



Financial Statements
December 31, 2018 and 2017



Comprehensive Health Association of North Dakota

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December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 18, 2019 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 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 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.

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

Fargo, North Dakota
March 18, 2019

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

	2018	2017
Assets		
Cash and cash equivalents	\$ 2,504,961	\$ 3,391,137
Assessment receivable	1,771	8,482
	\$ 2,506,732	\$ 3,399,619
 Liabilities and Net Assets		
Liabilities		
Aggregate reserves for policy contracts		
Claims expense	\$ 540,000	\$ 560,000
Claims expense - BCBS	23,067	-
Unpaid claims adjustment expenses	9,000	8,000
Total aggregate reserves for policy contracts	572,067	568,000
Deferred revenue	2,332	45,102
Due to Noridian Mutual Insurance Company	3,775	7,682
Total liabilities	578,174	620,784
Net assets without donor restrictions	1,928,558	2,778,835
	\$ 2,506,732	\$ 3,399,619

Comprehensive Health Association of North Dakota

Statements of Activities

Years Ended December 31, 2018 and 2017

	2018	2017
Support and Revenue		
Subscriber fees earned	\$ 2,365,881	\$ 2,761,812
Member assessments	-	2,500,000
Interest	40,875	10,149
Total support and revenue	2,406,756	5,271,961
Expenses		
Program Expenses		
Claims incurred	3,137,236	3,904,396
Management and General		
Personnel costs	62,878	70,071
Facility costs	13,214	15,495
Administrative and general expenses	43,705	58,189
Total expenses	3,257,033	4,048,151
Change in net assets without donor restrictions	(850,277)	1,223,810
Net Assets, Beginning of Year	2,778,835	1,555,025
Net Assets, End of Year	\$ 1,928,558	\$ 2,778,835

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

	2018	2017
Operating Activities		
Change in net assets without donor restrictions	\$ (850,277)	\$ 1,223,810
Changes in assets and liabilities		
Assessment receivable	6,711	(8,482)
Aggregate reserves for policy contracts	4,067	(204,000)
Deferred revenue	(42,770)	(7,502)
Due to Noridian Mutual Insurance Company	(3,907)	(5,880)
	(886,176)	997,946
Net Change in Cash and Cash Equivalents		
	(886,176)	997,946
Cash and Cash Equivalents, Beginning of Year	3,391,137	2,393,191
Cash and Cash Equivalents, End of Year	\$ 2,504,961	\$ 3,391,137

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 Accounting Standards Codification (ASC) 958, Not-for Profit Entities. Under ASC 958, the Association is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction. There are no net assets with donor restriction for the years ended December 31, 2018 and 2017.

Implementation of New Accounting Standard

The Financial Accounting Standards Board issued ASU 2016-14 (the ASU) *Presentation of Financial Statements for Not-for-Profit Entities* during August 2016, which modifies the presentation and disclosure requirements of not-for-profit entities. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions). The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Association's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Association's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses. The ASU is effective for the Association for the year ended December 31, 2018. Management has evaluated the impact of the adoption of the ASU on the Association's financial reporting.

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, 2018 and 2017, 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.

Functional Expenses and Natural Classification

The costs of program and supporting services activities have been summarized on a functional expenditure basis and by natural classification in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on the financial position, activities and cash flows.

Subsequent Events

The Association has evaluated subsequent events through March 18, 2019, 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:

	2018	2017
Balance at the beginning of the year	\$ 560,000	\$ 760,000
Incurred related to		
Current year	3,262,009	3,940,939
Prior year	(124,773)	(36,543)
Total incurred	3,137,236	3,904,396
Paid related to		
Current year	2,690,942	3,380,939
Prior year	443,227	723,457
Total paid	3,134,169	4,104,396
Balance at the end of the year	\$ 563,067	\$ 560,000

The change in the provision of insured events of prior years is a decrease of \$124,773 and \$36,543 at December 31, 2018 and 2017, 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 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2018
Cash and cash equivalents	\$ 2,504,961
Investments	1,771
Total	\$ 2,506,732

As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term CDs and money market funds.

Note 4 - 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 2018, were 5.1 percent or \$119,797, compared to 5.2 percent or \$143,755 in 2017.

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 \$3,775 and \$7,682 were due to Noridian at December 31, 2018 and 2017, respectively, for administrative services.

Member Assessments

Noridian had participating member assessments of \$0 in 2018 and \$1,651,265 in 2017 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 the 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 (the Association) which comprise the statement of financial position as of and for the year ended December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency as item 2018-A.

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*.

Comprehensive Health Association of North Dakota's Response to Findings

Comprehensive Health Association of North Dakota's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Comprehensive Health Association of North Dakota's response was not subjected to the auditing procedure 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 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
March 18, 2019

Finding 2018-A

Significant Deficiency in Internal Control over Financial Reporting - Improper Segregation of Information from Administrator surrounding the management of cash

Criteria: Cash received from members for premiums paid-in-advance is based on collections from policyholders in advance of their period of coverage. Cash is collected by administrator Blue Cross Blue Shield of North Dakota d/b/a Noridian Mutual Insurance Company (the Administrator) and paid to Comprehensive Health Association of North Dakota (the Association) as the Association's amount of premium revenue for the period is determined. There is a risk to the timely reporting of cash balances to the Association as the Administrator is currently unable to determine in a timely manner the amount of cash receipts received on behalf of the Association.

Condition: Presently, the Association receives cash from the Administrator in the month following the month of operations for activity.

Context: We observed the issue by reviewing the prepaid income cash receipt process and discussions with management on this matter.

Effect: As of December 31, 2018, the Administrator for the Association was in possession of cash that is the property of the Association as it was received for prepaid income. As this cash was not yet earned by the Association there is no impact to net income or net assets, but the amount of cash held by the administrator at year-end was not able to be determined by management. As such, cash and prepaid income are potentially understated as of December 31, 2018.

Cause: Due to business transformation activities currently undergoing at the Administrator the premium billings for the Association were grouped into one business unit with a corresponding line of business at the Administrator. As all enrollees in this business unit are rated the same the administrator felt it made sense when the system was configured. As a result, the Administrator is not able to break out cash received on behalf of the Association from that received for the Administrator in a timely manner resulting in the finding above.

Recommendation: It is our recommendation that the Association request from the Administrator that the premium billing process for the Association be broken out from the business unit of the Administrator moving forward.

View of Responsible Officials and Planned Corrective Actions: Management of the Association and that of the Administrator concur and will review the configuration of the business units within the HMHS system to determine the best approach to mediate the risk related to improper segregation of information from the Administrator surrounding the management of cash.