

**DEPARTMENT OF COMMERCE –
STATE INSURANCE DEPARTMENT –
ARKANSAS HEALTH INSURANCE MARKETPLACE**

Annual Financial Report

June 30, 2020



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ARKANSAS HEALTH INSURANCE MARKETPLACE
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Arkansas



Sen. Ronald Caldwell
Senate Chair
Sen. Gary Stubblefield
Senate Vice Chair

Rep. Richard Womack
House Chair
Rep. Nelda Speaks
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Department of Commerce – State Insurance Department – Arkansas Health Insurance Marketplace
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund of the Department of Commerce – State Insurance Department – Arkansas Health Insurance Marketplace (AHIM), a division within a department of Arkansas state government, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise AHIM's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the major fund of AHIM as of June 30, 2020, and the changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As indicated above, the financial statements of AHIM are intended to present the financial position and the changes in financial position of only that portion of the major fund of the State that is attributable to the transactions of AHIM. They do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2020, or the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis be presented to supplement government-wide financial statements. However, as discussed in the "Emphasis of Matter" paragraph above, the financial statements of AHIM are only for the specific transactions and activity of AHIM and not for the State as a whole. Therefore, the Management's Discussion and Analysis is not required to be presented for AHIM individually. Our opinion on the financial statements is not affected by the omission of this information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2021 on our consideration of AHIM'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 AHIM'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 AHIM's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

Little Rock, Arkansas
February 9, 2021
SA1046220

Arkansas



Sen. Ronald Caldwell
Senate Chair
Sen. Gary Stubblefield
Senate Vice Chair

Rep. Richard Womack
House Chair
Rep. Nelda Speaks
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

INDEPENDENT AUDITOR'S REPORT

Department of Commerce – State Insurance Department – Arkansas Health Insurance Marketplace
Legislative Joint Auditing Committee

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 the major fund of the Department of Commerce – State Insurance Department – Arkansas Health Insurance Marketplace (AHIM) (the “Agency”), a division within a department of Arkansas state government, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise AHIM’s financial statements, and have issued our report thereon dated February 9, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency’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 opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency’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 the Agency’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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 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. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Tom Bullington". The signature is fluid and cursive, with a long horizontal stroke at the end.

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
February 9, 2021

DEPARTMENT OF COMMERCE – STATE INSURANCE DEPARTMENT –
ARKANSAS HEALTH INSURANCE MARKETPLACE
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2020

Exhibit A

| | <u>General Fund</u> |
|------------------------------|---------------------|
| ASSETS | |
| Cash and cash equivalents | <u>\$ 4,929,047</u> |
| LIABILITIES AND FUND BALANCE | |
| Fund balance: | |
| Assigned for: | |
| Operation of the marketplace | <u>\$ 4,929,047</u> |

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF COMMERCE – STATE INSURANCE DEPARTMENT –
 ARKANSAS HEALTH INSURANCE MARKETPLACE
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
 GOVERNMENTAL FUND
 JUNE 30, 2020

Exhibit B

| | General Fund |
|---|------------------|
| REVENUES | |
| Insurance fee assessments | \$ 2,027,292 |
| Investment earnings | 25,599 |
| TOTAL REVENUES | 2,052,891 |
| EXPENDITURES | |
| Printing and advertising | 91,749 |
| Repairing and servicing | 3,177 |
| Professional services | 239,396 |
| Other expenses and services | 2,355 |
| Commodities, materials, and supplies | 1,665 |
| Refunds, taxes, and claims | 23,445 |
| TOTAL EXPENDITURES | 361,787 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 1,691,104 |
| OTHER FINANCING SOURCES (USES) | |
| Amount provided by State Insurance Department | 356,390 |
| Prior period adjustment | 15,679 |
| TOTAL OTHER FINANCING SOURCES (USES) | 372,069 |
| NET CHANGE IN FUND BALANCE | 2,063,173 |
| FUND BALANCE - JULY 1 | 2,865,874 |
| FUND BALANCE - JUNE 30 | \$ 4,929,047 |

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF COMMERCE – STATE INSURANCE DEPARTMENT –
ARKANSAS HEALTH INSURANCE MARKETPLACE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 1500 of 2013 created a nonprofit legal entity to be known as the Arkansas Health Insurance Marketplace (AHIM) to manage and implement a state-based health exchange in Arkansas in accordance with state and federal law. The Act established a nine-member Board of Directors consisting of three members each appointed by the Governor, President Pro Tempore of the Senate, and Speaker of the House of Representatives.

In September 2014, the Board voted to operate a state-run Small Business Health Options Program (SHOP) in 2015 for coverage to begin January 1, 2016. AHIM's sole insurance provider for SHOP no longer accepted enrollments for coverage beginning January 1, 2018. The Board also voted to operate a state-run individual market health insurance exchange in 2016 for coverage beginning January 1, 2017.

Act 107 of 2019 abolished the AHIM Board and transferred all of its powers, duties, functions, records, contracts, property, unexpended balances of appropriations, allocations, and other funds to the State Insurance Department.

Act 910 of 2019 became effective on July 1, 2019, and placed the State Insurance Department within the newly created cabinet-level Department of Commerce. The Secretary of the Department of Commerce shall delegate the authority to hire and provide consultation to the Commissioner of the State Insurance Department.

B. Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds, if applicable to this Agency, are recognized in the accompanying financial statements.

Governmental Funds

General Fund – General Fund is the general operating fund and is used to report all financial resources, except those required to be accounted for in another fund.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. Financial statements for governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities (i.e., 45 days). Expenditures are generally recognized under the modified accrual basis when the related fund liability is incurred. Revenues from federal grants and federal reimbursements are recognized when all applicable eligibility requirements and the availability criteria of 45 days have been met.

D. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, cash in State Treasury, all certificates of deposit with maturities at purchase of 90 days or less, and all short-term instruments with maturities at purchase of 90 days or less. All short-term investments are stated at fair value.

DEPARTMENT OF COMMERCE – STATE INSURANCE DEPARTMENT –
ARKANSAS HEALTH INSURANCE MARKETPLACE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

State Board of Finance Policies

Ark. Code Ann. § 19-4-805 requires that agencies holding monies not deposited in the State Treasury, other than the institutions of higher learning, abide by the recommendations of the State Board of Finance. The State Board of Finance promulgated cash management, collateralization, and investments policies and procedures, effective July 14, 2012, as referenced in the Financial Management Guide issued by the Department of Finance and Administration for use by all state agencies.

The stated goal of state cash management is the protection of principal, while maximizing investment income and minimizing non-interest earning balances. Deposits are to be made within the borders of the State of Arkansas and must qualify for Federal Deposit Insurance Corporation (FDIC) deposit insurance coverage. Policy requires a minimum of four bids to be sought on interest-bearing deposits in order to obtain the highest rate possible.

Policy states that funds are to be in transactional and non-transactional accounts as defined in the Financial Management Guide. Funds in excess of immediate expenditure requirements (excluding minimum balances) should not remain in non-interest bearing accounts.

State Board of Finance policy states that cash funds may only be invested in accounts and investments authorized under Ark. Code Ann. §§ 19-3-510, -518. All noncash investments must be held in safekeeping by a bank or financial institution. In addition, all cash funds on deposit with a bank or financial institution that exceed FDIC deposit insurance coverage must be collateralized. Collateral pledged must be held by an unaffiliated third-party custodian in an amount at least equal to 105% of the cash funds on deposit.

Deposits

Deposits are carried at cost and consist of cash in bank totaling \$4,929,047.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. As of June 30, 2020, \$4,678,531 of the Agency's bank balance of \$4,929,047 was exposed to custodial credit risk as follows:

| | |
|--|---------------------|
| Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the Agency's name | <u>\$ 4,678,531</u> |
|--|---------------------|

F. Fund Equity

Fund Balance

In the financial statements, fund balance is reported in one of five classifications, where applicable, based on the constraints imposed on the use of the resources.

The nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (e.g., prepaid items, inventories, long-term amount of loans and notes receivables, etc.) or (b) legally or contractually required to be maintained intact.

DEPARTMENT OF COMMERCE – STATE INSURANCE DEPARTMENT –
ARKANSAS HEALTH INSURANCE MARKETPLACE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Fund Equity

Fund Balance

The spendable portion of fund balance, where applicable, comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes according to constraints imposed by legislation of the General Assembly, the government's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the General Assembly removes or changes the constraint by the same action that imposed the constraint.

Assigned fund balance. This classification reflects amounts constrained by the State's "intent" to be used for specific purposes but are neither restricted nor committed. The General Assembly has the authority to assign amounts to be used for specific purposes by legislation or approved methods of financing.

Unassigned fund balance. This amount is the residual classification for the general fund.

When more than one spendable classification is available for use, it is the State's policy to use the resources in this order: restricted, committed, assigned, and unassigned.

NOTE 2: Subsequent Event

Effects of Coronavirus Disease 2019

On March 11, 2020, the Governor of Arkansas issued Executive Order 20-03 declaring a public health emergency and ordered the Arkansas Department of Health to take action to prevent the spread of coronavirus disease 2019 (COVID-19). The COVID-19 outbreak is disrupting sales, travel, and everyday life across several industries and governments. The extent of the impact of COVID-19 on the financial statements for future reporting periods will depend on certain developments, including the duration of the outbreak and revenue collections – all of which are uncertain and cannot be predicted. The COVID-19 outbreak's anticipated effects to AHIM are considered to be very minor. The financial impact of COVID-19 to AHIM is uncertain.