

**NEW MEXICO COUNTY INSURANCE  
AUTHORITY MULTI-LINE POOL**  
Santa Fe, New Mexico

**FINANCIAL STATEMENTS**  
December 31, 2011

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**OFFICIAL ROSTER  
December 31, 2011**

**Board of Directors**

Nicklos Jaramillo	Chair
Ron Lethgo	Vice Chair
Orlando Lucero	Secretary/Treasurer
Wendell Bostwick	Member
John Paul Saari	Member
Sarah Merklein	Member
Scott Krahlung	Member
Doug Decker	Member
Patrick Snedeker	Member

**Administrative Officers**

Paul Gutierrez	Executive Director
Steven Kopelman	Risk Management Director
Santiago Chavez	Finance Director

**Multi-Line Program Member Counties as of December 31, 2011**

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

**Law Enforcement Program Member Counties as of December 31, 2011**

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



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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the New Mexico County Insurance Authority Multi-Line Pool (the Pool) as of and for the year ended December 31, 2011, which collectively comprise the Pool's basic financial statements as listed in the table of contents. We also have audited the Pool's Schedules of Revenues and Expenses – Budget and Actual (Budgetary Basis) presented as supplementary information as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements and schedules are the responsibility of the Pool's management. Our responsibility is to express opinions on these financial statements and schedules 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 opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Pool as of December 31, 2011, and the respective changes in the financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the Schedules of Revenues and Expenses – Budget and Actual (Budgetary Basis) referred to above present fairly, in all material respects, the budgetary comparisons of the Pool for the year ended December 31, 2011, in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2012, on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our 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 supplementary 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 information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*CliftonLarsonAllen LLP*

Albuquerque, New Mexico  
May 30, 2012

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011**

As management of the New Mexico County Insurance Authority (NMCIA) 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, 2011.

**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 Program and the Law Enforcement Program (the Programs). Both programs had 28 member counties as of December 31, 2011. Members pay annual contributions to the Programs. The other source of income is investments. The Programs then pay all administrative, claims and excess insurance costs. The Programs' 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**

	<u>2011</u>	<u>2010</u>
Total assets (cash, investments, receivables and prepaids)	\$ 38,349,311	\$ 36,151,062
Total liabilities (claims and claim adjustment expenses)	<u>27,031,466</u>	<u>26,376,332</u>
<b>Pool net assets</b>	<b><u>\$ 11,317,845</u></b>	<b><u>\$ 9,774,730</u></b>
Revenues:		
Member contributions	\$ 16,160,074	\$ 15,493,255
Investment and other income	<u>1,325,530</u>	<u>1,808,192</u>
Total revenues	<u>17,485,604</u>	<u>17,301,447</u>
Expenses:		
Claims and claim adjustment expenses	10,943,299	10,884,607
Excess insurance and brokerage fees	2,239,638	2,550,228
General and administrative	2,259,486	2,204,371
Member equity return	<u>500,066</u>	<u>999,997</u>
Total expenses	<u>15,942,489</u>	<u>16,639,203</u>
Excess of revenues over expenses	1,543,115	662,244
Net assets, beginning of year	<u>9,774,730</u>	<u>9,112,486</u>
<b>Net assets, end of year</b>	<b><u>\$ 11,317,845</u></b>	<b><u>\$ 9,774,730</u></b>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011**

**Financial Highlights**

- Multi-Line Program assets decreased by approximately \$972,000 thousand and Pool surplus decreased by approximately \$1.06 million.
- Multi-Line Program returned approximately \$500,000 million of equity to member counties based on contributions and loss experience for policy years 1993-1999.
- Law Enforcement Program assets increased by approximately \$3.17 million and net assets increased by approximately \$1.60 million.

**Underwriting Results**

Contributions to the Multi-Line Program increased from \$7,061,972 in 2010 to \$7,160,112. Law Enforcement Program contributions increased from \$8,431,283 to \$8,999,962. Individual counties' contributions to the Multi-Line and Law Enforcement Programs are based on each county's loss experience and exposure.

The Pools' pricing and budgeting approach includes investment income. Adding in investment income, the Pools had an increase in net assets of \$1,543,115: a \$1,056,451 decrease for Multi-Line and a \$2,599,566 increase for Law Enforcement.

**Excess Insurance Premiums**

Reinsurance expenses for the Multi-Line Program decreased approximately \$350,000 in 2011 due to lower excess property rates. Reinsurance expenses for the Law Enforcement Program increased by \$52,000 from \$1,290,000 to \$1,342,000.

**Investment Results**

At the end of 2011, the Pools' current assets totaled \$38,349,311. Of this amount, \$2,346,007 was in cash, earning less than 1% interest. Most of the remaining amount was invested primarily in a fixed income portfolio of government and corporate bonds earning about 4.75%. The Multi-Line Program portfolio decreased by about 7.1%, and the Law Enforcement Program portfolio increased by about 45%. The Pools' equity in County Reinsurance Ltd. (CRL) decreased as the amounts due to return of equity payments during the year. As allowed in CRL's By-Laws, one-fifth of Multi-Line and Law Enforcement's equity in CRL was returned during 2011. Investment income for both insurance programs was slightly lower than 2010: about \$1,323,150 million compared with \$1,808,192.

**Property, Plant and Equipment**

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

**Long-term Debt**

The Pool had no long-term debt during 2011.

**Net Income**

For the year ended December 31, 2011, the Multi-Line Program had a net loss of \$1,056,451. This included a \$500,066 return of equity to member counties. The Law Enforcement Program

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2011**

had net income of \$2,599,566. The net loss for the Multi-Line Program included an operating loss of \$1,699,317 and investment income of \$708,386. Net income for the Law Enforcement Program included operating income of \$2,019,122 and investment income of \$614,764.

**Member Surplus**

The Pool had combined net assets (surplus) of \$11,317,845 at the close of its most recent fiscal year. The Multi-Line Program surplus decreased from \$8,183,125 to \$7,126,674 and the Law Enforcement Program surplus increased from \$1,591,605 to \$4,191,171.

**Budget**

In the Multi-Line Program, member contributions were slightly more than budgeted (\$79,500). Investment income for both Programs was more than budgeted. In total, claims and claim adjustment expenses were more than budgeted for the Multi-Line Program and less than budgeted for the Law Enforcement Program. Excess insurance was as budgeted in the Law Enforcement Program and exceeded budget by \$11,709 in the Multi-Line Program. Administrative and other expenses were, in total, less than budgeted.

**Pool Trends and Conditions**

The Multi-Line Program is doing well and the Program will make another equity distribution to counties in 2012, which will serve as a credit to 2012 contributions. The Law Enforcement Program did extremely well in 2011. The Multi-Line 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.



**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
BALANCE SHEET - ENTERPRISE FUNDS  
December 31, 2011**

**ASSETS**

	<b>Multi-Line Program</b>	<b>Law Enforcement Program</b>	<b>Total</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 944,049	\$ 1,401,958	\$ 2,346,007
Investment in the Local Government Investment Pool	4,208	6,262	10,470
Investments	16,721,818	16,993,493	33,715,311
Due from Multi-Line Program	-	400,000	400,000
Due from New Mexico County Insurance Authority	3,763	-	3,763
Accounts receivable - Subrogation, Deductibles	29,000	147,005	176,005
Accounts receivable - Reinsurance	808,825	-	808,825
Investment in County Reinsurance, Limited	396,321	475,177	871,498
Prepays	8,716	8,716	17,432
Total current assets	18,916,700	19,432,611	38,349,311
<b>TOTAL ASSETS</b>	<b>\$ 18,916,700</b>	<b>\$ 19,432,611</b>	<b>\$ 38,349,311</b>

**LIABILITIES AND POOL NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 6,490	\$ 5,815	\$ 12,305
Due to Law Enforcement Program	400,000	-	400,000
Claims and claim adjustment expenses	4,832,767	6,218,451	11,051,218
Total current liabilities	5,239,257	6,224,266	11,463,523

**LONG-TERM LIABILITIES**

Claims and claim adjustment expenses	6,550,769	9,017,174	15,567,943
Total long-term liabilities	6,550,769	9,017,174	15,567,943

**POOL NET ASSETS HELD FOR  
MEMBERS' BENEFITS**

Unrestricted	7,126,674	4,191,171	11,317,845
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Total pool net assets held for members' benefits	7,126,674	4,191,171	11,317,845
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<b>TOTAL LIABILITIES AND POOL NET ASSETS</b>	<b>\$ 18,916,700</b>	<b>\$ 19,432,611</b>	<b>\$ 38,349,311</b>
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The accompanying notes are an integral part of the financial statements.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS  
Year Ended December 31, 2011**

	<b>Multi-Line Program</b>	<b>Law Enforcement Program</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Member contributions	\$ 7,160,112	\$ 8,999,962	\$ 16,160,074
Other operating revenues	2,380	-	2,380
	<u>7,162,492</u>	<u>8,999,962</u>	<u>16,162,454</u>
<b>OPERATING EXPENSES</b>			
Claims and claim adjustment expenses	6,351,168	4,592,131	10,943,299
Excess insurance premiums	797,324	1,342,474	2,139,798
General and administrative	1,213,251	1,046,235	2,259,486
Member equity return	500,066	-	500,066
	<u>8,861,809</u>	<u>6,980,840</u>	<u>15,842,649</u>
Total operating revenues			
Operating (loss) income	(1,699,317)	2,019,122	319,805
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income	708,386	614,764	1,323,150
Commissions/brokerage fees	<u>(65,520)</u>	<u>(34,320)</u>	<u>(99,840)</u>
Total non-operating revenue, net	<u>642,866</u>	<u>580,444</u>	<u>1,223,310</u>
Change in net assets	(1,056,451)	2,599,566	1,543,115
<b>POOL NET ASSETS HELD FOR MEMBERS' BENEFITS, BEGINNING OF YEAR</b>			
	<u>8,183,125</u>	<u>1,591,605</u>	<u>9,774,730</u>
<b>POOL NET ASSETS HELD FOR MEMBERS' BENEFITS, END OF YEAR</b>			
	<u>\$ 7,126,674</u>	<u>\$ 4,191,171</u>	<u>\$ 11,317,845</u>

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

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS**  
Year Ended December 31, 2011

	<u>Multi-Line Program</u>	<u>Law Enforcement Program</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from members	\$ 5,820,838	\$ 10,368,518	\$ 16,189,356
Cash paid to suppliers	(1,205,863)	(1,045,787)	(2,251,650)
Cash paid on claims and claims adjustment expenses	(6,673,431)	(4,021,224)	(10,694,655)
Cash paid for excess insurance	(797,324)	(1,342,474)	(2,139,798)
Cash received from others	<u>200,081</u>	<u>228,873</u>	<u>428,954</u>
Net cash provided by (used in) operating activities	<u>(2,655,699)</u>	<u>4,187,906</u>	<u>1,532,207</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income received	765,224	651,084	1,416,308
Payments for commission and brokerage	(65,520)	(34,320)	(99,840)
Proceeds from sale or maturity of investments	11,130,213	2,508,352	13,638,565
Purchases of investments	<u>(9,849,124)</u>	<u>(7,818,078)</u>	<u>(17,667,202)</u>
Net cash provided by (used in) investing activities	<u>1,980,793</u>	<u>(4,692,962)</u>	<u>(2,712,169)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Short-term loan to Multi-Line Program	-	(400,000)	(400,000)
Proceeds from short-term loan from Law Enforcement Program	<u>400,000</u>	<u>-</u>	<u>400,000</u>
Net cash provided by (used in) financing activities	<u>400,000</u>	<u>(400,000)</u>	<u>-</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(274,906)	(905,056)	(1,179,962)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,218,955</u>	<u>2,307,014</u>	<u>3,525,969</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 944,049</u>	<u>\$ 1,401,958</u>	<u>\$ 2,346,007</u>

	<b>Multi-Line Program</b>	<b>Law Enforcement Program</b>	<b>Total</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Operating (loss) income	\$ (1,699,317)	\$ 2,019,122	\$ 319,805
Depreciation	898	448	1,346
Change in assets and liabilities:			
Accounts receivable	(841,588)	1,368,556	526,968
Prepays	1,920	(8,716)	(6,796)
Investment in County Reinsurance, Limited	198,161	237,589	435,750
Accounts payable	6,490	5,815	12,305
Claims and claim adjustment expenses	<u>(322,263)</u>	<u>565,092</u>	<u>242,829</u>
 Net cash provided by (used in) operating activities	 <u>\$ (2,655,699)</u>	 <u>\$ 4,187,906</u>	 <u>\$ 1,532,207</u>

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

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 Governmental Accounting Standards Board (GASB) Statement 39.

**Use of Estimates in Preparing Financial Statements**

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

**Basis of Accounting**

The 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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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

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.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents include demand and money market accounts. 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. 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; mutual funds; and the New Mexico Office of the State Treasurer State Investment Pool (State Investment Pool).

Participation in the State Local Government 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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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

**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 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 and general and administrative expenses. 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.

**Claims and Claim 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 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 property and casualty 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**  
**December 31, 2011**

**NOTE 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.

**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). GAAP differences in budgeted amounts arise from non-budgeted depreciation expense on capital assets. In addition, periodic member equity distributions (see Note 5) can be approved by the Pool's Board of Directors and these distributions are shown as operating expense reductions of accumulated net assets rather than as budgeted expenses. 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.

**Capital Assets**

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

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

**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 value 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 derivatives.



**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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

Investments consisted of the following at December 31, 2011:

	<u>Rate</u>	<u>Maturity Date</u>	<u>Moody Rating</u>	<u>Cost</u>	<u>Unrealized Holding Gain (Loss)</u>	<u>Estimated Fair Value</u>
<b>Multi-Line Program:</b>						
Pimco Total Return MF	N/A	N/A	N/A	\$ 1,536,956	\$ (24,637)	\$ 1,512,319
GNMA II	5.00%	7/20/2035	N/A	1,075,867	70,449	1,146,316
Federated Income MF	N/A	N/A	N/A	1,117,152	3,878	1,121,030
Federated Services MF	N/A	N/A	N/A	1,074,527	22,846	1,097,373
Delaware Group MF	N/A	N/A	N/A	1,013,831	(26,758)	987,073
Pimco Mortgage Back MF	N/A	N/A	N/A	816,342	(7,948)	808,394
Delaware LTD MF II	N/A	N/A	N/A	800,975	(4,072)	796,903
GNMA II	5.50%	2/20/2038	N/A	718,534	55,046	773,580
Mainstay FDS Trust MF	N/A	N/A	N/A	700,000	(19,098)	680,902
GNMA II	5.00%	2/20/2039	N/A	609,529	38,296	647,825
GNMA II	5.00%	3/20/2038	N/A	609,205	34,578	643,783
Franklin Inv. Security MF	N/A	N/A	N/A	633,705	(8,754)	624,951
Delaware LTD MF	N/A	N/A	N/A	509,745	(17,518)	492,227
GNMA II	5.00%	8/20/2035	N/A	433,412	29,098	462,510
Pimco Low Duration MF	N/A	N/A	N/A	377,787	(4,544)	373,243
GNMA II	6.00%	3/20/2037	N/A	282,847	15,307	298,154
GNMA II	6.00%	5/20/2036	N/A	273,691	16,823	290,514
Dodge and Cox Income MF	N/A	N/A	N/A	270,305	1,529	271,834
Vanguard GNMA MF	N/A	N/A	N/A	267,972	3,208	271,180
American Express CD	3.20%	5/6/2013	N/A	250,000	7,380	257,380
American Express FSB CD	3.20%	5/6/2013	N/A	250,000	7,380	257,380
GE Money Bank CD	2.35%	12/18/2012	N/A	250,000	3,705	253,705
College Savings Bank CD	2.15%	12/11/2012	N/A	250,000	3,182	253,182
GNMA	5.50%	3/15/2032	N/A	302,163	(49,094)	253,069
Discover Bank CD	3.00%	5/7/2012	N/A	250,000	2,178	252,178
JP Morgan Chase	6.00%	1/15/2018	AA3	207,747	16,491	224,238
Verizon Communications	5.50%	4/1/2017	A3	155,630	18,955	174,585
National Rural Utility Corp.	10.38%	11/1/2018	A1	129,007	13,708	142,715
Johnson & Johnson Notes	5.15%	8/15/2012	AAA	137,349	(8,486)	128,863
IBM Corporation	5.70%	11/1/2018	AA3	104,535	17,064	121,599
Wal-Mart Notes	7.25%	6/1/2013	AA2	115,505	(5,895)	109,610
Goldman Sachs Group	6.25%	9/1/2017	A1	105,130	(90)	105,040
BMW Bank N. America CD	3.35%	5/28/2013	N/A	100,901	2,353	103,254
Goldman Sachs Notes	5.95%	1/18/2018	A1	103,344	(800)	102,544

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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

	<u>Rate</u>	<u>Maturity Date</u>	<u>Moody Rating</u>	<u>Cost</u>	<u>Unrealized Holding Gain (Loss)</u>	<u>Estimated Fair Value</u>
<b>Multi-Line Program</b> (continued):						
Sallie Mae Bank CD	3.00%	6/11/2012	N/A	100,000	1,089	101,089
Midfirst Bank CD	3.05%	5/14/2012	N/A	100,000	931	100,931
Sallie Mae Bank CD	3.05%	5/14/2012	N/A	100,000	931	100,931
GE Capital Financial CD	3.00%	5/14/2012	N/A	100,000	917	100,917
CitiBank CD	3.00%	5/8/2012	N/A	100,000	878	100,878
GNMA 2	6.00%	8/20/2033	N/A	91,077	(8,656)	82,421
GNMA	5.50%	10/15/2033	N/A	71,253	475	71,728
GNMA II	6.00%	6/20/2031	N/A	18,448	(4,397)	14,051
GNMA	7.00%	3/15/2017	N/A	86,366	(76,947)	9,419
				<u>\$ 16,600,837</u>	<u>\$ 120,981</u>	<u>\$ 16,721,818</u>
<b>Law Enforcement Program:</b>						
Pimco FDS Total MF	N/A	N/A	N/A	\$ 1,902,516	\$ (28,475)	\$ 1,874,041
Delaware LTD MF	N/A	N/A	N/A	1,214,510	(9,702)	1,204,808
Federated Services MF	N/A	N/A	N/A	1,169,958	20,240	1,190,198
Dodge and Cox Income MF	N/A	N/A	N/A	1,038,460	(6,706)	1,031,754
Franklin Inv. Security MF	N/A	N/A	N/A	1,040,042	(14,638)	1,025,404
Federated Income MF	N/A	N/A	N/A	987,184	4,644	991,828
Delaware Group MF	N/A	N/A	N/A	1,013,831	(26,751)	987,080
Mainstay FDS MF	N/A	N/A	N/A	800,000	(20,907)	779,093
Pimco FDS MF	N/A	N/A	N/A	760,764	(8,495)	752,269
GNMA II	5.00%	7/20/2035	N/A	697,356	45,662	743,018
GNMA II	5.00%	2/20/2039	N/A	609,529	38,296	647,825
Pimco MBS MF	N/A	N/A	N/A	647,076	(5,252)	641,824
GNMA II	5.50%	2/20/2038	N/A	538,903	41,282	580,185
Pimco Low Duration MF	N/A	N/A	N/A	526,868	(4,857)	522,011
Vanguard GNMA MF	N/A	N/A	N/A	518,027	251	518,278
GNMA II	5.00%	3/20/2039	N/A	470,298	15,815	486,113
GNMA II	5.00%	8/20/2035	N/A	417,253	13,725	430,978
Oppenheimer Senior MF	N/A	N/A	N/A	411,308	(14,402)	396,906
GNMA II	5.00%	8/20/2035	N/A	352,641	23,671	376,312
Federated Total MF	N/A	N/A	N/A	246,719	(263)	246,456
Caterpillar Financial	7.15%	2/15/2019	A2	163,393	29,379	192,772
JP Morgan Chase	6.00%	1/15/2018	AA3	154,642	13,537	168,179
GNMA II	6.00%	3/20/2037	N/A	141,427	7,650	149,077

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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

	<u>Rate</u>	<u>Maturity Date</u>	<u>Moody Rating</u>	<u>Cost</u>	<u>Unrealized Holding Gain (Loss)</u>	<u>Estimated Fair Value</u>
<b>Law Enforcement Program (continued):</b>						
GNMA II	6.00%	5/20/2036	N/A	136,849	8,408	145,257
Duke Energy	5.45%	4/1/2019	A2	104,229	15,005	119,234
Verizon Communications	5.50%	2/15/2018	A3	103,411	14,271	117,682
AT&T Inc.	5.60%	5/15/2018	A2	104,047	12,957	117,004
Wal-Mart Stores	7.25%	6/1/2013	AA2	115,505	(5,895)	109,610
BMW Bank NA CD	3.35%	5/28/2013	N/A	100,906	2,348	103,254
Johnson & Johnson Notes	5.15%	8/15/2012	AAA	109,880	(6,790)	103,090
Sallie Mae Bank CD	3.00%	6/11/2012	N/A	100,000	1,089	101,089
GNMA II	5.50%	6/20/2033	N/A	96,844	(16,779)	80,065
IBM Corporation	5.70%	9/14/2017	A1	52,270	8,529	60,799
				<u>\$ 16,846,646</u>	<u>\$ 146,847</u>	<u>\$ 16,993,493</u>

Investment income is summarized as follows for the year ended December 31, 2011:

Multi-Line Program:	
Interest income	\$ 680,178
Loss on sale of investments	(3,848)
Unrealized gains	<u>32,056</u>
<b>Total investment income</b>	<u>\$ 708,386</u>
Law Enforcement Program:	
Interest income	\$ 571,643
Gain on sale of investments	6,908
Unrealized gains	<u>36,213</u>
<b>Total investment income</b>	<u>\$ 614,764</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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

As of December 31, 2011, the Pool's cash and cash equivalents and investments were as follows:

**Multi-Line Program**

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Money market	\$ 944,049	\$ 944,049
<b>Total</b>	<u>\$ 944,049</u>	<u>\$ 944,049</u>
Investment in the State General Fund Investment Pool	\$ 4,208	\$ 4,208
<b>Total</b>	<u>\$ 4,208</u>	<u>\$ 4,208</u>
Investments:		
Corporate Notes	\$ 1,058,207	\$ 1,109,194
Government Bonds	2,695,542	2,647,271
Government Asset-backed Securities	4,572,398	4,693,370
Certificates of Deposit	1,850,901	1,881,825
Mutual Funds	<u>6,423,789</u>	<u>6,390,158</u>
<b>Total</b>	<u>\$ 16,600,837</u>	<u>\$ 16,721,818</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

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

**Law Enforcement Program**

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Money market	\$ 1,401,958	\$ 1,401,958
<b>Total</b>	<b>\$ 1,401,958</b>	<b>\$ 1,401,958</b>
Investment in the State General Fund Investment Pool	\$ 6,262	\$ 6,262
<b>Total</b>	<b>\$ 6,262</b>	<b>\$ 6,262</b>
Investments:		
Corporate Notes	\$ 907,336	\$ 988,369
Government Bonds	4,371,023	\$ 4,314,784
Government Asset-backed Securities	3,461,356	\$ 3,638,829
Certificates of Deposit	200,901	204,343
Mutual Funds	7,906,030	7,847,168
<b>Total</b>	<b>\$ 16,846,646</b>	<b>\$ 16,993,493</b>

**Both Programs**

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Money market	\$ 2,346,007	\$ 2,346,007
<b>Total</b>	<b>\$ 2,346,007</b>	<b>\$ 2,346,007</b>
Investment in the State General Fund Investment Pool	\$ 10,470	\$ 10,470
<b>Total</b>	<b>\$ 10,470</b>	<b>\$ 10,470</b>
Investments:		
Corporate Notes	\$ 1,965,543	\$ 2,097,563
Government Bonds	7,066,565	6,962,055
Government Asset-backed Securities	8,033,754	8,332,199
Certificates of Deposit	2,051,802	2,086,168
Mutual Funds	14,329,819	14,237,326
<b>Total</b>	<b>\$ 33,447,483</b>	<b>\$ 33,715,311</b>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011**

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

**Collateral Requirements**

First National Bank of Santa Fe:

Total amount on deposit in bank:

Multi-Line checking	\$ 390,790
Law Enforcement checking	966,753
Other Funds Administered by the New Mexico Association of Counties (Not held by the Pool)	<u>2,870,305</u>

Total deposit in bank 4,235,848

FDIC coverage (250,000)

Total uninsured funds \$ 3,895,848

50% pledged collateral requirement \$ 1,992,924

Pledged collateral:

Description	Maturity	Par	Market
CUSP #31331XWW8	04/25/2014	5,000,000	\$5,499,178
CUSP #31416W6C1	11/01/2025	5,500,000	<u>4,645,632</u>

Total pledged collateral \$10,144,810

Over collateralized \$ 8,151,886

**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, 2011, 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 \$ 1,357,543

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

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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

**Interest Rate Risk**

The Pool does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing 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).

**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.

**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.

**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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

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

**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:**

Delaware Group MF	5.90%
Federated Income MF	6.70%
Federated Services MF	6.56%
PIMCO Total Return MF	9.04%

**Law Enforcement Program:**

Dodge and Cox Income MF	6.07%
Franklin Investment Security MF	6.03%
Delaware LTD MF	7.09%

**NOTE 3 - CAPITAL ASSETS**

A summary of changes in capital assets follows:

**Multi-Line Program**

	<b>Balance, June 30, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30, 2011</b>
Depreciable assets:				
Equipment	\$ 8,080	\$ -	\$ -	\$ 8,080
Total	<u>8,080</u>	<u>-</u>	<u>-</u>	<u>8,080</u>
Less accumulated depreciation:				
Equipment	<u>(7,182)</u>	<u>(898)</u>	<u>-</u>	<u>(8,080)</u>
<b>Net total</b>	<u>\$ 898</u>	<u>\$ (898)</u>	<u>\$ -</u>	<u>\$ -</u>



**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

**NOTE 3 - CAPITAL ASSETS (CONTINUED)**

**Law Enforcement Program**

	<b>Balance, June 30, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30, 2011</b>
Depreciable assets:				
Equipment	\$ 4,040	\$ -	\$ -	\$ 4,040
Total	<u>4,040</u>	<u>-</u>	<u>-</u>	<u>4,040</u>
Less accumulated depreciation:				
Equipment	<u>(3,592)</u>	<u>(448)</u>	<u>-</u>	<u>(4,040)</u>
<b>Net total</b>	<u>\$ 448</u>	<u>\$ (448)</u>	<u>\$ -</u>	<u>\$ -</u>

**Both Programs**

	<b>Balance, June 30, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance, June 30, 2011</b>
Depreciable assets:				
Equipment	\$ 12,120	\$ -	\$ -	\$ 12,120
Total	<u>12,120</u>	<u>-</u>	<u>-</u>	<u>12,120</u>
Less accumulated depreciation:				
Equipment	<u>(10,774)</u>	<u>(1,346)</u>	<u>-</u>	<u>(12,120)</u>
<b>Net total</b>	<u>\$ 1,346</u>	<u>\$ (1,346)</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 4 - 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, 2011 have been based on an actuarial evaluation of the Pool's historical claims experience, industry data and other factors. While management believes that these estimates are adequate, actual incurred but unpaid claims may vary significantly from the amount provided.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

**NOTE 4 - CLAIMS AND CLAIM ADJUSTMENT EXPENSES (CONTINUED)**

Changes in reserves for claims and claim adjustment expenses were as follows for the year ended December 31, 2011:

Multi-Line Program:

Liability for claims and claim adjustment expenses, beginning of year	\$ 11,705,799
Incurred claims and claim adjustment expenses related to:	
Current year	7,254,012
Prior year	<u>(902,844)</u>
Total incurred	<u>6,351,168</u>
Payments (net of amounts received pursuant to excess insurance contracts) related to:	
Current year	(1,592,334)
Prior year	<u>(5,081,097)</u>
Total payments	<u>(6,673,431)</u>
Liability for claims and claim adjustment expenses, end of year	<u>11,383,536</u>

Law Enforcement Program:

Liability for claims and claim adjustment expenses, beginning of year	14,670,533
Incurred claims and claim adjustment expenses related to:	
Current year	5,486,652
Prior year	<u>(894,521)</u>
Total incurred	<u>4,592,131</u>
Payments (net of amounts received pursuant to excess insurance contracts) related to:	
Current year	(246,525)
Prior year	<u>(3,780,514)</u>
Total payments	<u>(4,027,039)</u>
Liability for claims and claim adjustment expenses, end of year	<u>15,235,625</u>

<b>Total liability claims and claim adjustment expenses, end of year</b>	<b><u>\$ 26,619,161</u></b>
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**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

**NOTE 4 - CLAIMS AND CLAIM ADJUSTMENT EXPENSES (CONTINUED)**

As of year-end, the liability for unpaid claims and claim adjustment expenses of \$12,136,482 for the Multi-Line Program and \$16,490,115 for the Law Enforcement Program are presented at their net present value of \$11,383,536 and \$15,235,625, respectively. These claims are discounted at rates between 4.0 and 4.5%. For the year ended December 31, 2011, the Multi-Line Program experienced positive development on prior policy year claims resulting in an offset to claim expense of (\$902,844). For the year ended December 31, 2011, the Law Enforcement Program experienced positive development on prior policy year claims resulting in an offset to claim expense of (\$894,521).

**NOTE 5 – MEMBER EQUITY RETURN**

During 2011, the Board of Directors approved and issued a \$500,066 distribution to member counties. The distribution was made to those counties that were members of the Multi-Line Pool between 1994 and 2000 and that were members as of January 1, 2011.

**NOTE 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 \$500,000 for individual claims.

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. Should the reinsurers be unable to meet their obligation under the reinsurance contracts, the Pool may remain responsible for liabilities ceded to reinsurers.

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 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, 2011, the Pool paid \$2,139,798 for excess insurance premiums.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2011**

**NOTE 7 - BROKERAGE SERVICE FEE**

Commission/brokerage service fees were \$99,840 for the year ended December 31, 2011.

**NOTE 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 \$1,900,000 in 2011 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, 2011 consisted of the following:

	<b>Multi-Line Program</b>	<b>Law Enforcement Program</b>	<b>Total</b>
Risk management	\$ 969,000	\$ 931,000	\$ 1,900,000
Legal	9,469	3,880	13,349
Actuarial	11,350	9,150	20,500
Accounting and auditing	8,640	8,640	17,280
Consulting	30,133	50,000	80,133
Miscellaneous	184,659	43,565	228,224
Total operating expenses	<u>\$ 1,213,251</u>	<u>\$ 1,046,235</u>	<u>\$ 2,259,486</u>

**NOTE 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.

**NOTE 10 – INTERFUND ACTIVITY AND BALANCES**

Occasionally, the Pool's two funds require that short-term operating loans be made to each other. At December 31, 2011, the Multi-Line Program owed the Law Enforcement Program \$400,000, which resulted from an operating loan made during 2011. This amount is expected to be repaid during the next fiscal year.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
NOTES TO TEN YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)  
December 31, 2011**

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

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
TEN YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)  
Ten Years Ended December 31, 2011**

<b>(in thousands)</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
1. Net earned required contribution and investment revenues	\$ 7,982	\$ 7,747	\$ 11,386
2. Unallocated claim expenses	1,401	1,208	1,044
3. Estimated incurred claims and expense, end of policy year	2,521	3,257	2,602
4. Paid (cumulative) as of:			
Year one	700	655	1,100
Year two	2,794	1,279	2,605
Year three	3,203	2,998	4,223
Year four	3,650	4,127	4,915
Year five	3,905	4,231	5,058
Year six	4,178	4,317	5,711
Year seven	4,168	4,327	5,807
Year eight	4,169	4,233	<b>7,147</b>
Year nine	4,169	<b>5,281</b>	-
Year ten	<b>5,063</b>	-	-
5. Re-estimated incurred claims and expense			
Year one	2,521	3,257	2,602
Year two	4,135	3,569	4,078
Year three	4,031	4,220	4,896
Year four	4,035	4,842	5,516
Year five	4,216	4,452	5,759
Year six	4,194	4,341	5,878
Year seven	4,168	4,327	5,884
Year eight	4,169	4,233	<b>7,147</b>
Year nine	4,169	<b>5,281</b>	-
Year ten	<b>5,063</b>	-	-
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	2,542	2,024	4,545

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
\$	12,147	\$ 14,138	\$ 16,063	\$ 16,323	\$ 17,796	\$ 17,301	\$ <b>17,483</b>
	1,051	1,392	1,768	2,027	2,203	2,296	<b>2,358</b>
	4,308	4,255	3,397	5,443	6,357	11,685	<b>13,601</b>
	751	883	756	918	1,663	985	<b>1,839</b>
	3,241	3,443	2,905	1,856	3,751	<b>3,659</b>	-
	4,389	5,854	5,300	4,160	<b>7,522</b>	-	-
	5,853	8,001	7,439	<b>6,289</b>	-	-	-
	5,430	8,685	<b>8,963</b>	-	-	-	-
	5,475	<b>10,604</b>	-	-	-	-	-
	<b>6,729</b>	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	4,308	4,255	3,397	5,443	6,357	11,685	<b>13,601</b>
	4,961	6,287	6,335	6,050	8,767	<b>10,622</b>	-
	5,776	9,137	8,707	6,754	<b>11,586</b>	-	-
	6,407	9,649	9,090	<b>8,280</b>	-	-	-
	6,176	9,641	<b>10,344</b>	-	-	-	-
	6,332	<b>10,830</b>	-	-	-	-	-
	<b>7,595</b>	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	3,287	6,575	6,947	2,837	5,229	(1,063)	-



**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, 2011**

	<b>Original Budgeted Amounts</b>	<b>Final Budgeted Amounts</b>	<b>Actual Amounts - Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>REVENUES</b>				
Member contributions	\$ 7,080,612	\$ 7,080,612	\$ 7,160,112	\$ 79,500
Investment income	600,000	600,000	708,386	108,386
Land Use Contribution	72,500	72,500	-	(72,500)
Other	-	-	2,380	2,380
Total revenues	7,753,112	7,753,112	7,870,878	117,766
 <b>EXPENSES</b>				
Claims and claim adjustment expenses	5,733,080	5,703,080	6,351,168	(648,088)
Excess insurance premiums	765,615	785,615	797,324	(11,709) *
General and administrative	1,186,397	1,196,397	1,212,353	(15,956) *
Brokerage fees	65,520	65,520	65,520	-
Other expenses	2,500	2,500	-	2,500
Total expenses	7,753,112	7,753,112	8,426,365	(673,253)
 <b>EXCESS OF EXPENSES OVER REVENUES - BUDGETARY BASIS</b>				
	\$ -	\$ -	(555,487)	\$ (555,487) *
 <b>RECONCILIATION TO GAAP BASIS</b>				
To record depreciation			(898)	
To record member equity return			(500,066)	
 <b>EXCESS OF EXPENSES OVER REVENUES - GAAP BASIS</b>				
			\$ (1,056,451)	

\* 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, 2011**

	<b>Original Budgeted Amounts</b>	<b>Final Budgeted Amounts</b>	<b>Actual Amounts - Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>REVENUES</b>				
Member contributions	\$ 8,999,962	\$ 8,999,962	\$ 8,999,962	\$ -
Investment income	<u>400,000</u>	<u>400,000</u>	<u>614,764</u>	<u>214,764</u>
Total revenues	<u>9,399,962</u>	<u>9,399,962</u>	<u>9,614,726</u>	<u>214,764</u>
<b>EXPENSES</b>				
Claims and claim adjustment expenses	6,951,271	6,945,271	4,592,131	2,353,140
Excess insurance premiums	1,342,474	1,342,474	1,342,474	-
General and administrative	1,069,397	1,075,397	1,045,787	29,610
Brokerage fees	34,320	34,320	34,320	-
Other expenses	<u>2,500</u>	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Total expenses	<u>9,399,962</u>	<u>9,399,962</u>	<u>7,014,712</u>	<u>2,385,250</u>
<b>EXCESS OF REVENUES OVER EXPENSES - BUDGETARY BASIS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>2,600,014</u>	<u>\$ 2,600,014</u>
<b>RECONCILIATION TO GAAP BASIS</b>				
To record depreciation			<u>(448)</u>	
<b>EXCESS OF REVENUES OVER EXPENSES - GAAP BASIS</b>			<u>\$ 2,599,566</u>	

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

**OTHER SUPPLEMENTARY INFORMATION**

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
CASH AND CASH EQUIVALENTS RECONCILIATION  
FROM BOOKS TO FINANCIAL STATEMENTS  
December 31, 2011**

	<b>Multi-Line Program</b>	<b>Law Enforcement Program</b>	<b>Total</b>
Interest-bearing checking accounts:			
First National Bank of Santa Fe	\$ 390,790	\$ 966,753	\$ 1,357,543
Reconciling items			
Outstanding checks	<u>(118,019)</u>	<u>(219,667)</u>	<u>(337,686)</u>
Financial statement balance	<u>272,771</u>	<u>747,086</u>	<u>1,019,857</u>
Mutual funds - money market Wachovia Securities	643,314	645,614	1,288,928
Mutual funds - money market LPL Financial	29,067	9,258	38,325
Reconciling items			
Outstanding checks	<u>(1,103)</u>	<u>-</u>	<u>(1,103)</u>
Financial statement balance	<u>671,278</u>	<u>654,872</u>	<u>1,326,150</u>
Cash held with the State Treasurer Local Government Investment Fund	<u>4,208</u>	<u>6,262</u>	<u>\$ 10,470</u>
Financial statement balance	<u>4,208</u>	<u>6,262</u>	<u>10,470</u>
<b>TOTAL CASH AND CASH EQUIVALENTS AND INVESTMENT IN THE STATE LOCAL GOVERNMENT INVESTMENT POOL</b>	<b><u>\$ 948,257</u></b>	<b><u>\$ 1,408,220</u></b>	<b><u>\$ 2,356,477</u></b>

**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**

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 each major fund and the related budgetary comparisons presented as supplemental information of the New Mexico County Insurance Authority Multi-Line Pool (the Pool) as of and for the year ended December 31, 2011, and have issued our report thereon dated May 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as finding 2011-01, which we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

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

We noted no other matters that are required to be reported pursuant to *Government Auditing Standards* paragraphs 5.14 and 5.16, and pursuant to Section 12-6-5, NMSA 1978.

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

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

A handwritten signature in black ink that reads "Clifton Larson Allen LLP". The signature is written in a cursive, flowing style.

Albuquerque, New Mexico  
May 30, 2012

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2011**

**Section I – Financial Statement Findings**

**Finding 2011-01 Deviation from Investment Policy – Significant Deficiency**

**Condition:** During our audit of investment balances, it was found that 12 out of the 16 corporate bonds included in the Pool's investment balances have maturity dates of more than five years from the date of purchase.

**Criteria:** Per the Pool's investment policy regarding corporate bonds (as noted on page 21), "debt instruments which are backed by definite cash flows or receivables with a final maturity not exceeding five years" are prohibited.

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

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

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

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



**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
Year Ended December 31, 2011**

**Section I – Financial Statement Findings**

There were no findings for the year ended December 31, 2010.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
EXIT CONFERENCE  
Year Ended December 31, 2011**

An exit conference was held on May 30, 2012. In attendance were:

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

Doug Decker, Board Member  
Paul Gutierrez, Executive Director  
Steve Kopelman, Risk Management Director  
Santiago Chavez, Finance Director  
Carolin Rios, Accountant

**CLIFTONLARSONALLEN, LLP**

Janet Pacheco-Morton, CPA, CGFM, Partner  
Raul Anaya, CPA, CGFM, CFE, Senior Manager

**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.