

**NEW MEXICO COUNTY INSURANCE
AUTHORITY WORKERS'
COMPENSATION POOL
Santa Fe, New Mexico**

**FINANCIAL STATEMENTS
June 30, 2011 and 2010**

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**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
OFFICIAL ROSTER
June 30, 2011**

Board of Directors

Julie Baca	Board Chair
Scott Krahling	Vice Chair
Gloria Jean Chavez	Secretary/Treasurer
Janet Porter-Carrejo	Member
Lance Pyle	Member
Brenda Sanchez	Member
Robert Anaya	Member
Tommie Herrell	Member
Andrew Chavez	Ex-Officio Member
Dan Bryant	Ex-Officio Member

Administrative Officers

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

Independent Auditor's Report

To the Board of Directors of
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 financial statements of the business-type activities of the New Mexico County Insurance Authority Workers' Compensation Pool (the Pool) as of and for the year ended June 30, 2011, 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 (Budgetary Basis) presented as supplementary information for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Pool as of and for the year ended June 30, 2010 were audited by Meyners + Company, LLC, which practice was acquired by Clifton Gunderson LLP on January 1, 2011. Meyners + Company, LLC's report dated November 8, 2010 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

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, 2011, and the respective changes in the financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the Schedules of Revenues and Expenses – Budget and Actual (Budgetary Basis) referred to above present fairly, in all material respects, the budgetary comparison of the Pool for the year ended June 30, 2011 in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, as described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011, 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 the ten year claims development information on pages 26 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 audit was conducted for the purpose of forming an opinion 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.

Clifton Gunderson LLP

Albuquerque, New Mexico
November 14, 2011

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

As management of the New Mexico County Insurance Authority Workers' Compensation Pool (the Pool), we offer readers of the Pool's financial statements this narrative overview and analysis of the financial activities of the Pool for the fiscal year ended June 30, 2011.

Financial Highlights

- Pool net assets increased by \$632,167 to \$165,389 from June 30, 2010. The Pool had been in a deficit position since 2005. Claims expenses decreased by \$596,816 from June 30, 2010. Total claims liabilities decreased by \$787,058 from June 30, 2010.
- Assets increased by \$1,631,124 to \$16,323,602. The Pool's liabilities consist primarily of reserves to pay claims and claim adjustment expenses. Liabilities decreased by \$998,957 to \$16,158,213 at June 30, 2011.
- The Pool continued to have optional "high-deductible" funding arrangements with Bernalillo and Santa Fe Counties. For the year ended June 30, 2011, Bernalillo County paid the first \$400,000 of every claim with an annual aggregate of \$1,600,000. Beginning July 1, 2009, Santa Fe County paid the first \$25,000 of every claim, with an annual aggregate of \$224,181. The Pool handled all claims for these counties and they were covered by the Pool's excess insurance for any claim which exceeded \$750,000.

Overview of the Financial Statements

The 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, 2011 and 2010.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Condensed Comparative Data

	<u>2011</u>	<u>2010</u>
Total assets (cash, investments, and prepaid expenses)	\$ 16,323,602	\$ 14,692,478
Total liabilities (claims and claim adjustment expenses)	<u>16,158,213</u>	<u>15,159,256</u>
Members' net assets (deficit):		
Unrestricted	165,193	(469,326)
Invested in capital assets	<u>196</u>	<u>2,548</u>
Total Members' net assets (deficit)	<u>\$ 165,389</u>	<u>\$ (466,778)</u>
Revenues:		
Member contributions	\$ 7,678,065	\$ 7,632,534
Investment and other income	<u>526,040</u>	<u>622,102</u>
Total revenues	8,204,105	8,254,636
Expenses:		
Claims and claim adjustment expenses	5,549,014	6,145,830
Excess insurance and brokerage fees	855,550	632,038
General and administrative	<u>1,167,374</u>	<u>1,076,116</u>
Total expenses	<u>7,571,938</u>	<u>7,853,984</u>
Excess of revenues over expenses	632,167	400,652
Net assets (deficit) held for member benefits, beginning of year	<u>(466,778)</u>	<u>(867,430)</u>
Net assets (deficit) held for member benefits, end of year	<u>\$ 165,389</u>	<u>\$ (466,778)</u>

Financial Analysis of the Pool

Assets of the Pool consist primarily of cash and fixed income investments. \$91,600 was due from excess insurance providers at the end of the year. Liabilities consist primarily of the amounts held in reserve to pay future claims expenses.

Revenue decreased by \$50,531 (1%) for the year ended June 30, 2011. Total expenses decreased by \$282,046 (3.6%). Overall, county contributions increased by \$45,531, a 1% increase, despite the fact that Santa Fe County's contribution decreased due to their taking on additional risk. Investment income decreased only because of market changes from year to year. There was a \$100,644 decrease in the market value of the investment portfolio. Claims and claim adjustment expenses decreased by 9.7% from the prior year. General and administrative costs increased slightly.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Unpaid Claims Liabilities

The following table presents the changes in the Pool's claims for the past two years:

	<u>2011</u>	<u>2010</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 15,000,009	\$ 12,935,153
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	5,030,004	5,309,313
Increase in provision for insured events of prior years	<u>519,010</u>	<u>836,517</u>
Total incurred claims and claim adjustment expenses	<u>5,549,014</u>	<u>6,145,830</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year, net of recoveries	1,286,894	1,758,336
Claims and claim adjustment expenses attributable to insured events of prior years	<u>3,475,062</u>	<u>2,322,638</u>
Total payments	<u>4,761,956</u>	<u>4,080,974</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 15,787,067</u>	<u>\$ 15,000,009</u>

Investment Results

Total cash and investments increased \$1.4 million from \$14,530,211 at June 30, 2010 to \$15,891,073 at June 30, 2011. The overall yield on the Pool's investment portfolio went down, from about 3.58% at June 30, 2010 to 3.23% at June 30, 2011. Interest rates on cash stayed extremely low, going from an average of about 0.28% at the beginning of the fiscal year to 0.73% at the end of the year. County Reinsurance Ltd., in which the Pool is required to maintain an equity position, had a good financial year, which positively impacted the Pool's investment results.

Property, Plant and Equipment

The Pool had no purchases or disposals of property, plant and equipment during 2011.

Long-term Debt

The Pool had no long-term debt during 2011.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Budget Adjustments

There were no budget adjustments made during the year. Member contributions were as budgeted. Investment income was more than budgeted. Total claims and claims adjusting expense was less than budgeted for the year. Total administrative and other expenses were slightly less than budgeted, although one line item went over budget. Excess insurance went over budget by \$3,210. Software licensing and support went over budget because of having to purchase an additional module for the claims management software (Medicare) and having to conduct some software training during the year. Miscellaneous expenses went over budget because of having to pay the contract bill review company for miscellaneous payments that had never been received. The Pool was unable to go back and pay all of these small, numerous payments out of the claims where they normally would be paid from.

Current Trends and Conditions

The Pool has come out of its deficit position after six years. The increase in medical costs has slowed down. The Pool is continuing its loss prevention efforts including the RAP (Risk Awareness Program) for county members and the Loss Reduction Incentive Program where counties compete for a cash prize for reducing losses. This year, the Pool began a pilot project with Company Nurse, in which injured employees can consult with a nurse prior to seeking medical attention, with the expected outcome of reduced claims and reduced claims costs. Interest rates on cash remain very low and are expected to stay low for a while, which continues to impact the investment income of the Pool.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
Balance Sheets - Enterprise Fund
June 30, 2011 and 2010**

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 682,421	\$ 829,192
N.M. State Treasurer's Local Government Investment Pool	18,722	24,591
Investments	14,922,376	13,475,820
Investment in County Reinsurance Limited	267,554	200,608
Accounts receivable	402,932	151,832
Accrued interest	21,119	-
Prepays	8,282	7,887
Total current assets	16,323,406	14,689,930
NON-CURRENT ASSETS		
Capital assets, net	196	2,548
Total non-current assets	196	2,548
TOTAL ASSETS	\$ 16,323,602	\$ 14,692,478
LIABILITIES AND POOL NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 249,489	\$ 34,470
Deferred revenues	121,657	124,777
Claims and claim adjustment expenses	5,137,355	4,072,840
Total current liabilities	5,508,501	4,232,087
LONG-TERM LIABILITIES		
Claims and claim adjustment expenses	10,649,712	10,927,169
Total long-term liabilities	10,649,712	10,927,169
NET ASSETS (DEFICIT)		
Unrestricted net asset (deficit) held for member benefits	165,193	(469,326)
Invested in capital assets	196	2,548
Total net assets (deficit)	165,389	(466,778)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 16,323,602	\$ 14,692,478

The accompanying notes are an integral part of the financial statements.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL**
Statements of Revenues, Expenses and Changes in Fund Net Assets - Enterprise Fund
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE		
Member contributions	\$ 7,678,065	\$ 7,632,534
Miscellaneous income	<u>-</u>	<u>1,952</u>
Total operating revenue	<u>7,678,065</u>	<u>7,634,486</u>
OPERATING EXPENSES		
Claims and claim adjustment expenses, net of recoveries	5,549,014	6,145,830
General and administrative	1,167,374	1,076,116
Excess insurance premiums	<u>843,550</u>	<u>621,533</u>
Total operating expenses	<u>7,559,938</u>	<u>7,843,479</u>
Operating income (loss)	118,127	(208,993)
NON-OPERATING REVENUES (EXPENSES)		
Investment income	526,040	620,150
Brokerage fees	<u>(12,000)</u>	<u>(10,505)</u>
Total non-operating revenue, net	<u>514,040</u>	<u>609,645</u>
Change in net assets	632,167	400,652
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(466,778)</u>	<u>(867,430)</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ 165,389</u>	<u>\$ (466,778)</u>

The accompanying notes are an integral part of the financial statements.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
Statements of Cash Flows - Enterprise Fund
Years Ended June 30, 2011 and 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	\$ 7,423,845	\$ 9,170,233
Cash paid to suppliers	(950,399)	(1,884,576)
Cash paid on claims and claim adjustment expenses	(4,761,955)	(4,775,139)
Cash paid on excess insurance	(843,550)	-
Cash received from (paid to) others	-	51,654
Net cash provided by operating activities	867,941	2,562,172
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	538,619	620,150
Payments for commissions and brokerage	(12,000)	(10,505)
Purchase of investments	(2,453,655)	(9,067,069)
Proceeds from the sale of investments	906,455	1,938,935
Net cash used by investing activities	(1,020,581)	(6,518,489)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(152,640)	(3,956,317)
BALANCE, BEGINNING OF YEAR	853,783	4,810,100
BALANCE, END OF YEAR	\$ 701,143	\$ 853,783
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 118,127	\$ (208,993)
Depreciation expense	2,352	2,353
Accounts receivable	(251,100)	806,259
Prepays	(395)	(7,887)
Accounts payable	215,019	(87,849)
Deferred revenues	(3,120)	(6,567)
Claims and claim adjustment expenses	787,058	2,064,856
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 867,941	\$ 2,562,172
NON-CASH INVESTING ACTIVITIES		
Unrealized gain (loss) on investments	\$ (100,644)	\$ 222,040

The accompanying notes are an integral part of the financial statements.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The New Mexico County Insurance Authority Workers' Compensation Pool (the 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 days 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. The Pool has no component units as defined in Government Accounting Standards Board (GASB) Statement 39.

Use of Estimates in Preparing Financial Statements

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.

Basis of Accounting

The accounts of the Pool are organized and operated on the basis of fund accounting. The accompanying statements have been prepared in accordance with generally accepted accounting principles applicable to governmental risk pools, set forth by the GASB. 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 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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

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.

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; corporate bonds; mutual funds and the New Mexico State Treasurer's Short-Term Investment Fund.

Accounts Receivable

Accounts receivable consist primarily of amounts owed to the Pool by the various member county governments. These receivables are not secured by collateral, nor is any collateral considered necessary by the Pool. All balances are deemed to be fully collectible; therefore, no allowance has been made for any potentially uncollectible balances.

Capital Assets

Capital assets of the Pool are capitalized at cost. The Pool elects to capitalize purchases in excess of \$500. 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 taxes under Section 115 of the Internal Revenue Code. Accordingly, no liability for income taxes is included in the accompanying financial statements.

Budget

In accordance with its by-laws, the Pool prepares the budget that is controlled at the Pool level. The level of budgetary control is at the total fund level. Amendments affecting the overall Pool must be approved by the Board. The budget is adopted on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). GAAP differences in budgeted amounts arise from non-budgeted depreciation expense on capital assets. The Pool budgets claims and claim adjustment expenses based on actuarial estimates. Overages on this specific line item are only considered deficiencies if the cash and investment balances within the Pool cannot support the overage.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 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, 2011, and, accordingly, the net assets are reported as unrestricted.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Pool first uses restricted net assets.

Operating Revenues

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Pool are premiums paid by members for risk and benefits coverage. 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.

Member Contributions

Member contributions for benefits coverage are recognized on a pro rata basis over the applicable contract period. Contributions for risk coverage are recognized as revenue in the applicable contract period (coincides with the fiscal year).

Claims and Claim Adjustment Expenses

Insurance claims and related claims adjustment expenses are charged to operations as incurred. The reserves for claims and claims adjustment expenses are determined based upon case-basis evaluations and actuarial projections, and include a provision for claims incurred but not reported. The actuarial projections of ultimate losses on reported claims and the estimate of claims incurred but not reported are based on a composite of the Pool's experience and benefits, as well as workers' compensation industry data, which supplements the Pool's limited historical experience and includes the effects of inflation and other factors. Losses are reported net of estimated amounts recoverable from excess insurance, salvage and subrogations, and the deductible portion of claims. Adjustments to the probable ultimate liability for claims and claims adjustment expenses are made continually, based on subsequent developments and experience, and are included in operations.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 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, 2011 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, 2011.

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

	<u>2011</u>	<u>2010</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 15,000,009	\$ 12,935,153
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	5,030,004	5,309,313
(Decrease) Increase in provision for insured events of prior years	<u>519,010</u>	<u>836,517</u>
Total incurred claims and claim adjustment expenses	<u>5,549,014</u>	<u>6,145,830</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year, net of recoveries	1,286,894	1,758,336
Claims and claim adjustment expenses attributable to insured events of prior years	<u>3,475,062</u>	<u>2,322,638</u>
Total payments	<u>4,761,956</u>	<u>4,080,974</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 15,787,067</u>	<u>\$ 15,000,009</u>

At June 30, 2011 and 2010, the Pool recorded the liability for losses and loss adjustment expenses based on an estimate of its independent consulting actuary.

NOTE 3 - EXCESS INSURANCE PREMIUMS

The Pool has purchased commercial excess insurance for specific claims in excess of \$750,000. Beginning July 1, 1998, this insurance was provided by County Reinsurance Limited (CRL).

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 3 - EXCESS INSURANCE PREMIUMS (CONTINUED)

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, 2011 and 2010, the amount of subrogation receivable was \$91,600 and \$84,691, 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, 2011 and 2010, the Pool paid \$843,550 and \$621,533, respectively, to CRL for excess insurance premiums. As of June 30, 2011 and 2010, the amount of claim liabilities not included on the balance sheet due to the excess insurance coverage was approximately \$5.7 million and approximately \$6.2 million, respectively. The Pool is liable for all claims if the reinsurer is unable to pay. Reinsurance offset claims expense by \$748,183 and \$523,892 for the years ended June 30, 2011 and 2010, respectively.

NOTE 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, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Risk management	\$ 1,099,805	\$ 1,008,035
Software licensing	41,180	29,632
Accounting	18,639	25,949
Actuarial	<u>7,750</u>	<u>12,500</u>
Total	<u>\$ 1,167,374</u>	<u>\$ 1,076,116</u>

NOTE 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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

Investments consisted of the following at June 30:

<u>2011</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Moody Rating</u>	<u>Cost</u>	<u>Accrued Interest/ Market Gain (Loss)</u>	<u>Estimated Fair Value</u>
AM EX CENT BK CD	3.20%	5/6/2013	N/A	\$ 250,000	\$ 9,840	\$ 259,840
AM EX BK FSB CD	2.30%	5/6/2013	N/A	250,000	9,840	259,840
DISCOVER BK CD	3.00%	5/7/2012	N/A	250,000	4,550	254,550
SALLIE MAE BK CD	3.05%	5/14/2012	N/A	100,000	1,892	101,892
CIT BANK CD	3.00%	5/8/2012	N/A	100,000	1,824	101,824
GE CAP FIN CD	3.00%	5/14/2012	N/A	100,000	1,848	101,848
MIDFIRST BANK CD	3.05%	5/14/2012	N/A	100,000	1,892	101,892
BMW BK NA CD	3.35%	5/28/2013	N/A	100,906	3,427	104,333
SALLIE MAE BK CD	3.00%	6/11/2012	N/A	100,000	1,956	101,956
CITIBANK CD	1.45%	12/16/2011	N/A	250,000	1,068	251,068
COLLEGE SVGS BNK	2.15%	12/11/2012	N/A	250,000	4,235	254,235
COLUMBUS BK & TR	1.55%	12/19/2011	N/A	250,000	1,198	251,198
GE MONEY BK	2.35%	12/18/2012	N/A	250,000	4,993	254,993
FIRST NATL CD	0.90%	1/8/2012	N/A	1,000,000	15,041	1,015,041
FIRST NATL CD	1.50%	9/8/2011	N/A	<u>1,000,000</u>	<u>7,794</u>	<u>1,007,794</u>
 TOTAL CDs				<u>4,350,906</u>	<u>71,398</u>	<u>4,422,304</u>
 JOHNSON & J.	5.15%	8/15/2012	AAA	109,880	(4,589)	105,291
JP MORGAN	5.375%	10/1/2012	AA3	105,130	353	105,483
WAL MART	7.25%	6/1/2013	AA2	115,505	(3,329)	112,176
IBM CORP NOTES	5.70%	9/14/2017	A1	<u>104,535</u>	<u>11,689</u>	<u>116,224</u>
 TOTAL CORPORATE BONDS				<u>435,050</u>	<u>4,124</u>	<u>439,174</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

<u>2011</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Moody Rating</u>	<u>Cost</u>	<u>Accrued Interest/ Market Gain (Loss)</u>	<u>Estimated Fair Value</u>
FEDERATED ADJ RATE SEC	1.30%	N/A	N/A	1,010,253	3,029	1,013,282
FEDERATED INCOME TRST	4.33%	N/A	N/A	1,031,074	(5,600)	1,025,474
FEDERATED SER INC						
TOTAL RET	4.56%	N/A	N/A	933,906	13,459	947,365
FED TOT RET SER						
ULTRA SHRT	1.88%	N/A	N/A	59,034	537	59,571
DELAWARE LIM TERM DIV IN	2.74%	N/A	N/A	958,989	12,332	971,321
MAINSTAY FDS TRST FL RT	3.85%	N/A	N/A	500,000	(3,673)	496,327
PIMCO FD PAC INVT LOW						
DURATION	2.75%	N/A	N/A	886,275	10,365	896,640
PIMCO FDS PAC INV						
TOTAL RET	4.22%	N/A	N/A	1,150,705	7,954	1,158,659
PIMCO FDS TOTAL RETURN	4.41%	N/A	N/A	<u>966,982</u>	<u>7,247</u>	<u>974,229</u>
TOTAL MUTUAL FUNDS				<u>7,497,218</u>	<u>45,650</u>	<u>7,542,868</u>
GNMA II	5.50%	7/20/2033	N/A	248,674	(19,985)	228,689
GNMA II	5.50%	8/20/2033	N/A	443,249	47,103	490,352
GNMA II	5.00%	1/20/2037	N/A	369,800	12,242	382,042
GNMA II	5.50%	2/20/2038	N/A	406,413	23,738	430,152
GNMA II	4.00%	9/20/2040	N/A	<u>1,010,871</u>	<u>(24,075)</u>	<u>986,796</u>
TOTAL GOVT. ASSET BACKED SEC.				<u>2,479,007</u>	<u>39,023</u>	<u>2,518,030</u>
TOTAL INVESTMENTS				<u>\$ 14,762,181</u>	<u>\$ 160,195</u>	<u>\$ 14,922,376</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

<u>2010</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Moody Rating</u>	<u>Cost</u>	<u>Accrued Interest/ Market Gain (Loss)</u>	<u>Estimated Fair Value</u>
AM EX CENT BK CD	3.20%	5/6/2013	N/A	\$ 250,000	\$ 8,475	\$ 258,475
AM EX BK FSB CD	2.30%	5/6/2013	N/A	250,000	8,475	258,475
DISCOVER BK CD	3.00%	5/7/2012	N/A	250,000	5,695	255,695
SALLIE MAE BK CD	3.05%	5/14/2012	N/A	100,000	2,361	102,361
CIT BANK CD	3.00%	5/8/2012	N/A	100,000	2,279	102,279
GE CAP FIN CD	3.00%	5/14/2012	N/A	100,000	2,286	102,286
MIDFIRST BANK CD	3.05%	5/14/2012	N/A	100,000	2,361	102,361
BMW BK NA CD	3.35%	5/28/2013	N/A	100,901	2,945	103,846
SALLIE MAE BK CD	3.00%	6/11/2012	N/A	100,000	2,323	102,323
CITIBANK CD	1.45%	12/16/2011	N/A	250,000	975	250,975
COLLEGE SVGS BNK	2.15%	12/11/2012	N/A	250,000	3,155	253,155
COLUMBUS BK & TR	1.55%	12/19/2011	N/A	250,000	1,180	251,180
GE MONEY BK	2.35%	12/18/2012	N/A	250,000	3,880	253,880
LANB CD	1.85%	7/24/2010	N/A	1,000,000	-	1,000,000
FIRST NATL CD	1.50%	7/24/2010	N/A	1,000,000	-	1,000,000
TOTAL CDs				4,350,901	46,390	4,397,291
CATERPILLAR NOTES	3.90%	5/15/2011	A2	100,000	2,422	102,422
GE CORP NOTES	4.00%	5/15/2011	AA2	500,000	11,390	511,390
JOHNSON & J.	5.15%	8/15/2012	AAA	109,880	(667)	109,213
JP MORGAN	5.375%	10/1/2012	AA3	105,110	2,840	107,950
WAL MART	7.25%	6/1/2013	AA2	115,505	999	116,504
IBM CORP NOTES	5.70%	9/14/2017	A1	104,535	11,714	116,249
TOTAL CORPORATE BONDS				1,035,030	28,698	1,063,728

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

2010	Rate	Maturity Date	Moody Rating	Cost	Accrued Interest/ Market Gain (Loss)	Estimated Fair Value
FEDERATED ADJ RATE SEC	1.30%	N/A	N/A	1,002,862	5,116	1,007,978
FEDERATED INCOME TRST	4.33%	N/A	N/A	1,088,407	8,204	1,096,611
FEDERATED SER INC						
TOTAL RET	4.56%	N/A	N/A	506,843	9,663	516,506
FED TOT RET SER						
ULTRA SHRT	1.88%	N/A	N/A	351,750	1,536	353,286
PAYDEN & RYGEL INV GRP	3.21%	N/A	N/A	425,000	422	425,422
PIMCO FD PAC INVT LOW						
DURATION	2.75%	N/A	N/A	754,181	7,970	762,151
PIMCO FDS PAC INV						
TOTAL RET	4.22%	N/A	N/A	1,212,920	37,275	1,250,195
PIMCO FDS TOTAL RETURN	4.41%	N/A	N/A	<u>655,528</u>	<u>19,549</u>	<u>675,077</u>
TOTAL MUTUAL FUNDS				5,997,491	89,735	6,087,226
GNMA	5.50%	7/20/1933	N/A	294,875	(19,734)	275,141
GNMA	5.50%	8/20/1933	N/A	535,957	51,495	587,452
GNMA II	5.00%	1/20/1937	N/A	482,015	14,260	496,275
GNMA	5.50%	2/20/1938	N/A	<u>541,519</u>	<u>27,188</u>	<u>568,707</u>
TOTAL GOVT. ASSET BACKED SEC.				<u>1,854,366</u>	<u>73,209</u>	<u>1,927,575</u>
TOTAL INVESTMENTS				<u>\$ 13,237,788</u>	<u>\$ 238,032</u>	<u>\$ 13,475,820</u>

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

	2011	2010
Interest and dividends received	\$ 620,153	\$ 398,110
Gain (loss) on sale of investments	6,531	-
Unrealized gains (losses)	<u>(100,644)</u>	<u>222,040</u>
Total investment income	<u>\$ 526,040</u>	<u>\$ 620,150</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2011, the Pool's investments were as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Estimated Fair Value</u>
Certificates of Deposit	\$ 4,350,906	\$ 4,422,304
Corporate Bonds	435,050	439,174
Mutual Funds	7,497,218	7,542,868
Government Asset Backed Securities	<u>2,479,007</u>	<u>2,518,030</u>
Total	<u>\$ 14,762,181</u>	<u>\$ 14,922,376</u>

As of June 30, 2010, the Pool's investments were as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Estimated Fair Value</u>
Certificates of Deposit	\$ 4,350,901	\$ 4,397,291
Corporate Bonds	1,035,030	1,063,728
Mutual Funds	5,997,491	6,087,225
Government Asset Backed Securities	<u>1,854,366</u>	<u>1,927,576</u>
Total	<u>\$ 13,237,788</u>	<u>\$ 13,475,820</u>

Collateral Requirement – June 30, 2011

First National Bank:		
Checking – Bank Balance		\$ 239,131
FDIC coverage		<u>(250,000)</u>
Total uninsured funds		-
50% pledged collateral requirement		-
Pledged collateral:		
FNMA Cusip #31398AYN6		<u>8,123,431</u>
Over-collateralized		<u>\$ 8,123,431</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

Collateral Requirement – June 30, 2010

First National Bank:		
Checking – Bank Balance	\$	308,937
Money Market		290,186
FDIC coverage		<u>(250,000)</u>
 Total uninsured funds		 349,123
 50% pledged collateral requirement		 174,562
 Pledged collateral:		
Federal Home Loan Bank of Dallas Line of Credit		<u>10,000,000</u>
 Over-collateralized	 \$	 <u>9,825,438</u>

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, 2011 and 2010, none of the Pool's deposits were exposed to custodial credit risk; the total of demand deposits was covered by FDIC or by collateral held by the Pool's agent in the Pool's name.

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)

	<u>S&P Rating</u>	<u>Amount Invested</u>	<u>Weighted Average</u>
New MexiGROW LGIP	AAAm rated	\$18,720	36 day WAM

The Pool's investment in LGIP represents a proportionate interest in LGIP's portfolio. The Pool's portion is not identified with specific investments and is not subject to custodial risk; however, separately issued financial statements of the Office of the State Treasurer disclose the collateral pledged to secure the State Treasurer's cash and investments. The most recent report may be obtained by contacting the Office of the State Treasurer, P.O. Box 608, Santa Fe, New Mexico 87505.

LGIP has no foreign currency risk.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 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 on the S&P 500. The Pool has no custodial credit risk.

Corporate Bonds. Debt instruments which are backed by defined cash flows or receivables with a final maturity not exceeding five years and AAA by Standard & Poor's and Moody's.

Mutual Funds. Shares of a diversified investment company registered pursuant to the federal Investment Company Act of 1940 that invests in fixed-income securities or debt instruments that are listed in a nationally recognized, broad-market, fixed-income-securities market index.

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, 2011 and 2010, 17% and 14%, respectively, or more of the Pool's investments were held by a single issuer, GNMA government asset backed securities.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010**

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Depreciable assets:				
Equipment	\$ 7,056	\$ -	\$ -	\$ 7,056
Total	7,056	-	-	7,056
Less accumulated depreciation:				
Equipment	<u>4,508</u>	<u>2,352</u>	<u>-</u>	<u>6,860</u>
Total accumulated depreciation	<u>4,508</u>	<u>2,352</u>	<u>-</u>	<u>6,860</u>
Net total	<u>\$ 2,548</u>	<u>\$ 2,352</u>	<u>\$ -</u>	<u>\$ 196</u>
	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Depreciable assets:				
Equipment	\$ 7,056	\$ -	\$ -	\$ 7,056
Total	7,056	-	-	7,056
Less accumulated depreciation:				
Equipment	<u>2,155</u>	<u>2,353</u>	<u>-</u>	<u>4,508</u>
Total accumulated depreciation	<u>2,155</u>	<u>2,353</u>	<u>-</u>	<u>4,508</u>
Net total	<u>\$ 4,901</u>	<u>\$ 2,353</u>	<u>\$ -</u>	<u>\$ 2,548</u>

Depreciation expense for the Pool was \$2,352 for both June 30, 2011 and 2010. All depreciation expense was considered general and administrative costs. There were no software costs to capitalize as of year end.

NOTE 7 - 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
June 30, 2011 and 2010**

NOTE 8 - 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 County Workers' Compensation Pool (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	

NOTE 9 – FUNDING ARRANGEMENTS

The Pool has optional "high-deductible" funding arrangements with Pool members Bernalillo County and Santa Fe County. For the year ended June 30, 2011, Bernalillo County paid the first \$400,000 of every claim with an annual aggregate of \$1,600,000. For the year ended June 30, 2011, Santa Fe County paid the first \$25,000 of every claim with an annual aggregate of \$224,181. The Pool handled all claims for these member counties and they were covered by the Pool's excess insurance for any claim which exceeded \$750,000.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO TEN YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)
June 30, 2011**

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 ten 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.
- (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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
TEN YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)
Ten Years Ended June 30, 2011**

(in thousands)	2002	2003	2004
1. Net earned required contribution and investment revenues	\$ 2,915	\$ 3,225	\$ 3,272
2. Unallocated expenses	561	574	612
3. Estimated incurred claims and expense, end of policy year	1,647	2,330	2,790
4. Paid (cumulative) as of:			
Year one	814	751	1,285
Year two	1,502	1,885	2,257
Year three	2,004	2,655	2,543
Year four	2,244	3,097	2,764
Year five	2,360	3,419	2,836
Year six	2,323	3,533	2,932
Year seven	2,350	3,685	3,001
Year eight	2,375	3,745	3,065
Year nine	2,401	3,754	-
Year ten	2,430	-	-
5. Re-estimated incurred claims and expense:			
Year one	1,647	2,330	2,790
Year two	2,283	2,790	2,763
Year three	2,465	3,376	3,054
Year four	2,541	3,862	3,116
Year five	2,564	3,736	3,149
Year six	2,457	4,189	3,222
Year seven	2,635	4,157	3,339
Year eight	2,596	4,061	3,333
Year nine	2,699	4,003	-
Year ten	2,579	-	-
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	932	1,673	543

	2005	2006	2007	2008	2009	2010	2011
\$	4,390	\$ 5,245	\$ 7,719	\$ 8,048	\$ 7,658	\$ 8,255	\$ 8,192
	608	746	898	953	1,017	1,697	2,010
	3,356	3,229	2,306	2,875	3,658	5,309	5,957
	1,510	1,695	1,135	1,176	1,554	1,505	1,907
	3,098	3,013	1,987	3,082	2,744	3,300	-
	3,987	3,368	2,223	3,687	3,636	-	-
	4,512	3,629	2,446	4,494	-	-	-
	4,704	3,766	2,672	-	-	-	-
	4,862	3,861	-	-	-	-	-
	5,113	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	3,356	3,229	2,306	2,875	3,658	5,309	5,957
	4,909	3,893	2,371	4,530	4,323	5,285	-
	5,303	4,058	2,752	5,508	4,957	-	-
	5,607	4,364	2,985	5,909	-	-	-
	5,644	4,576	3,226	-	-	-	-
	5,801	4,537	-	-	-	-	-
	5,902	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	2,546	1,308	920	3,034	1,299	(24)	-

OTHER SUPPLEMENTAL INFORMATION

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
SCHEDULES OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Favorable (Unfavorable)</u>
REVENUES				
Member contributions	\$ 7,678,065	\$ 7,678,065	\$ 7,678,065	\$ -
Investment income	300,000	300,000	526,040	226,040
Miscellaneous income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>7,978,065</u>	<u>7,978,065</u>	<u>8,204,105</u>	<u>226,040</u>
EXPENSES				
Claims and claim adjustment expense	6,127,565	6,127,565	5,549,014	578,551
Excess insurance premiums	665,000	665,000	668,210	(3,210)
General and administrative	1,173,500	1,173,500	1,165,022	8,478
Brokerage fees	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>-</u>
Total expenses	<u>7,978,065</u>	<u>7,978,065</u>	<u>7,394,246</u>	<u>583,819</u>
EXCESS OF REVENUES OVER EXPENSES				
	<u>\$ -</u>	<u>\$ -</u>	809,859	<u>\$ 809,859</u>
Depreciation expense			(2,352)	
Adjustment to record accounts payable			<u>(175,340)</u>	
EXCESS OF REVENUES OVER EXPENSES PER ACCOMPANYING GAAP FINANCIAL STATEMENTS				
			<u>\$ 632,167</u>	

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
SCHEDULES OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (BUDGETARY GAAP BASIS) (CONTINUED)
Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget Favorable (Unfavorable)</u>
REVENUES				
Member contributions	\$ 7,632,534	\$ 7,632,534	\$ 7,632,534	\$ -
Investment income	400,000	400,000	620,150	220,150
Miscellaneous income	<u>-</u>	<u>-</u>	<u>1,952</u>	<u>1,952</u>
Total revenues	<u>8,032,534</u>	<u>8,032,534</u>	<u>8,254,636</u>	<u>222,102</u>
EXPENSES				
Claims and claim adjustment expense	6,314,534	6,314,534	5,995,953	318,581
Excess insurance premiums	625,000	625,000	621,533	3,467
General and administrative	1,082,500	1,082,500	1,065,010	17,490
Brokerage fees	<u>10,500</u>	<u>10,500</u>	<u>10,505</u>	<u>(5)</u>
Total expenses	<u>8,032,534</u>	<u>8,032,534</u>	<u>7,693,001</u>	<u>339,533</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ -</u>	<u>\$ -</u>	561,635	<u>\$ 561,635</u>
Adjustment to claims reserve based on actuarial study			(149,877)	
Depreciation expense			(2,352)	
Adjustment to correct current year professional service expenses			<u>(8,754)</u>	
EXCESS OF REVENUES OVER EXPENSES PER ACCOMPANYING GAAP FINANCIAL STATEMENTS			<u>\$ 400,652</u>	

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
SCHEDULE OF CASH AND CASH EQUIVALENTS
RECONCILIATION FROM BANK TO FINANCIAL STATEMENTS
June 30, 2011**

FIRST NATIONAL BANK

Checking	\$	239,131
Reconciling items:		
Deposits in transit		-
Outstanding checks		<u>(125,072)</u>
Total checking		<u>114,059</u>
Money Market		1
Reconciling items:		
Deposits in transit		-
Outstanding checks		<u>-</u>
Total Money Market		<u>1</u>
Total First National Bank		<u>114,060</u>

WELLS FARGO SECURITIES

Money Market		102,969
Reconciling items:		
Deposits in transit		-
Outstanding checks		<u>(45,552)</u>
Total Wachovia Securities		<u>57,417</u>

LPL FINANCIAL INVESTMENTS

Checking		510,944
Reconciling items:		
Deposits in transit		-
Outstanding checks		<u>-</u>
Total LPL Financial Investments		<u>510,944</u>

**TOTAL CASH AND CASH EQUIVALENTS
PER FINANCIAL STATEMENTS**

\$ 682,421

CASH BALANCE PER BANK

\$ 853,045

**NEW MEXICO COUNTY INSURANCE AUTHORITY
 WORKERS' COMPENSATION POOL
 SCHEDULE OF CASH COLLATERAL
 Year Ended June 30, 2011**

FIRST NATIONAL BANK

Checking	\$ 239,131
Money Market	1
FDIC coverage	<u>(250,000)</u>

Total uninsured funds -

50% pledged collateral requirement -

Pledged collateral:

FNMA - held with First National Bank of Santa Fe Cusip #31398AYN6, Maturity Date: 7/28/2014	<u>8,123,431</u>
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OVER-COLLATERALIZED \$ 8,123,431

**INDEPENDENT AUDITOR'S 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**

To the Board of Directors of
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 related budgetary comparisons presented as supplemental information of New Mexico County Insurance Authority Workers' Compensation Pool (Pool) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described in the accompanying schedule of findings and responses, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 11-1 and 10-2 to be significant deficiencies. 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.

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 also noted certain other matters that are required to be reported pursuant to Government Auditing Standards paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 11-2 and 10-1.

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 responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the Pool's 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.

Clifton Gunderson LLP

Albuquerque, New Mexico
November 14, 2011

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

Section I – Financial Statement Findings

Finding 11-1 Cash Disbursements Lack Evidence of Approval (Significant Deficiency)

Condition: Out of 22 cash disbursements tested during internal control testwork, two lacked evidence of proper approval.

Criteria: Check request form includes proper approval. In addition, basic internal controls require all disbursements to be properly approved.

Cause: Lack of approval.

Effect: Absence of managerial approval of disbursements increases the likelihood of erroneous or fraudulent payments made to vendors or claimants.

Recommendation: We recommend management establish a policy to ensure that all cash disbursements are signed or otherwise marked as approved prior to payment.

Management's Response: The new Finance Director is evaluating policies and procedures to avoid all audit findings. Currently, check signers review disbursements and accompanying backup. Check signers will be reminded to see that all vouchers are signed by the Finance Director or Staff Accountant.

Finding 11-2 Claimant Paid at Incorrect Rate (Control Deficiency)

Condition: Out of 15 claims disbursements tested during internal control testwork, one claimant was found to have been underpaid \$17 per paycheck, for a total of \$442.

Criteria: Amount paid agrees to approved rate per claims files.

Cause: Miscalculation of amount paid and failure to detect error.

Effect: Claimant underpaid for the year under audit.

Recommendation: We recommend management establish review procedures to detect and correct miscalculations of claims payments.

Management's Response: Calculation of indemnity rate will be verified prior to commencement of benefit or any ongoing payment issuance. The workers' compensation claims manager will periodically review calculations for indemnity benefit payments.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011**

Finding 10-1 Cash Receipts Not Deposited in Timely Manner (Control Deficiency)

Condition: Out of 38 cash receipts tested during internal control testwork, 17 were not deposited by close of the following business day and 12 lacked evidence of date received.

Criteria: Procedures outlined by the Statutory Chapter in New Mexico, Chapter 6, Article 10, Section 3, pertaining to Public Monies states cash received is to be deposited with the authorized financial institution by close of the following business day.

Cause: Lack of timely deposits

Effect: Non-compliance with the New Mexico Statutes.

Recommendation: We recommend management establish a policy to ensure that all cash received is deposited with the respective financial institution within 24 hours of receipt of the cash, check or money order.

Management's Response: The new Finance Director is evaluating policies and procedures to avoid all audit findings. The Finance Department will review current deposit procedures and make recommendations in order to complete daily deposit transactions.

The Finance Department does its best to deposit checks received as promptly as possible. Sometimes we have to wait for approval on certain checks prior to depositing. Also, with the small accounting staff we have, it can be inefficient and impractical to make deposits daily. Management will continue to encourage the timely depositing of checks in order to be in compliance with state law.

Finding 10-2 Journal Entry Approval (Significant Deficiency)

Statement of Condition: Out of 15 journal entries tested during internal control testwork, 13 were found to lack evidence of proper review and approval.

Criteria: There should be an approval policy in place over journal entries posted to the general ledger.

Cause: Lack of approval.

Effect: Without proper review and approval, there is an increased risk of unintentional posting errors as well as a heightened risk of fraud.

Recommendation: We recommend that management establish a policy whereby all journal entries are reviewed and approved prior to posting.

Management's Response: The new Finance Director is evaluating policies and procedures to avoid all audit findings. The Finance Department will fully utilize the financial management system to use electronic security to ensure that the person that initiated the Journal Entry cannot post the JE and would have to get approval from an authorized supervisor.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2011**

Section I – Financial Statement Findings

Finding 10-1 Cash Receipts Not Deposited in Timely Manner – Repeated

Finding 10-2 Journal Entry Approval (Significant Deficiency) – Repeated

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
EXIT CONFERENCE
June 30, 2011**

An exit conference was held on October 11, 2011. The conference was held at the offices of the New Mexico County Insurance Authority Workers' Compensation Pool in Santa Fe, New Mexico. In attendance were:

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

Paul Gutierrez, Executive Director
Steve Kopelman, Risk Management Director
Santiago Chavez, Finance Director
Carol Madley, ex-Finance Director
Theresa Griego, Workers' Compensation Claims Manager
Robert Anaya, Santa Fe County Commissioner

CLIFTON GUNDERSON LLP

Raul J. Anaya, CPA, CGFM, Manager
Robert Korman, MBA, Associate

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.