

**NEW MEXICO PUBLIC SCHOOLS
INSURANCE AUTHORITY**

FINANCIAL STATEMENTS

June 30, 2015 and 2014

(With Independent Auditors' Reports Thereon)



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

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New Mexico Public Schools Insurance Authority

OFFICIAL ROSTER

June 30, 2015

BOARD OF DIRECTORS

Mary Parr-Sanchez, President	National Education Association
Marc Space, Ed. D, Vice-President	New Mexico Superintendents Association
Karon Axtell, Secretary and Treasurer	National Education Association
Tim Crone	American Federation of Teachers New Mexico
Lowell Irby	NM School Boards Association
Robert Lowery	Governor Appointee
Esther Marquez	Governor Appointee
Vacant	Governor Appointee
Millie Pogna	Public Education Commission
Chris Parrino	NM Association of School Business Officials
Katherine Ulibarri	Educational Institutions at Large

OFFICIALS OF THE NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY

Sammy J. Quintana	Executive Director
Christy Edwards	Deputy Director
Norma Henderson	Interim Comptroller

"30 Years of Excellence"

807 Camino De Monte Rey
Post Office Box 1847
Santa Fe, New Mexico 87504
(505) 983-3387
(505) 988-2505 FAX
(800) 983-1040 Toll Free
ba@barracough.com



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

Principals

John E. Barraclough, Jr., C.P.A.
Annette V. Hayden, C.P.A.
Sandra M. Shell, C.P.A./A.B.V., C.V.A.
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. Timothy Keller, 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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the New Mexico Public Schools Insurance Authority's 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, 2015, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows for the years then ended and its respective budgetary comparison for the year ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 2015 and 2014, 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.

As discussed in Note J, the State of New Mexico, as a single employer, has implemented GASB 68, *Accounting and Financial Reporting for Pensions*, in the June 30, 2015 Comprehensive Annual Financial Report (CAFR). Accordingly, there is no allocation of the proportional share of the net pension liability to individual agencies or to New Mexico Public Schools Insurance Authority's basic financial statements. All other required footnote and other disclosures required by Governmental Accounting Standards Board are included in the State of New Mexico CAFR for June 30, 2015. 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 America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the New Mexico Public School Insurance Authority's basic financial statements and the budgetary comparison information presented as Schedule 1 in the supplemental information. The supplementary information included in Schedules 2 through 4 are 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

Other Matters (Continued)

Other Information (Continued)

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

The supplementary information included in Schedule 5 and Schedule 6 is also presented for purposes of additional analysis and is not a required part of the financial statements of the New Mexico Public Schools Insurance Authority. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2015 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 5, 2015

New Mexico Public Schools Insurance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Required Supplementary Information
June 30, 2015

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, 2015, compared to the year ended June 30, 2014. 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 increased by \$945,200.

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 10 of the financial statements.

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

Statement of Budgetary Basis Revenues and Expenditures – Budget 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 31 of this report. As disclosed in footnote J, the State of New Mexico implemented GASB 68, *Accounting and Financial Reporting for Pensions*, only in the statewide Comprehensive Annual Financial Report (CAFR) and did not impact NMPSIA's financial statements.

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 and the vendor schedule with contracts greater than \$60,000 is also presented.

New Mexico Public Schools Insurance Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Required Supplementary Information (Continued)

June 30, 2015

NMPSIA's total net position for the year ended June 30, 2015 decreased by \$2,242,477. The majority of this decrease can be attributed to an increase in property and liability claims in the Risk Program. Even though revenues were below the original projections for the Employee Benefits Program (\$294.1 million compared to \$303.9 million projected), claims expenditures of \$267.6 million were less than the projected amount of \$277.1 million by \$9.5 million. The Risk Program was also below revenue projections generating \$69.0 million in revenues as compared to the projected amount of \$70.7 million, a difference of \$1.7 million. The Risk Program experienced an increase in claims expenses incurring a total of \$33.2 million as compared to a projected amount of \$30.5 million, an unfavorable difference of \$2.7 million.

The long-term investments portfolio had gains of approximately \$945,200 compared to gains of \$4,778,725 in fiscal year 2014. During fiscal year 2015 NMPSIA's long-term investments portfolio was managed by the State of New Mexico Investment Council (SIC) and are invested in their Core Bond, Large Cap Index, Non US Developed Markets, Non US Emerging Markets and Mid/Small Cap funds. The Benefits Program's gains represented the largest share at \$482,464 and the Risk Program with the balance of \$462,736. NMPSIA contracted with an investment consultant firm in fiscal year 2015 to draft a new long-term investment policy and to make recommendations on a revised investment allocation for funds managed by the SIC.

NMPSIA's short term funds are invested in the New Mexico 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 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 2015, both the LGIP and the fiscal agent bank yield rates remained constant. Short term interest income was higher than originally anticipated due to the Agency's conservative projections.

Total liabilities decreased by approximately \$1,245,988 in the current year. This decrease was largely due to a decrease in the Benefit Program claims payable and a decrease in the claims reserves for the Risk Program. The Employee Benefits Program experienced an increase in Incurred But Not Reported reserves of \$152,745. Fiscal year 2015 premium revenue of \$359.9 million increased from the 2014 fiscal year amount of \$348.3 million. In fiscal year 2015, both major medical premiums and risk premiums increased and were assessed to the school districts, charter schools and other educational entities.

In fiscal year 2015 risk premium expenses decreased by 2.9% or, \$1.1 million as compared to fiscal year 2014. Property and liability excess insurance coverage accounted for the \$1.1 million decrease. Increases in property values for school districts statewide results in an additional property premium of \$500 thousand mid-year but overall, fiscal year 2015 premiums were lower compared to fiscal year 2014.

New Mexico Public Schools Insurance Authority

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

Required Supplementary Information (Continued)

June 30, 2015

General administrative and servicing expenses accounted for 5.9% of NMPSIA's total expenses in fiscal year 2015 as compared to 5.3% for fiscal year 2014.

NMPSIA did not receive any General Fund Appropriation in fiscal year 2015 or 2014.

NMPSIA had \$37,334 and \$0 of capital asset additions during 2015 and 2014, respectively. NMPSIA did not issue any short-term or long-term debt during 2015 or 2014.

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 \$377,135,700 was required. There were five budget adjustment requests for the year ended June 30, 2015. One was to increase the budget for personal services in the amount of \$24,800 and contractual services by \$12,500 in the Program Support Fund. There were two budget transfers increasing personal services in the amount of \$17,000, also for the Program Support Fund. The remaining two bars increased the budget for contractual services in the amount of \$4,200,000 for the Risk Program.

The Employee Benefits Program began fiscal year 2015 with a net position of \$42,262,595 and decreased \$877,186 to a fiscal year 2015 net position of \$41,385,409. This decrease in net position was due to an unanticipated increase in prescription drug claims expense.

The Risk Program began fiscal year 2015 with a fund balance of \$5,425,398 and decreased by \$1,342,916 in fiscal year 2015 to \$4,082,482. The decrease in net position was due to an increase in the amount of losses and loss adjustments net of recoveries. The increase in losses was covered by the fund balance which has decreased steadily over the past four fiscal years.

The Benefit Program actuarial report for fiscal year 2015 required an increase to Incurred But Not Reported (IBNR) for the Benefits Program. This increase in IBNR of \$152,745 decreased the Benefits Fund Balance by that amount. The Risk Program actuarial report for fiscal year 2015 required increasing the IBNR by \$495,413. This decreased 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, 2015

During 2015, 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 2015 computed at the rate of 2.0%, of the fund's cash reserves. This same rate was used for fiscal year 2014.

Over the past year, there have been several serious claims but 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. The exposure presented by these types of losses is directly tied to the weather. Property insurance premiums are expected to rise due to recent catastrophic storm losses on the East Coast.

On the liability side of the Risk Program ongoing types of claims that are of concern include Special Education and IDEA related civil rights claims, employment related claims (which include Whistleblower Protection Act allegations), and molestation claims. The expenses associated with defending all of these types of claims continue to increase year over year, representing significant cost exposure to NMPSIA.

The future for workers' compensation looks promising for NMPSIA. Claim losses have declined for the past two years. This is likely due to both a revamp of the bill review process by the third-party claims processing contractor which has led to an overall decrease of approximately 4% of the total claims billed amount and to an aggressive return to work policy. Also, the additional administrative costs, claim dollars, and fines from Medicare and Medicaid set aside regulations have not impacted the overall costs as originally anticipated. These factors, along with loss prevention services provided by the third-party contractor, have positively impacted the workers' compensation program despite an increase in the number of covered entities and an aging workforce.

NMPSIA expects minimal 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, 2015

The following table summarizes the financial position of NMPSIA's operations as of and for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Cash and investments	\$ 90,059,958	\$ 94,619,142	\$ (4,559,184)
Other current assets	<u>863,661</u>	<u>750,343</u>	<u>113,318</u>
Total current assets	<u>90,923,619</u>	<u>95,369,485</u>	<u>(4,445,866)</u>
Investments-long-term	31,198,353	30,253,153	945,200
Capital assets, net	<u>349,771</u>	<u>337,570</u>	<u>12,201</u>
Total non current assets	<u>31,548,124</u>	<u>30,590,723</u>	<u>957,401</u>
Total assets	<u>\$ 122,471,743</u>	<u>\$ 125,960,208</u>	<u>\$ (3,488,465)</u>
Reserve for losses	\$ 24,556,334	\$ 24,403,589	\$ 152,745
Other current liabilities	<u>2,962,633</u>	<u>7,482,597</u>	<u>(4,519,964)</u>
Total current liabilities	<u>27,518,967</u>	<u>31,886,186</u>	<u>(4,367,219)</u>
Total noncurrent liabilities-reserve for losses	<u>48,705,329</u>	<u>45,584,098</u>	<u>3,121,231</u>
Total liabilities	<u>76,224,296</u>	<u>77,470,284</u>	<u>(1,245,988)</u>
Net position-invested in capital assets	349,771	337,570	12,201
Net position-restricted for future claims	45,467,891	47,687,993	(2,220,102)
Net position-unrestricted	<u>429,785</u>	<u>464,361</u>	<u>(34,576)</u>
Total net position	<u>46,247,447</u>	<u>48,489,924</u>	<u>(2,242,477)</u>
Total liabilities and net position	<u>\$ 122,471,743</u>	<u>\$ 125,960,208</u>	<u>\$ (3,488,465)</u>

New Mexico Public Schools Insurance Authority

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

Required Supplementary Information (Continued)

June 30, 2015

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Premium revenue and other	\$ 359,902,939	\$ 348,326,657	\$ 11,576,282
Claims loss and loss adjustments	296,500,826	284,716,901	11,783,925
Premium expense	45,473,781	46,324,602	(850,821)
Insurance services	20,077,724	17,238,315	2,839,409
General administrative and other expenses	<u>1,342,036</u>	<u>1,309,350</u>	<u>32,686</u>
Total operating expenses	<u>363,394,367</u>	<u>349,589,168</u>	<u>13,805,199</u>
Operating (loss) income	(3,491,428)	(1,262,511)	(2,228,917)
Nonoperating revenues and expenses	<u>1,248,951</u>	<u>4,986,446</u>	<u>(3,737,495)</u>
Changes in net position	(2,242,477)	3,723,935	(5,966,412)
Net position, beginning of year	<u>48,489,924</u>	<u>44,765,989</u>	<u>3,723,935</u>
Net position, end of year	<u>\$ 46,247,447</u>	<u>\$ 48,489,924</u>	<u>\$ (2,242,477)</u>

NMPSIA's financial statements are designed to present users with the general overview of the NMPSIA's finances and to demonstrate NMPSIA's accountability. If you have questions about the report or need additional financial information, please contact New Mexico Public Schools Insurance Authority, 410 Old Taos Highway, Santa Fe, New Mexico 87501.

STATEMENTS OF NET POSITION

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 44,252,484	\$ 63,912,871
New Mexico State Treasurer's State Fund Investment Pool	536,691	554,593
New Mexico State Treasurer's Local Government Investment Pool	45,270,783	30,151,678
Accrued interest receivable	11,127	7,321
Receivables from excess insurers and others, net	596,354	486,842
Prepaid expenses and deposits	<u>256,180</u>	<u>256,180</u>
Total current assets	<u>90,923,619</u>	<u>95,369,485</u>
NON CURRENT ASSETS		
Investments -long-term	31,198,353	30,253,153
Capital assets, net of accumulated depreciation	<u>349,771</u>	<u>337,570</u>
Total non current assets	<u>31,548,124</u>	<u>30,590,723</u>
Total assets	<u>\$ 122,471,743</u>	<u>\$ 125,960,208</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Reserves for losses and loss adjustment expenses	\$ 24,556,334	\$ 24,403,589
Unearned premium revenue and carrier advances	86,543	66,404
Due to insurance carriers for claims paid	1,497,391	6,030,838
Accounts payable	1,305,067	1,323,406
Accrued payroll	13,163	10,091
Accrued compensated absences	<u>60,469</u>	<u>51,858</u>
Total current liabilities	27,518,967	31,886,186
NON CURRENT LIABILITIES		
Reserve for losses and loss adjustment expenses	<u>48,705,329</u>	<u>45,584,098</u>
Total liabilities	<u>76,224,296</u>	<u>77,470,284</u>
NET POSITION		
Restricted for future benefits	45,467,891	47,687,993
Net investment in capital assets	349,771	337,570
Unrestricted	<u>429,785</u>	<u>464,361</u>
Net position	<u>46,247,447</u>	<u>48,489,924</u>
Total liabilities and net position	<u>\$ 122,471,743</u>	<u>\$ 125,960,208</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, 2015 and 2014

	2015	2014
REVENUES		
Participant premiums	\$351,730,673	\$342,725,405
Settlement reimbursements and rebates	8,172,266	5,601,252
Total revenues	<u>359,902,939</u>	<u>348,326,657</u>
EXPENSES		
Losses and loss adjustment expenses, net of excess recoveries	296,500,826	284,716,901
Premiums for health maintenance organizations, life, disability, dental insurance, property/liability, workers' compensation, and boiler and machinery	45,473,781	46,324,602
Insurance servicing and administration fees	20,077,724	17,238,315
General and administrative	1,342,036	1,309,350
Total expenses	<u>363,394,367</u>	<u>349,589,168</u>
Operating (loss)	<u>(3,491,428)</u>	<u>(1,262,511)</u>
NONOPERATING REVENUES AND EXPENSES		
Investment income, gains and (losses), net	1,194,527	4,976,046
Other income, net	57,763	10,400
Loss on disposal of assets	(3,339)	-
Total nonoperating revenues	<u>1,248,951</u>	<u>4,986,446</u>
CHANGES IN NET POSITION	<u>(2,242,477)</u>	<u>3,723,935</u>
Net position, beginning of year	<u>48,489,924</u>	<u>44,765,989</u>
Net position, end of year	<u>\$ 46,247,447</u>	<u>\$ 48,489,924</u>

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Participant premiums collected	\$351,641,300	\$342,380,926
Reimbursement of losses from excess insurers and rebates	8,172,266	5,601,252
Losses and loss adjustment expenses paid	(293,226,850)	(280,200,058)
Premiums paid to health maintenance organizations, life, disability, dental, property/liability, workers' compensation, and boiler and machinery carriers	(50,007,228)	(43,543,677)
Amounts paid to third party administrators and other vendors	(21,404,622)	(18,426,258)
Net cash flows (used) provided by operating activities	<u>(4,825,134)</u>	<u>5,812,185</u>
Cash flows from non-capital financing activities - other	<u>57,763</u>	<u>10,400</u>
Cash flows from investing activities:		
Interest, dividends, gains and losses, net, on investments	<u>245,521</u>	<u>196,230</u>
Total cash flows from investing activities	245,521	196,230
Cash flows from capital activities:		
Additions to capital assets	<u>(37,334)</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(4,559,184)	6,018,815
*Cash and cash equivalents at beginning of year	<u>94,619,142</u>	<u>88,600,327</u>
*Cash and cash equivalents at end of year	<u>\$ 90,059,958</u>	<u>\$ 94,619,142</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of operating earnings to net cash provided by operating activities		
Operating (loss)	\$ (3,491,428)	\$ (1,262,511)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation expense	21,794	21,006
Increase in reserves for losses and loss adjustment expenses	3,273,976	4,516,843
(Increase) in receivables from excess insurers and others	(109,512)	(321,565)
Increase (decrease) in unearned premium revenue	20,139	(22,914)
(Decrease) increase due to insurance carriers for claims paid	(4,533,447)	2,780,925
(Decrease) increase in accounts payable and accrued payroll	(15,267)	91,326
Increase in accrued compensated absences	8,611	9,075
Net cash (used) provided by operating activities	<u>\$ (4,825,134)</u>	<u>\$ 5,812,185</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

For the year ended June 30, 2015, the net increase in the fair value of investments was \$945,200. There were no realized gains on investments for the year ended June 30, 2015.

For the year ended June 30, 2014, the net increase in the fair value of investments was \$4,778,725. There were no realized gains on investments for the year ended June 30, 2014.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 or maximum 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 is 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. At June 30, 2015 there were 45 retired school board members participating and paying 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, 2015

NOTE A - ORGANIZATION AND OPERATIONS - CONTINUED

NMPSIA did not receive any appropriations or bond proceeds from the State of New Mexico in 2015 and 2014, respectively. Any unexpended or unencumbered funds remaining at the end of the fiscal year do not revert to the State of New Mexico. There is no maximum or minimum amount of net position required. 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 follows GASB 62, 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, 2015

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 and as amended GASB 30, *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:

	2015	2014
Cash and cash equivalents	\$ 44,252,484	\$ 63,912,871
New Mexico State Treasurer's State Fund Investment Pool	536,691	554,593
New Mexico State Treasurer's Local Government Investment Pool	45,270,783	30,151,678
	\$ 90,059,958	\$ 94,619,142

Cash in bank accounts is insured up to \$250,000 per bank at June 30, 2015. 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, 2015

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.

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, 2015 NMPSIA had the following invested in the State General Fund Investment Pool:

State General Fund Investment Pool	\$536,691
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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 SGFIP), which is managed by the Office of the New Mexico State Treasurer. Claims on the SGFIP are reported as assets by the various agencies investing in the SGFIP.

The SGFIP 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, 2015

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, 2015.

State General Fund Investment Pool

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer’s Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State’s centralized accounting system), in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I the Department of Finance and Administration’s Financial Control division began reconciling transactional activity reported by the State’s fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims to resources reconciliation. The claims to resources reconciliation process has been successfully applied to fiscal year-end 2014 and the months from January 2015 through June 2015. While work remains, the results are encouraging and the following assertions can be made:

1. The difference between statewide agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims has remained within a relatively narrow range over the periods in which the reconciliation process has been used;
2. Agency claims on the SGFIP will be honored in their entirety. Any adjustment necessary to the claims balance will be applied against the General Operating Reserve. No portion of the adjustment shall be allocated to any specific agency that participates in the SGFIP.

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 SGFIP of \$536,691 is materially correct at June 30, 2015.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

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)

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

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.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

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

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 \$52,051,404 and \$48,511,321 at June 30, 2015 and 2014, respectively. The indicated discounted losses and loss adjustment expenses are \$48,705,329 at June 30, 2015 and \$45,584,098 at June 30, 2014. Discounting is based on estimated payment dates and an appropriate assumed rate of return. The estimated unpaid losses as of June 30, 2015 and 2014 were discounted using an interest rate of 2.0% for 2015 and 2014.

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

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

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

11. Budgetary Process (Continued)

budget amount. Unfavorable variances by expense category are not a budget violation. There are no legal restrictions on the Benefits and Risk functions' expenditures.

12. Budget Adjustments

There were five budget adjustment requests for the year ended June 30, 2015. One was to increase the budget for personal services in the amount of \$24,800 and increase contractual services in the amount of \$12,500 and the corresponding \$37,300 increase to fund balance. The second BAR was a category transfer from personal services in the amount of \$10,000 and the corresponding \$10,000 decrease in contractual services. The third BAR was a category transfer increasing personal services by \$7,000, increasing other by \$38,000 and the corresponding decrease in contractual services by \$45,000. The fourth BAR was to increase contractual services by \$2,500,000 and the corresponding increase of \$1,000,000 to short term investments and \$1,500,000 to miscellaneous revenue. The fifth BAR was to increase contractual services by \$1,700,000 and the corresponding increase of \$1,300,000 to short term investments and \$400,000 to miscellaneous revenue.

13. 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, 2015, NMPSIA has total current and non-current reserves for losses and loss adjustment expenses in the amount of \$73,261,663. 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 2016.

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 position is defined by GAAP as the residual of all assets, liabilities, deferred outflows of resources and deferred inflows of resources. There were no deferred inflows or deferred outflows for the year.

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 years ended June 30, 2015 and 2014.

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:

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

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

13. Net Position (Continued)

- 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 2014 balances have been reclassified to conform with the 2015 presentation.

NOTE C - CAPITAL ASSETS

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

	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
Assets not being depreciated				
Land	\$ 235,000	-	-	\$ 235,000
Art	1,765	-	-	1,765
Assets being depreciated				
Building and building improvements	543,666	37,334	(34,760)	546,240
Furniture	57,876	-	-	57,876
	<u>838,307</u>	<u>37,334</u>	<u>(34,760)</u>	<u>840,881</u>
Accumulated Depreciation				
Building and building improvements	(444,767)	(21,031)	31,421	(434,377)
Furniture	(55,970)	(763)	-	(56,733)
	<u>(500,737)</u>	<u>(21,794)</u>	<u>31,421</u>	<u>(491,110)</u>
Total	<u>\$ 337,570</u>	<u>\$ 15,540</u>	<u>\$ (3,339)</u>	<u>\$ 349,771</u>

Depreciation expense of \$21,794 and 21,006 is included in general and administrative expenses on the financial statements for the years ended June 30, 2015 and 2014, respectively.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

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, 2015, the per occurrence self-insurance retention for workers' compensation losses is \$600,000 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, 2014 to July 1, 2015, 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.

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, 2015 and 2014 and the related provisions for the years ended June 30, 2015 and 2014, may not ultimately be the actual cost of settling all unpaid claims.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015 and 2014

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
	2015	2014	2015	2014	2015	2014	
Estimated reserves for claims	\$ 24,556,334	\$ 24,403,589	\$ 31,083,952	\$ 31,258,825	\$ 20,967,452	\$ 17,252,496	\$ 76,607,738
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)	\$ 24,556,334	\$ 24,403,589	\$ 31,083,952	\$ 31,258,825	\$ 20,967,452	\$ 17,252,496	\$ 76,607,738
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)	\$ 24,403,589	\$ 22,487,572	\$ 31,258,825	\$ 30,502,467	\$ 17,252,496	\$ 15,303,179	\$ 72,914,910
Incurred losses and loss adjustment expenses	278,226,415	262,406,884	12,898,000	12,772,000	5,751,868	6,925,322	296,876,283
Provision for insured events of the current year							282,104,206
Increase (decrease) in provision for events of prior years	(262,678)	1,894,512	(730,211)	775,850	11,299,455	7,770,671	10,306,566
Total incurred losses and loss adjustment expenses	277,963,737	264,301,396	12,167,789	13,547,850	17,051,323	14,695,993	307,182,849
Payments (net of amounts receivable pursuant to excess insurance contracts)							
Losses and loss adjustment expenses attributable to events of the current year	253,670,081	238,003,295	3,516,079	3,347,954	2,201,380	3,697,287	259,387,540
Losses and loss adjustment expenses attributable to events of prior year	24,140,911	24,382,084	8,826,581	9,443,538	11,164,987	9,049,389	44,132,479
Total payments and adjustment expenses	277,810,992	262,385,379	12,342,660	12,791,492	13,366,367	12,746,676	303,520,019
Reserves for losses and loss adjustment expenses at end-of-year (undiscounted)	24,556,334	24,403,589	31,083,954	31,258,825	20,937,452	17,252,496	76,577,740
Less discount factor	-	-	2,657,260	2,365,270	658,817	561,953	3,316,077
*Reserves for losses and loss adjustment expenses at end-of-year (discounted)	\$ 24,556,334	\$ 24,403,589	\$ 28,426,694	\$ 28,893,555	\$ 20,278,635	\$ 16,690,543	\$ 73,261,663
							\$ 69,987,687

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE F – CASH AND INVESTMENTS

NMPSIA follows GASB statement No. 40, *Deposit and Investment Risk Disclosures* for the years ended June 30, 2015 and 2014. NMPSIA investments held by the State Investment Council at June 30, 2015 and 2014 were as follows:

	June 30, 2015		June 30, 2014	
	Benefits	Risk	Benefits	Risk
Large Cap Index	\$ 7,911,114	\$ 7,725,654	\$ 7,363,869	\$ 7,191,239
Core Bonds	4,318,671	4,348,468	4,234,755	4,273,035
Mid/Small Cap	1,887,122	1,822,804	1,947,659	1,881,277
Non US Emerging Markets	896,389	912,440	951,617	968,658
Non US Developed Markets	693,201	682,490	726,132	714,912
Total	<u>\$ 15,706,497</u>	<u>\$ 15,491,856</u>	<u>\$ 15,224,032</u>	<u>\$ 15,029,121</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, 2015 and 2014 were \$44,252,484 and \$63,912,871, respectively. Bank balances before reconciling items were \$44,252,579 and \$63,913,439 at June 30, 2015 and 2014, 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 2015 and 2014 were insured or covered by the State Treasurer's Collateralization Policy.

The New Mexico State Treasurer Local Government Investment Pool (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 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 Pool at June 30, 2015 was 54.6 days WAM(R) and 77.7 days WAM (F), which reduces the Pool's interest rate risk. The 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 Pool is voluntary.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE F – CASH AND INVESTMENTS - CONTINUED

NMPSIA recorded a loss from its investment in the Pool during fiscal year 2009. In September 2008, the Pool 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.

The Pool 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 the Pool.

As of June 30, 2015, NMPSIA had \$45,270,783 still invested in the Pool, of which \$0 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. In January 2015, the Reserve Primary Fund approved final distributions to the State Treasurer's Office. For the year ended June 30, 2015 NMPSIA received distributions of \$20,724 from the Reserve Contingency Fund for a total of \$260,008 received since the 2009 loss in the Reserve Contingency Fund. In June 2015, the remaining balances were written off of the Reserve Contingency Fund account.

Total investment income and gains from investments are as follows:

	<u>2015</u>	<u>2014</u>
Investment income	\$ 249,327	\$ 197,321
Unrealized gain	<u>945,200</u>	<u>4,778,725</u>
Total investment income	<u>\$ 1,194,527</u>	<u>\$ 4,976,046</u>

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

All investments are managed by the New Mexico State Investment Council which is audited annually. That report can be obtained by writing to the New Mexico State Investment Council, 41 Plaza la Prensa, Santa Fe, New Mexico 87507.

NOTE G – JOINT POWERS AGREEMENT

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

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

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, 2015 and 2014 were as follows:

	2015	2014
Administrative fees of		
Health Care Providers	\$ 13,215,637	\$ 13,024,842
Third party administrations claims		
processing and other management fees	6,858,087	4,208,973
Wellness management services	4,000	4,500
	\$ 20,077,724	\$ 17,238,315

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.nmpera.org.

Funding Policy. Plan members are required to contribute 8.92% of their gross salary for the year ended June 30, 2015. NMPSIA is required to contribute 16.99% of the gross covered salary for the year ended June 30, 2015. 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, 2015, 2014, and 2013 were \$109,431, \$95,837, and \$84,048, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE J – GASB 68 – FINANCIAL REPORTING AND DISCLOSURE FOR MULTIPLE-EMPLOYER COST SHARING PENSION PLANS BY EMPLOYER

Compliant with the requirements of Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State of New Mexico (the State) has implemented the standard for the fiscal year ending June 30, 2015. The NMPSIA, as part of the primary government of the State of New Mexico, is a contributing employer to a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Overall, total pension liability exceeds Plan net position resulting in a net pension liability. The State has determined the State’s share of the net pension liability to be a liability of the State as a whole, rather than any agency or department of the State and will not be reported in the department or agency level financial statements of the State. All required disclosures will be presented in the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the CAFR and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE K - POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which 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 <https://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, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, 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

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE K - POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED

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, 2015, 2014 and 2013 were \$12,886, \$11,574, and \$11,147, respectively, which equal the required contributions for each fiscal year.

NOTE L - 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:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
Annual leave	\$ 49,477	\$ 15,393	\$ 7,121	\$ 57,749
Sick leave	2,381	698	359	2,720
Total accrued compensated absences	<u>\$ 51,858</u>	<u>\$ 16,091</u>	<u>\$ 7,480</u>	<u>\$ 60,469</u>

Based on expected usage during the 2016 fiscal year all of the accrued compensated absences balance has been classified as a current liability.

NOTE M - COMMITMENTS AND CONTINGENCIES

NMPSIA leases two vehicles, 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, 2015 and 2014 was \$18,649 and \$22,948, respectively. Remaining lease payments under the leases are as follows:

<u>Fiscal Years June 30:</u>	
2016	\$ 15,148
2017	15,148
2018	7,873
2019	4,221
2020	360
	<u>\$ 42,750</u>

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE N - DUE FROM AND DUE TO OTHER STATE AGENCIES

There were no amounts due from or due to other state agencies at June 30, 2015 and 2014.

NOTE O - OPERATING TRANSFERS

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

SHARE #	2015		2014	
	From	To	From	To
Administration Fund (34900)	\$ 1,323,000	\$ -	\$ 1,286,400	\$ -
Benefits Fund (35000)	-	661,500	-	643,200
Risk Fund (35100)	-	661,500	-	643,200
	<u>\$ 1,323,000</u>	<u>\$ 1,323,000</u>	<u>\$ 1,286,400</u>	<u>\$ 1,286,400</u>

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

NOTE P - 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 Q – ACCOUNTING STANDARD PRONOUNCEMENTS

Governmental Accounting Standards Board has issued the following new pronouncements that may have an effect on NMPSIA's future financial statements. However, NMPSIA has not determined the impact on its financial statements.

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement is effective for the 2016 fiscal year

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, primary objective is to improve accounting and financial reporting in state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities, such as the New Mexico Retiree Health Care Authority. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, and expenses/expenditures. This statement is effective for the 2018 fiscal year.

New Mexico Public Schools Insurance Authority

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2015

NOTE Q – ACCOUNTING STANDARD PRONOUNCEMENTS (CONTINUED)

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). Provisions for GASB 76 are effective for reporting periods beginning after June 15, 2015.

NOTE R – SUBSEQUENT EVENTS

NMPSIA has evaluated subsequent events through November 5, 2015, 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, 2015

	Total Actual	Original Budget	Budget as Amended	Variance Favorable (Unfavorable)
Revenues				
Employee insurance and other insurance premiums	\$ 351,730,673	\$ 369,900,000	\$ 369,900,000	\$ (18,169,327)
Interest and other state funds	1,194,527	38,600	2,338,600	(1,144,073)
Miscellaneous income	10,217,044	506,400	2,406,400	7,810,644
Other financing sources	1,323,000	1,323,000	1,323,000	-
Subtotal	364,465,244	371,768,000	375,968,000	\$ (11,502,756)
Cash balance carryforward	-	5,367,700	5,405,000	
Total	364,465,244	\$ 377,135,700	\$ 381,373,000	
Expenditures				
Personal services	\$ 971,607	\$ 938,800	\$ 980,600	\$ 8,993
Contractual services	365,533,262	374,641,000	378,798,500	13,265,238
Other costs	262,586	232,900	270,900	8,314
Other financing uses	1,323,000	1,323,000	1,323,000	-
	368,090,455	\$ 377,135,700	\$ 381,373,000	\$ 13,282,545
Excess of revenues over expenditures	(3,625,211)			
Adjustment from modified accrual to accrual basis:				
Audit adjustment to adjust claims expense for reserve for losses and loss adjustment expenses	1,379,144	(21,794)		
Depreciation expense	(3,339)			
Audit adjustment to record loss on disposal of assets	37,334			
Audit adjustment for capital assets	(8,611)			
Audit adjustment to increase compensated absences				
Total adjustments to reconcile to GAAP	1,382,734			
Changes in net position	\$ (2,242,477)			

New Mexico Public Schools Insurance Authority

CASH AND CASH EQUIVALENTS - RECONCILIATION
FROM BOOKS TO FINANCIAL STATEMENTS

June 30, 2015

	<u>Benefits</u>	<u>Risk</u>	<u>Administration</u>	<u>Total</u>
Interest bearing checking and money market accounts:				
Wells Fargo:				
Employee benefits depository	\$ 162,152	\$ -	\$ -	\$ 162,152
Employee benefits short term investment account	7,033,744	-	-	7,033,744
Employee benefits disbursement account	-	-	-	-
Risk depository account	-	34,683,430	-	34,683,430
Risk short term investment account	-	2,373,253	-	2,373,253
Total cash balance per bank	<u>7,195,896</u>	<u>37,056,683</u>	<u>-</u>	<u>44,252,579</u>
Reconciling items:				
Less outstanding checks	<u>(95)</u>	<u>-</u>	<u>-</u>	<u>(95)</u>
Total cash and cash equivalents per the balance sheet	<u>\$ 7,195,801</u>	<u>\$ 37,056,683</u>	<u>\$ -</u>	<u>\$ 44,252,484</u>
New Mexico State Treasurer's General Fund Investment Pool			<u>\$ 536,691</u>	

The outstanding warrants at June 30, 2015 was not provided to NMPSIA by the State Treasurer's Office. Also see the footnote disclosure on pages 18 and 19 for information on the New Mexico State Treasurer General Fund Investment Pool that is not reconciled at June 30, 2015.

New Mexico Public Schools Insurance Authority

STATEMENTS OF NET POSITION INFORMATION
BY FUNCTIONAL ACTIVITY

June 30, 2015

	Benefits	Risk	Administration	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 7,195,801	\$ 37,056,683	\$ -	\$ 44,252,484
New Mexico State Treasurer's State Fund Investment Pool	-	-	536,691	536,691
Investments				
New Mexico State Treasurer's Local Government Investment Pool	45,081,969	188,814	-	45,270,783
Accrued interest receivable	6,739	4,388	-	11,127
Receivables from excess insurers and others, net	456,944	139,410	-	596,354
Prepaid expenses and deposits	-	256,180	-	256,180
Total current assets	<u>52,741,453</u>	<u>37,645,475</u>	<u>536,691</u>	<u>90,923,619</u>
NON CURRENT ASSETS				
Investments – long-term	15,706,497	15,491,856	-	31,198,353
Capital assets, net	-	-	349,771	349,771
Total non current assets	<u>15,706,497</u>	<u>15,491,856</u>	<u>349,771</u>	<u>31,548,124</u>
Total assets	<u>\$ 68,447,950</u>	<u>\$ 53,137,331</u>	<u>\$ 886,462</u>	<u>\$ 122,471,743</u>
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Reserves for losses and loss adjustment expenses	\$ 24,556,334	\$ -	\$ -	\$ 24,556,334
Unearned premium revenue and carrier advances	86,543	-	-	86,543
Due to insurance carriers for claims paid	1,424,008	73,383	-	1,497,391
Accounts payable	995,656	276,137	33,274	1,305,067
Accrued payroll	-	-	13,163	13,163
Accrued compensated absences	-	-	60,469	60,469
Total current liabilities	<u>27,062,541</u>	<u>349,520</u>	<u>106,906</u>	<u>27,518,967</u>
NON CURRENT LIABILITIES				
Reserve for losses and loss adjustment expenses	-	48,705,329	-	48,705,329
Total liabilities	<u>27,062,541</u>	<u>49,054,849</u>	<u>106,906</u>	<u>76,224,296</u>
NET POSITION				
Restricted for future benefits	41,385,409	4,082,482	-	45,467,891
Net investment in capital assets	-	-	349,771	349,771
Unrestricted	-	-	429,785	429,785
Net position	<u>41,385,409</u>	<u>4,082,482</u>	<u>779,556</u>	<u>46,247,447</u>
Total liabilities and net position	<u>\$ 68,447,950</u>	<u>\$ 53,137,331</u>	<u>\$ 886,462</u>	<u>\$ 122,471,743</u>

New Mexico Public Schools Insurance Authority

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

June 30, 2015

	Benefits	Risk	Administration	Total
REVENUES				
Participant premiums	\$ 285,259,891	\$ 66,470,782	\$ -	\$ 351,730,673
Settlement reimbursements and rebates	8,172,266	-	-	8,172,266
Total revenues	293,432,157	66,470,782	-	359,902,939
EXPENSES				
Losses and loss adjustment expenses, net of excess recoveries	267,609,550	28,891,276	-	296,500,826
Premiums for health maintenance organizations, life, disability, dental insurance, property/ liability, workers' compensation, and boiler and machinery	10,354,187	35,119,594	-	45,473,781
Insurance servicing and administration fees	16,344,117	3,733,607	-	20,077,724
General and administrative	-	-	1,342,036	1,342,036
Total expenses	294,307,854	67,744,477	1,342,036	363,394,367
Operating income (loss)	(875,697)	(1,273,695)	(1,342,036)	(3,491,428)
NONOPERATING REVENUES AND EXPENSES				
Investment income, gains and (losses), net	609,054	585,473	-	1,194,527
Other income, net	50,957	6,806	-	57,763
Loss on disposal of assets	-	-	(3,339)	(3,339)
Total nonoperating revenues	660,011	592,279	(3,339)	1,248,951
Transfers in (out)	(661,500)	(661,500)	1,323,000	-
CHANGES IN NET POSITION	(877,186)	(1,342,916)	(22,375)	(2,242,477)
Net position, beginning of year	42,262,595	5,425,398	801,931	48,489,924
Net position, end of year	<u>\$ 41,385,409</u>	<u>\$ 4,082,482</u>	<u>\$ 779,556</u>	<u>\$ 46,247,447</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)

Ten Years Ended June 30, 2015

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, 2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net earned required contribution and investment revenues	\$ 241,727,367	\$ 270,132,104	\$ 265,841,170	\$ 283,917,670	\$ 291,631,299	\$ 293,708,019	\$ 281,118,806	\$ 282,627,712	\$ 306,988,501	\$ 315,681,448
Unallocated expenses	7,612,117	7,598,157	8,304,838	7,859,548	8,237,630	6,696,198	7,222,667	5,570,613	5,522,823	8,207,462
Estimated incurred claims and expense, end of policy year	213,467,502	255,130,017	263,721,520	260,759,518	262,512,816	270,658,035	270,953,635	281,150,718	287,923,547	303,520,019
Net paid (cumulative) as of:										
End of policy year	183,096,907	197,057,681	208,882,151	226,635,639	223,916,746	235,603,145	235,713,317	239,862,997	245,048,536	259,387,540
One year later	188,019,560	201,295,193	212,461,499	231,064,002	229,730,216	243,563,999	240,427,472	245,422,529	252,704,464	
Two years later	189,307,772	202,879,462	214,157,616	234,075,702	231,640,021	247,508,334	243,331,130	249,668,956		
Three years later	190,670,395	203,776,130	215,137,907	236,682,892	233,076,567	250,523,638	246,308,303			
Four years later	191,576,179	203,875,731	216,132,069	238,179,844	234,215,983	252,448,586				
Five years later	191,660,945	204,693,276	217,116,147	238,726,163	234,933,130					
Six years later	192,186,480	205,071,282	217,527,589	239,292,162						
Seven years later	191,928,785	205,361,977	217,623,616							
Eight years later	193,396,432	205,712,553								
Nine years later	193,677,619									
Re-estimated net incurred claims and expenses:										
End of policy year	213,467,502	255,130,017	263,721,520	260,759,518	262,512,816	270,658,035	270,953,635	281,150,718	287,923,547	303,520,019
One year later	207,472,874	245,005,575	258,321,274	254,379,796	256,697,345	265,296,208	265,603,783	276,228,199	281,881,679	
Two years later	200,852,606	242,895,889	255,766,447	252,189,456	254,117,542	263,282,222	263,578,328	273,485,545		
Three years later	200,561,399	241,705,687	254,960,857	250,802,393	252,807,848	261,807,751	262,256,828			
Four years later	199,710,616	241,065,050	254,065,875	250,197,996	252,089,242	260,796,425				
Five years later	199,148,785	240,534,135	253,357,040	249,628,678	251,554,115					
Six years later	198,678,251	240,285,773	252,975,425	248,996,677						
Seven years later	198,447,646	239,911,838	252,625,924							
Eight years later	198,242,999	239,686,262								
Nine years later	197,992,215									

Increase (decrease) in estimated net incurred claims and expenses from end of original policy year

	\$ (15,475,287)	\$ (15,443,755)	\$ (11,095,596)	\$ (11,762,841)	\$ (10,958,701)	\$ (9,861,610)	\$ (8,696,807)	\$ (7,665,173)	\$ (6,041,868)	\$ -
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New Mexico Public Schools Insurance Authority
 SCHEDULE OF VENDOR INFORMATION

Year Ended June 30, 2015 (Unaudited)

Prepared by: Pamela Vigil, Management Analyst Date: 10/5/2015

RF#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded	In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
50.350.14.05767	Request for Proposals	The Standard	\$9,000,000	N/A	The Hartford, 6739 Academy Rd NE # 310, Albuquerque, NM 87109 Cigna 900 Cottage Grove Road, Bloomfield, CT 06002 The Standard 920 SW Sixth Avenue, Portland, OR 97204 Prudential 751 Broad Street, Newark, NJ 07102 Minnesota Life 400 & 401 Robert St. North, St. Paul, MN 55101 Dearborn 1020 31st St., Downers Grove, IL 60515 Voya 230 Park Avenue, New York, NY 10169	N	N/A	To secure Basic Life and AD&D, Voluntary Life and AD&D, and Long Term Disability coverage. Services include underwriting, processing, and payment of Life and Disability claims, management of ongoing Disability claims, and provisions of industry standard customer service functions.

New Mexico Public Schools Insurance Authority
 SCHEDULE OF VENDOR INFORMATION (CONTINUED)
 Year Ended June 30, 2015 (Unaudited)
 Prepared by: Pamela Vigil, Management Analyst Date: 10/5/2015

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer</i>	<i>Brief Description of the Scope of Work</i>
40-342-14-00002	Request for Proposals	Express Scripts	\$50,000,000	N/A	Benecard 3900 Millenia Blvd., Orlando, FL 32839 Caremark One CVS Drive, Woonsocket, RI 02895 Catamaran 800 King Farm Blvd, Rockville, MD 20850 Express Scripts One Express Way, St. Louis, MO 63121 MaxCare 45 NE 52nd Street, Oklahoma City, OK 73154 MedImpact 10181 Scripps Gateway Court, San Diego, CA 92131 Presbyterian P.O. Box 27489, Albuquerque, NM 87125	N N N N N N N N N N	N/A N/A N/A N/A N/A N/A N/A N/A N/A N/A	To secure pharmacy benefits management services to member eligible employees and other related persons including, but not limited to, pharmacy provider management, claims processing, mail service pharmacy, formulary development and rebate management.

New Mexico Public Schools Insurance Authority
 SCHEDULE OF VENDOR INFORMATION (CONTINUED)
 Year Ended June 30, 2015 (Unaudited)
 Prepared by: Pamela Vigil, Management Analyst Date: 10/5/2015

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer</i>	<i>Brief Description of the Scope of Work</i>
N/A	Request for Proposals	Narvaez Law Firm and Long, Komer & Associates	\$120,000	N/A	Coppler Law Firm, PC 645 Don Gaspar Ave., Santa Fe, NM 87505	N	N/A	To secure legal advice ranging from benefits related insurance matters, risk related matters, insurance policy interpretations, contractual matters involving NMPSIA, as well as provide services of a general legal nature, to include personnel matters.
					Narvaez Law Firm and Long, Komer & Associates (Joint Proposal) 601 Rio Grande Blvd., NW, Albuquerque, NM 87104	Y	Y	
					Robles, Rael and Anaya 500 Marquette Ave., NW, Ste. 700, Albuquerque, NM 87102	N	N/A	
					SaucedoChavez, PC 100 Gold Ave. SW, Albuquerque, NM 87102	N	N/A	

New Mexico Public Schools Insurance Authority
 SCHEDULE OF VENDOR INFORMATION (CONTINUED)
 Year Ended June 30, 2015 (Unaudited)

Prepared by: Pamela Vigil, Management Analyst Date: 10/5/2015

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
2015-342-001	Request for Proposals	Poms & Associates Insurance Brokers, Inc.	\$570,540	N/A	Aon Risk Insurance Services West, Inc. 6501 American Parkway NE, Suite 650, Albuquerque, NM 87110	N	N/A	To secure brokerage, administrative, consulting and loss control services to NMPSIA in support of NMPSIA's risk-related insurance coverages.
2015-342-003	Request for Proposals	American Appraisal	\$629,000	N/A	Poms & Associates Insurance Brokers, Inc. 5700 Canoga Ave. Ste. 400, Woodland Hills, CA 91367 American Appraisal 10100 Santa Monica Boulevard Suite 1100, Los Angeles, CA 90067 CBIZ 3625 Cumberland Blvd SE Suite 800, Atlanta, GA 30339 AssetWorks 20055 SW Pacific Highway, Suite 107, Sherwood, OR 97140	N	N/A	To secure a comprehensive professional real property, personal property, business interruption and extra expense appraisal services.

New Mexico Public Schools Insurance Authority
 SCHEDULE OF VENDOR INFORMATION (CONTINUED)
 Year Ended June 30, 2015 (Unaudited)
 Prepared by: Pamela Vigil, Management Analyst Date: 10/5/2015

RFB#/RFP#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded	In-State/ Out-of-State Vendor (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
2015-342-002	Request for Proposals	CCMSI	\$1,012,589	N/A	ALARIS 5001 American Blvd. West, Suite 405, Bloomington, NM 55437	N	N/A	To secure a third party administrator to act as NMPSIA's representative in processing claims for the care of employees who are injured or become disabled in the course of executing their duties.
					Arissa Cost Strategies 17310 Red Hill Ave., Suite 300, Irvine, CA 92614	N	N/A	
					CCMSI 4300 San Mateo Blvd Ne Ste A300, Albuquerque, NM 87110	Y	N	
					Corvel 7510 Montgomery Blvd Ne Ste 103, Albuquerque, NM 87109	N	N/A	
					Coventry 1650 Summit Lake Dr. Suite 100, Tallahassee, FL 32317	N	N/A	
					Express Scripts, Inc. One Express Way, St. Louis, MO 63121	N	N/A	
					Genex 440 East Swedesford Road Suite 1000, Wayne, PA 19087	N	N/A	
					Health Care Solutions 2736 Meadow Church Road Suite 300, Duluth, GA 30097	N	N/A	
					Integration 3830 Commons Blvd. NE, Albuquerque, NM 87109	N	N/A	
					Intercare 50 Industrial Park Drive, Bangor, MI 49013	N	N/A	
					ISO Claims Partners 545 Washington Blvd, F112, Jersey City, NJ 07310	N	N/A	

New Mexico Public Schools Insurance Authority
 SCHEDULE OF VENDOR INFORMATION (CONTINUED)
 Year Ended June 30, 2015
 Prepared by: Pamela Vigil, Management Analyst Date: 10/5/2015

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
2015-342-004	Request for Proposals	ERISA Administrative Services, Inc.	\$1,119,000	N/A	ERISA Administrative Services, Inc. 1429 2nd St, Santa Fe, NM 87505	N	N/A	To secure eligibility and premium administration of NMPSIA's employee benefit plans, including enrollment, premium billing to school district/educational entities, COBRA and other self-pays, collection, payment of premiums to carriers, and other administrative functions.
2015-342-005	Request for Proposals	Myers Stevens & Toohey & Co., Inc.	\$204,464	N/A	Momeau-Shepell 895 Don Mills Rd, Toronto, ON M3C 1W3, Canada Myers-Stevens & Toohey & Co., Inc. 26101 Marguerite Parkway, Mission Viejo, CA 92692 AIG 175 Water Street, New York, NY 10038 American Management 333 N. Oxford Valley Road., Suite 606, Fairless Hills, PA 19030	N	N/A	To secure student, athletic, and vocational accident insurance services for member public schools, charter schools, and other educational entities.

"30 Years of Excellence"

807 Camino De Monte Rey
Post Office Box 1847
Santa Fe, New Mexico 87504
(505) 983-3387
(505) 988-2505 FAX
(800) 983-1040 Toll Free
ba@barracough.com



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

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.

**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. Timothy Keller, 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, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the New Mexico Public School Insurance Authority's basic financial statements, and the related budgetary comparison of the New Mexico Public Schools Insurance Authority, presented as supplementary information, and have issued our report thereon dated November 5, 2015.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion 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.

Internal Control Over Financial Reporting (Continued)

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 misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and responses as items 2015-001, 2015-002, and 2015-003.

New Mexico Public Schools Insurance Authority's Responses to Findings

New Mexico Public Schools Insurance Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. New Mexico Public Schools Insurance Authority's responses were 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 5, 2015

New Mexico Public Schools Insurance Authority

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2015

Section I – Summary of Audit Results

Financial Statements:

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | No |
| b. Significant deficiency identified not considered to be a material weakness? | No |
| c. Noncompliance material to financial statements noted? | No |

Section II – Financial Statement Other Findings

2015-001 Travel and Per Diem

Condition: During testwork of 6 per diem transactions reimbursement was incorrect as it included 158 miles not traveled.

Criteria: Mileage reimbursement should be made for the actual miles traveled.

Cause: The spreadsheet had a mathematical error in the calculation of miles traveled.

Effect: An overpayment of \$71.10.

Recommendation: We recommend NMPSIA review test per diem requests to ensure appropriate reimbursement requests are correctly filled out. In addition, the approval of out-of-state travel requests by the Board should be specify if actual or per diem expense rates apply.

NMPSIA's's Response: NMPSIA acknowledged the error, and requested reimbursement for the overpayment. The reimbursement was received in full on September 3, 2015. On a ongoing basis, the Comptroller and other management personnel will monitor compliance.

2015-002 Expenses and Expenditures

Condition: During our testwork of 45 expenditures we noted the following:

- NMPSIA did not sign an extension agreement of a contract, and expenses were paid under a contract that expired on June 30, 2014.
- One contractor was not complying with terms of the contract and overcharging NMPSIA for gross receipts tax.
- One contractor was overcharging NMPSIA by not complying with the terms originally set forth in the RFP.

Criteria: Per NMAC 2.20.6.8, all payments to vendors shall be accurate and timely and be for services already rendered or goods received an accepted by the state agency as complying with the contract or purchase order, or request for proposal.

New Mexico Public Schools Insurance Authority

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

June 30, 2015

Section II – Financial Statement Findings (Continued)

Finding 2015-002 Expenses and Expenditures (Continued)

Cause: Management oversight and lack of timely communication with prior attorney in charge of drafting the contract amendment prior to their departure. Lack of adequate review of invoices in comparison with the original RFP.

Effect:

- NMPSIA did not have a valid contract from July 1, 2014 through June 30, 2015.
- Based on the original contract which expired on June 30, 2014, it was determined that NMPSIA overpaid this contractor by \$6,323.69 in FY 2014 and \$6,352.56 in FY 2015. The contractor was billing NMPSIA for gross receipts tax even though the original contract states that gross receipts tax was included in the total. A total overpayment of \$12,676.25.
- An overpayment of \$2,981.04.

Recommendation: We recommend NMPSIA monitor multi-year contracts including when the contract terminates, and advise their attorney that an extension is needed. We recommend NMPSIA request a refund for their overpayment of items not in accordance with the contractor's initial RFP.

NMPSIA's Response: NMPSIA has developed a chart of all contracts and their order of renewal to ensure that all contracts will be timely renewed moving forward. NMPSIA's board of directors gave retroactive approval of a contract for the 2014 and 2015 fiscal years. NMPSIA's board of directors also approved a retroactive amendment of the contract so that billings were exclusive of gross receipts tax. NMPSIA requested a refund for the overpayments, and the contractor credited NMPSIA on the September 2015 invoice a total of \$2,981.04. On an ongoing basis the Comptroller and the procurement manager will monitor compliance.

2015-003 Procurement

Condition: During our testwork of expenditures, it was noted that NMPSIA did not obtain current quotes for a purchase totaling \$17,472.

Criteria: Per NMAC 1.4.1.50, a state agency may procure services, construction or items of tangible personal property having a value not exceeding \$20,000 by issuing a direct purchase order to a contractor based upon the best obtainable price. Best obtainable price can be found by obtaining quotes or other appropriate methods.

Cause: The former comptroller obtained quotes five years ago from three vendors, and a vendor was selected from this list in 2015.

Effect: NMPSIA may or may not have purchased this service at the best obtainable price.

Recommendation: We recommend NMPSIA ensure all employees are familiar with the requirement to get the best obtainable price for purchases less than \$20,000 and this process documented in writing.

NMPSIA's Response: NMPSIA staff have been trained on the small purchase process and will document all quotes obtained for small purchases to ensure best obtainable price is obtained. On an ongoing basis compliance will be monitored by the Comptroller and other management personnel.

New Mexico Public Schools Insurance Authority

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

June 30, 2015

Section III – Prior Year Findings

None

New Mexico Public Schools Insurance Authority

EXIT CONFERENCE

June 30, 2015

Exit Conference

An exit conference was held on November 5, 2015 to discuss the current report. Those in attendance were as follows:

New Mexico Public Schools Insurance Authority

Mary Parr-Sanchez, President
Karon Axtell, Secretary
Lowell Irby, Board Member
Esther Marquez, Board Member
Chris Parrino, Board Member

Sammy J. Quintana, Executive Director
Ernestine Chavez, Deputy Director
Norma Henderson, Interim Comptroller
Richard Valerio, Accountant

Barraclough & Associates, P.C.

Douglas W. Fraser, CPA, Senior Audit Manager

The financial statements were prepared by Barraclough & Associates, P.C. with assistance provided by NMPSIA personnel. NMPSIA is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. NMPSIA has reviewed and approved the financial statements and notes to the financial statements.

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

