



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

NEW MEXICO MEDICAL INSURANCE POOL

December 31, 2017 and 2016

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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, 2017 and 2016, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pool as of December 31, 2017 and 2016, 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 Pool will continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 2. The financial statements do not include any adjustment that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter. 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 cannot be terminated without legislative action. No action was officially taken during the 2018 New Mexico State Legislature's sessions. Therefore, the Pool is expected to continue to operate through December 31, 2019.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2018 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.

Mess Adams LLP

Albuquerque, New Mexico
May 28, 2018

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New Mexico Medical Insurance Pool Management's Discussion and Analysis Years Ended December 31, 2017 and 2016

As management of the New Mexico Medical Insurance Pool (the "Pool"), we offer readers of the Pool's financial statements this narrative overview and analysis of the financial activities of the Pool for the fiscal years ended December 31, 2017 and 2016.

Financial Highlights

The Pool reported a net position of \$522,155 at the close of its most recent fiscal year; the total assets were \$14,819,893 and total liabilities were \$14,297,738. 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 reserves necessary to pay medical and pharmacy claims, unearned premiums, 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 2017 was \$82,018,354 which is an *increase* of \$8,244,443 (11.2%) from 2016. The actual loss for 2016 was \$73,773,911 which was an *increase* of \$12,558,960 (20.5%) from the 2015 \$61,214,951 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"). 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, 2017 and 2016**

Condensed Financial Information

	2017	2016	2015
SUMMARY BALANCE SHEETS			
Total assets - current	\$ 14,819,893	\$ 17,556,056	\$ 16,624,006
Accrued claims and processing costs - current	13,621,440	15,486,583	14,158,434
Other payables - current	676,298	1,547,318	1,943,417
Total liabilities - current	14,297,738	17,033,901	16,101,851
Net position	\$ 522,155	\$ 522,155	\$ 522,155

SUMMARY STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Premiums	\$ 10,580,567	\$ 11,957,671	\$ 14,527,867
Assessments	82,018,354	73,773,911	61,217,951
Grant income	-	-	826,777
Federal contracts	-	-	7,782
Other income	6,880	3,087	5,880
Total operating revenues	92,605,801	85,734,669	76,586,257
Operating expenses			
Claims and related processing costs	91,407,100	84,576,572	75,062,924
General and administrative	1,198,701	1,158,097	1,523,333
Total operating expenses	92,605,801	85,734,669	76,586,257
Change in net position	\$ -	\$ -	\$ -

Overall Financial Analysis

Total assets for the State Pool decreased slightly from 2016 to 2017 primarily due to reduced premium revenue from declining memberships.

Although rates increased an average 2.4% on January 1, 2017, the Pool experienced a reduction in earned premiums from 2016 to 2017 in the amount of \$1,377,104 million mainly due to a 14.8% decline in membership. Although there was a decline in membership, claims expense increased while administrative expenses remained relatively static.

Pool Activities

In January 2017, premium rates increased an average of 2.4% 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. 2017 rates were set at 110% of the standard risk rate. Pool membership had a net decrease of 285 members, from 2,771 at the end of 2016, to total membership of 2,486 at the end of 2017.

New Mexico Medical Insurance Pool Management's Discussion and Analysis Years Ended December 31, 2017 and 2016

Budget Analysis

In 2017, Pool losses were \$82,018,354 million, \$12,474,508 million *more* than budgeted. Although membership was within 8.0% of budget, assessments were 17.9% more than budgeted, due to higher claims trends. The original budget assumed a 13% medical and a 20% pharmacy claims trend. The actual combined trend was 15%. Overall, income was 15.9% more than projected, due to the increase in assessments. Earned premium was 2.3% more than forecast, due to an increase in Low Income Premium Program participants. Operating expenses were 6.2% more than forecast.

Participation in the Low Income Premium Program (LIPP) decreased from 75.0% in 2016 to 57.4% in 2017. Overall, there was a 10.3% 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 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 with a twelve month run-out service agreement going through December 31, 2017. The Pool paid BCBSNM \$763,380 for Run-out services in 2017.

The current two-year administrative services agreement, with Benefit Management LLC (BML), will expire December 31, 2018, with a provision for two one-year extensions. In 2017, the per member per month (pmpm) fee was \$56.00. The Pool paid BML a total of \$1,854,457 for administrative services in 2017.

Per the administrative services contract with BML, if the agreement is not renewed, "administrator will provide claims runout services for up to twelve months. BML 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 BML after that expiration of the Run-out period".

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,	
	2017	2016
CURRENT ASSETS		
Cash	\$ 2,920,688	\$ 16,802,997
Premium receivable	63,501	-
Pharmacy rebate receivable	450,000	-
Assessments receivable	11,385,704	753,059
Total current assets	14,819,893	17,556,056

LIABILITIES

CURRENT LIABILITIES		
Estimated claims incurred but not reported	12,191,000	7,545,000
Accrued claims	891,440	7,178,583
Accrued claims processing costs	539,000	763,000
Accrued expenses	119,633	-
Assessment refunds payable	-	1,204,251
Unearned premiums	232,357	-
Payable to third-party administrator	324,308	343,067
Total current liabilities	14,297,738	17,033,901

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,	
	2017	2016
OPERATING REVENUES		
Premiums	\$ 10,580,567	\$ 11,957,671
Assessments	82,010,854	73,767,411
Initial assessments	7,500	6,500
Interest income	6,880	2,087
Other income	-	1,000
Total operating revenues	92,605,801	85,734,669
OPERATING EXPENSES		
Claims	89,013,263	81,296,052
Claims processing costs	2,393,837	3,280,520
General and administrative	1,198,701	1,158,097
Total operating expenses	92,605,801	85,734,669
CHANGE IN NET POSITION	-	-
NET POSITION at beginning of year	522,155	522,155
NET POSITION at end of year	\$ 522,155	\$ 522,155

New Mexico Medical Insurance Pool Statements of Cash Flows

	Years Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from policyholders and insurers	\$ 80,480,881	\$ 86,074,225
Payments for claims and claims processing costs	(93,272,243)	(83,248,423)
Payments to providers and suppliers	(1,097,827)	(1,140,225)
Interest received	6,880	2,087
	<u>(13,882,309)</u>	<u>1,687,664</u>
Net cash (used in) provided by operating activities	<u>(13,882,309)</u>	<u>1,687,664</u>
NET (DECREASE) INCREASE IN CASH	(13,882,309)	1,687,664
CASH, beginning of year	<u>16,802,997</u>	<u>15,115,333</u>
CASH, end of year	<u>\$ 2,920,688</u>	<u>\$ 16,802,997</u>
RECONCILIATION OF CHANGES IN NET POSITION		
to net cash (used in) provided by operating activities		
CHANGE IN NET POSITION	\$ -	\$ -
ADJUSTMENTS TO RECONCILE CHANGE IN NET POSITION		
to net cash provided by (used in) operating activities		
Changes in assets and liabilities		
Premium receivable	(63,501)	-
Pharmacy rebate receivable	(450,000)	-
Assessments receivable	(10,632,645)	755,614
Estimated claims incurred but not reported	4,646,000	1,128,000
Accrued claims	(6,287,143)	(26,851)
Accrued claims processing costs	(224,000)	227,000
Accrued expenses	119,633	-
Assessment refunds payable	(1,204,251)	(158,802)
Unearned premiums	232,357	(255,169)
Payable to third-party administrator	(18,759)	17,872
	<u>(13,882,309)</u>	<u>1,687,664</u>
Total adjustments	<u>(13,882,309)</u>	<u>1,687,664</u>
Net cash (used in) provided by operating activities	<u>\$ (13,882,309)</u>	<u>\$ 1,687,664</u>

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. That contract ended December 31, 2016. The Pool is administered by Benefits Management, LLC (BML) beginning January 1, 2017.

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, 2017 and 2016.

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 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. 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's 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, 2017 and 2016, 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 \$4,805,151 and \$16,469,721 at December 31, 2017 and 2016, 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.

Pharmacy rebate receivable

The Pool accrues a receivable each month for the amount that is expected to be received from pharmacy claims. No allowance is provided for doubtful accounts receivable as management considers all accounts to be collectible and based on cash payments received subsequent to year-end.

New Mexico Medical Insurance Pool

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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

As of December 31, 2016, the third-party administrator of the Pool, Blue Cross Blue Shield of New Mexico (BCBSNM), initially paid for all claims and claims processing costs, and was reimbursed by the Pool. The third-party administrator also billed and received all premiums on behalf of the Pool, which are then passed onto the Pool.

Beginning January 1, 2017, the third-party administrator of the Pool, BML, was hired to be the administrator of the Pool. The Pool paid a one-time implementation fee of \$32,000. In exchange for all the administrative services provided by the third-party administrator, the Pool pays an administrative fee on a per month basis rate of \$56 per-member-per month or a minimum of \$105,000 per month.

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 net position in 2017 or 2016.

Net position of the Pool were \$522,155 as of December 31, 2017 and 2016. 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 2017 or 2016. 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, 2017 and 2016.

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.

New Mexico Medical Insurance Pool

Notes to Financial Statements

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 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 28, 2018, which is the date the financial statements were available to be issued.

Note 2 – Management's Plan

The 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.

There is substantial doubt about the Pool's ability to continue as a going concern within one year after the issuance date. The Pool cannot be terminated without legislative action. No action was officially taken during the 2018 New Mexico State Legislative Session.

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 objective for the Pool is to act as a conduit to the Exchange and commercial market by accepting individuals locked out during the closed enrollment period and then assist transitioning them to other coverage once open enrollment begins.

New Mexico Medical Insurance Pool

Notes to Financial Statements

Note 3 – Third-Party Administrator

BCBSNM

In exchange for all the administration services provided by BCBSNM, the Pool paid an administration fee of \$254,460 per month for 2016. Beginning January 1, 2017, the Pool agreed to pay BCBSNM a one-time administrative fee for run-out services equal to three times the average of the monthly administrative fee amounts paid in the three months immediately preceding the termination date. During 2017, the Pool paid \$763,380 in administration fees to BCBSNM. Included in claims processing costs in the accompanying statements of revenues, expenses and changes in net position are \$763,380 and \$3,160,526 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, 2017 and 2016, respectively.

In 2017, BCBSNM paid \$16,826,252 in interim billings. The amount due or to be refunded will be determined by the final assessment to be invoiced in May 2018. For 2016, the final assessments due and paid by BCBSNM were \$17,744,818.

2016 Final Assessment-Actual	
Health Care Service Corp	\$ 6,167,888
HCSC Insurance Service Company	11,576,930
	<u>\$ 17,744,818</u>

2017 Interim Billing Paid (to be applied toward final assessment invoiced in May 2018)	
Health Care Service Corp	\$ 4,277,669
HCSC Insurance Service Company	12,548,583
	<u>\$ 16,826,252</u>

Benefit Management, LLC

In exchange for all the administration services provided by Benefit Management, LLC, the Pool paid an administration fee of \$1,854,457 for 2017.

Note 4 – Line-of-Credit

The Pool has a \$3,000,000 line-of-credit from a local financial institution, expiring November 15, 2018. Interest, payable monthly, is variable at the bank's index which is the BOK Financial, dba Bank of Albuquerque national prime rate (5.25% at December 31, 2017). There were no balances outstanding as of December 31, 2017 or 2016, and there were no draws against the line-of-credit in either 2017 or 2016.

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, 2017 and 2016 have been based on an actuarial evaluation of the program's historical claims experience, industry data, and other factors.

New Mexico Medical Insurance Pool
Notes to Financial Statements

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

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

	<u>2017</u>	<u>2016</u>
Liability for claims and claims processing costs, beginning of year	\$ 15,486,583	\$ 14,158,434
Incurred claims and claims processing costs		
Prior years (refunds) claims	-	-
Current year claims	<u>91,407,100</u>	<u>84,576,571</u>
	<u>91,407,100</u>	<u>84,576,571</u>
Claims paid		
Prior years claims	15,486,583	14,158,434
Current year claims	<u>77,785,660</u>	<u>69,089,988</u>
	<u>93,272,243</u>	<u>83,248,422</u>
Liability for claims and claims processing costs, end of year	<u>\$ 13,621,440</u>	<u>\$ 15,486,583</u>

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

	<u>2017</u>	<u>2016</u>
Estimated claims incurred but not reported	\$ 12,191,000	\$ 7,545,000
Accrued claims	891,440	7,178,583
Accrued claims processing costs	<u>539,000</u>	<u>763,000</u>
Total liability for claims and claims processing costs, end of year	<u>\$ 13,621,440</u>	<u>\$ 15,486,583</u>

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Required Supplementary Information

New Mexico Medical Insurance Pool

Claims Development Information

Required Supplementary Information

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Net Required Contributions and Investment Income	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	92,605,801
Unallocated Expenses (G&A)	812,118	827,569	947,842	1,399,242	1,835,043	1,480,827	1,627,725	1,523,333	1,158,097	1,198,701
Estimated Claims and Expenses										
End of Policy Year	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	91,407,100
Paid (cumulative) as of:										
End of Policy Year	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	84,700,197
One Year Later	65,737,872	93,490,399	111,240,876	136,470,281	158,860,016	178,705,868	117,439,099	78,975,345	78,974,740	
Two Years Later	65,494,656	93,001,542	111,797,927	143,430,960	159,664,878	178,336,433	117,408,342	79,147,918		
Three Years Later	65,494,656	93,099,841	111,797,963	143,430,960	159,668,399	178,334,783	117,471,502			
Four Years Later	65,494,656	93,099,841	111,797,963	143,430,960	159,668,399	178,457,742				
Five Years Later	65,494,656	93,099,841	111,797,963	143,430,960	159,668,399					
Six Years Later	65,494,656	93,099,841	111,797,963	143,430,960						
Seven Years Later	65,494,656	93,099,841	111,797,963							
Eight Years Later	65,494,656	93,099,841								
Nine Years Later	65,494,656									
Ten Years Later										
Reestimate of Incurred Claims and Expense										
End of Policy Year	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	91,407,100
One Year Later	65,737,872	93,654,515	111,242,560	136,482,063	158,926,823	178,806,539	117,440,077	79,023,533	84,761,599	
Two Years Later	65,494,656	93,001,542	111,797,927	143,430,960	159,664,878	178,336,433	117,408,342	79,196,106		
Three Years Later	65,494,656	93,099,841	111,797,963	143,430,960	159,668,399	178,334,783	117,471,502			
Four Years Later	65,494,656	93,099,841	111,797,963	143,430,960	159,668,399	178,457,742				
Five Years Later	65,494,656	93,099,841	111,797,963	143,430,960	159,668,399					
Six Years Later	65,494,656	93,099,841	111,797,963	143,430,960						
Seven Years Later	65,494,656	93,099,841	111,797,963							
Eight Years Later	65,494,656	93,099,841								
Nine Years Later	65,494,656									
Increase (Decrease) in Estimated Incurred Claims and Expenses from End of Policy Year	(821,459)	(260,157)	1,314,060	7,371,623	3,933,691	780,578	(6,679,859)	4,088,676	185,028	-

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 New Mexico Medical Insurance Pool (“NMMIP”), which comprise the statements of net position as of December 31, 2017, 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, and have issued our report thereon dated May 28, 2018.

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.

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 28, 2018