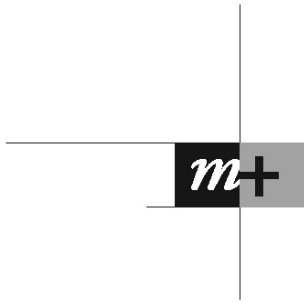


NEW MEXICO
SELF-INSURERS' FUND

Financial Statements
for the Years Ended
June 30, 2010 and 2009,
and Independent
Auditors' Report



Official Roster 1

Independent Auditors' Report..... 2 – 3

Management's Discussion and Analysis..... 4 – 8

Basic Financial Statements:

Statements of Net Assets 10

Statements of Revenues, Expenses and Changes in Fund Net Assets 11

Statements of Cash Flows..... 12

Notes to Financial Statements 13 – 23

Supplemental Claims Development Information:

Notes to Supplemental Claims Development Information.....25

Reconciliation of Claims Liabilities by Type of Contract26

Workers' Compensation Ten Year Claims Development Information - unaudited.....27

Liability Ten Year Claims Development Information - unaudited28

Health Benefits Ten Year Claims Development Information - unaudited29

Other Supplemental Information:

Schedule of Pledged Collateral.....31

Schedule of Deposit and Investment Accounts.....32

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 33 – 34

Schedule of Findings and Responses35

Summary Schedule of Prior Year Audit Findings.....36

Exit Conference37

NEW MEXICO SELF-INSURERS' FUND

Official Roster

Year Ended June 30, 2010

Board of Trustees

Pete Mileta, Jr., Chairman
City Manager
City of Raton

Gloria Chavez, Board Member
Mayor
Village of Tijeras

David Venable, Vice-Chairman
Mayor
Village of Cloudcroft

Dick Kristof, Board Member
Director of Fiscal Services
City of Rio Rancho

Ray Baca, Board Member
Mayor
Town of Hurley

Mike Miller, Board Member
Council Member
City of Portales

Linda Calhoun, Board Member
Mayor
Town of Red River

Eddie Trujillo, Board Member
Council Member
City of Las Vegas

John Capps, Board Member
City Manager
City of Roswell

Robert Gibson
Council Member
City of Los Alamos

New Mexico Self-Insurers' Fund

William Fulginiti, Fund Administrator
Edwin S. Zendel, Risk Services Director
Kathy Villa, Deputy Risk Services Director
Dan Cisneros, Controller

INDEPENDENT AUDITORS' REPORT

Board of Trustees
New Mexico Self-Insurers' Fund
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying basic financial statements of the New Mexico Self-Insurers' Fund (the Fund) as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Fund as of June 30, 2009. These statements were audited by other auditors, who expressed an unqualified opinion in their report dated October 1, 2009. Our opinion, insofar as it relates to the amounts included for the year then ended, is based solely on the report of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2010, and the respective changes in the financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2010, on our consideration of the 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



Board of Trustees
New Mexico Self-Insurers' Fund
and
Mr. Hector H. Balderas
New Mexico State Auditor

audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 8 and ten year claims development information on pages 27 through 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the Fund's financial statements. The accompanying financial information listed as other supplemental information and supplemental claims development information in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Meyers + Company, LLC

September 30, 2010

NEW MEXICO SELF-INSURERS' FUND

Management's Discussion and Analysis – Year Ended June 30, 2010

As management of the New Mexico Self-Insurers' Fund (the Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial position of the Fund as of June 30, 2010 and the results of its operations for the year then ended. Comparative data as of June 30, 2010 and 2009 and for the years then ended has been provided for comparative purposes.

Basic Financial Statements

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 basic financial statements include the statements of fund net assets, which report the Fund's assets, liabilities and members' net assets (equity); statements of revenues, expenses and changes in fund net assets and statements of cash flows, which summarize cash receipts and payments. The statements of fund net assets are presented as of June 30, 2010 and 2009, while the latter two statements cover the years then ended.

Financial Highlights

Each year the Fund has tried to maintain or reduce premium contribution while increasing surplus. Net assets increased \$7.1 million from approximately \$53.9 million as of June 30, 2009 to approximately \$61 million as of June 30, 2010. The increase is mainly due to increased interest earnings attributed to the larger investment portfolio.

Overview of the Financial Statements

This report consists of a series of financial statements and notes to the financial statements. The statement of net assets provides information about the assets and liabilities of the Fund, and they reflect the Fund's net assets at June 30, 2010 and 2009. The statement of revenues, expenses and changes in fund net assets presents the Fund's results of operations for the years ended June 30, 2010 and 2009. The statement of cash flows outlines the cash inflows and outflows related to the operation of the Fund for the years ended June 30, 2010 and 2009. The notes to the financial statements provide additional information essential to a full understanding of the data provided in the financial statements.

NEW MEXICO SELF-INSURERS' FUND

**Management's Discussion and Analysis –
Year Ended June 30, 2010 - continued**

Condensed Comparative Financial Information

The Fund's assets, liabilities and net assets are summarized as follows as of June 30, 2010 and 2009.

Years Ended June 30,	<u>2010</u>	<u>2009</u>
Assets:		
Investments	\$ 105,036,434	91,813,191
Cash in bank	370,400	5,263,924
Accrued investment income	648,625	754,503
Contributions receivable	8,527,509	6,748,397
Due from reinsurers	888,249	284,278
Equity in NLC Mutual Insurance Co.	<u>5,062,325</u>	<u>4,798,412</u>
Total assets	120,533,542	109,662,705
Liabilities:		
Prepaid contributions	554,397	544,383
Other liabilities	237,937	446,645
Reserve for unpaid claims and claim adjustment expenses	<u>58,767,246</u>	<u>54,725,786</u>
Total liabilities	<u>59,559,580</u>	<u>55,716,814</u>
Net assets:		
Unrestricted – members' equity	<u>60,973,962</u>	<u>53,945,891</u>
Total net assets	\$ <u>60,973,962</u>	<u>53,945,891</u>

NEW MEXICO SELF-INSURERS' FUND

Management's Discussion and Analysis – Year Ended June 30, 2010 - continued

Condensed Comparative Financial Information - continued

The Fund's revenues and expenses can be summarized as follows for the years ended June 30, 2010 and 2009.

Years Ended June 30,	2010	2009
Earned premiums	\$ 36,813,274	32,592,489
Less reinsurance premiums	<u>(4,344,087)</u>	<u>(4,044,263)</u>
Total operating revenues	32,469,187	28,548,226
Investment income	6,439,400	5,454,070
Equity in earnings of NLC Mutual	<u>263,913</u>	<u>199,285</u>
Total non-operating revenues	<u>6,703,313</u>	<u>5,653,355</u>
Total revenues	39,172,500	34,201,581
Claims and claim adjustment expenses	25,422,034	17,433,115
Claim and trust administration	4,851,589	4,646,776
Experience refund	<u>1,870,806</u>	<u>465,030</u>
Total expenses	<u>32,144,429</u>	<u>22,544,921</u>
Increase in net assets	7,028,071	11,656,660
Net assets, beginning of year	<u>53,945,891</u>	<u>42,289,231</u>
Net assets, end of year	\$ <u>60,973,962</u>	<u>53,945,891</u>

Financial Analysis of the Fund

Total assets and net assets have increased from fiscal year 2009 due to increased interest earnings attributed to the larger investment portfolio. Total liabilities increased \$3,842,766, or less than 7%. Total assets consist primarily of investments, contributions receivable and cash in bank, while most of the Fund's capitalization is provided through both net assets and liabilities.

Total operating revenues increased approximately 14% to \$32.5 million from \$28.5 million due to an increase in earned premiums. Earned premiums increased during the year mainly due to an increase in participating members. Non-operating revenues increased by approximately \$1 million primarily due to increased interest earnings attributed to the larger investment portfolio. For the years ended June 30, 2010 and 2009, net assets increased \$7 million and \$11.7 million, respectively.

NEW MEXICO SELF-INSURERS' FUND

**Management's Discussion and Analysis –
Year Ended June 30, 2010 - continued**

Financial Analysis of the Fund - continued

The increase in claims and claim adjustment expenses was primarily due to an increase in the provision for current year's events of \$4.0 million, whereas the prior year increase was \$0.7 million. The Workers' Compensation Fund had an increase in actual current year claim expense of \$1,850,000, with an increase in estimated claim reserve of \$467,340 due to events of the prior years. The Liability/Property Fund had a decrease in actual current year claim expense of \$0.6 million due to lower estimated claims costs and an increase in estimated claims reserves of \$3.9 million due to events of the prior years. The Health Benefits Fund had an increase in actual current year claim expense of \$2,839,000 and a decrease in the estimated prior years' claim reserves of \$445,400 due to industry-wide increases in claims payouts.

Unpaid Claims Liabilities

The following table presents the changes in the aggregate Fund liabilities for the past two fiscal years.

Years Ended June 30,	<u>2010</u>	<u>2009</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 54,725,786	54,544,330
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	28,933,174	24,883,895
Decrease in provision for insured events of prior years	<u>(3,511,141)</u>	<u>(7,450,780)</u>
Total incurred claims and claim adjustment expenses	25,422,033	17,433,115
Claims and claim adjustment expenses attributable to insured events of the current year	13,053,041	9,367,274
Claims and claim adjustment expenses attributable to insured events of prior years	<u>8,327,532</u>	<u>7,884,385</u>
Total payments	<u>21,380,573</u>	<u>17,251,659</u>
Total unpaid claims and claim adjust expenses at end of year	\$ <u>58,767,246</u>	<u>54,725,786</u>

NEW MEXICO SELF-INSURERS' FUND

Management's Discussion and Analysis – Year Ended June 30, 2010 - continued

Currently Known Facts, Decisions and Conditions

The New Mexico Self Insurers' Fund Board of Trustees maintained contribution levels for all lines due to the current economic challenges faced by the members. Therefore, the Board elected to forego rate increases for fiscal year 2009-10.

General financial market performance affects the investment return. The gains or losses on investments are included in non-operating income (expense) in the accompanying statements of revenues, expenses and changes in fund net assets. 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, 2010.

Contacting Fund 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 the Edwin S. Zendel, Risk Services Director, New Mexico Self-Insurers' Fund, 1231 Paseo De Peralta, Santa Fe, New Mexico, 87501.

BASIC FINANCIAL STATEMENTS

NEW MEXICO SELF-INSURERS' FUND

Statements of Net Assets

AS OF JUNE 30,	2010	2009
ASSETS:		
CURRENT ASSETS:		
Short-term investments	\$ 72,477	2,193,538
Cash and cash equivalents	370,400	5,263,924
Accrued investment income	648,625	754,503
Contributions receivable	3,578,587	2,547,873
Due from reinsurers	<u>888,249</u>	<u>284,278</u>
TOTAL CURRENT ASSETS	5,558,338	11,044,116
NON-CURRENT ASSETS		
Long-term investments	104,963,957	89,619,653
Equity in NLC Mutual Insurance Company	5,062,325	4,798,412
Long-term contributions receivable	<u>4,948,922</u>	<u>4,200,524</u>
TOTAL NON-CURRENT ASSETS	<u>114,975,204</u>	<u>98,618,589</u>
TOTAL ASSETS	\$ <u>120,533,542</u>	<u>109,662,705</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Prepaid contributions	\$ 554,397	544,383
Accounts payable	237,937	446,645
Reserve for unpaid claims and claim adjustment expenses, current portion	<u>19,393,191</u>	<u>15,477,169</u>
TOTAL CURRENT LIABILITIES	20,185,525	16,468,197
NON-CURRENT LIABILITIES:		
Reserve for unpaid claims and claim adjustment expenses	<u>39,374,055</u>	<u>39,248,617</u>
TOTAL LIABILITIES	59,559,580	55,716,814
NET ASSETS:		
Unrestricted - members' equity	<u>60,973,962</u>	<u>53,945,891</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>120,533,542</u>	<u>109,662,705</u>

NEW MEXICO SELF-INSURERS' FUND

Statements of Revenues, Expenses and Changes in Net Assets

YEARS ENDED JUNE 30,	2010	2009
OPERATING REVENUES:		
Earned premiums	\$ 36,813,274	32,592,489
Less reinsurance premiums	<u>(4,344,087)</u>	<u>(4,044,263)</u>
TOTAL OPERATING REVENUES	32,469,187	28,548,226
OPERATING EXPENSES:		
Claims and claim adjustment expenses	25,422,033	17,433,115
Claim and trust administration	4,851,590	4,646,776
Experience refund	<u>1,870,806</u>	<u>465,030</u>
TOTAL OPERATING EXPENSES	<u>32,144,429</u>	<u>22,544,921</u>
OPERATING INCOME	324,758	6,003,305
NON-OPERATING REVENUES:		
Investment income	6,439,400	5,454,070
Equity in earnings of NLC Mutual Insurance Company	<u>263,913</u>	<u>199,285</u>
TOTAL NON-OPERATING REVENUES	<u>6,703,313</u>	<u>5,653,355</u>
CHANGE IN NET ASSETS	7,028,071	11,656,660
NET ASSETS, BEGINNING OF YEAR	<u>53,945,891</u>	<u>42,289,231</u>
NET ASSETS, END OF YEAR	\$ <u><u>60,973,962</u></u>	<u><u>53,945,891</u></u>

NEW MEXICO SELF-INSURERS' FUND

Statements of Cash Flows

YEARS ENDED JUNE 30,	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Earned premiums	\$ 35,044,176	32,287,170
Reinsurance premiums	(4,948,058)	(4,394,270)
Claims and claim adjustment expenses	(21,380,574)	(17,280,397)
Claims and trust administration	(5,060,297)	(4,358,011)
Experience refund	<u>(1,870,806)</u>	<u>(465,030)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,784,441	5,789,462
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends received	4,618,811	3,949,554
Purchases of investments	(67,788,116)	(51,475,262)
Proceeds from sales or maturities of investments	<u>56,491,340</u>	<u>39,722,039</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(6,677,965)</u>	<u>(7,803,669)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(4,893,524)	(2,014,207)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,263,924</u>	<u>7,278,131</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>370,400</u>	<u>5,263,924</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 324,758	6,003,305
Change in assets and liabilities:		
Increase in contributions receivable	(1,779,112)	(382,916)
Increase in due from reinsurers	(603,971)	(28,738)
Increase in prepaid contributions	10,014	77,597
Decrease in accounts payable	(208,708)	(61,242)
Increase in reserve for unpaid claims and claim adjustment expenses	<u>4,041,460</u>	<u>181,456</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>1,784,441</u>	<u>5,789,462</u>

NATURE OF ORGANIZATION

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 coverages and develop a comprehensive safety program for its members. The Fund is governed by a Board of Trustees (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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **Reporting Entity**

The basic financial statements of the New Mexico Self-Insurers' Fund (the 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.

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 assets of one fund may be transferred to the net assets 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 aggregate excess reinsurance. 107 members participated in this Fund during 2010.

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 officials 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. 97 members participated in this Fund during 2010.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Reporting Entity - continued**

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. 93 members participated in this Fund during 2010.

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. 60 members participated in this Fund during 2010.

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. 44 members participated in this Fund during 2010.

The individual funds do not necessarily have the same members. In the event of termination, the net assets 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 Trustees.

• 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 assets are available, the Fund first uses restricted resources, then unrestricted resources.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

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 and no discrete component units during the fiscal years ended June 30, 2010 and 2009.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Measurement Focus and Basis of Accounting**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Fund also has the option of following subsequent private-sector guidance subject to this same limitation. The Fund has elected not to follow subsequent private-sector guidance.

• 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 statements of fund net assets 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.

• Reserve for Loss and Loss 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.

• 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, 2010 and 2009 has been reduced by approximately \$7.0 million and \$8.4 million, respectively, as a result of reinsurance recoverable on unpaid 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**• Reinsurance - continued**

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 \$1,050,000; public officials and police liability excess of \$500,000 with policy maximum of \$1,500,000. 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 \$200,000 and aggregate losses in excess of the current minimum aggregate attachment point of \$10,272,992 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.

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% 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.

• 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 checking account balances in excess of FDIC limits.

• 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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

• **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.

• **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.

• **Budgets**

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

• **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

2. **EQUITY IN NLC MUTUAL INSURANCE COMPANY**

The Fund reinsures its workers' compensation and certain of its 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. The Fund's capital account balance with NLC totaled \$5,062,325 and \$4,798,412 at June 30, 2010 and 2009, respectively.

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 its investment in NLC using the equity method of accounting. The Fund had equity earnings of \$263,913 and \$199,285 in 2010 and 2009, respectively.

NEW MEXICO SELF-INSURERS' FUND

Notes to Financial Statements - continued

2. EQUITY IN NLC MUTUAL INSURANCE COMPANY - continued

Amounts due from NLC for paid losses (aggregate and specific) are included in due from reinsurers in the accompanying balance sheets. The reserve for loss and loss adjustment expenses as of June 30, 2010 and 2009 has been reduced by approximately \$6.8 million and \$7.0 million, respectively, as a result of reinsurance recoverable from NLC on unpaid losses. The chairman of the NLC Board of Directors is also Executive Director of the League.

2. EQUITY IN NLC MUTUAL INSURANCE COMPANY - continued

Audited condensed financial information for NLC as taken from its audited financial statements as of and for the years ended December 31, 2009 and 2008 is as follows.

	2009	2008
Investments	\$ 233,042,000	202,648,000
Liability for loss and loss adjustment expenses, net of reinsurance recoverable	\$ 282,187,000	297,498,000
Members' surplus	\$ 78,675,000	51,673,000
Earned premiums, net	\$ 9,455,000	8,158,000
Net investment income	\$ 10,925,000	8,825,000
Net income after dividends to policyholders	\$ 9,710,000	13,907,000

3. DEPOSITS

Cash in bank and certain short-term investments held by the Fund include cash on deposit and money market accounts with financial institutions. At June 30, 2010, the carrying amount of the Fund's deposits was \$370,400, and the bank balance was \$2,365,423.

- **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. The Fund does not have a specific 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% of the uninsured balance and repurchase agreements by securities with a market value of at least 102% of the investment. As of June 30, 2010, \$675,113 of the Fund's bank balance was exposed to custodial credit risk as uninsured and collateralized with securities held by the pledging financial institution's trust department.

NEW MEXICO SELF-INSURERS' FUND

Notes to Financial Statements - continued

3. DEPOSITS - continued

• Custodial Credit Risk – Deposits - continued

Deposits	\$ 2,365,423
Less sweep account secured by other investments	765,197
Less FDIC coverage	<u>250,000</u>
Total insured	<u>1,015,197</u>
Total unsecured public funds	1,350,226
50% collateral requirement	675,113
Pledged securities, fair value	<u>1,419,548</u>
Pledged in excess of requirement	\$ <u><u>744,435</u></u>

The difference between the carrying amount and the bank balance results from \$1,995,023 of outstanding checks and deposits. At June 30, 2010, the Fund maintained the following depository accounts.

<u>Account Depository</u>	<u>Account Name</u>	<u>Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
First Community Bank	Clearing	Checking	\$ (783,486)	765,197
First Community Bank	Claims	Money market	1,457,002	1,500,207
First Community Bank	Health benefits	Money market	<u>(303,116)</u>	<u>100,019</u>
Total cash and cash equivalents			\$ <u>370,400</u>	<u>2,365,423</u>

NEW MEXICO SELF-INSURERS' FUND

Notes to Financial Statements - continued

4. INVESTMENTS

At June 30, 2010, the Fund's investments consisted of the following:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 – 5	6 – 10	More than 10
Money market – U.S. Treasuries	\$ 72,477	72,477	-	-	-
Certificates of Deposit - marketable	1,662,517	-	1,662,517	-	-
U.S. Treasuries	-	-	-	-	-
U.S. Agencies:					
Federal National Mortgage Assoc.	2,130,124	-	-	2,130,124	-
Federal Home Loan Mortgage Corp.	56,428,774	-	6,276,938	41,008,380	9,143,456
Federal Home Loan Bank	15,756,102	-	2,996,656	8,432,124	4,327,322
Federal Farm Credit Bank	9,559,381	-	2,126,926	7,142,455	290,000
Government National Mortgage Assoc.	<u>19,427,059</u>	-	<u>19,427,059</u>	-	-
Total investments	\$ <u>105,036,434</u>	<u>72,477</u>	<u>32,490,096</u>	<u>58,713,083</u>	<u>13,760,778</u>

• **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% 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 by Moody's Investors Service and Standard & Poor's.

• **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.

• **Concentration of Credit Risk**

The Fund places no limit on the amount the Fund may invest in any one issuer. The investments in Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal Farm Credit Bank and Government National Mortgage Association represent 2%, 54%, 15%, 9% and 18% of the Fund's total investments, respectively.

NEW MEXICO SELF-INSURERS' FUND

Notes to Financial Statements - continued

4. INVESTMENTS - continued

<u>Account Depository</u>	<u>Account Name</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Merrill Lynch	Workers' Compensation	\$ 52,157,271	52,157,271
Merrill Lynch	Liability	45,117,952	45,117,952
Wells Fargo	Property	4,110,227	4,110,227
Wells Fargo	Health benefits	<u>3,650,984</u>	<u>3,650,984</u>
Total		\$ <u>105,036,434</u>	<u>105,036,434</u>

The amortized cost and estimated market value of investments at June 30, 2010 and 2009 are as follows:

<u>Year</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
2010	\$ 102,678,540	2,982,546	(624,652)	105,036,434
2009	\$ 91,198,274	1,098,783	(483,866)	91,813,191

Investment income for the years ended June 30, 2010 and 2009 includes net realized gains and (losses) from the sale of investments of \$487,850 and \$45,176, respectively.

5. UNPAID CLAIMS LIABILITIES

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.

Years ended June 30,	2010	2009
Unpaid claims and claim adjustment expenses, beginning of year	\$ 54,725,786	54,544,330
Incurred claims and claim adjustment expense:		
Provision for insured events of the current year	28,933,174	24,883,895
Decrease in provision for insured events of prior years	<u>(3,511,141)</u>	<u>(7,450,780)</u>
Total incurred claims and claim adjustment expenses	25,422,033	17,433,115

NEW MEXICO SELF-INSURERS' FUND

Notes to Financial Statements - continued

5. UNPAID CLAIMS LIABILITIES - continued

Years ended June 30,	2010	2009
Payments:		
Claims and claim adjustment expenses attributable insured events of the current year	\$ 13,053,041	9,367,274
Claims and claim adjustment expenses attributable to insured events of prior years	<u>8,327,532</u>	<u>7,884,385</u>
Total payments	<u>21,380,573</u>	<u>17,251,659</u>
Total unpaid claims and claim adjustment expenses, end of year	\$ <u>58,767,246</u>	<u>54,725,786</u>
Unpaid claims and claim adjustment expenses, end of year – current portion	\$ <u>19,393,191</u>	<u>15,477,169</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 33% and 28% for the fiscal years ended June 30, 2010 and 2009, respectively.

6. ADMINISTRATION

The financial arrangement between the Fund and the Municipal League (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 \$225,000 per year for the use of the League's name. During 2010 and 2009, the Fund paid \$2,984,155 and \$2,911,856, respectively, for administrative services performed by the League on the Fund's behalf. Other liabilities at June 30, 2010 and 2009 included \$195,344 and \$378,605, respectively, for amount due to the League for these services.

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, 2010 and 2009, \$7,386,446 and \$5,834,061, 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 \$2,080,300 and \$1,053,800 are also included in earned premiums and loss and loss adjustment expenses in the accompanying financial statements for fiscal years 2010 and 2009, respectively, related to claims paid for these members. In accordance with the provisions of the Fund's agreements with these members, the Fund is responsible for losses in excess of \$750,000 on a per occurrence basis up to the statutory maximum limit. The Fund is responsible for aggregate losses up to \$1.0 million excess of 200% of members' standard premium. The Fund purchased reinsurance for losses in excess of 200% of members' standard premium up to an aggregate limit of \$1.0 million per member for fiscal years prior to 1995.

8. EXPERIENCE REFUND

During 2010 and 2009, the Fund distributed \$1,060,399 and \$465,030, respectively, as experience refunds to members of the workers' compensation fund. The 2010 workers' compensation refunds were based upon each member's contribution to the loss fund for fiscal year 2001. The 2009 workers' compensation refunds were based upon each member's contribution to the loss fund for fiscal year 2000. Only those members who belonged during the designated fiscal year and who were still in the pool for fiscal year 2009-2010 and 2008-2009 were eligible to receive refunds for fiscal years ended June 30, 2010 and 2009, respectively.

During 2010, the Fund distributed \$810,407 as experience refunds to members of the Liability Fund. The 2010 liability refund was based upon each member's contribution to the loss fund for fiscal year 2001. Only those members who belonged during the designated fiscal year and who were still in the pool for fiscal year 2009-2010 were eligible to receive funds.

9. SUBSEQUENT EVENTS

The Fund's management has evaluated subsequent events through September 30, 2010, the date on which the financial statements were available to be issued.

SUPPLEMENTAL CLAIMS DEVELOPMENT INFORMATION

Notes to Supplemental Claims Development Information

- **Reconciliation of Claims Liabilities by Type of Contract**

The schedule on page 26 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.

- **Ten-Year Claims Development Information**

The tables on pages 27 through 29 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 reestimated 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 reestimated loss and loss adjustment expenses increased or decreased as of the end of successive years (this annual reestimation 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 reestimated 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 reestimated 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,	Workers' Compensation		Liability/Property		Health Benefits		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Unpaid claims and claim adjustment expenses, beginning of year	\$ 32,840,846	31,182,719	20,406,171	21,688,108	1,478,769	1,673,503	54,725,786	54,544,330
Incurred claims and claim adjustment expenses:								
Provision for insured events of the current year	8,800,000	6,950,000	9,517,250	10,157,000	10,615,924	7,776,895	28,933,174	24,883,895
Increase (decrease) in the provision for insured events of the prior years	<u>(1,464,401)</u>	<u>(1,931,471)</u>	<u>(1,122,272)</u>	<u>(5,040,204)</u>	<u>(924,468)</u>	<u>(479,105)</u>	<u>(3,511,141)</u>	<u>(7,450,780)</u>
Total incurred claims and claim adjustment expenses	7,335,599	5,018,529	8,394,978	5,116,796	9,691,456	7,297,790	25,422,033	17,433,115
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current year	1,957,597	1,147,489	2,281,260	1,913,582	8,814,184	6,306,203	13,053,041	9,367,274
Claims and claim adjustment expenses attributable to insured events of the prior years	<u>2,591,798</u>	<u>2,212,913</u>	<u>5,188,340</u>	<u>4,485,151</u>	<u>547,394</u>	<u>1,186,321</u>	<u>8,327,532</u>	<u>7,884,385</u>
Total payments	<u>4,549,395</u>	<u>3,360,402</u>	<u>7,469,600</u>	<u>6,398,733</u>	<u>9,361,578</u>	<u>7,492,524</u>	<u>21,380,573</u>	<u>17,251,659</u>
Total unpaid claims and claim adjustment expenses, end of year	<u>35,627,050</u>	<u>32,840,846</u>	<u>21,331,549</u>	<u>20,406,171</u>	<u>1,808,647</u>	<u>1,478,769</u>	<u>58,767,246</u>	<u>54,725,786</u>

NEW MEXICO SELF-INSURERS' FUND

Workers' Compensation Ten Year Claims Development Information - unaudited

TEN YEARS ENDED JUNE 30,	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1. Premiums and investment revenue:										
Earned	\$ 8,257,472	10,412,489	9,901,187	7,355,519	9,330,725	10,143,140	13,300,100	13,850,624	13,664,429	16,639,627
Ceded	<u>348,028</u>	<u>373,314</u>	<u>591,876</u>	<u>680,323</u>	<u>787,143</u>	<u>1,237,929</u>	<u>1,714,822</u>	<u>1,305,057</u>	<u>920,122</u>	<u>1,143,819</u>
Net earned	7,909,444	10,039,175	9,309,311	6,675,196	8,543,582	8,905,211	11,585,278	12,545,567	12,744,307	15,495,808
2. Unallocated expenses	1,121,100	1,204,002	1,230,862	1,237,356	1,237,363	1,508,444	1,399,522	1,559,598	1,631,965	1,693,826
3. Estimated losses and expenses, end of year:										
Incurred	4,600,000	4,750,000	6,250,000	7,285,389	7,286,623	6,600,000	6,700,000	7,400,000	6,950,000	8,800,000
Ceded	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,389</u>	<u>386,623</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net earned	4,600,000	4,750,000	6,250,000	7,200,000	6,900,000	6,600,000	6,700,000	7,400,000	6,950,000	8,800,000
4. Net paid (cumulative) as of:										
Year one	948,685	818,217	1,307,923	1,541,390	1,284,965	1,103,298	1,106,240	1,277,737	1,147,489	1,957,597
Year two	1,889,857	2,180,474	2,483,095	2,746,545	2,463,101	2,405,164	1,582,724	2,160,727	2,267,538	
Year three	2,519,413	2,684,201	2,962,518	3,399,367	2,812,970	2,841,387	1,736,694	2,692,664		
Year four	3,301,767	3,113,941	3,527,927	3,766,037	3,029,144	3,124,548	1,835,361			
Year five	3,566,973	3,236,195	3,831,591	3,902,253	3,167,235	3,204,515				
Year six	3,766,478	3,309,522	4,086,941	3,995,846	3,286,285					
Year seven	3,990,792	3,381,703	4,181,238	4,042,753						
Year eight	4,093,133	3,449,906	4,259,828							
Year nine	4,192,036	3,550,966								
Year ten	4,267,463									
5. Reestimated ceded losses and expenses	475,293	410,205	1,275,140	506,200	931,772	-	-	-	-	-
6. Re-estimated net incurred losses and expenses:										
Year one	4,600,000	4,750,000	6,250,000	7,200,000	6,900,000	6,600,000	6,700,000	7,400,000	6,950,000	8,800,000
Year two	4,237,886	4,612,371	5,827,562	6,714,033	6,450,000	6,300,000	5,100,000	6,600,000	6,400,000	
Year three	4,243,690	5,080,434	5,572,665	7,000,000	5,800,000	5,700,000	4,600,000	6,200,000		
Year four	5,093,632	4,810,813	5,800,000	6,300,000	5,200,000	5,200,000	4,300,000			
Year five	4,896,269	5,000,000	5,900,000	6,100,000	4,900,000	4,800,000				
Year six	5,400,000	4,900,000	6,000,000	5,700,000	4,800,000					
Year seven	5,550,000	4,700,000	5,800,000	5,600,000						
Year eight	5,500,000	4,600,000	5,900,000							
Year nine	5,500,000	4,500,000								
Year ten	5,600,000									
7. Increase (decrease) in estimated net incurred losses and expense from end of year	1,000,000	(250,000)	(350,000)	(1,600,000)	(2,100,000)	(1,800,000)	(2,400,000)	(1,200,000)	(550,000)	-

NEW MEXICO SELF-INSURERS' FUND

Liability Ten Year Claims Development Information - unaudited

TEN YEARS ENDED JUNE 30,	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1. Premiums and investment revenue:										
Earned	\$ 7,232,996	8,416,870	8,879,343	9,611,626	11,517,376	12,377,407	15,264,848	15,105,876	16,471,872	17,233,674
Ceded	<u>910,640</u>	<u>1,062,055</u>	<u>1,207,016</u>	<u>1,494,736</u>	<u>1,650,314</u>	<u>1,920,082</u>	<u>2,010,061</u>	<u>1,249,508</u>	<u>1,674,429</u>	<u>1,678,598</u>
Net earned	6,322,356	7,354,815	7,672,327	8,116,890	9,867,062	10,457,325	13,254,787	13,856,368	14,797,443	15,555,076
2. Unallocated expenses	1,108,639	1,233,638	1,237,901	1,445,516	1,566,760	1,846,835	1,750,005	1,835,478	1,991,702	2,017,215
3. Estimated losses and expenses, end of year:										
Incurred	7,340,000	5,915,000	7,200,164	8,450,000	7,557,500	7,707,500	7,600,000	10,900,000	10,750,000	9,961,445
Ceded	<u>50,000</u>	<u>-</u>	<u>80,000</u>	<u>50,000</u>	<u>57,500</u>	<u>7,500</u>	<u>250,000</u>	<u>2,100,000</u>	<u>750,000</u>	<u>561,445</u>
Net earned	7,290,000	5,915,000	7,120,164	8,400,000	7,500,000	7,700,000	7,350,000	8,800,000	10,000,000	9,400,000
4. Net paid (cumulative) as of:										
Year one	625,012	633,324	738,658	875,455	904,231	1,018,953	850,163	763,933	1,688,534	1,171,576
Year two	1,997,736	2,153,312	2,655,886	2,944,540	2,602,402	2,042,477	1,942,724	2,256,045	3,479,280	
Year three	2,846,756	2,755,398	3,327,011	4,182,338	3,725,814	2,728,567	3,022,898	4,321,993		
Year four	3,636,844	2,765,839	3,775,298	4,593,173	4,120,783	3,983,820	3,438,913			
Year five	4,025,935	2,974,597	4,223,407	4,999,579	4,273,731	5,111,077				
Year six	4,172,645	3,117,523	4,436,251	5,054,966	4,376,423					
Year seven	4,257,608	3,134,536	4,816,474	5,049,877						
Year eight	4,312,435	3,134,698	4,823,501							
Year nine	4,312,435	3,139,545								
Year ten	4,312,435									
5. Reestimated ceded losses and expenses	11,487	255,784	856,799	250,312	357,214	483,077	-	1,075,080	154,871	565,570
6. Re-estimated net incurred losses and expenses:										
Year one	7,290,000	5,915,000	7,120,164	8,400,000	7,500,000	7,700,000	7,350,000	8,800,000	10,000,000	9,400,000
Year two	5,564,368	4,269,594	6,225,792	7,749,689	6,250,127	6,625,000	6,700,000	7,800,000	9,200,000	
Year three	3,940,045	4,444,216	5,625,794	6,949,788	6,392,786	6,300,000	6,400,000	8,400,000		
Year four	5,288,512	4,200,001	6,182,592	6,450,001	6,300,000	6,500,000	6,100,000			
Year five	4,986,012	4,100,000	6,282,592	6,300,000	5,500,000	6,700,000				
Year six	4,788,512	3,999,998	6,600,000	5,305,300	5,200,000					
Year seven	4,588,513	3,800,000	6,000,000	5,300,189						
Year eight	4,323,922	3,700,000	6,000,000							
Year nine	4,323,922	3,700,000								
Year ten	4,323,922									
7. Increase (decrease) in estimated net incurred losses and expense from end of year	(2,966,078)	(2,215,000)	(1,120,164)	(3,099,811)	(2,300,000)	(1,000,000)	(1,250,000)	(400,000)	(800,000)	-

NEW MEXICO SELF-INSURERS' FUND

Health Benefits Ten Year Claims Development Information - unaudited

TEN YEARS ENDED JUNE 30,	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1. Premiums and investment revenue:										
Earned	\$ 8,985,749	10,442,864	9,894,524	10,596,269	10,263,213	10,348,823	8,917,017	8,903,650	8,397,744	9,941,243
Ceded	<u>782,130</u>	<u>938,530</u>	<u>799,031</u>	<u>942,040</u>	<u>810,386</u>	<u>702,105</u>	<u>444,928</u>	<u>501,889</u>	<u>447,870</u>	<u>533,651</u>
Net earned	8,203,619	9,504,334	9,095,493	9,654,229	9,452,827	9,646,718	8,472,089	8,401,761	7,949,874	9,407,592
2. Unallocated expenses	391,188	440,963	460,075	465,116	562,955	539,751	425,997	430,128	415,766	485,368
3. Estimated losses and expenses, end of year:										
Incurred	7,826,541	9,373,980	6,856,901	9,804,483	8,146,845	7,934,663	9,457,349	7,765,900	7,776,895	10,709,996
Ceded	<u>-</u>	<u>-</u>	<u>-</u>	<u>835,433</u>	<u>29,283</u>	<u>47,961</u>	<u>405,303</u>	<u>9,017</u>	<u>-</u>	<u>230,436</u>
Net earned	7,826,541	9,373,980	6,856,901	8,969,050	8,117,562	7,886,702	9,052,046	7,756,883	7,776,895	10,479,560
4. Net paid (cumulative) as of:										
Year one	6,378,719	7,888,081	5,505,047	7,512,807	6,746,034	6,605,443	6,977,826	6,096,479	6,306,203	8,677,819
Year two	7,051,468	8,189,436	6,759,573	8,163,107	7,914,075	7,949,595	7,810,665	7,298,671	7,004,481	-
Year three	7,048,743	8,217,869	6,773,483	8,163,172	7,906,237	8,084,274	7,808,350	7,284,244	-	-
Year four	6,997,336	8,217,864	6,770,685	8,161,218	7,910,272	8,081,208	7,808,558	-	-	-
Year five	7,004,129	8,217,585	6,770,471	8,159,537	7,906,352	8,081,154	-	-	-	-
Year six	7,004,129	8,217,585	6,770,334	8,157,416	7,906,106	-	-	-	-	-
Year seven	7,004,129	8,217,585	6,770,334	8,157,416	-	-	-	-	-	-
Year eight	7,004,129	8,213,975	6,770,334	-	-	-	-	-	-	-
Year nine	7,003,288	8,213,975	-	-	-	-	-	-	-	-
Year ten	7,003,288	-	-	-	-	-	-	-	-	-
5. Reestimated ceded losses and expenses	333,452	656,160	207,000	890,416	255,283	189,653	675,623	16,910	130,164	230,436
6. Re-estimated net incurred losses and expenses:										
Year one	7,826,541	9,373,980	6,856,901	8,969,050	8,117,562	7,886,702	9,052,046	7,756,883	7,776,895	10,479,560
Year two	7,386,767	8,847,531	6,761,210	8,164,792	7,921,151	7,964,827	7,823,765	7,306,749	7,011,387	-
Year three	7,382,195	8,217,869	6,773,483	8,163,172	7,906,237	8,084,274	7,808,350	7,284,244	-	-
Year four	6,997,336	8,217,864	6,770,685	8,161,218	7,910,272	8,081,208	7,808,558	-	-	-
Year five	7,004,129	8,217,585	6,770,471	8,159,537	7,906,352	8,081,154	-	-	-	-
Year six	7,004,129	8,217,585	6,770,334	8,157,416	7,906,106	-	-	-	-	-
Year seven	7,004,129	8,217,585	6,770,334	8,157,416	-	-	-	-	-	-
Year eight	7,004,129	8,213,975	6,770,334	-	-	-	-	-	-	-
Year nine	7,003,288	8,213,975	-	-	-	-	-	-	-	-
Year ten	7,003,288	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred losses and expense from year end	(823,253)	(1,160,005)	(86,567)	(811,634)	(211,456)	194,452	(1,243,488)	(472,639)	(765,508)	-

OTHER SUPPLEMENTAL INFORMATION

NEW MEXICO SELF-INSURERS' FUND

Schedule of Pledged Collateral

AS OF JUNE 30, 2010

	<u>First Community Bank</u>
Bank Accounts:	
Checking accounts	\$ 765,197
Outstanding checks	<u>1,600,226</u>
Total amount of deposits in bank	2,365,423
Less sweep account secured by other investments	765,197
Less FDIC coverage	<u>250,000</u>
Total insured	<u>1,015,197</u>
Total uninsured public funds	<u>1,350,226</u>
Collateral requirements (per 6-10-10 & 6-10-17, NMSA 1978):	
50% of uninsured time and demand accounts	<u>675,113</u>
Total collateral required	675,113
Pledged collateral:	
Eastern New Mexico Univ, matures August 15, 2011, CUSIP 27678NAK9	275,000
Luna Cnty NM Sch Dist No 001, matures August 1, 2019, CUSIP 550340DA8	500,000
MBS GNMA II 30-Yr SF, matures January 20, 2039, CUSIP 36202EZE2	137,048
Luna Cnty NM Gross Rcpts, matures July 1, 2032, CUSIP 550332CX6	<u>507,500</u>
Total collateral	<u>1,419,548</u>
Over secured	\$ <u><u>744,435</u></u>
Custodial credit risk:	
Insured	\$ 1,015,197
Collateralized with securities held by pledging financial institution's trust department	<u>1,350,226</u>
Total deposits	2,365,423
Total reconciling items	<u>(1,995,023)</u>
Carrying balance	\$ <u><u>370,400</u></u>
Location of collateral:	
First Community Bank, Dallas, TX	

NEW MEXICO SELF-INSURERS' FUND

Schedule of Deposit and Investment Accounts

AS OF JUNE 30, 2010

Bank Account Type/Name	First Community	Merrill Lynch	Wachovia	Total
Checking - Clearing	\$ 765,197	-	-	765,197
Money market - Claims	1,500,207	-	-	1,500,207
Money market - Health Benefits	100,019	-	-	100,019
Investment - Workers' Compensation	-	52,157,271	-	52,157,271
Investment - Liability	-	45,117,952	-	45,117,952
Investment - Property	-	-	4,110,227	4,110,227
Investment - Health	-	-	3,650,984	3,650,984
Total on deposit	2,365,423	97,275,223	7,761,211	107,401,857
Reconciling items	(1,995,023)	-	-	(1,995,023)
Reconciled balance, June 30, 2010	370,400	97,275,223	7,761,211	105,406,834
Total deposits and investments	\$ 370,400	97,275,223	7,761,211	105,406,834

**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***

Board of Trustees
New Mexico Self-Insurers' Fund
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the New Mexico Self-Insurers' Fund (the Fund) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A **deficiency in internal control** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 Fund's financial statements will not be prevented, or detected and corrected, on a timely basis.

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



Board of Trustees
New Mexico Self-Insurers' Fund
and
Mr. Hector H. Balderas
New Mexico State Auditor

Internal Control Over Financial Reporting - continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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*.

We noted one certain other matter that is required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.6, and pursuant to Section 12-6-5, NMSA 1978, which is described in the accompanying schedule of findings and responses as finding 2010-1.

The agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the agency's response and, accordingly, we express no opinion on that.

This report is intended solely for the information and use of the Fund's management, others within the Fund, the Board of Trustees, the Office of the State Auditor, the New Mexico Legislature, and governmental agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Meyers + Company, LLC

September 30, 2010

CONTROL DEFICIENCIES - FINANCIAL STATEMENT AUDIT**10-01 LATE SUBMISSION OF FINANCIAL STATEMENTS**

Condition: Meyners + Company (auditor) submitted the FY10 audited financial statements and auditors' reports for the New Mexico Self Insurers Fund on November 22, 2010, in advance of the December 1, 2010 due date per 2.2.2.9 (d) NMAC. However, the *Report on Internal Control Over Financial Reporting* included in the audited financial statements was the Pre-SAS 115 (SAS 112) version.

The New Mexico Office of the State Auditor (SAO) rejected the original submission. The SAO notified the auditor of the rejection on December 3, 2010, and requested that 1) the report be re-submitted with the SAS 115 language and, 2) that a late audit report finding be included in the report.

Criteria: The Auditing Standards Board (ASB) issued SAS No. 115 to maintain consistency in the definitions of the kinds of deficiencies in internal control and the guidance provided for evaluating such deficiencies provided in the PCAOB Auditing Standard No. 5. SAS 115 was effective on all engagements with fiscal years ending after December 15, 2009.

The key differences between SAS No. 115 and SAS No. 112 are in the definitions of material weaknesses and significant deficiencies. The change in definition gives the auditor the ability to apply more professional judgment in determining whether an identified deficiency is a significant deficiency and merits attention by the client's management or those charged with governance.

Cause: The auditor inadvertently submitted the incorrect version of the *Report on Internal Control Over Financial Reporting* in the original submission to SAO.

Effect: There was no effect on the Fund's FY10 financial statements, as the auditor did not identify any deficiencies in internal control over financial reporting that merited attention by the client's management or those charged with governance.

The *Report on Internal Control Over Financial Reporting* contained the SAS112 definitions for significant deficiencies, rather than the SAS115 definitions.

Recommendation: The auditor will ensure that the updated *Report on Internal Control Over Financial Reporting* is included in the resubmission to the SAO.

Client Response: Management does not consider further comment is necessary.

NEW MEXICO SELF-INSURERS' FUND

Summary Schedule of Prior Year Audit Findings

None.

An exit conference was held on October 20, 2010. In attendance were:

NEW MEXICO SELF-INSURERS' FUND

Linda Calhoun, Mayor, Town of Red River
John Capps, Manager, City of Roswell
Gloria Chavez, Mayor, Village of Tijeras
Robert Gibson, Councilman, County of Los Alamos
Mike Miller, Councilman, City of Portales
Andy Nunez, Mayor Pro-tem, Village of Hatch
Eddie Trujillo, Judge, City of Las Vegas
David Venable, Mayor, Village of Cloudcroft

Dan Cisneros, Controller
Ed Zendel, Risk Services Director
Kathy Villa, Deputy Risk Services Director

Brock Carter, Safety Counseling, Inc. President

MEYNER + COMPANY, LLC

Janet Pacheco-Morton, CPA, CGFM, Director
Ursula Thayer, CPA, Senior Manager

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the independent auditor. However, they are the responsibility of management, as addressed in the Independent Auditors' Report.