

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

**FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

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**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
OFFICIAL ROSTER  
June 30, 2014**

**Board of Directors**

Lance Pyle	Board Chair
Joe Crelier	Vice Chair
Gloria Jean Chavez	Secretary/Treasurer
Danny Gonzales	Member
Doug Decker	Member
Wayne Hancock	Member
Jon Paul Saari	Member
Brenda Sanchez	Member
Kristi Galloway	Member
Philip Rios	Member
Robert Anaya	Member
Dan Bryant	Ex-Officio Member
Wendell Bostwick	Ex-Officio Member

**Administrative Officers**

Steve Kopelman	Executive Director
Taylor Horst	Risk Management Director
Santiago Chavez	Finance Director

## Independent Auditors' 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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the New Mexico County Insurance Authority Workers' Compensation Pool (the Pool) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents. We have also audited the Pool's Schedules of Revenues and Expenses – Budget and Actual presented as supplementary information, as defined by the Government Accounting Standards Board, as of and for the years ended June 30, 2014 and 2013, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Pool as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the Schedules of Revenues and Expenses – Budget and Actual for the years ended June 30, 2014 and 2013 in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Notes to Ten Year Claims Development Information and the Ten Year Claims Development Information on pages 5 through 8 and pages 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pool's basic financial statements. The Schedule of Cash and Cash Equivalents Reconciliation from Bank to Financial Statements and the Schedule of Cash Collateral are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Cash and Cash Equivalents Reconciliation from Bank to Financial Statements and the Schedule of Cash Collateral are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Cash and Cash Equivalents Reconciliation from Bank to Financial Statements and the Schedule of Cash

Collateral are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2014 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* in considering the Pool's internal control over financial reporting and compliance.

**CliftonLarsonAllen LLP**

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Albuquerque, New Mexico  
November 14, 2014

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

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 years ended June 30, 2014 and 2013.

**Financial Highlights**

- Pool net position increased by \$1,329,699 to \$3,050,054 from June 30, 2013. Claims expenses increased by \$980,076 from June 30, 2013. Total claims liabilities increased by \$1,592,319 from June 30, 2013.
- Assets increased by \$2,936,981 to \$21,983,392. The Pool's liabilities consist primarily of reserves to pay claims and claim adjustment expenses. Liabilities increased by \$1,607,282 to \$18,933,338 at June 30, 2014.
- The Pool continued to have an optional "high-deductible" funding arrangement with Bernalillo County. Santa Fe County opted for a "no-deductible" policy in the year ended June 30, 2014.
- For the years ended June 30, 2014 and 2013, Bernalillo County paid the first \$400,000 of every claim with an annual aggregate of \$1,750,000.
- Santa Fe County paid the first \$25,000 per claim up to the annual aggregate of \$300,000. 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 statements of net position which report the Pool's assets, liabilities and members' net position (equity), statements of revenues, expenses and changes in net position, 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 statements of net position and statements of revenues, expenses and changes in net position are presented as of and for the years ended June 30, 2014 and 2013.

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

**Condensed Comparative Data**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total assets (cash, receivables, investments, and prepaid expenses)	\$ 21,983,392	\$ 19,046,411	\$ 17,628,492
Total liabilities (claims and claim adjustment expenses and accounts payable)	<u>18,933,338</u>	<u>17,326,056</u>	<u>17,144,677</u>
Net position:			
Unrestricted - held for member benefits	<u>3,050,054</u>	<u>1,720,355</u>	<u>483,815</u>
Total net position	<u>\$ 3,050,054</u>	<u>\$ 1,720,355</u>	<u>\$ 483,815</u>
Revenues:			
Member contributions	\$ 8,358,131	\$ 7,769,178	\$ 7,735,091
Investment and other income	<u>556,146</u>	<u>51,296</u>	<u>740,627</u>
Total revenues	<u>8,914,277</u>	<u>7,820,474</u>	<u>8,475,718</u>
Expenses:			
Claims and claim adjustment expenses	5,694,906	4,714,830	6,393,151
Excess insurance fees	708,296	689,027	697,506
General and administrative	<u>1,181,376</u>	<u>1,180,077</u>	<u>1,066,635</u>
Total expenses	<u>7,584,578</u>	<u>6,583,934</u>	<u>8,157,292</u>
Excess of revenues over expenses	1,329,699	1,236,540	318,426
Net position held for member benefits, beginning of year	<u>1,720,355</u>	<u>483,815</u>	<u>165,389</u>
Net position held for member benefits, end of year	<u>\$ 3,050,054</u>	<u>\$ 1,720,355</u>	<u>\$ 483,815</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.

Revenue increased by \$1,093,803 (14%) for the year ended June 30, 2014. Total expenses increased by \$1,000,644 (15%). Overall, county contributions increased by \$588,953, an 8% increase. Investment income increased due to market changes. There was a \$190,927



**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

increase in the market value of the investment portfolio. Claims and claim adjustment expenses increased by 21% from the prior year.

For the year ended June 30, 2013, revenues and expenses both decreased from the prior year by \$655,214 (33%) and \$1,573,358 (19%), respectively. In this same year, the market value of the investment portfolio decreased by \$622,416 due to market conditions. Claims and claims adjustment expenses decreased in fiscal year 2013 from fiscal year 2012 by approximately 26%.

**Unpaid Claims Liabilities**

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 17,315,765	\$ 17,021,865	\$ 15,787,067
Incurred claims and claim adjustment expenses:			
Provision for insured events of the current year	5,765,279	5,094,208	4,969,318
Increase (decrease) in provision for insured events of prior years	<u>(70,373)</u>	<u>(379,378)</u>	<u>1,423,833</u>
Total incurred claims and claim adjustment expenses	<u>5,694,906</u>	<u>4,714,830</u>	<u>6,393,151</u>
Payments:			
Claims and claim adjustment expenses attributable to insured events of the current year, net of recoveries	1,097,509	1,054,038	1,335,669
Claims and claim adjustment expenses attributable to insured events of prior years	<u>3,005,078</u>	<u>3,366,892</u>	<u>3,822,684</u>
Total payments	<u>4,102,587</u>	<u>4,420,930</u>	<u>5,158,353</u>
Total unpaid claims and claim adjustment expenses, end of year	<u>\$ 18,908,084</u>	<u>\$ 17,315,765</u>	<u>\$ 17,021,865</u>

**Investment Results**

Total cash and investments increased approximately \$2.7 million from \$18,862,756 at June 30, 2013 to \$21,605,261 at June 30, 2014. The overall yield on the Pool's investment portfolio went up, from about .24% at June 30, 2013 to 2.95% at June 30, 2014.

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

**Property, Plant and Equipment**

The Pool had no purchases or disposals of property, plant and equipment during 2014 and 2013.

**Long-term Debt**

The Pool had no long-term debt during the years ended June 30, 2014 and 2013.

**Budget Adjustments**

Investment income was less than budgeted due to market conditions. Total claims and claims adjustment expenses were less than budgeted for the year by approximately \$1 million. Total administrative and other expenses were slightly less than budgeted. Excess insurance premium expenses were more than budgeted by approximately \$8,000.

**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 with the RAP (Risk Awareness Program), offering counties that participate fully in the program in 2014-15 a 2.5% rebate on their contribution at the end of the fiscal year. 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**  
**Statements of Net Position - Enterprise Fund**  
**June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,020,728	\$ 660,089
N.M. State Treasurer's Local Government Investment Pool	4,132	4,132
Investments	20,088,745	17,651,539
Investment in County Reinsurance Limited	491,656	546,996
Accounts receivable - Deductibles	336,459	137,277
Accounts receivable - Reinsurance	29,045	37,662
Prepays	12,627	8,716
Total current assets	21,983,392	19,046,411
<b>TOTAL ASSETS</b>	<b>\$ 21,983,392</b>	<b>\$ 19,046,411</b>
<b>LIABILITIES AND POOL NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 25,254	\$ 10,291
Claims and claim adjustment expenses	5,810,101	5,538,017
Total current liabilities	5,835,355	5,548,308
<b>LONG-TERM LIABILITIES</b>		
Claims and claim adjustment expenses	13,097,983	11,777,748
Total long-term liabilities	13,097,983	11,777,748
<b>NET POSITION</b>		
Unrestricted net position held for member benefits	3,050,054	1,720,355
Total net position	3,050,054	1,720,355
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 21,983,392</b>	<b>\$ 19,046,411</b>

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 Position - Enterprise Fund  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUE</b>		
Member contributions	\$ 8,358,131	\$ 7,769,178
Other revenue	<u>-</u>	<u>8,318</u>
Total operating revenue	<u>8,358,131</u>	<u>7,777,496</u>
<b>OPERATING EXPENSES</b>		
Claims and claim adjustment expenses, net of recoveries	5,694,906	4,714,830
General and administrative	1,169,016	1,168,077
Excess insurance premiums	708,296	689,027
Brokerage fees (Insurance)	<u>12,360</u>	<u>12,000</u>
Total operating expenses	<u>7,584,578</u>	<u>6,583,934</u>
Operating income	<u>773,553</u>	<u>1,193,562</u>
<b>NON-OPERATING REVENUES</b>		
Investment income	<u>556,146</u>	<u>42,978</u>
Total non-operating revenue, net	<u>556,146</u>	<u>42,978</u>
Change in net position	1,329,699	1,236,540
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>1,720,355</u>	<u>483,815</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 3,050,054</u>	<u>\$ 1,720,355</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, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from members	\$ 10,174,316	\$ 9,510,749
Cash received from reinsurers	351,477	100,423
Cash paid to vendors	(1,157,964)	(1,276,906)
Cash paid on claims and claim adjustment expenses	(6,405,474)	(6,127,022)
Cash paid for insurance brokerage fees	(12,360)	(12,000)
Cash paid to reinsurers	(708,296)	(689,027)
Net cash provided by operating activities	2,241,699	1,506,217
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income received	365,219	682,452
Purchase of investments	(7,579,192)	(5,723,456)
Proceeds from the sale of investments	5,332,913	3,885,275
Net cash used by investing activities	(1,881,060)	(1,155,729)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	360,639	350,488
<b>BALANCE, BEGINNING OF YEAR</b>	664,221	313,733
<b>BALANCE, END OF YEAR</b>	\$ 1,024,860	\$ 664,221
<b>RECONCILIATION OF OPERATING INCOME TO</b>		
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 773,553	\$ 1,193,562
Accounts receivable	(199,182)	165,246
Reinsurance receivable	8,617	(37,662)
Investment in County Reinsurance, Limited	55,340	-
Prepays	(3,911)	3,692
Accounts payable	14,963	(112,521)
Claims and claim adjustment expenses	1,592,319	293,900
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 2,241,699	\$ 1,506,217
<b>NON-CASH INVESTING ACTIVITIES</b>		
Unrealized gain (loss) on investments	\$ 373,194	\$ (622,416)

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, 2014**

**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 31 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) Codification section 2100, paragraph 119.

**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 position, revenues, and expenses relating to the Pool's activities where revenues over expenditures are measured.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents include bank demand accounts, money market mutual funds which invest in short-term U.S. governmental obligations, and the investment in the New Mexico State Treasurer Local Government Investment Pool. 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, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments**

The Pool records its investments at cost 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 and amounts due to the Pool pursuant to excess insurance contracts. 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.

**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 the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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.

**Restricted/Unrestricted Net Position**

Net position is restricted to the extent external constraints place restrictions on the use of the net position, such as restrictions by contributors or laws and regulations. Usage of the Pool's net position was not externally restricted at June 30, 2014 or June 30, 2013 and, accordingly, the net position is reported as unrestricted.

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2014**

**NOTE 2 - 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.

Investments consisted of the following at June 30:

<u>2014</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Moody Rating</u>	<u>Cost</u>	<u>Market Gain (Loss)</u>	<u>Estimated Fair Value</u>
IBM CORP NOTES	5.70%	9/14/2017	A1	\$ 104,535	\$ 9,403	\$ 113,938
TOTAL CORPORATE BONDS				<u>104,535</u>	<u>9,403</u>	<u>113,938</u>
PIMCO TOTAL RETURN	1.90%	N/A	N/A	2,258,465	43,925	2,302,390
FEDERATED INC TRST SH BEN	2.68%	N/A	N/A	2,143,785	(65,260)	2,078,525
PIMCO FD PAC INVT LOW DURATION	1.38%	N/A	N/A	2,027,991	4,030	2,032,021
DELAWARE LTD TERM DIVERS INC FD	1.72%	N/A	N/A	2,016,646	(20,498)	1,996,148
DODGE & COX INC FD	3.06%	N/A	N/A	1,095,746	23,808	1,119,554
PIMCO FDS PAC INVT TOTAL RETURN	2.12%	N/A	N/A	1,107,085	(5,035)	1,102,050
FEDERATED SER INC TOTAL RET	3.64%	N/A	N/A	1,073,786	6,737	1,080,523
PIMCO FDS PAC INVT LOW DURATION	1.45%	N/A	N/A	773,912	(9,928)	763,984
VANGUARD SHORT-TERM	1.98%	N/A	N/A	760,822	2,829	763,651
PRUDENTIAL SHORT-TERM	3.08%	N/A	N/A	763,849	(440)	763,409
DELAWARE GROUP INC FDS	2.22%	N/A	N/A	671,011	3,413	674,424
VANGUARD SHORT TERM INVMT	1.98%	N/A	N/A	622,524	(4,977)	617,547
JPMORGAN STRATEGIC INC OPPTS	1.96%	N/A	N/A	606,096	6,550	612,646
BLACKROCK STRATEGIC INC	2.40%	N/A	N/A	545,909	11,200	557,109
DELAWARE LTD TERM DIV INC FD	1.58%	N/A	N/A	524,453	(22,739)	501,714
SCOUT UNCONSTRAINED BD INSTL	0.34%	N/A	N/A	340,483	(2,710)	337,773
GOLDMAN SACHS STRNG INC FUND	2.67%	N/A	N/A	328,738	(1,268)	327,470
VANGUARD BD INDEX	1.15%	N/A	N/A	252,568	478	253,046
OPPENHEIMER SENIOR	4.71%	N/A	N/A	191,546	1,118	192,664
FIDELITY FL RATE HIGH INC CL I	3.15%	N/A	N/A	158,801	1,082	159,883
EATON VANCE FLOATING RATE	3.76%	N/A	N/A	158,815	945	159,760
SCOUT CORE BOND FUND CL I	1.31%	N/A	N/A	151,686	1,827	153,513
ISHARES BARCLAYS MBS BOND FUND	1.46%	N/A	N/A	150,871	(78)	150,793
FED TOTAL RET SER ULTRA SHRT	0.64%	N/A	N/A	46,017	246	46,263
TOTAL MUTUAL FUNDS				<u>18,771,605</u>	<u>(24,745)</u>	<u>18,746,860</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 2 - CASH AND INVESTMENTS (CONTINUED)**

<u>2014</u>	<u>Rate</u>	<u>Date</u>	<u>Rating</u>	<u>Cost</u>	<u>Gain (Loss)</u>	<u>Fair Value</u>
GNMA	4.00%	9/20/2040	N/A	619,476	1,793	621,269
GNMA	5.50%	8/20/2033	N/A	207,608	37,793	245,401
GNMA	5.50%	2/20/2038	N/A	138,073	(1,120)	136,953
GNMA II	5.00%	1/20/2037	N/A	121,722	(6,718)	115,004
GNMA II	5.00%	7/20/2033	N/A	<u>138,789</u>	<u>(29,469)</u>	<u>109,320</u>
TOTAL GOVT. ASSET BACKED SEC.				<u>1,225,668</u>	<u>2,279</u>	<u>1,227,947</u>
<b>TOTAL INVESTMENTS</b>				<u><b>\$20,101,808</b></u>	<u><b>\$ (13,063)</b></u>	<u><b>\$20,088,745</b></u>

<u>2013</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Moody Rating</u>	<u>Cost</u>	<u>Market Gain (Loss)</u>	<u>Estimated Fair Value</u>
IBM CORP NOTES	5.70%	9/14/2017	A1	<u>\$ 104,535</u>	<u>\$ 10,902</u>	<u>\$ 115,437</u>
TOTAL CORPORATE BONDS				<u>104,535</u>	<u>10,902</u>	<u>115,437</u>
FEDERATED INCOME TRST	2.93%	N/A	N/A	2,140,885	(89,500)	2,051,385
PIMCO FD PAC INVT LOW DURATION	2.33%	N/A	N/A	1,999,297	(21,204)	1,978,093
DELAWARE LTD TERM DIVERS	2.01%	N/A	N/A	2,038,066	(63,090)	1,974,976
PIMCO FDS PAC INV MGMT MORTG	2.50%	N/A	N/A	1,269,462	(46,785)	1,222,677
PIMCO FDS TOTAL RETURN FD3	2.64%	N/A	N/A	1,059,464	(21,300)	1,038,164
FEDERATED SER INC TOTAL RET	3.54%	N/A	N/A	1,029,439	(9,668)	1,019,771
JP MORGAN STRATEGIC INC	3.28%	N/A	N/A	594,222	4,017	598,239
VANGUARD SHORT TERM INV	2.06%	N/A	N/A	609,191	(11,204)	597,987
BLACKROCK STRATEGIC INC	3.31%	N/A	N/A	533,063	(8,994)	524,069
PIMCO UNCONSTRAINED BD INS	1.16%	N/A	N/A	541,974	(18,336)	523,638
MAINSTAY FDS TRST FL RT	4.22%	N/A	N/A	500,000	-	500,000
PIMCO FDS PAC INVT LOW DURATION	2.36%	N/A	N/A	513,645	(18,681)	494,964
DELAWARE LIM TERM DIV INC	1.82%	N/A	N/A	524,619	(31,969)	492,650
PIMCO FDS PAC INVT TOTAL RETURN	3.02%	N/A	N/A	516,459	(26,860)	489,599
FEDERATED ADJ RATE SEC	0.50%	N/A	N/A	278,204	(94)	278,110
DODGE & COS INC FD	3.15%	N/A	N/A	268,370	(884)	267,486
DELAWARE GROUP INC. FDS	2.61%	N/A	N/A	252,866	(2,339)	250,527
VANGUARD GNMA FD CL 1	2.60%	N/A	N/A	267,264	(16,740)	250,524
EATON VANCE FLOATING RATE	4.32%	N/A	N/A	152,931	449	153,380
FIDELITY FL RATE HIGH INC CL1	2.54%	N/A	N/A	153,239	(322)	152,917
SCOUT CORE BOND FUND CL1	1.31%	N/A	N/A	149,025	631	149,656
SCOUT UNCONSTRAINED BD	2.08%	N/A	N/A	149,025	230	149,255
ISHARES BARCLAYS MBS BOND	1.46%	N/A	N/A	149,569	(4,141)	145,428
FED TOT RET SER ULTRA SHRT	1.08%	N/A	N/A	<u>55,618</u>	<u>128</u>	<u>55,746</u>
TOTAL MUTUAL FUNDS				<u>15,745,897</u>	<u>(386,656)</u>	<u>15,359,241</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 2 - CASH AND INVESTMENTS (CONTINUED)**

2013	Rate	Maturity Date	Moody Rating	Cost	Market Gain (Loss)	Estimated Fair Value
GNMA	4.00%	9/20/2040	N/A	722,730	(6,166)	716,564
GNMA	4.50%	8/20/2041	N/A	716,611	(52,499)	664,112
GNMA	5.50%	8/20/2033	N/A	268,869	38,105	306,974
GNMA	5.50%	2/20/2038	N/A	194,103	760	194,863
GNMA II	5.00%	1/20/2037	N/A	162,477	(5,298)	157,179
GNMA II	5.00%	7/20/2033	N/A	<u>166,342</u>	<u>(29,173)</u>	<u>137,169</u>
TOTAL GOVT. ASSET BACKED SEC.				<u>2,231,132</u>	<u>(54,271)</u>	<u>2,176,861</u>
<b>TOTAL INVESTMENTS</b>				<u>\$ 18,081,564</u>	<u>\$ (430,025)</u>	<u>\$ 17,651,539</u>

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

	<u>2014</u>	<u>2013</u>
Interest and dividends received	\$ 365,219	\$ 709,673
Loss on sale of investments	(182,267)	(44,279)
Unrealized gains (losses)	<u>373,194</u>	<u>(622,416)</u>
Total investment income	<u>\$ 556,146</u>	<u>\$ 42,978</u>

As of June 30, 2014, the Pool's investments were as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Estimated Fair Value</u>
Mutual Funds	\$ 18,771,605	\$ 18,746,860
Government Asset Backed Securities	1,225,668	1,227,947
Corporate Bonds	<u>104,535</u>	<u>113,938</u>
Total	<u>\$ 20,101,808</u>	<u>\$ 20,088,745</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 2 - CASH AND INVESTMENTS (CONTINUED)**

As of June 30, 2013, the Pool's investments were as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Estimated Fair Value</u>
Mutual Funds	\$ 15,745,897	\$ 15,359,241
Government Asset Backed Securities	2,231,132	2,176,861
Corporate Bonds	<u>104,535</u>	<u>115,437</u>
Total	<u>\$ 18,081,564</u>	<u>\$ 17,651,539</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, 2014, the Pool had \$607,502 exposed to custodial credit risk. There were no deposits exposed to custodial credit risk at June 30, 2013.

**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)**

As of June 30, 2014 and 2013, the investment in LGIP was as follows:

	<u>S&amp;P Rating</u>	<u>Amount Invested</u>	<u>Weighted Average</u>
New MexiGROW LGIP	AAAm rated	\$ 4,132	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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 2 - 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, 2014 and 2013, the following investments, by issuer, represented 5% or more of the Pool's total investments:

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 2 - CASH AND INVESTMENTS (CONTINUED)**

<b>Issuer</b>	<b>Percentage of Total</b>	
	<b>2014</b>	<b>2013</b>
PIMCO	27%	33%
Federated Investors	16%	19%
Delaware Investments	10%	15%
GNMA	6%	12%
Dodge & Cox	6%	-

**NOTE 3 - 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. This projected ultimate cost includes the effects of inflation and other societal and economic factors. Estimates of the liability for amounts incurred but not reported as of June 30, 2014 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, 2014 and 2013. Estimated outstanding losses were discounted from \$24,460,436 and \$22,509,343 as of June 30, 2014 and 2013, respectively.

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 3 - CLAIMS AND CLAIM ADJUSTMENT EXPENSES (CONTINUED)**

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

	<u>2014</u>	<u>2013</u>
Unpaid claims and claim adjustment expenses at beginning of year	<u>\$ 17,315,765</u>	<u>\$ 17,021,865</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	5,765,279	5,094,208
Decrease in provision for insured events of prior years	<u>(70,373)</u>	<u>(379,378)</u>
Total incurred claims and claim adjustment expenses	<u>5,694,906</u>	<u>4,714,830</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year, net of recoveries	1,097,509	1,054,038
Claims and claim adjustment expenses attributable to insured events of prior years	<u>3,005,078</u>	<u>3,366,892</u>
Total payments	<u>4,102,587</u>	<u>4,420,930</u>
<b>Total unpaid claims and claim adjustment expenses at end of year</b>	<u><b>\$ 18,908,084</b></u>	<u><b>\$ 17,315,765</b></u>

At June 30, 2014 and 2013, the Pool recorded the liability for losses and loss adjustment expenses based on an estimate of its independent consulting actuary.

**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, 2014 and 2013 consisted of the following:

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 4 - GENERAL AND ADMINISTRATIVE (CONTINUED)**

	<b>2014</b>	<b>2013</b>
Risk management	\$ 1,059,035	\$ 1,077,093
Software licensing and support	39,982	66,392
Accounting and audit	61,561	16,592
Actuarial	8,438	8,000
<b>Total</b>	<b>\$ 1,169,016</b>	<b>\$ 1,168,077</b>

**NOTE 5 - 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).

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 an excess insurance recovery. For the years ended June 30, 2014 and 2013, the amount of excess insurance receivable was \$29,045 and \$37,662, 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, 2014 and 2013, the Pool paid \$708,296 and \$689,027, respectively, to CRL for excess insurance premiums. As of June 30, 2014 and 2013, the amount of claim liabilities not included on the balance sheet due to the excess insurance coverage was approximately \$5.6 million and \$5.2 million, respectively. Reinsurance offset claims expense by \$287,520 and \$138,085 for the years ended June 30, 2014 and 2013, respectively.

**NOTE 6 - 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, 2014**

**NOTE 6 - 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 7 – FUNDING ARRANGEMENTS**

The Pool has optional high-deductible and no-deductible funding arrangements with certain Pool members. For the years ended June 30, 2014 and 2013, Bernalillo County paid the first \$400,000 of every claim with an annual aggregate of \$1,750,000. For the year ended June 30, 2014, Santa Fe County's policy had no deductible. For the year ended June 30, 2013, Santa Fe County paid the first \$25,000 of every claim with an annual aggregate of \$300,000. 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.

**NOTE 8 - 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.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
NOTES TO TEN YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)  
June 30, 2014**

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, 2014**

<b>(in thousands)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
1. Net earned required contribution and investment revenues	\$ 4,390	\$ 5,245	\$ 7,719
2. Unallocated expenses	608	746	898
3. Estimated incurred claims and expense, end of policy year	3,356	3,229	2,306
4. Paid (cumulative) as of:			
Year one	1,510	1,695	1,135
Year two	3,098	3,013	1,987
Year three	3,987	3,368	2,223
Year four	4,512	3,629	2,446
Year five	4,704	3,766	2,672
Year six	4,862	3,861	2,776
Year seven	5,113	4,093	2,847
Year eight	5,238	4,182	<b>2,961</b>
Year nine	5,362	<b>4,239</b>	-
Year ten	<b>5,457</b>	-	-
5. Re-estimated incurred claims and expense:			
Year one	3,356	3,229	2,306
Year two	4,909	3,893	2,371
Year three	5,303	4,058	2,752
Year four	5,607	4,364	2,985
Year five	5,644	4,576	3,226
Year six	5,801	4,537	3,236
Year seven	5,902	4,692	3,206
Year eight	5,946	4,734	<b>3,223</b>
Year nine	5,991	<b>4,761</b>	-
Year ten	<b>6,269</b>	-	-
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	2,913	1,532	917

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
\$	8,048	\$ 7,658	\$ 8,255	\$ 8,192	\$ 8,464	\$ 7,812	\$ 8,914
	953	1,017	1,697	2,010	1,078	1,180	1,169
	2,875	3,658	5,309	5,957	4,133	5,094	5,765
	1,176	1,554	1,505	1,907	1,782	1,660	<b>1,098</b>
	3,082	2,744	3,300	3,938	3,382	<b>3,227</b>	-
	3,687	3,636	4,098	5,013	<b>4,279</b>	-	-
	4,494	4,026	4,677	<b>5,667</b>	-	-	-
	4,914	4,350	<b>4,958</b>	-	-	-	-
	5,119	<b>4,596</b>	-	-	-	-	-
	<b>5,315</b>	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	2,875	3,658	5,309	4,496	4,133	4,106	<b>5,765</b>
	4,530	4,323	5,285	6,431	5,899	<b>5,205</b>	-
	5,508	4,957	5,957	7,326	<b>5,676</b>	-	-
	5,909	5,220	5,939	<b>7,253</b>	-	-	-
	6,040	5,294	<b>6,499</b>	-	-	-	-
	6,004	<b>4,728</b>	-	-	-	-	-
	<b>6,583</b>	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	3,708	1,070	1,190	1,296	1,543	111	-

**OTHER SUPPLEMENTARY INFORMATION**

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
SCHEDULES OF REVENUES AND EXPENSES -  
BUDGET AND ACTUAL  
Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>Final Budget</u>
			<u>Basis)</u>	<u>Favorable</u>
				<u>(Unfavorable)</u>
<b>REVENUES</b>				
Member contributions	\$ 8,018,668	\$ 8,018,668	\$ 8,358,131	\$ 339,463
Investment income	<u>700,000</u>	<u>700,000</u>	<u>556,146</u>	<u>(143,854)</u>
Total revenues	<u>8,718,668</u>	<u>8,718,668</u>	<u>8,914,277</u>	<u>195,609</u>
<b>EXPENSES</b>				
Claims and claim adjustment expenses	6,759,968	6,759,968	5,694,906	1,065,062
Excess insurance premiums	700,000	700,000	708,296	(8,296)
General and administrative	1,246,700	1,246,700	1,169,016	77,684
Brokerage fees	<u>12,000</u>	<u>12,000</u>	<u>12,360</u>	<u>(360)</u>
Total expenses	<u>8,718,668</u>	<u>8,718,668</u>	<u>7,584,578</u>	<u>1,134,090</u>
<b>EXCESS OF REVENUES</b>				
<b>OVER EXPENSES</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>1,329,699</u>	<u>\$ 1,329,699</u>
<b>EXCESS OF REVENUES OVER</b>				
<b>EXPENSES PER ACCOMPANYING</b>				
<b>GAAP FINANCIAL STATEMENTS</b>				
			<u>\$ 1,329,699</u>	

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
SCHEDULES OF REVENUES AND EXPENSES -  
BUDGET AND ACTUAL  
Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>Final Budget</u>
			<u>Basis)</u>	<u>Favorable</u>
				<u>(Unfavorable)</u>
<b>REVENUES</b>				
Member contributions	\$ 7,829,938	\$ 7,829,938	\$ 7,769,178	\$ (60,760)
Investment income	450,000	450,000	42,978	(407,022)
Miscellaneous income	<u>-</u>	<u>-</u>	<u>8,318</u>	<u>8,318</u>
Total revenues	<u>8,279,938</u>	<u>8,279,938</u>	<u>7,820,474</u>	<u>(459,464)</u>
<b>EXPENSES</b>				
Claims and claim adjustment expenses	6,343,738	6,343,738	4,714,830	1,628,908
Excess insurance premiums	725,000	725,000	689,027	35,973
General and administrative	<u>1,211,200</u>	<u>1,211,200</u>	<u>1,180,077</u>	<u>31,123</u>
Total expenses	<u>8,279,938</u>	<u>8,279,938</u>	<u>6,583,934</u>	<u>1,696,004</u>
<b>EXCESS OF REVENUES</b>				
<b>OVER EXPENSES</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>1,236,540</u>	<u>\$ 1,236,540</u>
<b>EXCESS OF REVENUES OVER</b>				
<b>EXPENSES PER ACCOMPANYING</b>				
<b>GAAP FINANCIAL STATEMENTS</b>				
			<u>\$ 1,236,540</u>	



**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
SCHEDULE OF CASH AND CASH EQUIVALENTS  
RECONCILIATION FROM BANK TO FINANCIAL STATEMENTS  
June 30, 2014**

**FIRST NATIONAL BANK**

Checking	\$ 1,736,668
Reconciling items:	
Outstanding checks	<u>(1,564,329)</u>
Total checking	<u>172,339</u>
Total First National Bank	<u>172,339</u>

**WELLS FARGO SECURITIES**

Money Market	857,502
Reconciling items:	
Outstanding checks	<u>(9,477)</u>
Total Wells Fargo Securities	<u>848,025</u>

**LPL FINANCIAL INVESTMENTS**

Money Market	<u>(2,524)</u>
Total LPL Financial Investments	<u>(2,524)</u>

**FIDELITY**

Money Market	<u>2,888</u>
Total Fidelity Financial Investments	<u>2,888</u>

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

\$ 1,020,728

**CASH BALANCE PER BANK**

\$ 2,594,534

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
 WORKERS' COMPENSATION POOL  
 SCHEDULE OF CASH COLLATERAL  
 Year Ended June 30, 2014**

**FIRST NATIONAL BANK**

Checking	\$ 1,736,668
Other checking accounts held by the New Mexico Association of Counties (Not held by the Pool)	<u>768,546</u>

Total deposit in bank	2,505,214
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FDIC coverage	<u>(250,000)</u>
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Total uninsured funds	2,255,214
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50% pledged collateral requirement	1,127,607
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Pledged collateral:

FNMA - held with First National Bank of Santa Fe Cusip #31417Y6B8, Maturity Date: 10/1/2021	<u>2,414,574</u>
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<b>OVER-COLLATERALIZED</b>	<u><u>\$ 1,286,967</u></u>
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**WELLS FARGO SECURITIES**

Wells Fargo Advisors Money Market	\$ 857,502
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SIPC coverage	<u>(250,000)</u>
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Total uninsured funds	607,502
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50% pledged collateral requirement	<u>303,751</u>
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<b>UNDER-COLLATERALIZED</b>	<u><u>\$ (303,751)</u></u>
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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New Mexico County Insurance Authority Workers' Compensation Pool (the Pool), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements and the Pool's Schedules of Revenue and Expenses – Budget and Actual, presented as supplementary information, and have issued our report thereon dated November 14, 2014.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and these findings are described in the accompanying schedule of findings and responses as 2014-001 and 2014-002.

### **The Pool's Response to Findings**

The Pool's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Pool's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

### **Purpose of this Report**

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

**CliftonLarsonAllen LLP**

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Albuquerque, New Mexico  
November 14, 2014

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**Section I – Financial Statement Findings**

**Finding 2014-001 – Non-Compliance with Title 11, Chapter 4 of the New Mexico Administrative Code (Compliance and Other Matters)**

**Condition:** For one payment tested out of a total of 22, there was no evidence documenting the date of receipt of the invoice by the Pool. This evidence typically consists of a date stamp on the invoice. Another payment was made outside of the Pool's 30-day turnaround period required for payment on invoices, based on the date stamp on the invoice and the date of the payment.

**Criteria:** Per the New Mexico Administrative Code, Section 11.4.7.8 D(2), "for all reasonable and necessary services provided to a patient/worker with a valid workers' compensation claim, payer is responsible for timely good faith payment within thirty days of receipt of a bill for services unless payment is pending in accordance with the criteria for contesting bills and an appropriate explanation of benefits has been issued by the payer."

**Cause:** In these two instances, the process and internal controls for claims disbursements failed to produce payment on the associated invoices within the 30-day time frame.

**Effect:** The Pool is out of compliance with NMAC 11.4.7.8 D(2).

**Recommendation:** We recommend that management utilize existing reporting capabilities within the claims information system to track invoices that are approaching the 30-day deadline for payment. This should be done on a weekly basis to ensure that compliance with the applicable requirements is met.

**Management's Response:** The late payment was delayed in our medical bill reviewing vendor's system and was not returned to us within the 30 day deadline. Per the suggestion we will focus on utilizing the reporting capability of the claims database system to better monitor payments.

**Finding 2014-002 – Internal Controls over Claims Disbursements (Compliance and Other Matters)**

**Condition:** Out of 22 claims payments tested, one payment was made for \$9.56 more than what was approved in the claims system.

**Criteria:** Payments should be made for amounts that are approved by claims management, unless a valid reason for the discrepancy is noted in the claims system. The individual approving the checks should compare the amounts being paid to the amounts that are approved in the claims system.

**Cause:** The internal control process over claims payments failed to detect the overpayment.

**Effect:** The Pool paid \$9.56 more than what was obligated and approved by claims management. Internal controls over the claims payment process are not operating effectively.

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**Section I – Financial Statement Findings** (continued)

**Finding 2014-002 – Internal Controls over Claims Disbursements** (continued)

**Recommendation:** We recommend that the individual tasked with approving claims checks verify that the check amounts agree to approved amounts in the claims system.

**Management's Response:** The incorrectly paid amount was a data entry error. We will pursue improving our methodology for verification of correctly entered payment amounts.

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
June 30, 2014**

**Section I – Financial Statement Findings**

**Finding 2013-001 – IPA Recommendation Letter Not Submitted Timely (Other Matter) - Resolved**

**Condition:** The Pool did not submit a completed and signed Independent Public Accountant (IPA) recommendation form, along with the contract, in a timely manner.

**Finding 2010-001 – Cash Receipts Not Deposited in a Timely Manner (Control Deficiency) - Resolved**

**Condition:** Out of 22 cash receipts tested during internal control testwork, 15 were not deposited by close of the following business day and 4 lacked evidence of date received.

**NEW MEXICO COUNTY INSURANCE AUTHORITY  
WORKERS' COMPENSATION POOL  
EXIT CONFERENCE  
June 30, 2014**

An exit conference was held on November 6, 2014. The conference was held at the offices of the New Mexico County Insurance Authority Workers' Compensation Pool in Albuquerque, New Mexico. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the financial statements by the State Auditor. In attendance were:

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

Carolin Rios, Senior Accountant II  
Taylor Horst, Risk Management Director  
Santiago Chavez, Finance Director  
Lance Pyle, Bernalillo County Risk Management Director

**CLIFTONLARSONALLEN LLP**

Janet Pacheco-Morton, CPA, CGFM, Partner

**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.