



Report of Independent Auditors  
and Financial Statements  
with Supplementary Schedules for

**New Mexico Medical  
Insurance Pool**

December 31, 2011 and 2010

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

We have audited the accompanying financial statements of the New Mexico Medical Insurance Pool (Pool), as of and for the years ended December 31, 2011 and 2010, as identified in the table of contents. These financial statements are the responsibility of the Pool's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2012, on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and claims development information on pages 3 through 5 and 19 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.

Our audit was conducted for the purpose of forming opinions on the financial statements of the Pool. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Also, the accompanying Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Expenditures of Federal Awards, the Combining Statement of Net Assets, the Combining Statement of Revenues, Expenses, and Changes in Net Assets, have been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses, and Changes in Net Assets are fairly stated in all material respects in relation to the financial statements as a whole.

*Mess Adams LLP*

Albuquerque, New Mexico  
May, 17, 2012

# **NEW MEXICO MEDICAL INSURANCE POOL MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2011**

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As management of the New Mexico Medical Insurance Pool (Pool), we offer readers of the Pool's financial statements this narrative overview and analysis of the financial activities of the Pool for the fiscal year ended December 31, 2011.

## **Financial Highlights**

The Pool had a net asset of \$522,155 at the close of its most recent fiscal year, the total assets were \$35,871,178 and total liabilities were \$35,349,023. The Pool maintains a net asset balance of \$522,155 at the end of each year, as required by direction of the Board of Directors. Pool revenue is generated through several sources; premiums paid by the subscribers, state and federal grants and assessments paid by insurers based on market share of their direct premiums collected within the state of New Mexico. Liabilities consist primarily from the reserves necessary to pay medical claims, pharmacy claims, administrative and operating expenses.

Assessments paid by insurers are calculated based on the overall projected and actual losses incurred by the Pool during a fiscal year. The actual loss (prior to assessments paid by insurers) for 2011 was \$94,050,651, which is an increase of \$9,333,490 (11%) from 2010. The actual loss for 2010 was \$84,717,161, which is an increase of \$12,302,836 (17%) from 2009. The loss amounts almost doubled between the 2004 and 2005 fiscal years and again from 2005 to 2006. Since 2006, the overall percentage increases in the loss amounts moderated as reflected by the 11% increase from 2010 to 2011.

## **Overview of the Financial Statements**

The Pool was established by the 1987 New Mexico State Legislature. The Pool was created to provide access to comprehensive health insurance coverage to residents of New Mexico who are denied health insurance and considered uninsurable. The Pool also provides health benefit portability coverage to New Mexicans who have exhausted COBRA benefits and have no other portability options available to them.

In July 1, 2010, the Pool began operating the New Mexico Federal High Risk Pool (Federal Pool) through a contract with the State of New Mexico's Human Services Department (HSD), as authorized by the Secretary of the Department of Health and Human Services (HHS). The Federal Pool was created as a result of the Patient Protection and Affordable Care Act, Public Law 111-148 (ACA), as a temporary high risk health insurance pool program to provide coverage for uninsured individuals with pre-existing medical conditions.

The Pool is funded through premiums received from policyholders, assessments against insurance companies authorized to transact health insurance in New Mexico ("insurers"), as well as a Federal program grant to States for the operation of qualified high-risk pools. All insurers authorized to conduct business in NM are required to be members of the Pool and must pay an initial assessment of \$500.

The Federal Pool is funded through premiums received from policyholders, subsidies from the Pool and funds set aside under the ACA for the operation of federal high risk pools.

**NEW MEXICO MEDICAL INSURANCE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2011**

**Condensed Financial Information**

	2011	2010	2009
<b>SUMMARY BALANCE SHEETS</b>			
<b>Total Assets - current</b>	<u>\$ 35,871,178</u>	<u>\$ 30,921,315</u>	<u>\$ 24,017,038</u>
Accrued claims and processing costs	27,428,200	23,586,541	22,480,526
Other payables - current	<u>7,920,823</u>	<u>6,812,619</u>	<u>1,014,357</u>
<b>Total payables - current</b>	<u>35,349,023</u>	<u>30,399,160</u>	<u>23,494,883</u>
<b>Net Assets</b>	<u><u>\$ 522,155</u></u>	<u><u>\$ 522,155</u></u>	<u><u>\$ 522,155</u></u>
<b>SUMMARY STATEMENTS OF REVENUE EXPENSES AND CHANGES IN NET ASSETS</b>			
Premiums	\$ 28,398,754	\$ 24,031,789	\$ 19,566,284
Assessments	94,050,651	84,717,161	72,414,325
Grant income	1,733,430	2,229,570	1,440,929
Other income	<u>13,404,309</u>	<u>1,263,935</u>	<u>76,944</u>
<b>Total operating revenues</b>	<u>137,587,144</u>	<u>112,242,455</u>	<u>93,498,482</u>
Operating expenses			
Claims and related processing costs	136,187,902	111,294,583	92,670,914
General and administrative	<u>1,399,242</u>	<u>947,872</u>	<u>827,568</u>
<b>Total operating expenses</b>	<u>137,587,144</u>	<u>112,242,455</u>	<u>93,498,482</u>
<b>Operating (loss) income</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**Overall Financial Analysis** – Cash on hand and Assessments Receivable increased due to a change in the collection methodology for assessments. Other income increased with the implementation of the Federal High Risk Pool.

The Pool experienced increased premium receipts of approximately \$4.4 million due to an increase in premium rates effective in January 2011 and an increase in overall membership. As expected with the increase in membership and the continued growth of the Federal Pool, the claims and administrative expenses increased as well from 2010 to 2011 proportionately.

## **NEW MEXICO MEDICAL INSURANCE POOL MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2011**

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**Pool Activities** – In January 2011, premium rates were increased to an aggregate of 9.7% across the NMMIP membership and 14% for the Federal High Risk Pool. The Federal High Risk Pool has continued to grow and the Board of Directors for the Pool has increased efforts in marketing for both the Federal and State Pools. These marketing efforts have resulted in an overall growth within both programs; State .2% and Federal 320%. State Pool membership had a net increase of 13 members with an increase of 163 new members within the regular plan, ending 2011 with a total membership of 8,442. The Federal membership ended 2011 with 790 members, with a net increase of 602 members.

In October 2010, the Board of Directors for the Pool made a decision to modify the eligibility criteria for the Pool to allow children under the age of nineteen into the Pool based solely on age due to the lack availability of coverage for this population within the commercial market place. Additionally, the Board decided to allow pregnancy as a criteria for Pool eligibility since the state run Premium Assistance for Maternity program lost funding, leaving pregnant women with no maternity coverage and limited access to health coverage. In 2011, the Board made a decision to allow individuals with significantly non-comprehensive group coverage access into the State Pool, since the HHS is granting waivers of the Affordable Care Act provisions to some health plans. The waivers extended the timeframes in which the health plans are required to ensure that essential benefits are covered within the group policies, effectively making comprehensive care unavailable to some group policy holders. Additionally, if an individual has access to group coverage and has not selected the group coverage, under the pre-existing condition insurance guidance these individuals could have access to the Federal Pool. The Board had decided to allow for similar access into the state pool.

Starting in 2010, the semi-annual interim payment schedule for assessment collection was modified to collect quarterly from the top 25 insurers based on the prior year direct premium market share within the State.

**Budget Analysis** – Overall the 2011 Pool losses were \$18.8 million less than budgeted. Premium receipts were within target of forecast with a less than 1% variance. Membership in the Low Income Premium Program (LIPP) was 10% less than anticipated, which increased actual premiums in relation to forecast. Claims were 14% less than forecast due to lower than forecast enrollment. Membership overall was 8.6% lower than expected due to some members enrolling in the new Federal Pool, which was implemented under the ACA in July 2010. Enrollment increases were trending at an annual rate of 20% for the past several years. Due to the implementation of the Federal Pool, the State Pool experienced only a .2% increase in membership in 2011 over 2010.

**Current Trends and Conditions and Future Impact** – Enrollment within the State Pool continues to grow at slower rate than trend due to the enrollment of the Federal Pool. Overall, enrollment is expected to continue to increase in the Federal High Risk Pool over the next year based on national enrollment trends.

**NEW MEXICO MEDICAL INSURANCE POOL  
STATEMENTS OF NET ASSETS**

**ASSETS**

	December 31,	
	2011	2010
Cash and cash equivalents	\$ 32,520,543	\$ 27,567,573
Assessments receivable	51,009	14,488
Receivable from HHS	563,890	598,652
Receivable from administrator	2,735,736	2,740,602
<b>Total assets</b>	<b>\$ 35,871,178</b>	<b>\$ 30,921,315</b>

**LIABILITIES AND NET ASSETS**

Estimated claims incurred but not reported	\$ 13,970,000	\$ 13,124,000
Accrued claims	12,373,200	9,438,541
Accrued claims processing costs	1,085,000	1,024,000
Assessment refunds payable	5,956,349	5,517,313
Unearned premiums and subsidized assessments	1,552,286	878,536
Payable to administrator	411,613	378,009
Accounts payable	575	38,761
<b>Total liabilities</b>	35,349,023	30,399,160
Net assets	522,155	522,155
<b>Total liabilities and net assets</b>	<b>\$ 35,871,178</b>	<b>\$ 30,921,315</b>

**NEW MEXICO MEDICAL INSURANCE POOL**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

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	Years Ended December 31,	
	2011	2010
<b>OPERATING REVENUES</b>		
Premiums	\$ 28,398,754	\$ 24,031,789
Assessments	94,043,651	84,712,661
Federal contracts	13,304,925	1,225,438
Initial assessments	7,000	4,500
Grant income	1,733,430	2,229,570
Interest income	34,422	36,556
Other income	64,962	1,941
	<u>137,587,144</u>	<u>112,242,455</u>
<b>Total operating revenues</b>	<u>137,587,144</u>	<u>112,242,455</u>
<b>OPERATING EXPENSES</b>		
Claims	131,346,269	107,157,626
Claims processing costs	4,841,633	4,136,957
General and administrative	1,399,242	947,872
	<u>137,587,144</u>	<u>112,242,455</u>
<b>Total operating expenses</b>	<u>137,587,144</u>	<u>112,242,455</u>
<b>OPERATING INCOME</b>	-	-
<b>NET ASSETS at beginning of year</b>	<u>522,155</u>	<u>522,155</u>
<b>NET ASSETS at end of year</b>	<u>\$ 522,155</u>	<u>\$ 522,155</u>

**NEW MEXICO MEDICAL INSURANCE POOL**  
**STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from policyholders and insurers	\$ 136,935,185	\$ 117,944,476
Proceeds from grants	1,733,430	2,229,570
Payments for claims and claims processing costs	(132,346,243)	(110,188,568)
Payments to providers and suppliers	(1,403,824)	(872,832)
Interest received	34,422	36,556
<b>Net cash provided by operating activities</b>	<b>4,952,970</b>	<b>9,149,202</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>4,952,970</b>	<b>9,149,202</b>
CASH AND CASH EQUIVALENTS, beginning of year	27,567,573	18,418,371
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 32,520,543</b>	<b>\$ 27,567,573</b>
<b>RECONCILIATION OF CHANGES IN NET ASSETS</b>		
to net cash provided by operating activities		
<b>CHANGES IN NET ASSETS</b>	<b>\$ -</b>	<b>\$ -</b>
<b>ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS</b>		
to net cash provided by operating activities		
Changes in assets and liabilities		
Assessments receivable	(36,521)	3,487,356
Receivable from HHS	34,762	(598,652)
Receivable from administrator	4,866	(643,779)
Assessment refunds payable	439,036	5,517,313
Estimated claims incurred but not reported	846,000	1,463,000
Accrued claims	2,934,659	(472,985)
Accrued claims processing costs	61,000	116,000
Unearned premiums	673,750	205,909
Payable to administrator	33,604	111,175
Accounts payable	(38,186)	(36,135)
<b>Total adjustments</b>	<b>4,952,970</b>	<b>9,149,202</b>
<b>Net cash provided by operating activities</b>	<b>\$ 4,952,970</b>	<b>\$ 9,149,202</b>

# NEW MEXICO MEDICAL INSURANCE POOL

## NOTES TO FINANCIAL STATEMENTS

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### Note 1 – Summary of Significant Accounting Policies

**Operations** – The New Mexico Medical Insurance Pool (Pool) was formed as an unincorporated not-for-profit entity by the New Mexico Legislature in 1987. The purpose of the Pool is to provide comprehensive health insurance coverage to eligible individuals.

Effective July 1, 2010, the Pool began claims processing services for the New Mexico Federal High Risk Pool (Federal Pool) through a contract with the State of New Mexico’s Human Services Department (HSD). The Federal Pool was created as a result of the Patient Protection and Affordable Care Act, Public Law 111-148, which authorized the Secretary of the Department of Health and Human Services (HHS) to enter into contract with States to establish and operate temporary high risk health insurance pool programs to provide coverage for uninsured individuals with pre-existing conditions beginning in 2010 and ending on December 31, 2013. The contract between HHS and HSD requires an annual audit of the finances of the Federal Pool program, which is issued as a separate report.

The funding for the Pool program (excludes the Federal Pool program) comes from premiums received from policyholders, assessments against insurance companies authorized to transact health insurance in New Mexico (“insurers”), as well as a Federal program grant to States for the operation of qualified high-risk pools. All insurers are required to be members of the Pool and must pay an initial assessment of \$500.

Subsequent to each fiscal year, the Board determines the need to levy an assessment and, if necessary, the assessment is made against insurers using a pro rata allocation based on health insurance written in the State of New Mexico during the previous calendar year. The Board may also make interim billings as may be reasonable and necessary for the organizational or interim operating expenses of the Pool. The Pool records assessment revenue at the time the Pool determines a premium deficiency is reasonably estimable, which is generally at the end of each fiscal year, and to the extent the Pool has an enforceable legal claim to the assessments and the collectibility of the assessments is probable and reasonably estimable.

If assessments for a fiscal year exceed actual losses and administrative expenses of the State Pool Program for that fiscal year, the excess assessments are refunded, and recorded as accrued assessment refunds for that fiscal year. Any deficit incurred by the State Pool program shall be recouped by assessments apportioned among the members as described above. Deficiency assessment revenues in the financial statements are shown net of assessment reversals, if any.

The funding for the Federal Pool program comes from premiums received from policyholders and HHS contract funding. Individuals, who meet both the eligibility requirements of the Federal Pool program and the State Pool program, are enrolled in the Federal Pool program, and their premiums are subsidized by the State Pool program according to the program’s existing eligibility requirements.

The Pool is administered by Blue Cross and Blue Shield of New Mexico (BCBSNM).

# NEW MEXICO MEDICAL INSURANCE POOL

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1 – Summary of Significant Accounting Policies (continued)**

**Basis of Presentation** – Effective January 1, 2011, the Pool adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB Pronouncements. The adoption of GASB No. 62 had no impact on the Pool's accounting policies, as the Pool had previously elected to not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, and applicable FASB pronouncements issued on or before November 30, 1989 have now been incorporated into GASB pronouncements.

The accompanying financial statements include the accounts and activity of the State Pool, as well as the activity of the Federal Pool, operated as separate programs of the Pool. All inter-program accounts and activity have been eliminated in the accompanying financial statements.

Under GASB requirements, the Pool is presented as an enterprise fund. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business. Enterprise funds are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liabilities are incurred.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. As an operator of the State Pool Program and the Federal Pool program, the principal operating revenues of the Pool are premiums from policyholders, assessments against insurers in the State of New Mexico, grant proceeds that subsidize the operation of the Pool, and contract funding received from HHS.

Operating expenses for enterprise funds include the cost of sales and services and administrative expenses. All expenses of the Pool are considered operating expenses.

**Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**Cash and Cash Equivalents** – Cash and cash equivalents consist of cash and a repurchase agreement held with a single financial institution. The Pool is exposed to custodial credit risk in the event its deposits are not fully insured or collateralized, or are collateralized by securities held by the financial institution. At December 31, 2011, the Pool's cash account was fully insured by the Federal Deposit Insurance Corporation (FDIC). In August 2009, the FDIC extended its temporary Transaction Account Guarantee Program through December 30, 2012. This program provides unlimited coverage for all non-interest bearing accounts. The Pool's cash account is non-interest bearing, therefore, is 100% insured at

## **NEW MEXICO MEDICAL INSURANCE POOL**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 1 – Summary of Significant Accounting Policies (continued)**

December 31, 2011 and 2010. The Pool's repurchase agreement is 100% collateralized by securities held by the financial institution, which subjects the Pool to custodial credit risk in the event of failure of the financial institution. The amount of such exposure is the balance of the repurchase agreement of \$31,731,200 and \$27,219,869 at December 31, 2011 and 2010, respectively. Management monitors the financial condition of this financial institution and does not believe any significant credit risk exists at this time. The Pool has no deposit policy limiting the custodial credit risk of its deposits.

The Pool considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents for the purposes of the statement of cash flows.

**Assessments Receivables** – The Pool levies assessments against health insurers registered in the State of New Mexico on an annual basis. Interim billings are invoiced as necessary to provide sufficient revenue to continue the operation of the Pool throughout the year. The invoiced amounts are due within 30 days. No allowance is provided for doubtful accounts receivable as management considers all accounts to be collectible based on past experience. Although not expected, in the event management determines an account uncollectible, the balance would be written off to bad debts expense.

**Receivable from HHS** – The Federal Pool program recognizes federal revenue from HHS for reimbursement of claims paid that are in excess of premiums received from the plan participants and premium subsidies received from the Pool. The receivable from HHS is considered fully collectible and, accordingly, does not include a provision for bad debts.

**Receivable from and Payable to Administrator** – The administrator of the Pool, Blue Cross Blue Shield of New Mexico (BCBSNM), initially pays for all claims and claims processing costs, and is reimbursed by the Pool. The administrator also bills and receives all premiums on behalf of the Pool, which are then passed onto the Pool.

In exchange for all the administration services provided by the administrator, the State Pool program pays an administration fee on a per member per month basis at a rate of \$42 and \$40.50 for 2011 and 2010, respectively. In addition to the administrative fees above, the Pool pays for disease management services on a per member per month basis at a rate of \$2.50 and \$2.35 for 2011 and 2010, respectively.

In exchange for all the administration services provided by the administrator, the Federal Pool program pays an administration fee on a per member per month basis at a rate of \$42, plus a fee of \$42.54 per member for implementation costs for 2011. The 2010 administration fee rate was \$40.50 plus a fee of \$42.53 per member for implementation costs. In addition to the administrative fees above, the Federal Pool program pays for disease management services on a per member per month basis at a rate of \$2.50 and \$2.35 for 2011 and 2010, respectively.

All such amounts are settled between the Pool and the administrator on a monthly basis. The receivable from administrator is considered fully collectible and, accordingly, does not include a provision for bad debts.

## NEW MEXICO MEDICAL INSURANCE POOL NOTES TO FINANCIAL STATEMENTS

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### **Note 1 – Summary of Significant Accounting Policies (continued)**

**Estimated Claims Incurred but not Reported** – This liability represents benefits due policyholders and providers for services provided but not yet recorded or paid. The Pool's actuarial estimate of this liability considers historical experience and subjective judgments, and is based on the development method. Management reviews the actuarial assumptions used in determining the liability. The amount ultimately paid may be more or less than such estimates. Accounting estimates are subject to change and the effects of such changes are recognized in the period in which they can be reasonably estimated. The Pool does not report estimated claims incurred on the Federal Pool program as it does not retain the risk of loss on the insurance policies.

**Net Assets** – Net assets of the Pool were \$522,155 as of December 31, 2011 and 2010. The amount represents the historical excess of the Pool's premiums and assessments revenues over its costs. The Pool accrues assessments revenue or refunds (contra-revenue) at the end of each calendar year based on the Pool's income or loss prior to those final assessments and, accordingly, there was no operating income or loss reported in 2011 or 2010. Management and the board of directors routinely review the appropriateness of the amount of net assets and believe such amount is appropriate as of December 31, 2011 and 2010.

**Earned and Unearned Premium Revenue** – Premium revenue is recognized as revenue in the month premiums are earned. Policyholders pay premiums monthly over their contract period, which is determined by the effective date of their policy. Policyholders who do not remit their premiums within 30 days of the monthly due date are eliminated from the plan. Delinquent premium payments are recognized as revenue upon collection and are not accrued.

**Grant Revenue** – Grant revenue received by the State Pool is considered voluntary non-exchange revenue under governmental accounting standards. Accordingly, revenues are recorded when all underlying eligibility requirements have been met, which occurs when the Pool has incurred an allowable expenditure under the terms of the grant agreement.

**Income and Premium Taxes** – In management's opinion the Pool provides an essential governmental function to its members as described in Section 115 of the Internal Revenue Code and, accordingly, the Pool is exempt from such taxes. No provision for such taxes is included in the accompanying financial statements. The Pool is also exempt from State of New Mexico taxes.

**Reclassifications** – Certain prior year amounts have been reclassified in order to be consistent with current year presentation.

**Subsequent Events** – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Pool recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Pool's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

The Pool has evaluated subsequent events through May 17, 2012, which is the date the financial statements were available to be issued.

## **NEW MEXICO MEDICAL INSURANCE POOL**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 2 – Related Party Transactions with BSBSNM**

Included in claims processing costs in the accompanying statements of revenues, expenses and changes in net assets are \$4,779,744 and \$4,020,867 in expenses associated with administration services provided by BCBSNM, including claims processing, premium billing and collection, and related matters for the years ended December 31, 2011 and 2010, respectively.

For its proportionate share of assessments, BCBSNM paid the Pool \$12,276,813 and \$7,827,716 in 2011 and 2010, respectively. As of December 31, 2011 and 2010, \$731,250 and \$459,864, respectively was payable back to BCBSNM as an assessment refund.

#### **Note 3 – Line-of-Credit**

The Pool has a \$2,000,000 line-of-credit from a local financial institution, expiring September 28, 2012. Interest, payable monthly, is variable at the bank's prime rate (4.00% at December 31, 2011). The line is secured by the State Pool's general accounts, assessments and premium receivables. There were no balances outstanding as of December 31, 2011 and 2010, respectively, and there was no draw against the line-of-credit in either 2011 or 2010.

#### **Note 4 – Liability for Claims and Claim Adjustment Expenses**

The State Pool programs liability for claims and claim processing costs includes an amount determined from claims reports and an amount for claims incurred but not reported. Estimates of the liability for amounts incurred but not reported as of December 31, 2011 and 2010 have been based on an actuarial evaluation of the program's historical claims experience, industry data, and other factors. Estimated claims processing costs are accrued when the related liability for unpaid claims is accrued, and represents the costs of paying the administrator to process all remaining claims, which is estimated at 3 months of typical administrative charges. While management believes that these estimates are adequate, actual incurred but unpaid claims and claim processing costs may vary significantly from the amount provided.

**NEW MEXICO MEDICAL INSURANCE POOL**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 4 – Liability for Claims and Claim Adjustment Expenses (continued)**

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

	2011	2010
Liability for claims and claims processing costs, beginning of year	<u>\$ 17,425,366</u>	<u>\$ 22,480,526</u>
Incurred claims and claims processing costs		
Prior years claims	128,565	810,680
Current year claims	<u>120,639,220</u>	<u>109,225,181</u>
	<u>120,767,785</u>	<u>110,035,861</u>
Claims paid		
Prior years claims	16,395,848	23,291,206
Current year claims	<u>101,426,735</u>	<u>91,799,815</u>
	<u>117,822,583</u>	<u>115,091,021</u>
Liability for claims and claims processing costs, end of year	<u>\$ 20,370,568</u>	<u>\$ 17,425,366</u>

Incurred claims and claim adjustment expenses for the State Pool program for the years ended December 31, 2011 and 2010 includes \$128,565 and \$810,680, respectively, in unfavorable development on prior years' claims. Claims and claims processing costs paid for the Federal Pool program for the years ended December 31, 2011 and 2010 were \$14,523,660 and \$1,258,722, respectively, and were included in the claims and claims processing balances presented in the statements of revenues, expenses, and changes in net assets.

**SUPPLEMENTAL INFORMATION**

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**NEW MEXICO MEDICAL INSURANCE POOL**  
**COMBINING STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2011**

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**ASSETS**

	New Mexico Medical Insurance Pool Program	New Mexico Federal High Risk Pool Program	Eliminations	Total
Cash and cash equivalents	\$ 32,078,055	\$ 442,488	\$ -	\$ 32,520,543
Assessments receivable	51,009	-	-	51,009
Receivable from HHS	-	563,890	-	563,890
Receivable from administrator	2,557,397	178,339	-	2,735,736
Receivable from NMFHRP	3,894	-	(3,894)	-
Due from NMMIP	-	159,401	(159,401)	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total assets</b>	<u>\$ 34,690,355</u>	<u>\$ 1,344,118</u>	<u>\$ (163,295)</u>	<u>\$ 35,871,178</u>

**LIABILITIES AND NET ASSETS**

Estimated claims incurred but not reported	\$ 13,970,000	\$ -	\$ -	\$ 13,970,000
Accrued claims	11,321,098	1,052,102	-	12,373,200
Accrued claims processing costs	1,085,000	-	-	1,085,000
Unearned premiums and subsidized assessments	1,300,346	251,940	-	1,552,286
Payable to administrator	375,531	36,082	-	411,613
Accounts payable	475	3,994	(3,894)	575
Due to NMFHRP	159,401	-	(159,401)	-
Assessment refunds payable	5,956,349	-	-	5,956,349
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total liabilities</b>	34,168,200	1,344,118	(163,295)	35,349,023
Net assets	<u>522,155</u>	<u>-</u>	<u>-</u>	<u>522,155</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total liabilities and net assets</b>	<u>\$ 34,690,355</u>	<u>\$ 1,344,118</u>	<u>\$ (163,295)</u>	<u>\$ 35,871,178</u>

**NEW MEXICO MEDICAL INSURANCE POOL**  
**COMBINING STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2010**

**ASSETS**

	New Mexico Medical Insurance Pool Program	New Mexico Federal High Risk Pool Program	Eliminations	Total
Cash and cash equivalents	\$ 27,567,573	\$ -	\$ -	\$ 27,567,573
Assessments receivable	14,488	-	-	14,488
Receivable from HHS	-	598,652	-	598,652
Receivable from administrator	2,686,795	53,807	-	2,740,602
Due from NMMIP	-	24,614	(24,614)	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total assets</b>	<b><u>\$ 30,268,856</u></b>	<b><u>\$ 677,073</u></b>	<b><u>\$ (24,614)</u></b>	<b><u>\$ 30,921,315</u></b>

**LIABILITIES AND NET ASSETS**

Estimated claims incurred but not reported	\$ 13,124,000	\$ -	\$ -	\$ 13,124,000
Accrued claims	8,795,749	642,792	-	9,438,541
Accrued claims processing costs	1,024,000	-	-	1,024,000
Unearned premiums and subsidized assessments	861,246	17,290	-	878,536
Payable to administrator	361,018	16,991	-	378,009
Accounts payable	38,761	-	-	38,761
Due to NMFHRP	24,614	-	(24,614)	-
Assessment refunds payable	5,517,313	-	-	5,517,313
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total liabilities</b>	<b>29,746,701</b>	<b>677,073</b>	<b>(24,614)</b>	<b>30,399,160</b>
Net assets	<u>522,155</u>	<u>-</u>	<u>-</u>	<u>522,155</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 30,268,856</u></b>	<b><u>\$ 677,073</u></b>	<b><u>\$ (24,614)</u></b>	<b><u>\$ 30,921,315</u></b>

**NEW MEXICO MEDICAL INSURANCE POOL**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**DECEMBER 31, 2011**

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	New Mexico Medical Insurance Pool Program	New Mexico Federal High Risk Pool Program	Eliminations	Total
<b>OPERATING REVENUES</b>				
Premiums	\$ 27,125,440	\$ 1,273,314	\$ -	\$ 28,398,754
Assessments	94,043,651	1,183,054	(1,183,054)	94,043,651
Federal contracts	-	13,304,925	-	13,304,925
Initial assessments	7,000	-	-	7,000
Grant income	1,733,430	-	-	1,733,430
Interest income	34,422	-	-	34,422
Other income	64,962	-	-	64,962
	<u>123,008,905</u>	<u>15,761,293</u>	<u>(1,183,054)</u>	<u>137,587,144</u>
<b>Total operating revenues</b>				
<b>OPERATING EXPENSES</b>				
Claims	116,459,751	14,886,518	-	131,346,269
Claims processing costs	4,308,034	533,599	-	4,841,633
General and administrative	2,241,120	341,176	(1,183,054)	1,399,242
	<u>123,008,905</u>	<u>15,761,293</u>	<u>(1,183,054)</u>	<u>137,587,144</u>
<b>Total operating expenses</b>				
<b>OPERATING INCOME (LOSS)</b>	-	-	-	-
NET ASSETS at beginning of year	<u>522,155</u>	<u>-</u>	<u>-</u>	<u>522,155</u>
<b>NET ASSETS at end of year</b>	<u>\$ 522,155</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 522,155</u>

**NEW MEXICO MEDICAL INSURANCE POOL  
COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
DECEMBER 31, 2010**

	New Mexico Medical Insurance Pool Program	New Mexico Federal High Risk Pool Program	Eliminations	Total
<b>OPERATING REVENUES</b>				
Premiums	\$ 23,898,663	\$ 133,126	\$ -	\$ 24,031,789
Assessments	84,712,661	83,137	(83,137)	84,712,661
Federal contracts	-	1,225,438	-	1,225,438
Initial assessments	4,500	-	-	4,500
Grant income	2,229,570	-	-	2,229,570
Interest income	36,556	-	-	36,556
Other income	1,941	-	-	1,941
<b>Total operating revenues</b>	<u>110,883,891</u>	<u>1,441,701</u>	<u>(83,137)</u>	<u>112,242,455</u>
<b>OPERATING EXPENSES</b>				
Claims	105,949,624	1,208,002	-	107,157,626
Claims processing costs	4,086,237	50,720	-	4,136,957
General and administrative	848,030	182,979	(83,137)	947,872
<b>Total operating expenses</b>	<u>110,883,891</u>	<u>1,441,701</u>	<u>(83,137)</u>	<u>112,242,455</u>
<b>OPERATING INCOME (LOSS)</b>	-	-	-	-
NET ASSETS at beginning of year	<u>522,155</u>	<u>-</u>	<u>-</u>	<u>522,155</u>
<b>NET ASSETS at end of year</b>	<u>\$ 522,155</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 522,155</u>

# NEW MEXICO MEDICAL INSURANCE POOL

## CLAIMS DEVELOPMENT INFORMATION

	Fiscal and Policy Year Ended									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net Required Contributions and Investment Income	9,550,730	11,615,543	11,975,743	17,093,079	31,084,026	41,519,818	65,014,858	92,058,588	110,010,944	135,788,722
Unallocated Expenses	132,286	225,500	306,430	435,957	543,484	662,161	812,118	827,569	947,842	1,399,242
Estimated Claims and Expenses End of Policy Year	9,366,406	11,557,346	14,262,156	19,374,090	30,706,234	44,695,967	66,316,115	93,359,998	110,483,903	137,217,420
Paid (cumulative) as of:										
End of Policy Year	7,542,006	9,408,596	11,767,656	15,999,090	25,028,031	36,977,062	59,456,386	81,628,239	86,897,362	115,950,395
One Year Later	8,669,549	10,228,609	13,521,231	18,293,707	29,391,364	43,453,791	65,737,872	93,490,399	111,228,801	
Two Years Later	8,667,572	10,219,505	13,493,855	18,302,463	29,351,396	43,500,856	65,518,911	93,001,868		
Three Years Later	8,668,614	10,218,476	13,473,738	18,300,728	29,346,595	43,502,447	65,512,997			
Four Years Later	8,646,607	10,218,476	13,473,199	18,301,871	29,354,537	43,542,991				
Five Years Later	8,645,752	10,218,476	13,475,668	18,325,707	29,354,537					
Six Years Later	8,645,752	10,218,476	13,475,927	18,325,707						
Seven Years Later	8,645,752	10,218,476	13,475,927							
Eight Years Later	8,645,752	10,218,476								
Nine Years Later	8,645,752									
Reestimate incurred Claims and Expense										
End of Policy Year	9,366,406	11,557,346	14,262,156	19,374,090	30,706,234	44,695,967	66,316,115	93,359,998	110,483,903	137,217,420
One Year Later	8,670,799	10,234,109	13,521,231	18,293,707	29,394,275	43,456,702	65,737,872	93,654,515	111,230,485	
Two Years Later	8,667,572	10,219,505	13,493,855	18,302,463	29,351,396	43,500,856	65,518,911	93,001,868		
Three Years Later	8,668,614	10,218,476	13,473,738	18,300,728	29,346,595	43,502,447	65,512,997			
Four Years Later	8,646,607	10,218,476	13,473,199	18,301,871	29,354,537	43,542,991				
Five Years Later	8,645,752	10,218,476	13,475,668	18,325,707	29,354,537					
Six Years Later	8,645,752	10,218,476	13,475,927	18,325,707						
Seven Years Later	8,645,752	10,218,476	13,475,927							
Eight Years Later	8,645,752	10,218,476								
Nine Years Later	8,645,752									
Increase (Decrease) in estimated incurred claims and expenses from end of policy year	(720,654)	(1,338,870)	(786,229)	(1,048,383)	(1,351,697)	(1,152,976)	(803,118)	(358,130)	746,582	-

**NEW MEXICO MEDICAL INSURANCE POOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2011**

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<b>Federal Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Program or Award Amount</b>
<b>Department of Health and Human Services</b>		
Grants to States for Operation of Qualified High-Risk Pools	93.780	<u>\$ 1,733,430</u>

**Note - Basis of Presentation:**

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

**Report of Independent Auditors on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

We have audited the financial statements of the New Mexico Medical Insurance Pool (Pool) as of and for the year ended December 31, 2011, and have issued our report thereon dated May 17, 2012. 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.

Internal Control Over Financial Reporting

Management of the Pool is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Pool's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements would not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pool's financial statements are free of 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 *Governmental Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, the Superintendent of Insurance at the New Mexico Public Regulation Commission, and federal awarding agencies and pass-through entities, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

*Mess Adams LLP*

Albuquerque, New Mexico  
May 17, 2012

**Report of Independent Auditors on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133**

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

Compliance

We have audited the New Mexico Medical Insurance Pool's (Pool) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Pool's major federal programs for the year ended December 31, 2011. The Pool's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Pool's management. Our responsibility is to express an opinion on the Pool's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Pool's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Pool's compliance with those requirements.

In our opinion, the Pool complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Board of Directors  
New Mexico Medical Insurance Pool  
Albuquerque, New Mexico

Internal Control Over Compliance

Management of the Pool is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Pool's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, the Superintendent of Insurance at the New Mexico Public Regulation Commission, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mess Adams LLP*

Albuquerque, New Mexico  
May 17, 2012

**NEW MEXICO MEDICAL INSURANCE POOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2011**

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**SECTION I. SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes   X   None Reported

Non-compliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness (es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes   X   None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

**Identification of Major Program**

CFDA Number	Name of Federal Program or Cluster
93.780	Grants to States for Operation of Qualified High-Risk Pools

Dollar threshold used to distinguish between type A and type B programs \$   300,000  

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

**NEW MEXICO MEDICAL INSURANCE POOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2011**

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**SECTION II. FINDINGS - FINANCIAL STATEMENT AUDIT**

None

**SECTION III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD**

None

**NEW MEXICO MEDICAL INSURANCE POOL  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2011**

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**Financial Statement**

2010-01 Segregation of Duties

Resolved