



NEW MEXICO SELF-INSURERS' FUND

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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**NEW MEXICO SELF-INSURERS' FUND
OFFICIAL ROSTER
YEAR ENDED JUNE 30, 2012**

Board of Trustees

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Village of Cloudcroft

Vice-Chairman Vacant

Linda Calhoun, Board Member Mayor
Town of Red River

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City of Los Alamos

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Andy Nunez, Board Member Mayor Pro-Tem
Village of Hatch

Larry Fry, Board Member City Manager
City of Roswell

Debi Lee, Board Member Village Manager
Village of Ruidoso

New Mexico Self-Insurers' Fund

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

Report of Independent Auditors

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

We have audited the accompanying financial statements of the business-type activities of the New Mexico Self-Insurers' Fund (the Fund), as of and for the year ended June 30, 2012 and 2011, which collectively comprise the Fund's basic financial statements 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 audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities of the Fund as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows thereof for the years 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 November 30, 2012, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 and ten year claims development information on pages 26 through 30 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 inquires 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's financial statements. The accompanying financial information listed as other supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Mess Adams LLP

Albuquerque, New Mexico
November 30, 2012

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2012**

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, 2012 and the results of its operations for the year then ended. Comparative data as of June 30, 2011 and 2010 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 net assets are presented as of June 30, 2012, 2011 and 2010, while the latter 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 \$3.7 million from approximately \$61 million as of June 30, 2010 to approximately \$64.7 million as of June 30, 2011, and increased \$6 million from approximately \$64.7 million as of June 30, 2011 to approximately \$70.7 million as of June 30, 2012. The increase is primarily due to increased earnings attributed to the Fund's investment portfolio and a favorable change to market conditions mainly due to change in prior year's ultimate loss and the results of the current year's operations.

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, 2012, 2011 and 2010. The statement of revenues, expenses and changes in fund net assets presents the Fund's results of operations for the years ended June 30, 2012, 2011 and 2010. The statement of cash flows outlines the cash inflows and outflows related to the operation of the Fund for the years ended June 30, 2012, 2011 and 2010. 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 (CONTINUED)
Year Ended June 30, 2012**

Condensed Comparative Financial Information

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

	2012	2011	2010
Assets			
Investments	\$ 117,657,021	106,331,575	105,036,434
Cash in bank	541,170	3,078,401	370,400
Accrued investment income	244,451	555,933	648,625
Contributions receivable	10,294,260	9,786,073	8,527,509
Prepaid expenses	362,559	-	-
Due from reinsurers	112,777	249,479	888,249
Equity in NLC Mutual Insurance Co.	<u>5,554,636</u>	<u>5,315,441</u>	<u>5,062,325</u>
Total assets	<u>134,766,874</u>	<u>125,316,902</u>	<u>120,533,542</u>
Liabilities			
Prepaid contributions	589,189	662,004	554,397
Other liabilities	274,982	369,902	237,937
Reserve for unpaid claims and claim adjustment expenses	<u>63,190,228</u>	<u>59,593,417</u>	<u>58,767,246</u>
Total liabilities	<u>64,054,399</u>	<u>60,625,323</u>	<u>59,559,580</u>
Net Assets			
Unrestricted - members' equity	<u>70,712,475</u>	<u>64,691,579</u>	<u>60,973,962</u>
Total net assets	<u>\$ 70,712,475</u>	<u>64,691,579</u>	<u>60,973,962</u>

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2012**

Condensed Comparative Financial Information (Continued)

The Fund's revenues and expenses can be summarized as follows for the years ended June 30:

	2012	2011	2010
Earned premiums	\$ 36,169,282	35,467,556	36,813,274
Less reinsurance premiums	<u>(4,339,892)</u>	<u>(4,509,439)</u>	<u>(4,344,087)</u>
Total operating revenues	<u>31,829,390</u>	<u>30,958,117</u>	<u>32,469,187</u>
Investment income	6,559,458	1,757,969	6,439,400
Equity in earnings of NLC Mutual	<u>239,195</u>	<u>253,116</u>	<u>263,913</u>
Total non-operating revenues	<u>6,798,653</u>	<u>2,011,085</u>	<u>6,703,313</u>
Total revenues	<u>38,628,043</u>	<u>32,969,202</u>	<u>39,172,500</u>
Claims and claim adjustment Expense	25,239,016	22,347,313	25,422,033
Claim and trust administration	5,184,720	4,933,074	4,851,590
Member dividends	<u>2,183,411</u>	<u>1,971,198</u>	<u>1,870,806</u>
Total expenses	<u>32,607,147</u>	<u>29,251,585</u>	<u>32,144,429</u>
Increase in net assets	6,020,896	3,717,617	7,028,071
Net assets, beginning of year	<u>64,691,579</u>	<u>60,973,962</u>	<u>53,945,891</u>
Net assets, end of year	<u>\$ 70,712,475</u>	<u>64,691,579</u>	<u>60,973,962</u>

Financial Analysis of the Fund

Total assets and net assets increased from fiscal year 2010 to 2011 due to increased cash and investments, as well as, contribution and noncurrent self-insured receivables. Total liabilities increased \$1 million, or 1% from 2010 to 2011. Total assets and net assets have increased from fiscal year 2011 to 2012 due to increased cash and investments, as well as, contributions and noncurrent self-insured receivables. Total liabilities increased \$3 million, or 6% from 2011 to 2012. 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.

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2012**

Financial Analysis of the Fund (Continued)

Total operating revenues decreased 4% to \$31 million from \$32.5 million due to a decrease in earned premiums from June 30, 2010 to June 30, 2011. Total operating revenues increased approximately 3% to \$31.8 million from \$31 million due to an increase in earned premiums from June 30, 2011 to June 30, 2012. Earned premiums increased during the year mainly due to an increase in premiums for the Health Fund. Non-operating revenues decreased by approximately \$4 million primarily due to decreased earnings attributed to the Fund's investment portfolio and the market conditions, from June 30, 2010 to June 30, 2011. Non-operating revenues increased approximately \$5 million primarily due to increased earnings attributed to the Fund's investment portfolio and a favorable change to market conditions, from June 30, 2011 to June 30, 2012. For the years ended June 30, 2011 and 2010, net assets increased \$3.7 million, respectively. 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, 2012 and 2011, net assets increased \$6.0 million and \$3.7 million, respectively.

The increase in claims and claim adjustment expenses from was primarily due to a decrease in the provision for current year's events of \$4.0 million from 2011 to 2012, whereas the prior year increase was \$3.3 million from 2010 to 2011. The Workers' Compensation Fund had an increase in actual current year claim expense of \$0.4 million from 2011 to 2012, with an increase in estimated claim reserve of \$1.6 million due to events of the prior years. The Liability/Property Fund had a decrease in actual current year claim expense of \$1.9 million due to lower estimated claims costs and an increase in estimated claims reserves of \$1.7 million due to events of the prior years from 2011 to 2012. The Health Benefits Fund had an increase in actual current year claim expense of \$1.0 million and an increase in the estimated prior years' claim reserves of \$0.2 million due to industry-wide increases in claims payouts from 2011 to 2012.

The decrease in claims and claim adjustment expenses from 2011 was primarily due to an increase in the provision for that year's events of \$3.3 million, whereas from 2010 to 2011 increase was \$4.0 million. The Workers' Compensation Fund had a decrease in actual claim expense of \$0.8 million, with an increase in estimated claim reserve of \$1.3 million due to events from 2010 to 2011. The Liability/Property Fund had a decrease in actual 2011 claim expense of \$2.8 million due to lower estimated claims costs and a decrease in estimated claims reserves of \$1.8 million from 2010 to 2011. The Health Benefits Fund had an increase in 2011 claim expense of \$0.5 million and an increase in the estimated from 2010 to 2011's claim reserves of \$0.3 million due to industry-wide increases in claims payouts.

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2012**

Unpaid Claims Liabilities

	2012	2011	2010
Unpaid claims and claim adjustment expenses at beginning of year	<u>\$ 59,593,417</u>	58,767,246	54,725,786
Incurred claims and claim adjustment expenses			
Provision for insured events of the current year	28,074,457	29,227,790	28,933,174
Decrease in provision for insured events of prior years	<u>(2,835,441)</u>	<u>(6,880,477)</u>	<u>(3,511,141)</u>
Total incurred claims and claim adjustment expense	<u>25,239,016</u>	22,347,313	25,422,033

Payments

Claims and claim adjustment expenses attributable to insured events of the current year	13,042,079	12,657,317	13,053,041
Claims and claim adjustment expenses attributable to insured events of prior years	<u>8,600,126</u>	8,863,825	8,327,532
Total payments	<u>21,642,205</u>	21,521,142	21,380,573
Total unpaid claims and claim adjust expenses at end of year	<u>\$ 63,190,228</u>	59,593,417	58,767,246

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 2011-12.

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.

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Year Ended June 30, 2012**

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, 2012.

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

2019	2018
1,000,000	1,000,000
2,000,000	2,000,000
3,000,000	3,000,000
4,000,000	4,000,000
5,000,000	5,000,000
6,000,000	6,000,000
7,000,000	7,000,000
8,000,000	8,000,000
9,000,000	9,000,000
10,000,000	10,000,000
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41,000,000	41,000,000
42,000,000	42,000,000
43,000,000	43,000,000
44,000,000	44,000,000
45,000,000	45,000,000
46,000,000	46,000,000
47,000,000	47,000,000
48,000,000	48,000,000
49,000,000	49,000,000
50,000,000	50,000,000

BASIC FINANCIAL STATEMENTS

**NEW MEXICO SELF-INSURERS' FUND
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011**

	2012	2011
ASSETS		
Current Assets		
Short term investments	\$ 195,304	16,850
Cash and cash equivalents	541,170	3,078,401
Accrued investment income	244,451	555,933
Contributions receivable	2,692,923	3,566,632
Prepaid expenses	362,559	-
Due from reinsurers	112,777	249,479
	<hr/>	<hr/>
Total current assets	4,149,184	7,467,295
Non-Current Assets		
Long-term investments	117,461,717	106,314,725
Equity in NLC Mutual Insurance Company	5,554,636	5,315,441
Long-term contributions receivable	7,601,337	6,219,441
	<hr/>	<hr/>
Total non-current assets	130,617,690	117,849,607
	<hr/>	<hr/>
Total assets	\$ 134,766,874	125,316,902
LIABILITIES		
Current Liabilities		
Prepaid contributions	\$ 589,189	662,004
Accounts payable	274,982	369,902
Reserve for unpaid claims and claim adjustment expenses, current portion	15,310,626	21,719,413
	<hr/>	<hr/>
Total current liabilities	16,174,797	22,751,319
Non-Current Liabilities		
Reserve for unpaid claims and claim adjustment expenses	47,879,602	37,874,004
	<hr/>	<hr/>
Total liabilities	64,054,399	60,625,323
NET ASSETS		
Unrestricted - members' equity	70,712,475	64,691,579
	<hr/>	<hr/>
Total liabilities and net assets	\$ 134,766,874	125,316,902
	<hr/>	<hr/>

See Notes to Financial Statements.

NEW MEXICO SELF-INSURERS' FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Years Ending June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Earned premiums	\$ 36,169,282	35,467,556
Less reinsurance premiums	<u>(4,339,892)</u>	<u>(4,509,439)</u>
Total operating revenues	<u>31,829,390</u>	<u>30,958,117</u>
Operating Expenses		
Claims and claim adjustment expenses	25,239,016	22,347,313
Claim and trust administration	5,184,720	4,933,074
Members' dividends	<u>2,183,411</u>	<u>1,971,198</u>
Total operating expenses	<u>32,607,147</u>	<u>29,251,585</u>
Operating (loss) income	<u>(777,757)</u>	<u>1,706,532</u>
Non-Operating Revenues		
Investment income	6,559,458	1,757,969
Equity in earnings of NLC Mutual Insurance Company	<u>239,195</u>	<u>253,116</u>
Total non-operating revenues	<u>6,798,653</u>	<u>2,011,085</u>
Change in net assets	6,020,896	3,717,617
Net assets, beginning of year	<u>64,691,579</u>	<u>60,973,962</u>
Net assets, end of year	<u>\$ 70,712,475</u>	<u>64,691,579</u>

See Notes to Financial Statements.

**NEW MEXICO SELF-INSURERS' FUND
STATEMENTS OF CASH FLOWS
Years Ending June 30, 2012 and 2011**

	2012	2011
Cash Flows From Operating Activities		
Earned premiums	\$ 35,225,721	34,316,599
Reinsurance premiums	(4,203,190)	(3,870,669)
Claims and claim adjustment expenses	(21,642,205)	(21,521,142)
Claims and trust administration	(5,279,640)	(4,801,109)
Members' dividends	(2,183,411)	(1,971,198)
	<hr/>	<hr/>
Net cash provided by operating activities	1,917,275	2,152,481
Cash Flows From Investing Activities		
Investment income received	6,071,845	4,397,046
Purchases of investments	(98,747,420)	(66,895,157)
Proceeds from sales or maturities of investments	88,221,069	63,053,631
	<hr/>	<hr/>
Net cash (used) provided by investing activities	(4,454,506)	555,520
(Decrease) increase in cash and cash equivalents	(2,537,231)	2,708,001
Cash and cash equivalents, beginning of year	<hr/> 3,078,401	<hr/> 370,400
Cash and cash equivalents, end of year	<hr/> \$ 541,170 <hr/>	<hr/> 3,078,401 <hr/>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating (loss) income	\$ (777,757)	1,706,532
Changes in assets and liabilities		
Contributions receivable	(508,187)	(1,258,564)
Prepaid expenses	(362,559)	-
Due from reinsurers	136,702	638,770
Prepaid contributions	(72,815)	107,607
Accounts payable	(94,920)	131,965
Reserve for unpaid claims and claim adjustment expenses	<hr/> 3,596,811	<hr/> 826,171
	<hr/>	<hr/>
Net cash provided by operating activities	\$ 1,917,275 <hr/>	2,152,481 <hr/>
Noncash investing activities:		
Increase (decrease) in fair value of investments	487,613	(2,639,077)

See Notes to Financial Statements.

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1. 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 coverage and develop a comprehensive safety program for its members. The Fund is governed by a Board of Trustees (Trustees) elected from its membership. Furthermore, the Fund has no component units, and the Fund is not included in any other governmental reporting entity.

NOTE 2. 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. A total of 105 members participated in this Fund during 2012.

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Reporting Entity (Continued)

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 97 members participated in this Fund during 2012.

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 93 members participated in this Fund during 2012.

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 58 members participated in this Fund during 2012.

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 45 members participated in this Fund during 2012.

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.

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Measurement Focus and Basis of Accounting (Continued)

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.

The Fund adopted GASB Statement 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 and AICPA Pronouncements*, upon its issuance on December 30, 2010, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The adoption of GASB Statement 62 had no impact on the Fund's accounting policies, as the Fund had previously elected to not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, and applicable FASB pronouncements issued on or before November 30, 1989 have now been incorporated into GASB pronouncements.

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.

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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, 2012 and 2011 has been reduced by approximately \$6.2 million and \$5.7 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.

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

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Reinsurance (Continued)

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 50% of 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.

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Prepaid Expenses

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

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.

Net Assets

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

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.

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 3. EQUITY IN NLC MUTUAL INSURANCE COMPANY

The Fund reinsures its workers' compensation and certain of its liability coverage 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 \$5,554,636 and \$5,315,441 at June 30, 2012 and 2011, 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 \$239,195 and \$253,116 in 2012 and 2011, respectively.

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, 2012 and 2011 has been reduced by approximately \$6.2 million and \$5.7 million, respectively, as a result of reinsurance recoverable from NLC on unpaid losses. The chairman of the NLC Board of Directors is also the Executive Director of the League.

Audited condensed financial information for NLC as taken from its audited financial statements as of and for the years ended December 31, 2011 and 2010 is as follows:

	2012	2011
Investments	\$ 263,897,000	251,469,000
Liability for loss and loss adjustment expenses, net of reinsurance recoverable	268,888,000	273,738,000
Members' equity	108,497,000	94,684,000
Earned premiums, net	9,877,000	10,083,000
Net investment income	11,654,000	9,569,000
Net income after dividends to policyholders	8,605,000	7,564,000

NOTE 4. 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, 2012 and 2011, the carrying amount of the Fund's deposits was \$541,170, and \$3,078,401 and the bank balance was \$1,744,050 and \$4,310,275, respectively.

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 4. DEPOSITS (CONTINUED)

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, 2012 and 2011, \$1,524,050 and \$4,060,275 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.

	2012	2011
Deposits	<u>\$ 1,774,050</u>	4,310,275
Less FDIC coverage	<u>250,000</u>	250,000
Total uninsured public funds	1,524,050	4,060,275
50% collateral requirement	762,025	2,030,138
Pledged securities, fair value	<u>9,101,188</u>	<u>3,632,087</u>
Pledged in excess of requirement	<u>\$ 8,339,163</u>	<u>1,601,949</u>

The difference between the carrying amount and the bank balance results from \$1,232,880 of outstanding checks and deposits. At June 30, 2012, the Fund maintained the following depository accounts.

Account Depository	Account Name	Type	Carrying Amount	Bank Balance
First Community Bank	Clearing	Checking	\$ -	729,665
First Community Bank	Claims	Money Market	1,467,432	1,000,000
First Community Bank	Health Benefits	Money Market	(970,647)	-
Merrill Lynch	Workers' Comp	Money Market	29,007	29,007
Merrill Lynch	Liability	Money Market	14,648	14,648
Wells Fargo	Property	Money Market	730	730
Total cash and cash equivalents			<u>\$ 541,170</u>	<u>1,774,050</u>

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 4. DEPOSITS (CONTINUED)

The difference between the carrying amount and the bank balance results from \$1,231,874 of outstanding checks and deposits. At June 30, 2011, the Fund maintained the following depository accounts.

Account Depository	Account Name	Type	Carrying Amount	Bank Balance
First Community Bank	Clearing	Checking	\$ -	1,309,416
First Community Bank	Claims	Money Market	3,148,271	3,000,859
First Community Bank	Health Benefits	Money Market	(69,870)	-
Total cash and cash equivalents			<u>\$ 3,078,401</u>	<u>4,310,275</u>

NOTE 5. INVESTMENTS

Interest Rate Risk

A summary of the Fund's investments and their respective maturities at June 30, 2012 and their exposure to interest rate risk are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Certificates of Deposit - Marketable	\$ 753,523	195,304	558,219	-	-
U.S. Agencies:					
Federal National Mortgage Assoc.	7,503,862	-	-	-	7,503,862
Federal Home Loan Mortgage Corp.	17,015,700	-	-	3,998,320	13,017,380
Federal Home Loan Bank	8,021,326	-	2,334,275	5,465,117	221,934
Federal Farm Credit Bank	7,482,371	-	-	5,749,491	1,732,880
Government National Mortgage Assoc.	76,880,239	-	-	-	76,880,239
Total investments	<u>\$ 117,657,021</u>	<u>195,304</u>	<u>2,892,494</u>	<u>15,212,928</u>	<u>99,356,295</u>

The Fund's investment policy does not have limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Fund's policy on maturity dates states that investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures as well as considering anticipated revenue.

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 5. INVESTMENTS (CONTINUED)

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 6%, 14%, 7%, 6% and 65% of the Fund's total investments, respectively.

Account Depository	Account Name	Carrying Amount	Bank Balance
Merrill Lynch	Workers' Compensation	\$ 58,989,875	58,989,875
Merrill Lynch	Liability	52,289,184	52,289,184
Wells Fargo	Property	6,279,226	6,279,226
Wells Fargo	Health benefits	98,736	98,736
Total		<u>\$117,657,021</u>	<u>117,657,021</u>

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 5. INVESTMENTS (CONTINUED)

The amortized cost and estimated market value of investments at June 30, 2012 and 2011 are as follows:

Year	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
2012	\$ 116,198,889	2,073,049	(614,917)	117,657,021
2011	106,017,801	413,340	(99,566)	106,331,575

Investment income for the years ended June 30, 2012 and 2011 includes net realized gains and (losses) from the sale of investments of \$1,820,072 and \$1,158,962, respectively.

NOTE 6. 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 undiscounted 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 for the years ended June 30:

	2012	2011
Unpaid claims and claim adjustment expenses, beginning of year	<u>\$ 59,593,417</u>	58,767,246
Incurred claims and claim adjustment expense		
Provision for insured events of the current year	28,074,457	29,227,790
Decrease in provision for insured events of prior years	<u>(2,835,441)</u>	<u>(6,880,477)</u>
Total incurred claims and claim adjustment expenses	<u>25,239,016</u>	22,347,313

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 6. UNPAID CLAIMS LIABILITIES (CONTINUED)

	2012	2011
Payments		
Claims and claim adjustment expenses attributable insured events of the current year	13,042,079	12,657,317
Claims and claim adjustment expenses attributable to insured events of prior years	<u>8,600,126</u>	<u>8,863,825</u>
Total payments	<u>21,642,205</u>	<u>21,521,142</u>
Total unpaid claims and claim adjustment expenses, end of year	<u>\$ 63,190,228</u>	<u>59,593,417</u>
Unpaid claims and claim adjustment expenses, end of year, current portion	<u>\$ 15,310,626</u>	<u>21,719,413</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 24% and 36% for the fiscal years ended June 30, 2012 and 2011, respectively. The change of the decrease in provision for insured events of prior years was related to favorable development of prior years' claims.

NOTE 7. 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 2012 and 2011, the Fund paid \$3,292,974 and \$3,050,858, respectively, for administrative services performed by the League on the Fund's behalf. Accounts Payable at June 30, 2012 and 2011 included \$212,835 and \$237,610, respectively, for amount due to the League for these services.

**NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 8. 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, 2012 and 2011, \$8,565,473 and \$8,373,058, 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 \$1,440,033 and \$1,356,614 are also included in earned premiums and loss and loss adjustment expenses in the accompanying financial statements for fiscal years 2012 and 2011, 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.

NOTE 9. MEMBER DIVIDENDS

During 2012 and 2011, the Fund distributed \$1,199,499 and \$1,151,741, respectively, as member dividends to members of the Workers' Compensation Fund. The 2012 workers' compensation refunds were based upon each member's contribution to the loss fund for fiscal year 2004. The 2011 workers' compensation refunds were based upon each member's contribution to the loss fund for fiscal year 2002. Only those members who belonged during the designated fiscal year and who were still in the pool for fiscal year 2011-2012 and 2010-2011 were eligible to receive refunds for fiscal years ended June 30, 2012 and 2011, respectively.

During 2012 and 2011, the Fund distributed \$983,912 and \$819,457, respectively, as member dividends to members of the Liability Fund. The 2012 liability refund was based upon each member's contribution to the loss fund for fiscal year 2004. The 2011 workers' compensation refunds were based upon each member's contribution to the loss fund for fiscal year 2002. Only those members who belonged during the designated fiscal year and who were still in the pool for fiscal year 2011-2012 and 2010-2011 were eligible to receive funds for fiscal years ended June 30, 2012 and 2011, respectively.

NOTE 10. SUBSEQUENT EVENTS

The Fund's management has evaluated subsequent events through November 30, 2012, the date on which the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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NEW MEXICO SELF-INSURERS' FUND
NOTES TO SUPPLEMENTARY CLAIMS DEVELOPMENT INFORMATION
June 30, 2012

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.

Ten-Year Claims Development Information

The tables on pages 28 through 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 Ending June 30, 2012 and 2011

	Workers' Compensation		Liability/Property		Health Benefits		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Unpaid claims and claim adjustment expenses, beginning of year	\$ 37,139,670	35,627,050	20,801,535	21,331,549	1,652,212	1,808,647	59,593,417	58,767,246
Incurring claims and claim adjustment expenses	8,400,000	9,300,000	7,541,000	8,538,838	12,133,457	11,388,952	28,074,457	29,227,790
Increase (decrease) in the provision for insured events of the prior years	(1,357,286)	(2,736,701)	(988,142)	(2,905,744)	(490,013)	(1,238,032)	(2,835,441)	(6,880,477)
Total incurred claims and claim adjustment expenses	7,042,714	6,563,299	6,552,858	5,633,094	11,643,444	10,150,920	25,239,016	22,347,313
Payments								
Claims and claim adjustment expenses attributable to insured events of the current year	1,501,427	1,783,907	1,295,154	1,127,348	10,245,498	9,746,062	13,042,079	12,657,317
Claims and claim adjustment expenses attributable to insured events of the prior years	3,906,842	3,266,772	3,541,690	5,035,760	1,151,594	561,293	8,600,126	8,863,825
Total payments	5,408,269	5,050,679	4,836,844	6,163,108	11,397,092	10,307,355	21,642,205	21,521,142
Total unpaid claims and claim adjustment expenses, end of year	\$ 38,774,115	37,139,670	22,517,549	20,801,535	1,898,564	1,652,212	63,190,228	59,593,417

NEW MEXICO SELF-INSURERS' FUND
 WORKERS' COMPENSATION TEN YEAR CLAIMS
 DEVELOPMENT INFORMATION
 Years Ending June 30, 2012 and 2011

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Premiums and investment revenue										
Earned	\$ 9,901,187	7,355,519	9,300,725	10,143,140	13,300,100	13,850,624	13,664,429	16,639,627	13,057,638	14,861,799
Ceded	591,876	680,323	787,143	1,237,929	1,714,822	1,305,057	920,122	1,143,819	1,087,014	1,027,514
Net earned	9,309,311	6,675,196	8,513,582	8,905,211	11,585,278	12,545,567	12,744,307	15,495,808	11,970,624	13,834,285
2. Unallocated expenses	1,230,862	1,237,356	1,237,363	1,508,444	1,399,522	1,559,598	1,631,965	1,693,826	1,699,499	1,841,459
3. Estimated losses and expenses, end of year										
Incurred	6,250,000	7,285,389	7,286,623	6,600,000	6,700,000	7,400,000	6,950,000	8,800,000	9,300,000	8,400,000
Ceded	-	85,389	386,623	-	-	-	-	-	-	-
Net earned	6,250,000	7,200,000	6,900,000	6,600,000	6,700,000	7,400,000	6,950,000	8,800,000	9,300,000	8,400,000
4. Net paid (cumulative) as of:										
Year one	1,307,923	1,541,390	1,284,965	1,103,298	1,106,240	1,277,737	1,147,489	1,957,597	1,783,907	1,501,427
Year two	2,483,095	2,746,545	2,463,101	2,405,164	1,582,724	2,160,727	2,267,538	3,560,704	3,568,268	-
Year three	2,962,518	3,399,367	2,812,970	2,841,387	1,736,694	2,692,664	2,805,354	4,390,849	-	-
Year four	3,527,927	3,766,037	3,029,144	3,124,548	1,835,361	2,928,151	3,298,094	-	-	-
Year five	3,831,591	3,902,253	3,167,235	3,204,515	1,980,726	3,122,449	-	-	-	-
Year six	4,086,941	3,995,846	3,286,285	3,242,577	2,047,737	-	-	-	-	-
Year seven	4,181,238	4,042,753	3,395,599	3,292,533	-	-	-	-	-	-
Year eight	4,259,828	4,083,178	3,448,607	-	-	-	-	-	-	-
Year nine	4,380,036	4,138,781	-	-	-	-	-	-	-	-
Year ten	4,445,789	-	-	-	-	-	-	-	-	-
5. Re-estimated ceded losses and expenses	1,277,390	506,200	931,772	-	-	-	-	-	-	-
6. Re-estimated net incurred losses and expenses:										
Year one	6,250,000	7,200,000	6,900,000	6,600,000	6,700,000	7,400,000	6,950,000	8,800,000	9,300,000	8,400,000
Year two	5,827,562	6,714,033	6,450,000	6,300,000	5,100,000	6,600,000	6,400,000	9,200,000	9,100,000	-
Year three	5,572,665	7,000,000	5,800,000	5,700,000	4,600,000	6,200,000	6,100,000	8,900,000	-	-
Year four	5,800,000	6,300,000	5,200,000	5,200,000	4,300,000	5,600,000	5,900,000	-	-	-
Year five	5,900,000	6,100,000	4,900,000	4,800,000	4,100,000	5,400,000	-	-	-	-
Year six	6,000,000	5,700,000	4,800,000	4,500,000	3,800,000	-	-	-	-	-
Year seven	5,800,000	5,600,000	4,600,000	4,400,000	-	-	-	-	-	-
Year eight	5,900,000	5,400,000	4,500,000	-	-	-	-	-	-	-
Year nine	5,600,000	5,400,000	-	-	-	-	-	-	-	-
Year ten	5,600,000	-	-	-	-	-	-	-	-	-
7. Increase (decrease) in estimated net incurred losses and expense from end of year	(650,000)	(1,800,000)	(2,400,000)	(2,200,000)	(2,900,000)	(2,000,000)	(1,050,000)	100,000	(200,000)	-

NEW MEXICO SELF-INSURERS' FUND
LIABILITY TEN YEAR CLAIMS
DEVELOPMENT INFORMATION
Years Ending June 30, 2012 and 2011

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Premiums and investment revenue										
Earned	\$ 8,879,343	9,611,626	11,517,376	12,377,407	15,264,848	15,105,876	16,471,872	17,233,674	15,047,988	16,935,099
Ceded	1,207,016	1,494,736	1,650,314	1,920,082	2,010,061	1,249,508	1,674,429	1,678,598	1,838,006	1,649,099
Net earned	7,672,327	8,116,890	9,867,062	10,457,325	13,254,787	13,856,368	14,797,443	15,555,076	13,209,982	15,286,000
2. Unallocated expenses	1,237,901	1,445,516	1,566,760	1,846,835	1,750,005	1,835,478	1,991,702	2,017,215	2,024,610	2,080,079
3. Estimated losses and expenses, end of year										
Incurred	7,200,164	8,450,000	7,557,500	7,707,500	7,600,000	10,900,000	10,750,000	9,961,445	8,500,000	7,500,000
Ceded	80,000	50,000	57,500	7,500	250,000	2,100,000	750,000	561,445	-	-
Net earned	7,120,164	8,400,000	7,500,000	7,700,000	7,350,000	8,800,000	10,000,000	9,400,000	8,500,000	7,500,000
4. Net paid (cumulative) as of:										
Year one	738,658	875,455	904,231	1,018,953	850,163	763,933	1,688,534	1,171,576	892,570	1,066,907
Year two	2,655,886	2,944,540	2,602,402	2,042,477	1,942,724	2,256,045	3,479,280	3,388,915	1,923,080	
Year three	3,327,011	4,182,338	3,725,814	2,728,567	3,022,898	4,321,993	4,396,580	4,368,477		
Year four	3,775,298	4,593,173	4,120,783	3,983,820	3,438,913	5,717,095	5,110,841			
Year five	4,223,407	4,999,579	4,273,731	5,111,077	3,732,626	6,092,809				
Year six	4,436,251	5,054,966	4,376,423	5,706,774	3,939,259					
Year seven	4,816,474	5,049,877	4,380,572	5,799,305						
Year eight	4,823,501	5,049,877	4,395,640							
Year nine	4,885,603	5,049,877								
Year ten	4,886,101									
5. Re-estimated ceded losses and expenses	856,799	250,312	357,214	483,077	-	1,591,613	154,871	343,211	-	-
6. Re-estimated net incurred losses and expenses:										
Year one	7,120,164	8,400,000	7,500,000	7,700,000	7,350,000	8,800,000	10,000,000	9,400,000	8,500,000	7,500,000
Year two	6,225,792	7,749,689	6,250,127	6,625,000	6,700,000	7,800,000	9,200,000	8,400,000	8,200,000	
Year three	5,625,794	6,949,788	6,392,786	6,300,000	6,400,000	8,400,000	8,400,000	8,600,000		
Year four	6,182,592	6,450,001	6,300,000	6,700,000	6,100,000	8,600,000	8,200,000			
Year five	6,282,592	6,300,000	5,500,000	6,700,000	5,700,000	8,500,000				
Year six	6,600,000	5,305,300	5,200,000	6,800,000	5,400,000					
Year seven	6,000,000	5,300,189	5,000,000	6,900,000						
Year eight	6,000,000	5,300,189	4,752,854							
Year nine	6,000,000	5,300,189								
Year ten	5,742,900									
7. Increase (decrease) in estimated net incurred losses and expense from end of year	(1,377,264)	(3,099,811)	(2,747,146)	(800,000)	(1,950,000)	(300,000)	(1,800,000)	(800,000)	(300,000)	-

NEW MEXICO SELF-INSURERS' FUND
HEALTH BENEFITS TEN YEAR CLAIMS
DEVELOPMENT INFORMATION
Years Ending June 30, 2012 and 2011

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Premiums and investment revenue										
Earned	\$ 9,894,524	10,596,269	10,263,213	10,348,823	8,917,017	8,903,650	8,397,744	9,941,243	9,735,747	10,957,856
Ceded	799,031	942,040	810,386	702,105	444,928	501,889	447,870	533,651	548,912	590,375
Net earned	9,095,493	9,654,229	9,452,827	9,646,718	8,472,089	8,401,761	7,949,874	9,407,592	9,186,835	10,367,481
2. Unallocated expenses	460,075	465,116	562,955	539,751	425,997	430,128	415,766	485,368	494,888	508,716
3. Estimated losses and expenses, end of year										
Incurred	6,856,901	9,804,483	8,146,845	7,934,663	9,457,349	7,765,900	7,776,895	10,709,996	11,425,443	12,686,155
Ceded	-	835,433	29,283	47,961	405,303	9,017	-	230,436	36,491	552,699
Net earned	6,856,901	8,969,050	8,117,562	7,886,702	9,052,046	7,756,883	7,776,895	10,479,560	11,388,952	12,133,456
4. Net paid (cumulative) as of:										
Year one	5,505,047	7,512,807	6,746,034	6,605,443	6,977,826	6,096,479	6,306,203	8,677,819	9,646,062	10,245,498
Year two	6,759,573	8,163,107	7,914,075	7,949,595	7,810,665	7,298,671	7,004,481	9,160,512	10,776,582	
Year three	6,773,483	8,163,172	7,906,237	8,084,274	7,808,350	7,284,244	7,016,214	9,283,086		
Year four	6,770,685	8,161,218	7,910,272	8,081,208	7,808,558	7,289,335	7,016,398			
Year five	6,770,471	8,159,537	7,906,352	8,081,154	7,870,887	7,289,048				
Year six	6,770,334	8,157,416	7,906,106	8,080,929	7,869,694					
Year seven	6,770,334	8,157,416	7,905,901	8,080,929						
Year eight	6,770,334	8,157,094	7,905,901							
Year nine	6,770,334	8,157,094								
Year ten	6,770,334									
5. Re-estimated ceded losses and expenses	207,000	890,416	255,283	189,653	675,623	16,910	130,164	485,678	219,712	552,699
6. Re-estimated net incurred losses and expenses:										
Year one	6,856,901	8,969,050	8,117,562	7,886,702	9,052,046	7,756,883	7,776,895	10,479,560	11,388,952	12,133,456
Year two	6,761,210	8,164,792	7,921,151	7,964,827	7,823,765	7,306,749	7,011,387	9,160,512	10,787,187	
Year three	6,773,483	8,163,172	7,906,237	8,084,274	7,808,350	7,284,244	7,016,214	9,283,086		
Year four	6,770,685	8,161,218	7,910,272	8,081,208	7,808,558	7,289,335	7,016,398			
Year five	6,770,471	8,159,537	7,906,352	8,081,154	7,870,887	7,289,048				
Year six	6,770,334	8,157,416	7,906,106	8,080,929	7,869,694					
Year seven	6,770,334	8,157,416	7,905,901	8,080,929						
Year eight	6,770,334	8,157,094	7,905,901							
Year nine	6,770,334	8,157,094								
Year ten	6,770,334									
7. Increase (decrease) in estimated net incurred losses and expense from end of year	(86,567)	(811,634)	(211,661)	194,227	(1,182,352)	(467,835)	(760,497)	(1,196,474)	(601,765)	-

OTHER SUPPLEMENTARY INFORMATION

**NEW MEXICO SELF-INSURERS' FUND
SCHEDULE OF PLEDGED COLLATERAL
Year Ending June 30, 2012**

	US Bank
Bank Accounts	
Amounts on deposits in bank	\$ 1,774,050
Less FDIC coverage	<u>250,000</u>
Total insured	<u>250,000</u>
Total uninsured public funds	<u>1,524,050</u>
Collateral requirements (per 6-10-10 & 6-10-17, NMSA 1978) 50% of uninsured time and demand accounts	<u>762,025</u>
Total collateral required	<u>762,025</u>
Pledged collateral	
FNMA Pool, matures January 1, 2019, CUSIP 31413WY74	2,884,725
FNMA Pool, matures January 1, 2019, CUSIP 31413WZJ7	3,780,751
FNMA Pool, matures January 1, 2019, CUSIP 31413WZV0	<u>2,435,712</u>
Total collateral	<u>9,101,188</u>
Over secured	<u>\$ 8,339,163</u>
Custodial credit risk	
Insured	\$ 250,000
Collateralized with securities held by pledging financial institution's trust department	<u>1,524,050</u>
Total deposits	1,774,050
Total reconciling items	<u>(1,232,880)</u>
Book balance	<u>\$ 541,170</u>
Location of collateral	
US Bank, Dallas, TX	

NEW MEXICO SELF-INSURERS' FUND
SCHEDULE OF DEPOSITS AND INVESTMENT ACCOUNTS
Year Ending June 30, 2012

Bank Account Type/Name	US Bank	Merrill Lynch	Wells Fargo	Total
Checking - Clearing	\$ 729,665	-	-	729,665
Money Market - Claims	1,000,000	-	-	1,000,000
Investment - Workers' Compensation	29,007	58,989,875	-	59,018,882
Investment - Liability	14,648	52,289,184	-	52,303,832
Investment - Property	730	-	6,279,226	6,279,956
Investment - Health	-	-	98,736	98,736
Total on deposit - bank balance	1,774,050	111,279,059	6,377,962	119,431,071
Reconciling items	(1,232,880)	-	-	(1,232,880)
Reconciled balance, June 30, 2012	541,170	111,279,059	6,377,962	118,198,191
Total deposits and investments - book balance	\$ 541,170	111,279,059	6,377,962	118,198,191

Report of Independent Auditors 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 business-type activities of the New Mexico Self-Insurers' Fund (the Fund) as of and for the year ended June 30, 2012, which collectively comprise the Fund's basic financial statements as listed in the table of contents and have issued our report thereon dated November 30, 2012. 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

Management of the Fund is responsible for establishing and maintaining effective 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 auditing procedures for the purpose of expressing our opinion 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 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 Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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*.

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.

Mess Adams LLP

Albuquerque, New Mexico
November 30, 2012

**NEW MEXICO SELF-INSURERS' FUND
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012**

PRIOR YEAR FINDINGS

None

CURRENT YEAR FINDINGS

None

**NEW MEXICO SELF-INSURERS' FUND
EXIT CONFERENCE
June 30, 2012**

An exit conference was held on November 20, 2012. In attendance were:

New Mexico Self-Insurers' Fund:

Fran Berting, Councilmember, County of Los Alamos
Sally Burbridge, Mayor, City of Aztec
Linda Calhoun, Mayor, Town of Red River
Gloria Chavez, Mayor, Village of Tijeras
Larry Fry, City Manager, City of Roswell
Debi Lee, Village Manager, Village of Ruidoso
Andy Nunez, Mayor Pro-Tem, Village of Hatch
William Fulginiti, Executive Director
Ed Zendel, Risk Services Director
Dan Cisneros, Controller
Kathy Villa, Deputy Risk Services Director

Moss Adams LLP:

Brandon Fryar, Partner
Jason Galloway, Senior Manager

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 Report of Independent Auditors.