

STATE OF NEW MEXICO
NEW MEXICO PUBLIC
SCHOOLS INSURANCE AUTHORITY

**ANNUAL FINANCIAL REPORT
AND INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED JUNE 30, 2016

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

TABLE OF CONTENTS

	<u>Page No.</u>
INTRODUCTORY SECTION:	
Official Roster	iii
FINANCIAL SECTION	
Independent Auditors' Report	1 - 3
Management's Discussion and Analysis.....	4 - 8
BASIC FINANCIAL STATEMENTS:	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows.....	11
NOTES TO FINANCIAL STATEMENTS	12-27
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues and Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual (Non-GAAP Budgetary Basis):	
Programs.....	29
Benefits	30
Risk	31
SUPPORTING SCHEDULES	
Schedule of Cash and Cash Equivalents – Reconciliation From Books to Financial Statements	
	32
Statement of Net Position Information by Functional Activity	33
Statement of Revenues, Expenses and Changes in Net Position Information By Functional Activity	
	34

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

TABLE OF CONTENTS (continued)

SUPPORTING SCHEDULES

Schedule of Vendor Information for Purchases Exceeding \$60,00036-38

COMPLIANCE SECTION

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.....40-41

Schedule of Findings and Responses 42

Exit Conference 43

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
OFFICIAL ROSTER
AS OF JUNE 30, 2016**

BOARD OF DIRECTORS

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

OFFICIALS OF THE NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY

Sammy J. Quintana Executive Director
Ernestine Chavez..... Deputy Director
Richard Valerio Chief Financial Officer



Independent Auditors' Report

Honorable Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico
and
The Board of Directors
New Mexico Public Schools Insurance Authority
Santa Fe, New Mexico

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 year ended June 30, 2016, 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, 2016, 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.

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.

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

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, 2016, and the respective changes in financial position and, where applicable, cash flows for the year then ended and its respective budgetary comparison for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in the notes, 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, 2016, and the changes in its net position and its cash flows, where applicable, for the year 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 10, the State of New Mexico, as a single employer, has implemented GASB 68, *Accounting and Financial Reporting for Pensions*, in the June 30, 2016 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, 2016. 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 8 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 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 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.

The Vendor Schedule required by 2.2.2.10(A)(2)(g) NMAC 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 28, 2016 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.

Kubiak Melton & Associates, LLC

Kubiak Melton & Associates, LLC
Auditors – Business Consultants - CPAs

Albuquerque, New Mexico
November 28, 2016

STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)
June 30, 2016

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, 2016, compared to the year ended June 30, 2015. 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 Net Position - This statement presents information reflecting NMPSIA's assets, liabilities and net position. Net position 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 \$479,596.

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 page 11 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 pages 29-31 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 12 through 27 of this report. As disclosed in footnote 10 on page 24, 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 vendor schedule with contracts greater than \$60,000 is also presented.

STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)
June 30, 2016

NMPSIA's total net position for the year ended June 30, 2016 decreased by \$30,329,129. The Employee Benefits Program began fiscal year 2016 with a net position of \$41,385,409 and decreased \$20,489,009 to a fiscal year 2016 net position of \$20,896,400. This decrease in net position was due to an unanticipated increase in medical and prescription drug claims expense. The Risk Program began fiscal year 2016 with a fund balance of \$4,082,482 and decreased by \$9,833,360 in fiscal year 2016 to \$(5,750,878). The IBNR reserves for the Risk Program increased by \$14.9 million. During 2016, 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 2016 computed at the rate of 2.0%, of the fund's cash reserves. This same rate was used for fiscal year 2015.

Actual premium revenues were below the original projections for the Employee Benefits Program (\$289.9 million compared to \$303.4 million projected) and claims expenditures surpassed projections (\$284.5 million compared to \$291.6 million). The Risk Program premium revenues were above projections (\$73.9 million compared to 73.3 million and claims expenditures were below projections (31.1 million compared to \$34.7 million). Total revenue increased by \$4.1 million in fiscal year 2016.

The long-term investments portfolio had gains of approximately \$479,596 compared to gains of \$945,200 in fiscal year 2015. During fiscal year 2016 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. NMPSIA contracted with an investment consultant firm in fiscal year 2016 to review its 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 2016, 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 increased by approximately \$18.3 million in the current year. This increase was largely due to a \$14.9 million increase in the incurred but not reported reserves of the Risk Program. The Employee Benefits Program experienced a decrease in incurred but not reported reserves of \$480,802. NMPSIA contracted with new actuary firms in fiscal year 2016.

In fiscal year 2016, premium expenditures increased by 2% or, \$932,017 as compared to fiscal year 2015.

General administrative and servicing expenses decreased by \$1.4 million as compared to fiscal year 2015 and accounted for 4.9% of NMPSIA's total expenses in fiscal year 2016.

NMPSIA had \$0 and \$0 of capital asset additions during 2015 and 2016, respectively. NMPSIA did not issue any short-term or long-term debt during 2016 or 2015.

STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)
June 30, 2016

NMPSIA's budget is on a modified accrual basis of accounting. Depreciation expense and claims loss reserve expense is a GAAP expense but not for budgetary purposes. An original budget of \$386,088,600 was appropriated. There were three budget adjustment requests for the year ended June 30, 2016. The first decreased contractual services and other expenditures in the amounts of \$40,000 and \$12,000, and increased personnel services by \$52,000 for Program Support. The second increased contractual services by \$7.5 million for Benefits and \$2 million for Risk. The third increased contractual services by \$1.5 million for Benefits and \$3.5 million for Risk.

Over the past year, NMPSIA saw much larger medical and prescription drug claims expenditures. Medical claims expenditures increased from \$204.2 million in fiscal year 2015 to \$225.7 million in fiscal year 2016, a 10.5% increase. Provider reimbursement rates for self-insured pools are rising due to their losses associated with lower Medicaid and Medicare reimbursements. In addition, claims costs tend to be higher in rural communities and out-of-state. 87% of NMPSIA's members enrolled in medical coverage reside in rural communities. There were also larger dollar claims in fiscal year 2016. NMPSIA purchased stop-loss insurance in July 2016 for claims over \$1 million. Utilization and inflation account for a 6.2% increase in prescription drug costs which totaled \$55.1 million before rebates.

There were several serious property claims in fiscal year 2016, but no catastrophic property losses. However, the frequency of claims associated with lack of capital improvements and 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 increased property values.

There continues to be an ongoing concern for sexual molestation claims, special education and IDEA related civil rights claims, and employment related claims (which include Whistleblower Protection Act allegations). The expenses associated with defending all of these types of claims continue to increase year over year, representing significant cost exposure to NMPSIA.

For workers' compensation, the number of reported claims has decreased while the average cost per claim has increased. This is due to higher medical and prescription drug claims cost. NMPSIA continues its bill review process through its 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. NMPSIA also utilizes nurse case management to facilitate care and bring advanced resolution to some of the more serious or longer term claims. 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 increases in premiums assessed to its members for the next fiscal year.

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)
June 30, 2016**

The following tables summarize the financial position of NMPSIA's operations as of and for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	Increase (Decrease)
Cash and Investments	\$ 76,824,289	\$ 90,059,958	\$ (13,235,669)
Other Current Assets	1,570,779	863,661	707,118
Total Current Assets	<u>78,395,068</u>	<u>90,923,619</u>	<u>(12,528,551)</u>
Investments - Long-Term Capital Assets, Net	31,677,949 <u>325,584</u>	31,198,353 <u>349,771</u>	479,596 <u>(24,187)</u>
Total Non-Current Assets	<u>32,003,533</u>	<u>31,548,124</u>	<u>455,409</u>
TOTAL ASSETS	<u>\$ 110,398,601</u>	<u>\$ 122,471,743</u>	<u>\$ (12,073,142)</u>
Reserves for Losses and Loss Adjustment Expense	\$ 24,075,532	\$ 24,556,334	\$ (480,802)
Other Current Liabilities	<u>7,027,781</u>	<u>2,962,633</u>	<u>4,065,148</u>
Total Current Liabilities	31,103,313	27,518,967	3,584,346
Non-Current Liabilities Reserve for Losses	<u>63,376,970</u>	<u>48,705,329</u>	<u>14,671,641</u>
Total Non-Current Liabilities	<u>63,376,970</u>	<u>48,705,329</u>	<u>14,671,641</u>
TOTAL LIABILITIES	<u>94,480,283</u>	<u>76,224,296</u>	<u>18,255,987</u>
NET POSITION			
Net Investment in Capital Assets	325,584	349,771	(24,187)
Restricted for Future Benefits	45,467,891	45,467,891	-
Unrestricted	<u>(29,875,157)</u>	<u>429,785</u>	<u>(30,304,942)</u>
TOTAL NET POSITION	<u>15,918,318</u>	<u>46,247,447</u>	<u>(30,329,129)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 110,398,601</u>	<u>\$ 122,471,743</u>	<u>\$ (12,073,142)</u>

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)
June 30, 2016**

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Premium Revenue and Other	\$ 363,948,516	\$ 359,902,939	\$ 4,045,577
Claims Loss and Loss Adjustments	328,984,399	296,500,826	32,483,573
Premium Expense	46,405,798	45,473,781	932,017
Insurance Services	18,623,504	20,077,724	(1,454,220)
General and Administrative and other	<u>1,538,417</u>	<u>1,342,036</u>	<u>196,381</u>
TOTAL EXPENDITURES	<u>395,552,118</u>	<u>363,394,367</u>	<u>32,157,751</u>
Operating Income (Loss)	(31,603,602)	(3,491,428)	(28,112,174)
Nonoperating Revenues and Expenses	<u>1,274,473</u>	<u>1,248,951</u>	<u>25,522</u>
TOTAL NONOPERATING REVENUES AND EXPENSES	<u>1,274,473</u>	<u>1,248,951</u>	<u>25,522</u>
NET CHANGE IN NET POSITION	(30,329,129)	(2,242,477)	(28,086,652)
NET POSITION, BEGINNING OF YEAR	<u>46,247,447</u>	<u>48,489,924</u>	<u>48,489,924</u>
NET POSITION, END OF YEAR	<u>\$ 15,918,318</u>	<u>\$ 46,247,447</u>	<u>\$ 20,403,272</u>

Requests for Information

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.

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
STATEMENT OF NET POSITION
JUNE 30,**

	2016
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 45,230,030
NM State Treasurer's State Fund Investment Pool	628,231
NM State Treasurer's Local Fund Investment Pool	30,966,028
Accrued Interest Receivable	26,105
Receivables From Excess Insurers, Net	1,288,494
Prepaid Expense and Deposits	256,180
TOTAL CURRENT ASSETS	78,395,068
NON-CURRENT ASSETS	
Investments - Long-Term	31,677,949
Capital Assets, Net	325,584
TOTAL NON-CURRENT ASSETS	32,003,533
TOTAL ASSETS	\$ 110,398,601
 LIABILITIES AND NET POSITION	
LIABILITIES	
Reserves for Losses and Loss Adjustment Expense	\$ 24,075,532
Unearned Premium Revenue and Carrier Advances	73,290
Due to Insurance Carriers for Claims Paid	5,391,445
Accounts Payable	1,480,766
Accrued Payroll	35,348
Accrued Compensated Absences	46,932
TOTAL CURRENT LIABILITIES	31,103,313
NON-CURRENT LIABILITIES	
Reserve for Losses and Loss Adjustment Expense	63,376,970
TOTAL NON-CURRENT LIABILITIES	63,376,970
TOTAL LIABILITIES	94,480,283
 NET POSITION	
Net Investment in Capital Assets	325,584
Restricted for Future Benefits	45,467,891
Unrestricted	(29,875,157)
TOTAL NET POSITION	15,918,318
 TOTAL LIABILITIES AND NET POSITION	 \$ 110,398,601

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED**

	2016
REVENUES	
Participant Premiums	<u>\$ 363,948,516</u>
TOTAL REVENUES	363,948,516
EXPENDITURES	
Loss and Loss Adjustment Expenses	328,984,399
Premiums	46,405,798
Insurance Servicing and Fees	18,623,504
General and Administrative	1,514,230
Depreciation Expense	<u>24,187</u>
TOTAL EXPENDITURES	<u>395,552,118</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(31,603,602)
NONOPERATING REVENUES AND EXPENSES	
Investment Income	806,909
Other Income	467,564
Transfers in	1,360,300
Transfers out	<u>(1,360,300)</u>
TOTAL NONOPERATING REVENUES AND EXPENSES	<u>1,274,473</u>
NET CHANGE IN NET POSITION	(30,329,129)
NET POSITION, BEGINNING OF YEAR	<u>46,247,447</u>
NET POSITION, END OF YEAR	<u>\$ 15,918,318</u>

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED**

	2016
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	
Participant Premiums Collected	\$ 363,948,516
Losses and Loss Adjustment Expenses Paid	(311,890,939)
Health Maintenance Premiums Paid	(46,405,798)
Amount Paid to Third Party Administrators / Vendors	(20,161,921)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(14,510,142)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Other	467,564
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	467,564
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest, Dividends, Gains and Losses (Net)	806,909
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	806,909
CASH FLOWS FROM (USED IN) CAPITAL FINANCING ACTIVITIES	
Additions to Capital Assets	-
NET CASH PROVIDED BY (USED IN) CAPITAL FINANCING ACTIVITIES	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,235,669)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	90,059,958
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 76,824,289
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (loss)	(31,603,602)
Adjustments to reconcile operating income (loss) to Net cash used by operating activities:	
Depreciation Expense	24,187
Increase (Decrease) in Reserve for Losses	14,190,839
Changes in assets and liabilities:	
Change in investments	(479,596)
Change in receivables	(707,118)
Change in unearned revenue	(13,251)
Change in Due to Insurance Carriers	3,894,054
Change in accounts payable and accrued liabilities	170,808
Change in accrued compensated absences	13,537
NET CASH PROVIDED FROM (USED BY) OPERATING ACTIVITIES	\$ (14,510,142)

See Independent Auditors' Report and Notes to Financial Statements

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - 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, 2016 there were 20 active board members and 41 inactive 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

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

and excess insurers are fully collectable. Accordingly no allowance for uncollectable receivables has been recorded.

NMPSIA did not receive any appropriations or bond proceeds from the State of New Mexico in 2016. 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 2 - 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.

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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:

	2016
Cash and Cash Equivalents	\$ 45,230,030
New Mexico State Treasurer's State Fund Investment Pool	628,231
New Mexico State Treasurer's Local Gov't Investment Pool	30,966,028
	\$ 76,824,289

Cash in bank accounts is insured up to \$250,000 per bank at June 30, 2016. 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

See Independent Auditors' Report

STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

pledged to secure these deposits, the categories of risk involved, and the market value of purchased investments.

4. Investment in the New Mexico State Treasurer's Local Government Investment Pool, 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, 2016 NMPSIA had the following invested in the State General Fund Investment Pool:

State General Fund Investment Pool \$628,231.

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.

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, see the separate audit report of the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2016.

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 \$628,231 is materially correct at June 30, 2016.

For FY 2016, the following assertions are provided:

1. The Calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (<\$200 thousand standard deviation) over the last twelve months;
2. Resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP.
3. All claims will be honored at face value.

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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:

<u>Assets</u>	<u>Years</u>
Building Improvements	10 - 30
Building	30
Computer Equipment	3 - 7
Furniture and Fixtures	7

6. Participant Premiums

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

7. Excess Insurance Premiums

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

8. Reserve for Losses and Loss Adjustment Expenses

Insurance losses and related loss adjustment expenses are charged to operations as incurred. The reserves for losses and loss adjustment expenses are determined based upon case-basis evaluations and actuarial projections, and include a provision for claims incurred but not reported. The actuarial projections of ultimate losses on reported claims and the estimate of claims incurred but not reported

See Independent Auditors' Report

STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 sub rogations, 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 \$68,464,955 at June 30, 2016. The indicated discounted losses and loss adjustment expenses are \$63,376,970 at June 30, 2016. Discounting is based on estimated payment dates and an appropriate assumed rate of return. The estimated unpaid losses as of June 30, 2016 were discounted using an interest rate of 2.0% for 2016.

9. Income Taxes

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

10. Budgetary Process

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

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

11. Budget Adjustments

The Budget Adjustment Requests for fiscal 2016 were as follows:

Fund 34900 – Program Support:

Category 200: \$52,000 transfer in
Category 300: \$40,000 transfer out
Category 400: \$12,000 transfer out

Fund 35000 – Benefits:

Category 300: \$7,500,000 transfer in
Category 300: \$1,500,000 transfer in

Fund 35100 – Risk:

Category 300: \$2,000,000 transfer in
Category 300: \$3,500,000 transfer in

12. Estimates

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

At June 30, 2016, NMPSIA has total current and non-current reserves for losses and loss adjustment expenses in the amount of \$87,452,502. 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 2017.

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 – consists of capital assets net of accumulated depreciation and reduced by any outstanding debt. NMPSIA did not have any related debt during the year ended June 30, 2016.

Restricted Net Position – consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position – are all other net position that do not meet the definition of restricted or net investment in capital assets.

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital Assets Not Being Depreciated:				
Land	\$ 235,000	\$ -	\$ -	\$ 235,000
Art	<u>1,765</u>	<u>-</u>	<u>-</u>	<u>1,765</u>
Total Capital Assets Not Being Depreciated	236,765	-	-	236,765
Capital Assets Being Depreciated:				
Buildings and Improvements	546,240	-	-	546,240
Furniture	<u>57,876</u>	<u>-</u>	<u>-</u>	<u>57,876</u>
Total Capital Assets Being Depreciated	<u>604,116</u>	<u>-</u>	<u>-</u>	<u>604,116</u>
Total Capital Assets	840,881	-	-	840,881
Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(434,377)	(763)	-	(435,140)
Buildings and Improvements	<u>(56,733)</u>	<u>(23,424)</u>	<u>-</u>	<u>(80,157)</u>
Total Accumulated Depreciation	<u>(491,110)</u>	<u>(24,187)</u>	<u>-</u>	<u>(515,297)</u>
Capital Assets, Net	<u><u>\$ 349,771</u></u>	<u><u>\$ (24,187)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 325,584</u></u>

Depreciation expense of \$24,187 is included in general and administrative expenses on the financial statements for the year ended June 30, 2016, respectively.

NOTE 4 - 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, 2016, 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, 2015 to July 1, 2016, 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 5 - 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

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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 expense at June 30, 2016 and the related provisions for the year ended June 30, 2016, may not ultimately be the actual cost of settling all unpaid claims.

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

	<u>Benefits</u>	<u>Workers'</u> <u>Compensation</u>	<u>Property and</u> <u>Casualty</u>	<u>Total</u>
	<u>2016</u>	<u>2016</u>	<u>2016</u>	
Estimated Reserves for Claims	\$ 24,075,532	\$ 32,785,839	\$ 30,591,131	\$ 87,452,502
Less: Estimated Amounts Recoverable pursuant to excess insurance on specific and aggregate loss occurrences	-	-	-	-
Reserve for Losses and Loss adjustment expenses at year end (undiscounted)	<u>24,075,532</u>	<u>32,785,839</u>	<u>30,591,131</u>	<u>87,452,502</u>
Changes in reserves for losses and loss adjustment expenses are as follows:				
Reserve for Losses and Loss adjustment expenses at beginning of year (undiscounted)	<u>24,556,334</u>	<u>32,785,839</u>	-	-
Incurred Losses and Loss Adjustment Expenses				
Provision for Insured Events of the Current Year	295,095,345	12,912,036	13,437,999	
Increase (Decrease) in Provision for Events of Prior Year	<u>(678,638)</u>	<u>1,252,838</u>	<u>16,881,040</u>	-
Total Incurred Losses and Loss Adjustment Expenses	<u>294,416,707</u>	<u>14,164,874</u>	<u>30,319,039</u>	-
Payments (net of amounts receivable pursuant to excess insurance contracts)				
Losses and Loss Adjustment Expenses Attributable to Events of the Current Year	267,829,011	3,320,943	2,291,502	
Losses and Loss Adjustment Expenses Attributable to Events of the Prior Year	<u>24,265,455</u>	<u>9,142,044</u>	<u>18,403,859</u>	
Total Payments and Adjustment Expenses	292,094,466	12,462,987	20,695,361	-
Reserve for Losses and Loss Adjustment Expenses at End of Year (Undiscounted)	24,075,532	34,118,713	34,643,100	34,643,100
Less: Discount Factor	-	<u>1,332,874</u>	<u>4,051,969</u>	<u>4,051,969</u>
Reserves for Losses and Loss Adjustment Expenses at End of Year	<u>\$ 24,075,532</u>	<u>\$ 32,785,839</u>	<u>\$ 30,591,131</u>	<u>\$ 30,591,131</u>

NOTE 6 - CASH AND INVESTMENTS

NMPSIA follows GASB statement No. 40, *Deposit and Investment Risk Disclosures* for the year ended June 30, 2016.

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NMPSIA investments held by the State Investment Council at June 30, 2016 was as follows:

	June 30, 2016	
	Benefits	Risk
Large Cap Index	\$ 4,339,194	\$ 4,279,916
Core Bonds	7,424,622	7,323,158
Mid / Small Cap	1,472,024	1,451,917
Non US Emerging Markets	-	-
Non US Developed Markets	2,712,090	2,675,028
Total	\$ 15,947,930	\$ 15,730,019

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, 2016 were \$43,589,552, respectively. Bank balances before reconciling items were \$45,235,020 and \$44,252,579 at June 30, 2016 and 2015, 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 balance for 2016 was 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, 2016 was 44 days WAM(R) and 77 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.

Total investment income and gains from investments are as follows:

	2016
Investment Income	\$ 279,448
Unrealized Gain	527,461
Total Investment Income	\$ 806,909

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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 7 - JOINT POWERS AGREEMENT

An agreement exists among NMPSIA, New Mexico Retiree Health are 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 program , 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.

NOTE 8 - 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 year ended June 30, 2016 was as follows:

	2016
Administrative Fees of Health Care Providers	\$ 13,159,325
Third Party Administration Claims & Fees	5,439,179
Wellness Management Services	25,000
Total	\$ 18,623,504

NOTE 9- 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, 2016. NMPSIA is required to contribute 16.99% of the gross covered salary for the year ended June 30, 2016. 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

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

legislature. NMPSIA's contributions to PERA, for the years ending June 30, 2016, 2015, and 2014 were \$103,762, \$109,431, and \$95,837, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 10 - 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, 2016. 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.

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

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2016, 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, 2016, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

NMPSIA's total contributions to the RHCA for the year ended June 30, 2016, 2015 and 2014 were \$12,215, \$12,886, and \$11,574, respectively, which equal the required contributions for each fiscal year.

NOTE 11 - 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.

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

A detail of accrued compensated absences is as follows:

	Balance			Balance	Due
	June 30, 2015	Additions	Deletions	June 30, 2016	Within
					One Year
Annual Leave	\$ 57,749	\$ -	\$ 13,679	\$ 44,070	\$ 44,070
Sick Leave	2,720	142	-	2,862	2,862
Total	\$ 60,469	\$ 142	\$ 13,679	\$ 46,932	\$ 46,932

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

NOTE 12 - 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 year ended June 30, 2016 was \$21,734. Remaining lease payments under the leases are as follows:

<u>Year Ending</u>	<u>Amount</u>
2017	\$ 20,575
2018	11,857
2019	9,933
2020	4,594
2021	-
Total	\$ 46,959

NOTE 13 - DUE FROM AND DUE TO OTHER STATE AGENCIES

There were no amounts due from or due to other state agencies at June 30, 2016.

NOTE 14 - OPERATING TRANSFERS

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

SHARE FUND	June 30, 2016	
	From	To
Administration Fund (34900)	\$ -	\$ 1,360,300
Benefits Fund (35000)	680,200	
Risk Fund (35100)	680,100	-
Total	\$ 1,360,300	\$ 1,360,300

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

See Independent Auditors' Report

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 15 – DEFICIT NET POSITION

For the year ended June 30, 2016, NMPSIA reported the following deficit net position:

- Fund 351 – Risk Fund: \$5,750,878.

NOTE 16 - 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 17 - 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.

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, 2016.

NOTE 18 – SUBSEQUENT EVENTS

NMPSIA has evaluated subsequent events through November 28, 2016, the date which the financial statements were issued. No significant subsequent event to report.

See Independent Auditors' Report

REQUIRED SUPPLEMENTARY INFORMATION

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

**STATE OF NEW MEXICO
NEW MEXICO PUBIC SCHOOLS INSURANCE AUTHORITY
STATEMENT OF BUDGETARY BASIS REVENUES AND EXPENDITURES –
BUDGET AND ACTUAL
PROGRAMS
JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Participant Premiums	\$ -	\$ -	\$ -	\$ -
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Loss and Loss Adjustment Expenses	-	-	-	-
Premiums	-	-	-	-
Insurance Servicing and Administration General and Administrative	-	-	-	-
	<u>1,360,300</u>	<u>1,360,300</u>	<u>1,346,765</u>	<u>13,535</u>
TOTAL EXPENDITURES	<u>1,360,300</u>	<u>1,360,300</u>	<u>1,346,765</u>	<u>13,535</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,360,300)	(1,360,300)	(1,346,765)	(13,535)
OTHER FINANCING SOURCES (USES)				
Investment Income	-	-	-	-
Other Income	-	-	3,892	3,892
Loss on Disposal of Assets	-	-	-	-
Transfers In	1,360,300	1,360,300	1,360,300	-
Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,360,300</u>	<u>1,360,300</u>	<u>1,364,192</u>	<u>3,892</u>
CHANGE IN NET POSITION	<u>\$ -</u>	<u>-</u>	<u>\$ 17,427</u>	<u>\$ (9,643)</u>

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
STATEMENT OF BUDGETARY BASIS REVENUES AND EXPENDITURES –
BUDGET AND ACTUAL
BENEFITS
JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Participant Premiums	\$ 303,398,900	\$ 303,398,900	\$ 289,980,495	\$ (13,418,405)
Subtotal	303,398,900	303,398,900	289,980,495	(13,418,405)
EXPENDITURES				
Loss and Loss Adjustment Expenses	285,000,000	285,000,000	284,485,620	514,380
Premiums	10,500,000	10,497,000	10,411,889	85,111
Insurance Servicing and Administration	-	16,103,000	16,102,847	153
General and Administrative	14,718,700	7,618,700	87,487	7,531,213
TOTAL EXPENDITURES	<u>310,218,700</u>	<u>319,218,700</u>	<u>311,087,843</u>	<u>8,130,857</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(6,819,800)	(15,819,800)	(21,107,348)	(21,549,262)
OTHER FINANCING SOURCES (USES)				
Investment Income	1,500,000	9,000,000	392,904	(8,607,096)
Other Income	(180,200)	(180,200)	424,833	605,033
Loss on Disposal of Assets	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	(680,200)	(680,200)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,319,800</u>	<u>8,819,800</u>	<u>137,537</u>	<u>(8,682,263)</u>
CHANGE IN NET POSITION	<u>\$ (5,500,000)</u>	<u>(7,000,000)</u>	<u>\$ (20,969,811)</u>	<u>\$ (30,231,525)</u>

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
STATEMENT OF BUDGETARY BASIS REVENUES AND EXPENDITURES –
BUDGET AND ACTUAL
RISK
JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
REVENUES				
Participant Premiums	\$ 73,289,400	\$ 73,289,400	\$ 73,968,021	\$ 678,621
Subtotal	73,289,400	73,289,400	73,968,021	678,621
EXPENDITURES				
Loss and Loss Adjustment Expenses	39,000,000	39,000,000	31,113,006	7,886,994
Premiums	31,300,000	36,800,000	35,993,909	806,091
Insurance Servicing and Administration	2,600,000	2,600,000	2,520,657	79,343
General and Administrative	249,300	249,300	79,978	169,322
TOTAL EXPENDITURES	<u>73,149,300</u>	<u>78,649,300</u>	<u>69,707,550</u>	<u>8,941,750</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	140,100	(5,359,900)	4,260,471	(8,263,129)
OTHER FINANCING SOURCES (USES)				
Investment Income	3,540,000	5,540,000	414,005	(5,125,995)
Other Income	(180,100)	(180,100)	38,839	218,939
Loss on Disposal of Assets	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	(680,100)	(680,100)
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,359,900</u>	<u>5,359,900</u>	<u>(227,256)</u>	<u>(5,587,156)</u>
CHANGE IN NET POSITION	<u>\$ 3,500,000</u>	<u>-</u>	<u>\$ 4,033,215</u>	<u>\$ (13,850,285)</u>

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
CASH AND CASH EQUIVALENTS - RECONCILIATION
FROM BOOKS TO FINANCIAL STATEMENTS
JUNE 30, 2016**

	<u>Benefits</u>	<u>Risk</u>	<u>Programs</u>	<u>Total</u>
Interest bearing checking and money market:				
Wells Fargo:				
Employee Benefits Depository	\$ 3,611,175		\$ -	\$ 3,611,175
Employee Benefits Short-Term Investments	1,153,953	-	-	1,153,953
Employee Benefits Disbursement Account	(4,990)	-	-	(4,990)
Risk Depository Account	-	39,368,956	-	39,368,956
Risk Short-Term Investment Account	-	1,100,936	-	1,100,936
	<u>4,760,138</u>	<u>40,469,892</u>	<u>-</u>	<u>45,230,030</u>
Total Cash Balance Per Bank	4,760,138	40,469,892	-	45,230,030
Less: Outstanding Checks	-	-	-	-
Total Cash and Cash Equivalents	<u>\$ 4,760,138</u>	<u>\$ 40,469,892</u>		<u>\$ 45,858,261</u>
New Mexico State Treasurer's				
General Fund Investment Pool			<u>\$ 628,231</u>	

The information on outstanding warrants at June 30, 2016 was not provided to NMPSIA by the State Treasurer's Office. Also, see the footnote disclosure on the New Mexico State Treasurer General Fund Investment Pool, which is not reconciled at June 30, 2016.

**STATE OF NEW MEXICO
NEW MEXICO PUBIC SCHOOLS INSURANCE AUTHORITY
STATEMENT OF NET POSITION INFORMATION
BY FUNCTIONAL ACTIVITY
JUNE 30, 2016**

	<u>Benefits</u>	<u>Risk</u>	<u>Programs</u>	<u>Total</u>
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 4,760,138	\$ 40,469,892	\$ -	\$ 45,230,030
NM State Treasurer's State Fund Investment Pool	-	-	628,231	628,231
NM State Treasurer's Local Fund Investment Pool	29,669,125	1,296,903	-	30,966,028
Accrued Interest Receivable	12,598	13,507	-	26,105
Receivables From Excess Insurers, Net	785,372	503,123	-	1,288,495
Due from Other Funds	35,169	35,169	-	70,338
Prepaid Expenses and Deposits	-	256,180	-	256,180
TOTAL CURRENT ASSETS	<u>35,262,402</u>	<u>42,574,774</u>	<u>628,231</u>	<u>78,465,407</u>
NON-CURRENT ASSETS				
Investments - Long-Term	15,947,930	15,730,019	-	31,677,949
Capital Assets, Net	-	-	325,584	325,584
TOTAL NON-CURRENT ASSETS	<u>15,947,930</u>	<u>15,730,019</u>	<u>325,584</u>	<u>32,003,533</u>
TOTAL ASSETS	<u>\$ 51,210,332</u>	<u>\$ 58,304,793</u>	<u>\$ 953,815</u>	<u>\$ 110,468,940</u>
LIABILITIES AND NET POSITION				
LIABILITIES				
Reserves for Losses and Loss Adj. Expense	\$ 24,075,532	\$ -	\$ -	\$ 24,075,532
Unearned Premium Rev. and Carrier Advances	73,290	-	-	73,290
Due to Insurance Carriers for Claims Paid	5,015,488	375,957	-	5,391,445
Accounts Payable	1,149,622	302,744	28,400	1,480,766
Accrued Payroll	-	-	35,348	35,348
Due to Other Funds	-	-	70,339	70,339
Accrued Compensated Absences	-	-	46,932	46,932
TOTAL CURRENT LIABILITIES	<u>30,313,932</u>	<u>678,701</u>	<u>181,019</u>	<u>31,173,652</u>
NON-CURRENT LIABILITIES				
Reserve for Losses and Loss Adj. Expense	-	63,376,970	-	63,376,970
TOTAL NON-CURRENT LIABILITIES	<u>-</u>	<u>63,376,970</u>	<u>-</u>	<u>63,376,970</u>
TOTAL LIABILITIES	<u>30,313,932</u>	<u>64,055,671</u>	<u>181,019</u>	<u>94,550,622</u>
NET POSITION				
Net Investment in Capital Assets	-	-	325,584	325,584
Restricted for Future Benefits	41,385,409	4,082,482	-	45,467,891
Unrestricted	(20,489,009)	(9,833,360)	447,212	(29,875,157)
TOTAL NET POSITION	<u>20,896,400</u>	<u>(5,750,878)</u>	<u>772,796</u>	<u>15,918,318</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 51,210,332</u>	<u>\$ 58,304,793</u>	<u>\$ 953,815</u>	<u>\$ 110,468,940</u>

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
INFORMATION
BY FUNCTIONAL ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2016**

	350	351	349	
	<u>Benefits</u>	<u>Risk</u>	<u>Programs</u>	<u>Total</u>
REVENUES				
Participant Premiums	\$ 289,980,495	\$ 73,968,021	\$ -	\$ 363,948,516
TOTAL REVENUES	289,980,495	73,968,021	-	363,948,516
EXPENDITURES				
Loss and Loss Adjustment Expenses	284,004,818	44,979,581	-	328,984,399
Premiums	10,411,889	35,993,909	-	46,405,798
Insurance Servicing and Fees	16,102,847	2,520,657	-	18,623,504
General and Administrative	87,487	79,978	1,346,765	1,514,230
Depreciation Expense	-	-	24,187	24,187
TOTAL EXPENDITURES	<u>310,607,041</u>	<u>83,574,125</u>	<u>1,370,952</u>	<u>395,552,118</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(20,626,546)	(9,606,104)	(1,370,952)	(31,603,602)
NONOPERATING REVENUES AND EXPENSES				
Investment Income	392,904	414,005	-	806,909
Other Income	424,833	38,839	3,892	467,564
Transfers in	-	-	1,360,300	1,360,300
Transfers out	<u>(680,200)</u>	<u>(680,100)</u>	<u>-</u>	<u>(1,360,300)</u>
TOTAL NONOPERATING REVENUES AND EXPENSES	<u>137,537</u>	<u>(227,256)</u>	<u>1,364,192</u>	<u>1,274,473</u>
NET CHANGE IN NET POSITION	(20,489,009)	(9,833,360)	(6,760)	(30,329,129)
NET POSITION, BEGINNING OF YEAR	<u>41,385,409</u>	<u>4,082,482</u>	<u>779,556</u>	<u>46,247,447</u>
NET POSITION, END OF YEAR	<u>\$ 20,896,400</u>	<u>\$ (5,750,878)</u>	<u>\$ 772,796</u>	<u>\$ 15,918,318</u>

SUPPORTING SCHEDULES

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000 (excluding GRT)
FOR THE YEAR ENDED JUNE 30, 2016
Prepared by: Pamela Vigil Title: Mgt. Analyst Date: September 30, 2016**

RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work
60.343.15.0499	Competitive (RFP or RFB)	United Concordia	Winner	\$ 15,900,000		21700 Oxnard Street, Suite #500, Woodland Hills, CA 91367-3642	No	No	IBAC Dental Insurance Coverage - Contract Effective 7-1-2016
60.343.15.0499	Competitive (RFP or RFB)	Davis Vision	Winner	\$ 2,500,000		175 E. Houston St., San Antonio, TX 78205	No	No	IBAC Vision Insurance Coverage - Contract Effective 7-1-2016
60.343.15.0499	Competitive (RFP or RFB)	Blue Cross Blue Shield, NM	Winner	\$ 142,000,000		4373 Alexander Blvd. NE, Albuquerque, NM 87107	Yes	No	IBAC Medical Insurance Coverage - Contract Effective 7-1-2016
60.343.15.0499	Competitive (RFP or RFB)	Presbyterian Health Plan	Winner	\$ 85,000,000		9521 San Mateo Blvd. NE, Albuquerque, NM 87113	Yes	No	IBAC Medical Insurance Coverage - Contract Effective 7-1-2016
60.343.15.0499	Competitive (RFP or RFB)	NM Health Connections	Winner	\$ 8,000,000		2440 Louisiana Blvd., NE, Suite 601, Albuquerque, NM 87110	Yes	No	IBAC Medical Insurance Coverage - Contract Effective 7-1-2016
60.343.15.0499	Competitive (RFP or RFB)	Cigna	Loser	N/A		8505 East Orchard Road, 5t1, Greenwood Village, CO 80111	No	No	IBAC Medical Insurance Coverage

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000 (excluding GRT)
FOR THE YEAR ENDED JUNE 30, 2016
Prepared by: Pamela Vigil Title: Mgt. Analyst Date: September 30, 2016**

RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work
60.343.15.0 0499	Competitive (RFP or RFB)	HealthSCOP E	Loser	N/A		27 Corporate Hill Drive, Little Rock, AR 72205	No	No	IBAC Medical Insurance Coverage
60.343.15.0 0499	Competitive (RFP or RFB)	Mayo Clinic Health Solutions	Loser	N/A		4001 41st Street NW, Rochester, MN 55901- 8901	No	No	IBAC Medical Insurance Coverage
60.343.15.0 0499	Competitive (RFP or RFB)	United Healthcare	Loser	N/A		1 East Washington Street, Ste. 1700 Phoenix, AZ 85004	No	No	IBAC Medical Insurance Coverage
60.343.15.0 0499	Competitive (RFP or RFB)	Healthcare Blue Book	Loser	N/A		214 Overlook Cir., Brentwood, TN 37027	No	No	IBAC Medical Insurance Coverage
60.343.15.0 0499	Competitive (RFP or RFB)	Delta Dental	Loser	N/A		2500 Louisiana Blvd. NE. Suite 600, Albuquerque, NM 87110	Yes	No	IBAC Dental Insurance Coverage
60.343.15.0 0499	Competitive (RFP or RFB)	Metlife	Loser	N/A		6400 South Fiddlers Green Circle, Suite 220, Greenwood Village, CO 80111	No	No	IBAC Dental Insurance Coverage

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000 (excluding GRT)
FOR THE YEAR ENDED JUNE 30, 2016
Prepared by: Pamela Vigil Title: Mgt. Analyst Date: September 30, 2016**

RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work
60.343.15.0 0499	Competitive (RFP or RFB)	Blue Cross Blue Shield, NM	Loser	N/A		4373 Alexander Blvd. NE, Albuquerque, NM 87107	Yes	No	IBAC Dental Insurance Coverage
60.343.15.0 0499	Competitive (RFP or RFB)	VSP	Loser	N/A		3333 Quality Dr., Rancho Cordoval, CA, 95670	No	No	IBAC Vision Insurance Coverage
60.343.15.0 0499	Competitive (RFP or RFB)	United Healthcare	Loser	N/A		1 East Washington Street, Ste. 1700 Phoenix, AZ 85004	No	No	IBAC Vision Insurance Coverage
60.343.15.0 0499	Competitive (RFP or RFB)	Metlife	Loser	N/A		6400 South Fiddlers Green Circle, Suite 220, Greenwood Village, CO 80111	No	No	IBAC Vision Insurance Coverage

COMPLIANCE SECTION



**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**

Independent Auditors' Report

Honorable Timothy Keller
New Mexico State Auditor
Santa Fe, New Mexico
and
The Board of Directors
New Mexico Public Schools Insurance Authority
Santa Fe, New Mexico

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 year ended June 30, 2016, 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 28, 2016.

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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Kubiak Melton & Associates, LLC

Kubiak Melton & Associates, LLC
Auditors – Business Consultants - CPAs

Albuquerque, New Mexico
November 28, 2016

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

SECTION I. SUMMARY OF AUDIT RESULTS

Financial Statements:

- | | |
|--|------------|
| 1. Type of Auditors' Report Issued: | Unmodified |
| 2. Internal Control Over Financial Reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | No |
| c. Noncompliance material to financial statements noted? | No |

SECTION II. CURRENT YEAR AUDIT FINDINGS

There are no audit findings in the current year.

SECTION III. STATUS OF PRIOR YEAR AUDIT FINDINGS

- 2015-001 – Travel and Per Diem - Resolved
- 2015-002 – Expenses and Expenditures - Resolved
- 2015-003 – Procurement - Resolved

**STATE OF NEW MEXICO
NEW MEXICO PUBLIC SCHOOLS INSURANCE AUTHORITY
EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2016**

An exit conference was held on November 28, 2016 to discuss the results of the audit.
Representing the New Mexico Public Schools Insurance Authority:

Chris Parrino, Board Member
Sammy Quintana, Executive Director
Ernestine Chavez, Deputy Director
Richard Valerio, Chief Financial Officer
Patrick Sandoval, Finance & Human Resource Manager

Representing the Independent Auditors:

Daniel O. Trujillo, CPA, CFE, CGFM, CGMA

Note: The financial statements were prepared by the independent certified public accounting firm performing the audit with the assistance of The New Mexico Public Schools Insurance Authority. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with generally accepted accounting principles. Management has reviewed and approved the financial statements.