



Financial Statements

December 31, 2019 and 2018

**Minnesota Comprehensive Health Association
(MCHA)**

Administrator of the Minnesota Premium Security Plan (MPSP)

Minnesota Comprehensive Health Association

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Independent Auditor's Report

To the Board of Directors
Minnesota Comprehensive Health Association
Saint Louis Park, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Minnesota Comprehensive Health Association (MCHA), which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Minnesota Comprehensive Health Association as of December 31, 2019 and 2018, the changes in its net 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*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated July 9, 2020 on our consideration of Minnesota Comprehensive Health Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Minnesota Comprehensive Health 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 Minnesota Comprehensive Health Association's internal control over financial reporting and compliance.



Fargo, North Dakota
July 9, 2020

Minnesota Comprehensive Health Association
 Statements of Net Position
 December 31, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash	\$ 440,608	\$ 202,227
Prepaid assets	15,577	13,327
Receivables		
Due from primary government for administration of MPSP	149,660,234	136,124,512
Total assets	\$ 150,116,419	\$ 136,340,066
Liabilities and net position		
Current liabilities		
Grant liability	\$ 414,122	\$ 178,515
Due to primary government	-	3,178
Accounts payable	42,063	33,861
Due to health issuers	149,660,234	136,124,512
Total liabilities	150,116,419	136,340,066
Total net position	-	-
Total liabilities and net position	\$ 150,116,419	\$ 136,340,066

Minnesota Comprehensive Health Association
 Statements of Revenues, Expenses and Changes in Net Position
 Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues		
Grant revenue	\$ 150,170,616	\$ 136,551,138
Income from prior operations	2,193	38,241
Total revenues	<u>150,172,809</u>	<u>136,589,379</u>
Premium security plan reinsurance expenses incurred	<u>149,660,234</u>	<u>136,124,512</u>
Revenues in excess of benefits	<u>512,575</u>	<u>464,867</u>
Other (income) expenses		
Collection fees	2,246	-
Valuation allowance (reversal) of bad debt	<u>(136,287)</u>	<u>136,341</u>
Gain before grant expenditures	<u>646,616</u>	<u>328,526</u>
Administrative grant expenses		
Administrative and general	5,124	4,298
Salaries and wages	-	125,574
Employee benefits	-	2,765
Office lease	11,961	14,761
Insurance	15,315	2,985
Professional fees	256,140	139,679
Consulting fees	218,553	136,501
Other expenses	<u>111</u>	<u>63</u>
Total grant expenses	<u>507,204</u>	<u>426,626</u>
Gain (loss) from operations prior to offset from due to primary government	139,412	(98,100)
Previous funds accumulated (paid to)/ offset of due to primary government	<u>(139,412)</u>	<u>98,100</u>
Excess of revenues over benefit and other expenses	<u>\$ -</u>	<u>\$ -</u>

Minnesota Comprehensive Health Association

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating activities		
Excess of revenues over benefit and other expenses	\$ -	\$ -
Change in operating assets and liabilities		
Prepaid expenses	(2,250)	(13,327)
Due from primary government	(13,535,722)	(136,124,512)
Member company assessments	-	136,341
Grant liability	235,607	(426,625)
Due to primary government	(3,178)	(3,329,296)
Accounts payable	8,202	21,744
Accrued liabilities and other payables	-	(5,510)
Due to health issuers	<u>13,535,722</u>	<u>136,124,512</u>
Net cash provided by (used for) operating activities	<u>238,381</u>	<u>(3,616,673)</u>
Net change in cash	238,381	(3,616,673)
Cash, beginning of year	<u>202,227</u>	<u>3,818,900</u>
Cash, end of year	<u><u>\$ 440,608</u></u>	<u><u>\$ 202,227</u></u>

Note 1 - Summary of Significant Accounting Policies**Principal Business Activity**

Minnesota Comprehensive Health Association (MCHA) was created as a not-for-profit association under the provisions of the Minnesota Comprehensive Health Insurance Act of 1976 (the Act). MCHA's purpose is to promote the public health and welfare of the people of Minnesota by making available certain health insurance plans, as described in the Act, to residents of the state who are not otherwise able to obtain such coverage in the marketplace. With the passage of the Patient Protection and Affordable Care Act the primary purpose of MCHA was eliminated and they ceased writing business at the end of December 31, 2014.

Prior to January 1, 2017 MCHA membership was comprised of all insurers, self-insurers, health maintenance organizations, nonprofit health service corporations, fraternal benefit societies, and other members as defined in the Minnesota Insurance Laws, Chapter 62 E. A member company became a contributing member company to MCHA if it recognizes premium revenue for health insurance coverage during the year. Contributing member companies were assessed amounts to reimburse MCHA for claims and other expenses in excess of revenues less losses reimbursed from legislative appropriation.

Minnesota session law chapter 13 was enacted during the 2017 legislative session. This law amended the function of MCHA to become an administrator for the Minnesota Premium Security Plan (MPSP), a risk mitigation program designed to help keep premiums affordable to individual purchasers within the State of Minnesota. The Premium Security Plan was created in the State of Minnesota. Funds provided or receivable for relevant costs incurred for payment to issuers under the Premium Security Plan are reported by the State. A grant was provided to MCHA during 2017 to fund the operational costs of preparing for this new function and the entity is included as a component unit of the State of Minnesota given their primary mission of supporting the governmental operations. Effective July 1, 2019 the 2017 grant was updated and clarified to reflect the funding described by Statute to support the statutory structure of the additional funds to support the administrative function as well as provide funding for payment of the reinsurance expenses related to the 2018 benefit year.

Cash and Cash Equivalents

MCHA considers all operating investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents held for investment purposes are classified as investments. As of December 31, 2019 and 2018 MCHA held all balances in cash accounts. MCHA maintains cash balances at certain financial institutions and throughout the year that may exceed federally insured limits.

Prepaid Assets

Operating obligations and contractual obligations paid before their due date are recorded as an asset until the related expense is incurred.

Valuation Allowance

MCHA evaluate the collectability of their receivable annually and determines if a valuation allowance is required on any receivable. MCHA does not write off the receivable until it has exhausted available avenues of collection and the board approves the write off.

Grants

Grants arise primarily under contractual agreements with government entities for operating costs and administration of the premium security plan. These agreements represent exchange transactions between MCHA and the grantors. Revenues are recognized under these agreements as qualifying expenses are incurred. The remaining amounts of grant funds received are recorded in the grant liability until expenses are incurred, or the grant expires, and funds are returned to the grantor.

Due to Primary Government

As part of the revisions to Minnesota Statutes in 2017, all funds previously accrued within MCHA that were not necessary to fulfill medical needs or contractual obligation in place for former MCHA enrollees shall be deposited into an account for the administration of the Minnesota Premium Security Plan. During the year ended December 31, 2019 and 2018, approximately \$140,726 and \$3,235,000 was remitted from MCHA to the primary government.

Revenue Recognition

Revenue is recognized when earned. Revenue from the reinsurance program of the MPSP are earned concurrent with the benefits incurred by the MPSP.

Income Taxes

The Internal Revenue Service (IRS) has determined that MCHA is qualified as a tax-exempt organization under Section 501(c)(26) of the Internal Revenue Code and is exempt from federal taxation. Additionally, under the provisions of state law, MCHA is exempt from state taxation. Accordingly, no provision for income taxes has been made in the financial statements.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2019 and 2018, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

MCHA has evaluated subsequent events through July 9, 2020, the date the financial statements were available to be issued.

Subsequent to year-end, the United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. MCHA is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. Additionally, MCHA is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to MCHA's financial position is not known.

Note 2 - Commitments and Contingencies

MCHA is involved in various claims and proceedings that arose in the ordinary course of business. While these actions are being contested, the outcome of individual matters is not predictable. MCHA does not believe that any liability resulting from any of the actions will have a material adverse effect on its financial position, cash flows or liquidation.

Note 3 - Grant Revenue and Expenditures

MCHA received a grant from the State of Minnesota in 2018 of \$750,000 for operating costs related to preparation of administrative services to the Premium Security Plan. During 2019, the grant was amended to provide additional operational funding of \$592,000, for a total grant amount of \$1,342,000. MCHA expended \$510,382 and \$426,626 from the grant award for the years ended December 31, 2019 and 2018, respectively. The total obligation under the grant for the MPSP was not to exceed \$271,000,000 in benefit years 2018 and 2019. The order of funds made available to satisfy the obligation is established by the grant. The approximate source of grant revenue earned by MCHA for the years ended December 31:

	2019	2018
Federal Funds	\$ 84,757,861	\$ 130,719,696
State Funds - Prior High Risk Pool	33,411,765	5,831,442
State Funds - Health Care Access Funds	32,000,990	-
State Funds - General Funds	-	-
	<u> </u>	<u> </u>
Total Grant Revenue	<u>\$ 150,170,616</u>	<u>\$ 136,551,138</u>

Note 4 - Leases

MCHA leases office space for its operations, the lease is classified as operating and automatically renews at the end of the contract period, unless prior notice is given by the lessee. Rental expense includes rent expense stated in the rental contract along with common area maintenance and miscellaneous charges. Rental expense for the years ended December 31, 2019 and 2018 was \$11,961 and 14,761, respectively.

During 2019, the lessor breached the contract. MCHA relocated to another office space and the parties signed a mutual release of liability for the consideration of prorated returned rent to MCHA.

The lease renews annually unless a notice of termination is received three months prior to the end of the termination date of May 31, 2020. The lessor also has the option to non-renew utilizing the same notice requirements of MCHA. and approximately \$4,500 of future minimum lease payments were committed to as of December 31, 2019. MCHA did not provide notice to terminate in 2020, total annual lease commitments through May 2021 are approximately \$11,000.

Note 5 - Pension Plan

MCHA has a nondiscriminatory simplified employee pension plan covering its employees. MCHA contributes the lesser of \$30,000 or 4% of compensation of each employee's base salary to the plan. MCHA contributed \$0 and \$4,641 for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2018, MCHA no longer had active employees.

Note 6 - Related Party Transactions

Certain members of MCHA's Board of Directors are employed by health issuers that are eligible to participate in the reinsurance program of MPSP. The terms of the reinsurance program are established by statute, approved by the commissioner of insurance and published annually. All transactions are arm's length for all participants eligible to receive benefits in the MPSP.



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
Minnesota Comprehensive Health Association
Saint Louis Park, Minnesota

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 Minnesota Comprehensive Health Association, which comprise the statement of net position as of December 31, 2019, and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 9, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Minnesota Comprehensive Health Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Minnesota Comprehensive Health Association’s internal control. Accordingly, we do not express an opinion on the effectiveness of Minnesota Comprehensive Health 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Minnesota Comprehensive Health Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We noted no instances of noncompliance during our procedures.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Fargo, North Dakota

July 9, 2020