



Financial Statements
December 31, 2017

Minnesota Comprehensive Health Association

Minnesota Comprehensive Health Association

Table of Contents
December 31, 2017

Independent Auditor’s Report.....	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities.....	4
Statements of Cash Flows	5
Notes to Financial Statements.....	6
Independent Auditor’s Report on Supplementary Information	9
Supplemental Schedules	
Schedule I – Statements of Financial Position.....	10
Schedule II – Statements of Activities	11
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	12
Schedule of Findings.....	14



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, which comprise the statement of financial position as of December 31, 2017, and the related statement of activities and cash flows for the year 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 audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Comprehensive Health Association as of December 31, 2017, the changes in its net position, and its cash flows for the year 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 18, 2018 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.

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

Fargo, North Dakota
June 18, 2018

Minnesota Comprehensive Health Association
Statement of Financial Position
December 31, 2017

Assets	
Current Assets	
Cash and Cash Equivalents	\$ 3,818,900
Receivables	
Member company assessments	<u>136,341</u>
Total Assets	<u><u>\$ 3,955,241</u></u>
Liabilities and Net Position	
Current Liabilities	
Grant liability	605,140
Due to premium security plan	3,332,474
Accounts payable	12,117
Accrued liabilities	<u>5,510</u>
Total liabilities	3,955,241
Net Position	<u>-</u>
Total Liabilities and Net Position	<u><u>\$ 3,955,241</u></u>

Minnesota Comprehensive Health Association
Statement of Activities
Year Ended December 31, 2017

Revenues	
State grant	\$ 144,860
Total revenues	<u>144,860</u>
Medical Expenses	
Autism benefits incurred	<u>214,455</u>
Total medical expense	<u>214,455</u>
Excess of Benefits Over Revenues	<u>(69,595)</u>
Other Expenses	
Bad debt	142,000
Professional fees	<u>71,795</u>
Total other expenses	<u>213,795</u>
Loss Before Grant Expenditures	(283,390)
State Grant Expenses	
Administrative and general	2,446
Salaries and wages	34,732
Employee benefits	25,420
Rent	3,077
Insurance	17,027
Professional fees	52,308
Other expenses	<u>9,850</u>
Total grant expenses	<u>144,860</u>
Loss from Operations Prior to offset from due to premium security plan	(428,250)
Previous funds accumulated to offset due to premium security plan	<u>428,250</u>
Excess of revenues over benefit and other expenses	<u><u>\$ -</u></u>

Minnesota Comprehensive Health Association
Statements of Cash Flows
Year Ended December 31, 2017

Operating Activities

Excess of revenues over benefit and other expenses	\$ -
Change in operating assets and liabilities	
Receivables	(117,961)
Grant liability	605,140
Due to premium security plan	3,332,474
Member company payables	(40,066,540)
Dissolution accruals	(1,347,518)
Other payables	703,589
	<hr/>
Net Cash Used for Operating Activities	(36,890,816)
	<hr/>
Net Change in Cash and Cash Equivalents	(36,890,816)
	<hr/>
Cash and Cash Equivalents, Beginning of Year	40,709,716
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Cash and Cash Equivalents, End of Year	\$ 3,818,900
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Note 1 - Summary of Significant Accounting Policies

Principal Business Activity

Minnesota Comprehensive Health Association (MCHA or the Association) 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 Premium Security Plan, 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 to MCHA for payment to issuers under the Premium Security Plan will be 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 will be 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 Government Accounting Standards Board (GASB) basis of accounting 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 the current 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, 2017. MCHA maintains cash and cash equivalent balances at certain financial institutions and throughout the year these balances exceeded federally insured limits.

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.

Due to Premium Security Plan

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 the Premium Security Plan account. For the year ended December 31, 2017 no funding of the Premium Security Plan account has been paid by MCHA.

Revenue Recognition

Revenue is recognized when earned.

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, 2017, 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 18, 2018, the date the financial statements were available to be issued.

Subsequent to December 31, 2017 payments of \$3,235,000 has been remitted to the Premium Security Plan account through the date the financial statements were available to be issued.

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 \$144,860 from the grant award in the year ended December 31, 2017.

Note 4 - Leases

MCHA leases office space for its operations on a month to month basis. No minimum aggregate rental commitments exist. 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 charges. Rental expense for 2017 was \$3,077.

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. During 2017, MCHA contributed \$7,173 to the plan.



Supplementary Information
December 31, 2017

Minnesota Comprehensive Health Association



Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of Minnesota Comprehensive Health Association as of and for the year ended December 31, 2017, and our report thereon dated June 18, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 10 and 11 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Fargo, North Dakota
June 18, 2018

Minnesota Comprehensive Health Association
Schedule I – Statements of Financial Position
January 1, 2015 through December 31, 2016

	Liquidating Period January 1, 2015	Net Activity	December 31, 2016
Cash and Cash Equivalents	\$ 42,578,849	\$ (1,869,133)	\$ 40,709,716
Investments	11,571,575	(11,571,575)	-
Receivables			
Health care	1,026,518	(1,026,518)	-
Grants and other	920,445	(902,065)	18,380
Interest	3,573	(3,573)	-
Premiums	36,138	(36,138)	-
Total receivables	1,986,674	(1,968,294)	18,380
Total Assets	<u>\$ 56,137,098</u>	<u>\$ (15,409,002)</u>	<u>\$ 40,728,096</u>
Liabilities and Net Assets			
Liabilities			
Claims Payable	10,617,320	(10,617,320)	-
Member Company Payables/Deferred Revenue	36,919,088	3,147,452	40,066,540
Claims Settlement Liability	530,866	(530,866)	-
Writing Carrier and Other Payables	3,740,807	(3,617,141)	123,666
Transfers to State Plan	-	(809,628)	(809,628)
Dissolution Accruals	4,329,017	(2,981,499)	1,347,518
Total Liabilities	56,137,098	(15,409,002)	40,728,096
Net Assets	-	-	-
Total Liabilities and Net Assets	<u>\$ 56,137,098</u>	<u>\$ (15,409,002)</u>	<u>\$ 40,728,096</u>

Minnesota Comprehensive Health Association
Schedule II – Statements of Activities
For the Years Ended December 31, 2014 through December 31, 2016

	Liquidating Period		
	2014	2015	2016
Revenues			
Premiums	\$ 36,398,634	\$ 9,719	\$ (28,215)
Investment income	68,088	35,399	17,550
Federal grant	1,666,161	1,131	-
State contribution	1,296,784	-	-
Interest Income	-	465	229
Total revenues	<u>39,429,667</u>	<u>46,714</u>	<u>(10,436)</u>
Medical Expenses			
Claims incurred	119,692,519	(1,354,515)	(517,840)
Autism claims incurred	-	1,157,863	793,383
Assessment expense	-	1,706,455	477,884
Disease management	42,000	-	-
Miscellaneous claims expense	-	-	61,871
Total medical expense	<u>119,734,519</u>	<u>1,509,803</u>	<u>815,298</u>
Excess of Claims Incurred over Revenues	<u>(80,304,852)</u>	<u>(1,463,089)</u>	<u>(825,734)</u>
Other (Income) Expenses			
Writing carrier fees	2,540,631	544,738	-
Administrative and general	2,099,800	501,880	403,159
Bad debt	125	-	-
Professional fees	132,939	211,785	79,317
Other expense	-	8,608	201
Dissolution Expense	-	(2,199,235)	(1,592,816)
Change in claims settlement liability	(1,005,561)	-	-
Federal grant	1,665,409	-	-
Total other expenses	<u>5,433,343</u>	<u>(932,224)</u>	<u>(1,110,139)</u>
Loss from Operations Prior to Reimbursement from Grant	(85,738,195)	(530,865)	284,405
Losses Reimbursed from Grants	955,646	-	-
Member Company Assessments	<u>84,782,549</u>	<u>530,865</u>	<u>(284,405)</u>
Excess of Revenues and Other Income over Claims and Other Expenses	-	-	-
Beginning Net Assets in Liquidation	<u>-</u>	<u>-</u>	<u>-</u>
Ending Net Assets in Liquidation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



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, 2017, 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 18, 2018.

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 *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 consider the deficiencies described in the accompanying schedule of findings to be a material weaknesses: 2017-1.

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.

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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item: 2017-2.

Minnesota Comprehensive Health Association's Response to Findings

Minnesota Comprehensive Health Association's response to the findings identified in our audit are described in the schedule of findings. Minnesota Comprehensive Health Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
June 18, 2018

**2017-1 Financial Statement Footnote Preparation
 Material Weakness**

Criteria: A proper system of internal control over financial reporting includes a process designed to provide for the preparation of the financial statements and footnote disclosures.

Condition: The Association does not have an internal control process designed to provide for the preparation of the full disclosure financial statements.

Cause: The Association has elected not to establish an internal control process in place related to the preparation of the complete financial statements.

Effect: The control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected.

Recommendation: The Association should consider the cost/benefit maintaining current accounting knowledge, experience, and training in the application of generally accepted accounting principles commensurate with the Association's financial footnote disclosure reporting requirements.

Views of Responsible Officials: During 2018 we have hired an Certified Public Accounting firm to prepare the financial information in accordance with generally accepted accounting principles and review internal controls over financial reporting to ensure reporting is fairly presented.

**2017-2 Formal Policy for Minnesota Government Data Practices Act
 Material Noncompliance**

Criteria: A proper system of internal control over financial reporting includes a formal policy to comply with the Minnesota Government Data Practices Act, Minn. Stat Chapter 13 to maintain compliance.

Condition: The Association does not have a formal policy to comply with the Data Practices Act statute.

Cause: The Association in its formation did not adopt an appropriate policy for compliance with the Data Practices Act statute.

Effect: The Association is not in compliance with the Data Practices Act statute.

Recommendation: The Association should review and adopt a formal policy to comply with the Minnesota Government Data Practices Act statute.

Views of Responsible Officials: We are reviewing our compliance with the application Minnesota statutes to ensure the Association is in compliance with all applicable statutes.