Maine Guaranteed Access Reinsurance Association

Annual Report

2015

Financial Statements
December 31, 2014 and 2013

Maine Guaranteed Access Reinsurance Association

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors
Maine Guaranteed Access Reinsurance Association
Boise, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of Maine Guaranteed Access Reinsurance Association (the Association), which comprise the statements of assets, liabilities and net assets – modified cash basis as of December 31, 2014 and 2013, and the related statements of revenue and expenses and changes in net assets – modified cash basis and cash flows – modified cash basis 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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 assets, liabilities, and net assets of the Association as of December 31, 2014 and 2013, and its revenue and expenses for the years then ended in accordance with the modified cash basis of accounting, as described in Note 1.

Basis of Accounting
We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Affordable Care Act
We draw attention to Note 8 of the financial statements, which describes the effects of the Affordable Care Act on the operations of the Association. Our opinion is not modified with respect to this matter.

Eide Bailly LLP

Boise, Idaho
April 16, 2015

	2014	2013
Assets		
Current Assets		
Cash in bank	$ 458,533	$ 3,350,440
Claims receivable	93,174	-
Premium receivable	90,259	1,437,967
Prepaid expenses	6,000	6,000
Accrued interest receivable	10,388	14,279
Investments	5,561,559	13,501,916
	$ 6,219,913	$ 18,310,602
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 24,786	$ 68,746
Claims payable	883,643	8,095,200
Estimated liability for claims incurred but not reported	-	9,000,000
Total current liabilities	908,429	17,163,946
Net Assets	5,311,484	1,146,656
	$ 6,219,913	$ 18,310,602

	2014	2013
Revenues		
Premiums earned	$ 6,416	$ 18,136,499
Add change in claims incurred but not reported	4,350,397	-
Less claims incurred	-	(47,413,489)
	4,356,813	(29,276,990)
Regular assessments	-	27,393,699
Total operating revenue (loss)	4,356,813	(1,883,291)
Operating Expenses		
Contracted management services	148,363	400,827
Professional fees	58,263	90,925
Interest and bank charges	1,455	15,137
Other administrative costs	15,893	14,705
Total operating expenses	223,974	521,594
Income (Loss) from Operations	4,132,839	(2,404,885)
Nonoperating Income (Expense)		
Interest income	40,703	45,921
Loss on investments	(8,714)	(29,726)
Total nonoperating income	31,989	16,195
Change in Net Assets	4,164,828	(2,388,690)
Net Assets, Beginning of Year	1,146,656	3,535,346
Net Assets, End of Year	$ 5,311,484	$ 1,146,656

	2014	2013
Operating Activities		
Change in net assets	$ 4,164,828	$ (2,388,690)
Adjustments to reconcile change in net assets to cash used for operating activities		
Loss on sale of investments	8,714	29,726
Investment income	(40,703)	(45,921)
Changes in assets and liabilities		
Change in claims receivable	(93,174)	-
Premiums receivable	1,347,708	(134,410)
Accounts payable	(43,960)	(251,450)
Claims payable	(7,211,557)	(3,409,419)
Estimated liability for claims incurred but not reported	(9,000,000)	4,000,000
Cash used for Operating Activities	(10,868,144)	(2,200,164)
Investing Activities		
Purchase of investments	(8,350,000)	-
Sale of investments	16,326,237	4,000,000
Net Cash from Investing Activities	7,976,237	4,000,000
Net Change in Cash	(2,891,907)	1,714,684
Cash, Beginning of Year	3,350,440	1,635,756
Cash, End of Year	$ 458,533	$ 3,350,440

Note 1 - Organization and Significant Accounting Policies

Organization Structure

The Maine Guaranteed Access Reinsurance Association (the Association) is a Maine mutual benefit non-profit corporation created pursuant to Titles 13-B and 24-A, Chapter 54-A of the Maine Revised Statutes on January 6, 2012. The members of the Association are Insurers that offer individual health plans and are actively marketing individual health plans in the State of Maine. The Association, which is governed by an 11 member Board of Directors (the Board) appointed by the Superintendent and Member Insurers as provided in the Association's Articles of Incorporation and Section 3953(2) of the Enabling Act.

The Association was created for the purpose of providing a reinsurance program for the higher risk segment of Maine's individual health insurance market in order to reduce insurance costs in that market and assure availability of affordable health insurance to residents of the State of Maine by providing reinsurance of a significant portion of the coverage provided through individual health insurance policies offered by its Member Insurers. In the normal course of business, the Member Insurers seek to limit their exposure to loss on any single insured and to recover a portion of losses paid by ceding reinsurance to the Association. After a deductible of $7,500, the Association will cover losses at 90% up to $32,500 and at 100% after $32,500.

The Association officially commenced operations on January 1, 2012. Premium collections and claims processing began on July 1, 2012.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles (GAAP). Under that basis, assessment revenues are recognized when received rather than when earned. Consequently the Association has not recognized accounts receivable for assessments and its related effects on earnings in the accompanying financial statements.

Under a pure cash basis method, all revenues are recognized when cash is received and expenses are recognized when cash is disbursed. Under the modified cash basis, the pure cash basis is adjusted for certain assets and liabilities. These adjustments relate to premiums receivable, claims payable, and the liability for claims incurred but not reported.

Management has modified the financial statements for these items.

Assessments

The Board assessed each insurer a one-time organizational assessment of $500 per Insurer. On a quarterly basis, the Board assessed each Insurer an amount not to exceed $4 per month per Covered Person resident in the State of Maine enrolled in Medical Insurance, reinsured or administered by the Insurer. In addition to the organizational and regular assessments, the Board may assess Insurers an amount not to exceed $2 per month per Covered Person enrolled in Medical insurance insured to cover any net loss incurred. The Association suspended its operations effective January 1, 2014, and the final assessment was assessed in October of 2013.

Cash

For purposes of reporting cash flows, cash includes only cash held in the bank.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of assets, liabilities and net assets – modified cash basis. Net investment gain/(loss) is reported in the statement of revenue and expenses and changes in net assets – modified cash basis and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Financial Instruments and Credit Risk

The Association manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Association has not experienced losses in any of these accounts. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Association.

Fair Value of Financial Instruments

FASB ASC 825 requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of assets, liabilities, and net assets – modified cash basis. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The standard excludes certain financial instruments and all non-financial instruments from its disclosure requirements. The carrying amounts reported in the statement of assets, liabilities, and net assets – modified cash basis for cash and receivables, and accounts payable approximate the fair value of those financial assets and liabilities.

Revenue and Revenue Recognition

Premium revenue is recognized when earned. Program fees and claim payments are expensed in the period the services are incurred. Assessments are recognized when cash is received.

Investment Income and Gains

Investment income and gains are reported as increases in unrestricted net assets.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near-term could materially affect account balances and the amounts reported in the accompanying financial statements.

Display of Net Assets

The accompanying financial statements have been prepared in accordance with ASC 958-205, "Presentation of Financial Statements of Not-For-Profit Organizations." Accordingly, the net assets of the Association are reported in each of the following three classes: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets. Under these provisions, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. As of December 31, 2014 and 2013, there were no temporarily or permanently restricted net assets.

Any net assets held by the Association upon its termination will be distributed to the Association's existing member carriers in accordance with the then-existing assessment formula. As there is no intention to permanently terminate the Association, the net assets are reported as unrestricted.

Significant 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 reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in determining the accrued liability for claims incurred but not reported. It is at least reasonably possible that the significant estimates used will change within the next year.

Income Taxes and Uncertainty

It is management's position that the Association is a non-profit tax exempt organization under 501(c)(26) of the Internal Revenue Code (IRC). Management has submitted a request for a private letter ruling confirming that status.

On December 4, 2014, the Internal Revenue Service (IRS) made the determination that the Association did not qualify for exemption under 501(c)(26) of the Code. On December 31, 2014, the Association served a "protest statement" on the IRS against the Ruling. There have been several discussions with the IRS since the date of the Protest. In the event of a negative determination, the Association intends to exhaust all necessary appeals based on the arguments set forth in the Protest and as otherwise available.

Subsequent Events

The Association has evaluated subsequent events through April 16, 2015, the date which the financial statements were available to be issued.

Note 2 - Cash Deposits

As of December 31, 2014 and 2013, the book balance of deposits was $458,533 and $3,350,440, respectively. The bank balance was $459,572 and $7,204,476, respectively. At times during the year, the Association has exceeded FDIC insurance coverage on its cash deposit balances.

Note 3 - Investments and Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under the FASB ASC 820 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013.

Money market deposit accounts: Valued at carrying value, which approximates fair value, based on the amount of net contributions plus any investment earnings allocated to the account.

Certificates of deposit: Valued at cost plus accrued interest, which approximates fair value.

Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issues with similar credit ratings.

U.S. agency securities: Valued using pricing models maximizing the use of observable inputs for similar securities.

Municipal bonds: Valued using pricing models maximizing the use of observable inputs for similar bonds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of December 31:

	2014			
	(Level 1)	(Level 2)	(Level 3)	Total
Money market deposit accounts	$ 14,598	$ -	$ -	$ 14,598
Certificates of deposit	-	3,798,388	-	3,798,388
US agency securities	-	744,975	-	744,975
Municipal bonds	-	500,000	-	500,000
Corporate bonds	-	503,598	-	503,598
Total assets at fair value	$ 14,598	$ 5,546,961	$ -	$ 5,561,559

	2013			
	(Level 1)	(Level 2)	(Level 3)	Total
Money market deposit accounts	$ 7,749,020	$ -	$ -	$ 7,749,020
Certificates of deposit	-	3,496,205	-	3,496,205
US agency securities	-	739,288	-	739,288
Corporate bonds	-	1,517,403	-	1,517,403
Total assets at fair value	$ 7,749,020	$ 5,752,896	$ -	$ 13,501,916

Note 4 - Assessments Receivable/Offset of Future Revenues

As defined by the Association's Plan of Operations, if assessments and other receipts exceed the actual net losses, the excess funds must be held in an interest bearing account or otherwise invested in accordance with the Association's Investment Policy to offset future losses or reduce reinsurance premiums. As of December 31, 2014 and 2013, there was $5,311,484 and $1,146,656, respectively, available to offset future losses.

Note 5 - Provisions for Unpaid Claims and Claims Administration

In accordance with the modified cash basis of accounting, the Association estimates its liability for claims that were incurred before year end, but for which payment will not be made until after year end. The estimate is based on information concerning incurred but not reported claims provided by the insurance companies that were participating in the program during the year. The Association's Board of Directors monitors the estimates with assistance from actuarial consultants, and the necessary adjustments are reflected in current operations. Differences between actual and estimated claims are charged to operations in the year that the differences, if any, become known.

The following represents the changes in the provision for unreported and unpaid claims for the years ended December 31:

	2014	2013
Unpaid losses and loss adjustment expenses, beginning of year	$ 9,000,000	$ 5,000,000
Incurred losses and loss adjustment expenses		
Provision for insured events of the current year	-	43,982,067
Decrease in provision for a change in incurred but not reported	(4,350,397)	-
Increase in provision for insured events of prior year	-	3,431,422
Total incurred losses and loss adjustment expenses	(4,350,397)	47,413,489
Payments		
Losses and loss adjustment expense attributable to insured events of the current year	-	34,982,067
Losses and loss adjustment expense attributable to insured events of the prior year	4,649,603	8,431,422
Total payments	4,649,603	43,413,489
Unpaid losses and loss adjustment expenses, end of year	$ -	$ 9,000,000

The provision for incurred losses and loss adjustments decreased to $0 for the year ended December 31, 2014. As a result, the provision was decreased by $4,350,397 related to positive development in claims during the year, related to 2013. Operation of the Association was suspended effective January 1, 2014, and accordingly there was no new activity for the 2014 fiscal year.

The provision for insured events and loss adjustment increased during the year ended December 31, 2013. This increase is primarily due to unanticipated development in 2013 on losses incurred during 2012, and the corresponding change in the actuarial estimates of ultimate liabilities for incurred claims over 2012.

Note 6 - Management Contract

The Association has entered into an Administrative Services Agreement with AmeriBen Solutions, Inc. (ABS). ABS provides general management and accounting services to the Association. The agreement, effective March 1, 2012 through June 30, 2014, stipulated an annual assessment fee of $36,000 in addition to a monthly fee for each life reinsured by the Association, ranging from $8.00 to $9.10. The updated Agreement, effective July 1, 2014 through February 28, 2015, stipulated an annual fixed assessment fee of $5,000 per month. The management service expense for the years ended December 31, 2014 and 2013 was $142,483 and $385,464, respectively. Of the expense paid during 2014 and 2013, $9,458 and $66,744 was payable at December 31, 2014 and 2013, respectively.

Note 7 - Insurance/Risk Management

The Association is exposed to various risks of loss related to tort claims as well as errors and omissions by employees. The Program is covered through commercial insurance purchased by ABS to the extent of its employees' involvement with the Association. Current insurance coverage is summarized as follows:

Errors and omissions	$	3,000,000
Employee bonding	$	1,000,000

Note 8 - Affordable Care Act

The following is a brief summary of the circumstances relating to the temporary suspension of the operations of the Association.

The Association was established pursuant to an act of the Maine State Legislature. Separately, the federal Affordable Care Act establishes a temporary uniform national reinsurance program to be operated across all 50 states in the years 2014, 2015, and 2016 (the Federal Program). The Federal Program provides coverage for 80% of claims between $45,000 and $250,000, in 2014 and 50% of such claims in 2015, across the entire individual insurance market. The Federal Program is funded through assessments payable by all health insurers and TPAs (including those operating in Maine). As a result, Maine's health insurance market would be subject to double assessments for overlapping individual market reinsurance coverage if both the Association and the Federal Program were to operate conterminously.

Because the Federal Program does not contain an exemption for states, such as Maine, that operate their own reinsurance program, the Board has concluded that the only reasonable alternative is to suspend operation of the Association's reinsurance program during the pendency of the Federal Program in order to avoid the cost burden on the state's insurance market associated with overlapping reinsurance programs and multiple assessments. The Board further believes that there is a strong likelihood that there will still be a continued need for subsidization of the individual health market in Maine following the conclusion of the Federal Program.

The Maine Legislature adopted 2013 Public Law ch. 273 amending the Association's Enabling Legislation to require the suspension of the Association's operations during the period in which the Federal Program is in effect. The legislation permits the Association to retain its existing statutory authority to wind down its operations, including (i) paying reinsurance claims incurred prior to the effective date of its suspension of operations; and (ii) imposing any additional assessment necessary to fund any net losses for the period of the Association's operation pursuant to 24-A M.R.S. §3957(5). The Association filed an amendment to its Plan of Operation giving affect. On or before January 1, 2016, the Joint Standing Committee of the Legislature having jurisdiction over insurance and financial services matters shall conduct a review and evaluation, and make a recommendation to the Superintendent of Insurance, as to whether the Association should resume operations as of January 1, 2017, which is the anticipated date of termination of the Federal Program.