
New Mexico Health Insurance Exchange

Albuquerque, New Mexico

*Financial Statements
and
Independent Auditor's Report
December 31, 2021 and 2020*

REDW^{LLC}
CPAs | Advisors

New Mexico Health Insurance Exchange

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Independent Auditor's Report

To the Board of Directors
New Mexico Health Insurance Exchange

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the New Mexico Health Insurance Exchange (the "Exchange"), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Exchange as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Exchange and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Exchange's ability to continue as a going concern twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Exchange's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2022, 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 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 Exchange's internal control over financial reporting and compliance.

REDW LLC

Albuquerque, New Mexico
May 27, 2022

New Mexico Health Insurance Exchange

Management's Discussion and Analysis

December 31, 2021 and 2020

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, 2021, with comparisons to 2020 and 2019, where appropriate. Please read this discussion and analysis in conjunction with the Exchange's basic 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 replaced the New Mexico Health Insurance Alliance Act that was created by the State of New Mexico (the "State"). The purpose of the Exchange is to provide qualified individuals and employers with increased access to health insurance within the State.

FINANCIAL HIGHLIGHTS

- ◆ In 2021, the Exchange successfully completed the buildout of the individual insurance marketplace platform, allowing individuals within the State to seek health insurance coverage directly through the Exchange rather than utilizing the federal government's healthcare.gov website. The Exchange began open enrollment to all eligible individuals on November 1, 2021, for health insurance coverage beginning on January 1, 2022. With the implementation of the individual insurance marketplace platform, the Exchange effectively transitioned to a state-based exchange (SBE) from a stated-based exchange on the federal platform (SBE-FP).
- ◆ As of December 31, 2021, assets exceeded liabilities by \$17.5 million, which represents a decrease of approximately \$6.9 million from 2020. The largest portion of the net position, \$17.4 million or 99.4%, 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 \$99,000 or less than 1%, reflects the Exchange's investment in capital assets and is generally not available for future spending.
- ◆ Total assets were \$29.4 million and \$26.0 million as of December 31, 2021 and 2020, respectively, consisting primarily of cash, cash equivalents, investments, and premiums due.
- ◆ Total liabilities were \$11.9 million and \$1.7 million as of December 31, 2021 and 2020, respectively, consisting primarily of accounts payable and premiums due to carriers.
- ◆ Total operating revenues were \$21.2 million and \$22.5 million for the years ended December 31, 2021 and 2020, 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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- ◆ Total operating expenses were \$28.3 million and \$18.4 million for the years ended December 31, 2021 and 2020, respectively, reflecting the Exchange's daily operating expenses.
- ◆ Nonoperating revenues were approximately \$133 thousand and \$1.2 million for the years ended December 31, 2021 and 2020, respectively, and typically consists 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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December 31, 2021 and 2020

STATEMENT OF NET POSITION

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

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|-------------------------------------|----------------------|----------------------|----------------------|
| Assets | | | |
| Current assets | \$ 29,309,403 | \$ 25,859,579 | \$ 20,953,616 |
| Capital assets, net | <u>99,624</u> | <u>177,246</u> | <u>284,987</u> |
| Total assets | <u>\$ 29,409,027</u> | <u>\$ 26,036,825</u> | <u>\$ 21,238,603</u> |
| Liabilities and Net Position | | | |
| Current liabilities | <u>\$ 11,945,627</u> | <u>\$ 1,684,904</u> | <u>\$ 2,242,164</u> |
| Total liabilities | <u>11,945,627</u> | <u>1,684,904</u> | <u>2,242,164</u> |
| Net position | | | |
| Investment in capital assets | 99,624 | 177,246 | 284,987 |
| Unrestricted | <u>17,363,776</u> | <u>24,174,675</u> | <u>18,711,452</u> |
| Total net position | <u>17,463,400</u> | <u>24,351,921</u> | <u>18,996,439</u> |
| Total liabilities and net position | <u>\$ 29,409,027</u> | <u>\$ 26,036,825</u> | <u>\$ 21,238,603</u> |

The \$3.4 million and \$10.2 million increases in current assets and current liabilities, respectively, in 2021 is primarily due to the Exchange completing the buildout of the individual insurance marketplace platform during 2021, which went live with an open enrollment date of November 1, 2021. This effectively allowed individuals with the State to access health insurance coverage directly through the Exchange. As a result, during November and December of 2021, the Exchange invoiced \$6.2 million in premiums to individuals for health care coverage, of which \$4.7 million was collected prior to year-end.

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>2021</u> | <u>2020</u> | <u>2019</u> |
|---|-----------------------------|----------------------|----------------------|
| Operating Revenues | | | |
| Carrier assessments | <u>\$ 21,228,770</u> | <u>\$ 22,541,247</u> | <u>\$ 19,673,026</u> |
| Operating Expenses | | | |
| Technology and project management | 15,001,478 | 5,188,460 | 3,778,521 |
| Federal platform user fee | 5,559,994 | 5,258,814 | 6,769,007 |
| Salaries and employee benefits | 3,240,685 | 2,940,244 | 2,743,470 |
| Consumer and stakeholder engagement and support | 2,924,231 | 3,453,938 | 3,590,482 |
| Operations | 1,017,283 | 851,981 | 892,770 |
| Plan management | 358,151 | 360,000 | 297,266 |
| Professional services and board | 148,958 | 321,847 | 634,761 |
| Total operating expenses | <u>28,250,780</u> | <u>18,375,284</u> | <u>18,706,277</u> |
| Operating (loss) income | <u>(7,022,010)</u> | <u>4,165,963</u> | <u>966,749</u> |
| Nonoperating Revenues | | | |
| Investment income, net | 57,811 | 1,102,289 | 1,209,072 |
| Gain on disposal of capital assets | 12,275 | 50 | 500 |
| Sublease income | 63,403 | 87,180 | - |
| Total nonoperating revenues | <u>133,489</u> | <u>1,189,519</u> | <u>1,209,572</u> |
| Changes in net position | (6,888,521) | 5,355,482 | 2,176,321 |
| Net position, beginning of year | <u>24,351,921</u> | <u>18,996,439</u> | <u>16,820,118</u> |
| Net position, end of year | <u>\$ 17,463,400</u> | <u>\$ 24,351,921</u> | <u>\$ 18,996,439</u> |

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, 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 statements of revenues, expenses, and changes in net position. Operating revenues were \$21.2 million and \$22.5 million for the years ended December 31, 2021 and 2020, respectively. The \$1.3 million decrease in operating revenues is primarily a result of the Exchange electing to subsidize its 2021 operating budget by using \$6.0 million of its own cash reserves to fund the buildout of the individual insurance marketplace platform rather than assessing carriers to cover the full amount of the buildout and other budgeted expenses.

The Exchange's total operating expenses were \$28.3 million and \$18.4 million for the years ended December 31, 2021 and 2020, respectively. The \$9.9 million increase in operating expenses is primarily a result of the completion of the buildout of the individual insurance marketplace platform. For the year ended December 31, 2021, the Exchange reported an operating loss of \$7.0 million, which is primarily a result of the additional expenses incurred for the buildout of the individual insurance marketplace platform that were funded through the Exchange's own cash rather than through carrier assessments. For the year ended December 31, 2020, the Exchange reported operating income of \$4.2 million, primarily from carrier assessments exceeding operating expenses, as the Exchange experienced delays in the buildout of the individual insurance marketplace platform from the COVID-19 pandemic.

CAPITAL ASSETS

Capital assets are those assets used in the performance of the Exchange's primary functions. At December 31, 2021 and 2020, the Exchange had \$99,624 and \$177,246, 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 of Directors (the "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).

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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, and 2.5% in 2020 and 2021. 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.

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 and 2021 was reduced to 2.5% of state exchange premiums and totaled \$5,258,814 and \$5,559,994 respectively. Given these fee increases through 2019, 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 development period, the Exchange was still required to pay the SBE-FP user fee, however, once developed, the Exchange expected 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. For the first two years of this development effort (2019 – 2020), actual DD&I costs totaled \$8,266,000. The 2021 DD&I expenses were significantly higher at \$14,286,300, for a total three-year project cost of \$22,552,300. The year-over-year increase in 2021 was due to the delays that occurred during the 2020 pandemic. Because payments could not be made until successful completion of payment milestones, payments originally budgeted to be made in late 2020, got pushed back to 2021. Thus, 2020 expenses were lower than anticipated, and 2021 expenses were higher than anticipated.

For 2022, the Exchange has achieved the status of a State Based Exchange, is no longer on the Federal platform and is no longer billed by CMS for the federal platform user fee. Maintenance and operations (M&O) expenses were budgeted at \$5.4 million for 2022, which includes a change request of \$687,926 to support call volume increases that resulted from the Public Health Emergency during the COVID pandemic. In the May 2022 Board meeting, another change

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Management's Discussion and Analysis
December 31, 2021 and 2020

request was approved in the amount of \$5,508,049 for implementation of new functionality required for the Health Care Affordability Fund (HCAF) and for resourcing the Customer Engagement Center through January 2023. When CMS ends the Public Health Emergency, it is anticipated that the Exchange will have additional implementation costs to move consumers from Medicaid to the Exchange. CMS extended the PHE in mid-2022, however, at the time of this writing, it is unknown how long the PHE will continue to be extended. A budget of \$23,108,000 has been approved by the Board of Directors for 2022. This is a reduction from the 2021 operating expenses.

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,

| | 2021 | 2020 |
|---|----------------------|---------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 14,072,742 | \$ 11,933,208 |
| Investments | 13,654,458 | 13,728,302 |
| Premiums due | 1,465,070 | 29,171 |
| Accrued interest | 16,890 | 5,382 |
| Prepaid expenses and other assets | 100,243 | 163,516 |
| Total current assets | 29,309,403 | 25,859,579 |
| Noncurrent assets | | |
| Capital assets, net of accumulated depreciation | 99,624 | 177,246 |
| Total assets | \$ 29,409,027 | \$ 26,036,825 |
| Liabilities and Net Position | | |
| Current liabilities | | |
| Accounts payable | \$ 5,410,975 | \$ 1,387,462 |
| Premiums due to carriers | 6,239,954 | 52,340 |
| Accrued liabilities | 115,582 | 89,266 |
| Compensated absences | 179,116 | 155,836 |
| Total liabilities | 11,945,627 | 1,684,904 |
| Net position | | |
| Investment in capital assets | 99,624 | 177,246 |
| Unrestricted | 17,363,776 | 24,174,675 |
| Total net position | 17,463,400 | 24,351,921 |
| Total liabilities and net position | \$ 29,409,027 | \$ 26,036,825 |

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,

| | 2021 | 2020 |
|---|----------------------|----------------------|
| Operating Revenues | | |
| Carrier assessments | <u>\$ 21,228,770</u> | <u>\$ 22,541,247</u> |
| Operating Expenses | | |
| Technology and project management | 15,001,478 | 5,188,460 |
| Federal platform user fee | 5,559,994 | 5,258,814 |
| Salaries and employee benefits | 3,240,685 | 2,940,244 |
| Consumer and stakeholder engagement and support | 2,924,231 | 3,453,938 |
| Operations | 1,017,283 | 851,981 |
| Plan management | 358,151 | 360,000 |
| Professional services and board | <u>148,958</u> | <u>321,847</u> |
| Total operating expenses | <u>28,250,780</u> | <u>18,375,284</u> |
| Operating (loss) income | <u>(7,022,010)</u> | <u>4,165,963</u> |
| Nonoperating Revenues | | |
| Investment income, net | 57,811 | 1,102,289 |
| Gain on disposal of capital assets | 12,275 | 50 |
| Sublease income | <u>63,403</u> | <u>87,180</u> |
| Total nonoperating revenues | <u>133,489</u> | <u>1,189,519</u> |
| Change in net position | (6,888,521) | 5,355,482 |
| Net position, beginning of year | <u>24,351,921</u> | <u>18,996,439</u> |
| Net position, end of year | <u>\$ 17,463,400</u> | <u>\$ 24,351,921</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,

| | 2021 | 2020 |
|---|-----------------------------|----------------------|
| Cash flows from operating activities | | |
| Cash received from carrier assessments | \$ 21,228,770 | \$ 22,541,247 |
| Cash paid to suppliers for goods and services | (16,042,881) | (15,990,099) |
| Cash paid to employees for services | <u>(3,191,089)</u> | <u>(2,870,527)</u> |
| Net cash provided by operating activities | <u>1,994,800</u> | <u>3,680,621</u> |
| Cash flows from noncapital financing activities | | |
| Sublease income received | <u>63,403</u> | <u>87,180</u> |
| Net cash provided by noncapital financing activities | <u>63,403</u> | <u>87,180</u> |
| Cash flows from capital and related financing activities | | |
| Purchase of capital assets | (51,091) | (22,373) |
| Proceeds from disposal of capital assets | <u>12,275</u> | <u>50</u> |
| Net cash used in capital and related financing activities | <u>(38,816)</u> | <u>(22,323)</u> |
| Cash flows from investing activities | | |
| Purchase of investments | (1,452,048) | (2,498,086) |
| Proceeds from sales of investments | 1,351,338 | 1,371,000 |
| Interest and dividends received | <u>220,857</u> | <u>539,165</u> |
| Net cash provided by (used in) investing activities | <u>120,147</u> | <u>(587,921)</u> |
| Net increase in cash and cash equivalents | 2,139,534 | 3,157,557 |
| Cash and cash equivalents, beginning of year | <u>11,933,208</u> | <u>8,775,651</u> |
| Cash and cash equivalents, end of year | <u>\$ 14,072,742</u> | <u>\$ 11,933,208</u> |

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,

| | 2021 | 2020 |
|---|---------------------|---------------------|
| Reconciliation of operating (loss) income to net cash provided by operating activities | | |
| Operating (loss) income | \$ (7,022,010) | \$ 4,165,963 |
| Adjustments to reconcile operating (loss) income to net cash provided by operating activities | | |
| Depreciation | 128,713 | 130,114 |
| Changes in operating assets and liabilities | | |
| Premiums due | (1,435,899) | 4,705 |
| Prepaid expenses and other assets | 63,273 | (62,901) |
| Accounts payable | 4,023,513 | (553,313) |
| Premiums due to carriers | 6,187,614 | (73,664) |
| Accrued liabilities | 26,316 | 21,915 |
| Compensated absences | 23,280 | 47,802 |
| Net cash provided by operating activities | \$ 1,994,800 | \$ 3,680,621 |
| Noncash investing activities | | |
| Change in fair value of investments | \$ 174,554 | \$ 577,513 |

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

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2021 and 2020

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.

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 Exchange 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.

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 is being implemented with coordination between the Exchange and the Superintendent of Insurance of New Mexico. The affordability program framework is determined by the Superintendent’s office in coordination with partners, and

New Mexico Health Insurance Exchange

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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. The financial assistance is anticipated to work in complement to the Congressionally approved American Rescue Plan Act funding if they are continued past 2022. Some of this cost-sharing assistance will be available to individuals terminated from Medicaid with the end of the Public Health Emergency. This is currently anticipated to begin August 2022.

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, and those that purchase their own insurance but would like access to 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.

Within the State of New Mexico, the Exchange operates as beWellnm and provides access to health insurance plans offered by insurance carriers through the Exchange to both small businesses and individuals. 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. In addition to small businesses, beginning in November 2021, the Exchange began enrolling individuals for health insurance coverage starting in January 2022 pursuant to the Exchange becoming a state-based exchange (SBE). The Exchange functions as a conduit for insurance premiums as opposed to being either an insurer or reinsurer. All premiums billed and collected are recorded in the Exchange's statements of net position with no activity impacting the statements 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.

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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.

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.

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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 premiums owed from insured individuals and small business arising from the normal course of operations. Premiums due represent gross premium amounts receivable for insurance coverage provided health insurance carriers 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 |

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Premiums Due to Carriers

Premiums due to carriers consists of payments made by insured individuals and small businesses during the normal course of operations that are owed to each participating insurance carrier providing coverage. As a result of timing differences arising in the premium billing cycle, such amounts have been paid to the Exchange by insured individuals and small businesses, 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 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. At December 31, 2021 or 2020, the Exchange did not have any capital asset related debt.
- ◆ *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, 2021 or 2020, 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

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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.

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 insurance carriers during 2021 and 2020, respectively.

Two insurance carriers composed approximately 76% (48% and 29%) of assessment revenues for the year ended December 31, 2021, while two insurance carriers composed approximately 74% (47% and 27%) of assessment revenues for the year ended December 31, 2020. 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

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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.

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, 2021, 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. 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. 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.
- ◆ GASB Statement No. 99, *Omnibus 2022*, effective for the Exchange’s fiscal years ending December 31, 2022 and 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 not reported as a pension trust fund in the Exchange’s financial statements for the years ended December 31, 2021 and 2020.

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2) Cash and Cash Equivalents

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

| | 2021 | 2020 |
|--|---------------|---------------|
| Bank deposits | \$ 12,027,102 | \$ 10,006,159 |
| Money market funds | 2,045,640 | 1,729,049 |
| Certificates of deposit (non-negotiable) | - | 198,000 |
| Total cash and cash equivalents | \$ 14,072,742 | \$ 11,933,208 |

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 formal deposit policy to limit its exposure to custodial credit risk. Deposits held with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor per institution for interest and noninterest-bearing accounts. 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 its deposits.

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

| | 2021 | 2020 |
|--------------------------------------|---------------|---------------|
| Total amount of bank deposits | \$ 13,941,832 | \$ 12,095,501 |
| Less FDIC insurance coverage | (500,000) | (471,169) |
| Total uninsured deposits | 13,441,832 | 11,624,332 |
| Less pledged collateral, fair value | (11,646,192) | (10,251,081) |
| Total uninsured and uncollateralized | \$ 1,795,640 | \$ 1,373,251 |

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 and securities, mutual funds, exchange traded funds, individual fixed income securities,

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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.

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At December 31, 2021, the Exchange's investments subject to credit risk, is as follows:

| | Fair Value | Credit Ratings | | | | Not Rated |
|---------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | | AA | AA- | A | B | |
| Bond mutual funds | \$ 12,218,917 | \$ 1,938,894 | \$ 7,836,449 | \$ 1,340,732 | \$ 1,102,842 | \$ - |
| Equity mutual funds | <u>1,435,541</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,435,541</u> |
| Total investments | <u>\$ 13,654,458</u> | <u>\$ 1,938,894</u> | <u>\$ 7,836,449</u> | <u>\$ 1,340,732</u> | <u>\$ 1,102,842</u> | <u>\$ 1,435,541</u> |

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

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

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, 2021 and 2020.

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, 2021, 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 | \$ 12,218,917 | \$ 1,102,841 | \$ 11,116,076 | \$ - |
| Equity mutual funds | <u>1,435,541</u> | <u>-</u> | <u>-</u> | <u>1,435,541</u> |
| Total investments | <u>\$ 13,654,458</u> | <u>\$ 1,102,841</u> | <u>\$ 11,116,076</u> | <u>\$ 1,435,541</u> |

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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> |

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, 2021 and 2020, all of the Exchange’s investments were categorized as Level 1.

The Exchange valued its equity and bond mutual funds using the daily closing price as reported by each mutual fund. Mutual funds are required to publish their daily net asset value (NAV) and to transact at that price. There have been no changes in the Exchange’s methodologies used to value its investments at December 31, 2021 and 2020.

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Investment Income (Loss)

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

| | <u>2021</u> | <u>2020</u> |
|------------------------------|------------------|---------------------|
| Interest and dividend income | \$ 345,321 | \$ 566,272 |
| Unrealized (losses) gains | (174,554) | 577,513 |
| Realized (losses) gains | (63,022) | 6,773 |
| Management and advisory fees | (49,934) | (48,269) |
| Total investment income, net | <u>\$ 57,811</u> | <u>\$ 1,102,289</u> |

4) Capital Assets

A summary of capital assets activity for the year ended December 31, 2021, is as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|--------------------|------------------|---------------------------|
| <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 | 565,250 | 28,604 | - | 593,854 |
| Furniture and fixtures | 363,081 | - | - | 363,081 |
| Computer software | 96,567 | 3,769 | - | 100,336 |
| Equipment | 45,146 | 18,718 | - | 63,864 |
| Total capital assets being depreciated | <u>1,070,044</u> | <u>51,091</u> | <u>-</u> | <u>1,121,135</u> |
| <i>Less accumulated depreciation for</i> | | | | |
| Computer equipment | (496,764) | (53,044) | - | (549,808) |
| Furniture and fixtures | (269,741) | (69,817) | - | (339,558) |
| Computer software | (96,135) | (729) | - | (96,864) |
| Equipment | (38,206) | (5,123) | - | (43,329) |
| Total accumulated depreciation | <u>(900,846)</u> | <u>(128,713)</u> | <u>-</u> | <u>(1,029,559)</u> |
| Total capital assets being depreciated, net | <u>169,198</u> | <u>(77,622)</u> | <u>-</u> | <u>91,576</u> |
| Total capital assets, net | <u>\$ 177,246</u> | <u>\$ (77,622)</u> | <u>\$ -</u> | <u>\$ 99,624</u> |

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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 | 40,654 | 4,492 | - | 45,146 |
| 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 | (34,898) | (3,308) | - | (38,206) |
| 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> |

Depreciation expense for the years ended December 31, 2021 and 2020, totaled \$128,713 and \$130,114, respectively, and is included in operations expense 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").

CMS charges all issuers offering qualified health plans through SBE-FP's a 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 (Federal Platform User Fee). The

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SBE-FP user fee rates in 2021 and 2020 was 2.5% of the total policy premium per month for each individual enrolled through the Federal Platform. For the years ended December 31, 2021 and 2020, the Exchange paid Federal Platform User Fees of \$5,559,994 and \$5,258,814, 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 Exchange 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.

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, 2021 and 2020, 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

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totaled \$178,141 and \$163,366 for the years ended December 31, 2021 and 2020, respectively. The Exchange's matching contributions to the Plan totaled \$128,441 and \$122,841 for the years ended December 31, 2021 and 2020, respectively, and are included in salaries and employee benefits on the statements of revenue, expenses, and changes in net position.

7) Commitments

Operating Lease

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, 2021 and 2020, totaled \$316,183 and \$343,165, 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 2021 was \$26,833 and is subject to annual inflation adjustments. The office space lease has an option to renew for an additional three years.

The future minimum lease payments as of December 31, are as follows:

| <u>Year Ending December 31,</u> | |
|---------------------------------|-------------------|
| 2022 | \$ 242,790 |
| 2023 | 249,636 |
| 2024 | <u>64,086</u> |
| Total | <u>\$ 556,512</u> |

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 expired on August 31, 2021. The monthly lease revenue through the term of the sublease was \$7,925 and was not subject to annual inflation adjustments. For the years ended December 31, 2021 and 2020, the Exchange recognized sublease income of \$63,403 and \$87,180, respectively.

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Contract Commitments

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, 2021 and 2020, the Exchange had outstanding commitments of \$20.1 million and \$25.2 million, respectively. Such amounts are expected to be paid with carrier assessments through fiscal year ending December 31, 2024.

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.

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 2021. 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*

To the Board of Directors
New Mexico Health Insurance Exchange

We have audited, 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, the financial statements of the New Mexico Health Insurance Exchange (the “Exchange”), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Exchange’s basic financial statements, and have issued our report thereon dated May 27, 2022.

Report on 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 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Exchange's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

REDW LLC

Albuquerque, New Mexico
May 27, 2022