



Report of Independent Auditors  
and Financial Statements  
with Supplementary Schedules in Accordance with  
OMB Circular A-133 for

New Mexico Medical  
Insurance Pool

December 31, 2013 and 2012

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

### **Report on Financial Statements**

We have audited the accompanying financial statements of the New Mexico Medical Insurance Pool (Pool), which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### ***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 an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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.

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the statement of net position of the New Mexico Medical Insurance Pool as of December 31, 2013 and 2012, and the results of its statement of revenues, expenditures and changes in net asset and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter Regarding Going Concern***

The accompanying financial statements have been prepared assuming that the New Mexico Medical Insurance Pool will continue as a going concern. As discussed in Note 2 to the financial statements, the New Mexico Federal High Risk Pool program discontinued insurance coverage for members on April 30, 2014. There is also decreasing membership with the New Mexico Medical Insurance Pool. Those conditions raise substantial doubt its ability to continue as a going concern. Management's plans regarding those matters are also describe in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis and claims development information on pages 4 through 7 and page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pool's basic financial statements. The combining statement of net position and the combining statement of revenues, expenses and changes in net position, and the schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statement of net position and the combining statement of revenues, expenses and changes in net position, and schedule of expenditures of federal awards are the responsibilities of management and were 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 combining statement of net position and the combining statement of revenues, expenses and changes in net position, and the schedule of expenditures of federal awards 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 May 12, 2014, on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

  
Albuquerque, New Mexico  
May 12, 2014

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# **NEW MEXICO MEDICAL INSURANCE POOL MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2013**

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As management of the New Mexico Medical Insurance Pool (Pool), we offer readers of the Pool's financial statements this narrative overview and analysis of the financial activities of the Pool for the fiscal year ended December 31, 2013.

## **Financial Highlights**

The Pool reported net position of \$522,155 at the close of its most recent fiscal year; the total assets were \$38,287,387 and total liabilities were \$37,765,232. The Pool maintains a net asset balance of \$522,155 at the end of each year, as required by direction of the Board of Directors. Pool revenue is generated through several sources including premiums paid by the subscribers, state and federal grants, and assessments paid by insurers based on market share of their direct premiums collected within the state of New Mexico. Liabilities consist primarily from the reserves necessary to pay medical claims, pharmacy claims, administrative and operating expenses.

The assessments paid by insurers are calculated based on the overall projected and actual losses incurred by the Pool during a fiscal year. The actual loss (prior to assessments paid by insurers) for 2013 was \$119,922,371, which is an increase of \$17,955,585 (17.61%) from 2012. The actual loss for 2012 was \$101,966,786 which is an increase of \$7,923,136 (8.42%) from the 2011 \$94,043,650 loss amount. The loss amounts almost doubled between the 2004 and 2005 fiscal years and again from 2005 to 2006.

## **Overview of the Financial Statements**

The Pool was established by the 1987 New Mexico State Legislature. The Pool was created to provide access to comprehensive health insurance coverage to residents of New Mexico who are denied health insurance and considered uninsurable. The Pool also provides health benefit portability coverage to New Mexicans who have exhausted COBRA benefits and have no other portability options available to them.

On July 1, 2010, the Pool began operating the New Mexico Federal High Risk Pool (Federal Pool) through a contract with the State of New Mexico's Human Services Department (HSD), as authorized by the Secretary of the Department of Health and Human Services (HHS). The Federal Pool was created as a result of the Patient Protection and Affordable Care Act, Public Law 111-148 (ACA), as a temporary high risk health insurance pool program to provide coverage for uninsured individuals with pre-existing medical conditions.

The Pool is funded through premiums received from policyholders, assessments against insurance companies authorized to transact health insurance in New Mexico ("insurers"), as well as a Federal program grant to States for the operation of qualified high-risk pools. All insurers authorized to conduct business in New Mexico are required to be members of the Pool and must pay an initial assessment of \$500.

The Federal Pool is funded through premiums received from policyholders, subsidies from the Pool, and funds set aside under the ACA for the operation of federal high risk pools.

**NEW MEXICO MEDICAL INSURANCE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

**Condensed Financial Information**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>SUMMARY BALANCE SHEETS</b>			
Total Assets - current	\$ 38,287,387	\$ 30,754,218	\$ 35,871,178
Accrued claims and processing costs	32,446,374	28,252,754	27,428,200
Other payables - current	5,318,858	1,979,309	7,920,823
Total liabilities - current	37,765,232	30,232,063	35,349,023
Net Position	<u>\$ 522,155</u>	<u>\$ 522,155</u>	<u>\$ 522,155</u>

**SUMMARY STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Premiums	\$ 34,091,541	\$ 31,255,619	\$ 28,398,754
Assessments	119,929,371	101,973,787	94,050,651
Grant income	1,382,204	1,721,599	1,733,430
Federal contracts	24,902,112	21,507,006	13,304,925
Other income	12,289	17,674	99,384
Total operating revenues	<u>180,317,517</u>	<u>156,475,685</u>	<u>137,587,144</u>
Operating expenses			
Claims and related processing costs	178,836,690	154,640,642	136,187,902
General and administrative	1,480,827	1,835,043	1,399,242
Total operating expenses	<u>180,317,517</u>	<u>156,475,685</u>	<u>137,587,144</u>
Change in Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Overall financial analysis** - Cash on hand and assessments receivable increased from 2012 to 2013 due to a premium increase and an increase in the budgeted loss amount. Federal contract revenues increased due to the growth of the Federal Pool during the first quarter of 2013. However, due to budget concerns, in February 2013, the federal government announced that enrollment in the temporary PCIP would be closed effective March 2, 2013.

The Pool experienced increased premium receipts of approximately \$2.8 million due to an increase in premium rates effective in January 2013 and an increase in overall membership. As expected, with the increase in membership, the claims and administrative expenses increased from 2012 to 2013 proportionately.

**Pool activities** - In January 2013, premium rates were increased to an aggregate of 4% across the State Pool membership and 4% for the Federal Pool. State Pool membership had a net increase of 173 members, ending 2013 with a total membership of 8,680. The Federal membership ended 2013 with 1,120 members; a net decrease in membership of 337 from 1,457 in December 2012.

## **NEW MEXICO MEDICAL INSURANCE POOL MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2013**

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In October 2010, the Board of Directors for the Pool modified the eligibility criteria for the Pool to allow children under the age of nineteen into the Pool based solely on age due to the lack of availability of coverage for this population within the commercial market place. In 2012, coverage through the commercial market became available to this group, with the exception of Lea and Eddy County. In 2013, coverage became available in Lea and Eddy County. Thus, this category is no longer an acceptable criterion for eligibility.

In 2010, the Board decided to allow pregnancy as a condition for Pool eligibility, since the state run Premium Assistance for Maternity program lost funding, leaving pregnant women with no maternity coverage and limited access to health coverage.

In 2011, the Board made a decision to allow individuals with non-comprehensive group coverage access into the State Pool, since the HHS was granting waivers of the Affordable Care Act provisions to some health plans. The waivers extended the timeframes in which the health plans are required to ensure that essential benefits are covered within the group policies, effectively making comprehensive care unavailable to some group policy holders.

When the Affordable Care Act (ACA) was signed into law in 2010, it created the Federal Pool as a *temporary* program to provide health coverage to uninsured people with pre-existing conditions until key parts of the health care law take effect in 2014. In 2014, health insurance companies can no longer deny an individual coverage or charge more for a new policy because of a health condition. Open enrollment began October 15, 2013 for a January 1, 2014 effective date. Open enrollment ended March 31, 2014. In addition to the ACA, many State and Federal Pool enrollees will qualify for Centennial Medicaid, the newly expanded Medicaid program. The program is being offered to qualifying adults, ages 19-64, with incomes below 138% of the federal poverty level.

**Budget analysis** - Overall, the 2013 Pool losses were \$3.4 million less than budgeted. Earned premium was 5.2% more than forecast. Membership in the Low Income Premium Program (LIPP) was 1% more than anticipated. Claims were 2% more than forecast. Overall, membership was 3% more than budgeted, due to enrollment in the Federal Pool being closed on March 2, 2013. Enrollment increases have been trending at an annual rate of 20% for the past several years. Due to the implementation of the Affordable Care Act, the State Pool experienced a minimal increase in membership in 2013 over 2012.

**Current trends and conditions and future impact** - In June 2013, HHS and HSD entered into a revised contract for the funding of the Federal Pool program which included an amended contract provision whereby the Federal Pool program will be reimbursed for all claims and claim processing costs incurred through May 31, 2013, and for all claims run-out processed during the 18-month period commencing on January 1, 2014. However, for claims incurred during the period of June 1, 2013 through December 31, 2013, the Federal Pool will not be reimbursed for any claims or claims processing costs in excess of \$12.2 million, which amount will be funded to the Pool in June of 2013. Management expects the \$12.2 million will be less than the projected Federal Pool costs for June through December 2013. Management is examining cost management strategies and will pursue any available additional federal funding for the remainder of 2013.

**NEW MEXICO MEDICAL INSURANCE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2013**

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At December 31, 2013, \$1,541,881 of the \$12.2 million was unexpended, and carried forward on January 1, 2014 as unearned income. The income was earned in the month of January 2014.

On October 1, 2013, the estimated cumulative reimbursable costs, for the base period May 31, 2013, plus the close-out period were modified from \$50,089,698 to \$51,181,071. In addition, the reimbursable amount for June 1, 2013 through December 31, 2013, was modified from \$12,200,000 to \$18,548,375.

In November 2013, the contract was modified from \$18,548,375 to \$18,571,145, in order to allow the contractor to implement marketing and outreach procedures to assist HHS in providing for the transition of eligible enrollees into qualified health plans.

In December 2013, the contract was modified to extend the PCIP through January 31, 2014. Funding was increased from \$18,571,145 to \$21,190,959.

In January 2014, the contract was modified to extend the PCIP through March 31, 2014, with an eighteen month closeout period. The estimated cumulative reimbursable costs for the base period were amended from \$51,181,071 to \$51,764,737 and the estimated reimbursable cost for the period June 1, 2013 through March 31, 2014 was amended from \$21,190,959 to \$20,607,293.

In March 2014, the contract was modified to extend the PCIP through April 30, 2014, with an eighteen month closeout period, projected as May 1, 2014 through October 31, 2015. The cumulative reimbursable costs for the base period and the estimated reimbursable costs did not change.

**NEW MEXICO MEDICAL INSURANCE POOL**  
**STATEMENTS OF NET POSITION**

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**ASSETS**

	December 31,	
	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 27,774,277	\$ 23,859,406
Assessments receivable	7,630,220	937,885
Receivable from HHS	-	2,961,624
Receivable from third-party administrator	<u>2,882,890</u>	<u>2,995,303</u>
 Total assets	 <u>\$ 38,287,387</u>	 <u>\$ 30,754,218</u>

**LIABILITIES AND NET POSITION**

Estimated claims incurred but not reported	\$ 15,607,000	\$ 13,005,000
Accrued claims	15,508,374	14,077,754
Accrued claims processing costs	1,331,000	1,170,000
Assessment refunds payable	2,358,539	-
Unearned premiums and subsidized assessments	843,415	1,454,451
Payable to administrator	574,519	521,298
Unearned HHS Revenue	1,541,882	-
Accounts payable	<u>503</u>	<u>3,560</u>
 Total liabilities	 37,765,232	 30,232,063
 Net position	 <u>522,155</u>	 <u>522,155</u>
 Total liabilities and net position	 <u>\$ 38,287,387</u>	 <u>\$ 30,754,218</u>

**NEW MEXICO MEDICAL INSURANCE POOL**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

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	Years Ended December 31,	
	2013	2012
<b>OPERATING REVENUES</b>		
Premiums	\$ 34,091,541	\$ 31,255,619
Assessments	119,922,371	101,966,787
Federal contracts	24,902,112	21,507,006
Initial assessments	7,000	7,000
Grant income	1,382,204	1,721,599
Interest income	9,287	11,485
Other income	3,002	6,189
	<b>180,317,517</b>	<b>156,475,685</b>
<b>OPERATING EXPENSES</b>		
Claims	172,502,633	149,203,606
Claims processing costs	6,334,057	5,437,036
General and administrative	1,480,827	1,835,043
	<b>180,317,517</b>	<b>156,475,685</b>
<b>CHANGE IN NET POSITION</b>	-	-
<b>NET POSITION at beginning of year</b>	<b>522,155</b>	<b>522,155</b>
<b>NET POSITION at end of year</b>	<b>\$ 522,155</b>	<b>\$ 522,155</b>

## NEW MEXICO MEDICAL INSURANCE POOL STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from policyholders and insurers	\$ 178,597,113	\$ 145,144,240
Proceeds from grants	1,382,204	1,721,599
Payments for claims and claims processing costs	(174,643,070)	(153,816,088)
Payments to providers and suppliers	(1,430,663)	(1,722,373)
Interest received	9,287	11,485
	<u>3,914,871</u>	<u>(8,661,137)</u>
Net cash provided by (used in) operating activities		
	<u>3,914,871</u>	<u>(8,661,137)</u>
<b>NET INCREASE (DECREASE) CASH AND CASH EQUIVALENTS</b>		
	<u>3,914,871</u>	<u>(8,661,137)</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>		
	<u>23,859,406</u>	<u>32,520,543</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>		
	<u>\$ 27,774,277</u>	<u>\$ 23,859,406</u>
<b>RECONCILIATION OF CHANGES IN NET POSITION</b>		
to net cash provided by operating activities		
<b>CHANGES IN NET POSITION</b>	\$ -	\$ -
<b>ADJUSTMENTS TO RECONCILE CHANGE IN NET POSITION</b>		
to net cash provided by (used in) operating activities		
Changes in assets and liabilities		
Assessments receivable	(6,692,335)	(886,876)
Receivable from HHS	2,961,624	(2,397,734)
Receivable from administrator	112,413	(259,567)
Assessment refunds payable	2,358,539	(5,956,349)
Estimated claims incurred but not reported	2,602,000	(965,000)
Accrued claims	1,430,620	1,704,554
Accrued claims processing costs	161,000	85,000
Unearned premiums and subsidized assessments	(611,036)	(97,835)
Payable to administrator	53,221	109,685
Accounts payable	(3,057)	2,985
Unearned HHS contract Revenue	1,541,882	-
Total adjustments	<u>3,914,871</u>	<u>(8,661,137)</u>
Net cash provided by (used in) operating activities	<u>\$ 3,914,871</u>	<u>\$ (8,661,137)</u>

## NEW MEXICO MEDICAL INSURANCE POOL NOTES TO FINANCIAL STATEMENTS

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### **Note 1 - Summary of Significant Accounting Policies**

**Operations** - The New Mexico Medical Insurance Pool (Pool) was formed as an unincorporated not-for-profit entity by the New Mexico Legislature in 1987. The purpose of the Pool is to provide comprehensive health insurance coverage to eligible individuals.

Effective July 1, 2010, the Pool began claims processing services for the New Mexico Federal High Risk Pool (Federal Pool) through a contract with the State of New Mexico's Human Services Department (HSD). The Federal Pool was created as a result of the Patient Protection and Affordable Care Act, Public Law 111-148, which authorized the Secretary of the Department of Health and Human Services (HHS) to enter into contract with States to establish and operate temporary high risk health insurance pool programs to provide coverage for uninsured individuals with pre-existing conditions beginning in 2010 and ending on April 30, 2014 (see also Note 6). The contract between HHS and HSD requires an annual audit of the finances of the Federal Pool program, which is issued as a separate report.

The funding for the Pool program (excludes the Federal Pool program) comes from premiums received from policyholders, assessments against insurance companies authorized to transact health insurance in New Mexico ("insurers"), as well as a Federal program grant to States for the operation of qualified high-risk pools. All insurers are required to be members of the Pool and must pay an initial assessment of \$500.

Subsequent to each fiscal year, the Board determines the need to levy an assessment and, if necessary, the assessment is made against insurers using a pro rata allocation based on health insurance written in the State of New Mexico during the previous calendar year. The Board may also make interim billings as may be reasonable and necessary for the organizational or interim operating expenses of the Pool. The Pool records assessment revenue at the time the Pool determines a premium deficiency is reasonably estimable, which is generally at the end of each fiscal year, and to the extent the Pool has an enforceable legal claim to the assessments and the collectibility of the assessments is probable and reasonably estimable.

If assessments for a fiscal year exceed actual losses and administrative expenses of the State Pool Program for that fiscal year, the excess assessments are refunded, and recorded as accrued assessment refunds for that fiscal year. Any deficit incurred by the State Pool program shall be recouped by assessments apportioned among the members as described above. Deficiency assessment revenues in the financial statements are shown net of assessment reversals, if any.

The funding for the Federal Pool program comes from premiums received from policyholders and HHS contract funding. Individuals, who meet both the eligibility requirements of the Federal Pool program and the State Pool program, are enrolled in the Federal Pool program, and their premiums are subsidized by the State Pool program according to the program's existing eligibility requirements.

The Pool is administered by Blue Cross and Blue Shield of New Mexico (BCBSNM).

# NEW MEXICO MEDICAL INSURANCE POOL

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 - Summary of Significant Accounting Policies (continued)

**Basis of presentation** - The Pool follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB Pronouncements.

The Pool follows GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which requires amounts that are reported as deferred outflows of resources in the statement of net position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources have been reported in a separate section following liabilities. The statement of net position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the difference between all other elements in the statement of net position and has been displayed in three components - net investment in capital assets, restricted, and unrestricted. There was no net investment in capital assets or restricted items in 2013 or 2012.

Effective January 1, 2013, the Pool adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which requires items previously reported as assets and liabilities to be classified as deferred outflows of resources and deferred inflows of resources or recognize items previously reported as assets and liabilities as outflows of resources or inflows of resources. There were no changes to classifications required to 2013 or 2012 balances.

The accompanying financial statements include the accounts and activity of the State Pool, as well as the activity of the Federal Pool, operated as a separate program of the Pool. All inter-program accounts and activity have been eliminated in the accompanying financial statements.

Under GASB requirements, the Pool is presented as an enterprise fund. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business. Enterprise funds are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized at soon as the liabilities are incurred.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. As an operator of the State Pool Program and the Federal Pool program, the principal operating revenues of the Pool are premiums from policyholders, assessments against insurers in the State of New Mexico, grant proceeds that subsidize the operation of the Pool, and contract funding received from HHS.

Operating expenses for enterprise funds include the cost of sales and services and administrative expenses. All expenses of the Pool are considered operating expenses.

## NEW MEXICO MEDICAL INSURANCE POOL NOTES TO FINANCIAL STATEMENTS

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### **Note 1 - Summary of Significant Accounting Policies (continued)**

**Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 may differ from those estimates.

**Cash and cash equivalents** - Cash and cash equivalents consist of cash and a repurchase agreement held with a single financial institution. The Pool is exposed to custodial credit risk in the event its deposits are not fully insured or collateralized, or are collateralized by securities held by the financial institution. The Pool maintains its cash in the form of non-interest and interest bearing deposits with financial institutions that are believed to be of high credit quality. As of December 31, 2013, \$4,106,077 was uninsured and uncollateralized and exposed to custodial credit risk. All balances were insured as of December 31, 2012.

The Pool's repurchase agreement is 100% collateralized by securities held by the financial institution, which subjects the Pool to custodial credit risk in the event of failure of the financial institution. The amount of such exposure is the balance of the repurchase agreement of \$19,511,817 and \$23,518,033 at December 31, 2013 and 2012, respectively. Management monitors the financial condition of this financial institution and does not believe any significant credit risk exists at this time. The Pool has no deposit policy limiting the custodial credit risk of its deposits.

The Pool considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents for the purposes of the statement of cash flows.

**Assessments receivables** - The Pool levies assessments against health insurers registered in the State of New Mexico on an annual basis. Interim billings are invoiced as necessary to provide sufficient revenue to continue the operation of the Pool throughout the year. The invoiced amounts are due within 30 days. No allowance is provided for doubtful accounts receivable as management considers all accounts to be collectible based on past experience. Although not expected, in the event management determines an account uncollectible, the balance would be written off to bad debts expense.

**Receivable from HHS** - The Federal Pool program recognizes federal revenue from HHS for reimbursement of claims paid that are in excess of premiums received from the plan participants and premium subsidies received from the Pool. The receivable from HHS is considered fully collectible and, accordingly, does not include a provision for bad debts.

**Receivable from and payable to administrator** - The administrator of the Pool, Blue Cross Blue Shield of New Mexico (BCBSNM), initially pays for all claims and claims processing costs, and is reimbursed by the Pool. The administrator also bills and receives all premiums on behalf of the Pool, which are then passed onto the Pool.

## NEW MEXICO MEDICAL INSURANCE POOL

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 1 - Summary of Significant Accounting Policies (continued)**

In exchange for all the administration services provided by the administrator, the State Pool program pays an administration fee on a per member per month basis at a rate of \$50.45 and \$45.85 for 2013 and 2012, respectively. In addition to the administrative fees above, the Pool pays for disease management services on a per member per month basis at a rate of \$2.80 and \$2.65 for 2013 and 2012, respectively.

In exchange for all the administration services provided by the administrator, the Federal Pool program pays an administration fee on a per member per month basis at a rate of \$48.15 and \$45.85 for 2013 and 2012.

In addition to the administrative fees above, the Federal Pool program pays for disease management services on a per member per month basis at a rate of \$2.80 and \$2.65 for 2013 and 2012, respectively.

All such amounts are settled between the Pool and the administrator on a monthly basis. The receivable from administrator is considered fully collectible and, accordingly, does not include a provision for bad debts.

**Estimated claims incurred but not reported** - This liability represents benefits due policyholders and providers for services provided but not yet recorded or paid. The Pool's actuarial estimate of this liability considers historical experience and subjective judgments, and is based on the development method. Management reviews the actuarial assumptions used in determining the liability. The amount ultimately paid may be more or less than such estimates. Accounting estimates are subject to change and the effects of such changes are recognized in the period in which they can be reasonably estimated. The Pool does not report estimated claims incurred on the Federal Pool program as it has not retained the risk of loss on its insurance policies.

**Net position** - Net position of the Pool were \$522,155 as of December 31, 2013 and 2012. The amount represents the historical excess of the Pool's premiums and assessments revenues over its costs. The Pool accrues assessments revenue or refunds (contra-revenue) at the end of each calendar year based on the Pool's income or loss prior to those final assessments and, accordingly, there was no operating income or loss reported in 2013 or 2012. Management and the board of directors routinely review the appropriateness of the amount of net position and believe such amount is appropriate as of December 31, 2013 and 2012.

**Earned and unearned premium revenue** - Premium revenue is recognized as revenue in the month premiums are earned. Policyholders pay premiums monthly over their contract period, which is determined by the effective date of their policy. Policyholders who do not remit their premiums within 45 days of the monthly due date are eliminated from the plan. Delinquent premium payments are recognized as revenue upon collection and are not accrued.

**Grant revenue** - Grant revenue received by the State Pool is considered voluntary non-exchange revenue under governmental accounting standards. Accordingly, revenues are recorded when all underlying eligibility requirements have been met, which occurs when the Pool has incurred an allowable expenditure under the terms of the grant agreement.

## NEW MEXICO MEDICAL INSURANCE POOL NOTES TO FINANCIAL STATEMENTS

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### **Note 1 - Summary of Significant Accounting Policies (continued)**

**Income and premium taxes** - In management's opinion the Pool provides an essential governmental function to its members as described in Section 115 of the Internal Revenue Code and, accordingly, the Pool is exempt from such taxes. No provision for such taxes is included in the accompanying financial statements. The Pool is also exempt from State of New Mexico taxes.

**Subsequent events** - Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Pool recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Pool's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The Pool has evaluated subsequent events through May 12, 2014, which is the date the financial statements were available to be issued.

### **Note 2 - Going Concern**

As described above, the New Mexico medical Insurance Pool was formed as an unincorporated not-for-profit entity by the New Mexico Legislature in 1987. The purpose of the Pool is to provide comprehensive health insurance coverage to eligible individuals. Due to the enactment of Affordable Care Act which includes the addition of New Mexico Exchange and the restructuring of the Medicaid requirement, the State Pool is slowly transferring all the members to the New Mexico Exchange and Medicaid. Further, the State Pool added an incentive fee to the Delta Consulting Group contract to help transition the enrolled members in the State Pool to the Exchange program if they meet or exceed the number of members transferred.

The Federal Pool was created through the Patient Protection and Affordable Care Act as a temporary high risk health insurance pool program, and under that law is set to discontinue providing health insurance effective April 30, 2014. Any activity subsequent to that date will consist of administering and paying the 18 month run-out of claims commencing on May 1, 2014. Any amount in excess of the \$20.6 million federal contract will be assumed by HHS.

See also Note 6 which provides further information pertaining to management's plans for such matters.

### **Note 3 - Related Party Transactions with BCBSNM**

Included in claims processing costs in the accompanying statements of revenues, expenses and changes in net position are \$6,334,057 and \$5,437,036 in expenses associated with administration services provided by BCBSNM, including claims processing, premium billing and collection, and related matters for the years ended December 31, 2013 and 2012, respectively.

# NEW MEXICO MEDICAL INSURANCE POOL

## NOTES TO FINANCIAL STATEMENTS

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### Note 3 - Related Party Transactions with BCBSNM (continued)

For its proportionate share of assessments, BCBSNM paid the Pool \$31,314,161 and \$13,303,903 in 2013 and 2012, respectively. As of December 31, 2012, \$386,555 was payable back to BCBSNM as an assessment refund.

### Note 4 - Line-of-Credit

The Pool had a \$2,000,000 line-of-credit from a local financial institution, expiring September 28, 2014. Interest, payable monthly, is variable at the bank's prime rate (4% at December 31, 2013). There were no balances outstanding as of December 31, 2013 or 2012, and there were no draws against the line-of-credit in either 2013 or 2012.

### Note 5 - Liability for Claims and Claim Adjustment Expenses

The State Pool programs liability for claims and claim processing costs includes an amount determined from claims reports and an amount for claims incurred but not reported. Estimates of the liability for amounts incurred but not reported as of December 31, 2013 and 2012 have been based on an actuarial evaluation of the program's historical claims experience, industry data, and other factors. Estimated claims processing costs are accrued when the related liability for unpaid claims is accrued, and represents the costs of paying the administrator to process all remaining claims, which is estimated at 3 months of typical administrative charges. While management believes that these estimates are adequate, actual incurred but unpaid claims and claim processing costs may vary significantly from the amount provided.

Changes in reserves for claims and claims processing costs were as follows for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Liability for claims and claims processing costs, beginning of year	\$ 28,252,754	\$ 27,428,200
Incurred claims and claims processing costs		
Prior years claims	1,159,526	(1,094,066)
Current year claims	<u>177,677,164</u>	<u>155,734,708</u>
	<u>178,836,690</u>	<u>154,640,642</u>
Claims paid		
Prior years claims	29,412,280	26,334,134
Current year claims	<u>145,230,790</u>	<u>127,481,954</u>
	<u>174,643,070</u>	<u>153,816,088</u>
Liability for claims and claims processing costs, end of year	<u>\$ 32,446,374</u>	<u>\$ 28,252,754</u>

**NEW MEXICO MEDICAL INSURANCE POOL**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5 - Liability for Claims and Claim Adjustment Expenses (continued)**

Incurred claims and claim adjustment expenses for the State Pool program for the years ended December 31, 2013 and 2012 includes \$1,159,526 in favorable and \$1,094,066 in unfavorable, respectively, development on prior years' claims. Claims and claims processing costs paid for the Federal Pool program for the years ended December 31, 2013 and 2012 were \$32,164,786 and \$27,079,453, respectively, and were included in the claims and claims processing balances presented in the statements of revenues, expenses, and changes in net position.

**Note 6 - Contingencies and Subsequent Events**

NMMIP, through its Federal Pool program, acts as a claims servicer on the State of New Mexico's federal high risk pool program, formed as the result of the Affordable Care Act of 2010. The Federal Pool program is contracted with the State of New Mexico Human Services Department (HSD) to process claims of this federal high risk pool program, and HSD is contracted with the United States Department of Health and Human Services (HHS) for its operation and administration. Historically, the Federal Pool has not retained risk associated with the Federal Pool program claims and administrative costs, as all such costs are reimbursed to the Federal Pool. The provisions of these historical contracts have included termination of contract provisions that stipulated the Federal Pool will be reimbursed for all claims and claim processing costs, including those costs incurred during the run-out phase of the claims cycle.

In September 2013, HHS and HSD entered into a revised contract for the funding of the Federal Pool program which included an amended contract provision whereby HHS would resume risk of the Federal High Risk Pool program claims and administrative costs through April 30, 2014, and for all claims run-out processed during the 18-month period commencing on May 1, 2014. No provisions have been made in the financial statements should the claims exceed the federal maximum.

**SUPPLEMENTAL INFORMATION**

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**NEW MEXICO MEDICAL INSURANCE POOL**  
**COMBINING STATEMENT OF NET POSITION**  
**DECEMBER 31, 2013**

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**ASSETS**

	New Mexico Medical Insurance Pool Program	New Mexico Federal High Risk Pool Program	Eliminations	Total
Cash and cash equivalents	\$ 24,117,894	\$ 3,656,383	\$ -	\$ 27,774,277
Assessments receivable	7,630,220	-	-	7,630,220
Receivable from third-party administrator	2,652,492	230,398	-	2,882,890
Due from NMMIP	-	214,164	(214,164)	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 34,400,606</u>	<u>\$ 4,100,945</u>	<u>\$ (214,164)</u>	<u>\$ 38,287,387</u>

**LIABILITIES AND NET POSITION**

Estimated claims incurred but not reported	\$ 15,607,000	\$ -	\$ -	\$ 15,607,000
Accrued claims	13,046,320	2,462,054	-	15,508,374
Accrued claims processing costs	1,331,000	-	-	1,331,000
Assessment refunds payable	2,358,539	-	-	2,358,539
Unearned premiums and subsidized assessments	821,555	21,860	-	843,415
Payable to administrator	499,370	75,149	-	574,519
Unearned HHS revenue	-	1,541,882	-	1,541,882
Accounts payable	503	-	-	503
Due to NMFHRP	214,164	-	(214,164)	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	33,878,451	4,100,945	(214,164)	37,765,232
Net position	<u>522,155</u>	<u>-</u>	<u>-</u>	<u>522,155</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and net position	<u>\$ 34,400,606</u>	<u>\$ 4,100,945</u>	<u>\$ (214,164)</u>	<u>\$ 38,287,387</u>

**NEW MEXICO MEDICAL INSURANCE POOL**  
**COMBINING STATEMENT OF NET POSITION**  
**DECEMBER 31, 2012**

**ASSETS**

	New Mexico Medical Insurance Pool Program	New Mexico Federal High Risk Pool Program	Eliminations	Total
Cash and cash equivalents	\$ 23,859,281	\$ 125	\$ -	\$ 23,859,406
Assessments receivable	937,885	-	-	937,885
Receivable from HHS	-	2,961,624	-	2,961,624
Receivable from administrator	2,678,160	317,143	-	2,995,303
Due from NMMIP	-	331,190	(331,190)	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 27,475,326</u>	<u>\$ 3,610,082</u>	<u>\$ (331,190)</u>	<u>\$ 30,754,218</u>

**LIABILITIES AND NET POSITION**

Estimated claims incurred but not reported	\$ 13,005,000	\$ -	\$ -	\$ 13,005,000
Accrued claims	10,968,624	3,109,130	-	14,077,754
Accrued claims processing costs	1,170,000	-	-	1,170,000
Unearned premiums and subsidized assessments	1,024,541	429,910	-	1,454,451
Payable to administrator	450,381	70,917	-	521,298
Accounts payable	3,435	125	-	3,560
Due to NMFHRP	331,190	-	(331,190)	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	26,953,171	3,610,082	(331,190)	30,232,063
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net position	522,155	-	-	522,155
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and net position	<u>\$ 27,475,326</u>	<u>\$ 3,610,082</u>	<u>\$ (331,190)</u>	<u>\$ 30,754,218</u>

**NEW MEXICO MEDICAL INSURANCE POOL**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**DECEMBER 31, 2013**

	New Mexico Medical Insurance Pool Program	New Mexico Federal High Risk Pool Program	Eliminations	Total
<b>OPERATING REVENUES</b>				
Premiums	\$ 30,391,943	\$ 3,699,598	\$ -	\$ 34,091,541
Assessments	119,922,371	3,818,829	(3,818,829)	119,922,371
Federal contracts	-	24,902,112	-	24,902,112
Initial assessments	7,000	-	-	7,000
Grant income	1,382,204	-	-	1,382,204
Interest income	9,287	-	-	9,287
Other income	3,002	-	-	3,002
<b>Total operating revenues</b>	<b>151,715,807</b>	<b>32,420,539</b>	<b>(3,818,829)</b>	<b>180,317,517</b>
<b>OPERATING EXPENSES</b>				
Claims	141,201,356	31,301,277	-	172,502,633
Claims processing costs	5,470,548	863,509	-	6,334,057
General and administrative	5,043,903	255,753	(3,818,829)	1,480,827
<b>Total operating expenses</b>	<b>151,715,807</b>	<b>32,420,539</b>	<b>(3,818,829)</b>	<b>180,317,517</b>
<b>CHANGE IN NET POSITION</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET POSITION at beginning of year</b>	<b>522,155</b>	<b>-</b>	<b>-</b>	<b>522,155</b>
<b>NET POSITION at end of year</b>	<b>\$ 522,155</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 522,155</b>

**NEW MEXICO MEDICAL INSURANCE POOL  
COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
DECEMBER 31, 2012**

	New Mexico Medical Insurance Pool Program	New Mexico Federal High Risk Pool Program	Eliminations	Total
<b>OPERATING REVENUES</b>				
Premiums	\$ 28,226,772	\$ 3,028,847	\$ -	\$ 31,255,619
Assessments	101,966,787	3,034,071	(3,034,071)	101,966,787
Federal contracts	-	21,507,006	-	21,507,006
Initial assessments	7,000	-	-	7,000
Grant income	1,721,599	-	-	1,721,599
Interest income	11,485	-	-	11,485
Other income	6,189	-	-	6,189
<b>Total operating revenues</b>	<b>131,939,832</b>	<b>27,569,924</b>	<b>(3,034,071)</b>	<b>156,475,685</b>
<b>OPERATING EXPENSES</b>				
Claims	122,825,172	26,378,434	-	149,203,606
Claims processing costs	4,736,017	701,019	-	5,437,036
General and administrative	4,378,643	490,471	(3,034,071)	1,835,043
<b>Total operating expenses</b>	<b>131,939,832</b>	<b>27,569,924</b>	<b>(3,034,071)</b>	<b>156,475,685</b>
<b>CHANGE IN NET POSITION</b>	-	-	-	-
<b>NET POSITION at beginning of year</b>	<b>522,155</b>	<b>-</b>	<b>-</b>	<b>522,155</b>
<b>NET POSITION at end of year</b>	<b>\$ 522,155</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 522,155</b>

**NEW MEXICO MEDICAL INSURANCE POOL  
CLAIMS DEVELOPMENT INFORMATION  
REQUIRED SUPPLEMENTARY INFORMATION**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net Required Contributions and Investment Income	11,975,743	17,093,079	31,084,026	41,519,818	65,014,858	92,058,588	110,010,944	135,788,722	154,747,897	178,932,311
Unallocated Expenses	306,430	435,957	543,484	662,161	812,118	827,569	947,842	1,399,242	1,835,043	1,480,827
Estimated Claims and Expenses										
End of Policy Year	14,262,156	19,374,090	30,706,234	44,695,967	66,316,115	93,359,998	110,483,903	136,059,337	155,734,708	177,677,164
Paid (cumulative) as of:										
End of Policy Year	11,767,656	15,999,090	25,028,031	36,977,062	59,456,386	81,628,239	86,897,362	108,631,137	127,481,954	145,230,790
One Year Later	13,521,231	18,293,707	29,391,364	43,453,791	65,737,872	93,490,399	111,240,876	136,468,838	158,784,361	
Two Years Later	13,493,855	18,302,463	29,351,396	43,500,856	65,518,911	93,001,868	111,798,058	143,429,390		
Three Years Later	13,473,738	18,300,728	29,346,595	43,502,447	65,512,997	93,149,601	111,799,853			
Four Years Later	13,473,199	18,301,871	29,354,537	43,542,991	65,489,278	93,149,601				
Five Years Later	13,475,668	18,325,707	29,388,740	43,498,558	65,489,278					
Six Years Later	13,475,927	18,325,707	29,388,740	43,498,558						
Seven Years Later	13,475,927	18,325,707	29,388,740							
Eight Years Later	13,475,927	18,325,707								
Nine Years Later	13,475,927									
Reestimate incurred Claims and Expense										
End of Policy Year	14,262,156	19,374,090	30,706,234	44,695,967	66,316,115	93,359,998	110,483,903	136,059,337	155,734,708	177,677,164
One Year Later	13,521,231	18,293,707	29,394,275	43,456,702	65,737,872	93,654,515	111,242,560	136,480,620	158,851,168	
Two Years Later	13,493,855	18,302,463	29,351,396	43,500,856	65,518,911	93,001,868	111,798,058	143,429,390		
Three Years Later	13,473,738	18,300,728	29,346,595	43,502,447	65,512,997	93,149,601	111,799,853			
Four Years Later	13,473,199	18,301,871	29,354,537	43,542,991	65,489,278	93,149,601				
Five Years Later	13,475,668	18,325,707	29,388,740	43,498,558	65,489,278					
Six Years Later	13,475,927	18,325,707	29,388,740	43,498,558						
Seven Years Later	13,475,927	18,325,707	29,388,740							
Eight Years Later	13,475,927	18,325,707								
Nine Years Later	13,475,927									
Increase (Decrease) in estimated incurred claims and expenses from end of policy year	(786,229)	(1,048,383)	(1,317,494)	(1,197,409)	(826,837)	(210,397)	1,315,950	7,370,053	3,116,460	-

**NEW MEXICO MEDICAL INSURANCE POOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2013**

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<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Program or Award Amount</u>
<b>Department of Health and Human Services</b>		
Grants to States for Operation of Qualified High-Risk Pools	93.780	<u>\$ 1,382,204</u>

**Note - Basis of Presentation:**

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

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

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Mexico Medical Insurance Pool (Pool), which comprise the statement of financial position as of December 31, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 12, 2014.

**Internal Control Over Financial Reporting**

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

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

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

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as item 2013-001 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2013-001.

### **New Mexico Medical Insurance Pool's Response to Findings**

New Mexico Medical Insurance Pool's response to the findings identified in our audit is described in the accompanying *schedule of findings and questioned costs*. New Mexico Medical Insurance Pool's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal and compliance and the results 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
May 12, 2014

## **REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

### **Report on Compliance for Each Major Federal Program**

We have audited New Mexico Medical Insurance Pool's (Pool) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Pool's major federal program for the year ended December 31, 2013. The Pool's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Pool's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pool's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Pool's compliance.

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

### ***Opinion on Each Major Federal Program***

In our opinion, the Pool complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

### **Report on Internal Control Over Compliance**

Management of the Pool is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Pool's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Mess Adams LLP*

Albuquerque, New Mexico  
May 12, 2014

**NEW MEXICO MEDICAL INSURANCE POOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2013**

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**SECTION I. SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified?   X   Yes \_\_\_\_\_ None Reported

Non-compliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness (es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes   X   None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

**Identification of Major Program**

CFDA Number	Name of Federal Program or Cluster
93.780	Grants to States for Operation of Qualified High-Risk Pools

Dollar threshold used to distinguish between type A and type B programs \$   300,000  

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**NEW MEXICO MEDICAL INSURANCE POOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2013**

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**SECTION II. FINDINGS - FINANCIAL STATEMENT AUDIT**

**2013-001 Annual Recertifications, Significant deficiency**

CONDITION

During our testwork over claims we noted the member's file did not include a current copy of the acceptance letter notifying the member they were accepted into the LIPP in 2 out of 18 instances.

CRITERIA

Consistent with §C.4.2.7 of its technical proposal, the Contractor shall establish and maintain procedures for individuals to appeal eligibility and coverage determinations.

CAUSE

Due to a system upgrade, acceptance letters were either not properly generated or not kept in file.

EFFECT

There is a potential that the applicant could be paying the incorrect premium amounts. There is also a potential that the members could be renewed that are not eligible for low income premiums.

RECOMMENDATION

We recommend that the NMFHRP create policies and procedures in order to verify that renewal letters are being properly provided to members.

MANAGEMENT COMMENTS

The following process has been implemented to ensure the all LIPP enrollees receive their acceptance letters:

After a Low Income Application has been reviewed for eligibility and verified to ensure accuracy of the LIPP decision, the low income application is placed in a folder to await the generation of an acceptance letter. The system automatically generates letters the following day and publishes a copy of the letter in Document Direct.

The Membership Specialist will compare the application in the folder to the Document Direct to ensure that each letter has been created. If the system does not generate a letter, the Membership Specialist will manually prepare a letter and send it to the policyholder. A copy is saved in the "G" drive in the "AM Daily Letters" folder.

**NEW MEXICO MEDICAL INSURANCE POOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2013**

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**SECTION III. FINDINGS AND RECOMMENDATIONS - MAJOR FEDERAL AWARD**

None

**NEW MEXICO MEDICAL INSURANCE POOL  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2013**

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Prior audit report date: June 24, 2013

Period ended on prior audit report: December 31, 2012

Independent auditor of prior period audit report: Moss Adams LLP

1. The prior year audit report disclosed no findings.