

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, 2022

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 2021 year was MGARA’s third year of operation following its suspension effective as of January 1, 2014. It also represented MGARA’s third 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, 13% in 2021 and a further approximately 2.1% in 2022.

II. FINANCIAL SUMMARY: For the 12 months ended 12/31/21, total revenue was \$99,154,818, including \$26,966,006 in regular assessment revenue, premiums received of \$34,398,413 and \$39,315,869 in 1332 grant revenue. Gain on investments and interest income totaled (\$437,470); however, that value is reported in a marked-to-market basis and reflects unrealized losses that will never materialize as MGARA holds all investments to maturity. Claims incurred for the period totaled \$73,465,828, which together with operational expenses of \$1,071,523 resulted in total expense of \$71,737,352. Ceded lives totaled 3,893 for the year.

MGARA's Fund Balance as of 12/31/21 was \$83,434,759, exceeding projection by approximately \$27.4 million. The principal drivers of that difference were ARPA funding in the amount of \$8,562,238 and 15% lower than projected claims. MGARA expects to apply the fund balance through the MGARA reinsurance program to fund future claims costs within the reinsurance thresholds determined in advance of each year. Because there is no overall “cap” on total reinsurance payments based on available funds, the MGARA Board is charged with maintaining adequate capital (determined in an actuarially sound basis) to cover projected reimbursement payments. MGARA will continue to maintain a surplus based on a targeted RBC ratio in order to provide adequate assurance of funding for reimbursement payments over time.

III. OPERATIONS: MGARA operations executed according to plan without any operational issues. MGARA held attachment points for 2021 at 2020 levels - 90% of claims at \$47,000 and 100% of claims at \$77,000. The reinsurance premium remained at 90% of underlying premium and the Mandatory Ceding Conditions remained the same as prior years.

For the 2022 year, the MGARA reinsurance program has been converted from a prospective program to a retrospective program. Beginning 1/1/22, the MGARA program was converted to a retrospective program reimbursing carriers at an annually specified coinsurance rate for claims that meet or exceed an annually specified attachment point and are not in excess of a specified reinsurance limit. For 2022 carriers are reimbursed for 100% of claims costs in excess of \$76,000 up to a limit of \$250,000. Claims costs below \$76,000 and in excess of \$250,000 are the responsibility of the carriers. These reinsurance thresholds are determined annually by the MGARA Board, subject to approval by the Superintendent.

V. OVERALL FINANCIAL POSITION AND PERFORMANCE: MGARA concluded 2021 with an ending Fund Balance of \$83.4 million, resulting in an RBC Ratio of 1722%, which exceeds the Association’s surplus target. 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. This positive surplus position will enable MGARA to draw down surplus to assist in funding its anticipated transition to a merged individual and small group market in 2023. Attached hereto are the Association's Audited Financial Statements for the 12 months ended December 31, 2021. All information set forth therein is incorporated herein by reference.



Financial Statements
December 31, 2021 and 2020

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Maine Guaranteed Access Reinsurance Association (the Association), a public corporation of the State of Maine, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements as listed in the table of contents.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United

States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2022 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

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

Boise, Idaho
April 12, 2022

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, 2021 and 2020.

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.

Financial Highlights

- Total assets increased by \$25,367,094 from \$86,020,616 in 2020 to \$111,387,710 in 2021. Total assets increased by \$16,543,358 from \$69,477,258 in 2019 to \$86,020,616 in 2020.
- Cash and cash equivalents decreased by \$27,869,094 from \$42,487,941 in 2020 to \$14,618,847 in 2021. Cash and cash equivalents increased by \$31,057,013 from \$11,430,928 in 2019 to \$42,487,941 in 2020.
- Investments increased by \$54,445,040 from \$30,528,284 in 2020 to \$84,973,324 in 2021. Investments decreased by \$8,929,469 from \$39,457,753 in 2019 to \$30,528,284 in 2020.
- Incurred claims increased by \$1,518,952 from \$69,146,876 in 2020 to \$70,665,828 in 2021. Incurred claims decreased by \$36,285,247 from \$105,432,123 in 2019 to \$69,146,876 in 2020.
- Net investment income was \$478,931 and \$437,470 in 2020 and 2021, respectively.
- Grant revenue increased by \$13,023,898 from \$26,291,971 in 2020 to \$39,315,869 in 2021. 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, 2021 and 2020

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

	2021	2020	2019
Assets			
Cash and cash equivalents	\$ 14,618,847	\$ 42,487,941	\$ 11,430,928
Premium receivable	3,420,680	5,357,263	4,939,020
Assessments receivable	7,740,576	7,436,904	7,014,514
Grant receivable	-	-	6,453,627
Accrued interest receivable	634,283	210,224	181,416
Investments	84,973,324	30,528,284	39,457,753
	<u>111,387,710</u>	<u>86,020,616</u>	<u>69,477,258</u>
Liabilities			
Accounts payable	195,266	197,033	310,776
Claims payable	14,327,342	14,806,289	24,375,784
Estimated liability for claims incurred but not reported	12,200,000	15,000,000	14,900,000
	<u>26,722,608</u>	<u>30,003,322</u>	<u>39,586,560</u>
Restricted Net Position	<u>\$ 84,665,102</u>	<u>\$ 56,017,294</u>	<u>\$ 29,890,698</u>

The Association's assets are concentrated primarily in its cash and cash equivalents and investments, which together represented 89.4% of the Association's assets in 2021 and 84.9% in 2020. Cash and cash equivalents decreased by \$27,869,094 from \$42,487,941 in 2020 to \$14,618,847 in 2021. The decrease is due principally to movement of cash to investments in an effort to generate more investment income while also maintaining appropriate matching of liquidity to cash requirements. Investments increased by \$54,445,040 from \$30,528,284 in 2020 to \$84,973,324 in 2021. The increase is also attributable largely to the conversion of the Association's cash to investments. Both premium receivable and assessments receivable remained relatively stable year over year with a decrease in premium receivable of \$1,936,583 from \$5,357,263 in 2020 to \$3,420,680 in 2021, and an increase in assessments receivable of \$303,672 from \$7,436,904 in 2020 to \$7,740,576 in 2021. There were no grant receivables in 2021 or 2020. There was a reduction in claims payable at year end from \$14,806,289 in 2020 to \$14,327,342 in 2021 due to lower claims incurred in 2021 compared to 2020. There was little change in IBNR year over year with a slight decrease from \$15,000,000 in 2020 to \$12,200,000 in 2021.

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

Maine Guaranteed Access Reinsurance Association

Management's Discussion and Analysis

December 31, 2021 and 2020

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.

	2021	2020	2019
Operating Revenues			
Premiums earned	\$ 33,310,413	\$ 40,748,475	\$ 44,203,628
Regular assessments	28,196,350	28,864,378	24,871,679
Less claims incurred	(70,665,828)	(69,146,876)	(105,432,123)
	(9,159,065)	465,977	(36,356,816)
Operating Expenses	1,071,526	1,110,283	986,742
Loss from Operations	(10,230,591)	(644,306)	(37,343,558)
Nonoperating Income (Expense)			
Grant revenue	39,315,869	26,291,971	62,298,300
Interest income	2,726,241	1,022,610	321,884
Loss on investments	(3,163,711)	(543,679)	(51,574)
	38,878,399	26,770,902	62,568,610
Change in Net Position	\$ 28,647,808	\$ 26,126,596	\$ 25,225,052

The Association experienced a reduction in premiums earned of \$7,438,062 from \$40,748,475 in 2020 to \$33,310,413 in 2021 due principally to a decrease in ceded lives from member insurers. Regular assessments decreased \$668,028 to \$28,196,350 in 2021 vs. \$28,864,378 in 2020. There was an increase of \$1,518,952 in incurred claims for 2021 from \$69,146,876 in 2020 to \$70,665,828 in 2021. Management attributes the change to the reduction in ceded lives and some continued under-utilization of medical services due to the continuation of the COVID-19 pandemic. The decrease in ceded lives is likely attributable in part to the continued uptake in the State of Maine's Medicaid expansion. There was little change in operating expenses year over year with a decrease of \$38,757 in 2021 from \$1,110,283 in 2020 to \$1,071,526 in 2021. This change is the result of a decrease in administrative fees due to lower claims volume and reduction in professional fees due to the slightly reduced demand for analysis related to delay in expansion of the Association's reinsurance program to the small group market.

There was an increase in net position of \$26,126,596 in 2020 and \$28,631,929 in 2021. The increases were a result of operating and non-operating revenues exceeding operating expenses.

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 underutilization 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 2022 revenue is expected to be down by an estimated \$28,000,000 due to the conversion of the Association's reinsurance program to a retrospective model in which no premiums are charged for its reinsurance benefits. Assessment revenue is anticipated to remain stable and grant revenue is projected to increase slightly.

Expenses: Management expects a decrease in claims incurred of approximately \$35,000,000 due to the conversion of the Association's reinsurance program to a retrospective model and the establishing of revised reinsurance thresholds in connection with that change.

Change in Net Position: The Association is expecting to improve its net position in 2022, projecting an ending surplus of \$74 million, increasing the Association's Risk Based Capital ratio to approximately 2100%, which is significantly above the target level set by the Board of 900%. That result is an intentional increase in surplus in advance of the anticipated merger of Maine's individual and small group markets and expansion of the Association's reinsurance program to that merged market in 2023, which is expected to result in increased volatility and potential draw down of surplus.

Maine Guaranteed Access Reinsurance Association

Statements of Net Position December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 14,618,847	\$ 42,487,941
Premium receivable	3,420,680	5,357,263
Assessments receivable	7,740,576	7,436,904
Accrued interest receivable	634,283	210,224
Investments	84,973,324	30,528,284
	<u>\$ 111,387,710</u>	<u>\$ 86,020,616</u>
Current Liabilities		
Accounts payable	\$ 195,266	\$ 197,033
Claims payable	14,327,342	14,806,289
Estimated liability for claims incurred but not reported	12,200,000	15,000,000
Total current liabilities	26,722,608	30,003,322
Restricted Net Position	<u>84,665,102</u>	<u>56,017,294</u>
	<u>\$ 111,387,710</u>	<u>\$ 86,020,616</u>

Maine Guaranteed Access Reinsurance Association
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Premiums earned	\$ 33,310,413	\$ 40,748,475
Regular assessments	28,196,350	28,864,378
Less claims incurred	<u>(70,665,828)</u>	<u>(69,146,876)</u>
Excess (deficiency) of premiums and assessments over (under) claims	<u>(9,159,065)</u>	<u>465,977</u>
Operating Expenses		
Contracted management services	843,239	870,081
Professional fees	167,601	187,258
Interest and bank charges	7,203	10,177
Other administrative costs	<u>53,483</u>	<u>42,767</u>
Total operating expenses	<u>1,071,526</u>	<u>1,110,283</u>
Loss from Operations	<u>(10,230,591)</u>	<u>(644,306)</u>
Nonoperating Income (Expense)		
Grant revenue	39,315,869	26,291,971
Interest income	2,726,241	1,022,610
Loss on investments	<u>(3,163,711)</u>	<u>(543,679)</u>
Total nonoperating income	<u>38,878,399</u>	<u>26,770,902</u>
Change in Net Position	28,647,808	26,126,596
Restricted Net Position, Beginning of Year	<u>56,017,294</u>	<u>29,890,698</u>
Restricted Net Position, End of Year	<u><u>\$ 84,665,102</u></u>	<u><u>\$ 56,017,294</u></u>

Maine Guaranteed Access Reinsurance Association

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Loss from Operations	\$ (10,230,591)	\$ (644,306)
Adjustments to reconcile change in net position to cash from operating activities		
Changes in assets and liabilities		
Premium receivable	1,936,583	(418,243)
Assessments receivable	(303,672)	(422,390)
Accounts payable	(1,767)	(113,743)
Claims payable	(478,947)	(9,569,495)
Estimated liability for claims incurred but not reported	<u>(2,800,000)</u>	<u>100,000</u>
Net Cash used for Operating Activities	<u>(11,878,394)</u>	<u>(11,068,177)</u>
Investing Activities		
Purchase of investments	(129,450,406)	(112,578,898)
Sale of investments	71,841,655	120,964,688
Interest received	<u>2,302,182</u>	<u>993,802</u>
Net Cash from (used for) Investing Activities	<u>(55,306,569)</u>	<u>9,379,592</u>
Noncapital Financing Activities		
Proceeds from grant funding	<u>39,315,869</u>	<u>32,745,598</u>
Net Cash from Noncapital Financing Activities	<u>39,315,869</u>	<u>32,745,598</u>
Net Change in Cash and Cash Equivalents	(27,869,094)	31,057,013
Cash and Cash Equivalents, Beginning of Year	<u>42,487,941</u>	<u>11,430,928</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 14,618,847</u></u>	<u><u>\$ 42,487,941</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 2021 and 2020, the Association covered 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 and commercial paper 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

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, 2021 and 2020, the book balance of deposits was \$14,618,847 and \$17,490,941, respectively, and the bank balance was \$14,618,847 and \$17,490,941, respectively.

Of the 2021 bank balance, \$250,000 was covered by FDIC insurance and \$14,368,847 was uninsured and uncollateralized. Of the 2020 bank balance, \$250,000 was covered by FDIC insurance and \$17,240,941 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, 2021 and 2020

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, 2021, the Association's investment balances were as follows:

	Fair Value	Cost
Investments		
Corporate bonds	\$ 84,973,324	\$ 85,607,391
	<u>\$ 84,973,324</u>	<u>\$ 85,607,391</u>

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

	Fair Value	Cost
Cash Equivalents		
Commercial paper	<u>\$ 24,997,000</u>	<u>\$ 24,994,425</u>
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>

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, 2021 is as follows:

Investment Type	Fair Value	Less Than 1 Year	1-2 Years	2-5 Years
Corporate bonds	\$ 84,973,324	\$ 15,301,985	\$ 46,901,280	\$ 22,770,059
Total	<u>\$ 84,973,324</u>	<u>\$ 15,301,985</u>	<u>\$ 46,901,280</u>	<u>\$ 22,770,059</u>

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	<u>20,528,858</u>	<u>16,487,698</u>	<u>4,041,160</u>	<u>-</u>
Total	<u>\$ 55,525,284</u>	<u>\$ 51,484,124</u>	<u>\$ 4,041,160</u>	<u>\$ -</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, 2021 and 2020, 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, 2021, the Association had investments in eight (8) issuers of corporate bonds that were 12%, 7%, 12%, 5%, 7%, 5%, 8% and 10% of the total investment portfolio. 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.

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 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.

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements

December 31, 2021 and 2020

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 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, 2021:

	2021			
	(Level 1)	(Level 2)	(Level 3)	Total
Corporate bonds	\$ -	\$ 84,973,324	\$ -	\$ 84,973,324
Total assets at fair value	<u>\$ -</u>	<u>\$ 84,973,324</u>	<u>\$ -</u>	<u>\$ 84,973,324</u>

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.

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, 2021 and 2020, there was \$84,665,102 and \$56,017,294, 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, 2021 and 2020, the provision for unreported and unpaid claims for the Association was \$12,200,000 and \$15,000,000, respectively. Differences between actual and estimated claims are charged to operations in the year that the differences, if any, become known.

The following represents the changes in the provision for unreported and unpaid claims for the years ended December 31, 2021 and 2020:

	2021	2020
Unpaid losses and loss adjustment expenses, beginning of year	\$ 15,000,000	\$ 14,900,000
Incurred losses and loss adjustment expenses		
Provision for insured events of the current year	74,950,227	75,974,240
Decrease in provision for insured events of prior year	(4,284,399)	(6,827,364)
Total incurred losses and loss adjustment expenses	70,665,828	69,146,876
Payments		
Losses and loss adjustment expense attributable to insured events of the current year	62,750,227	60,974,239
Losses and loss adjustment expense attributable to insured events of the prior year	10,715,601	8,072,637
Total payments	73,465,828	69,046,876
Unpaid losses and loss adjustment expenses, end of year	\$ 12,200,000	\$ 15,000,000

The provision for incurred losses and loss adjustments decreased during the years ended December 31, 2021 and 2020. 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, 2021 and 2020, was \$642,649 and \$608,103, respectively, of which \$157,738 and \$171,222, was payable at December 31, 2021 and 2020, 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 \$39,315,869 and \$26,291,971, as of December 31, 2021 and 2020, respectively.

Note 9 - Subsequent Events

The Association has evaluated subsequent events through April 12, 2022, the date which the financial statements were available to be issued.

Effective January 1, 2022, the Plan of Operations was amended and restated to shift from a prospective to a retrospective reinsurance model.



Federal Awards Reports in Accordance with the Uniform
Guidance

December 31, 2021

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), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated April 12, 2022.

Report on 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 an opinion 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying *schedule of findings and questioned costs* as item 2021-001 that we consider to be a significant deficiency.

Report on 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Association's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Association's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Association's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 12, 2022



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

Opinion on the Major Federal Program

We have audited Maine Guaranteed Access Reinsurance Association's (the Association) compliance with the types of compliance requirements identified as subject to audit 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, 2021. 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.

In our opinion, the Association complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Association's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Association's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Association's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Association's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Association's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Association's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Association's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 12, 2022

Maine Guaranteed Access Reinsurance Association
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number (ALN)	Pass-Through Entity Identifying Number	Expenditures
Department of Health and Human Services Centers for Medicare & Medicaid Services State Innovation Waiver	93.423	n/a	\$ 39,315,869
			<u>\$ 39,315,869</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, 2021. 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 position, 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	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	ALN
State Innovation Waiver	93.423
Dollar threshold used to distinguish between type A and type B programs	\$1,179,476
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

**2021-001 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, 2021

Section III - Federal Award Findings and Questioned Costs

None Reported