

**NEW MEXICO
COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL
Financial Statements
for the Year Ended
December 31, 2008,
and Independent
Auditors' Report**

NEW MEXICO COUNTY INSURANCE AUTHORITY
MULTI-LINE POOL

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

Official Roster

Year Ended December 31, 2008

Board of Directors

Dan Mayfield	Chair
Nicklos Jaramillo	Vice Chair
Victor Montoya	Secretary/Treasurer
Steve Massey	Member
Ron Lethgo	Member
John Paul Saari	Member
Orlando Lucero	Member
D. Kent Evans	Member
Doug Decker	Member
Patrick Snedeker	Member
Mike Anaya	Member

Administrative Officers

Paul Gutierrez	Executive Director
Steven Kopelman	Risk Management Director
Carol Stodgel	Finance Director

Multi-Line Program Member Counties as of December 31, 2008

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

Law Enforcement Program Member Counties as of December 31, 2008

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of the New Mexico County Insurance Authority Multi-Line Pool (the Pool) as of and for the year ended December 31, 2008, which collectively comprise the Pool's basic financial statements as listed in the table of contents. We also have audited the Pool's Schedule of Revenues and Expenses – Budget and Actual (Cash Basis) presented as supplementary information as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Pool as of December 31, 2008, and the respective changes in the financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the Schedule of Revenues and Expenses – Budget and Actual (Cash Basis) referred to above presents fairly, in all material respects, the budgetary comparison of the Pool as of and for the year ended December 31, 2008, in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, as described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2009, on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Mayners + Company, LLC

May 15, 2009

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

**Management's Discussion and Analysis –
Year Ended December 31, 2008**

As management of the New Mexico County Insurance Authority Multi-Line Pool (the Pool), we offer readers of the Pool's financial statements this narrative overview and analysis of the financial activities of the Pool for the fiscal year ended December 31, 2008.

Overview of the Financial Statements

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

Condensed Comparative Data

Years Ended December 31,	2008	2007
Total assets (cash, investments and prepaid expenses)	\$ 31,413,020	27,771,537
Total liabilities (claims and claim adjustment expenses)	22,460,669	17,468,012
Pool net assets	\$ 8,952,351	10,303,525
Revenues:		
Member contributions	\$ 15,124,794	14,167,013
Investment and other income	1,198,009	1,895,776
Total revenues	16,322,803	16,062,789
Expenses:		
Claims and claim adjustment expenses	13,041,500	10,217,718
Excess insurance and brokerage fees	2,694,839	2,705,932
General and administrative	1,937,638	1,719,146
Total expenses	17,673,977	14,642,796
Excess (deficiency) of revenues over expenses	(1,351,174)	1,419,993
Net assets, beginning of year	10,303,525	8,883,532
Net assets, end of year	\$ 8,952,351	10,303,525

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

**Management's Discussion and Analysis –
Year Ended December 31, 2008 - continued**

Financial Highlights

- Multi Line Pool assets increased by \$2.5 million and pool surplus increased by \$1.6 million.
- Law Enforcement Pool assets increased by about \$1.1 million but the surplus decreased by \$3 million due to increased claims reserves.
- Interest income decreased in 2008 for the Multi Line Pool and the Law Enforcement Pool. Many government bond investments were called and that money had to be reinvested.

Underwriting Results

Member contributions to the NMCIA Multi Line Pool increased from \$7,326,531 in 2007 to \$7,620,680 in 2008, a 4% increase. Law Enforcement Pool contributions increased from \$6,840,482 to \$7,504,114, a 10% increase. Hidalgo County was added as a new member of both pools as of July 1, 2008. Individual county's contribution decreases and increases in the Multi Line Pool ranged from -2.5% to 15% based on each county's loss experience and experience. Thirteen counties in the Law Enforcement Pool saw contribution increases due to loss experience and increased exposures. The rest of the counties saw no increases or saw decreases.

The Pool's pricing and budgeting approach includes investment income. Adding in investment income, the Pool had a decrease in assets of \$1,351,172, a \$1,651,470 increase for Multi Line and a \$3,002,642 decrease for Law Enforcement.

Investment Results

Pool assets were invested primarily in a fixed income portfolio of government bonds. The Multi Line Pool portfolio increased by about 21% and the Law Enforcement Pool portfolio decreased by about 22% due primarily to withdrawals for claims payments during the year. The yield on these portfolios went down slightly over the year as investments were called and had to be replaced. At year end the yield on the Multi Line Pool fixed income portfolio was 4.79% and the yield for the Law Enforcement fixed income portfolio was 4.66%, down from 2007 returns of 4.95% and 4.68%, respectively. The yield on cash invested in the New Mexico State Treasurer's Local Government Investment Pool went from 4.82% to less than 2% by the end of the year. The Pools' equity in County Reinsurance Ltd. (CRL) was unaffected for the year since both of the pools withdrew from CRL at the end of 2007. Equity in CRL for the two pools stayed at \$2,178,748, but would have gone down significantly (by 60%) if they had stayed in CRL. The Multi Line Pool continued to earn 7% interest on a mortgage note from New Mexico Association of Counties. \$302,805 was owed on this note as of December 31, 2008. Interest earned on the Pool's checking account balances decreased over the year. Overall, investment income was down in both pools, primarily due to market changes and to there being no equity allocation from County Reinsurance.

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

**Management's Discussion and Analysis –
Year Ended December 31, 2008 - continued**

Net Income

For the year ending December 31, 2008, the Multi-Line Pool had net income of \$1,651,469 and the Law Enforcement Pool had a net loss of \$3,002,643. Net income for the Multi Line Pool included Operating Income of \$993,552 and Investment Income of \$657,917. The Net Loss for the Law Enforcement Pool included an Operating Loss of \$3,447,733 and Investment Income of \$445,090.

Member Surplus

The Multi Line Pool had combined net assets (surplus) of \$ 8,952,351 at the close of its most recent fiscal year. The Multi-Line Pool surplus increased from \$8,484,623 to \$10,136,092 and the Law Enforcement Pool surplus decreased from \$1,818,902 to (\$1,183,741).

Budget

In the Multi-Line Program, member contributions were slightly more than budgeted (\$54,605) due to additional coverage added during the year for Hidalgo County (\$46,105), as well as an increase in optional land use coverage contributions (\$8,500). Law Enforcement contributions were also more than budgeted (\$33,566) due to the addition of Hidalgo County to the pool. Investment income for both pools was more than budgeted: \$226,512 in the Multi Line pool and \$76,291 in the Law Enforcement Pool. The large amount in the Multi Line pool is due to there being more money available to invest as less was being spent to pay claims. Claims and claim adjustment expenses were less than budgeted for the Multi Line Pool and more than budgeted for the Law Enforcement Pool. In the Law Enforcement Pool, paid claims were more than budgeted by \$852,274 and claims reserves were increased by over \$3 million due to adverse claims development. Excess insurance was slightly less than budgeted. Administrative and other expenses were, in total, less than budgeted. One budget item in the Multi Line Pool went over budget: brokerage fees. This was because an additional insurance policy was purchased mid-year, for which an unusual \$5,000 broker fee was charged.

Pool Trends and Conditions

The Multi Line program is doing well and the pool may be able to return some equity to counties at some point in the not too distant future. The Law Enforcement program is in a deficit of \$1,183,741. This pool was also in a deficit position at the end of the 2001, 2002 and 2003 policy years and managed to recover over the next four years. The current deficit is due to adverse claims development in the 2006, 2007 and 2008 policy years. 2006 was a particularly bad year. In 2006, there were eight claims that went over the \$250,000 self insured retention. Two of these claims were over \$2 million, both class action strip search claims. The Law Enforcement Pool continues to provide loss prevention and risk management services to counties in order to reduce the occurrence and severity of claims. Contributions have been increased annually to those counties seeing increased exposures and/or high losses.

BASIC FINANCIAL STATEMENTS

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

Statement of Net Assets - Enterprise Funds

AS OF DECEMBER 31, 2008

	Multi-Line Program	Law Enforcement Program	Total
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 2,029,274	3,789,939	5,819,213
State Investment Pool	343,304	3,645	346,949
Investments (Note 2)	14,300,347	6,574,661	20,875,008
Accounts receivable - Subrogation	7,183	1,389,750	1,396,933
Accounts receivable - Excess Insurance	380,812	-	380,812
Note receivable from related party - current	33,384	-	33,384
Accrued investment income	-	-	-
Investment in County Reinsurance, Limited	990,805	1,187,943	2,178,748
Prepays	103,126	-	103,126
TOTAL CURRENT ASSETS	18,188,235	12,945,938	31,134,173
NON-CURRENT ASSETS			
Property, plant and equipment	6,284	3,142	9,426
Note receivable from related party - long-term	269,421	-	269,421
TOTAL ASSETS	\$ 18,463,940	12,949,080	31,413,020
LIABILITIES AND POOL NET ASSETS:			
CURRENT LIABILITIES:			
Claims and claim adjustment expenses	\$ 8,327,848	14,132,178	22,460,026
Accounts payable	-	643	643
TOTAL LIABILITIES	8,327,848	14,132,821	22,460,669
POOL NET ASSETS HELD FOR MEMBERS' BENEFITS - UNRESTRICTED			
	10,136,092	(1,183,741)	8,952,351
TOTAL LIABILITIES AND POOL NET ASSETS	\$ 18,463,940	12,949,080	31,413,020

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

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

AS OF DECEMBER 31, 2008

	<u>Multi-Line Program</u>	<u>Law Enforcement Program</u>	<u>Total</u>
OPERATING REVENUES:			
Member contributions	\$ 7,620,680	7,504,114	15,124,794
Other income	<u>2,377</u>	<u>125</u>	<u>2,502</u>
TOTAL OPERATING REVENUES	7,623,057	7,504,239	15,127,296
OPERATING EXPENSES:			
Claims and claim adjustment expenses	4,380,103	8,661,397	13,041,500
Excess insurance premiums	1,205,781	1,396,558	2,602,339
General and administrative	<u>1,043,621</u>	<u>894,017</u>	<u>1,937,638</u>
TOTAL OPERATING EXPENSES	<u>6,629,505</u>	<u>10,951,972</u>	<u>17,581,477</u>
OPERATING INCOME (LOSS)	993,552	(3,447,733)	(2,454,181)
NON-OPERATING REVENUES (EXPENSES):			
Investment income	720,417	475,090	1,195,507
Commissions/brokerage fees	<u>(62,500)</u>	<u>(30,000)</u>	<u>(92,500)</u>
TOTAL NON-OPERATING REVENUE, NET	<u>657,917</u>	<u>445,090</u>	<u>1,103,007</u>
CHANGE IN NET ASSETS	1,651,469	(3,002,643)	(1,351,174)
POOL NET ASSETS HELD FOR MEMBERS' BENEFITS, BEGINNING OF YEAR	<u>8,484,623</u>	<u>1,818,902</u>	<u>10,303,525</u>
POOL NET ASSETS HELD FOR MEMBERS' BENEFITS, END OF YEAR	\$ <u>10,136,092</u>	<u>(1,183,741)</u>	<u>8,952,351</u>

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

Statement of Cash Flows - Enterprise Funds

AS OF DECEMBER 31, 2008

	<u>Multi-Line Program</u>	<u>Law Enforcement Program</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from members	\$ 7,247,600	7,504,114	14,751,714
Cash paid to suppliers	(1,152,214)	(1,072,082)	(2,224,296)
Cash paid on claims and claims adjustment expenses	(3,478,223)	(5,722,649)	(9,200,872)
Cash paid for excess insurance	(1,205,781)	(1,396,558)	(2,602,339)
Cash received from others	<u>2,377</u>	<u>125</u>	<u>2,502</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,413,759	(687,050)	726,709
CASH FLOWS FROM INVESTING ACTIVITIES:			
Principal on note receivable	33,325	-	33,325
Investment income received	809,798	538,523	1,348,321
Payments for commission and brokerage	(62,500)	(30,000)	(92,500)
Proceeds from sale or maturity of investments	8,080,052	7,409,656	15,489,708
Purchases of capital assets	(8,080)	(4,040)	(12,120)
Purchases of investments	<u>(10,500,000)</u>	<u>(5,500,000)</u>	<u>(16,000,000)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(1,647,405)</u>	<u>2,414,139</u>	<u>766,734</u>
INCREASE IN CASH AND CASH EQUIVALENTS	(233,646)	1,727,089	1,493,443
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,606,224</u>	<u>2,066,495</u>	<u>4,672,719</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>2,372,578</u>	<u>3,793,584</u>	<u>6,166,162</u>
RECONCILIATION OF OPERATING INCOME TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income	\$ 993,552	(3,447,733)	(2,454,181)
Change in assets and liabilities:			
Accounts receivable	(373,080)	(1,389,750)	(1,762,830)
Accounts Payable	-	642	642
Prepays	(69,388)	17,758	(51,630)
Claims and claim adjustment expenses	860,879	4,131,135	4,992,014
Depreciation	<u>1,796</u>	<u>898</u>	<u>2,694</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u>1,413,759</u>	<u>(687,050)</u>	<u>726,709</u>

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

Notes to Financial Statements

NATURE OF ORGANIZATION

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

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

Membership in the Programs is voluntary and members may withdraw at the end of any fiscal year upon sixty-day 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 administers the funds. The Pool has no component units as defined in GASB Statement 39.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **Basis of Accounting**

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

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

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

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Cash and Cash Equivalents**

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

• **Investments**

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

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

• **Accounting Method**

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

• **Operating Revenues**

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

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

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Operating Revenues - continued**

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

• **Participant Premiums**

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

• **Excess Insurance Premiums**

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

• **Losses and Loss Adjustment Expenses**

Insurance losses and related loss adjustment expenses are charged to operations as incurred. The reserves for losses and loss adjustment expenses are determined based upon case-basis evaluations and actuarial projections, and include a provision for claims incurred but not reported. The actuarial projects of ultimate losses on reported claims and the estimate of claims incurred but not reported are based on a composite of the Pool's experience and benefits, as well as property, casualty, and workers' compensation insurance industry data, which supplements the Pool's limited historical experience and includes the effects of inflation and other factors. Losses are reported net of estimated amounts recoverable from excess insurance, salvage and subrogations, and the deductible portion of claims. Adjustments to the probable ultimate liability for losses and loss adjustment expenses are made continually, based on subsequent developments and experience, and are included in operations.

• **Exemption from Income Taxes**

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

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

Notes to Financial Statements - continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

• **Credit Risk**

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

• **Use of Estimates**

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

• **Budget**

In accordance with by-laws, the Pool prepares the budget that is controlled at the Pool level. The level of budgetary control is at the total fund level. Amendments affecting the overall Pool must be approved by the Board and members. The budget is adopted on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP).

• **Capital Assets**

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

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

• **Restricted Net Assets**

Net assets are restricted to the extent external constraints place restrictions on the use of the net assets, such as restrictions by contributors or laws and regulations. Usage of the Pool's net assets was not externally restricted at December 31, 2008 and, accordingly, the net assets are reported as unrestricted.

2. CASH AND INVESTMENTS

The Pool deposits its funds with various financial institutions. New Mexico statutes provide that deposits of public monies in financial institutions must be secured by pledged collateral in an aggregate valued equal to one-half of the amount of the public monies deposited after deducting the amount of Federal Deposit Insurance Corporation insurance coverage for each financial institution. The Pool does not engage in any securities lending arrangements or in the use of derivatives.

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

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

Investments consisted of the following at December 31, 2008:

2008	Rate	Maturity Date	Moody Rating	Cost	Gross Unrealized Holding Gain (Loss)	Estimated Fair Value
Multi-Line Program:						
GE Corporate Notes	4.00%	5/15/2011	AAA	\$ 500,000	(16,620)	483,380
John Hancock L.I. Note	4.50%	10/15/2011	AA2	500,000	(13,675)	486,325
Federal Home Loan Bank (FHLB) Bonds	3.53%	6/10/2011	AAA	1,000,000	23,060	1,023,060
FHLB Bonds	3.60%	2/27/2012	AAA	1,000,000	2,970	1,002,970
Federal Farm Credit Bonds	3.80%	3/26/2012	AAA	2,000,000	3,300	2,003,300
FHLB Bonds	4.15%	2/22/2013	AAA	1,000,000	2,160	1,002,160
FHLB Bonds	4.25%	2/27/2013	AAA	1,001,500	1,160	1,002,660
FNMA Notes	4.61%	10/10/2013	AAA	993,758	12,022	1,005,780
FHLB Bonds	5.75%	2/23/2017	AAA	1,005,000	(2,290)	1,002,710
FHLB Bonds	5.25%	5/14/2018	AAA	501,500	1,535	503,035
Fed Home Loan MTG Corp	5.00%	5/21/2018	AAA	498,750	11,580	510,330
GNMA	7.00%	3/15/2017	N/A	129,561	(75,741)	53,820
GNMA II	6.00%	6/20/2031	N/A	29,015	(5,378)	23,637
GNMA	5.50%	3/15/2032	N/A	498,866	(64,038)	434,828
GNMA 2	6.00%	8/20/2033	N/A	151,379	(14,956)	136,423
GNMA	5.50%	10/15/2033	N/A	123,342	(4,193)	119,149
GNMA II	6.00%	5/20/2036	N/A	734,164	2,744	736,908
GNMA II	6.00%	3/20/2037	N/A	813,070	2,340	815,410
GNMA II	5.50%	2/20/2038	N/A	<u>1,931,675</u>	<u>22,787</u>	<u>1,954,462</u>
				\$ 14,411,580	(111,233)	14,300,347

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

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

2008	Rate	Maturity Date	Moody Rating	Cost	Gross Unrealized Holding Gain (Loss)	Estimated Fair Value
Law Enforcement Program:						
Dow Chemical	5.20%	3/15/2010	BAA1	\$ 200,000	(2,586)	197,414
Gen Elec Notes	4.00%	5/15/2011	AAA	500,000	(16,620)	483,380
FHLB Bonds	3.60%	2/27/2012	AAA	1,000,000	2,970	1,002,970
Fed Farm Credit Bank	3.80%	3/26/2012	AAA	500,000	825	500,825
FHLB Bonds	4.50%	2/20/2015	AAA	1,000,000	1,600	1,001,600
FHLB Bonds	5.25%	5/14/2018	AAA	501,500	1,535	503,035
Fed Home Loan MTG Corp	5.00%	5/21/2018	AAA	498,750	11,580	510,330
GNMA II	5.50%	6/20/2033	N/A	155,749	(22,648)	133,101
GNMA II	6.00%	5/20/2036	N/A	367,086	1,368	368,454
GNMA II	6.00%	3/20/2037	N/A	406,539	1,166	407,705
GNMA II	5.50%	2/20/2038	N/A	<u>1,448,759</u>	<u>17,088</u>	<u>1,465,847</u>
				\$ <u>6,578,383</u>	<u>(3,722)</u>	<u>6,574,661</u>

Investment income is summarized as follows for the year ended December 31, 2008:

Multi-Line Program:	
Interest and dividends received	\$ 829,712
Realized gains (losses)	1,938
Unrealized gains (losses)	<u>(111,233)</u>
Total investment income	\$ <u>720,417</u>
Law Enforcement Program:	
Interest and dividends received	\$ 483,459
Realized gains (losses)	(4,647)
Unrealized gains (losses)	<u>(3,722)</u>
Total investment income	\$ <u>475,090</u>

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

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

As of December 31, 2008, the Pool's cash and cash equivalents and investments were as follows:

• **Multi-Line Program**

Investment Type	Cost	Fair Value
Cash and cash equivalents:		
Bank deposits	\$ 374,539	374,539
Money market	<u>1,654,735</u>	<u>1,654,735</u>
Total	\$ <u>2,029,274</u>	<u>2,029,274</u>
Office of the State Treasurer State Investment Pool		
	\$ <u>343,304</u>	<u>343,304</u>
Total	\$ <u>343,304</u>	<u>343,304</u>
Investments:		
Corporate Notes	\$ 1,000,000	969,705
Government Bonds	9,000,508	9,056,005
Government Asset Backed Securities	<u>4,411,072</u>	<u>4,274,637</u>
Total	\$ <u>14,411,580</u>	<u>14,300,347</u>

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

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

• **Law Enforcement Program**

Investment Type	Cost	Fair Value
Cash and cash equivalents:		
Bank deposits	\$ 2,167,298	2,167,298
Money market	<u>1,622,641</u>	<u>1,622,641</u>
Total	\$ <u>3,789,939</u>	<u>3,789,939</u>
Office of the State Treasurer State Investment Pool	\$ <u>3,645</u>	<u>3,645</u>
Total	\$ <u>3,645</u>	<u>3,645</u>
Investments:		
Corporate Notes	\$ 700,000	680,794
Government Bonds	3,500,250	3,518,760
Government Asset Backed Securities	<u>2,378,133</u>	<u>2,375,107</u>
Total	\$ <u>6,578,383</u>	<u>6,574,661</u>

• **Total**

Investment Type	Cumulative Cost	Cumulative Fair Value
Cash and cash equivalents:		
Bank deposits	\$ 2,541,837	2,541,837
Money market	<u>3,277,376</u>	<u>3,277,376</u>
Total	\$ <u>5,819,213</u>	<u>5,819,213</u>
Office of the State Treasurer State Investment Pool	\$ <u>346,949</u>	<u>346,949</u>
Total	\$ <u>346,949</u>	<u>346,949</u>

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

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

• **Total - continued**

Investment Type	Cumulative Cost	Cumulative Fair Value
Investments:		
Corporate Notes	\$ 1,700,000	1,650,499
Government Bonds	12,500,758	12,574,765
Government Asset Backed Securities	<u>6,789,205</u>	<u>6,649,744</u>
Total	\$ <u>20,989,963</u>	<u>20,875,008</u>

• **Collateral Requirements**

Los Alamos National Bank:

Total amount on deposit in bank

Multi-Line checking	\$ 13,280
Law Enforcement checking	<u>282,594</u>

Total deposit in bank

295,874

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

Total uninsured funds	\$ <u>45,874</u>
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50% pledged collateral requirement	\$ 22,937
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Pledged collateral:

FHLB Letter of Credit	<u>4,000,000</u>
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Over insured/collateralized	\$ <u>3,977,063</u>
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The Federal Home Loan Bank of Dallas is the custodian of the pledged collateral. Pledged collateral is held for safekeeping in Dallas, Texas.

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

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

• **Collateral Requirements - continued**

First Community Bank:

Total amount on deposit in bank		
Multi-Line checking	\$	428,696
Law Enforcement checking		<u>2,212,080</u>
Total deposit in bank		2,640,776
FDIC coverage		<u>(250,000)</u>
Total uninsured funds		\$ <u>2,390,776</u>
50% pledged collateral requirement		\$ 1,195,388

Pledged collateral:

Description	Maturity	Par	Market
MBS FNMA 15 yr.		\$	
CUSP #3B71LJW0	1/1/2019	594,626	613,845
Gasden NM ISD #16	8/15/2018	<u>1,200,000</u>	<u>1,200,000</u>
		1,794,626	1,813,845
			<u>1,813,845</u>

Over insured/collateralized \$ 618,457

• **Custodial Credit Risk**

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

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

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

• **Custodial Credit Risk - continued**

As of December 31, 2008, the Pool's deposits were exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in the Pool's name	\$ <u>2,436,650</u>
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None of the Pool's investments were exposed to custodial credit risk as all investments were held in the name of the Pool.

• **Interest Rate Risk**

The Pool's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The State Investment Pool's weighted average maturity at December 31, 2008 is 157 days, which is a key determinant of the tolerance of the State Investment Pool's investments to increases in interest rates.

• **Credit Risk**

The Pool's investment policy states that investments are limited to the following:

Government Bonds. Bonds or negotiable securities of the United States, the state or any municipality or school district which has a taxable valuation of real property for the last preceding year of at least one million dollars and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding.

Government Securities. Securities issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or have the implied full faith and credit of the United States government or agencies guaranteed by the United States government and are highly liquid and widely traded.

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

Corporate Bonds. Debt instruments which are backed by defined cash flows or receivables with a final maturity not exceeding five years and AAA by Standard & Poor's and Moody's.

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

Notes to Financial Statements - continued

2. CASH AND INVESTMENTS – continued

- **Credit Risk - continued**

Asset-backed Obligations. Debt instruments which are backed by defined cash flows or receivables with a final maturity not exceeding five years and AAA by Standard & Poor's and Moody's.

Repurchase Agreements. Contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor.

Certificates of Deposit. Limited to \$250,000 per financial institution or bank, unless collateralization requirements within the investment policy are met.

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

- **Concentration of Credit Risk**

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

Multi-Line Program

Federal Home LN Bank	45.75%
Federal Home LN MTG	3.57%
Federal Farm Credit Bank	14.01%

Law Enforcement Program

Federal Farm Credit Bank	7.62%
Federal Home LN Bank	38.14%
Federal Home LN MTG	7.76%

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

Notes to Financial Statements - continued

3. NOTE RECEIVABLE FROM RELATED PARTY

The New Mexico Association of Counties (NMAC) holds a promissory note, secured by a mortgage on property located in Santa Fe, New Mexico, for \$1,200,000 to the New Mexico County Insurance Authority (NM CIA), which is comprised of the Multi-Line Program and the Workers' Compensation Pool. NMAC used these funds to purchase and renovate the above-mentioned property for use as NMAC's administrative offices. The principal balance is payable in 240 monthly installments of \$9,304, including interest at 7% annually. The balance remaining at December 31, 2008 was \$302,805.

4. CAPITAL ASSETS

A summary of changes in capital assets follows:

• **Multi-Line Program**

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Depreciable assets:				
Equipment	\$ _____ -	_____ 8,080	_____ -	_____ 8,080
Total	_____ -	_____ 8,080	_____ -	_____ 8,080
Less accumulated depreciation:				
Equipment	_____ -	_____ (1,796)	_____ -	_____ (1,796)
Total accumulated depreciation	_____ -	_____ (1,796)	_____ -	_____ (1,796)
Net total	\$ _____ -	_____ 6,284	_____ -	_____ 6,284

• **Law Enforcement Program**

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Depreciable assets:				
Equipment	\$ _____ -	_____ 4,040	_____ -	_____ 4,040
Total	_____ -	_____ 4,040	_____ -	_____ 4,040
Less accumulated depreciation:				
Equipment	_____ -	_____ (898)	_____ -	_____ (898)
Total accumulated depreciation	_____ -	_____ (898)	_____ -	_____ (898)
Net total	\$ _____ -	_____ 3,142	_____ -	_____ 3,142

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

Notes to Financial Statements - continued

4. CAPITAL ASSETS - continued

• **Total**

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Depreciable assets:				
Equipment	\$ -	12,120	-	12,120
Total	-	12,120	-	12,120
Less accumulated depreciation:				
Equipment	-	(2,694)	-	(2,694)
Total accumulated depreciation	-	(2,694)	-	(2,694)
Net total	\$ -	<u>9,426</u>	<u>-</u>	<u>9,426</u>

5. CLAIMS AND CLAIM ADJUSTMENT EXPENSES

The liability for claims and claims adjustment expenses, which is reported on an ultimate development basis, includes an amount determined from claims reports and individual cases, and an amount for claims incurred but not reported. Estimates of the liability for amounts incurred but not reported as of December 31, 2008 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, 2008:

Multi-Line Program:

Liability for claims and claim adjustment expenses, beginning of year	\$ 7,466,969
Incurred claims and claim adjustment expenses	4,380,103
Payments (net of amounts received pursuant to excess insurance contracts)	<u>(3,519,224)</u>
Liability for claims and claim adjustment expenses, end of year	8,327,848

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

Notes to Financial Statements - continued

5. CLAIMS AND CLAIM ADJUSTMENT EXPENSES - continued

Law Enforcement Program:

Liability for claims and claim adjustment expenses, beginning of year	\$ 10,001,043
Incurred claims and claim adjustment expenses	8,661,397
Payments (net of amounts received pursuant to excess insurance contracts)	<u>(4,530,262)</u>
Liability for claims and claim adjustment expenses, end of year	<u>14,132,178</u>
Total liability claims and claim adjustment Expenses, end of year	\$ <u>22,460,026</u>

As of year-end, the liability for unpaid claims and claim adjustment expenses of \$8,936,838 for the Multi-Line Program and \$15,465,571 for the Law Enforcement Program are presented at their net present value of \$8,327,848 and \$14,132,178, respectively. These claims are discounted at a rate of 5%. For the year ended December 31, 2008, the Multi-Line Program experienced positive development on prior policy year claims resulting in an offset to claim expense of \$954,772. For the year ended December 31, 2008, the Law Enforcement Program experienced negative development on prior policy year claims resulting in additional claim expense of \$3,778,554.

6. REINSURANCE

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

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

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

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

Notes to Financial Statements - continued

6. REINSURANCE - continued

January 1, 1998, while the Law Enforcement Program joined January 1, 1999. Similar to counties that participate as members of the Pool, the Pool's contribution to CRL includes a loss fund portion, capital, and expenses. CRL has the ability to return equity to its members in the event that loss fund contributions are not depleted or if there is a surplus of capital. Subsequent to December 31, 2008, CRL agreed to return the Multi-Line Program's and the Law Enforcement Program's equity in five equal installments beginning in April 2009.

For the year ended December 31, 2008, the Pool paid \$2,602,339 for excess insurance premiums.

7. BROKERAGE SERVICE FEE

Commission/brokerage service fees were \$92,500 for the year ended December 31, 2008.

8. GENERAL AND ADMINISTRATIVE

The New Mexico Association of Counties provides general and administrative services, as well as office space, equipment and supplies, to the Pool. These services include general administration and consulting, financial management and risk management. The Pool expensed \$1,621,500 in 2008 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, 2008 consisted of the following:

		Multi-Line Program	Law Enforcement Program	Total
Risk management	\$	825,000	796,500	1,621,500
Legal		11,596	2,674	14,270
Actuarial		12,750	8,275	21,025
Accounting and auditing		17,197	17,197	34,394
Consulting		63,805	31,536	95,341
Miscellaneous		<u>113,273</u>	<u>37,835</u>	<u>148,414</u>
Total	\$	<u>1,043,621</u>	<u>894,017</u>	<u>1,937,638</u>

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

Notes to Financial Statements - continued

9. LITIGATION

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

10. FUND DEFICIT

Actual claims and claim adjustment expenses were over budget by approximately \$3.1 million for the Law Enforcement Program. There was a 42.5% increase in estimated outstanding losses from December 31, 2007 to December 31, 2008. The Law Enforcement Program averages three claims a year that exceed the self insured retention of \$250,000. For the 2006 policy year, there were 11 claims with an incurred expense over the \$250,000 retention limit. Projected ultimate net losses for 2008 are also higher than budgeted for.

For 2009, the Multi-Line Pool Board of Directors increased contributions by 14.1% from the previous year. In addition, the Pool has increased loss prevention efforts for detention centers. The Pool hired a full-time detention specialist in the loss prevention department with over 25 years experience in corrections and detention centers, and who serves as a detention consultant for the Department of Justice. The Pool implemented a comprehensive supervisory training program sponsored by the American Jail Association. Also, in 2007 a sub-limit was imposed by the Pool Board for coverage for class action strip searches. The limits are a \$250,000 maximum with a Pool annual aggregate of \$1 million.

REQUIRED SUPPLEMENTARY INFORMATION

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

Notes to Ten Year Claims Development Information (Unaudited)

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

- (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues, net of contribution revenue ceded to reinsurers.
- (2) This line shows each fiscal year's other operation costs of the Pool, including overhead and claims expenses not allocable to individual claims.
- (3) This line shows the Pool's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- (5) This section of ten rows shows how each policy year's incurred claims increased or decreased as of the end of the successive years. (These annual re-estimations result from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)
- (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

TEN YEARS ENDED DECEMBER 31,	1999	2000	2001
(in thousands)			
1. Net earned required contribution and investment revenues	\$ 7,255	8,012	7,818
2. Unallocated claim expenses	893	1,955	2,156
3. Estimated incurred claims and expense, end of policy year	1,294	1,739	1,636
4. Paid (cumulative) as of:			
Year one	458	473	592
Year two	1,166	1,276	1,266
Year three	1,889	1,816	1,951
Year four	2,217	2,701	2,520
Year five	2,303	2,769	2,555
Year six	2,351	2,801	2,559
Year seven	2,374	2,798	2,559
Year eight	2,386	2,798	2,561
Year nine	2,389	2,798	-
Year ten	2,474	-	-
5. Re-estimated incurred claims and expense:			
Year one	1,294	1,739	1,636
Year two	1,717	2,240	1,915
Year three	2,227	2,398	2,486
Year four	2,332	2,844	2,271
Year five	2,544	2,814	2,581
Year six	2,444	2,802	2,560
Year seven	2,416	2,799	2,559
Year eight	2,436	2,799	2,561
Year nine	2,423	2,799	-
Year ten	2,480	-	-
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ 1,186	1,060	925

** Data not available.

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

Ten Year Claims Development Information (Unaudited)

2002	2003	2004	2005	2006	2007	2008
7,982	7,747	11,386	12,147	14,138	16,063	16,323
1,401	1,208	1,044	1,051	1,392	1,768	2,027
1,488	1,753	1,309	1,649	1,133	1,636	1,884
591	552	505	435	294	520	646
1,512	1,053	1,537	1,605	1,802	1,294	-
1,921	1,933	1,928	2,753	2,266	-	-
2,298	2,376	2,079	3,345	-	-	-
2,540	2,384	2,222	-	-	-	-
2,549	2,414	-	-	-	-	-
2,549	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,488	1,753	1,309	1,649	1,133	1,636	1,884
2,719	2,178	2,090	2,364	2,278	2,739	-
2,650	2,270	2,263	3,143	2,820	-	-
2,631	2,477	2,336	3,476	-	-	-
2,736	2,473	2,471	-	-	-	-
2,549	2,438	-	-	-	-	-
2,549	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,061	685	1,162	1,827	1,687	1,103	-

SUPPLEMENTARY BUDGETARY COMPARISONS

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

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

YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Member contributions	\$ 7,492,075	7,492,075	7,538,180	46,105
Investment income	600,000	600,000	826,512	226,512
Land Use Contribution	74,000	74,000	82,500	8,500
Other income	-	-	(103,718)	(103,718)
TOTAL REVENUES	8,166,075	8,166,075	8,343,474	177,399
EXPENSES:				
Claims and claim adjustment expenses	5,847,075	5,757,575	4,380,103	1,377,472
Excess insurance premiums	1,250,000	1,250,000	1,205,781	44,219
General and administrative	788,000	825,000	825,000	-
Brokerage fees	57,500	57,500	62,500	(5,000) *
Other Expenses	223,500	276,000	216,825	59,175
TOTAL EXPENSES	8,166,075	8,166,075	6,690,209	1,475,866
EXCESS OF REVENUES OVER EXPENSES - BUDGETARY BASIS	\$ -	-	1,653,265	1,653,265
RECONCILIATION TO GAAP BASIS:				
To record depreciation			(1,796)	
EXCESS OF REVENUES OVER EXPENDITURES - GAAP BASIS			\$ 1,651,469	

* 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 (Cash Basis) - Law Enforcement Program**

YEAR ENDED DECEMBER 31, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Member contributions	\$ 7,470,548	7,470,548	7,504,114	33,566
Investment income	400,000	400,000	476,291	76,291
Other income	-	-	(1,076)	(1,076)
TOTAL REVENUES	<u>7,870,548</u>	<u>7,870,548</u>	<u>7,979,329</u>	<u>108,781</u>
EXPENSES:				
Claims and claim adjustment expenses	5,551,548	5,497,548	8,661,397	(3,163,849) *
Excess insurance premiums	1,400,000	1,400,000	1,396,558	3,442
General and administrative	765,000	796,500	796,500	-
Brokerage fees	30,000	30,000	30,000	-
	<u>124,000</u>	<u>146,500</u>	<u>96,619</u>	<u>49,881</u>
TOTAL EXPENSES	<u>7,870,548</u>	<u>7,870,548</u>	<u>10,981,074</u>	<u>(3,110,526)</u>
EXCESS OF REVENUES OVER EXPENSES - BUDGETARY BASIS	<u>\$ -</u>	<u>-</u>	<u>(3,001,745)</u>	<u>(3,001,745)</u>
RECONCILIATION TO GAAP BASIS:				
To record depreciation			<u>(898)</u>	
EXCESS OF REVENUES OVER EXPENDITURES - GAAP BASIS			<u>\$ (3,002,643)</u>	

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

OTHER SUPPLEMENTARY INFORMATION

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

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

AS OF DECEMBER 31, 2008

	Multi-Line Program	Law Enforcement Program	Total
Interest-bearing checking accounts:			
Los Alamos National Bank	\$ 13,280	282,594	295,874
First Community Bank	428,696	2,212,080	2,640,776
Reconciling items:			-
Outstanding checks	(67,437)	(327,376)	(394,813)
Financial statement balance	374,539	2,167,298	2,541,837
Mutual funds - money market Wachovia Securities	1,643,980	1,637,808	3,281,788
Reconciling items:			
Outstanding checks	(3,245)	(15,167)	(18,412)
Deposits in transit	14,000	-	14,000
Financial statement balance	1,654,735	1,622,641	3,277,376
Cash held with the State Treasurer Investment Fund	343,304	3,645	346,949
Financial statement balance	343,304	3,645	346,949
Total cash and cash equivalents	\$ 2,372,578	3,793,584	6,166,162

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

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

We have audited the financial statements of the business-type activities and the budgetary comparisons as supplemental information of the New Mexico County Insurance Authority Multi-Line Pool (the Pool) as of and for the year ended December 31, 2008, and have issued our report thereon dated May 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

MEYNEERS + COMPANY, LLC

Certified Public Accountants/Consultants to Business

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An Independent Member of the BDO Seidman Alliance

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

Internal Control Over Financial Reporting - continued

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pool's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as item 08-1.

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

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

Meyners + Company, LLC

May 15, 2009

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

Schedule of Findings and Responses

CONTROL DEFICIENCIES - FINANCIAL STATEMENT AUDIT

08-1 LACK OF CONTROL EFFECTIVENESS OVER DISBURSEMENT PROCESS

Condition: During the course of control testwork over the cash disbursement process, there were three instances identified where disbursement contained 2007 expenses that were coded to FY 2008. In addition, four instances were identified in which no approval could be identified for the disbursement.

Criteria: Cash disbursements should be appropriately reviewed and approved to ensure accuracy and validity of payment prior to disbursement.

Cause: The Pool is not consistently applying implemented approval procedures, which resulted in delays of payment of prior year invoices.

Effect: The Pool could be vulnerable to significant misstatement to the financial information due to lack of approval, resulting in incorrect postings to the General Ledger.

Recommendation: The Pool should establish procedures which facilitate the completion of the approval process. This could possibly be accomplished through restructuring of the mail opening procedures to direct all invoices to a particular person in the accounting department initially. In addition, payment of disbursements could be prevented prior to approval via signoff by approver. This would help ensure timeliness, accuracy, and authorized approval of cash disbursements.

Management's Response: The Finance Department pays invoices when received, pending appropriate approvals. Efforts will be made to ensure that incoming invoices are routed to the Finance Department instead of to the individuals to which they may be addressed so that payment can be made in a timely fashion and recorded to the correct budget year.

Regarding disbursements not being approved, we will prevent disbursements being made that have not been approved. We will amend our procedures to state that if the Finance Director is not available to approve disbursements then the Bookkeeper will get the approval of either the Risk Management Director or the Executive Director.

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

Summary Schedule of Prior Year Audit Findings

None.

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

Exit Conference

An exit conference was held on May 27, 2009. In attendance were:

NEW MEXICO COUNTY INSURANCE AUTHORITY MULTI-LINE POOL

Paul Gutierrez, Executive Director
Steve Kopelman, Risk Management Director
Carol Stodgel, Finance Director
Dan Mayfield, Board Chair
Victor Montoya, Secretary/Treasurer

MEYNNERS + COMPANY, LLC

Georgie Ortiz, Principal
B. Jesse Muniz, Senior In Charge

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.