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OFFICE OF THE
NEW MEXICO PUBLIC REGULATION
COMMISSION
INSURANCE DIVISION



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PUBLIC REGULATION
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CERTIFICATE

I, Morris J. Chavez Superintendent of Insurance of the State of New Mexico, do hereby certify that the attached Report of Examination for the period ending December 31, 2007 on:

New Mexico Property & Casualty Company
2009 Eubank, N.E.
Albuquerque, NM 87112

Was recently completed by *D. Patrick Huth*, Examiner-In-Charge with the Insurance Division.

Due consideration has been given to the comments of the Examiner regarding the financial condition and business affairs as reflected in this report.

The report as of this date is hereby adopted, filed and made an official record of the Division.



In Witness Whereof, I have hereunto set my official seal On this 25th day of March, 2009 A.D.

M. J. Chavez
Superintendent of Insurance

REPORT ON EXAMINATION
OF
New Mexico Property & Casualty Company
AS OF
December 31, 2007

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January 14, 2009

Honorable Morris J. Chavez
Superintendent of Insurance
New Mexico Public Regulation Commission
P.O. Box 1269
Santa Fe, New Mexico 87504-1269

Superintendent Chavez:

Pursuant to your instructions and in accordance with NMSA §§ 59A-4-4 and 59A-46-19, an examination has been made of the business affairs and financial condition of:

New Mexico Property & Casualty Company

with its home and administrative office at 2009 Eubank NE, Albuquerque, New Mexico 87109,
as of December 31, 2007.

INTRODUCTION

This is the first examination of New Mexico Property & Casualty Company, hereinafter referred to as ("the Company" or "NMPC"), since the Company received their Certificate of Authority by the New Mexico Public Regulation Commission Division of Insurance ("NMDOI"). The examination covers the Company's financial and market conduct operations during the period from July 14, 2004 through December 31, 2007.

EXECUTIVE SUMMARY

The examination identified numerous exceptions in the course of examination fieldwork as explained below. Subsequent to the period covered by this examination, as of June 30, 2008, the Company's surplus was above the minimum capital requirement as required by NMSA 1978, § 59A-5-16. However, as of this date, the Company's surplus was still at "Company Action" pursuant to the RBC provisions of NMSA 1978, § 59A-5A-4.

EXECUTIVE SUMMARY OF REPORT FINDINGS

The examination findings are outlined below with page references to the specific details of each finding.

<u>Page</u>	<u>Finding</u>
8	During the period covered by this examination, the Company's affiliate, Atlas, provided various services and facilities to the Company without charge and without an intercompany service agreement. It is recommended that if the Company is to share expenses with its affiliates that expenses be recorded in accordance with the provisions of the NAIC Accounting Practice and Procedures Manual, SSAP No. 70 and NMSA 1978 §59A-37-20(3). It is also recommended the Company enter into an intercompany service agreement with Atlas in order to establish whether the terms and cost of the services and facilities provided by

	Atlas are fair and reasonable as required by the provisions of NMSA 1978, § 59A-37-20.
8	As a member of an insurance holding company system, the Company did not register with the Superintendent in accordance with the requirements of NMSA 1978, § 59A-37-11. It is recommended the Company register with the Superintendent in accordance with the requirements of NMSA 1978, § 59A-37-11. In addition, the Company should file a registration statement on a form provided by the Superintendent which contains the information required by NMSA 1978, § 59A-37-12.
9	Article VI, Section 1 of the Company's Bylaws specifies the Board of Directors shall consist of five members. As of the date of this examination the Company's board of directors was comprised of six members. It is recommended the Company elect the number of directors as specified in its Bylaws or amend the Bylaws accordingly.
14	It was determined policy endorsements are not signed by the Company. It is recommended the Company develop procedures to assure that all policy endorsements are properly signed.
14	The deductible acknowledgement form was not signed by the policyholder. It is recommended the Company develop procedures to assure that all deductible acknowledgement forms are properly signed by the policyholder.
14	From a review of terminated policy files, it was determined the required 10 day cancellation notice was not provided for non-payment of premium cancellations. It is recommended the Company provide a 10 day cancellation notice where required in accordance with the provisions of NMSA 1978, § 59A-18-29.
14	From a review of the policy files, there were several occurrences of the Company using agents prior to their appointment. It is recommended the Company transact business with only properly licensed agents.

15	<p>The Company's general ledger and accounting records as of December 31, 2007 show the issuance of an additional 14,856 shares of common stock. The issuance of the additional 14,856 shares of common stock is contrary to the provisions of the Company's Articles of Incorporation and inconsistent with its stock ledger. It is recommended the Company make the necessary adjustments to comply with the provisions of its Articles of Incorporation.</p>
16	<p>There were numerous errors noted in the completion of the 2007 Annual Statement. Although many of the Annual Statement errors were immaterial, the high number of errors necessitates comment in this report of examination. It is recommended the Company complete all Annual Statement Schedules in accordance with the NAIC Annual Statement Instructions as required by the provisions of NMSA 1978, § 59A-5-29 A.</p>
17	<p>The Company has not amortized premiums or discounts on any of its purchases of U.S. Treasury Bills and Notes that it has made since its inception contrary to the requirements of SSAP No. 26, paragraph 6. It is recommended the Company accrue or amortize the premium or discount on all bond purchases in accordance with SSAP No. 26, paragraph 6 and NMSA 1978, § 59A-5-29 A.</p>
17	<p>The Company's investment policy was disclosed in its board minutes however it was not explicitly approved by the Board of Directors. In addition, the board minutes did not indicate the approval of investments by the Board of Directors as required by NMSA 1978, § 59A-9-4. It is recommended the Company's Board of Directors approve an investment policy and all investments made by the Company pursuant to the provisions of NMSA 1978, § 59A-9-4.</p>
17	<p>The Company was only able to supply claim information in report formats as designed by its data contractor, USSI. The reports did not identify any expense amounts and did not distinguish case reserves between indemnity and medical components. Furthermore, USSI was unable to supply reports by evaluation date other than the current report generated date which was determined to be completely inadequate for insurance management, data reporting, and examination purposes. It is recommended the Company develop the ability to</p>

	produce actuarial data at specific dates as required to actuarially determine the Company's loss and Loss Adjustment Expense reserves. This recommendation is supported by the provisions of NMSA 1978, § 59A-34-10 A.
18	The NMDOI contract actuary noted there is no explanation or analysis in the AON actuarial report for the allocated loss adjustment expense reserves and no provision is shown at all for unallocated loss adjustment expenses. The Company and AON should both be using the modern definitions of "Defense and Cost Containment" and "Adjusting and Other" to categorize loss adjustment expenses. It is recommended the Company make a provision for unallocated loss adjustment expenses and use the proper categories to record these expenses. This recommendation is made in accordance with the requirements of SSAP No. 55 and NMSA 1978, § 59A-5-29 A.
18	The Company did not accrue a liability for commissions payable as of December 31, 2007 in the amount of \$22,878 as estimated by the Company. It is recommended the Company record a liability for commissions payable in accordance with the provisions of SSAP No. 71 and NMSA 1978, § 59A-5-29 A
18	As noted by the NMDOI, the RBC calculation was not completed properly in accordance with the NAIC instructions. The RBC calculation contained several incorrect entries. It is recommended the Company complete the RBC calculation in accordance with the requirements established by the NAIC as required by NMSA 1978, § 59A-5-29 A.
18	The Company receives deposit premiums that should be reported as remittances and items not allocated. It is recommended the Company establish a liability for deposit premiums in accordance with the provisions of SSAP No. 67 and NMSA 1978, § 59A-5-29 A.
18	The Company's agents' balances included \$47,541 of accounts that were over 90 days past due at December 31, 2007. It is recommended the Company reconcile its receivables to determine and recognize those agents' balances or accounts that are over 90 days past due and non-admit these balances pursuant

	to SSAP No. 6 and NMSA 1978 § 59A-8-1 E on the Company's Quarterly and Annual Statements.
19	As a result of the issues noted from this examination, it is recommended the Company obtain the insurance experienced personnel necessary to conduct its operations in a manner that complies with the requirements of NMSA 1978, § 59A-5-13 (B)(2). In addition, it is recommended the existing executive officers and directors take an active role in the governance of the Company's operations as required by the provisions of its Bylaws.

SCOPE OF EXAMINATION

The affairs, transactions, accounts, records, assets, liabilities, and surplus of the Company were reviewed and tested by rules and regulations to the extent deemed necessary to comply with NMSA 1978, Chapter 59A, Article 46. This Article requires the Superintendent of Insurance to cause each insurance company to be examined no less than once every five years for the purpose of determining its financial condition, ability to fulfill and the manner of fulfillment of its obligations, the nature of its operations, and compliance with law.

The examination procedures as recommended by the National Association of Insurance Commissioners ("NAIC") have been followed in conducting this examination and in the preparation of this report. These procedures include a review of material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination, which may have a material impact on the solvency of the Company at December 31, 2007.

Reporting will be by exception and will include explanatory comments where exceptions were noted. Items tested and accepted by the examiners without material change will receive little or no comment in this report.

HISTORY AND CAPITALIZATION

The Company was incorporated on January 23, 2003 under the laws of the State of New Mexico. On July 14, 2004, the Company was granted its Certificate of Authority by the New Mexico Public Regulation Commission Division of Insurance to transact the business of casualty insurance limited to Workers' Compensation and Employer's Liability. The Company commenced business on January 1, 2005.

At December 31 2007, the Company maintains \$210,000 as a guaranty fund for the benefit of its policyholders as required by NMSA 1978 §59A-5-16.

Capital Stock

The Company's Articles of Incorporation authorize 100,000 shares of common capital stock at \$5.00 par value per share. As of December 31, 2007, the Company had 100,000 shares of common stock issued and outstanding. A majority of the outstanding common shares were owned by two individuals as follows:

Nick P. Kapnison 49,998

Jimmy D. Daskalos 49,997

The remaining five shares were owned by the current board members and one former board member whom own one share each.

Dividends to Stockholders

There were no dividends to stockholders declared or paid during the examination period.

AFFILIATED COMPANIES

The Company appears to meet the definition as prescribed in NMSA 1978, § 59A-37-2 as a member of an insurance holding company system. The ultimate controlling members of the holding company system are two individuals, Nick P. Kapnison and Jimmy D. Daskalos. These two individuals are also the principals of the Company's affiliate, Atlas Resources, Inc. ("Atlas"). Atlas is a Professional Employer Organization (PEO) that operates in 30 states. Atlas provides various services to employers which include payroll, taxes, workers compensation, employee benefit programs and human resource compliance.

During the period covered by this examination, Atlas provided various services and facilities to the Company without charge and without an intercompany service agreement. The services and facilities provided by Atlas included accounting, executive and investment management, office space, equipment and utilities. In accordance with the provisions of the NAIC Accounting Practice and Procedures Manual SSAP No. 70, if expenses are shared among affiliates the shared expenses are to be apportioned to the entity incurring the expenses as if the expense had been paid solely by the incurring entity.

It is recommended that if the Company is to share expenses with its affiliates that the expenses be recorded in accordance with the provisions of the NAIC Accounting Practice and Procedures Manual, SSAP No. 70 and NMSA 1978, § 59A-37-20(3). It is also recommended the Company enter into an intercompany service agreement with Atlas in order to establish whether the terms and cost of the services and facilities provided by Atlas are fair and reasonable as required by the provisions of NMSA 1978, § 59A-37-20.

As a member of an insurance holding company system, the Company did not register with the Superintendent in accordance with the requirements of NMSA 1978, § 59A-37-11. It is recommended the Company register with the Superintendent in accordance with the requirements of NMSA 1978, § 59A-37-11. In addition, the Company should file a registration

statement on a form provided by the Superintendent which contains the information required by NMSA 1978, § 59A-37-12.

MANAGEMENT AND CONTROL

Serving as of December 31, 2007 were the following directors with the state of their residence and principal occupation:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Nick P. Kapnison New Mexico	Principal, Atlas Resources, Inc.
Jimmy D. Daskalos New Mexico	Principal, Atlas Resources, Inc.
Thomas A. Pascuzzi, M.D. New Mexico	Physician
Richard A. Bianchi New Mexico	Broker, Bianchi and Assoc., Inc.
Hugh M. Atwell New Mexico	Chief Operating Officer, New Mexico Property & Casualty Company
Paul N. Kapnison New Mexico	Safety Director, New Mexico Property & Casualty Company

Article VI, Section 1 of the Company's Bylaws specifies the Board of Directors shall consist of five members. As of the date of this examination the Company's board of directors was comprised of six members. It is recommended the Company elect the number of directors as specified in its Bylaws or amend the Bylaws accordingly.

Subsequent Event: Hugh Atwell resigned from the Board of Directors in August 2008 thereby reducing the number of directors to five as specified in the Articles of Incorporation.

The following officers were elected by the Board of Directors in accordance with the Company's Bylaws:

<u>Name</u>	<u>Position</u>
Jimmy D. Daskalos	President and Treasurer

Nick P. Kapnison

Vice President and Secretary

During the period covered by this examination, there were no changes in the officers of the Company.

At each of the annual meetings of the Board, the Board passed a resolution to approve and ratify the actions of Company's officers. In addition, for each year under examination, it was determined the Board elected the Company officers, approved compensation of officers and key employees, and authorized the appointment of auditing actuarial firms for the year.

Original minutes from the Board of Director and Stockholder meetings are maintained at the Company's home office.

CONFLICT OF INTEREST

The Company has a procedure for disclosure of potential conflicts of interest that applies to its directors, officers and key employees. The Company's personnel sign a Code of Business Conduct statement on an annual basis to affirm compliance with the Company's code of ethics and report any potential conflicts of interest. Signed Code of Business Conduct statements were obtained and reviewed for all directors, officers and key employees for the examination period.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity bond coverage, with an aggregate loss limit of liability of \$1,000,000 and a deductible for a single loss of \$25,000. This insurance adequately covered the suggested minimum amount of coverage for the Company, as recommended by the NAIC.

The Company maintains other insurance policies which included directors & officers liability, general liability, workers compensation, employment practices liability, and personal property. From a review of the policies for the coverages listed above, the insurance limits were determined to be adequate as of December 31, 2007.

EMPLOYEE AND AGENT WELFARE

During the period covered by this examination the Company did not sponsor any pension or retirement benefit plans.

TERRITORY AND PLAN OF OPERATION

The Company operates solely in the state of New Mexico and its business is limited to workers compensation and employers liability. The Company writes business on both a direct basis and produces business through general agents. Approximately one-third of the Company's policyholders are clients of the Company's affiliate, Atlas. As a PEO, Atlas obtains workers compensation and employer liability insurance for its clients and places most of its New Mexico clients with NMPC. The Company's underwriting practice is to restrict its business to lower risk employers within Hazard Groups I and II as defined by the National Council on Compensation Insurance (NCCI).

PERFORMANCE OF THE COMPANY

The growth of the Company as presented in the annual statement for the three years through December 31, 2007 is as follows:

Year	Net Admitted Assets	Liabilities	Capital and Surplus	Direct Written Premium	Net Income
2005	\$1,264,331	\$ 577,376	\$ 686,955	\$1,102,725	\$(319,737)
2006	\$2,705,238	\$1,380,452	\$1,324,786	\$2,199,440	\$ 340,697
2007*	\$4,218,631	\$3,803,510	\$ 415,121	\$4,065,775	\$(933,303)

The 2007 balances as reported in the table above were determined as a result of this examination.

The Company reported a net loss in 2007 as indicated above. The decrease in the Company's surplus associated with these events caused the Company's Risk Based Capital (RBC) to fall below "Regulatory Action Level" as determined by the NAIC RBC requirements.

Subsequent Event: As a result of the Company's surplus triggering the RBC Regulatory Action Level, on March 3, 2008, pursuant to NMSA 1978, § 59A-5A-5(B), the NMDOI requested the Company submit a corrective action RBC plan ("plan") to the Superintendent within 45 days. Following an extension granted by the Superintendent, the Company submitted the plan to the NMDOI on May 13, 2008. The plan was determined to be unsatisfactory by the NMDOI and in accordance with 1978, § 59A-5A-5(B), on May 27, 2008, the NMDOI requested the Company submit a revised corrective action RBC plan. The Company provided a revised plan to the NMDOI on July 10, 2008. The revised plan was also determined to be unsatisfactory by the NMDOI on August 22, 2008.

REINSURANCE

Assumed

The Company's only assumed business is related to business assumed through the New Mexico Workers Compensation Assigned Risk Pool, a non-voluntary risk pool. The Company is a member of the Pool pursuant to NMSA 1978 §59A-33-8. During 2007, the Company assumed \$190,515 of premiums from the Pool.

Ceded

During 2007 the Company's ceded reinsurance program was comprised of two layers of excess of loss coverage. The first layer covers losses for \$250,000 per occurrence in excess of the Company's retention of \$250,000 per occurrence. The second layer, as provided under a separate agreement, provides for \$9,500,000 per occurrence in excess of the \$500,000 per occurrence reinsured under the first layer. During 2007, the Company ceded \$567,900 of premiums to non-affiliated reinsurers for the excess of loss coverage.

The reinsurance agreements reviewed were found to meet NAIC guidelines with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Subsequent Event: Effective January 1, 2008, the Company entered into a quota share agreement with GMAC Re under which the Company cedes 50% of all losses up to \$500,000 per occurrence. Losses above \$500,000 are covered under two excess of loss agreements which provide \$14,500,000 of coverage per occurrence.

COMMITMENTS AND CONTINGENCIES

The Company has no significant or material commitments and contingencies as of December 31, 2007 as disclosed in Note 14 of the 2007 Annual Statement.

STATUTORY DEPOSITS

As of December 31, 2007, the Company maintained the following statutory deposits with the Superintendent.

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>
U.S. Treasury NT 4.375% 1/31/08	\$105,000	\$104,201
U.S. Treasury NT 4.625% 3/31/08	105,000	104,968
Total Statutory Deposits	<u>\$210,000</u>	<u>\$209,169</u>

The Company appears to be in compliance with the requirements of NMSA 1978 §§59A-5-18 "General Deposit" and 59A-5-19 "Special Deposit."

MARKET CONDUCT

Underwriting and Rating

A random sample of policy files was selected for both active policies (60 files) and terminated policies (30 files). From these two samples, the following exceptions were noted:

- It was determined policy endorsements are not signed by the Company. It is recommended the Company develop procedures to assure that all policy endorsements are properly signed.

Subsequent Event: The Company has acknowledged in writing it was in error with respect to this finding.

- The deductible acknowledgement form was not signed (and possibly not presented) by the policyholder. It is recommended the Company develop procedures to assure that all deductible acknowledgement forms are properly signed by the policyholder.

Subsequent Event: The Company has acknowledged in writing it was in error with respect to this finding.

- From a review of terminated policy files, it was determined the required 10 day cancellation notice was not provided for non-payment of premium cancellations. It is recommended the Company provide a 10 day cancellation notice where required in accordance with the provisions of NMSA 1978 § 59A-18-29.

No exceptions were noted with respect to the Company's rating practices.

Producer Licensing

From a review of the policy files, there were several occurrences of the Company using agents prior to their appointment. It is recommended the Company transact business with only properly licensed agents.

Complaints

The Company did not have any complaints during the period covered by this examination.

Claims

A random sample of claim files was selected for both open claims (24 files) and closed claims (30 files). There were no violations of New Mexico statutes noted from a review of these two claim samples.

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained on the computer systems of United Service Source, Inc. (USSI), a non-affiliated service provider. The USSI systems and software are utilized to manage the Company's claims data, claim payments, case reserving, policy issuance, and premium billing. The Company's general ledger is maintained through its Summit software. Many of the general ledger accounts were reconciled to the Annual Statements filed with the NMDOI during the examination period, however, there were various accounting and record deficiency issues noted as follows:

- The Company's general ledger and accounting records as of December 31, 2007 show the issuance of an additional 14,856 shares of common stock to Nick Kapnisan and Jimmy Daskalos in December of 2006. The issuance of these additional shares was made in exchange for the elimination of certain intercompany payables in the amount of \$297,134 to Atlas which is also owned by Nick Kapnisan and Jimmy Daskalos. The issuance of 14,856 additional shares of common stock was not reported in the Company's stock ledger or in its 2006 and 2007 Annual Statements. The issuance of the additional 14,856 shares of common stock is contrary to the provisions of the Company's Articles of Incorporation and inconsistent with its stock ledger. As a result, it is recommended the Company make the necessary adjustments to comply with the provisions of its Articles of Incorporation.
Subsequent Event: The Company corrected its general ledger by reversing the entry to record the additional 14,856 shares of common stock and recorded the \$297,134 as additional paid in capital.
- There were numerous errors noted in the completion of the 2007 Annual Statement as follows:
 - The Company did not properly report its common capital stock and paid in capital balance on page 3 of the Annual Statement for all years covered by this

examination. The amended 2007 Annual Statement improperly reported paid in capital of \$798,091 on the line for preferred capital stock.

- Interest due and accrued was overstated by \$10,632 in column 19 of Schedule D, Part 1. Although it was noted the Company correctly excluded this amount from the Assets page 2 of the Annual Statement, the total interest due and accrued at December 31, 2007 was determined to be \$17,704, an understatement of \$3,705.
- From a review of bank documentation, it was determined interest received during the year was understated by \$11,479 in total on Schedule D, Part 1, Schedule DA, Part 1 and Schedule E, Part 1.
- The Company did not follow the CUSIP ID number "zero" filling for the certificates of deposits that it holds for Schedule D, Part 1, Column 1 in lieu of leaving blanks for each certificate of deposit.
- The Company did not provide the NAIC designation as required in Schedule D, Part 1, Column 6, in particular the designation "1" for its investments in U.S. Treasury Bills.
- The Schedule D Verification Between Years exhibit has not been completed correctly since the inception of the Company. The Company did not properly complete Schedule D in 2004, at its inception, by excluding its initial \$200,000 of U.S. Treasury Bills that it placed on deposit with the NMDOI. Thereafter, the Company has not filed a complete Schedule D including parts 3 and 4 for each of the years to properly account for the increase in the book value of the certificates of deposit that occurred annually.
- CUSIP numbers, cost of the acquired securities, maturity dates and other information that were readily available on broker advices, were not properly reported on Schedule D for the Company's U.S Treasury Bills and Notes.
- The Company did not follow the NAIC Annual Statement Instructions in completion of the data for Column 18 - how the interest is paid.
- The Company should not have listed two certificates of deposits on Schedule D - Part 1 as both of these certificates of deposit are for maturities of one-year or less at the time of their acquisition and should have been listed on Schedule E, Part 1 - Cash.
- The Company reported the fair value of its investment in a certificate of deposit at \$100,000 when the actual fair value was \$98,746. Also the Company did not include the correct interest rate on one of its certificates of deposit.
- The Company properly reported assumed business on the Annual Statement Underwriting and Investment Exhibit, Part 1 B, but it did not complete Schedule F, Part 1.
- The Jurat page of the 2007 Annual Statement still listed a board member whom had resigned in 2005.

Although many of the Annual Statement errors were immaterial, the high number of errors necessitates comment in this report of examination. It is recommended the Company complete all Annual Statement Schedules in accordance with the NAIC Annual Statement Instructions as required by the provisions of NMSA 1978 §59A-5-29 A.

Subsequent Event: Some of these errors were corrected by the Company in an amended 2007 Annual Statement.

- The Company has not amortized premiums or discounts on any of its purchases of U.S. Treasury Bills and Notes that it has made since its inception contrary to the requirements of SSAP No. 26, paragraph 6. It is recommended the Company accrue or amortize the premium or discount on all bond purchases in accordance with SSAP No. 26, paragraph 6 and NMSA 1978, § 59A-5-29 A.
- The Company's investment policy was disclosed in its board minutes however it was not explicitly approved by the Board of Directors. In addition, the board minutes did not indicate the approval of investments by the Board of Directors as required by NMSA 1978, § 59A-9-4. It is recommended the Company's Board of Directors approve an investment policy and all investments made by the Company pursuant to the provisions of NMSA 1978, § 59A-9-4.
- The NMDOI contract actuary's data request included separate information on paid losses, paid expenses, case loss reserves, and case expense reserves. The Company was only able to supply claim information in report formats as designed by its data contractor, USSI. The reports did not identify any expense amounts and did not distinguish case reserves between indemnity and medical components. The Company asserted the case reserve amounts, in particular, included both indemnity and medical portions but was unable to produce a report that distinguished the amounts. Furthermore, USSI was unable to supply reports by evaluation date other than the current report generated date which was determined to be completely inadequate for insurance management, data reporting, and examination purposes. It is recommended the Company develop the ability to produce actuarial data at specific dates as required to actuarially determine the Company's loss and Loss Adjustment Expense reserves. This recommendation is supported by the provisions of NMSA 1978 § 59A-34-10 A.

- The NMDOI contract actuary noted the following with respect to the Company's liability for loss adjustment expenses:

There is no explanation or analysis in the AON actuarial report for the allocated loss adjustment expense reserves and no provision is shown at all for unallocated loss adjustment expenses. The Company and AON should both be using the modern definitions of "Defense and Cost Containment" and "Adjusting and Other" to categorize loss adjustment expenses.

Based on the NMDOI contract actuary's observations, it is recommended the Company make a provision for unallocated loss adjustment expenses and use the proper categories to record these expenses. This recommendation is made in accordance with the requirements of SSAP No. 55 and NMSA 1978, § 59A-5-29 A.

- The Company did not accrue a liability for commissions payable as of December 31, 2007 in the amount of \$22,878 as estimated by the Company. It is recommended the Company record a liability for commissions payable in accordance with the provisions of SSAP No. 71 and NMSA 1978, § 59A-5-29 A.
- As noted by the NMDOI, the RBC calculation was not completed properly in accordance with the NAIC instructions. The RBC calculation contained several incorrect entries. It is recommended the Company complete the RBC calculation in accordance with the requirements established by the NAIC as required by NMSA 1978, § 59A-5-29 A.
- The Company receives deposit premiums that should be reported as remittances and items not allocated. The Company estimated the balance of deposit premiums was \$98,334 as of December 31, 2007. The Company improperly accounted for such deposits by crediting balances receivable instead of the proper liability account; the net effect of this improper accounting on both income and surplus was zero. It is recommended that in the future the Company establish a liability for deposit premiums in accordance with the provisions of SSAP No. 67 and NMSA 1978, § 59A-5-29 A.
- The Company's agents' balances included \$47,541 of accounts that were over 90 days past due at December 31, 2007. It was also noted these balances were still outstanding at June 30, 2008. In accordance with the provisions of SSAP No. 6, agents' balances