



Report of Independent Auditors
and Financial Statements
with Supplementary Information

New Mexico Medical Insurance Pool

December 31, 2016 and 2015

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The 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 (the "Pool"), which comprise the statements of net position as of December 31, 2016 and 2015, 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Mexico Medical Insurance Pool as of December 31, 2016 and 2015, and the changes in its net position 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. Management's plans regarding those matters are described in Note 2. There have been significant decreases in Pool membership due to the enactment of the Patient Protection and Affordable Care Act, the expansion of Medicaid, and enrollment in the commercial market. The Pool's Board of Directors is considering policy and operating changes that will be consistent with the federal and regulatory environment to fill in the gaps in healthcare coverage. The Pool program cannot be terminated without legislative action. No action was officially taken during the 2016 New Mexico State Legislature's 30-day session nor the 2017 60-day session. Therefore, the Pool is expected to continue to operate through December 31, 2017.

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 6 and page 16, respectively, 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2017 on our consideration of the New Mexico Medical Insurance 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 New Mexico Medical Insurance Pool's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
May 26, 2017

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NEW MEXICO MEDICAL INSURANCE POOL MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED DECEMBER 31, 2016 AND 2015

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 years ended December 31, 2016 and 2015.

Financial Highlights

The Pool reported a net position of \$522,155 at the close of its most recent fiscal year; the total assets were \$17,556,056 and total liabilities were \$17,033,901. The Pool maintains a net position 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 policyholders, and assessments to insurers based on the market share of their direct premiums collected within the State of New Mexico. Liabilities consist of refunds due to carriers for overpayment on the 2016 final assessment, the reserves necessary to pay medical and pharmacy claims, unearned premium, administrative costs, 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 amount (prior to assessments paid by insurers) for 2016 was \$73,767,411 which is an *increase* of \$12,552,460 (20.5%) from 2015. The actual loss for 2015 was \$61,214,951 which was a *decrease* of \$37,893,710 (38.2%) from the 2014 \$99,108,661 loss amount.

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 Consolidated Omnibus Budget Reconciliation Act (COBRA) benefits and have no other portability options available to them.

The Pool is funded through premiums received from policyholders, and assessments to insurance companies authorized to transact health insurance in New Mexico ("insurers"). The Pool had previously received some funds through a CMS grant program, which ended September 30, 2015. In addition, all insurers authorized to conduct business in New Mexico are required to be members of the Pool and pay an initial assessment of \$500.

**NEW MEXICO MEDICAL INSURANCE POOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

Condensed Financial Information

	2016	2015	2014
SUMMARY BALANCE SHEETS			
Total assets - current	\$ 17,556,056	\$ 16,624,006	\$ 32,133,214
Accrued claims and processing costs - current	15,486,583	14,158,434	21,014,876
Other payables - current	1,547,318	1,943,417	10,596,183
Total liabilities - current	17,033,901	16,101,851	31,611,059
Net position	\$ 522,155	\$ 522,155	\$ 522,155
SUMMARY STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
Premiums	\$ 11,957,671	\$ 14,527,867	\$ 22,967,888
Assessments	73,773,911	61,217,951	99,116,661
Grant income	-	826,777	1,607,017
Federal contracts	-	7,782	4,753,655
Other income	3,087	5,880	9,640
Total operating revenues	85,734,669	76,586,257	128,454,861
Operating expenses			
Claims and related processing costs	84,576,572	75,062,924	126,827,136
General and administrative	1,158,097	1,523,333	1,627,725
Total operating expenses	85,734,669	76,586,257	128,454,861
Change in net position	\$ -	\$ -	\$ -

Overall financial analysis – Total assets for the State Pool increased slightly from 2015 to 2016 primarily due to additional interim billing revenue, as a result of an increase in the budgeted loss amount.

Although rates increased an average 3.8% on January 1, 2016, the Pool experienced a reduction in earned premium from 2015 to 2016 in the amount of \$2.6 million mainly due to a 14.4% decline in membership. Although there was a decline in membership, claims expense increased while administrative expenses remained relatively static.

Pool activities – In January 2016, premium rates increased an average of 3.8% due to an increase in the standard risk rates. By law, premium rates can be calculated at up to 150% of the standard risk rate. 2016 rates were set at 130% of the standard risk rate. Pool membership had a net decrease of 467 members, from 3,238 at the end of 2015, to total membership of 2,771 at the end of 2016.

NEW MEXICO MEDICAL INSURANCE POOL MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED DECEMBER 31, 2016 AND 2015

Budget analysis – In 2016 Pool losses were \$73.8 million, \$9.25 million *more* than budgeted. Although membership was within 2% of budget, assessments were 16% more than budgeted, due to higher claims trends. The original budget assumed a 10% medical and a 15% pharmacy claims trend. The actual combined trend was 43%. Overall, income was 12% more than projected, due to the increase in assessments. Earned premium was 9% less than forecast, due to an increase in Low Income Premium Program participants. Operating expenses were 6% more than forecast.

Participation in the Low Income Premium Program (LIPP) increased from 65% in 2015 to 75% in 2016. Overall, there was less than a 14% decrease in membership, due to the Pool being the “safety net”, offering coverage to individuals unable to obtain coverage through the Exchange or the commercial market during closed enrollment.

Current trends and conditions and future impact – New Mexico Medical Insurance Pool

The implementation of marketplace exchanges, the expansion of Medicaid eligibility, and the provision within the Patient Protection and Affordable Care Act that mandates guaranteed issue of individual health coverage policies, along with those ineligible for enrollment in the marketplace, will continue to have an impact on enrollment into and out of the Pool.

The current three year administrative services agreement, with Blue Cross and Blue Shield of New Mexico (BCBSNM), expired December 31, 2014, with a provision for two one year extensions, which have both been exhausted. The final extension was in effect through December 31, 2016. In 2016, the per member per month (pmpm) fee was replaced with a flat fee in the amount of \$254,460 per month.

A request for proposal for administrative service was issued in 2016 and the contract was awarded to Benefit Management, Inc. in Great Bend, Kansas. Pool policyholders were transitioned to the new administrator effective January 1, 2017.

Per the administrative services contract with BCBSNM, if the agreement is not renewed, “claims incurred during the term of this Agreement that are unpaid as of the termination date shall be processed and paid by BCBSNM for a period of Twelve (12) months after the termination date (“Run-out Services”). BCBSNM shall have no obligation or liability for the processing of and shall deny any claims not presented within that period. No claims already paid or denied shall be adjusted by BCBSNM after that expiration of the Run-out period.

The Pool shall pay BCBSNM a one-time administrative fee for Run-out Services that is equal to three (3) times the average of the monthly Administrative Services fee amounts paid in the three (3) months immediately preceding the termination date.

Contacting Pool's Financial Management

This financial report is designed to provide the public with a general overview of Pool's finances. If you have any questions about this report or need additional financial information, contact Debbie Armstrong, Pool's Executive Director at 1223 St. Francis Drive Suite B, Santa Fe, NM 87505.

NEW MEXICO MEDICAL INSURANCE POOL
STATEMENTS OF NET POSITION

ASSETS

	December 31,	
	2016	2015
CURRENT ASSETS		
Cash	\$ 16,802,997	\$ 15,115,333
Assessments receivable	753,059	1,508,673
Total current assets	\$ 17,556,056	\$ 16,624,006

LIABILITIES

CURRENT LIABILITIES		
Estimated claims incurred but not reported	\$ 7,545,000	\$ 6,417,000
Accrued claims	7,178,583	7,205,434
Accrued claims processing costs	763,000	536,000
Assessment refunds payable	1,204,251	1,363,053
Unearned premiums	-	255,169
Payable to third-party administrator	343,067	325,195
Total current liabilities	17,033,901	16,101,851

NET POSITION

Unrestricted	522,155	522,155
Total net position	\$ 522,155	\$ 522,155

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

	Years Ended December 31,	
	2016	2015
OPERATING REVENUES		
Premiums	\$ 11,957,671	\$ 14,527,867
Assessments	73,767,411	61,214,951
Federal contracts	-	7,782
Initial assessments	6,500	3,000
Grant income	-	826,777
Interest income	2,087	4,880
Other income	1,000	1,000
	<u>85,734,669</u>	<u>76,586,257</u>
OPERATING EXPENSES		
Claims	81,296,052	72,164,277
Claims processing costs	3,280,520	2,898,647
General and administrative	1,158,097	1,523,333
	<u>85,734,669</u>	<u>76,586,257</u>
CHANGE IN NET POSITION	-	-
NET POSITION at beginning of year	<u>522,155</u>	<u>522,155</u>
NET POSITION at end of year	<u>\$ 522,155</u>	<u>\$ 522,155</u>

NEW MEXICO MEDICAL INSURANCE POOL
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from policyholders and insurers	\$ 86,074,225	\$ 72,947,852
Proceeds from grants	-	826,777
Payments for claims and claims processing costs	(83,248,423)	(81,919,366)
Payments to providers and suppliers	(1,140,225)	(2,016,583)
Interest received	2,087	4,880
	1,687,664	(10,156,440)
Net cash provided by (used in) operating activities		
	1,687,664	(10,156,440)
NET INCREASE (DECREASE) IN CASH		
	1,687,664	(10,156,440)
CASH, beginning of year	15,115,333	25,271,773
CASH, end of year	\$ 16,802,997	\$ 15,115,333
RECONCILIATION OF CHANGES IN NET POSITION		
to net cash provided by (used in) operating activities		
CHANGES IN NET POSITION	\$ -	\$ -
ADJUSTMENTS TO RECONCILE CHANGE IN NET POSITION		
to net cash provided by (used in) operating activities		
Changes in assets and liabilities		
Assessments receivable	755,614	3,320,510
Receivable from HHS	-	30,600
Receivable from third-party administrator	-	2,001,658
Estimated claims incurred but not reported	1,128,000	(5,409,000)
Accrued claims	(26,851)	(1,188,442)
Accrued claims processing costs	227,000	(259,000)
Assessment refunds payable	(158,802)	(8,047,134)
Unearned premiums	(255,169)	(108,471)
Payable to third-party administrator	17,872	(492,075)
Unearned HHS revenue	-	(3,911)
Accounts payable	-	(1,175)
Total adjustments	1,687,664	(10,156,440)
Net cash provided by (used in) operating activities	\$ 1,687,664	\$ (10,156,440)

NEW MEXICO MEDICAL INSURANCE POOL

NOTES TO FINANCIAL STATEMENTS

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.

The funding for the Pool program comes from premiums received from policyholders, and assessments against insurance companies authorized to transact health insurance in New Mexico (“insurers”). 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 collectability of the assessments is probable and reasonably estimable.

If assessments for a fiscal year exceed actual losses and administrative expenses of the Pool for that fiscal year, the excess assessments are refunded, and recorded as accrued assessment refunds for that fiscal year. Any deficit incurred by the Pool 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 Pool was administered by Blue Cross and Blue Shield of New Mexico (BCBSNM) during 2016 and 2015. The contract ended December 31, 2016.

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. There were no deferred outflows or inflows of resources as of December 31, 2016 and 2015.

The statement of net position reports all assets, liabilities, 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 2016 or 2015.

NEW MEXICO MEDICAL INSURANCE POOL NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

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 as 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. The principal operating revenues of the Pool are premiums from policyholders, assessments against insurers in the State of New Mexico.

Operating expenses of the Pool include the claims and general and administrative expenses. All expenses of the Pool are considered operating expenses.

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 – Cash consists 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, 2016 and 2015, all of the balance was properly insured.

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 \$16,469,721 and \$14,765,333 at December 31, 2016 and 2015, 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 receivable – 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 debt expense.

NEW MEXICO MEDICAL INSURANCE POOL

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Estimated claims incurred but not reported – This liability represents benefits due to policyholders and to 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.

Payable to third-party administrator – The third-party 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 third-party administrator also bills and receives all premiums on behalf of the Pool, which are then passed onto the Pool.

Net position – Net position of the Pool were \$522,155 as of December 31, 2016 and 2015. 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 2016 or 2015. 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, 2016 and 2015.

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.

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 statement of net position, 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 statement of net position date and before financial statements are available to be issued.

The Pool has evaluated subsequent events through May 26, 2017, which is the date the financial statements were available to be issued.

NEW MEXICO MEDICAL INSURANCE POOL NOTES TO FINANCIAL STATEMENTS

Note 2 – Going Concern

The New Mexico Medical Insurance Pool (Pool) was formed as an unincorporated not-for-profit entity by the New Mexico State Legislature in 1987. The purpose of the Pool is to provide access to health insurance coverage to all residents of New Mexico who are denied adequate health insurance and are considered uninsurable.

Due to the enactment of the Patient Protection and Affordable Care Act, which continues to include the addition of a State Exchange and the restructuring of the Medicaid program, the Pool slowly transitioned members to other coverage through the New Mexico Health Insurance Exchange (Exchange), Medicaid, and the commercial market.

The Pool will continue to offer a Medicare Carve-Out Plan, for individuals under the age of 65 and on Medicare A & B due to a disability. Currently, there is no such plan offered through the Exchange and only limited policies through the commercial market.

The *long-term objective* of the Pool is to remain a safety net to the individuals without access to other insurance coverage.

The strategy for accomplishing the long-term objectives includes: The Pool acting as a conduit to the Exchange and commercial market by accepting individuals locked out during the closed enrollment period and then transitioning them to other coverage once open enrollment begins; develop a systematic approach to depopulating that does not discriminate in determining who stays and who is targeted for transitioning out the Pool; and permit certain exceptions to eligibility to allow some individual's coverage to remain in effect for an additional period of time.

Note 3 – Related Party Transactions with BCBSNM

In exchange for all the administration services provided by BCBSNM, the Pool paid an administration fee of \$254,460 per month for 2016 and on a per member per month basis at a rate of \$73.21 for 2015.

Included in claims processing costs in the accompanying statements of revenues, expenses and changes in net position are \$3,160,526 and \$3,457,053 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, 2016 and 2015, respectively.

NEW MEXICO MEDICAL INSURANCE POOL

NOTES TO FINANCIAL STATEMENTS

Note 3 – Related Party Transactions with BCBSNM (continued)

In 2016, BCBSNM paid \$17,744,818 in interim billings. The amount due or to be refunded will be determined by the final assessment invoiced in May 2017. For 2015, the final assessments due and paid by BCBSNM were \$13,245,638.

2015 Final Assessment-Actual	
Health Care Service Corp	\$ 5,947,754
HCSC Insurance Service Company	7,297,884
	<u>\$ 13,245,638</u>
2016 Interim Billing Paid (to be applied toward final assessment invoiced in May 2017)	
Health Care Service Corp	\$ 6,167,888
HCSC Insurance Service Company	11,576,930
	<u>\$ 17,744,818</u>

Note 4 – Line-of-Credit

The Pool has a \$2,000,000 line-of-credit from a local financial institution, expiring November 15, 2017. Interest, payable monthly, is variable at the bank's index which is the BOK financial national prime rate (4.250% at December 31, 2016). There were no balances outstanding as of December 31, 2016 or 2015, and there were no draws against the line-of-credit in either 2016 or 2015.

Note 5 – Liability for Claims and Claim Processing Costs

The Pool's 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, 2016 and 2015 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.

NEW MEXICO MEDICAL INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS

Note 5 – Liability for Claims and Claim Processing Costs (continued)

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

	<u>2016</u>	<u>2015</u>
Liability for claims and claims processing costs, beginning of year	\$ 14,158,434	\$ 21,014,876
Incurring claims and claims processing costs		
Prior years (refunds) claims	-	(22,203)
Current year claims	84,576,571	75,107,430
	<u>84,576,571</u>	<u>75,085,227</u>
Claims paid		
Prior years claims	14,158,434	20,992,673
Current year claims	69,089,988	60,948,996
	<u>83,248,422</u>	<u>81,941,669</u>
Liability for claims and claims processing costs, end of year	<u>\$ 15,486,583</u>	<u>\$ 14,158,434</u>

Incurring claims and claim adjustment expenses for the Pool program for the years ended December 31, 2016 and 2015 includes \$0 and \$22,203 in unfavorable, respectively, development on prior years' claims.

The liability for claims and claims processing costs, end of year is composed of the following:

	<u>2016</u>	<u>2015</u>
Estimated claims incurred but not reported	\$ 7,545,000	\$ 6,417,000
Accrued claims	7,178,583	7,205,434
Accrued claims processing costs	763,000	536,000
	<u>7,545,000</u>	<u>7,205,434</u>
Total liability for claims and claims processing costs, end of year	<u>\$ 15,486,583</u>	<u>\$ 14,158,434</u>

REQUIRED SUPPLEMENTARY INFORMATION

NEW MEXICO MEDICAL INSURANCE POOL

CLAIMS DEVELOPMENT INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Required Contributions and Investment Income	41,519,818	65,014,858	92,058,588	110,010,944	135,788,722	154,747,897	178,932,311	126,846,036	75,758,480	85,733,669
Unallocated Expenses (G&A)	662,161	812,118	827,569	947,842	1,399,242	1,835,043	1,480,827	1,627,725	1,523,333	1,158,097
Estimated Claims and Expenses										
End of Policy Year	44,695,967	66,316,115	93,359,998	110,483,903	136,059,337	155,734,708	177,677,164	124,151,361	75,107,430	84,576,571
Paid (cumulative) as of:										
End of Policy Year	36,977,062	49,639,432	73,546,702	91,011,250	113,480,779	132,280,776	147,290,596	102,535,049	66,679,169	70,481,332
One Year Later	43,453,791	65,737,872	93,490,399	111,240,876	136,470,281	158,860,016	178,705,868	117,439,099	78,975,345	
Two Years Later	43,434,737	65,494,656	93,001,542	111,797,927	143,430,960	159,664,878	178,336,433	117,408,342		
Three Years Later	43,434,807	65,494,656	93,099,841	111,797,963	143,430,960	159,668,399	178,334,783			
Four Years Later	43,434,807	65,494,656	93,099,841	111,797,963	143,430,960	159,668,399				
Five Years Later	43,434,807	65,494,656	93,099,841	111,797,963	143,430,960					
Six Years Later	43,434,807	65,494,656	93,099,841	111,797,963						
Seven Years Later	43,434,807	65,494,656	93,099,841							
Eight Years Later	43,434,807	65,494,656								
Nine Years Later	43,434,807									
Ten Years Later										
Reestimate of Incurred Claims and Expense										
End of Policy Year	44,695,967	66,316,115	93,359,998	110,483,903	136,059,337	155,734,708	177,677,164	124,151,361	75,107,430	84,576,571
One Year Later	43,457,753	65,737,872	93,654,515	111,242,560	136,482,063	158,926,823	178,806,539	117,440,077	79,023,533	
Two Years Later	43,434,737	65,494,656	93,001,542	111,797,927	143,430,960	159,664,878	178,336,433	117,408,342		
Three Years Later	43,434,807	65,494,656	93,099,841	111,797,963	143,430,960	159,668,399	178,334,783			
Four Years Later	43,434,807	65,494,656	93,099,841	111,797,963	143,430,960	159,668,399				
Five Years Later	43,434,807	65,494,656	93,099,841	111,797,963	143,430,960					
Six Years Later	43,434,807	65,494,656	93,099,841	111,797,963						
Seven Years Later	43,434,807	65,494,656	93,099,841							
Eight Years Later	43,434,807	65,494,656								
Nine Years Later	43,434,807									
Increase (Decrease) in Estimated Incurred Claims and Expenses from End of Policy Year	(1,261,160)	(821,459)	(260,157)	1,314,060	7,371,623	3,933,691	657,619	(6,743,019)	3,916,103	-

**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***

The Board of Directors
New Mexico Medical Insurance Pool

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the New Mexico Medical Insurance Pool (“NMMIP”) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the New Mexico Medical Insurance Pool’s basic financial statements, and have issued our report thereon dated May 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the New Mexico Medical Insurance Pool’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the New Mexico Medical Insurance Pool’s internal control. Accordingly, we do not express an opinion on the effectiveness of the New Mexico Medical Insurance 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Board of Directors
New Mexico Medical Insurance Pool

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the New Mexico Medical Insurance 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 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 26, 2017