

NEW MEXICO
COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL
Financial Statements
for the Year Ended
December 31, 2009,
and Independent
Auditors' Report

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

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**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Official Roster

Year Ended December 31, 2009

Board of Directors

| | |
|-------------------|----------------------|
| Dan Mayfield | Chair |
| Nicklos Jaramillo | Vice Chair |
| Victor Montoya | Secretary//Treasurer |
| Wendell Bostwick | Member |
| Ron Lethgo | Member |
| John Paul Saari | Member |
| Orlando Lucero | Member |
| Ed Fridenstine | Member |
| Doug Decker | Member |
| Patrick Snedeker | Member |
| Tony Atkinson | Member |

Administrative Officers

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

Multi-Line Program Member Counties as of December 31, 2009

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

Law Enforcement Program Member Counties as of December 31, 2009

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
New Mexico County Insurance Authority
Multi-Line Pool
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 Multi-Line Pool (the Pool) as of and for the year ended December 31, 2009, 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 as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Pool as of December 31, 2009, and the respective changes in the financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the Schedules of Revenues and Expenses – Budget and Actual (Budgetary Basis) referred to above present fairly, in all material respects, the budgetary comparisons of the Pool as of and for the year ended December 31, 2009, 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.



Board of Directors
New Mexico County Insurance Authority
Multi-Line Pool
Santa Fe, New Mexico and
Mr. Hector H. Balderas
New Mexico State Auditor

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2010, on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 6 and ten year claims development information on pages 29 through 31 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Meignier + Company, LLC

May 19, 2010

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

**Management's Discussion and Analysis –
Year Ended December 31, 2009**

As management of the New Mexico County Insurance Authority Multi-Line 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 December 31, 2009.

Overview of the Financial Statements

The NMCIA-Multi-Line Pool is a self-insurance pool for New Mexico counties created pursuant to joint powers agreements. The NMCIA Multi-Line Pool is composed of two separate county self-insurance pools, the Multi-Line Pool and the Law Enforcement Pool (the Pools). Both pools had 29 member counties as of December 31, 2009. Members pay annual contributions to the Pools. The other source of income is investments. The Pools then pay all administrative, claims and excess insurance costs. The Pools' basic financial statements are composed of three components: 1) government-wide financial statements, 2) separate pool financial statements, and 3) notes to the financial statements.

Condensed Comparative Data

| Years Ended December 31, | 2009 | 2008 |
|--|----------------------------|--------------------|
| | <u>2009</u> | <u>2008</u> |
| Total assets (cash, investments and prepaid expenses) | \$ 34,393,470 | 31,413,020 |
| Total liabilities (claims and claim adjustment expenses) | <u>25,280,984</u> | <u>22,460,669</u> |
| Pool net assets | \$ <u>9,112,486</u> | <u>8,952,351</u> |
| Revenues: | | |
| Member contributions | \$ 16,568,347 | 15,124,794 |
| Investment and other income | <u>1,227,643</u> | <u>1,198,009</u> |
| Total revenues | 17,795,990 | 16,322,803 |
| Expenses: | | |
| Claims and claim adjustment expenses | 12,430,365 | 13,041,500 |
| Excess insurance and brokerage fees | 3,088,629 | 2,694,839 |
| General and administrative | <u>2,116,861</u> | <u>1,937,638</u> |
| Total expenses | <u>17,635,855</u> | <u>17,673,977</u> |
| Excess (deficiency) of revenues over expenses | <u>160,135</u> | <u>(1,351,174)</u> |
| Net assets, beginning of year | <u>8,952,351</u> | <u>10,303,525</u> |
| Net assets, end of year | \$ <u>9,112,486</u> | <u>8,952,351</u> |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

**Management's Discussion and Analysis –
Year Ended December 31, 2009 - continued**

Financial Highlights

- Multi-Line Pool assets increased by approximately \$1.6 million and Pool surplus increased by approximately \$800 thousand.
- Law Enforcement Pool assets increased by approximately \$1.4 million but the net asset deficit increased by approximately \$637 thousand due to increased claims reserves.
- Investment income was down slightly in both Pools due to lower interest rates.

Underwriting Results

Member contributions to the NM CIA Multi-Line Pool increased from \$7,620,680 in 2008 to \$7,950,041, a 4% increase. Law Enforcement Pool contributions increased from \$7,504,114 to \$8,618,306, a 15% increase. Individual county's contributions to the Multi-Line and Law Enforcement Programs are based on each county's loss experience and exposure. Most of the member counties of the Multi-Line Pool saw no increase to their contributions. One county, Bernalillo, saw a 4.6% decrease and twelve counties saw increases ranging from 5 to 15%. In the Law Enforcement Program, there were two counties with no increases and the rest received contribution increases ranging from 2.5% up to 30% due to loss experience and increased exposure.

The Pools' pricing and budgeting approach includes investment income. Adding in investment income, the Pools had an increase in net assets of \$160,135: a \$797,093 increase for Multi-Line and a \$636,958 decrease for Law Enforcement.

Investment Results

At the end of 2009, the Pools' current assets totaled \$34,388,084. \$5,752,637 was in cash, earning less than 1% interest. The rest was invested primarily in a fixed income portfolio of government and corporate bonds earning about 4.75%. The Multi-Line Pool portfolio increased by about 15% and the Law Enforcement Pool portfolio increased by about 57%. In the Law Enforcement Pool, about \$1.4 million was collected during the year in reinsurance. The Pools' equity in County Reinsurance Ltd. (CRL) was unaffected for the year since both of the Pools withdrew from CRL at the end of 2007. As allowed in CRL's By-Laws, one-fifth of Multi-Line and Law Enforcement's equity in CRL was returned in April 2009. Investment income for both insurance pools was similar to 2008: about \$1.2 million.

Property, Plant and Equipment

The Pools had no purchases or disposals of property, plant and equipment during 2009.

Long-term Debt

The Pools had no long-term debt during 2009.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

**Management's Discussion and Analysis –
Year Ended December 31, 2009 - continued**

Net Income

For the year ended December 31, 2009, the Multi-Line Pool had net income of \$797,093 and the Law Enforcement Pool had a net loss of \$636,958. Net income for the Multi-Line Pool included Operating Income of \$84,838 and Investment Income of \$712,255. The Net Loss for the Law Enforcement Pool included an Operating Loss of \$1,056,318 and Investment Income of \$419,360.

Member Surplus

The Multi-Line Pool had combined net assets (surplus) of \$9,112,486 at the close of its most recent fiscal year. The Multi-Line Pool surplus increased from \$10,136,092 to \$10,933,185 and the Law Enforcement Pool net deficit increased from \$(1,183,741) to \$(1,820,699).

Budget

In the Multi-Line Program, member contributions were slightly more than budgeted \$(1,883) due to additional coverage added during the year for buildings in Santa Fe and Otero Counties. Investment income for both Pools was more than budgeted. In total, claims and claim adjustment expenses were less than budgeted for the Multi-Line Pool and more than budgeted for the Law Enforcement Pool. Excess insurance was as budgeted in the Law Enforcement Pool but went over budget in the Multi-Line Pool, due to adding additional coverage for two counties (\$1,883 – see increase in contributions) and because \$2,000 was owed for Sexual Abuse Coverage. That coverage was paid in 2008 but the invoice was underpaid in error by \$2,000. Administrative and other expenses were, in total, less than budgeted.

Pool Trends and Conditions

The Multi-Line program is doing well and the Pool will make an equity distribution to counties in 2010, which will serve as a credit to 2010 contributions. The Law Enforcement program is in a deficit of \$1,820,699. The current deficit is due to adverse claims development in the 2006, 2007 and 2008 policy years. Fiscal year 2006 was a particularly bad year. In 2006, there were 13 claims that went over the \$250,000 self insured retention. Two of these claims were over \$2 million, both class action strip search claims. The Law Enforcement Pool continues to provide loss prevention and risk management services to counties in order to reduce the occurrence and severity of claims. Contributions have been increased annually to those counties seeing increased exposure and/or high losses.

BASIC FINANCIAL STATEMENTS

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Statement of Net Assets - Enterprise Funds

AS OF DECEMBER 31, 2009

| | Multi-Line Program | Law Enforcement Program | Total |
|---|-------------------------------|--|-------------------|
| ASSETS: | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents (Note 2) | \$ 2,777,713 | 2,974,924 | 5,752,637 |
| Investment in the State General Fund | | | |
| Investment Pool (Note 2) | 32,268 | 46,560 | 78,828 |
| Investments (Note 2) | 16,392,852 | 10,347,849 | 26,740,701 |
| Accounts receivable - Subrogation, Deductibles | - | 49,430 | 49,430 |
| Accounts receivable - Trade | 795 | 396 | 1,191 |
| Investment in County Reinsurance, Limited | 792,643 | 950,354 | 1,742,997 |
| Prepays | 22,300 | - | 22,300 |
| TOTAL CURRENT ASSETS | 20,018,571 | 14,369,513 | 34,388,084 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment, net (Note 4) | 3,591 | 1,795 | 5,386 |
| TOTAL ASSETS | \$ 20,022,162 | 14,371,308 | 34,393,470 |
| LIABILITIES AND POOL NET ASSETS: | | | |
| CURRENT LIABILITIES: | | | |
| Claims and claim adjustment expenses (Note 5) | \$ 9,088,977 | 16,192,007 | 25,280,984 |
| TOTAL LIABILITIES | 9,088,977 | 16,192,007 | 25,280,984 |
| POOL NET ASSETS HELD FOR MEMBERS' BENEFITS | | | |
| Invested in capital assets, net of related debt | 3,591 | 1,795 | 5,386 |
| Unrestricted | 10,929,594 | (1,822,494) | 9,107,100 |
| TOTAL POOL NET ASSETS HELD FOR MEMBERS' BENEFITS | 10,933,185 | (1,820,699) | 9,112,486 |
| TOTAL LIABILITIES AND POOL NET ASSETS | \$ 20,022,162 | 14,371,308 | 34,393,470 |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Statement of Revenues, Expenses and Changes in Fund Net Assets - Enterprise Funds

YEAR ENDED DECEMBER 31, 2009

| | <u>Multi-Line Program</u> | <u>Law Enforcement Program</u> | <u>Total</u> |
|--|-------------------------------|--|-------------------|
| OPERATING REVENUES: | | | |
| Member contributions | \$ 7,950,041 | 8,618,306 | 16,568,347 |
| Other income | <u>6,028</u> | <u>-</u> | <u>6,028</u> |
| TOTAL OPERATING REVENUES | 7,956,069 | 8,618,306 | 16,574,375 |
| OPERATING EXPENSES: | | | |
| Claims and claim adjustment expenses | 5,451,803 | 6,978,562 | 12,430,365 |
| Excess insurance premiums (Note 6) | 1,274,679 | 1,723,950 | 2,998,629 |
| General and administrative (Note 8) | <u>1,144,749</u> | <u>972,112</u> | <u>2,116,861</u> |
| TOTAL OPERATING EXPENSES | <u>7,871,231</u> | <u>9,674,624</u> | <u>17,545,855</u> |
| OPERATING INCOME (LOSS) | 84,838 | (1,056,318) | (971,480) |
| NON-OPERATING REVENUES (EXPENSES): | | | |
| Investment income (Note 2) | 772,255 | 449,360 | 1,221,615 |
| Commissions/brokerage fees (Note 7) | <u>(60,000)</u> | <u>(30,000)</u> | <u>(90,000)</u> |
| TOTAL NON-OPERATING REVENUE, NET | <u>712,255</u> | <u>419,360</u> | <u>1,131,615</u> |
| CHANGE IN NET ASSETS | 797,093 | (636,958) | 160,135 |
| POOL NET ASSETS HELD FOR MEMBERS' BENEFITS, BEGINNING OF YEAR | <u>10,136,092</u> | <u>(1,183,741)</u> | <u>8,952,351</u> |
| POOL NET ASSETS (DEFICIT) HELD FOR MEMBERS' BENEFITS, END OF YEAR | \$ <u>10,933,185</u> | <u>(1,820,699)</u> | <u>9,112,486</u> |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Statement of Cash Flows - Enterprise Funds

YEAR ENDED DECEMBER 31, 2009

| | <u>Multi-Line Program</u> | <u>Law Enforcement Program</u> | <u>Total</u> |
|--|-------------------------------|--|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash received from members | \$ 8,337,241 | 9,958,230 | 18,295,471 |
| Cash paid to suppliers | (1,178,293) | (1,069,138) | (2,247,431) |
| Cash paid on claims and claims adjustment expenses | (4,654,437) | (4,821,003) | (9,475,440) |
| Cash paid for excess insurance | (1,274,679) | (1,723,950) | (2,998,629) |
| Cash received from others | <u>285,016</u> | <u>237,589</u> | <u>522,605</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,514,848 | 2,581,728 | 4,096,576 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Principal on note receivable | 302,805 | - | 302,805 |
| Investment income received | 772,255 | 449,360 | 1,221,615 |
| Payments for commission and brokerage | (60,000) | (30,000) | (90,000) |
| Proceeds from sale or maturity of investments | 10,314,606 | 4,301,402 | 14,616,008 |
| Purchases of investments | <u>(12,407,111)</u> | <u>(8,074,590)</u> | <u>(20,481,701)</u> |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(1,077,445)</u> | <u>(3,353,828)</u> | <u>(4,431,273)</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 437,403 | (772,100) | (334,697) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>2,372,578</u> | <u>3,793,584</u> | <u>6,166,162</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ <u>2,809,981</u> | <u>3,021,484</u> | <u>5,831,465</u> |
| RECONCILIATION OF OPERATING INCOME TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | |
| Operating income (loss) | \$ 84,838 | (1,056,318) | (971,480) |
| Depreciation | 2,693 | 1,347 | 4,040 |
| Change in assets and liabilities: | | | |
| Accounts receivable | 387,200 | 1,339,924 | 1,727,124 |
| Investment in county reinsurance, limited | 198,162 | 237,589 | 435,751 |
| Prepays | 80,826 | - | 80,826 |
| Accounts payable | - | (643) | (643) |
| Claims and claim adjustment expenses | <u>761,129</u> | <u>2,059,829</u> | <u>2,820,958</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ <u>1,514,848</u> | <u>2,581,728</u> | <u>4,096,576</u> |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements

NATURE OF ORGANIZATION

The New Mexico County Insurance Authority Multi-Line Pool (the Pool) was formed January 1, 1989, pursuant to the New Mexico Joint Powers Agreement Act (11-1-1 NMSA 1978), as amended. The Pool operates two self-insurance pools, a Multi-Line Program and a Law Enforcement Program (collectively referred to as the Programs). As a self-insurance fund under Section 3-62-2 NMSA 1978, the Pool is not considered to be in the insurance business and, as such, is not subject to New Mexico laws regulating insurance operations.

The Law Enforcement Program was formed August 1, 1995, by the Pool as a self-insurance program for law enforcement employees, detention officers and sheriff reserve officers. Members of the Law Enforcement Program include various counties within the state of New Mexico.

Membership in the Programs 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 may be expelled for failure to make timely contributions to the Pool, or failure to institute loss reduction and prevention procedures. Upon withdrawal or expulsion, a member is not entitled to reimbursement of contributions made to the Pool, and continues to be obligated to make payment for obligations that arose prior to withdrawal.

Members agree to contribute amounts determined by the Pool's Board of Directors to be necessary to protect the solvency of the Pool after considering investment income. The Pool is responsible for paying all claims and for administering the funds. The Pool has no component units as defined in GASB Statement 39.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

• **Basis of Accounting**

The Pool uses fund accounting. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. All operations of the Pool are accounted for as a proprietary fund. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to outside parties. The only proprietary fund types the Pool has are enterprise funds. Enterprise funds are required to account for operations for which a fee is charged to external users for goods and services, and the activity is financed with debt that is: a) solely secured by a pledge of the net revenues; b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or c) has a pricing policy designed for the fees and charges to recover similar costs. The Multi-Line Program and Law Enforcement Program are considered enterprise funds.

The Pool follows all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents include demand and money market accounts. The Pool maintains its cash balances with local financial institutions and one investment company. Cash in bank accounts are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation (FDIC). The Pool has all cash and cash equivalents secured by pledges of qualifying securities held by the depository. Cash held by the investment company is insured by the Securities Protection Investors Corporation up to \$500,000. The investment company has obtained additional protection for the remaining net equity balance. This coverage does not protect against losses from any change in the market values of securities.

• **Investments**

The Pool reports certain investments at fair value in the balance sheet and recognizes the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is based on the quoted market value at year-end. Investment transactions are recorded on the trade date. Dividends are recognized as income when declared. In accordance with the Pools, investment policy, allowable investments include securities of the United States government and certain state and local governments; securities guaranteed by the United States Government; certain commercial paper and corporate bonds; asset backed obligations; repurchase agreements; certificates of deposit; and the New Mexico Office of the State Treasurer State Investment Pool (State Investment Pool).

Participation in the State Investment Pool is not required and the State Investment Pool is not registered with the SEC. Also, the State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10 I through 610-10 P and Sections 6-10-10.1 A and E, NMSA 1978. The State Investment Pool does not have unit shares, and all interest earned is distributed by the State Treasurer to contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested.

• **Accounting Method**

The Pool's books are maintained on the accrual basis of accounting using the economic resources measurement focus. Billings for contributions are recognized as revenue in the period of the insurance coverage. Claims were processed by a third party until December 2, 1998, at which time the Pool began processing its claims in-house.

• **Operating Revenues**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal ongoing operations of the Pool is risk financing, and accordingly, premiums paid by participants and members for risk and benefits coverage are classified as

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Operating Revenues - continued**

operating revenues. Other income, including investment income, is outside of the Pool's principal ongoing operations and, therefore, is classified as non-operating income. The principal operating expenses of the Pool include the cost of claims and adjustment, as well as excess insurance premiums, general and administrative expenses, and commission/brokerage fees. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

• **Participant Premiums**

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

• **Excess Insurance Premiums**

Excess insurance premiums for risk coverage are recognized as an expense in the applicable contract period (coincides with the fiscal year). Excess insurance premiums for benefits coverage are recognized as an expense on a pro rata basis over the applicable contract period. Premium adjustments for retrospectively adjusted excess insurance policies are estimated and recorded as revenue or expense over the period of policy coverage.

• **Losses and Loss Adjustment Expenses**

Insurance losses and related loss adjustment expenses are charged to operations as incurred. The reserves for losses and loss adjustment expenses are determined based upon case-basis evaluations and actuarial projections, and include a provision for claims incurred but not reported. The actuarial projects 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 property, casualty, and workers' compensation insurance 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 losses and loss adjustment expenses are made continually, based on subsequent developments and experience, and are included in operations.

• **Exemption from Income Taxes**

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

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Credit Risk**

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

- **Use of Estimates**

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

- **Budget**

In accordance with 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 and members. The budget is adopted on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). 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 balance within the Pool cannot support the overage.

- **Capital Assets**

As a result of House Bill 1074, effective date June 17, 2005, the State of New Mexico's capitalization policy threshold was changed from \$1,000 to \$5,000, requiring agencies to capitalize acquisitions greater than \$5,000. Assets purchased prior to June 17, 2005 were not removed and will continue to be depreciated. Purchased assets are valued at historical or estimated historical cost. The Pool elects to capitalize purchases greater than \$500.

Capital assets of the Pool are depreciated on the straight-line method over the assets' estimated useful life (generally 3 to 39 years).

- **Restricted 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 December 31, 2009 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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

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 December 31, 2009:

| 2009 | Rate | Maturity Date | Moody Rating | Cost | Gross Unrealized Holding Gain (Loss) | Estimated Fair Value |
|--|--------|------------------|-----------------|------------|---|-------------------------|
| Multi-Line Program: | | | | | | |
| Caterpillar Notes | 3.90% | 5/15/2011 | A2 | \$ 100,000 | 3,031 | 103,031 |
| GE Corporate Notes | 4.00% | 5/15/2011 | AA2 | 500,000 | 7,215 | 507,215 |
| John Hancock L.I. Note | 4.50% | 10/15/2011 | A1 | 500,000 | 7,445 | 507,445 |
| Johnson & Johnson Notes | 5.15% | 8/15/2012 | AAA | 137,349 | (718) | 136,631 |
| Wal-Mart Notes | 7.25% | 6/1/2013 | AA2 | 115,505 | (741) | 114,764 |
| Verizon Comm. Notes | 5.50% | 4/1/2017 | A3 | 155,630 | 3,268 | 158,898 |
| Goldman Sachs | 6.25% | 9/1/2017 | A1 | 105,130 | 2,414 | 107,544 |
| IBM Corporation | 5.70% | 9/14/2017 | A1 | 104,535 | 5,246 | 109,781 |
| JP Morgan Chase | 6.00% | 1/15/2018 | AA3 | 207,707 | 8,519 | 216,226 |
| Goldman Sachs | 5.95% | 1/18/2018 | AA3 | 103,344 | 2,546 | 105,890 |
| National Rural Utility Corp. | 10.38% | 11/1/2018 | A1 | 129,007 | 4,877 | 133,884 |
| Federal Home Loan Bank (FHLB) Bonds | 3.53% | 6/10/2011 | AAA | 1,000,000 | 8,910 | 1,008,910 |
| Federal Farm Credit Bonds | 4.00% | 1/13/2016 | AAA | 852,910 | (13,229) | 839,681 |
| Fed Home Loan MTG Corp | 5.00% | 5/21/2018 | AAA | 498,750 | 2,255 | 501,005 |
| GNMA | 7.00% | 3/15/2017 | N/A | 107,178 | (75,331) | 31,847 |
| GNMA II | 6.00% | 6/20/2031 | N/A | 23,742 | (5,116) | 18,626 |
| GNMA | 5.50% | 3/15/2032 | N/A | 426,218 | (60,448) | 365,770 |
| GNMA 2 | 6.00% | 8/20/2033 | N/A | 122,741 | (13,355) | 109,386 |
| GNMA | 5.50% | 10/15/2033 | N/A | 101,999 | (3,262) | 98,737 |
| GNMA | 5.00% | 7/20/2035 | N/A | 1,688,350 | (2,293) | 1,686,057 |
| GNMA II | 5.00% | 8/20/2035 | N/A | 667,014 | (725) | 666,289 |
| GNMA II | 6.00% | 5/20/2036 | N/A | 480,238 | 5,750 | 485,988 |
| GNMA II | 6.00% | 3/20/2037 | N/A | 510,802 | 4,681 | 515,483 |
| GNMA II | 5.50% | 2/20/2038 | N/A | 1,330,651 | 28,882 | 1,359,533 |
| GNMA II | 5.00% | 3/20/2038 | N/A | 1,013,173 | (1,414) | 1,011,759 |
| GNMA II | 5.00% | 2/20/2039 | N/A | 933,570 | (381) | 933,189 |
| First Community Bank CD | 2.15% | 6/21/2010 | N/A | 200,000 | - | 200,000 |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS - continued

| 2009 | Rate | Maturity Date | Moody Rating | Cost | Gross Unrealized Holding Gain (Loss) | Estimated Fair Value |
|--|-------|------------------|-----------------|----------------------|---|-------------------------|
| Multi-Line Program - continued: | | | | | | |
| Los Alamos Ntl Bank CD | 1.85% | 7/24/2010 | N/A | \$ 1,000,000 | - | 1,000,000 |
| First National CD | 1.75% | 11/20/2010 | N/A | 1,000,000 | - | 1,000,000 |
| CitiBank CD | 1.45% | 12/16/2011 | N/A | 250,000 | (2,128) | 247,872 |
| Columbus Bank and Trust CD | 1.55% | 12/19/2011 | N/A | 250,000 | (1,685) | 248,315 |
| Discover Bank CD | 3.00% | 5/7/2012 | N/A | 250,000 | 3,330 | 253,330 |
| CitiBank CD | 3.00% | 5/8/2012 | N/A | 100,000 | 1,329 | 101,329 |
| GE Capital Financial CD | 3.00% | 5/14/2012 | N/A | 100,000 | 1,310 | 101,310 |
| Midfirst Bank CD | 3.05% | 5/14/2012 | N/A | 100,000 | 1,404 | 101,404 |
| Sallie Mae Bank CD | 3.05% | 5/14/2012 | N/A | 100,000 | 1,404 | 101,404 |
| Sallie Mae Bank CD | 3.00% | 6/11/2012 | N/A | 100,000 | 1,217 | 101,217 |
| College Savings Bank CD | 2.15% | 12/11/2012 | N/A | 250,000 | (1,488) | 248,512 |
| GE Money Bank CD | 2.35% | | N/A | 250,000 | - | 250,000 |
| American Express CD | 3.20% | 5/6/2013 | N/A | 250,000 | 1,767 | 251,767 |
| American Express FSB CD | 3.20% | 5/6/2013 | N/A | 250,000 | 1,767 | 251,767 |
| BMW Bank North America CD | 3.35% | 5/28/2013 | N/A | <u>100,901</u> | <u>155</u> | <u>101,056</u> |
| | | | | \$ <u>16,466,444</u> | <u>(73,592)</u> | <u>16,392,852</u> |
| Law Enforcement Program: | | | | | | |
| Dow Chemical Company | 5.20% | 3/15/2010 | BAA3 | \$ 200,000 | 1,086 | 201,086 |
| General Electric Notes | 4.00% | 5/15/2011 | AA2 | 500,000 | 7,215 | 507,215 |
| Johnson & Johnson Notes | 5.15% | 8/15/2012 | AAA | 109,880 | (575) | 109,305 |
| Wal-Mart Stores | 7.25% | 6/1/2013 | AA2 | 115,505 | (741) | 114,764 |
| IBM Corporation | 5.70% | 9/14/2017 | A1 | 52,270 | 2,621 | 54,891 |
| JP Morgan Chase | 6.00% | 1/15/2018 | AA3 | 154,642 | 7,558 | 162,200 |
| Verizon Communications | 5.50% | 2/15/2018 | A3 | 103,411 | 1,728 | 105,139 |
| AT&T Inc. | 5.60% | 5/15/2018 | A2 | 104,047 | 1,759 | 105,806 |
| Caterpillar Financial | 7.15% | 2/15/2019 | A2 | 163,393 | 10,471 | 173,864 |
| Duke Energy | 5.45% | 4/1/2019 | A2 | 104,229 | 1,878 | 106,107 |
| Federal Farm Credit Bank | 4.00% | 1/13/2016 | AAA | 501,505 | (7,575) | 493,930 |
| Fed Home Loan MTG Corp | 5.00% | 5/21/2018 | AAA | 498,750 | 2,255 | 501,005 |
| GNMA II | 5.50% | 6/20/2033 | N/A | 129,237 | (21,681) | 107,556 |
| GNMA II | 5.00% | 7/20/2035 | N/A | 1,094,310 | (1,491) | 1,092,819 |
| GNMA II | 5.00% | 8/20/2035 | N/A | 542,708 | (597) | 542,111 |
| GNMA II | 5.00% | 8/20/2035 | N/A | 634,928 | (14,060) | 620,868 |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS - continued

| 2009 | Rate | Maturity Date | Moody Rating | Cost | Gross Unrealized Holding Gain (Loss) | Estimated Fair Value |
|---|-------|------------------|-----------------|----------------------|---|-------------------------|
| Law Enforcement Program - continued: | | | | | | |
| GNMA II | 6.00% | 5/20/2036 | N/A | \$ 240,123 | 2,871 | 242,994 |
| GNMA II | 6.00% | 3/20/2037 | N/A | 255,405 | 2,337 | 257,742 |
| GNMA II | 5.50% | 2/20/2038 | N/A | 997,990 | 21,660 | 1,019,650 |
| GNMA II | 5.00% | 2/20/2039 | N/A | 933,570 | (381) | 933,189 |
| GNMA II | 5.00% | 3/20/2039 | N/A | 706,742 | (13,407) | 693,335 |
| Los Alamos Ntl Bank CD | 1.85% | 7/24/2010 | N/A | 1,000,000 | - | 1,000,000 |
| First National Bank CD | 1.75% | 11/20/2010 | N/A | 1,000,000 | - | 1,000,000 |
| Sallie Mae Bank CD | 3.00% | 6/11/2012 | N/A | 100,000 | 1,217 | 101,217 |
| BMW Bank NA CD | 3.35% | 5/28/2013 | N/A | <u>100,901</u> | <u>155</u> | <u>101,056</u> |
| | | | | \$ <u>10,343,546</u> | <u>4,303</u> | <u>10,347,849</u> |

Investment income is summarized as follows for the year ended December 31, 2009:

| | | |
|---------------------------------|--|-------------------|
| Multi-Line Program: | | |
| Interest and dividends received | | \$ 1,273,121 |
| Realized gains (losses) | | (427,274) |
| Unrealized gains (losses) | | <u>(73,592)</u> |
| Total investment income | | \$ <u>772,255</u> |
| Law Enforcement Program: | | |
| Interest and dividends received | | \$ 446,557 |
| Realized gains (losses) | | (1,500) |
| Unrealized gains (losses) | | <u>4,303</u> |
| Total investment income | | \$ <u>449,360</u> |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

As of December 31, 2009, the Pool's cash and cash equivalents and investments were as follows:

• **Multi-Line Program**

| Investment Type | Cost | Fair Value |
|--|-------------------------|----------------------|
| Cash and cash equivalents: | | |
| Bank deposits | \$ 18,455 | 18,455 |
| Money market | <u>2,759,258</u> | <u>2,759,258</u> |
| Total | \$ <u>2,777,713</u> | <u>2,777,713</u> |
| Investment in the State General Fund Investment Pool | \$ <u>32,268</u> | <u>32,268</u> |
| Total | \$ <u><u>32,268</u></u> | <u><u>32,268</u></u> |
| Investments: | | |
| Corporate Notes | \$ 2,158,207 | 2,201,309 |
| Government Bonds | 2,351,660 | 2,349,596 |
| Government Asset Backed Securities | 7,405,676 | 7,282,664 |
| Certificates of Deposit | <u>4,550,901</u> | <u>4,559,283</u> |
| Total | \$ <u>16,466,444</u> | <u>16,392,852</u> |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

• **Law Enforcement Program**

| Investment Type | Cost | Fair Value |
|--|----------------------|-------------------|
| Cash and cash equivalents: | | |
| Bank deposits | \$ 53,969 | 53,969 |
| Money market | <u>2,920,955</u> | <u>2,920,955</u> |
| Total | \$ <u>2,974,924</u> | <u>2,974,924</u> |
| Investment in the State General Fund Investment Pool | \$ <u>46,560</u> | <u>46,560</u> |
| Total | \$ <u>46,560</u> | <u>46,560</u> |
| Investments: | | |
| Corporate Notes | \$ 1,607,377 | 1,640,377 |
| Government Bonds | 1,000,255 | 994,935 |
| Government Asset Backed Securities | 5,535,013 | 5,510,264 |
| Certificates of Deposit | <u>2,200,901</u> | <u>2,202,273</u> |
| Total | \$ <u>10,343,546</u> | <u>10,347,849</u> |

• **Total**

| Investment Type | Cumulative Cost | Cumulative Fair Value |
|--|---------------------|-----------------------|
| Cash and cash equivalents: | | |
| Bank deposits | \$ 72,424 | 72,424 |
| Money market | <u>5,680,213</u> | <u>5,680,213</u> |
| Total | \$ <u>5,752,637</u> | <u>5,752,637</u> |
| Investment in the State General Fund Investment Pool | \$ <u>78,828</u> | <u>78,828</u> |
| Total | \$ <u>78,828</u> | <u>78,828</u> |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

• **Total - continued**

| Investment Type | Cumulative Cost | Cumulative Fair Value |
|------------------------------------|--------------------------|--------------------------|
| Investments: | | |
| Corporate Notes | \$ 3,765,584 | 3,841,686 |
| Government Bonds | 3,351,915 | 3,344,531 |
| Government Asset Backed Securities | 12,940,689 | 12,792,928 |
| Certificates of Deposit | <u>6,751,802</u> | <u>6,761,556</u> |
| Total | \$ <u>26,809,990</u> | <u>26,740,701</u> |

• **Collateral Requirements**

First Community Bank:

Total amount on deposit in bank

| | |
|--------------------------|----------------|
| Multi-Line checking | \$ 239,175 |
| Law Enforcement checking | <u>223,760</u> |

Total deposit in bank

462,935

| | |
|---------------|------------------|
| FDIC coverage | <u>(250,000)</u> |
|---------------|------------------|

| | |
|-----------------------|-------------------|
| Total uninsured funds | \$ <u>212,935</u> |
|-----------------------|-------------------|

| | |
|------------------------------------|------------|
| 50% pledged collateral requirement | \$ 106,467 |
|------------------------------------|------------|

Pledged collateral:

| Description | Maturity | Par | Market |
|-----------------------|-----------|--------------|------------------|
| FHLB Letter of Credit | | | |
| CUSP #8837001120 | 2/12/2012 | \$ 4,000,000 | 4,000,000 |
| | | | <u>4,000,000</u> |

| | |
|-----------------------------|---------------------|
| Over insured/collateralized | \$ <u>3,893,533</u> |
|-----------------------------|---------------------|

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

- **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that in the event of a failure of a depository financial institution, the Pool will not be able to recover its deposits. Custodial credit risk for investments is the risk that in the event of failure of the counterparty to the transaction, the Pool will not be able to recover the value of its investments.

As of December 31, 2009, the Pool's deposits were exposed to custodial credit risk as follows:

| | |
|---|-------------------|
| Uninsured and collateral held by pledging bank's trust department not in the Pool's name | \$ <u>212,935</u> |
|---|-------------------|

None of the Pool's investments were exposed to custodial credit risk as all investments were held in the name of the Pool.

- **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. The State Investment Pool's weighted average maturity at December 31, 2009 is 56 days, which is a key determinant of the tolerance of the State Investment Pool's investments to increases in interest rates.

- **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.

Commercial Paper. Unsecured obligations with maturity up to 270 days issued by corporations organized and operating within the United States. The commercial paper shall be assigned the highest rating by 3 of the 4 national rating services (A1, P1, D1 or F1).

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

- **Credit Risk - continued**

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.

Asset-backed Obligations. 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.

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 State Treasurer’s Local Government State Investment Pool (State Investment Pool as defined in Note 1). This fund is rated AAA by Standard and Poor’s.

- **Concentration of Credit Risk**

The Pool places no limit on the amount the Pool may invest in any one issuer. Excluding investments that are implicitly backed by the full faith and credit of the United States, investments in the following issuers represent more than 5 percent of the Pool’s investments, and are therefore considered to have a concentration of credit risk.

Multi-Line Program

| | |
|--------------------------|-------|
| Federal Home LN Bank | 6.15% |
| Federal Farm Credit Bank | 5.12% |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

3. NOTE RECEIVABLE FROM RELATED PARTY

The New Mexico Association of Counties (NMAC) holds a promissory note, secured by a mortgage on property located in Santa Fe, New Mexico, for \$1,200,000 to the New Mexico County Insurance Authority (NMCIA), which is comprised of the Multi-Line Program and the Workers' Compensation Pool. NMAC used these funds to purchase and renovate the above-mentioned property for use as NMAC's administrative offices. The full balance of the note was paid off in June 2009.

4. CAPITAL ASSETS

A summary of changes in capital assets follows:

• **Multi-Line Program**

| | <u>Balance</u> <u>June 30, 2008</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2009</u> |
|--------------------------------|--|-----------------------|------------------|--|
| Depreciable assets: | | | | |
| Equipment | \$ <u>8,080</u> | <u>-</u> | <u>-</u> | <u>8,080</u> |
| Total | 8,080 | - | - | 8,080 |
| Less accumulated depreciation: | | | | |
| Equipment | <u>(1,796)</u> | <u>(2,693)</u> | <u>-</u> | <u>(4,489)</u> |
| Total accumulated depreciation | <u>(1,796)</u> | <u>(2,693)</u> | <u>-</u> | <u>(4,489)</u> |
| Net total | \$ <u><u>6,284</u></u> | <u><u>(2,693)</u></u> | <u><u>-</u></u> | <u><u>3,591</u></u> |

• **Law Enforcement Program**

| | <u>Balance</u> <u>June 30, 2008</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2009</u> |
|--------------------------------|--|-----------------------|------------------|--|
| Depreciable assets: | | | | |
| Equipment | \$ <u>4,040</u> | <u>-</u> | <u>-</u> | <u>4,040</u> |
| Total | 4,040 | - | - | 4,040 |
| Less accumulated depreciation: | | | | |
| Equipment | <u>(898)</u> | <u>(1,347)</u> | <u>-</u> | <u>(2,245)</u> |
| Total accumulated depreciation | <u>(898)</u> | <u>(1,347)</u> | <u>-</u> | <u>(2,245)</u> |
| Net total | \$ <u><u>3,142</u></u> | <u><u>(1,347)</u></u> | <u><u>-</u></u> | <u><u>1,795</u></u> |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

4. CAPITAL ASSETS - continued

• **Total**

| | <u>Balance</u> <u>June 30, 2008</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2009</u> |
|--------------------------------|--|------------------|------------------|--|
| Depreciable assets: | | | | |
| Equipment | \$ 12,120 | - | - | 12,120 |
| Total | 12,120 | - | - | 12,120 |
| Less accumulated depreciation: | | | | |
| Equipment | (2,694) | (4,040) | - | (6,734) |
| Total accumulated depreciation | (2,694) | (4,040) | - | (6,734) |
| Net total | \$ 9,426 | (4,040) | - | 5,386 |

5. 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 December 31, 2009 have been based on an actuarial evaluation of the Pool's historical claims experience, industry data and other factors. While management believes that these estimates are adequate, actual incurred but unpaid claims may vary significantly from the amount provided.

Changes in reserves for claims and claim adjustment expenses were as follows for the year ended December 31, 2009:

Multi-Line Program:

| | |
|---|--------------------|
| Liability for claims and claim adjustment expenses, beginning of year | \$ 8,327,848 |
| Incurred claims and claim adjustment expenses | 5,451,803 |
| Payments (net of amounts received pursuant to excess insurance contracts) | <u>(4,690,674)</u> |
| Liability for claims and claim adjustment expenses, end of year | 9,088,977 |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

5. CLAIMS AND CLAIM ADJUSTMENT EXPENSES - continued

Law Enforcement Program:

| | |
|---|----------------------|
| Liability for claims and claim adjustment expenses, beginning of year | \$ 14,132,178 |
| Incurred claims and claim adjustment expenses | 6,978,562 |
| Payments (net of amounts received pursuant to excess insurance contracts) | <u>(4,918,733)</u> |
| Liability for claims and claim adjustment expenses, end of year | <u>16,192,007</u> |
| Total liability claims and claim adjustment Expenses, end of year | \$ <u>25,280,984</u> |

As of year-end, the liability for unpaid claims and claim adjustment expenses of \$9,757,142 for the Multi-Line Program and \$17,996,959 for the Law Enforcement Program are presented at their net present value of \$9,088,977 and \$16,192,007, respectively. These claims are discounted at a rate of 5%. For the year ended December 31, 2009, the Multi-Line Program experienced negative development on prior policy year claims resulting in additional claim expense of \$1,071,700. For the year ended December 31, 2009, the Law Enforcement Program experienced positive development on prior policy year claims resulting in an offset to claim expense of \$1,682,835.

6. REINSURANCE

The Multi-Line Program and the Law Enforcement Program have purchased commercial excess insurance for specific claims. The Multi-Line Program's excess coverage layer begins at \$150,000 for property claims and \$500,000 for liability claims, while the Law Enforcement Program's excess coverage layer begins at \$250,000 for individual claims. There is a \$500,000 corridor that must be met before any money is received from the excess carrier.

A portion of reinsurance coverage on liability claims is provided by Munich Re and Gen Re. Munich Re covers losses between the retention amounts described above and \$2 million, and any losses in excess of this layer are covered through Gen Re up to total coverage of \$5 million.

Effective January 1, 2008, the Multi-Line Program and the Law Enforcement Program ceased their relationships with County Reinsurance, Limited (CRL). CRL is a captive organization formed to provide excess and reinsurance to county association pools. The Multi-Line Program joined CRL effective

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

6. REINSURANCE - continued

January 1, 1998, while the Law Enforcement Program joined January 1, 1999. Similar to counties that participate as members of the Pool, the Pool's contribution to CRL includes a loss fund portion, capital, and 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. Subsequent to December 31, 2008, CRL agreed to return the Multi-Line Program's and the Law Enforcement Program's equity in five equal installments beginning in April 2009.

For the year ended December 31, 2009, the Pool paid \$2,998,629 for excess insurance premiums.

7. BROKERAGE SERVICE FEE

Commission/brokerage service fees were \$90,000 for the year ended December 31, 2009.

8. 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 Pool expensed \$1,832,500 in 2009 under this arrangement. 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 year ended December 31, 2009 consisted of the following:

| | | Multi-Line Program | Law Enforcement Program | Total |
|-------------------------|-----------|-------------------------------|--|-------------------------|
| | \$ | <u> </u> | <u> </u> | <u> </u> |
| Risk management | \$ | 934,500 | 898,000 | 1,832,500 |
| Legal | | 8,142 | - | 8,142 |
| Actuarial | | 9,600 | 8,800 | 18,400 |
| Accounting and auditing | | 8,805 | 8,805 | 17,610 |
| Consulting | | 77,520 | 25,330 | 102,850 |
| Miscellaneous | | <u>106,182</u> | <u>31,177</u> | <u>137,359</u> |
| Total | \$ | <u>1,144,749</u> | <u>972,112</u> | <u>2,116,861</u> |

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Financial Statements - continued

9. LITIGATION

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

10. FUND DEFICIT

The Law Enforcement Program has a fund deficit of \$1,820,699 at the end of 2009. Actual claims and claim adjustment expenses were over budget by approximately \$721,000 for the year. There was a 15% increase in estimated outstanding losses from December 31, 2008 to December 31, 2009 and a corresponding increase to Unallocated Loss Adjustment Expenses. For the 2006 policy year, there were 13 claims with an incurred expense over the \$250,000 retention limit.

For 2009, the Multi-Line Pool Board of Directors increased contributions by 14.9% from the previous year. In addition, the Pool has increased loss prevention efforts for detention centers. The Pool hired a full-time detention specialist in the loss prevention department with over 25 years experience in corrections and detention centers, and who serves as a detention consultant for the Department of Justice. The Pool implemented a comprehensive supervisory training program sponsored by the American Jail Association. Also, in 2007 a sub-limit was imposed by the Pool Board for coverage for class action strip searches. The limits are a \$250,000 maximum with a Pool annual aggregate of \$1 million.

11. SUBSEQUENT EVENT

Subsequent to year end, the Board of Directors approved and issued a \$1,000,000 distribution to member counties as a credit against fiscal year 2010 contributions. The distribution was made to those counties that were members of the Multi-Line Pool between 1993 and 1999 and that were members as of January 1, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Notes to Ten Year Claims Development Information (Unaudited)

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

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

| TEN YEARS ENDED DECEMBER 31, | 2000 | 2001 | 2002 |
|---|-------------|-------------|-------------|
| (in thousands) | | | |
| 1. Net earned required contribution and investment revenues | \$ 8,012 | 7,818 | 7,982 |
| 2. Unallocated claim expenses | 1,955 | 2,156 | 1,401 |
| 3. Estimated incurred claims and expense, end of policy year | 1,739 | 1,636 | 1,488 |
| 4. Paid (cumulative) as of: | | | |
| Year one | 473 | 592 | 591 |
| Year two | 1,276 | 1,266 | 1,512 |
| Year three | 1,816 | 1,951 | 1,921 |
| Year four | 2,701 | 2,520 | 2,298 |
| Year five | 2,769 | 2,555 | 2,540 |
| Year six | 2,801 | 2,559 | 2,549 |
| Year seven | 2,798 | 2,559 | 2,549 |
| Year eight | 2,798 | 2,561 | 2,549 |
| Year nine | 2,798 | 2,555 | - |
| Year ten | 2,798 | - | - |
| 5. Re-estimated incurred claims and expense: | | | |
| Year one | 1,739 | 1,636 | 1,488 |
| Year two | 2,240 | 1,915 | 2,719 |
| Year three | 2,398 | 2,486 | 2,650 |
| Year four | 2,844 | 2,271 | 2,631 |
| Year five | 2,814 | 2,581 | 2,736 |
| Year six | 2,802 | 2,560 | 2,549 |
| Year seven | 2,799 | 2,559 | 2,549 |
| Year eight | 2,799 | 2,561 | 2,549 |
| Year nine | 2,799 | 2,556 | - |
| Year ten | 2,799 | - | - |
| 6. Increase (decrease) in estimated incurred claims and expense from end of policy year | \$ 1,060 | 920 | 1,061 |

** Data not available.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Ten Year Claims Development Information (Unaudited)

| 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-------|--------|--------|--------|--------|--------|--------|
| 7,747 | 11,386 | 12,147 | 14,138 | 16,063 | 16,323 | 17,796 |
| 1,208 | 1,044 | 1,051 | 1,392 | 1,768 | 2,027 | 2,203 |
| 1,753 | 1,309 | 1,649 | 1,133 | 1,636 | 1,884 | 2,084 |
| 552 | 505 | 435 | 294 | 520 | 646 | 452 |
| 1,053 | 1,537 | 1,605 | 1,802 | 1,294 | 706 | - |
| 1,933 | 1,928 | 2,753 | 2,266 | 2,723 | - | - |
| 2,376 | 2,079 | 3,345 | 2,601 | - | - | - |
| 2,384 | 2,222 | 3,448 | - | - | - | - |
| 2,414 | 2,293 | - | - | - | - | - |
| 2,424 | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 1,753 | 1,309 | 1,649 | 1,133 | 1,636 | 1,884 | 2,084 |
| 2,178 | 2,090 | 2,364 | 2,278 | 2,739 | 1,699 | - |
| 2,270 | 2,263 | 3,143 | 2,820 | 3,926 | - | - |
| 2,477 | 2,336 | 3,476 | 2,853 | - | - | - |
| 2,473 | 2,471 | 3,715 | - | - | - | - |
| 2,438 | 2,457 | - | - | - | - | - |
| 2,424 | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 671 | 1,148 | 2,066 | 1,720 | 2,290 | (185) | - |

SUPPLEMENTARY BUDGETARY COMPARISONS

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

**Schedule of Revenues and Expenses -
Budget and Actual (Budgetary Basis) - Multi-Line Program**

YEAR ENDED DECEMBER 31, 2009

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance With Final Budget Favorable (Unfavorable) |
|--------------------------------------|-------------------------|-----------------------|---|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Member contributions | \$ 7,865,658 | 7,865,658 | 7,867,541 | 1,883 |
| Investment income | 600,000 | 600,000 | 772,255 | 172,255 |
| Land Use Contribution | 82,500 | 82,500 | 82,500 | - |
| Other income | <u> -</u> | <u> -</u> | <u> 6,028</u> | <u> 6,028</u> |
| TOTAL REVENUES | <u> 8,548,158</u> | <u> 8,548,158</u> | <u> 8,728,324</u> | <u> 180,166</u> |
| EXPENSES: | | | | |
| Claims and claim adjustment expenses | 6,035,158 | 6,032,158 | 5,451,803 | 580,355 |
| Excess insurance premiums | 1,270,000 | 1,273,000 | 1,274,679 | (1,679) * |
| General and administrative | 950,000 | 950,000 | 934,500 | 15,500 |
| Brokerage fees | 60,000 | 60,000 | 60,000 | - |
| Other Expenses | <u> 233,000</u> | <u> 233,000</u> | <u> 207,556</u> | <u> 25,444</u> |
| TOTAL EXPENSES | <u> 8,548,158</u> | <u> 8,548,158</u> | <u> 7,928,538</u> | <u> 619,620</u> |
| EXCESS OF REVENUES OVER | | | | |
| EXPENSES - BUDGETARY BASIS | \$ <u> -</u> | <u> -</u> | 799,786 | <u> 799,786</u> |
| RECONCILIATION TO GAAP BASIS: | | | | |
| To record depreciation | | | <u> (2,693)</u> | |
| EXCESS OF REVENUES OVER | | | | |
| EXPENDITURES - GAAP BASIS | | | \$ <u> 797,093</u> | |

* See Note 1 - Budget on page 14 for Budget authority level.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

**Schedule of Revenues and Expenses -
Budget and Actual (Budgetary Basis) - Law Enforcement Program**

YEAR ENDED DECEMBER 31, 2009

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance With Final Budget Favorable (Unfavorable) |
|--------------------------------------|--------------------|------------------|--|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Member contributions | \$ 8,618,305 | 8,618,305 | 8,618,306 | 1 |
| Investment income | <u>400,000</u> | <u>400,000</u> | <u>449,360</u> | <u>49,360</u> |
| TOTAL REVENUES | <u>9,018,305</u> | <u>9,018,305</u> | <u>9,067,666</u> | <u>49,361</u> |
| EXPENSES: | | | | |
| Claims and claim adjustment expenses | 6,267,805 | 6,257,805 | 6,978,562 | (720,757) * |
| Excess insurance premiums | 1,725,000 | 1,725,000 | 1,723,950 | 1,050 |
| General and administrative | 995,500 | 1,005,500 | 970,765 | 34,735 |
| Brokerage fees | <u>30,000</u> | <u>30,000</u> | <u>30,000</u> | <u>-</u> |
| TOTAL EXPENSES | <u>9,018,305</u> | <u>9,018,305</u> | <u>9,703,277</u> | <u>(684,972)</u> |
| EXCESS OF REVENUES OVER | | | | |
| EXPENSES - BUDGETARY BASIS | \$ <u><u>-</u></u> | <u><u>-</u></u> | (635,611) | <u><u>(635,611)</u></u> |
| RECONCILIATION TO GAAP BASIS: | | | | |
| To record depreciation | | | <u>(1,347)</u> | |
| EXCESS OF REVENUES OVER | | | | |
| EXPENDITURES - GAAP BASIS | | | \$ <u><u>(636,958)</u></u> | |

* See Note 1 - Budget on page 14 for Budget authority level. See Note 10 for Fund Deficit.

OTHER SUPPLEMENTARY INFORMATION

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

**Cash and Cash Equivalents Reconciliation
from Books to Financial Statements**

AS OF DECEMBER 31, 2009

| | <u>Multi-Line Program</u> | <u>Law Enforcement Program</u> | <u>Total</u> |
|---|-------------------------------|--|-------------------------|
| Interest-bearing checking accounts: | | | |
| First Community Bank | \$ 239,175 | 223,759 | 462,934 |
| Reconciling items: | | | |
| Outstanding checks | <u>(220,720)</u> | <u>(169,790)</u> | <u>(390,510)</u> |
| Financial statement balance | 18,455 | 53,969 | 72,424 |
| Mutual funds - money market Wachovia Securities | 2,780,123 | 3,529,230 | 6,309,353 |
| Reconciling items: | | | |
| Outstanding checks | <u>(20,865)</u> | <u>(608,275)</u> | <u>(629,140)</u> |
| Financial statement balance | 2,759,258 | 2,920,955 | 5,680,213 |
| Cash held with the State Treasurer Investment Fund | <u>32,268</u> | <u>46,560</u> | <u>78,828</u> |
| Financial statement balance | <u>32,268</u> | <u>46,560</u> | <u>78,828</u> |
| Total cash and cash equivalents | \$ <u><u>2,809,981</u></u> | <u><u>3,021,484</u></u> | <u><u>5,831,465</u></u> |

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

Board of Directors
New Mexico County Insurance Authority
Multi-Line Pool
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of the business-type activities and the budgetary comparisons as supplemental information of the New Mexico County Insurance Authority Multi-Line Pool (the Pool) as of and for the year ended December 31, 2009, and have issued our report thereon dated May 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A **control deficiency** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A **significant deficiency** is a control deficiency, or a combination of control deficiencies, that adversely affects the Pool's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Pool's financial statements that is more than inconsequential will not be prevented or detected by the Pool's internal control.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Pool's internal control.



Board of Directors
New Mexico County Insurance Authority
Multi-Line Pool
and
Mr. Hector H. Balderas
New Mexico State Auditor

Internal Control Over Financial Reporting - continued

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section, and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be a material weakness, as defined above.

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*.

This report is intended solely for the information and use of the Pool's management, 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.



May 19, 2010

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Schedule of Findings and Responses

CONTROL DEFICIENCIES - FINANCIAL STATEMENT AUDIT

None.

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Summary Schedule of Prior Year Audit Findings

08-1 Lack of Control Effectiveness over Disbursement Process – Resolved

**NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL**

Exit Conference

An exit conference was held on May 20, 2010. In attendance were:

NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL

Dan Mayfield, Board Chairman
Paul Gutierrez, Executive Director
Steve Kopelman, Risk Management Director
Carol Madley, Finance Director

MEYNEERS + COMPANY, LLC

Janet Pacheco-Morton, CPA, CGFM, Director
Raul Anaya, CPA, CGFM, Manager
Jason Shaw, CPA, Senior

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the independent auditor. However, they are the responsibility of management, as addressed in the Independent Auditors' Report.