



Financial Statements
December 31, 2017 and 2016



Comprehensive Health Association of North Dakota

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December 31, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors
Comprehensive Health Association of North Dakota
Fargo, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Comprehensive Health Association of North Dakota (Association), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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 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 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 Comprehensive Health Association of North Dakota as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2018 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Fargo, North Dakota
March 27, 2018

Comprehensive Health Association of North Dakota
 Statements of Financial Position
 December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 3,391,137	\$ 2,393,191
Assessment receivable	8,482	-
	\$ 3,399,619	\$ 2,393,191
 Liabilities and Net Assets		
Liabilities		
Aggregate reserves for policy contracts		
Claims expense	\$ 560,000	\$ 760,000
Unpaid claims adjustment expenses	8,000	12,000
Total aggregate reserves for policy contracts	568,000	772,000
Deferred revenue	45,102	52,604
Due to Noridian Mutual Insurance Company	7,682	13,562
Total liabilities	620,784	838,166
Unrestricted Net Assets	2,778,835	1,555,025
	\$ 3,399,619	\$ 2,393,191

Comprehensive Health Association of North Dakota
 Statements of Activities
 Years Ended December 31, 2017 and 2016

	2017	2016
Support and Revenue		
Subscriber fees earned	\$ 2,761,812	\$ 3,560,062
Member assessments	2,500,000	-
Interest	10,149	14,432
Total support and revenue	5,271,961	3,574,494
 Expenses		
Claims incurred	3,904,396	4,862,158
Administrative and general expenses	143,755	184,205
Total expenses	4,048,151	5,046,363
 Change in Unrestricted Net Assets	1,223,810	(1,471,869)
Net Assets, Beginning of Year	1,555,025	3,026,894
Net Assets, End of Year	\$ 2,778,835	\$ 1,555,025

Comprehensive Health Association of North Dakota

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Change in net assets	\$ 1,223,810	\$ (1,471,869)
Changes in assets and liabilities		
Aggregate reserves for policy contracts	(204,000)	(504,594)
Due from Noridian Mutual Insurance Company	-	19,866
Deferred revenue	(7,502)	(33,255)
Due to Noridian Mutual Insurance Company	(5,880)	13,562
Assessment receivable	(8,482)	-
	<u>997,946</u>	<u>(1,976,290)</u>
Net Change in Cash and Cash Equivalents		
	997,946	(1,976,290)
Cash and Cash Equivalents, Beginning of Year	<u>2,393,191</u>	<u>4,369,481</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,391,137</u>	<u>\$ 2,393,191</u>

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

Comprehensive Health Association of North Dakota (Association) is regulated by the North Dakota State Insurance Department.

The Association is incorporated as a nonprofit corporation in the State of North Dakota. The general purpose of the Association is to make available, through the Association's lead carrier, Noridian Mutual Insurance Company, health care coverage to residents of North Dakota who have been denied health insurance or had been given restricted coverage because they had health problems or were considered to be in a high risk category.

Member Assessments

All insurers licensed or authorized to do business in North Dakota with an annual premium volume of accident and health insurance contracts, derived from or on behalf of residents, in the previous calendar year of at least \$100,000 are required by state law to be members of the Association.

Any revenue in excess of the costs incurred by the Association will be held in interest-bearing deposits and used to pay future costs or reduce Association premiums. Participating members will be assessed a share of anticipated excess costs of the Association in an amount equal to the ratio of a member's total annual premium volume for accident and health insurance to the total accident and health insurance premiums received from or on behalf of North Dakota residents by all Association members.

Member assessments not yet received as of year-end are recorded as a receivable by the Association. No interest is charged on outstanding balances as receipt of funds is historically received shortly following notification of assessment.

Basis of Financial Reporting

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in ASC 958, Not-for Profit Entities. Under ASC 958, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. There are no temporarily or permanently restricted net assets as of December 31, 2017 and 2016.

Concentration of Credit Risk

The Association maintains cash balances at various institutions. Periodically, balances in these accounts are temporarily in excess of federally insured limits.

Income Taxes

The Association qualifies as a tax-exempt organization under Section 501(c)(26) of the Internal Revenue Code and therefore, is not subject to income taxes.

The Association undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by FASB Accounting Standards Codification Topic ASC 740-10. As of December 31, 2017 and 2016, the unrecognized tax benefit accrual as defined by ASC 740-10 was zero.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates susceptible to significant change include the aggregate reserves for policy contracts.

Cash Equivalents

The Association considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents.

Aggregate Reserves for Policy Contracts

Aggregate reserves for policy contracts have been adjusted to reflect claims incurred but unpaid at year-end, which includes claims in process, unreported claims, and claims of currently hospitalized patients. The amount of this liability has been estimated by the use of actuarial methods utilizing statistics developed from prior claims payment experience. Differences between actual and estimated claims are charged to operations in the year that the differences, if any, become known.

Subscriber Fees Earned and Deferred Revenue

Subscriber fees are billed monthly in advance of the respective coverage period. Income for such fees is recorded as earned during the coverage month. Revenue that applies to future periods is shown as deferred revenue on the Statement of Financial Position.

Risk and Uncertainties

In March 2011, Congress enacted the Patient Protection and Affordable Care Act (Affordable Care Act). Risk pools were initially exempted from compliance with these regulations however, recent review at the federal level may overturn this determination. While the Association has no plans to cancel existing coverage in 2018, this could have a material impact on the Association's operations. Legislation may also be introduced that eliminates the need for the Association given the plans and subsidies available under the Affordable Care Act. Management will continue to monitor changes in legislation related to the Affordable Care Act and will assess any potential effects on the future of the Association as more detailed information becomes available.

Subsequent Events

The Association has evaluated subsequent events through March 27, 2018, the date which the financial statements were available to be issued.

Note 2 - Aggregate Reserves for Policy Contracts

Activity in the liability for aggregate reserves for policy contracts is summarized as follows:

	2017	2016
Balance at the beginning of the year	\$ 760,000	\$ 1,258,594
Incurred related to		
Current year	3,940,939	5,119,485
Prior year	(36,543)	(257,327)
Total incurred	3,904,396	4,862,158
Paid related to		
Current year	3,380,939	4,300,891
Prior year	723,457	1,059,861
Total paid	4,104,396	5,360,752
Balance at the end of the year	\$ 560,000	\$ 760,000

The change in the provision of insured events of prior years is a decrease of \$36,543 and \$257,327 at December 31, 2017 and 2016, respectively. This is a result of ongoing analysis of recent loss development trends and re-estimation of unpaid claims on fully insured and risk sharing agreements.

Note 3 - Related Party Transactions

Administrative Services

The Association has contracted with Noridian Mutual Insurance Company (Noridian), as the lead carrier, to perform administrative services for the Association. Expenses under this agreement are maintained by a cost accounting system, which allocates operating expenses to the Association based on actual utilization. Lead carrier expenses are limited to 12.5 percent of the Association's subscriber fees and, in 2017, were 5.2 percent or \$143,755, compared to 5.2 percent or \$184,205 in 2016.

Subscriber fees are collected by Noridian and paid to the Association. In addition, Noridian pays claims for the Association and is reimbursed for such payments by the Association.

Payables of \$7,682 and \$13,562 were due to Noridian at December 31, 2017 and 2016, respectively, for administrative services.

Member Assessments

Noridian had participating member assessments of \$1,651,265 in 2017 and \$0 in 2016 to the Association.



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Comprehensive Health Association of North Dakota
Fargo, North Dakota

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 Comprehensive Health Association of North Dakota (Association) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Association’s basic financial statements, and have issued our report thereon dated March 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) 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 Association’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association’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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 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 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 Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Fargo, North Dakota
March 27, 2018