



New Mexico Health Insurance Exchange Albuquerque, New Mexico

*Financial Statements
and
Independent Auditor's Report
December 31, 2018 and 2017*

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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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Exchange's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.


Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019, 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.


Albuquerque, New Mexico
March 20, 2019

Required Supplementary Information
Management's Discussion and Analysis

New Mexico Health Insurance Exchange

Management's Discussion and Analysis

December 31, 2018 and 2017

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, 2018. Please read this discussion and analysis in conjunction with the Exchange's financial statements, which follow this section.

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

Financial Highlights

- As of December 31, 2018, assets exceeded liabilities by \$16.8 million, which represents an increase of approximately \$2.2 million from 2017. The largest portion of the net position, approximately \$16.7 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 \$0.1 million or 0.6%, reflects the Exchange's investment in capital assets and is generally not available for future spending.
- Total assets were \$18.0 million and \$16.8 million as of December 31, 2018 and 2017, respectively, mainly consisting of cash and cash equivalents and investments.
- Total liabilities were \$1.1 million and \$2.2 million as of December 31, 2018 and 2017, respectively, mainly consisting of accounts payable and premiums due to carriers.
- Total operating revenues were \$17.2 million and \$14.7 million in 2018 and 2017, 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").
- Total operating expenses were \$15.0 million and \$12.8 million in 2018 and 2017, respectively, which were related to the day-to-day operations of the Exchange.
- Nonoperating revenues (expenses) were (\$0.1) million and \$0.4 million in 2018 and 2017, respectively, and consists primarily of net investment income. The decrease of approximately \$0.5 million relates primarily to unrealized losses incurred on the Exchange's investment portfolio during the year.

New Mexico Health Insurance Exchange

Management's Discussion and Analysis

December 31, 2018 and 2017

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.

Statement of Net Position

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

	2018	2017	2016
Assets			
Current assets	\$ 17,861,090	\$ 16,544,573	\$ 13,887,926
Capital assets, net	<u>108,349</u>	<u>271,584</u>	<u>441,669</u>
Total assets	<u>\$ 17,969,439</u>	<u>\$ 16,816,157</u>	<u>\$ 14,329,595</u>
Liabilities			
Current liabilities	<u>\$ 1,149,321</u>	<u>\$ 2,201,752</u>	<u>\$ 2,036,131</u>
Total liabilities	<u>\$ 1,149,321</u>	<u>\$ 2,201,752</u>	<u>\$ 2,036,131</u>
Net Position			
Net investment in capital assets	\$ 108,349	\$ 271,584	\$ 441,669
Unrestricted	<u>16,711,769</u>	<u>14,342,821</u>	<u>11,851,795</u>
Total net position	<u>\$ 16,820,118</u>	<u>\$ 14,614,405</u>	<u>\$ 12,293,464</u>

New Mexico Health Insurance Exchange
Management's Discussion and Analysis
December 31, 2018 and 2017

The \$1.3 million increase in current assets during 2018 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 (IPS). See Note 4 to the financial statements for more information on the Exchange's investments.

Statement of Revenues, Expenses, and Changes in Net Position

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues			
Carrier assessments	<u>\$ 17,236,701</u>	<u>\$ 14,688,045</u>	<u>\$ 16,703,354</u>
Total operating revenues	<u>17,236,701</u>	<u>14,688,045</u>	<u>16,703,354</u>
Operating Expenses			
Federal platform user fee	5,314,400	2,909,845	-
Consumer and stakeholder engagement and support	3,405,250	4,880,791	8,881,504
Technology and project management	2,726,114	1,589,382	3,129,187
Salaries and employee benefits	2,138,330	1,788,096	1,906,725
Operations	713,355	798,426	790,879
Professional services and board	437,487	424,861	349,099
Plan management	230,525	370,111	235,094
Other	-	-	14,014
Total operating expenses	<u>14,965,461</u>	<u>12,761,512</u>	<u>15,306,502</u>
Operating income	<u>2,271,240</u>	<u>1,926,533</u>	<u>1,396,852</u>
Nonoperating Revenues (Expenses)			
Grant revenue	-	-	7,815,066
Investment (loss) income, net	(65,627)	394,158	(178,532)
Gain (loss) on disposal of capital assets	100	250	(2,577)
Total nonoperating revenues (expenses)	<u>(65,527)</u>	<u>394,408</u>	<u>7,633,957</u>
Change in net position	<u>2,205,713</u>	<u>2,320,941</u>	<u>9,030,809</u>
Net position, beginning of year	<u>14,614,405</u>	<u>12,293,464</u>	<u>3,262,655</u>
Net position, end of year	<u>\$ 16,820,118</u>	<u>\$ 14,614,405</u>	<u>\$ 12,293,464</u>

New Mexico Health Insurance Exchange

Management's Discussion and Analysis

December 31, 2018 and 2017

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

The Exchange recognizes assessments made on insurance carriers during the year as operating revenues in the statement of revenues, expenses, and changes in net position. Operating revenues were \$17.2 million and \$14.7 million in 2018 and 2017, respectively. The \$2.5 million increase in operating revenues is primarily a result of an increase in the Exchange's approved operating budget during 2018.

Total operating expenses were approximately \$15.0 million and \$12.8 million, resulting in operating income of \$2.3 million and \$1.9 million in 2018 and 2017, respectively.

The \$0.5 million decrease in nonoperating revenues during 2018 is primarily due to the performance of the Exchange's investments during the year, in which losses were incurred in the fixed income component of the portfolio.

Capital Assets

The capital assets of the Exchange are those assets used in the performance of the Exchange's functions. At December 31, 2018 and 2017, the Exchange had \$108,349 and \$271,584, respectively, net of accumulated depreciation, invested in capital assets. These investments in capital assets include furniture and fixtures, office equipment, computer software, and computer equipment. Additional information on the Exchange's capital assets can be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

Under the Patient Protection and Affordable Care Act (ACA) all states are required to operate an 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, which served as the enabling legislation for establishment of a state-based exchange. As a provision of the act, the Exchange's Board of Directors 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

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Management's Discussion and Analysis

December 31, 2018 and 2017

costs. As a result, the Exchange leadership entered into negotiations with the federal government to establish a new legal designation that would recognize the state as a hybrid model: state-based exchange on the federal platform (SBE-FP).

In late 2016, the state was granted the new legal designation SBE-FP. In addition, in 2016 CMS issued the 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; and 3% in 2019. It should be noted, however, that New Mexico was able to obtain an agreement with CMS that they would not be subject to the user fee in 2016. New Mexico was the only state to obtain successfully such a waiver.

Thus, New Mexico's fee to use the federal individual exchange technology platform was \$0 for 2014, 2015, and 2016. In 2017 the federal platform user fee totaled \$2,909,845; in 2018 the total outlay increased to \$5,314,400 and by 2019, the fee is expected to be about \$10.9M.

Given these perpetual fee increases juxtaposed with the decreasing costs associated with establishing a state technology platform, the Board voted in September 2018 to pursue again a state-based exchange. In addition to the 2019 operating budget of \$19.7 million, the Exchange and Board also approved a 2019 capital budget of \$20,639,800 for the associated design, development and implementation (DD&I) costs of the state-based exchange, understanding that the DD&I costs in 2020 are estimated at \$23 million. During the two-year development period, the Exchange will still be required to pay the SBE-FP user fee, however, once developed, the Exchange expects the cost of the state-based exchange to be lower in cost than the SBE-FP user fee by 2023. In early 2019, beWellnm staff began procuring a new technology vendor and seeking a new legal designation.

Contacting the Exchange's Financial Management

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

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

Financial Statements

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

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 7,502,131	\$ 5,730,297
Investments	10,149,588	10,636,902
Premiums due	125,381	35,362
Accrued interest	20,572	18,007
Prepaid expenses and other assets	63,418	124,005
Total current assets	17,861,090	16,544,573
Noncurrent assets		
Capital assets, net of accumulated depreciation	108,349	271,584
Total assets	\$ 17,969,439	\$ 16,816,157
Liabilities		
Current liabilities		
Accounts payable	\$ 866,359	\$ 1,548,876
Premiums due to carriers	137,685	526,368
Accrued liabilities	63,609	59,805
Compensated absences	81,668	66,703
Total current liabilities	1,149,321	2,201,752
Net Position		
Net investment in capital assets	108,349	271,584
Unrestricted	16,711,769	14,342,821
Total net position	16,820,118	14,614,405
Total liabilities and net position	\$ 17,969,439	\$ 16,816,157

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,

	2018	2017
Operating Revenues		
Carrier assessments	<u>\$ 17,236,701</u>	<u>\$ 14,688,045</u>
Operating Expenses		
Federal platform user fee	5,314,400	2,909,845
Consumer and stakeholder engagement and support	3,405,250	4,880,791
Technology and project management	2,726,114	1,589,382
Salaries and employee benefits	2,138,330	1,788,096
Operations	713,355	798,426
Professional services and board	437,487	424,861
Plan management	<u>230,525</u>	<u>370,111</u>
Total operating expenses	<u>14,965,461</u>	<u>12,761,512</u>
Operating income	<u>2,271,240</u>	<u>1,926,533</u>
Nonoperating Revenues (Expenses)		
Investment (loss) income, net	(65,627)	394,158
Gain on disposal of capital assets	<u>100</u>	<u>250</u>
Total nonoperating revenues (expenses)	<u>(65,527)</u>	<u>394,408</u>
Change in net position	2,205,713	2,320,941
Net position, beginning of year	<u>14,614,405</u>	<u>12,293,464</u>
Net position, end of year	<u>\$ 16,820,118</u>	<u>\$ 14,614,405</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,

	2018	2017
Cash flows from operating activities		
Cash received from assessments on insurance carriers	\$ 17,236,701	\$ 14,688,045
Cash paid to suppliers for goods and services	(13,748,004)	(10,557,356)
Cash paid to employees for service	(2,119,561)	(1,768,743)
Net cash provided by operating activities	1,369,136	2,361,946
Cash flows from capital and related financing activities		
Purchase of capital assets	(19,089)	(24,090)
Proceeds from sale of capital assets	100	250
Net cash used in capital and related financing activities	(18,989)	(23,840)
Cash flows from investing activities		
Purchase of investments	(191,053)	(5,463,003)
Proceeds from maturities of investments	240,000	1,319,050
Interest and dividends received	372,740	234,702
Net cash provided by (used in) investing activities	421,687	(3,909,251)
Net increase (decrease) in cash and cash equivalents	1,771,834	(1,571,145)
Cash and cash equivalents, beginning of year	5,730,297	7,301,442
Cash and cash equivalents, end of year	\$ 7,502,131	\$ 5,730,297

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,

	2018	2017
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,271,240	\$ 1,926,533
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	182,324	194,175
Changes in operating assets and liabilities		
Premiums due	(90,019)	(19,992)
Accrued interest	(2,565)	3,747
Prepaid expenses and other assets	60,587	91,862
Accounts payable	(682,517)	12,940
Premiums due to carriers	(388,683)	133,328
Accrued liabilities	3,804	29,382
Compensated absences	14,965	(10,029)
Net cash provided by operating activities	\$ 1,369,136	\$ 2,361,946
 Supplemental schedule of noncash investing activities		
Change in fair value of investments	\$ (438,367)	\$ 159,456

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

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2018 and 2017

1) Organization and Operations

Organization

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

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

Operations

The Exchange was established as a result of the federal government passing the Patient Protection and Affordable Care Act (ACA) with the goal of providing access to quality health care for those without insurance, individuals who cannot afford health insurance offered at their place of employment, small businesses with 2 – 50 employees, and those that purchase their own insurance but would like more options.

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

BeWellnm for Small Business (beWellnm) was established as a program that allows small businesses, including nonprofits with 2 – 50 employees, to access health insurance through the Exchange. BeWellnm functions as a conduit for insurance premiums as opposed to being either an insurer or reinsurer. All beWellnm premiums billed and collected are recorded in the Exchange’s statement of net position with no activity impacting the statement of revenues, expenses and changes in net position. The Exchange does not withhold any portion of premiums to cover administrative costs.

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2018 and 2017

2) Summary of Significant Accounting Policies

Accounting Principles

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

Basis of Presentation

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

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

Use of Estimates in the Preparation of the Financial Statements

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

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

New Mexico Health Insurance Exchange
Notes to the Financial Statements
December 31, 2018 and 2017

Investments

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

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

Investment Risks and Uncertainties

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

Premiums Due

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

Prepaid Expenses and Other Assets

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

Capital Assets and Depreciation

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

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Notes to the Financial Statements
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such assets is desired. Costs incurred for repair and maintenance are expensed as incurred.

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

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

Premiums Due to Carriers

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

Compensated Absences

Under terms of employment, employees are granted sick leave and vacation in varying amounts. Full-time Exchange employees accumulate paid time off (PTO) hours for subsequent use according to the length of employment and within established maximum accrual limits. The Exchange, at its discretion, allows employees to sell back unused PTO at their current hourly rate. Employees are required to retain a minimum balance of 80 hours after the buy back.

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

Net Position

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

- ♦ *Net investment in capital assets*—Is intended to reflect the portion of net position which is associated with capital assets less outstanding capital asset related debt, if any. The Exchange has no capital asset related debt at December 31, 2018 or 2017.
- ♦ *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, 2018 or 2017.

New Mexico Health Insurance Exchange

Notes to the Financial Statements

December 31, 2018 and 2017

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

Carrier Assessments

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

Consumer and Stakeholder Engagement and Support

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

Technology and Project Management

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

Operations

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

Professional Services and Board

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

Plan Management

The plan management expense category aligns with the required “plan management” function for health insurance plans sold through the Exchange and includes payments made to the New Mexico Office of the Superintendent of Insurance for providing review and quality ratings for Qualified Health Plans (QHPs), initial and ongoing certification of

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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.

Subsequent Events

Subsequent events through March 20, 2019, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the December 31, 2018, financial statements.

3) Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, the Exchange's deposits may not be returned to it. The Exchange does not have a custodial credit risk policy requiring collateral on all deposits exceeding Federal Deposit Insurance Corporation (FDIC) limits. Bank deposits are insured by the FDIC up to \$250,000 per depositor per institution for interest-bearing and noninterest-bearing deposits, while the Securities Investors Protection Corporation (SIPC) protects up to \$250,000 for cash held with brokerage firms. The Exchange held \$1,217,000 in non-negotiable certificates of deposit with various financial institutions, all of which were fully covered by federal depository insurance at year-end. 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, 2018 and 2017, the Exchange's deposits subject to custodial credit risk are as follows:

	<u>2018</u>	<u>2017</u>
Total amount of bank deposits	\$ 7,639,361	\$ 5,789,328
Less FDIC/SIPC insurance coverage	<u>1,717,000</u>	<u>1,957,000</u>
Total uninsured deposits	5,922,361	3,832,328
Pledged collateral, fair value	<u>11,603,847</u>	<u>8,665,237</u>
Total pledged in excess of uninsured deposits	<u>\$ (5,681,486)</u>	<u>\$ (4,832,909)</u>

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

	2018	2017
Bank deposits	\$ 4,253,668	\$ 2,891,606
Non-negotiable certificates of deposit	2,031,463	1,457,000
Money market mutual funds	1,217,000	1,381,691
Total cash and cash equivalents	\$ 7,502,131	\$ 5,730,297

4) 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, pooled investment vehicles, closed-end funds, unit investment trusts and certificates of deposits with FDIC insured financial institutions. The IPS limits individual fixed income securities rated by a nationally recognized statistical ratings organization (NRSRO) of investment grade of at least BBB- (S&P), Baa3 (Moody's), or BBB- (Fitch). Diversified fixed income mutual funds and investment pools may, however, hold 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:

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

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Concentrations

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

Custodial Credit Risk

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

Credit Risk

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization (NRSRO) (S&P, Moody's, or Fitch). U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. There are no credit ratings associated with the fixed income mutual funds held by the Exchange. Therefore, the information presented below is based on the average credit ratings of the underlying assets held by the funds at December 31, 2018 and 2017:

December 31, 2018

	Fair Value	Average Credit Ratings					Not Rated
		AA	A	BBB	BB	B	
Fixed income mutual funds	\$ 8,867,167	\$ 2,325,490	\$ 3,878,773	\$ 1,821,811	\$ 373,883	\$ 467,210	\$ -
Equity mutual funds	806,758	-	-	-	-	-	806,758
Certificates of deposit (negotiable)	475,663	-	-	-	-	-	475,663
	<u>\$ 10,149,588</u>	<u>\$ 2,325,490</u>	<u>\$ 3,878,773</u>	<u>\$ 1,821,811</u>	<u>\$ 373,883</u>	<u>\$ 467,210</u>	<u>\$ 1,282,421</u>

December 31, 2017

	Fair Value	Average Credit Ratings					Not Rated
		AAA	AA	A	BBB	B	
Fixed income mutual funds	\$ 9,191,821	\$ 2,391,678	\$ 1,226,847	\$ 4,669,467	\$ 393,823	\$ 510,006	\$ -
Equity mutual funds	728,026	-	-	-	-	-	728,026
Certificates of deposit (negotiable)	717,055	-	-	-	-	-	717,055
	<u>\$ 10,636,902</u>	<u>\$ 2,391,678</u>	<u>\$ 1,226,847</u>	<u>\$ 4,669,467</u>	<u>\$ 393,823</u>	<u>\$ 510,006</u>	<u>\$ 1,445,081</u>

Concentration of Credit Risk

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

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Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Exchange does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. There are no maturities associated with fixed income mutual funds held by the Exchange. Therefore, the information about the exposure of the Exchange's investments to this risk is based on an average of the underlying assets held by the funds and is presented using the segmented time distribution model at December 31, 2018 and 2017, as follows:

December 31, 2018

	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-5	6-10	11-15	No Maturity
Fixed income mutual funds	\$ 8,867,167	\$ -	\$ 841,093	\$ 8,026,074	\$ -	\$ -
Equity mutual funds	806,758	-	-	-	-	806,758
Certificates of deposit (negotiable)	475,663	-	475,663	-	-	-
	<u>\$ 10,149,588</u>	<u>\$ -</u>	<u>\$ 1,316,756</u>	<u>\$ 8,026,074</u>	<u>\$ -</u>	<u>\$ 806,758</u>

December 31, 2017

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in the value of the U.S. dollar against other foreign currencies will adversely affect the fair value of investments in foreign securities. The Exchange's IPS does not require foreign securities to be hedged against currency risk. The strategic asset allocation plan adopted in the IPS includes an allocation to international bonds and equity up to 7% and 5%, respectively, of the total value of the investment portfolio. The Barclays Global ex-U.S., which contains foreign currency risk, is designated as the benchmark for performance for this asset class within the portfolio. Accordingly, the foreign currency risk inherent within the Barclays Global ex-U.S. benchmark has been implicitly adopted as an acceptable financial risk for the international bonds asset class. At December 31, 2018 and 2017, the Exchange was exposed to foreign currency risk through its investments in international bond mutual funds of \$674,028 and \$723,920, respectively.

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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 or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

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

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

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

<u>December 31, 2018</u>	<u>Fair Value</u>	<u>Fair Value Measurements</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income mutual funds	\$ 8,867,167	\$ 8,867,167	\$ -	\$ -
Equity mutual funds	806,758	806,758	-	-
Certificates of deposit (negotiable)	475,663	-	475,663	-
	<u>\$ 10,149,588</u>	<u>\$ 9,673,925</u>	<u>\$ 475,663</u>	<u>\$ -</u>

<u>December 31, 2017</u>	<u>Fair Value</u>	<u>Fair Value Measurements</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income mutual funds	\$ 9,191,821	\$ 9,191,821	\$ -	\$ -
Equity mutual funds	728,026	728,026	-	-
Certificates of deposit (negotiable)	717,055	-	717,055	-
	<u>\$ 10,636,902</u>	<u>\$ 9,919,847</u>	<u>\$ 717,055</u>	<u>\$ -</u>

Investment Income (Loss)

A summary of the Exchange's investment income (loss) for the years ended December 31, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 416,804	\$ 317,285
Realized gain (loss) on investments	-	(50,007)
Unrealized (loss) gain on investments	(438,367)	159,456
Management and advisory fees	(44,064)	(32,576)
Total investment (loss) income, net	<u>\$ (65,627)</u>	<u>\$ 394,158</u>

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5) Capital Assets

A summary of capital assets activity is as follows:

	Balance at January 1, 2018	Increases	Decreases	Balance at December 31, 2018
<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	433,878	15,472	(3,891)	445,459
Furniture and fixtures	150,316	3,617	-	153,933
Computer software	95,531	-	-	95,531
Equipment	33,605	-	-	33,605
Total capital assets being depreciated	<u>713,330</u>	<u>19,089</u>	<u>(3,891)</u>	<u>728,528</u>
<i>Less accumulated depreciation</i>				
Computer equipment	258,792	127,727	(3,891)	382,628
Furniture and fixtures	96,735	35,502	-	132,237
Computer software	62,295	18,139	-	80,434
Equipment	31,972	956	-	32,928
Total accumulated depreciation	<u>449,794</u>	<u>182,324</u>	<u>(3,891)</u>	<u>628,227</u>
Total capital assets being depreciated, net	<u>263,536</u>	<u>(163,235)</u>	<u>-</u>	<u>100,301</u>
Total capital assets, net	<u>\$ 271,584</u>	<u>\$ (163,235)</u>	<u>\$ -</u>	<u>\$ 108,349</u>
	Balance at January 1, 2017	Increases	Decreases	Balance at December 31, 2017
<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	449,915	6,170	(22,207)	433,878
Furniture and fixtures	150,316	-	-	150,316
Computer software	79,067	16,464	-	95,531
Equipment	32,149	1,456	-	33,605
Total capital assets being depreciated	<u>711,447</u>	<u>24,090</u>	<u>(22,207)</u>	<u>713,330</u>
<i>Less accumulated depreciation</i>				
Computer equipment	139,925	141,074	(22,207)	258,792
Furniture and fixtures	62,325	34,410	-	96,735
Computer software	44,359	17,936	-	62,295
Equipment	31,217	755	-	31,972
Total accumulated depreciation	<u>277,826</u>	<u>194,175</u>	<u>(22,207)</u>	<u>449,794</u>
Total capital assets being depreciated, net	<u>433,621</u>	<u>(170,085)</u>	<u>-</u>	<u>263,536</u>
Total capital assets, net	<u>\$ 441,669</u>	<u>\$ (170,085)</u>	<u>\$ -</u>	<u>\$ 271,584</u>

New Mexico Health Insurance Exchange
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Depreciation expense for the years ended December 31, 2018 and 2017, was \$182,324 and \$194,175, respectively, and is reported in operations expense in the statements of revenues, expenses, and changes in net position.

6) Commitments

The Exchange is committed under various lease agreements for office space and office equipment, which expire at varying times through March 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, 2018 and 2017, was \$145,572 and \$193,758, respectively, and is included in operations expense in the accompanying 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 combined monthly lease expense beginning in January 2019 is approximately \$26,093 and is subject to annual inflation adjustments. The office space lease has an option to renew for an additional three years. The Exchange is currently negotiating a sublease of its existing office space with several of its development vendors.

The following schedule details the future minimum lease payments as of December 31, 2018, for operating leases with initial or remaining lease terms in excess of one year:

Year ending December 31,		
2019	\$	279,278
2020		324,389
2022		294,886
2022		227,832
2023		234,678
Thereafter		<u>59,100</u>
Total	\$	<u><u>1,420,163</u></u>

Additionally, the Exchange has numerous professional and consulting service contracts and agreements for marketing and outreach and technology services in place with outstanding commitments at December 31, 2018 and 2017, of \$2.8 million and \$5.6 million, respectively. Such amounts are expected to be paid through 2021.

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7) Retirement Plan

The Exchange sponsors a 401(k) retirement plan (the “Plan”) to provide retirement benefits to its employees. The Plan allows eligible employees to defer a portion of their annual compensation pursuant to Section 401(k) of the Internal Revenue Code.

Under the terms of the Plan, all employees over the age of 18 may participate in the Plan after having fulfilled a one-month eligibility period in order to contribute to the Plan.

The Exchange matches 100% of an employee’s contributions up to 6% of total annual compensation. The Exchange’s matching contributions to the Plan totaled \$85,042 and \$50,537 for the years ended December 31, 2018 and 2017, respectively, and are included in salaries and employee benefits in the statements of revenue, expenses, and changes in net position.

In addition, all employees over the age of 18 may participate in receiving discretionary profit sharing contributions under the Plan after having fulfilled a 12-month eligibility period or having fulfilled 1,000 hours of service. Profit sharing contributions will be allocated to each eligible participant after the end of the Plan year. Any discretionary profit sharing contributions are determined by the Board; however, no such contributions were made to the Plan in 2018 and 2017.

8) Contingencies

Litigation

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

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

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9) Economic Dependency

The Exchange is dependent on a small number of insurance carriers underwriting health and dental insurance policies within the State of New Mexico to charge assessments. The Exchange charged assessments on 11 insurance carriers during 2018 and 2017.

Four insurance carriers accounted for approximately 85% (28%, 25%, 18%, and 14%) of assessment revenues for the year ended December 31, 2018. Four insurance carriers accounted for approximately 84% (26%, 24%, 18%, and 16%) of assessment revenues for the year ended December 31, 2017. The Exchange does not believe the loss of a single insurance carrier would materially affect its financial position.

10) Federal Platform User Fee

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

Starting in January 2017, CMS began charging all issuers offering qualified health plans through SBE-FP's a Federal Platform User Fee for the portion of Federal Platform services and benefits provided to the issuer, and is based upon effectuated enrollments at the issuer payee level. The SBE-FP user fee rates in 2018 and 2017 were 2.0% and 1.5%, respectively, of the total policy premium per month for each individual enrollee on the Federal Platform. The Exchange paid SBE-FP User Fees of \$5,314,400 and \$2,909,845 for the years ended December 31, 2018 and 2017, respectively.

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, 2018, 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 20, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

REDW LLC
Albuquerque, New Mexico
March 20, 2019