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OFFICE OF  
SUPERINTENDENT OF INSURANCE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

For the Fiscal Year Ended  
June 30, 2014

**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENDENT OF INSURANCE  
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June 30, 2014**

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**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
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**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENDENT OF INSURANCE  
OFFICIAL ROSTER  
June 30, 2014**

**ADMINISTRATIVE OFFICIALS**

John G. Franchini	Superintendent of Insurance
Alan Seeley, FCAS, MAAA	Acting Deputy Superintendent
David P. Barton	General Counsel
Jolene M. Gonzales	Chief Administrative Officer
Bryan M. Maestas, CGFM	Chief Financial Officer



Timothy Keller  
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE  
Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**  
*Elected for Better Government*

**INDEPENDENT AUDITOR'S REPORT**

John G. Franchini, Superintendent of Insurance  
Office of Superintendent of Insurance  
Santa Fe, New Mexico

**Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the Office of Superintendent of Insurance (OSI) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the OSI's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the OSI's nonmajor governmental funds, fiduciary funds and the budgetary comparisons for all nonmajor funds presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2014, as listed in the table of contents.

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

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

**2540 Camino Edward Ortiz, Suite A, Santa Fe, New Mexico 87507**  
**Local (505) 476-3800 \* Fax (505) 827-3512**  
**<http://www.saonm.org> \* 1-866-OSA-FRAUD**

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the OSI, as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental and fiduciary funds of the OSI as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparisons for all nonmajor funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As discussed in Note 14 to the financial statements, in 2014 the Office of Superintendent of Insurance adopted new accounting guidance, *GASB Statement No. 69, Government Combinations and Disposals of Government Operations*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

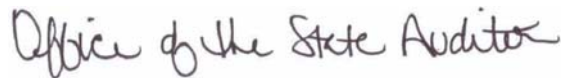
Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the OSI's financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The fiduciary combining schedules and changes in assets and liabilities – agency funds listed as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the fiduciary combining schedules and changes in assets and liabilities – agency funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2014 on our consideration of the OSI'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* in considering the OSI's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Office of the State Auditor".

Office of the State Auditor  
Santa Fe, New Mexico  
December 11, 2014

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

	<u>Governmental</u> <u>Activities</u>
<b>ASSETS</b>	
Current Assets:	
State General Fund Investment Pool	\$ 16,466,005
Investments	45,980,147
Federal Grants Receivable	187,708
Due from Agency Fund	274,412
Due from Other State Agencies	395
Prepaid Expenses	76,711
Total Current Assets	62,985,378
Capital Assets:	
Capital Assets, Net of Depreciation	442,498
Total Capital Assets	442,498
Total Assets	63,427,876
 <b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable and Accrued Expenses	755,152
Payroll Benefits & Taxes Payable	70,868
Accrued Wage Payable	56,526
Compensated Absences Payable	256,668
Due to State General Fund	4,580,894
Other Liabilities	200
Due to Other State Agencies	128
Total Current Liabilities	5,720,436
Non-current Liabilities:	
Patient's Compensation Fund Claims Liabilities	56,371,462
Total Non-current Liabilities	56,371,462
Total Liabilities	62,091,898
 <b>NET POSITION</b>	
Net Investment in Capital Assets	442,498
Restricted for Special Purposes	6,569,814
Unrestricted	(5,676,334)
Total Net Position	\$ 1,335,978

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



**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENDENT OF INSURANCE  
STATEMENT OF ACTIVITIES  
For the Year Ending June 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital Grants</u>	<u>Governmental</u>
		<u>Services</u>	<u>Grants and</u>	<u>and</u>	<u>Activities</u>
			<u>Contributions</u>	<u>Contributions</u>	
Governmental Activities:					
Insurance Regulation	\$ 27,227,559	\$ 23,107,125	\$ 462,708	\$ -	\$ (3,657,726)
Total governmental activities	27,227,559	23,107,125	462,708	-	(3,657,726)
<b>General Revenues:</b>					
Reversions to the State General Fund					(4,580,894)
Special Appropriation-Information Technology					1,340,000
Insurance Tax					1,499,143
Investment Income					5,350,004
<b>Special Item-Transfer of Operations</b>					1,385,451
Total General Revenues and Special Items					4,993,704
Change in Net Position					1,335,978
Net Position - beginning					-
Net Position - ending					\$ 1,335,978

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

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2014**

	<u>General</u> <u>Operating Fund</u> <u>- 11690</u>	<u>Patient's</u> <u>Compensation</u> <u>Fund -11850</u>	<u>Insurance</u> <u>Operations</u> <u>Fund-11810</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>ASSETS</b>					
State General Fund Investment Pool	\$ 2,543,753	\$ 4,986,499	\$ 6,919,069	\$ 2,016,684	\$ 16,466,005
Investments	-	45,980,147	-	-	45,980,147
Federal Grants Receivable	187,708	-	-	-	187,708
Due from Other Funds	-	-	274,412	-	274,412
Due from Other State Agencies	-	395	-	-	395
Inventories	-	-	-	-	-
Prepaid Expenses	76,711	-	-	-	76,711
Total Assets	<u>\$ 2,808,172</u>	<u>\$ 50,967,041</u>	<u>\$ 7,193,481</u>	<u>\$ 2,016,684</u>	<u>\$ 62,985,378</u>
 <b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Voucher Payable	\$ 664,572	\$ 90,580	\$ -	\$ -	\$ 755,152
Payroll Benefits & Taxes Payable	70,118	750	-	-	70,868
Accrued Wages Payable	55,900	626	-	-	56,526
Due to Other Funds	-	-	-	-	-
Due to State General Fund	-	-	4,580,894	-	4,580,894
Other Liabilities	200	-	-	-	200
Due to Other State Agencies	128	-	-	-	128
Total Liabilities	<u>790,918</u>	<u>91,956</u>	<u>4,580,894</u>	<u>-</u>	<u>5,463,768</u>
 Fund Balances:					
Nonspendable:					
Prepaid Expenses	76,711	-	-	-	76,711
Restricted:					
Special Purposes	1,940,543	50,875,085	2,612,587	2,016,684	57,444,899
Total Fund Balances	<u>2,017,254</u>	<u>50,875,085</u>	<u>2,612,587</u>	<u>2,016,684</u>	<u>57,521,610</u>
Total Liabilities and Fund Balances	<u>\$ 2,808,172</u>	<u>\$ 50,967,041</u>	<u>\$ 7,193,481</u>	<u>\$ 2,016,684</u>	<u>\$ 62,985,378</u>

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

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**June 30, 2014**

Total fund balance, governmental funds	\$	57,521,610
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Governmental Capital Assets		867,531
Accumulated Depreciation		<u>(425,033)</u>
		442,498
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:</p>		
Patient's Compensation Fund Claims Liability		(56,371,462)
Compensated Absences		(256,668)
Net Position of Governmental Activities in the Statement of Net Position		<u><u>\$ 1,335,978</u></u>

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

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ending June 30, 2014**

	<u>General</u> <u>Operating Fund -</u> <u>11690</u>	<u>Patient's</u> <u>Compensation</u> <u>Fund -11850</u>	<u>Insurance</u> <u>Operations Fund-</u> <u>11810</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>REVENUES</b>					
Insurance Tax	\$ -	\$ -	\$ -	\$ 1,403,900	\$ 1,403,900
Investment Earnings	-	5,350,004	-	-	5,350,004
Special Appropriation	1,340,000	-	-	-	1,340,000
Intergovernmental	275,000	-	-	-	275,000
Miscellaneous	-	200,000	-	-	200,000
Federal Revenue	187,708	-	-	-	187,708
Other Fees	-	12,433,744	9,791,181	777,443	23,002,368
Total Revenues	<u>1,802,708</u>	<u>17,983,748</u>	<u>9,791,181</u>	<u>2,181,343</u>	<u>31,758,980</u>
<b>EXPENDITURES</b>					
Current:					
Personnel Services & Employee Benefits	5,288,980	57,597	-	-	5,346,577
Contractual Services	909,934	201,799	-	-	1,111,733
Other	953,407	16,869,184	-	-	17,822,591
Capital Outlay	391,133	-	-	-	391,133
Total Expenditures	<u>7,543,454</u>	<u>17,128,580</u>	<u>-</u>	<u>-</u>	<u>24,672,034</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,740,746)</u>	<u>855,168</u>	<u>9,791,181</u>	<u>2,181,343</u>	<u>7,086,946</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating Transfers In	7,758,000	-	-	-	7,758,000
Reversions to State General Fund	-	-	(4,580,894)	-	(4,580,894)
Operating Transfers Out	-	(565,100)	(5,139,500)	(2,053,400)	(7,758,000)
Total Other Financing Sources and Uses	<u>7,758,000</u>	<u>(565,100)</u>	<u>(9,720,394)</u>	<u>(2,053,400)</u>	<u>(4,580,894)</u>
<b>SPECIAL ITEM</b>					
Transfer of Operations	-	50,585,017	2,541,800	1,888,741	55,015,558
Net Change in Fund Balances	<u>2,017,254</u>	<u>50,875,085</u>	<u>2,612,587</u>	<u>2,016,684</u>	<u>57,521,610</u>
Fund Balances - beginning	-	-	-	-	-
Fund Balances - ending	<u>\$ 2,017,254</u>	<u>\$ 50,875,085</u>	<u>\$ 2,612,587</u>	<u>\$ 2,016,684</u>	<u>\$ 57,521,610</u>

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

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ending June 30, 2014**

Net change in fund balances - total governmental funds:		\$ 57,521,610
Special Item Transfer of Operations		<u>(55,015,558)</u>
Net change in fund balance, less special item - total governmental funds		2,506,052
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Capital Outlay	391,133	
Depreciation Expense	<u>(33,828)</u>	
Change in capital assets		357,305
Change in Patients' Compensation Fund Liabilities		(2,867,142)
Change in Compensated Absences		(45,688)
Change in Net Position of Governmental Activities Prior to Special Item-Transfer of Operations		<u>\$ (49,473)</u>
Government-wide Special Items:		
Capital Assets	85,193	
Compensated Absences	(210,980)	
Patient's Compensation Fund Liabilities	(53,504,320)	
Transfer of Fund Balance from Fund Financial Statements	<u>55,015,558</u>	
		<u>1,385,451</u>
Change in Net Position		<u>\$ 1,335,978</u>

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

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**GENERAL OPERATING FUND - 11690**  
**For the Year Ending June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Insurance Tax	\$ -	\$ -	\$ -	\$ -
Investment Earnings	-	-	-	-
Special Appropriation	-	1,340,000	1,340,000	-
Intergovernmental	-	87,500	275,000	187,500
Miscellaneous	-	-	-	-
Federal Revenue	-	2,515,000	187,708	(2,327,292)
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>3,942,500</u>	<u>1,802,708</u>	<u>(2,139,792)</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	6,744,600	7,026,200	5,288,980	1,737,220
Contractual Services	395,900	2,066,800	909,934	1,156,866
Other	617,500	2,607,500	1,344,540	1,262,960
Total Expenditures	<u>7,758,000</u>	<u>11,700,500</u>	<u>7,543,454</u>	<u>4,157,046</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(7,758,000)</u>	<u>(7,758,000)</u>	<u>(5,740,746)</u>	<u>2,017,254</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	7,758,000	7,758,000	7,758,000	-
Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>7,758,000</u>	<u>7,758,000</u>	<u>7,758,000</u>	<u>-</u>
<b>SPECIAL ITEM</b>				
Transfer of Operations	-	-	-	-
Net Change in Fund Balances	-	-	2,017,254	(2,017,254)
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,017,254</u>	<u>\$ (2,017,254)</u>

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

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**PATIENT'S COMPENSATION FUND - 11850**  
**For the Year Ending June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Insurance Tax	\$ -	\$ -	\$ -	\$ -
Investment Earnings	-	-	5,350,004	5,350,004
Special Appropriation	-	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	200,000	200,000
Federal Revenue	-	-	-	-
Other Fees	-	-	12,433,744	12,433,744
Total Revenues	<u>-</u>	<u>-</u>	<u>17,983,748</u>	<u>17,983,748</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	57,600	57,600	57,597	3
Contractual Services	489,300	489,300	201,799	287,501
Other	15,012,700	17,012,700	16,869,184	143,516
Total Expenditures	<u>15,559,600</u>	<u>17,559,600</u>	<u>17,128,580</u>	<u>431,020</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(15,559,600)</u>	<u>(17,559,600)</u>	<u>855,168</u>	<u>18,414,768</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	-	-
Cash Balance Re-Budgeted	16,124,700	18,124,700	-	18,124,700
Transfers Out	(565,100)	(565,100)	(565,100)	-
Total Other Financing Sources and Uses	<u>15,559,600</u>	<u>17,559,600</u>	<u>(565,100)</u>	<u>18,124,700</u>
<b>SPECIAL ITEM</b>				
Transfer of Operations	-	-	50,585,017	(50,585,017)
Net Change in Fund Balances	-	-	50,875,085	(50,875,085)
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,875,085</u>	<u>\$ (50,875,085)</u>

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

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**INSURANCE OPERATIONS FUND - 11810**  
**For the Year Ending June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Insurance Tax	\$ -	\$ -	\$ -	\$ -
Investment Earnings	-	-	-	-
Special Appropriation	-	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	-
Federal Revenue	-	-	-	-
Other Fees	5,139,500	5,139,500	9,791,181	4,651,681
Total Revenues	<u>5,139,500</u>	<u>5,139,500</u>	<u>9,791,181</u>	<u>4,651,681</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>5,139,500</u>	<u>5,139,500</u>	<u>9,791,181</u>	<u>4,651,681</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	-	-
Reversions to State General Fund	-	-	(4,580,894)	4,580,894
Transfers Out	(5,139,500)	(5,139,500)	(5,139,500)	-
Total Other Financing Sources and Uses	<u>(5,139,500)</u>	<u>(5,139,500)</u>	<u>(9,720,394)</u>	<u>4,580,894</u>
<b>SPECIAL ITEM</b>				
Transfer of Operations	-	-	2,541,800	(2,541,800)
Net Change in Fund Balances	-	-	2,612,587	(2,612,587)
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,612,587</u>	<u>\$ (2,612,587)</u>

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



**STATE OF NEW MEXICO**  
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**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUNDS**  
**June 30, 2014**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Investments, State Treasurer Investment Pool	\$ 1,780,334
Cash in Banks - Ancillary Receivership	727,110
Security Deposits	<u>471,554,000</u>
Total Assets	<u><u>\$ 474,061,444</u></u>
 <b>LIABILITIES</b>	
Due to State General Fund	\$ 725,498
Due to Other Funds	274,412
Due to Local Government	79,265
Due to Other State Agencies	701,159
Deposits Held in Trust	<u>472,281,110</u>
Total Liabilities	<u><u>\$ 474,061,444</u></u>

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

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1: HISTORY AND FUNCTION**

The Office of Superintendent of Insurance (OSI) was created on July 1, 2013, pursuant to the passage of Constitutional Amendment 4 during the 2012 General Election and the subsequent enactment of House Bill 45 (Laws of 2013, Chapter 74) from the 1<sup>st</sup> Session of the 51<sup>st</sup> Legislature. These actions removed the insurance regulatory function from the Public Regulation Commission (where it was housed as the “Insurance Division”) and placed it in a newly-created adjunct state agency entitled the “Office of Superintendent of Insurance.” The enabling legislation also created an Insurance Nominating Committee to appoint the Superintendent of Insurance. The OSI has been operating as a stand-alone agency for just over one year.

The mission of the OSI is to provide consumers with convenient access to reliable insurance products which are underwritten by dependable and financially sound companies. The OSI strives to ensure that these companies have a proven history of fair and reasonable rates and are represented by trustworthy and qualified agents. The OSI is committed to consumer protection and to the deterrence and prosecution of insurance fraud.

The vision of OSI is to become one of the country's leading regulatory agencies with respect to overseeing the insurance industry in New Mexico and ensuring that New Mexico insurance consumers are treated fairly and honestly. In addition, OSI strives to be a leader with respect to the roll out of the Patient Protection and Affordable Care Act (PPACA), commonly called the Affordable Care Act (ACA) or "Obamacare" and ensuring New Mexicans have access to quality and affordable health insurance that maintains a level of minimum standards.

**Administration**

Administration includes the Superintendent of Insurance, Deputy Superintendent of Insurance, General Counsel, OSI Legal Staff, the Chief Administrative and Chief Financial Officers, Budget and Finance, Human Resources, Public Information, Information Technology and Records which provide all administrative support to OSI and its day-to-day operational functions.

**Company Licensing**

The Company Licensing Bureau licenses insurance companies and other risk-bearing insurance entities. Pursuant to this, the bureau receives, reviews and renders determinations on applications from insurance companies that want to enter the New Mexico insurance market. The bureau oversees almost \$500 million in insurance company deposits held with Century Bank and the State Treasurer’s Office for the protection of New Mexico policyholders. The bureau also reviews and processes documentation submitted by insurance companies for acquisitions, re-domestications, mergers and name changes. The bureau is responsible for the collection of premium taxes and policy filings from surplus lines brokers.

**Producer (Agent) Licensing**

The Producer (Agent) Licensing Bureau licenses approximately 100,000 insurance professionals, as well as, non-risk-bearing insurance entities. This includes insurance agents, agencies, brokers, adjusters, third party administrators, consultants, bail bondsmen, solicitors and motor clubs, as well as limited license insurance vendors such as cell phone sales agents and travel agents. To protect consumers, the bureau determines the qualifications and eligibility of applicants; approves pre-licensing and continuing education courses; tracks continuing education credits; and processes license applications, renewals and the appointment of agents by insurance companies.

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**NOTE 1: HISTORY AND FUNCTION CONT.**

**Examinations**

The Examinations Bureau reviews insurance company financial statements filed with the OSI. The bureau also conducts periodic financial examinations, as well as ad hoc specialized market conduct and target financial examinations of insurance companies and agents. The Chief Examiner coordinates an internal solvency review team, consisting of financial analysts and actuaries, to review annual and quarterly financial statements filed by insurance companies domiciled in New Mexico and elsewhere and to plan examination activity.

**Life & Health Product Filings**

The Life & Health Product Filing Bureau reviews and renders determinations on the rates and coverage provisions filed by insurance companies for products pertaining to health, life, annuities, long-term care, Medicare supplement and credit life and disability filings. The bureau approves or disapproves such filings where required, based on their compliance with insurance statutes, regulations and bulletins and with OSI policies and procedures. As a member of the Interstate Insurance Compact, New Mexico participates in multi-state reviews of many life and annuity product filings.

**Property/Casualty Product Filings**

The Property/Casualty Product Filing Bureau reviews and renders determinations on the rates and coverage provisions filed by insurance companies for products pertaining to automobile, homeowners, workers' compensation, medical malpractice and other assorted products. The bureau approves or disapproves such filings where required, based on their compliance with insurance statutes, regulations and bulletins and with OSI policies and procedures.

**Workers' Compensation**

The Workers' Compensation Bureau monitors the New Mexico Workers' Compensation Assigned Risk Pool, handles complaints by employers regarding their workers' compensation class code assignments and premiums, oversees the Safety Bonus Program and represents the OSI in other matters relating to Workers' Compensation.

**Consumer Assistance**

The Consumer Assistance Bureau receives, processes and resolves complaints and inquiries from consumers about insurance rates and claim-handling for all insurance products other than those involving managed health care. The bureau alerts the Investigations Bureau of situations where a complaint reveals a potential violation of insurance statutes and regulations by an insurance company or other insurance licensee.

**Managed Health Care**

The Managed Health Care Bureau administers and enforces New Mexico's Patient Protection Act and related regulations. The bureau handles complaints and inquiries from managed health care consumers and conducts outreach presentations throughout the state to inform consumers and health care providers of their rights under the Patient Protection Act. The bureau reviews external grievance appeals, proposes rule amendments and also takes appropriate enforcement actions where merited.

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**June 30, 2014**

**NOTE 1: HISTORY AND FUNCTION CONT.**

**Investigations**

The Investigations Bureau investigates concerns arising from consumer complaints and other sources to determine whether a licensed insurance company or agent has violated insurance statutes or regulations and takes appropriate enforcement actions where merited.

**Insurance Fraud**

The Insurance Fraud Bureau investigates and prosecutes, through state district courts, insurance fraud committed by insurance policyholders and applicants, medical providers, third party claimants and other perpetrators of white-collar insurance fraud crimes. The bureau collaborates with state, local and federal law enforcement and regulatory agencies in these efforts.

**Title Insurance**

The Title Insurance Bureau regulates the title insurance industry through rate-making and rule-making hearings held every odd numbered year. The bureau collects and analyzes the annual agent and underwriter statistical reports, and the agent audit procedures. The bureau annually assesses the insurers based on annual budgeting and maintenance. Periodically the bureau performs on-site title plant inspections, affiliations, appointments, bank reconciliations, no-pay no-service documentation, and premium calculations. The bureau performs the investigation of marketing compliance within the regulations. The bureau regulates more than 75 licensed title insurance agents and underwriters in New Mexico. The bureau investigates complaints, allegations of defalcations, marketing non-compliance, and other infractions by title agents and insurers. The bureau coordinates with the Investigation and Fraud Bureaus for appropriate enforcement actions.

**Financial Audit**

The Financial Audit Bureau Section is responsible for processing and auditing premium tax filings for approximately 2,000 insurance companies that write policies in New Mexico. All insurers authorized to transact business in New Mexico and all property bondsmen, self-insurers, title companies and risk retention groups are subject to pay premium tax on a quarterly basis. Policy filing fees for life and health insurance companies are processed in this office. The due dates for life and health filing fees are governed by policy changes and new submissions. The fees are determined by the type of policy or submission. Policy filing fees for property and casualty insurance companies are also processed in this office. Property and casualty filing fees are due annually and are determined by premiums written in applicable lines of business. Financial Audit is responsible for receipting Examination's annual statement filing fees and the Fraud Bureau's annual fraud assessment.

**ACA (Affordable Care Act) Implementation**

The OSI has received two grants under the Affordable Care Act to help OSI enhance its health insurance rate review process and to assist consumers with understanding their health care options. These grants have allowed OSI to hire additional staff and actuarial consultants and to develop [www.nmhealthratereview.com](http://www.nmhealthratereview.com), a website that provides consumers with information and feedback opportunities on health rate filings. OSI has received two other federal grants for the Consumer Assistance Program to inform New Mexicans about their health insurance needs, right and responsibilities and providing consumer assistance or ombudsman programs. In addition, OSI has entered into a Memorandum of Understanding (MOU) with the New Mexico Health Insurance Exchange (NMHIX), to implement the section of the NMHIX statute that requires OSI to provide any needed regulations to govern or assist the NMHIX in providing increased access to health insurance in New Mexico. In carrying out these duties the

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**NOTE 1: HISTORY AND FUNCTION CONT.**

Bureau works closely with OSI leadership and all bureaus involved in health insurance; additionally it is tasked with developing numerous new initiatives within OSI related to health insurance reform.

**Patient's Compensation Fund**

While its primary function is the regulation of insurance, the OSI also administers the Patient's Compensation Fund (PCF), which is a medical malpractice insurance risk-assuming function mandated by the Medical Malpractice Act.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements for the Office of Superintendent of Insurance (OSI) have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards that along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. More significant of these accounting policies are described below.

The OSI complies with GASB statement #54. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and Executive branches of the State. Assigned fund balance is constrained by the Legislature's and Executive Branch's intent to be used for specific purposes or in some cases by legislation.

The above statement did not have a significant impact on the financial statements of the OSI.

**A. FINANCIAL REPORTING ENTITY**

The chief executive of the OSI is the Superintendent of Insurance, who is appointed by the Insurance Nominating Committee. These financial statements include all funds, account groups and activities over which the Superintendent has oversight responsibility.

The OSI is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. The Superintendent has decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

In accordance with the criteria set forth in GASB statements #39 and #61 for determining component units, the OSI does not have component units.

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.**

**B. BASIC FINANCIAL STATEMENTS**

The basic financial statements include both government-wide (based on the OSI as a whole) and fund financial statements. The reporting model focus is on either the OSI as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type activities. The OSI is a single purpose government entity and has no business-type activities. In the government-wide Statement of Net Position, the governmental activities column are presented on a consolidated basis by column using the economic resources measurement focus and the accrual basis of accounting and incorporates long-term assets and receivables as well as long-term debt and obligations. Additionally internal activity has been eliminated at this level of presentation.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (education, labor, transportation, etc.), which are otherwise being supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation expense on capital assets) by related program revenues, operating and capital grants. The program revenues consist of 1) charges for services to customers who directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

The net cost is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc). Historically, the previous model did not summarize or present net cost by function or activity. The OSI does not currently employ indirect cost allocation systems.

This government-wide focus is more on the sustainability of the OSI as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are similar to the financial statements presented in the previous accounting model. Emphasis here is on the major funds of the governmental categories. Non-major funds (by category) or fund type are summarized into a single column. The OSI's major funds are the General Fund, Patient's Compensation Fund, and the Insurance Operations Fund.

The governmental fund statements are presented on the current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed appropriate to (a) demonstrate legal compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the OSI's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column on the governmental-wide presentation.

The OSI's fiduciary fund (agency fund) is presented in the fund financial statements in total. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.**

**C. BASIS OF PRESENTATION**

The financial transactions of the OSI are recorded in individual funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, expenditures or expenses, and other financing sources or uses. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the accompanying financial statements.

The OSI uses the following fund types:

**Governmental Fund Types**

All governmental fund types are accounted for on a spending or financial flow measurement focus. Only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance (net current assets) is considered a measure of available spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. The following is a description of the Governmental Funds of the OSI.

The **General Fund** is the general operating fund of the OSI and considered a major fund. It is used to account for all financial resources except those required to be accounted for in another fund. This is a reverting fund, with the exception of amounts received from federal grants and other proceeds legally restricted. The General Fund is SHARE System fund 11690.

**Special Revenue Funds:** The Special Revenue Funds is used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Special Revenue non-major funds are SHARE System fund 11830, 11840, 11860, and 11880. These funds are non-reverting.

**Patients' Compensation Fund:** A major special revenue fund to account for funds accumulated for payments of claims for bodily injury or death due to malpractice by a health care provider insured under the Medical Malpractice Act. This fund was created by Section 41-5-1 through 42-528, NMSA 1978 "Medical Malpractice Act". The purpose of the act is to promote the health and welfare of the people of New Mexico by making available professional liability insurance for health care providers in New Mexico. The Patients' Compensation is SHARE System fund 11850. This fund is non-reverting.

**Insurance Operations Fund:** A major special revenue fund to account for the collection of fees, licenses, penalties, and taxes. This fund was created by Section 59A-6-5, NMSA 1978. The "insurance operations fund" is created in the state treasury. The fund shall consist of the distributions made to it. The legislature shall annually appropriate from the fund to the division those amounts necessary for the division to carry out its responsibilities pursuant to the Insurance Code and other laws. Any balance in the fund at the end of a fiscal year greater than one-half of that fiscal year's appropriation shall revert to the general fund. The Insurance Operations Fund is SHARE System fund 11810.

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.**

**Fiduciary Fund Types**

Fiduciary funds are used to report assets held in trustee or agency capacity for others and therefore are not available to support the OSI programs. The reporting focus is upon net positions and changes in net positions and employs accounting principles similar to proprietary funds.

Agency funds are used to account for assets held by the OSI in the capacity of trustee or agent. The agency funds are SHARE System fund 11820 (Insurance Suspense Fund) and SHARE System fund 11870 (Trust Account) and are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**D. BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues or expenditure/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applies.

The Government-wide Financial Statements and the Fiduciary Fund Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

**Accrual**

Under the accrual method of accounting revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual**

All governmental funds utilize the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and other governmental fund resource increments are recognized in the accounting period in which they become susceptible to accrual – that is, when they become both measurable and available to finance expenditures of the current fiscal period; “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The OSI considers funds available if received within “60 days” after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred and all other eligibility requirements are met. Contributions and other monies held by other state and local agencies are recorded as a receivable at the time the money is made available to the specific fund. Revenues collected for future periods are deferred until available. All other revenues are recognized when they are received and are not susceptible to accrual.

Program revenues consist of federal grants. Other fees consist primarily of fees charged to regulated entities.

Expenditures are recorded as liabilities when incurred. An exception to this general rule is that accumulated unpaid annual, compensatory and certain sick leave are accrued as current liabilities and non-current liabilities. Expenditures charged to federal programs are recorded utilizing the cost principle described by the various funding sources.



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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.**

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement #33, *Accounting and Financial Reporting for Nonexchange Transactions* the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, under most circumstances, should be reported as advances by the provider and deferred revenue by the recipient.

The New Mexico State Legislature makes annual appropriations to the OSI, which lapse at fiscal year end. Legal compliance is monitored through the establishment of a budget (modified accrual basis) and a financial control system, which permits a budget to actual expenditure comparison. Expenditures may not legally exceed appropriations for each budget at the program appropriation unit level. Budgeted appropriation unit amounts may be amended upon approval from the Budget Division of the State of New Mexico Department of Finance and Administration within the limitation as specified in the General Appropriation Act. The budget amounts shown in the financial statements are the final authorized amounts as legally revised during the year.

The budget is adopted on a modified accrual basis of accounting except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline (Section 6-10-4 NMSA 1978) that must be paid out of next year’s budget. A reconciliation of budgetary basis of GAAP basis will be necessary if any accounts payable at the end of the fiscal year are not paid by the statutory deadline. The OSI has not included such reconciliation for fiscal year 2014 as all payables were paid by the statutory deadline.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year’s beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

The budgetary basis differs from the basis of accounting required by Generally Accepted Accounting Principles (GAAP). Significant differences between the budgetary basis and GAAP include the following:

1. The budget does not consider reversions to the State General Fund.
2. The budget includes encumbrances (obligations for unperformed contracts for goods or services). GAAP does not include encumbrances, for multi-year appropriations only.
3. The budget statements are presented on modified accrual basis.

The OSI follows these procedures in establishing the budgetary data reflected in the financial statements:

1. No later than September 1, the OSI submits to the Legislative Finance Committee (LFC), and the Budget Division of the Department of Finance and Administration (DFA), an appropriation request for the fiscal year commencing the following July 1. The appropriation request includes proposed expenditures and the means of financing them.
2. Budget hearings are scheduled before the New Mexico House Appropriations and Senate Finance Committees. The final outcome of those hearings is incorporated into the State’s General Appropriation Act.

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.**

3. The Act is signed into Law by the Governor of the State of New Mexico within the legally prescribed time limit, at which time the approved budget becomes a legally binding document.
4. Not later than May 1, the OSI submits to DFA an annual operating budget by appropriation unit and account code based upon the appropriation made by the Legislature. The Budget Division of DFA reviews and approves the operating budget, which becomes effective on July 1. All subsequent budget adjustments must be approved by the Director of the DFA-State Budget Division and LFC.
5. Formal budgetary integration is employed as a management control device during the fiscal year for the General and Special Revenue Funds. Agency funds are not budgeted as they have no expenditure activity.

**F. ENCUMBRANCES**

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. All current year encumbrances lapsed at year-end. In cases where the appropriations do not lapse at year-end, the encumbrances outstanding are re-encumbered for the same amount outstanding at year-end and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The OSI does have an appropriation, which is multiple year and does not lapse at year-end.

**G. ASSETS, LIABILITIES AND FUND BALANCE**

**1. Cash and Cash Equivalents**

The OSI's interest in the pooled cash on deposit with the State Treasurer's Office (STO) and Ancillary Receivership Accounts on deposit with area banks is considered cash and cash equivalents. The Ancillary Receivership Accounts represent funds held in trust for the payment of claims for insurance companies, which are in receivership.

**2. Investments**

Security Investments Held in Trust. Investments recorded in the Trust Funds are security deposits of insurance companies, which are required by statute. The securities are recorded at fair market value.

Investments in the Patient's Compensation Fund are held with the State Investment Council. The Investment Council operates in accordance with appropriate State law and regulations.

**3. Receivables**

Interest on investments is recorded as revenue in the year the interest is earned.

**4. Federal Grants Receivable**

Various reimbursement procedures are used for federal awards received by the OSI. Consequently, timing differences between expenditures and program reimbursements can exist at any time during the fiscal year. Receivable balances at fiscal year-end represent amounts expended during the fiscal year that are related to a federal grant, however the reimbursement for the expenditure was not received prior to the end of the fiscal year.

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.**

**5. Inter-fund Receivables and Payables**

Short-term amounts owed between funds are classified as “Due to/from Other Funds”.

**6. Prepaid Items**

These amounts represent prepayment of postage, which has benefit to the OSI beyond the fiscal year, ending June 30, 2014. Prepaid items are expensed when consumed under the consumption method. Therefore, these items are allocated to the fiscal year in which they are used. A portion reported in nonspendable fund balance represents prepaid expenses related to postage.

**7. Capital Assets**

Property, plant and equipment purchased or acquired at a value of \$5,000 or greater are capitalized per Section 12-6-10 NMSA 1978. Assets are carried at historical cost or estimated historical cost. Contributed assets are recorded at the fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives with no salvage value. The OSI utilized American Appraisal to determine the useful lives based on generally accepted useful lives for the different classes and types of assets.

Machinery and Equipment

Other Personal Property – 12 years

Computer Equipment (including software) – 3 to 10 years

Furniture, Fixtures, and Accessories – 6 to 20 years

Automotive – 8 years

The OSI utilizes a building that is owned by the Facilities Management Division of the State of New Mexico General Services Department. These assets and the related depreciation expense are not included in the accompanying financial statements. GASB Statement #34 requires the recording and depreciation of infrastructure assets. Infrastructure assets include roads, bridges, traffic signals, etc. The OSI does not own any infrastructure assets.

**8. Compensated Absences**

Qualified employees are entitled to accumulate annual leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon length of service and employee’s hire date. A maximum of thirty working days (240 hours) of accumulated annual leave may be carried forward into the beginning of the calendar year and any excess leave is lost.

When employees terminate, they are compensated for accumulated annual leave as of the date of termination, up to a maximum of 240 hours.

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.**

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave that an employee may accumulate. Once per fiscal year in either January or July, employees may elect to be paid for 50% of accrued sick leave in excess of 600 up to 720 hours, but not to exceed 120 hours (net 60 hours can be paid). At retirement, employees can receive 50% payment up to 400 hours for the hours over 600 hours of accumulated sick leave. Therefore, only sick leave which has been accrued represents the hours earned at June 30, 2014, over 600 hours. Expenditures for accumulated sick pay for hours under 600 hours will be recognized as employees take such absences.

Compensatory time may be granted to individuals when overtime is needed.

The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

**9. Reservations of Fund Balance**

The OSI complies with GASB statement #54—Fund Balance Reporting and Governmental Fund Type Definitions. The pronouncement provides modifications to, and additional types of, fund balance classifications. This statement will enhance the usefulness of fund balance information to provide more consistency among the classifications and will establish reporting standards for all governments that report governmental funds. The definition of each classification is summarized below:

*Non-Spendable Fund Balance*

The nonspendable fund balance classification is the portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

*Restricted Fund Balance*

The restricted fund balance classification is the portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants) grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed Fund Balance*

The committed fund balance classification is the portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

*Assigned Fund Balance*

The assigned fund balance classification is the portion of fund balance that are constrained by the government's *intent* to be used for specific purposes, but that are neither restricted nor committed.

*Unassigned Fund Balance*

The unassigned fund balance classification is the portion of fund balance that is residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT.**

**H. NET POSITION**

The government-wide Financial Statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted and unrestricted.

**Net Investment in Capital Assets** – is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt.

**Restricted Net Position** – are liquid assets (generated from revenues and not bond proceeds), which have third-party constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation limiting their use.

The OSI complies with GASB statement #46 "Net Assets Restricted by Enabling Legislation". The amount of net position restricted by enabling legislation is \$6,569,814.

**Unrestricted Net Position (Deficit)** – represent all other unrestricted liquid assets that do not meet the definition of “restricted net position” or “net invested in capital assets”. Unrestricted deficit results mainly from the recording of the compensation absences liability and litigation liability for which future appropriations will pay the liability.

It is the practice of the OSI to use available unrestricted resources first unless otherwise specifically directed to use restricted resources.

**I. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3: CASH AND INVESTMENTS**

State law (Section 8-6-3 NMSA 1978) requires the OSI’s cash be managed by the New Mexico State Treasurer’s Office (STO). At June 30, 2014 the OSI had the following invested in the State General Fund Investment Pool:

State General Fund Investment Pool (SGFIP):	\$18,246,339
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**NOTE 3: CASH AND INVESTMENTS CONT.**

The OSI believes the cash invested in the State General Fund Investment Pool is represented fairly and with no material misstatements due to the reconciliation done by the OSI. The OSI has established internal processes applying the State of New Mexico Manual of Model Accounting Practices (MAP). These processes are designated to implement necessary and mandatory controls to avert accounting errors and violations of state and federal laws and rules related to financial matters. In addition, the OSI ensures that any disbursement of funds does not exceed the unencumbered funds at its disposal. Incorporating the State's financial software system (SHARE) and monthly internal reporting and reconciliation throughout the fiscal year, OSI maintains optimum fiscal safeguards. This ensures that the cash balances in SHARE are correct to the extent that OSI has control (i.e. collection, depositing, reconciling, and documentation of outstanding items) of the cash, its receipts and transfers to the state general fund and other state agencies pursuant to state statute. Any discrepancies are researched immediately. Expenditure support is retained with all transactions. Due to these controls, the OSI believes the value of its share of the SGFIP at June 30, 2014 materially approximates \$18,246,339, including agency funds. Adjustments, if any, that might be required are not known currently.

The following is a summary of the OSI's interest in the State Treasurer General Fund Investment Pool:

Name of Depository	Account Name	SHARE System Fund No.	Type of Deposit	Interest Bearing	Bank/DFA Statement Balance at 06/30/14	Reconciled Book Balance at 06/30/14
<b>General Fund:</b>						
	NM State Treasurer Insurance Operating Fund	11690	State Treasury	No	\$ 2,543,753	\$ 2,543,753
	Total General Fund				<u>2,543,753</u>	<u>2,543,753</u>
<b>Special Revenue Funds:</b>						
	NM State Treasurer Insurance Operations Fund	11810	State Treasury	No	6,919,069	6,919,069
	NM State Treasurer Insurance Licensee Cont Ed	11830	State Treasury	No	1,022,149	1,022,149
	NM State Treasurer Insurance Examination Fund	11840	State Treasury	No	1,387	1,387
	NM State Treasurer Patients' Compensation Fun	11850	State Treasury	Yes	4,986,499	4,986,499
	NM State Treasurer Title Ins Maintenance Asse	11860	State Treasury	No	177,042	177,042
	NM State Treasurer Insurance Fraud Fund	11880	State Treasury	No	816,106	816,106
	Total Special Revenue Funds				<u>13,922,252</u>	<u>13,922,252</u>
<b>Agency Fund:</b>						
	NM State Treasurer Insurance Suspense Fund	11820	State Treasury	No	1,780,334	1,780,334
	Total Agency Fund				<u>1,780,334</u>	<u>1,780,334</u>
<b>Department Total</b>					<u>\$ 18,246,339</u>	<u>\$ 18,246,339</u>

**Interest Rate Risk:** The OSI does not have an investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The New Mexico State Treasurer's Office does have an investment policy that limits investments maturities to five years and less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

**Credit Risk:** The New Mexico State Treasurer's Office pool is not rated.

For additional GASB 40 disclosure regarding cash held by the New Mexico State Treasurer's Office, the reader should refer to separate audited financial statements prepared by the New Mexico Treasurer's Office for the fiscal year ended June 30, 2014 which will disclose the categories of risk involved.

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**NOTE 3: CASH AND INVESTMENTS CONT.**

Cash in Banks – Ancillary Receivership. The following is a listing of the OSI’s Ancillary Receivership cash balances on deposit at a local financial institution. The amounts are reported in the SHARE 11870 Trust fund. These balances are grouped by depository financial institutions as of June 30, 2014.

Century Bank of Santa Fe – Deposit Account	\$727,110
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There were no reconciling items on this bank account.

The OSI has entered into a custodial agreement with the above financial institution and the New Mexico State Treasurer. According to this agreement, the State Treasurer is responsible for approving all changes in the pledged collateral, monitoring the collateral requirements, and ensuring that all collateral meets the requirements of state law. As of June 30, 2014, the State Treasurer reported that the cash account was adequately collateralized in accordance with state statutes. Please refer to the separately issued financial statements of the State Treasurer’s Office for additional information.

Deposits Held in Trust. Section 59A-10-4, NMSA 1978 requires insurance companies to deposit with the OSI, certain securities to be held in trust for the benefit of insurance company policy holders and creditors. If an insurance company is placed in receivership, the Superintendent of Insurance has the authority to seize those securities which are held in trust for payment of claims made by policyholders and creditors.

Security deposits recorded in the Trust funds with the OSI amounting of \$471,554,000 are from insurance companies which are required by statute. The deposits consist of federal government securities and are recorded at fair value. While these assets are held in trust, the type of investment income and other investment decisions are controlled by the insurance companies. The amount reported in the Trust fund with the OSI is in SHARE fund 11870.

Pooled Investments. The OSI has entered into an agreement with the State Investment Council pursuant to Section 6-8-1.G, NMSA 1978 to participate in the investment pool. The Pool is not registered with the SEC and is managed by the State Investment Council. The investments are valued at fair market value based on quoted market prices at the valuation date. The reported value of the pooled shares is the same as the fair value of the pooled shares.

The value of the investments maintained at the State Investment Council External Pooled Investment Funds is as follows at June 30, 2014:

	Market Value
Core Bond Fund	\$ 27,507,089
Non US Developed	3,124,471
Non US Emerging Markets	2,361,430
Large Cap Index	10,100,051
Mid/Small Cap	2,887,106
	\$ 45,980,147

**Concentration of Credit Risk:** The OSI places no limit on the amount the OSI may invest in any one issuer.

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**NOTE 3: CASH AND INVESTMENTS CONT.**

Please see the financial statements of the State Investment Council for a further discussion of the risks of the pooled investments. Their audit report may be obtained by contacting the State Investment Council at 41 Plaza La Preza #A, Santa Fe, New Mexico 87507.

**NOTE 4: DUE FROM AND DUE TO OTHER FUNDS**

Due from and due to other funds represent inter-fund receivables and payables arising from interdepartmental transfers primarily due to statutory requirements for transferring funds collected by one fund and expended by another. These are routine transactions that occur monthly or annually. These amounts are eliminated on the government-wide financial statements. Agency funds are excluded from governmental funds and governmental-wide financial statements. All inter-fund balances are expected to be repaid in the next fiscal year.

**Inter-fund Payables**

<u>Fund Type</u>	<u>SHARE Fund Number</u>	<u>Due to Other Funds</u>	<u>Due to SHARE Fund Number</u>	<u>Amount</u>
Agency Fund	11820	\$ 274,412	11810	\$ 274,412
Totals		<u>\$ 274,412</u>		<u>\$ 274,412</u>

**NOTE 5: CAPITAL ASSETS**

The changes in capital assets for the year are as follows:

	Beginning Balance 07/01/13	Transfer of Operations	Additions	Deletions	Ending Balance 06/30/14
<b>Governmental-type Activities:</b>					
Computer Equipment	\$ -	\$ 86,522	\$ 216,173	\$ -	\$ 302,695
Furniture and Fixtures	-	18,718	-	-	18,718
Automotive	-	371,158	174,960	-	546,118
Total Capital Assets at Historical Cost	-	476,398	391,133	-	867,531
Less: Accumulated Depreciation					
Computer Equipment	-	86,522	13,974	-	100,496
Furniture and Fixtures	-	4,325	936	-	5,261
Automotive	-	300,358	18,918	-	319,276
Total Accumulated Depreciation	-	391,205	33,828	-	425,033
Governmental Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ 85,193</u>	<u>\$ 357,305</u>	<u>\$ -</u>	<u>\$ 442,498</u>

All Capital Assets listed above are being depreciated. The Office of Superintendent of Insurance does not have any Capital Assets that are not being depreciated, such as land.

Depreciation expense for the current year is \$33,828 for the governmental funds.



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**NOTE 5: CAPITAL ASSETS CONT.**

The amounts reported under Transfer of Operations consists of the capital assets transferred from the Public Regulation Commission (PRC) to the Office of Superintendent of Insurance pursuant to the passage of Constitutional Amendment 4 during the 2012 General Election and the subsequent enactment of House Bill 45 (Laws of 2013, Chapter 74) from the 1<sup>st</sup> Session of the 51<sup>st</sup> Legislature. These actions removed the insurance regulatory function from the Public Regulation Commission (where it was housed as the “Insurance Division”) and placed it in a newly-created adjunct state agency entitled the “Office of Superintendent of Insurance.”

**NOTE 6: SPECIAL APPROPRIATIONS**

The following describes the status of special appropriations the OSI received.

<u>Appropriation</u>	<u>Appropriation End Date</u>	<u>Current Year Revenue</u>	<u>Amount Appropriated</u>	<u>Current Year Expenditures</u>	<u>Project to Date Expenditures</u>	<u>Unexpended Portion</u>
Laws of 2012,						
Chapter 19, Section 7	6/30/2016	\$ 590,000	\$ 590,000	\$ 379,813	\$ 379,813	\$ 210,187
Laws of 2013,						
Chapter 227, Section 7	6/30/2015	\$ 750,000	\$ 750,000	\$ -	\$ -	\$ 750,000
Laws of 2014,						
Chapter 63, Section 5	6/30/2015	\$ -	\$ 100,000	\$ -	\$ -	\$ 100,000

- Laws of 2012, Chapter 19, Section 7, item 11. The purpose of the appropriation is to migrate the insurance system and processes towards a paperless, web-based environment. The appropriation is from the assessments authorized by Section 59A-6-1-1, NMSA 1978 for an insurance division licensing and revenue accounting system. The appropriation was budgeted within the general operating fund 11690 (Z20711). Originally the appropriation end date was 6/30/2014. Laws of 2014, Chapter 63, Section 7, Item 10 extended the appropriation to 6/30/2016. The remaining budget balance of \$210,187 will be re-budgeted in fiscal year 2015.
- Laws of 2013, Chapter 227, Section 7, item 13. The purpose of the appropriation is to migrate the insurance system and processes towards a paperless, web-based environment. The appropriation is from the assessments authorized by Section 59A-6-1-1, NMSA 1978 for an insurance division licensing and revenue accounting system. The appropriation was budgeted within the general operating fund 11690 (Z30713).
- Laws of 2014, Chapter 63, Section 5, item 39. The purpose of the appropriation is to perform an audit of premium tax collections. The appropriation was budgeted within the general operating fund 11690 (Z40539).

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**NOTE 7: CHANGES IN LONG-TERM LIABILITIES**

The changes in long-term liabilities for government type activities are as follows:

Compensated Absences:	Balance Beginning (Transfer of Operations)	Increases	Decreases	Balances Ending *
Annual Leave	\$ 190,064	\$ 245,457	\$ (209,268)	\$ 226,253
Compensatory Leave	15,763	95,131	(85,811)	25,083
Sick Leave	5,153	1,103	(924)	5,332
Total Long-Term Liabilities	<u>\$ 210,980</u>	<u>\$ 341,691</u>	<u>\$ (296,003)</u>	<u>\$ 256,668</u>

\*The estimated amount expected to be paid for Compensated Absences within one year is \$256,668, which is reported on the Statement of Net Position.

**NOTE 8: PATIENT'S COMPENSATION FUND CLAIMS**

The New Mexico Patient's Compensation Fund (PCF) serves a vital role in supporting the overall health of the medical professional liability insurance (PSLI) system in New Mexico. The PCF provides excess coverage that stabilizes the operating results of participating insurers and encourages competition which leads to greater availability and affordability of coverage. In New Mexico and other states, a competitive MPLI market tends to attract new physicians leading to greater access to care. The coverage provided by the PCF requires the use of an occurrence coverage form, preferred by healthcare providers, with limits that provide comprehensive coverage to ensure that injured patients receive appropriate compensation for their injuries. As a result, all stakeholders in the New Mexico healthcare system benefit in some way from a healthy PCF.

One way that the Office of Superintendent of Insurance ensures the ongoing health of the PCF is by conducting a mandatory biennial actuarial review. The review examines several aspects of the PCF including analyses of indicated reserves for unpaid losses, appropriate assessment surcharges for upcoming policy periods, the impact of potential legislative changes and an examination of the competitive landscape for MPLI in New Mexico and surrounding areas.

The actuarial analysis was conducted by a third party on the Patient's Compensation Fund during fiscal year 2014. There are significant actuarial assumptions used in estimating potential liabilities, including the rate of return on investment and the number and cost of claims, among others. The differences in any of the assumptions and actual results may significantly change the potential liabilities. It is estimated that the amount of losses still to be paid for all claims occurring prior to December 31, 2013 to be approximately \$56,371,462 on a discounted basis using a 3.5% discount rate. All claim liabilities are paid out of the Patient's Compensation Fund.

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**NOTE 9: DUE TO AND DUE FROM OTHER STATE AGENCIES**

The following are short-term amounts owed between state agencies and are classified as due to and due from other state agencies.

**Interagency Receivables**

<u>Fund Type</u>	<u>SHARE Fund Number</u>	<u>Due From Other Agencies</u>	<u>Due From SHARE Agency Number</u>	<u>Due From SHARE Fund Number</u>
Patient's Compensation Fund	11850	\$ 395	39400	80100
Totals		<u>\$ 395</u>		

**Interagency Payables**

<u>Fund Type</u>	<u>SHARE Fund Number</u>	<u>Due to Other Agencies</u>	<u>Due to SHARE Agency Number</u>	<u>Due to SHARE Fund Number</u>
General Fund	11690	\$ 128	51600	19800
Agency Fund	11820	701,159	43000	57800
Agency Fund	11820	<u>725,498</u>	34101	85300
Totals		<u>\$ 1,426,785</u>		

**NOTE 10: REVERSIONS**

Unexpended and unencumbered cash balances of certain funds revert to the State General Fund at year-end. For certain funds, cash recoveries during the fiscal year from stale dated warrants and prior year reimbursements are also due to the State General Fund. Amounts due to the State General Fund for the year ending June 30, 2014 were paid in September 2014.

Current year reversions Due to the State General Fund at June 30, 2014:

General Fund	SHARE System Fund 11810	Total
Current Year:		
FY 14 Reversions	\$ 2,039,094	\$ 2,039,094
Prior Year Reversions	<u>2,541,800</u>	<u>2,541,800</u>
Total Reversions Due to the State General Fund	<u>\$ 4,580,894</u>	<u>\$ 4,580,894</u>

**NOTE 11: OTHER FINANCING SOURCES AND USES**

During the fiscal year, the OSI transferred funds that were recorded as "Other Financing Sources/Uses". The purpose of the transfers from the special revenue funds to the general fund were to comply with the allocated operating budget.

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**NOTE 11: OTHER FINANCING SOURCES AND USES CONT.**

Other financing sources and uses consist of the following:

	Transfers	
	In	Out
General Operating Fund	\$ 7,758,000	\$ -
Patient's Compensation Fund	-	565,100
Insurance Operations Fund	-	5,139,500
<b>Nonmajor governmental funds:</b>		
Title Ins Maintenance Fund	-	649,700
Insurance Fraud Fund	-	1,403,700
Grand Total	\$ 7,758,000	\$ 7,758,000

**NOTE 12: OPERATING LEASE COMMITMENTS**

The OSI is obligated for the lease of mailing equipment, which is being accounted for as operating lease. Operating leases do not give rise to property rights or lease obligations; therefore, this lease agreement includes a cancellation clause and is contingent upon legislative appropriation.

Future minimum annual payments under the operating lease agreement for the mailing equipment are as follows:

<b>Year Ended June 30,</b>	
2015	\$ 4,437
2016	4,437
Total Minimum Lease Payments	\$ 8,874

**NOTE 13: NEW ACCOUNTING STANDARDS**

The Governmental Accounting Standards Board (GASB) has published Statements No. 67, *Financial Reporting for Pension Plans* and No. 68, *Accounting and Financial Reporting for Pensions*. These standards revise existing guidance for governments that provide their employees with pension benefits. Significant change is the requirement to record each governmental entity's pro rate share of unfunded actuarial accrued liability (UAAL) on its financial statements including multi-employer cost sharing plans. The Public Employees Retirement Association (PERA) is a multi-employer cost sharing plan. The changes arising from these statements are significant and the OSI will comply with these changes as implementation information is provided by the State of New Mexico and PERA. The implementation date for Statement No. 68, most relevant to the OSI is for FY 2015.

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**NOTE 13: NEW ACCOUNTING STANDARDS CONT.**

The Governmental Accounting Standards Board (GASB) has published Statements No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfer of operations. GASB statement #69 is applicable for reporting periods beginning after December 15, 2013, however management has elected to implement it in fiscal year 2014.

**NOTE 14: TRANSFER OF OPERATIONS**

The Office of Superintendent of Insurance (OSI) was created on July 1, 2013, pursuant to the passage of Constitutional Amendment 4 during the 2012 General Election and the subsequent enactment of House Bill 45 (Laws of 2013, Chapter 74) from the 1<sup>st</sup> Session of the 51<sup>st</sup> Legislature. These actions removed the insurance regulatory function from the Public Regulation Commission (where it was housed as the “Insurance Division”) and placed it in a newly-created adjunct state agency entitled the “Office of Superintendent of Insurance.” The Department of Finance and Administration transferred assets from the Public Regulation Commission which was comprised of cash and investments and net capital assets with a carrying value of \$50.1 million. In addition, OSI assumed \$53.7 million of liabilities for the compensated absences and Patient’s Compensation Fund claims.

The OSI elected to implement GASB Statement #69 *Government Combinations and Disposals of Government Operations* to record the transaction related to the transfer of operations. As a result of the transfer, OSI recognized the following assets, liabilities, fund balance and net position:

Transferred Governmental Funds	
Fund Balance:	
Patient's Compensation Fund (11850)	\$ 50,585,017
Insurance Operations Fund (11810)	2,541,800
Insurance Examination Fund (11840)	1,387
Insurance Licensee Continuing Education Fund (11830)	926,906
Title Insurance Maintenance Fund (11860)	144,542
Insurance Fraud Fund (11880)	<u>815,906</u>
 Total Governmental Funds Transfer of Operations	 55,015,558
 Transferred Government -Wide Balances:	
Assets:	
Capital Assets	85,193
Liabilities:	
Current Liabilities	
Compensated Absences	(210,980)
Non-current liabilities:	
Patient's Compensation Fund Claims Liability	<u>(53,504,320)</u>
 Total Transferred Government-Wide Activities	 <u>(53,630,107)</u>
 Total Transfer of Operations	 <u><u>\$ 1,385,451</u></u>

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**NOTE 15: FUND BALANCE**

**Government Fund Balances - Restricted and Non-Spendable**

The OSI's fund balances represent: (1) *Restricted Fund Balance*, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other government or imposed by law through constitutional provisions or enabling legislation; (2) *Committed Fund Balance*, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislative and

Executive branches; (3) *Non-Spendable Fund Balance*, which includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact; (4) *Unassigned Fund Balance*, which includes a portion of fund balance that is residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Committed, assigned, or unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amount in any of the unrestricted fund balance classification could be used.

The following is a summary of the Restricted Fund Balance amounts by fund type at June 30, 2014:

Governmental Funds	
Major Governmental Funds:	
General Operating Fund (11690)	\$ 1,940,543
Patients' Compensation Fund (11850)	50,875,085
Insurance Operations Fund (11810)	2,612,587
Nonmajor Governmental Funds:	
Insurance Licensee Cont. Educ. Fund (11830)	1,022,149
Insurance Examinations Fund (11840)	1,387
Title Ins. Maintenance Fund (11860)	177,042
Insurance Fraud Fund (11880)	816,106
	<u>\$ 57,444,899</u>

The OSI did request the use of \$187,500 and \$16,503,300 in its fiscal year 2015 request. These amounts requested were in the General Operating Fund 11690 and in the Patients' Compensation Fund 11850, respectively, thereby reducing the amount of the appropriation request.

The OSI did request the use of \$42,800, \$95,200 and \$18,149,800 in its fiscal year 2016 request. These amounts requested were in the Insurance Operations Fund 11810, in the Insurance Licensee Con. Educ. Fund 11830 and in the Patients' Compensation Fund 11850, respectively, thereby reducing the amount of the appropriation request.

The OSI has a portion of fund balance in the amount of \$76,711 that is Nonspendable. This amount consists of prepaid expenses.

**NOTE 16: GENERAL FUND INVESTMENT POOL NOT RECONCILED**

For cash management and investment purposes, funds of various state agencies are deposited in the State General Fund Investment Pool (the Pool), which is managed by the Office of the New Mexico State Treasurer. Claims on the Pool are reported as assets by the various agencies investing in the Pool.

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**NOTE 16: GENERAL FUND INVESTMENT POOL NOT RECONCILED CONT.**

In June 2012 an independent expert diagnostic report revealed that Pool balances had not reconciled at a “business unit by fund” level since the inception of the Statewide Human Resources, Accounting, and Management Reporting System (SHARE) in July of 2006. This report, entitled “Current State of Diagnostic of Cash Control,” also described a difference between Pool bank balances and the corresponding general ledger balances and indicated that the effect of reconciling items were unknown. The report, dated June 20, 2012, is available on the website of the New Mexico Department of Finance & Administration’s (DFA) at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

By state statute, the New Mexico Department of Finance and Administration (DFA) is responsible for the performance of monthly reconciliations with the balances and accounts kept by the State Treasurer. Therefore, under the direction of the State Controller/Financial Control Division Director, the Financial Control Division (FCD) of the New Mexico Department of Finance & Administration undertook action to address the situation. DFA/FCD initiated the Cash Management Remediation Project (Remediation Project) in partnership with the Office of the New Mexico State Treasurer, the New Mexico Department of Information Technology, and a contracted third party with expertise in the Enterprise System Software used by the State.

The Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State’s SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

DFA to date has recorded a loss contingency of \$ 101.7 million in the General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. Because no specific loss amount is determinable, consistent with generally accepted accounting principles, the amount accrued is the minimum amount that management considers to be probable. Ultimately, the loss could exceed the amount accrued, perhaps by a substantial amount.

**NOTE 17: RETIREMENT PLANS (STATE PERA)**

*Plan Description.* Substantially all of the Office of Superintendent of Insurance’s full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA’s website at <http://www.pera.state.nm.us>.

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**NOTE 17: RETIREMENT PLANS (STATE PERA) CONT.**

*Funding Policy.* Plan members are required to contribute 8.92% of their gross salary. The Office of Superintendent of Insurance is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and the Office of Superintendent of Insurance are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. Office of Superintendent of Insurance's contributions to PERA for the fiscal year ending June 30, 2014 was \$597,571, which equals the amount of the required contribution for the fiscal year.

**NOTE 18: POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE**

*Plan Description.* The Office of Superintendent of Insurance contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.



**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 18: POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE CONT.**

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Office of Superintendent of Insurance's contributions to the RHCA for the year ended June 30, 2014 was \$72,155, which equal the required contribution for the year.

**NOTE 19: RISK MANAGEMENT AND LITIGATION**

The OSI is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Section 15-7-2 NMSA 1978 requires the General Services Department, Risk Management Division (RMD) to be responsible for the acquisition and administration of all insurance purchased by the state. Since 1977, various state statutes have been created which allow RMD to insure, self-insure or use a combination of both. Any claims are processed through RMD. There are no pending or known threatened legal proceedings involving material matters to which the OSI is a party.

**NOTE 20: SUBSEQUENT EVENTS**

The OSI has evaluated subsequent events through December 11, 2014 which is the date the financial statements have been issued and have determined no events require disclosure or adjustment to the financial statements.

**NOTE 21: MOU DISCLOSURE**

2014 Financial Audit – MOU between the OSI and the Office of the State Auditor (OSA) to perform the 2014 Financial and Compliance Audit.

- Responsible Party for Operations: OSI / OSA
- Time Period: May 30, 2014 – May 30, 2015
- Total Estimated Amount of Project and portion applicable to OSI: \$40,000
- Amount Agency Contributed in Fiscal Year 2014: \$40,000
- Audit Responsibility: OSI /OSA
- Revenue Reported: OSA
- Expenditure Reported: OSI

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 21: MOU DISCLOSURE CONT.**

Human Resource Management – MOU between the OSI and the State Personnel Office (SPO) to provide human resource management services for fiscal year 2014.

- Responsible Party for Operations: OSI / SPO
- Time Period: July – September 2013; January - February 2014
- Total Estimated Amount of Project and portion applicable to OSI: \$38,000
- Amount Agency Contributed in Fiscal Year 2014: \$38,000
- Audit Responsibility: OSI / SPO
- Revenue Reported: SPO
- Expenditure Reported: OSI

Implementation Assistance of the Affordable Care Act – MOU between the OSI and the New Mexico Health Insurance Exchange (NMIX) to provide a mechanism to support regulatory and quasi-regulatory activities carried out by the OSI in support of the NMHIX and the New Mexico's implementation of the Affordable Care Act with funds received by the NMIX.

- Responsible Party for Operations: OSI / NMIX
- Time Period: March 14, 2014 – December 15, 2015
- Total Estimated Amount of Project and portion applicable to OSI: \$1,925,000
- Amount Agency Contributed in Fiscal Year 2014: \$-0-
- Audit Responsibility: OSI / NMIX
- Revenue Reported: OSI
- Expenditure Reported: OSI

Background and Criminal Identification System – User agreement between the OSI and the Department of Public Safety (DPS) to obtain criminal history record information.

- Responsible Party for Operations: OSI / DPS
- Time Period: January 14, 2014 – November 5, 2016
- Total Estimated Amount of Project and portion applicable to OSI: \$-0-
- Amount Agency Contributed in Fiscal Year 2014: \$-0-
- Audit Responsibility: OSI / DPS
- Revenue Reported: Agreement only, no funds transferred
- Expenditure Reported: Agreement only, no funds transferred

Occupancy and Space Assignment – Agreement between the OSI and the General Services Department (GSD) to use the designated premises as office space for OSI's staff and contractors to carry out its statutory responsibilities.

- Responsible Party for Operations: OSI / GSD
- Time Period: November 13, 2013 – Indefinite
- Total Estimated Amount of Project and portion applicable to OSI: \$-0-
- Amount Agency Contributed in Fiscal Year 2014: \$-0-
- Audit Responsibility: OSI / GSD
- Revenue Reported: Agreement only, no funds transferred
- Expenditure Reported: Agreement only, no funds transferred

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**NON MAJOR GOVERNMENTAL FUNDS**  
**June 30, 2014**

***Insurance Examination Fund (11840)*** To account for funds received from insurance companies and insurance agencies which have been financially audited and examined for financial solvency and claim payment practices. These funds are used to defray travel and per diem costs pursuant to Section 59A-4-14 NMSA 1978 and is non-reverting.

***Insurance Licensee Continuing Education Fund (11830)*** To account for funds received and expended for the purpose of administering the continuing education program pursuant to the provisions of Section 59A-12-26 NMSA 1978. The fund is non-reverting.

***Title Insurance Maintenance Fund (11860)*** To account for fees relating to the New Mexico Title Insurance Law, Section 59A-30-1 through 59A-30-15 NMSA 1978. The Superintendent of Insurance determines a rate of assessment and collects a maintenance fee that does not exceed 1% of the gross title insurance premiums on policies written in New Mexico. The fee is deposited into the "Title Insurance Maintenance Assessment Fund" for use in paying expenses incurred in regulating and administering the New Mexico Title Insurance Law, including compensation and expenses of personnel and consultants. The purpose of the program is to promulgate rules and regulations to protect consumers and purchasers of title insurance pursuant to the McCarran-Ferguson Act (P.L. 79-15, U.S.C. Section 1001-1015). The fund is non-reverting.

***Insurance Fraud Fund (11880)*** To account for all fees collected under the provisions of the Insurance Fraud Act, Section 59A-16C-1 through 59A-16C-16, NMSA 1978, which shall be deposited in the fund and are subject to appropriation for use in paying the expenses incurred by the Office of Superintendent of Insurance in carrying out the provisions of the Insurance Fraud Act. The fund is a continuing, non-reverting fund.

**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENDENT OF INSURANCE  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2014**

	<u>Insurance Examination Fund-11840</u>	<u>Insurance Licensee Continuing Education -11830</u>	<u>Title Insurance Maintenance- 11860</u>	<u>Insurance Fraud - 11880</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
State General Fund Investment Pool	\$ 1,387	\$ 1,022,149	\$ 177,042	\$ 816,106	\$ 2,016,684
Investments	-	-	-	-	-
Federal Grants Receivable	-	-	-	-	-
Due from Other Funds	-	-	-	-	-
Due from Other State Agencies	-	-	-	-	-
Inventories	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-
Total Assets	<u>\$ 1,387</u>	<u>\$ 1,022,149</u>	<u>\$ 177,042</u>	<u>\$ 816,106</u>	<u>\$ 2,016,684</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Voucher Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Benefits & Taxes Payable	-	-	-	-	-
Accrued Wages Payable	-	-	-	-	-
Due to Other Funds	-	-	-	-	-
Due to State General Fund	-	-	-	-	-
Other Liabilities	-	-	-	-	-
Due to Other State Agencies	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Nonspendable:					
Prepaid Expenses	-	-	-	-	-
Restricted for:					
Special Purposes	1,387	1,022,149	177,042	816,106	2,016,684
Total Fund Balances	<u>1,387</u>	<u>1,022,149</u>	<u>177,042</u>	<u>816,106</u>	<u>2,016,684</u>
Total Liabilities and Fund Balances	<u>\$ 1,387</u>	<u>\$ 1,022,149</u>	<u>\$ 177,042</u>	<u>\$ 816,106</u>	<u>\$ 2,016,684</u>

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ending June 30, 2014**

	<u>Insurance Examination Fund-11840</u>	<u>Insurance Licensee Continuing Education -11830</u>	<u>Title Insurance Maintenance- 11860</u>	<u>Insurance Fraud - 11880</u>	<u>Total-Other Governmental Funds</u>
<b>REVENUES</b>					
Insurance Tax	\$ -	\$ -	\$ -	\$ 1,403,900	\$ 1,403,900
Investment Earnings	-	-	-	-	-
Special Appropriation	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Federal Revenue	-	-	-	-	-
Other Fees	-	95,243	682,200	-	777,443
Total Revenues	-	95,243	682,200	1,403,900	2,181,343
<b>EXPENDITURES</b>					
Personnel Services & Employee Benefits					
Contractual Services	-	-	-	-	-
Other	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Total Expenditures	-	-	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	-	95,243	682,200	1,403,900	2,181,343
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	-	-	(649,700)	(1,403,700)	(2,053,400)
Total Other Financing Sources and Uses	-	-	(649,700)	(1,403,700)	(2,053,400)
<b>SPECIAL ITEM</b>					
Transfer of Operations	1,387	926,906	144,542	815,906	1,888,741
Net Change in Fund Balances	1,387	1,022,149	177,042	816,106	2,016,684
Fund Balances - beginning	-	-	-	-	-
Fund Balances - ending	\$ 1,387	\$ 1,022,149	\$ 177,042	\$ 816,106	\$ 2,016,684

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**INSURANCE EXAMINATION FUND - 11840**  
**For the Year Ending June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Insurance Tax	\$ -	\$ -	\$ -	\$ -
Investment Earnings	-	-	-	-
Special Appropriation	-	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	-
Federal Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>SPECIAL ITEM</b>				
Transfer of Operations	-	-	1,387	(1,387)
Net Change in Fund Balances	-	-	1,387	(1,387)
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,387</u>	<u>\$ (1,387)</u>

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**INSURANCE LICENSEE CONTINUING EDU. FUND - 11830**  
**For the Year Ending June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Insurance Tax	\$ -	\$ -	\$ -	\$ -
Investment Earnings	-	-	-	-
Special Appropriation	-	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	-
Federal Revenue	-	-	-	-
Other Fees	-	-	95,243	95,243
Total Revenues	<u>-</u>	<u>-</u>	<u>95,243</u>	<u>95,243</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>-</u>	<u>95,243</u>	<u>95,243</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>SPECIAL ITEM</b>				
Transfer of Operations	-	-	926,906	(926,906)
Net Change in Fund Balances	-	-	1,022,149	(1,022,149)
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,022,149</u>	<u>\$ (1,022,149)</u>

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**TITLE INSURANCE MAINTENANCE FUND - 11860**  
**For the Year Ending June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Insurance Tax	\$ -	\$ -	\$ -	\$ -
Investment Earnings	-	-	-	-
Special Appropriation	-	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	-
Federal Revenue	-	-	-	-
Other Fees	649,700	649,700	682,200	32,500
Total Revenues	<u>649,700</u>	<u>649,700</u>	<u>682,200</u>	<u>32,500</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>649,700</u>	<u>649,700</u>	<u>682,200</u>	<u>32,500</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	-	-
Transfers Out	(649,700)	(649,700)	(649,700)	-
Total Other Financing Sources and Uses	<u>(649,700)</u>	<u>(649,700)</u>	<u>(649,700)</u>	<u>-</u>
<b>SPECIAL ITEM</b>				
Transfer of Operations	-	-	144,542	(144,542)
Net Change in Fund Balances	-	-	177,042	(177,042)
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 177,042</u>	<u>\$ (177,042)</u>



**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**INSURANCE FRAUD FUND - 11880**  
**For the Year Ending June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget -</u> <u>Positive (Negative)</u>
<b>REVENUES</b>				
Insurance Tax	\$ 1,403,700	\$ 1,403,700	\$ 1,403,900	\$ 200
Investment Earnings	-	-	-	-
Special Appropriation	-	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	-
Federal Revenue	-	-	-	-
Other Fees	-	-	-	-
Total Revenues	<u>1,403,700</u>	<u>1,403,700</u>	<u>1,403,900</u>	<u>200</u>
<b>EXPENDITURES</b>				
Personnel Services & Employee Benefits	-	-	-	-
Contractual Services	-	-	-	-
Other	-	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,403,700</u>	<u>1,403,700</u>	<u>1,403,900</u>	<u>200</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	-	-
Transfers Out	(1,403,700)	(1,403,700)	(1,403,700)	-
Total Other Financing Sources and Uses	<u>(1,403,700)</u>	<u>(1,403,700)</u>	<u>(1,403,700)</u>	<u>-</u>
<b>SPECIAL ITEM</b>				
Transfer of Operations	-	-	815,906	(815,906)
Net Change in Fund Balances	-	-	816,106	(816,106)
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 816,106</u>	<u>\$ (816,106)</u>

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**AGENCY FUNDS**  
**June 30, 2014**

Agency funds are used to account for assets held as an agent for other governmental units, for claimants and for other funds. The agency funds of the Department are as follows:

*Trust Funds with the Superintendent of Insurance Fund (11870)* Section 59A-10-4, NMSA 1978 requires insurance companies to deposit with the State Treasurer, through the Office of Superintendent of Insurance, certain securities to be held in trust for the benefit of all its policy holders and creditors. Since the Office of Superintendent of Insurance is acting in a fiduciary capacity, a separate agency fund has been set up to reflect the assets held and related liability. There are no revenues collected on these funds as any earnings are forwarded to the insurance companies and no expenses are attributed to this fund.

*Insurance Suspense Fund (11820)* To account for the collection of fees, licenses, penalties and taxes and payments to the Fire Protection Fund and other various state agencies with the excess transferring to the State General Fund.

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENDENT OF INSURANCE**  
**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES - ALL AGENCY FUNDS**  
**June 30, 2014**

<b>TRUST FUNDS WITH SUPERINTENDENT (11870)</b>	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>(Deletions)</b>	<b>Balance June 30, 2014</b>
<b>ASSETS</b>				
Cash in banks - ancillary receivership	\$ 1,256,622	\$ 1,180	\$ (530,692)	\$ 727,110
Security deposits	483,330,496	129,502,000	(141,278,496)	471,554,000
Total assets	<u>\$ 484,587,118</u>	<u>\$ 129,503,180</u>	<u>\$ (141,809,188)</u>	<u>\$ 472,281,110</u>
<b>LIABILITIES</b>				
Deposits held in trust	\$ 484,587,118	\$ 129,503,180	\$ (141,809,188)	\$ 472,281,110
Total liabilities	<u>\$ 484,587,118</u>	<u>\$ 129,503,180</u>	<u>\$ (141,809,188)</u>	<u>\$ 472,281,110</u>
<b>INSURANCE SUSPENSE (11820)</b>				
<b>ASSETS</b>				
Investments, State Treasurer Investment Pool	\$ 1,234,594	\$ 208,175,475	\$ (207,629,735)	\$ 1,780,334
Total assets	<u>\$ 1,234,594</u>	<u>\$ 208,175,475</u>	<u>\$ (207,629,735)</u>	<u>\$ 1,780,334</u>
<b>LIABILITIES</b>				
Due to state general fund	\$ 452,535	\$ 111,825,976	\$ (111,553,013)	\$ 725,498
Due to other agency funds	1,567,724	-	(1,567,724)	-
Due to other Funds	-	11,836,239	(11,561,827)	274,412
Due to local government	-	9,041,041	(8,961,776)	79,265
Due to external parties-governmental funds	199,650	-	(199,650)	-
Due to other state agencies	51,152	74,484,802	(73,834,795)	701,159
Undistributed receipts	(1,036,467)	208,178,376	(207,141,909)	-
Total liabilities	<u>\$ 1,234,594</u>	<u>\$ 415,366,434</u>	<u>\$ (414,820,694)</u>	<u>\$ 1,780,334</u>



Timothy Keller  
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE  
Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**  
*Elected for Better Government*

**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***

Independent Auditor's Report

Mr. John G. Franchini, Superintendent of Insurance  
Office of Superintendent of Insurance  
Santa Fe, New Mexico

We have audited 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, the budgetary comparisons of the general fund and major special revenue funds of the Office of Superintendent of Insurance (OSI) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise OSI's basic financial statements, and the combining and individual funds and related budgetary comparisons of the OSI presented as supplementary information, and have issued our report thereon dated December 11, 2014.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the

accompanying schedule of findings and responses, that we consider to be a significant deficiency as item 2014-001.

### **Compliance and Other Matters**

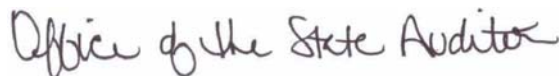
As part of obtaining reasonable assurance about whether the OSI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-002, 2014-003, 2014-004, and 2014-005.

### **The OSI's Response to Findings**

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

### **Purpose of this Report**

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



Office of the State Auditor  
Santa Fe, New Mexico  
December 11, 2014

**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENENT OF INSURANCE  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**PRIOR YEAR FINDINGS**

None

**CURRENT YEAR FINDINGS**

**2014-001      CONTROLS OVER PAYROLL (SIGNIFICANT DEFICIENCY)**

**CONDITION**

During our testwork over controls over payroll we noted six out of eight supervisors did not have any documentation of leave correspondence for leave taken from the employees they supervise in order to ensure SHARE agreed to the actual time taken by the employee for a total of 146 hours or 13 out of 21 items selected for testwork. Per discussion with the supervisors each one indicated employees are to email the leave request to the supervisor and the supervisor will respond if the leave has been approved in all cases except for extraordinary circumstances.

Additionally, we noted one instance when an employee failed to enter into SHARE 64 hours of leave taken.

Furthermore, the OSI was unable to provide us with an overtime approval form for two out of seven items for a total of 55.5 hours.

**CRITERIA**

Per Section 6-5-2(C) NMSA 1978, "State agencies shall implement internal accounting to prevent accounting errors and violation of state and federal law and rules related to financial matters. In addition, implement controls to prevent the submission of processing documents to the financial control division that contain errors or that are for a purpose not authorized by law."

Per Manual of Accounting Practices 2014, HR 4.1, "Employees must enter exception time into SHARE HCM module for each pay period by FCD's stipulated deadline. State agency Managers/Timekeepers may enter exception time in lieu of employee entry." Furthermore, per 6-5-2(B) NMSA 1978, "state agencies shall comply with the model accounting practices established by the division, and the administrative head of each state agency shall ensure that the model accounting practices are followed."

**EFFECT**

Employees could use more leave than what they had accrued or accrue more overtime than what was actually worked or approved.

**CAUSE**

Supervisors were not ensuring time requested or accrued was what was actually taken or worked and reflected in SHARE.

**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENENT OF INSURANCE  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**2014-001      CONTROLS OVER PAYROLL (SIGNIFICANT DEFICIENCY) CONT.**

RECOMMENDATION

The OSI should implement a formal control Department wide, such as a leave request form to ensure all leave actually taken is reflected in SHARE and properly reviewed and approved by the employee's supervisor in addition to the SHARE approval. Furthermore, the OSI should ensure overtime is not accrued for employees that do not have an authorized overtime request form.

MANAGEMENT RESPONSE

The OSI concurs and recognizes the significance of the finding. The OSI will implement a formal control process to ensure all overtime and all leave actually taken is properly reflected in SHARE and properly reviewed and approved by the respective supervisor. The OSI will remind all personnel who authorizes leave and/or approves timesheets of the importance, responsibility and liability they are undertaking when authorizing leave and/or approving timesheets. Of equal importance, each OSI employee will also be reminded that each are accountable to properly and correctly report their time worked and leave taken in SHARE.

**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENENT OF INSURANCE  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**2014-002      PAYROLL DOCUMENTATION (OTHER MATTERS)**

CONDITION

During our review of employee personnel files we observed the files appeared incomplete, unorganized, and had not been updated by OSI for accuracy and compliance with IRS and state regulations. We noted the specific instances of concern below:

1. For 24 of 25 employee payroll records reviewed, a Form I-9: *Employment Eligibility Verification* could not be located in the employee's personnel file.
2. For 18 of 25 employee payroll records reviewed, the Form W-4: *Employee's Withholding Allowance Certificate* on file was more than one year old. In 11 instances, the most recent Form W-4 on file was completed more than five years prior to fiscal year 2014. For 1 employee, a Form W-4: *Employee's Withholding Allowance Certificate* was not on file.

CRITERIA

1. The Immigration Reform and Control Act of 1986 (IRCA) requires employers to complete a Form I-9 to document verification of the identity and employment authorization of each new employee (both citizen and noncitizen) hired after November 6, 1986 to work in the United States. In addition, the employer is responsible for completing and retaining the Form I-9.
2. The Internal Revenue Service requires that employers withhold income tax from employees' wages. In addition, employees should complete a signed Form W-4 when they begin a new job. Further, the Manual of Model Accounting Practices, Section HR-1.1 requires that state agencies shall have state employees re-elect benefits and W-4 information on an annual basis or upon change in eligibility.

EFFECT

1. The OSI could be found in violation of the law if inspected by federal officials and could also be subject to fines and penalties for noncompliance with IRCA.
2. As a new state agency, OSI does not have current forms on file for its employees to ensure deductions are accurate.



**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENENT OF INSURANCE  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**2014-002      PAYROLL DOCUMENTATION (OTHER MATTERS) CONT.**

CAUSE

OSI was previously a division of another state agency and was created on July 1, 2013, pursuant to the passage of Constitutional Amendment 4 during the 2012 General Election and the subsequent enactment of House Bill 45 (Laws of 2013, Chapter 74) from the 1st Session of the 51st Legislature. Many of the employees were hired by the previous agency and the personnel files were provided to OSI during the transition.

RECOMMENDATION

1. Management should consider working with the previous employer to obtain the I-9 forms for the employees or consider completing a Form I-9 for all employees of the agency.
2. Management should consider requesting each employee complete a Form W-4 for the new agency (OSI).

MANAGEMENT RESPONSE

The OSI concurs and recognizes the importance in complying with all federal regulations. It is the OSI Human Resources objective to ensure all personnel files are complete and contain all necessary and required payroll documentation. Human Resources will promptly request each OSI employee to fill out new W-4 form regardless if there was a change in eligibility to ensure each employee's personnel file has an updated form. In addition, the Human Resources will audit each personnel file to ensure a Form I-9 is contained in each file.

**STATE OF NEW MEXICO**  
**OFFICE OF SUPERINTENENT OF INSURANCE**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**June 30, 2014**

**2014-003 TRAVEL AND PER DIEM (OTHER MATTERS)**

CONDITION

During our test work over travel and per diem expenditures, we noted the OSI did not maintain in writing the approval of reimbursements over \$1,500 singly or in the aggregate, in any one year for two out of ten items tested for a total of \$3,613.

CRITERIA

Per section 10-8-5(I) NMSA 1978 a state employee may not be reimbursed more than \$1,500, singly or in the aggregate, in any one year "until the person furnishes in writing to his department head or, in the case of a department head or board or commission member, to the governor or, in the case of a member of the legislature, to the New Mexico legislative council an itemized statement on each separate instance of travel covered within the reimbursement, the place to which traveled and the executive, judicial or legislative purpose served by the travel."

EFFECT

There is an increased risk that employees might be reimbursed for travel not approved and the opportunity for abuse increases. Furthermore the OSI is not in compliance with state statute.

CAUSE

The OSI completed approval for employees receiving over \$1,500 in per diem reimbursements however the OSI overlooked the two noted instances above.

RECOMMENDATION

The OSI should ensure total reimbursements by employees are being properly monitored to ensure management approval is obtained when necessary and implement a mechanism to trigger approval as required.

MANAGEMENT RESPONSE

The OSI concurs with the recommendation and will implement a database consisting of all travel subject to the Mileage and Per Diem Act conducted by OSI employees and will implement audit procedures to ensure compliance with state statute.

**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENENT OF INSURANCE  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**2014-004 TRAVEL AND PER DIEM-NAIC TRAVEL (OTHER MATTERS)**

CONDITION

The Office of the Superintendent of Insurance (OSI) is a member of the National Association of Insurance Commissioners (NAIC). OSI paid a membership fee of \$13,543 during fiscal year 2014 and NAIC made available \$20,000 of grant funds for calendar year 2014 to defray the costs of tuition and related travel expenses to NAIC sponsored education and training programs. The travel reimbursements were submitted by OSI employees and payments made from NAIC directly to the employee.

In addition, the travel reimbursements made by NAIC to OSI employees were in excess of the amounts described in the regulations governing the New Mexico Per Diem and Mileage Act. The policy according to the NAIC Guidelines for Reimbursement of NAIC Travel Expenses indicates that NAIC will “reimburse all reasonable/eligible costs related to authorized NAIC travel.” The following instances were noted in the five reimbursements reviewed.

1. Reimbursement #1:
  - a. Reimbursed meals for one day totaled \$49.35.
  - b. No calculation of partial day per diem for the last day of travel.
2. Reimbursement #2:
  - a. An employee was reimbursed for a meal that included 6 other conference participants. The total meal was \$383.75 for approximately \$63.96 per person. One individual claimed meals on their own reimbursement form for \$13.44 for the same day.
3. Reimbursement #3:
  - a. Itemized receipts were not provided for two meal reimbursements for room service and the lobby bar at the hotel. The reimbursements were \$41.97 and \$21.53, respectively.
  - b. Reimbursed meals for one day totaled \$54.62.
4. Reimbursement #5:
  - a. No documentation was provided to support a total of \$58.59 in meal reimbursements.
  - b. Itemized receipts were not provided for two meal reimbursements from hotel restaurants. The reimbursements were \$31.13 and \$27.40 respectively.

Further, management did not have policies and procedures to govern how the grant funds were to be spent, including a determination of when employees traveled under the NAIC guidelines and when employees traveled under the Mileage and Per Diem Act.

**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENENT OF INSURANCE  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**2014-004 TRAVEL AND PER DIEM-NAIC TRAVEL (OTHER MATTERS) CONT.**

CRITERIA

State agencies must follow Section 2.42.2.9 NMAC regarding the reimbursement of actual expenses in lieu of per diem rates. In addition, Section 14-3-23 NMSA 1978 indicates that “Each state agency which has an official duty to establish methods and procedures involved in the internal structure and operation of state government, including but not limited to acquiring space, budgeting, accounting, purchasing, contracting, vouchering, printing, appointment and dismissal of employees and record-keeping, shall prepare, within the means provided by current operating budgets, manuals of procedure for the guidance of public officers and employees engaged in such work.”

In addition, the Manual of Model Accounting Practices describes how the State of New Mexico has a low risk tolerance and the internal control environment of each agency is based on best practices.

EFFECT

OSI did not have policies or procedures in place to address the travel and per diem policies of the agency to incorporate the use of the grant funds provided by NAIC. As a result, there was a disparity between the allowable expenses for employees who traveled with reimbursement from NAIC funds and those who traveled with reimbursement under state regulations. In addition, the grant may not have been utilized to its full potential which would have resulted in reimbursements from state funds that could have been utilized for other purposes within OSI’s budget.

CAUSE

OSI did not have a policy regarding NAIC funds and employees did not follow the Mileage and Per Diem Act.

RECOMMENDATION

As the membership to the organization is paid for with public monies and the travel expenditures incurred are by state employees on state business, management should consider creating and adopting a policy to address the proper use of NAIC travel grant funds that is in line with the New Mexico State statutes and regulations.

MANAGEMENT RESPONSE

The OSI concurs and is aware of the importance in complying with the provisions set forth within the Mileage and Per Diem Act when NAIC travel is being conducted by state employees to ensure consistency in the application of public funds. To strengthen its controls over travel and expenditure of public funds, the OSI has since adopted an agency travel policy which encompasses NAIC travel and all other travel regardless of the funding source. The policy was sent to all OSI employees on September 9, 2014 directing all employees to immediately adhere to the newly adopted policy.

**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENENT OF INSURANCE  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2014**

**2014-005      UN-TIMELY DEPOSIT (OTHER MATTERS)**

CONDITION

During our test work over cash receipts, we noted one out of twenty-five instances tested was not deposited timely for a total of \$1,646.

CRITERIA

Per Section 6-10-3 NMSA 1978, all public money in the custody or under the control of any state official or agency obtained or received by any official or agency from any source, except as in Section 6-10-54 NMSA 1978 provided, shall be paid into the state treasury, before the close of the next succeeding business day after the receipt of the money.

EFFECT

The OSI was not in compliance with state statute.

CAUSE

The bureau that collected the cash receipt was waiting for additional documentation on a piece of the deposit. Instead of depositing all of the other cash receipts they held the entire batch and failed to deposit it by the following business day.

RECOMMENDATION

The OSI should ensure all cash receipts are deposited by the following business day.

MANAGEMENT RESPONSE

The OSI concurs with the recommendation and recognizes the importance of depositing all funds within the 24-hour required time period after being received. The OSI will remind all of its Bureaus that receive funds on behalf of the OSI of the 24-hour requirement and to deposit all transactions other than the ones that need further research.

**STATE OF NEW MEXICO  
OFFICE OF SUPERINTENDENT OF INSURANCE  
EXIT CONFERENCE  
June 30, 2014**

**EXIT CONFERENCE**

An exit conference was held on December 9, 2014. The following were in attendance:

Representing the Department:

John G. Franchini	Superintendent of Insurance
Jolene M. Gonzales	Chief Administrative Officer
Bryan M. Maestas, CGFM	Chief Financial Officer

Representing the State Auditor's Office:

Melissa Spangler, CPA, CFE, CGFM	Financial Audit Director
Miranda Mascarenas	Audit Supervisor

**PREPARATION OF THE FINANCIAL STATEMENTS**

The accompanying financial statements of the Department have been prepared by the State Auditor's Office, the organization's independent public auditor; however, the financial statements are the responsibility of management.