negative fund balance would likely exist as of June 30, 2009. Major medical premium increases to recoup the deficit were included in the Fiscal Year Appropriation Request but were not allowed by the Legislature during the regular session. Therefore, a strategy was needed to reduce claims costs to an amount below the October 1, 2008 premium level. The NMPSIA Board of Directors, faced with a likely fund balance deficit, elected to reduce the medical plan benefits with the implementation of (1) an in-network deductible of \$300, (2) coinsurance of 80% - 20% in addition to co-pays, and (3) significant reductions in plan coverage for non-formulary brand name drugs. The Employee Benefits Program began fiscal year 2010 with a deficit fund balance of \$8,848,428. The fiscal year 2010 approved budget for the Employee Benefits Program included revenues of \$286,321,600 and expenditures of \$286,321,600 which would have resulted in the negative fund balance of June 30, 2009 of \$8,848,428 being carried forward to June 30, 2010. The plan changes were estimated to result in medical and prescription claims of \$243 million. Actual medical claims amounted to \$228,943,500. Cost savings in other areas, resulted in a surplus of almost \$15 million. The balance as of June 30, 2010 of \$8.2 million can be attributed to the drastic plan changes initiated in October 2009. The reversal of the fund balance from negative to positive was due to a reduction in claims expenses. Unfortunately, this reduction came at the expense of the NMPSIA membership who incurred costs far beyond their monthly medical premium payments with additional deductibles, co-pays and coinsurance. The Employee Benefits Program Fund Balance increased substantially in fiscal year 2011 due the results of plan design changes by \$16.4 million.

The Risk Program did not have an increase in premium revenue and member entities, in general, paid the same amount in risk premiums for fiscal year 2011 as was assessed in fiscal year 2010. Risk premium revenue for fiscal year 2011 was held flat even though expenditures were expected to exceed revenues by \$862,800. This short fall in revenue was to be covered by fund balance which had grown steadily over the past four fiscal years. Expenditures for fiscal year 2011, expected to be \$56.5 million, never materialized. Mild weather throughout the year limited losses due to "Acts of God", which include hail and wind damage, water damage due to floods and heavy snow, slip and fall due to ice, etc. Along with other favorable outcomes, the property and liability claims expenditures remained as projected. Favorable workers' compensation claims resulted in a surplus of almost \$1.4 million and brought the total Risk Program balance as of June 30, 2011 to \$23.4 million.

New Mexico Public Schools Insurance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Required Supplementary Information (Continued)

June 30, 2011

The actuarial report for this fiscal year will require reductions to claims reserves, including Incurred But Not Reported (IBNR) reserves. The reduction in reserves of \$587,500 brought the Fund Balance for the Risk Program to a total of \$25 million.

During 2011, the Risk Program continued to use the discounted (present value) basis to account for the Risk Program's reserve for losses and loss adjustment expenses. This methodology reflects the interest income earning power, which in 2011 computed at the rate of 2.5%, of the fund's cash reserves. This same rate was used for fiscal year 2010.

For the third year in a row, there have been no catastrophic property losses. However, the frequency of claims associated with lack of maintenance (roof leaks, etc.) continues. Catastrophic property losses are difficult to project since they generally result from hailstorms, floods, windstorms, etc. Property insurance rates are relatively stable at this time. Barring unforeseen catastrophic events, property claims should continue at a predictable level.

On the liability side of the Risk Program, several serious claims have occurred including a wrongful death suit and hazing incidents. Because they involve multiple claimants and alleged perpetrators, the hazing events could result in extremely large damage awards. Civil rights cases, particularly those resulting from employment practices, occur with alarming frequency. Fortunately, the damage awards have not reached the catastrophic level. Average settlements continue to increase each year. NMPSIA continues to provide educational resources to members in an effort to control these losses, but employee turnover presents a challenge in these efforts.

The future for workers' compensation is the most problematic area for NMPSIA. Claim losses are on the rise. This is likely due to several factors, including: 1) overall prescription drug costs and the prescribing of expensive narcotic drugs for pain; 2) New Mexico's medical costs continue to increase faster than that of other regions in the country; and 3) the additional administrative costs, claim dollars and fines that result from Medicare and Medicaid set aside regulations. These problems, along with the aging workforce and ongoing frequency in repetitive motion injuries, present significant challenges to the NMPSIA in its cost containment efforts.

NMPSIA expects no increases in premiums assessed to its members for the next fiscal year.

New Mexico Public Schools Insurance Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Required Supplementary Information (Continued)

June 30, 2011

The following table summarizes the financial position of NMPSIA's operations as of and for the years ended June 30, 2011 and 2010:

	2011	2010	Increase (Decrease)
Cash and investments	\$ 77,449,511	\$ 68,076,066	\$ 9,373,445
Other current assets	2,022,595	1,173,869	848,726
Total current assets	<u>79,472,106</u>	<u>69,249,935</u>	<u>10,222,171</u>
Investments-long-term	38,053,824	31,500,358	6,553,466
Capital assets, net	400,964	425,374	(24,410)
Total non current assets	<u>38,454,788</u>	<u>31,925,732</u>	<u>6,529,056</u>
Total assets	<u>\$ 117,926,894</u>	<u>\$ 101,175,667</u>	<u>\$ 16,751,227</u>
Reserve for losses	\$ 21,122,072	\$ 21,072,271	\$ 49,801
Other current liabilities	4,903,513	5,061,696	(158,183)
Total current liabilities	<u>26,025,585</u>	<u>26,133,967</u>	<u>(108,382)</u>
Total noncurrent liabilities-reserve for losses	<u>42,283,494</u>	<u>42,828,123</u>	<u>(544,629)</u>
Total liabilities	<u>68,309,079</u>	<u>68,962,090</u>	<u>(653,011)</u>
Net assets-invested in capital assets	400,964	425,374	(24,410)
Net assets-restricted for future claims	48,889,541	31,593,981	17,295,560
Net assets-unrestricted	327,310	194,222	133,088
Total net assets	<u>49,617,815</u>	<u>32,213,577</u>	<u>17,404,238</u>
Total liabilities and net assets	<u>\$ 117,926,894</u>	<u>\$ 101,175,667</u>	<u>\$ 16,751,227</u>

New Mexico Public Schools Insurance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Required Supplementary Information (Continued)

June 30, 2011

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Premium revenue and other	\$ 326,622,166	\$ 322,741,375	\$ 3,880,791
Claims loss and loss adjustments	258,768,999	242,751,662	16,017,337
Premium expense	39,880,361	35,632,090	4,248,271
Insurance services	17,847,086	19,176,878	(1,329,792)
General administrative and other expenses	<u>1,186,286</u>	<u>1,290,964</u>	<u>(104,678)</u>
Total operating expenses	<u>317,682,732</u>	<u>298,851,594</u>	<u>18,831,138</u>
Operating (loss) income	8,939,434	23,889,781	(14,950,347)
Nonoperating revenues and expenses	<u>8,464,804</u>	<u>4,521,904</u>	<u>3,942,900</u>
Changes in net assets	17,404,238	28,411,685	(11,007,447)
Net assets, beginning of year	<u>32,213,577</u>	<u>3,801,892</u>	<u>28,411,685</u>
Net assets, end of year	<u>\$ 49,617,815</u>	<u>\$ 32,213,577</u>	<u>\$ 17,404,238</u>

BALANCE SHEETS

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,458,582	\$ 18,367,748
New Mexico State Treasurer's State Funds Investment Pool	424,588	320,970
New Mexico State Treasurer's Local Government Investment Pool	62,566,341	49,387,348
Accrued interest receivable	15,289	9,386
Receivables from excess insurers and others, net	1,751,126	908,303
Prepaid expenses and deposits	<u>256,180</u>	<u>256,180</u>
Total current assets	<u>79,472,106</u>	<u>69,249,935</u>
NON CURRENT ASSETS		
Investments -long-term	38,053,824	31,500,358
Capital assets, net of accumulated depreciation	<u>400,964</u>	<u>425,374</u>
Total non current assets	<u>38,454,788</u>	<u>31,925,732</u>
Total assets	<u>\$ 117,926,894</u>	<u>\$ 101,175,667</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Reserves for losses and loss adjustment expenses	\$ 21,122,072	\$ 21,072,271
Unearned premium revenue and carrier advances	129,107	114,389
Due to insurance carriers for claims paid	3,347,100	3,302,094
Accounts payable	1,301,888	1,554,077
Due to other State agencies	49,600	-
Accrued payroll	22,278	20,961
Accrued compensated absences	<u>53,540</u>	<u>70,175</u>
Total current liabilities	26,025,585	26,133,967
NON CURRENT LIABILITIES		
Reserve for losses and loss adjustment expenses	<u>42,283,494</u>	<u>42,828,123</u>
Total liabilities	<u>68,309,079</u>	<u>68,962,090</u>
NET ASSETS		
Restricted for future benefits	48,889,541	31,593,981
Invested in capital assets	400,964	425,374
Unrestricted	<u>327,310</u>	<u>194,222</u>
Net assets	<u>49,617,815</u>	<u>32,213,577</u>
Total liabilities and net assets	<u>\$ 117,926,894</u>	<u>\$ 101,175,667</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, 2011 and 2010

	2011	2010
REVENUES		
Participant premiums	\$321,103,222	\$320,215,037
Settlement reimbursements and rebates	5,518,944	2,526,338
Total revenues	<u>326,622,166</u>	<u>322,741,375</u>
EXPENSES		
Losses and loss adjustment expenses, net of excess recoveries	258,768,999	242,751,662
Premiums for health maintenance organizations, life, disability, dental insurance, property/liability, workers' compensation, and boiler and machinery	39,880,361	35,632,090
Insurance servicing and administration fees	17,847,086	19,176,878
General and administrative	1,186,286	1,290,964
Total expenses	<u>317,682,732</u>	<u>298,851,594</u>
Operating income	<u>8,939,434</u>	<u>23,889,781</u>
NONOPERATING REVENUES AND EXPENSES		
Investment income, gains and (losses)	6,846,225	4,459,013
Federal funds	1,500,000	-
Other (expenses) income, net	119,989	63,001
(Loss) on disposal of fixed assets	(1,410)	(110)
Total nonoperating revenues	<u>8,464,804</u>	<u>4,521,904</u>
CHANGES IN NET ASSETS	17,404,238	28,411,685
Net assets, beginning of year	<u>32,213,577</u>	<u>3,801,892</u>
Net assets, end of year	<u>\$ 49,617,815</u>	<u>\$ 32,213,577</u>

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Participant premiums collected	\$320,275,108	\$319,928,907
Reimbursement of losses from excess insurers and rebates	5,518,944	2,526,338
Losses and loss adjustment expenses paid	(259,263,827)	(249,203,909)
Premiums paid to health maintenance organizations, life, disability, dental, property/liability, workers' compensation, and boiler and machinery carriers	(39,835,355)	(35,392,248)
Amounts paid to third party administrators and other vendors	<u>(19,228,279)</u>	<u>(20,232,667)</u>
Net cash flows provided by operating activities	<u>7,466,591</u>	<u>17,626,421</u>
Cash flows from non-capital financing activities - other	<u>1,619,997</u>	<u>63,001</u>
Cash flows from investing activities:		
Interest, dividends, gains and losses, net, on investments	<u>286,857</u>	<u>197,058</u>
Cash flows from capital activities:		
Additions to capital assets	<u>-</u>	<u>(10,680)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 9,373,445	 17,875,800
*Cash and cash equivalents at beginning of year	<u>68,076,066</u>	<u>50,200,266</u>
*Cash and cash equivalents at end of year	<u>\$ 77,449,511</u>	<u>\$ 68,076,066</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.

STATEMENTS OF CASH FLOWS - CONTINUED

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of operating earnings to net cash provided by operating activities		
Operating income	\$ 8,939,434	\$ 23,889,781
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation expense	23,000	30,313
(Decrease) in reserves for losses and loss adjustment expenses	(494,828)	(6,452,247)
(Increase) in receivables from excess insurers and others	(842,832)	(273,400)
Increase (decrease) in unearned premium revenue	14,718	(12,730)
Increase in due to other State agencies	49,600	-
Increase due to insurance carriers for claims paid	45,006	239,842
(Decrease) increase in accounts payable and accrued payroll	(250,872)	201,477
(Decrease) increase in accrued compensated absences	(16,635)	3,385
Net cash provided by operating activities	<u>\$ 7,466,591</u>	<u>\$ 17,626,421</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

For the year ended June 30, 2011, the net decrease in the fair value of investments was \$6,553,466. There were no realized gains on investments for the year ended June 30, 2011.

For the year ended June 30, 2010, the net increase in the fair value of investments was \$4,264,641. There were no realized gains on investments for the year ended June 30, 2010.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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 and is not a reverting fund. 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 36 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.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

NOTE A - ORGANIZATION AND OPERATIONS - CONTINUED

NMPSIA did not receive any appropriations or bond proceeds from the State of New Mexico in 2011 and 2010, 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.

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.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

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>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 14,458,582	\$ 18,367,748
New Mexico State Treasurer's State Funds Investment Pool	424,588	320,970
New Mexico State Treasurer's Local Government Investment Pool	<u>62,566,341</u>	<u>49,387,348</u>
	<u>\$ 77,449,511</u>	<u>\$ 68,076,066</u>

Cash in bank accounts is insured up to \$250,000 per bank at June 30, 2011. 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. The State Treasurer's Office has determined that all NMPSIA's bank accounts at Wells Fargo are covered by the State Treasurer's Collateralization Policy. As such, all bank accounts at Wells Fargo are covered by the provision in the State Fiscal Agency Contract entered into between Wells Fargo and the State Board of Finance. That contract specifies that the State Fiscal Agent must identify total state monies on deposit on a monthly basis in order that the State Board of Finance may require adjustment

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

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

3. Statements of Cash Flows and Cash and Cash Equivalents (Continued)

of collateralization levels of State money as necessary to comply with the State law requirements. All bank accounts at Wells Fargo are therefore covered by these collateralization requirements. 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.

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 except for \$207,611 which is being held in the Reserve Contingency Fund. (See pages 22 and 23 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, 2011.

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 by a joint powers agreement that will expire only when either party terminates the agreement.

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.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

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

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 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.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

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 for 2010 were determined by NMPSIA's actuary to be \$45,691,331 and \$45,870,087 at June 30, 2011 and 2010, respectively. The indicated discounted losses and loss adjustment expenses are \$42,283,494 at June 30, 2011 and \$42,828,123 at June 30, 2010. Discounting is based on estimated payment dates and an appropriate assumed rate of return. The estimated unpaid losses as of June 30, 2011 and 2010 were discounted using an interest rate of 2.5% for 2011 and 2010.

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 were no budget adjustments requested during the year ended June 30, 2011.

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.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

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

12. Estimates (Continued)

At June 30, 2011, NMPSIA has total current and non-current reserves for losses and loss adjustment expenses in the amount of \$63,405,566. 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 2012.

13. Net Assets

The government-wide fund financial statements utilize a net asset presentation. Net assets are categorized as investment in capital assets, restricted and unrestricted.

Investment in Capital Assets – is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. NMPSIA did not have any related debt during the year ended June 30, 2011.

Unrestricted Net Assets – consist of net assets not restricted to pay claims and expenses or invested in capital assets.

Restricted Net Assets – net assets should be reported as restricted when constraints placed on net asset use are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Enabling legislation must be legally enforceable. Legal enforceability means that a government can be compelled by an external party – such as citizens, public interest groups or the judiciary – to use resources only for the purposes specified by legislation. The legislation establishing NMPSIA are not available to the State of New Mexico for appropriation or other purposes. Net assets for benefits and risk functions of NMPSIA meet the criteria.

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 or other purposes. Unrestricted net assets consist of net assets not restricted to pay claims and expenses or invested in capital assets.

14. Reclassifications

Certain 2010 balances have been reclassified to conform with the 2011 presentation.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

NOTE C - CAPITAL ASSETS

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

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
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	76,299	-	(16,345)	59,954
	<u>856,730</u>	<u>-</u>	<u>(16,345)</u>	<u>840,385</u>
Accumulated Depreciation				
Building	(363,238)	(20,425)	-	(383,663)
Furniture	(68,118)	(2,575)	14,935	(55,758)
	<u>(431,356)</u>	<u>(23,000)</u>	<u>14,935</u>	<u>(439,421)</u>
 Total	 <u>\$ 425,374</u>	 <u>\$ (23,000)</u>	 <u>\$ (1,410)</u>	 <u>\$ 400,964</u>

Depreciation expense of \$23,000 and \$30,313 is included in general and administrative expenses on the financial statements for the years ended June 30, 2011 and 2010, respectively.

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, 2011, the per occurrence self-insurance retention for workers' compensation losses is \$600,000 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, 2010 to July 1, 2011, the property policy aggregate limit is unlimited. The liability policy aggregate limit is \$11,000,000. The aggregate limit limits the annual amounts that NMPSIA would be responsible for in funding its self-insured losses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

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, 2011 and 2010 and the related provisions for the years ended June 30, 2011 and 2010, may not ultimately be the actual cost of settling all unpaid claims.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

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	
	2011	2010	2011	2010	2011	2010	2011	2010
Estimated reserves for claims	\$ 21,122,072	\$ 21,072,271	\$ 30,623,689	\$ 30,453,171	\$ 15,067,642	\$ 15,450,470	\$ 66,813,403	\$ 66,975,912
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)	\$ 21,122,072	\$ 21,072,271	\$ 30,623,689	\$ 30,453,171	\$ 15,067,642	\$ 15,450,470	\$ 66,813,403	\$ 66,975,912
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)	\$ 21,072,271	\$ 23,183,780	\$ 30,453,171	\$ 30,084,343	\$ 15,450,470	\$ 20,083,491	\$ 66,975,912	\$ 73,351,614
Incurred losses and loss adjustment expenses	248,284,009	238,373,934	12,369,000	13,025,000	7,585,736	5,180,720	268,238,745	256,579,654
Provision for insured events of the current year	(944,864)	686,662	(258,490)	(1,021,378)	3,460,135	(107,824)	2,256,781	(442,540)
(Decrease) increase in provision for events of prior years	247,339,145	239,060,596	12,110,510	12,003,622	11,045,871	5,072,896	270,495,526	256,137,114
Total incurred losses and loss adjustment expenses	247,339,145	239,060,596	12,110,510	12,003,622	11,045,871	5,072,896	270,495,526	256,137,114
Payments (net of amounts receivable pursuant to excess insurance contracts)	227,161,937	218,214,761	3,852,785	3,677,112	4,588,423	2,024,873	235,603,145	223,916,746
Losses and loss adjustment expenses attributable to events of the current year	20,127,407	22,957,344	8,087,207	7,957,682	6,840,276	7,681,044	35,054,890	38,596,070
Losses and loss adjustment expenses attributable to events of prior year	247,289,344	241,172,105	11,939,992	11,634,794	11,428,699	9,705,917	270,658,035	262,512,816
Total payments and adjustment expenses	247,289,344	241,172,105	11,939,992	11,634,794	11,428,699	9,705,917	270,658,035	262,512,816
Reserves for losses and loss adjustment expenses at end-of-year (undiscounted)	21,122,072	21,072,271	30,623,689	30,453,171	15,067,642	15,450,470	66,813,403	66,975,912
Less discount factor	-	-	2,735,677	2,512,963	672,160	562,555	3,407,837	3,075,518
*Reserves for losses and loss adjustment expenses at end-of-year (discounted)	\$ 21,122,072	\$ 21,072,271	\$ 27,888,012	\$ 27,940,208	\$ 14,395,482	\$ 14,887,915	\$ 63,405,566	\$ 63,900,394

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

NOTE F – CASH AND INVESTMENTS

NMPSIA follows GASB statement No. 40, *Deposit and Investment Risk Disclosures* for the years ended June 30, 2011 and 2010. NMPSIA investments held by the State Investment Council at June 30, 2011 and 2010 were as follows:

	2011		2010	
	Benefits	Risk	Benefits	Risk
S & P Index - ETF	\$ 9,430,923	\$ 6,287,243	\$ 7,311,804	\$ 4,874,505
Non US Developed Markets	1,166,680	777,800	886,804	591,213
Emerging Markets	2,186,232	1,457,454	1,725,699	1,150,439
SMID - ETF	2,573,509	1,715,657	1,892,925	1,261,939
Core Bonds	7,474,942	4,983,384	7,082,967	4,722,063
Total	<u>\$ 22,832,286</u>	<u>\$ 15,221,538</u>	<u>\$ 18,900,199</u>	<u>\$ 12,600,159</u>

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 carrying amounts of NMPSIA's deposits at financial institutions as of June 30, 2011 and 2010 were \$14,458,582 and \$18,367,748, respectively. Bank balances before reconciling items were \$14,458,582 and \$18,377,629 at June 30, 2011 and 2010, 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 2011 and 2010 were insured or covered by the State Treasurer's Collateralization Policy.

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 faith 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, 2011 was 36 days, which reduces the pool's interest rate risk. The Local Government Investment Pool is rated AAAM by Standard & Poor's.

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.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

NOTE F – CASH AND INVESTMENTS - CONTINUED

NMPSIA recorded a loss from its investment in the New Mexico Local Government Investment Pool, (NMLGIP) during fiscal year 2009. 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. 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, 2011, NMPSIA had \$62,566,341 still invested in NMLGIP, of which \$207,611 was being held in the Reserve Contingency Fund. NMPSIA has recorded a loss of \$274,062 related to this investment in the Reserve Contingency Fund during the year ended June 30, 2009. During the year ended June 30, 2011, NMPSIA received a distribution of \$66,451 from the Reserve Contingency Fund which was recorded as interest income. The New Mexico State Treasurer's Office believes that there may be additional distributions but uncertainty remains as to the timing and amounts of those distributions.

Total investment income and gains from investment is as follows:

	<u>2011</u>	<u>2010</u>
Investment Income	\$ 292,760	\$ 194,372
Unrealized gain	<u>6,553,465</u>	<u>4,264,641</u>
Total investment income	<u>\$ 6,846,225</u>	<u>\$ 4,459,013</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, 41 Plaza la Prensa, Santa Fe, New Mexico 87507.

NOTE G – JOINT POWERS AGREEMENT

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

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

NOTE H - 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, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Administrative fees of		
Health Care Providers	\$ 12,337,174	\$ 12,230,212
Third party administrations claims		
processing and other management fees	5,505,912	5,508,892
Wellness management services	<u>4,000</u>	<u>1,437,774</u>
	<u>\$ 17,847,086</u>	<u>\$ 19,176,878</u>

NOTE I – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. NMPSIA is required to contribute 15.09% 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, 2011, 2010, and 2009 were \$133,767 (including \$49,490 of employee contributions), \$151,666 (including \$56,096 of employee contributions), \$152,107 (including \$46,876 of employee contributions), of employee contributions), respectively, which equal the amount of the required contributions for each fiscal year.

NOTE J - 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 post employment 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, 2011 and 2010

NOTE J - 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. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.666% of each participating employee’s annual salary; each participating employee is required to contribute .8333% of their salary.

For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY12	1.834%	0.917%
FY13	2.000%	1.000%

Also, 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 total contributions to the RHCA for the year ended June 30, 2011, 2010 and 2009 were \$13,953, \$12,312, and \$12,369, respectively, which equal the required contributions for each fiscal year.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

NOTE K - 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, 2010	Additions	Deletions	Balance June 30, 2011
Annual leave	\$ 53,358	\$ 26,125	\$ (38,495)	\$ 40,988
Sick leave	16,817	12,253	(16,518)	12,552
Total accrued compensated absences	<u>\$ 70,175</u>	<u>\$ 38,378</u>	<u>\$ (55,013)</u>	<u>\$ 53,540</u>

Based on usage during the 2011 fiscal year all of the accrued compensated absences balance has been classified as a current liability.

NOTE L - 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, 2011 and 2010 was \$18,666 and \$17,657, respectively. Remaining lease payments under the leases are as follows:

Fiscal Years June 30:

2012	\$ 4,996
2013	4,344
2014	<u>3,258</u>
	<u>\$ 12,598</u>

NOTE M - DUE FROM AND DUE TO OTHER STATE AGENCIES

Due to other State agencies at June 30, 2011 consists of \$49,600 due to the New Mexico Public Education Department (SHARE fund number 924), to revise the Public School Manual of Procedures.

There were no amounts due from or due to other state agencies at June 30, 2010.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2011 and 2010

NOTE N - OPERATING TRANSFERS

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

SHARE #	2011		2010	
	From	To	From	To
Administration Fund (34900)	\$ 1,296,200	\$ -	\$ 1,250,000	\$ -
Benefits Fund (35000)	-	648,100	-	625,000
Risk Fund (35100)	-	648,100	-	625,000
	<u>\$ 1,296,200</u>	<u>\$ 1,296,200</u>	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>

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

NOTE O - 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 P – ACCOUNTING STANDARD PRONOUNCEMENTS

NMPSIA implemented GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, for the fiscal year end June 30, 2010. There was no impact on its financial statements due to this GASB pronouncement.

NMPSIA adopted GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for NMPSIA's fiscal year ended June 30, 2011. This statement provides clearer, more structured fund balance classifications and clarifies the definitions of existing governmental fund types. There are no impact on its financial statements due to this GASB pronouncement.

NOTE Q – SUBSEQUENT EVENTS

NMPSIA has evaluated subsequent events through November 28, 2011, which is the date the financial statements have been issued and have determined no events require disclosure or adjustment to the financial statements.

New Mexico Public Schools Insurance Authority

STATEMENT OF BUDGETARY BASIS REVENUES
AND EXPENDITURES - BUDGET AND ACTUAL

June 30, 2011

	Total Actual	Original Budget	Budget as Amended	Variance Favorable (Unfavorable)
Revenues				
Employee insurance and other insurance premiums	\$ 321,103,222	\$ 337,132,700	\$ 337,132,700	\$ (16,029,478)
Interest (loss) and other state funds	6,846,225	1,975,100	1,975,100	4,871,125
Miscellaneous income	5,638,933	3,680,300	3,680,300	1,958,633
Other financing sources	1,296,200	1,296,200	1,296,200	-
Subtotal	<u>334,884,580</u>	<u>344,084,300</u>	<u>344,084,300</u>	<u>\$ (9,199,720)</u>
Cash balance carryforward	-	862,800	862,800	
 Total	<u>334,884,580</u>	<u>\$ 344,947,100</u>	<u>\$ 344,947,100</u>	
 Expenditures				
Personal services	805,520	\$ 867,000	\$ 867,000	\$ 61,480
Contractual services	314,549,704	342,547,300	342,547,300	27,997,596
Other costs	183,855	236,600	236,600	52,745
Other financing uses	1,296,200	1,296,200	1,296,200	-
	<u>316,835,279</u>	<u>\$ 344,947,100</u>	<u>\$ 344,947,100</u>	<u>\$ 28,111,821</u>
 Excess of revenues over expenditures	<u>18,049,301</u>			
 Adjustment from modified accrual to accrual basis:				
Audit adjustment to adjust claims expense for reserve for losses and loss adjustment expenses	(637,288)			
Depreciation expense	(23,000)			
Audit adjustment to decrease compensated absences	16,635			
Loss on disposal of fixed assets	<u>(1,410)</u>			
 Total adjustments to reconcile to GAAP	<u>(645,063)</u>			
 Changes in net assets	<u>\$ 17,404,238</u>			

New Mexico Public Schools Insurance Authority

CASH AND CASH EQUIVALENTS - RECONCILIATION
FROM BOOKS TO FINANCIAL STATEMENTS

	June 30, 2011			Cash Balance Per Bank
	<u>Benefits</u>	<u>Risk</u>	<u>Administration</u>	<u>Per Bank</u>
Interest bearing checking and money market accounts:				
Wells Fargo:				
Employee benefits depository	\$ 1,152,682	\$ -	\$ -	\$ 1,152,682
Employee benefits short term investment account	8,492,973	-	-	8,492,973
Risk depository account	-	1,702	-	1,702
Risk short term investment account	-	4,811,225	-	4,811,225
Total cash balance per bank	<u>9,645,655</u>	<u>4,812,927</u>	<u>-</u>	<u>14,458,582</u>
Reconciling items:				
Less outstanding checks	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash and cash equivalents per the balance sheet	<u>\$ 9,645,655</u>	<u>\$ 4,812,927</u>	<u>\$ -</u>	<u>\$ 14,458,582</u>
New Mexico State Treasurer's State Fund Investment Pool			<u>\$ 424,588</u>	

The outstanding warrants at June 30, 2011 was not provided to NMPSIA by the State Treasurer's Office.

New Mexico Public Schools Insurance Authority

ASSETS, LIABILITIES, AND NET ASSETS INFORMATION
BY FUNCTIONAL ACTIVITY

June 30, 2011

ASSETS	Benefits	Risk	Administration	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 9,645,655	\$ 4,812,927	\$ -	\$ 14,458,582
New Mexico State Treasurer's State Fund Investment Pool	-	-	424,588	424,588
Investments New Mexico State Treasurer's Local Government Investment Pool	16,433,255	46,133,086	-	62,566,341
Accrued interest receivable	4,387	10,902	-	15,289
Receivables from excess insurers and others, net	324,663	1,426,463	-	1,751,126
Prepaid expenses and deposits	-	256,180	-	256,180
Total current assets	26,407,960	52,639,558	424,588	79,472,106
NON CURRENT ASSETS				
Investments – long-term	22,832,286	15,221,538	-	38,053,824
Capital assets, net	-	-	400,964	400,964
Total non current assets	22,832,286	15,221,538	400,964	38,454,788
Total assets	\$ 49,240,246	\$ 67,861,096	\$ 825,552	\$ 117,926,894
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Reserves for losses and loss adjustment expenses	\$ 21,122,072	\$ -	\$ -	\$ 21,122,072
Unearned premium revenue and carrier advances	129,107	-	-	129,107
Due to insurance carriers for claims paid	3,011,979	335,121	-	3,347,100
Accounts payable	1,054,924	225,504	21,460	1,301,888
Due to other State agencies	-	49,600	-	49,600
Accrued payroll	-	-	22,278	22,278
Accrued compensated absences	-	-	53,540	53,540
Total current liabilities	25,318,082	610,225	97,278	26,025,585
NON CURRENT LIABILITIES				
Reserve for losses and loss adjustment expenses	-	42,283,494	-	42,283,494
Total liabilities	25,318,082	42,893,719	97,278	68,309,079
NET ASSETS				
Restricted for future benefits	23,922,164	24,967,377	-	48,889,541
Invested in capital assets	-	-	400,964	400,964
Unrestricted	-	-	327,310	327,310
Net assets	23,922,164	24,967,377	728,274	49,617,815
Total liabilities and net assets	\$ 49,240,246	\$ 67,861,096	\$ 825,552	\$ 117,926,894

New Mexico Public Schools Insurance Authority

**REVENUES, EXPENSES, NONOPERATING REVENUES AND EXPENSES AND NET ASSETS
INFORMATION BY FUNCTIONAL ACTIVITY**

June 30, 2011

	Benefits	Risk	Administration	Total
REVENUES				
Participant premiums	\$ 266,180,016	\$54,923,206	\$ -	\$321,103,222
Settlement reimbursements and rebates	5,518,944	-	-	5,518,944
Total revenues	271,698,960	54,923,206	-	326,622,166
EXPENSES				
Losses and loss adjustment expenses, net of excess recoveries	236,497,814	22,271,185	-	258,768,999
Premiums for health maintenance organizations, life, disability, dental insurance, property/ liability, workers' compensation, and boiler and machinery	10,841,331	29,039,030	-	39,880,361
Insurance servicing and administration fees	13,633,640	4,213,446	-	17,847,086
General and administrative	-	-	1,186,286	1,186,286
Total expenses	260,972,785	55,523,661	1,186,286	317,682,732
Operating income (loss)	10,726,175	(600,455)	(1,186,286)	8,939,434
NONOPERATING REVENUES AND EXPENSES				
Investment income, gains and (losses)	4,007,780	2,838,445	-	6,846,225
Federal Funds	1,500,000	-	-	1,500,000
Other income	119,797	18	174	119,989
(Loss) on disposal of fixed assets	-	-	(1,410)	(1,410)
Total nonoperating revenues (losses)	5,627,577	2,838,463	(1,236)	8,464,804
Transfers in (out)	(648,100)	(648,100)	1,296,200	-
CHANGES IN NET ASSETS	15,705,652	1,589,908	108,678	17,404,238
Net assets, beginning of year	8,216,512	23,377,469	619,596	32,213,577
Net assets, end of year	\$ 23,922,164	\$24,967,377	\$ 728,274	\$ 49,617,815

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.

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

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)

June 30, 2011 and 2010

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 years 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, 2011

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net earned required contribution and investment revenues	\$ 134,184,354	\$ 159,878,879	\$ 205,245,507	\$ 226,321,224	\$ 241,727,367	\$ 270,132,104	\$ 265,841,170	\$ 283,917,670	\$ 291,631,299	\$ 293,708,019
Unallocated expenses	4,127,303	4,095,461	5,354,061	7,332,282	7,612,117	7,598,157	8,304,838	7,859,548	8,237,630	6,696,198
Estimated incurred claims and expense, end of policy year	131,090,657	153,948,476	172,444,085	201,927,714	213,467,502	255,130,017	263,721,520	260,759,518	262,512,816	270,658,035
Net paid (cumulative) as of:										
End of policy year	107,714,016	133,357,121	152,865,399	171,668,631	183,096,907	197,057,681	208,882,151	226,635,639	223,916,746	237,198,988
One year later	126,509,002	138,413,265	164,024,706	175,015,767	188,019,560	201,295,193	212,461,499	231,064,002	229,730,216	
Two years later	129,992,270	144,622,956	165,771,526	177,301,518	189,307,772	202,879,462	214,157,616	234,075,702		
Three years later	133,376,544	145,880,000	167,172,873	177,392,784	190,670,395	203,776,130	215,137,907			
Four years later	134,030,090	146,156,244	167,561,754	177,895,449	191,576,179	203,875,731				
Five years later	134,765,453	146,333,048	168,876,591	178,237,200	191,660,945					
Six years later	135,640,823	146,459,483	168,830,852	178,406,756						
Seven years later	135,972,786	146,339,241	169,080,663							
Eight years later	136,322,930	146,514,465								
Nine years later	136,594,040									
Re-estimated net incurred claims and expenses:										
End of policy year	131,090,657	153,948,476	172,444,085	201,927,714	213,467,502	255,130,017	263,721,520	260,759,518	262,512,816	270,658,035
One year later	128,634,160	151,394,699	170,336,697	193,825,598	207,472,874	245,005,575	258,321,274	254,379,796	256,697,345	
Two years later	126,713,257	149,135,282	166,511,403	190,220,890	200,852,606	242,895,889	255,766,447	252,189,456		
Three years later	125,076,800	147,246,770	164,216,083	186,471,439	200,561,399	241,705,687	254,960,857			
Four years later	123,737,450	146,498,071	162,541,137	186,195,071	199,710,616	241,065,050				
Five years later	123,934,734	144,366,530	162,343,211	185,483,934	199,148,785					
Six years later	122,980,056	144,173,395	161,679,490	185,1107,868						
Seven years later	123,045,232	143,718,251	161,380,192							
Eight years later	122,618,638	143,369,599								
Nine years later	122,599,778									

Increase (decrease) in estimated net incurred claims and expenses from end of original policy year \$ (8,490,879) \$ (10,578,877) \$ (11,063,893) \$ (16,819,846) \$ (14,318,717) \$ (14,064,967) \$ (8,760,663) \$ (8,570,062) \$ (5,815,471) \$

SINGLE AUDIT INFORMATION

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Federal Grantor/Program Title	Federal CFDA Number	Accrued or (Deferred) Revenue at June 30, 2010	Federal Receipts	Federal Expenditures	Accrued or (Deferred) Revenue at June 30, 2011
U. S. Department of Education ARRA Passed through NM Public Education Department					
State Fiscal Stabilization Fund Governmental Services, Recovery Act (ARRA)	84.397A	-	\$ 1,500,000	\$ 1,500,000	\$ -

New Mexico Public Schools Insurance Authority

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Note A. Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on an accrual basis of accounting, which is described in Note B2 to NMPSIA's financial statements.

NMPSIA did not grant any federal funds to sub-recipients.

NMPSIA did not receive any non-cash assistance, loan guarantees or insurance from federal services during the current fiscal year.

"26 Years of Excellence"



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Joseph A. Sisneros, C.P.A.

Managers
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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, 2011 and 2010, which collectively comprise the New Mexico Public School Insurance Authority's basic financial statements and have issued our report thereon dated November 28, 2011. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 or matters 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 New Mexico State Auditor, the New Mexico Department of Finance and Administration and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Benjamin E. Francisco P.C.", is written in dark ink.

November 28, 2011

"26 Years of Excellence"



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Katherine M. Rowe, C.P.A.
Rhonda G. Williams, C.P.A.

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited New Mexico Public Schools Insurance Authority (NMPSIA) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2011. NMPSIA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of NMPSIA's management. Our responsibility is to express an opinion on NMPSIA's compliance based on our audit.

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

In our opinion, NMPSIA complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

A. Internal Control Over Compliance

Management of the NMPSIA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the NMPSIA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the NMPSIA's internal control over compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of NMPSIA, the New Mexico State Auditor, the New Mexico State Legislature, the New Mexico Department of Finance and Administration, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



November 28, 2011

New Mexico Public Schools Insurance Authority

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

A. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes none reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered Yes none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 501(a) of OMB Circular A-133? Yes No

The program tested as major was the State Fiscal Stabilization Fund, Governmental Services, Recovery Act (ARRA) CFDA# 84.397A.

The threshold for distinguishing Type A and Type B programs was \$300,000.

NMPSIA was determined to be a high-risk auditee.

New Mexico Public Schools Insurance Authority
STATUS OF PRIOR YEAR AUDIT FINDING AND
EXIT CONFERENCE

June 30, 2011

Current Status of Prior Year Finding

The prior year finding 10-01 related to the request for proposal process was resolved.

Exit Conference

An exit conference was held on December 8, 2011 to discuss the current report. There were no current year auditors' findings. Those in attendance were as follows:

New Mexico Public Schools Insurance Authority

Sammy J. Quintana, Executive Director
Christy Edwards, Deputy Director
Don Gonzales, Comptroller
Lowell Irby, President
Jose F. Cano, Board Member
Mary Parr-Sanchez, Board Member
John Mejia, Accountant

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.