


NEW MEXICO
COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
Financial Statements
for the Years Ended
June 30, 2009 and 2008,
and Independent
Auditors' Report

NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL

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**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Official Roster

Year Ended June 30, 2009

Board of Directors

Doug Moore	Board Chair
Julie Baca	Vice Chair
Gloria Jean Chavez	Secretary/Treasurer
Anne Behl	Member
Scott Krahling	Member
Lance Pyle	Member
Barbara Shaw	Member
Jeff Trujillo	Member
Tony Atkinson	Ex-Officio Member
Dan Bryant	Ex-Officio Member

Administrative Officers

Paul Gutierrez	Executive Director
Steven Kopelman	Risk Management Director
Carol Stodgel	Finance Director

INDEPENDENT AUDITORS' REPORT

Board of Directors
New Mexico County Insurance Authority
Workers' Compensation Pool
Santa Fe, New Mexico and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying basic financial statements of the business-type activities of the New Mexico County Insurance Authority Workers' Compensation Pool (Pool) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the Pool's basic financial statements as listed in the table of contents. We also have audited the Pool's Schedules of Revenues and Expenses – Budget and Actual (Non-GAAP Basis) presented as supplementary information as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Pool's management. Our responsibility is to express opinions 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 agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Pool as of June 30, 2009 and 2008, and the respective changes in the financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the Schedules of Revenues and Expenses – Budget and Actual (Non-GAAP Basis) referred to above present fairly, in all material respects, the budgetary comparison of the Pool as of and for the years ended June 30, 2009 and 2008, and the respective budgetary comparisons for the enterprise funds for the years then ended in conformity with GAAP in the United States of America.

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Certified Public Accountants/Consultants to Business

Board of Directors
New Mexico County Insurance Authority
Workers' Compensation Pool
Santa Fe, New Mexico and
Mr. Hector H. Balderas
New Mexico State Auditor

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2009, on our consideration of the Pool'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* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 4 through 7 and ten year claims development information on pages 27 through 28 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Meyers & Company, LLC

October 14, 2009

NEW MEXICO COUNTY INSURANCE AUTHORITY WORKERS' COMPENSATION POOL

Management's Discussion and Analysis - Year Ended June 30, 2009

As management of the New Mexico Counties' Workers Compensation Pool, we offer readers of the Pool's financial statements this narrative overview and analysis of the financial activities of the New Mexico Counties' Workers Compensation Pool for the fiscal year ended June 30, 2009.

Financial Highlights

- Pool surplus increased by \$51,219 from June 30, 2008, and the Pool remains in a deficit of \$867,430. Claims expenses for the most recently completed claims year, 2008-09, decreased by \$965,951 per the June 30, 2009 actuarial study. But prior years' claims expenses increased by \$926,915 due to claims development in those years.
- Assets increased by \$1,373,093 to \$11,539,697. The Workers Compensation Pool's liabilities consist of funds held in reserve to pay claims and claim adjustment expenses. Liabilities increased by \$1,321,874 to \$12,407,127 at June 30, 2009.
- Coverage was added as of July 1, 2008 for San Juan County and Hidalgo County, bringing the number of counties in the pool to 31.
- The Pool began a new funding arrangement with Bernalillo County in which that county pays the first \$350,000 of every claim, up to an aggregate of \$1,250,000. The Pool will continue to handle all claims, and Bernalillo County will be covered by the Pool's excess insurance for any claim which exceeds \$350,000.

Overview of the Financial Statements

The New Mexico Counties'-Workers Compensation Pool is a self-insured insurance pool for New Mexico counties created by a joint powers agreement. The Pool has 31 member counties. Member counties pay annual contributions to the pool based on their payroll exposure and loss experience. The Board of Directors of the Pool adopts an annual budget for paying claims and operating expenses.

The operations of the Pool are accounted for in a single proprietary fund of the enterprise type. The basic financial statements include balance sheets which report the Pool's assets, liabilities and members' net assets (equity), statements of revenues, expenses and changes in net assets, and statements of cash flows, which summarize cash receipts and payments. Additionally, there are notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The balance sheets are presented as of June 30, 2009 and 2008.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

**Management's Discussion and Analysis -
Year Ended June 30, 2009 - continued**

Condensed Comparative Data

YEARS ENDING JUNE 30,	2009	2008
Total assets (cash, investments and prepaid expenses)	\$ 11,539,697	10,166,604
Total liabilities (claims and claim adjustment expenses)	<u>12,407,127</u>	<u>11,085,253</u>
Members' net assets	\$ <u>(867,430)</u>	<u>(918,649)</u>
Revenues:		
Member contributions	\$ 7,230,114	7,583,333
Investment and other income	<u>427,595</u>	<u>465,416</u>
Total revenues	7,657,709	8,048,749
Expenses:		
Claims and claim adjustment expenses	5,431,001	5,222,382
Excess insurance and brokerage fees	1,158,476	765,868
General and administrative	<u>1,017,013</u>	<u>953,138</u>
Total expenses	<u>7,606,490</u>	<u>6,941,388</u>
Excess (deficiency) of revenues over expenses	51,219	1,107,361
Net assets held for member benefits, beginning of year	<u>(918,649)</u>	<u>(2,026,010)</u>
Net assets held for member benefits, end of year	\$ <u>(867,430)</u>	<u>(918,649)</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

**Management's Discussion and Analysis -
Year Ended June 30, 2009 - continued**

Financial Analysis of the Pool

Assets of the pool consist primarily of cash and fixed income investments. \$134,393 was due from excess insurance providers at the end of the year. A note receivable from New Mexico Association of Counties in the amount of \$319,735 was paid off in June 2009. Liabilities consist primarily of the amounts held in reserve to pay future claims expenses.

Income increased by \$391,040 (4.9%) for the year ended June 30, 2009. Contributions decreased by \$353,219, a 4.7% decrease. This decrease was due to Bernalillo County's new funding arrangement wherein their contribution decreased by \$1,370,813. The addition of San Juan and Hidalgo counties increased contributions by \$665,340. Actual investment income (cash received) increased by 18%, not accounting for market changes in the value of the investments. There was a \$210,642 loss though on the pool's County Reinsurance Ltd. equity account, due to investment losses on their end. Claims and claim adjustment expenses increased by 4%. Excess insurance premiums increased by \$392,608 (5.2%) due to increased payroll exposure. General and administrative costs increased by \$63,875 (7%) due to increased administrative and personnel costs.

Unpaid Claims Liabilities

The following table presents the changes in the Pool's liabilities for the past year:

YEARS ENDING JUNE 30	2009	2008
Unpaid claims and claim adjustment expenses at beginning of year	\$ 10,972,172	9,259,346
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	4,634,628	4,723,425
Increase in provision for insured events of prior years	<u>796,373</u>	<u>498,957</u>
Total incurred claims and claim adjustment expenses	5,431,001	5,222,382
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year, net of recoveries	1,148,024	1,196,454
Claims and claim adjustment expenses attributable to insured events of prior years	<u>3,101,685</u>	<u>2,313,102</u>
Total payments	<u>4,249,709</u>	<u>3,509,556</u>
Total unpaid claims and claim adjustment expenses at end of year	\$ <u>12,153,464</u>	<u>10,972,172</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

**Management's Discussion and Analysis -
Year Ended June 30, 2009 - continued**

Investment Results

Total cash and investments increased from \$9,689,575 at June 30, 2008 to \$11,358,394 at June 30, 2009. The yield on the New Mexico Counties' Workers Compensation Pool's investment portfolio went from 4.75% at June 30, 2008 to 4.05% at June 30, 2008. Interest rates on cash decreased dramatically, going from about 2% at the beginning of the fiscal year to 0.7% at the end of the year. The amount held in cash and short term cash investments went from 17% to 43% of the asset allocation. Government bonds went from being 64% of the total cash and investments to 13%. New investments were made in CDs and corporate bonds. The pool incurred one loss, in the State Treasurer's LGIP, due to the recent economic downturn. The actual amount of that loss, resulting from The Reserve Primary Fund "breaking the buck" in September of 2008, is unknown at this time, as the Reserve Fund is continuing to return money to shareholders. The investment losses of County Reinsurance Ltd., in which the pool is required to maintain an equity position, also impacted the pool's investment results.

Budget Adjustments

The budget was revised over the year to increase expenses by \$154,757. The excess insurance budget amount was increased by \$105,257 because additional payment had to be to County Reinsurance Ltd. resulting from an audit of a prior year's actual payroll and a corresponding adjustment and billing from them. The budget for actuarial studies was increased due to additional studies required for Bernalillo County's new funding arrangement. Software related expenses (licensing, training and support) was increased by \$30,000 due to unbudgeted costs for the new Exigis software and actual payments on other software that needed to be made during the year. The budget for document imaging was increased by \$16,500. This expense had been budgeted in the prior year but ended up not being incurred until 2008-09.

Capital Assets

New Mexico Counties' Workers Compensation Pool's investment in capital assets as of June 30, 2009, amounts to \$4,901 (net of accumulated depreciation). This investment in capital assets includes office equipment.

Debt

The major liability for the New Mexico Counties' Workers Compensation Pool is related to claims for the pool's participants. This amount is derived from an actuary report. The claims liability in FY08 was \$12,153,464.

Current Trends and Conditions

The New Mexico Counties' Workers Compensation Pool continues to move in a positive direction towards reducing its deficit position. Interest rates on cash are very low and expected to stay low for a while which will impact the investment income of the pool and the reduction of the deficit.

BASIC FINANCIAL STATEMENTS

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Statements of Net Assets

AS OF JUNE 30	2009	2008
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,546,125	392,381
N.M. State Treasurer's Local Government Investment Pool (Note 5)	263,975	1,173,882
Investments (Note 5)	6,417,260	7,781,636
Investments in County Reinsurance Limited	131,034	341,676
Accounts receivable - subrogation (Note 3)	134,393	134,000
Accounts receivable - Bernalillo County	42,009	-
Prepays	-	23,294
Note receivable from New Mexico Association of Counties (Note 6)	-	111,792
TOTAL CURRENT ASSETS	11,534,796	9,958,661
NON-CURRENT ASSETS:		
Note receivable from New Mexico Association of Counties - long-term	-	207,943
Capital assets, net (Note 7)	4,901	-
TOTAL NON-CURRENT ASSETS	4,901	207,943
TOTAL ASSETS	\$ 11,539,697	10,166,604
LIABILITIES AND NET ASSETS (DEFICIT):		
Current liabilities:		
Accounts Payable	\$ 122,319	-
Deferred Revenues	131,344	113,081
Claims and claim adjustment expenses (Note 2)	12,153,464	10,972,172
Unrestricted net assets (deficit) held for member benefits	(872,331)	(918,649)
Invested in capital assets	4,901	-
TOTAL LIABILITIES AND NET ASSETS	\$ 11,539,697	10,166,604

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Statements of Revenues, Expenses and Changes in Fund Net Assets (Deficit)

YEAR ENDED JUNE 30	2009	2008
OPERATING REVENUE:		
Member contributions	\$ 7,230,114	7,583,333
Investment income (Note 5)	427,558	465,416
Miscellaneous income	37	-
TOTAL OPERATING REVENUE	7,657,709	8,048,749
OPERATING EXPENSES:		
Claims and claim adjustment expenses, net of recoveries (Note 2)	5,431,001	5,222,382
General and administrative (Note 4)	1,017,013	953,138
Excess insurance premiums (Note 3)	1,147,976	755,368
Brokerage fees	10,500	10,500
TOTAL OPERATING EXPENSES	7,606,490	6,941,388
CHANGE IN NET ASSETS	51,219	1,107,361
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(918,649)	(2,026,010)
NET ASSETS (DEFICIT), END OF YEAR	\$ (867,430)	(918,649)

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Statements of Cash Flows

YEAR ENDED JUNE 30	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members	\$ 7,394,403	7,824,244
Cash paid to suppliers	(1,396,606)	(999,158)
Cash paid on claims and claim adjustment expenses	(4,749,479)	(4,239,148)
Investment income received	<u>427,558</u>	<u>465,416</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,675,876	3,051,354
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(7,057)	-
Purchase of investments	-	(3,832,053)
Proceeds from the sale of investments	<u>1,575,018</u>	<u>-</u>
NET CASH PROVIDED BY (USED) INVESTING ACTIVITIES	<u>1,567,961</u>	<u>(3,832,053)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,243,837	(780,699)
BALANCE, BEGINNING OF YEAR	<u>1,566,263</u>	<u>2,346,962</u>
BALANCE, END OF YEAR	\$ <u>4,810,100</u>	<u>1,566,263</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
CHANGE IN NET ASSETS	\$ 51,219	1,107,361
CHANGE IN ASSETS AND LIABILITIES:		
Accounts payable	122,319	
Deferred revenues	18,263	113,081
Accounts receivable	(42,009)	2,119
Subrogation receivable	(393)	91,000
Depreciation expense	2,156	-
Prepays	23,294	(9,744)
Change in note receivable from related party	319,735	34,711
Claims and claim adjustment expenses	<u>1,181,292</u>	<u>1,712,826</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>1,675,876</u>	<u>3,051,354</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements

NATURE OF ORGANIZATION

The New Mexico Insurance Authority Workers' Compensation Pool (Pool) was formed July 1, 1987, pursuant to the New Mexico Joint Powers Agreement Act (NMSA 1978), as amended, as a workers' compensation self-insurance pool. Members of the Pool include various counties within the state of New Mexico.

Membership in the Pool is voluntary and members may withdraw at the end of any fiscal year upon sixty-day's written notice to the Pool's Board of Directors. Members are automatically expelled for failure to make timely contributions to the Pool, and may be expelled for failure to carry out any other obligations of the members. Upon withdrawal or expulsion, a member is not entitled to reimbursement of contributions made to the Pool, and remains responsible for obligations related to its individual loss experience and a proportionate share of expenses and losses of the entire Pool.

Members agree to contribute amounts determined by the Pool's Board of Directors to be necessary to protect the solvency of the Pool. The Pool does not receive any appropriations from the State of New Mexico. Any funds remaining at the end of the fiscal year do not revert to the State of New Mexico.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **Basis of Accounting**

The accounts of the Pool are organized and operated on the basis of funds. The Pool has one fund which is presented as an enterprise fund, which uses an economic resources measurement focus and accrual basis of accounting. This fund accounts for all assets, liabilities, net assets, revenues, and expenses relating to the Pool's activities where revenues over expenditures are measured. The accounting principles generally accepted in the United States of America are generally those applicable to similar businesses in the private sector.

The Pool has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Pool has elected to not apply FASB pronouncements issued after the applicable date.

- **Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents include bank demand accounts and money market mutual funds which invest in short-term U.S. governmental obligations. All bank deposits are required to be collateralized by U.S. Treasury obligations held by the depositories in accordance with state law.

- **Investment in U.S. Treasury and Agency Obligations**

The Pool recorded its investments portfolio at fair value and recognizes the corresponding change in the fair value of investment in the year in which the change has occurred. Fair value is based on quoted market value at year-end.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Investment in U.S. Treasury and Agency Obligations - continued**

The Pool has adopted an investment policy that is consistent with 6-10-10 NMSA 1978 for the deposit of public funds by local government in New Mexico. In accordance with the policy, allowable investments include securities of the United States government and certain state and local governments; securities guaranteed by the United States Government; repurchase agreements; certificates of deposit; and the New Mexico State Treasurer's Short-Term Investment Fund.

• **Capital Assets**

Capital assets of the Pool are capitalized at cost, of which all items in excess of \$500 are capitalized. Capital assets of the Pool are depreciated on the straight-line method over the assets' estimated useful life. Generally, estimated useful lives are as follows:

Office Equipment - 5 years

• **Exemption from Income Taxes**

The Pool has not requested a ruling from the Internal Revenue Service regarding its tax status. Management of the Pool considers the organization exempt from income taxed under Section 115 of the Internal Revenue Code. Accordingly, no liability for income taxes is included in the accompanying financial statements.

• **Use of Estimates**

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

• **Credit Risk**

The Pool transacts the majority of its business with its members. Credit losses relating to member receivables have been within management's expectations and there is no allowance for doubtful accounts. Generally, collateral is not required on receivables.

• **Budget**

In accordance with by-laws, the Pool prepares the budget that is controlled at the Pool level. Amendments affecting the overall Pool must be approved by the Board and members. The budget is adopted on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Restricted/Unrestricted Net Assets**

Net assets are restricted to the extent external constraints place restrictions on the use of the net assets, such as restrictions by contributors or laws and regulations. Usage of the Pool's net assets was not externally restricted at June 30, 2009, and, accordingly, the net assets are reported as unrestricted.

• **Operating Revenues**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Pool are premiums paid by members for risk and benefits coverage and return on investments. Operating expenses for enterprise funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. There are no discounts or allowances related to revenue

2. CLAIMS AND CLAIM ADJUSTMENT EXPENSES

The liability for claims and claims adjustment expenses, which is reported on an ultimate development basis, includes an amount determined from claims reports and individual cases, and an amount for claims incurred but not reported. Estimates of the liability for amounts incurred but not reported as of June 30, 2009, have been based on an actuarial evaluation of the Pool's historical claims experience, industry data and other factors. While management believes that these estimates are adequate, actual incurred but unpaid claims may vary significantly from the amount provided.

The Pool recorded the present value of incurred but unpaid claims assuming a four percent average rate of return on investments as of June 30, 2009.

Changes in reserves for claims and claim adjustment expenses are as follows:

	2009	2008
Unpaid claims and claim adjustment expenses at beginning of year	\$ 10,972,172	9,259,346
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	4,634,628	4,723,425
Increase in provision for insured events, prior years	<u>796,373</u>	<u>498,957</u>
Total incurred claims and claim adjustment expenses	5,431,001	5,222,382

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

2. CLAIMS AND CLAIM ADJUSTMENT EXPENSES - continued

	2009	2008
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year (net of recoveries)	\$ 1,148,024	1,196,454
Claims and claim adjustment expenses attributable to insured events of prior years	<u>3,101,685</u>	<u>2,313,102</u>
Total payments	<u>4,249,709</u>	<u>3,509,556</u>
Total unpaid claims and claim adjustment expenses at end of year	\$ <u>12,153,464</u>	<u>10,972,172</u>

At June 30, 2009 and 2008, the Pool recorded the liability for losses and loss adjustment expenses based on an estimate of its independent consulting actuary. The reserve of approximately \$12 million and approximately \$11 million is the independent actuary's and management's best estimate of reserves at June 30, 2009 and 2008, respectively.

3. EXCESS INSURANCE PREMIUMS

The Pool has purchased commercial excess insurance for specific claims in excess of \$300,000. Beginning July 1, 1998, this insurance was provided by County Reinsurance Limited (CRL).

Any amount received by the Pool from pursuit of recovery from CRL that is liable for a portion of or the entire claim paid by the Pool is considered subrogation. For the years ended June 30, 2009 and 2008, the amount of subrogation receivable was \$134,393 and \$134,000, respectively.

CRL is a captive organization formed to provide excess and reinsurance to county association pools. Similar to counties that participate as members of the Workers' Compensation Pool, the Pool's contribution to CRL includes amounts for capital, losses and other pool expenses. CRL has the ability to return equity to its members in the event that loss fund contributions are not depleted or if there is a surplus of capital. For the years ended June 30, 2009 and 2008, the Pool paid \$1,147,976 and \$755,368, respectively, to CRL for excess insurance premiums. As of June 30, 2009 and 2008, the amount of claim liabilities not included on the balance sheet due to the excess insurance coverage is approximately \$5.9 million and approximately \$6.2 million, respectively.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

4. GENERAL AND ADMINISTRATIVE

The New Mexico Association of Counties provides general and administrative services, as well as office space, equipment and supplies, to the Pool. These services include general administration and consulting, financial management and risk management. The fees to be paid to the New Mexico Association of Counties for such services are approved by the Pool's Board of Directors when the Pool's annual operating budget is reviewed and approved. The Pool also engages other related third parties to provide legal, actuarial and other services. The Pool's general and administrative expenses for the years ended June 30, 2009 and 2008 consisted of the following:

	2009	2008
Risk management	\$ 945,802	852,996
Software licensing	45,151	66,645
Actuarial	15,018	10,375
Accounting	<u>11,042</u>	<u>23,122</u>
	<u>\$ 1,017,013</u>	<u>953,138</u>

5. CASH AND INVESTMENTS

The Pool deposits its funds with various financial institutions. New Mexico statutes provide that deposits of public monies in financial institutions must be secured by pledged collateral in an aggregate valued equal to one-half of the amount of the public monies deposited after deducting the amount of Federal Deposit Insurance Corporation insurance coverage for each financial institution. The Pool does not engage in any securities lending arrangements or in the use of derivatives.

2009	Rate	Maturity Date	Moody Rating		Cost	Market Gain (Loss)	Estimated Fair Value
AM EX CENT BK CD	3.20%	5/6/2013	N/A	\$	250,000	2,170	252,170
AM EX BK FSB CD	3.20%	5/6/2013	N/A		250,000	2,170	252,170
DISCOVER BK CD	3.00%	5/7/2012	N/A		250,000	968	250,968
SALLIE MAE BK CD	3.05%	5/1/2012	N/A		100,000	499	100,499
CIT BANK CD	3.00%	5/8/2012	N/A		100,000	382	100,382
GE CAP FIN CD	3.00%	5/14/2012	N/A		100,000	362	100,362
MIDFIRST BANK CD	3.05%	5/1/2012	N/A		100,000	499	100,499
BMW BK NA CD	3.35%	5/28/2013	N/A		100,901	409	101,310
SALLIE MAE BK CD	3.00%	6/11/2012	N/A		<u>100,000</u>	<u>260</u>	<u>100,260</u>
TOTAL CDs					1,350,901	7,719	1,358,620

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

5. CASH AND INVESTMENTS - continued

2009	Rate	Maturity Date	Moody Rating	Cost	Market Gain (Loss)	Estimated Fair Value
CATERPILLAR NOTES	3.90%	5/15/2011	A2	\$ 100,000	108	100,108
GE CORP NOTES	4.00%	5/15/2011	AA2	500,000	4,390	504,390
JOHNSON & J.	5.15%	8/15/2012	AAA	109,880	157	110,037
JP MORGAN	5.375%	10/1/2012	AA3	105,110	381	105,491
WAL MART	7.25%	6/1/2013	AA2	115,505	(2,304)	113,201
IBM CORP NOTES	5.70%	9/14/2017	A1	<u>104,535</u>	<u>1,085</u>	<u>105,620</u>
TOTAL CORPORATE BONDS				1,035,030	3,817	1,038,847
FHLB BONDS	2.60%	4/9/2013	AAA	<u>1,500,005</u>	<u>(5,915)</u>	<u>1,494,090</u>
TOTAL GOVERNMENT BONDS				1,500,005	(5,915)	1,494,090
GNMA	5.50%	7/20/2033	N/A	362,220	(30,356)	331,864
GNMA	5.50%	8/20/2033	N/A	679,685	38,117	717,802
GNMA II	5.00%	1/20/2037	N/A	674,213	(5,718)	668,495
GNMA	5.50%	2/20/2038	N/A	<u>799,214</u>	<u>8,328</u>	<u>807,542</u>
TOTAL GOVT. ASSET BACKED SEC.				<u>2,515,332</u>	<u>10,371</u>	<u>2,525,703</u>
TOTAL INVESTMENTS				\$ <u>6,401,268</u>	<u>15,992</u>	<u>6,417,260</u>

2008	Rate	Maturity Date	Moody Rating	Cost	Gross Unrealized Holding Loss	Estimated Fair Value
GE Corp Notes 4% 5/15/11	4.00%	5/15/2011	AAA	\$ 500,000	(13,000)	487,000
FHLB 4/5% 4/13/09	4.50%	4/13/2009	AAA	500,000	4,885	504,885
FHLB 3.6% 2/27/12	3.60%	2/27/2012	AAA	1,500,000	(53,438)	1,446,562
FHLB Bonds 5.25% 10/22/12	5.25%	10/22/2012	AAA	750,886	4,739	755,625
FHLB Bonds 4.25% 2/23/13	4.25%	2/23/2013	AAA	1,501,811	(13,061)	1,488,750
FHLB Bonds 5.75% 2/13/17	5.75%	2/23/2017	AAA	751,856	7,519	759,375
FHLB Bonds 5.25% 5/14/18	5.25%	5/14/2018	AAA	1,002,621	(6,371)	996,250
GNMA II 5.50 7/20/33	5.50%	7/20/2033	N/A	383,219	(16,793)	366,426
GNMA II 5.50 2/20/38	5.50%	2/20/2038	N/A	<u>999,646</u>	<u>(22,883)</u>	<u>976,763</u>
TOTAL INVESTMENTS				\$ <u>7,890,039</u>	<u>(108,403)</u>	<u>7,781,636</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

5. CASH AND INVESTMENTS – continued

Investment income is summarized as follows for the year ended June 30:

	2009	2008
Interest and dividends received	\$ 303,163	468,677
Unrealized gains (losses)	<u>124,395</u>	<u>(3,261)</u>
Total investment income	\$ <u>427,558</u>	<u>465,416</u>

As of June 30, 2009, the Pool's investments were as follows:

Investment Type		Cost	Estimated Fair Value
Certificates of Deposit	\$	1,350,901	1,358,620
Corporate Bonds		1,035,030	1,038,847
Government Bonds		1,500,005	1,494,090
Government Asset Backed Securities		<u>2,515,332</u>	<u>2,525,703</u>
Total	\$	<u>6,401,268</u>	<u>6,417,260</u>

As of June 30, 2008, the Pool's investments were as follows:

Investment Type		Cost	Estimated Fair Value
Corporate Bonds	\$	500,000	487,000
Government Bonds		6,007,174	5,951,447
Government Asset Backed Securities		<u>1,382,865</u>	<u>1,343,189</u>
Total	\$	<u>7,890,039</u>	<u>7,781,636</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

5. CASH AND INVESTMENTS – continued

June 30, 2009:

• **Collateral Requirement**

First Community Bank:

Checking – Bank Balance	\$ 868,839
Money Market	2,207,897
FDIC coverage	<u>(250,000)</u>
Total uninsured funds	2,826,736
50% pledged collateral requirement	1,413,368
Pledged collateral:	
Federal Home Loan Bank of Dallas Line of Credit	<u>4,000,000</u>
Over-collateralized	\$ <u>2,586,632</u>

June 30, 2008:

• **Collateral Requirement**

Los Alamos National Bank:

Checking – Bank Balance	\$ 528,900
FDIC coverage	<u>(100,000)</u>
Total uninsured funds	428,900
50% pledged collateral requirement	214,450
Pledged collateral:	
Federal Home Loan Bank of Dallas Line of Credit	<u>4,000,000</u>
Over-collateralized	\$ <u>3,785,550</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

5. CASH AND INVESTMENTS – continued

• **Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the Pool's deposits may not be returned to it. As of June 30, 2009, none of the Pool's deposits were exposed to custodial credit risk; the total of demand deposits were covered was covered by FDIC or by collateral held by the Pool's agent in the Pool's name.

Insured and collateralized	\$	250,000
Uninsured and collateral held by pledging First Community Bank's trust department		<u>618,839</u>
Checking account balance per bank	\$	<u><u>868,839</u></u>

As of June 30, 2008, none of the Pool's deposits were exposed to custodial credit risk; the total of demand deposits were covered was covered by FDIC or by collateral held by the Pool's agent in the Pool's name.

Insured and collateralized	\$	100,000
Uninsured and collateral held by pledging Los Alamos National Bank's trust department		<u>280,727</u>
Checking account balance per bank	\$	<u><u>380,727</u></u>

• **Interest Rate Risk**

The Pool's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

• **New Mexico State Treasurer Local Government Investment Pool (LGIP)**

New MexiGROW LGIP AAAM rated \$263,975 43 day WAM

LGIP has no foreign currency risk.

NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL

Notes to Financial Statements - continued

5. CASH AND INVESTMENTS – continued

• Credit Risk

The Pool's investment policy states that investments are limited to the following:

Government Bonds. Bonds or negotiable securities of the United States, the state or any municipality or school district which has a taxable valuation of real property for the last preceding year of at least one million dollars and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding.

Government Securities. Securities issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or have the implied full faith and credit of the United States government or agencies guaranteed by the United States government and are highly liquid and widely traded.

Repurchase Agreements. Contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor.

Certificates of Deposit. Limited to \$250,000 per financial institution or bank, unless collateralization requirements within the investment policy are met.

New MexicoGROW Local Government Investment Pool. LGIP is rated AAAm. The Pool has no custodial credit risk.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

5. CASH AND INVESTMENTS – continued

• **Concentration of Credit Risk**

The Pool places no limit on the amount the Pool may invest in any one issuer. However, management believes the investment policy adequately protects the Pool from credit risk given investments are restricted to those categories identified above. The Pool's investments have the implied full faith and credit of the United States government or agencies guaranteed by the United States government. At June 30, 2009 and 2008, 39% and 76%, respectively, or more of the Pool's investments were held by a single issuer and therefore subject the Pool to a concentration of credit risk as follows:

2009 Investment Types	Cost	Estimated Fair Value
Federal Home LN Bank	\$ 1,500,005	1,494,090
GNMA	\$ 2,515,332	2,525,703
Corporate Bonds	\$ 1,035,030	1,038,847
Certificates of Deposit	\$ <u>1,350,901</u>	<u>1,358,620</u>
Total	\$ <u>6,401,268</u>	<u>6,417,260</u>

2008 Investment Types	Cost	Estimated Fair Value
Corporate Bonds	\$ 500,000	487,000
Government Bonds	6,007,174	5,951,447
Government Asset Backed Securities	<u>1,382,865</u>	<u>1,343,189</u>
Total	\$ <u>7,890,039</u>	<u>7,781,636</u>

6. NOTES RECEIVABLE FROM NEW MEXICO ASSOCIATION OF COUNTIES

At June 30, 2008, the New Mexico Association of Counties (NMAC) held a promissory note, secured by a mortgage on property located in Santa Fe, New Mexico, balance of \$319,735 to the New Mexico County Insurance Authority (NMCIA), which is comprised of the Workers' Compensation Pool and the Multi-Line Pool. NMAC used these funds to purchase and renovate the property for use as NMAC's administrative offices. The principal balance is payable in 240 monthly installments of \$9,316, including interest at 7% annually. The Workers' Compensation Pool receives half of this monthly payment. As of June 30, 2008, \$111,792 was still outstanding. This note was paid in its entirety as of June 30, 2009.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

7. CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
Depreciable assets:				
Equipment	\$ _____ -	7,057	_____ -	7,057
Total	-	7,057	-	7,057
Less accumulated depreciation:				
Equipment	_____ -	(2,156)	_____ -	(2,156)
Total accumulated depreciation	_____ -	(2,156)	_____ -	(2,156)
Net total	\$ _____ -	<u>4,901</u>	<u>_____ -</u>	<u>4,901</u>

Current year depreciation expense for the Pool was \$2,156, all of which was considered general and administrative costs. There were no software costs to capitalize as of year end.

8. NET ASSETS DEFICIT

At June 30, 2009 and 2008, the Pool had a \$867,430 and a \$918,649 deficit balance in net assets, respectively. Management intends to fund the deficit through member contributions and investment income.

9. LITIGATION

The Pool is subject to various legal proceedings, claims and liabilities which arise in the ordinary course of the Pool's operations. In the opinion of the Pool's management and legal counsel, the ultimate resolution of these matters will not have a material adverse impact on the financial position or results of operation of the Pool.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

10. JOINT POWERS AGREEMENT

The Joint Powers Agreement Act, 11-1-1, et seq., NMSA 1978, and the insurance pooling law in 3-62-1 and 3-62-2, NMSA 1978, as amended, authorized the formation of the New Mexico Counties Workers' Compensation Fund (the fiscally accountable agency) to be jointly exercised herein by New Mexico counties as members of the fund. The agreement is effective from July 1, 1987 and shall be continued until dissolved by vote of the members pursuant to Article XII of the bylaws. The purpose is to permit the members efficient use of their powers and resources by cooperating on a basis of mutual advantage through the creation and operation of a workers' compensation fund, and to secure those workers' compensation insurance and self-insurance benefits, services and protections for members and their employees, and risk management services related thereto.

The members are responsible to fund the Pool through annual contributions and, when necessary, deficiency contributions. When deficiency contributions are calculated, all funds available, including interest income, are considered. The Pool processes all claims and administers the fund, and is responsible for the audit of the fund. The board is the administering agency under the bylaws. Members are as follows:

Bernalillo County	Eddy County	McKinley County	Santa Fe County
Catron County	Grant County	Mora County	Sierra County
Chaves County	Guadalupe County	Otero County	Socorro County
Cibola County	Harding County	Quay County	Taos County
Colfax County	Hidalgo County	Roosevelt County	Torrance County
Curry County	Lea County	San Juan County	Union County
De Baca County	Lincoln County	San Miguel County	Valencia County
Dona Ana County	Luna County	Sandoval County	

11. TEN YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)

The following illustrates how the Pool's earned revenues and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Pool as of the end of each of the last nine years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues, net of contribution revenue ceded to reinsurers.
- (2) This line shows each fiscal year's other operation costs of the Pool, including overhead and claims expenses not allocable to individual claims.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Notes to Financial Statements - continued

11. TEN YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED) - continued

- (3) This line shows the Pool's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- (5) This section of ten rows shows how each policy year's incurred claims increased or decreased as of the end of the successive years. (These annual re-estimations result from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)
- (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

REQUIRED SUPPLEMENTARY INFORMATION

TEN YEARS ENDED JUNE 30,	2000	2001	2002	2003
(in thousands)				
1. Net earned required contribution and investment revenues	2,983	3,402	2,915	3,225
2. Unallocated expenses	497	580	561	574
3. Estimated incurred claims and expense, end of policy year	1,577	1,809	1,647	2,330
4. Paid (cumulative) as of:				
Year one	761	1,013	814	751
Year two	1,392	1,606	1,502	1,885
Year three	1,861	1,857	2,004	2,655
Year four	1,909	2,037	2,244	3,097
Year five	1,844	2,120	2,360	3,419
Year six	1,869	2,164	2,323	3,533
Year seven	1,899	2,198	2,350	3,685
Year eight	2,024	2,131	2,375	-
Year nine	2,040	2,313	-	-
Year ten	2,062	-	-	-
5. Re-estimated incurred claims and expense:				
Year one	1,577	1,809	1,647	2,330
Year two	2,119	2,184	2,283	2,790
Year three	2,178	2,434	2,465	3,376
Year four	2,156	2,482	2,541	3,862
Year five	2,159	2,609	2,564	3,736
Year six	1,943	2,546	2,457	4,189
Year seven	1,960	2,509	2,635	4,157
Year eight	2,139	2,430	2,596	-
Year nine	2,168	2,588	-	-
Year ten	2,200	-	-	-
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	623	779	949	1,827

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Ten Year Claims Development Information (Unaudited)

2004	2005	2006	2007	2008	2009
3,272	4,390	5,245	7,719	8,048	7,658
612	608	746	898	953	1,017
2,790	3,356	3,229	2,306	2,875	3,658
1,285	1,510	1,695	1,135	1,176	1,554
2,257	3,098	3,013	1,987	3,082	-
2,543	3,987	3,368	2,223	-	-
2,764	4,512	3,629	-	-	-
2,836	4,704	-	-	-	-
2,932	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,790	3,356	3,229	2,306	2,875	3,658
2,763	4,909	3,893	2,371	4,530	-
3,054	5,303	4,058	2,752	-	-
3,116	5,607	4,364	-	-	-
3,149	5,644	-	-	-	-
3,222	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
432	2,288	1,135	446	1,655	-

OTHER SUPPLEMENTAL INFORMATION

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

**Schedule of Revenues and Expenses -
Budget and Actual (Non-GAAP Basis)**

YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Member contributions	\$ 7,230,114	7,230,114	7,230,114	-
Investment income	450,000	450,000	427,558	(22,442)
Miscellaneous income	<u>-</u>	<u>-</u>	<u>37</u>	<u>37</u>
TOTAL REVENUES	<u>7,680,114</u>	<u>7,680,114</u>	<u>7,657,709</u>	<u>(22,405)</u>
EXPENSES:				
Claims and claim adjustment expenses	5,760,214	5,605,457	5,431,001	174,456
Excess insurance premiums	920,400	1,025,657	1,025,657	-
General and administrative	989,000	1,038,500	1,015,107	23,393
Brokerage fees	<u>10,500</u>	<u>10,500</u>	<u>10,500</u>	<u>-</u>
TOTAL EXPENSES	<u>7,680,114</u>	<u>7,680,114</u>	<u>7,482,265</u>	<u>197,849</u>
EXCESS OF REVENUES OVER EXPENSES	\$ <u>-</u>	<u>-</u>	175,444	<u>175,444</u>
Adjustment to correct current year excess insurance expense			(122,319)	
Adjustment to record current year depreciation expense			(2,156)	
Adjustment to correct current year miscellaneous expenses			<u>250</u>	
EXCESS OF REVENUES OVER EXPENSES PER ACCOMPANYING GAAP FINANCIAL STATEMENTS			\$ <u>51,219</u>	

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

**Schedule of Revenues and Expenses -
Budget and Actual (Non-GAAP Basis) - continued**

YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Member contributions	\$ 7,556,997	7,556,997	7,583,333	26,336
Investment income	450,000	450,000	525,786	75,786
Miscellaneous income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>8,006,997</u>	<u>8,006,997</u>	<u>8,109,119</u>	<u>102,122</u>
EXPENSES:				
Claims and claim adjustment expenses	6,072,903	6,072,903	5,147,161	925,742
Excess insurance premiums	708,000	756,000	755,368	632
General and administrative	917,000	1,007,000	953,138	53,862
Brokerage fees	<u>10,500</u>	<u>10,500</u>	<u>10,500</u>	<u>-</u>
TOTAL EXPENSES	<u>7,708,403</u>	<u>7,846,403</u>	<u>6,866,167</u>	<u>980,236</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 298,594</u>	<u>160,594</u>	1,242,952	<u>1,082,358</u>
Adjustment to claims reserve based on actuarial study			(75,221)	
Adjustment to record accrued investment income			22,915	
Adjustment to correct current year investment income			<u>(83,285)</u>	
EXCESS OF REVENUES OVER EXPENSES PER ACCOMPANYING GAAP FINANCIAL STATEMENTS			<u>\$ 1,107,361</u>	

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

**Schedule of Cash and Cash Equivalents
Reconciliation from Bank to Financial Statements**

YEAR ENDED JUNE 30, 2009

FIRST COMMUNITY BANK:

Checking	\$ 868,839
Reconciling items:	
Deposits in transit	-
Outstanding checks	<u>(154,677)</u>

Total Checking 714,162

Money Market 2,207,897

Reconciling items:	
Deposits in transit	-
Outstanding checks	<u>-</u>

Total Money Market 2,207,897

TOTAL FIRST COMMUNITY BANK 2,922,059

WACHOVIA SECURITIES:

Money Market	1,624,066
Reconciling items:	
Deposits in transit	-
Outstanding checks	<u>-</u>

TOTAL WACHOVIA SECURITIES 1,624,066

**TOTAL CASH AND CASH EQUIVALENTS
PER FINANCIAL STATEMENTS** \$ 4,546,125

Cash Balance per Bank \$ 3,076,736

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Schedule of Cash Collateral

YEAR ENDED JUNE 30, 2009

FIRST COMMUNITY BANK:

Checking	\$ 868,839
Money Market	2,207,897
FDIC coverage	<u>(250,000)</u>
Total uninsured funds	2,826,736
50% pledged collateral requirement	1,413,368
Pledged collateral:	
FHLB Line of Credit	<u>4,000,000</u>
Over-collateralized	\$ <u><u>2,586,632</u></u>

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

Board of Directors
New Mexico County Insurance Authority
Workers' Compensation Pool
Santa Fe, New Mexico and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the business-type activities and the budgetary comparison as supplemental information of the New Mexico County Insurance Authority Workers' Compensation Pool (Pool) as of and for the year ended June 30, 2009, which collectively comprise the Pool's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 14, 2009. 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.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A **control deficiency** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A **significant deficiency** is a control deficiency, or a combination of control deficiencies, that adversely affects the

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Board of Directors
New Mexico County Insurance Authority
Workers' Compensation Pool
Santa Fe, New Mexico and
Mr. Hector H. Balderas
New Mexico State Auditor

Internal Control Over Financial Reporting - continued

Pool's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Pool's financial statements that is more than inconsequential will not be prevented or detected by the Pool's internal control. We consider item 09-1 to be a significant deficiency.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Pool's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and responses, we consider item 09-1 to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that are required to be reported under *Government Auditing Standards January 2007 Revision*, paragraphs 5.14 and 5.16, and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings and responses as finding 09-02.

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

Board of Directors
New Mexico County Insurance Authority
Workers' Compensation Pool
Santa Fe, New Mexico and
Mr. Hector H. Balderas
New Mexico State Auditor

This report is intended solely for the information and use of the Pool's management, the Pool participants, the Office of the State Auditor and the New Mexico Legislature, and is not intended to be and should not be used by anyone other than these specified parties.

Mayne + Company, LLC

October 14, 2009

NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL

Schedule of Findings and Responses

A. FINDINGS - FINANCIAL STATEMENT AUDIT

09-1 INTERNAL CONTROLS OVER CLAIMS PROCESSING (Material Weakness)

Condition: During our evaluation of internal control over claims processing, it was noted that there are eight individuals who have the authority to create and delete vendors in the claims software system and have the ability to produce claims disbursements up to a dollar threshold without secondary approval. It was also noted there are no written or applied controls in place to timely detect and prevent fraudulent vendors from being created within the claims processing system.

Criteria: A good system of internal controls provides for a proper segregation of duties of the accounting functions and claims processing functions. Segregation of duties should exist between those who can create, edit and delete vendors and those who can issue claims disbursements. Also, there should be a limit to the number of individuals who can produce claims disbursements.

Cause: Software limitations have not been set up to limit the number of individuals who can produce claims disbursements. Also, the current internal policy does not properly segregate duties between those who can create and delete vendors and issue claims disbursements.

Effect: An increase in the risk of errors or fraud over the claims disbursements.

Recommendation: Proper segregation of duties is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud. We recommend that management review the current assignment of those who can create and delete vendors and produce claims disbursements. Where possible, duties should be segregated to reduce the risk of errors or fraud. We also recommend management considers implementing an approved vendor list which should be reviewed by management regularly to ensure all vendors on the listing have been approved by management.

Agency's Response: This condition is in the process of review by management for procedure compliance as recommended. Vendor access has now been restricted to just the claims manager, the assistant risk manager and someone in the finance department.

09-2 CLAIMS DISBURSEMENT APPROVAL (Control Deficiency)

Condition: During substantive test work over claims disbursements, it was noted that 16 out of 20 invoices did not contain a physical sign off by a claims adjuster indicating an approval for payment.

Criteria: Per the Company's current internal policies, claims adjusters are required to initial invoices indicating approval for payment. This step should occur before payments are made to vendors.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Schedule of Findings and Reponses - continued

A. FINDINGS - FINANCIAL STATEMENT AUDIT - continued

9-02 CLAIMS DISBURSEMENT APPROVAL (Control Deficiency) - continued

Cause: The claims adjuster electronically approves the invoices through a function in the claims software system. Internal policy states claims adjusters must physically approve invoices by sign off.

Effect: An increased risk of error over the claims disbursements.

Recommendation: We recommend claims adjusters adhere to the Company's policy of signing off on invoices before they are submitted for payment.

Agency's Response: The adjusters have been reminded of the Company's policy of signing off on invoices before they are submitted for payment and will adhere to that policy.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Summary Schedule of Prior Year Audit Findings

None.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Exit Conference

An exit conference was held on October 23, 2009. In attendance were:

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**

Julie Baca, Vice Chair
Carol Stodgel, Finance Director
Becky Tafoya, Assistant Risk Manager
Theresa Griego, Workers' Compensation Claims Manager

MEYNER + COMPANY, LLC

Janet Pacheco-Morton, CPA, CGFM, Director
B. Jesse Muniz, Senior Accountant
Donald MacQuigg, Staff Accountant

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the independent auditor for management's review and approval. They are the responsibility of management, as addressed in the Independent Auditors' Report.