

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

**FINANCIAL STATEMENTS
June 30, 2012 and 2011**

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**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
OFFICIAL ROSTER
June 30, 2012**

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
Joseph Crelier	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
Santiago Chavez	Finance Director



CliftonLarsonAllen

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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 years ended June 30, 2012 and 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 in the accompanying financial statements as of and for the years ended June 30, 2012 and 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 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 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, 2012 and 2011, 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 (Budgetary Basis) referred to above present fairly, in all material respects, the budgetary comparisons of the Pool for the year ended June 30, 2012 and 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 15, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were 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 financial statements. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 15, 2012

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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, 2012.

Financial Highlights

- Pool net assets increased by \$318,426 to \$483,815 from June 30, 2011. The Pool had been in a deficit position since 2005. Claims expenses increased by \$844,137 from June 30, 2011. Total claims liabilities increased by \$1,234,798 from June 30, 2011.
- Assets increased by \$1,304,890 to \$17,628,492. The Pool's liabilities consist primarily of reserves to pay claims and claim adjustment expenses. Liabilities increased by \$986,464 to \$17,144,677 at June 30, 2012.
- The Pool continued to have optional "high-deductible" funding arrangements with Bernalillo and Santa Fe Counties. For the year ended June 30, 2012, 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, 2012 and 2011.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Condensed Comparative Data

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total assets (cash, receivables, investments and prepaid expenses)	\$ 17,628,492	\$ 16,323,602	\$ 14,692,478
Total liabilities (claims and claim adjustment expenses, accounts payable and deferred revenue)	<u>17,144,677</u>	<u>16,158,213</u>	<u>15,159,256</u>
Members' net assets (deficit):			
Unrestricted	483,815	165,193	(469,326)
Invested in capital assets	<u>-</u>	<u>196</u>	<u>2,548</u>
Total Members' net assets (deficit)	<u>\$ 483,815</u>	<u>\$ 165,389</u>	<u>\$ (466,778)</u>
Revenues:			
Member contributions	\$ 7,735,091	\$ 7,678,065	\$ 7,632,534
Investment and other income	<u>740,627</u>	<u>526,040</u>	<u>622,102</u>
Total revenues	<u>8,475,718</u>	<u>8,204,105</u>	<u>8,254,636</u>
Expenses:			
Claims and claim adjustment expenses	6,393,151	5,549,014	6,145,830
Excess insurance and brokerage fees	697,506	855,550	632,038
General and administrative	<u>1,066,635</u>	<u>1,167,374</u>	<u>1,076,116</u>
Total expenses	<u>8,157,292</u>	<u>7,571,938</u>	<u>7,853,984</u>
Excess of revenues over expenses	318,426	632,167	400,652
Net assets (deficit) held for member benefits, beginning of year	<u>165,389</u>	<u>(466,778)</u>	<u>(867,430)</u>
Net assets (deficit) held for member benefits, end of year	<u>\$ 483,815</u>	<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. Liabilities consist primarily of the amounts held in reserve to pay future claims expenses.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Revenue increased by \$271,613 (3%) for the year ended June 30, 2012. Total expenses increased by \$585,354 (8%). Overall, county contributions increased by \$57,026, 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 \$54,914 increase in the market value of the investment portfolio. Claims and claim adjustment expenses increased by 15% from the prior year. General and administrative costs decreased slightly.

For the year ended June 30, 2011, revenues and expenses both decreased from the prior year by \$50,531 (1%) and \$282,046 (3.6%), respectively. In this same year, the market value of the investment portfolio decreased by \$100,644 due to market conditions. Claims and claims adjustment expenses decreased in fiscal year 2011 from fiscal year 2010 by approximately 9.7%.

Unpaid Claims Liabilities

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 15,787,067	\$ 15,000,009	\$ 12,935,153
Incurred claims and claim adjustment expenses:			
Provision for insured events of the current year	4,969,318	5,030,004	5,309,313
Increase in provision for insured events of prior years	<u>1,423,833</u>	<u>519,010</u>	<u>836,517</u>
Total incurred claims and claim adjustment expenses	<u>6,393,151</u>	<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	1,335,669	1,286,894	1,758,336
Claims and claim adjustment expenses attributable to insured events of prior years	<u>3,822,684</u>	<u>3,475,062</u>	<u>2,322,638</u>
Total payments	<u>5,158,353</u>	<u>4,761,956</u>	<u>4,080,974</u>
Total unpaid claims and claim adjustment expenses, end of year	<u>\$ 17,021,865</u>	<u>\$ 15,787,067</u>	<u>\$ 15,000,009</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Investment Results

Total cash and investments increased \$1.4 million from \$15,891,073 at June 30, 2011 to \$17,296,505 at June 30, 2012. The overall yield on the Pool's investment portfolio went down, from about 3.23% at June 30, 2011 to 4.5% at June 30, 2012. Interest rates on cash stayed extremely low, going from an average of about 0.73% at the beginning of the fiscal year to .15% 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.

In the prior year, total cash and investments increased from \$14,530,211 at June 30, 2010 to \$15,891,073 at June 30, 2011. In fiscal year 2011, the yield on the Pool's investments decreased from an average of 3.58% in the year ended June 30, 2010 to 3.23%.

Property, Plant and Equipment

The Pool had no purchases or disposals of property, plant and equipment during 2012 and 2011.

Long-term Debt

The Pool had no long-term debt during 2012 and 2011.

Budget Adjustments

There were several budget adjustments made during the year, which affected excess insurance premium expense and claims and claims adjustment expense. Member contributions were as budgeted. Investment income was more than budgeted. Total claims and claims adjustment expenses was more than budgeted for the year by approximately \$198,000. Total administrative and other expenses were slightly less than budgeted, although one line item went over budget. Excess insurance premium expenses were less than budgeted by approximately \$160,000.

Current Trends and Conditions

The Pool continues to improve its financial position after being in a deficit position for six years prior to 2011. 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. 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, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 295,011	\$ 682,421
N.M. State Treasurer's Local Government Investment Pool	18,722	18,722
Investments	16,557,418	14,922,376
Investment in County Reinsurance Limited	425,352	267,554
Accounts receivable	302,523	402,932
Accrued interest	17,058	21,119
Prepays	12,408	8,282
Total current assets	17,628,492	16,323,406
NON-CURRENT ASSETS		
Capital assets, net	-	196
Total non-current assets	-	196
TOTAL ASSETS	\$ 17,628,492	\$ 16,323,602
LIABILITIES AND POOL NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 122,812	\$ 249,489
Deferred revenues	-	121,657
Claims and claim adjustment expenses	5,627,796	5,137,355
Total current liabilities	5,750,608	5,508,501
LONG-TERM LIABILITIES		
Claims and claim adjustment expenses	11,394,069	10,649,712
Total long-term liabilities	11,394,069	10,649,712
NET ASSETS		
Unrestricted net asset held for member benefits	483,815	165,193
Invested in capital assets	-	196
Total net assets	483,815	165,389
TOTAL LIABILITIES AND NET ASSETS	\$ 17,628,492	\$ 16,323,602

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, 2012 and 2011

	2012	2011
OPERATING REVENUE		
Member contributions	\$ 7,735,091	\$ 7,678,065
Total operating revenue	7,735,091	7,678,065
OPERATING EXPENSES		
Claims and claim adjustment expenses, net of recoveries	6,393,151	5,549,014
General and administrative	1,066,635	1,167,374
Excess insurance premiums	685,506	843,550
Total operating expenses	8,145,292	7,559,938
Operating (loss) income	(410,201)	118,127
NON-OPERATING REVENUES (EXPENSES)		
Investment income	740,627	526,040
Brokerage fees	(12,000)	(12,000)
Total non-operating revenue, net	728,627	514,040
Change in net assets	318,426	632,167
NET ASSETS (DEFICIT), BEGINNING OF YEAR	165,389	(466,778)
NET ASSETS, END OF YEAR	\$ 483,815	\$ 165,389

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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	\$ 7,713,843	\$ 7,423,845
Cash paid to suppliers	(1,197,242)	(950,399)
Cash paid on claims and claim adjustment expenses	(5,158,353)	(4,761,955)
Cash paid on excess insurance	(685,506)	(843,550)
Net cash provided by operating activities	672,742	867,941
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	761,746	538,619
Payments for commissions and brokerage	(12,000)	(12,000)
Purchase of investments	(3,004,984)	(2,453,655)
Proceeds from the sale of investments	1,195,086	906,455
Net cash used by investing activities	(1,060,152)	(1,020,581)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(387,410)	(152,640)
BALANCE, BEGINNING OF YEAR	701,143	853,783
BALANCE, END OF YEAR	\$ 313,733	\$ 701,143
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (410,201)	\$ 118,127
Depreciation expense	196	2,352
Accounts receivable	100,409	(251,100)
Prepays	(4,126)	(395)
Accounts payable	(126,677)	215,019
Deferred revenues	(121,657)	(3,120)
Claims and claim adjustment expenses	1,234,798	787,058
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 672,742	\$ 867,941
NON-CASH INVESTING ACTIVITIES		
Unrealized gain (loss) on investments	\$ 54,914	\$ (100,644)

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, 2012 and 2011**

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, 2012 and 2011**

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 governments 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, 2012 and 2011**

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, 2012, 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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011**

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, 2012 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, 2012.

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

	<u>2012</u>	<u>2011</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 15,787,067	\$ 15,000,009
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	4,969,318	5,030,004
(Decrease) Increase in provision for insured events of prior years	<u>1,423,833</u>	<u>519,010</u>
Total incurred claims and claim adjustment expenses	<u>6,393,151</u>	<u>5,549,014</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year, net of recoveries	1,335,669	1,286,894
Claims and claim adjustment expenses attributable to insured events of prior years	<u>3,822,684</u>	<u>3,475,062</u>
Total payments	<u>5,158,353</u>	<u>4,761,956</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 17,021,865</u>	<u>\$ 15,787,067</u>

At June 30, 2012 and 2011, 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, 2012 and 2011**

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, 2012 and 2011, the amount of subrogation receivable was \$0 and \$91,600, 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, 2012 and 2011, the Pool paid \$685,506 and \$843,550, respectively, to CRL for excess insurance premiums. As of June 30, 2012 and 2011, the amount of claim liabilities not included on the balance sheet due to the excess insurance coverage was approximately \$7 million and approximately \$5.7 million, respectively. The Pool is liable for all claims if the reinsurer is unable to pay. Reinsurance offset claims expense by \$285,725 and \$748,183 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Risk management	\$ 994,999	\$ 1,097,453
Software licensing	37,081	41,180
Accounting	26,359	18,639
Actuarial	8,000	7,750
Depreciation	<u>196</u>	<u>2,352</u>
Total	<u>\$ 1,066,635</u>	<u>\$ 1,167,374</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, 2012 and 2011**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

Investments consisted of the following at June 30:

2012	Rate	Maturity Date	Moody Rating	Cost	Accrued Interest/ Market Gain (Loss)	Estimated Fair Value
AM EX CENT BK CD	3.12%	5/6/2013	N/A	\$ 250,000	\$ -	\$ 250,000
AM EX BK FSB CD	3.12%	5/6/2013	N/A	250,000	-	250,000
BMW BK NA CD	3.26%	5/28/2013	N/A	100,906	-	100,906
COLLEGE SVGS BNK	2.13%	12/11/2012	N/A	250,000	-	250,000
GE MONEY BK	2.33%	12/18/2012	N/A	<u>250,000</u>	<u>-</u>	<u>250,000</u>
TOTAL CDs				<u>1,100,906</u>	<u>-</u>	<u>1,100,906</u>
JOHNSON & J.	5.15%	8/15/2012	AAA	109,880	(9,257)	100,623
JP MORGAN	5.375%	10/1/2012	AA3	105,130	(3,935)	101,195
WAL MART	7.25%	6/1/2013	AA2	115,505	(9,187)	106,318
IBM CORP NOTES	5.70%	9/14/2017	A1	<u>104,535</u>	<u>15,984</u>	<u>120,519</u>
TOTAL CORPORATE BONDS				<u>435,050</u>	<u>(6,395)</u>	<u>428,655</u>
DODGE & COS INC FD	3.94%	N/A	N/A	260,117	1,762	261,879
VANGUARD GNMA FD CL 1	3.21%	N/A	N/A	259,047	(3,201)	255,846
FEDERATED ADJ RATE SEC	1.30%	N/A	N/A	1,017,422	7,204	1,024,626
FEDERATED INCOME TRST	4.33%	N/A	N/A	2,083,530	(5,617)	2,077,913
FEDERATED SER INC TOTAL RET	4.56%	N/A	N/A	979,496	35,051	1,014,547
FED TOT RET SER ULTRA SHRT	1.88%	N/A	N/A	59,905	280	60,185
DELAWARE LIM TERM DIV INC	2.08%	N/A	N/A	514,885	(10,236)	504,649
DELAWARE LTD TERM DIVERS	2.49%	N/A	N/A	2,005,938	26,480	2,032,418
MAINSTAY FDS TRST FL RT	4.01%	N/A	N/A	500,000	(7,345)	492,655
PIMCO FD PAC INVT LOW DURATION	2.15%	N/A	N/A	1,928,984	23,582	1,952,566
PIMCO FDS PAC INV MGMT MORTG	2.66%	N/A	N/A	1,217,242	4,101	1,221,343
PIMCO FDS TOTAL RETURN	2.84%	N/A	N/A	<u>1,000,106</u>	<u>29,174</u>	<u>1,029,280</u>
TOTAL MUTUAL FUNDS				<u>11,826,672</u>	<u>101,235</u>	<u>11,927,907</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

2012	Rate	Maturity Date	Moody Rating	Cost	Accrued Interest/ Market Gain (Loss)	Estimated Fair Value
GNMA II	4.93%	7/20/2033	N/A	209,965	(21,789)	188,176
GNMA II	4.95%	8/20/2033	N/A	362,539	53,729	416,268
GNMA II	4.54%	1/20/2037	N/A	273,228	8,018	281,246
GNMA II	4.92%	2/20/2038	N/A	309,366	16,516	325,882
GNMA	3.66%	9/20/2040	N/A	910,085	39,122	949,207
GNMA	4.11%	8/20/2041	N/A	954,363	(15,190)	939,173
TOTAL GOVT. ASSET BACKED SEC.				3,019,546	80,406	3,099,952
TOTAL INVESTMENTS				<u>\$16,382,174</u>	<u>\$ 175,246</u>	<u>\$16,557,420</u>

2011	Rate	Maturity Date	Moody Rating	Cost	Accrued Interest/ Market Gain (Loss)	Estimated Fair Value
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	1,000,000	7,794	1,007,794
TOTAL CDs				<u>4,350,906</u>	<u>71,398</u>	<u>4,422,304</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

2011	Rate	Maturity Date	Moody Rating	Cost	Accrued Interest/ Market Gain (Loss)	Estimated Fair Value
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>
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 INC	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	430,151
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, 2012 and 2011**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

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

	<u>2012</u>	<u>2011</u>
Interest and dividends received	\$ 685,688	\$ 620,153
Gain (loss) on sale of investments	25	6,531
Unrealized gains (losses)	<u>54,914</u>	<u>(100,644)</u>
Total investment income	<u>\$ 740,627</u>	<u>\$ 526,040</u>

As of June 30, 2012, the Pool's investments were as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Estimated Fair Value</u>
Certificates of Deposit	\$ 1,100,906	\$ 1,100,906
Corporate Bonds	435,050	428,655
Mutual Funds	11,826,672	11,927,907
Government Asset Backed Securities	<u>3,019,546</u>	<u>3,099,952</u>
Total	<u>\$ 16,382,174</u>	<u>\$ 16,557,420</u>

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>

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

Collateral Requirement – June 30, 2012

First National Bank:	
Checking – Bank Balance	\$ 188,267
Money Market	129,489
Other funds administered by the New Mexico Association of Counties (not held by the Pool)	<u>3,801,301</u>
Total deposit in bank	4,119,057
FDIC coverage	<u>(250,000)</u>
Total uninsured funds	3,869,057
50% pledged collateral requirement	1,934,529
Pledged collateral:	
FNMA – held with First National Bank of Santa Fe Cusip #31331XWW8, Maturity Date: 4/25/2014	<u>5,418,046</u>
Over-collateralized	<u>\$ 3,483,517</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>

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, 2012 and 2011, 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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

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	\$18,722	60 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.

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 MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 5 - CASH AND INVESTMENTS (CONTINUED)

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, 2012 and 2011, 19% and 17%, respectively, or more of the Pool's investments were held by a single issuer, GNMA government asset backed securities.

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>Balance, June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Depreciable assets:				
Equipment	\$ 7,056	\$ -	\$ -	\$ 7,056
Total depreciable assets	7,056	-	-	7,056
Less: accumulated depreciation:				
Equipment	6,860	196	-	7,056
Total accumulated depreciation	6,860	196	-	7,056
Net total	\$ 196	\$ (196)	\$ -	\$ -

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 6 - CAPITAL ASSETS (CONTINUED)

	<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 depreciable assets	7,056	-	-	7,056
Less: accumulated depreciation:				
Equipment	4,508	2,352	-	6,860
Total accumulated depreciation	4,508	2,352	-	6,860
Net total	<u>\$ 2,548</u>	<u>\$ (2,352)</u>	<u>\$ -</u>	<u>\$ 196</u>

Depreciation expense for the Pool was \$196 and \$2,352 for June 30, 2012 and 2011, respectively. 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.

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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 8 - JOINT POWERS AGREEMENT (CONTINUED)

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, 2012, 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, 2012**

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, 2012**

(in thousands)	<u>2003</u>	<u>2004</u>	<u>2005</u>
1. Net earned required contribution and investment revenues	\$ 3,225	\$ 3,272	\$ 4,390
2. Unallocated expenses	574	612	608
3. Estimated incurred claims and expense, end of policy year	2,330	2,790	3,356
4. Paid (cumulative) as of:			
Year one	751	1,285	1,510
Year two	1,885	2,257	3,098
Year three	2,655	2,543	3,987
Year four	3,097	2,764	4,512
Year five	3,419	2,836	4,704
Year six	3,533	2,932	4,862
Year seven	3,685	3,001	5,113
Year eight	3,745	3,065	5,238
Year nine	3,754	3,195	-
Year ten	3,883	-	-
5. Re-estimated incurred claims and expense:			
Year one	2,330	2,790	3,356
Year two	2,790	2,763	4,909
Year three	3,376	3,054	5,303
Year four	3,862	3,116	5,607
Year five	3,736	3,149	5,644
Year six	4,189	3,222	5,801
Year seven	4,157	3,339	5,902
Year eight	4,061	3,333	5,946
Year nine	4,003	3,422	-
Year ten	4,053	-	-
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	1,673	543	2,546

	2006	2007	2008	2009	2010	2011	2012
\$	5,245	\$ 7,719	\$ 8,048	\$ 7,658	\$ 8,255	\$ 8,192	\$ 8,464
	746	898	953	1,017	1,697	2,010	1,078
	3,229	2,306	2,875	3,658	5,309	5,957	4,133
	1,695	1,135	1,176	1,554	1,505	1,907	1,782
	3,013	1,987	3,082	2,744	3,300	3,938	-
	3,368	2,223	3,687	3,636	4,098	-	-
	3,629	2,446	4,494	4,026	-	-	-
	3,766	2,672	4,914	-	-	-	-
	3,861	2,776	-	-	-	-	-
	4,093	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	3,229	2,306	2,875	3,658	5,309	4,496	4,133
	3,893	2,371	4,530	4,323	5,285	6,431	-
	4,058	2,752	5,508	4,957	5,957	-	-
	4,364	2,985	5,909	5,220	-	-	-
	4,576	3,226	6,040	-	-	-	-
	4,537	3,236	-	-	-	-	-
	4,692	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	1,308	920	3,034	1,299	(24)	(1,461)	-

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, 2012**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Member contributions	\$ 7,735,091	\$ 7,735,091	\$ 7,735,091	\$ -
Investment income	<u>400,000</u>	<u>400,000</u>	<u>740,627</u>	<u>340,627</u>
Total revenues	<u>8,135,091</u>	<u>8,135,091</u>	<u>8,475,718</u>	<u>340,627</u>
EXPENSES				
Claims and claim adjustment expenses	6,370,591	6,195,091	6,393,151	(198,060) *
Excess insurance premiums	670,000	845,500	685,506	159,994
General and administrative	1,082,500	1,082,500	1,066,439	16,061
Brokerage fees	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>-</u>
Total expenses	<u>8,135,091</u>	<u>8,135,091</u>	<u>8,157,096</u>	<u>(22,005) *</u>
EXCESS OF REVENUES OVER EXPENSES				
	<u>\$ -</u>	<u>\$ -</u>	318,622	<u>\$ 318,622</u>
Depreciation expense			<u>(196)</u>	
EXCESS OF REVENUES OVER EXPENSES PER ACCOMPANYING GAAP FINANCIAL STATEMENTS				
			<u>\$ 318,426</u>	

* See Note 1 - Budget on page 12 for budget authority level.

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

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
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>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	12,000	12,000	12,000	-
	<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
 SCHEDULE OF CASH AND CASH EQUIVALENTS
 RECONCILIATION FROM BANK TO FINANCIAL STATEMENTS
 June 30, 2012**

FIRST NATIONAL BANK

Checking	\$	188,267
Reconciling items:		
Deposits in transit		-
Outstanding checks		<u>(161,280)</u>
Total checking		<u>26,987</u>
 Money Market		 129,489
Reconciling items:		
Deposits in transit		21
Outstanding checks		<u>-</u>
Total Money Market		<u>129,510</u>
Total First National Bank		<u>156,497</u>

WELLS FARGO SECURITIES

Money Market		135,156
Reconciling items:		
Deposits in transit		-
Outstanding checks		<u>-</u>
Total Wells Fargo Securities		<u>135,156</u>

LPL FINANCIAL INVESTMENTS

Checking		3,358
Reconciling items:		
Deposits in transit		-
Outstanding checks		<u>-</u>
Total LPL Financial Investments		<u>3,358</u>

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

\$ 295,011

CASH BALANCE PER BANK

\$ 456,270

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
SCHEDULE OF CASH COLLATERAL
Year Ended June 30, 2012**

FIRST NATIONAL BANK

Checking	\$	188,267
Money Market		129,489
Other funds administered by the New Mexico Association of Counties (Not held by the Pool)		<u>3,801,301</u>

Total deposit in bank 4,119,057

FDIC coverage (250,000)

Total uninsured funds -

50% pledged collateral requirement -

Pledged collateral:

FNMA - held with First National Bank of Santa Fe Cusip #31331XWW8, Maturity Date: 4/25/2014		<u>5,418,046</u>
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OVER-COLLATERALIZED \$ 5,418,046



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**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, 2012 and 2011, and have issued our report thereon dated November 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Pool is responsible for establishing and maintaining effective 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 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.

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, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as finding 2012-01, that we consider to be a significant deficiency in internal control over financial reporting. *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 a certain other matter that is 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 is described in the accompanying schedule of findings and responses as finding 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.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 15, 2012

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012**

SECTION I – FINANCIAL STATEMENT FINDINGS

Finding 2012-01 Deviation from Investment Policy (Significant Deficiency)

Condition: During our audit of investment balances, it was found that 1 out of the 4 corporate bonds included in the Pool's investment balances have maturity dates of more than five years from the date of purchase.

Criteria: Per the Pool's investment policy regarding corporate bonds (as noted on page 22), "debt instruments which are backed by definite cash flows or receivables with a final maturity not exceeding five years" are prohibited.

Cause: The Pool is not actively monitoring the maturity dates of its corporate bonds and periodic reviews for compliance are not occurring.

Effect: The Pool is out of compliance with its investment policies, which are approved by its Board of Directors.

Recommendation: Pool management should review purchases of its investments periodically to ensure that the Pool's investment policies are not being violated. The Pool, including the Board of Directors, can also consider updating the investment policies to allow for purchases of corporate bonds with maturity dates of greater than five years from purchase.

Management's Response: The Pool has two separate independent financial advisors. In the spring of 2012, we changed our contractual agreement to become nondiscretionary and fee-based. This was the start of our evaluation of our investments and our financial advisors. The pool is currently evaluating its investment policy for a fiscal year 2012 update. The Pool will work with a sense of urgency to be in compliance for our current fiscal year.

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

Condition: Out of 38 cash receipts tested during internal control testwork, 19 were not deposited by close of the following business day and 7 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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012**

SECTION I – FINANCIAL STATEMENT FINDINGS (CONTINUED)

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

Management's Response: The Finance Department does its best to deposit checks received as promptly as possible. Due to the nature of our insurance business, we have to be sensitive to the issue of subrogation. As a result, all of our insurance related incoming accounts receivables have to go through an approval process.

The nature of the procedures in NM Statute 6-10 section 3 does not take into consideration the liability of the subrogation process. However, management will work with a sense of urgency to streamline our approval process to ensure that we are as compliant as possible with New Mexico state statutes.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012**

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

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

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

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

**NEW MEXICO COUNTY INSURANCE AUTHORITY
WORKERS' COMPENSATION POOL
EXIT CONFERENCE
June 30, 2012**

An exit conference was held on November 8, 2012. The conference was held at the offices of the New Mexico County Insurance Authority Workers' Compensation Pool in Albuquerque, New Mexico. In attendance were:

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

Steve Kopelman, Risk Management Director
Santiago Chavez, Finance Director
Joseph Crelier, Bernalillo County Risk Management Director

CLIFTONLARSONALLEN LLP

Janet Pacheco-Morton, CPA, CGFM, Partner
Raul J. Anaya, CPA, CGFM, Senior Manager
Ryan Jones, CPA, Senior 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.