



New Mexico Self-Insurers' Fund
Financial Statements
June 30, 2019 and 2018

1231 Paseo De Peralta – Santa Fe, New Mexico 87501

New Mexico Self-Insurers' Fund

Financial Statements
Year Ended June 30, 2019 and 2018

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NEW MEXICO SELF-INSURERS' FUND

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**NEW MEXICO SELF-INSURERS' FUND
OFFICIAL ROSTER
JUNE 30, 2019**

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New Mexico Self-Insurers' Fund

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Kathy Hennessy Deputy Risk Services Director
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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
New Mexico Self-Insurers' Fund

Mr. Brian S. Colón, Esq.
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the New Mexico Self-Insurers' Fund (Fund), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements 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 misstatement, whether due to fraud or error.

Auditor's 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the New Mexico Self-Insurers' Fund, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Information

The prior year comparative information obtained from the Fund's 2018 financial statements is presented for purposes of additional analysis. Our report dated November 28, 2018, expressed an unmodified opinion on those financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the Supplemental Claims Development Information, as listed in the table of contents, 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 Fund's basic financial statements as a whole. The Schedule of Pledged Collateral and Schedule of Deposit and Investment Accounts, listed as Other Supplementary Information in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Pledged Collateral and Schedule of Deposit and Investment Accounts are the responsibility of management and were derived from and relate 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 Schedule of Pledged Collateral and Schedule of Deposit and Investment Accounts are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2019, on our consideration of New Mexico Self-Insurers' Fund'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 New Mexico Self-Insurers' Fund's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
November 18, 2019

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

As management of the New Mexico Self-Insurers' Fund (Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2019. Comparative data as of June 30, 2019 and 2018 and for the years then ended has been provided for comparative purposes. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

FINANCIAL HIGHLIGHTS

Each year the Fund has tried to maintain or reduce premium contributions, while increasing net position (members' equity). Net position increased \$18.2 million from \$81.7 million as of June 30, 2018 to \$99.9 million as of June 30, 2019. The increase is primarily due to increased earnings attributable to the Fund's investment portfolio. Operating revenues of \$29.0 million exceeded operating expenses of \$22.3 million at the end of the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements comprise a series of financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The operations of the Fund are accounted for in a single proprietary fund of the enterprise type. As a result, only the financial statements required for a proprietary fund are presented. The statement of fund net position presents information on the Fund's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position at June 30, 2019 and 2018. The statement of revenues, expenses, and changes in fund net position presents information showing the Fund's results of operations and how net position changed during the years ended June 30, 2019 and 2018. The statement of cash flows outlines the cash inflows and outflows related to the operation of the Fund for the years ended June 30, 2019 and 2018. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found immediately following the financial statements. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Fund's supplemental claims development information and other supplementary information concerning the Fund's pledged collateral and deposits and investments accounts.

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

CONDENSED COMPARATIVE FINANCIAL INFORMATION

The following table presents a summary of the Fund's assets, liabilities and net position as of June 30, 2019 and June 30, 2018:

	As of <u>June 30, 2019</u>	As of <u>June 30, 2018</u>
Cash and cash equivalents	\$ 1,876,712	\$ 2,896,129
Accrued investment income	1,030,347	992,992
Contributions receivable	11,187,371	11,655,192
Due from reinsurers	191,054	302,723
Investments	153,125,812	137,547,657
Equity in NLC Mutual Insurance	<u>10,849,765</u>	<u>9,841,516</u>
Total assets	<u>178,261,061</u>	<u>163,236,209</u>
Prepaid contributions	419,942	429,771
Accounts payable	608,049	445,744
Reserve for unpaid claims and claim adjustment expenses	<u>77,320,612</u>	<u>80,691,185</u>
Total liabilities	<u>78,348,603</u>	<u>81,566,700</u>
Net position:		
Unrestricted – members' equity	<u>99,912,458</u>	<u>81,669,509</u>
Total net position	<u>\$ 99,912,458</u>	<u>\$ 81,669,509</u>

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

CONDENSED COMPARATIVE FINANCIAL INFORMATION

The following table presents a summary of the Fund's revenues and expenses for the years ended June 30, 2019 and June 30, 2018:

	<u>Year Ended June 30, 2019</u>	<u>Year Ended June 30, 2018</u>
Earned premiums	\$ 34,336,811	\$ 34,734,758
Less reinsurance premiums	(5,353,615)	(4,605,672)
Total operating revenues	<u>28,983,196</u>	<u>30,129,086</u>
Investment income (loss)	10,521,481	(373,198)
Equity in earnings of NLC Mutual Insurance	1,008,250	1,420,212
Total nonoperating revenues	<u>11,529,731</u>	<u>1,047,014</u>
Total revenues	<u>40,512,927</u>	<u>31,176,100</u>
Claims and claim adjustment expenses	14,359,629	24,531,259
Claim and trust administration	5,850,465	5,831,726
Members' dividends	2,059,884	2,489,534
Total expenses	<u>22,269,978</u>	<u>32,852,519</u>
Changes in net position	18,242,949	(1,676,419)
Net position, beginning	81,669,509	83,345,928
Net position, ending	<u>\$ 99,912,458</u>	<u>\$ 81,669,509</u>

FINANCIAL ANALYSIS OF THE FUND

Total assets increased \$15.0 million, or nine percent from the prior fiscal year primarily due to an increase in earnings on investments. Total liabilities decreased \$3.2 million, or four percent from the prior fiscal year due to decreased reserves for unpaid claims and adjustment expenses. Total assets consist primarily of investments, contributions receivable and cash in bank, while liabilities are substantially comprised of reserves for unpaid claims and claim adjustment expenses, which are subject to actuarial estimates as further described in the notes to the financial statements.

Total operating revenues decreased four percent to \$29.0 million from \$30.1 million due to an increase in reinsurance premiums as a result of increased rates charged by carriers and developments in current and prior years' events. Nonoperating revenues increased by \$10.5 million primarily due to increased earnings attributable to the Fund's investment portfolio. For the years ended June 30, 2019 and 2018 net position increased \$18.2 million and decreased \$1.7 million, respectively.

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE FUND

Total operating expenses decreased 32 percent to \$22.3 million from \$32.9 million due to a decrease in claims and claim adjustment expenses. Claims and claim adjustment expenses decreased during the year primarily due to provisions in current and prior years' events. The Workers' Compensation Fund had a decrease in actual current year claim expense of \$100,000, with a decrease in the provision for estimated claim reserve of \$1.4 million due to developments in current and prior years. The Liability/Property Fund had a decrease in actual current year claim expense of \$732,172, with a decrease in the provision for estimated claim reserve of \$5.9 million due to developments in events. The Health Benefits Fund had a decrease in actual current year claim expense of \$730,786, with a decrease in the provision for estimated prior years claim reserves of \$1.3 million due to developments in events.

RESERVE FOR UNPAID CLAIMS

The following table presents the changes in the aggregate reserve for unpaid claims and claim adjustment expenses for the past two fiscal years:

	<u>Year Ended June 30, 2019</u>	<u>Year Ended June 30, 2018</u>
Reserve for unpaid claims and claim adjustment expenses, beginning of year	<u>\$ 80,691,185</u>	<u>\$ 76,065,613</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	29,094,735	30,657,693
Decrease in provision for insured events of prior years	<u>(14,735,106)</u>	<u>(6,126,434)</u>
Total incurred claims and claim adjustment expenses	<u>14,359,629</u>	<u>24,531,259</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	8,339,267	8,910,361
Claims and claim adjustment expenses attributable to insured events of prior years	<u>9,390,935</u>	<u>10,995,326</u>
Total payments	<u>17,730,202</u>	<u>19,905,687</u>
Reserve for unpaid claims and claim adjustment expenses, end of year	<u>\$ 77,320,612</u>	<u>\$ 80,691,185</u>

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

The New Mexico Self-Insurers' Fund Board of Trustees maintained contribution levels for the workers' compensation, liability and health pools for fiscal year 2018-19. Rates for the property pool were increased by five percent in response to increases in reinsurance premiums charged by the carriers. With the exception of the property pool and given the current economic challenges faced by the members, the Board elected to forgo rate increases for the fiscal year 2018-19.

General financial market performance affects the investment return. The gains or losses on investments are included in nonoperating income (expense) in the accompanying statement of revenues, expenses and changes in fund net position. Such gains or losses affect the resources available to pay Fund liabilities. It is the policy of the Fund to hold investments to maturity and to trade only on rare occasions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Fund does not maintain any capital assets.

Debt Administration – The Fund has no long-term debt outstanding as of June 30, 2019.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our members and other interested parties with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the resources it receives. If you have questions about this report or need additional information, contact Edwin S. Zendel, Risk Services Director, New Mexico Self-Insurers' Fund, 1231 Paseo De Peralta, Santa Fe, New Mexico, 87501.

**NEW MEXICO SELF-INSURERS' FUND
STATEMENT OF FUND NET POSITION
JUNE 30, 2019 AND 2018**

	2019	2018
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,876,712	\$ 2,896,129
Accrued investment income	1,030,347	992,992
Contributions receivable	3,496,806	4,102,269
Due from reinsurers	191,054	302,723
Total current assets	6,594,919	8,294,113
Noncurrent assets:		
Long-term investments	153,125,812	137,547,657
Equity in NLC Mutual Insurance	10,849,765	9,841,516
Long-term contributions receivable	7,690,565	7,552,923
Total noncurrent assets	171,666,142	154,942,096
Total assets	178,261,061	163,236,209
<u>Liabilities</u>		
Current liabilities:		
Prepaid contributions	419,942	429,771
Accounts payable	608,049	445,744
Reserve for unpaid claims and claim adjustment expenses	23,004,576	21,995,152
Total current liabilities	24,032,567	22,870,667
Noncurrent liabilities:		
Reserve for unpaid claims and claim adjustment expenses	54,316,036	58,696,033
Total liabilities	78,348,603	81,566,700
<u>Net position</u>		
Unrestricted - members' equity	99,912,458	81,669,509
Total net position	\$ 99,912,458	\$ 81,669,509

The notes to the basic financial statements are an integral part of this statement.

NEW MEXICO SELF-INSURERS' FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
JUNE 30, 2019 AND 2018

	2019	2018
Operating revenues:		
Earned premiums	\$ 34,336,811	\$ 34,734,758
Less reinsurance premiums	(5,353,615)	(4,605,672)
Total operating revenues	28,983,196	30,129,086
Operating expenses:		
Claims and claim adjustment expenses	14,359,629	24,531,259
Claims and trust administration	5,850,465	5,831,726
Members' dividends	2,059,884	2,489,534
Total operating expenses	22,269,978	32,852,519
Operating income (loss)	6,713,218	(2,723,433)
Nonoperating revenues:		
Investment income (loss)	10,521,481	(373,198)
Equity in earnings of NLC Mutual Insurance	1,008,250	1,420,212
Total nonoperating revenues	11,529,731	1,047,014
Changes in net position	18,242,949	(1,676,419)
Net position, beginning of year	81,669,509	83,345,928
Net position, end of year	\$ 99,912,458	\$ 81,669,509

The notes to the basic financial statements are an integral part of this statement.

NEW MEXICO SELF-INSURERS' FUND
STATEMENT OF CASH FLOWS
JUNE 30, 2019 AND 2018

	2019	2018
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>		
Cash flows from operating activities:		
Earned premiums	\$ 34,794,803	\$ 34,302,222
Reinsurance premiums	(5,241,946)	(4,786,138)
Claims and claim adjustment expenses	(17,730,202)	(19,905,687)
Claims and trust administration	(5,688,160)	(5,862,281)
Members' dividends	(2,059,884)	(2,489,534)
Net cash provided by operating activities	4,074,611	1,258,582
Cash flows from investing activities:		
Interest and dividends received	3,445,972	3,218,825
Purchases of investments	(11,405,000)	(10,803,000)
Proceeds from sales or maturities of investments	2,865,000	2,453,465
Net cash provided by (used for) investing activities	(5,094,028)	(5,130,710)
Net increase (decrease) in cash and cash equivalents	(1,019,417)	(3,872,128)
Cash and cash equivalents, beginning of year	2,896,129	6,768,257
Cash and cash equivalents, end of year	\$ 1,876,712	\$ 2,896,129
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>		
Operating income (loss)	\$ 6,713,218	\$ (2,723,433)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Contributions receivable	467,821	(416,502)
Due from reinsurers	111,669	(180,466)
Prepaid contributions	(9,829)	(16,034)
Accounts payable	162,305	(30,555)
Reserve for claims and claim adjustment expenses	(3,370,573)	4,625,572
Net cash provided by operating activities	\$ 4,074,611	\$ 1,258,582
Noncash investing activities:		
Increase in fair value of investments	\$ 16,586,404	\$ 6,099,196

The notes to the basic financial statements are an integral part of this statement.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the New Mexico Self-Insurers' Fund (Fund) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units since the Fund is a cooperative of governmental entities joined together to form a public entity risk pool. The operations of the Fund are presented in the accompanying basic financial statements as a single proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Fund's accounting policies are described below.

A. Reporting Entity

New Mexico Self-Insurers' Fund was established by its members on November 1, 1982, under the Joint Powers Agreements Act of the New Mexico Statutes Sections 11-1-1 through 11-7-1, State of New Mexico Annotated (NMSA), 1978 Compilation, and the Local Insurance and Pooling Law, Sections 3-62-1 through 3-62-2, NMSA, 1978, to provide insurance coverage to certain governmental entities within the State of New Mexico (Members). The primary objectives of the Fund are to formulate, develop and administer a program of self-insurance, obtain lower cost insurance coverage, and develop a comprehensive safety program for its members. The Fund is governed by a Board of Trustees elected from its membership. Furthermore, there are no component units combined with the Fund for financial statement presentation purposes, and the Fund is not included in any other governmental reporting entity.

The accompanying financial statements represent the combination of the following funds which the Fund has established to account for its activities. The funds are not legally separate entities and the accumulated net position of one fund may be transferred to the net position of the other funds.

Workers' Compensation Fund – The Workers' Compensation Fund was established April 1, 1983, to provide workers' compensation coverage levels required by the State of New Mexico. The Fund reduces its risk on this coverage through specific excess reinsurance and for fiscal years prior to 1994, through excess aggregate reinsurance. A total of 110 members participated in this Fund during 2019.

Liability Fund – The Liability Fund was established January 1, 1987, to provide general liability, auto physical damage and auto liability coverage. Effective July 1, 1994, the Fund began to provide law enforcement liability and public official's errors and omissions coverage. The Fund reduces its risk on these coverages through specific excess reinsurance and for fiscal years prior to 1994, through aggregate excess reinsurance. A total of 106 members participated in this Fund during 2019.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property Fund – The Property Fund was established July 1, 1987, to provide coverage for property other than autos. The Fund serves primarily as an agent on this coverage as the only retained risk relates to a variable deductible program. A total of 102 members participated in this Fund during 2019.

Volunteer Fund – The Volunteer Fund was established July 1, 1988, to provide accidental death and disability coverage for volunteers. The Fund serves as an agent on this coverage and does not retain any of the related risk. A total of 64 members participated in this Fund during 2019.

Health Benefits Fund – The Health Benefits Fund was established July 1, 1994, to provide health and life insurance coverages. The Fund provides the health portion of this coverage directly and reduces its risk through specific and aggregate excess reinsurance. The Fund serves as agent for the life portion of this coverage. A total of 31 members participated in this Fund during 2019.

The individual funds do not necessarily have the same members. In the event of termination, the net position of the Fund, if any, shall belong to the members participating in the respective funds at that time and will be distributed in accordance with criteria developed by the Board of Trustees.

B. Measurement Focus and Basis of Accounting

The operations of the Fund are presented in the accompanying basic financial statements as a single proprietary fund of the enterprise type.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Fund first uses restricted resources then unrestricted resources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Fund are premiums charged to participating members. Operating expenses of the Fund include claims losses, adjustments to the provision for losses and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Depending upon the significance of the Fund's financial and operational relationships with various separate entities, the organizations are classified as blended or discrete component units. The Fund had no blended or discrete component units during the fiscal year ended June 30, 2019.

C. Recognition of Premiums

Premiums are earned ratably over the policy period, which coincides with the Fund's fiscal year. Estimated premiums are billed to members at the beginning of the policy year and are finalized after year-end with the exception of the Health Benefits Fund, for which premiums are billed and adjusted on a monthly basis. Premiums received in excess of finalized amounts are generally applied to the members' premiums for the following year and are included in the accompanying statement of fund net position as prepaid contributions.

Although the Fund does not expect to generate a premium deficiency, the Fund does not consider anticipated investment income in determining if a premium deficiency exists.

D. Reserve for Unpaid Claims and Claim Adjustment Expenses

The Fund establishes claim liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage award, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities include estimates that reflect recent settlements, claim frequency and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and other factors that are considered to be appropriate modifiers of past experience. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

E. Reinsurance

Reinsurance premiums paid or accrued are charged to expense in the period for which reinsurance coverage is provided. Amounts recoverable from reinsurers on paid losses are recorded in the period in which payment is made on behalf of the reinsurer. The reserve for loss and loss adjustment expenses as of June 30, 2019 and 2018, has been reduced by approximately \$8.3 million and \$6.9 million, respectively, as a result of recoverable losses. To the extent that a reinsurer is unable to meet its obligations under the related reinsurance agreements, the Fund will remain liable for the unpaid loss and loss expenses.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fund has entered into specific excess of loss reinsurance contracts for workers' compensation, general and auto liability, public officials and police liability and other casualty coverages. Loss and loss adjustment expenses in excess of specific amounts will be paid by the reinsurer, up to the policy limits, as follows: workers' compensation excess of \$750,000 with a statutory maximum limit of indemnity per occurrence; general and auto liability excess of \$500,000 with policy maximum of \$1,000,000; public officials and police liability excess of \$500,000 with policy maximum of \$1,000,000. Loss adjustment expenses on excess of loss reinsurance claims are retained by the reinsurer on a pro-rata basis. Losses above the reinsurance limits are the responsibility of the members. For health insurance coverage, reinsurance coverage for specific losses in excess of \$225,000 and aggregate losses in excess of the current minimum aggregate attachment point of \$8,996,931 up to the coverage maximum of \$1,000,000 (excluding loss adjustment expenses) has been obtained. For health insurance coverage, losses in excess of aggregate policy limits are the responsibility of the Fund.

F. Investments

The Fund is authorized to invest in certificates of deposit and other bank investments provided that approved securities are pledged to secure those funds in an amount equal to one-half of those funds. The Fund is also authorized to invest in U.S. Treasury obligations and money market funds whose portfolio consists entirely of U.S. Treasury obligations, as well as repurchase contracts where the contract is fully secured by obligations or securities backed by the United States having a market value of at least 102 percent of the amount of the contract.

Investments with fixed maturities are carried at fair value, while certificates of deposit and repurchase agreements are carried at cost which approximates fair value. Investment income is recognized when earned, and composed of interest, dividends, and net change in the fair value of applicable investments.

G. Cash and Cash Equivalents

The Fund considers liquid investments with a maturity of 90 days or less at time of purchase to be cash equivalents. The Fund is required by New Mexico State law to obtain collateral from its banks for 50 percent of cash deposits account balances in excess of FDIC limits.

H. Contributions Receivable

Contributions receivable represent the amount billed for insurance premiums. Contributions receivable are carried at original invoice amount. Management does review the contributions receivable on a monthly basis and considers the contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. Contributions receivable also includes the self-insured retention receivable.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Prepaid Expenses

Prepaid expenses are reported for payments made in advance of the period the expenses were incurred, and consist of prepaid reinsurance premiums.

J. Income and Premium Taxes

The Fund is exempt from federal income taxes under Section 115 of the Internal Revenue Code and is not subject to state income or premium taxes. Accordingly, the accompanying financial statements do not include provisions for such taxes.

K. Net Position

For accounting and reporting purposes, the Fund reports its net position as unrestricted, as no net position is subject to externally imposed constraints.

L. Administrative Services Arrangement

The New Mexico Municipal League (League) provides the Fund with a variety of administrative services such as claims administration, accounting, occupancy, etc. in exchange for a fee based on actual cost incurred by the League to provide the services.

M. Budgets

There is no statutory requirement for the Fund to present budgetary statements; therefore, none have been included in these financial statements.

N. Tax Abatement Disclosures

The Fund has not entered into any tax abatement agreements, therefore the disclosures required by GASB Statement No. 77, *Tax Abatement Disclosures* are not applicable.

O. 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 – EQUITY IN NLC MUTUAL INSURANCE COMPANY

The Fund reinsures its workers' compensation and certain liability coverages with NLC Mutual Insurance Company (NLC); NLC is a captive insurance company formed by risk pools associated with certain state municipal leagues including the Fund. In connection with this coverage, the Fund is required to maintain a capital account balance with NLC in an amount that is based upon earned premiums.

Under the terms of its agreement with NLC, the Fund receives an allocation of the underwriting and investment results of certain lines of business of NLC which is calculated using a specific allocation method. Accordingly, the Fund accounts for the fair value of its investment in NLC using net asset value per share of the investment.

Amounts due from NLC for paid losses (aggregate and specific) are included in due from reinsurers in the accompanying statements of fund net position. The reserve for loss and loss adjustment expenses as of June 30, 2019 and 2017 has been reduced by approximately \$8.3 million and \$6.9 million, respectively, as a result of reinsurance recoverable from NLC on unpaid losses.

Audited condensed financial information for NLC as taken from its Annual Reports as of and for the years ended December 31, 2018 and 2017 is as follows:

	(in thousands)	
	2018	2017
Investments	\$ 339,432	\$ 347,896
Liability for loss and loss adjustment expenses, net of reinsurance	291,805	292,588
Members' equity	149,534	157,038
Earned premiums	14,627	13,370
Net investment income	12,329	11,310
Comprehensive income (loss)	(6,562)	18,571

Cash and cash equivalents held by the Fund include cash on deposit and money market accounts with financial institutions. At June 30, 2019, the carrying amount of the Fund's deposits was \$1,876,711 and the bank balance was \$2,836,238.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 – CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to the Fund. The Fund does not have a deposit policy for custodial credit risk; however, under New Mexico law, all deposits with financial institutions must be collateralized in an amount not less than 50 percent of the uninsured balance and repurchase agreements by securities with a market value of at least 102 percent of the investment. As of June 30, 2019, \$1,855,780 of the Fund's bank balance was exposed to custodial credit risk as collateralized with securities held by the pledging financial institution's trust department.

	U.S. Bank Bank Balance	Wells Fargo Advisors Bank Balance
Insured	\$ 250,000	\$ 730,458
Collateralized:		
Collateral held by pledging bank's trust department in the agency's name	1,855,780	
Uninsured and uncollateralized		
Total deposits	\$ 2,105,780	\$ 730,458
50% pledge collateral requirement per statute	\$ 927,890	\$ - 0 -
Total pledged collateral	1,855,780	- 0 -
Uninsured and uncollateralized	- 0 -	- 0 -

<u>Account Depository</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
U.S. Bank	Clearing	Checking	\$ 1,604,657	\$ 1,605,657
U.S. Bank	Claims	Money market	(959,435)	
U.S. Bank	Money Market	Money market	500,000	500,123
Wells Fargo Advisors	Workers' Compensation	Money market	295,736	295,736
Wells Fargo Advisors	Liability	Money market	232,895	232,863
Wells Fargo Advisors	Property	Money market	201,859	201,859
Total cash and cash equivalents			\$ 1,876,712	\$ 2,836,238

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 – INVESTMENTS

Fair Value Measurements. The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

All investments in which the fair value hierarchy is applicable are measured at fair value on a recurring basis. At June 30, 2019, the Fund's investments consisted of the following:

Investment Type	Category	Fair Value	Investment Maturities (in Years)			
			Less than 1	1-5	6-10	11-15
U.S. Agencies:						
Federal Farm Credit Bank	Level 2	\$ 50,090,022	\$ 10,999,173	\$ 21,425,156	\$ 17,665,693	\$
Federal Home Loan Bank	Level 2	85,558,854	989,383	11,773,707	70,804,884	1,990,880
Federal Home Loan Mortgage Corporation	Level 2	14,478,736		14,478,736		
Federal National Mortgage Association	Level 2	2,998,200			2,998,200	
Total		\$ 153,125,812	\$ 11,988,556	\$ 47,677,599	\$ 91,468,777	\$ 1,990,880

Interest Rate Risk. The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Quality Risk. The Fund is authorized to invest in U.S. Treasury obligations and money market funds whose portfolio consists entirely of U.S. Treasury obligations, as well as repurchase contracts where the contract is fully secured by obligations or securities backed by the United States having a market value of at least 102 percent of the amount of the contract. The Fund has no investment policy that would further limit its investment choices. All of the Fund's investments in U.S. Agencies listed in the preceding table were rated AAA and AA+ by Moody's Investors Service and Standard & Poor's, respectively.

Custodial Credit Risk – Investments. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Fund does not currently have an investment policy for custodial credit risk. The Fund is not considered to be subject to custodial credit risk for exposure as all of the investments held by the Fund's brokerage firm are registered in the name of the Fund.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 – INVESTMENTS

Concentration of Credit Risk. The Fund places no limit on the amount the Fund may invest in any one issuer. The investments in Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association, represent 33%, 56%, 9%, and 2% of the Fund's total investments, respectively.

At June 30, 2019, the Fund maintained the following investment accounts.

<u>Account Depository</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Wells Fargo Advisors	Workers' Compensation	U.S. Agencies	\$ 73,105,776	\$ 73,105,776
Wells Fargo Advisors	Liability	U.S. Agencies	65,651,591	65,651,591
Wells Fargo Advisors	Property	U.S. Agencies	14,368,445	14,368,445
Total investments			<u>\$ 153,125,812</u>	<u>\$ 153,125,812</u>

The amortized cost and estimated market value of investments at June 30, 2019 and 2018 are as follows.

<u>Year</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
2019	\$ 153,694,514	\$ 75,758	\$ (644,460)	\$ 153,125,812
2018	145,191,400	136,633	(7,780,376)	137,547,657

Investment income for the years ended June 30, 2019 and 2018 includes net realized gains and (losses) from the sale of investments of \$0 and \$(139,541), respectively.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 – RESERVE FOR UNPAID CLAIMS

As discussed in Note 1, the Fund establishes a liability for both claims that have been reported but not settled, and claims that have been incurred but not reported, which includes estimates of the ultimate cost of claims. The following represents changes in these aggregate liabilities for the workers' compensation, liability and health benefits funds during the past two years:

	<u>Year Ended June 30, 2019</u>	<u>Year Ended June 30, 2018</u>
Reserve for unpaid claims and claim adjustment expenses, beginning of year	\$ 80,691,185	\$ 76,065,613
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	29,094,735	30,657,693
Decrease in provision for insured events of prior years	<u>(14,735,106)</u>	<u>(6,126,434)</u>
Total incurred claims and claim adjustment expenses	<u>14,359,629</u>	<u>24,531,259</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	8,339,267	8,910,361
Claims and claim adjustment expenses attributable to insured events of prior years	<u>9,390,935</u>	<u>10,995,326</u>
Total payments	<u>17,730,202</u>	<u>19,905,687</u>
Reserve for unpaid claims and claim adjustment expenses, end of year	<u>\$ 77,320,612</u>	<u>\$80,691,185</u>
Reserve for unpaid claims and claim adjustment expenses, end of year, current portion	<u>\$ 23,004,576</u>	<u>\$ 21,995,152</u>

Based on historical claim payments, management has estimated the current portion of reserves for unpaid claims and claim adjustment expenses at year-end to be 30 percent and 27 percent for the fiscal years ending June 30, 2019 and June 30, 2018, respectively.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 – ADMINISTRATION

The financial arrangement between the Fund and the League requires the Fund to pay the actual cost of administration of the New Mexico Self-Insurers' Fund. Actual cost is represented by the budget of the Insurance Services Division of the League. The Fund is also required to pay one-fourth of one percent of the value of invested assets for administration of the investment portfolio of the Fund, agency commissions at the same level paid to independent agents for insured members written directly by the League, and a fixed royalty of \$325,000 per year for the use of the League's name. During 2019 and 2018, the Fund paid \$3,955,962 and \$3,980,190, respectively, for administrative services performed by the League on the Fund's behalf. Accounts payable at June 30, 2019 and 2018, included \$492,175 and \$413,730, respectively, for amount due to the League for these services.

NOTE 7 – SELF-INSURED MEMBERS

The Fund provides claims processing services to certain members who have elected to self-insure their primary coverages but who also wish to participate in the Fund's reinsurance program. At June 30, 2019 and 2018, \$10,085,741 and \$10,706,844, respectively, included in contributions receivable relates to amounts to be collected from these members as claims are processed. These amounts are offset by corresponding amounts contained in the reserve for loss and loss expenses. Approximately \$1,445,075 and \$1,257,966 in premiums charged to self-insured members are included in earned premiums in the accompanying financial statements for fiscal years 2019 and 2018. Approximately \$1,540,335 and \$1,501,659 in claims paid related to self-insured members are included in claims and claim adjustment expenses in the accompanying financial statements for fiscal years 2019 and 2018, respectively. In accordance with the provisions of the Fund's agreements with these members, the Fund is responsible for losses in excess of \$250,000 on a per occurrence basis up to the statutory maximum limit. The Fund is responsible for aggregate losses in excess of 200 percent of members' standard premium. The Fund purchased reinsurance for losses in excess of 200 percent of members' standard premium up to an aggregate limit of \$1.0 million per member for fiscal years prior to 1995.

NOTE 8 – MEMBERS' DIVIDENDS

During 2019 and 2018, the Fund distributed \$966,369 and \$1,317,487, respectively, as member dividends to members of the workers' compensation fund. The 2019 workers' compensation refunds were based upon each member's contribution to the fund for fiscal year 2005. Only those members who belonged during the designated fiscal year and who were still in the pool for fiscal year 2019 were eligible to receive refunds.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 – MEMBERS' DIVIDENDS

During 2019 and 2018, the Fund distributed \$1,095,527 and \$1,170,368, respectively, as member dividends to members of the liability fund. The 2019 liability refunds were based upon each member's contributions less losses to the fund for fiscal year 2005. Only those members who belonged during the designed fiscal year and who were still in the pool for fiscal year 2019 were eligible to receive refunds.

SUPPLEMENTAL CLAIMS DEVELOPMENT INFORMATION
(Required Supplementary Information)

**NEW MEXICO SELF-INSURERS' FUND
SUPPLEMENTAL CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2019**

NOTES TO SUPPLEMENTAL CLAIMS DEVELOPMENT INFORMATION

A. Reconciliation of Claims Liabilities by Type of Contract

The schedule on page 27 presents the changes in claims liabilities for the past two years for the Fund's three types of contracts: workers' compensation, liability/property and health benefits.

B. Ten-Year Claims Development Information

The tables on pages 28-30 illustrate how earned premiums (net of reinsurance premiums) and investment income compare to the related costs of loss and loss expenses (net of losses assumed by reinsurers) and other expenses assumed by the Fund as of the end of each of the past ten years. The rows of the table are defined as follows:

- 1) The total of the each year's gross earned premiums and investment income, premiums ceded to reinsurers, and net earned premiums and investment income.
- 2) Each year's administrative and other expenses.
- 3) The Fund's gross estimated incurred loss and loss adjustment expenses claims assumed by reinsurers, and net incurred loss and loss adjustment expenses (both paid and accrued) as originally reported at the end of the year.
- 4) The cumulative net amount of loss and loss expenses paid as of the end of successive years,
- 5) The latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- 6) A comparison of how each year's re-estimated loss and loss adjustment expenses increased or decreased as of the end of successive years (this annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known).
- 7) A comparison of the latest re-estimated incurred loss and loss adjustment expense amounts of the amount originally established (line 3) to show whether this latest estimate is greater or less than originally thought.

As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature fiscal years. The columns of the table show data for successive policy years.

NEW MEXICO SELF-INSURERS' FUND
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>WORKERS' COMPENSATION</u>		<u>LIABILITY/PROPERTY</u>		<u>HEALTH BENEFITS</u>		<u>TOTAL</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Reserve for unpaid claims and claim adjustment expenses, beginning of year	\$ 39,429,110	\$ 38,814,846	\$ 39,322,984	\$ 35,092,965	\$ 1,939,091	\$ 2,157,802	\$ 80,691,185	\$ 76,065,613
Incurred claims and claim adjustment expenses:								
Provision for insured events of the current year	7,700,000	7,800,000	14,373,585	15,105,757	7,021,150	7,751,936	29,094,735	30,657,693
Increase (decrease) in the provision for insured events of the prior years	<u>(4,691,426)</u>	<u>(3,327,856)</u>	<u>(7,814,303)</u>	<u>(1,896,740)</u>	<u>(2,229,377)</u>	<u>(901,838)</u>	<u>(14,735,106)</u>	<u>(6,126,434)</u>
Total incurred claims and claim adjustment expenses	<u>3,008,574</u>	<u>4,472,144</u>	<u>6,559,282</u>	<u>13,209,017</u>	<u>4,791,773</u>	<u>6,850,098</u>	<u>14,359,629</u>	<u>24,531,259</u>
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current year	1,169,456	1,308,740	1,741,334	1,753,953	5,428,477	5,847,668	8,339,267	8,910,361
Claims and claim adjustment expenses attributable to insured events of the prior years	<u>2,673,140</u>	<u>2,549,140</u>	<u>7,033,773</u>	<u>7,225,045</u>	<u>(315,978)</u>	<u>1,221,141</u>	<u>9,390,935</u>	<u>10,995,326</u>
Total payments	<u>3,842,596</u>	<u>3,857,880</u>	<u>8,775,107</u>	<u>8,978,998</u>	<u>5,112,499</u>	<u>7,068,809</u>	<u>17,730,202</u>	<u>19,905,687</u>
Reserve for unpaid claims and claim adjustment expenses, end of year	<u>\$ 38,595,088</u>	<u>\$ 39,429,110</u>	<u>\$ 37,107,159</u>	<u>\$ 39,322,984</u>	<u>\$ 1,618,365</u>	<u>\$ 1,939,091</u>	<u>\$ 77,320,612</u>	<u>\$ 80,691,185</u>

NEW MEXICO SELF-INSURERS' FUND
WORKERS' COMPENSATION TEN YEAR CLAIMS DEVELOPMENT INFORMATION
YEAR ENDED JUNE 30, 2019

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
(1) Premiums and investment revenue:										
Earned	16,639,627	13,057,638	14,861,799	7,832,367	14,447,637	16,206,322	11,767,847	11,425,343	12,157,017	16,583,662
Ceded	1,143,819	1,087,014	1,027,514	1,094,029	1,115,422	1,112,926	1,133,871	1,164,095	1,159,360	1,179,353
Net earned	15,495,808	11,970,624	13,834,285	6,738,338	13,332,215	15,093,396	10,633,976	10,261,248	10,997,657	15,404,309
(2) Unallocated expenses	1,693,826	1,699,499	1,841,459	5,349,114	2,038,487	1,882,902	1,964,340	1,959,906	2,018,831	2,038,936
(3) Estimated losses and expenses, end of year										
Incurred	8,800,000	9,300,000	8,400,000	6,900,000	8,300,000	8,100,000	7,500,000	8,500,000	7,800,000	8,934,724
Ceded										1,234,724
Net incurred	8,800,000	9,300,000	8,400,000	6,900,000	8,300,000	8,100,000	7,500,000	8,500,000	7,800,000	7,700,000
(4) Net paid (cumulative) as of:										
End of year	1,957,597	1,783,907	1,501,427	1,323,057	1,892,480	1,126,304	1,142,667	1,346,398	1,308,740	1,169,456
One year later	3,560,704	3,568,268	2,513,174	2,586,534	3,633,945	2,044,703	2,480,193	2,359,041	2,544,286	
Two years later	4,390,849	4,185,620	2,805,147	3,041,337	4,109,702	2,596,435	2,863,901	2,736,250		
Three years later	4,923,328	5,258,428	3,009,684	3,300,521	4,345,862	2,886,027	3,073,531			
Four years later	5,261,346	5,548,039	3,246,700	3,476,235	4,388,263	3,085,361				
Five years later	5,451,816	5,696,291	3,299,426	3,635,054	4,409,254					
Six years later	5,706,951	5,844,608	3,396,110	3,751,585						
Seven years later	5,835,388	5,994,716	3,417,396							
Eight years later	5,954,146	6,124,458								
Nine years later	6,036,812									
(5) Re-estimated ceded losses and expenses						2,031,669				1,234,724
(6) Re-estimated net incurred losses and expenses:										
End of year	8,800,000	9,300,000	8,400,000	6,900,000	8,300,000	8,100,000	7,500,000	8,500,000	7,800,000	7,700,000
One year later	9,200,000	9,100,000	6,600,000	6,900,000	10,000,000	6,800,000	6,900,000	7,400,000	6,600,000	
Two years later	8,900,000	8,100,000	5,800,000	7,000,000	8,000,000	6,300,000	6,400,000	6,200,000		
Three years later	8,200,000	8,400,000	5,800,000	6,400,000	7,300,000	5,800,000	6,000,000			
Four years later	8,000,000	8,500,000	5,500,000	6,200,000	6,700,000	5,600,000				
Five years later	9,100,000	8,200,000	5,200,000	6,000,000	6,500,000					
Six years later	8,200,000	8,200,000	4,900,000	5,200,000						
Seven years later	7,800,000	8,100,000	4,700,000							
Eight years later	7,700,000	8,000,000								
Nine years later	7,600,000									
(7) Increase (decrease) in estimated net incurred losses and expense from end of year	(1,200,000)	(1,300,000)	(3,700,000)	(1,700,000)	(1,800,000)	(2,500,000)	(1,500,000)	(2,300,000)	(1,200,000)	

NEW MEXICO SELF-INSURERS' FUND
LIABILITY/PROPERTY TEN YEAR CLAIMS DEVELOPMENT INFORMATION
YEAR ENDED JUNE 30, 2019

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
(1) Premiums and investment revenue:										
Earned	17,233,674	15,047,988	16,935,099	13,159,282	16,452,988	16,517,719	17,372,372	14,639,637	15,454,741	20,656,908
Ceded	1,678,598	1,838,006	1,649,099	1,632,601	1,647,151	1,495,878	1,675,016	1,572,300	1,547,761	1,585,652
Net earned	15,555,076	13,209,982	15,286,000	11,526,681	14,805,837	15,021,841	15,697,356	13,067,337	13,906,980	19,071,256
(2) Unallocated expenses	2,017,215	2,024,610	2,080,079	3,406,734	2,210,985	2,315,262	2,444,705	2,494,635	2,472,490	2,431,587
(3) Estimated losses and expenses, end of year										
Incurred	9,961,445	8,500,000	7,500,000	7,650,000	9,200,000	9,250,000	11,500,000	13,500,000	14,050,000	13,500,000
Ceded	561,445								50,000	500,000
Net incurred	9,400,000	8,500,000	7,500,000	7,650,000	9,200,000	9,250,000	11,500,000	13,500,000	14,000,000	13,000,000
(4) Net paid (cumulative) as of:										
End of year	1,171,576	892,570	1,066,907	1,109,117	1,241,500	974,784	1,887,527	1,772,440	1,572,556	1,336,361
One year later	3,388,915	1,923,080	1,897,201	3,390,349	2,899,563	1,981,008	3,023,175	3,524,380	2,843,617	
Two years later	4,368,477	3,679,575	2,389,492	4,808,119	6,301,268	3,287,835	4,783,427	4,701,589		
Three years later	5,139,654	4,938,810	2,765,625	6,445,530	8,222,692	5,027,815	7,648,101			
Four years later	5,593,367	6,228,453	3,144,857	6,840,615	8,652,743	5,433,467				
Five years later	6,496,590	6,561,993	3,175,552	7,336,291	9,013,459					
Six years later	6,490,491	6,601,851	3,417,390	7,491,858						
Seven years later	6,520,642	6,653,086	3,430,061							
Eight years later	6,546,190	6,655,790								
Nine years later	7,045,111									
(5) Re-estimated ceded losses and expenses	954,347	154,483		458,155	1,190,475		564,840			
(6) Re-estimated net incurred losses and expenses:										
End of year	9,400,000	8,500,000	7,500,000	7,252,880	9,200,000	9,250,000	11,500,000	13,500,000	14,000,000	13,000,000
One year later	8,400,000	8,200,000	5,698,237	9,528,880	8,015,301	6,628,043	13,707,375	12,617,213	10,580,238	
Two years later	8,600,000	8,097,729	4,123,089	8,641,000	11,030,952	8,438,029	13,724,588	10,997,215		
Three years later	7,758,217	7,162,277	3,677,203	9,178,904	11,943,716	7,738,030	14,029,141			
Four years later	7,827,964	7,751,143	3,860,320	8,553,001	12,443,716	7,513,069				
Five years later	8,123,569	7,650,742	3,639,267	8,453,001	11,494,251					
Six years later	8,179,924	7,248,959	3,639,267	8,153,001						
Seven years later	8,277,041	7,248,959	3,539,008							
Eight years later	8,277,040	6,810,273								
Nine years later	7,999,458									
(7) Increase (decrease) in estimated net incurred losses and expense from end of year	(1,400,542)	(1,689,727)	(3,960,992)	503,001	2,294,251	(1,736,931)	2,529,141	(2,502,785)	(3,419,762)	

NEW MEXICO SELF-INSURERS' FUND
HEALTH BENEFITS TEN YEAR CLAIMS DEVELOPMENT INFORMATION
YEAR ENDED JUNE 30, 2019

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
(1) Premiums and investment revenue:										
Earned	9,941,243	9,735,747	10,957,856	9,222,924	10,065,842	18,312,064	10,949,590	9,630,433	7,110,139	6,739,087
Ceded	533,651	548,912	590,375	422,302	500,837	624,833	732,449	598,210	455,747	461,375
Net earned	9,407,592	9,186,835	10,367,481	8,800,622	9,565,005	17,687,231	10,217,141	9,032,223	6,654,392	6,277,712
(2) Unallocated expenses	485,368	494,888	508,716	401,402	442,433	464,506	498,736	445,374	322,012	305,981
(3) Estimated losses and expenses, end of year										
Incurred	10,709,996	11,425,443	12,686,155	10,044,779	10,785,471	12,189,654	10,658,441	9,350,500	8,061,152	7,098,506
Ceded	230,436	36,491	552,699	544,736	-	771,283	141,023	99,784	309,215	77,356
Net incurred	10,479,560	11,388,952	12,133,456	9,500,043	10,785,471	11,418,371	10,517,418	9,250,716	7,751,937	7,021,150
(4) Net paid (cumulative) as of:										
End of year	8,677,819	9,746,062	10,245,498	7,516,724	8,431,737	9,369,048	8,449,641	7,125,422	5,847,668	5,428,477
One year later	9,160,512	10,776,582	11,866,092	8,225,652	9,962,597	10,250,196	9,266,711	8,344,092	5,557,734	
Two years later	9,283,086	10,776,582	11,905,054	8,199,174	9,958,819	10,285,539	9,271,153	8,336,173		
Three years later	9,283,086	10,776,582	11,903,624	8,199,362	9,934,573	10,291,362	9,254,826			
Four years later	9,283,086	10,776,582	11,903,453	8,199,362	9,926,778	10,289,764				
Five years later	9,283,086	10,776,582	11,927,188	8,199,362	9,926,579					
Six years later	9,283,086	10,776,224	11,927,188	8,199,362						
Seven years later	9,282,791	10,776,224	11,926,831							
Eight years later	9,282,791	10,776,224								
Nine years later	9,282,791									
(5) Re-estimated ceded losses and expenses	485,678	219,712	926,187	825,994	37,969	1,632,554	141,023	99,819	2,112,335	77,356
(6) Re-estimated net incurred losses and expenses:										
End of year	10,479,560	11,388,952	12,133,456	9,500,043	10,785,471	11,418,371	10,517,418	9,250,716	7,751,937	7,021,150
One year later	9,160,512	10,787,187	11,889,952	8,252,875	9,997,411	10,285,453	9,299,219	8,378,915	5,583,426	
Two years later	9,283,086	10,776,582	11,905,054	8,199,174	9,958,819	10,285,539	9,271,153	8,336,173		
Three years later	9,283,086	10,776,582	11,903,624	8,199,362	9,934,573	10,291,362	9,254,826			
Four years later	9,283,086	10,776,582	11,903,453	8,199,362	9,926,778	10,289,764				
Five years later	9,283,086	10,776,582	11,927,188	8,199,362	9,926,579					
Six years later	9,283,086	10,776,224	11,927,188	8,199,362						
Seven years later	9,282,791	10,776,224	11,926,831							
Eight years later	9,282,791	10,776,224								
Nine years later	9,282,791									
(7) Increase (decrease) in estimated net incurred losses and expense from end of year	(1,196,769)	(612,728)	(206,625)	(1,300,681)	(858,892)	(1,128,607)	(1,262,592)	(914,543)	(2,168,511)	

OTHER SUPPLEMENTARY INFORMATION

**NEW MEXICO SELF-INSURERS' FUND
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2019**

	U.S. Bank	Wells Fargo Advisors	Total
Bank accounts:			
Checking accounts	\$1,605,657	\$	\$1,605,657
Money market accounts	500,123	730,458	1,230,581
Total amount of deposits	2,105,780	730,458	2,836,238
Less: FDIC coverage	250,000	730,458	980,458
Total uninsured public funds	1,855,780		1,855,780
Collateral requirements (Per 6-10-10 & 6-10-17, NMSA 1978):			
50% of uninsured time and demand accounts	927,890		927,890
Pledged collateral at fair market value:			
Line of credit issued by the Federal Home Loan Bank of Cincinnati - LOC. No. 526872	10,000,000		10,000,000
Total collateral	10,000,000		10,000,000
Over (under) secured	\$9,072,110	\$	\$9,072,110
Custodial Credit Risk:			
Insured	\$ 250,000	\$ 730,458	\$ 980,458
Collateralized with securities held by pledging financial institution's trust department	1,855,780		1,855,780
Uninsured and uncollateralized			
Total deposits	\$2,105,780	\$ 730,458	\$2,836,238

Additional pledged collateral information

Location: Federal Home Loan Bank of Cincinnati, Cincinnati, OH

Maturity Date: July 1, 2019

CUSIP Number: Not applicable

LOC No. 526872

NEW MEXICO SELF-INSURERS' FUND
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
JUNE 30, 2019

<u>Account Depository</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Total Deposits and Investments</u>	<u>Reconciling Items</u>	<u>Reconciled Balance</u>
U.S. Bank	Clearing	Checking	\$ 1,605,657	\$	\$ 1,605,657
U.S. Bank	Claims	Checking		(959,435)	(959,435)
U.S. Bank	Money Market	Money Market	500,123	(123)	500,000
Wells Fargo Advisors	Workers' Compensation	Money Market	295,736		295,736
Wells Fargo Advisors	Liability	Money Market	232,863	32	232,895
Wells Fargo Advisors	Property	Money Market	201,859		201,859
Wells Fargo Advisors	Workers' Compensation	U.S. Agencies	73,105,776		73,105,776
Wells Fargo Advisors	Liability	U.S. Agencies	65,651,591		65,651,591
Wells Fargo Advisors	Property	U.S. Agencies	14,368,445		14,368,445
			<u>\$ 155,962,050</u>	<u>\$ (959,526)</u>	<u>\$ 155,002,524</u>

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COMPLIANCE SECTION

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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

The Board of Trustees
New Mexico Self-Insurers' Fund

Mr. Brian S. Colón, Esq.
New Mexico State Auditor

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 New Mexico Self-Insurers' Fund, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise New Mexico Self-Insurers' Fund's basic financial statements, and have issued our report thereon dated November 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered New Mexico Self-Insurers' Fund'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 on the effectiveness of New Mexico Self-Insurers' Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of New Mexico Self-Insurers' Fund'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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Mexico Self-Insurers' Fund's financial statements are free from 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*.

The results of our test disclosed a certain other matter that is required to be reported pursuant to Section 12-6-5 NMSA 1978, which is described in the accompanying Schedule of Findings and Responses as item 2019-001.

New Mexico Self-Insurers' Fund's Response to Finding

New Mexico Self-Insurers' Fund's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. New Mexico Self-Insurers' Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 results 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.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
November 18, 2019

**NEW MEXICO SELF-INSURERS' FUND
SUMMARY OF AUDIT RESULTS
YEAR ENDED JUNE 30, 2019**

Summary of Auditor's Results:

Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

Noncompliance material to financial statements noted: No

Findings Related to Other Non-Compliance: No

Findings Related to Other Matters: Yes

**NEW MEXICO SELF-INSURERS' FUND
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019**

CURRENT YEAR FINDINGS

Finding Number: 2019-001

Repeat Finding: No

Type of Finding: Other matters

Description: Overpayment of claim

CRITERIA

The Fund is responsible for establishing and maintaining internal controls that include controls over claim payments in order to meet financial reporting objectives in accordance with generally accepted accounting principles as required by 2.2.2.10(C) NMAC.

CONDITION

For one of 60 claim payments reviewed, the claim check was not made for the correct amount, resulting in an overpayment of \$4,479.

CAUSE

Complete clerical check and review of the claim check was not performed.

EFFECT

Claim expense could be misstated, however the amount was not material to the financial statements.

CONTEXT

The error occurred in less than two percent of the sample population for fiscal year 2018-19. The error of overpayment was calculated by comparing the amount on the claim check to the settlement agreement. The sample was not intended to be, and was not, a statistically valid sample.

RECOMMENDATION

The Fund should review procedures to ensure that claim checks are reviewed for accuracy prior to payment.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Management recognizes the error that occurred and believes it to be an isolated incident. Management also realizes that it needs to ensure that payments are correct regarding the claim. Management has instructed examiners to verify the amount of payment before requesting payment. Management believes that the implementation of this policy will prevent this isolated incident from occurring in the future.

Timeline: Corrective action has been implemented immediately.

Responsible Party: Risk Services Director

**NEW MEXICO SELF-INSURERS' FUND
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2019**

PRIOR YEAR FINDINGS

No prior year findings.

FINANCIAL STATEMENT PREPARATION

These financial statements were prepared by Heinfeld, Meech & Co., P.C. from the original books and records of the New Mexico Self-Insurers' Fund.

**NEW MEXICO SELF-INSURERS' FUND
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2019**

An exit conference was conducted on November 7, 2019, in a closed meeting, in which the contents of this report were discussed with the following:

Board of Trustees

Mary Homan, Chair, Mayor Pro Tem, Village of Los Ranchos
Gloria Chavez, Mayor, Village of Tijeras
Mike Miller, Council Member, City of Portales
Joe Neeb, Manager, City of Roswell
Andy Nuñez, Mayor, Village of Hatch
Dave Venable, Mayor, Village of Cloudcroft

New Mexico Self-Insurers' Fund

William Fulginiti, Executive Director
Edwin S. Zendel, Risk Services Director
A.J. Forte, Director of Special Projects
Kathy Hennessy, Director of Underwriting & Loss Prevention
Glenda Sanchez, Director of Claims

Heinfeld, Meech & Co., P.C.

Corey Arvizu, Managing Partner