

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

**FINANCIAL STATEMENTS  
December 31, 2012**

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**OFFICIAL ROSTER  
December 31, 2012**

**Board of Directors**

Ron Lethgo	Chair
Teresa Bird	Vice Chair
Orlando Lucero	Secretary/Treasurer
Lonnie Freyburger	Member
Wendell Bostwick	Member
Kelly Kuentler	Member
Wayne Hancock	Member
Nita Taylor	Member
Ron Ortega	Member
Doug Decker	Ex-officio Member
Patrick Snedeker	Ex-officio Member
Dee Robinson	Ex-officio 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, 2012**

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, 2012**

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 Auditors' 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

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

We have audited the accompanying financial statements of the business-type activities, each major fund, and the Schedules of Revenues and Expenses – Budget and Actual (Budgetary Basis) of the N.M. County Insurance Authority: Multi-Line Pool (the Pool), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our 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 from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the Schedules of Revenues and Expenses – Budget and Actual (Budgetary Basis) of the Pool as of December 31, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pool's basic financial statements. The 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.

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

The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2013, 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

Albuquerque, New Mexico  
May 30, 2013

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

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, 2012.

**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, 2012. 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>2012</u>	<u>2011</u>
Total assets (cash, investments, receivables and prepaids)	\$ 40,477,383	\$ 38,349,311
Total liabilities (claims and claim adjustment expenses)	<u>29,694,040</u>	<u>27,031,466</u>
<b>Pool net assets</b>	<b><u>\$ 10,783,343</u></b>	<b><u>\$ 11,317,845</u></b>
Revenues:		
Member contributions	\$ 16,282,169	\$ 16,160,074
Investment and other income	<u>1,527,189</u>	<u>1,325,530</u>
Total revenues	<u>17,809,358</u>	<u>17,485,604</u>
Expenses:		
Claims and claim adjustment expenses	13,647,826	10,943,299
Excess insurance and brokerage fees	2,274,035	2,239,638
General and administrative	2,421,999	2,259,486
Member equity return	<u>-</u>	<u>500,066</u>
Total expenses	<u>18,343,860</u>	<u>15,942,489</u>
Excess of revenues over expenses	(534,502)	1,543,115
Net assets, beginning of year	<u>11,317,845</u>	<u>9,774,730</u>
<b>Net assets, end of year</b>	<b><u>\$ 10,783,343</u></b>	<b><u>\$ 11,317,845</u></b>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

**Financial Highlights**

- Multi-Line Program assets increased by approximately \$872,000 and Pool surplus increased \$2,517.
- Law Enforcement Program assets increased approximately \$1.26 million and net assets decreased by approximately \$537,000.

**Underwriting Results**

Contributions to the Multi-Line Program increased from \$7,160,112 in 2011 to \$7,286,739. Law Enforcement Program contributions remained consistent with 2011 at approximately \$9 million. 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 a decrease in net assets of \$534,502: a \$2,517 increase for Multi-Line and a \$537,019 decrease for Law Enforcement.

**Excess Insurance Premiums**

Reinsurance expenses for the Multi-Line Program increased approximately \$2,000 in 2012 due to lower excess property rates. Reinsurance expenses for the Law Enforcement Program increased by \$35,526, from \$1,342,474 to \$1,375,000.

**Investment Results**

At the end of 2012, the Pools' current assets totaled \$38,654,626. Of this amount, \$1,126,575 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 4.25%. The Multi-Line Program portfolio increased about 1.2%, and the Law Enforcement Program portfolio increased about 2.3%. 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 2012. Investment income for both insurance programs was higher than 2011: about \$1,476,000 compared with \$1,323,150.

**Property, Plant and Equipment**

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

**Long-term Debt**

The Pool had no long-term debt during 2012.



**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012**

**Net Income**

For the year ended December 31, 2012, the Multi-Line Program had a net income of \$2,517. The Law Enforcement Program had a net loss of \$537,019. The net income for the Multi-Line Program included an operating loss of \$606,823 and investment income of \$642,314. The net loss for the Law Enforcement Program included an operating loss of \$1,336,789 and investment income of \$834,090.

**Member Surplus**

The Pool had a combined net asset surplus of \$10,783,343 at the close of its most recent fiscal year. The Multi-Line Program surplus increased from \$7,126,674 to \$7,129,191 and the Law Enforcement Program surplus decreased from \$4,191,171 to \$3,654,152.

**Budget**

In the Multi-Line Program, member contributions were slightly more than budgeted by \$72,501. Investment income for both Programs was more than budgeted. In total, claims and claim adjustment expenses were more than budgeted for both programs.

**Pool Trends and Conditions**

Both pools are doing well financially. They continue to provide loss prevention and risk management services to counties to help reduce the occurrence and severity of claims. Approximately half of the member counties are participating in the pools' Risk Awareness Program, which is a custom training program for the various county departments. In addition, the Multi-Line Pool Board of Directors recently voted to implement a litigation management program, the goals of which are to reduce the amount of attorney's fees and costs paid out by the pools, empower claims examiners to better manage litigation claims, encourage early investigation of claims, and early settlement of cases where liability is clear. 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, 2012**

**ASSETS**

	<u>Multi-Line Program</u>	<u>Law Enforcement Program</u>	<u>Total</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 603,597	\$ 522,978	\$ 1,126,575
Investment in the Local Government Investment Pool	953	1,588	2,541
Investments	16,922,671	17,386,351	34,309,022
Accounts receivable - Subrogation, Deductibles	10,596	104,599	115,195
Accounts receivable - Reinsurance	166,193	2,435,134	2,601,327
Due from New Mexico County Insurance Authority, current portion	27,500	-	27,500
Investment in County Reinsurance, Limited	198,160	237,588	435,748
Accrued interest on note receivable	32,546	-	32,546
Prepays	4,172	-	4,172
	<u>17,966,388</u>	<u>20,688,238</u>	<u>38,654,626</u>
<b>TOTAL current assets</b>			
<b>NON-CURRENT ASSETS</b>			
Due from New Mexico County Insurance Authority, net of current portion	1,822,757	-	1,822,757
	<u>1,822,757</u>	<u>-</u>	<u>1,822,757</u>
<b>TOTAL non-current assets</b>			
	<u>1,822,757</u>	<u>-</u>	<u>1,822,757</u>
<b>TOTAL ASSETS</b>			
	<u>\$ 19,789,145</u>	<u>\$ 20,688,238</u>	<u>\$ 40,477,383</u>

**LIABILITIES AND POOL NET POSITION**

<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 49,452	\$ 24,683	\$ 74,135
Claims and claim adjustment expenses	5,450,893	6,472,553	11,923,446
	<u>5,500,345</u>	<u>6,497,236</u>	<u>11,997,581</u>
<b>TOTAL current liabilities</b>			
<b>LONG-TERM LIABILITIES</b>			
Claims and claim adjustment expenses	7,159,609	10,536,850	17,696,459
	<u>7,159,609</u>	<u>10,536,850</u>	<u>17,696,459</u>
<b>TOTAL long-term liabilities</b>			
<b>POOL NET POSITION HELD FOR MEMBERS' BENEFITS</b>			
Unrestricted	7,129,191	3,654,152	10,783,343
	<u>7,129,191</u>	<u>3,654,152</u>	<u>10,783,343</u>
<b>TOTAL pool net position held for members' benefits</b>			
	<u>7,129,191</u>	<u>3,654,152</u>	<u>10,783,343</u>
<b>TOTAL LIABILITIES AND POOL NET POSITION</b>			
	<u>\$ 19,789,145</u>	<u>\$ 20,688,238</u>	<u>\$ 40,477,383</u>

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 POSITION - ENTERPRISE FUNDS  
Year Ended December 31, 2012**

	<b>Multi-Line Program</b>	<b>Law Enforcement Program</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Member contributions	\$ 7,286,739	\$ 8,995,430	\$ 16,282,169
Other revenue	9,923	8,316	18,239
Total operating revenues	7,296,662	9,003,746	16,300,408
<b>OPERATING EXPENSES</b>			
Claims and claim adjustment expenses	5,799,748	7,848,078	13,647,826
Excess insurance premiums	799,195	1,375,000	2,174,195
General and administrative	1,304,542	1,117,457	2,421,999
Total operating expenses	7,903,485	10,340,535	18,244,020
Operating loss	(606,823)	(1,336,789)	(1,943,612)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income	642,314	834,090	1,476,404
Accrued interest income	32,546	-	32,546
Commissions/brokerage fees	(65,520)	(34,320)	(99,840)
Total non-operating revenue, net	609,340	799,770	1,409,110
Change in net position	2,517	(537,019)	(534,502)
<b>POOL NET POSITION HELD FOR MEMBERS' BENEFITS, BEGINNING OF YEAR</b>	<b>7,126,674</b>	<b>4,191,171</b>	<b>11,317,845</b>
<b>POOL NET POSITION HELD FOR MEMBERS' BENEFITS, END OF YEAR</b>	<b>\$ 7,129,191</b>	<b>\$ 3,654,152</b>	<b>\$ 10,783,343</b>

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, 2012

	<b>Multi-Line Program</b>	<b>Law Enforcement Program</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from members	\$ 7,951,538	\$ 6,602,702	\$ 14,554,240
Cash paid to vendors	(1,261,580)	(1,098,589)	(2,360,169)
Cash paid on claims and claims adjustment expenses	(4,572,782)	(6,074,300)	(10,647,082)
Cash paid for excess insurance	(799,195)	(1,375,000)	(2,174,195)
Cash received from others	<u>212,628</u>	<u>254,621</u>	<u>467,249</u>
 Net cash provided by (used in) operating activities	 <u>1,530,609</u>	 <u>(1,690,566)</u>	 <u>(159,957)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income received	691,798	741,675	1,433,473
Payments for commission and brokerage	(65,520)	(34,320)	(99,840)
Proceeds from sale or maturity of investments	2,538,920	20,204,231	22,743,151
Purchases of investments	<u>(2,786,002)</u>	<u>(20,500,000)</u>	<u>(23,286,002)</u>
 Net cash provided by investing activities	 <u>379,196</u>	 <u>411,586</u>	 <u>790,782</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of note receivable	(1,850,257)	-	(1,850,257)
Payment of short-term loan from Law Enforcement Program	<u>(400,000)</u>	<u>400,000</u>	<u>-</u>
 Net cash provided by (used in) financing activities	 <u>(2,250,257)</u>	 <u>400,000</u>	 <u>(1,850,257)</u>
 <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	 <u>(340,452)</u>	 <u>(878,980)</u>	 <u>(1,219,432)</u>
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	 <u>944,049</u>	 <u>1,401,958</u>	 <u>2,346,007</u>
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	 <u>\$ 603,597</u>	 <u>\$ 522,978</u>	 <u>\$ 1,126,575</u>

	<u>Multi-Line Program</u>	<u>Law Enforcement Program</u>	<u>Total</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Operating (loss) income	\$ (606,823)	\$ (1,336,789)	\$ (1,943,612)
Change in assets and liabilities:			
Accounts receivable	664,799	(2,392,728)	(1,727,929)
Prepays	4,544	8,716	13,260
Investment in County Reinsurance, Limited	198,161	237,589	435,750
Accounts payable	42,962	18,868	61,830
Claims and claim adjustment expenses	<u>1,226,966</u>	<u>1,773,778</u>	<u>3,000,744</u>
 Net cash provided by (used in) operating activities	 <u>\$ 1,530,609</u>	 <u>\$ (1,690,566)</u>	 <u>\$ (159,957)</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, 2012**

**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, 2012**

**NOTE 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. 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.

**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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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

**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.

**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.



**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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

**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, when applicable. The Pool budgets claims and claim adjustment expenses based on actuarial estimates. Overages on this specific line item are only considered deficiencies if the cash and investment balances within the Pool cannot support the overage.

**Restricted 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, 2012, and, accordingly, the net assets are reported as unrestricted.

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

**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, 2012**

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

Investments consisted of the following at December 31, 2012:

	<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	\$ 1,632,883	\$ 26,963	\$ 1,659,846
Federated Total Return Bond	N/A	N/A	N/A	1,340,507	37,305	1,377,812
Delaware LTD Term Diverse	N/A	N/A	N/A	1,328,429	(4,910)	1,323,519
Pimco Mortgage Back MF	N/A	N/A	N/A	1,270,542	(7,299)	1,263,243
Federated Income Trust	N/A	N/A	N/A	1,152,887	(4,756)	1,148,131
Delaware Group MF	N/A	N/A	N/A	1,039,980	487	1,040,467
GNMA II	5.00%	7/20/2035	N/A	774,716	30,142	804,858
Mainstay FDS Trust MF	N/A	N/A	N/A	700,000	2,938	702,938
Pimco FDS Pac Inv Tot Ret	N/A	N/A	N/A	529,367	8,283	537,650
GNMA II	5.50%	2/20/2038	N/A	492,849	14,184	507,033
Delaware LTD MF	N/A	N/A	N/A	520,437	(15,918)	504,519
Pimco FDS Pac Inv Low Dur	N/A	N/A	N/A	459,869	(2,093)	457,776
GNMA II	5.00%	3/20/2038	N/A	409,829	7,389	417,218
GNMA II	5.00%	2/20/2039	N/A	403,215	11,659	414,874
Loomis Sayles LTD Gov	N/A	N/A	N/A	407,138	2,012	409,150
Pimco Low Duration MF	N/A	N/A	N/A	392,473	3,434	395,907
GNMA II	5.00%	8/20/2035	N/A	318,078	13,532	331,610
Dodge and Cox Income MF	N/A	N/A	N/A	280,329	13,096	293,425
Franklin Invs Sec Adj US Gov	N/A	N/A	N/A	289,607	(4,003)	285,604
Vanguard GNMA MF	N/A	N/A	N/A	281,348	(860)	280,488
Vanguard Fixed Inc S/T	N/A	N/A	N/A	254,588	2,334	256,922
American Express CD	3.20%	5/6/2013	N/A	250,000	2,443	252,443
American Express FSB CD	3.20%	5/6/2013	N/A	250,000	2,443	252,443
JP Morgan Chase	6.00%	1/15/2018	AA3	207,747	31,177	238,924
GNMA II	6.00%	3/20/2037	N/A	208,624	1,261	209,885
GNMA II	6.00%	5/20/2036	N/A	200,210	2,989	203,199
GNMA	5.50%	3/15/2032	N/A	239,545	(61,461)	178,084
Verizon Communications	5.50%	4/1/2017	A3	155,630	20,895	176,525
Vanguard S/T Bond	N/A	N/A	N/A	152,048	421	152,469
National Rural Utility Corp.	10.38%	11/1/2018	A1	129,007	19,414	148,421
IBM Corporation	5.70%	9/14/2017	AA3	104,535	16,348	120,883
Goldman Sachs Group	6.25%	9/1/2017	A2	105,130	12,066	117,196
Goldman Sachs Notes	5.95%	1/18/2018	A2	103,344	13,081	116,425
Wal-Mart Notes	7.25%	6/1/2013	AA2	115,505	(12,577)	102,928

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**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 (continued):</b>						
BMW Bank N. America CD	3.35%	5/28/2013	N/A	100,906	300	101,206
GNMA	6.00%	8/20/2033	N/A	78,900	(10,865)	68,035
GNMA	5.50%	10/15/2033	N/A	55,566	(3,125)	52,441
GNMA	6.00%	6/20/2031	N/A	15,552	(4,982)	10,570
GNMA	7.00%	3/15/2017	N/A	84,753	(77,149)	7,604
				<u>\$ 16,836,073</u>	<u>\$ 86,598</u>	<u>\$ 16,922,671</u>
<b>Law Enforcement Program:</b>						
Pimco FDS Total III MF	N/A	N/A	N/A	\$ 2,021,206	\$ 35,461	\$ 2,056,667
Federated Total Return MF	N/A	N/A	N/A	1,802,160	35,643	1,837,803
Delaware LTD MF	N/A	N/A	N/A	1,751,477	(9,213)	1,742,264
Dodge and Cox Income MF	N/A	N/A	N/A	1,076,509	37,199	1,113,708
Pimco FDS MF	N/A	N/A	N/A	1,057,106	20,564	1,077,670
Delaware Group MF	N/A	N/A	N/A	1,039,981	487	1,040,468
Federated Income MF	N/A	N/A	N/A	1,018,801	(2,995)	1,015,806
Pimco MBS MF	N/A	N/A	N/A	989,426	(4,398)	985,028
Mainstay FDS MF	N/A	N/A	N/A	800,000	4,309	804,309
Pimco FDS Total MF	N/A	N/A	N/A	770,614	3,827	774,441
Pimco Low Duration MF	N/A	N/A	N/A	547,407	6,300	553,707
GNMA II	5.00%	7/20/2035	N/A	502,156	19,535	521,691
Oppenheimer Senior MF	N/A	N/A	N/A	434,006	(2,370)	431,636
GNMA II	5.00%	2/20/2039	N/A	403,215	11,659	414,874
Loomis Sayles MF	N/A	N/A	N/A	407,160	1,676	408,836
GNMA II	5.00%	8/20/2035	N/A	309,782	(780)	309,002
Vanguard GNMA MF	N/A	N/A	N/A	292,236	(6,791)	285,445
GNMA II	5.00%	8/20/2035	N/A	258,801	11,006	269,807
Vanguard Short Term MF	N/A	N/A	N/A	254,588	2,334	256,922
Vanguard Short Term Bond MI	N/A	N/A	N/A	253,413	702	254,115
Caterpillar Financial	7.15%	2/15/2019	A2	163,393	33,048	196,441
AT&T Inc.	5.60%	5/15/2018	A2	104,047	16,474	120,521
Duke Energy	5.45%	4/1/2019	A2	104,229	16,016	120,245
Verizon Communications	5.50%	2/15/2018	A3	103,411	16,686	120,097
JP Morgan Chase	6.00%	1/15/2018	AA3	103,094	16,368	119,462
GNMA II	6.00%	3/20/2037	N/A	104,315	627	104,942

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**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>						
Wal-Mart Stores	7.25%	6/1/2013	AA2	115,505	(12,577)	102,928
GNMA II	6.00%	5/20/2036	N/A	100,109	1,491	101,600
BMW Bank NA CD	3.35%	5/28/2013	N/A	100,906	300	101,206
GNMA II	5.50%	6/20/2033	N/A	83,596	(19,910)	63,686
IBM Corporation	5.70%	9/14/2017	A1	52,270	8,172	60,442
Franklin Inv. Security MF	N/A	N/A	N/A	20,656	(74)	20,582
				<u>\$ 17,145,575</u>	<u>\$ 240,776</u>	<u>\$ 17,386,351</u>

Investment income is summarized as follows for the year ended December 31, 2012:

Multi-Line Program:

Interest income	\$ 623,030
Loss on sale of investments	(15,100)
Unrealized gains	<u>34,384</u>

**Total investment income**

\$ 642,314

Law Enforcement Program:

Interest income	\$ 741,675
Loss on sale of investments	(1,512)
Unrealized gains	<u>93,927</u>

**Total investment income**

\$ 834,090

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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

As of December 31, 2012, 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:		
Checking and money market	\$ 603,597	\$ 603,597
<b>Total</b>	<b>\$ 603,597</b>	<b>\$ 603,597</b>
Investment in the State General Fund Investment Pool	\$ 953	\$ 953
<b>Total</b>	<b>\$ 953</b>	<b>\$ 953</b>
Investments:		
Corporate Notes	\$ 920,898	\$ 1,021,302
Government Asset-backed Securities	3,281,837	3,205,412
Certificates of Deposit	600,906	606,091
Mutual Funds	12,032,432	12,089,866
<b>Total</b>	<b>\$ 16,836,073</b>	<b>\$ 16,922,671</b>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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

**Law Enforcement Program**

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Checking and money market	\$ 522,978	\$ 522,978
<b>Total</b>	<b><u>\$ 522,978</u></b>	<b><u>\$ 522,978</u></b>
Investment in the State General Fund Investment Pool	\$ 1,588	\$ 1,588
<b>Total</b>	<b><u>\$ 1,588</u></b>	<b><u>\$ 1,588</u></b>
Investments:		
Corporate Notes	\$ 745,949	\$ 840,135
Government Asset-backed Securities	1,761,974	1,785,603
Certificates of Deposit	100,906	101,206
Mutual Funds	<u>14,536,746</u>	<u>14,659,407</u>
<b>Total</b>	<b><u>\$ 17,145,575</u></b>	<b><u>\$ 17,386,351</u></b>

**Both Programs**

Cash and cash equivalents:		
Money market	\$ 1,126,575	\$ 1,126,575
<b>Total</b>	<b><u>\$ 1,126,575</u></b>	<b><u>\$ 1,126,575</u></b>
Investment in the State General Fund Investment Pool	\$ 2,541	\$ 2,541
<b>Total</b>	<b><u>\$ 2,541</u></b>	<b><u>\$ 2,541</u></b>
Investments:		
Corporate Notes	\$ 1,666,847	\$ 1,861,437
Government Asset-backed Securities	5,043,811	4,991,015
Certificates of Deposit	701,812	707,297
Mutual Funds	<u>26,569,178</u>	<u>26,749,273</u>
<b>Total</b>	<b><u>\$ 33,981,648</u></b>	<b><u>\$ 34,309,022</u></b>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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

**Collateral Requirements**

First National Bank of Santa Fe:

Total amount on deposit in bank:

Multi-Line checking	\$ 563,363
Law Enforcement checking	727,869
Other funds administered by the New Mexico Association of Counties (not held by the Pool)	2,026,171

Total deposit in bank 3,317,403

FDIC coverage (250,000)

Total uninsured funds \$ 3,067,403

50% pledged collateral requirement \$ 1,533,702

Pledged collateral:

Description	Maturity	Par	Market	
CUSP #31331XWW8	04/25/2014	5,000,000	\$5,306,486	
CUSP #31398A3R1	03/21/2014	1,000,000	<u>1,013,464</u>	
Total pledged collateral				<u>6,319,950</u>

Over-collateralized \$ 4,786,248

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a bank failure, the Pool's deposits may not be returned to it. As of December 31, 2012 and 2011, none of the Pool's deposits were exposed to custodial credit risk; the total of demand deposits was covered by FDIC or by collateral held by the Pool's agent in the Pool's name.

**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:

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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

**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. Such investments shall have aggregate durations or maturities of no more than five years.

**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, the Federal Home Loan Mortgage Association, the Federal National Mortgage Association, the Federal Farm Credit Bank or the Student Loan Marketing Association, or are backed by the full faith and credit of the United States government. Such investments shall have aggregate durations or maturities of no more than five years.

**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.** The Pool is no longer purchasing corporate bonds. Such investments currently held by the Pool will be sold if management believes that the sale will be beneficial. Otherwise, investments in corporate bonds will be held until maturity.

**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; provided that the investment company or manager has total assets under management of at least one billion dollars and provided that the board of finance of the county or municipality may allow reasonable administrative and investment expenses to be paid directly from the income or assets of these investments or individual, common or collective trust funds of banks or trust companies that invest in fixed-income securities or debt instruments that are listed in a nationally recognized, broad-market, fixed-income-securities market index; provided that the investment company or manager has total assets under management of at least one billion dollars and provided that the board of finance of the county or municipality may allow reasonable administrative and investment expenses to be



**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012**

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

paid directly from the income or assets of these investments. Such investments shall have aggregate durations or maturities of no more than five years.

**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:**

Delaware Group MF	6.15%
Federated Income Trust MF	6.78%
Federated Total Return MF	8.14%
PIMCO Total Return MF	9.81%
PIMCO Mortgage Backed MF	7.46%
Delaware LTD Term Direct MF	7.82%

**Law Enforcement Program:**

Dodge and Cox Income MF	6.41%
Franklin Investment Security MF	6.03%
Delaware LTD MF	10.02%
Federated Income MF	5.84%
Delaware Group MF	5.98%
PIMCO FDS Total III MF	11.83%
Federated Total Return MF	10.57%

**NOTE 3 – NOTE RECEIVABLE**

During the year ended December 31, 2012, the Multi-Line Program loaned the New Mexico Association of Counties, a related party, \$1,850,257 in return for a promissory note. This note carries a 5% annual interest rate, with payments of \$59,742 beginning on February 24, 2013 and every six months thereafter, for a total of 60 payments, with the note maturing on August 24, 2042. This loan funded the purchase of a new building for the New Mexico Association of Counties, which performs administrative functions for the Multi-Line Program and the Law Enforcement Program.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**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, 2012 have been based on an actuarial evaluation of the Pool's historical claims experience, industry data and other factors. While management believes that these estimates are adequate, actual incurred but unpaid claims may vary significantly from the amount provided.

Changes in reserves for claims and claim adjustment expenses were as follows for the year ended December 31, 2012:

**Multi-Line Program:**

Liability for claims and claim adjustment expenses, beginning of year	\$ 11,383,536
Incurred claims and claim adjustment expenses related to:	
Current year	6,471,315
Prior years	<u>(671,567)</u>
Total incurred	<u>5,799,748</u>
Payments (net of amounts received pursuant to excess insurance contracts) related to:	
Current year	(1,327,747)
Prior years	<u>(3,245,035)</u>
Total payments	<u>(4,572,782)</u>
Liability for claims and claim adjustment expenses, end of year	<u>12,610,502</u>

**Law Enforcement Program:**

Liability for claims and claim adjustment expenses, beginning of year	15,235,625
Incurred claims and claim adjustment expenses related to:	
Current year	4,949,849
Prior years	<u>2,898,229</u>
Total incurred	<u>7,848,078</u>
Payments (net of amounts received pursuant to excess insurance contracts) related to:	
Current year	(387,627)
Prior years	<u>(5,686,673)</u>
Total payments	<u>(6,074,300)</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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

Liability for claims and claim adjustment expenses, end of year	<u>17,009,403</u>
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<b>Total liability claims and claim adjustment expenses, end of year</b>	<b><u>\$ 29,619,905</u></b>
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As of year-end, the liability for unpaid claims and claim adjustment expenses of \$13,455,347 for the Multi-Line Program and \$18,265,167 for the Law Enforcement Program are presented at their net present value of \$12,610,502 and \$17,009,403, respectively. These claims are discounted at a rate of 4.0%. For the year ended December 31, 2012, the Multi-Line Program experienced negative development on prior policy year claims, resulting in an additional claim expense of \$783,075. For the year ended December 31, 2012, the Law Enforcement Program experienced negative development on prior policy year claims, resulting in an additional claim expense of \$4,822,014.

**NOTE 5 – REINSURANCE AND EXCESS INSURANCE**

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 \$1,000,000 for liability claims, while the Law Enforcement Program's excess coverage layer begins at \$500,000 for individual claims.

Excess coverage on property claims is provided by Axis Insurance Company, which provides limits of liability up to \$25 million for any one occurrence, and RSUI, which provides additional property coverage of up to \$125 million per occurrence (\$125 million excess of \$25 million). Both policies contain sublimits for certain losses (e.g., earthquake and flood claims).

Reinsurance coverage on liability claims is provided by Munich Re and Gen Re. Munich Re covers losses between the retention amount described above and \$2,000,000 for the Multi-Line Pool, while covering losses between the retention and \$1,850,000 for the Law Enforcement Pool. These limits are on a per-member basis, and reinsurance coverage in the aggregate is limited to \$10,000,000 and \$9,000,000 for the Multi-Line and Law Enforcement Pools, respectively.

General Re's excess coverage layer begins at \$2,000,000, covering losses between this amount and \$5,000,000 per occurrence for both Pools. It is possible that one occurrence may result in multiple claims. General Re provides such coverage up to an aggregate of \$6,000,000 per pool, per claim year.

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

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 5 – REINSURANCE AND EXCESS INSURANCE (CONTINUED)**

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, 2012, the Pool paid \$2,174,195 for excess insurance premiums.

**NOTE 6 - BROKERAGE SERVICE FEE**

Commission/brokerage service fees were \$99,840 for the year ended December 31, 2012.

**NOTE 7 - 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 \$2,008,500 in 2012 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, 2012 consisted of the following:

	<b>Multi-Line Program</b>	<b>Law Enforcement Program</b>	<b>Total</b>
Risk management	\$ 1,030,000	\$ 978,500	\$ 2,008,500
Consulting and training	116,222	50,050	166,272
Software support and licensing	52,285	52,285	104,570
Appraisal fees	55,300	-	55,300
Accounting and auditing	19,788	19,788	39,576
Actuarial	10,475	8,463	18,938
Miscellaneous	11,927	4,784	16,711
Legal	8,545	3,587	12,132
<b>Total operating expenses</b>	<b><u>\$ 1,304,542</u></b>	<b><u>\$ 1,117,457</u></b>	<b><u>\$ 2,421,999</u></b>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**NOTE 8 - LITIGATION**

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

**NOTE 9 – SUBSEQUENT EVENT**

In April of 2013, the Multi-Line Program loaned an additional \$903,213 to the New Mexico Association of Counties, a related party, for furniture, fixtures, equipment and improvements to the new building where Pool administration will occur. The promissory note received in exchange carries an interest rate of five percent annually, and requires payments of \$43,153, including a first interest-only payment in May of 2013 in the amount of \$33,871. Payments to the Multi-Line Program will be made quarterly beginning on November 23, 2013. This note matures on November 27, 2027.

On February 22, 2013, the Board of Directors approved a \$1,000,000 payment to a claimant on behalf of a member county. Payment was subsequently made on March 6, 2013, and will be included in the statement of revenues, expenses, and changes in fund balance for fiscal year 2013. The Board made this payment outside of any legal or contractual obligation to either the member county or the claimant.

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, 2012**

The following illustrates how the Pool's earned revenues and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Pool as of the end of each of the last 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, 2012**

(in thousands)	2003	2004	2005	2006
1. Net earned required contribution and investment revenues	\$ 7,747	\$ 11,386	\$ 12,147	\$ 14,138
2. Unallocated claim expenses	1,208	1,044	1,051	1,392
3. Estimated incurred claims and expense, end of policy year	3,257	2,602	4,308	4,255
4. Paid (cumulative) as of:				
Year one	655	1,100	751	883
Year two	1,279	2,605	3,241	3,443
Year three	2,998	4,223	4,389	5,854
Year four	4,127	4,915	5,853	8,001
Year five	4,231	5,058	5,430	8,685
Year six	4,317	5,711	5,475	10,604
Year seven	4,327	5,807	6,729	<b>10,727</b>
Year eight	4,233	7,147	<b>7,260</b>	-
Year nine	5,281	<b>7,160</b>	-	-
Year ten	<b>5,369</b>	-	-	-
5. Re-estimated incurred claims and expense				
Year one	3,257	2,602	4,308	4,255
Year two	3,569	4,078	4,961	6,287
Year three	4,220	4,896	5,776	9,137
Year four	4,842	5,516	6,407	9,649
Year five	4,452	5,759	6,176	9,641
Year six	4,341	5,878	6,332	10,830
Year seven	4,327	5,884	7,595	<b>10,804</b>
Year eight	4,233	7,147	<b>7,513</b>	-
Year nine	5,281	<b>6,163</b>	-	-
Year ten	<b>5,369</b>	-	-	-
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	2,112	3,561	3,205	6,549



	2007	2008	2009	2010	2011	2012
\$	16,063	\$ 16,323	\$ 17,796	\$ 17,301	\$ 17,483	\$ 17,759
	1,768	2,027	2,203	2,296	2,358	2,522
	3,397	5,443	6,357	11,685	13,601	7,174
	756	918	1,663	985	1,839	1,566
	2,905	1,856	3,751	3,659	5,771	-
	5,300	4,160	7,522	6,570	-	-
	7,439	6,289	9,689	-	-	-
	8,963	7,255	-	-	-	-
	9,767	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	3,397	5,443	6,357	11,685	13,601	7,174
	6,335	6,050	8,767	10,622	10,990	-
	8,707	6,754	11,586	10,622	-	-
	9,090	8,280	11,854	-	-	-
	10,344	8,138	-	-	-	-
	10,278	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	6,881	2,695	5,497	(1,063)	(2,611)	-

**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, 2012**

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>REVENUES</b>				
Member contributions	\$ 7,214,238	\$ 7,214,238	\$ 7,286,739	\$ 72,501
Investment income	600,000	600,000	642,314	42,314
Land Use Contribution	72,500	72,500	-	(72,500)
Other	-	-	42,469	42,469
Total revenues	<u>7,886,738</u>	<u>7,886,738</u>	<u>7,971,522</u>	<u>84,784</u>
<b>EXPENSES</b>				
Claims and claim adjustment expenses	5,748,238	5,748,238	5,799,748	(51,510) *
Excess insurance premiums	850,000	850,000	799,195	50,805
General and administrative	1,220,000	1,220,000	1,304,542	(84,542) *
Brokerage fees	66,000	66,000	65,520	480
Other expenses	2,500	2,500	-	2,500
Total expenses	<u>7,886,738</u>	<u>7,886,738</u>	<u>7,969,005</u>	<u>(82,267)</u>
<b>EXCESS OF EXPENSES OVER REVENUES - BUDGETARY BASIS</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>2,517</u>	<u>\$ 2,517 *</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, 2012**

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>REVENUES</b>				
Member contributions	\$ 9,005,716	\$ 9,005,716	\$ 8,995,430	\$ (10,286)
Investment income	500,000	500,000	834,090	334,090
Other	-	-	8,316	8,316
Total revenues	<u>9,505,716</u>	<u>9,505,716</u>	<u>9,837,836</u>	<u>332,120</u>
<b>EXPENSES</b>				
Claims and claim adjustment expenses	6,964,716	6,964,716	7,848,078	(883,362) *
Excess insurance premiums	1,400,000	1,400,000	1,375,000	25,000
General and administrative	1,103,500	1,103,500	1,117,457	(13,957) *
Brokerage fees	35,000	35,000	34,320	680
Other expenses	2,500	2,500	-	2,500
Total expenses	<u>9,505,716</u>	<u>9,505,716</u>	<u>10,374,855</u>	<u>(869,139)</u>
<b>EXCESS OF REVENUES OVER EXPENSES - BUDGETARY BASIS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>(537,019)</u>	<u>\$ (537,019)</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, 2012**

	<u>Multi-Line Program</u>	<u>Law Enforcement Program</u>	<u>Total</u>
Interest-bearing checking accounts:			
First National Bank of Santa Fe	\$ 563,363	\$ 727,869	\$ 1,291,232
Mutual funds - money market Wachovia Securities	311,959	98,193	410,152
Mutual funds - money market LPL Financial	<u>27,173</u>	<u>6,397</u>	<u>33,570</u>
	902,495	832,459	1,734,954
Reconciling items			
Outstanding checks	<u>(298,898)</u>	<u>(309,481)</u>	<u>(608,379)</u>
Financial statement balance	<u>603,597</u>	<u>522,978</u>	<u>1,126,575</u>
Cash held with the State Treasurer Local Government			
Investment Fund	<u>953</u>	<u>1,588</u>	<u>\$ 2,541</u>
Financial statement balance	<u>953</u>	<u>1,588</u>	<u>2,541</u>
<b>TOTAL CASH AND CASH EQUIVALENTS AND INVESTMENT IN THE STATE LOCAL GOVERNMENT INVESTMENT POOL</b>	<u>\$ 604,550</u>	<u>\$ 524,566</u>	<u>\$ 1,129,116</u>



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**INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, each major fund, and the related budgetary comparisons presented as supplemental information of N.M. County Insurance Authority: Multi-Line Pool (the Pool), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated May 30, 2013.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as finding 2012-01, which we consider to be a significant deficiency.

## **Compliance and Other Matters**

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

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

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

## **Purpose of this Report**

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



Albuquerque, New Mexico

May 30, 2013



**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2012**

**Section I – Financial Statement Findings**

**Finding 2012-01 Year-End Accounting Close – Significant Deficiency**

**Condition:** Management of the Pools has not established a set of written accounting policies for the year-end close, resulting in the need for several audit adjustments. These entries included recognition of \$32,546 in accrued interest on notes receivable and an entry to accounts payable in the amount of \$6,500. Further there is a lack of a specific accounting policy for recognizing year-end receivables for reinsurance recoveries and deductibles. The recognition of such receivables and their associated effect on the statement of revenues, expenses, and changes in fund net assets requires an approach that deviates from the accounting used during the year. There is no internal guidance on both the initial recognition and subsequent reversal in the subsequent fiscal year's accounting records.

**Criteria:** It is standard in the accounting process to have in place procedures and controls over financial reporting. These processes culminate in the production of a complete year-end trial balance from which the annual, GAAP-based financial statements are prepared. All necessary accruals and adjustments to account balances should be performed prior to providing the external auditors with the final trial balance.

**Cause:** The accounting policies and procedures currently in place for the Pools do not specify the actions to be taken, nor the deadline by which they are required to be performed, for financial statement preparation.

**Effect:** The trial balance provided to the auditors was not complete and the lack of a formal accounting policy increases the chance that the financial statements could be misstated.

**Recommendation:** We recommend that management develop a set of procedures through which the trial balance can be finalized within a reasonable time (typically two months) after year-end. This should include an evaluation of accounts that are subject to year-end accruals, such as interest on notes receivable, and the appropriate entries should be made after being reviewed by the Finance Director. These policies and procedures should also include a policy on the accounting treatment for recoveries of deductibles and reinsurance.

**Management's Response:** Management agrees that the procedures for the year-end closing process need to be updated. The Finance Department will document a formal process that includes the specific actions that need to be taken in order to recognize year-end receivables for reinsurance recoveries and deductibles.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2012**

**Section II – Federal Award Findings and Questioned Costs**

There were no findings for the year ended December 31, 2012.

**Section III – Other Findings**

There were no findings for the year ended December 31, 2012.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
Year Ended December 31, 2012**

**Section I – Financial Statement Findings**

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

**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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
EXIT CONFERENCE  
Year Ended December 31, 2012**

An exit conference was held on May 30, 2013. In attendance were:

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

Ron Lethgo, Board Chair  
Paul Gutierrez, Executive Director  
Steve Kopelman, Risk Management Director  
Santiago Chavez, Finance Director

**CLIFTONLARSONALLEN, LLP**

Raul J. 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.