

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

**FINANCIAL STATEMENTS**  
December 31, 2013

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**OFFICIAL ROSTER  
December 31, 2013**

**Board of Directors**

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

**Administrative Officers**

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

**Multi-Line Program Member Counties as of December 31, 2013**

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, 2013**

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	

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 and each major fund of New Mexico County Insurance Authority Multi-Line Pool (the Pool) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents. We also have audited the Schedules of Revenues and Expenses – Budget and Actual presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements as of and for the year ended December 31, 2013, as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our 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 and each major fund of the Pool as of December 31, 2013, and the respective changes in financial position and cash flows thereof and the Schedules of Revenues and Expenses – Budget and Actual 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 5 through 7 and the ten year claims development information on pages 29 through 31 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 schedule of cash and cash equivalents reconciliation from books to financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying cash and cash equivalents reconciliation from books to financial statements, 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 cash and cash equivalents reconciliation from books to financial statements is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with Government Auditing Standards, we have also issued our report dated June 13, 2014, on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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**

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

Albuquerque, New Mexico  
June 13, 2014

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013**

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, 2013.

**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, 2013. 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>2013</u>	<u>2012</u>
Total assets (cash, investments, receivables and prepaids)	\$ 40,334,241	\$ 40,477,383
Total liabilities (claims and claim adjustment expenses)	<u>29,146,964</u>	<u>29,694,040</u>
<b>Pool net position</b>	<b><u>\$ 11,187,277</u></b>	<b><u>\$ 10,783,343</u></b>
Revenues:		
Member contributions	\$ 16,713,672	\$ 16,282,169
Investment and other income	<u>(176,481)</u>	<u>1,527,189</u>
Total revenues	<u>16,537,191</u>	<u>17,809,358</u>
Expenses:		
Claims and claim adjustment expenses	11,195,608	13,647,826
Excess insurance and brokerage fees	2,428,776	2,274,035
General and administrative	<u>2,508,873</u>	<u>2,421,999</u>
Total expenses	<u>16,133,257</u>	<u>18,343,860</u>
Excess of revenues over expenses	403,934	(534,502)
Net position, beginning of year	<u>10,783,343</u>	<u>11,317,845</u>
<b>Net position, end of year</b>	<b><u>\$ 11,187,277</u></b>	<b><u>\$ 10,783,343</u></b>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013**

**Financial Highlights**

- Multi-Line Program assets decreased by \$1,142,699 and net position decreased \$1,142,161.
- Law Enforcement Program assets increased by \$999,557 and net position increased \$1,546,095.

**Underwriting Results**

Contributions to the Multi-Line Program increased from \$7,286,739 in 2012 to \$7,369,019 in 2013. Law Enforcement Program contributions increased from \$8,995,430 in 2012 to \$9,344,653 in 2013. 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 and interest income. Adding in investment and interest income, the Pools had an increase in net position of \$403,934, a \$1,142,161 decrease for Multi-Line and a \$1,546,095 increase for Law Enforcement.

**Excess Insurance Premiums**

Reinsurance expenses for the Multi-Line Program increased approximately \$109,000 in 2013 due to lower excess property rates. Reinsurance expenses for the Law Enforcement Program increased by \$44,400, from \$1,375,000 to \$1,419,400.

**Investment Results**

At the end of 2013, the Pools' current assets totaled \$37,698,909. Of this amount, \$2,445,329 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 decreased about 12%, and the Law Enforcement Program portfolio increased about 12%.

**Property, Plant and Equipment**

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

**Long-term Debt**

The Pool had no long-term debt during 2013.

**Change in Net Position**

For the year ended December 31, 2013, the Multi-Line Program's net position decreased by \$1,142,161. The Law Enforcement Program's net position increased by \$1,546,095. The change in net position for the Multi-Line Program included an operating loss of \$1,146,347 and an investment loss of \$115,439. The change in net position for the Law Enforcement Program included operating income of \$1,728,363 and an investment loss of \$182,268.



**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2013**

**Net Position**

The Pool had a combined net position of \$11,187,277 at the close of its most recent fiscal year. The Multi-Line Program net position decreased from \$7,129,191 to \$5,987,030 and the Law Enforcement Program net position increased from \$3,654,152 to \$5,200,247.

**Budget**

In total, claims and claim adjustment expenses were less than budgeted.

**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**  
**STATEMENT OF NET POSITION - ENTERPRISE FUNDS**  
December 31, 2013

**ASSETS**

	<b>Multi-Line Program</b>	<b>Law Enforcement Program</b>	<b>Total</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 764,907	\$ 1,680,422	\$ 2,445,329
Investment in the Local Government			
Investment Pool	953	1,588	2,541
Investments	14,939,038	19,409,366	34,348,404
Accounts receivable - Subrogation, Deductibles	159,338	123,304	282,642
Accounts receivable - Reinsurance	-	473,115	473,115
Due from New Mexico Association of Counties, current portion	101,211	-	101,211
Accrued interest on note receivable	45,667	-	45,667
	<u>16,011,114</u>	<u>21,687,795</u>	<u>37,698,909</u>
Total current assets			
<b>NON-CURRENT ASSETS</b>			
Due from New Mexico Association of Counties, net of current portion	2,635,332	-	2,635,332
	<u>2,635,332</u>	<u>-</u>	<u>2,635,332</u>
Total non-current assets			
	<u>2,635,332</u>	<u>-</u>	<u>2,635,332</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 18,646,446</b></u>	<u><b>\$ 21,687,795</b></u>	<u><b>\$ 40,334,241</b></u>

**LIABILITIES AND POOL NET POSITION**

<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 13,849	\$ 9,501	\$ 23,350
Claims and claim adjustment expenses	5,802,456	6,473,232	12,275,688
	<u>5,816,305</u>	<u>6,482,733</u>	<u>12,299,038</u>
Total current liabilities			
<b>LONG-TERM LIABILITIES</b>			
Claims and claim adjustment expenses	6,843,111	10,004,815	16,847,926
	<u>6,843,111</u>	<u>10,004,815</u>	<u>16,847,926</u>
Total long-term liabilities			
<b>POOL NET POSITION HELD FOR MEMBERS' BENEFITS</b>			
Unrestricted	5,987,030	5,200,247	11,187,277
	<u>5,987,030</u>	<u>5,200,247</u>	<u>11,187,277</u>
Total pool net position held for members' benefits			
	<u>5,987,030</u>	<u>5,200,247</u>	<u>11,187,277</u>
<b>TOTAL LIABILITIES AND POOL NET POSITION</b>	<u><b>\$ 18,646,446</b></u>	<u><b>\$ 21,687,795</b></u>	<u><b>\$ 40,334,241</b></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, 2013**

	<u>Multi-Line Program</u>	<u>Law Enforcement Program</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Member contributions	\$ 7,369,019	\$ 9,344,653	\$ 16,713,672
Other revenue	<u>1,601</u>	<u>-</u>	<u>1,601</u>
Total operating revenues	<u>7,370,620</u>	<u>9,344,653</u>	<u>16,715,273</u>
<b>OPERATING EXPENSES</b>			
Claims and claim adjustment expenses	6,231,259	4,964,349	11,195,608
Excess insurance premiums	908,376	1,419,400	2,327,776
Brokerage fees (Insurance)	66,000	35,000	101,000
General and administrative	<u>1,311,332</u>	<u>1,197,541</u>	<u>2,508,873</u>
Total operating expenses	<u>8,516,967</u>	<u>7,616,290</u>	<u>16,133,257</u>
Operating income (loss)	<u>(1,146,347)</u>	<u>1,728,363</u>	<u>582,016</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment loss	(115,349)	(182,268)	(297,617)
Interest income	<u>119,535</u>	<u>-</u>	<u>119,535</u>
Total non-operating revenue (expense), net	<u>4,186</u>	<u>(182,268)</u>	<u>(178,082)</u>
Change in net position	(1,142,161)	1,546,095	403,934
<b>POOL NET POSITION HELD FOR MEMBERS' BENEFITS, BEGINNING OF YEAR</b>	<u>7,129,191</u>	<u>3,654,152</u>	<u>10,783,343</u>
<b>POOL NET POSITION HELD FOR MEMBERS' BENEFITS, END OF YEAR</b>	<u>\$ 5,987,030</u>	<u>\$ 5,200,247</u>	<u>\$ 11,187,277</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, 2013

	<u>Multi-Line Program</u>	<u>Law Enforcement Program</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from members	\$ 7,220,277	\$ 9,325,948	\$ 16,546,225
Cash received from reinsurers	166,193	1,962,019	2,128,212
Cash paid to vendors	(1,346,935)	(1,212,723)	(2,559,658)
Cash paid on claims and claims adjustment expenses	(6,196,194)	(5,495,705)	(11,691,899)
Payments for Insurance brokerage fees	(66,000)	(35,000)	(101,000)
Cash paid for excess insurance	(908,376)	(1,419,400)	(2,327,776)
Cash received from others	<u>203,933</u>	<u>237,588</u>	<u>441,521</u>
Net cash provided by (used in) operating activities	<u>(927,102)</u>	<u>3,362,727</u>	<u>2,435,625</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income received	468,179	552,745	1,020,924
Interest income received	106,414	-	106,414
Disbursement on note receivable	(903,213)	-	(903,213)
Repayments received on notes receivable	16,927	-	16,927
Proceeds from sale or maturity of investments	9,444,045	23,655,035	33,099,080
Purchases of investments	<u>(8,043,940)</u>	<u>(26,413,063)</u>	<u>(34,457,003)</u>
Net cash provided by (used in) investing activities	<u>1,088,412</u>	<u>(2,205,283)</u>	<u>(1,116,871)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	161,310	1,157,444	1,318,754
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>603,597</u>	<u>522,978</u>	<u>1,126,575</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 764,907</u>	<u>\$ 1,680,422</u>	<u>\$ 2,445,329</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	\$ (1,146,347)	\$ 1,728,363	\$ 582,016
Change in assets and liabilities:			
Accounts receivable	(148,742)	(18,705)	(167,447)
Reinsurance receivable	166,193	1,962,019	2,128,212
Prepays	4,172	-	4,172
Investment in County Reinsurance, Limited	198,160	237,588	435,748
Accounts payable	(35,603)	(15,182)	(50,785)
Claims and claim adjustment expenses	<u>35,065</u>	<u>(531,356)</u>	<u>(496,291)</u>
Net cash provided by (used in) operating activities	<u>\$ (927,102)</u>	<u>\$ 3,362,727</u>	<u>\$ 2,435,625</u>
<b>NONCASH AMOUNTS</b>			
Unrealized losses on investments	<u>\$ (534,507)</u>	<u>\$ (603,649)</u>	<u>\$ (1,138,156)</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, 2013**

**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.

No entities were noted that should be considered component units of the Pool. No entities were specifically excluded, as none were noted as meeting any of the criteria for inclusion set forth by Governmental Accounting Standards Board (GASB) Statements 39 and 61. The Pool has no component units.

**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

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

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

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 major enterprise funds.

**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 statement of net position 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 6-10-10 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

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

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

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.

**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**  
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**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 special purpose framework. GAAP differences in budgeted amounts arise from non-budgeted depreciation expense on capital assets, when applicable. There were no differences between GAAP and this budgetary basis for the current fiscal year. 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.

**Unrestricted Net Position**

Net position is restricted to the extent external constraints place restrictions on the use of the net position, such as restrictions by contributors or laws and regulations. Usage of the Pool's net position was not externally restricted at December 31, 2013, and, accordingly, the net position is reported as unrestricted.

**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, 2013**

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

Investments consisted of the following at December 31, 2013:

	<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>						
Delaware LTD Term Diverse	N/A	N/A	N/A	\$ 1,775,667	\$ (79,503)	\$ 1,696,164
Pimco Total Return MF	N/A	N/A	N/A	1,506,597	(54,258)	1,452,339
Federated Total Return Bond	N/A	N/A	N/A	1,267,779	(28,120)	1,239,659
Federated Income Trust	N/A	N/A	N/A	1,182,237	(54,079)	1,128,158
Delaware Group MF	N/A	N/A	N/A	1,061,704	(3,119)	1,058,585
Pimco Mortgage Back MF	N/A	N/A	N/A	1,073,269	(49,131)	1,024,138
Pimco FDS Pac Inv Tot Ret	N/A	N/A	N/A	834,850	(33,794)	801,056
Mainstay FDS Trust MF	N/A	N/A	N/A	700,000	4,407	704,407
GNMA II	5.00%	7/20/2035	N/A	550,746	1,572	552,318
Pimco FDS Pac Inv Low Dur	N/A	N/A	N/A	468,843	(9,998)	458,845
Loomis Sayles LTD Gov	N/A	N/A	N/A	417,322	(10,388)	406,934
Pimco Low Duration MF	N/A	N/A	N/A	399,833	(3,400)	396,433
GNMA II	5.50%	2/20/2038	N/A	325,952	(796)	325,156
Dodge and Cox Income MF	N/A	N/A	N/A	289,216	6,088	295,304
Franklin Invs Sec Adj US Gov	N/A	N/A	N/A	293,774	(8,564)	285,210
Vanguard Fixed Inc S/T	N/A	N/A	N/A	260,452	(784)	259,668
GNMA II	5.00%	3/20/2038	N/A	265,772	(7,484)	258,288
GNMA II	5.00%	2/20/2039	N/A	253,099	(4,838)	248,261
Oppenheimer Sr Flt Rate FD	N/A	N/A	N/A	233,731	(235)	233,496
GNMA II	5.00%	8/20/2035	N/A	228,553	2,054	230,607
JP Morgan Chase	6.00%	1/15/2018	AA3	207,747	22,575	230,322
Prudential Short Term Corp	N/A	N/A	N/A	230,482	(3,926)	226,556
Verizon Communications	5.50%	4/1/2017	A3	155,630	12,888	168,518
Vanguard S/T Bond	N/A	N/A	N/A	154,334	(1,602)	152,732
GNMA II	6.00%	3/20/2037	N/A	147,342	(7,849)	139,493
GNMA II	6.00%	5/20/2036	N/A	142,186	(5,716)	136,470
GNMA	5.50%	3/15/2032	N/A	200,379	(65,241)	135,138
National Rural Utility Corp.	10.38%	11/1/2018	A1	129,007	5,888	134,895
IBM Corporation	5.70%	9/14/2017	AA3	104,535	10,564	115,099
Delaware Diversified	N/A	N/A	N/A	115,000	-	115,000
Goldman Sachs Group	6.25%	9/1/2017	A2	105,130	9,445	114,575
Goldman Sachs Notes	5.95%	1/18/2018	A2	103,344	10,402	113,746

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
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**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>						
GNMA	6.00%	8/20/2033	N/A	66,727	(13,083)	53,644
GNMA	5.50%	10/15/2033	N/A	39,589	(4,771)	34,818
GNMA	6.00%	6/20/2031	N/A	13,054	(5,385)	7,669
GNMA	7.00%	3/15/2017	N/A	83,014	(77,677)	5,337
				<u>\$ 15,386,896</u>	<u>\$ (447,858)</u>	<u>\$ 14,939,038</u>
<b>Law Enforcement Program:</b>						
Pimco FDS Total Return	N/A	N/A	N/A	\$ 4,012,478	\$ (59,385)	\$ 3,953,093
Federated Total Return MF	N/A	N/A	N/A	2,285,491	(75,085)	2,210,406
Delaware LTD MF	N/A	N/A	N/A	1,678,199	(64,981)	1,613,218
Federated Income MF	N/A	N/A	N/A	1,345,970	(55,015)	1,290,955
Pimco Low Duration MF	N/A	N/A	N/A	1,182,156	(16,628)	1,165,528
Loomis Sayles MF	N/A	N/A	N/A	1,154,012	(23,910)	1,130,102
Dodge and Cox Income MF	N/A	N/A	N/A	1,110,238	10,597	1,120,835
Delaware Group MF	N/A	N/A	N/A	1,061,704	(3,119)	1,058,585
Pimco FDS MF	N/A	N/A	N/A	1,090,892	(33,019)	1,057,873
Delaware Diversified	N/A	N/A	N/A	716,334	(37,945)	678,389
Pimco Mgmt Low Duration MF	N/A	N/A	N/A	557,701	(3,258)	554,443
Fidelity Adviser Floating Rate	N/A	N/A	N/A	510,201	(3,972)	506,229
Oppenheimer Senior MF	N/A	N/A	N/A	456,047	4,516	460,563
GNMA II	5.00%	7/20/2035	N/A	356,984	1,017	358,001
Vanguard Short Term MF	N/A	N/A	N/A	260,452	(784)	259,668
Vanguard Short Term Bond MF	N/A	N/A	N/A	257,223	(2,670)	254,553
GNMA II	5.00%	2/20/2039	N/A	253,099	(4,838)	248,261
GNMA II	5.00%	8/20/2035	N/A	226,362	(11,476)	214,886
Oppenheimer Senior MF	N/A	N/A	N/A	213,313	(215)	213,098
Prudential Short Term Corp FD	N/A	N/A	N/A	199,699	(3,402)	196,297
GNMA II	5.00%	8/20/2035	N/A	185,960	1,668	187,628
Caterpillar Financial	7.15%	2/15/2019	A2	163,393	21,013	184,406
JP Morgan Chase	6.00%	1/15/2018	AA3	103,094	12,067	115,161
Verizon Communications	5.50%	2/15/2018	A3	103,411	9,363	112,774
GNMA II	6.00%	3/20/2037	N/A	73,675	(3,928)	69,747

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
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**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	71,097	(2,862)	68,235
IBM Corporation	5.70%	9/14/2017	A1	52,270	5,271	57,541
GNMA II	5.50%	6/20/2033	N/A	69,778	(21,441)	48,337
Franklin Inv. Security MF	N/A	N/A	N/A	<u>20,956</u>	<u>(402)</u>	<u>20,554</u>
				<u>\$ 19,772,189</u>	<u>\$ (362,823)</u>	<u>\$ 19,409,366</u>

Investment income is summarized as follows for the year ended December 31, 2013:

Multi-Line Program:

Interest income	\$ 468,179
Loss on sale of investments	(49,021)
Unrealized losses	<u>(534,507)</u>

**Total investment income**

\$ (115,349)

Law Enforcement Program:

Interest income	\$ 552,745
Loss on sale of investments	(131,364)
Unrealized losses	<u>(603,649)</u>

**Total investment income**

\$ (182,268)

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

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

As of December 31, 2013, 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	\$ 764,907	\$ 764,907
<b>Total</b>	<u>\$ 764,907</u>	<u>\$ 764,907</u>
Investment in the State General Fund Investment Pool	\$ 953	\$ 953
<b>Total</b>	<u>\$ 953</u>	<u>\$ 953</u>
Investments:		
Corporate Notes	\$ 805,393	\$ 877,137
Government Asset-backed Securities	2,316,414	2,127,200
Mutual Funds	<u>12,265,089</u>	<u>11,934,701</u>
<b>Total</b>	<u>\$ 15,386,896</u>	<u>\$ 14,939,038</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

**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	\$ 1,680,422	\$ 1,680,422
<b>Total</b>	<u>\$ 1,680,422</u>	<u>\$ 1,680,422</u>
Investment in the State General Fund Investment Pool	\$ 1,588	\$ 1,588
<b>Total</b>	<u>\$ 1,588</u>	<u>\$ 1,588</u>
Investments:		
Corporate Notes	\$ 422,168	\$ 469,881
Government Asset-backed Securities	1,236,955	1,195,096
Mutual Funds	<u>18,113,066</u>	<u>17,744,389</u>
<b>Total</b>	<u>\$ 19,772,189</u>	<u>\$ 19,409,366</u>
<b><u>Both Programs</u></b>		
Cash and cash equivalents:		
Money market	\$ 2,445,329	\$ 2,445,329
<b>Total</b>	<u>\$ 2,445,329</u>	<u>\$ 2,445,329</u>
Investment in the State General Fund Investment Pool	\$ 2,541	\$ 2,541
<b>Total</b>	<u>\$ 2,541</u>	<u>\$ 2,541</u>
Investments:		
Corporate Notes	\$ 1,227,561	\$ 1,347,018
Government Asset-backed Securities	3,553,369	3,322,296
Mutual Funds	<u>30,378,155</u>	<u>29,679,090</u>
<b>Total</b>	<u>\$ 35,159,085</u>	<u>\$ 34,348,404</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

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

**Collateral Requirements**

First National Bank of Santa Fe:

Total amount on deposit in bank:

Multi-Line checking	\$ 636,566
Law Enforcement checking	2,243,963
Other funds administered by the New Mexico Association of Counties (not held by the Pool)	<u>653,981</u>

Total deposit in bank 3,534,510

FDIC coverage (250,000)

Total uninsured funds \$ 3,284,510

50% pledged collateral requirement \$ 1,642,255

Pledged collateral:

Description	Maturity	Par	Market	
CUSIP #31331XWW8	04/25/2014	2,000,000	\$2,029,987	\$ 2,029,987
CUSIP #889855UZ3	02/15/2027	250,000	276,033	276,033
CUSIP #31414Y6B8	10/01/2021	5,100,000	2,729,550	<u>2,729,550</u>
Total pledged collateral				<u>5,035,570</u>

Over-collateralized \$ 3,393,315

**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, 2013, 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**  
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**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  
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**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 LTD Term Diverse MF	11.35%
PIMCO Total Return MF	9.72%
Federated Total Return MF	8.30%
Federated Income Trust MF	7.55%
Delaware Group MF	7.09%
PIMCO Mortgage Backed MF	6.86%
PIMCO FDS Pac Inv Total Return	5.36%

**Law Enforcement Program:**

PIMCO FDS Total Return	20.37%
Federated Total Return MF	11.39%
Delaware LTD MF	8.31%
Federated Income MF	6.65%
PIMCO Low Duration MF	6.00%
Loomis Sayles MF	5.82%
Dodge and Cox Income MF	5.77%
Delaware Group MF	5.45%
PIMCO FDS Pac Inv Total Return	5.45%

**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**  
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**NOTE 3 – NOTE RECEIVABLE (CONTINUED)**

During the year ended December 31, 2013, the Multi-Line Program loaned the New Mexico Association of Counties, a related party, \$903,213 in return for a promissory note carrying annual interest at 5%. Six interest-only payments of \$3,763 were required beginning May 24, 2013. Principal and interest payments in the amount of \$7,143 are due monthly from November 24, 2013 through March 24, 2020, for a total of 78 payments. The note matures on April 24, 2020, at which point the remainder of the balance will become due. This loan funded the purchase of furniture and fixtures, including renovations on a new building for the New Mexico Association of Counties, which performs administrative functions for the Multi-Line Program and the Law Enforcement Program.

**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, 2013 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, 2013:

Multi-Line Program:

Liability for claims and claim adjustment expenses, beginning of year	<u>\$ 12,610,502</u>
Incurred claims and claim adjustment expenses related to:	
Current year	6,353,845
Prior years	<u>(122,586)</u>
Total incurred	<u>6,231,259</u>
Payments (net of amounts received pursuant to excess insurance contracts) related to:	
Current year	(1,493,613)
Prior years	<u>(4,702,581)</u>
Total payments	<u>(6,196,194)</u>
Liability for claims and claim adjustment expenses, end of year	<u>12,645,567</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 - CLAIMS AND CLAIM ADJUSTMENT EXPENSES (CONTINUED)**

Law Enforcement Program:

Liability for claims and claim adjustment expenses, beginning of year	<u>17,009,403</u>
Incurred claims and claim adjustment expenses related to:	
Current year	6,533,951
Prior years	<u>(1,569,602)</u>
Total incurred	<u>4,964,349</u>
Payments (net of amounts received pursuant to excess insurance contracts) related to:	
Current year	(287,090)
Prior years	<u>(5,208,615)</u>
Total payments	<u>(5,495,705)</u>
Liability for claims and claim adjustment expenses, end of year	<u>16,478,047</u>
<b>Total liability claims and claim adjustment expenses, end of year</b>	<b><u>\$ 29,123,614</u></b>

As of year-end, the liability for unpaid claims and claim adjustment expenses of \$13,470,587 for the Multi-Line Program and \$17,640,468 for the Law Enforcement Program are presented at their net present value of \$12,645,567 and \$16,478,047, respectively. These claims are discounted at a rate of 4.0%. For the year ended December 31, 2013, the Multi-Line Program experienced positive development on prior policy year claims, resulting in a reduction to claim expense of \$122,586. For the year ended December 31, 2013, the Law Enforcement Program experienced positive development on prior policy year claims, resulting in a reduction to claim expense of \$1,569,602.

**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, \$150,000 for claims involving certain crimes, 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 \$1,000,000 for the Multi-Line Pool, while covering losses between the retention and \$1,250,000 for the Law Enforcement Pool.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 – REINSURANCE AND EXCESS INSURANCE (CONTINUED)**

These limits are on a per-member basis, and reinsurance coverage in the aggregate is limited to \$10,000,000 each for the Multi-Line and Law Enforcement Pools.

Gen Re’s excess coverage layer begins at \$2,000,000, covering losses between this amount and \$3,000,000 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.

For the year ended December 31, 2013, the Pool paid \$2,327,776 for excess insurance premiums.

**NOTE 6 - BROKERAGE SERVICE FEE**

Commission/brokerage service fees were \$101,000 for the year ended December 31, 2013.

**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 \$2,150,000 in 2013 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, 2013 consisted of the following:

	<b>Multi-Line Program</b>	<b>Law Enforcement Program</b>	<b>Total</b>
Risk management	\$ 1,075,000	\$ 1,075,000	\$ 2,150,000
Consulting and training	75,097	50,000	125,097
Software support and licensing	54,104	54,114	108,218
Appraisal fees	76,200	-	76,200
Accounting and auditing	9,597	9,597	19,194
Actuarial	6,250	5,250	11,500
Miscellaneous	8,857	3,110	11,967
Legal	6,227	470	6,697
	<u>6,227</u>	<u>470</u>	<u>6,697</u>
Total operating expenses	<u>\$ 1,311,332</u>	<u>\$ 1,197,541</u>	<u>\$ 2,508,873</u>

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2013**

**NOTE 8 - LITIGATION**

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL**  
**NOTES TO TEN YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)**  
**December 31, 2013**

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, 2013**

(in thousands)	2004	2005	2006	2007
1. Net earned required contribution and investment revenues	\$ 11,386	\$ 12,147	\$ 14,138	\$ 16,063
2. Unallocated claim expenses	1,044	1,051	1,392	1,768
3. Estimated incurred claims and expense, end of policy year	2,602	4,308	4,255	3,397
4. Paid (cumulative) as of:				
Year one	1,100	751	883	756
Year two	2,605	3,241	3,443	2,905
Year three	4,223	4,389	5,854	5,300
Year four	4,915	5,853	8,001	7,439
Year five	5,058	5,430	8,685	8,963
Year six	5,711	5,475	10,604	9,766
Year seven	5,807	6,729	10,727	<b>10,081</b>
Year eight	7,147	7,260	<b>10,726</b>	-
Year nine	7,160	<b>7,260</b>	-	-
Year ten	<b>7,160</b>	-	-	-
5. Re-estimated incurred claims and expense				
Year one	2,602	4,308	4,255	3,397
Year two	4,078	4,961	6,287	6,335
Year three	4,896	5,776	9,137	8,707
Year four	5,516	6,407	9,649	9,090
Year five	5,759	6,176	9,641	10,344
Year six	5,878	6,332	10,830	10,345
Year seven	5,884	7,595	10,812	<b>10,245</b>
Year eight	7,147	7,580	<b>10,820</b>	-
Year nine	7,163	<b>7,380</b>	-	-
Year ten	<b>7,160</b>	-	-	-
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	4,558	3,072	6,565	6,848



	2008	2009	2010	2011	2012	2013
\$	16,323	\$ 17,796	\$ 17,301	\$ 17,483	\$ 17,759	\$ 16,416
	2,027	2,203	2,296	2,358	2,522	2,408
	5,443	6,357	11,685	13,601	12,687	12,888
	918	1,663	985	1,839	1,566	1,781
	1,856	3,751	3,659	5,771	4,476	-
	4,160	7,522	6,570	8,910	-	-
	6,289	9,689	7,826	-	-	-
	7,255	10,348	-	-	-	-
	7,403	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	5,443	6,357	11,685	13,601	12,687	12,888
	6,050	8,767	10,622	14,908	12,179	-
	6,754	11,586	11,849	14,341	-	-
	8,280	12,332	10,452	-	-	-
	8,299	12,248	-	-	-	-
	7,880	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	2,437	5,891	(1,233)	740	(508)	-

**SUPPLEMENTARY BUDGETARY COMPARISONS**

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
SCHEDULE OF REVENUES AND EXPENSES -  
BUDGET AND ACTUAL - MULTI-LINE PROGRAM  
Year Ended December 31, 2013**

	<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	\$ 7,617,710	\$ 7,617,710	\$ 7,369,019	\$ (248,691)
Investment income	550,000	550,000	(115,349)	(665,349)
Other	75,000	75,000	121,136	46,136
Total revenues	<u>8,242,710</u>	<u>8,242,710</u>	<u>7,374,806</u>	<u>(867,904)</u>
<b>EXPENSES</b>				
Claims and claim adjustment expenses	6,039,672	6,039,672	6,231,259	(191,587) *
Excess insurance premiums	858,038	858,038	908,376	(50,338) *
General and administrative	1,279,000	1,279,000	1,311,332	(32,332) *
Brokerage fees	66,000	66,000	66,000	-
Total expenses	<u>8,242,710</u>	<u>8,242,710</u>	<u>8,516,967</u>	<u>(274,257)</u>
<b>EXCESS OF EXPENSES OVER REVENUES - BUDGETARY BASIS</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>(1,142,161)</u>	<u>\$ (1,142,161) *</u>

\* See Note 1 - Budget on page 15 for Budget authority level.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
SCHEDULE OF REVENUES AND EXPENSES -  
BUDGET AND ACTUAL - LAW ENFORCEMENT PROGRAM  
Year Ended December 31, 2013**

	<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	\$ 9,448,084	\$ 9,448,084	\$ 9,344,653	\$ (103,431)
Investment income	<u>550,000</u>	<u>550,000</u>	<u>(182,268)</u>	<u>(732,268)</u>
Total revenues	<u>9,998,084</u>	<u>9,998,084</u>	<u>9,162,385</u>	<u>(835,699)</u>
 <b>EXPENSES</b>				
Claims and claim adjustment expenses	7,364,684	7,364,684	4,964,349	2,400,335
Excess insurance premiums	1,978,000	1,978,000	1,419,400	558,600
General and administrative	1,214,000	1,214,000	1,197,541	16,459
Brokerage fees	<u>35,000</u>	<u>35,000</u>	<u>35,000</u>	<u>-</u>
Total expenses	<u>10,591,684</u>	<u>10,591,684</u>	<u>7,616,290</u>	<u>2,975,394</u>
 <b>EXCESS OF REVENUES OVER EXPENSES - BUDGETARY BASIS</b>				
	<u>\$ (593,600)</u>	<u>\$ (593,600)</u>	<u>1,546,095</u>	<u>\$ 2,139,695</u>

**OTHER SUPPLEMENTARY INFORMATION**

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
CASH AND CASH EQUIVALENTS RECONCILIATION  
FROM BOOKS TO FINANCIAL STATEMENTS  
December 31, 2013**

	<b>Multi-Line Program</b>	<b>Law Enforcement Program</b>	<b>Total</b>
Interest-bearing checking accounts:			
First National Bank of Santa Fe	\$ 636,566	\$ 2,243,963	\$ 2,880,529
Money market Wells Fargo Advisors	172,589	241,448	414,037
Money market LPL Financial	27,667	25,455	53,122
	836,822	2,510,866	3,347,688
Reconciling items:			
Outstanding checks	(71,915)	(830,444)	(902,359)
Financial statement balance	764,907	1,680,422	2,445,329
Cash held with the State Treasurer Local Government Investment Fund	953	1,588	\$ 2,541
Financial statement balance	953	1,588	2,541
<b>TOTAL CASH AND CASH EQUIVALENTS AND INVESTMENT IN THE STATE LOCAL GOVERNMENT INVESTMENT POOL</b>	<b>\$ 765,860</b>	<b>\$ 1,682,010</b>	<b>\$ 2,447,870</b>

**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 and each major fund of New Mexico County Insurance Authority Multi-Line Pool (the Pool), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and the related budgetary comparisons presented as supplemental information, and have issued our report thereon dated June 13, 2014.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2013-001 to be a material weakness.

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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

### **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as items 2013-002 and 2013-003.

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

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

### **Purpose of this Report**

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

### **CliftonLarsonAllen LLP**



Albuquerque, New Mexico  
June 13, 2014



**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2013**

**Section I – Financial Statement Findings**

**Finding 2013-001 Reinsurance Receivables (Material Weakness)**

**Condition:** We discovered that the Multi-Line Insurance Pool had accrued a reinsurance receivable in the amount of \$138,260 and the Law Enforcement Pool had accrued a reinsurance receivable in the amount of \$1,126,037. Upon review of the underlying claims information, it was found that the payments against which these receivables had been accrued did not occur until after December 31, 2013, requiring audit adjustments.

**Criteria:** Reinsurance receivables should be recognized only when payments on certain claims have exceeded the Pools' liabilities for those claims. Recognizing such receivables prior to payment results in an overstatement to assets and net position.

**Cause:** Management has not developed a set of written procedures to set forth the conditions under which reinsurance receivables can be accrued at year end. Additionally, the review process over journal entries failed to identify that the payments on the claims had not been made as of December 31, 2013.

**Effect:** Prior to adjustment, assets and net position were overstated by \$138,260 and \$1,126,037 for the Multi-Line Pool and Law Enforcement Pool, respectively.

**Recommendation:** We recommend that individuals involved in the recording of year-end accruals for reinsurance receivables be aware of the conditions that must exist in order for such entries to occur. The review process for these specific journal entries should include consideration of whether such recognition is appropriate, based on the claims information available.

**Management's Response:** With the addition of the new Risk Manager, Taylor Horst, the Finance Department and Risk Management will work collectively to review all procedures regarding year-end accruals. We will review other insurance pools' policies and procedures regarding financial reporting and develop best practices to ensure proper financial reporting.

**Finding 2013-002 Underpayment on Claims Invoice (Other Matter)**

**Condition:** During our evaluation of the internal controls over the claims payment process, we identified one claim payment that was for \$6 less than the amount invoiced.

**Criteria:** Outside of extenuating circumstances, claims payments should agree to the associated invoices approved for payment.

**Cause:** The review process for claim check processing failed to identify the \$6 error.

**Effect:** The lack of a thorough and detailed review of payments processed against invoices can result in payment errors.

**Recommendation:** We recommend that prior to checks being mailed on invoices, the reviewer ensure the check amount agrees to the amount approved for payment.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2013**

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

**Finding 2013-002 Underpayment on Claims Invoice (Other Matter)** (continued)

**Management’s Response:** Management agrees with the recommendation.

**Finding 2013-003 IPA Recommendation Letter Not Submitted Timely (Other Matter)**

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

**Criteria:** Pertaining to 2.2.2.8 NMAC, Section G (6), the Pool was to have submitted a fully completed and signed IPA recommendation form for audits and the completed audit contract to the State Auditor by November 15, 2013 for fiscal year 2013’s audit.

**Cause:** The necessary documentation was not completed prior to the due date.

**Effect:** The Pool is out of compliance with 2.2.2.8 NMAC.

**Recommendation:** We recommend that, for future audits, the Pool’s management work closely with the IPA contracted to perform the annual audit to ensure that the required form and completed contract be submitted prior to the November 15 deadline.

**Management’s Response:** The Finance Department will work closely with the IPA to ensure that this is completed in a timely manner.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
Year Ended December 31, 2013**

**Section I – Financial Statement Findings**

**Finding 2012-01 Year-End Accounting Close - Significant Deficiency (Resolved)**

**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.

**NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL  
EXIT CONFERENCE  
Year Ended December 31, 2013**

An exit conference was held on June 9, 2014. In attendance were:

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

Lonnie Freyburger, Torrance County Commissioner  
Taylor Horst, Risk Management Director  
Santiago Chavez, Finance Director  
Carolin Rios, Senior Accountant

**CLIFTONLARSONALLEN, LLP**

Janet Pacheco-Morton, CPA, CGFM, Principal  
Ryan Jones, CPA, Senior Associate  
Cammie Archuleta, Senior Associate

**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.