

Report of Independent Auditors
and Financial Statements
with Required Supplementary Information

New Mexico Medical Insurance Pool

December 31, 2024 and 2023

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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

Opinions

We have audited the financial statements of New Mexico Medical Insurance Pool (the Pool), which comprise the statements of net position as of December 31, 2024 and 2023, 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 referred to above present fairly, in all material respects, the respective financial position of New Mexico Medical Insurance Pool as of December 31, 2024 and 2023, and the respective 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 Opinions

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 opinions.

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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 pages 5 through 8 and page 20, respectively, 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 June 30, 2025 on our consideration of 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 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 New Mexico Medical Insurance Pool's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Albuquerque, New Mexico
June 30, 2025

Management Discussion and Analysis

New Mexico Medical Insurance Pool

Management Discussion and Analysis

Years Ended December 31, 2024 and 2023

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, 2024 and 2023.

Financial highlights – The Pool reported a net position of \$522,155 at the close of its most recent fiscal year; the total assets were \$68.3 million, and total liabilities were \$67.8 million. 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, assessment refunds payable, 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 2024 was \$116.5 million, which is a decrease of \$29.8 million (20.4%) from 2023. The actual loss amount (prior to assessments paid by insurers) for 2023 was \$146.3 million, which was an increase of \$25.3 million (20.9%) from 2022.

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 Discussion and Analysis
Years Ended December 31, 2024 and 2023

Condensed financial information

	2024	2023	2022
SUMMARY BALANCE SHEETS			
Cash	\$ 65,948,466	\$ 25,817,053	\$ 22,873,602
Receivables	2,332,059	21,472,621	11,591,897
Total assets - current	68,280,525	47,289,674	34,465,499
Accrued claims and processing costs - current	37,324,722	30,559,509	29,545,754
Other payables - current	30,433,648	16,208,010	4,397,590
Total liabilities - current	67,758,370	46,767,519	33,943,344
Net position	\$ 522,155	\$ 522,155	\$ 522,155
SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
Premiums	\$ 10,982,066	\$ 7,640,089	\$ 11,631,801
Assessments	116,490,625	146,264,517	120,951,585
Other income	2,162,767	223,229	59,830
Total operating revenues	129,635,458	154,127,835	132,643,216
Operating expenses			
Claims and related processing costs	127,593,403	152,111,469	131,011,307
General and administrative	2,042,055	2,016,366	1,631,909
Total operating expenses	129,635,458	154,127,835	132,643,216
Change in net position	\$ -	\$ -	\$ -

Overall financial analysis – Total assets for the State Pool increased from 2023 to 2024 primarily due to the timing of assessments revenue.

Pool activities – In January 2024, premium rates increased an average of 7.1% due to an increase in the standard risk rates and a slight decrease in the multipliers. By law, premium rates can be calculated at up to 150% of the standard risk rate. January 2024 rates were set at 110% of the standard risk rate for traditional plans and 110% 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 decrease of 745 (19.0%) members, from 3,906 at the end of 2023, to total membership of 3,161 at the end of 2024.

Budget analysis – Due to the many uncertainties surrounding the transitions occurring in late 2023 and early 2024, only conditionally approved 2024 budget was adopted. The uncertainties included the timing of the termination and potential reinstatement of a portion of the membership due to non-payment of premium after the end of the Public Health Emergency, as well as the transition from the former administrator Value Health Benefits Administrators (VHBA) to a new administrator 90 Degree Benefit Administrator on January 1, 2024. The conditionally approved budget assumed that approximately 700 members would be terminated in the fourth quarter of 2023 and then enrollment growth would return to prior level. The projected assessment in the conditionally approved budget was \$172.4 million.

New Mexico Medical Insurance Pool Management Discussion and Analysis Years Ended December 31, 2024 and 2023

In fact, the terminations continued into 2024 and resulted in 36.0% fewer member months of coverage than had been budgeted. In 2024, Pool losses were \$116.5 million, \$55.9 million (33.0%) less than budgeted. The conditionally approved 2024 budget assumed a 6.0% medical claims trend and 5.0% pharmacy trend. The actual combined trend was 17.0% with medical trend at 13% and the pharmacy trend at 42%. Earned premium and operating expenses were less than budgeted due to the lower enrollment.

Current trends and conditions and future impact – 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 End-Stage Renal Disease (ESRD) patients to enroll in Medicare Advantage plans has had the impact of reducing, but not eliminating, the enrollment in Pool's Medicare plan.

The 2025 transition to a new federal administration is expected to result in policy changes that could affect future enrollment and claim costs in the Pool. Among those that are currently being watched are the following:

- Shortened enrollment period for purchasing individual marketplace coverage.
- Elimination of year-round marketplace open enrollment for those below 150% of Federal Poverty Level (FPL).
- Potential end of COVID-era enhanced Advanced Premium Tax Credits and return to pre-COVID premium subsidy levels.
- Impact of tariffs on prescription drug prices.
- Impact of potential Most-Favored-Nation prescription drug pricing.

New Mexico Medical Insurance Pool Management Discussion and Analysis Years Ended December 31, 2024 and 2023

Administrative changes – The administrative services agreement with VHBA expired on December 31, 2023. A new contract with 90 Degree Benefits was implemented on January 1, 2024. 90 Degree Benefits was paid approximately \$3.0 million for the administrative services in 2024. In 2024, VHBA was paid approximately \$685,000 for claim run-out adjudication for 2023 and prior, and they were awarded a new contract that was limited to network administration and pharmacy benefits management. Following VHBA's abrupt closure in August 2024, 90 Degree Benefits assumed the network administration and pharmacy benefits management services that were previously provided by VHBA. While a significant majority of runout claims had already been paid since VHBA had already processed for seven months after the end of 2023, there was an additional \$143,000 paid out by 90 Degree Benefits for prior year services. There were delays in some payments while 90 Degree Benefits negotiated new agreements with subcontractors that were previously working with VHBA, and systems were configured to process older dates than were currently covered by 90 Degree Benefits. The subcontractors worked in good faith with 90 Degree Benefits to limit claim payment disruption while new terms were negotiated. From an operational standpoint the largest impact came from a lack of access to historical records, both electronic and paper, that were in VHBA's possession and not accessible by the Pool. This included financial records, eligibility and claim data, and original member application documents. A significant amount of summary data as well as extracted electronic data had already been provided to the Pool either through the regular course of business or as part of the administrative services contract change at the beginning of 2024, but access to original documents and source systems is not available.

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 Kristina Leeper, Pool's Executive Director at 500 Marquette Ave NW, Suite 280, Albuquerque, NM 87102.

Financial Statements

New Mexico Medical Insurance Pool
Statements of Net Position
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
ASSETS		
Cash	\$ 65,948,466	\$ 25,817,053
Net premium receivable (net of allowance for uncollectible accounts of \$831,809 in 2024 and \$2,171,681 in 2023)	875,768	917,007
Pharmacy rebate receivable	1,057,569	1,365,138
Assessments receivable	<u>398,722</u>	<u>19,190,476</u>
Total assets	<u>\$ 68,280,525</u>	<u>\$ 47,289,674</u>
LIABILITIES		
LIABILITIES		
Estimated claims incurred but not reported	\$ 35,830,000	\$ 29,067,000
Accrued claims	964,722	647,509
Accrued claims processing costs	530,000	845,000
Accrued expenses	153,667	251,834
Assessment refunds payable	29,602,770	14,847,274
Unearned premiums	454,445	595,699
Payable to third-party administrator	<u>222,766</u>	<u>513,203</u>
Total liabilities	<u>\$ 67,758,370</u>	<u>\$ 46,767,519</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.

New Mexico Medical Insurance Pool
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2024 and 2023

	2024	2023
OPERATING REVENUES		
Premiums, net	\$ 10,982,066	\$ 7,640,089
Assessments	116,490,625	146,264,517
Interest income	2,162,767	223,229
	<u>129,635,458</u>	<u>154,127,835</u>
Total operating revenues		
OPERATING EXPENSES		
Claims	121,025,336	145,498,765
Claims processing costs	6,568,067	6,612,704
General and administrative	2,042,055	2,016,366
	<u>129,635,458</u>	<u>154,127,835</u>
Total operating expenses		
CHANGE IN NET POSITION	-	-
NET POSITION, beginning of year	<u>522,155</u>	<u>522,155</u>
NET POSITION, end of year	<u>\$ 522,155</u>	<u>\$ 522,155</u>

See accompanying notes.

New Mexico Medical Insurance Pool
Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from policyholders and insurers	\$ 160,919,926	\$ 156,635,554
Payments for claims and claims processing costs	(120,520,621)	(151,982,855)
Payments to providers and suppliers	(2,430,659)	(1,932,477)
Interest received	2,162,767	223,229
	<u>40,131,413</u>	<u>2,943,451</u>
Net cash from operating activities	40,131,413	2,943,451
NET INCREASE IN CASH	40,131,413	2,943,451
CASH, beginning of year	25,817,053	22,873,602
CASH, end of year	<u>\$ 65,948,466</u>	<u>\$ 25,817,053</u>
RECONCILIATION OF CHANGES IN NET POSITION TO NET CASH FROM OPERATING ACTIVITIES		
Change in net position	\$ -	\$ -
Adjustments to reconcile change in net position to net cash from operating activities		
Changes in assets and liabilities		
Premium receivable	41,239	3,901,765
Pharmacy rebate receivable	307,569	(885,141)
Assessments receivable	18,791,754	(12,897,348)
Estimated claims incurred but not reported	6,763,000	1,358,000
Accrued claims	317,213	(270,245)
Accrued claims processing costs	(315,000)	(74,000)
Accrued expenses	(98,167)	127,273
Assessment refunds payable	14,755,496	11,537,961
Unearned premiums	(141,254)	188,570
Payable to third-party administrator	(290,437)	(43,384)
	<u>40,131,413</u>	<u>2,943,451</u>
Total adjustments	40,131,413	2,943,451
Net cash from operating activities	<u>\$ 40,131,413</u>	<u>\$ 2,943,451</u>

See accompanying notes.

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 Value Health Benefits Administrators (VHBA) during 2023. That contract ended December 31, 2023. The Pool is administered by 90 Degree Benefits beginning January 1, 2024. VHBA abruptly closed in August 2024, after which 90 Degree Benefits took over the network administration and pharmacy benefits management services previously provided by VHBA. As part of the contract transition in early 2024, VHBA provided a significant amount of data to the Pool and 90 Degree Benefits. However, because of the sudden closure, access to certain financial records, eligibility and claim data, and original member applications that had not yet been transferred to the Pool and 90 Degree Benefits was not available.

Basis of presentation – The Pool follows Governmental Accounting Standards Board (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 statements 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, 2024 and 2023.

New Mexico Medical Insurance Pool

Notes to Financial Statements

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

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. 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, 2024 or 2023.

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 maintains its cash in the form of noninterest and interest-bearing deposits with financial institutions that are believed to be of high credit quality. As of December 31, 2024 and 2023, 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 \$63,642,964 and \$13,744,637 at December 31, 2024 and 2023, 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 statements 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.

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.

New Mexico Medical Insurance Pool

Notes to Financial Statements

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 Pool was administered by VHBA during 2023. During 2024, 90 Degree Benefits became the third-party administrator of the Pool. In exchange for all the administrative services provided by the third-party administrators, the Pool paid an administrative fee on a per month basis. Total amounts paid to the third-party administrator were \$3,676,011 and \$4,149,283 for the years ending December 31, 2024 and 2023, respectively. These expenses are included in claims processing costs in the statements of revenues, expenses, and changes in net position. Amounts payable to the third-party administrator for these services were \$13,977 and \$293,433 at December 31, 2024 and 2023, respectively, and are included in the amounts payable to the third-party administrator in the statement of net position. The administrative services agreement with 90 Degree Benefits is through December 31, 2026.

In 2021, the Pool entered into a contract with Ensemble of Albuquerque LLC, a third-party case management provider. During 2024, the Pool also entered into contract with Acentra, a third-party case management provider. In exchange for all case management services provided by the third-party case managers, the Pool paid a case management fee on a per member per month basis. Total amounts paid to the third-party case managers were \$3,207,056 and \$2,537,421 for the years ending December 31, 2024 and 2023, respectively, which is included in claims processing costs in the statements of revenues, expenses, and changes in net position. Amounts payable to the third parties for these services were \$208,789 and \$219,770 at December 31, 2024 and 2023, respectively, and are included in the amounts payable to the third-party administrator in the statement of net position.

Net position – Net position represents the difference between all other elements in the statements 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 2024 or 2023.

Net position of the Pool was \$522,155 as of December 31, 2024 and 2023. 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 2024 or 2023. 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, 2024 and 2023.

New Mexico Medical Insurance Pool

Notes to Financial Statements

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 and receivable and allowance for uncollectible accounts is established for uncollectible premiums. Allowance for uncollectible accounts were \$831,809 and \$2,171,681 at December 31, 2024 and 2023, respectively.

During the COVID-19 Public Health Emergency (PHE) from 2020 - 2023 the Pool was not terminating members for non-payment as requested by the New Mexico Office of the Superintendent of Insurance in NM OSI Bulletin 2020-006. In 2023, the Pool Board elected to forgive outstanding premiums for self-pay members rather than require payment for a significant backlog of premiums for a financially vulnerable population. This resulted in a reduction of \$6,807,677 in premiums. The Pool was granted an appropriation from the NM OSI of \$1,500,000 that was accrued in 2023 and received in 2024 to offset the PHE premium forgiveness. Both the PHE forgiveness and the NM OSI appropriation are included in the Premium, net revenue in the statements of revenues, expenses, and changes in net position. The COVID-19 Public Health Emergency ended in 2023 and as such there were no COVID-19 appropriations granted for the year ended 2024.

A summary of premiums, net revenue for the years ended December 31, 2024 and 2023, is as follows:

	<u>2024</u>	<u>2023</u>
Premiums revenue at established rate	\$ 13,055,428	\$ 13,942,377
Provision for uncollectible accounts and refunds	<u>(2,073,362)</u>	<u>(6,302,288)</u>
Premiums, net	<u>\$ 10,982,066</u>	<u>\$ 7,640,089</u>

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 statements of net position 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 statements 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 statements of net position but arose after the statements of net position date and before financial statements are available to be issued.

The Pool has evaluated subsequent events through June 30, 2025, which is the date the financial statements were available to be issued.

New Mexico Medical Insurance Pool

Notes to Financial Statements

Note 2 – Line-of-Credit

The Pool has a \$5,000,000 line-of-credit from a local financial institution, expiring November 15, 2025. Interest, payable monthly, is variable at the bank's index which is the BOK Financial, dba Bank of Albuquerque national prime rate (8.50% at December 31, 2024). There were no balances outstanding as of December 31, 2024 and 2023, and there were no draws against the line-of-credit in either 2024 or 2023.

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, 2024 and 2023, 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:

	2024	2023
Liability for claims and claims processing costs, beginning of year	<u>\$ 30,559,509</u>	<u>\$ 29,545,754</u>
Incurred claims and claims processing costs		
Prior years	(2,797,722)	(2,382,581)
Current year	<u>131,077,671</u>	<u>157,396,471</u>
Total	<u>128,279,949</u>	<u>155,013,890</u>
Claims paid		
Prior years	26,713,522	26,898,158
Current year	<u>94,801,214</u>	<u>127,101,977</u>
Total	<u>121,514,736</u>	<u>154,000,135</u>
Liability for claims and claims processing costs, end of year	<u><u>\$ 37,324,722</u></u>	<u><u>\$ 30,559,509</u></u>

As a result of changes between actual payments for medical services and estimated amounts in previous years, claims expenses decreased by \$2,797,722 and \$2,382,581 for the years ended December 31, 2024 and 2023, 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 both 2024 and 2023. Changes in estimates in prior year decreased as a result of favorable development.

New Mexico Medical Insurance Pool

Notes to Financial Statements

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

	<u>2024</u>	<u>2023</u>
Estimated claims incurred but not reported	\$ 35,830,000	\$ 29,067,000
Accrued claims	964,722	647,509
Accrued claims processing costs	<u>530,000</u>	<u>845,000</u>
Total liability for claims and claims processing costs, end of year	<u><u>\$ 37,324,722</u></u>	<u><u>\$ 30,559,509</u></u>

Required Supplementary Information

New Mexico Medical Insurance Pool Claims Development Information

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Net Required Contributions and Investment Income	\$ 75,758,480	\$ 85,733,669	\$ 92,605,801	\$ 81,799,848	\$ 99,527,905	\$ 101,127,604	\$ 112,544,482	\$ 132,643,216	\$ 154,127,835	\$ 129,635,458
Unallocated Expenses (G&A)	1,523,333	1,158,097	1,198,701	1,031,447	1,248,980	1,291,239	1,370,207	1,631,909	2,016,366	2,042,055
Estimated Claims and Expenses End of Policy Year	80,800,822	86,254,169	90,489,400	81,355,772	96,539,990	101,909,879	112,486,115	135,638,183	157,396,471	131,077,671
Paid (cumulative) as of										
End of Policy Year	66,643,687	70,806,376	77,228,293	65,592,678	80,318,665	84,124,121	86,467,359	106,935,510	127,101,977	94,801,214
One Year Later	80,761,804	86,630,232	90,284,352	83,356,380	94,445,856	100,875,153	108,245,695	132,606,308	153,578,315	-
Two Years Later	80,938,204	86,630,232	90,108,213	83,767,022	94,664,248	101,086,829	109,458,130	132,945,855	-	-
Three Years Later	80,938,204	86,630,232	90,081,206	83,760,664	94,654,258	101,153,911	109,328,773	-	-	-
Four Years Later	80,938,204	86,630,232	90,055,382	83,714,748	94,639,385	101,191,669	-	-	-	-
Five Years Later	80,938,204	86,630,232	90,055,382	83,714,748	94,639,385	-	-	-	-	-
Six Years Later	80,938,204	86,630,232	90,055,382	83,714,748	-	-	-	-	-	-
Seven Years Later	80,938,204	86,630,232	90,055,382	-	-	-	-	-	-	-
Eight Years Later	80,938,204	86,630,232	-	-	-	-	-	-	-	-
Nine Years Later	80,938,204	-	-	-	-	-	-	-	-	-
Re-estimate of Incurred Claims and Expense										
End of Policy Year	80,800,822	86,254,169	90,849,400	81,355,772	96,539,990	101,909,879	112,486,115	135,638,183	157,396,471	131,077,671
One Year Later	80,805,566	86,630,232	90,300,711	83,378,163	94,459,856	101,289,155	109,089,265	132,871,276	154,626,581	-
Two Years Later	80,938,204	86,630,232	90,108,213	83,767,022	94,667,602	101,086,829	109,458,130	132,945,855	-	-
Three Years Later	80,938,204	86,630,232	90,081,206	83,760,664	94,654,258	101,153,911	109,328,773	-	-	-
Four Years Later	80,938,204	86,630,232	90,055,382	83,714,748	94,639,385	101,191,669	-	-	-	-
Five Years Later	80,938,204	86,630,232	90,055,382	83,714,748	94,639,385	-	-	-	-	-
Six Years Later	80,938,204	86,630,232	90,055,382	83,714,748	-	-	-	-	-	-
Seven Years Later	80,938,204	86,630,232	90,055,382	-	-	-	-	-	-	-
Eight Years Later	80,938,204	86,630,232	-	-	-	-	-	-	-	-
Nine Years Later	80,938,204	-	-	-	-	-	-	-	-	-
Increase (Decrease) in Estimated Incurred Claims and Expenses from End of Policy Year	\$ 137,382	\$ 376,063	\$ (794,018)	\$ 2,358,976	\$ (1,900,605)	\$ (718,210)	\$ (3,157,342)	\$ (2,692,328)	\$ 2,769,890	\$ -

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 New Mexico Medical Insurance Pool (the Pool), which comprise the statement of net position as of December 31, 2024, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2025.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as item 2024-001 that we consider to be a significant deficiency.

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*.

The Pool's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Pool's response to the findings identified in our audit and described in the accompanying schedule of findings. The Pool's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Baker Tilly US, LLP". The signature is written in a cursive, flowing style.

Albuquerque, New Mexico
June 30, 2025

New Mexico Medical Insurance Pool

Schedule of Findings

2024-001 Financial Close and Reporting and Internal Control (Significant Deficiency)

Criteria: The Pool is responsible for maintaining effective internal control over their accounting records and account balance. This process should include maintaining supporting documentation, accurately recording monthly journal entries, account balances supported by appropriate subsidiary records and performing monthly account reconciliations of the balance sheet accounts, to permit the preparation of accurate financial statements.

Condition and context: During our substantive testing over account balances, we noted that several accounts were not reconciled properly, and the entries posted to those account was incorrect. In addition, some of the supporting documentation was not available for our review. We noted the following during our substantive and internal control testing:

- During our testing of year-end cash reconciliation, we noted the Pool improperly decreased the cash account by \$1,978,030 to account for prior-year outstanding checks that have cleared in 2024. These outstanding checks had already reduced the cash and accounts payable account in 2023. A post close entry increasing the cash and accounts payable by \$1,978,030 was posted to correct the balance at year end. In addition, we noted the cash reconciliation had other reconciling items totaling \$575,690 that Pool was unable to provide the detail for.
- During our testing of the prepaid account balance, we noted the account balance was improperly stated by \$1,013,308 due to improperly reconciling the accounts payable and prepaid accounts. A post close entry decreasing the accounts payable and prepaid account by \$1,013,308 was posted to correct the balance at year end.
- During our testing of the accrued claim expenses, we noted the account balance was improperly stated by \$964,722 due to improperly reconciling the accounts payable and prepaid accounts. In addition, the pool was unable to provide a detail of the outstanding accrued claim expenses as of year-end. A post close entry increasing the accrued claim expenses account by \$964,722 was posted to correct the balance at year end.
- For 8 out of 25 claim expenses tested, the Pool was unable to provide the application packet for enrolled members in the Pool.

Cause: This deficiency is partially due to the immediate change in administrator in 2024 and management oversight. Due to the sudden dissolution of the contractual relationship with VHBA, the Pool was at a great disadvantage with the planned transition of the Pool's proprietary records, the impact on resources by needing to restructure administrative services, release another Request for Proposal (RFP) after completing an exhaustive RFP the year prior as well as the additional burden placed on the incoming third-party administrator to transition the accounting records.

Effect: Possible misstatements to the financial statements. The Pool could be overstating or understating their assets and liabilities account.

Recommendation: We recommend that the Pool review its financial close and reporting process to ensure the accurate and timely reconciliation of key accounts, including cash, prepaids, and payables. Additionally, we recommend that the Pool identify all members with missing application packets, have them complete the applications, and retain the supporting documentation.

New Mexico Medical Insurance Pool Schedule of Findings

Management's Response:

Management acknowledges the findings above that relate to accounting deficiencies and recognize that to overcome these issues in future audit years management plans to employ greater oversight and proper accounting processes. To prevent the risks that can occur should external factors strain resources at the administrator level and/or the Executive Office, management will add another layer of quality control by utilizing an external financial consultant to work together with management to formulate a deeper review at regular intervals. This will include a more detailed review of reconciliations and documentation above and beyond variance analysis and status discussions. Management also acknowledges that major vendor transitions such as the third-party administrator change create a critical risk, particularly when a new vendor is relying upon data from the old vendor and processes are not integrated. In the event of future transitions, a more active oversight will be put into place to identify the proper accounting treatment for transactions that are working through different processes at different vendors.

Additionally, since management were not able to receive the complete records needed from VHBA to ensure our ability to provide the back-up documentation needed for the enrollment sample testing, management may continue to have issues with having original documents for all historical applicants in future sampling. However, to do everything possible to overcome this issue, the Executive Office is planning to work with our third-party administrator to document the approximately 4,000 application records received and work to identify the members without the application packet to generate the information included in the application packet.

Management will also work on having another external means of keeping the records documented and secure so that there is more than one source of the Pool's enrollment data to overcome the challenge of a potential loss of access to our records from an unforeseen event similar to what management experienced in the transition challenge from the previous administrator.

New Mexico Medical Insurance Pool
Schedule of Prior Year Findings

None reported