
New Mexico Health Insurance Alliance

*Financial Statements
Supplemental Information and
Independent Auditors' Report
December 31, 2011 and 2010*

REDW_{LLC}
CPAs | Business & Financial Advisors

New Mexico Health Insurance Alliance

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Independent Auditors' Report

Board of Directors
New Mexico Health Insurance Alliance

We have audited the accompanying statements of financial position of New Mexico Health Insurance Alliance (the "Alliance"), a New Mexico nonprofit organization, as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Alliance's management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Mexico Health Insurance Alliance as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of administrative expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

REDW, LLC

Albuquerque, New Mexico
April 20, 2012

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Financial Statements

New Mexico Health Insurance Alliance
Statements of Financial Position
December 31,

	2011	2010
Assets		
Cash and cash equivalents	\$ 3,925,181	\$ 4,161,419
Receivables		
Insurance carriers and groups	154,388	127,815
Assessments	-	14,696
Prepaid expenses and other assets	5,286	5,286
Total current assets	4,084,855	4,309,216
Office equipment and computer software, net of accumulated depreciation of \$507,631 in 2011 and \$443,913 in 2010	101,646	117,862
Total assets	\$ 4,186,501	\$ 4,427,078
Liabilities and Net Assets		
Accounts payable	\$ 41,655	\$ 83,281
Accrued expenses	28,293	28,827
Premiums collected in advance	1,505,287	1,509,903
Total liabilities	1,575,235	1,622,011
Net assets (deficit)		
Initial assessments	873,000	872,500
Risk adjustment	2,228,640	2,355,770
Administrative	(490,374)	(423,203)
Total net assets	2,611,266	2,805,067
Total liabilities and net assets	\$ 4,186,501	\$ 4,427,078

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

New Mexico Health Insurance Alliance
Statements of Activities
For the Years Ended December 31,

	2011	2010
Revenues		
Assessments and related charges		
Claims	\$ 7,070,994	\$ 4,375,516
Assessments waived	(50,011)	(11,227)
Administrative	555,656	535,461
Initial assessments	500	-
Total assessments and related charges	7,577,139	4,899,750
Risk adjustment charges	2,151,745	2,263,113
Administrative charges	652,696	673,594
Interest income	10,949	22,748
Commission income	9,310	14,043
Miscellaneous income (expense)	(5,557)	14,928
Total revenues	10,396,282	7,888,176
Expenses		
Loss assessments paid out	9,299,858	6,733,260
Administrative expenses		
General and administrative	546,239	570,176
Operations	309,343	253,767
Consulting and board	148,242	232,829
Marketing	203,762	172,618
Employees incentive bonus	82,639	27,129
Total administrative expenses	1,290,225	1,256,519
Total expenses	10,590,083	7,989,779
Change in net assets	(193,801)	(101,603)
Net assets, beginning of year	2,805,067	2,906,670
Net assets, end of year	\$ 2,611,266	\$ 2,805,067

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

New Mexico Health Insurance Alliance
Statements of Cash Flows
For the Years Ended December 31,

	2011	2010
Cash flows from operating activities		
Assessments, charges and other receipts from members	\$ 10,368,840	\$ 7,838,720
Cash paid to members, contractors, employees and suppliers	(10,568,525)	(7,869,957)
Interest received	<u>10,949</u>	<u>22,748</u>
Net cash used in operating activities	(188,736)	(8,489)
Cash flows from investing activities		
Office equipment and computer software purchases	<u>(47,502)</u>	<u>(53,195)</u>
Net decrease in cash and cash equivalents	(236,238)	(61,684)
Cash and cash equivalents, beginning of year	<u>4,161,419</u>	<u>4,223,103</u>
Cash and cash equivalents, end of year	<u>\$ 3,925,181</u>	<u>\$ 4,161,419</u>
Reconciliation of change in net assets to net cash used in operating activities		
Change in net assets	\$ (193,801)	\$ (101,603)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	63,718	73,831
Change in operating assets and liabilities		
Receivables	(11,877)	1,007
Prepaid expenses and other assets	-	(1,766)
Accounts payable	(41,626)	34,187
Accrued expenses	(534)	13,570
Premiums collected in advance	<u>(4,616)</u>	<u>(27,715)</u>
Net cash used in operating activities	<u>\$ (188,736)</u>	<u>\$ (8,489)</u>

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

New Mexico Health Insurance Alliance
Notes to Financial Statements
December 31, 2011 and 2010

1) Organization and Summary of Significant Accounting Policies

A summary of the authorizing legislation, operations, and significant accounting policies applied in the preparation of the accompanying financial statements follows.

Authorizing Legislation

The New Mexico Health Insurance Alliance (the "Alliance") is a nonprofit independent public corporation, organized pursuant to the Health Insurance Alliance Act (the "Act"), New Mexico Statutes Annotated (1978), 59A-56-1 through 25. The Alliance was authorized by the New Mexico Legislature (the "Legislature") in 1994 and began operations in 1995. The Act was revised to have a permanent duration by legislation passed by the 2001 Legislature and signed into law by the governor.

The Act's purpose is to provide increased access to voluntary health insurance coverage in New Mexico. Its primary purpose is to improve access to health insurance coverage for small employers on a voluntary basis and to provide portability for individuals. An additional purpose of the Act is to provide for access to voluntary health insurance coverage for individuals who have met eligibility criteria established by the Act.

The Act, as revised, provides that the Alliance board of directors is a governmental entity for purposes of the Tort Claims Act (New Mexico Statutes Annotated [1978] 41-4-1 to 41-4-27), but neither the board of directors nor the Alliance shall be considered a governmental entity for any other purpose.

Operations

All insurers authorized to transact health insurance business in New Mexico are members of the Alliance as a condition of their authority to transact insurance business. The Alliance performs its functions under the plan of operation established and approved pursuant to the Act and exercises its powers through a board of directors (the "Board").

The Board imposes an initial assessment, as allowed by the Act, of \$500 on each new member. In addition, penalties of up to \$1,000 per member are assessed against members who do not remit the initial assessment on a timely basis, in accordance with the plan of operation. These funds, which are recorded as revenue in the accompanying statements of activities, are not to be considered income for the purpose of offsetting any administrative expenses in future years. Accordingly, initial assessment revenues and net assets are separately reflected in the accompanying financial statements.

The Act uses the term reinsurance premium to describe the risk adjustment mechanism used by the Alliance to reimburse members (members offering approved health plans through the Alliance—"insuring members") for their net claims loss.

New Mexico Health Insurance Alliance

Notes to Financial Statements

December 31, 2011 and 2010

The Alliance functions as a conduit for insurance premiums as opposed to being either an insurer or reinsurer. Accordingly, the Alliance's management believes that "risk adjustment charge" is a more accurate description of this portion of its operations and uses this terminology throughout the accompanying financial statements.

Risk adjustment obligations that are determined and paid after the close of the fiscal year-end, and assessments receivable that are determined after fiscal year-end are reflected in the calendar year in which they are determined.

Approved Health Plans

Approved health plans must conform to requirements established by the Board. Insurance rates are developed by an actuary engaged by the Board. The actuary takes into account various factors, including the trends of the carriers to the rating period, which incorporate regional and national health insurance cost averages and trends, such as cost shifting, medical technology development and utilization, deductible leveraging and changes in the medical care consumer price index.

Insuring members, defined as Alliance members offering approved health plans to small employers and individuals through the Alliance, are reimbursed for their claims losses and risk adjustment charge if in total these exceed 75% of earned premium, as defined by the Act. Within six months after the calendar year-end, insuring members shall receive the excess amount by which their incurred claims and risk adjustment charges exceed 75% of gross earned premiums.

Insurance Premiums Received and Paid

The Alliance receives premiums from insured groups and individuals. The Alliance withholds the risk adjustment charges, administrative charges, and the Alliance's sales commissions—all of which are reflected as revenues in the Alliance's financial statements—and remits the balance to the insuring members. The portion of amounts received from insured groups and individuals that are remitted to insurance carriers are not reflected as revenues or expenses in the accompanying financial statements (see Note 4).

Amounts received from insured groups and individuals are not segregated from other Alliance cash and cash equivalent balances. Accordingly, the entire cash amounts held are reflected in the accompanying statements of financial position, with the portion of premiums collected in advance identified as a liability, "premiums collected in advance."

New Mexico Health Insurance Alliance
Notes to Financial Statements
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The Act limits withholding for the risk adjustment charge and administrative charge to the following portion of premiums paid by insured groups and individuals:

	Individuals		Groups	
	First Year of Coverage	Renewal Years	First Year of Coverage	Renewal Years
Risk adjustment charge	10%	15%	5%	10%
Administrative charge	<u>10%</u>	<u>10%</u>	<u>10%</u>	<u>5%</u>
Total	<u>20%</u>	<u>25%</u>	<u>15%</u>	<u>15%</u>

The above percentages are the maximum allowed by the Act and can be changed at the discretion of the Board. For the years ended December 31, 2011 and 2010, the administrative charge was 3.5% of premiums paid. In addition, commissions of less than 1% of the gross premium charged are deducted from premiums remitted to insurance carriers and paid to the insurance agent of record. Where the Alliance is reflected as the agent of record these commissions are retained by the Alliance.

Assessments for Net Claims Loss and Administrative Loss

The Alliance assesses the members that write health insurance premiums in the State of New Mexico for the net claims loss (net reinsurance loss), if any, and the net administrative loss, if any. Members shall be assessed their share of the net claims loss and the administrative loss based on their portion of the total health insurance premiums written in New Mexico during that year.

In accordance with the schedule in the following paragraph, the net claims loss, if any, and the assessment for such claims loss and for administrative loss are determined after the end of each calendar year and recorded in the calendar year in which they are determined.

All members are required to report total health insurance premiums earned in New Mexico by April 15 of the following year. The Alliance uses the New Mexico premiums that members file with the National Association of Insurance Commissioners. Also, by April 15, insuring members must submit listings of incurred claims for the prior year, including claims paid before April 1 of the current year for claims loss reimbursement purposes. The Alliance is to notify members of the assessment amounts by May 15, and assessments are to be paid to the Alliance by June 15. Reimbursements to insuring members for their claims losses are to be paid by the Alliance by June 30.

The annual net claims loss represents the claims losses reported by insuring members for the previous calendar year, reduced by the risk adjustment charge withheld by the Alliance.

New Mexico Health Insurance Alliance

Notes to Financial Statements

December 31, 2011 and 2010

The administrative gain (loss) represents the sum of administrative allowances earned by the Alliance (see Note 3) less the administrative expenses incurred. In the event of administrative gains, the gain shall be carried forward in net assets. If assessments exceed the actual claims loss and the administrative loss of the Alliance, the excess shall be held by the Alliance to offset future losses.

Net administrative losses, as defined in the Act, also include projected losses for the current calendar year. Accordingly, the amount the Alliance may assess in any year for administrative loss includes both the deferred administrative loss as of the end of the most recent year, plus projected losses for the year during which the assessment is made.

The Board may abate or defer, in whole or in part, the assessment of a member if, in the Board's opinion, and after approval of the Superintendent of the Department of Insurance, payment of the assessment would endanger the member's ability to fulfill its contractual obligations. Abated or deferred assessments may be assessed against the other members. The members receiving an abatement or deferment remain liable to the Alliance for the deficiency, including interest, for four years.

Basis of Accounting

The Alliance uses the accrual method of accounting. The timing for recognition of claims assessment revenue and loss assessments paid out is described in the above section "Insurance Premiums Received and Paid" and in Note 2.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Alliance considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Alliance's financial institution voluntarily participated in the FDIC's Transaction Account Guarantee Program (TAGP). Under that program, as extended through December 31, 2011, all noninterest-bearing transaction accounts and certain interest bearing negotiable order of withdrawal (NOW) accounts were fully guaranteed by the FDIC for the entire amount in the account. Coverage under the TAGP is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules.

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Notes to Financial Statements

December 31, 2011 and 2010

Effective December 31, 2010, the Dodd-Frank Act mandated full deposit insurance coverage for noninterest-bearing transaction accounts and certain NOW accounts for a two-year period ending December 31, 2012. In addition, the standard maximum deposit insurance amount has been increased to \$250,000 available to depositors under the FDIC's general deposit insurance rules. Unlike under TAGP, the Dodd-Frank Act does not allow for financial institutions to opt out of the statutory provision.

Funds kept in the Alliance's sweep account are considered cash equivalents as these funds are available to the Alliance at any time. These investments totaled \$3,862,464 at December 31, 2011. These funds are not FDIC insured, nor guaranteed by a bank, but are invested in funds which invest primarily in United States Treasury securities. The Alliance has not experienced any losses in such investment accounts and believes it is not exposed to any significant credit risk on these balances.

Receivables

The Alliance does not record an allowance against assessments receivable. The Alliance may increase its assessment with a provision for waived and deferred assessments. When a receivable is determined to be uncollectible because of insolvency or other reasons, an assessment reversal is recorded.

Receivables from insured groups represent gross premium amounts receivable for insurance provided for which the payment is delinquent. These amounts are recovered by the Alliance either through subsequent collection or, if not collected, by cancellation of insurance coverage effective on the date through which premiums were paid.

Gross premiums billed and received are not fully reconciled until after fiscal year-end. Amounts due from insurance carriers primarily represent adjustments to premiums invoiced in the preceding year.

Income Taxes

The Alliance is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code and applicable state law.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Alliance may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Alliance and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Management believes the Alliance

New Mexico Health Insurance Alliance

Notes to Financial Statements

December 31, 2011 and 2010

has taken no uncertain tax positions and, thus, has not accrued for unrecognized tax benefits for 2011 and 2010.

The Alliance files its Form 990 in the U.S. federal jurisdiction and the office of the state's attorney general for the State of New Mexico. The Alliance is generally no longer subject to examination by the Internal Revenue Service for years before 2008.

Depreciation

Office equipment and capitalized computer software costs are presented at cost and are being depreciated by the straight-line and accelerated methods based on estimated useful lives of three to seven years. Depreciation expense for the years ended December 31, 2011 and 2010, totaled \$63,718 and \$73,831, respectively.

Marketing and Advertising

Marketing and advertising costs are expensed as incurred.

Fair Value of Financial Instruments

The Alliance's financial instruments include various cash equivalents, receivables and payables. The carrying amount of these financial instruments has been estimated by management to approximate fair value primarily due to their short maturity.

Health Care Reform

On March 23, 2010, the federal health care reform bill was passed. Healthcare reform provides for guaranteed issue to children up to age 19 and allowance for children up to age 26 to remain on their parent's insurance. In addition, insurance carriers will be prohibited from making rescissions on any enrolled member. By 2014, guaranteed issue will be expanded to the 25-64 population. In 2011, the State of New Mexico legislature passed a bill creating an exchange under the Health Care Exchange Act to cover the additional uninsured people that will be required to have coverage under the federally mandated law. The bill was vetoed by the Governor.

In July 2010, the State, through the office of Health Care Reform, filed for and received an initial \$1,000,000 Exchange Planning Grant. In September 2011, a second planning grant for \$34,300,000 was filed and approved. In that grant application, the Alliance was named as the nonprofit organization to house the insurance Exchange. In March 2012, following leadership changes in the Office of Health Care Reform, the Governor Office and the Health Services Department Secretary decided to reassess Exchange direction and approach. If the State decides to proceed with the development of an insurance Exchange, it is expected that Exchange functions and responsibilities delegated to the Alliance will be authorized by an executive order and documented through a professional services contract with the Health Services Department. If the Alliance is not authorized to administer the state insurance exchange, it is possible that Alliance functions and staff could be required to wind down.

New Mexico Health Insurance Alliance
Notes to Financial Statements
December 31, 2011 and 2010

Subsequent Events

Subsequent events have been evaluated through April 20, 2012, the date which the financial statements were available to be issued.

2) Assessment Collection for Approved Plan Insuring Member Claims Loss

Assessments made in May 2011 (2010 claims loss assessment) represent recovery of net reinsurance loss incurred in 2010. The 2010 claims loss assessment was determined as follows:

2010 reinsurance recovery amount, paid in 2011	\$ 9,299,858
Plus provision for waived/deferred assessments	25,000
Less earned risk adjustment charges (<i>compares to \$2,263,113 recorded in 2010 and reflected in the 2010 statement of activities</i>)	<u>(2,253,864)</u>
2010 claims loss assessment, assessed in 2011	<u>\$ 7,070,994</u>

In 2011, the reinsurance recovery amount of \$9,299,858 paid to insuring members for reported claims losses was recognized as expense and the net claims loss assessment was recognized as revenue. The risk adjustment charges were recorded in 2010 when withheld from premiums collected.

There were \$50,011 of assessments waived during the year ended December 31, 2011, and \$11,227 of assessments waived during the year ended December 31, 2010.

Assessments made in May 2010 (2009 claims loss assessment) represent recovery of net reinsurance loss incurred in 2009. The 2009 claims loss assessment was determined as follows:

2009 reinsurance recovery amount, paid in 2010	\$ 6,733,260
Plus provision for waived/deferred assessments	35,000
Less earned risk adjustment charges (<i>compares to \$2,385,607 recorded in 2009 and reflected in the 2009 statement of activities</i>)	<u>(2,392,744)</u>
2009 claims loss assessment, assessed in 2010	<u>\$ 4,375,516</u>

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In 2010, the reinsurance recovery amount of \$6,733,260 paid to insuring members for reported claims losses was recognized as expense and the net claims loss assessment was recognized as revenue. The risk adjustment charges were recorded in 2009 when withheld from premiums collected.

Earned risk adjustment charges, for claims assessment purposes, differ from risk adjustment charges invoiced (and reflected in the accompanying financial statements) due to the timing of terminations and billing adjustments.

3) Administrative Gain (Loss)

Administrative gain (loss) is computed as follows:

	2011	2010
Administrative allowance received		
Administrative charges	\$ 652,696	\$ 673,594
Interest income	10,949	22,748
Commission and miscellaneous income (expense)	3,753	28,971
Total administrative allowances	667,398	725,313
Less administrative expenses	1,290,225	1,256,519
Administrative loss	\$ (622,827)	\$ (531,206)

Deferred administrative gain (loss) as of December 31 consists of the following:

	2011	2010
Balance, January 1	\$ (269,974)	\$ (274,229)
Revenues		
Administrative assessments	555,656	535,461
	555,656	535,461
Expenses		
Administrative loss	(622,827)	(531,206)
Balance, December 31	\$ (337,145)	\$ (269,974)

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Notes to Financial Statements
December 31, 2011 and 2010

Administrative net deficit consists of the following as of December 31:

	2011	2010
Deferred administrative loss	\$ (337,145)	\$ (269,974)
Less estimated carrier adjustments from fiscal years 1999 through 2002, net	(153,229)	(153,229)
Administrative net deficit	\$ (490,374)	\$ (423,203)

The balances reflected in administrative net deficit in the accompanying statements of financial position consist of administrative gains (losses), net of administrative losses assessed since the inception of the Alliance, and adjustments recorded in prior years related to amounts paid to insurance carriers.

4) Total Invoiced Premiums

The 2011 total invoiced premiums were \$18,648,330, of which the Alliance withheld \$2,151,745 (approximately 11.5%) for risk adjustment charges and \$652,696 (approximately 3.5%) for administrative charges.

The 2010 total invoiced premiums were \$19,245,388, of which the Alliance withheld \$2,263,113 (approximately 11.8%) for risk adjustment charges and \$673,594 (approximately 3.5%) for administrative charges.

As discussed in Note 1, the portion of invoiced premiums remitted to insurance carriers is not reflected as revenues or expenses in the accompanying financial statements.

5) Operating Lease Commitments

The Alliance leases various equipment and facilities under operating leases expiring at various dates through 2015. Total rental expense for all operating leases was \$97,484 in 2011 and \$99,873 in 2010.

New Mexico Health Insurance Alliance
Supplemental Schedules of Administrative Expenses
For the Years Ended December 31,

	2011	2010
General and administrative		
Wages and employee benefits	\$ 419,377	\$ 447,719
Rent	78,412	75,316
Telephone and internet	7,443	8,436
Utilities and janitorial	12,405	11,588
Insurance - liability	10,497	14,648
Dues, licenses and subscriptions	5,442	5,349
Travel	3,538	2,621
Other	9,125	4,499
	546,239	570,176
Operations		
Software maintenance	171,360	79,070
Postage and shipping	16,555	24,052
Supplies and printing	19,498	20,469
Depreciation	63,718	73,831
Repairs and maintenance	14,875	30,059
Equipment lease	19,072	24,557
Employee recognition	1,726	443
Bank charges	2,539	1,286
	309,343	253,767
Consulting and board		
Actuarial	91,320	156,495
Auditing	22,265	24,605
Legal	7,897	19,796
Accounting	14,820	15,073
Board	11,940	16,860
	148,242	232,829
Marketing		
Marketing and advertising	174,905	138,684
Broker bonus commissions	20,960	21,425
Travel	7,897	12,509
	203,762	172,618
Employees incentive bonus	82,639	27,129
Total administrative expenses	\$ 1,290,225	\$ 1,256,519

