

A series of thin, grey, wavy lines that originate from the left side of the page and curve upwards and to the right, creating a sense of movement and depth.

Report of Independent Auditors
and Financial Statements
with Supplementary Schedules for

**New Mexico Medical
Insurance Pool**

December 31, 2012 and 2011

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-6
BASIC FINANCIAL STATEMENTS	
Statements of net position	7
Statements of revenues, expenses and changes in net position	8
Statements of cash flows	9
Notes to financial statements	10-16
SUPPLEMENTAL INFORMATION	
Combining statements of net position	17-18
Combining statements of revenues, expenses and changes in net position	19-20
Claims development information	21
Schedule of expenditures of federal awards	22
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 <i>Government Auditing Standards</i>	23-24
Report of Independent Auditors on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on the Schedule of Federal Awards Required by OMB Circular A-133	25-26
Schedule of findings and questioned costs	27-28
Summary schedule of prior audit findings	29

REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying financial statements of the New Mexico Medical Insurance Pool (Pool), which comprise the statements of net position as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audits. We conducted our audits 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 audits 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the statement of net position of the New Mexico Medical Insurance Pool as of December 31, 2012 and 2011, and the results of its statement of revenues, expenditures and changes in net asset and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis and claims development information on pages 4 through 6 and 16 through 28 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Pool's basic financial statements. The combining statement of net position and the combining statement of revenues, expenses and changes in net position, and the schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statement of net position and the combining statement of revenues, expenses and changes in net position, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves,

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

and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position and the combining statement of revenues, expenses and changes in net position, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2013, 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* in considering the Pool's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
June 24, 2013

This page intentionally left blank.

NEW MEXICO MEDICAL INSURANCE POOL MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2012

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, 2012.

Financial Highlights

The Pool reported net position of \$522,155 at the close of its most recent fiscal year; the total assets were \$30,754,218 and total liabilities were \$30,232,063. 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 including 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.

The 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 2012 was \$101,966,787, which is an increase of \$7,923,136 (8.42%) from 2011. The actual loss for 2011 was \$94,043,651, which is an increase of \$9,330,988 (11.01%) from 2010. 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 8.42% increase from 2011 to 2012.

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 New Mexico 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, 2012**

Condensed Financial Information

	2012	2011	2010
SUMMARY BALANCE SHEETS			
Total Assets - current	\$ 30,754,218	\$ 35,871,178	\$ 30,921,315
Accrued claims and processing costs	28,252,754	27,428,200	23,586,541
Other payables - current	1,979,309	7,920,823	6,812,619
Total liabilities - current	30,232,063	35,349,023	30,399,160
Net Position	\$ 522,155	\$ 522,155	\$ 522,155

SUMMARY STATEMENTS OF REVENUE EXPENSES AND CHANGES IN NET POSITION

Premiums	\$ 31,255,619	\$ 28,398,754	\$ 24,031,789
Assessments	101,973,787	94,050,651	84,717,161
Grant income	1,721,599	1,733,430	2,229,570
Federal contracts	21,507,006	13,304,925	1,225,438
Other income	17,674	99,384	38,497
Total operating revenues	156,475,685	137,587,144	112,242,455
Operating expenses			
Claims and related processing costs	154,640,642	136,187,902	111,294,583
General and administrative	1,835,043	1,399,242	947,872
Total operating expenses	156,475,685	137,587,144	112,242,455
Change in Net Position	\$ -	\$ -	\$ -

Overall financial analysis - Cash on hand and Assessments Receivable decreased from 2011 to 2012 due to increases in claim payments which was not fully offset by collections from policyholders and insurers. Federal contract revenues have increased due to the continued growth of the Federal Pool.

The Pool experienced increased premium receipts of approximately \$2.9 million due to a 9.7% increase in premium rates effective in January 2012 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 2011 to 2012 proportionately.

Pool activities - In January 2012, premium rates were increased to an aggregate of 9.7% across the State Pool membership and 14% for the Federal Pool. Through 2012, the Federal Pool continued to grow as the Board of Directors for the Pool increased efforts in marketing for the Federal Pool. These marketing efforts have resulted in a .8% increase in overall growth in the State Pool and an 80% growth rate in the Federal Pool. State Pool membership had a net increase of 65 members, ending 2012 with a total membership of 8,507. The Federal membership ended 2012 with 1,457 members, with a net increase of membership of 8,507. The Federal membership ended 2012 with 1,457 members, with a net increase of 649 members from the 2011 membership.

NEW MEXICO MEDICAL INSURANCE POOL MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2012

In October 2010, the Board of Directors for the Pool modified 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 of availability of coverage for this population within the commercial market place. In 2012, coverage through the commercial market became available to this group, with the exception of Lea and Eddy County. Thus, this category is no longer an acceptable criterion for eligibility except for residents of Lea and Eddy County. (Note: In 2013, coverage became available in Lea and Eddy County.)

Additionally, in 2010, the Board decided to allow pregnancy as a condition 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 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. In 2010, the semi-annual interim payment schedule for assessment collection was modified to collect the current year budgeted loss amount, billed quarterly to the top 25 insurers based on the prior year direct premium market share within the State.

Budget analysis – Overall, the 2012 Pool losses were \$926,347 more than budgeted. Earned premium was 5% less than forecast. Membership in the Low Income Premium Program (LIPP) was 2.3% less than anticipated. Claims were .4% more than forecast. Membership overall was .2% lower than budgeted, due to members enrolling in the 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 .8% increase in membership in 2012 over 2011.

Current trends and conditions and future impact - February 2013 - The Federal government announced as of March 2, 2013, enrollment in the Federal Pool would be closed. Since that announcement, enrollment in the State Pool has increased by approximately 200 policyholders, from a total of 8,597 in February 2013 to 8,778 in May 2013.

In June 2013, HHS and HSD entered into a revised contract for the funding of the Federal Pool program which included an amended contract provision whereby the Federal Pool program will be reimbursed for all claims and claim processing costs incurred through May 31, 2013, and for all claims run-out processed during the 18-month period commencing on January 1, 2014. However, for claims incurred during the period of June 1, 2013 through December 31, 2013, the Federal Pool will not be reimbursed for any claims or claims processing costs in excess of \$12.2 million, which amount will be funded to the Pool in June of 2013. Management expects the \$12.2 million will be less than the projected Federal Pool costs for June through December 2013. Management is examining cost management strategies and will pursue any available additional federal funding for the remainder of 2013.

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

ASSETS

	December 31,	
	2012	2011
Cash and cash equivalents	\$ 23,859,406	\$ 32,520,543
Assessments receivable	937,885	51,009
Receivable from HHS	2,961,624	563,890
Receivable from administrator	2,995,303	2,735,736
Total assets	\$ 30,754,218	\$ 35,871,178

LIABILITIES AND NET POSITION

Estimated claims incurred but not reported	\$ 13,005,000	\$ 13,970,000
Accrued claims	14,077,754	12,373,200
Accrued claims processing costs	1,170,000	1,085,000
Assessment refunds payable	-	5,956,349
Unearned premiums and subsidized assessments	1,454,451	1,552,286
Payable to administrator	521,298	411,613
Accounts payable	3,560	575
Total liabilities	30,232,063	35,349,023
Net position	522,155	522,155
Total liabilities and net position	\$ 30,754,218	\$ 35,871,178

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

	Years Ended December 31,	
	2012	2011
OPERATING REVENUES		
Premiums	\$ 31,255,619	\$ 28,398,754
Assessments	101,966,787	94,043,651
Federal contracts	21,507,006	13,304,925
Initial assessments	7,000	7,000
Grant income	1,721,599	1,733,430
Interest income	11,485	34,422
Other income	6,189	64,962
	<u>156,475,685</u>	<u>137,587,144</u>
Total operating revenues		
OPERATING EXPENSES		
Claims	149,203,606	131,346,269
Claims processing costs	5,437,036	4,841,633
General and administrative	1,835,043	1,399,242
	<u>156,475,685</u>	<u>137,587,144</u>
Total operating expenses		
CHANGE IN NET POSITION	-	-
NET POSITION at beginning of year	<u>522,155</u>	<u>522,155</u>
NET POSITION at end of year	<u>\$ 522,155</u>	<u>\$ 522,155</u>

NEW MEXICO MEDICAL INSURANCE POOL
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from policyholders and insurers	\$ 145,144,240	\$ 136,935,185
Proceeds from grants	1,721,599	1,733,430
Payments for claims and claims processing costs	(153,816,088)	(132,346,243)
Payments to providers and suppliers	(1,722,373)	(1,403,824)
Interest received	11,485	34,422
	<u>(8,661,137)</u>	<u>4,952,970</u>
Net cash (used in) provided by operating activities		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,661,137)	4,952,970
CASH AND CASH EQUIVALENTS, beginning of year	<u>32,520,543</u>	<u>27,567,573</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 23,859,406</u>	<u>\$ 32,520,543</u>
RECONCILIATION OF CHANGES IN NET POSITION		
to net cash provided by operating activities		
CHANGES IN NET POSITION	\$ -	\$ -
ADJUSTMENTS TO RECONCILE CHANGE IN NET POSITION		
to net cash (used in) provided by operating activities		
Changes in assets and liabilities		
Assessments receivable	(886,876)	(36,521)
Receivable from HHS	(2,397,734)	34,762
Receivable from administrator	(259,567)	4,866
Assessment refunds payable	(5,956,349)	439,036
Estimated claims incurred but not reported	(965,000)	846,000
Accrued claims	1,704,554	2,934,659
Accrued claims processing costs	85,000	61,000
Unearned premiums and subsidized assessments	(97,835)	673,750
Payable to administrator	109,685	33,604
Accounts payable	2,985	(38,186)
Total adjustments	<u>(8,661,137)</u>	<u>4,952,970</u>
Net cash (used in) provided by operating activities	<u>\$ (8,661,137)</u>	<u>\$ 4,952,970</u>

NEW MEXICO MEDICAL INSURANCE POOL

NOTES TO FINANCIAL STATEMENTS

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 (see also Note 5). 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

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 Pool follows GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which requires amounts that are reported as deferred outflows of resources in the statement of net position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources have been reported in a separate section following liabilities. The statement of net position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the difference between all other elements in the statement of net position and has been displayed in three components – net investment in capital assets, restricted, and unrestricted. There was no net investment in capital assets or restricted items in 2012 or 2011.

The accompanying financial statements include the accounts and activity of the State Pool, as well as the activity of the Federal Pool, operated as a separate program 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 at 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.

NEW MEXICO MEDICAL INSURANCE POOL

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

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, 2012, 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 31, 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 December 31, 2012 and 2011.

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 \$23,518,033 and \$31,731,200 at December 31, 2012 and 2011, 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 \$45.85 and \$42 for 2012 and 2011, 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 \$2.65 and \$2.50 for 2012 and 2011, 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 \$45.85 for 2012. The 2011 administration fee rate was \$42 plus a fee of \$42.54 per member for implementation costs.

NEW MEXICO MEDICAL INSURANCE POOL NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

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 \$2.65 and \$2.50 for 2012 and 2011, 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.

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 has not retained the risk of loss on its insurance policies.

Net position - Net position of the Pool were \$522,155 as of December 31, 2012 and 2011. 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 2012 or 2011. Management and the board of directors routinely review the appropriateness of the amount of net position and believe such amount is appropriate as of December 31, 2012 and 2011.

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.

NEW MEXICO MEDICAL INSURANCE POOL

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

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 June 24, 2013, which is the date the financial statements were available to be issued.

Note 2 - Related Party Transactions with BCBSNM

Included in claims processing costs in the accompanying statements of revenues, expenses and changes in net position are \$5,349,708 and \$4,779,744 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, 2012 and 2011, respectively.

For its proportionate share of assessments, BCBSNM paid the Pool \$13,303,903 and \$12,276,813 in 2012 and 2011, respectively. As of December 31, 2011, \$731,250 was payable back to BCBSNM as an assessment refund.

Note 3 - Line-of-Credit

The Pool had a \$2,000,000 line-of-credit from a local financial institution, expiring September 28, 2013. Interest, payable monthly, is variable at the bank's prime rate (4% at December 31, 2012). There were no balances outstanding as of December 31, 2012 or 2011, and there were no draws against the line-of-credit in either 2012 or 2011.

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, 2012 and 2011 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**

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:

	<u>2012</u>	<u>2011</u>
Liability for claims and claims processing costs, beginning of year	<u>\$ 27,428,200</u>	<u>\$ 23,586,541</u>
Incurred claims and claims processing costs		
Prior years claims	(1,094,066)	128,565
Current year claims	<u>155,734,708</u>	<u>136,059,337</u>
	<u>154,640,642</u>	<u>136,187,902</u>
Claims paid		
Prior years claims	26,334,134	23,715,106
Current year claims	<u>127,481,954</u>	<u>108,631,137</u>
	<u>153,816,088</u>	<u>132,346,243</u>
Liability for claims and claims processing costs, end of year	<u>\$ 28,252,754</u>	<u>\$ 27,428,200</u>

Incurred claims and claim adjustment expenses for the State Pool program for the years ended December 31, 2012 and 2011 includes \$1,094,066 in favorable and \$128,565 in unfavorable, respectively, development on prior years' claims. Claims and claims processing costs paid for the Federal Pool program for the years ended December 31, 2012 and 2011 were \$27,079,453 and \$14,523,660, respectively, and were included in the claims and claims processing balances presented in the statements of revenues, expenses, and changes in net position.

Note 5 - Contingencies and Subsequent Events

NMMIP, through its Federal Pool program, acts as a claims servicer on the State of New Mexico's federal high risk pool program, formed as the result of the Affordable Care Act of 2010. The Federal Pool program is contracted with the State of New Mexico Human Services Department (HSD) to process claims of this federal high risk pool program, and HSD is contracted with the United States Department of Health and Human Services (HHS) for its operation and administration. Historically, the Federal Pool has not retained risk associated with the Federal Pool program claims and administrative costs, as all such costs are reimbursed to the Federal Pool. The provisions of these historical contracts have included termination of contract provisions that stipulated the Federal Pool will be reimbursed for all claims and claim processing costs, including those costs incurred during the run-out phase of the claims cycle.

NEW MEXICO MEDICAL INSURANCE POOL NOTES TO FINANCIAL STATEMENTS

Note 5 – Contingencies and Subsequent Events (continued)

In June 2013, HHS and HSD entered into a revised contract for the funding of the Federal Pool program which included an amended contract provision whereby the Federal Pool program will be reimbursed for all claims and claim processing costs incurred through May 31, 2013, and for all claims run-out processed during the 18-month period commencing on January 1, 2014. However, for claims incurred during the period of June 1, 2013 through December 31, 2013, the Federal Pool will not be reimbursed for any claims or claims processing costs in excess of \$12.2 million, which amount will be funded to the Pool in June of 2013.

Management expects the \$12.2 million will be less than the projected Federal Pool costs for June through December 2013. Management is examining cost management strategies and will pursue any available additional federal funding for the remainder of 2013.

SUPPLEMENTAL INFORMATION

NEW MEXICO MEDICAL INSURANCE POOL
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2012

ASSETS

	New Mexico Medical Insurance Pool Program	New Mexico Federal High Risk Pool Program	Eliminations	Total
Cash and cash equivalents	\$ 23,859,281	\$ 125	\$ -	\$ 23,859,406
Assessments receivable	937,885	-	-	937,885
Receivable from HHS	-	2,961,624	-	2,961,624
Receivable from administrator	2,678,160	317,143	-	2,995,303
Due from NMMIP	-	331,190	(331,190)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 27,475,326</u>	<u>\$ 3,610,082</u>	<u>\$ (331,190)</u>	<u>\$ 30,754,218</u>

LIABILITIES AND NET POSITION

Estimated claims incurred but not reported	\$ 13,005,000	\$ -	\$ -	\$ 13,005,000
Accrued claims	10,968,624	3,109,130	-	14,077,754
Accrued claims processing costs	1,170,000	-	-	1,170,000
Unearned premiums and subsidized assessments	1,024,541	429,910	-	1,454,451
Payable to administrator	450,381	70,917	-	521,298
Accounts payable	3,435	125	-	3,560
Due to NMFHRP	331,190	-	(331,190)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	26,953,171	3,610,082	(331,190)	30,232,063
Net position	<u>522,155</u>	<u>-</u>	<u>-</u>	<u>522,155</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net position	<u>\$ 27,475,326</u>	<u>\$ 3,610,082</u>	<u>\$ (331,190)</u>	<u>\$ 30,754,218</u>

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

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>
Total assets	<u>\$ 34,690,355</u>	<u>\$ 1,344,118</u>	<u>\$ (163,295)</u>	<u>\$ 35,871,178</u>

LIABILITIES AND NET POSITION

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>
Total liabilities	34,168,200	1,344,118	(163,295)	35,349,023
Net position	<u>522,155</u>	<u>-</u>	<u>-</u>	<u>522,155</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net position	<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 REVENUES, EXPENSES
AND CHANGES IN NET POSITION
DECEMBER 31, 2012**

	New Mexico Medical Insurance Pool Program	New Mexico Federal High Risk Pool Program	Eliminations	Total
OPERATING REVENUES				
Premiums	\$ 28,226,772	\$ 3,028,847	\$ -	\$ 31,255,619
Assessments	101,966,787	3,034,071	(3,034,071)	101,966,787
Federal contracts	-	21,507,006	-	21,507,006
Initial assessments	7,000	-	-	7,000
Grant income	1,721,599	-	-	1,721,599
Interest income	11,485	-	-	11,485
Other income	6,189	-	-	6,189
	<u>131,939,832</u>	<u>27,569,924</u>	<u>(3,034,071)</u>	<u>156,475,685</u>
Total operating revenues				
OPERATING EXPENSES				
Claims	122,825,172	26,378,434	-	149,203,606
Claims processing costs	4,736,017	701,019	-	5,437,036
General and administrative	4,378,643	490,471	(3,034,071)	1,835,043
	<u>131,939,832</u>	<u>27,569,924</u>	<u>(3,034,071)</u>	<u>156,475,685</u>
Total operating expenses				
CHANGE IN NET POSITION	-	-	-	-
NET POSITION at beginning of year	<u>522,155</u>	<u>-</u>	<u>-</u>	<u>522,155</u>
NET POSITION at end of year	<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 POSITION
DECEMBER 31, 2011**

	New Mexico Medical Insurance Pool Program	New Mexico Federal High Risk Pool Program	Eliminations	Total
OPERATING REVENUES				
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
Total operating revenues	123,008,905	15,761,293	(1,183,054)	137,587,144
OPERATING EXPENSES				
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
Total operating expenses	123,008,905	15,761,293	(1,183,054)	137,587,144
CHANGE IN NET POSITION	-	-	-	-
NET POSITION at beginning of year	522,155	-	-	522,155
NET POSITION at end of year	\$ 522,155	\$ -	\$ -	\$ 522,155

NEW MEXICO MEDICAL INSURANCE POOL

CLAIMS DEVELOPMENT INFORMATION

	Fiscal and Policy Year Ended									
	<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>	<u>2012</u>
1 Net Required Contributions and Investment Income	\$ 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	154,747,897
2 Unallocated Expenses	225,500	306,430	435,957	543,484	662,161	812,118	827,569	947,842	1,399,242	1,835,043
3 Estimated Claims and Expenses End of Policy Year	11,557,346	14,262,156	19,374,090	30,706,234	44,695,967	66,316,115	93,359,998	110,483,903	136,059,337	152,862,168
4 Paid (cumulative) as of:										
End of Policy Year	9,408,596	11,767,656	15,999,090	25,028,031	36,977,062	59,456,386	81,628,239	86,897,362	108,631,137	124,609,414
One Year Later	10,228,609	13,521,231	18,293,707	29,391,364	43,453,791	65,737,872	93,490,399	111,228,801	136,468,838	
Two Years Later	10,219,505	13,493,855	18,302,463	29,351,396	43,500,856	65,518,911	93,001,868	111,798,058		
Three Years Later	10,218,476	13,473,738	18,300,728	29,346,595	43,502,447	65,512,997	93,149,601			
Four Years Later	10,218,476	13,473,199	18,301,871	29,354,537	43,542,991	65,489,278				
Five Years Later	10,218,476	13,475,668	18,325,707	29,388,740	43,498,558					
Six Years Later	10,218,476	13,475,927	18,325,707	29,388,740						
Seven Years Later	10,218,476	13,475,927	18,325,707							
Eight Years Later	10,218,476	13,475,927								
Nine Years Later	10,218,476									
5 Reestimate incurred Claims and Expense										
End of Policy Year	11,557,346	14,262,156	19,374,090	30,706,234	44,695,967	66,316,115	93,359,998	110,483,903	136,059,337	152,862,168
One Year Later	10,234,109	13,521,231	18,293,707	29,394,275	43,456,702	65,737,872	93,654,515	111,242,560	136,480,620	
Two Years Later	10,219,505	13,493,855	18,302,463	29,351,396	43,500,856	65,518,911	93,001,868	111,798,058		
Three Years Later	10,218,476	13,473,738	18,300,728	29,346,595	43,502,447	65,512,997	93,149,601			
Four Years Later	10,218,476	13,473,199	18,301,871	29,354,537	43,542,991	65,489,278				
Five Years Later	10,218,476	13,475,668	18,325,707	29,388,740	43,498,558					
Six Years Later	10,218,476	13,475,927	18,325,707	29,388,740						
Seven Years Later	10,218,476	13,475,927	18,325,707							
Eight Years Later	10,218,476	13,475,927								
Nine Years Later	10,218,476									
6 Increase (Decrease) in estimated incurred claims and expenses from end of policy year	(1,338,870)	(786,229)	(1,048,383)	(1,317,494)	(1,197,409)	(826,837)	(210,397)	1,314,155	421,283	-

**NEW MEXICO MEDICAL INSURANCE POOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Program or Award Amount</u>
Department of Health and Human Services		
Grants to States for Operation of Qualified High-Risk Pools	93.780	<u>\$ 1,721,599</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, 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 New Mexico Medical Insurance Pool (Pool) as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated June 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pool'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of Pool'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 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.

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 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 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.

Mess Adams LLP

Albuquerque, New Mexico
June 24, 2013

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE
FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF FEDERAL AWARDS REQUIRED BY OMB
CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited New Mexico Medical Insurance Pool's (Pool) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Pool's major federal program for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Pool's major federal program based on our audit of the types of compliance requirements referred to above. 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 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Pool's compliance.

Opinion on Each Major Federal Program

In our opinion, the Pool complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

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

Report on Internal Control Over Compliance

Management of the Pool is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Pool's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
June 24, 2013

**NEW MEXICO MEDICAL INSURANCE POOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012**

SECTION I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued Unmodified

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: Unmodified

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, 2012**

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, 2012**

None To Be Reported.