
New Mexico Health Insurance Exchange

Albuquerque, New Mexico

*Financial Statements
and
Independent Auditor's Report
December 31, 2020 and 2019*

REDW^{LLC}
CPAs | 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, 2020 and 2019, and the related notes to the 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.

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 New Mexico Health Insurance Exchange as of December 31, 2020 and 2019, 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.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Exchange adopted new accounting guidance, GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. This Statement amended the criteria for evaluating component units previously included in GASB Statement No. 84, *Fiduciary Activities*. After evaluation, the New Mexico Health Insurance Exchange 401(k) Plan (the “Plan”), a defined contribution plan previously included in the Exchange’s 2019 financial statements, was determined to no longer meet the definition of a fiduciary component unit. As a result, the Plan is no reported as a pension trust fund in the Exchange’s financial statements for the years ended December 31, 2020 and 2019. Our opinion is not modified with respect to this matter.

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 financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

testing, and not to provide an opinion on the effectiveness of the Exchange's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exchange's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "REDW LLC". The letters are written in a cursive, slightly slanted style.

Albuquerque, New Mexico
May 19, 2021

New Mexico Health Insurance Exchange

Management's Discussion and Analysis

December 31, 2020 and 2019

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, 2020, with comparisons to 2019 and 2018, where appropriate. 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.

FINANCIAL HIGHLIGHTS

- ◆ In 2020, the Exchange early implemented GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. After evaluating the modified criteria used to determine fiduciary component units, the New Mexico Health Insurance Exchange 401(k) Plan (the "Plan"), a defined contribution plan previously included in the Exchange's 2019 financial statements, was determined to no longer meet the definition of a fiduciary component unit. As a result, the Plan is no reported as a pension trust fund in the Exchange's financial statements for the years ended December 31, 2020 and 2019.
- ◆ As of December 31, 2020, assets exceeded liabilities by \$24.4 million, which represents an increase of approximately \$5.4 million from 2019. The largest portion of the net position, \$24.2 million or 99.3%, 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, \$0.2 million or less than 1%, reflects the Exchange's investment in capital assets and is generally not available for future spending.
- ◆ Total assets were \$26.0 million and \$21.2 million as of December 31, 2020 and 2019, respectively, consisting primarily of cash, cash equivalents, and investments.
- ◆ Total liabilities were \$1.7 million and \$2.2 million as of December 31, 2020 and 2019, respectively, consisting primarily of accounts payable.
- ◆ Total operating revenues were \$22.5 million and \$19.7 million for the years ended December 31, 2020 and 2019, 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").

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Management's Discussion and Analysis
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- ◆ Total operating expenses were \$18.4 million and \$18.7 million for the years ended December 31, 2020 and 2019, respectively, reflecting the day-to-day operations of the Exchange.
- ◆ Nonoperating revenues were \$1.2 million for both the years ended December 31, 2020 and 2019, and consists primarily of net investment income.

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, noncapital financing activities, capital and related financing activities, and investing 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.

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Management's Discussion and Analysis
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STATEMENT OF NET POSITION

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets			
Current assets	\$ 25,859,579	\$ 20,953,616	\$ 17,861,090
Capital assets, net	<u>177,246</u>	<u>284,987</u>	<u>108,349</u>
Total assets	<u>\$ 26,036,825</u>	<u>\$ 21,238,603</u>	<u>\$ 17,969,439</u>
Liabilities and Net Position			
Current liabilities	<u>\$ 1,684,904</u>	<u>\$ 2,242,164</u>	<u>\$ 1,149,321</u>
Total liabilities	<u>1,684,904</u>	<u>2,242,164</u>	<u>1,149,321</u>
Net position			
Investment in capital assets	177,246	284,987	108,349
Unrestricted	<u>24,174,675</u>	<u>18,711,452</u>	<u>16,711,769</u>
Total net position	<u>24,351,921</u>	<u>18,996,439</u>	<u>16,820,118</u>
Total liabilities and net position	<u>\$ 26,036,825</u>	<u>\$ 21,238,603</u>	<u>\$ 17,969,439</u>

The \$4.9 million increase in current assets during 2020 is primarily a result of the Exchange accumulating excess cash balances received from carrier assessments. When considered advantageous, available cash balances are invested across several permitted asset classes in accordance with the approved Investment Policy Statement. See Note 3 to the financial statements for more information on the Exchange's investments.

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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>2020</u>	2019	2018
Operating Revenues			
Carrier assessments	<u>\$ 22,541,247</u>	<u>\$ 19,673,026</u>	<u>\$ 17,236,701</u>
Operating Expenses			
Federal platform user fee	5,258,814	6,769,007	5,314,400
Technology and project management	5,188,460	3,778,521	2,726,114
Consumer and stakeholder engagement and support	3,453,938	3,590,482	3,405,250
Salaries and employee benefits	2,940,244	2,743,470	2,138,330
Operations	851,981	892,770	713,355
Plan management	360,000	297,266	230,525
Professional services and board	321,847	634,761	437,487
Total operating expenses	<u>18,375,284</u>	<u>18,706,277</u>	<u>14,965,461</u>
Operating income	<u>4,165,963</u>	<u>966,749</u>	<u>2,271,240</u>
Nonoperating Revenues (Expenses)			
Investment income (loss), net	1,102,289	1,209,072	(65,627)
Gain on disposal of capital assets	50	500	100
Sublease income	87,180	-	-
Total nonoperating revenues (expenses), net	<u>1,189,519</u>	<u>1,209,572</u>	<u>(65,527)</u>
Change in net position	5,355,482	2,176,321	2,205,713
Net position, beginning of year	<u>18,996,439</u>	<u>16,820,118</u>	<u>14,614,405</u>
Net position , end of year	<u>\$ 24,351,921</u>	<u>\$ 18,996,439</u>	<u>\$ 16,820,118</u>

Beginning after January 1, 2015, under provisions in the Patient Protection and Affordable Care Act (the "ACA"), a state shall ensure its exchange has sufficient funding to support ongoing operations. According to the Exchange's Financial Sustainability Plan outlined in its Plan of Operations, the Exchange elected to generate revenues by charging assessments on insurance carriers to support its ongoing operations. Revenues generated through carrier assessments shall be in an amount necessary solely for the operating 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).

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The Exchange recognizes assessments on insurance carriers during the year as operating revenues in the statement of revenues, expenses, and changes in net position. Operating revenues were \$22.5 million and \$19.7 million for the years ended December 31, 2020 and 2019, respectively. The \$2.8 million increase in operating revenues is primarily a result of an increase in the Exchange's approved operating budget during 2020 that reflected increased expenses associated with the buildout of the platform used for the individual insurance marketplace.

Total operating expenses were \$18.4 million and \$18.7 million, resulting in operating income of \$4.2 million and \$1.0 million in 2020 and 2019, respectively. The decrease in operating expense in 2020 is attributable to delays in the buildout of the individual insurance marketplace due to the COVID-19 pandemic.

CAPITAL ASSETS

Capital assets are those assets used in the performance of the Exchange's primary functions. At December 31, 2020 and 2019, the Exchange had \$177,246 and \$284,987, respectively, invested in capital assets, net of accumulated depreciation. 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 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Under the ACA, all states are required to operate a health insurance exchange. Those states that are either unwilling or unable to operate a state-based exchange defer to the federal government for all such operations.

In 2013, the New Mexico State legislature passed the New Mexico Health Insurance Exchange Act (the "Act"), which served as the enabling legislation for establishment of a state-based exchange (SBE). As a provision of the Act, the Exchange's Board was established to make governing decisions for the body. In 2013, the Board advised the Centers for Medicare and Medicaid services (CMS) that the State intended to establish a state-based exchange (SBE), and thus, were granted the legal associated designation by the federal government. In 2015, after nearly two years of attempting to build the appropriate technology infrastructure to operate as a state-based exchange, the Board decided to discontinue with the build due to unanticipated and increasing costs. As a result, the Exchange leadership entered into negotiations with the federal government to establish a new legal designation that would recognize the State as a hybrid model: state-based exchange on the federal platform (SBE-FP).

In late 2016, the State was granted the new legal designation SBE-FP. In addition, in 2016 CMS issued a Notice of Benefit and Payment Parameters (NBPP) that included a fee schedule for using the federal technology for states that were not operating their own state-based exchange platforms, which then applied to New Mexico. The NBPP indicated that SBE-FP states would be subject to a fee equal to 1.5% of exchange premiums in 2016 and 2017; 2% in 2018; 3% in 2019,

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Management's Discussion and Analysis
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and 2.5% in 2020. New Mexico, however, was able to obtain an agreement with CMS that they would not be subject to the user fee in 2016. New Mexico was the only state to obtain successfully such a waiver.

Thus, New Mexico's fee to use the federal individual exchange technology platform was \$0 for 2014, 2015, and 2016. In 2017, the federal platform user fee totaled \$2,909,845; in 2018, the total fee increased to \$5,314,400; and by 2019, the fee increased to \$6,769,007. The user fee for 2020 was reduced to 2.5% of exchange premiums and totaled \$5,258,814.

Given these perpetual fee increases combined with the decreasing costs associated with establishing a state technology platform, the Board voted in September 2018 to pursue again a state-based exchange. In addition to the 2019 operating budget of \$19.7 million, the Exchange and Board also approved a 2019 capital budget of \$20,639,800 for the associated design, development and implementation (DD&I) costs of the state-based exchange, understanding that the DD&I costs in 2020 are estimated at \$23 million. During the two-year development period, the Exchange will still be required to pay the SBE-FP user fee, however, once developed, the Exchange expects the cost of the state-based exchange to be lower in cost than the SBE-FP user fee by 2023. In early 2019, the Exchange began procuring a new technology vendor and seeking a new legal designation. The Board voted during the 2nd calendar quarter of 2019 to add another year to the development period for the primary reason of realizing efficiencies expected to be gained from upgrades in the IT technology at the New Mexico Human Services Department (NMHSD) that will facilitate a smoother integration with Medicaid eligibility determination processes. Additionally, the 2019 budget was reduced to reflect a three-year project term as well as a more favorable outcome in the procurement process.

At the end of the second year of this three-year project, the actual DD&I costs have been significantly lower than the initial budget, due to more favorable negotiated contract costs when procured and other vendor contract cost reductions, as well as delaying the hiring of staff needed to support the individual exchange. For the first two years of this development effort (2019 – 2020), actual DD&I costs totaled \$8,266,000. The 2021 DD&I budget has been reduced to \$14,300,000. The total cost of the individual exchange build is now projected at \$22,566,000.

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 NE, Suite 120
Albuquerque, New Mexico 87109
(505) 314-5200

Financial Statements

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

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 11,933,208	\$ 8,775,651
Investments	13,728,302	12,023,703
Premiums due	29,171	33,876
Accrued interest	5,382	19,771
Prepaid expenses and other assets	163,516	100,615
Total current assets	25,859,579	20,953,616
Noncurrent assets		
Capital assets, net of accumulated depreciation	177,246	284,987
Total assets	\$ 26,036,825	\$ 21,238,603
Liabilities and Net Position		
Current liabilities		
Accounts payable	\$ 1,387,462	\$ 1,940,775
Premiums due to carriers	52,340	126,004
Accrued liabilities	89,266	67,351
Compensated absences	155,836	108,034
Total liabilities	1,684,904	2,242,164
Net position		
Investment in capital assets	177,246	284,987
Unrestricted	24,174,675	18,711,452
Total net position	24,351,921	18,996,439
Total liabilities and net position	\$ 26,036,825	\$ 21,238,603

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,

	2020	2019
Operating Revenues		
Carrier assessments	<u>\$ 22,541,247</u>	<u>\$ 19,673,026</u>
Operating Expenses		
Federal platform user fee	5,258,814	6,769,007
Technology and project management	5,188,460	3,778,521
Consumer and stakeholder engagement and support	3,453,938	3,590,482
Salaries and employee benefits	2,940,244	2,743,470
Operations	851,981	892,770
Plan management	360,000	297,266
Professional services and board	<u>321,847</u>	<u>634,761</u>
Total operating expenses	<u>18,375,284</u>	<u>18,706,277</u>
Operating income	<u>4,165,963</u>	<u>966,749</u>
Nonoperating Revenues		
Investment income, net	1,102,289	1,209,072
Gain on disposal of capital assets	50	500
Sublease income	<u>87,180</u>	<u>-</u>
Total nonoperating revenues	<u>1,189,519</u>	<u>1,209,572</u>
Changes in net position	5,355,482	2,176,321
Net position, beginning of year	<u>18,996,439</u>	<u>16,820,118</u>
Net position , end of year	<u><u>\$ 24,351,921</u></u>	<u><u>\$ 18,996,439</u></u>

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,

	2020	2019
Cash flows from operating activities		
Cash received from carrier assessments	\$ 22,541,247	\$ 19,673,026
Cash paid to suppliers for goods and services	(15,975,710)	(14,678,855)
Cash paid to employees for services	(2,870,527)	(2,713,362)
Net cash provided by operating activities	3,695,010	2,280,809
Cash flows from noncapital financing activities		
Sublease income received	87,180	-
Net cash provided by noncapital financing activities	87,180	-
Cash flows from capital and related financing activities		
Purchase of capital assets	(22,373)	(342,746)
Proceeds from disposal of capital assets	50	500
Net cash used in capital and related financing activities	(22,323)	(342,246)
Cash flows from investing activities		
Purchase of investments	(2,498,086)	(2,323,096)
Proceeds from sales of investments	1,371,000	1,205,624
Interest and dividends received	524,776	452,429
Net cash used in investing activities	(602,310)	(665,043)
Net increase in cash and cash equivalents	3,157,557	1,273,520
Cash and cash equivalents, beginning of year	8,775,651	7,502,131
Cash and cash equivalents, end of year	\$ 11,933,208	\$ 8,775,651

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,

	2020	2019
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 4,165,963	\$ 966,749
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	130,114	166,108
Changes in operating assets and liabilities		
Premiums due	4,705	91,505
Accrued interest	14,389	801
Prepaid expenses and other assets	(62,901)	(37,197)
Accounts payable	(553,313)	1,074,416
Premiums due to carriers	(73,664)	(11,681)
Accrued liabilities	21,915	3,742
Compensated absences	47,802	26,366
Net cash provided by operating activities	\$ 3,695,010	\$ 2,280,809
Noncash investing activities		
Change in fair value of investments	\$ 577,513	\$ 756,643

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

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2020 and 2019

1) Summary of Significant Accounting Policies

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 in 2013 and began operations shortly thereafter on April 28, 2013. The Act replaces the New Mexico Health Insurance 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’s Board consists of members that are appointed pursuant to the Act, it meets 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).

The Act was amended by Senate Bill 294 during the 2019 Regular Legislative Session. This amendment provided that the Exchange is also a governmental entity for purposes of the Governmental Conduct Act, Gift Act, Sunshine Portal Transparency Act, Whistleblower Protection Act, and the Procurement Code.

The Act was further amended by House Bill 100 that was passed during the 2020 Regular Legislative Session. The primary amendments outline power and duties of the Exchange, many of which are requirements under existing federal law. Some of these amendments will protect New Mexico and the Exchange depending on what Supreme Court decision is rendered in *Texas vs Azar*. Additionally, House Bill 100 expands the authority of the Exchange’s Board to work with the Superintendent of Insurance and stakeholders to develop standardized plans. Standardized plans do many things, but fundamentally seek to provide more consistency in shopping for a health plan. They can also afford benefits such as, but not limited to, more predictable cost-sharing, more services before deductible, and manage out-of-pocket expense for consumers. Finally, House Bill 100 tasks the Exchange with doing regular market analyses to understand coverage and the uninsured in New Mexico.

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2020 and 2019

The Act was again amended by Senate Bill 317 in the 2021 Regular Legislative Session. The primary goal of this change is to establish a state health insurance affordability fund. The fund will be implemented with coordination between the Exchange and Superintendent of Insurance. The affordability program framework will be determined by the Superintendent's office in coordination with partners, and implemented on the Exchange solution. This will offer additional cost-sharing benefit to New Mexicans, and potentially support any changes to tax credits with the expiration of other assistance.

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 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.

Accounting Principles

The financial statements of the Exchange have been prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities. The Governmental Accounting Standards Board (GASB) is the standard-setting body for accounting and financial reporting for governmental entities.

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 principle Exchange's activities are reported as an enterprise fund.

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2020 and 2019

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 primarily of net investment income, gains on disposals of capital assets, and sublease income.

Use of Estimates

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.

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 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 net of investment management fees.

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2020 and 2019

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 Exchange's 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. Premiums due 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

Premiums Due to Carriers

Premiums 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.

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2020 and 2019

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 difference between assets and liabilities is referred to as net position. Net position is categorized as follows:

- ◆ *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, 2020 or 2019.
- ◆ *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. At December 31, 2020 or 2019, the Exchange does not report any restricted net position.
- ◆ *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.

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2020 and 2019

Concentration Risk

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 13 and 12 insurance carriers during 2020 and 2019, respectively.

Two insurance carriers composed approximately 74% (47% and 27%) of assessment revenues for the year ended December 31, 2020, while two insurance carriers composed approximately 73% (47% and 26%) of assessment revenues for the year ended December 31, 2019. The Exchange does not believe the loss of a single insurance carrier would materially affect its financial 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 other outreach activities. 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’s 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 (HCGs), providing information and notifications to licensed health insurance companies regarding requirement to sell products through the Exchange, and receiving and resolving customer complaints.

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2020 and 2019

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.

New Accounting Pronouncements

The following accounting standards have recently been issued by the GASB, but are not yet effective at December 31, 2020, and have not yet been implemented by the Exchange:

- ◆ GASB Statement No. 87, *Leases*, effective for the Exchange's fiscal year ending December 31, 2022.
- ◆ GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the Exchange's fiscal year ending December 31, 2021.
- ◆ GASB Statement No. 91, *Conduit Debt Obligations*, effective for the Exchange's fiscal year ending December 31, 2021.
- ◆ GASB Statement No. 92, *Omnibus 2020*, effective for the Exchange's fiscal year ending December 31, 2021.
- ◆ GASB Statement No. 93, *Replacement of Interbank Offered Rates*, effective for the Exchange's fiscal year ending December 31, 2022.
- ◆ GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the Exchange's fiscal year ending December 31, 2023.
- ◆ GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the Exchange's fiscal year ending December 31, 2023.

The Exchange is in the process of evaluating recently issued, but not yet effective, GASB pronouncements and will implement the new GASB pronouncements in the fiscal year no later than the required effective date.

In 2020, the Exchange early implemented GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. This Statement amended the criteria for evaluating component units previously included in GASB Statement No. 84, *Fiduciary Activities*. After evaluation, the New Mexico Health Insurance Exchange 401(k) Plan (the "Plan"), a defined contribution plan previously included in the Exchange's 2019 financial statements, was determined to no longer meet the definition of a fiduciary component unit. As a result, the Plan is no reported as a pension trust fund in the Exchange's financial statements for the years ended December 31, 2020 and 2019.

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2020 and 2019

2) Cash and Cash Equivalents

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

	<u>2020</u>	<u>2019</u>
Bank deposits	\$ 10,006,159	\$ 6,231,812
Money market funds	1,729,049	1,385,839
Certificates of deposit (non-negotiable)	<u>198,000</u>	<u>1,158,000</u>
Total cash and cash equivalents	<u>\$ 11,933,208</u>	<u>\$ 8,775,651</u>

Custodial Credit Risk

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. 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.

The Exchange's deposits subject to custodial credit risk at December 31, are as follows:

	<u>2020</u>	<u>2019</u>
Total amount of bank deposits	\$ 12,095,501	\$ 8,816,670
Less FDIC/SIPC insurance coverage	<u>471,169</u>	<u>1,500,129</u>
Total uninsured deposits	11,624,332	7,316,541
Pledged collateral, fair value	<u>10,251,081</u>	<u>4,000,134</u>
Total uninsured and uncollateralized	<u>\$ 1,373,251</u>	<u>\$ 3,316,407</u>

3) Investments

Investment Policy

The Exchange has 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

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2020 and 2019

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 bond mutual funds and investment pools may; however, hold noninvestment 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Approved Range</u>
Large Cap U.S. Equity	5%	0%-7%
International Equity	2.5%	0%-5%
Core Investment Grade U.S. Bond	70%	50%-90%
High Yield Bonds	5%	0%-7%
International Bonds	5%	0%-7%
Cash/Money Market/CD's	12.5%	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 IPS calls for 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.

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. The Exchange's Investment Policy Statement limits investments with regards to credit ratings.

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2020 and 2019

At December 31, 2020, the Exchange's investments subject to credit risk, is as follows:

	Fair Value	Credit Ratings				
		AA	A	BBB	B	Not Rated
Bond mutual funds	\$ 12,547,935	\$ 2,009,066	\$ 4,931,507	\$ 4,500,083	\$ 1,107,279	\$ -
Equity mutual funds	1,180,367	-	-	-	-	1,180,367
Total investments	<u>\$ 13,728,302</u>	<u>\$ 2,009,066</u>	<u>\$ 4,931,507</u>	<u>\$ 4,500,083</u>	<u>\$ 1,107,279</u>	<u>\$ 1,180,367</u>

At December 31, 2019, the Exchange's investments subject to credit risk, is as follows:

	Fair Value	Credit Ratings				
		AA	A	BBB	B	Not Rated
Bond mutual funds	\$ 10,629,461	\$ 2,459,011	\$ 4,609,270	\$ 3,054,739	\$ 506,441	\$ -
Equity mutual funds	1,154,000	-	-	-	-	1,154,000
Certificates of deposit (negotiable)	240,242	-	-	-	-	240,242
Total investments	<u>\$ 12,023,703</u>	<u>\$ 2,459,011</u>	<u>\$ 4,609,270</u>	<u>\$ 3,054,739</u>	<u>\$ 506,441</u>	<u>\$ 1,394,242</u>

Concentration of Credit Risk

The Exchange did not have any investments in any one issuer that represent 5% or more of total investments as of December 31, 2020 and 2019.

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.

At December 31, 2020, the Exchange's investments subject to interest rate risk, is as follows:

	Fair Value	Investment Maturities (in Years)		
		1-5	6-10	No Maturity
Bond mutual funds	\$ 12,547,935	\$ 1,107,279	\$ 11,440,656	\$ -
Equity mutual funds	1,180,367	-	-	1,180,367
Total investments	<u>\$ 13,728,302</u>	<u>\$ 1,107,279</u>	<u>\$ 11,440,656</u>	<u>\$ 1,180,367</u>

New Mexico Health Insurance Exchange
Notes to the Financial Statements
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At December 31, 2019, the Exchange's investments subject to interest rate risk, is as follows:

	Fair Value	Investment Maturities (in Years)				
		Less Than 1	1-5	6-10	11-15	No Maturity
Bond mutual funds	\$ 10,629,461	\$ -	\$ 861,048	\$ 9,452,362	\$ 316,051	\$ -
Equity mutual funds	1,154,000	-	-	-	-	1,154,000
Certificates of deposit (negotiable)	240,242	240,242	-	-	-	-
Total investments	<u>\$ 12,023,703</u>	<u>\$ 240,242</u>	<u>\$ 861,048</u>	<u>\$ 9,452,362</u>	<u>\$ 316,051</u>	<u>\$ 1,154,000</u>

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.

At December 31, 2020, the Exchange's fair value measurements for investments, is as follows:

	Fair Value Measurements	
	Fair Value	Level 1
Bond mutual funds	\$ 12,547,935	\$ 12,547,935
Equity mutual funds	1,180,367	1,180,367
Total investments	<u>\$ 13,728,302</u>	<u>\$ 13,728,302</u>

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At December 31, 2019, the Exchange's fair value measurements for investments, is as follows:

	Fair Value	Fair Value Measurements	
		Level 1	Level 2
Bond mutual funds	\$ 10,629,461	\$ 10,629,461	\$ -
Equity mutual funds	1,154,000	1,154,000	-
Certificates of deposit (negotiable)	240,242	-	240,242
Total investments	<u>\$ 12,023,703</u>	<u>\$ 11,783,461</u>	<u>\$ 240,242</u>

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, 2020 and 2019.

Equity and bond 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.

Certificates of deposit (negotiable)—valued using matrix pricing techniques maintained by various pricing vendors.

Investment Income (Loss)

A summary of the Exchange's net investment income for the years ended December 31, is as follows:

	2020	2019
Interest and dividend income	\$ 566,272	\$ 477,948
Unrealized gains	577,513	756,643
Realized gains	6,773	19,707
Management and advisory fees	(48,269)	(45,226)
Total investment income, net	<u>\$ 1,102,289</u>	<u>\$ 1,209,072</u>

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2020 and 2019

4) Capital Assets

A summary of capital assets activity for the year ended December 31, 2020, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated</i>				
Artwork	\$ 8,048	\$ -	\$ -	\$ 8,048
Total capital assets not being depreciated	<u>8,048</u>	<u>-</u>	<u>-</u>	<u>8,048</u>
<i>Capital assets being depreciated</i>				
Computer equipment	547,369	17,881	-	565,250
Furniture and fixtures	363,081	-	-	363,081
Computer software	96,567	-	-	96,567
Equipment	<u>40,654</u>	<u>4,492</u>	<u>-</u>	<u>45,146</u>
Total capital assets being depreciated	<u>1,047,671</u>	<u>22,373</u>	<u>-</u>	<u>1,070,044</u>
<i>Less accumulated depreciation for</i>				
Computer equipment	(443,633)	(53,131)	-	(496,764)
Furniture and fixtures	(198,820)	(70,921)	-	(269,741)
Computer software	(93,381)	(2,754)	-	(96,135)
Equipment	<u>(34,898)</u>	<u>(3,308)</u>	<u>-</u>	<u>(38,206)</u>
Total accumulated depreciation	<u>(770,732)</u>	<u>(130,114)</u>	<u>-</u>	<u>(900,846)</u>
Total capital assets being depreciated, net	<u>276,939</u>	<u>(107,741)</u>	<u>-</u>	<u>169,198</u>
Total capital assets, net	<u>\$ 284,987</u>	<u>\$ (107,741)</u>	<u>\$ -</u>	<u>\$ 177,246</u>

A summary of capital assets activity for the year ended December 31, 2019, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated</i>				
Artwork	\$ 8,048	\$ -	\$ -	\$ 8,048
Total capital assets not being depreciated	<u>8,048</u>	<u>-</u>	<u>-</u>	<u>8,048</u>
<i>Capital assets being depreciated</i>				
Computer equipment	445,459	125,513	(23,603)	547,369
Furniture and fixtures	153,933	209,148	-	363,081
Computer software	95,531	1,036	-	96,567
Equipment	<u>33,605</u>	<u>7,049</u>	<u>-</u>	<u>40,654</u>
Total capital assets being depreciated	<u>728,528</u>	<u>342,746</u>	<u>(23,603)</u>	<u>1,047,671</u>
<i>Less accumulated depreciation for</i>				
Computer equipment	(382,628)	(84,608)	23,603	(443,633)
Furniture and fixtures	(132,237)	(66,583)	-	(198,820)
Computer software	(80,434)	(12,947)	-	(93,381)
Equipment	<u>(32,928)</u>	<u>(1,970)</u>	<u>-</u>	<u>(34,898)</u>
Total accumulated depreciation	<u>(628,227)</u>	<u>(166,108)</u>	<u>23,603</u>	<u>(770,732)</u>
Total capital assets being depreciated, net	<u>100,301</u>	<u>176,638</u>	<u>-</u>	<u>276,939</u>
Total capital assets, net	<u>\$ 108,349</u>	<u>\$ 176,638</u>	<u>\$ -</u>	<u>\$ 284,987</u>

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2020 and 2019

Depreciation expense for the years ended December 31, 2020 and 2019, totaled \$130,114 and \$166,108, respectively, and is included in operations expenses on the statements of revenues, expenses, and changes in net position.

5) 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 rates in 2020 and 2019 were 2.5% and 3.0%, respectively, of the total policy premium per month for each individual enrollee on the Federal Platform. For the years ended December 31, 2020 and 2019, the Exchange paid SBE-FP User Fees of \$5,258,814 and \$6,769,007, respectively.

6) Retirement Plan

Effective January 1, 2014, The Exchange established the New Mexico Health Insurance Exchange 401(k) Plan (the "Plan"). The Plan is a defined contribution plan covering substantially all employees who have completed one month of service and are age eighteen or older. The Plan allows eligible employees to defer a portion of their annual compensation pursuant to Section 401(k) of the Internal Revenue Code, and permits employer matching and profit sharing contributions. The Board of Directors has the authority to establish or amend benefit terms and employer contribution rates. The Exchange serves as the Plan administrator.

Participation for employee elective deferrals and employer matching contributions commences on the entry date (the first day of the calendar month) after meeting the eligibility requirements. Participation for employer profit sharing contributions commences on the entry dates (January 1 and July 1) coincident with or following the completion of one year of service and are age eighteen or older.

New Mexico Health Insurance Exchange
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Participants are immediately vested in their contributions and the employer’s safe harbor matching contributions, plus actual earnings thereon. Vesting in the employer profit sharing contributions, plus earnings thereon, is based on years of service as defined in the Plan agreement, and vest according to the following schedule:

Years of Service	Percent Vested
Less than two years	0%
Two years, but less than three	20%
Three years, but less than four	40%
Four years, but less than five	60%
Five years, but less than six	80%
Six or more years	100%

Forfeitures of nonvested employer profit sharing contributions may be used for any permissible method, including the payment of administrative expenses or reducing the amount of employer contributions otherwise required for the Plan year. For the years ended December 31, 2020 and 2019, there were no forfeited amounts. The Exchange provides a safe harbor matching contribution equal to 100% of an employee’s contributions up to 6% of total annual compensation. Employee contributions to the Plan totaled \$163,366 and \$139,722 for the years ended December 31, 2020 and 2019, respectively. The Exchange’s matching contributions to the Plan totaled \$122,841 and \$113,247 for the years ended December 31, 2020 and 2019, respectively, and are included in salaries and employee benefits on the statements of revenue, expenses, and changes in net position.

7) Commitments

The Exchange is committed under various lease agreements for office space and office equipment, which expire at varying times through March 31, 2024. These leases are classified as operating leases. The office space lease has an option to renew for an additional 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, 2020 and 2019, totaled \$343,165 and \$291,469, respectively, and is included in operations expense on the statements of revenues, expenses and changes in net position.

In March 2019, the Exchange entered into a lease agreement for a larger office space within the same building, while continuing to lease its existing office space. This lease is classified as an operating lease. The average combined monthly lease expense during 2020 was \$26,833 and is subject to annual inflation adjustments. The office space lease has an option to renew for an additional three years.

New Mexico Health Insurance Exchange
Notes to the Financial Statements
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The future minimum lease payments as of December 31, are as follows:

<u>Year Ending December 31,</u>	
2021	\$ 309,844
2022	242,790
2023	249,636
2024	<u>64,086</u>
Total	<u>\$ 866,356</u>

Additionally, the Exchange has numerous professional and consulting service contracts and agreements for marketing and outreach and technology services in place with outstanding commitments at December 31, 2020 and 2019, of \$25.2 million and \$39.3 million, respectively. Such amounts are expected to be paid with carrier assessments through fiscal year ending December 31, 2021.

Sublease

In January 2020, the Exchange negotiated a sublease of existing office space with an unrelated party. The sublease commenced on February 1, 2020, and expires on August 31, 2021. The monthly lease revenue through the term of the sublease is \$7,925 and is not subject to annual inflation adjustments. For the year ended December 31, 2020, the Exchange recognized sublease income of \$87,180.

8) Contingencies

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.

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9) COVID-19 Pandemic

As of the release of these financial statements, citizens and the economies of the United States and other countries continue to be impacted by the coronavirus (COVID-19) pandemic. The World Health Organization declared a Public Health Emergency on January 30, 2020. The evolution of the virus, the extent of its economic impact, and the results of steps taken and yet to be taken by governments and financial institutions are unknown. The Exchange may face general business disruptions, reduced or delayed cash flows, reductions in small business enrollments, and other financial implications. Furthermore, the financial markets experienced significant levels of volatility during 2020. Investment values are subject to market fluctuations and any declines in value are considered temporary. The significance and the duration of the pandemic's financial impact are indeterminable. These financial statements do not consider the potential future financial implications of the pandemic.

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, 2020, and the related notes to the financial statements, which collectively comprise the Exchange's financial statements, and have issued our report thereon dated May 19, 2021.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Albuquerque, New Mexico
May 19, 2021