

Nebraska Comprehensive Health Insurance Pool

Administered by Coventry Health and Life Insurance Company

P.O. Box 541210 Omaha, NE 68154 | Phone: 855-247-5201 (Toll Free) | Fax: 866-799-9448 | www.nechip.com

February 28, 2014

The Honorable Senators of
The Nebraska Unicameral Legislature
P.O. Box 94604
Lincoln, NE 68509

Dear Senator:

Pursuant to the Comprehensive Health Insurance Pool Act, Section 44-4225 (1), we are submitting the attached documents for your review.

We have included the audited financial statements for fiscal year 2012 as well as the December 2013 financial statements.

For further information or assistance, you may contact me or Coventry Health Care of Nebraska, the pool-administrator. The contact information is above.

Sincerely,



Victor Kensler, Chairman
Nebraska Comprehensive Health Insurance Pool

Nebraska Comprehensive Health Insurance Pool

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2013 Annual Report

Coventry Health Care was the administrator of the Nebraska Comprehensive Health Insurance Pool (NECHIP) during 2013 calendar year.

Here are the financial highlights.

Premium income for 2013 was down approximately \$1.7 million or 6% from 2012 (\$30,441,527 in 2012 to \$28,717,657 in 2013). This was due to a 17% decrease in policy holders from 3463 to 2969.

Administrative costs for 2013 were down approximately \$606K (\$2,158,738 in 2012 to \$1,552,287 in 2013) or 28% due to reduced rates and the reduction in policy holders.

There was an increase in premium's receivable from 2012 to 2013 (\$126,776 in 2012 to \$218,044 in 2013). There were 148 policy holders with premiums outstanding as of December 31, 2012 as compared to 280 policy holders with premiums outstanding December 31, 2013. NECHIP policy holders were informed that the program was ending December 31, 2013 due to the implementation of the Affordable Care Act and the Health Insurance Marketplace effective January 1, 2014. As a result, many policy holders did not make a payment for December, 2013 knowing they had a 30 day grace period. Accordingly, Coventry adjusted those policy holders' termination date to November 30, 2013. Some of those policy holders apparently could not afford to make their December, 2013 NECHIP payment because they were required to make their January payment for their Health Insurance Marketplace policy in that month. Coventry also adjusted their termination dates to November 30, 2013 and requested a refund from the providers if claims were paid for the month of December, 2013.

NECHIP terminated 2897 policy holders on December 31, 2013. 72 policy holders remained active beginning January 1, 2014 because they are on Medicare due to a disability and are not eligible for coverage on a guaranteed issue basis under the Affordable Care Act. NECHIP is seeking potential solutions to reduce that number, but a certain number are likely to remain as policy holders or become eligible for NECHIP. Because of the significant reduction of policy holders, NECHIP anticipates a significant reduction in state support in 2014 although those remaining on the system will be high-expense users. Moreover, claims from 2013 will continue to come in with an anticipated run-out/off of 12 to potentially 18 months.

The NECHIP Board believes that the change of administrators in 2012 has had a measurable impact on the reduction of and control of claims this year and last year.

NECHIP will continue to function according to the NE statutes, until a federal or state solution is reached for under the age of 65 policy holders who currently are or become eligible for Medicare by reason of disability

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL

Balance Sheets

Dec-13

ASSETS

2013

Cash	7,913,062
Receivable from CHIP Distributive Fund	0
Less Allowance for doubtful assessments	0
Premiums receivable	<u>218,116</u>
Total Assets	<u><u>8,131,178</u></u>

LIABILITIES AND EQUITY

Reserve for incurred claims	3,967,000
Unearned premiums	11,313
Advances held by administrator	3,634,735
Advanced Assessment Premium Relief	0
Accrued Liabilities	518,130
Disease Management Accrual	<u>0</u>
Total Liabilities	8,131,178
Equity	<u>0</u>
Total Liabilities and Equity	<u><u>8,131,178</u></u>

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL

Statement of Income and Equity
For the Month Ended December 31, 2013

	Current Month	2013 Year-to-Date
Premium income	2,227,490	28,717,655
Claims incurred	3,299,668	44,847,066
(Claims Paid)	\$4,530,741	\$46,486,872
(Difference)	<u>(1,231,074)</u>	<u>(1,639,806)</u>
	(1,072,178)	(16,129,410)
Operating expenses:		
Administrative Cost	117,472	1,552,216
Referral Fees	100	3,800
Audit Fees	5,000	20,000
Miscellaneous	<u>14,348</u>	<u>52,508</u>
Total operating expenses	136,920	1,628,524
Gain (loss) from operations	(1,209,098)	(17,757,934)
Investment income	72	2,771
Investment expense	0	0
Disease Management Expense		
Premium Relief Credit Expense	0	0
Net gain (loss)	<u>(1,209,026)</u>	<u>(17,755,163)</u>
CHIP Distributive Fund	1,209,026	17,755,163
Premium Credit Relief Fund		0
Total Fund	<u>1,209,026</u>	<u>17,755,163</u>
Equity, beginning of year	<u>0</u>	<u>0</u>
Equity, end of year	<u><u>0</u></u>	<u><u>0</u></u>

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL

Statement of Cash Flows
For the Month Ended December 31, 2013

	Current Month	Current Year-to-Date
Cash flows from operating activities:		
Net gain (loss)	(1,209,026)	(16,369,321)
Change in assets and liabilities:		
Decrease (increase) in premiums receivable	(25,006)	(218,116)
Increase (decrease) in claim reserve	(\$802,000)	\$3,967,000
Increase (decrease) in unearned premiums	(188,936)	11,313
Increase (decrease) Accrued Liabilities	369,030	506,053
Increase (decrease) in Disease Mgt Accrued Liabilities	0	0
Increase (decrease) in Premium Relief Credit Liabilities	0	0
Total cash used in operating activities	(1,855,938)	(12,103,071)
Cash flows from financing activities:		
Transfers from CHIP Distributive Fund	6,806,527	20,004,056
Transfers from Disease Management Fund	0	0
Transfers from Premium Credit Relief Fund	0	0
Refunds of excess CHIP assessments	0	0
Increase (decrease) in borrowings	0	0
Total cash provided by financing activities	6,806,527	20,004,056
Net increase (decrease) in cash	4,950,589	7,900,986
Cash balance, beginning of period	2,950,396	0
Cash balance, end of period	7,900,986	7,900,986

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL Financial Highlights 12/31/2013

Balance Sheet Items:

	<u>12/31/2013</u>
Cash	<u>\$7,900,986</u>
Assessments Receivable	<u>\$0</u>

Income Statement Items:

	<u>12/31/2013</u>
Net Gain (Loss)	<u>(\$1,209,026)</u>
Administrative Cost	<u>\$117,472</u>

Other Information:

	<u>12/31/2013</u>
Membership Enrollment	2,969
	<u>Month of</u> <u>12/31/2013</u>
Claims Paid	<u>\$4,530,741</u>

NOTES TO December 2013 CHIP FINANCIAL STATEMENTS

1) CHIP Funding

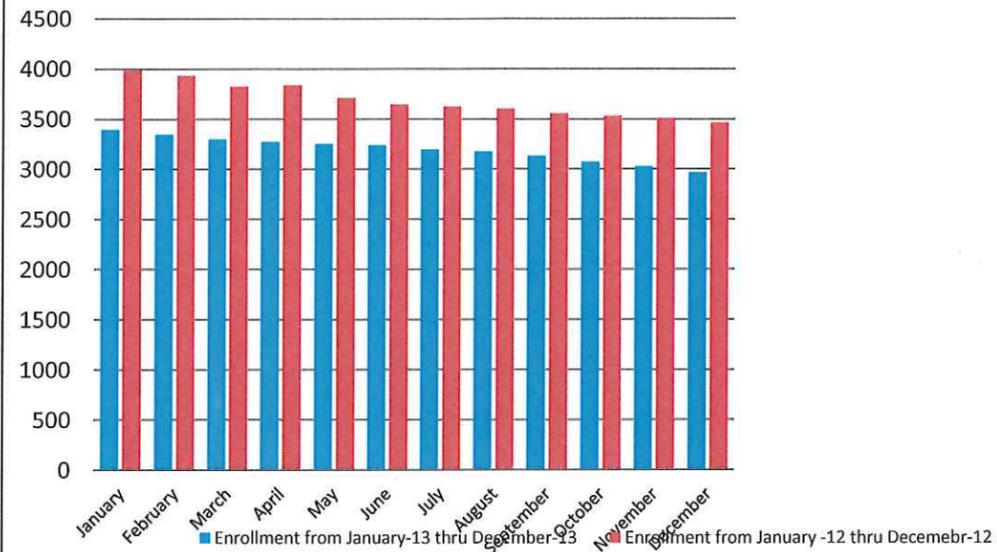
Amounts transferred to the Administrator from the Fund are shown below:

May 25, 2001	\$ 2,371,820		
June 21, 2001	\$ 3,922,281		
October 15, 2001	\$ 5,351,908	2001	\$ 11,646,009
March 26, 2002	\$ 4,519,831		
September 9, 2002	\$ 4,313,972		
November 20, 2002	\$ 4,328,466	2002	\$ 13,162,269
March 17, 2003	\$ 5,387,031		
June 27, 2003	\$ 4,029,424		
September 26, 2003	\$ 4,585,274		
December 18, 2003	\$ 5,095,493	2003	\$ 19,097,222
April 21, 2004	\$ 3,887,696		
April 29, 2004	\$ 719,841		
August 30, 2004	\$ 4,435,103		
December 24, 2004	\$ 4,098,872	2004	\$ 13,141,512
March 29, 2005	\$ 3,962,096		
June 30, 2005	\$ 5,090,859		
September 21, 2005	\$ 5,755,663		
December 27, 2005	\$ 6,407,414	2005	\$ 21,216,032
March 7, 2006	\$ 6,293,769		
July 7, 2006	\$ 5,606,615		
September 29, 2006	\$ 4,453,343		
December 22, 2006	\$ 6,279,868	2006	\$ 22,633,595
March 20, 2007	\$ 5,394,837		
August 2, 2007	\$ 5,324,231		
October 1, 2007	\$ 4,055,626		
December 13, 2007	\$ 4,823,784	2007	\$ 19,598,478
January 29, 2008	\$ 5,166,725		
April 21, 2008	\$ 4,464,237		
June 27, 2008	\$ 5,493,679		
October 1, 2008	\$ 6,401,692		
November 24, 2008	\$ 5,848,876	2008	\$ 27,375,209
March 9, 2009	\$ 6,439,395		
June 4, 2009	\$ 5,002,658		
August 31, 2009	\$ 5,627,063		
December 31, 2009	\$ 6,982,047	2009	\$ 24,051,163
January 26, 2010	\$ 5,365,445		
April 20, 2010	\$ 4,741,325		
August 12, 2010	\$ 6,089,194		
November 5, 2010	\$ 6,324,826	2010	\$ 22,520,790
January 31, 2011	\$ 6,230,362		
May 2, 2011	\$ 4,653,691		
June 29, 2011	\$ 3,919,118		
September 7, 2011	\$ 4,805,331		
November 7, 2011	\$ 4,423,413	2011	\$ 24,031,915
January 6, 2012	\$ 4,400,761		
March 13, 2012	\$ 1,000,000		
April 3, 2012	\$ 3,000,000		
April 20, 2012	\$ 6,600,000		
November 21, 2012	\$ 5,395,487	2012	\$ 20,396,248
February 25, 2013	\$ 4,720,398		
May 20, 2013	\$ 4,047,833		
August 22, 2013	\$ 4,429,298	2013	
December 12, 2013	\$ 6,806,527		
Total	<u>\$ 258,874,498</u>	Total	<u>\$ 258,874,498</u> \$ -

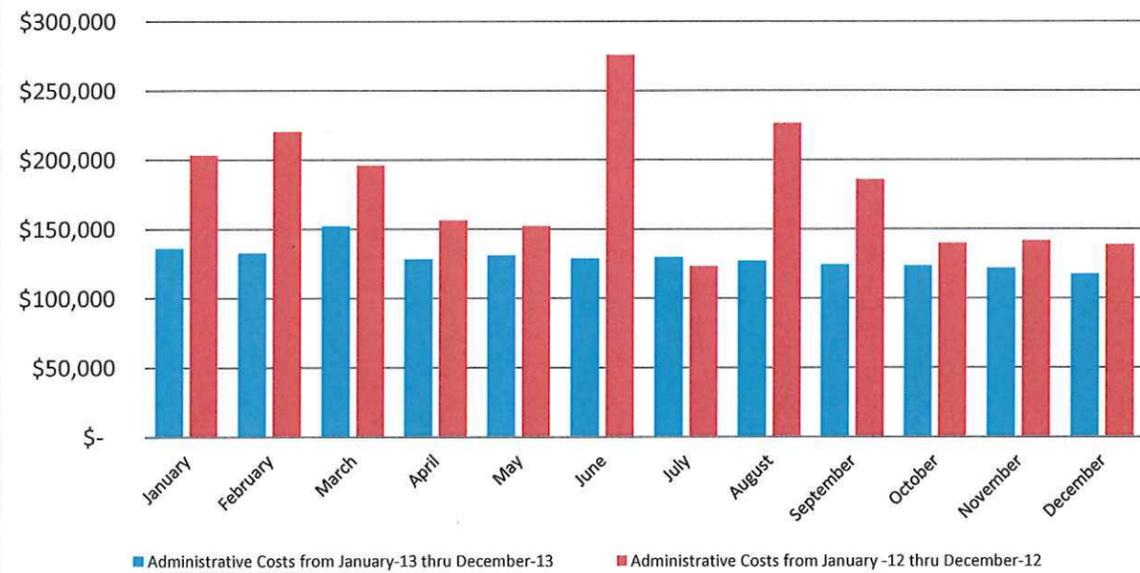
Advances held by the Administrator as of December 31, 2013 total \$3,634,735

- 2) Policies in-force:
Current month in-force count is 2,969

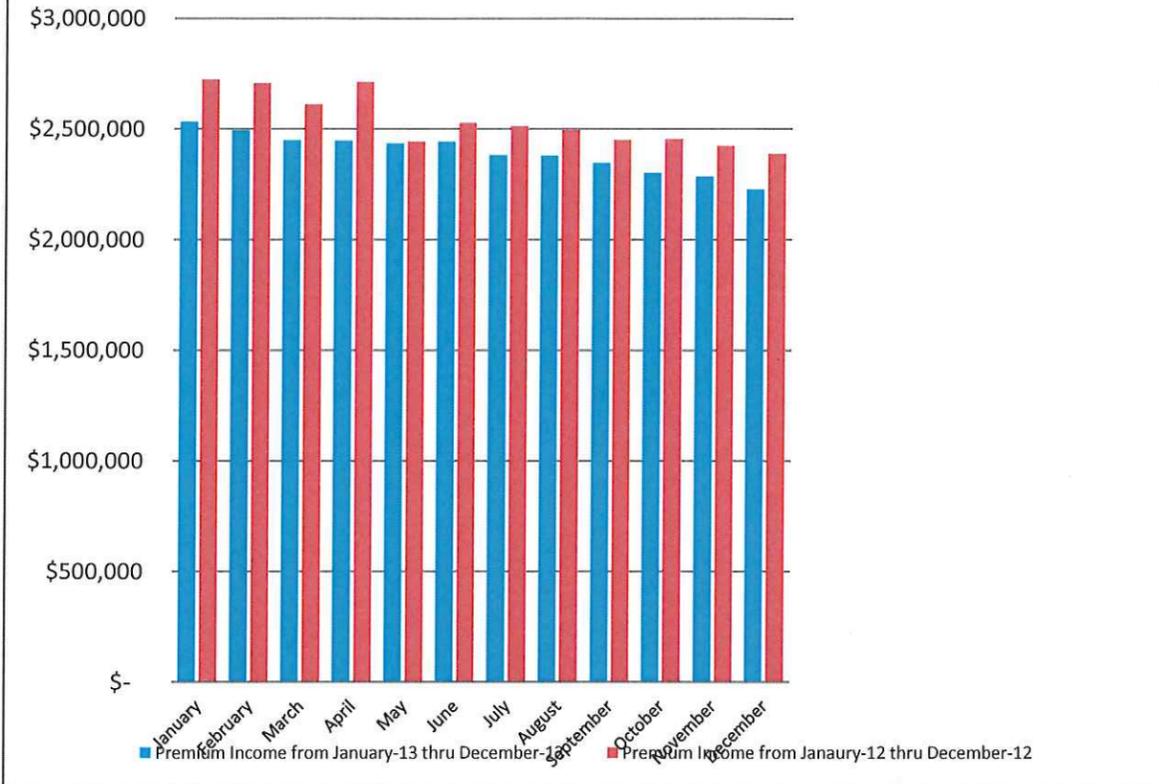
Enrollment at the End of the Month



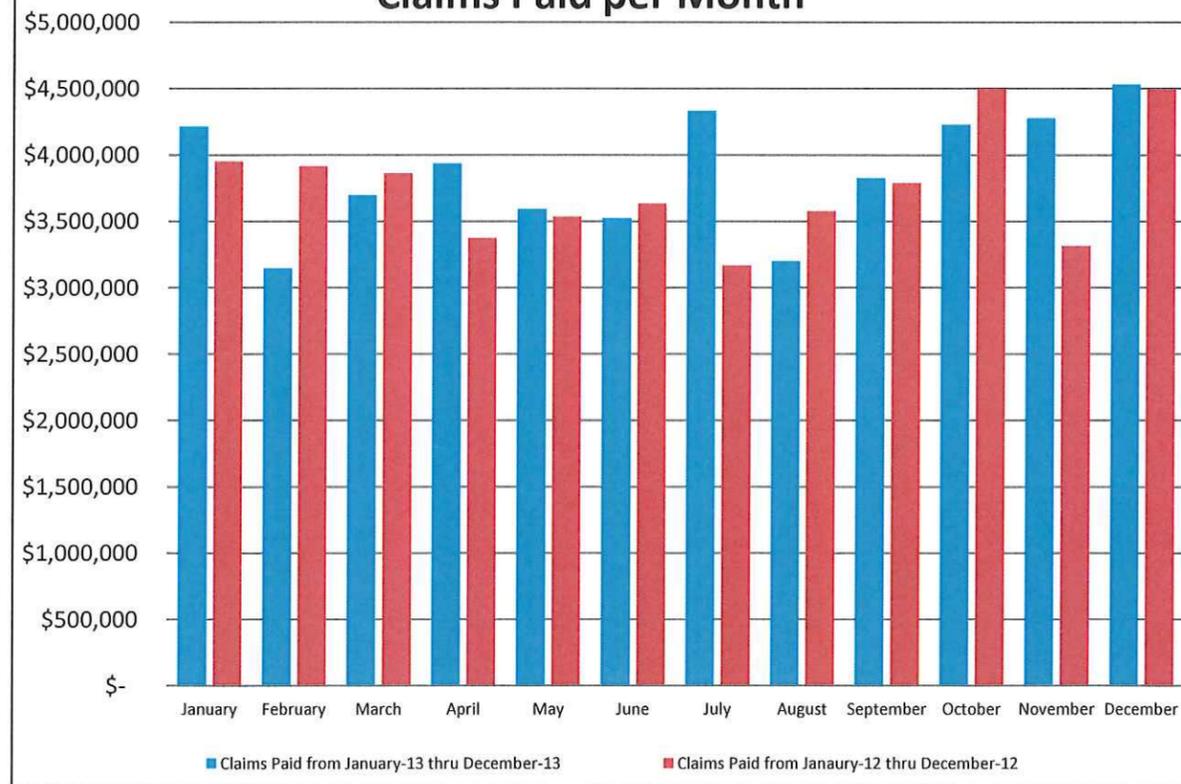
Administrative Costs

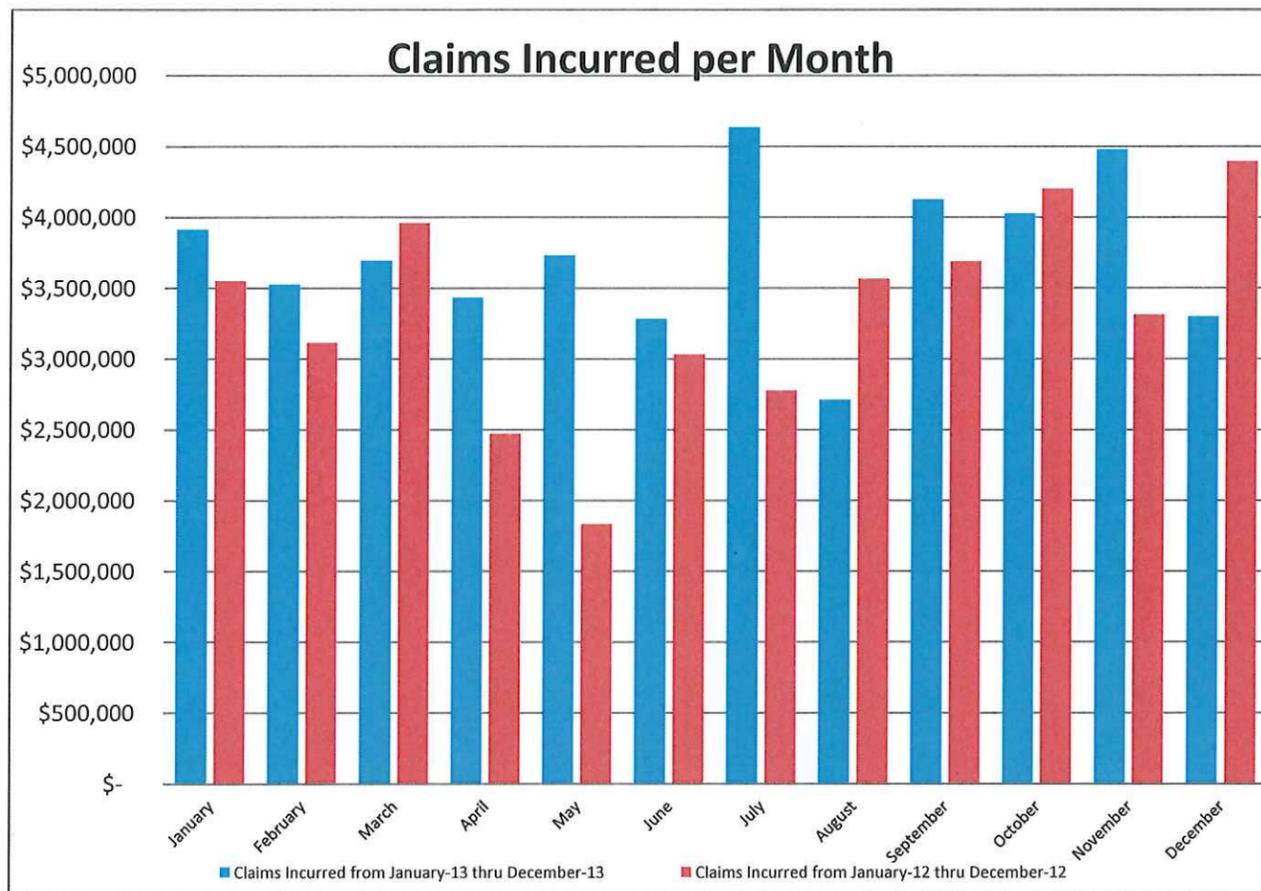


Premium Income

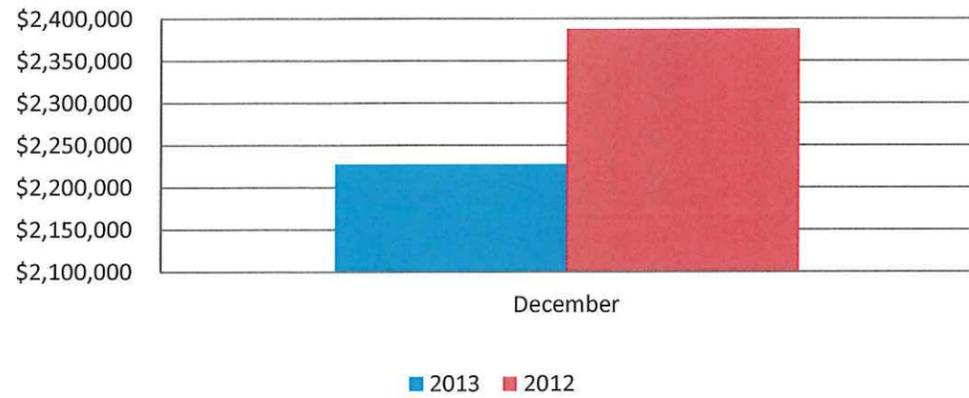


Claims Paid per Month

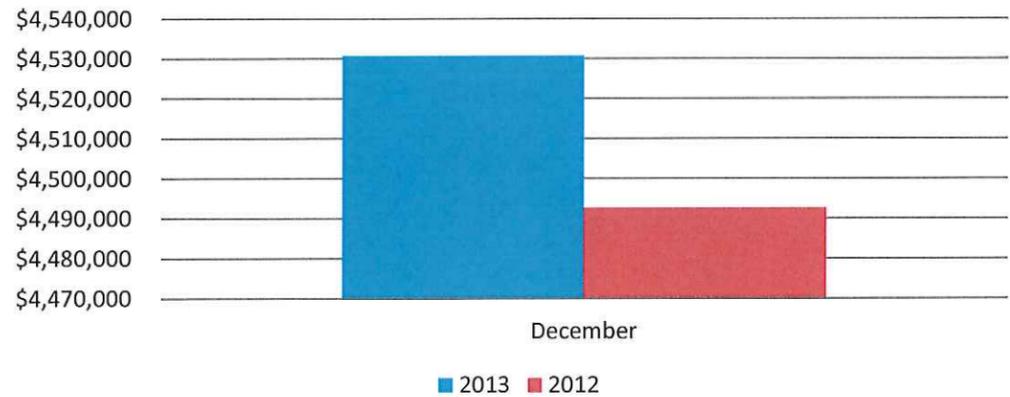




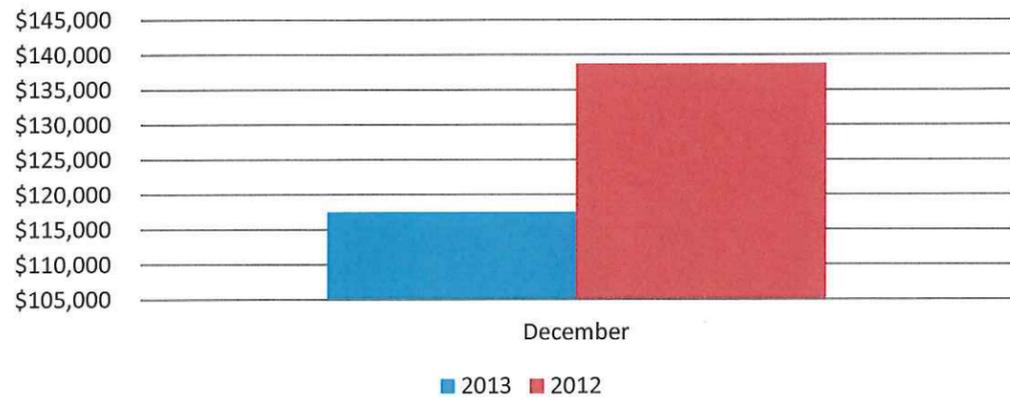
Cumulative Premium Income



Cumulative Claims Paid



Cumulative Administrative Costs



Enrollment from January-13 thru December-13

January-13	January	3394
February-13	February	3347
March-13	March	3296
April-13	April	3274
May-13	May	3252
June-13	June	3239
July-13	July	3198
August-13	August	3174
September-13	September	3133
October-13	October	3071
November-13	November	3026
December-13	December	2969

Enrollment from January -12 thru Decemebr-12

January -12	3987
February-12	3936
March-12	3824
April-12	3838
May-12	3710
June-12	3644
July-12	3625
August-12	3601
September-12	3557
October-12	3530
November-12	3504
Decemebr-12	3463

Administrative Costs from January-13 thru December-13

January-13	January	\$	135,998
February-13	February	\$	132,787
March-13	March	\$	152,130
April-13	April	\$	128,283
May-13	May	\$	130,928
June-13	June	\$	128,665
July-13	July	\$	129,635
August-13	August	\$	126,887
September-13	September	\$	124,382
October-13	October	\$	123,331
November-13	November	\$	121,715
December-13	December	\$	117,472

Administrative Costs from January -12 thru December-12

January -12	\$	203,355
February-12	\$	220,255
March-12	\$	195,913
April-12	\$	156,265
May-12	\$	152,103
June-12	\$	275,700
July-12	\$	122,968
August-12	\$	226,527
September-12	\$	185,597
October-12	\$	139,738
November-12	\$	141,556
December-12	\$	138,687

Premium Income from January-13 thru December-13

January-13	January	\$	2,532,856
February-13	February	\$	2,493,539
March-13	March	\$	2,448,005
April-13	April	\$	2,447,277
May-13	May	\$	2,433,835
June-13	June	\$	2,442,294
July-13	July	\$	2,382,313
August-13	August	\$	2,379,051
September-13	September	\$	2,345,623
October-13	October	\$	2,301,051
November-13	November	\$	2,284,321
December-13	December	\$	2,227,490

Premium Income from January-12 thru December-12

January-12	January	\$	2,723,279
February-12	February	\$	2,705,829
March-12	March	\$	2,609,181
April-12	April	\$	2,711,959
May-12	May	\$	2,442,739
June-12	June	\$	2,526,854
July-12	July	\$	2,511,602
August-12	August	\$	2,495,574
September-12	September	\$	2,449,550
October-12	October	\$	2,453,583
November-12	November	\$	2,423,765
December-12	December	\$	2,387,610

Claims Paid from January-13 thru December-13

January-13	January	\$	4,214,306
February-13	February	\$	3,145,805
March-13	March	\$	3,694,825
April-13	April	\$	3,934,488
May-13	May	\$	3,591,385
June-13	June	\$	3,521,672
July-13	July	\$	4,330,593
August-13	August	\$	3,197,414
September-13	September	\$	3,823,532
October-13	October	\$	4,226,709
November-13	November	\$	4,275,402
December-13	December	\$	4,530,741

Claims Paid from January-12 thru December-12

January-12		\$	3,950,731
February-12		\$	3,914,977
March-12		\$	3,859,949
April-12		\$	3,371,851
May-12		\$	3,533,770
June-12		\$	3,632,607
July-12		\$	3,166,503
August-12		\$	3,575,649
September-12		\$	3,787,874
October-12		\$	4,501,668
November-12		\$	3,312,842
December-12		\$	4,492,668

Claims Incurred from January-13 thru December-13

January-13	January	\$	3,914,306
February-13	February	\$	3,526,235
March-13	March	\$	3,694,825
April-13	April	\$	3,434,488
May-13	May	\$	3,730,264
June-13	June	\$	3,281,672
July-13	July	\$	4,635,593
August-13	August	\$	2,711,373
September-13	September	\$	4,125,532
October-13	October	\$	4,025,709
November-13	November	\$	4,477,402
December-13	December	\$	3,299,668

Claims Incurred from January-12 thru December-12

January-12		\$	3,550,732
February-12		\$	3,114,977
March-12		\$	3,959,949
April-12		\$	2,471,851
May-12		\$	1,833,770
June-12		\$	3,032,607
July-12		\$	2,776,503
August-12		\$	3,565,649
September-12		\$	3,687,874
October-12		\$	4,201,668
November-12		\$	3,312,842
December-12		\$	4,392,654

Premium Income

Dec-13	\$	2,227,490	December
Dec-12	\$	2,387,610	

Claims Paid

Dec-13	\$	4,530,741	December
Dec-12	\$	4,492,668	

Administrative Costs

Dec-13	\$	117,472	December
Dec-12	\$	138,687	

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED DECEMBER 31, 2012 AND 2011

**BLAND & ASSOCIATES, P.C.
Certified Public Accountants**

CONTENTS

Page

INDEPENDENT AUDITORS' REPORT

1-2

FINANCIAL STATEMENTS

Statements of Financial Position

3

Statements of Activities

4

Statements of Cash Flows

5

Notes to Financial Statements

6-12



Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Nebraska Comprehensive Health Insurance Pool
Omaha, Nebraska

We have audited the accompanying financial statements of Nebraska Comprehensive Health Insurance Pool (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Organization's 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.

Auditors' 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. 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.

INDEPENDENT AUDITORS' REPORT (Continued)

Opinion

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of Nebraska Comprehensive Health Insurance Pool as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Nebraska Comprehensive Health Insurance Pool as of December 31, 2011, were audited by other auditors whose report dated June 21, 2012, expressed an unmodified opinion on those statements.

As part of our audit of the 2012 financial statements, we also audited the adjustments described in Note I that were applied to restate the 2011 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2011 financial statements of the Nebraska Comprehensive Insurance Pool other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2011 financial statements as a whole.

BLAND + ASSOCIATES, P.C.

Omaha, Nebraska
August 15, 2013

**NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL
STATEMENTS OF FINANCIAL POSITION**

ASSETS	December 31,	
	2012	2011 (Restated)
Cash and Cash Equivalents	\$ 6,195,100	\$ 814,813
Advances Due from State	-	4,211,039
Premiums Receivable	126,775	84,248
Pharmacy Rebates Receivable	1,021,037	501,759
Other Receivables	6,354	-
	\$ 7,349,266	\$ 5,611,859
LIABILITIES AND NET ASSETS		
LIABILITIES	December 31,	
	2012	2011 (Restated)
Reserve for Incurred Claims	\$ 4,000,000	\$ 4,600,000
Advances Owed to State	2,485,501	501,759
Unearned Premiums	502,389	503,300
Accrued Liabilities	361,376	6,800
Total Liabilities	7,349,266	5,611,859
NET ASSETS		
Unrestricted Net Assets	-	-
Total Net Assets	-	-
	\$ 7,349,266	\$ 5,611,859

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

**NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL
STATEMENTS OF ACTIVITIES**

	Years Ended December 31,	
	2012	2011 (Restated)
PREMIUM REVENUES	\$ 31,496,637	\$ 31,461,290
CLAIMS EXPENSES	(44,465,911)	(56,544,373)
Claims Expenses over Premium Revenues	(12,969,274)	(25,083,083)
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative Fees	2,158,663	2,584,055
Miscellaneous Expenses	32,721	75,111
Professional Fees	25,561	6,000
Referral Fees	8,150	10,000
Total General and Administrative Expenses	2,225,095	2,675,166
LOSS FROM OPERATIONS	(15,194,369)	(27,758,249)
OTHER INCOME		
Interest Income	5,096	3,841
Total Other Income	5,096	3,841
CHANGE IN NET ASSETS	(15,189,273)	(27,754,408)
DISTRIBUTIONS FROM FUND	15,189,273	27,233,528
NET ASSETS - BEGINNING OF YEAR	-	-
PRIOR PERIOD ADJUSTMENT	-	520,880
NET ASSETS - AS RESTATED	-	520,880
NET ASSETS - END OF YEAR	\$ -	\$ -

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

**NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL
STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2012	2011 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (15,189,273)	\$ (27,754,408)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
(Increase) Decrease in Assets:		
Premiums Receivable	(42,527)	49,159
Pharmacy Rebates Receivable	(519,278)	19,121
Other Receivables	(6,354)	-
(Increase) Decrease in Liabilities:		
Reserve for Incurred Claims	(600,000)	600,000
Unearned Premiums	(911)	47,792
Accrued Liabilities	354,576	200
Net Cash Used in Operating Activities	(16,003,767)	(27,038,136)
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfers from CHIP Distributive Fund	21,384,054	24,533,675
Net Cash Provided by Financing Activities	21,384,054	24,533,675
Net Increase (Decrease) in Cash and Cash Equivalents	5,380,287	(2,504,461)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	814,813	3,319,274
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,195,100	\$ 814,813

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

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2012 and 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Nebraska Comprehensive Health Insurance Pool (NE CHIP) is presented to assist in understanding NE CHIP's financial statements. The financial statements and notes are representations of NE CHIP's management who are responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Reporting Entity

In 1985, the State of Nebraska enacted the Comprehensive Health Insurance Pool (the Act). The Act established NE CHIP (a Nebraska nonprofit organization), which became operational on November 1, 1986. The purpose of the Act is to provide a mechanism to ensure the availability and affordability of health insurance to Nebraska residents unable to purchase such insurance as a result of pre-existing medical conditions. Those residents participating in NE CHIP are defined as subscribers. Under the Act, all insurers authorized to issue or provide health insurance in Nebraska are members of NE CHIP. NE CHIP is funded by premiums billed to subscribers and payments from the Comprehensive Health Insurance Pool Distributive Fund (the Distributive Fund).

NE CHIP was administered by Blue Cross and Blue Shield of Nebraska (BCBSN) in 2011 and for the first 3 months of 2012, January 1, 2012 through March 31, 2012. NE CHIP was administered by Coventry Health Care of Nebraska, Inc. (the Administrator) for the remainder of 2012, April 1, 2012 through December 31, 2012.

The funding mechanism for the Organization was established by Legislative Bill 1253 of the 2000 Legislative Session (the Bill). The Bill abolished the direct member assessments which has previously been collected and held by the Administrator to pay NE CHIP deficits. Instead, the Bill created the Fund. The Bill provides that the Board shall make periodic estimates of the amounts needed from the Fund for payment of losses resulting from claims, including a reasonable administrative reserve, and administrative, organizational, and interim operating expenses and shall notify the Director of Insurance of such estimates. The Director is required to approve all withdrawals from the Fund and may determine when and in what amount any additional withdrawals may be necessary from the Fund to assure the continuing financial stability of NE CHIP. The Bill requires the Administrator of NE CHIP to maintain a balance of \$5 million plus the aggregate reserve at all times. As of December 31, 2011, NE CHIP was not in compliance with this requirement; however, compliance was resumed by December 31, 2012.

Basis of Financial Reporting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2012 and 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates include pharmacy rebates receivable and reserve for incurred claims. Accordingly, actual results could differ from those estimates.

Aggregate Reserves for Policy Contracts

Aggregate reserves for policy contracts have been adjusted to reflect claims incurred but unpaid at year-end, which includes claims in process, unreported claims, and claims of currently hospitalized patients. The amount of this liability has been estimated by the use of actuarial methods utilizing statistics developed from prior claims payments experience. Differences between actual and estimated claims are charged to operations in the year that the differences, if any, become unknown.

Cash and Cash Equivalents

The balance represents NE CHIP cash held by the administrator for the purpose of administering the operations of NE CHIP. The carrying value approximates the fair value.

Pharmacy Rebates Receivable

These receivables reflect actual rebates collected in the subsequent year for the second and third quarters of the calendar year in addition to an estimate for the fourth quarter collections.

Premium Income

Premiums are billed to subscribers in advance of their respective coverage periods and recognized as income when earned. Premiums receivable are recorded when the income has been earned but not yet received. Premiums received in advance of the related coverage period are recorded as unearned premiums.

Income Taxes

NE CHIP implemented the accounting for uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. Such tax positions initially and subsequently need to be

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2012 and 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

measured as the largest amount of tax benefit that has appropriate support for the income tax positions taken and any accruals for tax liabilities for all open tax years based on an assessment of many factors, including experience and interpretations of tax laws applied to the facts of each matter.

FASB ASC 740 did not have a material impact on NE CHIP's financial statements. NE CHIP has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits.

Subsequent Events

NE CHIP has evaluated subsequent events through August 15, 2013, the date which the financial statements were available to be issued.

NOTE B – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the NE CHIP to credit risk consist principally of cash balances. NE CHIP maintains bank accounts which sometimes exceed Federally insurable limits.

NOTE C – DISTRIBUTIONS FROM THE DISTRIBUTIVE FUND

Commencing with premium and retaliatory taxes imposed for the year ending December 31, 2001, and every year thereafter, any premium and related retaliatory taxes imposed by section 44-150 or 77-908 paid by insurers writing health insurance in Nebraska is remitted to the State Treasurer for credit to the Distributive Fund.

The Distributive Fund was used to fund the statements of activities as follows for the years ended December 31,:

	2012	2011
NE CHIP Distributive Fund	\$ 21,885,813	\$ 24,031,916
Prior Year Advances Held	(4,211,039)	(1,009,427)
Current Year Advances (Held) Due	(2,485,501)	4,211,039
	<u>\$ 15,189,273</u>	<u>\$ 27,233,528</u>

Included in the Distributive Fund is grant money from the Centers for Medicare & Medicaid Services (CMS) to assist in offsetting operational losses. The Distributive Fund received a bonus grant for the Disease Management initiative for High Risk Pool enrollees in the amount of \$463,154 and \$466,294 for the years ended December 31, 2012 and 2011, respectively. There were \$254,430 and \$0 of Disease Management grant funds that were expended as part of the Distributive Fund at December 31, 2012 and 2011, respectively.

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2012 and 2011

NOTE C – DISTRIBUTIONS FROM THE DISTRIBUTIVE FUND (CONTINUED)

The funds from the bonus grant were expended for the premium relief credits for eligible subscribers in 2012 and 2011, therefore, included within premium income. This federal funding is requested at the state level and upon receipt by the state is allocated to the Distributive Fund.

NOTE D – ADMINISTRATIVE AGREEMENT

NE CHIP had an administration agreement with Blue Cross and Blue Shield of Nebraska (BCBSN). The agreement was renewed beginning October 1, 2009 and terminated through mutual agreement on March 31, 2012 except for services for "run off". BCBSN performed all claim and administrative duties on behalf of NE CHIP through September 30, 2012 for "run-off", which are those claims with a date of service prior to April 1, 2012 for a fee of \$40,000 per month. Subsequently, the agreement was extended to October 31, 2013 to reach a final settlement with the State Department of Insurance. BCBSN was considered the Administrator for the period ending December 31, 2011 and January 1, 2012 through March 31, 2012. NE CHIP entered into an agreement with Coventry Health Care of Nebraska, Inc. as the new Administrator beginning April 1, 2012 through December 31, 2013.

The administrative services agreement provides, among other things, that the Administrator will be responsible for eligibility verification, premium collection, agent referral fee payments, claim processing and claim payments. Funds held by the administrator represent funds deposited with the Administrator. NE CHIP earns interest on funds deposited with the Administrator at a rate equal to the 90-day U.S. Treasury Bill rate. In accordance with the administration agreement, the Administrator receives a monthly administrative fee based on a fee per policy holder per month. Such fees are presented separately in the accompanying statements of activities as administrative fees.

NOTE E – AGGREGATE RESERVES FOR POLICY CONTRACTS

Activity in the liability for aggregate reserves for policy contracts is summarized below for the years ended December 31,:

	2012	2011
Balance, January 1	\$ 4,600,000	\$ 4,000,000
Current Year	50,329,982	57,491,922
Prior Year	(993,386)	165,198
Total Incurred	49,336,396	57,657,120
Paid Related To:		
Current Year	46,329,782	52,891,922
Prior Year	3,606,614	4,165,198
Total Paid	49,936,396	57,057,120
Balance, December 31	\$ 4,000,000	\$ 4,600,000

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2012 and 2011

NOTE E – AGGREGATE RESERVES FOR POLICY CONTRACTS (Continued)

Due to the change in administrators, the reserve for incurred claims of \$4,600,000 was eliminated by BCBSN through claims expense and a new reserve for incurred claims of \$4,000,000 was added by the Administrator.

NOTE F – INCOME TAXES

NE CHIP has implemented the accounting requirements associated with uncertainty in income taxes as required by FASB ASC 740, *Income Taxes*. The guidance prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. NE CHIP files Form 990, *Return of Organization Exempt from Income Tax*, in the U.S. Federal jurisdiction and one state jurisdiction. As of December 31, 2012, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax years that remain subject to examination by major tax jurisdictions are December 31, 2009, 2010, 2011 and 2012.

NOTE G – HEALTH CARE REFORM

The Patient Protection and Affordable Care Act (PPACA) was signed into law March 23, 2010. PPACA could have a significant impact on the NE CHIP program including elimination of the program. NE CHIP is in the process of evaluating the impact of the new law and monitoring the outcome of litigation surrounding PPACA to determine how this new law will affect its ongoing program operations.

NOTE H – CONTINGENCIES AND COMMITMENTS

In the normal course of its business, NE CHIP is a defendant in certain lawsuits filed under causes of action whereby the plaintiffs are seeking reimbursement and punitive damages. It is the opinion of NE CHIP's legal counsel and management that the ultimate resolution of these actions will not have a material adverse effect on its financial position, results of operations or cash flows.

NOTE I – RESTATEMENT AND PRIOR PERIOD ADJUSTMENT

NE CHIP has restated its' previously issued 2011 financial statements for matters related to the following previously reported items: unrecorded pharmacy rebates receivable and unrecorded advances owed to State. The accompanying financial statements for 2011 have been restated to reflect the corrections. Also, net assets were reduced by \$520,880 as a result of adjustments to rebate income that should have been recorded in 2010 but were recorded in 2011.

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2012 and 2011

NOTE I – RESTATEMENT AND PRIOR PERIOD ADJUSTMENT (CONTINUED)

The following is a summary of the restatements for 2011:

Increase in Pharmacy Rebates Receivable	\$ 501,759
Increase in Advances Owed to State	(501,759)
Decrease in Rebate Revenues (in Premium Revenues)	520,880
Total Reduction of 2011 Income	<u>\$ 520,880</u>

The effect on NE CHIP's previously issued 2011 financial statements are summarized as follows:

Statement of Financial Position as of December 31, 2011:

	Previously Reported	Increase	Restated
Pharmacy Rebates Receivable	\$ -	\$ 501,759	\$ 501,759
Total Assets	5,110,100	501,759	5,611,859
Advances Owed to State	-	501,759	501,759
Total Liabilities	5,110,100	501,759	5,611,859

Statement of Activities as of December 31, 2011:

	Previously Reported	Increase (Decrease)	Restated
Premium Revenues	\$ 31,982,170	\$ (520,880)	\$ 31,461,290
Claims Expenses over Premium Revenues	(24,562,203)	(520,880)	(25,083,083)
Change in Net Assets	(27,237,369)	(520,880)	(27,758,249)
Prior Period Adjustment	-	520,880	520,880
Net Assets – As Restated	-	520,880	520,880

NEBRASKA COMPREHENSIVE HEALTH INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 2012 and 2011

NOTE I – RESTATEMENT AND PRIOR PERIOD ADJUSTMENT (CONTINUED)

Statement of Cash Flows as of December 31, 2011:

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>Restated</u>
Change in Net Assets	\$ (27,233,528)	\$ 520,880	\$ (27,754,408)
Decrease in Pharmacy Rebates Receivable	-	19,121	19,121
Net Cash Used In Operating Activities	(26,536,377)	(501,759)	(27,038,136)
Net Transfers from CHIP Distributive Fund	24,031,916	501,759	24,533,675
Net Cash from Financing Activities	24,031,916	501,759	24,533,675