



New Mexico Health Insurance Exchange Albuquerque, New Mexico

*Financial Statements,
Independent Auditor's Report, and
Single Audit Reporting Package
December 31, 2016 and 2015*

REDW^{LLC}
CPAs | Business & Financial Advisors

New Mexico Health Insurance Exchange

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Independent Auditor's Report

Board of Directors
New Mexico Health Insurance Exchange

Report on the Financial Statements

We have audited the accompanying financial statements of the New Mexico Health Insurance Exchange (the "Exchange"), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Exchange as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Exchange's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, 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 basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2017, on our consideration of the Exchange's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exchange's internal control over financial reporting and compliance.

REDW LLC

Albuquerque, New Mexico
March 15, 2017

Required Supplementary Information
Management's Discussion and Analysis

New Mexico Health Insurance Exchange

Management's Discussion and Analysis

December 31, 2016 and 2015

Introduction

This section of the financial report presents our discussion and analysis of the net position and changes in the net position of the New Mexico Health Insurance Exchange (the "Exchange") as of December 31, 2016, 2015, and 2014, and for the years then ended. Please read this discussion and analysis in conjunction with the Exchange's financial statements, which follow this section.

The Exchange is a quasi-governmental entity organized pursuant to the New Mexico Health Insurance Exchange Act (the "Act"), which replaces the New Mexico Health Insurance Alliance Act that was created by the State of New Mexico. The purpose of the Exchange is to provide qualified individuals and qualified employers with increased access to health insurance in the State.

Overview of the Financial Statements

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, the Exchange presents the following three financial statements:

- The *Statements of Net Position* present information on the Exchange's assets and liabilities, with the differences between the assets and liabilities reported as net position. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the Exchange is improving or deteriorating.
- The *Statements of Revenues, Expenses and Changes in Net Position* present information reflecting how net position changed during the year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future or prior periods.
- The *Statements of Cash Flows* present information showing how the Exchange's cash balances changed during the year. The cash flows are separately detailed for operating activities, investing activities, capital and related financing activities and noncapital financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found immediately following the financial statements.

Financial Highlights and Analysis

- As noted earlier, over time, net position may serve as a useful indicator of the Exchange's financial position. As of December 31, 2016, assets exceeded liabilities by \$12.3 million, which represents an increase of approximately \$9.0 million from 2015. The largest portion of the net position, approximately \$11.9 million or 96.7%, is unrestricted and may be used meet the Exchange's ongoing financial obligations. This component of net position is not

New Mexico Health Insurance Exchange
Management's Discussion and Analysis
December 31, 2016 and 2015

constrained through debt covenants, enabling legislation, or other legal requirements. The remaining balance of net position, approximately \$0.4 million or 3.3%, reflects the Exchange's investment in capital assets and is generally not available for future spending.

- The Exchange's total assets were \$14.3 million and \$5.9 million as of December 31, 2016 and 2015, respectively, mainly consisting of cash and cash equivalents, investments, and capital assets (net).
- The Exchange's total liabilities were \$2.0 million and \$2.6 million as of December 31, 2016 and 2015, respectively, mainly consisting of accounts payable, premiums due to carriers, and accrued liabilities.
- The Exchange's total operating revenues were \$16.7 million and \$5.7 million in 2016 and 2015, respectively. Operating revenues represent assessments on insurance carriers in accordance with the Financial Sustainability Plan outlined in the Exchange's Plan of Operation, as approved by the Board of Directors (the "Board").
- The Exchange's total expenses were \$15.3 million and \$26.4 million in 2016 and 2015, respectively, which were related to the day-to-day operations of the Exchange.
- The Exchange's total nonoperating revenues (expenses) were \$7.6 million and \$22.8 million in 2016 and 2015, respectively, with grants from the federal government and investment income being the primary revenue sources.

Statement of Net Position

The following shows condensed statements of net position as of December 31:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 13,887,926	\$ 5,731,272	\$ 15,711,468
Capital assets, net	<u>441,669</u>	<u>167,907</u>	<u>107,462</u>
Total assets	<u>\$ 14,329,595</u>	<u>\$ 5,899,179</u>	<u>\$ 15,818,930</u>
Current liabilities	<u>\$ 2,036,131</u>	<u>\$ 2,636,524</u>	<u>\$ 15,818,930</u>
Net position			
Net investment in capital assets	441,669	167,907	107,462
Unrestricted	<u>11,851,795</u>	<u>3,094,748</u>	<u>(107,462)</u>
Total net position	<u>12,293,464</u>	<u>3,262,655</u>	<u>-</u>
Total liabilities and net position	<u>\$ 14,329,595</u>	<u>\$ 5,899,179</u>	<u>\$ 15,818,930</u>

New Mexico Health Insurance Exchange
Management's Discussion and Analysis
December 31, 2016 and 2015

The \$8.2 million increase in current assets during 2016 is primarily a result of the Exchange investing excess cash balances received from assessments on insurance carriers. The available cash balances were invested across several permitted asset classes in accordance with the approved Investment Policy Statement. See Note 4 to the financial statements for more information on the Exchange's investments.

Statement of Revenues, Expenses, and Changes in Net Position

The following shows condensed statements of revenues, expenses, and changes in net position for the years ended December 31:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total operating revenues	\$ 16,703,354	\$ 5,727,690	\$ -
Total operating expenses	<u>15,306,502</u>	<u>26,431,209</u>	<u>47,014,645</u>
Operating income (loss)	1,396,852	(20,703,519)	(47,014,645)
Total nonoperating revenues (expenses), net	<u>7,633,957</u>	<u>22,836,161</u>	<u>47,014,645</u>
Income before transfers	9,030,809	2,132,642	-
Transfers	<u>-</u>	<u>1,130,013</u>	<u>-</u>
Change in net position	9,030,809	3,262,655	-
Net position, beginning of year	<u>3,262,655</u>	<u>-</u>	<u>-</u>
Net position, end of year	<u>\$ 12,293,464</u>	<u>\$ 3,262,655</u>	<u>\$ -</u>

Beginning after January 1, 2015, under provisions in the Patient Protection and Affordable Care Act (ACA), a state shall ensure its exchange has sufficient funding to support ongoing operations. According to the Exchange's Financial Sustainability Plan outlined in the Plan of Operations, the Exchange elected to generate funding, including charging assessment fees, to support its ongoing operations. Funding generated through carrier assessments shall be in an amount necessary solely for the administrative costs of the Exchange, primarily through assessing all health insurance carriers operating in the State of New Mexico, with the exception of those specifically exempted by NMSA 1987 § 59A-23F-4(B).

The Exchange recognizes assessments made on insurance carriers as operating revenues in the Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues were \$16.7 million and \$5.7 million in 2016 and 2015, respectively. The \$11.0 million increase in operating revenues is primarily a result of the Exchange assessing carriers to fund a full fiscal year of operating expenses in 2016, whereas carrier assessments only covered a portion of operating expenses in 2015.

New Mexico Health Insurance Exchange Management's Discussion and Analysis December 31, 2016 and 2015

Total operating expenses were approximately \$15.3 million and \$26.4 million, resulting in operating income of \$1.4 million and an operating loss of \$20.7 million in 2016 and 2015, respectively.

The \$15.2 million decrease in nonoperating revenues and \$11.1 million decrease in operating expenses during 2016 are primarily due to the Exchange exhausting all available federal funding under the 3rd Level 1 Establishment Grant by year-end. The Exchange did not receive a No Cost Extension (NCE) from the Centers for Medicare and Medicaid Services (CMS) to carry unspent grant monies beyond year-end.

Capital Assets

The capital assets of the Exchange are those assets used in the performance of the Exchange's functions. At December 31, 2016 and 2015, the Exchange had \$441,669 and \$167,907, respectively, net of accumulated depreciation, invested in capital assets, including furniture and fixtures, office equipment, computer software, and computer equipment. Additional information on the Exchange's capital assets can be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

The availability of funding from the federal government can fluctuate as a result of economic factors affecting the federal government. For the 2016 operating budget, the Exchange adhered to a balanced budget that required all 2016 revenues to equal the budgeted operating and capital expenses. The budget was formulated based on the total available funding under the Exchange's 3rd Level 1 Establishment Grant, in addition to carrier assessments approved under the Exchange's Financial Sustainability Plan, which was approved by the Board in December 2014. This Plan allows for market assessments for all major medical and Medicaid carriers in New Mexico, including those carriers selling insurance both on and off of the Exchange.

Prior to January 1, 2015, all of the Exchange's operating funding was obtained through 1311 grant funding from the federal government. Beginning January 2015, limitations were placed on the use of grant funding. For example, expenditures for the design, development and implementation of systems and processes continued to be admissible under grant rules; however, expenditures for the maintenance and operations of fully implemented systems were no longer eligible for grant funding. After a decision was made by the Board on March 31, 2015, to discontinue building the individual exchange, the Exchange's operating budget for 2015 was re-formulated based on the revised direction of the Exchange. A re-budget request for the continued use of the 3rd Level 1 Establishment Grant was submitted to CMS on July 1, 2015, and it was approved in part by CMS on August 19, 2015; however, with a \$15.6 million reduction in funding from the original award of \$69.4 million. This resulted in adjusted grant funding of \$53.8 million, of which \$22.8 million was expended during 2015. On November 3, 2015, CMS approved an NCE request, extending this grant to June 30, 2016. On June 16, 2016, CMS approved a final NCE request, extending the grant to December 31, 2016. The Exchange expended the final \$7.8 million of the grant during 2016.

New Mexico Health Insurance Exchange

Management's Discussion and Analysis

December 31, 2016 and 2015

Beginning January 2015, maintenance and operation expenditures were paid from carrier assessments, as documented in the Exchange's Financial Sustainability Plan. The Exchange issued its initial carrier assessment in June 2015, and a portion of its reserve assessment in October 2015. The 2016 operating budget was approved by the Board on September 18, 2015. The 2016 assessment, sufficient to cover the 2016 operating budget, was issued on January 2, 2016, in the amounts of \$11,790,605 and \$4,912,749. Also in 2016, as required by the Financial Sustainability Plan, the Exchange reconciled the market share that was the basis for the 2015 assessment allocation among carriers against the actual 2015 market share reported in the carrier's 2015 National Association of Insurance Commissioner (NAIC) Statutory Financial Statements.

The 2017 operating budget was approved by the Board on September 16, 2016, in the amount of \$13,722,230. The budget is expected to cover all operating costs, as grant funding is no longer available to the Exchange. The operating budget includes estimated payments to CMS of \$3.4 million for the lease of the federal platform, which commenced January 2017. The Exchange issued carrier assessments in February 2017, totaling \$14.7 million, which included the full 2017 operating budget in addition to almost \$1.0 million to bring the reserve assessment balance to 50% of the 2017 operating budget, as required by the Financial Sustainability Plan.

Annual revenue and expense budget is not legally adopted by the Exchange. Therefore, budget-to-actual comparisons are not provided in the financial statements or as supplementary information.

Contacting the Exchange's Financial Management

This financial report is designed to provide the New Mexico Health Insurance Exchange and its customers with a general overview of the Exchange's finances and to show the Exchange's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

New Mexico Health Insurance Exchange
7601 Jefferson St. NE, Suite 160
Albuquerque, New Mexico 87109
(505) 314-5200

Financial Statements

New Mexico Health Insurance Exchange
Statements of Net Position
December 31,

	<u>2016</u>	<u>2015</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 7,301,442	\$ 4,415,030
Investments	6,333,493	-
Receivables		
Due from U.S. Department of Health and Human Services	-	535,693
Premiums due	15,370	48,794
Carrier assessments due	-	5,124
Other receivables	21,754	618,153
Prepaid expenses and other assets	<u>215,867</u>	<u>108,478</u>
Total current assets	13,887,926	5,731,272
Noncurrent assets		
Capital assets, net of accumulated depreciation	<u>441,669</u>	<u>167,907</u>
Total assets	<u>\$ 14,329,595</u>	<u>\$ 5,899,179</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 1,535,936	\$ 2,316,507
Due to carriers	393,040	225,874
Accrued payroll and related liabilities	30,423	25,895
Compensated absences	<u>76,732</u>	<u>68,248</u>
Total current liabilities	<u>2,036,131</u>	<u>2,636,524</u>
Net Position		
Net investment in capital assets	441,669	167,907
Unrestricted	<u>11,851,795</u>	<u>3,094,748</u>
Total net position	<u>12,293,464</u>	<u>3,262,655</u>
Total liabilities and net position	<u>\$ 14,329,595</u>	<u>\$ 5,899,179</u>

New Mexico Health Insurance Exchange
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31,

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Carrier assessments	<u>\$ 16,703,354</u>	<u>\$ 5,727,690</u>
Operating Expenses		
Consumer and stakeholder engagement and support	8,881,504	14,503,756
Technology and project management	3,129,187	9,207,765
Salaries and employee benefits	1,906,725	1,678,624
Operations	790,879	519,571
Professional services and board	349,099	357,940
Plan management	235,094	138,553
Other	14,014	25,000
Total operating expenses	<u>15,306,502</u>	<u>26,431,209</u>
Operating income (loss)	<u>1,396,852</u>	<u>(20,703,519)</u>
Nonoperating Revenues (Expenses)		
Grant revenue	7,815,066	22,835,111
Investment (loss) income, net	(178,532)	1,050
Loss on disposal of capital assets	(2,577)	-
Total nonoperating revenues (expenses), net	<u>7,633,957</u>	<u>22,836,161</u>
Income before transfers	9,030,809	2,132,642
Transfers from New Mexico Health Insurance Alliance	-	1,130,013
Change in net position	9,030,809	3,262,655
Net position, beginning of year	<u>3,262,655</u>	<u>-</u>
Net position, end of year	<u>\$ 12,293,464</u>	<u>\$ 3,262,655</u>

New Mexico Health Insurance Exchange
Statements of Cash Flows
For the Years Ended December 31,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Cash received from insurance carriers	\$ 17,304,877	\$ 5,722,566
Cash payments to employees for service	(1,893,713)	(1,654,029)
Cash payments to other suppliers of goods and services	<u>(13,928,198)</u>	<u>(37,982,284)</u>
Net cash provided by (used in) operating activities	<u>1,482,966</u>	<u>(33,913,747)</u>
Cash flows from noncapital financing activities		
Cash received from grants	8,350,759	36,883,169
Transfer from New Mexico Health Insurance Alliance	-	511,860
Interest income received	<u>-</u>	<u>1,050</u>
Net cash provided by noncapital financing activities	<u>8,350,759</u>	<u>37,396,079</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(437,270)	(133,480)
Proceeds from sale of capital assets	<u>1,982</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(435,288)</u>	<u>(133,480)</u>
Cash flows from investing activities		
Purchase of investments	(6,585,526)	-
Interest and dividends received on investments	<u>73,501</u>	<u>-</u>
Net cash used in investing activities	<u>(6,512,025)</u>	<u>-</u>
Net increase in cash and cash equivalents	2,886,412	3,348,852
Cash and cash equivalents, beginning of year	<u>4,415,030</u>	<u>1,066,178</u>
Cash and cash equivalents, end of year	<u>\$ 7,301,442</u>	<u>\$ 4,415,030</u>

New Mexico Health Insurance Exchange
Statements of Cash Flows - continued
For the Years Ended December 31,

	2016	2015
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 1,396,852	\$ (20,703,519)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	158,949	73,035
Changes in operating assets and liabilities		
Premiums due	33,424	(8,826)
Carrier assessments due	5,124	(5,124)
Other receivables	596,399	-
Prepaid expenses and other assets	(107,389)	(86,907)
Account payable	(780,571)	(11,343,631)
Due to carriers	167,166	69,407
Contract holdback	-	(1,932,777)
Accrued payroll and related liabilities	4,528	5,875
Compensated absences	8,484	18,720
Net cash provided by (used in) operating activities	\$ 1,482,966	\$ (33,913,747)

Noncash Investing and Financing Activities

The Exchange recorded a net unrealized loss on investments of \$241,132 in 2016.

The Exchange recorded a loss on disposal of capital assets of \$2,577 in 2016.

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2016 and 2015

1) Organization and Operations

Organization

The New Mexico Health Insurance Exchange (the “Exchange”) is a governmental entity organized pursuant to the New Mexico Health Insurance Exchange Act (the “Act”), New Mexico Statutes Annotated 1978, 59A-23F-1 through 23F-8. The Exchange was authorized by the New Mexico Legislature (the “Legislature”) in 2013 and began operations shortly thereafter on April 28, 2013. The Act replaces the New Mexico Health Insurance Alliance (the “Alliance”) that was created by the State of New Mexico in 1994. The purpose of the Exchange is to provide qualified individuals and qualified employers with increased access to health insurance.

The Act provides that the Exchange is a governmental entity for purposes of the Tort Claims Act (New Mexico Statutes Annotated [1978] 41-4-1 to 41-4-27), but neither the Board of Directors (the “Board”) nor the Exchange shall be considered a governmental entity for any other purpose. However, given that the Exchange Board consists of members that are appointed pursuant to the Act, they meet the criteria for being considered a governmental entity; therefore, the Exchange must apply the accounting and financial reporting standards set by the Governmental Accounting Standards Board (GASB).

During the 2013 State of New Mexico legislative session, the Exchange legislation passed (Laws of 2013, Chapter 54). Under the new law, the Alliance Board ceased to exist and the Exchange Board supersedes the Alliance Board as the governing body. Once the Exchange was formed, the grant funds held by the Alliance were transferred to the Exchange’s bank account for operating use. Effective January 1, 2015, the Alliance statutes (Laws 1994, Chapter 75, Sections 1 through 25) were repealed. A Memorandum of Understanding was executed in June 2014 between the Alliance and the Exchange to further define transition costs and final wind down responsibilities, which occurred in 2015.

Operations

The Exchange was established as a result of the federal government passing the Patient Protection and Affordable Care Act (ACA) with the goal of providing access to quality health care for those without insurance, individuals that cannot afford health insurance offered at their place of employment, small businesses with 50 employees or fewer, and those that purchase their own insurance but would like more options.

All health insurance carriers and health maintenance organizations authorized to conduct business in New Mexico, and that meet the requirements of the rules promulgated in the Act, are eligible to participate in the Exchange. The Exchange performs its functions under the plan of operation established and approved pursuant to the Act and exercises its powers through the Board.

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2016 and 2015

BeWellnm for Small Business (beWellnm) was established as a program that allows small businesses, including nonprofits with up to 50 employees, to access health insurance through the Exchange. BeWellnm functions as a conduit for insurance premiums as opposed to being either an insurer or reinsurer. All beWellnm premiums billed and collected are recorded in the Exchange's statement of net position with no activity impacting the statement of revenues, expenses and changes in net position. The Exchange does not withhold any portion of premiums to cover administrative costs.

Between December 2014 and March of 2015, the Exchange Board conducted a thorough cost-benefit analysis to determine what enrollment mechanism for the individual Exchange would best benefit New Mexicans and support the Exchange's goal of keeping operational costs low over time. During this time, CMS also suggested to New Mexico the option of potentially "leasing" the healthcare.gov technology for the individual market. Following the analysis of available options, the Board decided that pursuing a potential leasing arrangement of healthcare.gov for the eligibility and enrollment technology for the individual exchange, while continuing to run all other functions of the New Mexico State-Based Exchange, best supports the Exchange's mission of expanding access to high-quality and affordable health insurance. After analyzing the available options, for cost savings reasons, the Exchange elected to lease the federal platform from the federal government.

During 2016 the Office of Management and Budget (OMB) approved the cost of the lease arrangement for New Mexico to be 1.5% of insurance premiums for individuals enrolling through the federal platform, starting January 2017. HHS confirmed to the Exchange that the payment mechanism will allow the Exchange to continue its market-wide assessment of on and off-Exchange major medical carriers without undo administrative burden. HHS has confirmed that the cost of the lease arrangement for New Mexico in 2018 will be 2.0%, subject to expected approval from the OMB. No expenses associated with the lease arrangements were recorded by the Exchange in 2016 or 2015.

On January 20, 2017, the President of the United States signed an executive order stating that his administration will seek prompt repeal of the ACA. To minimize the "economic burden" of the ACA, the order instructs the Secretary of Health and Human Services and other agency heads to "waive, defer, grant exemptions from, or delay the implementation" of any part of the law that places a fiscal burden on the government, businesses or individuals. Since signing the order, the President has indicated that repeal of the law will not take place without a plan for replacement to ensure that individuals covered under the program are able to maintain their coverage. It is anticipated that agreement on a federal path toward a replacement plan will be long and arduous, with implementation likely to take three to five years based on the implementation of the ACA. Finally, given that federal subsidies and state exchanges are critical components of some of the currently proposed replacement measures, there will likely be no immediate

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

impact to the Exchange. The Exchange remains optimistic that all 2017 insurance contracts entered into by individuals who enrolled in the Exchange, will be honored by the Exchange carriers for the full term of the contracts. The latest contract period goes through February 28, 2018. If an individual enrolled in the Exchange on January 31, 2017 (the last day of the 2016-17 Open Enrollment period), that individual would have coverage for a period extending from March 1, 2017 to February 28, 2018, assuming that this individual continued to pay the premium.

2) Summary of Significant Accounting Policies

Accounting Principles

The financial statements of the Exchange have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units and funds. The GASB is the standard-setting body for governmental accounting and financial reporting.

Basis of Presentation

The financial statements of the Exchange have been prepared using the economic resources measurement focus and the accrual basis of accounting. All of the Exchange's activities are reported as an enterprise fund.

The Exchange distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Exchange are assessments levied on insurance carriers, which began in 2015. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, which consists of grant revenue, investment income, and loss on disposals of capital assets.

Revenues from grants that are restricted for specific uses are recognized as revenues and as receivables when the related costs are incurred. When both restricted and unrestricted resources are available, it is the Exchange's policy to use restricted resources first. Expenses are recorded when they are incurred. Expenses charged to federal programs are recorded utilizing the cost principles prescribed or permitted by the various funding sources.

Use of Estimates in the Preparation of the Financial Statements

Financial statements prepared in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

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 those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Exchange considers all unrestricted highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Exchange's cash equivalents primarily consist of money market mutual funds that are readily convertible to a known amount of cash and carry an insignificant risk of change in value.

Investments

The Exchange's investments include equity mutual funds and bond mutual funds. Investments are measured and recorded at fair value on a recurring basis, reduced for permanent impairment of value, if any. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments that meet the definition of cash equivalents have been reclassified as cash and cash equivalents on the statements of net position.

Purchases and sales of securities are recorded on a trade-date basis. Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income is recognized when earned. Dividend income is recognized on the ex-dividend date. Net investment income includes interest and dividend earnings, gains and losses realized upon the sale of investments, unrealized holding gains and losses, and investment management fees.

Investment Risks and Uncertainties

Investments in general are exposed to various risks, such as interest rate, credit, and volatility risk. Due to the levels of risk associated with certain investments, it is reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the Exchanges' account balance and amounts reported on the statements of net position.

Due from U.S. Department of Health and Human Services

Various reimbursement procedures are used for federal awards received by the Exchange. Consequently, timing differences between expenses and program reimbursements can exist at any time during the year. Amounts due from the U.S. Department of Health and Human Services at December 31, 2015 represent an excess of accrual basis expenses over cash reimbursements received to date. This balance was caused by differences in the timing of cash reimbursements and expenses, with balances subsequently collected in 2016.

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

Premiums Due

Premiums due consist of payments owed from insured groups arising from the normal course of operations. Receivables from insured groups represent gross premium amounts receivable for insurance provided for which the payment has yet to be made. These amounts are recovered by the Exchange either through subsequent collection or, if not collected, by cancellation of insurance coverage effective on the date through which premiums were paid. Accordingly, the Exchange does not record an allowance against receivables from insured groups.

Carrier Assessments Due

Payments due from insurance carriers related to the assessments invoiced under the Exchange's Financial Sustainability Plan that have yet to be collected at year-end. The Exchange does not record an allowance against receivables from insurance carriers.

Other Receivables

Other receivables consist of unpaid carrier assessments related to the 2014 claims activity conducted by the Alliance that were transferred to the Exchange during 2015. In 2016, other receivables primarily consisted of accrued interest on the Exchange's investment portfolio.

Prepaid Expenses and Other Assets

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid expenses and other assets in the statements of net position and expensed as the items are used.

Capital Assets and Depreciation

Capital assets are recorded at historical cost. Typically, property and equipment costing \$1,000 or more are capitalized in accordance with internal policy, in addition to outlays for items that significantly extend the useful life of a capital asset. This, however, does not preclude the Exchange from capitalizing costs below this amount when control over such assets is desired. Costs incurred for repair and maintenance are expensed as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The estimated useful lives used to depreciate assets, by asset class, are as follows:

Furniture and fixtures	3 years
Equipment	3 years
Computer equipment and software	3 years

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2016 and 2015

Due to Carriers

Due to carriers consists of payments made by insured groups during the normal course of operations that are owed to each insured groups respective insurance carrier. As a result of timing differences arising in the premium billing cycle, such amounts have been paid to the Exchange by insured groups, but not remitted by the Exchange to the respective insurance carriers at year-end.

Compensated Absences

Under terms of employment, employees are granted sick leave and vacation in varying amounts. Full-time Exchange employees accumulate paid time off (PTO) hours for subsequent use according to the length of employment and within established maximum accrual limits. PTO may be accrued up to a maximum of three times an employee's annualized equivalent based on length of service. Hours in excess of the maximum personal leave available are written off and are not payable to the employee.

Terminated employees are compensated at their current hourly rate for accumulated unpaid PTO up to a maximum of 240 hours. All accumulated PTO is recorded as an expense and a liability in the Exchange's financial statements.

Net Position

The Exchange follows GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Accordingly, the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is referred to as net position. Net position is categorized as follows:

- ◆ *Net investment in capital assets*—Is intended to reflect the portion of net position which is associated with capital assets less outstanding capital asset related debt, if any. The Exchange has no capital asset related debt at December 31, 2016 or 2015.
- ◆ *Restricted net position*—Restricted net position results when constraints placed on an assets' use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation. The Exchange has no restricted net position at December 31, 2016 or 2015.
- ◆ *Unrestricted net position*—Represents net position not otherwise classified as invested in capital assets or restricted net position.

Consumer and Stakeholder Engagement and Support

These expenses align with the "Consumer and Stakeholder Engagement and Support" blueprint. It includes all marketing, advertising, media, public relations, stakeholder communications, enrollment entities, outreach entities, website development and referral call center vendors. All of these expenses are intended to educate consumers about the benefits of insurance. Marketing and advertising costs are expensed as incurred.

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2016 and 2015

Technology and Project Management

These expenses align with the “eligibility and enrollment” blueprint for building the Exchange. It includes expenses incurred for the design, development and implementation of the Exchange eligibility and enrollment system. It also includes expenses related to project management, independent verification and validation, and expenses for changes to the State Medicaid eligibility verification system.

Operations

Operations expense includes all costs associated with running the Exchange, outside of salaries and benefits, such as recruitment, equipment, rent, telephone, insurance, equipment leases and supplies.

Professional Services and Board

This includes all non-program contractual services, such as legal and audit expenses, as well as for board meetings and related expenses.

Plan Management

The Plan Management expense category aligns with the required “Plan Management” function for health insurance plans sold through the Exchange and includes payments made to the New Mexico Office of the Superintendent of Insurance for performance of Plan Management functions of the Exchange.

Income Taxes

The Exchange is a tax-exempt, quasi-governmental organization. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

Fair Value of Financial Instruments

Financial instruments include various cash equivalents, receivables and payables. The carrying amount of these financial instruments has been estimated by management to approximate fair value primarily due to their short maturity.

Subsequent Events

Subsequent events through March 15, 2017, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the December 31, 2016, financial statements.

3) Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, the Exchange’s deposits may not be returned to it. The Exchange does not have a custodial credit risk policy requiring collateral on all deposits exceeding Federal Deposit Insurance Corporation

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

(FDIC) limits, but the Exchange does have collateral to cover at least 50% of their total uninsured deposits. Bank deposits are insured by the FDIC up to \$250,000 per depositor per institution for interest-bearing and noninterest-bearing deposits, while the Securities Investors Protection Corporation (SIPC) protects up to \$250,000 on cash held with brokerage firms. At times, portions of the cash balances in the financial institutions may exceed the insured limits. The Exchange has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash or cash equivalents.

At December 31, 2016 and 2015, the Exchange's deposits subject to custodial credit risk are as follows:

	<u>2016</u>	<u>2015</u>
Total amount on deposits	\$ 7,508,978	\$ 7,614,617
Less: FDIC/SIPC insurance coverage	<u>750,000</u>	<u>250,000</u>
Total uninsured deposits	6,758,978	7,364,617
Pledged collateral, fair value	<u>8,396,914</u>	<u>3,845,535</u>
Total uninsured/uncollateralized (pledged in excess)	<u>\$ (1,637,936)</u>	<u>\$ 3,519,082</u>

The Exchange's cash and cash equivalents at December 31, 2016 and 2015, are comprised of the following:

	<u>2016</u>	<u>2015</u>
Bank deposits	\$ 3,640,542	\$ 4,415,030
Money market funds	<u>3,660,900</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 7,301,442</u>	<u>\$ 4,415,030</u>

4) Investments

Investment Policy

In July 2016, the Exchange adopted an Investment Policy Statement (IPS) that identifies authorized investment classes and instruments, investment ratings, diversification, risk and liquidity parameters. Authorized investment securities include money market funds, mutual funds, exchange traded funds, individual fixed income securities, pooled investment vehicles, closed-end funds, unit investment trusts and certificates of deposits with FDIC insured financial institutions. The IPS guidelines limit individual fixed income securities rated by a nationally recognized statistical ratings organization (NRSRO) of

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

investment grade of at least BBB- (S&P), Baa3 (Moody's), or BBB- (Fitch). Diversified fixed income mutual funds and investment pools may, however, hold non-investment grade securities.

The Exchange believes that long-term investment performance is a function of asset allocation. The IPS establishes a strategic asset allocation plan across authorized investment classes to minimize volatility and maximize returns as follows:

Asset Class	Target Allocation	Approved Range
Large Cap U.S. Equity	5%	0%-7%
Core Investment Grade U.S. Bonds	70%	50%-90%
High Yield Bonds	5%	0%-7%
International Bonds	5%	0%-7%
Cash/Money Market/CD's	15%	5%-50%

The strategic asset allocation plan shall be examined by the Exchange on an annual basis. Updates will be made, as needed, as market and investor circumstances change over time.

Concentrations

The Exchange's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over concentrations of assets of an individual issuer or of a specific maturity.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Exchange will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Exchange does not have custodial credit risk policies for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Exchange does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. There are no maturities associated with mutual funds held by the Exchange. Therefore, the information about the exposure of the Exchange's investments to this risk is based on the underlying assets held by the funds and is presented using the segmented time distribution model at December 31, 2016, as follows:

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

	Fair Value	Investment Maturities (in Years)		
		1-5	6-10	No Maturity
Equity mutual funds	\$ 257,342	\$ -	\$ -	\$ 257,342
Bond mutual funds	6,076,151	314,182	5,761,969	-
	<u>\$ 6,333,493</u>	<u>\$ 314,182</u>	<u>\$ 5,761,969</u>	<u>\$ 257,342</u>

Credit Risk

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization (NRSRO) (S&P, Moody's, or Fitch). U.S. Government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. There are no credit ratings associated with the mutual funds held by the Exchange. Therefore, the information presented below is based on the ratings of the underlying assets held by the funds at December 31, 2016:

	Fair Value	Average Credit Ratings					Not Rated
		AAA	AA	A	BBB	B	
Equity mutual funds	\$ 257,342	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 257,342
Bond mutual funds	6,076,151	234,273	2,900,846	1,100,318	1,526,532	314,182	-
	<u>\$ 6,333,493</u>	<u>\$ 234,273</u>	<u>\$ 2,900,846</u>	<u>\$ 1,100,318</u>	<u>\$ 1,526,532</u>	<u>\$ 314,182</u>	<u>\$ 257,342</u>

Concentration of Credit Risk

The Exchange did not have any investments in any one issuer that represent 5% of more of total investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in the value of the U.S. dollar against other foreign currencies will adversely affect the fair value of investments in foreign securities. The Exchange's IPS does not require foreign securities to be hedged against currency risk. The strategic asset allocation plan adopted in the IPS includes an allocation to international bonds up to 7% of the total value of the investment portfolio. The Barclays Global ex-U.S., which contains foreign currency risk, is designated as the benchmark for performance for this asset class within the portfolio. Accordingly, the foreign currency risk inherent within the Barclays Global ex-U.S. benchmark has been implicitly adopted as an acceptable financial risk for the international bonds asset class. As of December 31, 2016, the international bonds mutual fund had a value of \$363,443.

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

Investment Valuation

The Exchange has adopted GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that the GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Investments' fair value measurements at December 31, 2016, are as follows:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Equity mutual funds	\$ 257,342	\$ 257,342	\$ -	\$ -
Bond mutual funds	<u>6,076,151</u>	<u>6,076,151</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,333,493</u>	<u>\$ 6,333,493</u>	<u>\$ -</u>	<u>\$ -</u>

Equity and bond mutual funds categorized as Level 1 are valued based on prices quoted in active markets for those securities.

Change in Fair Value

A summary of the change in fair value of investments at December 31, 2016, is as follows:

	2016
Fair value at December 31, 2015	\$ -
Add: Proceeds of investments sold in 2016	-
Less: Cost of investments purchased in 2016	(6,585,526)
Less: Fair value at December 31, 2016	<u>(6,333,493)</u>
Change in fair value of investments	<u>\$ (252,033)</u>

The above change in fair value is without regard to investment management fees, which are shown in the calculation of investment (loss) income below.

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

Investment (Loss) Income

A summary of the Exchange's investment income at December 31, 2016, is as follows:

	<u>2016</u>
Interest and dividend income	\$ 73,501
Unrealized loss on investments	(241,132)
Investment management fees	<u>(10,901)</u>
Total investment (loss) income, net	<u>\$ (178,532)</u>

5) Capital Assets

A summary of capital assets activity is as follows:

	Balance at January 1, 2016	Increases	Decreases	Balance at December 31, 2016
<i>Capital assets not being depreciated</i>				
Artwork	\$ -	\$ 8,048	\$ -	\$ 8,048
Total capital assets not being depreciated	<u>-</u>	<u>8,048</u>	<u>-</u>	<u>8,048</u>
<i>Capital assets being depreciated</i>				
Furniture and fixtures	54,465	103,192	(7,341)	150,316
Equipment	41,361	1,415	(10,626)	32,150
Computer software	45,581	33,487	-	79,068
Computer equipment	<u>158,787</u>	<u>291,128</u>	<u>-</u>	<u>449,915</u>
Total capital assets being depreciated	<u>300,194</u>	<u>429,222</u>	<u>(17,967)</u>	<u>711,449</u>
<i>Less accumulated depreciation</i>				
Furniture and fixtures	(37,795)	(29,846)	5,316	(62,325)
Equipment	(28,322)	(10,988)	8,092	(31,218)
Computer software	(27,026)	(17,333)	-	(44,359)
Computer equipment	<u>(39,144)</u>	<u>(100,782)</u>	<u>-</u>	<u>(139,926)</u>
Total accumulated depreciation	<u>(132,287)</u>	<u>(158,949)</u>	<u>13,408</u>	<u>(277,828)</u>
Total capital assets being depreciated, net	<u>167,907</u>	<u>270,273</u>	<u>(4,559)</u>	<u>433,621</u>
Total capital assets, net	<u>\$ 167,907</u>	<u>\$ 278,321</u>	<u>\$ (4,559)</u>	<u>\$ 441,669</u>

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

	Balance at January 1, 2015	Increases	Decreases	Balance at December 31, 2015
<i>Capital assets being depreciated</i>				
Furniture and fixtures	\$ 52,899	\$ 1,566	\$ -	\$ 54,465
Equipment	37,748	3,613	-	41,361
Computer software	34,655	10,926	-	45,581
Computer equipment	41,412	117,375	-	158,787
	<u>166,714</u>	<u>133,480</u>	<u>-</u>	<u>300,194</u>
<i>Less accumulated depreciation</i>				
Furniture and fixtures	(20,032)	(17,763)	-	(37,795)
Equipment	(14,878)	(13,444)	-	(28,322)
Computer software	(13,321)	(13,705)	-	(27,026)
Computer equipment	(11,021)	(28,123)	-	(39,144)
Total accumulated depreciation	<u>(59,252)</u>	<u>(73,035)</u>	<u>-</u>	<u>(132,287)</u>
Total capital assets, net	<u>\$ 107,462</u>	<u>\$ 60,445</u>	<u>\$ -</u>	<u>\$ 167,907</u>

Depreciation expense for the years ended December 31, 2016 and 2015, was \$158,949 and \$73,035, respectively, and is reported in operations expense in the statements of revenues, expenses, and changes in net position.

6) Commitments

The Exchange is committed under various lease agreements for office space and office equipment, which expire at varying times through March 13, 2021. These leases are classified as operating leases. Lease expenses for the years ended December 31, 2016 and 2015, were \$212,651 and \$114,250, respectively. Lease expenses are included in operations expense in the accompanying statements of revenues, expenses, and changes in net position.

The following schedule details the future minimum lease payments as of December 31, 2016, for operating leases with initial or remaining lease terms in excess of one year:

Year ending December 31,	
2017	\$ 166,414
2018	116,875
2019	112,096
2020	109,640
2021	73,511
Total	<u>\$ 578,536</u>

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

Additionally, the Exchange has numerous professional and consulting service contracts and agreements for marketing and technology services in place with outstanding commitments at December 31, 2016 and 2015, of \$11.5 million and \$9.7 million, respectively. Such amounts are expected to be paid through 2018.

7) Compensated Absences

A schedule of changes in the Exchange’s compensated absences is as follows:

Balance at January 1, 2016	Additions	Reductions	Balance at December 31, 2016	Amounts Due Within One Year
<u>\$ 68,248</u>	<u>\$ 101,370</u>	<u>\$ 92,886</u>	<u>\$ 76,732</u>	<u>\$ 76,732</u>

Balance at January 1, 2015	Additions	Reductions	Balance at December 31, 2015	Amounts Due Within One Year
<u>\$ 49,528</u>	<u>\$ 136,682</u>	<u>\$ 117,962</u>	<u>\$ 68,248</u>	<u>\$ 68,248</u>

8) Retirement Plan

Beginning in 2014, the Exchange began sponsoring a 401(k) Retirement Plan (the “Plan”) to provide retirement benefits to its employees. The Plan allows eligible employees to defer a portion of their annual compensation pursuant to Section 401(k) of the Internal Revenue Code.

Under the terms of the Plan, all employees over the age of 18 may participate in the Plan after having fulfilled a one-month eligibility period in order to make contributions to the Plan. Employees are automatically enrolled into the Plan upon eligibility criteria having been fulfilled at a deferral rate of 3% of total compensation.

The Exchange matches 100% of an employee’s contributions up to 3% of total compensation and 50% of contributions that exceed 3% of compensation, but that do not exceed 5% of compensation. The Exchange’s matching contributions to the Plan totaled \$54,906 and \$57,038 for the years ended December 31, 2016 and 2015, respectively.

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

In addition, all employees over the age of 18 may participate in receiving discretionary profit sharing contributions under the Plan after having fulfilled a 12-month eligibility period or having fulfilled 1,000 hours of service. Profit sharing contributions will be allocated to each eligible participant after the end of the Plan year. Any discretionary profit sharing contributions are determined by the Board; however, no such contributions were made to the Plan in 2016 and 2015.

9) Contingencies

Grants

Grant awards from federal governmental entities are subject to audits. Such audits could result in claims against the Exchange for disallowed costs or noncompliance with grantor restrictions. The amount, if any, of expenditures that may be disallowed by grantors cannot be determined at this time; although, the Exchange expects such amounts, if any, to be immaterial.

Litigation

The Exchange is party to various legal proceedings that occur in the normal course of operations. Management does not believe that the outcome of these legal proceedings will have a material adverse impact on the Exchange. The Exchange maintains insurance coverage to protect against losses related to personal property and general liabilities, directors and officers, errors and omissions, and workers compensation.

Claims may also be filed for incidents that have occurred, including some of which the Exchange is not presently aware. Management believes that the amount of such potential claims, if any, would be immaterial to the Exchange. Accordingly, no accrual has been made for these potential claims.

10) Economic Dependency

For 2016, the Exchange received approximately 32% of its revenues from grants funded by the United States Government. For 2015, the Exchange received approximately 80% of its revenues from grants funded by the United States Government. At this time, there is no expectation of future grant funding from the United States Government. Management plans to fund future operations by annual carrier assessments.

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2016 and 2015

11) Transfers from New Mexico Health Insurance Alliance

In accordance with the Exchange Act, New Mexico Statutes Annotated 1978, 59A-23F-1 through 23F-8, the Act effectively replaced the Alliance. Operations of the Alliance ceased beginning January 1, 2015, although the Alliance was statutorily required to conduct 2015 final assessments related to 2014 claims activity. Pursuant to the plan of distribution of net assets of the Alliance approved by the Exchange Board, the Exchange recognized cash and receivable transfers from the Alliance of \$511,860 and \$618,153, respectively, during 2015. The asset transfers are recognized by the Exchange as transfers-in from the Alliance on the statement of revenues, expenses, and changes in net position in 2015.

Schedule of Expenditures of Federal Awards

New Mexico Health Insurance Exchange
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Grantor Number or Other Identifying Numbers	CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services			
State Planning and Establishment Grants for Affordable Care Act (ACA) Exchanges	N/A	93.525	\$ 7,815,066
Total U.S. Department of Health and Human Services			<u>\$ 7,815,066</u>

New Mexico Health Insurance Exchange
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

1) General

The accompanying schedule of expenditures of federal awards presents the federal award programs of the New Mexico Health Insurance Exchange (the “Exchange”) for the year ended December 31, 2016. The Exchange’s reporting entity is defined in Note 1 to the basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2) Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 to the basic financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3) Catalog of Federal Domestic Assistance Award Numbers

Federal granting agencies are responsible for providing the Exchange with the Catalog of Federal Domestic Assistance (CFDA) number for each grant or contract.

New Mexico Health Insurance Exchange
Notes to the Schedule of Expenditures of Federal Awards — continued
For the Year Ended December 31, 2016

4) Reconciliation to the Financial Statements

The following is a reconciliation of expenses reported on the schedule of expenditures of federal awards to the expenditures reported in the financial statements as of December 31, 2016:

Total expenses reported on the schedule of expenditures of federal awards	\$ 7,815,066
Total expenses funded by carrier assessments	<u>7,491,436</u>
Total operating expenses reported on the statement of revenues, expenses, and changes in net position	<u>\$ 15,306,502</u>

5) De Minimis Indirect Cost Rate

The Exchange has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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

Board of Directors
New Mexico Health Insurance Exchange

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 Health Insurance Exchange (the "Exchange"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements and have issued our report thereon dated March 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Exchange's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control. Accordingly, we do not express an opinion on the effectiveness of the Exchange's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Exchange's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *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 Exchange'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 entities internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

REDW LLC

Albuquerque, New Mexico
March 15, 2017

Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
New Mexico Health Insurance Exchange

Report on Compliance for Each Major Federal Program

We have audited the New Mexico Health Insurance Exchange's (the "Exchange") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Exchange's major federal program for the year ended December 31, 2016. The Exchange's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Exchange's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Exchange's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Exchange's compliance.

Opinion on the Major Federal Program

In our opinion, the Exchange complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of the Exchange is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Exchange's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Exchange's internal control over compliance.

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

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

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

REDW LLC

Albuquerque, New Mexico
March 15, 2017

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016

Section I — Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies reported?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor’s report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies reported?	No
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	No

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Year Ended December 31, 2016

Section I — Summary of Auditor’s Results — continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.525	State Planning and Establishment Grants for Affordable Care Act (ACA) Exchanges

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	Yes
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New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Year Ended December 31, 2016

Section II — Financial Statement Findings

None.

New Mexico Health Insurance Exchange
Schedule of Findings and Questioned Costs — continued
For the Year Ended December 31, 2016

Section III — Federal Award Findings and Questioned Costs

None.

**New Mexico Health Insurance Exchange
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2016**

No findings were reported for the year ended December 31, 2015.