

MAINE STATE LEGISLATURE

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**Merrill's Wharf
254 Commercial Street
Portland, ME**

**ANNUAL REPORT TO
JOINT STANDING COMMITTEE ON HEALTH CARE,
INSURANCE AND FINANCIAL SERVICES**

May 1, 2020

I. INTRODUCTION

This report is submitted pursuant to 24-A MRS § 3955(5). Pursuant to that statute, the Maine Guaranteed Access Reinsurance Association (the “Association” or “MGARA”) is required to make an annual report to the Joint Standing Committee on Health Care, Insurance and Financial Services. The report must include information on the Association’s financial solvency and administrative expenses.

The 2019 year was MGARA’s first year of operation following its suspension effective as of January 1, 2014. It also represented MGARA’s first year of operation under the State Innovation Waiver granted to MGARA by the United States Department of Health & Human Services, Centers for Medicare & Medicaid Services (“CMS”) under Section 1332 of the Patient Protection and Affordable Care Act (the “1332 Waiver”).

II. REVENUES AND CEDING: The MGARA program finished 2019 with revenues of \$69.3 million exclusive of 1332 Grant proceeds, compared with \$59.6 million projected in its 1332 Waiver application. Assessment revenues were slightly ahead of projection at \$24.9 million vs. \$22.6 million projected. Premiums totaled \$43.8 million compared to projected \$37 million, representing 118% of projected. Mandatory ceding accounted for \$34.1M compared with \$28.9 million projected (118% of projected), and Discretionary ceding accounted for \$9.7M compared to \$8.1 million projected (119% of projected). Despite the increased level of premium, the relative proportion of Mandatory Cedes and Discretionary Cedes finished consistent with the proportion projected in the 1332 Waiver application at approximately 22% Discretionary Cedes and 78% Mandatory Cedes. Total lives ceded to MGARA were 3,527 compared to 5,500 projected, with 2,692 Mandatory Cedes and 835 Discretionary Cedes compared to 4,300 and 1,200 projected.

III. CLAIMS: The MGARA program finished 2019 with total incurred claims of \$90.5 million and IBNR of \$14.9 million. Mandatory Cedes accounted for \$53.5 million in incurred claims and Discretionary Cedes accounted for \$37 million of incurred claims. Discretionary Cedes continued to demonstrate a higher than projected level of efficiency representing 41% of incurred claims vs. the projected 33%. MGARA commissioned a study by its actuarial firm (Milliman) regarding the effect of reducing the discretionary ceding window. The differentials between completion of risk scores at 120 days and 60 days were minimal – 88% at 120 days vs. 77% at 60 days. This was generally viewed as a minimal impact in light of the cost to carriers of shrinking the window, and no change has been made in the Discretionary Ceding window for 2020. The increased efficiency has been reflected in MGARA modelling for 2020.

IV. OPERATIONS: MGARA operations executed according to plan without any operational issues. The only operational inconsistency to plan was the lack of consistency among carriers with respect to Mandatory Ceding, which was corrected through the issuance of additional guidance in November, which largely resolved these inconsistencies. Operational costs were \$969,700 vs. \$700,000 projected, however the bulk of this difference is attributable to variable cost of administration, and represent 0.73% of revenue, consistent with projection.

V. OVERAL FINANCIAL POSITION AND PERFORMANCE: MGARA concluded 2019 with an ending Fund Balance of \$29.9 million, resulting in large part from the increase in 1332 grant proceeds from the projected \$33.4 million to \$62.3 million. To account for the anticipated reduction in 1332 grant proceeds for 2020 to \$26.3 million, MGARA has revised the program's attachment points from 90% of claims at \$47,000 and 100% of claims at \$77,000 to 90% of claims at \$65,000 and 100% of claims at \$95,000. The reinsurance premium will remain at 90% of underlying premium and the Mandatory Ceding Conditions will also remain the same as 2019.

Attached hereto is the Association's Audited Financial Statements for the 12 months ended December 31, 2019. All information set forth therein is incorporated herein by reference.



Financial Statements
December 31, 2019 and 2018

Maine Guaranteed Access Reinsurance Association

Maine Guaranteed Access Reinsurance Association

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Independent Auditor's Report

To the Board of Directors
Maine Guaranteed Access Reinsurance Association
Portland, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of Maine Guaranteed Access Reinsurance Association (the Association), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 Association as of December 31, 2019 and 2018, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the 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 April 14, 2020 on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.



Boise, Idaho
April 14, 2020

Maine Guaranteed Access Reinsurance Association
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	\$ 11,430,928	\$ 173,729
Premium receivable	4,939,020	-
Assessments receivable	7,014,514	-
Grant receivable	6,453,627	-
Accrued interest receivable	181,416	18,060
Investments	39,457,753	4,496,150
	\$ 69,477,258	\$ 4,687,939
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 310,776	\$ 22,293
Claims payable	24,375,784	-
Estimated liability for claims incurred but not reported	14,900,000	-
Total current liabilities	39,586,560	22,293
Net Assets, without Donor Restrictions	29,890,698	4,665,646
	\$ 69,477,258	\$ 4,687,939

Maine Guaranteed Access Reinsurance Association

Statements of Activities

Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Premiums earned	\$ 44,203,628	\$ -
Regular assessments	24,871,679	-
Less claims incurred	(105,432,123)	-
Excess claims over premiums and assessments	(36,356,816)	-
Operating Expenses		
Contracted management services	836,820	304,693
Professional fees	121,306	147,130
Interest and bank charges	8,163	1,202
Other administrative costs	20,453	11,270
Total operating expenses	986,742	464,295
Loss from Operations	(37,343,558)	(464,295)
Nonoperating Income (Expense)		
Grant revenue	62,298,300	-
Interest income	321,884	98,641
Loss on investments	(51,574)	(10,909)
Total nonoperating income	62,568,610	87,732
Change in Net Assets, without Donor Restrictions	25,225,052	(376,563)
Net Assets, without Donor Restrictions, Beginning of Year	4,665,646	5,042,209
Net Assets, without Donor Restrictions, End of Year	\$ 29,890,698	\$ 4,665,646

Maine Guaranteed Access Reinsurance Association

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 25,225,052	\$ (376,563)
Adjustments to reconcile change in net assets to cash from (used for) operating activities		
Loss on investments	51,574	10,909
Interest income	(321,884)	(98,641)
Changes in assets and liabilities		
Premium receivable	(4,939,020)	-
Assessment receivable	(7,014,514)	-
Grant receivable	(6,453,627)	-
Accounts payable	288,483	(34,860)
Claims payable	24,375,784	-
Estimated liability for claims incurred but not reported	14,900,000	-
Net Cash from (used for) Operating Activities	46,111,848	(499,155)
Investing Activities		
Purchase of investments	(48,409,717)	(2,496,118)
Sale of investments	13,396,540	3,096,321
Interest received	158,528	-
Net Cash from (used for) Investing Activities	(34,854,649)	600,203
Net Change in Cash	11,257,199	101,048
Cash, Beginning of Year	173,729	72,681
Cash, End of Year	\$ 11,430,928	\$ 173,729

Note 1 - Principal Activity and Significant Accounting Policies**Organization**

The Maine Guaranteed Access Reinsurance Association (the Association) is a Maine mutual benefit non-profit corporation created pursuant to Titles 13-B and 24-A, Chapter 54-A of the Maine Revised Statutes on January 6, 2012. The members of the Association are Insurers that offer individual health plans and are actively marketing individual health plans in the State of Maine. The Association, which is governed by an 11-member Board of Directors (the Board) appointed by the Superintendent and Member Insurers as provided in the Association's Articles of Incorporation and Section 3953(2) of the Enabling Act.

The Association was created for the purpose of providing a reinsurance program for the higher risk segment of Maine's individual health insurance market in order to reduce insurance costs in that market and assure availability of affordable health insurance to residents of the State of Maine by providing reinsurance of a significant portion of the coverage provided through individual health insurance policies offered by its Member Insurers. In the normal course of business, the Member Insurers seek to limit their exposure to loss on any single insured and to recover a portion of losses paid by ceding reinsurance to the Association. Starting in 2019, the Association covers losses at 90% of claims paid between \$47,000 and \$77,000, and at 100% of claims paid in excess of \$77,000, net of amounts recoverable from a federal high cost risk pool.

The Association officially commenced operations on January 1, 2012. Premium collections and claims processing began on July 1, 2012. The Association suspended its operations effective January 1, 2014, and the final assessment was assessed in October of 2013. The Association re-initiated its reinsurance program effective January 1, 2019 in accordance with its Amended and Restated Plan of Operation dated January 1, 2019 approved by the Maine Bureau of Insurance in late December 2018.

Cash

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment gain/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Assessments and Premiums

The Board assessed each Insurer a one-time organizational assessment of \$500 per Insurer. On an annual basis, the Board assesses each Insurer an amount not to exceed \$4 per month per Covered Person resident in the State of Maine enrolled in Medical Insurance, reinsured or administered by the Insurer. In addition to the organizational and regular assessments, the Board may assess Insurers an amount not to exceed \$2 per month per Covered Person enrolled in Medical insurance insured to cover any net loss incurred.

The premiums in the financial statements only reflect the premiums ceded by the carriers to the Association for the reinsurance. The Board determines the reinsurance premium, the attachment points, and the list of medical conditions for which ceding is mandatory.

Financial Instruments and Credit Risk

The Association manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Association has not experienced losses in any of these accounts. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Association.

Revenue and Revenue Recognition

Premium revenue and assessments are recognized when earned. Program fees and claim payments are expensed in the period the services are incurred. The Association's federal grant is received on a reimbursement basis. Amounts received are recognized as revenue when the Association has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position.

The Association has adopted Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)*, as amended as management believes the standard improves the usefulness and understandability of the Association's financial reporting.

The Association has adopted Accounting Standards Update (ASU) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605) as management believes the standard improves the usefulness and understandability of the Association's financial reporting.

Analysis of various provisions of these standards resulted in no significant changes in the way the Association recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

Investment Income and Gains

Investment income and gains are reported as increases in unrestricted net assets.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near-term could materially affect account balances and the amounts reported in the accompanying financial statements.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Association reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The Association does not have net assets with donor restrictions as of December 31, 2019 or 2018.

Significant Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing the financial statements include those assumed in determining the accrued liability for claims incurred but not reported. It is at least reasonably possible that the significant estimates used will change within the next year.

Income Taxes and Uncertainty

It is management's position that the Association is a non-profit tax-exempt organization under 501(c)(4) of the Internal Revenue Code (IRC). The Association received a letter from the Internal Revenue Service dated October 8, 2015, confirming approval of the tax-exempt status effective June 27, 2012.

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements
December 31, 2019 and 2018

Management believes that the Association has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. Management would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in Note 8. The functional expenses footnote presents the natural classification detail of expenses by function. Due to the nature of the Association, all expenses are allocated to one specific program.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	\$ 11,120,152
Premium receivable	4,939,020
Assessments receivable from prior years	7,014,514
Federal grant receivable	6,453,627
Accrued interest receivable	181,416
Investments	<u>15,081,969</u>
	<u><u>\$ 44,790,698</u></u>

Note 3 - Cash Deposits

As of December 31, 2019 and 2018, the book balance of deposits was \$11,430,928 and \$173,729, respectively. At times during the year, the Association exceeded FDIC insurance coverage on its cash deposit balances.

Note 4 - Investments and Fair Value Measurements

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements
December 31, 2019 and 2018

to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

All the Association's investment assets are classified within Level 2. The certificates of deposit and commercial paper are classified within Level 2 as they are traded on an active market and have quoted prices. The fixed income securities are valued by the custodians of the securities using pricing models based upon credit quality, time to maturity, stated interest rates and market rate assumptions, and are classified within Level 2.

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of December 31, 2019 and 2018:

	2019			
	(Level 1)	(Level 2)	(Level 3)	Total
Commercial paper	\$ -	\$ 12,946,516	\$ -	\$ 12,946,516
Certificates of deposit	-	1,254,882	-	1,254,882
Corporate bonds	-	22,759,180	-	22,759,180
U.S Treasury Stock	-	2,497,175	-	2,497,175
Total assets at fair value	<u>\$ -</u>	<u>\$ 39,457,753</u>	<u>\$ -</u>	<u>\$ 39,457,753</u>

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements
December 31, 2019 and 2018

	2018			
	(Level 1)	(Level 2)	(Level 3)	Total
Certificates of deposit	\$ -	\$ 1,544,867	\$ -	\$ 1,544,867
Corporate bonds	-	2,951,283	-	2,951,283
Total assets at fair value	\$ -	\$ 4,496,150	\$ -	\$ 4,496,150

Note 5 - Assessments Receivable/Offset of Future Revenues

As defined by the Association's Plan of Operations, if assessments and other receipts exceed the actual net losses, the excess funds must be held in an interest-bearing account or otherwise invested in accordance with the Association's Investment Policy to offset future losses or reduce reinsurance premiums. As of December 31, 2019 and 2018, there was \$29,890,698 and \$4,665,646, respectively, available to offset future losses.

Note 6 - Provisions for Unpaid Claims and Claims Administration

In accordance with accounting principles generally accepted in the United States of America for insurance companies, the Association estimates its liability for claims that were incurred before year end, but for which payment will not be made until after year end. The estimate is based on information concerning incurred but not reported claims provided by the insurance companies which are currently participating in the Association. The Association's Board of Directors monitors the estimates with assistance from actuarial consultants, and the necessary adjustments are reflected in current operations. As of December 31, 2019 and 2018, the provision for unreported and unpaid claims for the Association was \$14,900,000 and \$0, respectively. Differences between actual and estimated claims are charged to operations in the year that the differences, if any, become known.

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements
December 31, 2019 and 2018

The following represents the changes in the provision for unreported and unpaid claims for the years ended December 31, 2019 and 2018:

	2019	2018
Unpaid losses and loss adjustment expenses, beginning of year	\$ -	\$ -
Incurred losses and loss adjustment expenses		
Provision for insured events of the current year	105,432,123	-
Increase in provision for insured events of prior year	-	-
Total incurred losses and loss adjustment expenses	105,432,123	-
Payments		
Losses and loss adjustment expense attributable to insured events of the current year	90,532,123	-
Losses and loss adjustment expense attributable to insured events of the prior year	-	-
Total payments	90,532,123	-
Unpaid losses and loss adjustment expenses, end of year	\$ 14,900,000	\$ -

The provision for incurred losses and loss adjustments increased during the year ended December 31, 2019, and remained at \$0 for the year ended December 31, 2018. The change is due to resumed operations effective January 1, 2019, and the corresponding change in the actuarial estimates of ultimate liabilities for incurred claims.

Note 7 - Management Contract

Effective January 1, 2019, the Association entered into an administrative agreement with River 9 Consulting, Inc. (River 9). This agreement stipulates a flat monthly fee of \$3,446 per month and \$9.82 per member per month. The rates increase 2.5% each year starting January 1, 2020 for the duration of the contract.

The management service expense for the years ended December 31, 2019 and 2018, was \$659,315 and \$66,000, respectively, of which \$235,935 and \$0 was payable at December 31, 2019 and 2018, respectively.

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements

December 31, 2019 and 2018

Note 8 - Functionalized Expenses

The following schedule presents the natural classification of expenses by function for the year ended December 31, 2019:

	Program Services	Management and General	Total
Claims incurred	\$ 105,432,123	\$ -	\$ 105,432,123
Contracted management services	-	836,820	836,820
Professional fees	-	121,306	121,306
Interest and bank charges	-	8,163	8,163
Other administrative costs	-	20,453	20,453
	<u>105,432,123</u>	<u>986,742</u>	<u>106,418,865</u>
Less expenses included with revenues on the statement of activities			
Claims incurred	<u>(105,432,123)</u>	<u>-</u>	<u>(105,432,123)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ -</u>	<u>\$ 986,742</u>	<u>\$ 986,742</u>

The following schedule presents the natural classification of expenses by function for the year ended December 31, 2018:

	Program Services	Management and General	Total
Claims incurred	\$ -	\$ -	\$ -
Contracted management services	-	304,693	304,693
Professional fees	-	147,130	147,130
Interest and bank charges	-	1,202	1,202
Other administrative costs	-	11,270	11,270
	<u>-</u>	<u>464,295</u>	<u>464,295</u>
Less expenses included with revenues on the statement of activities			
Claims incurred	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses included in the expense section on the statement of activities	<u>\$ -</u>	<u>\$ 464,295</u>	<u>\$ 464,295</u>

Note 9 - Insurance/Risk Management

The Association is exposed to various risks of loss related to tort claims as well as errors and omissions by employees. The Program is covered through commercial insurance purchased by River 9 to the extent of its employees' involvement with the Association. Current insurance coverage is summarized as follows:

Individual Claims	\$	1,000,000
Aggregate Claims	\$	3,000,000

Note 10 - Affordable Care Act and Section 1332 Waiver

The following is a brief summary of the circumstances relating to the temporary suspension of the operations of the Association and authorization of resumption of operations as of January 1, 2019:

The Association was established pursuant to an act of the Maine State Legislature. The Association's original Plan of Operation was adopted effective June 12, 2012 ("Original Plan") and the Association operated its reinsurance program during the period July 1, 2012 through December 31, 2013. Pursuant to legislative action, effective January 1, 2014, the Association's operations were suspended during the pendency of the transitional reinsurance program instituted pursuant to Section 1341 of the Patient Protection and Affordable Care Act ("Federal Program") in order to avoid redundancy with the Federal Program. Pursuant to such suspension, the Association filed an Amended Plan of Operation with the Superintendent of Insurance on June 5, 2014 pursuant to 24-A M.R.S. Section 3962, which required the Association to file with the Superintendent for approval of an Amended Plan of Operation ("Suspension Plan") within 6 months following the implementation of the Federal Program.

On July 30, 2018, the State of Maine received approval from the United States Department of Health & Human Services, Centers for Medicare & Medicaid Services ("CMS") of its Application for State Innovation Waiver under Section 1332 of the Patient Protection and Affordable Care Act ("Section 1332 Waiver Application"). On August 21, 2018 the State of Maine accepted the Section 1332 Waiver by executing and delivering to CMS the Specific Terms and Conditions of the Section 1332 Waiver ("STCs"). The Section 1332 Waiver Application and the STCs are collectively referred to as the "Section 1332 Waiver."

On August 18, 2018, the Association's Board approved the re-initiation of Association operations as of January 1, 2019, and the submission of an Amended and Restated Plan of Operation for approval by the Maine Superintendent of Insurance. On November 30, 2018, CMS confirmed in a letter to the Maine Superintendent of Insurance the estimated amount of Section 1332 pass-through funding to the State of Maine for use in operating the Association's reinsurance program at \$65,270,675. The Association's Amended and Restated Plan of Operation was submitted to and approved by the Superintendent of Insurance in December 2018.

Note 11 - Subsequent Events

The Association has evaluated subsequent events through April 14, 2020, the date the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact the Association's operating results; however, such potential impact is unknown at this time. The COVID-19 outbreak in Maine could result in increased claims and increased claims costs. The Association is working with its independent actuary in an effort to better understand and quantify these potential costs.



Federal Awards Reports in Accordance with the Uniform
Guidance
December 31, 2019

Maine Guaranteed Access Reinsurance Association



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Maine Guaranteed Access Reinsurance Association
Portland, Maine

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Maine Guaranteed Access Reinsurance Association (the Association), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 14, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency 2019-001 described in the accompanying *schedule of findings and questioned costs* to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 any 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 result of that testing, and not to provide an opinion on the effectiveness of the Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
April 14, 2020



Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Maine Guaranteed Access Reinsurance Association
Portland, Maine

Report on Compliance for the Major Federal Program

We have audited Maine Guaranteed Access Reinsurance Association's (the Association) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Association's major federal program for the year ended December 31, 2019. The Association'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the Association's major federal program 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 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 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 Association'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 Association's compliance.

Opinion on the Major Federal Program

In our opinion, the Association 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, 2019.

Report on Internal Control over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on the 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 Association'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 a 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 and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-002 that we consider to be a significant deficiency.

The Association's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



Boise, Idaho
April 14, 2020

Maine Guaranteed Access Reinsurance Association
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Department of Health and Human Services Centers for Medicare & Medicaid Services State Innovation Waiver	93.423	n/a	\$ 62,298,300
			<u>\$ 62,298,300</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Maine Guaranteed Access Reinsurance Association (the Association) under programs of the federal government for the year ended December 31, 2019. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Association.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The Association does not draw for indirect administrative expenses and has not elected to use the 10% de minimis cost rate.

Section I - Summary of Auditor's Results

FINANCIAL STATEMENT

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

Name of Federal Program	CFDA Number
State Innovation Waiver	93.423
Dollar threshold used to distinguish between type A and type B programs	\$1,868,949
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

**2019-001 Financial Statement Preparation
Significant Deficiency in Internal Control**

Criteria:

Management should have an internal control system in place designed to provide for the presentation of the financial statements being audited. This also includes the ability to prepare the footnote disclosure required by the Financial Accounting Standards Board (FASB).

Condition:

The Association does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Although this circumstance is not unusual for an organization of your size, the preparation of financial statements as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by Association personnel. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.

Cause:

The size of the Association and the limited number of accounting personnel makes it difficult to implement this level of internal control.

Effect:

Management must rely on the auditing firm to report financial data reliably in accordance with generally accepted accounting principles.

Recommendation:

Management and those charged with governance should make the decision whether to accept the degree of risk associated with this condition because of cost or other consideration.

View of Responsible Officials:

The Board of Directors and management accept the degree of risk associated with this condition because of cost and/or other considerations.

Section III - Federal Award Findings and Questioned Costs

**2019-002 U.S. Department of Health and Human Services Centers for Medicare & Medicaid Services
CFDA #93.423**

**Procurement, Suspension and Debarment
Significant Deficiency in Internal Control over Compliance**

Criteria:

2 CFR Part 200 (Uniform Guidance) requires that a non-Federal entity must use its own documented procurement procedures, which reflect applicable state and local laws and regulations, provided that the procedures conform to applicable federal law and standards. Uniform Guidance requires price or rate quotations from an adequate number of qualified sources for small purchases. Uniform Guidance also requires contracts contain the applicable provisions described in Appendix II to Part 200 for contracts under federal awards.

Condition:

The Association does not have a formal written procurement policy in place in accordance with the Uniform Guidance and all applicable provisions of the Uniform Guidance.

Cause:

The Association does not have an internal control system in place designed to ensure compliance requirements are met related to procurement.

Effect:

Without a formal written policy that includes all applicable provisions of the Uniform Guidance, the Association could procure goods and services outside compliance with the Uniform Guidance.

Questioned Costs:

None

Context/Sampling:

The Association's procurement procedures were examined in their entirety.

Repeat Finding from Prior Year(s):

No

Recommendation:

We recommend the Association monitor changes in federal legislation and implement controls, when necessary, to ensure its procurement procedures are updated to conform with federal requirements.

View of Responsible Officials:

The Board of Directors and management agree with the finding.