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## **New Mexico Health Insurance Exchange Albuquerque, New Mexico**

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*Financial Statements,  
Independent Auditor's Report, and  
Single Audit Reporting Package  
December 31, 2015 and 2014*

**REDW**<sup>LLC</sup>  
CPAs | Business & Financial Advisors

# New Mexico Health Insurance Exchange

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## Independent Auditor's Report

Board of Directors  
New Mexico Health Insurance Exchange

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the New Mexico Health Insurance Exchange (the "Exchange"), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Exchange as of December 31, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Other Information*

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

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2016, on our consideration of the Exchange's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exchange's internal control over financial reporting and compliance.

REDW LLC

Albuquerque, New Mexico  
March 16, 2016

Required Supplementary Information  
Management's Discussion and Analysis

# **New Mexico Health Insurance Exchange**

## **Management's Discussion and Analysis**

### **December 31, 2015 and 2014**

#### **Introduction**

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

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

#### **Overview of the Financial Statements**

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

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

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

#### **Financial Highlights**

- The Exchange was awarded an additional establishment grant on January 22, 2014, in the amount of \$69.4 million for the continued development of the individual insurance marketplace exchange. Of this amount, \$15.6 million was de-obligated by CMS through budget revisions resulting in \$53.8 million in funding under this grant. During 2015, \$22.8 million of this grant was spent for operations and the continued development of the

**New Mexico Health Insurance Exchange**  
**Management's Discussion and Analysis**  
**December 31, 2015 and 2014**

individual exchange. Another \$3.6 million was expended by the Exchange from revenue generated through carrier assessments, resulting in a total of \$26.4 million of operating expenses in 2015.

- The Exchange's total assets were \$5.9 million and \$15.8 million as of December 31, 2015 and 2014, respectively, mainly consisting of cash, receivables from the U.S. Department of Health and Human Services and other sources, and capital assets.
- The Exchange's total liabilities were \$2.6 million and \$15.8 million as of December 31, 2015 and 2014, respectively, mainly consisting of accounts payable and accrued liabilities, as well as contract holdbacks in 2014.
- The Exchange's total operating revenues were \$5.7 million in 2015, with revenues representing assessments on insurance carriers. The Exchange did not recognize any operating revenues in 2014.
- The Exchange's total nonoperating revenues were \$22.8 million and \$47.0 million in 2015 and 2014, respectively, with grants from the federal government being the primary revenue source.
- The Exchange's total expenses were \$26.4 million and \$47.0 million in 2015 and 2014, respectively, which were related to establishing and operating the Exchange.

**Statement of Net Position**

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

	<u>2015</u>	<u>2014</u>
Current assets	\$ 5,731,272	\$ 15,711,468
Capital assets, net	<u>167,907</u>	<u>107,462</u>
Total assets	<u>\$ 5,899,179</u>	<u>\$ 15,818,930</u>
Current liabilities	<u>\$ 2,636,524</u>	<u>\$ 15,818,930</u>
Net position		
Net investment in capital assets	167,907	107,462
Unrestricted	<u>3,094,748</u>	<u>(107,462)</u>
Total net position	<u>3,262,655</u>	<u>-</u>
Total liabilities and net position	<u>\$ 5,899,179</u>	<u>\$ 15,818,930</u>



**New Mexico Health Insurance Exchange**  
**Management's Discussion and Analysis**  
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The \$9.9 million decrease in current assets during 2015 is primarily due to the decrease in grant receivables from the U.S. Department of Health and Human Services as a result of decreased operating expenses. The \$3.3 million increase in net position during 2015 is primarily due to the assessments imposed on carriers pursuant to the Exchange's Financial Sustainability Plan, as well as the \$1.1 million in transfers from the wind down of the New Mexico Health Insurance Alliance (the "Alliance").

**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, 2015 and 2014:

	<b>2015</b>	2014
Total operating revenues	<u>\$ 5,727,690</u>	<u>\$ -</u>
Total operating expenses	<u>26,431,209</u>	47,014,645
Operating loss	(20,703,519)	(47,014,645)
Total nonoperating revenues	<u>22,836,161</u>	47,014,645
Income before transfers	2,132,642	-
Transfers	<u>1,130,013</u>	-
Change in net position	3,262,655	-
Net position, beginning of year	<u>-</u>	-
Net position, end of year	<u>\$ 3,262,655</u>	<u>\$ -</u>

In 2015, the Exchange conducted their first carrier assessments which were recognized as operating revenues. Operating revenues were \$5.7 million in 2015, while the Exchange did not record any operating revenues in 2014. Total operating expenses were approximately \$26.4 million and 47.0 million, resulting in an operating loss \$20.7 million and \$47.0 million in 2015 and 2014, respectively. Revenues generated from carrier assessments were partially expended by the Exchange, resulting in an ending net position of \$3.3 million. In 2014, all of the Exchange's revenues were from federal grants. Because grant revenues are recognized based on qualifying expenses, nonoperating revenues also totaled \$47.0 million, resulting in no net position at the beginning and end of 2014.

The \$24.2 million decrease in nonoperating revenues and \$20.6 million decrease in operating expenses during 2015 are primarily due to the Exchange no longer pursuing the construction of the individual insurance marketplace in the State.

# **New Mexico Health Insurance Exchange**

## **Management's Discussion and Analysis**

### **December 31, 2015 and 2014**

#### **Capital Assets**

At December 31, 2015 and 2014, the Exchange had \$167,907 and \$107,462, respectively, net of accumulated depreciation, invested in capital assets, including furniture and fixtures, office equipment, computer software, and computer equipment. Additional information on the Exchange's capital assets can be found in Note 4 to the financial statements.

#### **Economic Factors and Next Year's Budget**

The availability of funding from the federal government can fluctuate as a result of economic factors affecting the federal government. For the 2015 operating budget, the Exchange adhered to a balanced budget that required all 2015 revenues to equal the budgeted operating and capital expenses. The budget was formulated based on the total available funding under the Exchange's 3<sup>rd</sup> Level 1 Establishment Grant, in addition to carrier assessments approved under the Exchange's Financial Sustainability Plan, which was approved by the Board of Directors (the "Board") in December 2014. This Plan allows for market assessments for all major medical and Medicaid carriers in New Mexico, including those carriers selling insurance both on and off the Exchange.

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

Beginning January 2015, maintenance and operation expenditures were paid from carrier assessments, as documented in the Exchange's Financial Sustainability Plan. The Exchange issued its initial carrier assessment in June 2015, and a portion of its reserve assessment in October 2015. The 2016 operating budget was approved by the Board on September 18, 2015. The 2016 assessment, sufficient to cover the 2016 operating budget, was issued on January 2, 2016, in the amount of \$11,790,605.

**New Mexico Health Insurance Exchange**  
**Management's Discussion and Analysis**  
**December 31, 2015 and 2014**

**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  
6301 Indian School Road NE, Suite 100  
Albuquerque, New Mexico 87110  
(505) 314-5211

## Financial Statements

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

	2015	2014
<b>Assets</b>		
Current assets		
Cash	<u>\$ 4,415,030</u>	<u>\$ 1,066,178</u>
Receivables		
Due from U.S. Department of Health and Human Services	535,693	14,583,751
Premiums due	48,794	39,968
Carrier assessments due	5,124	-
Other receivables	<u>618,153</u>	<u>-</u>
Total receivables	1,207,764	14,623,719
Prepaid expenses and other assets	<u>108,478</u>	<u>21,571</u>
Total current assets	5,731,272	15,711,468
Noncurrent assets		
Capital assets, net of accumulated depreciation	<u>167,907</u>	<u>107,462</u>
Total assets	<u>\$ 5,899,179</u>	<u>\$ 15,818,930</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 2,316,507	\$ 13,660,138
Due to carriers	225,874	156,467
Contract holdback	-	1,932,777
Accrued payroll and related liabilities	25,895	20,020
Compensated absences	<u>68,248</u>	<u>49,528</u>
Total current liabilities	<u>2,636,524</u>	<u>15,818,930</u>
<b>Net Position</b>		
Net investment in capital assets	167,907	107,462
Unrestricted	<u>3,094,748</u>	<u>(107,462)</u>
Total net position	<u>3,262,655</u>	<u>-</u>
Total liabilities and net position	<u>\$ 5,899,179</u>	<u>\$ 15,818,930</u>

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**

	2015	2014
<b>Operating Revenues</b>		
Carrier assessments	<u>\$ 5,727,690</u>	<u>\$ -</u>
<b>Operating Expenses</b>		
Consumer and stakeholder engagement and support	14,503,756	15,542,544
Technology and project management	9,207,765	28,628,498
Salaries and employee benefits	1,678,624	1,666,426
Operations	519,571	465,034
Professional services and board	357,940	422,143
Plan management	138,553	275,000
Other	<u>25,000</u>	<u>15,000</u>
Total operating expenses	<u>26,431,209</u>	<u>47,014,645</u>
Operating loss	<u>(20,703,519)</u>	<u>(47,014,645)</u>
<b>Nonoperating Revenues</b>		
Grant revenue	22,835,111	47,014,645
Interest income	<u>1,050</u>	<u>-</u>
Total nonoperating revenues	<u>22,836,161</u>	<u>47,014,645</u>
Income before transfers	2,132,642	-
Transfers from New Mexico Health Insurance Alliance	<u>1,130,013</u>	<u>-</u>
Change in net position	3,262,655	-
Net position, beginning of year	<u>-</u>	<u>-</u>
<b>Net position, end of year</b>	<u><u>\$ 3,262,655</u></u>	<u><u>\$ -</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**

	2015	2014
<b>Cash flows from operating activities</b>		
Cash received from insurance carriers	\$ 5,722,566	\$ -
Cash payments to employees for service	(1,654,029)	(1,666,009)
Cash payments to other suppliers of goods and services	<u>(37,982,284)</u>	<u>(33,017,541)</u>
Net cash used in operating activities	<u>(33,913,747)</u>	<u>(34,683,550)</u>
<b>Cash flows from noncapital financing activities</b>		
Grants received	36,883,169	34,899,999
Transfer from New Mexico Health Insurance Alliance	511,860	-
Interest income received	<u>1,050</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>37,396,079</u>	<u>34,899,999</u>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	<u>(133,480)</u>	<u>(25,140)</u>
Net cash used in capital and related financing activities	<u>(133,480)</u>	<u>(25,140)</u>
Net increase in cash	3,348,852	191,309
Cash, beginning of year	<u>1,066,178</u>	<u>874,869</u>
<b>Cash, end of year</b>	<u><u>\$ 4,415,030</u></u>	<u><u>\$ 1,066,178</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (20,703,519)	\$ (47,014,645)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	73,035	51,670
Changes in operating assets and liabilities		
Premiums due	(8,826)	(39,968)
Due from New Mexico Health Insurance Alliance	-	26,849
Carrier assessments due	(5,124)	-
Other receivables	-	1,832
Prepaid expenses and other assets	(86,907)	(4,072)
Account payable	(11,343,631)	10,271,515
Due to carriers	69,407	155,393
Due to New Mexico Health Insurance Alliance	-	(65,318)
Contract holdback	(1,932,777)	1,932,777
Accrued payroll and related liabilities	5,875	13,384
Compensated absences	<u>18,720</u>	<u>(12,967)</u>
Net cash used in operating activities	<u><u>\$ (33,913,747)</u></u>	<u><u>\$ (34,683,550)</u></u>

**Noncash Noncapital Financing Activities**

During 2015, the Alliance transferred \$618,153 in receivables to the Exchange related to the Alliance's 2015 final assessments related to 2014 claims activity.

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

**New Mexico Health Insurance Exchange**  
**Notes to the Financial Statements**  
**December 31, 2015 and 2014**

**1) Organization and Operations**

Organization

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

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

Patient Protection and Affordable Care Act (ACA) and Grant Proceeds

On March 23, 2010, the federal government passed the Patient Protection and Affordable Care Act (ACA). The ACA provides for guaranteed coverage to children up to age 19 and allowance for children up to age 26 to remain on their parent’s insurance. In addition, insurance carriers will be prohibited from making rescissions on any insured member. Beginning January 1, 2014, guaranteed issue was expanded to the 25-64 population.

In July 2010, the State of New Mexico, through its Office of Health Care Reform, filed for and received an initial \$1,000,000 Exchange Planning Grant. In September 2011, a second planning grant application for \$34,300,000 was filed and approved. In that grant application, the Alliance was named as the organization to house the insurance exchange for the State of New Mexico. On December 3, 2012, a Memorandum of Understanding was signed between the New Mexico Human Services Department and the Alliance whereby the Alliance was authorized to proceed with the establishment of an insurance exchange under provisions of the ACA. On December 31, 2012, \$1,600,000 in grant funds were transferred to the Alliance and was presented as pass-through grant proceeds in the Alliance’s 2012 statement of financial position.

During the 2013 State of New Mexico legislative session, the Exchange legislation passed (Laws of 2013, Chapter 54). Under the new law, the Alliance Board ceased to exist and the Exchange Board supersedes the Alliance Board as the governing body. Once the Exchange was formed, the grant funds held by the Alliance were transferred to



# **New Mexico Health Insurance Exchange**

## **Notes to the Financial Statements**

### **December 31, 2015 and 2014**

the Exchange's bank account for operating use. Effective January 1, 2015, the Alliance statutes (Laws 1994, Chapter 75, Sections 1 through 25) were repealed. A Memorandum of Understanding was executed in June 2014 between the Alliance and the Exchange to further define transition costs and final wind down responsibilities, which occurred in 2015.

#### Operations

The Exchange was established to provide access to quality health care for those without insurance, individuals that cannot afford health insurance offered at their place of employment, small businesses with 50 employees or fewer, and those that purchase their own insurance but would like more options.

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

BeWellnm for Small Business ("beWellnm") was established as a program that allows small businesses, including nonprofits with up to 50 employees, to access health insurance through the Exchange. BeWellnm functions as a conduit for insurance premiums as opposed to being either an insurer or reinsurer. All beWellnm premiums billed and collected are recorded in the Exchange 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.

In November 2013, open enrollment began for 2014 for beWellnm. During the first open enrollment period, the Exchange used the Federal healthcare.gov technology for individual consumers, while design and development of the New Mexico based individual exchange was initiated, and implementation was scheduled for the start of the second open enrollment period in October 2014.

In July 2014, the Exchange Board voted to continue using the Federal healthcare.gov technology solution for another year for the individual exchange in order to provide adequate time for testing the system. In October 2014 as the Exchange was finalizing its 2015 budget, which would also support a final grant request for system enhancements, the U.S. Centers for Medicare and Medicaid Services (CMS) notified the Exchange that they were not approving the eligibility verification model demonstrated to CMS during the Exchange's June 2014 Detail Design Review. CMS asked the Exchange to come into compliance with their single door eligibility verification model. Working with the technology vendor and Human Services Department (HSD), the Exchange developed cost estimates for complying with CMS's single door design. This estimate was added to the 2015 budget and the final budget was approved by the Exchange Board. The Board

# **New Mexico Health Insurance Exchange**

## **Notes to the Financial Statements**

### **December 31, 2015 and 2014**

also authorized the Exchange to request a final (Level 2) grant to fund the new development, which included the cost of system enhancements as well as the cost of coming into compliance with CMS's single door design mandate. The Level 2 grant, supported by the Board approved budget, was requested by the Exchange on November 14, 2014, and the Exchange learned from CMS on December 18, 2014, that the requested funding for the single door design was not approved. The Exchange also requested the first No Cost Extension (NCE) of its 3rd Level 1 grant in November 2014, and CMS approved the NCE on December 18, 2014.

Between December 2014 and March of 2015, the Exchange Board conducted a thorough cost-benefit analysis to determine what enrollment mechanism for the individual Exchange would best benefit New Mexicans and support the Exchange's goal of keeping operational costs low over time. During this time, CMS also suggested to New Mexico the option of potentially "leasing" the healthcare.gov technology for the individual market. Following the analysis of available options, the Board decided that pursuing a potential leasing arrangement of healthcare.gov for the eligibility and enrollment technology for the individual exchange, while continuing to run all other functions of the New Mexico State-Based Exchange, best supports the Exchange's mission of expanding access to high-quality and affordable health insurance. Additionally, based on the information available to the Exchange in March 2015, the option to lease federal technology is projected to cost less over a five year period than if New Mexico was to build its own technology solution. However, the option the Board selected carries some risk in that CMS has defined the cost of a lease arrangement to be 1.5% of insurance premiums for individuals enrolling through the federal platform, however, the rate has not yet been approved by the Office of Management and Budget (OMB). Additionally, the Department of Health and Human Services (HHS) proposed payment process for the State-Based Exchange (SBE) operating on the federal platform (now known as a SBM-FP) originally included deducting user fees from the total subsidy payments delivered to on-exchange carriers. This would have resulted in the need for a complex reconciliation process to be performed by the Exchange. HHS has confirmed to the Exchange the payment mechanism will allow the Exchange to continue its market-wide assessment of on and off-exchange major medical carriers without undo administrative burden.

## **2) Summary of Significant Accounting Policies**

### Accounting Principles

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

# **New Mexico Health Insurance Exchange**

## **Notes to the Financial Statements**

### **December 31, 2015 and 2014**

#### Basis of Presentation

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

The Exchange distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Exchange are assessments levied on insurance carriers which began in 2015. Because the Exchange's operations were financed solely by federal grants in 2014, there were no operating revenues reported. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, which consists of grant revenue and interest income.

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

#### Cash

For purposes of the statements of cash flows under proprietary fund accounting, the Exchange considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Exchange did not have any cash equivalents as of December 31, 2015 or 2014.

#### Due from U.S. Department of Health and Human Services and Unearned Revenue

Various reimbursement procedures are used for federal awards received by the Exchange. Consequently, timing differences between expenses and program reimbursements can exist at any time during the year. Amounts due from the U.S. Department of Health and Human Services represent an excess of accrual basis expenses over cash reimbursements received to date. Conversely, unearned revenue represents an excess of cash received (advance) over accrual basis expenses. Generally, these balances are caused by differences in the timing of cash reimbursements and expenses and will be reversed in the remaining grant period.

#### Premiums Due

Premiums due consist of payments due from insured groups arising from the normal course of operations. The Exchange does not record an allowance against receivables from insured groups. Receivables from insured groups represent gross premium amounts

**New Mexico Health Insurance Exchange**  
**Notes to the Financial Statements**  
**December 31, 2015 and 2014**

receivable for insurance provided for which the payment is delinquent. 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.

Carrier Assessments Due

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

Other Receivables

Other receivables consist of unpaid carrier assessments related to the 2014 claims activity conducted by the Alliance that were transferred to the Exchange during 2015.

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, personal 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. Donated assets are recorded at their estimated fair value at the date of donation. Costs incurred for repair and maintenance are expensed as incurred.

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

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

Due to Carriers

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

# **New Mexico Health Insurance Exchange**

## **Notes to the Financial Statements**

### **December 31, 2015 and 2014**

#### Contract Holdback

In 2014, in an accordance with contractually agreed-upon terms with certain vendors, varying percentages of fees associated with contract deliverables are deliberately withheld by the Exchange until such deliverables have been completed. Those contract amounts that had accumulated, but had not been paid out to the various contractors at year-end, are recorded as a contract holdback liability on the statements of net position and are not included in accounts payable. In 2015, there were no contracts with holdback provisions.

#### Compensated Absences

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

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

#### Net Position

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

- ◆ *Net investment in capital assets*—Is intended to reflect the portion of net position which is associated with capital assets less outstanding capital asset related debt, if any. The Exchange has no capital asset related debt at December 31, 2015 or 2014.
- ◆ *Restricted net position*—Restricted net position results when constraints placed on an assets' use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation. The Exchange has no restricted net position at December 31, 2015 or 2014.
- ◆ *Unrestricted net position*—Represents net position not otherwise classified as invested in capital assets or restricted net position.

#### Consumer and Stakeholder Engagement and Support

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

**New Mexico Health Insurance Exchange**  
**Notes to the Financial Statements**  
**December 31, 2015 and 2014**

Technology and Project Management

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

Operations

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

Professional Services and Board

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

Plan Management

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

Income Taxes

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

Use of Estimates in the Preparation of the Financial Statements

Financial statements prepared in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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

Subsequent Events

Subsequent events through March 16, 2016, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the December 31, 2015, financial statements.

**New Mexico Health Insurance Exchange**  
**Notes to the Financial Statements**  
**December 31, 2015 and 2014**

The 2016 carrier assessment, sufficient to cover the 2016 operating budget, was issued on January 2, 2016, in the amount of \$11,790,605.

**3) Custodial Credit Risk—Deposits**

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

At December 31, 2015 and 2014, the Exchange had deposits of \$7,614,617 and \$1,250,097, respectively. Of these total bank balances, there was \$3,519,082 in deposits subject to custodial credit risk in 2015, while there were no amounts subject to custodial credit risk in 2014, as all amounts were either insured or collateralized as presented below.

	First National Bank of Santa Fe	
	2015	2014
Total amount on deposits	\$ 7,614,617	\$ 1,250,097
Less: FDIC insurance coverage	250,000	250,000
Total uninsured deposits	7,364,617	1,000,097
Pledged collateral, fair value	3,845,535	2,463,277
Total uninsured/uncollateralized (pledged in excess)	\$ 3,519,082	\$ (1,463,180)

**New Mexico Health Insurance Exchange**  
**Notes to the Financial Statements**  
**December 31, 2015 and 2014**

**4) Capital Assets**

A summary of capital assets activity is as follows:

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

	Balance at January 1, 2014	Increases	Decreases	Balance at December 31, 2014
<b>Depreciable assets</b>				
Furniture and fixtures	\$ 47,800	\$ 5,099	\$ -	\$ 52,899
Equipment	36,134	1,614	-	37,748
Computer software	32,787	1,868	-	34,655
Computer equipment	<u>24,853</u>	<u>16,559</u>	<u>-</u>	<u>41,412</u>
	<u>141,574</u>	<u>25,140</u>	<u>-</u>	<u>166,714</u>
<b>Accumulated depreciation</b>				
Furniture and fixtures	(2,904)	(17,128)	-	(20,032)
Equipment	(2,166)	(12,712)	-	(14,878)
Computer software	(1,822)	(11,499)	-	(13,321)
Computer equipment	<u>(690)</u>	<u>(10,331)</u>	<u>-</u>	<u>(11,021)</u>
	<u>(7,582)</u>	<u>(51,670)</u>	<u>-</u>	<u>(59,252)</u>
Total capital assets, net	<u>\$ 133,992</u>	<u>\$ (26,530)</u>	<u>\$ -</u>	<u>\$ 107,462</u>

Depreciation expense for the years ended December 31, 2015 and 2014, was \$73,035 and \$51,670, respectively, and is reported in operations expense in the statements of revenues, expenses, and changes in net position.



**New Mexico Health Insurance Exchange**  
**Notes to the Financial Statements**  
**December 31, 2015 and 2014**

**5) Commitments**

The Exchange is committed under various lease agreements for office space and office equipment which expire at varying times through December 31, 2017. These leases are classified as operating leases. Lease expenses for the years ended December 31, 2015 and 2014, were \$114,250 and \$91,339, respectively. Lease expenses are included in operations expense in the accompanying statements of revenues, expenses, and changes in net position.

The following schedule details the future minimum lease payments as of December 31, 2015, for operating leases with initial or remaining lease terms in excess of one year:

Year ending December 31,

2016	\$	92,712
2017		4,812
Total	\$	97,524

Additionally, the Exchange has numerous professional and consulting service contracts and agreements for marketing and technology services in place with outstanding commitments at December 31, 2015 and 2014, of \$9.73 million and \$38.1 million, respectively. Such amounts are expected to be paid in 2015 through 2017.

**6) Accrued Compensated Absences**

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

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

Balance at January 1, 2014	Additions	Reductions	Balance at December 31, 2014	Amounts Due Within One Year
<u>\$ 62,495</u>	<u>\$ 50,696</u>	<u>\$ 63,663</u>	<u>\$ 49,528</u>	<u>\$ 49,528</u>

**New Mexico Health Insurance Exchange**  
**Notes to the Financial Statements**  
**December 31, 2015 and 2014**

**7) Retirement Plan**

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

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

The Exchange matches 100% of an employee’s contributions up to 3% of total compensation and 50% of contributions that exceed 3% of compensation but that do not exceed 5% of compensation. The Exchange’s matching contributions to the Plan totaled \$57,038 and \$29,777 for the years ended December 31, 2015 and 2014, respectively.

In addition, all employees over the age of 18 may participate in receiving discretionary profit sharing contributions under the Plan after having fulfilled a 12-month eligibility period or having fulfilled 1,000 hours of service. Profit sharing contributions will be allocated to each eligible participant after the end of the Plan year. Any discretionary profit sharing contributions are determined by the Board; however, no such contributions were made to the Plan in 2015 and 2014.

**8) Contingencies**

Grants

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

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.

**New Mexico Health Insurance Exchange**  
**Notes to the Financial Statements**  
**December 31, 2015 and 2014**

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

**9) Economic Dependency**

For 2015, the Exchange received approximately 80% of its revenues from grants funded by the United States Government. For 2014, the Exchange received all of its revenues from grants funded by the United States Government.

**10) Transfers from New Mexico Health Insurance Alliance**

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

## Schedule of Expenditures of Federal Awards

**New Mexico Health Insurance Exchange**  
**Schedule of Expenditures of Federal Awards**  
**December 31, 2015**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Grantor Number or Other Identifying Numbers	CFDA Number	Federal Expenditures
<b>U.S. Department of Health and Human Services</b>			
State planning and establishment grants for Affordable Care Act (ACA) exchanges	N/A	93.525	\$ 22,835,111
Total U.S. Department of Health and Human Services			<u>\$ 22,835,111</u>

**New Mexico Health Insurance Exchange**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

**1) General**

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

**2) Basis of Accounting**

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

**3) Catalog of Federal Domestic Assistance Award Numbers**

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

**New Mexico Health Insurance Exchange**  
**Notes to the Schedule of Expenditures of Federal Awards — continued**  
**For the Year Ended December 31, 2015**

**4) Reconciliation to the Financial Statements**

The following is a reconciliation of expenses reported on the schedule of expenditures of federal awards to the expenditures reported in the financial statements as of December 31, 2015.

Total expenses reported on the schedule of expenditures of federal awards	\$ 22,835,111
Total expenses funded by carrier assessments	<u>3,596,098</u>
Total operating expenses reported on the statement of revenues, expenses, and changes in net position	<u>\$ 26,431,209</u>

At December 31, 2014, all operating expenses of the Exchange were paid through federal grants.

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, 2015, and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements and have issued our report thereon dated March 16, 2016.

**Internal Control Over Financial Reporting**

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

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



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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Albuquerque, New Mexico  
March 16, 2016

Independent Auditor's Report on Compliance  
With Requirements That Could Have a Direct and Material  
Effect on Each Major Program and on Internal Control Over  
Compliance in Accordance With the Uniform Guidance

Board of Directors  
New Mexico Health Insurance Exchange

**Report on Compliance for Each Major Federal Program**

We have audited the New Mexico Health Insurance Exchange's (the "Exchange") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Exchange's major federal program for the year ended December 31, 2015. The Exchange's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

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

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

### ***Opinion on the Major Federal Program***

In our opinion, the Exchange complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

### **Report on Internal Control over Compliance**

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

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

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

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

Albuquerque, New Mexico  
March 16, 2016

**New Mexico Health Insurance Exchange**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2015**

**Section I — Summary of Auditor’s Results**

***Financial Statements***

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

***Federal Awards***

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

**New Mexico Health Insurance Exchange**  
**Schedule of Findings and Questioned Costs — continued**  
**For the Year Ended December 31, 2015**

Section I — Summary of Auditor’s Results — continued

Identification of major programs:

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

Dollar threshold used to distinguish  
between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

**New Mexico Health Insurance Exchange**  
**Schedule of Findings and Questioned Costs — continued**  
**For the Year Ended December 31, 2015**

**Section II — Financial Statement Findings**

None.

**New Mexico Health Insurance Exchange**  
**Schedule of Findings and Questioned Costs — continued**  
**For the Year Ended December 31, 2015**

**Section III — Federal Award Findings and Questioned Costs**

None.

**New Mexico Health Insurance Exchange**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended December 31, 2015**

<b>Prior Audit Findings</b>	<b>Current Status</b>
2014-001 Financial Statement Segregation of Duties – Cash Disbursements	Resolved
2014-002 Allowable Costs	Resolved
2014-003 Procurement	Resolved
2014-004 Suspension and Debarment	Resolved



**New Mexico Health Insurance Exchange**  
**Exit Conference**  
**December 31, 2015**

An exit conference was held on March 8, 2016, with the Exchange. The conference was held at REDW's and the Exchange's offices in Albuquerque, New Mexico. In attendance were:

**NM Health Insurance Exchange**

Chief Finance Officer  
Senior Accountant  
Accountant

**REDW<sub>LLC</sub>**

Laurel Shelton, Principal  
Halie Garcia, Senior Manager  
Jonathan Rothweiler, Manager

In addition, a presentation was made to an open session of the Board of Directors on March 18, 2016.