



A Component Unit of the State of Utah

Annual Financial Report

For the Fiscal Year Ended June 30, 2013

HIPUtah

Utah Comprehensive Health Insurance Pool

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OFFICE OF THE
UTAH STATE AUDITOR

INDEPENDENT STATE AUDITOR'S REPORT

To the Board of Directors, Audit Committee,
and
Tomi Ossana, Executive Director
Utah Comprehensive Health Insurance Pool

Report on the Financial Statements

We have audited the accompanying financial statements of the Utah Comprehensive Health Insurance Pool (HIPUtah), a component unit of the State of Utah, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise HIPUtah's basic financial statements, as listed in the table of contents.

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 audit. We conducted our audit 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 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 financial position of HIPUtah as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 5, HIPUtah will only offer coverage until December 31, 2013, at which time HIPUtah will enter a dormant phase. This dormant phase will run from January 1, 2014 through January 31, 2015, during which time there will be a claims run-out period where claims incurred through December 31, 2013 will be paid. During the 2015 General Session of the Utah State Legislature the future status of HIPUtah will be considered.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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 September 24, 2013 on our consideration of HIPUtah'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 HIPUtah's internal control over financial reporting and compliance.

Office of the Utah State Auditor

Office of the Utah State Auditor
September 24, 2013

HIPUtah

Utah Comprehensive Health Insurance Pool

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

The following is a discussion and analysis of the financial performance of the Utah Comprehensive Health Insurance Pool (HIPUtah) for the fiscal year ended June 30, 2013. It is intended to serve as an introduction to HIPUtah's basic financial statements.

HIGHLIGHTS

The net position of HIPUtah decreased from \$20.373 million at June 30, 2012, to \$17.257 million at June 30, 2013, a \$3.116 million or 15.29 percent decrease. HIPUtah's operating loss increased from \$11.538 million for fiscal year 2012 to \$13.026 million for fiscal year 2013, a \$1.488 million or 12.90 percent increase. HIPUtah's operating loss for fiscal year 2013 exceeded its state appropriations of \$8.083 million by \$4.943 million. Investment income and federal grants covered only a portion of this difference, resulting in a decrease in net position at June 30, 2013. The operating loss increased because benefit claim costs increased \$1.276 million from the prior year while premiums decreased \$506 thousand and the remaining operating expenses decreased \$294 thousand. The Utah Legislature increased HIPUtah's state appropriations by \$8 thousand during fiscal year 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

HIPUtah's financial statements are comprised of four components: 1) the Statement of Net Position, 2) the Statement of Revenues, Expenses, and Changes in Net Position, 3) the Statement of Cash Flows, and 4) the Notes to the Financial Statements.

The Statement of Net Position provides information on HIPUtah's assets and liabilities as of the end of the fiscal year, with the difference between the two reported as net position. The information provided in the Statement of Net Position along with the information contained in the Statement of Revenues, Expenses, and Changes in Net Position, the Statement of Cash Flows, and the Notes to the Financial Statements can help assess HIPUtah's liquidity and its ability to meet its obligations.

The Statement of Revenues, Expenses, and Changes in Net Position provide information about operating results and non-operating transactions and their effect on the net position of HIPUtah. The information in this statement, together with the information in the Statement of Net Position, the Statement of Cash Flows, and the accompanying notes can assist in evaluating HIPUtah's performance during the period.

The Statement of Cash Flows presents information about the cash receipts and cash payments of HIPUtah during the period. When used with the related information in the other financial statements, a statement of cash flows can help assess HIPUtah's ability to meet its obligations as they come due and the reasons for the differences between operating losses and the associated cash receipts and payments.

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Utah Comprehensive Health Insurance Pool

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

The Notes to the Financial Statements include additional information that is essential to a complete understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

The table on page 5 summarizes the changes in HIPUtah's financial statements between fiscal years 2012 and 2013. As shown on the table, the total net position of HIPUtah decreased \$3.116 million or 15.29 percent from \$20.373 million at June 30, 2012, to \$17.257 million at June 30, 2013. HIPUtah's operating loss for fiscal year 2013 increased from \$11.538 million for fiscal year 2012 to \$13.026 million for fiscal year 2013, a 12.90 percent increase. HIPUtah's operating loss for fiscal year 2013 exceeded state appropriations of \$8.083 million by \$4.943 million. Investment income and federal grants covered only a portion of this difference, resulting in a decrease in net assets at June 30, 2013. The Utah Legislature did increase HIPUtah's state appropriations by \$8 thousand during fiscal year 2013 due to a change in HIPUtah's statute.

HIPUtah continues to have operating expenses greater than operating revenues. The operating loss of \$13.026 million in fiscal year 2013 was more than the prior year amount by \$1.488 million. The main reason for the increase in HIPUtah's operating loss was that benefit claims expenses increased \$1.276 million from the prior year while revenues decreased by \$506 thousand and the remaining operating expenses only decreased \$294 thousand. Medical and pharmacy benefit claims expenses increased \$1.276 million or 3.94 percent from the prior year due to the cost of providing medical services to HIPUtah Enrollees – claims exceeded premiums.

HIPUtah implemented an overall increase in premiums of 6.50 percent on July 1, 2012. This was done to help cover the continuing increases in drug and medical claim costs. However, average enrollment declined, causing HIPUtah premiums to decrease \$506 thousand or 2.24 percent from the prior year. HIPUtah's average enrollment decreased 9.00 percent from an average enrollment of 3,716 during fiscal year 2012 to 3,380 during fiscal year 2013.

The federal grant for HIPUtah's Premium Assistance Subsidy (PAS) program increased \$760 thousand or 89.31 percent from \$851 thousand for fiscal year 2012 to \$1.611 million for fiscal year 2013. The PAS program discounts premiums for qualifying lower income HIPUtah enrollees. The federal grant funding for this program increased because available federal grant monies were increased overall by the federal government to states with qualified high risk pools that were awarded grant funds.

HIPUtah's investment income decreased \$42 thousand or 26.58 percent during fiscal year 2013. This was mainly due to decreasing interest rates and the decreasing average balance invested in the Utah Public Treasurer's Investment Fund (PTIF) from June 30, 2012 to June 30, 2013.

HIPUtah

Utah Comprehensive Health Insurance Pool

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

Total Assets, Liabilities, Net Position, and Changes in Net Position For the Fiscal Years Ended June 30, 2012 and 2013				
(In Thousands)	2012	2013	Change	Percent Change
Total Assets	\$ 23,558	\$ 21,175	\$ (2,383)	-10.12%
Total Liabilities	3,185	3,918	733	23.01%
Total Net Position	20,373	17,257	(3,116)	-15.29%
Operating Revenue				
Premiums	\$ 22,633	\$ 22,127	\$ (506)	-2.24%
Total Operating Revenue	22,633	22,127	(506)	-2.24%
Operating Expenses				
Program Administrator Fees	1,550	1,213	(337)	-21.74%
Medical and Pharmacy Benefit Claims and Changes in Actuarial Estimates	32,395	33,671	1,276	3.94%
Other Professional and Technical Services	226	269	43	19.03%
Total Operating Expenses	34,171	35,153	982	2.87%
Operating Loss	(11,538)	(13,026)	(1,488)	12.90%
Non-Operating Revenues				
Investment Income	158	116	(42)	-26.58%
Federal Grant	851	1,611	760	89.31%
State of Utah Appropriations	8,075	8,083	8	0.10%
Other Revenue	50	100	50	100.00%
Total Non-Operating Revenues	9,134	9,910	776	8.50%
Decrease in Net Position	\$ (2,404)	\$ (3,116)	\$ (712)	29.62%

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Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

FINANCIAL OUTLOOK

The Patient Protection and Affordable Care Act (PPACA or ACA) assures guaranteed coverage for all health insurance applicants. Beginning in 2014, health insurance companies may no longer deny coverage because of an applicant's preexisting condition. As such, HIPUtah's mission to provide a safety net for persons who could not obtain health coverage through traditional channels is now being addressed through the ACA. In January 2014, the Utah Federal Facilitated Marketplace, now known as the Health Insurance Marketplace (Marketplace), will be available to HIPUtah enrollees.

In July 2013, the HIPUtah Board approved the transition of HIPUtah enrollees into the Marketplace and is therefore terminating coverage under the program effective December 31, 2013. The Board further approved to delay consideration of the sunset of the Utah Comprehensive Health Insurance Act until the 2015 General Session of the Utah State Legislature. HIPUtah will work with the State of Utah Insurance Department to clean up any outstanding issues that arise from the implementation of the ACA that conflict with any state statutes or rules for both-- Title 31A, Insurance Code -- Chapter 29 -- Comprehensive Health Insurance Pool Act and Chapter 30 -- Individual, Small Employer, and Group Health Insurance Act, under Utah Code, that can be resolved in the 2014 legislative general session.

The HIPUtah Board has taken a position that responsible management of HIPUtah should ensure that funds be maintained in the pool for risk that may not be wholly transferred to the Federal Health Insurance Exchanges by January 2014. The HIPUtah Board will not be requesting additional funding above its current base budget for fiscal year 2015. This position is based on the following assumptions: 1) HIPUtah enrollment will remain relatively steady until January 2014 and after that time period coverage for all HIPUtah enrollees will be terminated and no new enrollment will be accepted into the program, and 2) HIPUtah will continue with its current structure and base budget appropriation until possible legislation occurs in the 2015 legislative general session to sunset the program. This allows HIPUtah to re-establish acceptance into the program or become an entity to help stabilize the individual insurance marketplace, in the event that either option is needed, due to inadequately supported risk with the transition of the chronically ill into to the Marketplace.

The HIPUtah Board's goal has always been to work towards a level funding mechanism to maintain an adequate financial reserve based on historical data and actuarial projections. HIPUtah's actuary will continue to help the Board determine what an adequate reserve should be throughout the transition and the 12 months of claim run-out. According to statute, HIPUtah funding should be based on sound actuarial data and appropriate management of future risk.

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For the Fiscal Year Ended June 30, 2013

State appropriations together with enrollee premiums during fiscal year 2013 did not cover incurred claims, but were sufficient for HIPUtah's net position to attain an adequate reserve level to cover unpredictable claim cost fluctuations. However, medical and drug costs are expected to continue to increase during the first six months of fiscal year 2014 at about 8.50 percent. This expected increase is due to price and utilization increases together with normal medical inflation. Another cause of these rising costs is the increased use of costly technology, which provides more medical care for extremely ill patients prior to their recovery or towards the end of life.

State funding has remained level over the past few years. The funding level along with increasing medical cost trends are projected to cause an operating loss of \$10.777 million in fiscal year 2014. Funding is still needed for fiscal year 2015 to pay for those claims that were incurred in fiscal year 2014 but not paid until fiscal year 2015. HIPUtah currently projects its closing balance will be at approximately \$24.677 million by 2015.

The HIPUtah Board has taken action to increase premiums and secure additional federal grants and has reduced administrative costs. Effective July 1, 2013, an overall premium increase of 6.50 percent was implemented. HIPUtah will continue to provide subsidies from federal grant funds for HIPUtah enrollees under the PAS program during the first six months of fiscal year 2014. HIPUtah will also maintain its contract with SelectHealth, to continue to provide services to HIPUtah enrollees and adjudicate claims run-out for a 12 month period after December 31, 2013.

CONTACTING HIPUTAH'S MANAGEMENT

This financial report is designed to provide the citizens of Utah with a general overview of HIPUtah's finances and to demonstrate HIPUtah's financial accountability over its resources. If you have questions about this report or need additional information, contact Tomi Ossana, HIPUtah Executive Director, at 1464 East Emerson Avenue, Salt Lake City, Utah 84105, or by email at tjossana@xmission.com.

HIPUtah

Utah Comprehensive Health Insurance Pool

Statement of Net Position As of June 30, 2013

ASSETS

Current Assets:

Cash and Cash Equivalents (Notes 2, 3)	\$ 21,101,898
Accounts Receivable:	
Federal Grant	2,479
Premiums	37,312
Pharmacy Benefit Claim Reimbursements	22,971
Total Accounts Receivable	<u>62,762</u>
Prepaid Expense	10,184
Total Assets	<u><u>21,174,844</u></u>

LIABILITIES

Current Liabilities:

Accounts Payable:

Program Administrator Fees	98,475
Other Professional and Technical Services	60,963
Total Accounts Payable	<u>159,438</u>

Unearned Premium Revenue	247,233
Benefit Claims Liability (Notes 2, 4)	3,511,281

Total Liabilities	<u><u>3,917,952</u></u>
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NET POSITION

Unrestricted	<u><u>\$ 17,256,892</u></u>
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The accompanying notes are an integral part of the financial statements.

HIPUtah

Utah Comprehensive Health Insurance Pool

Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2013	
OPERATING REVENUE	
Premiums	\$ 22,127,119
Total Operating Revenue	<u>22,127,119</u>
OPERATING EXPENSES	
Program Administrator Fees	1,213,247
Medical and Pharmacy Benefit Claims and Changes in Actuarial Estimates (Notes 2, 4)	33,670,534
Other Professional and Technical Services	<u>268,941</u>
Total Operating Expenses	<u>35,152,722</u>
Operating Loss	<u>(13,025,603)</u>
NON-OPERATING REVENUES	
Investment Income (Notes 2, 3)	115,585
Federal Grant	1,610,691
State of Utah Appropriations	8,083,500
Other Revenue	<u>100,000</u>
Total Non-Operating Revenues	<u>9,909,776</u>
Change in Net Position	(3,115,827)
Total Net Position - Beginning	<u>20,372,719</u>
Total Net Position - Ending	<u>\$ 17,256,892</u>

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

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Utah Comprehensive Health Insurance Pool

Statement of Cash Flows For the Fiscal Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Premiums	\$ 22,002,750
Receipts from Other Revenue	100,000
Payments for Medical and Pharmacy Benefit Claims	(33,011,030)
Payments for Program Administrator Fees	(1,113,693)
Payments for Other Professional and Technical Services	(228,228)
Net Cash Used by Operating Activities	<u>(12,250,201)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State of Utah Appropriations	8,083,500
Federal Grant	1,653,189
Net Cash Provided by Non-Capital Financing Activities	<u>9,736,689</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Investments	<u>115,585</u>
Net Cash Provided by Investing Activities	<u>115,585</u>

Net Decrease in Cash and Cash Equivalents	(2,397,927)
Cash and Cash Equivalents - Beginning	23,499,825
Cash and Cash Equivalents - Ending	<u>\$ 21,101,898</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Operating Loss	\$ (13,025,603)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Other Revenue	100,000
Net Changes in Assets and Liabilities:	
Accounts Receivable	(47,345)
Prepaid Expense	(10,184)
Unearned Premiums	(66,036)
Accounts Payable	128,351
Benefit Claim Liability	670,616
Net Cash Used by Operating Activities	<u>\$ (12,250,201)</u>

NON-CASH INVESTING ACTIVITIES

Decrease in Fair Value of Investments	\$ (34,348)
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The accompanying notes are an integral part of the financial statements.

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Utah Comprehensive Health Insurance Pool

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2013

1. ORGANIZATION AND NATURE OF BUSINESS

The Utah Comprehensive Health Insurance Pool (HIPUtah) was created in 1990 by the Utah State Legislature (*Utah Code*, Section 31A-29-104) as a nonprofit quasi-governmental entity within the State of Utah Insurance Department. HIPUtah provides access to health insurance coverage for residents of the State of Utah who are considered uninsurable. HIPUtah assumes the risk for health claims made by these individuals. HIPUtah manages this risk by placing ceilings on enrollment when necessary, placing limitations on yearly and lifetime benefits, and through other various claim management methods. HIPUtah recovers its costs of providing services to the general public through premium charges and appropriations from the State of Utah.

HIPUtah is governed by the HIPUtah Board, which is appointed by the Governor with the advice and consent of the Utah State Senate. The HIPUtah Board selects the HIPUtah Executive Director who has general oversight responsibilities for the HIPUtah program. The Program Administrator is selected by the HIPUtah Board in accordance with the Utah Procurement Code. The Program Administrator may be removed for cause subject to the terms and conditions of the contract between the HIPUtah Board and the Program Administrator. As of July 1, 2005, SelectHealth, a nonprofit health insurance company, is the Program Administrator for the HIPUtah program.

These financial statements are included in the State of Utah's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013, as a component unit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting and reporting policies of HIPUtah conform in all material respects with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and use the economic resources measurement focus and the full accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned, and expenses are recognized when incurred. All assets and liabilities associated with HIPUtah are included on the Statement of Net Position.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash includes 1) deposits in the State of Utah's general operating cash pool, 2) deposits in the Utah Public Treasurer's Investment Fund (PTIF), an external investment pool, 3) the deposit in the bank account used by SelectHealth for HIPUtah claims disbursements plus the dividends earned on this account, 4) cash received for premiums by SelectHealth, but not yet deposited in HIPUtah's bank account as of June

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2013

30, 5) cash from benefit claim payments reversed or refunded back to SelectHealth, but not yet refunded back to HIPUtah as of June 30, and 6) cash paid for claims by SelectHealth that has not been reimbursed by HIPUtah as of June 30. Excess funds not required for normal operations are deposited in the PTIF. See Note 3 for additional information.

Premiums

The clients of HIPUtah remit premium payments directly to SelectHealth, the HIPUtah Program Administrator. These premiums are transferred to HIPUtah at least every three days. The unearned premiums balance on the Statement of Net Position includes premiums received by SelectHealth by June 30 that were for periods after that date.

Benefit Claims Liability

The liability for benefit claims includes actuarial estimates of the ultimate cost of claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in insurance benefits, the process used in computing claim liabilities does not necessarily result in an exact amount. Because of this, the benefit claims liability is recomputed periodically by an actuary to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation is implicit in the calculation of estimated future claims costs, because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to the benefit claims liability for changes in estimates is charged or credited to benefit claims expense in the period in which it is made. See Note 4 for additional information.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with HIPUtah's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

3. CASH AND INVESTMENTS

HIPUtah follows the requirements of the State of Utah Money Management Act (*Utah Code*, Section 51-7) in handling its depository and investment transactions.

Deposits

Custodial Credit Risk

Custodial Credit Risk is the risk that in the event of a bank failure, HIPUtah's deposits may not be recovered. HIPUtah's policy for managing its exposure to this risk is to comply with the Utah Money Management Act. This Act requires the deposit of HIPUtah funds in a

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2013

qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the State of Utah Money Management Council. The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the Utah Money Management Act that relate to the deposit and investment of public funds. Deposits in the bank in excess of the insured amount are uninsured and uncollateralized.

The operating cash deposit balance for HIPUtah was \$924,661 at June 30, 2013. This was held and administered by the State Treasurer as part of the State of Utah's general operating cash pool.

The cash balance for premiums received by SelectHealth as HIPUtah's Program Administrator, but not yet deposited in HIPUtah's bank account was \$210,696 at June 30, 2013. The cash balance from benefit claim payment reversals and refunds received by SelectHealth, but not yet refunded back to HIPUtah, less claims paid by SelectHealth that have not been reimbursed by HIPUtah was \$(563,302) as of June 30, 2013. These cash amounts were held in SelectHealth's bank account in their name and thus not insured for HIPUtah.

The SelectHealth HIPUtah claims disbursements account deposit balance was \$147,706 at June 30, 2013. This cash amount is held for HIPUtah in SelectHealth's bank account in their name.

Investments

The Utah Money Management Act defines the types of securities authorized as appropriate investments for HIPUtah and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize HIPUtah to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2013

Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer’s Investment Fund.

The Utah State Treasurer’s Office operates the Public Treasurer’s Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Utah Money Management Act. The Act established the State of Utah Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees – of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares. As of June 30, 2013, HIPUtah had investments of \$20,382,137 (at fair value) in the PTIF maturing in less than one year.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. HIPUtah’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Utah Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers’ acceptances, fixed rate negotiable deposits and fixed rate corporate obligations to 270 days - 15 months or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding three years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. HIPUtah’s policy for reducing its exposure to credit risk is to comply with the Utah Money Management Act as previously discussed. At June 30, 2013, HIPUtah’s investments were in the PTIF, which is unrated.

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2013

4. BENEFIT CLAIM LIABILITY

Changes in HIPUtah's benefit claims liability balances were as follows:

For the Fiscal Year Ended June 30	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2012	\$3,397,753	32,394,871	(32,951,959)	\$2,840,665
2013	\$2,840,665	33,670,534	(32,999,918)	\$3,511,281

5. SUBSEQUENT EVENT

The HIPUtah Board on July 18, 2013, approved a transition and termination plan to close enrollment and terminate coverage as of December 31, 2013, and transition all enrollees to the Utah Federal Facilitated Marketplace by January 1, 2014. The Board plans to require all benefit claims be submitted no later than December 31, 2014, with all benefit claims paid by January 31, 2015. The Board will work with the Utah Legislature during the 2015 General Session to pass a bill to authorize the dissolution of the Utah Comprehensive Health Insurance Pool.



OFFICE OF THE
UTAH STATE AUDITOR

**INDEPENDENT STATE AUDITOR'S REPORT 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***

To the Board of Directors, Audit Committee,
and
Tomi Ossana, Executive Director
Utah Comprehensive Health 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 Utah Comprehensive Health Insurance Pool (HIPUtah) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise HIPUtah's basic financial statements, and have issued our report thereon dated September 24, 2013.

Internal Control Over Financial Reporting

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

Office of the Utah State Auditor

Office of the Utah State Auditor
September 24, 2013