

Chris Steller

From: Jeanne Ripley <jeanne@ptseniorsolutions.com>
Sent: Thursday, October 31, 2019 12:22 PM
To: Chris Steller
Cc: Keefer, Scott
Subject: Mandated Report - MCHA Minnesota Premium Security Plan
Attachments: Minnesota Comperhensive Health Association - 2018 Financial Statements.pdf; Minnesota Comperhensive Health Association - 2018 AU-C 260 Communication.pdf; MPSP Annual Summary of 2018 Operations.pdf

Hello

The Minnesota Comprehensive Health Association is required by [Minn. Stat. 62E.24 Subd. 2](#); [2017 Minn. Laws Chap. 13 Art. 1 Sec. 5](#) to provide a summary of plan operations for each benefit year by November 1 following the benefit year.

Attached to this email is the required operational report for benefit year 2019. This report is also posted on MCHA's website at: www.mchamn.com.

The Minnesota Comprehensive Health Association is also required by [Minn. Stat. 62E.24 Subd. 4](#); [2017 Minn. Laws Chap. 13 Art. 1 Sec. 5](#) to complete an audit for each benefit year of the plan, in accordance with generally accepted auditing standards, by an independent certified public accountant or CPA firm licensed or permitted under chapter 326A by November 15, 2019.

Attached to this email is a copy of the required audited report of the Minnesota Comprehensive Health Association for calendar year 2019 that was prepared by the independent CPA firm of Eide Bailly. This report is also posted on MCHA's website at: www.mchamn.com.

If there are any questions or concerns, please contact me at the above email address or by phone at 952-593-9609.

Jeanne Ripley
Executive Director
Minnesota Premium Security Plan
Administered by MCHA
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St Louis Park, MN 55416
Office: 952-593-9609



June 27, 2019

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

We have audited the financial statements of Minnesota Comprehensive Health Association (MCHA or Association) as of and for the year ended December 31, 2018, and have issued our report thereon dated June 27, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated February 1, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of MCHA solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding a significant control deficiency during our audit in our 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* dated June 27, 2019.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by MCHA is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The estimated reinsurance payments are derived by actuarial estimates throughout the year and finalized upon final data submission from participants eligible under the reinsurance program of the Minnesota Premium Security Plan. We evaluated the key factors and assumptions to develop the estimates and subsequent event development to determine the reported amount is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting MCHA's financial statements relate to the function as an administrator for the Minnesota Premium Security Plan, grant expenditures and member company assessments. The financial statement disclosures are neutral, consistent and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

There were no corrected or uncorrected misstatements noted as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to MCHA's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated June 27, 2019.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with MCHA, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as MCHA's auditors.

This report is intended solely for the information and use of the Board of Directors, and management of MCHA and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Fargo, North Dakota



Financial Statements
December 31, 2018 and 2017

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 financial position as of December 31, 2018 and 2017, 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, 2018 and 2017, 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

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 June 27, 2019 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
June 27, 2019

Minnesota Comprehensive Health Association
Statements of Financial Position
December 31, 2018 and 2017

	2018			2017
	MCHA	MPSP	Total	MCHA
Assets				
Current Assets				
Cash	\$ 202,227	\$ -	\$ 202,227	\$ 3,818,900
Prepaid assets	13,327	-	13,327	-
Receivables				
Due from primary government for administration of MPSP	-	136,124,512	136,124,512	-
Member company assessments, net of allowance	-	-	-	136,341
Total Assets	\$ 215,554	\$ 136,124,512	\$ 136,340,066	\$ 3,955,241
Liabilities and Net Position				
Current Liabilities				
Grant liability	\$ 178,515	\$ -	\$ 178,515	\$ 605,140
Due to primary government	3,178	-	3,178	3,332,474
Accounts payable	33,861	-	33,861	12,117
Accrued liabilities	-	-	-	5,510
Due to health issuers	-	136,124,512	136,124,512	-
Total liabilities	215,554	136,124,512	136,340,066	3,955,241
Total Net Position	-	-	-	-
Total Liabilities and Net Position	\$ 215,554	\$ 136,124,512	\$ 136,340,066	\$ 3,955,241

Minnesota Comprehensive Health Association
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018			2017
	MCHA	MPSP	Total	MCHA
Revenues				
State grant	\$ 426,626	\$ -	\$ 426,626	\$ 144,860
Other income	38,241	-	38,241	-
Premium security plan	-	136,124,512	136,124,512	-
Total revenues	464,867	136,124,512	136,589,379	144,860
Medical Expenses				
Autism benefits incurred	-	-	-	214,455
Reinsurance Expenses				
	-	136,124,512	136,124,512	-
Revenues in Excess of (Deficit) of Benefits				
	464,867	-	464,867	(69,595)
Other Expenses				
Bad debt	136,341	-	136,341	142,000
Professional fees	-	-	-	71,795
Total other expenses	136,341	-	136,341	213,795
Gain (Loss) Before Grant Expenditures				
	328,526	-	328,526	(283,390)
State Grant Expenses				
Administrative and general	4,298	-	4,298	2,446
Salaries and wages	125,574	-	125,574	34,732
Employee benefits	2,765	-	2,765	25,420
Office lease	14,761	-	14,761	3,077
Insurance	2,985	-	2,985	17,027
Professional fees	139,679	-	139,679	52,308
Consulting fees	136,501	-	136,501	-
Other expenses	63	-	63	9,850
Total grant expenses	426,626	-	426,626	144,860
Loss from Operations Prior to offset from due to primary government			(98,100)	(428,250)
Previous funds accumulated to offset due to primary government			98,100	428,250
Excess of revenues over benefit and other expenses			\$ -	\$ -

Minnesota Comprehensive Health Association
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018			2017
	MCHA	MPSP	Total	
Operating Activities				
Excess of revenues over benefit and other expenses	\$ -	\$ -	\$ -	\$ -
Change in operating assets and liabilities				
Receivables	-	-	-	(117,961)
Prepaid expenses	(13,327)	-	(13,327)	-
Due from primary government	-	(136,124,512)	(136,124,512)	-
Member company assessments	136,341	-	136,341	(40,066,540)
Grant liability	(426,625)	-	(426,625)	605,140
Due to primary government	(3,329,296)	-	(3,329,296)	3,332,474
Accounts payable	21,744	-	21,744	-
Dissolution accruals	-	-	-	(1,347,518)
Accrued liabilities and other payables	(5,510)	-	(5,510)	703,589
Due to PSP eligible health carriers	-	136,124,512	136,124,512	-
Net Cash Provided by Investing Activities	<u>(3,616,673)</u>	<u>-</u>	<u>(3,616,673)</u>	<u>(36,890,816)</u>
Net Change in Cash and Cash Equivalents	(3,616,673)	-	(3,616,673)	(36,890,816)
Cash and Cash Equivalents, Beginning of Year	<u>3,818,900</u>	<u>-</u>	<u>3,818,900</u>	<u>40,709,716</u>
Cash and Cash Equivalents, End of Year	<u>\$ 202,227</u>	<u>\$ -</u>	<u>\$ 202,227</u>	<u>\$ 3,818,900</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 as a special revenue fund of the State of Minnesota. Funds provided or receivable for relevant costs incurred for payment to issuers under the Premium Security Plan are reported as a separate fund beginning in 2018. 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.

Change in Accounting Policy

As a result of the changes in the reporting requirements, MCHA adopted the accounting principles issued by the Government Accounting Standards Board (GASB) effective January 1, 2017. This basis of accounting is considered appropriate when the entity is expected to be included in the Comprehensive Annual Financial Report of a government. Previously, MCHA followed requirements issued by the Financial Accounting Standards Board (FASB), including issuing a liquidation basis financial statement as of December 31, 2014 due to an expectation that operations would cease prior to the legislative activity that occurred in 2017.

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, 2018 and 2017 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.

Member Company Assessments

Contributing members who have not paid their assessment are recorded as a receivable. MCHA evaluate the collectability of the receivable annually and determines if a valuation allowance is required on the 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. 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, 2018 approximately \$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, 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 June 27, 2019, the date the financial statements were available to be issued. It was noted that the state grant was increased from \$750,000 to \$1,342,000 in April of 2019.

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 - Minnesota State Grant Expenditures

During 2017, MCHA received approval from the State of Minnesota for a grant amount of \$750,000 for operating costs related to preparation of administrative services to the Premium Security Plan. MCHA expended \$426,626 and \$144,860 from the grant award for the years ended December 31, 2018 and 2017, respectively.

Subsequent to December 31, 2018 the grant was amended to provide additional operational funding of \$592,000.

Note 4 - Leases

MCHA leases office space for its operations, the lease is classified as operating and does not have renewal options specified in the contract. 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, 2018 and 2017 was \$14,761 and 3,077, respectively.

The term of the lease was set to expire on December 31, 2019. Subsequent to December 31, 2018 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.

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 \$4,641 and \$7,173 for the years ended December 31, 2018 and 2017, respectively.

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



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 financial position as of December 31, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 27, 2019.

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.

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, we identified a deficiency in internal control that we consider to be a material weakness.

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 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. 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 note any findings we considered to be a material weakness in internal control.

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
June 27, 2019