

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, 2021

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 2020 year was MGARA’s second year of operation following its suspension effective as of January 1, 2014. It also represented MGARA’s second 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”).

Primarily as a result of the stability and consistency of the MGARA reinsurance program MGARA has seen increasing level of value attributed to its reinsurance contributing to average rate decreases in the individual market of 0.5% in 2019, 1.5% in 2020 and 13% in 2021.

II. REVENUES AND CEDING: The MGARA program finished 2020 with revenues of \$69.6 million exclusive of 1332 Grant proceeds, which totaled \$26.3 million. On a year-over-year basis 2020 assessment revenue was ahead of 2019 by approximately \$4 million and 2020 premium revenue was behind 2019 by approximately \$4 million, resulting in consistent overall revenue versus a year ago. Grant revenue was substantially behind 2019 at \$26.3 million versus \$62 million, which was expected due to the anomalous 1332 grant revenue received in 2019. Ceded lives to the program totaled 3,659 with 627 Discretionary Cedes representing 18% of total lives and 3,032 Mandatory Cedes representing 82% of total lives.

III. CLAIMS: The MGARA program finished 2020 with total incurred claims of \$69.1 million representing a substantial reduction compared to 2019 incurred claims of \$105 million. There was little change in IBNR year over year with a slight increase from \$14,900,000 in 2019 to \$15,000,000 in 2020.

IV. OPERATIONS: MGARA operations executed according to plan without any operational issues. MGARA revised the program’s attachment points for 2020 from 90% of claims at \$47,000 and 100% of claims at \$77,000 in 2019 to 90% of claims at \$65,000 and 100% of claims at \$95,000 for 2020. The reinsurance premium remained at 90% of underlying premium and the Mandatory Ceding Conditions remained the same as 2019. There is no change in attachment points, ceding premium or ceding conditions for 2021.

V. OVERAL FINANCIAL POSITION AND PERFORMANCE: MGARA concluded 2020 with an ending Net Position of \$56 million, which is consistent with the Association’s surplus target of maintaining a Risk Based Capital (RBC) Ratio of 900%. MGARA increased its target RBC Ratio in April 2020 due to the uncertainty created by the proposed small group market merger, conversion to a retrospective program and related impacts on MGARA’s operations and financial position. Attached hereto are the Association’s Audited Financial Statements for the 12 months ended December 31, 2020. All information set forth therein is incorporated herein by reference.



Financial Statements

December 31, 2020 and 2019

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 the business-type activities of Maine Guaranteed Access Reinsurance Association (the Association), a public corporation of the State of Maine, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2020 and 2019, and the changes in financial position and its cash flows 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 on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements 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 21, 2021 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 21, 2021

As management of the Maine Guaranteed Access Reinsurance Association (the "Association"), we provide this narrative overview and analysis of the change in net position of the Association for the years ended December 31, 2020 and 2019.

The Association officially commenced operations on January 1, 2012 but 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. Because of this situation, this overview does not provide an analysis of the changes between 2018 and 2019 as all of the changes were due to the re-initiation of activity in 2019.

Financial Highlights

- Total assets increased by \$16,543,358 from \$69,477,258 in 2019 to \$86,020,616 in 2020.
- Cash and cash equivalents increased by \$31,057,013 from \$11,430,928 in 2019 to \$42,487,941 in 2020.
- Investments decreased by \$8,929,469 from \$39,457,753 in 2019 to \$30,528,284 in 2020.
- Incurred claims decreased by \$36,285,247 from \$105,432,123 in 2019 to \$69,146,876 in 2020.
- Net investment income was \$270,310 and \$478,931 in 2019 and 2020, respectively.
- Grant revenue decreased by \$36,006,329 from \$62,298,300 in 2019 to \$26,291,971 in 2020.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Association's annual financial statements. The Association operates as a Maine non-profit corporation created pursuant to 24-A MRS Chapter 54-A and is reported in conformity with generally accepted accounting principles as applied to government units as the Association is considered a public corporation of the State of Maine. The Association was created for the sole 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.

The Association's annual financial statements are comprised of two components, the basic financial statements and the notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Financial Statements. The financial statements are designed to provide readers with a broad overview of the Association's finances, in a manner similar to a private-sector business. The statements of net position present information on all of the Association's assets and liabilities, with the difference reported as restricted net position. The statements of revenues, expenses and changes in net position present information on all of the Association's revenues and expenses. Any excess or deficiency of revenues over expenses is reported as change in net position. The statements of cash flows present information on cash flows provided by and used in activities. The activities are classified into one of two categories: operating activities and investing activities.

Maine Guaranteed Access Reinsurance Association

Management's Discussion and Analysis

December 31, 2020 and 2019

Notes to Financial Statements. The notes provide additional information that is essential to obtain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 through 21 of this report.

Financial Analysis

	2020	2019	2018
Assets			
Cash and cash equivalents	\$ 42,487,941	\$ 11,430,928	\$ 173,729
Premium receivable	5,357,263	4,939,020	-
Assessments receivable	7,436,904	7,014,514	-
Grant receivable	-	6,453,627	-
Accrued interest receivable	210,224	181,416	18,060
Investments	30,528,284	39,457,753	4,496,150
	<u>86,020,616</u>	<u>69,477,258</u>	<u>4,687,939</u>
Liabilities			
Accounts payable	197,033	310,776	22,293
Claims payable	14,806,289	24,375,784	-
Estimated liability for claims incurred but not reported	15,000,000	14,900,000	-
	<u>30,003,322</u>	<u>39,586,560</u>	<u>22,293</u>
Restricted Net Position	<u>\$ 56,017,294</u>	<u>\$ 29,890,698</u>	<u>\$ 4,665,646</u>

The Association's assets are concentrated primarily in its cash and cash equivalents and investments, which together represented 84.9% of the Association's assets in 2020 and 73.2% in 2019. Cash and cash equivalents increased by \$31,057,013 from \$11,430,928 in 2019 to \$42,487,941 in 2020. The increase is due principally to lower incurred claims. Investments decreased by \$8,929,469 from \$39,457,753 in 2019 to \$30,528,284 in 2020. The decrease is attributable largely to the timing of the Association's conversion of cash to investments. Both premium receivable and assessments receivable remained relatively stable year over year with an increase in premium receivable of \$418,243 from \$4,939,020 in 2019 to \$5,357,263 in 2020, and an increase in assessments receivable of \$422,390 from \$7,014,514 in 2019 to \$7,436,904 in 2020. The change in grant receivable from \$6,453,627 in 2019 to \$0 in 2020 is due to the more rapid timing of draws on the grant in 2020. There was a reduction in claims payable at year end from \$24,375,784 in 2019 to \$14,806,289 in 2020 due to lower claims incurred in 2020 compared to 2019. There was little change in IBNR year over year with a slight increase from \$14,900,000 in 2019 to \$15,000,000 in 2020.

Maine Guaranteed Access Reinsurance Association
Management's Discussion and Analysis
December 31, 2020 and 2019

	2020	2019	2018
Operating Revenues			
Premiums earned	\$ 40,748,475	\$ 44,203,628	\$ -
Regular assessments	28,864,378	24,871,679	-
Less claims incurred	(69,146,876)	(105,432,123)	-
	465,977	(36,356,816)	-
Operating Expenses	1,110,283	986,742	464,295
Loss from Operations	(644,306)	(37,343,558)	(464,295)
Nonoperating Income (Expense)			
Grant revenue	26,291,971	62,298,300	-
Interest income	1,022,610	321,884	98,641
Loss on investments	(543,679)	(51,574)	(10,909)
	26,770,902	62,568,610	87,732
Change in Net Position	<u>\$ 26,126,596</u>	<u>\$ 25,225,052</u>	<u>\$ (376,563)</u>

The Association experienced a reduction in premiums earned of \$3,455,153 from \$44,203,628 in 2019 to \$40,748,475 in 2020 due principally to a decrease in ceded lives from member insurers. Regular assessments increased \$3,992,699 to \$28,864,378 in 2020 vs. \$24,871,679 in 2019. Management is studying the reason for the increase. There was a substantial reduction of \$36,285,247 in incurred claims for 2020 from \$105,432,123 in 2019 to \$69,146,876 in 2020. Management attributes the change to the reduction in ceded lives and under-utilization of medical services due to the COVID-19 pandemic. The decrease in ceded lives is likely attributable in part to the uptake in the State of Maine's Medicaid expansion. There was little change in operating expenses year over year with an increase of \$123,541 in 2020 from \$986,742 in 2019 to \$1,110,283 in 2020. This change is the result of an increase in professional fees and administrative costs due to the analysis and response to proposed changes in the Association's enabling legislation to expand the Association's reinsurance program to the small group market and convert the program to a retrospective reinsurance model from its current prospective reinsurance model.

There was an increase in net position of \$25,225,052 in 2019 and \$26,126,596 in 2020. The increases were a result of operating and non-operating revenues exceeding operating expenses.

Economic Factors and Next Year's Results

Revenue: In 2021 revenue is expected to be down by an estimated \$7,000,000 due to normalized assessment revenue to 2019 levels and reduction in ceded life estimates from probability distribution and on individual market premiums based on trends from URRT.

Expenses: Management expects an increase in claims incurred of approximately \$10,000,000 due, in part, to a return to normal utilization of medical services as the COVID-19 pandemic comes under greater control, combined with some increase in morbidity and severity due to under-utilization of medical services in 2020 due to the pandemic, as well as adjusting for trends from URRT.

Maine Guaranteed Access Reinsurance Association

Management's Discussion and Analysis

December 31, 2020 and 2019

Change in Net Position: The Association is expecting to operate at essentially breakeven in 2021, resulting in no change in net position and an ending surplus of \$47 million, maintaining the Association's Risk Based Capital ratio at approximately 800%, which is slightly below the target level set by the Board of 900%.

Maine Guaranteed Access Reinsurance Association

Statements of Net Position
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 42,487,941	\$ 11,430,928
Premium receivable	5,357,263	4,939,020
Assessments receivable	7,436,904	7,014,514
Grant receivable	-	6,453,627
Accrued interest receivable	210,224	181,416
Investments	30,528,284	39,457,753
	<u>\$ 86,020,616</u>	<u>\$ 69,477,258</u>
Current Liabilities		
Accounts payable	\$ 197,033	\$ 310,776
Claims payable	14,806,289	24,375,784
Estimated liability for claims incurred but not reported	15,000,000	14,900,000
Total current liabilities	30,003,322	39,586,560
Restricted Net Position	<u>56,017,294</u>	<u>29,890,698</u>
	<u>\$ 86,020,616</u>	<u>\$ 69,477,258</u>

Maine Guaranteed Access Reinsurance Association
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Premiums earned	\$ 40,748,475	\$ 44,203,628
Regular assessments	28,864,378	24,871,679
Less claims incurred	<u>(69,146,876)</u>	<u>(105,432,123)</u>
Excess (deficiency) of premiums and assessments over (under) claims	<u>465,977</u>	<u>(36,356,816)</u>
Operating Expenses		
Contracted management services	870,081	836,820
Professional fees	187,258	121,306
Interest and bank charges	10,177	8,163
Other administrative costs	<u>42,767</u>	<u>20,453</u>
Total operating expenses	<u>1,110,283</u>	<u>986,742</u>
Loss from Operations	<u>(644,306)</u>	<u>(37,343,558)</u>
Nonoperating Income (Expense)		
Grant revenue	26,291,971	62,298,300
Interest income	1,022,610	321,884
Loss on investments	<u>(543,679)</u>	<u>(51,574)</u>
Total nonoperating income	<u>26,770,902</u>	<u>62,568,610</u>
Change in Net Position	26,126,596	25,225,052
Restricted Net Position, Beginning of Year	<u>29,890,698</u>	<u>4,665,646</u>
Restricted Net Position, End of Year	<u><u>\$ 56,017,294</u></u>	<u><u>\$ 29,890,698</u></u>

Maine Guaranteed Access Reinsurance Association

Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Activities		
Change in net position	\$ 26,126,596	\$ 25,225,052
Adjustments to reconcile change in net position to cash from operating activities		
Loss on investments	543,679	51,574
Interest income	(1,022,610)	(321,884)
Changes in assets and liabilities		
Premium receivable	(418,243)	(4,939,020)
Assessments receivable	(422,390)	(7,014,514)
Grant receivable	6,453,627	(6,453,627)
Accounts payable	(113,743)	288,483
Claims payable	(9,569,495)	24,375,784
Estimated liability for claims incurred but not reported	100,000	14,900,000
Net Cash from Operating Activities	<u>21,677,421</u>	<u>46,111,848</u>
Investing Activities		
Purchase of investments	(112,578,898)	(48,409,717)
Sale of investments	120,964,688	13,396,540
Interest received	993,802	158,528
Net Cash from (used for) Investing Activities	<u>9,379,592</u>	<u>(34,854,649)</u>
Net Change in Cash and Cash Equivalents	31,057,013	11,257,199
Cash and Cash Equivalents, Beginning of Year	<u>11,430,928</u>	<u>173,729</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 42,487,941</u></u>	<u><u>\$ 11,430,928</u></u>

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. In 2019, the Association covered 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. Starting in 2020, the Association covers losses at 90% of claims paid at \$65,000 of loss, and at 100% of claims paid in excess of \$95,000 of loss, 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.

Basis of Presentation

As a public corporation created by State Code, the financial statements of the Association have been prepared in conformity with generally accepted accounting principles (GAAP as applied to government units). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Association is an enterprise fund, which is a proprietary fund type. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all cash and cash equivalents with an original maturity of three months or less as cash and cash equivalents.

Investments

Investments consist of corporate bonds, commercial paper, U.S. Treasury securities, and traded certificates of deposit. Investments are measured at fair market value.

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. 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.

Assessments and Premiums

The Board assessed each Insurer a one-time organizational assessment of \$500 per Insurer in 2019. 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.

Revenue and Revenue Recognition

Premium revenue and assessments are recognized when earned. 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 net position.

Investment Income and Gains

Investment income and gains are reported as increases in net position.

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.

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.

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.

Note 2 - Cash Deposits

As of December 31, 2020 and 2019, the book balance of deposits was \$17,490,941 and \$11,430,928, respectively, and the bank balance was \$17,490,941 and \$11,493,928, respectively.

Of the 2020 bank balance, \$250,000 was covered by FDIC insurance and \$17,240,941 was uninsured and uncollateralized. Of the 2019 bank balance, \$250,000 was covered by FDIC insurance and \$11,180,928 was uninsured and uncollateralized.

The Association also had cash equivalents with a book balance of \$24,997,000 as of December 31, 2020. These cash equivalents are invested in fixed income commercial paper purchased within 3 months of maturity and held in the Association's name.

Note 3 - Investments and Fair Value Measurements

The goal of the Association's investment policy is to provide cash flow necessary to support the Association's reinsurance program and enhance the capital base of the Association. The objective of the investment policy is to provide liquidity required to satisfy the Association's reinsurance reimbursement obligations and operate its reinsurance program; preserve all funds held by the Association in an investment capacity so as to minimize principal risk; earn a rate of return commensurate with the first two objectives; employ multiple asset classes to allow for prudent diversification and the resultant lowering of return volatility; and conform with all federal and state regulations governing the investments of such funds.

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements

December 31, 2020 and 2019

Investment types authorized by the Association's investment policy are as follows:

- Certificates of Deposit at insured financial institutions;
- Money market funds that invest in government backed securities;
- Interest bearing deposit accounts of insured financial institutions;
- Investment grade direct obligations of the U.S., State or Municipal Governments, their agencies and instrumentalities (*i.e.*, rated BBB/Baa or above);
- Commercial Paper rated A-1/P-1 by Standard & Poors and Moody's;
- Commercial Paper backed by bank letters of credit where the long-term letter of credit rating is rated at least double A (AA, Aa) by one rating service;
- Variable rate notes where the minimum rating is A-1/P-1;
- Corporate notes with a minimum rating of investment grade (BBB) by Moody's or Standard & Poors rating services which have a current rating on the issuer;
- Equity investments are not allowed.

At December 31, 2020, the Association's investment balances were as follows:

	Fair Value	Cost
Cash Equivalents		
Commercial paper	\$ 24,997,000	\$ 24,994,425
Investments		
Commercial paper	\$ 9,999,426	\$ 9,946,383
Corporate bonds	20,528,858	20,530,351
	<u>\$ 30,528,284</u>	<u>\$ 30,476,734</u>

At December 31, 2019, the Association's investment balances were as follows:

	Fair Value	Cost
Investments		
Commercial paper	\$ 12,946,516	\$ 12,908,228
Traded certificates of deposit	1,254,882	1,250,000
U.S. Treasury securities	2,497,175	2,478,858
Corporate bonds	22,759,180	22,762,440
	<u>\$ 39,457,753</u>	<u>\$ 39,399,526</u>

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in the market will adversely impact 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 Association manages its exposure to interest rate risk by purchasing short-term investments to maintain the proper amount of liquidity to meet its obligations. The Association's policy does not define the maximum weighted average maturity of the investment pool.

Information about the sensitivity of the fair values of the Association's investments to market interest rate fluctuations is provided by the following schedules that show the distribution of the Association's investments by maturity.

The distribution of the Association's investments by maturity as of December 31, 2020 is as follows:

Investment Type	Fair Value	Less Than 1 Year	1-2 Years	2-5 Years
Commercial paper	\$ 34,996,426	\$ 34,996,426	\$ -	\$ -
Corporate bonds	20,528,858	16,487,698	4,041,160	-
Total	<u>\$ 55,525,284</u>	<u>\$ 51,484,124</u>	<u>\$ 4,041,160</u>	<u>\$ -</u>

The distribution of the Association's investments by maturity as of December 31, 2019 is as follows:

Investment Type	Fair Value	Less Than 1 Year	1-2 Years	2-5 Years
Commercial paper	\$ 12,946,516	\$ 12,946,516	\$ -	\$ -
Traded certificates of deposit	1,254,882	-	1,254,882	-
Corporate bonds	22,759,180	21,507,100	751,430	500,650
U.S. Treasury	2,497,175	N/A	N/A	N/A
Total	<u>\$ 39,457,753</u>	<u>\$ 34,453,616</u>	<u>\$ 2,006,312</u>	<u>\$ 500,650</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Association's investment policy requires the overall weighted average quality of the aggregate fixed income portfolio to be A or higher. As of December 31, 2020 and 2019, all investments are in compliance with the rating policy.

Concentration of Credit Risk

The Association's investment policy does not limit the amount that can be invested in any one issuer. The Governmental Accounting Standards Board has adopted a principle that governments should provide note disclosure when five percent of the total entity's investments are concentrated in any one issuer. As of December 31, 2020, the Association had investments in three (3) issuers of commercial paper that were 18%, 18% and 27% of the total investment portfolio and had investments in four (4) issuers of corporate bonds that were 5%, 5%, 11% and 11% of the total investment portfolio. As of December 31, 2019, the Association had investments in two (2) issuers of commercial paper that were 16% and 16% of the total investment portfolio and had investments in four (4) issuers of corporate bonds that were 5%, 6%, 15% and 24% of the total investment portfolio.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Association does not have a policy restricting the amount of deposits and investments subject to custodial credit risk.

The Association minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be identified as to the Association's ownership and be held in the Association's name. All investments are held in custody by KeyBanc Capital Markets in the Association's name.

Fair Value

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 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

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements
December 31, 2020 and 2019

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 the 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 investments at fair value as of December 31, 2020:

	2020			
	(Level 1)	(Level 2)	(Level 3)	Total
Commercial paper	\$ -	\$ 9,999,426	\$ -	\$ 9,999,426
Corporate bonds	-	20,528,858	-	20,528,858
	-	30,528,284	-	30,528,284
Short-term commercial paper	-	24,997,000	-	24,997,000
Total assets at fair value	<u>\$ -</u>	<u>\$ 55,525,284</u>	<u>\$ -</u>	<u>\$ 55,525,284</u>

As of December 31, 2020, the Association had \$24,997,000 of commercial paper with maturities of three months or less. These have been classified as cash equivalents.

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements
December 31, 2020 and 2019

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

	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	\$ -	\$ 39,457,753	\$ -	\$ 39,457,753

Note 4 - 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, 2020 and 2019, there was \$56,017,294 and \$29,890,698, respectively, available to offset future losses.

Note 5 - 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, 2020 and 2019, the provision for unreported and unpaid claims for the Association was \$15,000,000 and \$14,900,000, 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, 2020 and 2019

The following represents the changes in the provision for unreported and unpaid claims for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Unpaid losses and loss adjustment expenses, beginning of year	\$ 14,900,000	\$ -
Incurred losses and loss adjustment expenses		
Provision for insured events of the current year	75,974,240	105,432,123
Decrease in provision for insured events of prior year	<u>(6,827,364)</u>	<u>-</u>
Total incurred losses and loss adjustment expenses	<u>69,146,876</u>	<u>105,432,123</u>
Payments		
Losses and loss adjustment expense attributable to insured events of the current year	60,974,239	90,532,123
Losses and loss adjustment expense attributable to insured events of the prior year	<u>8,072,637</u>	<u>-</u>
Total payments	<u>69,046,876</u>	<u>90,532,123</u>
Unpaid losses and loss adjustment expenses, end of year	<u><u>\$ 15,000,000</u></u>	<u><u>\$ 14,900,000</u></u>

The provision for incurred losses and loss adjustments decreased during the year ended December 31, 2020, and increased for the year ended December 31, 2019. The change is primarily due to unanticipated developments during the year on losses incurred from previous years, and the corresponding change in the actuarial estimates of ultimate liabilities for incurred claims from those years.

Note 6 - 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, 2020 and 2019, was \$608,103 and \$659,315, respectively, of which \$171,222 and \$235,935 was payable at December 31, 2020 and 2019, respectively.

Note 7 - 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 Association 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 8 - 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. The Association received \$26,291,971 and \$62,298,300 as of December 31, 2020 and 2019, respectively.

Note 9 - Uncertainties

The general economy has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Association is closely monitoring its operations and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of the financial statements, the Association has not experienced a major detrimental impact, however, given the current economic climate, there are risks and uncertainties related to this matter.



Federal Awards Reports in Accordance with the Uniform
Guidance

December 31, 2020

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), a public corporation of the State of Maine, and the related notes to the financial statements, and have issued our report thereon dated April 21, 2021.

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) as a basis for designing 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 2020-001 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Association's Response to Findings

The Association's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.


Boise, Idaho
April 21, 2021



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, 2020. 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 types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2020.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 21, 2021

Maine Guaranteed Access Reinsurance Association
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

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	\$ 26,291,971
			<u>\$ 26,291,971</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, 2020. 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 cash 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	None Reported
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:	No

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	\$788,759
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

**2020-001 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 Governmental Accounting Standards Board (GASB).

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, accompanying notes to those financial statements, and the schedule of expenditures of federal awards. 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.

Maine Guaranteed Access Reinsurance Association
Schedule of Findings and Questioned Costs
December 31, 2020

Section III - Federal Award Findings and Questioned Costs

None Reported