

**NEW MEXICO PUBLIC SCHOOLS
INSURANCE AUTHORITY**

FINANCIAL STATEMENTS

June 30, 2013 and 2012

(With Independent Auditors' Reports Thereon)



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

TABLE OF CONTENTS

	Page
OFFICIAL ROSTER.....	A-1
AUDITORS' REPORT.....	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED).....	4-9
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION – EXHIBIT A.....	10
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – EXHIBIT B.....	11
STATEMENTS OF CASH FLOWS – EXHIBIT C.....	12-13
NOTES TO FINANCIAL STATEMENTS.....	14-32
SUPPLEMENTARY INFORMATION	
STATEMENT OF BUDGETARY BASIS REVENUES AND EXPENDITURES – BUDGET AND ACTUAL – SCHEDULE 1.....	33
CASH AND CASH EQUIVALENTS – RECONCILIATION FROM BOOKS TO FINANCIAL STATEMENTS – SCHEDULE 2.....	34
STATEMENTS OF NET POSITION INFORMATION BY FUNCTIONAL ACTIVITY – SCHEDULE 3.....	35
REVENUES, EXPENSES, AND CHANGES IN NET POSITION INFORMATION BY FUNCTIONAL ACTIVITY – SCHEDULE 4.....	36
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED) – SCHEDULE 5.....	37-38
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	39-40
SCHEDULE OF FINDINGS AND RESPONSES AND STATUS OF PRIOR YEAR AUDIT FINDING.....	41
EXIT CONFERENCE.....	42

New Mexico Public Schools Insurance Authority

OFFICIAL ROSTER

June 30, 2013

BOARD OF DIRECTORS

Lowell Irby, President	New Mexico School Boards Association
Jose Cano, Vice-President	New Mexico School Administrators
Mary Parr-Sanchez, Secretary	National Education Association
William "Rusty" Babington	Governor's Appointee
Tonya Carrell	National Education Association
Tim Crone	American Federation of Teachers
Robert Lowery	Governor's Appointee
Esther Marquez	Governor's Appointee
Millie Pogna	Public Education Commission
Katherine Ulibarri	Educational Institutions at Large
Dave Willden	New Mexico Superintendents Association

OFFICIALS OF THE NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY

Sammy J. Quintana	Executive Director
Christy Edwards	Deputy Director
Don Gonzales	Comptroller



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Principals

John E. Barracough, Jr., C.P.A.
Annette V. Hayden, C.P.A.
Sandra M. Shell, C.P.A./A.B.V., C.V.A.
Rhonda G. Williams, C.P.A.
Katherine M. Rowe, C.P.A.

Managers

Douglas W. Fraser, C.P.A.
Laura Parker, C.P.A.
Rick W. Reynolds, C.P.A.

INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

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, 2013 and 2012, 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, as defined by the Government Accounting Standards Board, as of and for the year ended June 30, 2013 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Auditors' Responsibility (Continued)

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

Opinions

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, 2013 and 2012, 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, 2013 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note A, the financial statements of the New Mexico Public Schools Insurance Authority are intended to present the net position, and the changes in net 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 net position of the State of New Mexico as of June 30, 2013 and 2012, and the changes in its net 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of American, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the New Mexico Public School Insurance Authority's 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 are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Matters (Continued)

Other Information (Continued)

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013 on our consideration of the New Mexico Public Schools Insurance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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* in considering the New Mexico Public Schools Insurance Authority's internal control over financial reporting and compliance.



Barraclough & Associates, P.C.
Santa Fe, New Mexico
November 22, 2013

New Mexico Public Schools Insurance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Required Supplementary Information

June 30, 2013

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, 2013, compared to the year ended June 30, 2012. 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.

Statement of Position – This statement presents information reflecting NMPSIA's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The balance sheet is categorized as to current and non-current assets and liabilities. For purposes of the basic financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectable or becoming due within twelve months of the statement date. NMPSIA's long-term investment portfolio strategy is to hold investments which exceed one year in maturity or equity holdings with long-term gains in mind. NMPSIA's long-term investment portfolio has decreased by \$12,642,221.

Statement of Revenues, Expenses, and Changes in Net Position – 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 position for an enterprise fund is similar to net profit or loss for an insurance company. See page 11 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 12 and 13 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 33 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 14 through 32 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 Mexico Public Schools Insurance Authority

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

Required Supplementary Information (Continued)

June 30, 2013

NMPSIA's total net position for the year ended June 30, 2013 decreased by \$4,321,608. The majority of this decrease can be attributed to a combination of less revenue of approximately \$497,000 and increase in expenses of \$8.9 million mostly in the Benefits Program. Even though revenues were below the original projections for the Employee Benefits Program (\$275.8 million compared to \$285.5 million projected), claims expenditures of \$246.5 million were less than the projected amount of \$261.2 million by \$14.7 million. The Risk Program fared much better generating \$55.1 million in revenues as compared to the projected amount of \$55.4 million, a difference of \$300,000. The Risk Program also experienced a similar reduction in claims expenses incurring a total of \$24.2 million as compared to a projected amount of \$29.2 million, a favorable difference of \$5 million.

The long-term investments portfolio had gains of approximately \$5,657,779 compared to gains of \$62,825 in fiscal year 2012. During fiscal year 2013 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 \$3,480,927 and the Risk Program with the balance of \$2,176,852. 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 2013, 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 \$829,000 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 \$1,949,113. The Employee Benefits Program experienced an increase in Incurred But Not Reported reserves of \$1,948,262. Fiscal year 2013 premium revenue of \$321.5 million was almost identical to the fiscal year 2012 amount of \$322 million. In fiscal year 2013, 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 2013 risk premium expenses increased by 11.46% or, \$3.6 million as compared to fiscal year 2012. Workers' compensation, property and liability excess insurance coverage accounted for the majority of the increase at \$32.9 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 \$486,317 of the total increase.

New Mexico Public Schools Insurance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Required Supplementary Information (Continued)

June 30, 2013

General administrative and servicing expenses accounted for 5.6% of NMPSIA's total expenses in fiscal year 2013 as compared to 6% for fiscal year 2012.

NMPSIA did not receive any General Fund Appropriation in fiscal year 2013 or 2012.

NMPSIA had no capital asset additions during 2013 and 2012. NMPSIA did not issue any short-term or long debt during 2013 or during 2012.

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 \$351,430,100 was required. There were no budget adjustment requests required for the year ended June 30, 2013.

The Employee Benefits Program began fiscal year 2013 with a net position of \$28,453,771 and increased \$3,145,557 to a fiscal year 2013 net position of \$31,599,328. The increase in the fund balance 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 due to plan design changes during fiscal year 2012.

The Risk Program began fiscal year 2013 with a fund balance of \$19,825,988 and decreased by \$7,484,208 in fiscal year 2013 to \$12,341,780. 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 2013 as was assessed in fiscal year 2012. Risk premium revenue for fiscal year 2013 was held flat even though expenditures were expected to exceed revenues. This short fall in revenue was to be covered by fund balance which had grown steadily over the past four fiscal years. 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. Workers' compensation claims resulted in a slight decrease of the fund balance by \$214,774.

The Benefit Program actuarial report for FY 2013 will require an increase to Incurred But Not Reported (IBNR) for the Benefits Program. This increase in IBNR of \$1,948,262 will decrease the Benefits Fund Balance by that amount. The Risk Program actuarial report will require decreasing the IBNR by \$1,949,113. This will increase the Risk Fund Balance by that respective amount.

New Mexico Public Schools Insurance Authority

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

Required Supplementary Information (Continued)

June 30, 2013

During 2013, 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 2013 computed at the rate of 2.0%, of the fund's cash reserves. This same rate was used for fiscal year 2012.

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, 2013

The following table summarizes the financial position of NMPSIA's operations as of and for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Cash and investments	\$ 88,600,327	\$ 80,453,497	\$ 8,146,830
Other current assets	427,687	1,062,122	(634,435)
Total current assets	<u>89,028,014</u>	<u>81,515,619</u>	<u>7,512,395</u>
Investments-long-term	25,474,428	38,116,649	(12,642,221)
Capital assets, net	358,576	379,582	(21,006)
Total non current assets	<u>25,833,004</u>	<u>38,496,231</u>	<u>(12,663,227)</u>
Total assets	<u>\$ 114,861,018</u>	<u>\$ 120,011,850</u>	<u>\$ (5,150,832)</u>
Reserve for losses	\$ 22,487,572	\$ 20,539,310	\$ 1,948,262
Other current liabilities	4,624,185	5,452,558	(828,373)
Total current liabilities	<u>27,111,757</u>	<u>25,991,868</u>	<u>1,119,889</u>
Total noncurrent liabilities-reserve for losses	<u>42,983,272</u>	<u>44,932,385</u>	<u>(1,949,113)</u>
Total liabilities	<u>70,095,029</u>	<u>70,924,253</u>	<u>(829,224)</u>
Net position-invested in capital assets	358,576	379,582	(21,006)
Net position-restricted for future claims	43,941,108	48,279,759	(4,338,651)
Net position-unrestricted	466,305	428,256	38,049
Total net position	<u>44,765,989</u>	<u>49,087,597</u>	<u>(4,321,608)</u>
Total liabilities and net position	<u>\$ 114,861,018</u>	<u>\$ 120,011,850</u>	<u>\$ (5,150,832)</u>

New Mexico Public Schools Insurance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Required Supplementary Information (Continued)

June 30, 2013

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Premium revenue and other	\$ 321,549,388	\$ 322,046,770	\$ (497,382)
Claims loss and loss adjustments	268,295,445	262,045,858	6,249,587
Premium expense	44,833,591	41,254,767	3,578,824
Insurance services	17,398,323	18,410,130	(1,011,807)
General administrative and other expenses	<u>1,255,557</u>	<u>1,193,036</u>	<u>62,521</u>
Total operating expenses	<u>331,782,916</u>	<u>322,903,791</u>	<u>8,879,125</u>
Operating (loss) income	(10,233,528)	(857,021)	(9,376,507)
Nonoperating revenues and expenses	<u>5,911,920</u>	<u>326,803</u>	<u>5,585,117</u>
Changes in net position	(4,321,608)	(530,218)	(3,791,390)
Net position, beginning of year	<u>49,087,597</u>	<u>49,617,815</u>	<u>(530,218)</u>
Net position, end of year	<u>\$ 44,765,989</u>	<u>\$ 49,087,597</u>	<u>\$ (4,321,608)</u>

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 52,967,096	\$ 15,159,155
New Mexico State Treasurer's State Fund Investment Pool	548,625	586,313
New Mexico State Treasurer's Local Government Investment Pool	35,084,606	64,708,029
Accrued interest receivable	6,230	12,376
Receivables from excess insurers and others, net	165,277	793,566
Prepaid expenses and deposits	256,180	256,180
Total current assets	<u>89,028,014</u>	<u>81,515,619</u>
NON CURRENT ASSETS		
Investments -long-term	25,474,428	38,116,649
Capital assets, net of accumulated depreciation	358,576	379,582
Total non current assets	<u>25,833,004</u>	<u>38,496,231</u>
Total assets	<u>\$ 114,861,018</u>	<u>\$ 120,011,850</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Reserves for losses and loss adjustment expenses	\$ 22,487,572	\$ 20,539,310
Unearned premium revenue and carrier advances	89,318	77,354
Due to insurance carriers for claims paid	3,249,913	3,872,422
Accounts payable	1,226,379	1,429,975
Accrued payroll	15,792	30,109
Accrued compensated absences	42,783	42,698
Total current liabilities	<u>27,111,757</u>	<u>25,991,868</u>
NON CURRENT LIABILITIES		
Reserve for losses and loss adjustment expenses	42,983,272	44,932,385
Total liabilities	<u>70,095,029</u>	<u>70,924,253</u>
NET POSITION		
Restricted for future benefits	43,941,108	48,279,759
Net investment in capital assets	358,576	379,582
Unrestricted	466,305	428,256
Net position	<u>44,765,989</u>	<u>49,087,597</u>
Total liabilities and net position	<u>\$ 114,861,018</u>	<u>\$ 120,011,850</u>

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Participant premiums	\$317,783,516	\$318,199,017
Settlement reimbursements and rebates	<u>3,765,872</u>	<u>3,847,753</u>
Total revenues	<u>321,549,388</u>	<u>322,046,770</u>
EXPENSES		
Losses and loss adjustment expenses, net of excess recoveries	268,295,445	262,045,858
Premiums for health maintenance organizations, life, disability, dental insurance, property/liability, workers' compensation, and boiler and machinery	44,833,591	41,254,767
Insurance servicing and administration fees	17,398,323	18,410,130
General and administrative	<u>1,255,557</u>	<u>1,193,036</u>
Total expenses	<u>331,782,916</u>	<u>322,903,791</u>
Operating (loss) income	<u>(10,233,528)</u>	<u>(857,021)</u>
NONOPERATING REVENUES AND EXPENSES		
Investment income, gains and (losses)	5,853,253	285,342
Other (expenses) income, net	<u>58,667</u>	<u>41,461</u>
Total nonoperating revenues	<u>5,911,920</u>	<u>326,803</u>
CHANGES IN NET POSITION	<u>(4,321,608)</u>	<u>(530,218)</u>
Net position, beginning of year	<u>49,087,597</u>	<u>49,617,815</u>
Net position, end of year	<u>\$ 44,765,989</u>	<u>\$ 49,087,597</u>

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Participant premiums collected	\$318,423,769	\$319,104,824
Reimbursement of losses from excess insurers and rebates	3,765,872	3,847,753
Losses and loss adjustment expenses paid	(268,296,296)	(259,979,729)
Premiums paid to health maintenance organizations, life, disability, dental, property/liability, workers' compensation, and boiler and machinery carriers	(45,456,100)	(40,729,445)
Amounts paid to third party administrators and other vendors	<u>(18,850,702)</u>	<u>(19,506,308)</u>
Net cash flows (used) provided by operating activities	<u>(10,413,457)</u>	<u>2,737,095</u>
Cash flows from non-capital financing activities - other	<u>58,667</u>	<u>41,461</u>
Cash flows from investing activities:		
Withdraws from State Investment Council-Long term investments	18,300,000	-
Interest, dividends, gains and losses, net, on investments	<u>201,620</u>	<u>225,430</u>
Total cash flows from investing activities	18,501,620	225,430
Cash flows from capital activities:		
Additions to capital assets	<u>-</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,146,830	3,003,986
*Cash and cash equivalents at beginning of year	<u>80,453,497</u>	<u>77,449,511</u>
*Cash and cash equivalents at end of year	<u>\$ 88,600,327</u>	<u>\$ 80,453,497</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating earnings to net cash provided by operating activities		
Operating (loss) income	\$ (10,233,528)	\$ (857,021)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation expense	21,006	21,382
(Decrease) increase in reserves for losses and loss adjustment expenses	(851)	2,066,129
Decrease in receivables from excess insurers and others	628,289	957,560
Increase (decrease) in unearned premium revenue	11,964	(51,753)
(Decrease) in due to other State agencies	-	(49,600)
(Decrease) increase due to insurance carriers for claims paid	(622,509)	525,322
(Decrease) increase in accounts payable and accrued payroll	(217,913)	135,918
Increase (decrease) in accrued compensated absences	85	(10,842)
Net cash (used) provided by operating activities	<u>\$ (10,413,457)</u>	<u>\$ 2,737,095</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

For the year ended June 30, 2013, the net increase in the fair value of investments was \$5,657,779. There were no realized gains on investments for the year ended June 30, 2013.

For the year ended June 30, 2012, the net increase in the fair value of investments was \$62,825. There were no realized gains on investments for the year ended June 30, 2012.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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 as amended by FASB 39 and 61, *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 52 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. Accordingly no allowance for uncollectable receivables has been recorded.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

NOTE A - ORGANIZATION AND OPERATIONS - CONTINUED

NMPSIA did not receive any appropriations or bond proceeds from the State of New Mexico in 2013 and 2012, 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 net position 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 for sound financial administration. Goods or services from such activities are provided to outside parties. NMPSIA has adopted GASB 62 for the 2013 fiscal year, which incorporates Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions and Research Bulletins which do not conflict or contradict GASB statements.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

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 statement of net position.

The accrual basis of accounting is used by proprietary fund types. NMPSIA follows GASB 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. 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 nonoperating revenues and expenses in the statements of revenues, expenses, and changes in net position.

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 Fund 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>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 52,967,096	\$ 15,159,155
New Mexico State Treasurer's State Fund Investment Pool	548,625	586,313
New Mexico State Treasurer's Local Government Investment Pool	<u>35,084,606</u>	<u>64,708,029</u>
	<u>\$ 88,600,327</u>	<u>\$ 80,453,497</u>

Cash in bank accounts is insured up to \$250,000 per bank at June 30, 2013. 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 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.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

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

4. Investment in the New Mexico State Treasurer’s Local Government Investment Pool, New Mexico State Treasurer’s State General Fund Investment Pool and New Mexico State Investment Council Long-Term Investment Pool

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 \$34,778 which is being held in the Reserve Contingency Fund (see page 27 for further information).

State law (Section 8-6-3 NMSA 1978) requires NMPSIA’s administrative cash be managed by the New Mexico State Treasurer’s Office. Accordingly, the investments of NMPSIA consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer’s Office.

At June 30, 2013 NMPSIA had the following invested in the State General Fund Investment Pool:

State General Fund Investment Pool	\$548,625
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For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the GFIP), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

The GFIP 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.

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.

Interest Rate Risk – The New Mexico State Treasurer’s Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

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

4. Investment in the New Mexico State Treasurer’s Local Government Investment Pool, New Mexico State Treasurer’s State General Fund Investment Pool and New Mexico State Investment Council Long-Term Investment Pool (Continued)

Credit Risk – The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report of the New Mexico State Treasurer’s Office for the fiscal year ended June 30, 2013.

State General Fund Investment Pool Reconciliation Issue

In June 2012, an independent diagnostic report revealed that GFIP balances had not been reconciled at a “business unit by fund” level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) system in July 2006. This report, entitled “Current State Diagnostic of Cash Control,” also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration.

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

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

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

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

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

4. Investment in the New Mexico State Treasurer’s Local Government Investment Pool, New Mexico State Treasurer’s State General Fund Investment Pool and New Mexico State Investment Council Long-Term Investment Pool (Continued)

State General Fund Investment Pool Reconciliation Issue (Continued)

DFA management recorded a loss contingency of \$101.7 million in the General Fund based on its estimate of the effect of issues related to the reconciliation of the GFIP, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

NMPSIA believes the impact of the cash reconciliation historical reconciling items does not have a material impact on its financial statements. Since the main source of deposits for the NMPSIA’s administrative cash are internal transfers from its other cash accounts. NMPSIA has internal controls to account for its expenditures. NMPSIA believes the balance in the GFIP of \$548,625 is materially correct at June 30, 2013.

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 fund net position at the end of each month. Fair value is based on quoted market value at year-end. Investment transactions are recorded on the trade date. Dividends are recognized as income when declared.

5. Capital Assets

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

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

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

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.

As discussed above, NMPSIA's management has discounted the losses and loss adjustment expenses for property, casualty, and workers' compensation to present values. Estimated outstanding losses were determined by NMPSIA's actuary to be \$45,805,646 and \$47,663,601 at June 30, 2013 and 2012, respectively. The indicated discounted losses and loss adjustment expenses are \$42,983,272 at June 30, 2013 and \$44,932,385 at June 30, 2012. Discounting is based on estimated payment dates and an appropriate assumed rate of return. The estimated unpaid losses as of June 30, 2013 and 2012 were discounted using an interest rate of and 2.0% for 2013 and 2012.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

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

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 of the 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. Unfavorable variances by expense category are not a budget violation. 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, 2013.

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.

At June 30, 2013, NMPSIA has total current and non-current reserves for losses and loss adjustment expenses in the amount of \$65,470,844. 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 2014.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

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

13. Net Position

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

Net Investment in Capital Assets – is intended to reflect the portion of net positions 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, 2013.

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

Restricted Net Position – net positions should be reported as restricted when constraints placed on net position 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 positions for benefits and risk functions of NMPSIA meet the criteria.

Restricted net position 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.

14. Reclassifications

Certain 2012 balances have been reclassified to conform with the 2013 presentation.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

NOTE C - CAPITAL ASSETS

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

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
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	59,177	-	-	59,177
	<u>839,608</u>	<u>-</u>	<u>-</u>	<u>839,608</u>
Accumulated Depreciation				
Building and building improvements	(404,281)	(20,243)	-	(424,524)
Furniture	(55,745)	(763)	-	(56,508)
	<u>(460,026)</u>	<u>(21,006)</u>	<u>-</u>	<u>(481,032)</u>
 Total	 <u>\$ 379,582</u>	 <u>\$ (21,006)</u>	 <u>\$ -</u>	 <u>\$ 358,576</u>

Depreciation expense of \$21,006 and \$21,382 is included in general and administrative expenses on the financial statements for the years ended June 30, 2013 and 2012, 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, 2013, the per occurrence self-insurance retention for workers' compensation losses is \$500,000 and the property, automobile 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, 2012 to July 1, 2013, 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.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

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, 2013 and 2012 and the related provisions for the years ended June 30, 2013 and 2012, may not ultimately be the actual cost of settling all unpaid claims.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

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
	2013	2012	2013	2012	2013	2012	
Estimated reserves for claims	\$ 22,487,572	\$ 20,539,310	\$ 30,502,467	\$ 29,610,605	\$ 15,303,179	\$ 18,052,996	\$ 68,293,218
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)	\$ 22,487,572	\$ 20,539,310	\$ 30,502,467	\$ 29,610,605	\$ 15,303,179	\$ 18,052,996	\$ 68,293,218
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)	\$ 20,539,310	\$ 21,122,072	\$ 29,610,605	\$ 30,623,689	\$ 18,052,996	\$ 15,067,642	\$ 68,202,911
Incurred losses and loss adjustment expenses	256,739,949	250,726,846	12,535,000	12,496,000	3,704,077	6,641,420	272,979,026
Provision for insured events of the current year	1,933,369	(2,149,547)	1,195,915	(793,634)	5,132,715	5,432,058	8,261,999
Increase (decrease) in provision for events of prior years	258,673,318	248,577,299	13,730,915	11,702,366	8,836,792	12,073,478	281,241,025
Total incurred losses and loss adjustment expenses	256,739,949	248,577,299	13,730,915	11,702,366	8,836,792	12,073,478	281,241,025
Payments (net of amounts receivable pursuant to excess insurance contracts)	234,252,377	230,177,536	3,469,501	3,584,255	2,141,119	1,951,526	239,862,997
Losses and loss adjustment expenses attributable to events of the current year	22,472,679	18,972,525	9,369,552	9,131,195	9,445,490	7,136,598	41,287,721
Losses and loss adjustment expenses attributable to events of prior year	256,725,056	249,150,061	12,839,053	12,715,450	11,586,609	9,088,124	281,150,718
Total payments and adjustment expenses	22,487,572	20,539,310	30,502,467	29,610,605	15,303,179	18,052,996	68,293,218
Reserves for losses and loss adjustment expenses at end-of-year (undiscounted)	-	-	2,316,058	2,138,092	506,316	593,124	2,822,374
Less discount factor	\$ 22,487,572	\$ 20,539,310	\$ 28,186,409	\$ 27,472,513	\$ 14,796,863	\$ 17,459,872	\$ 65,470,844
*Reserves for losses and loss adjustment expenses at end-of-year (discounted)							\$ 65,471,695

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

NOTE F – CASH AND INVESTMENTS

NMPSIA follows GASB statement No. 40, *Deposit and Investment Risk Disclosures* for the years ended June 30, 2013 and 2012. NMPSIA investments held by the State Investment Council at June 30, 2013 and 2012 were as follows:

	2013		2012	
	Benefits	Risk	Benefits	Risk
Large Cap Index	\$ 5,877,839	\$ 5,740,045	\$ 9,677,572	\$ 6,451,680
Core Bonds	3,956,937	3,984,238	8,070,260	5,380,270
Mid/Small Cap	1,555,872	1,502,844	2,348,555	1,565,683
Emerging Markets	830,823	845,701	1,759,771	1,173,153
Non US Developed Markets	594,659	585,470	1,013,816	675,889
Total	<u>\$ 12,816,130</u>	<u>\$ 12,658,298</u>	<u>\$ 22,869,974</u>	<u>\$ 15,246,675</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, 2013 and 2012 were \$52,967,096 and \$15,159,155, respectively. Bank balances before reconciling items were \$52,967,657 and \$15,159,823 at June 30, 2013 and 2012, 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 2013 and 2012 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, 2013 was 59 days WAM(R) and 90 days WAM (F), 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. The pool does not have any foreign currency risk as all holdings are denominated in US dollars. Participation in the local government investment pool is voluntary.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

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 then 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, 2013, NMPSIA had \$35,119,384 still invested in NMLGIP, of which \$34,778 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, 2013 and 2012, NMPSIA received a distribution of \$0 and \$172,834, respectively, from the Reserve Contingency Fund which was recorded as interest income. The New Mexico State Treasurer's Office does not believe that there will be additional distributions.

Total investment income and gains from investment is as follows:

	2013	2012
Investment income	\$ 195,474	\$ 222,517
Unrealized gain	5,657,779	62,825
Total investment income	\$ 5,853,253	\$ 285,342

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, 2013 and 2012

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, 2013 and 2012 were as follows:

	2013	2012
Administrative fees of Health Care Providers	\$ 13,083,267	\$ 12,380,499
Third party administrations claims processing and other management fees	4,307,556	6,026,131
Wellness management services	7,500	3,500
	\$ 17,398,323	\$ 18,410,130

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 for the year ended June 30, 2013. NMPSIA is required to contribute 15.09% of the gross covered salary for the year ended June 30, 2013. 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, 2013, 2012, and 2012 were \$133,862 (including \$49,814 of employee contributions), \$125,918 (including \$55,733 of employee contributions), and \$133,767 (including \$49,490 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.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

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

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

NMPSIA's total contributions to the RHCA for the year ended June 30, 2013, 2012 and 2011 were \$16,752, \$14,893, and \$13,953, respectively, which equal the required contributions for each fiscal year.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

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, 2012	Additions	Deletions	Balance June 30, 2013
Annual leave	\$ 37,772	\$ 16,438	\$ 13,917	\$ 40,293
Sick leave	4,926	4,411	6,847	2,490
Total accrued compensated absences	<u>\$ 42,698</u>	<u>\$ 20,849</u>	<u>\$ 20,764</u>	<u>\$ 42,783</u>

Based on expected usage during the 2014 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, 2013 and 2012 was \$24,878 and \$20,222, respectively. Remaining lease payments under the leases are as follows:

Fiscal Years June 30:

2014	\$ 3,258
2015	-
	<u>\$ 3,258</u>

NOTE M - DUE FROM AND DUE TO OTHER STATE AGENCIES

There were no amounts due from or due to other state agencies at June 30, 2013 and 2012.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

NOTE N - OPERATING TRANSFERS

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

SHARE #	2013		2012	
	From	To	From	To
Administration Fund (34900)	\$ 1,272,600	\$ -	\$ 1,272,600	\$ -
Benefits Fund (35000)	-	636,300	-	636,300
Risk Fund (35100)	-	636,300	-	636,300
	<u>\$ 1,272,600</u>	<u>\$ 1,272,600</u>	<u>\$ 1,272,600</u>	<u>\$ 1,272,600</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 adopted GASB 60, *Service Concession Arrangements*; GASB 61, *Component Units-Modification of GASB 14 and 39*; GASB 62, *Codification of Accounting and Financial Reporting Guidance*; and GASB 63, *Statement of Net Position, Deferred Inflows and Outflows* for the year ended June 30, 2013. GASB 63 introduces the term net position instead of net assets. There were no deferral inflows or outflows to separately report at June 30, 2013. The adoption of these new accounting pronouncements had no impact on the financial condition of the NMPSIA.

Governmental Accounting Standards Board Statement No. 65 *Items Previously Reported as Assets and Liabilities* (GASB 65) changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources. GASB 65 is applicable for the 2014 fiscal year. Management is reviewing the provisions of this statement for possible effects on its financial reporting but should not have a material impact on the financial statements.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013 and 2012

NOTE P – ACCOUNTING STANDARD PRONOUNCEMENTS - CONTINUED

The Governmental Accounting Standards Board (GASB) has published Statements No. 67, *Financial Reporting for Pension Plans* and No. 68, *Accounting and Financial Reporting for Pensions*. These standards revise existing guidance for governments that provide their employees with pension benefits. Significant change is the requirement to record each governmental entity's pro rate share of unfunded actuarial accrued liability (UAAL) on its financial statements including multi-employer cost sharing plans. The Public Employees Retirement Association (PERA), is a multi-employer cost sharing plan. The changes arising from these statements are significant and NMPSIA will comply with these changes as implementation information is provided by the State of New Mexico and PERA. The implementation date for Statement No. 68, most relevant to NMPSIA, is for fiscal year 2015.

The status of the PERA Plan at June 30, 2012, the most recent audited financial statement available, has an unfunded accrued actuarial liability of approximately \$6.2 billion.

NOTE Q – SUBSEQUENT EVENTS

NMPSIA has evaluated subsequent events through November 22, 2013, which is the date the financial statements have been issued and have determined no events require disclosure or adjustment to the financial statements.

SUPPLEMENTARY INFORMATION

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

New Mexico Public Schools Insurance Authority

STATEMENT OF BUDGETARY BASIS REVENUES
AND EXPENDITURES - BUDGET AND ACTUAL

June 30, 2013

	Total Actual	Original Budget	Budget as Amended	Variance Favorable (Unfavorable)
Revenues				
Employee insurance and other insurance premiums	\$ 317,783,516	\$ 338,075,200	\$ 338,075,200	\$ (20,291,684)
Interest (loss) and other state funds	5,853,253	117,200	117,200	5,736,053
Miscellaneous income	3,824,539	2,709,100	2,709,100	1,115,439
Other financing sources	1,272,600	1,272,600	1,272,600	-
Subtotal	328,733,908	342,174,100	342,174,100	\$ (13,440,192)
Cash balance carryforward	-	9,256,000	9,256,000	
Total	328,733,908	\$ 351,430,100	\$ 351,430,100	
Expenditures				
Personal services	849,126	\$ 874,500	\$ 874,500	\$ 25,374
Contractual services	329,119,384	349,065,600	349,065,600	19,946,216
Other costs	194,112	217,400	217,400	23,288
Other financing uses	1,272,600	1,272,600	1,272,600	-
	331,435,222	\$ 351,430,100	\$ 351,430,100	\$ 19,994,878
Excess of revenues over expenditures	(2,701,314)			
Adjustment from modified accrual to accrual basis:				
Audit adjustment to adjust claims expense for reserve for losses and loss adjustment expenses	(1,599,203)			
Depreciation expense	(21,006)			
Audit adjustment to increase compensated absences	(85)			
Total adjustments to reconcile to GAAP	(1,620,294)			
Changes in net position	\$ (4,321,608)			

New Mexico Public Schools Insurance Authority

CASH AND CASH EQUIVALENTS - RECONCILIATION
FROM BOOKS TO FINANCIAL STATEMENTS

June 30, 2013

	<u>Benefits</u>	<u>Risk</u>	<u>Administration</u>	<u>Cash Balance Per Bank</u>
Interest bearing checking and money market accounts:				
Wells Fargo:				
Employee benefits depository	\$ 180,039	\$ -	\$ -	\$ 180,039
Employee benefits short term investment account	15,102,884	-	-	15,102,884
Employee Benefits disbursement account	-	-	-	-
Risk depository account	-	35,172,511	-	35,172,511
Risk short term investment account	-	2,512,223	-	2,512,223
Total cash balance per bank	<u>15,282,923</u>	<u>37,684,734</u>	<u>-</u>	<u>52,967,657</u>
Reconciling items:				
Less outstanding checks	<u>(561)</u>	<u>-</u>	<u>-</u>	<u>(561)</u>
Total cash and cash equivalents per the balance sheet	<u>\$ 15,282,362</u>	<u>\$ 37,684,734</u>	<u>\$ -</u>	<u>\$ 52,967,096</u>
New Mexico State Treasurer's General Fund Investment Pool			<u>\$ 548,625</u>	

The outstanding warrants at June 30, 2013 was not provided to NMPSIA by the State Treasurer's Office. Also see the footnote disclosure on pages 18 and 19 for the New Mexico State Treasurer General Fund Investment Pool that is not reconciled at June 30, 2013.

New Mexico Public Schools Insurance Authority

STATEMENTS OF NET POSITION INFORMATION
BY FUNCTIONAL ACTIVITY

June 30, 2013

	Benefits	Risk	Administration	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 15,282,362	\$ 37,684,734	\$ -	\$ 52,967,096
New Mexico State Treasurer's State Fund Investment Pool	-	-	548,625	548,625
Investments				
New Mexico State Treasurer's Local Government Investment Pool	29,997,619	5,086,987	-	35,084,606
Accrued interest receivable	2,109	4,121	-	6,230
Receivables from excess insurers and others, net	-	165,277	-	165,277
Prepaid expenses and deposits	-	256,180	-	256,180
Total current assets	45,282,090	43,197,299	548,625	89,028,014
NON CURRENT ASSETS				
Investments – long-term	12,816,130	12,658,298	-	25,474,428
Capital assets, net	-	-	358,576	358,576
Total non current assets	12,816,130	12,658,298	358,576	25,833,004
Total assets	<u>\$ 58,098,220</u>	<u>\$ 55,855,597</u>	<u>\$ 907,201</u>	<u>\$ 114,861,018</u>
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Reserves for losses and loss adjustment expenses	\$ 22,487,572	\$ -	\$ -	\$ 22,487,572
Unearned premium revenue and carrier advances	89,318	-	-	89,318
Due to insurance carriers for claims paid	2,899,244	350,669	-	3,249,913
Accounts payable	1,022,758	179,876	23,745	1,226,379
Accrued payroll	-	-	15,792	15,792
Accrued compensated absences	-	-	42,783	42,783
Total current liabilities	26,498,892	530,545	82,320	27,111,757
NON CURRENT LIABILITIES				
Reserve for losses and loss adjustment expenses	-	42,983,272	-	42,983,272
Total liabilities	26,498,892	43,513,817	82,320	70,095,029
NET POSITION				
Restricted for future benefits	31,599,328	12,341,780	-	43,941,108
Net investment in capital assets	-	-	358,576	358,576
Unrestricted	-	-	466,305	466,305
Net position	31,599,328	12,341,780	824,881	44,765,989
Total liabilities and net position	<u>\$ 58,098,220</u>	<u>\$ 55,855,597</u>	<u>\$ 907,201</u>	<u>\$ 114,861,018</u>

New Mexico Public Schools Insurance Authority

REVENUES, EXPENSES, AND CHANGES IN NET POSITION
INFORMATION BY FUNCTIONAL ACTIVITY

June 30, 2013

	Benefits	Risk	Administration	Total
REVENUES				
Participant premiums	\$ 268,420,377	\$49,363,139	\$ -	\$ 317,783,516
Settlement reimbursements and rebates	3,765,872	-	-	3,765,872
Total revenues	272,186,249	49,363,139	-	321,549,388
EXPENSES				
Losses and loss adjustment expenses, net of excess recoveries	248,432,395	19,863,050	-	268,295,445
Premiums for health maintenance organizations, life, disability, dental insurance, property/ liability, workers' compensation, and boiler and machinery	10,240,923	34,592,668	-	44,833,591
Insurance servicing and administration fees	13,323,950	4,074,373	-	17,398,323
General and administrative	-	-	1,255,557	1,255,557
Total expenses	271,997,268	58,530,091	1,255,557	331,782,916
Operating income (loss)	188,981	(9,166,952)	(1,255,557)	(10,233,528)
NONOPERATING REVENUES AND EXPENSES				
Investment income, gains and (losses)	3,534,209	2,319,044	-	5,853,253
Other income	58,667	-	-	58,667
Total nonoperating revenues (losses)	3,592,876	2,319,044	-	5,911,920
Transfers in (out)	(636,300)	(636,300)	1,272,600	-
CHANGES IN NET POSITION	3,145,557	(7,484,208)	17,043	(4,321,608)
Net position, beginning of year	28,453,771	19,825,988	807,838	49,087,597
Net position, end of year	<u>\$ 31,599,328</u>	<u>\$12,341,780</u>	<u>\$ 824,881</u>	<u>\$ 44,765,989</u>

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

New Mexico Public Schools Insurance Authority

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)

June 30, 2013 and 2012

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, 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net earned required contribution and investment revenues	\$ 205,245,507	\$ 226,321,224	\$ 241,727,367	\$ 270,132,104	\$ 265,841,170	\$ 283,917,670	\$ 291,631,299	\$ 293,708,019	\$ 281,118,806	\$ 282,627,712
Unallocated expenses	5,354,061	7,332,282	7,612,117	7,598,157	8,304,838	7,859,548	8,237,630	6,696,198	7,222,667	5,570,613
Estimated incurred claims and expense, end of policy year	172,444,085	201,927,714	213,467,502	255,130,017	263,721,520	260,759,518	262,512,816	270,658,035	270,953,635	281,150,718
Net paid (cumulative) as of:										
End of policy year	152,865,399	171,668,631	183,096,907	197,057,681	208,882,151	226,635,639	223,916,746	235,603,145	235,713,317	239,862,997
One year later	164,024,706	175,015,767	188,019,560	201,295,193	212,461,499	231,064,002	229,730,216	243,563,999	240,427,472	
Two years later	165,771,526	177,301,518	189,307,772	202,879,462	214,157,616	234,075,702	231,640,021	247,508,334		
Three years later	167,172,873	177,392,784	190,670,395	203,776,130	215,137,907	236,682,892	233,076,567			
Four years later	167,561,754	177,895,449	191,576,179	203,875,731	216,132,069	238,179,844				
Five years later	168,876,591	178,237,200	191,660,945	204,693,276	217,116,147					
Six years later	168,830,852	178,406,756	192,186,480	205,071,282						
Seven years later	169,080,663	178,834,309	191,928,785							
Eight years later	169,291,744	179,171,600								
Nine years later	169,647,002									
Re-estimated net incurred claims and expenses:										
End of policy year	172,444,085	201,927,714	213,467,502	255,130,017	263,721,520	260,759,518	262,512,816	270,658,035	270,953,635	281,150,718
One year later	170,336,697	193,825,598	207,472,874	245,005,575	258,321,274	254,379,796	256,697,345	265,296,208	265,603,783	
Two years later	166,511,403	190,220,890	200,852,606	242,895,889	255,766,447	252,189,456	254,117,542	263,282,222		
Three years later	164,216,083	186,471,439	200,561,399	241,705,687	254,960,857	250,802,393	252,807,848			
Four years later	162,541,137	186,195,071	199,710,616	241,065,050	254,065,875	250,197,996				
Five years later	162,343,211	185,483,934	199,148,785	240,534,135	253,357,040					
Six years later	161,679,490	185,107,868	198,678,251	240,285,773						
Seven years later	161,380,192	184,782,827	198,447,646							
Eight years later	161,131,588	184,440,928								
Nine years later	160,922,855									
Increase (decrease) in estimated net incurred claims and expenses from end of original policy year	\$ (11,521,230)	\$ (17,486,786)	\$ (15,019,856)	\$ (14,844,244)	\$ (10,364,480)	\$ (10,561,522)	\$ (9,704,968)	\$ (7,375,813)	\$ (5,349,852)	\$ -



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**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and its respective budgetary comparison presented as supplementary information of the New Mexico Public Schools Insurance Authority, as of and for the years ended June 30, 2013 and 2012, which collectively comprise the New Mexico Public School Insurance Authority's basic financial statements and have issued our report thereon dated November 22, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 an instance of noncompliance or matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and responses as item 12-01.

New Mexico Public Schools Insurance Authority's Responses to Finding

New Mexico Public Schools Insurance Authority's response to our finding identified in our audit is described in the accompanying schedule of findings and responses. New Mexico Public Schools Insurance Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

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



Barraclough & Associates, P.C.
Santa Fe, New Mexico
November 22, 2013

New Mexico Public Schools Insurance Authority

SCHEDULE OF FINDINGS AND RESPONSES AND
STATUS OF PRIOR YEAR AUDIT FINDING

June 30, 2013

**12-01 Statewide Resources Accounting and Management Reporting System (SHARE)
Reconciliation and Status of Prior Year Audit Finding – Other Finding**

Statement of Condition:

NMPSIA maintains its own general ledger system and all transactions also need to be accounted for in SHARE, the centralized accounting system for the State of New Mexico. NMPSIA did not properly reconcile its general ledger system to SHARE for SHARE fund 35100 (Risk) on a timely basis.

Criteria:

NMPSIA should reconcile its general ledger system to SHARE as required by the State Audit Rule 2.2.2 NMAC and to ensure all data is complete and accurate.

Effect:

NMPSIA's general ledger system does not agree to the SHARE records at fiscal year end.

Cause:

NMPSIA did not reconcile its general ledger system to SHARE on a timely basis.

Recommendation:

NMPSIA should reconcile their general ledger system to SHARE on a quarterly basis to ensure all data is complete and accurate.

Responsible Official's Views:

It is the responsibility of the Department of Finance & Administration (DFA) to post JE's submitted by state agencies into SHARE. The auditor adjustments for FY 2012 were entered into SHARE by NMPSIA in January 2013 and not posted by DFA until July 11, 2013, six months after NMPSIA entered the AJE's in SHARE. Had DFA posted the AJE's timely, NMPSIA would have reconciled with SHARE at the end of FY 2013.

Current Status of Prior Year Findings – Other Finding

12-01 SHARE Reconciliation Repeated

New Mexico Public Schools Insurance Authority

EXIT CONFERENCE

June 30, 2013

Exit Conference

An exit conference was held on December 5, 2013 to discuss the current report. Those in attendance were as follows:

New Mexico Public Schools Insurance Authority

Lowell Irby, President
Jose F. Cano, Vice-President
Mary Parr-Sanchez, Secretary
Robert Lowery, Board Member
Ester Marquez, Board Member

Sammy J. Quintana, Executive Director
Christy Edwards, Deputy Director
Don Gonzales, Comptroller
Norma Henderson, Financial Manager

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.

