

New Mexico Hospital Workers' Compensation Group

FINANCIAL STATEMENTS

December 31, 2021 and 2020

INDEPENDENT AUDITORS' REPORT

Board of Trustees
New Mexico Hospital Workers' Compensation Group

Opinion

We have audited the accompanying financial statements of New Mexico Workers' Compensation Group (the Group) which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of comprehensive income, members' equity and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2021 and 2020, and the results of its operations 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Group and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Group's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits 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 Group'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 Group'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 audits.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information in supplementary schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the financials statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

August 3, 2022


Pulakos CPAs, PC

New Mexico Hospital Workers' Compensation Group

BALANCE SHEETS

December 31, 2021 and 2020

Assets

	2021	2020
Cash and cash equivalents	\$ 1,859,607	\$ 1,556,301
Available for sale investments	7,507,166	8,519,240
Premiums and other receivables	584,548	202,844
Reinsurance receivable		
Currently due	183,073	49,371
Estimate based on loss reserves	900,270	436,084
Prepaid expenses	2,043	17,212
Income tax receivable	-	40,193
Deferred tax asset, net	141,000	194,000
Total assets	\$ 11,177,707	\$ 11,015,245

Liabilities and Members' Equity

Reserve for losses and loss adjustment expenses	\$ 3,053,362	\$ 3,011,840
Advance premiums	773,304	779,602
Return premiums and other	424,476	445,113
Total liabilities	4,251,142	4,236,555
Members' equity		
Surplus	6,962,741	6,662,634
Accumulated other comprehensive income	(36,176)	116,056
Total members' equity	6,926,565	6,778,690
Total liabilities and members' equity	\$ 11,177,707	\$ 11,015,245

New Mexico Hospital Workers' Compensation Group

STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2021 and 2020

	2021	2020
Revenue		
Premiums	\$ 2,975,289	\$ 2,802,545
Less excess insurance premium	(586,828)	(561,931)
Net premiums earned	2,388,461	2,240,614
Investment income including unrealized and realized gains and losses	392,408	536,655
Total revenues	2,780,869	2,777,269
Expenses		
Losses and loss adjustment expenses	770,730	1,474,436
Administrator fee	571,551	547,231
Dividends	900,000	1,000,000
Other administrative expenses	124,362	118,662
Total expenses	2,366,643	3,140,329
Income (loss) before income taxes	414,226	(363,060)
Provision for income taxes		
Current	-	(158,313)
Deferred	114,119	5,326
Total provision for income (loss) taxes	114,119	(152,987)
Net income (loss)	300,107	(210,073)
Other comprehensive (loss) income - unrealized holding loss from fixed income securities, net of income tax (benefit) expense of (\$40,467) and \$9,050 in 2021 and 2020, respectively	(152,232)	34,047
Comprehensive income (loss)	\$ 147,875	\$ (176,026)

New Mexico Hospital Workers' Compensation Group

STATEMENTS OF MEMBERS' EQUITY

Years Ended December 31, 2021 and 2020

	<u>Surplus</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Members' Equity</u>
Balance at December 31, 2019	\$ 6,872,707	\$ 82,009	\$ 6,954,716
Net loss	(210,073)	-	(210,073)
Other comprehensive income	-	34,047	34,047
Balance at December 31, 2020	6,662,634	116,056	6,778,690
Net income	300,107	-	300,107
Other comprehensive loss	-	(152,232)	(152,232)
Balance at December 31, 2021	<u>\$ 6,962,741</u>	<u>\$ (36,176)</u>	<u>\$ 6,926,565</u>

New Mexico Hospital Workers' Compensation Group

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	2021	2020
Operating activities		
Comprehensive income (loss)	\$ 147,875	\$ (176,026)
Adjustments to reconcile comprehensive income (loss) to net cash used by operating activities		
Provision for deferred income taxes	53,000	(159,000)
Realized losses/(gains) on available for sale investments	177,924	(332,981)
Unrealized gain on available for sale securities	(286,274)	(299,189)
Changes in assets and liabilities		
Premiums and other receivables	(381,704)	(81,893)
Reinsurance receivable	(597,888)	45,530
Prepaid expenses	15,169	(17,212)
Reserve for losses and loss adjustment expenses	41,522	380,986
Advance premiums	(6,298)	8,366
Return premiums and other	(20,637)	(211,287)
Income tax receivable/payable	40,193	(50,832)
	(817,118)	(893,538)
Net cash used by operating activities		
Investing activities		
Purchase of available for sale investments	(3,251,672)	(7,457,832)
Proceeds from sale/maturity of investments	4,372,096	6,895,382
	1,120,424	(562,450)
Net cash provided (used) by investing activities		
Change in cash	303,306	(1,455,988)
Cash and cash equivalents, beginning of year	1,556,301	3,012,289
Cash and cash equivalents, end of year	\$ 1,859,607	\$ 1,556,301

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1 – NATURE OF ACTIVITIES

Nature of Operations

The New Mexico Hospital Workers' Compensation Group (the Group) has received a certificate of approval from the New Mexico Worker's Compensation Administration Director to provide workers' compensation benefits pursuant to the New Mexico State Group Self Insurance Act. Since 1986, the Group has conducted business as an unincorporated association of qualified members, whereby each private member is jointly and severally liable for the private portion of the Groups' activities. All members of the Group must be qualified members of the New Mexico Hospital Association (a trade association). As of December 31, 2021, the Group has thirteen participating members which are public and private hospitals and health related facilities in the State of New Mexico. The Group's purpose is to provide for the pooling of workers' compensation liabilities of the members of the Group and to provide employer's liability benefits to its members provided for by reinsurance.

The accompanying supplementary information was prepared by a combination of specifically identified assets, liabilities, income, and expenses for amounts associated with public and private hospitals and health related facilities, or amounts estimated by management based on allocation methods consistent with prior years.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Financial Statement Presentation

Certain reclassifications were made to the 2020 financial statements to conform with the 2021 presentation.

Financial Instruments

The carrying amounts of cash, receivables, prepaid and other assets, payables, accrued expenses, and due to payables approximate fair value due to the short maturity periods of these instruments.

Cash and Cash Equivalents

For purposes of reporting cash and cash equivalents, the Group considers all funds held by financial institutions in non-interest-bearing accounts, which are not restricted from use in operations to be cash equivalents. Amounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). Cash held at financial institutions at times exceed federally insured limits.

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments

Equity securities (mutual funds investing in common stocks and bonds) and United States government issues are valued at quoted current market value. Realized gains and losses on sale of investments are recognized in net income on the specific identification basis, based on average or amortized cost. Current year changes in market value of investments are reflected as other comprehensive income. Accumulated changes in market value of bond investments are reported net of tax as accumulated other comprehensive income as a separate component of members' equity.

Investments with investment brokerage firms, while subject to certain conditions where there can be defined insurance coverage for certain situations are nevertheless, subject to declines in principal value principally due to movements in the stock and bond markets. Securities held at the brokerage house in safekeeping are insured for existence by the Securities Investor Protection Corporation (SIPC) up to \$500,000. SIPC insurance does not insure against losses in account value due to changes in the market value of the securities.

Fair Value Measurements

The fair value framework prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical investments that the Group has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, inputs other than observable quoted prices, or inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported.

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reserve for Losses and Loss Adjustment Expenses – Continued

Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in income currently.

The Group believes that the liability reflected in the accompanying financial statements is a reasonable estimate of both known and unknown unpaid losses and loss adjustment expenses as of the current reporting date and has had this amount reviewed by an independent actuary. Future claims have been discounted using a rate of 4.0%. However, the ultimate liability could be significantly in excess of or less than the amount indicated in the accompanying financial statements.

Reinsurance

In the normal course of business, the Group seeks to reduce the loss that may arise from events that cause unfavorable underwriting results by reinsuring certain levels of workers' compensation benefit risk with an insurance enterprise. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance policy.

Recognition of Premium Revenues

In accordance with the provisions of the Group Self Insurance Act, members of the Group are assessed monthly premiums based on each respective member's reported payroll, using uniform classifications, rates and experience modifications. The assessed premiums are recognized as revenue in the period corresponding to the member's reported payroll. Members of the Group whom have successfully implemented certain loss reduction policies qualify for premium discounts. These discounts are reported as a reduction of premiums. The Group has recorded premium discounts of \$306,752 and \$345,346 for the years ending December 31, 2021 and 2020, respectively.

Premiums receivable at year-end represent amounts due from members for final payroll audits and related premium amounts. Amounts due to members for final payroll audits and related premium amounts are reported as return premiums. Collateral is not required on receivables. The Group believes receivables are collectible and therefore, no allowance for doubtful accounts has been recognized. Bad debts (if any) are written off in the period determined.

Income Taxes

The Group computes and pays federal income taxes as a Property and Casualty Insurance Company. The provision for income taxes is based on income reported for financial statement purposes. Deferred income taxes arise from differences in the timing of recognizing certain income and expense items for financial statement and tax purposes. Such differences are primarily related to the unrealized holding gains or losses on investments and the differences in tax basis and financial statement basis of the reserve for losses and loss adjustment expenses and premium revenue recognition.

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes – Continued

The Group has adopted accounting principles generally accepted in the United States of America, as they relate to uncertain tax positions for the year ended December 31, 2021 and has evaluated its tax positions taken for all open tax years. The Group is not currently under audit, nor has the Group been contacted by any tax jurisdictions. Any interest and penalties recognized associated with a tax position are classified as current in the Group's financial statements. There were interest and penalties of zero in 2021 and 2020, respectively.

Based on the evaluation of the Group tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended December 31, 2021.

Subsequent Events

The Group has evaluated all events occurring subsequent to December 31, 2021 and through August 3, 2022, which is the date that the financial statements were issued. Management believes that all events occurring during this period requiring either recognition or disclosure are included in the accompanying financial statements.

NOTE 3 – AVAILABLE FOR SALE INVESTMENTS

December 31, 2021				
Description	Cost	Unrealized		Market Value
		Gains	Losses	
Equity funds	\$ 1,139,953	\$ 353,646	\$ -	\$ 1,493,599
Bond funds	6,059,061	-	(45,494)	6,013,567
	<u>\$ 7,199,014</u>	<u>\$ 353,646</u>	<u>\$ (45,494)</u>	<u>\$ 7,507,166</u>

December 31, 2020				
Description	Cost	Unrealized		Market Value
		Gains	Losses	
Equity funds	\$ 873,009	\$ 339,170	\$ -	\$ 1,212,179
Bond funds	7,160,155	146,906	-	7,307,061
	<u>\$ 8,033,164</u>	<u>\$ 486,076</u>	<u>\$ -</u>	<u>\$ 8,519,240</u>

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3 – AVAILABLE FOR SALE INVESTMENTS – CONTINUED

Unrealized (losses)/gains were (\$177,924) and \$246,771 in 2021 and 2020, respectively. Net unrealized gains or losses for bond funds, net of applicable tax, are recorded as a separate component of members' equity in the accompanying balance sheets. Realized gains of \$286,274 and \$689,133 were recorded for the years ended December 31, 2021 and 2020, respectively, and are included in investment income in the accompanying statements of comprehensive income.

NOTE 4 – FAIR VALUE MEASUREMENT

The following table presents the fair value hierarchy for assets measured at fair value on a recurring basis as of December 31, 2021:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available for sale investments				
Equity funds	\$ 1,493,599	\$ 1,493,599	\$ -	\$ -
Bond funds	<u>6,013,567</u>	<u>6,013,567</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,507,166</u>	<u>\$ 7,507,166</u>	<u>\$ -</u>	<u>\$ -</u>

The following table presents the fair value hierarchy for assets measured at fair value on a recurring basis as of December 31, 2020:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available for sale investments				
Equity funds	\$ 1,212,179	\$ 1,212,179	\$ -	\$ -
Bond funds	<u>7,307,061</u>	<u>7,307,061</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,519,240</u>	<u>\$ 8,519,240</u>	<u>\$ -</u>	<u>\$ -</u>

The classifications of different types of investments in the preceding tables are determined by evaluating each fund or investment within parameters established by Morningstar investment resource provider.

The following is a description of the valuation methodologies used for assets measured at fair value.

Available for sale investments: Valued at the net asset value (NAV) of the shares held by the Group at the end of the year.

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 5 – RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 3,011,840	\$ 2,630,854
Prior year reinsurance receivable	<u>(485,452)</u>	<u>(530,985)</u>
Net balance at beginning of year	2,526,388	2,099,869
Incurred related to:		
Current year	2,004,459	2,062,064
Prior years	(1,233,729)	(587,628)
Reinsurance recovery	<u>108,192</u>	<u>30,583</u>
Total incurred	878,922	1,505,019
Paid related to:		
Current year	(442,582)	(362,370)
Prior years	<u>(992,709)</u>	<u>(716,130)</u>
Total paid	<u>(1,435,291)</u>	<u>(1,078,500)</u>
Net balance at end of year	1,970,019	2,526,388
Current year reinsurance receivable	<u>1,083,343</u>	<u>485,452</u>
Balance at end of year	<u>\$ 3,053,362</u>	<u>\$ 3,011,840</u>

Changes in prior year accident provisions for losses and loss adjustment expenses are due to the overall maturing of the Group's historical loss development information requiring revision of estimates as the historical loss information develops.

Methodology for the Presented Amounts of Both Incurred-But-Not-Reported Liabilities and Expected Development on Reported Claims

The Group's actuary uses four methods to estimate ultimate incurred losses. The first two are development methods, one is based on incurred losses and one is based on paid losses. The second two are incurred and paid Bornhuetter/Ferguson methods which are expected loss methods.

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 5 – RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES – CONTINUED

Methodology for the Presented Amounts of Both Incurred-But-Not-Reported Liabilities and Expected Development on Reported Claims – Continued

For the development methods, incurred/paid losses including allocated loss adjustment expenses (ALAE) net of non-excess recoveries are developed to ultimate using development factors based on the Group's unique historical patterns. Prior to the application of the selected development factors, individual losses are limited to the specific retention in effect for each year. The incurred/paid Bornhuetter/Ferguson procedures estimate ultimate incurred losses by adding a provision for incurred but not reported (IBNR)/unpaid loss to the incurred/paid losses as of March 31, 2022. IBNR/unpaid loss is estimated based on expected losses, incurred/paid losses as of March 31, 2022 and the selected incurred/paid loss development factors.

The four methods are evaluated, and the best estimate of ultimate incurred losses is selected. The selected estimates of ultimate incurred losses are then limited to the aggregate retention in effect for each year. Paid losses limited to the specific and aggregate retentions as of December 31, 2019 are subtracted from the estimated ultimate incurred losses to estimate the required reserves as of that date.

Methodology for Calculating Cumulative Claim Frequency Information

The reported claims as of December 31, 2021 are all incidents that are reported as of that date, including those claims that will ultimately close without cost. Incurred claim count development factors are calculated using the Group's unique historical experience and factors representative of the Group's experience are selected. The selected factors are applied to the incurred claim counts as of March 31, 2022 to estimate ultimate claim counts.

Significant Changes and Those Methodologies

There are no significant changes to the methodologies used in the December 31, 2021 report to estimate ultimate losses and ALAE or ultimate claim counts compared to the procedures used previously for the Group.

Further information can be found in Casualty Actuarial Consultants Inc.'s August 3, 2022, "Reserve Analysis as of December 31, 2021" report for the Group.

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 5 - RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

History of Estimated Ultimate Incurred Losses *

Accident Year	Actuarial Estimate of Ultimate Incurred Losses Including Allocated Loss Adjustment Expenses (ALAE) as of Date Shown										As of 12/31/2021	
	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	Estimated Incurred But Not Reported	Number of Reported Claims
2012	\$ 1,089,524	\$ 1,146,625	\$ 1,087,415	\$ 1,035,975	\$ 952,011	\$ 942,078	\$ 932,693	\$ 927,709	\$ 926,371	\$ 926,371	\$ -	286
2013		1,400,420	1,534,722	1,403,370	1,259,635	1,221,167	1,191,437	1,184,456	1,183,271	1,183,271	-	278
2014			1,075,734	984,778	816,204	755,431	729,218	692,925	692,925	692,925	-	214
2015				1,408,097	1,346,646	1,362,348	1,318,289	1,307,924	1,298,790	1,279,311	-	273
2016					1,623,189	1,289,037	1,588,082	1,440,162	1,419,543	1,439,967	14,717	267
2017						1,672,629	1,403,581	1,354,152	1,323,896	1,304,654	2,742	289
2018							1,315,424	1,016,317	1,085,371	1,077,074	9,687	228
2019								1,470,000	1,250,000	1,000,000	104,214	274
2020									1,558,678	1,300,000	182,428	200
2021										1,400,000	623,045	192
Total										<u>\$ 11,603,573</u>		

* Ultimate incurred loss estimates are as per the actuarial report and may not equal the financial statement losses.

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 5 - RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

History of Paid Losses

Accident Year	Actuarial Estimate of Ultimate Incurred Losses Including ALAE as of Date Shown										
	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	
2012	\$ 224,370	\$ 653,134	\$ 762,284	\$ 838,876	\$ 859,120	\$ 859,600	\$ 892,824	\$ 902,204	\$ 911,584	\$ 920,964	
2013		308,143	651,367	1,031,941	1,085,681	883,434	1,114,040	1,115,949	1,117,859	1,119,768	
2014			250,313	549,842	685,209	1,111,379	692,925	692,925	692,925	692,925	
2015				330,794	820,528	691,724	1,135,892	1,153,924	1,179,183	1,188,499	
2016					453,426	1,041,317	1,001,488	1,255,201	1,393,515	1,399,832	
2017						903,376	898,498	1,153,745	1,210,194	1,233,780	
2018							408,941	693,997	782,039	838,957	
2019								520,891	760,308	848,317	
2020									362,370	977,143	
2021										441,837	
Total										<u>\$ 9,662,022</u>	
										Liabilities for loss and ALAE, net of reinsurance, 10 year lookback	\$ 1,941,551
										Plus: All outstanding liabilities before 2012, net of reinsurance	<u>63,649</u>
										Liabilities for loss and ALAE, net of reinsurance	2,005,200
										Plus: Estimated Ultimate Loss Adjustment Expenses	147,892
										Plus: current year long-term reinsurance receivable	<u>900,270</u>
										Total reserve for losses and loss adjustment expenses	<u>\$ 3,053,362</u>

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 5 - RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

Historical Claims Duration*

	Average Annual Percentage Payout of Incurred Claims by Age (In Months)											
	<u>0-12</u>	<u>12-24</u>	<u>24-36</u>	<u>36-48</u>	<u>48-60</u>	<u>60-72</u>	<u>72-84</u>	<u>84-96</u>	<u>96-108</u>	<u>108-120</u>	<u>120-132</u>	<u>132-144</u>
Increment	68.6%	26.7%	2.1%	0.9%	0.5%	0.3%	0.1%	0.1%	0.1%	0.2%	0.2%	0.1%
Cumulative	68.6%	95.3%	97.4%	98.3%	98.8%	99.1%	99.2%	99.3%	99.4%	99.6%	99.8%	99.9%

* Ultimate incurred loss estimates are as per the actuarial report and may not equal the financial statement losses.

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 6 – REINSURANCE ACTIVITY

The Group reinsures a certain portion of its workers' compensation benefit risk with an insurance enterprise. These reinsurance contracts do not relieve the Group from its obligation to members for workers' compensation benefits. Failure of the reinsurer to honor their obligations could result in losses to the Group. The Group has estimated all reinsurance receivables to be fully collectible.

The Group has purchased specific and aggregate excess insurance. Specific retention limits have been set at \$400,000 for the years ending December 31, 2021 and 2020, respectively. Aggregate retention is established at a percent of normal premium. Aggregate retention for the years ending December 31, 2021 and 2020 amounts to approximately \$3,100,086 and \$3,002,911, respectively. The Group has recorded a reinsurance receivable of \$1,083,343 and \$485,445 from insurance companies for previous policy years as of December 31, 2021 and 2020, respectively. The Group will receive payment on this receivable as cumulative claims paid by each year or specific claims exceed the respective year retention level.

The reinsurance policy premium was \$586,828 and \$561,931 in 2021 and 2020, respectively. The Group has reported the reinsurance policy premium as a reduction of premiums earned in the accompanying statements of comprehensive income.

NOTE 7 – INCOME TAXES

The Group's provision for income taxes is at a rate different from the expected 21% federal statutory rate due to certain expenses and losses not deductible for tax purposes, rate bracket differences, and the effect of state income taxes. The provision for income taxes, net of tax refunds, for the years ended December 31, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Current tax benefit	\$ -	\$ 158,313
Deferred income tax expense	<u>(114,119)</u>	<u>(5,326)</u>
Subtotal	(114,119)	152,987
Unrealized holding loss tax benefit (expense)	<u>40,467</u>	<u>(9,050)</u>
Total provision for income tax (expense) benefit	<u>\$ (73,652)</u>	<u>\$ 143,937</u>

Temporary differences giving rise to deferred tax liabilities consist of unrealized gains over the amount for financial reporting purposes. Temporary differences giving rise to the deferred tax assets consist of operating loss carry forwards, reserves for losses, and unrecognized premiums that are not deductible for tax purposes until paid.

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 7 – INCOME TAXES – CONTINUED

Deferred tax assets and liabilities as of December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets	\$ 223,000	\$ 246,000
Deferred tax liabilities	<u>(82,000)</u>	<u>(52,000)</u>
Deferred tax assets, net	<u>\$ 141,000</u>	<u>\$ 194,000</u>

The Group has available at December 31, 2021 approximately \$600,000 of unused Federal operating loss carry forwards that may be applied against future taxable income and do not expire. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that, some portion, or none of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Group will need to generate future taxable income prior to the expiration of the deferred tax assets governed by the tax code.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Group contracts with Hospital Services Corporation (HSC) to perform as administrator of the Group. HSC is a wholly owned subsidiary of the New Mexico Hospital Association. Administrator duties include the following:

- Provides for the day-to-day management of the Group
- Carries out policies established by board
- Directs the processing of claims against members of the Group
- Prepare and conduct safety conferences and safety surveys and audits
- Prepare periodic reports to members indicating status of each member's account
- Determine and collect member premiums as directed by the Group
- Prepare books, records and financial statements of the Group
- Supervise annual actuarial study and financial audit
- Perform other duties as deemed necessary or desirable by the Group

New Mexico Hospital Workers' Compensation Group

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 8 – RELATED PARTY TRANSACTIONS – CONTINUED

HSC has charged the Group an administrator fee of \$571,551 and \$547,231 based on premiums for the years ending December 31, 2021 and 2020, respectively. HSC in due course of business may advance operating costs on behalf of the Group, and also charged an annual investment fee of approximately \$14,000 for the years ending December 31, 2021 and 2020. The Group has recorded premiums and other receivables of zero as of December 31, 2021 and 2020. In addition, HSC in a capacity as an insurance broker between the Group and its excess insurance carrier earns a commission on the excess insurance policy premium. The Commission is paid by the excess insurance carrier.

Earned premiums of the Group are derived from Group members. Six group members contributed approximately 81% of the premium revenue in 2021 and 2020, respectively. Four group members account for approximately 95% of the premium receivables as of December 31, 2021. Two group members account for approximately 91% of the premium receivables as of December 31, 2020.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Surety Bond

In accordance with statutory requirements, the Group has secured a surety bond in the amount of \$125,000, in the favor of the New Mexico Workers' Compensation Administration. The bond may be exercised in the event the Group fails to comply with certain financial guidelines as defined by the rules and regulations of the New Mexico Workers' Compensation Administration.

SUPPLEMENTAL SCHEDULES

New Mexico Hospital Workers' Compensation Group

PRIVATE AND PUBLIC SUPPLEMENTARY SCHEDULE BALANCE SHEETS

December 31, 2021

Assets

	<u>Private</u>	<u>Public</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,025,831	\$ 833,776	\$ 1,859,607
Available for sale investments	3,801,230	3,705,936	7,507,166
Premiums and other receivables	423,008	161,540	584,548
Reinsurance receivable			
Currently due	145,504	37,569	183,073
Estimate based on loss reserves	864,214	36,056	900,270
Prepaid expenses	1,250	793	2,043
Deferred tax asset, net	97,000	44,000	141,000
Interfund (payable) receivable	(665,168)	665,168	-
	<u>5,692,869</u>	<u>5,484,838</u>	<u>11,177,707</u>
Total assets	<u>\$ 5,692,869</u>	<u>\$ 5,484,838</u>	<u>\$ 11,177,707</u>

Liabilities and Members' Equity

Reserve for losses and loss adjustment expenses	\$ 2,494,875	\$ 558,487	\$ 3,053,362
Advance premiums	593,456	179,848	773,304
Return premiums and other	252,691	171,785	424,476
	<u>3,341,022</u>	<u>910,120</u>	<u>4,251,142</u>
Total liabilities	3,341,022	910,120	4,251,142
Members' equity			
Surplus	2,322,798	4,639,943	6,962,741
Accumulated other comprehensive income	29,049	(65,225)	(36,176)
	<u>2,351,847</u>	<u>4,574,718</u>	<u>6,926,565</u>
Total members' equity	2,351,847	4,574,718	6,926,565
Total liabilities and members' equity	<u>\$ 5,692,869</u>	<u>\$ 5,484,838</u>	<u>\$ 11,177,707</u>

New Mexico Hospital Workers' Compensation Group

PRIVATE AND PUBLIC SUPPLEMENTARY SCHEDULE STATEMENTS OF COMPREHENSIVE INCOME AND MEMBERS' EQUITY

Year Ended December 31, 2021

	Private	Public	Total
Revenue			
Premiums	\$ 2,009,567	\$ 965,722	\$ 2,975,289
Less excess insurance premium	(400,070)	(186,758)	(586,828)
Net premiums earned	1,609,497	778,964	2,388,461
Investment income including unrealized and realized gains and losses	363,821	28,587	392,408
Total revenues	1,973,318	807,551	2,780,869
Expenses			
Losses and loss adjustment expenses	408,218	362,512	770,730
Administrator fee	382,869	188,682	571,551
Dividends	646,407	253,593	900,000
Other administrative expenses	72,562	51,800	124,362
Total expenses	1,510,056	856,587	2,366,643
Gain (loss) before income taxes	463,262	(49,036)	414,226
Provision for income taxes			
Current	-	-	-
Deferred	127,233	(13,114)	114,119
Total provision for income taxes	127,233	(13,114)	114,119
Net gain (loss)	336,029	(35,922)	300,107
Other comprehensive loss - unrealized holding loss from fixed income securities, net of income tax benefit of \$22,581 and \$17,886 for Private and Public, respectively	(84,947)	(67,285)	(152,232)
Comprehensive gain (loss)	251,082	(103,207)	147,875
Members' equity			
Beginning of year	2,100,765	4,677,925	6,778,690
End of year	\$ 2,351,847	\$ 4,574,718	\$ 6,926,565