New Mexico Health Insurance Exchange
Albuquerque, New Mexico

Financial Statements
and
Independent Auditor's Report

December 31, 2017 and 2016

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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Exchange's 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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.

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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, 2017 and 2016, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018, 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 22, 2018

Required Supplementary Information
Management’s Discussion and Analysis

New Mexico Health Insurance Exchange
Management's Discussion and Analysis
December 31, 2017 and 2016

Introduction

As management of the New Mexico Health Insurance Exchange (the "Exchange"), we offer the readers of the Exchange's financial statements this narrative overview and analysis of the financial activities of the Exchange for the fiscal year ended December 31, 2017. 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, 2017, assets exceeded liabilities by $14.6 million, which represents an increase of approximately $2.3 million from 2016. The largest portion of the net position, approximately $14.3 million or 98.1%, is unrestricted and may be used meet the Exchange's ongoing financial obligations. This component of net position is not constrained through debt covenants, enabling legislation, or other legal requirements. The remaining balance of net position, approximately $272,000 or 1.9%, reflects the Exchange's investment in capital assets and is generally not available for future spending.

- The Exchange's total assets were $16.8 million and $14.3 million as of December 31, 2017 and 2016, respectively, mainly consisting of cash and cash equivalents and investments.
- The Exchange's total liabilities were $2.2 million and $2.0 million as of December 31, 2017 and 2016, respectively, mainly consisting of accounts payable and premiums due to carriers.
- The Exchange's total operating revenues were $14.7 million and $16.7 million in 2017 and 2016, 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 operating expenses were $12.8 million and $15.3 million in 2017 and 2016, respectively, which were related to the day-to-day operations of the Exchange.
- The Exchange's total nonoperating revenues (expenses) were $0.4 million and $7.6 million in 2017 and 2016, respectively, and primarily consists of grant revenues and investment income. The decrease of approximately $7.2 million primarily relates to the Exchange exhausting all federal grant award funding in 2016.

Statement of Net Position

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

	2017	2016	2015
Current assets	**$ 16,544,573**	$ 13,887,926	$ 5,731,272
Capital assets, net	**271,584**	441,669	167,907
Total assets	**$ 16,816,157**	$ 14,329,595	$ 5,899,179
Current liabilities	**$ 2,201,752**	$ 2,036,131	$ 2,636,524
Net position			
Net investment in capital assets	**271,584**	441,669	167,907
Unrestricted	**14,342,821**	11,851,795	3,094,748
Total net position	**$ 14,614,405**	$ 12,293,464	$ 3,262,655

The $2.7 million increase in current assets during 2017 is primarily a result of the Exchange investing excess cash balances received from carrier assessments. The available cash balances were invested across several permitted asset classes in accordance with the approved Investment Policy Statement (IPS). 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:

	2017	2016	2015
Total operating revenues	**$ 14,688,045**	$ 16,703,354	$ 5,727,690
Total operating expenses	**12,761,512**	15,306,502	26,431,209
Operating income (loss)	**1,926,533**	1,396,852	(20,703,519)
Total nonoperating revenues (expenses), net	**394,408**	7,633,957	22,836,161
Income before transfers	**2,320,941**	9,030,809	2,132,642
Transfers	**-**	-	1,130,013
Change in net position	**2,320,941**	9,030,809	3,262,655
Net position, beginning of year	**12,293,464**	3,262,655	-
Net position, end of year	**$ 14,614,405**	$ 12,293,464	$ 3,262,655

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 by charging assessment fees on carriers 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 during the year as operating revenues in the statement of revenues, expenses, and changes in net position. Operating revenues were $14.7 million and $16.7 million in 2017 and 2016, respectively. The $2.0 million decrease in operating revenues is primarily a result of a reduction in the reserve component of the assessments charged to carriers during 2017.

Total operating expenses were approximately $12.8 million and $15.3 million, resulting in operating income of $1.9 million and $1.4 million in 2017 and 2016, respectively.

The $7.2 million decrease in nonoperating revenues during 2017 is primarily due to the Exchange exhausting all available federal funding under the 3rd Level 1 Establishment Grant by the end of 2016.

Capital Assets

The capital assets of the Exchange are those assets used in the performance of the Exchange's functions. At December 31, 2017 and 2016, the Exchange had $271,584 and $441,669, respectively, net of accumulated depreciation, invested in capital assets. These investments in capital assets include 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

For the 2018 operating budget, the Exchange adhered to a balanced budget that required all 2018 revenues to equal the budgeted operating and capital expenses. The budget was formulated based on the total available funding by way of 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 the Centers for Medicare and Medicaid (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.

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 generally expected to cover all operating costs, as grant funding is no longer available to the Exchange. The 2017 operating budget included estimated payments to CMS of $3.0 million for the lease of the federal platform, which commenced January 2017. This lease payment is now referred to as the State Based Exchange – Federal Platform (SBE-FP) User Fee. 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.

The 2018 operating budget was approved by the Board on September 22, 2017, in the amount of $14,229,784, and the Exchange invoiced carrier assessments in January 2018, totaling $14.5 million which included the full 2018 operating budget in addition to almost $254k to bring the reserve assessment balance to 50% of the 2018 operating budget as required by the Financial Sustainability Plan. Beginning January 2018, the SBE-FP User Fee increased from 1.5% to 2.0% of premiums billed on the federal platform. This 33% increase, along with premium increases anticipated to be upwards of 40% for 2018, will result in a significantly increased SBE-FP User Fee. While the budget is generally anticipated to cover all operating expenses, the Board of Directors approved only a 20% increase for the SBE-FP User Fee and a flat (no increase over 2017) budget projection for 2018 employee benefits. It is expected that once the 2018 enrollments have stabilized, the Exchange will be required to request a budget increase for the SBE-FP User Fee as well as an increase for employee benefits, also affected by the increased premium rates approved by the New Mexico Office of Superintendent of Insurance.

An 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 required 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:

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Financial Statements

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

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	**$ 5,730,297**	$ 7,301,442
Investments	**10,636,902**	6,333,493
Premiums due	**35,362**	15,370
Accrued interest	**18,007**	21,754
Prepaid expenses and other assets	**124,005**	215,867
Total current assets	**16,544,573**	13,887,926
Noncurrent assets		
Capital assets, net of accumulated depreciation	**271,584**	441,669
Total assets	**$ 16,816,157**	$ 14,329,595
Liabilities		
Current liabilities		
Accounts payable	**$ 1,548,876**	$ 1,535,936
Due to carriers	**526,368**	393,040
Accrued liabilities	**59,805**	30,423
Compensated absences	**66,703**	76,732
Total current liabilities	**2,201,752**	2,036,131
Net Position		
Net investment in capital assets	**271,584**	441,669
Unrestricted	**14,342,821**	11,851,795
Total net position	**14,614,405**	12,293,464
Total liabilities and net position	**$ 16,816,157**	$ 14,329,595

The accompanying notes are an integral part of the financial statements.

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

	2017	2016
Operating Revenues		
Carrier assessments	**$ 14,688,045**	$ 16,703,354
Operating Expenses		
Consumer and stakeholder engagement and support	**4,880,791**	8,881,504
Federal platform user fee	**2,909,845**	-
Salaries and employee benefits	**1,788,096**	1,906,725
Technology and project management	**1,589,382**	3,129,187
Operations	**798,426**	790,879
Professional services and board	**424,861**	349,099
Plan management	**370,111**	235,094
Other	**-**	14,014
Total operating expenses	**12,761,512**	15,306,502
Operating income	**1,926,533**	1,396,852
Nonoperating Revenues (Expenses)		
Grant revenue	**-**	7,815,066
Investment income (loss), net	**394,158**	(178,532)
Gain (loss) on disposal of capital assets	**250**	(2,577)
Total nonoperating revenues, net	**394,408**	7,633,957
Change in net position	**2,320,941**	9,030,809
Net position, beginning of year	**12,293,464**	3,262,655
Net position, end of year	**$ 14,614,405**	$ 12,293,464

The accompanying notes are an integral part of the financial statements.

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

	2017	2016
Cash flows from operating activities		
Cash received from insurance carriers	**$ 14,688,045**	$ 17,304,877
Cash paid to suppliers of goods and services	**(10,557,356)**	(13,928,198)
Cash paid to employees for service	**(1,768,743)**	(1,893,713)
Net cash provided by operating activities	**2,361,946**	1,482,966
Cash flows from noncapital financing activities		
Proceeds from Federal grants	**-**	8,350,759
Net cash provided by noncapital financing activities	**-**	8,350,759
Cash flows from capital and related financing activities		
Purchase of capital assets	**(24,090)**	(437,270)
Proceeds from sale of capital assets	**250**	1,982
Net cash used in capital and related financing activities	**(23,840)**	(435,288)
Cash flows from investing activities		
Purchase of investments	**(5,463,003)**	(6,585,526)
Proceeds from sale of investments	**1,319,050**	-
Interest and dividends received on investments	**234,702**	73,501
Net cash used in investing activities	**(3,909,251)**	(6,512,025)
Net (decrease) increase in cash and cash equivalents	**(1,571,145)**	2,886,412
Cash and cash equivalents, beginning of year	**7,301,442**	4,415,030
Cash and cash equivalents, end of year	**$ 5,730,297**	$ 7,301,442

The accompanying notes are an integral part of the financial statements.

New Mexico Health Insurance Exchange

Statements of Cash Flows — continued
For the Years Ended December 31,

		2017		2016
Reconciliation of operating income to net cash provided by operating activities				
Operating income	**$**	**1,926,533**	$	1,396,852
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense		**194,175**		158,949
Changes in operating assets and liabilities				
Premiums due		**(19,992)**		33,424
Carrier assessments due		**-**		5,124
Accrued interest		**3,747**		596,399
Prepaid expenses and other assets		**91,862**		(107,389)
Account payable		**12,940**		(780,571)
Due to carriers		**133,328**		167,166
Accrued liabilities		**29,382**		4,528
Compensated absences		**(10,029)**		8,484
Net cash provided by operating activities	**$**	**2,361,946**	$	1,482,966
Supplemental schedule of noncash investing activities				
Change in fair value of investments	**$**	**159,456**	$	(241,132)

The accompanying notes are an integral part of the financial statements.

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2017 and 2016

1) Organization and Operations

Organization

The New Mexico Health Insurance Exchange (the "Exchange") is a quasi-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 who cannot afford health insurance offered at their place of employment, small businesses with 2 – 50 employees, 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.

BeWellnm for Small Business (beWellnm) was established as a program that allows small businesses, including nonprofits with 2 – 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 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, the Centers for Medicaid and Medicare Services (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 in January 2017. The U.S. Department of Health and Human Services (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 undue administrative burden. HHS has confirmed that the cost of the lease arrangement for New Mexico will increase to 2.0% in 2018, which has been approved by the OMB. The cost of the lease arrangement for New Mexico is expected to increase to 3% in 2019, however, this has not been confirmed by HHS. No expenses associated with the lease arrangements were recorded by the Exchange in 2016.

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 instructed 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 placed 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.

In mid-October 2017, the Trump administration announced it would end key ACA payments known as Cost Savings Reductions (CSR's), which helped offset insurers' costs incurred by offering low out-of-pocket cost plans to lower income enrollees. Anticipating the loss of CSR funding, the New Mexico Office of Superintendent of Insurance (OSI) allowed insurers to submit 2018 rates that reflected that assumption. In late 2017, the United States Congress passed sweeping tax reform legislation. While the tax reform measure did not repeal the individual mandate, it eliminated the penalties imposed by the mandate. The mandate penalty repeal only applies as of 2019; however, given the repeal was so widely publicized it is generally expected there will be widespread confusion as to when it will be effective. 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 impact to the Exchange. The Exchange remains optimistic that all 2018 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, 2019.

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 entities. 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. 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 (loss), and gain (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. The Exchange does not expect any future funding from federal programs.

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 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.

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.

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 balances consist primarily of bank deposits, money market demand accounts, and non-negotiable certificates of deposit. The Exchange's cash equivalents consist primarily 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 negotiable certificates of deposit, and equity and fixed income 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 net of 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.

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.

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

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. The Exchange, at its discretion, allows employees to sell back unused PTO at their current hourly rate. Employees are required to retain a minimum balance of 80 hours after the buy back.

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, 2017 or 2016.
- *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, 2017 or 2016.
- *Unrestricted net position*—Represents net position not otherwise classified as invested in capital assets or restricted net position.

Carrier Assessments

The Exchange imposes assessments on insurance carriers operating in the State of New Mexico, except those exempted by NMSA 1978, § 59A-23F-4(B). The amount of the assessment is based on the Exchange's administrative expenses taken from the annual operating budget. The assessment is allocated to the carriers as a percentage of each carriers' written premium and subscriber contract charges relative to the total of all carriers written premium and subscriber contract charges. Written premiums used in the calculation include major medical and Medicaid managed care, but does not include written premiums for limited-benefit health plans and other exclusions. The written premium amounts used in the calculation are obtained from statutory filings each carrier submits to the New Mexico Office of the Superintendent of Insurance.

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.

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, depreciation, 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 providing review and quality ratings for Qualified Health Plans (QHPs), initial and ongoing certification of Health Care Guides (NCGs), providing information and notifications to licensed health insurance companies regarding requirement to sell products through the exchange, and receiving and resolving customer complaints.

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.

Subsequent Events
Subsequent events through March 22, 2018, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the December 31, 2017, 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 (FDIC) limits. 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 for cash held with brokerage firms. The Exchange held $1,457,000 in non-negotiable certificates of deposit with various financial institutions, all of which were fully covered by federal depository insurance at year-end. The Exchange did not have any non-negotiable certificates of deposit in 2016. 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, 2017 and 2016, the Exchange's deposits subject to custodial credit risk are as follows:

	2017	2016
Total amount of bank deposits	**$ 5,789,328**	$ 7,508,978
Less FDIC/SIPC insurance coverage	**1,957,000**	750,000
Total uninsured deposits	**3,832,328**	6,758,978
Pledged collateral, fair value	**8,665,237**	8,396,914
Total uninsured/uncollateralized (pledged in excess)	**$ (4,832,909)**	$ (1,637,936)

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

	2017	2016
Bank deposits	**$ 554,780**	$ 3,640,542
Non-negotiable certificates of deposit	**1,457,000**	-
Money market mutual funds	**3,718,517**	3,660,900
Total cash and cash equivalents	**$ 5,730,297**	$ 7,301,442

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 and securities, 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 limits individual fixed income securities rated by a nationally recognized statistical ratings organization (NRSRO) of 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. All investments are held in the name of the Exchange.

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2017 and 2016

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 fixed income mutual funds held by the Exchange. Therefore, the information about the exposure of the Exchange's investments to this risk is based on an average of the underlying assets held by the funds and is presented using the segmented time distribution model at December 31, 2017 and 2016, as follows:

December 31, 2017

		Investment Maturities (in Years)				
	Fair Value	**Less than 1**	**1-5**	**6-10**	**11-15**	**No Maturity**
Negotiable certificates of deposit	**$ 717,055**	**$ 239,659**	**$ 477,396**	**$ -**	**$ -**	**$ -**
Equity mutual funds	**728,026**	**-**	**-**	**-**	**-**	**728,026**
Fixed income mutual funds	**9,191,821**	**-**	**903,831**	**7,957,895**	**330,095**	**-**
	$ 10,636,902	**$ 239,659**	**$ 1,381,227**	**$ 7,957,895**	**$ 330,095**	**$ 728,026**

		Investment Maturities (in Years)		
	Fair Value	1-5	6-10	No Maturity
Equity mutual funds	$ 257,342	$ -	$ -	$ 257,342
Fixed income mutual funds	6,076,151	314,182	5,761,969	-
	$ 6,333,493	$ 314,182	$ 5,761,969	$ 257,342

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 fixed income mutual funds held by the Exchange. Therefore, the information presented below is based on the average credit ratings of the underlying assets held by the funds at December 31, 2017 and 2016:

December 31, 2017

		Average Credit Ratings					
	Fair Value	**AA**	**A**	**BBB**	**BB**	**B**	**Not Rated**
Negotiable certificates of deposit	**$ 717,055**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 717,055**
Equity mutual funds	**728,026**	**-**	**-**	**-**	**-**	**-**	**728,026**
Fixed income mutual funds	**9,191,821**	**2,391,678**	**1,226,847**	**4,669,467**	**393,823**	**510,006**	**-**
	$ 10,636,902	**$ 2,391,678**	**$ 1,226,847**	**$ 4,669,467**	**$ 393,823**	**$ 510,006**	**$ 1,445,081**

December 31, 2016

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

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. At December 31, 2017 and 2016, the Exchange was exposed to foreign currency risk through its investments in non-dollar denominated international bonds mutual funds of $723,920 and $363,443, respectively.

Investment Valuation

The Exchange complies with GASB Statement No. 72, *Fair Value Measurement and Application* which provides the framework for measuring fair value. That framework provides a fair value hierarchy that 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 or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB No. 72 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Exchange has the ability to access.

Level 2 Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.

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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Equity and fixed income mutual funds—valued at the daily closing price as reported by the fund. Mutual funds are required to publish their daily net asset value (NAV) and to transact at that price.

Negotiable certificates of deposit—valued using matrix pricing techniques maintained by various pricing vendors.

The following tables present investments measured at fair value by classification within the hierarchy as of December 31:

December 31, 2017

		Fair Value Measurements Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Negotiable certificates of deposit	**$ 717,055**	**$ -**	**$ 717,055**	**$ -**
Equity mutual funds	**728,026**	**728,026**	**-**	**-**
Fixed income mutual funds	**9,191,821**	**9,191,821**	**-**	**-**
	$ 10,636,902	**$ 9,919,847**	**$ 717,055**	**$ -**

December 31, 2016

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
Equity mutual funds	$ 257,342	$ 257,342	$ -	$ -
Fixed income mutual funds	6,076,151	6,076,151	-	-
	$ 6,333,493	$ 6,333,493	$ -	$ -

Investment Income (Loss)

A summary of the Exchange's investment income (loss) for the year ended December 31, 2017 and 2016, is as follows:

	2017	2016
Interest and dividend income	**$ 267,278**	$ 73,501
Unrealized gain (loss) on investments	**159,456**	(241,132)
Management and advisory fees	**(32,576)**	(10,901)
Total investment income (loss), net	**$ 394,158**	$ (178,532)

5) Capital Assets

A summary of capital assets activity is as follows:

	Balance at January 1, 2017	**Increases**	**Decreases**	**Balance at December 31, 2017**
Capital assets not being depreciated				
Artwork	$ 8,048	$ -	$ -	$ 8,048
Total capital assets not being depreciated	8,048	-	-	8,048
Capital assets being depreciated				
Furniture and fixtures	150,316	-	-	150,316
Equipment	32,149	1,456	-	33,605
Computer software	79,067	16,464	-	95,531
Computer equipment	449,915	6,170	(22,207)	433,878
Total capital assets being depreciated	711,447	24,090	(22,207)	713,330
Less accumulated depreciation				
Furniture and fixtures	62,325	34,410	-	96,735
Equipment	31,217	755	-	31,972
Computer software	44,359	17,936	-	62,295
Computer equipment	139,925	141,074	(22,207)	258,792
Total accumulated depreciation	277,826	194,175	(22,207)	449,794
Total capital assets being depreciated, net	433,621	(170,085)	-	263,536
Total capital assets, net	$ 441,669	$ (170,085)	$ -	$ 271,584

	Balance at January 1, 2016	Increases	Decreases	Balance at December 31, 2016
Capital assets not being depreciated				
Artwork	$ -	$ 8,048	$ -	$ 8,048
Total capital assets not being depreciated	-	8,048	-	8,048
Capital assets being depreciated				
Furniture and fixtures	54,465	103,192	(7,341)	150,316
Equipment	41,360	1,415	(10,626)	32,149
Computer software	45,580	33,487	-	79,067
Computer equipment	158,787	291,128	-	449,915
Total capital assets being depreciated	300,192	429,222	(17,967)	711,447
Less accumulated depreciation				
Furniture and fixtures	37,795	29,846	(5,316)	62,325
Equipment	28,321	10,988	(8,092)	31,217
Computer software	27,026	17,333	-	44,359
Computer equipment	39,143	100,782	-	139,925
Total accumulated depreciation	132,285	158,949	(13,408)	277,826
Total capital assets being depreciated, net	167,907	270,273	(4,559)	433,621
Total capital assets, net	$ 167,907	$ 278,321	$ (4,559)	$ 441,669

Depreciation expense for the years ended December 31, 2017 and 2016, was $194,175 and $158,949, 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 August 31, 2021. These leases are classified as operating leases. The office space lease has an option to renew for an addition three years while the office equipment leases have automatic renewal features at the end of the initial term. Lease expense for the years ended December 31, 2017 and 2016, were $193,758 and $212,651, 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, 2017, for operating leases with initial or remaining lease terms in excess of one year:

Year ending December 31,		
2018	$	125,335
2019		113,632
2020		111,421
2021		37,500
Total	$	387,888

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, 2017 and 2016, of $5.6 million and $11.5 million, respectively. Such amounts are expected to be paid through 2018.

7) Retirement Plan

The Exchange sponsors 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 $50,537 and $54,906 for the years ended December 31, 2017 and 2016, respectively, and are included in salaries and employee benefits in the statements of revenue, expenses, and changes in net position.

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 2017 and 2016.

8) 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. At December 31, 2017 and 2016, there were no material claims or audits pending for expenditures disallowed under federal awards.

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.

9) Economic Dependency

The Exchange is dependent on a small number of insurance carriers underwriting health and dental insurance policies within the State of New Mexico to charge assessments. The Exchange charged assessments on 11 insurance carriers during 2017 and 2016, respectively.

Four insurance carriers accounted for approximately 85% (26%, 25%, 18%, and 16%) of assessment revenues for the year ended December 31, 2017. Four insurance carriers accounted for approximately 84% (26%, 25%, 18%, and 15%) of assessment revenues for the year ended December 31, 2016. The Exchange does not believe the loss of a single insurance carrier would materially affect its financial position.

10) Federal Platform User Fee

The Exchange provides access to obtain health and/or dental insurance coverage through its Small Business Health Options Program (SHOP) within the State of New Mexico. The Exchange received approval from the Centers for Medicaid and Medicare Services (CMS) to operate the SHOP as a State-based Exchange (SBE). The Exchange provides similar access to individuals seeking health and/or dental insurance coverage, however, through an exchange operated by the federal government. This model is referred to as a State-based Exchange on the Federal Platform (SBE-FP). These exchanges' rely on the federal government's information technology system, consumer call center and eligibility and enrollment services (the "Federal Platform").

Starting in January 2017, CMS began charging all issuers offering qualified health plans through SBE-FP's a Federal Platform User Fee for the portion of Federal Platform services and benefits provided to the issuer, and is based upon effectuated enrollments at the issuer payee level. The SBE-FP user fee rate in 2017 was 1.5% of the total policy premium per month for each individual enrollee on the Federal Platform. The Exchange paid SBE-FP User Fees of $2,909,845 for the year ended December 31, 2017. The Exchange did not pay SBE-FP User Fees for the year ended December 31, 2016.

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, 2017, 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 22, 2018.

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.

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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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

REDW LLC

Albuquerque, New Mexico
March 22, 2018