



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH SUPPLEMENTARY
INFORMATION

NEW MEXICO MEDICAL INSURANCE POOL

December 31, 2021 and 2020

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Report of Independent Auditors

The Board of Directors
New Mexico Medical Insurance Pool

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the New Mexico Medical Insurance Pool (the Pool), which comprise the statements of net position as of December 31, 2021 and 2020, 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, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the New Mexico Medical Insurance Pool as of December 31, 2021 and 2020, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pool and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pool's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pool's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pool's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

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 page 4 through 6 and page 16, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2022, on our consideration of the New Mexico Medical Insurance 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 solely 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 the effectiveness of the New Mexico Medical Insurance Pool's 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 New Mexico Medical Insurance Pool's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
May 27, 2022

New Mexico Medical Insurance Pool

Management's Discussion and Analysis

Years Ended December 31, 2021 and 2020

As management of the New Mexico Medical Insurance Pool (the 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 years ended December 31, 2021 and 2020.

Financial Highlights

The Pool reported a net position of \$522,155 at the close of its most recent fiscal year; the total assets were \$50,919,822, and total liabilities were \$50,397,667. The Pool maintains a net position 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 policyholders and assessments to insurers based on the market share of their direct premiums collected within the State of New Mexico. Liabilities consist of reserves necessary to pay medical and pharmacy claims, unearned premiums, administrative costs, 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 amount (prior to assessments paid by insurers) for 2021 was \$101,591,723, which is an increase of \$11,338,567 (12.5%) from 2020. The actual loss amount (prior to assessments paid by insurers) for 2020 was \$90,253,156, which is an increase of \$1,862,052 (2.1%) from 2019.

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 Consolidated Omnibus Budget Reconciliation Act (COBRA) benefits and have no other portability options available to them.

The Pool is funded through premiums received from policyholders and assessments to insurance companies authorized to transact health insurance in New Mexico (insurers). In addition, all insurers authorized to conduct business in New Mexico are required to be members of the Pool and pay an initial assessment of \$500.

**New Mexico Medical Insurance Pool
Management's Discussion and Analysis
Years Ended December 31, 2021 and 2020**

Condensed Financial Information

	2021	2020	2019
SUMMARY BALANCE SHEETS			
Total assets - current	\$ 50,919,822	\$ 22,506,007	\$ 17,359,624
Accrued claims and processing costs - current	26,434,604	17,800,762	16,248,437
Other payables - current	23,963,063	4,183,090	589,032
Total liabilities - current	50,397,667	21,983,852	16,837,469
Net position	\$ 522,155	\$ 522,155	\$ 522,155

SUMMARY STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Premiums	\$ 10,936,398	\$ 10,837,671	\$ 11,065,530
Assessments	101,595,705	90,262,812	88,398,323
Other income	12,379	27,121	64,052
Total operating revenues	112,544,482	101,127,604	99,527,905
Operating expenses			
Claims and related processing costs	111,174,275	99,836,365	98,278,925
General and administrative	1,370,207	1,291,239	1,248,980
Total operating expenses	112,544,482	101,127,604	99,527,905
Change in net position	\$ -	\$ -	\$ -

Overall Financial Analysis

Total assets for the State Pool increased from 2020 to 2021 primarily due to increase in assessments revenue.

Premium rates increased an average 5.1% on January 1, 2021. The Pool experienced a 1% increase in earned premiums from 2020 to 2021, due to an increase of 23% of individuals in low-income premium plans from 2020 to 2021.

Pool Activities

In January 2021, premium rates increased an average of 5.1% due to an increase in the standard risk rates and an increase in the multipliers. By law, premium rates can be calculated at up to 150% of the standard risk rate. January 2021 rates were set at 112% of the standard risk rate for traditional plans and 114% of the standard risk rate for Medicare carve-out plans. Discounts of up to 75% are allowed for low income enrollees. Pool membership had a net increase of 330 members, from 2,898 at the end of 2020, to total membership of 3,228 at the end of 2021.

New Mexico Medical Insurance Pool

Management's Discussion and Analysis

Years Ended December 31, 2021 and 2020

Budget Analysis

In 2021, Pool losses were \$101,591,723, \$21,181,850 less than budgeted. Even though membership was 5% below budget, assessments were 19% less than budgeted, due to lower claims trends. The original 2021 budget assumed an 8% medical claims trend. The original budget also assumed a 5% pharmacy trend for all plans. The actual combined trend was negative 6%. Earned premium was 3% less than forecast, due to more individuals on low income premium program. Operating expenses were 3% more than forecasted.

Participation in the Low-Income Premium Program (LIPP) increased from 65% in 2020 to 72% in 2021. Overall, there was a 11% increase in membership.

Current Trends and Conditions and Future Impact – New Mexico Medical Insurance Pool

The implementation of marketplace exchanges, the expansion of Medicaid eligibility, and the provision within the Patient Protection and Affordable Care Act that mandates guaranteed issue of individual health coverage policies, along with those ineligible for enrollment in the marketplace, will continue to have an impact on enrollment into and out of the Pool. The implementation of the 21st Century Cures Act making it possible for ESRD patients to enroll in Medicare Advantage plans has had the impact of reducing the enrollment in NMMIP's Medicare plan.

The administrative services agreement with Benefit Management LLC (BML) expires on December 31, 2023. In 2021, the per member per month (pmpm) fee was \$80.00. The Pool paid BML a total of \$3,834,471 for administrative services in 2021.

Per the administrative services contract with BML, if the agreement is not renewed, "administrator will provide claims runout services for up to twelve months. BML shall have no obligation or liability for the processing of and shall deny any claims not presented within that period. No claims already paid or denied shall be adjusted by BML after that expiration of the Run-out period."

Contacting Pool's Financial Management

This financial report is designed to provide the public with a general overview of Pool's finances. If you have any questions about this report or need additional financial information, contact Debbie Armstrong, Pool's Executive Director at 1223 St. Francis Drive Suite B, Santa Fe, NM 87505.

New Mexico Medical Insurance Pool
Statements of Net Position

ASSETS		December 31,	
		<u>2021</u>	<u>2020</u>
CURRENT ASSETS			
Cash		\$ 47,268,766	\$ 20,703,404
Premium receivable		2,078,725	1,044,825
Pharmacy rebate receivable		225,000	393,233
Assessments receivable		1,347,331	364,545
	Total current assets	<u>\$ 50,919,822</u>	<u>\$ 22,506,007</u>
LIABILITIES			
CURRENT LIABILITIES			
Estimated claims incurred but not reported		\$ 24,923,000	\$ 16,488,000
Accrued claims		797,604	654,762
Accrued claims processing costs		714,000	658,000
Accrued expenses		101,021	82,925
Assessment refunds payable		23,208,668	3,207,044
Unearned premiums		-	644,067
Payable to third-party administrator		653,374	249,054
	Total current liabilities	<u>\$ 50,397,667</u>	<u>\$ 21,983,852</u>
NET POSITION			
	UNRESTRICTED	<u>\$ 522,155</u>	<u>\$ 522,155</u>
	Total net position	<u><u>\$ 522,155</u></u>	<u><u>\$ 522,155</u></u>

See accompanying notes to these financial statements.

New Mexico Medical Insurance Pool
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,	
	2021	2020
OPERATING REVENUES		
Premiums	\$ 10,936,398	\$ 10,837,671
Assessments	101,591,723	90,253,156
Initial assessments	3,982	9,656
Interest income	12,379	27,121
Total operating revenues	112,544,482	101,127,604
OPERATING EXPENSES		
Claims	107,283,804	96,985,095
Claims processing costs	3,890,471	2,851,270
General and administrative	1,370,207	1,291,239
Total operating expenses	112,544,482	101,127,604
CHANGE IN NET POSITION	-	-
NET POSITION at beginning of year	522,155	522,155
NET POSITION at end of year	\$ 522,155	\$ 522,155

See accompanying notes to these financial statements.

New Mexico Medical Insurance Pool
Statements of Cash Flows

	Years Ended December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from policyholders and insurers	\$ 129,872,974	\$ 117,464,263
Payments for claims and claims processing costs	(102,372,200)	(98,227,273)
Payments to providers and suppliers	(947,791)	(1,237,398)
Interest received	12,379	27,121
	<u>26,565,362</u>	<u>18,026,713</u>
NET INCREASE IN CASH	26,565,362	18,026,713
CASH, beginning of year	<u>20,703,404</u>	<u>2,676,691</u>
CASH, end of year	<u><u>\$ 47,268,766</u></u>	<u><u>\$ 20,703,404</u></u>
RECONCILIATION OF CHANGES IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net position	<u>\$ -</u>	<u>\$ -</u>
Adjustments to reconcile change in net position to net cash provided by operating activities		
Changes in assets and liabilities		
Premium receivable	(1,033,900)	(717,027)
Pharmacy rebate receivable	168,233	56,767
Assessments receivable	(982,786)	13,540,590
Estimated claims incurred but not reported	8,435,000	1,394,000
Accrued claims	142,842	55,325
Accrued claims processing costs	56,000	103,000
Accrued expenses	18,096	6,377
Assessment refunds payable	20,001,624	3,207,044
Unearned premiums	(644,067)	333,173
Payable to third-party administrator	404,320	47,464
	<u>26,565,362</u>	<u>18,026,713</u>
Total adjustments	<u>26,565,362</u>	<u>18,026,713</u>
Net cash provided by operating activities	<u><u>\$ 26,565,362</u></u>	<u><u>\$ 18,026,713</u></u>

See accompanying notes to these financial statements.

New Mexico Medical Insurance Pool

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

Operations

The New Mexico Medical Insurance Pool (the 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.

The funding for the Pool program comes from premiums received from policyholders and assessments against insurance companies authorized to transact health insurance in New Mexico (insurers). 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 collectability of the assessments is probable and reasonably estimable.

If assessments for a fiscal year exceed actual losses and administrative expenses of the Pool for that fiscal year, the excess assessments are refunded, and recorded as accrued assessment refunds for that fiscal year. Any deficit incurred by the Pool 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 Pool was administered by Benefits Management, LLC (BML) during 2021 and 2020.

Basis of Presentation

The Pool follows 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 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. There were no deferred outflows or inflows of resources as of December 31, 2021 and 2020.

New Mexico Medical Insurance Pool

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

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. The principal operating revenues of the Pool are premiums from policyholders and assessments against insurers in the State of New Mexico. Operating expenses of the Pool include the claims and general and administrative expenses. All expenses of the Pool are considered operating expenses. The Pool did not have any nonoperating revenues or expenses for the years ended December 31, 2021 or 2020.

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

Cash consists 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. The Pool's maintains its cash in the form of non-interest and interest bearing deposits with financial institutions that are believed to be of high credit quality. As of December 31, 2021 and 2020, all of the balance was either insured or collateralized.

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 \$47,880,494 and \$24,204,740 at December 31, 2021 and 2020, 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.

Pharmacy Rebate Receivable

The Pool accrues a receivable each month for the amount that is expected to be received from pharmacy rebates. No allowance is provided for doubtful accounts receivable as management considers all accounts to be collectible and based on cash payments received subsequent to year-end.

New Mexico Medical Insurance Pool

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Assessments Receivable

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 debt expense.

Estimated Claims Incurred but not Reported

This liability represents benefits due to policyholders and to 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.

Assessment Refunds Payable

The Pool levies assessments against health insurers registered in the State of New Mexico annually on an estimated basis. At the end of each year, assessments are reevaluated based on the financial performance of the Pool. If the estimated assessments made during the year are determined to be in excess of the annual requirements upon reevaluation, assessment refunds are paid back to the health insurers. The assessment refunds payable represents the amount due back to health insurers related to this reevaluation.

Payable to Third-Party Administrator

The third-party administrator of the Pool is BML. In exchange for all the administrative services provided by the third-party administrator, the Pool paid an administrative fee on a per month basis. Total amounts paid to the third-party administrator were \$3,834,471 and \$2,748,270 for the years ending December 31, 2021 and 2020, respectively. These expenses are included in claims processing costs in the statement of revenues, expenses, and changes in net position. Amounts payable to the third-party administrator for these services were \$653,374 and \$249,054 at December 31, 2021 and 2020, respectively.

In 2021, the Pool entered into a contract with Ensemble of Albuquerque LLC, a third-party case management provider. In exchange for all case management services provided by the paid third-party case manager, the Pool paid a case management fee on a per member per month basis. Total amounts paid to the third-party case manager were \$310,195 for the year ending December 31, 2021, which is included in general and administrative expenses in the statement of revenues, expenses, and changes in net position. Amounts payable to the third-party for these services were \$391,694 at December 31, 2021.

Net Position

Net position represents the difference between all other elements in the statement of net position and consists of three components – net investment in capital assets, restricted, and unrestricted. There was no net investment in capital assets or restricted net position in 2021 or 2020.

New Mexico Medical Insurance Pool

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Net position of the Pool was \$522,155 as of December 31, 2021 and 2020. 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 2021 or 2020. 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, 2021 and 2020.

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 45 days of the monthly due date are terminated from the plan. Delinquent premium payments are recognized as revenue upon collection and are not accrued.

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.

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 statement of net position, 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 statement of net position date and before financial statements are available to be issued.

The Pool has evaluated subsequent events through May 27, 2022, which is the date the financial statements were available to be issued.

Note 2 – Line-of-Credit

The Pool has a \$3,000,000 line-of-credit from a local financial institution, expiring November 15, 2022. Interest, payable monthly, is variable at the bank's index which is the BOK Financial, dba Bank of Albuquerque national prime rate (4.00% at December 31, 2021). There were no balances outstanding as of December 31, 2021 or 2020, and there were no draws against the line-of-credit in either 2021 or 2020.

New Mexico Medical Insurance Pool

Notes to Financial Statements

Note 3 – Liability for Claims and Claim Processing Costs

The Pool's 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, 2021 and 2020, 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 three 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 amounts provided. Changes in reserves for claims and claims processing costs were as follows for the years ended December 31:

	2021	2020
Liability for claims and claims processing costs, beginning of year	\$ 17,800,762	\$ 16,248,437
Incurred claims and claims processing costs		
Prior years refunds	(447,691)	(1,717,926)
Current year claims	112,486,115	101,909,879
	112,038,424	100,191,953
Claims paid		
Prior years claims	16,937,223	14,515,507
Current year claims	86,467,359	84,124,121
	103,404,582	98,639,628
Liability for claims and claims processing costs, end of year	\$ 26,434,604	\$ 17,800,762

As a result of changes between actual payments for medical services and estimated amounts in previous years, claims expenses decreased by \$447,691 and \$1,717,926 for the years ended December 31, 2021 and 2020, respectively. Management believes the decrease in estimated prior years' claims expenses is largely a result of lower-than-expected adverse health care claims expense in 2021 and larger-than-expected adverse health care claims expense in 2020.

New Mexico Medical Insurance Pool

Notes to Financial Statements

Note 3 – Liability for Claims and Claim Processing Costs (continued)

The liability for claims and claims processing costs, end of year is composed of the following:

	2021	2020
Estimated claims incurred but not reported	\$ 24,923,000	\$ 16,488,000
Accrued claims	797,604	654,762
Accrued claims processing costs	714,000	658,000
Total liability for claims and claims processing costs, end of year	\$ 26,434,604	\$ 17,800,762

Note 4 – Uncertainty Regarding COVID-19 Pandemic

A strain of coronavirus, identified in December 2019 (COVID-19), has spread globally including the geographic locations of the Pool's members. Although not completely measurable, the Pool's medical cost trend, access to labor, and supply chains are being impacted by the COVID-19 pandemic. Such events are generally outside of the Pool's control and can have a material adverse impact on its operations in 2021 and beyond. Management anticipates that the providers may experience an increase in medical cost trend due to pent-up demand that could be significant.

Required Supplementary Information

New Mexico Medical Insurance Pool Claims Development Information

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Net Required Contributions and Investment Income	\$ 154,747,897	\$ 178,932,311	\$ 126,846,036	\$ 75,758,480	\$ 85,733,669	\$ 92,605,801	\$ 81,799,848	\$ 99,527,905	\$ 101,127,604	\$ 112,544,482
Unallocated Expenses (G&A)	1,835,043	1,480,827	1,627,725	1,523,333	1,158,097	1,198,701	1,031,447	1,248,980	1,291,239	1,370,207
Estimated Claims and Expenses End of Policy Year	158,051,366	179,617,111	126,040,837	80,800,822	86,254,169	90,489,400	81,355,772	99,058,881	101,909,879	112,486,115
Paid (cumulative) as of										
End of Policy Year	132,578,137	149,894,050	105,120,343	66,643,687	70,806,376	77,228,293	65,592,678	80,318,665	84,124,121	86,467,359
One Year Later	157,923,472	181,651,754	122,326,195	80,761,804	86,630,232	90,284,352	83,356,380	94,445,856	100,875,163	-
Two Years Later	158,299,023	181,315,777	122,379,200	80,938,204	86,630,232	90,108,213	83,767,022	94,664,248	-	-
Three Years Later	158,421,854	181,553,530	122,443,414	80,938,204	86,630,232	90,284,342	83,760,664	-	-	-
Four Years Later	158,392,857	181,678,542	122,443,414	80,938,204	86,630,232	90,055,352	-	-	-	-
Five Years Later	158,392,857	181,678,542	122,443,414	80,938,204	86,630,232	-	-	-	-	-
Six Years Later	158,392,857	181,678,542	122,443,414	80,938,204	-	-	-	-	-	-
Seven Years Later	158,392,857	181,678,542	122,443,414	-	-	-	-	-	-	-
Eight Years Later	158,392,857	181,678,542	-	-	-	-	-	-	-	-
Nine Years Later	158,392,857	-	-	-	-	-	-	-	-	-
Ten Years Later										
Reestimate of Incurred Claims and Expense										
End of Policy Year	158,051,366	179,617,111	126,040,837	80,800,822	86,254,169	90,849,400	81,355,772	96,539,990	101,909,879	112,486,115
One Year Later	157,985,028	181,746,083	122,327,099	80,805,566	86,630,232	90,300,711	83,388,163	94,459,856	101,289,155	-
Two Years Later	158,299,023	181,315,777	122,379,200	80,938,204	86,630,232	90,108,213	83,767,022	94,666,602	-	-
Three Years Later	158,421,854	181,553,530	122,443,414	80,938,204	86,630,232	90,081,206	83,760,664	-	-	-
Four Years Later	158,392,857	181,678,542	122,443,414	80,938,204	86,630,232	90,055,382	-	-	-	-
Five Years Later	158,392,857	181,678,542	122,443,414	80,938,204	86,630,232	-	-	-	-	-
Six Years Later	158,392,857	181,678,542	122,443,414	80,938,204	-	-	-	-	-	-
Seven Years Later	158,392,857	181,678,542	122,443,414	-	-	-	-	-	-	-
Eight Years Later	158,392,857	181,678,542	-	-	-	-	-	-	-	-
Nine Years Later	158,392,857	-	-	-	-	-	-	-	-	-
Increase (Decrease) in Estimated Incurred Claims and Expenses from End of Policy Year	341,491	2,061,431	(3,597,423)	137,382	376,063	(794,018)	2,404,892	(1,873,388)	(620,724)	-

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*

The Board of Directors
New Mexico Medical Insurance Pool

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Mexico Medical Insurance Pool (the Pool), which comprise the statements of net position as of December 31, 2021, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and related notes to the financial statements, and have issued our report thereon dated May 27, 2022.

Report on 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) as a basis for designing 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 the 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 Pool'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 were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool'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 Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
May 27, 2022