



New Mexico Self-Insurers' Fund
Financial Statements
June 30, 2016 and 2015

1231 Paseo De Peralta – Santa Fe, New Mexico 87501

NEW MEXICO SELF-INSURERS' FUND

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**NEW MEXICO SELF-INSURERS' FUND
OFFICIAL ROSTER
JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
New Mexico Self-Insurers' Fund

Mr. Tim Keller
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the New Mexico Self-Insurers' Fund (Fund), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the New Mexico Self-Insurers' Fund, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, the Fund implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, for the year ended June 30, 2016, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Report on Comparative Information

The prior year comparative information obtained from the Fund's 2015 financial statements is presented for purposes of additional analysis. Our report dated October 9, 2015, expressed an unmodified opinion on those financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the Supplemental Claims Development Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The Schedule of Vendor Information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on the information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, on our consideration of New Mexico Self-Insurers' Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New Mexico Self-Insurers' Fund's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
October 24, 2016

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

As management of New Mexico Self-Insurers' Fund (Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2016. Comparative data as of June 30, 2016 and 2015 and for the years then ended has been provided for comparative purposes. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

FINANCIAL HIGHLIGHTS

Each year the Fund has tried to maintain or reduce premium contributions, while increasing net position (members' equity). Net position increased \$5.9 million from \$85.1 million as of June 30, 2015 to \$90.9 million as of June 30, 2016. The increase is primarily due to increased earnings attributable to the Fund's investment portfolio. Operating revenues of \$30.2 million exceeded operating expenses of \$30.0 million at the end of the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of a series of financial statements and notes to the 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 statement of fund net position presents information on the Fund's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position at June 30, 2016 and 2015. The statement of revenues, expenses, and changes in fund net position presents information showing the Fund's results of operations and how net position changed during the years ended June 30, 2016 and 2015. The statement of cash flows outlines the cash inflows and outflows related to the operation of the Fund for the years ended June 30, 2016 and 2015. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found immediately following the basic financial statements. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Fund's pledged collateral, deposits and investments accounts, and vendor information.

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

CONDENSED COMPARATIVE FINANCIAL INFORMATION

The following table presents a summary of the Fund's assets, liabilities and net position as of June 30, 2016 and June 30, 2015:

	As of <u>June 30, 2016</u>	As of <u>June 30, 2015</u>
Cash and cash equivalents	\$ 10,958,428	\$ 7,492,150
Accrued investment income	416,585	532,865
Contributions receivable	10,786,049	12,984,106
Prepaid expenses		71,936
Due from reinsurers	709,422	547,749
Investments	126,750,796	122,816,529
Equity in NLC Mutual Insurance	<u>7,689,337</u>	<u>6,901,528</u>
Total assets	<u>157,310,617</u>	<u>151,346,863</u>
Prepaid contributions	451,721	461,696
Accounts payable	718,443	252,410
Reserve for unpaid claims and claim adjustment expenses	<u>65,201,085</u>	<u>65,565,061</u>
Total liabilities	<u>66,371,249</u>	<u>66,279,167</u>
Net position:		
Unrestricted – members' equity	<u>90,939,368</u>	<u>85,067,696</u>
Total net position	<u>\$ 90,939,368</u>	<u>\$ 85,067,696</u>

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

CONDENSED COMPARATIVE FINANCIAL INFORMATION

The following table presents a summary of the Fund's revenues and expenses for the years ended June 30, 2016 and June 30, 2015:

	Year Ended June 30, 2016	Year Ended June 30, 2015
Earned premiums	\$ 35,021,657	\$ 39,283,573
Less reinsurance premiums	(4,776,841)	(4,502,106)
Total operating revenues	<u>30,244,816</u>	<u>34,781,467</u>
Investment income	4,873,602	3,831,975
Equity in earnings of NLC Mutual Insurance	787,809	566,203
Total nonoperating revenues	<u>5,661,411</u>	<u>4,398,178</u>
Total revenues	<u>35,906,227</u>	<u>39,179,645</u>
Claims and claim adjustment expenses	21,898,543	29,153,631
Claim and trust administration	5,823,307	5,529,660
Members' dividends	2,312,705	2,130,631
Total expenses	<u>30,034,555</u>	<u>36,813,922</u>
Changes in net position	5,871,672	2,365,723
Net position, beginning	85,067,696	82,701,973
Net position, ending	<u>\$ 90,939,368</u>	<u>\$ 85,067,696</u>

FINANCIAL ANALYSIS OF THE FUND

Total assets increased \$6.0 million, or four percent from the prior fiscal year primarily due to increased earnings attributable to the Fund's investment portfolio. Total liabilities increased \$92,082, or less than one percent. Total assets consist primarily of investments, contributions receivable and cash in bank, while liabilities are substantially comprised of reserves for unpaid claims and claim adjustment expenses, which are subject to actuarial estimates as further described in the notes to the financial statements.

Total operating revenues decreased 13 percent to \$30.2 million from \$34.8 million due to a decrease in earned premiums. Earned premiums decreased during the year primarily due to lower self-insured retention premiums in the Workers' Compensation Fund. Nonoperating revenues increased by \$1.3 million primarily due to increased earnings attributable to the Fund's investment portfolio. For the years ended June 30, 2016 and 2015 net position increased \$5.9 million and \$2.4 million, respectively.

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE FUND

Total operating expenses decreased 18 percent to \$30.0 million from \$36.8 million due to a decrease in claims and claim adjustment expenses. Claims and claim adjustment expenses decreased during the year primarily due to lower provisions for prior year events. The Workers' Compensation Fund had a decrease in actual current year claim expense of \$600,000, with a decrease in the provision for estimated claim reserve of \$11.5 million due to favorable developments on prior year's events. The Liability/Property Fund had an increase in actual current year claim expense of \$2.5 million, with an increase in the provision for estimated claim reserve of \$3.6 million due to unfavorable developments on prior year's events. The Health Benefits Fund had a decrease in actual current year claim expense of \$900,954, with a decrease in the provision for estimated prior years claim reserves of \$328,091 due to favorable developments on prior year's events.

RESERVE FOR UNPAID CLAIMS

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

	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2015</u>
Reserve for unpaid claims and claim adjustment expenses, beginning of year	<u>\$ 65,565,061</u>	<u>\$ 59,044,974</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	30,214,455	29,226,803
Decrease in provision for insured events of prior years	<u>(8,315,912)</u>	<u>(73,168)</u>
Total incurred claims and claim adjustment expenses	<u>21,898,543</u>	<u>29,153,635</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	12,251,367	11,812,753
Claims and claim adjustment expenses attributable to insured events of prior years	<u>10,011,152</u>	<u>10,820,795</u>
Total payments	<u>22,262,519</u>	<u>22,633,548</u>
Reserve for unpaid claims and claim adjustment expenses, end of year	<u>\$ 65,201,085</u>	<u>\$ 65,565,061</u>

**NEW MEXICO SELF-INSURERS' FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

The New Mexico Self-Insurers' Fund Board of Trustees maintained contribution levels for liability and property pools for fiscal year 2015-16. Workers' compensation rates received a five percent discount, and health rates were increased by eight percent in response to the continued increase in healthcare costs. With the exception of the health pool and given the current economic challenges faced by the members, the Board elected to forgo rate increases for the fiscal year 2015-16.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

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

Debt Administration – The Fund has no long-term debt outstanding as of June 30, 2016.

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.

**NEW MEXICO SELF-INSURERS' FUND
STATEMENT OF FUND NET POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 10,958,428	\$ 7,492,150
Accrued investment income	416,585	532,865
Contributions receivable	3,155,009	4,624,866
Prepaid expenses		71,936
Due from reinsurers	709,422	547,749
Total current assets	15,239,444	13,269,566
Noncurrent assets:		
Long-term investments	126,750,796	122,816,529
Equity in NLC Mutual Insurance	7,689,337	6,901,528
Long-term contributions receivable	7,631,040	8,359,240
Total noncurrent assets	142,071,173	138,077,297
Total assets	157,310,617	151,346,863
<u>Liabilities</u>		
Current liabilities:		
Prepaid contributions	451,721	461,696
Accounts payable	718,443	252,410
Reserve for unpaid claims and claim adjustment expenses	24,957,057	17,972,679
Total current liabilities	26,127,221	18,686,785
Noncurrent liabilities:		
Reserve for unpaid claims and claim adjustment expenses	40,244,028	47,592,382
Total liabilities	66,371,249	66,279,167
<u>Net position</u>		
Unrestricted - members' equity	90,939,368	85,067,696
Total net position	\$ 90,939,368	\$ 85,067,696

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

NEW MEXICO SELF-INSURERS' FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Earned premiums	\$ 35,021,657	\$ 39,283,573
Less reinsurance premiums	<u>(4,776,841)</u>	<u>(4,502,106)</u>
Total operating revenues	<u>30,244,816</u>	<u>34,781,467</u>
Operating expenses:		
Claims and claim adjustment expenses	21,898,543	29,153,631
Claims and trust administration	5,823,307	5,529,660
Members' dividends	<u>2,312,705</u>	<u>2,130,631</u>
Total operating expenses	<u>30,034,555</u>	<u>36,813,922</u>
Operating income (loss)	210,261	(2,032,455)
Nonoperating revenues:		
Investment income	4,873,602	3,831,975
Equity in earnings of NLC Mutual Insurance	<u>787,809</u>	<u>566,203</u>
Total nonoperating revenues	<u>5,661,411</u>	<u>4,398,178</u>
Changes in net position	5,871,672	2,365,723
Net position, beginning of year	<u>85,067,696</u>	<u>82,701,973</u>
Net position, end of year	<u><u>\$ 90,939,368</u></u>	<u><u>\$ 85,067,696</u></u>

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

NEW MEXICO SELF-INSURERS' FUND
STATEMENT OF CASH FLOWS
JUNE 30, 2016 AND 2015

	2016	2015
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>		
Cash flows from operating activities:		
Earned premiums	\$ 37,209,739	\$ 35,890,032
Reinsurance premiums	(4,938,514)	(5,011,683)
Claims and claim adjustment expenses	(22,262,519)	(22,633,544)
Claims and trust administration	(5,285,338)	(5,775,492)
Members' dividends	(2,312,705)	(2,130,631)
Net cash provided by operating activities	2,410,663	338,682
Cash flows from investing activities:		
Interest and dividends received	3,536,436	3,078,918
Purchases of investments	(109,642,108)	(46,106,888)
Proceeds from sales or maturities of investments	107,161,287	49,270,013
Net cash provided by investing activities	1,055,615	6,242,043
Net increase in cash and cash equivalents	3,466,278	6,580,725
Cash and cash equivalents, beginning of year	7,492,150	911,425
Cash and cash equivalents, end of year	\$ 10,958,428	\$ 7,492,150
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>		
Operating income (loss)	\$ 210,261	\$ (2,032,455)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Contributions receivable	2,198,057	(3,347,403)
Prepaid expenses	71,936	(4,361)
Due from reinsurers	(161,673)	(509,577)
Prepaid contributions	(9,975)	(46,138)
Accounts payable	466,033	(241,471)
Reserve for claims and claim adjustment expenses	(363,976)	6,520,087
Net cash provided by operating activities	\$ 2,410,663	\$ 338,682
Noncash investing activities:		
Increase (decrease) in fair value of investments	\$ 4,722,076	\$ (2,048,181)

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

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

During the year ended June 30, 2016, the District implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements and establishes a hierarchy of inputs to valuation techniques used to measure fair value. This Statement also enhances accountability and transparency through revised note disclosures.

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

A. Reporting Entity

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

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

Workers' Compensation Fund – The Workers' Compensation Fund was established April 1, 1983, to provide workers' compensation coverage levels required by the State of New Mexico. The Fund reduces its risk on this coverage through specific excess reinsurance and for fiscal years prior to 1994, through excess aggregate reinsurance. A total of 108 members participated in this Fund during 2016.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 103 members participated in this Fund during 2016.

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 100 members participated in this Fund during 2016.

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 63 members participated in this Fund during 2016.

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 44 members participated in this Fund during 2016.

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

B. Measurement Focus and Basis of Accounting

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

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

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

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Depending upon the significance of the Fund's financial and operational relationships with various separate entities, the organizations are classified as blended or discrete component units. The Fund had no blended or discrete component units during the fiscal year ended June 30, 2016.

C. Recognition of Premiums

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

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

D. Reserve for 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.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Reinsurance

Reinsurance premiums paid or accrued are charged to expense in the period for which reinsurance coverage is provided. Amounts recoverable from reinsurers on paid losses are recorded in the period in which payment is made on behalf of the reinsurer. The reserve for loss and loss adjustment expenses as of June 30, 2016 and 2015, has been reduced by approximately \$9.0 million and \$9.2 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 \$1,000,000. Loss adjustment expenses on excess of loss reinsurance claims are retained by the reinsurer on a pro-rata basis. Losses above the reinsurance limits are the responsibility of the members. For health insurance coverage, reinsurance coverage for specific losses in excess of \$225,000 and aggregate losses in excess of the current minimum aggregate attachment point of \$13,436,769 up to the coverage maximum of \$1,000,000 (excluding loss adjustment expenses) has been obtained. For health insurance coverage, losses in excess of aggregate policy limits are the responsibility of the Fund.

F. Investments

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

Investments with fixed maturities are carried at fair value, while certificates of deposit and repurchase agreements are carried at cost which approximates fair value. Investment income is recognized when earned.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G. Cash and Cash Equivalents

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

H. Contributions Receivable

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

I. Prepaid Expenses

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

J. Income and Premium Taxes

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

K. Net Position

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

L. Administrative Services Arrangement

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

M. Budgets

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

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. 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.

NOTE 2 – EQUITY IN NLC MUTUAL INSURANCE COMPANY

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

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

Amounts due from NLC for paid losses (aggregate and specific) are included in due from reinsurers in the accompanying statements of fund net position. The reserve for loss and loss adjustment expenses as of June 30, 2016 and 2015 has been reduced by approximately \$9.0 million and \$9.2 million, respectively, as a result of reinsurance recoverable from NLC on unpaid losses.

Audited condensed financial information for NLC as taken from its Annual Reports as of and for the years ended December 31, 2015 and 2014 is as follows:

	(in thousands)	
	2015	2014
Investments	\$ 310,176	\$ 306,568
Liability for loss and loss adjustment expenses, net of reinsurance	285,834	285,651
Members' equity	127,937	127,970
Earned premiums	13,828	13,234
Net investment income	9,533	9,096
Comprehensive income	1,884	14,042

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents held by the Fund include cash on deposit and money market accounts with financial institutions. At June 30, 2016, the carrying amount of the Fund's deposits was \$10,958,428, and the bank balance was \$11,338,916.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to the Fund. The Fund does not have a deposit policy for custodial credit risk; however, under New Mexico law, all deposits with financial institutions must be collateralized in an amount not less than 50 percent of the uninsured balance and repurchase agreements by securities with a market value of at least 102 percent of the investment. As of June 30, 2016, \$3,224,357 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 and \$4,614,559 was uninsured and uncollateralized.

	U.S. Bank Bank Balance	Wells Fargo Advisors Bank Balance
Insured	\$ 500,000	\$ 3,000,000
Collateralized:		
Collateral held by pledging bank's trust department in the agency's name	3,224,357	
Uninsured and uncollateralized		4,614,559
Total deposits	\$ 3,724,357	\$ 7,614,559
50% pledge collateral requirement per statute	\$ 1,612,179	\$ 2,307,280
Total pledged collateral	3,224,357	- 0 -
Uninsured and uncollateralized	- 0 -	2,307,280

<u>Account Depository</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
U.S. Bank	Clearing	Checking	\$ 1,224,179	\$ 1,224,179
U.S. Bank	Claims	Checking	(380,310)	
U.S. Bank	Money Market	Money market	2,500,000	2,500,178
Wells Fargo Advisors	Workers' Compensation	Money market	3,496,941	3,496,941
Wells Fargo Advisors	Liability	Money market	1,541,437	1,541,437
Wells Fargo Advisors	Property	Money market	2,576,181	2,576,181
Total cash and cash equivalents			\$10,958,428	\$11,338,916

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 – INVESTMENTS

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

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

All investments in which the fair value hierarchy is applicable are measured at fair value on a recurring basis. At June 30, 2016, the Fund's investments consisted of the following:

Investment Type	Category	Fair Value	Investment Maturities (in Years)		
			1-5	6-10	More than 10
U.S. Agencies:					
Federal National Mortgage Association	Level 2	\$ 23,019,301	\$	\$ 16,625,324	\$ 6,393,977
Federal Home Loan Bank	Level 2	24,526,175	2,045,950	19,486,425	2,993,800
Federal Farm Credit Bank	Level 2	64,686,577	5,159,437	59,527,140	
Government National Mortgage Association	Level 2	14,518,743		14,518,743	
Total investments		<u>\$ 126,750,796</u>	<u>\$ 7,205,387</u>	<u>\$ 110,157,632</u>	<u>\$ 9,387,777</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 percent of the amount of the contract. The Fund has no investment policy that would further limit its investment choices. All of the Fund's investments in U.S. Agencies listed in the preceding table were rated Aaa and AA+ by Moody's Investors Service and Standard & Poor's, respectively.

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

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 Bank, Federal Farm Credit Bank, and Government National Mortgage Association represent 18%, 19%, 51%, and 11% of the Fund's total investments, respectively.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 – INVESTMENTS

At June 30, 2016, the Fund maintained the following investment accounts.

<u>Account Depository</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Wells Fargo Advisors	Workers' Compensation	U.S. Agencies	\$ 61,227,128	\$ 61,227,128
Wells Fargo Advisors	Liability	U.S. Agencies	56,747,705	56,747,705
Wells Fargo Advisors	Property	U.S. Agencies	8,775,963	8,775,963
Total investments			<u>\$ 126,750,796</u>	<u>\$ 126,750,796</u>

The amortized cost and estimated market value of investments at June 30, 2016 and 2015 are as follows.

<u>Year</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
2016	\$ 127,177,381	\$ 515,138	\$ (941,723)	\$ 126,750,796
2015	125,247,087	531,500	(2,962,058)	122,816,529

Investment income for the years ended June 30, 2016 and 2015 includes net realized losses from the sale of investments of \$386,998 and \$1,495,530, respectively.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 – RESERVE FOR UNPAID CLAIMS

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

	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2015</u>
Reserve for unpaid claims and claim adjustment expenses, beginning of year	\$ 65,565,061	\$ 59,044,974
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	30,214,455	29,226,803
Decrease in provision for insured events of prior years	<u>(8,315,912)</u>	<u>(73,168)</u>
Total incurred claims and claim adjustment expenses	<u>21,898,543</u>	<u>29,153,635</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	12,251,367	11,812,753
Claims and claim adjustment expenses attributable to insured events of prior years	<u>10,011,152</u>	<u>10,820,795</u>
Total payments	<u>22,262,519</u>	<u>22,633,548</u>
Reserve for unpaid claims and claim adjustment expenses, end of year	<u>65,201,085</u>	<u>65,565,061</u>
Reserve for unpaid claims and claim adjustment expenses, end of year, current portion	<u>\$ 24,957,057</u>	<u>\$ 17,972,679</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 38 percent and 27 percent for the fiscal years ending June 30, 2016 and June 30, 2015, respectively.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 – ADMINISTRATION

The financial arrangement between the Fund and the League requires the Fund to pay the actual cost of administration of the New Mexico Self-Insurers' Fund. Actual cost is represented by the budget of the Insurance Services Division of the League. The Fund is also required to pay one-fourth of one percent of the value of invested assets for administration of the investment portfolio of the Fund, agency commissions at the same level paid to independent agents for insured members written directly by the League, and a fixed royalty of \$225,000 per year for the use of the League's name. During 2016 and 2015, the Fund paid \$3,859,932 and \$3,617,122, respectively, for administrative services performed by the League on The Fund's behalf. Accounts payable at June 30, 2016 and 2015, included \$606,833 and \$216,816, respectively, for amount due to the League for these services.

NOTE 7 – SELF-INSURED MEMBERS

The Fund provides claims processing services to certain members who have elected to self-insure their primary coverages but who also wish to participate in the Fund's reinsurance program. At June 30, 2016 and 2015, \$9,623,493 and \$11,211,882, 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 \$1,178,597 and \$1,146,753 in premiums charged to self-insured members are included in earned premiums in the accompanying financial statements for fiscal years 2016 and 2015. Approximately \$1,516,357 and \$1,307,046 in claims paid related to self-insured members are included in claims and claim adjustment expenses in the accompanying financial statements for fiscal years 2016 and 2015, respectively. In accordance with the provisions of the Fund's agreements with these members, the Fund is responsible for losses in excess of \$250,000 on a per occurrence basis up to the statutory maximum limit. The Fund is responsible for aggregate losses in excess of 200 percent of members' standard premium. The Fund purchased reinsurance for losses in excess of 200 percent of members' standard premium up to an aggregate limit of \$1.0 million per member for fiscal years prior to 1995.

NOTE 8 – MEMBERS' DIVIDENDS

During 2016 and 2015, the Fund distributed \$1,164,157 and \$928,835, respectively, as member dividends to members of the workers' compensation fund. The 2016 workers' compensation refunds were based upon each member's contribution to the fund for fiscal year 2005. Only those members who belonged during the designated fiscal year and who were still in the pool for fiscal year 2016 were eligible to receive refunds.

NEW MEXICO SELF-INSURERS' FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 – MEMBERS' DIVIDENDS

During 2016 and 2015, the Fund distributed \$1,148,548 and \$1,201,796, respectively, as member dividends to members of the liability fund. The 2016 liability refunds were based upon each member's contributions less losses to the fund for fiscal year 2005. Only those members who belonged during the designed fiscal year and who were still in the pool for fiscal year 2016 were eligible to receive refunds.

SUPPLEMENTAL CLAIMS DEVELOPMENT INFORMATION
(Required Supplementary Information)

NEW MEXICO SELF-INSURERS' FUND
SUPPLEMENTAL CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2016

NOTES TO SUPPLEMENTAL CLAIMS DEVELOPMENT INFORMATION

A. Reconciliation of Claims Liabilities by Type of Contract

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

B. Ten-Year Claims Development Information

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

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

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

**NEW MEXICO SELF-INSURERS' FUND
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>WORKERS' COMPENSATION</u>		<u>LIABILITY/PROPERTY</u>		<u>HEALTH BENEFITS</u>		<u>TOTAL</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Reserve for unpaid claims and claim adjustment expenses, beginning of year	\$ 41,530,622	\$ 34,262,002	\$ 21,950,302	\$ 22,401,805	\$ 2,084,137	\$ 2,381,167	\$ 65,565,061	\$ 59,044,974
Incurred claims and claim adjustment expenses:								
Provision for insured events of the current year	7,500,000	8,100,000	12,197,038	9,708,432	10,517,417	11,418,371	30,214,455	29,226,803
Increase (decrease) in the provision for insured events of the prior years	<u>(7,799,321)</u>	<u>3,681,825</u>	<u>654,902</u>	<u>(2,911,591)</u>	<u>(1,171,493)</u>	<u>(843,402)</u>	<u>(8,315,912)</u>	<u>(73,168)</u>
Total incurred claims and claim adjustment expenses	<u>(299,321)</u>	<u>11,781,825</u>	<u>12,851,940</u>	<u>6,796,841</u>	<u>9,345,924</u>	<u>10,574,969</u>	<u>21,898,543</u>	<u>29,153,635</u>
Payments:								
Claims and claim adjustment expenses attributable to insured events of the current year	1,142,667	1,126,304	2,659,059	1,317,401	8,449,641	9,369,048	12,251,367	11,812,753
Claims and claim adjustment expenses attributable to insured events of the prior years	<u>2,853,450</u>	<u>3,386,901</u>	<u>6,280,315</u>	<u>5,930,943</u>	<u>877,387</u>	<u>1,502,951</u>	<u>10,011,152</u>	<u>10,820,795</u>
Total payments	<u>3,996,117</u>	<u>4,513,205</u>	<u>8,939,374</u>	<u>7,248,344</u>	<u>9,327,028</u>	<u>10,871,999</u>	<u>22,262,519</u>	<u>22,633,548</u>
Reserve for unpaid claims and claim adjustment expenses, end of year	<u>\$ 37,235,184</u>	<u>\$ 41,530,622</u>	<u>\$ 25,862,868</u>	<u>\$ 21,950,302</u>	<u>\$ 2,103,033</u>	<u>\$ 2,084,137</u>	<u>\$ 65,201,085</u>	<u>\$ 65,565,061</u>

NEW MEXICO SELF-INSURERS' FUND
WORKERS' COMPENSATION TEN YEAR CLAIMS DEVELOPMENT INFORMATION
YEAR ENDED JUNE 30, 2016

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
(1) Premiums and investment revenue:										
Earned	13,300,100	13,850,624	13,664,429	16,639,627	13,057,638	14,861,799	7,832,367	14,447,637	16,206,322	11,767,847
Ceded	1,714,822	1,305,057	920,122	1,143,819	1,087,014	1,027,514	1,094,029	1,115,422	1,112,926	1,133,871
Net earned	11,585,278	12,545,567	12,744,307	15,495,808	11,970,624	13,834,285	6,738,338	13,332,215	15,093,396	10,633,976
(2) Unallocated expenses	1,399,522	1,559,598	1,631,965	1,693,826	1,699,499	1,841,459	5,349,114	2,038,487	1,882,902	1,964,340
(3) Estimated losses and expenses, end of year										
Incurred	6,700,000	7,400,000	6,950,000	8,800,000	9,300,000	8,400,000	6,900,000	8,300,000	8,100,000	7,500,000
Ceded										
Net incurred	6,700,000	7,400,000	6,950,000	8,800,000	9,300,000	8,400,000	6,900,000	8,300,000	8,100,000	7,500,000
(4) Net paid (cumulative) as of:										
End of year	1,106,240	1,277,737	1,147,489	1,957,597	1,783,907	1,501,427	1,323,057	1,892,480	1,126,304	1,142,667
One year later	1,582,724	2,160,727	2,267,538	3,560,704	3,568,268	2,513,174	2,586,534	3,633,945	2,044,703	
Two years later	1,736,694	2,692,664	2,805,354	4,390,849	4,185,620	2,805,147	3,041,337	4,109,702		
Three years later	1,835,361	2,928,151	3,298,094	4,923,328	5,258,428	3,009,684	3,300,521			
Four years later	1,980,726	3,122,449	3,538,292	5,261,346	5,548,039	3,246,700				
Five years later	2,047,737	3,235,949	3,630,377	5,451,816	5,696,291					
Six years later	2,117,203	3,370,066	3,770,166	5,706,951						
Seven years later	2,233,932	3,444,879	3,833,643							
Eight years later	2,291,228	3,612,448								
Nine years later	2,350,241									
(5) Re-estimated ceded losses and expenses								3,436,833		
(6) Re-estimated net incurred losses and expenses:										
End of year	6,700,000	7,400,000	6,950,000	8,800,000	9,300,000	8,400,000	6,900,000	8,300,000	8,100,000	7,500,000
One year later	5,100,000	6,600,000	6,400,000	9,200,000	9,100,000	6,600,000	6,900,000	10,000,000	6,800,000	
Two years later	4,600,000	6,200,000	6,100,000	8,900,000	8,100,000	5,800,000	7,000,000	8,000,000		
Three years later	4,300,000	5,600,000	5,900,000	8,200,000	8,400,000	5,800,000	6,400,000			
Four years later	4,100,000	5,400,000	5,500,000	8,000,000	8,500,000	5,500,000				
Five years later	3,800,000	5,000,000	5,500,000	9,100,000	8,200,000					
Six years later	3,200,000	4,800,000	5,400,000	8,200,000						
Seven years later	3,300,000	5,000,000	5,200,000							
Eight years later	3,400,000	4,800,000								
Nine years later	3,400,000									
(7) Increase (decrease) in estimated net incurred losses and expense from end of year	(3,300,000)	(2,600,000)	(1,750,000)	(600,000)	(1,100,000)	(2,900,000)	(500,000)	(300,000)	(1,300,000)	

NEW MEXICO SELF-INSURERS' FUND
LIABILITY/PROPERTY TEN YEAR CLAIMS DEVELOPMENT INFORMATION
YEAR ENDED JUNE 30, 2016

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
(1) Premiums and investment revenue:										
Earned	15,264,848	15,105,876	16,471,872	17,233,674	15,047,988	16,935,099	13,159,282	16,452,988	16,517,719	17,372,372
Ceded	2,010,061	1,249,508	1,674,429	1,678,598	1,838,006	1,649,099	1,632,601	1,647,151	1,495,878	1,675,016
Net earned	13,254,787	13,856,368	14,797,443	15,555,076	13,209,982	15,286,000	11,526,681	14,805,837	15,021,841	15,697,356
(2) Unallocated expenses	1,750,005	1,835,478	1,991,702	2,017,215	2,024,610	2,080,079	3,406,734	2,210,985	2,315,262	2,444,705
(3) Estimated losses and expenses, end of year										
Incurred	7,600,000	10,900,000	10,750,000	9,961,445	8,500,000	7,500,000	7,650,000	9,200,000	9,250,000	11,500,000
Ceded	250,000	2,100,000	750,000	561,445						
Net incurred	7,350,000	8,800,000	10,000,000	9,400,000	8,500,000	7,500,000	7,650,000	9,200,000	9,250,000	11,500,000
(4) Net paid (cumulative) as of:										
End of year	850,163	763,933	1,688,534	1,171,576	892,570	1,066,907	1,109,117	1,241,500	974,784	1,887,527
One year later	1,942,724	2,256,045	3,479,280	3,388,915	1,923,080	1,897,201	3,390,349	2,899,563	1,981,008	
Two years later	3,022,898	4,321,993	4,396,580	4,368,477	3,679,575	2,389,492	4,808,119	6,301,268		
Three years later	3,438,913	5,717,095	5,110,841	5,139,654	4,938,810	2,765,625	6,445,530			
Four years later	3,732,626	6,092,809	5,435,769	5,593,367	6,228,453	3,144,857				
Five years later	3,939,259	6,256,588	5,777,207	6,496,590	6,561,993					
Six years later	3,971,543	6,263,572	5,800,986	6,490,491						
Seven years later	4,083,704	6,414,168	5,807,113							
Eight years later	4,084,177	6,414,168								
Nine years later	4,084,177									
(5) Re-estimated ceded losses and expenses		1,591,613	154,871	843,211	154,483		458,155	1,190,475		558,521
(6) Re-estimated net incurred losses and expenses:										
End of year	7,350,000	8,800,000	10,000,000	9,400,000	8,500,000	7,500,000	7,252,880	9,200,000	9,250,000	11,500,000
One year later	6,700,000	7,800,000	9,200,000	8,400,000	8,200,000	5,698,237	9,528,880	8,015,301	6,628,043	
Two years later	6,400,000	8,400,000	8,400,000	8,600,000	8,097,729	4,123,089	8,641,000	11,030,952		
Three years later	6,100,000	8,600,000	8,200,000	7,758,217	7,162,277	3,677,203	9,178,904			
Four years later	5,700,000	8,500,000	6,899,698	7,827,964	7,751,143	3,860,320				
Five years later	5,400,000	8,889,422	6,543,064	8,123,569	7,650,742					
Six years later	4,331,770	8,664,422	6,330,994	8,179,924						
Seven years later	4,083,704	8,005,781	6,127,396							
Eight years later	4,084,177	8,005,781								
Nine years later	4,090,117									
(7) Increase (decrease) in estimated net incurred losses and expense from end of year	(3,259,883)	(794,219)	(3,872,604)	(1,220,076)	(849,258)	(3,639,680)	1,528,904	1,830,952	(2,621,957)	

NEW MEXICO SELF-INSURERS' FUND
HEALTH BENEFITS TEN YEAR CLAIMS DEVELOPMENT INFORMATION
YEAR ENDED JUNE 30, 2016

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
(1) Premiums and investment revenue:										
Earned	8,917,017	8,903,650	8,397,744	9,941,243	9,735,747	10,957,856	9,222,924	10,065,842	18,312,064	10,949,590
Ceded	444,928	501,889	447,870	533,651	548,912	590,375	422,302	500,837	624,833	732,449
Net earned	8,472,089	8,401,761	7,949,874	9,407,592	9,186,835	10,367,481	8,800,622	9,565,005	17,687,231	10,217,141
(2) Unallocated expenses	425,997	430,128	415,766	485,368	494,888	508,716	401,402	442,433	464,506	498,736
(3) Estimated losses and expenses, end of year										
Incurred	9,457,349	7,765,900	7,776,895	10,709,996	11,425,443	12,686,155	10,044,779	10,785,471	12,189,654	10,658,441
Ceded	405,303	9,017		230,436	36,491	552,699	544,736		771,283	141,023
Net incurred	9,052,046	7,756,883	7,776,895	10,479,560	11,388,952	12,133,456	9,500,043	10,785,471	11,418,371	10,517,418
(4) Net paid (cumulative) as of:										
End of year	6,977,826	6,096,479	6,306,203	8,677,819	9,746,062	10,245,498	7,516,724	8,431,737	9,369,048	8,449,641
One year later	7,810,665	7,298,671	7,004,481	9,160,512	10,776,582	11,866,092	8,225,652	9,962,597	10,250,196	
Two years later	7,808,350	7,284,244	7,016,214	9,283,086	10,776,582	11,905,054	8,199,174	9,958,819		
Three years later	7,808,558	7,289,335	7,016,398	9,283,086	10,776,582	11,903,624	8,199,362			
Four years later	7,870,887	7,289,048	7,016,398	9,283,086	10,776,582	11,903,453				
Five years later	7,869,694	7,289,048	7,016,398	9,283,086	10,776,582					
Six years later	7,869,694	7,289,048	7,012,005	9,283,086						
Seven years later	7,869,694	7,289,048	7,012,005							
Eight years later	7,869,694	7,289,048								
Nine years later	7,869,694									
(5) Re-estimated ceded losses and expenses	675,623	16,910	130,164	485,678	219,712	926,187	825,994	37,969	1,632,554	141,023
(6) Re-estimated net incurred losses and expenses:										
End of year	9,052,046	7,756,883	7,776,895	10,479,560	11,388,952	12,133,456	9,500,043	10,785,471	11,418,371	10,517,418
One year later	7,810,665	7,298,671	7,004,481	9,160,512	10,787,187	11,889,952	8,252,875	9,997,411	10,285,453	
Two years later	7,808,350	7,284,244	7,016,214	9,283,086	10,776,582	11,905,054	8,199,174	9,958,819		
Three years later	7,808,558	7,289,335	7,016,398	9,283,086	10,776,582	11,903,624	8,199,362			
Four years later	7,870,887	7,289,048	7,016,398	9,283,086	10,776,582	11,903,453				
Five years later	7,869,694	7,289,048	7,016,398	9,283,086	10,776,582					
Six years later	7,869,694	7,289,048	7,012,005	9,283,086						
Seven years later	7,869,694	7,289,048	7,012,005							
Eight years later	7,869,694	7,289,048								
Nine years later	7,869,694									
(7) Increase (decrease) in estimated net incurred losses and expense from end of year	(1,182,352)	(467,835)	(764,890)	(1,196,474)	(612,370)	(230,003)	(1,300,681)	(826,652)	(1,132,918)	

OTHER SUPPLEMENTARY INFORMATION

NEW MEXICO SELF-INSURERS' FUND
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2016

	U.S. Bank	Wells Fargo Advisors	Total
Bank accounts:			
Checking accounts	\$ 1,224,179	\$	\$ 1,224,179
Money market accounts	2,500,178	7,614,559	10,114,737
Total amount of deposits	<u>3,724,357</u>	<u>7,614,559</u>	<u>11,338,916</u>
Less: FDIC coverage	<u>500,000</u>	<u>3,000,000</u>	<u>3,500,000</u>
Total uninsured public funds	<u>3,224,357</u>	<u>4,614,559</u>	<u>7,838,916</u>
Collateral requirements (Per 6-10-10 & 6-10-17, NMSA 1978):			
50% of uninsured time and demand accounts	1,612,179	2,307,280	3,919,458
Pledged collateral at fair market value:			
Line of credit issued by the Federal Home Loan Bank of Cincinnati - LOC. No. 520236	<u>8,000,000</u>	<u></u>	<u>8,000,000</u>
Total collateral	<u>8,000,000</u>	<u></u>	<u>8,000,000</u>
Over (under) secured	<u>\$ 6,387,822</u>	<u>\$ (2,307,280)</u>	<u>\$ 4,080,542</u>
Custodial Credit Risk:			
Insured	\$ 500,000	\$ 3,000,000	\$ 3,500,000
Collateralized with securities held by pledging financial institution's trust department	3,224,357		3,224,357
Uninsured and uncollateralized		4,614,559	4,614,559
Total deposits	<u>\$ 3,724,357</u>	<u>\$ 7,614,559</u>	<u>\$ 11,338,916</u>
Location of collateral:			
Federal Home Loan Bank of Cincinnati, Cincinnati, OH			

NEW MEXICO SELF-INSURERS' FUND
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
JUNE 30, 2016

<u>Account Depository</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Total Deposits and Investments</u>	<u>Reconciling Items</u>	<u>Reconciled Balance</u>
U.S. Bank	Clearing	Checking	\$ 1,224,179	\$	\$ 1,224,179
U.S. Bank	Claims	Checking		(380,310)	(380,310)
U.S. Bank	Money Market	Money Market	2,500,178	(178)	2,500,000
Wells Fargo Advisors	Workers' Compensation	Money Market	3,496,941		3,496,941
Wells Fargo Advisors	Liability	Money Market	1,541,437		1,541,437
Wells Fargo Advisors	Property	Money Market	2,576,181		2,576,181
Wells Fargo Advisors	Workers' Compensation	U.S. Agencies	61,227,128		61,227,128
Wells Fargo Advisors	Liability	U.S. Agencies	56,747,705		56,747,705
Wells Fargo Advisors	Property	U.S. Agencies	8,775,963		8,775,963
			<u>\$ 138,089,712</u>	<u>\$ (380,488)</u>	<u>\$ 137,709,224</u>

NEW MEXICO SELF-INSURERS' FUND
SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)
For the Year Ended June 30, 2016

Prepared by Agency Staff Name: Dan Cisneros Title: Controller Date: 10/07/2016

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded</i>	<i>In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
NA								

NOTE: No purchases of the New Mexico Self-Insurers' Fund met the reporting requirements for the Schedule.

COMPLIANCE SECTION

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

Independent Auditor's Report

The Board of Trustees
New Mexico Self-Insurers' Fund

Mr. Tim Keller
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New Mexico Self-Insurers' Fund, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise New Mexico Self-Insurers' Fund's basic financial statements, and have issued our report thereon dated October 24, 2016. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 72.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered New Mexico Self-Insurers' Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Mexico Self-Insurers' Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of New Mexico Self-Insurers' Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Mexico Self-Insurers' Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The results of our test disclosed a certain other matter that is required to be reported pursuant to Section 12-6-5 NMSA 1978, which is described in the accompanying Section 12-6-5 NMSA 1978 Findings as item NMSA-2016-001.

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

New Mexico Self-Insurers' Fund's response to the finding identified in our audit is described in the accompanying Section 12-6-5 NMSA 1978 Findings. New Mexico Self-Insurers' Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
October 24, 2016

**NEW MEXICO SELF-INSURERS' FUND
SECTION 12-6-5 NMSA 1978 FINDINGS
YEAR ENDED JUNE 30, 2016**

Reference Number: NMSA-2016-001

Type of Finding: Compliance, Section 6-10-17 NMSA 1978

Description: Collateral requirement not met

CONDITION

During our review of cash and investments, we noted that the Fund did not hold pledged collateral equal to at least one half of the amount of public money in the Wells Fargo account. The Fund was under collateralized by \$2,307,280 as of June 30, 2016.

CRITERIA

Section 6-10-17 NMSA 1978 requires that pledged collateral be held for deposits in banks, savings and loan associations, or credit unions, in an aggregate amount at least equal to one half of the amount of the public money in each account.

CAUSE

The Fund redeemed a number of securities prior to year end. The proceeds were on account with the investment broker in a bank deposit sweep account until reinvested in investments purchased in early July. The condition was a temporary result of normal investment transactions of the Fund.

EFFECT

The Fund was not in compliance with collateral requirements over bank accounts, and deposits may be exposed to custodial credit risk.

RECOMMENDATION

Monitoring procedures over the Fund's bank accounts concerning collateral requirements should be implemented; additionally, collateral should be obtained to meet the collateral requirements.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

Management acknowledges the issue. A procedure has been put in place with the Fund's Investment Advisor, Wells Fargo Advisors, to immediately place all proceeds from the sale or call of securities in a money market account that owns solely United States Treasury Obligations. The funds will remain in the account until the funds are reinvested in accordance with the Fund's Investment Policy.

**NEW MEXICO SELF-INSURERS' FUND
SECTION 12-6-5 NMSA 1978 FINDINGS
YEAR ENDED JUNE 30, 2016**

PRIOR YEAR FINDINGS

Finding Number: FS-2015-001
Status: Fully Corrected.

FINANCIAL STATEMENT PREPARATION

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

**NEW MEXICO SELF-INSURERS' FUND
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2016**

An exit conference was conducted on Thursday, November 10, 2016, in a closed meeting, in which the contents of this report were discussed with the following:

Board of Trustees

Gloria Chavez

New Mexico Self-Insurers' Fund

William Fulginiti, Fund Administrator

Edwin S. Zendel, Risk Services Director

Kathy Hennessy, Deputy Risk Services Director

Dan Cisneros, Controller

Heinfeld, Meech & Co., P.C.

Corey Arvizu, Managing Partner

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