

Arkansas Health Insurance Marketplace

Independent Auditor's Reports and Financial Statements

June 30, 2016



Arkansas Health Insurance Marketplace

June 30, 2016

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Independent Auditor's Report

Board of Directors
Arkansas Health Insurance Marketplace
Little Rock, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of Arkansas Health Insurance Marketplace (the Organization) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic 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 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 Arkansas Health Insurance Marketplace as of June 30, 2016, and the changes in its financial 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

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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 the Organization's internal control over financial reporting and compliance.

BKD, LLP

Arkansas Health Insurance Marketplace

Statement of Net Position

June 30, 2016

Assets

Current Assets

Cash	\$ 211,888
Grants receivable	<u>1,365,912</u>
Total current assets	<u>1,577,800</u>

Noncurrent Assets

Furniture and equipment	158,160
Website development and modifications	2,719,175
Less accumulated depreciation	<u>380,743</u>
Capital assets, net	<u>2,496,592</u>

Other Assets

Prepaid expenses and other	<u>5,967</u>
Total assets	<u>\$ 4,080,359</u>

Liabilities and Net Position

Current Liabilities

Accounts payable	\$ 1,255,114
Accrued expenses	<u>164,867</u>
Total current liabilities	<u>1,419,981</u>

Net Position

Net investment in capital assets	2,496,592
Restricted	<u>163,786</u>
Total net position	<u>2,660,378</u>
Total liabilities and net position	<u>\$ 4,080,359</u>

Arkansas Health Insurance Marketplace
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

Operating Revenues	
Federal grants	\$ 11,934,938
Other income	5,024
	<hr/>
Total operating revenues	11,939,962
	<hr/>
Operating Expenses	
Salaries and fringe benefits	1,619,733
Equipment	13,687
Supplies	10,353
Data processing supplies	768
Software licenses	8,123
Travel	49,433
Building rental	138,423
Equipment rental	4,859
Board member stipends	9,400
Dues and subscriptions	5,624
Administrative and miscellaneous	14,141
Network services	37,581
Professional services	86,456
Building ground and maintenance	2,184
Contract services	7,652,551
Depreciation	380,743
	<hr/>
Total operating expenses	10,034,059
	<hr/>
Operating Income and Change in Net Position	1,905,903
	<hr/>
Net Position, Beginning of Year	754,475
	<hr/>
Net Position, End of Year	\$ 2,660,378
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Arkansas Health Insurance Marketplace
Statement of Cash Flows
Year Ended June 30, 2016

Cash Flows from Operating Activities	
Federal grant receipts	\$ 11,605,032
Other receipts	5,024
Cash paid for material and services	(7,727,185)
Cash paid for personnel expenses	<u>(1,555,798)</u>
Net cash provided by operating activities	<u>2,327,073</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	<u>(2,235,950)</u>
Net cash used in cash flows from capital and related financing activities	<u>(2,235,950)</u>
Increase in Cash	91,123
Cash, Beginning of Year	<u>120,765</u>
Cash, End of Year	<u><u>\$ 211,888</u></u>
Reconciliation of Operating Income to	
Net Cash Flows from Operating Activities	
Operating Income	\$ 1,905,903
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	380,743
Changes in	
Grant receivable	(329,906)
Other Assets	(5,967)
Accounts payable	302,965
Accrued expenses	<u>73,335</u>
Net cash provided by operating activities	<u><u>\$ 2,327,073</u></u>

Arkansas Health Insurance Marketplace

Notes to Financial Statements

June 30, 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Arkansas Health Insurance Marketplace (the Organization) was created to manage and implement a state-based health insurance exchange in Arkansas in accordance with state and federal law. The Organization is a nonprofit public benefit corporation established by the 89th Arkansas General Assembly, 2013 Regular Session by Act 1500 as a political subdivision, instrumentality and body politic of the State of Arkansas. The Organization is governed by an eight-member board of directors. The board consists of two members appointed by the Governor of Arkansas, three members appointed by the President Pro Tempore of the Arkansas Senate and three members appointed by the Speaker of the Arkansas House of Representatives.

In September 2014, the board voted to operate a state-run Small Business Health Options Program (SHOP) in 2015 for coverage beginning January 1, 2016. The board also voted to operate an individual market state-run health insurance exchange in 2016 for coverage beginning January 1, 2017.

Basis of Accounting and Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting, using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from voluntary nonexchange transactions (principally federal grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, voluntary nonexchange transactions. The Organization first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

The Organization prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. No claims have been filed since the Organization's inception.

Arkansas Health Insurance Marketplace

Notes to Financial Statements

June 30, 2016

Grants Receivable

Grants receivable at June 30, 2016, are due from the U.S. Department of Health and Human Services. These receivables are stated at the amounts to be collected from the grantor subsequent to the statement of net position date. Due to the nature of the grants receivable, the Organization does not consider an allowance for doubtful accounts necessary.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation, if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset.

The following estimated useful lives are used by the Organization:

Equipment	5 years
Furniture and fixtures	10 years

Property acquired with federal grant funds is considered to be owned by the Organization while used in the program for which it was purchased or in future authorized programs. In addition, the federal government has a reversionary interest in the property. The disposition of property purchased, as well as any proceeds therefrom, is subject to federal regulation.

Compensated Absences

Full-time employees of the Organization earn paid time off (PTO) benefits weekly on the basis of employee classification and length of service. The maximum PTO benefits accrual is capped at 240 hours annually, per employee. Subject to certain restrictions, Organization employees are compensated for unused PTO upon leaving the Organization's employment. PTO benefits are accrued when earned.

Net Position

Net position of the Organization is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings (if any) used to finance the purchase or construction of those assets. Restricted net position, if any, is net position that must be used for a particular purpose as specified by creditors or others external to the Organization. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definitions of net investment in capital assets or restricted. The Organization has no unrestricted net position at June 30, 2016.

Arkansas Health Insurance Marketplace

Notes to Financial Statements

June 30, 2016

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Organization's financial policies do not address deposit custodial credit risk. At June 30, 2016, none of the Organization's deposits were exposed to custodial credit risk.

Note 3: Capital Assets

Capital assets activity for the year ended June 30, 2016, was:

	Beginning Balance	Additions and Transfers, Net	Retirements and Transfers, Net	Ending Balance
Capital assets, depreciable				
Website development and modifications in progress	<u>563,925</u>	<u>2,155,250</u>	<u>\$ -</u>	<u>\$ 2,719,175</u>
Total capital assets, nondepreciable	<u>563,925</u>	<u>2,155,250</u>	<u>-</u>	<u>2,719,175</u>
Capital assets, depreciable				
Furniture and equipment	<u>77,460</u>	<u>80,700</u>	<u>-</u>	<u>158,160</u>
Total capital assets, depreciable	<u>77,460</u>	<u>80,700</u>	<u>-</u>	<u>158,160</u>
Less accumulated depreciation				
Furniture and equipment	<u>-</u>	<u>380,743</u>	<u>-</u>	<u>380,743</u>
Total accumulated depreciation	<u>-</u>	<u>380,743</u>	<u>-</u>	<u>380,743</u>
Capital assets, net	<u>\$ 641,385</u>	<u>\$ 1,855,207</u>	<u>\$ -</u>	<u>\$ 2,496,592</u>

Arkansas Health Insurance Marketplace

Notes to Financial Statements

June 30, 2016

Note 4: Operating Leases

Noncancellable operating leases for office space expire in 2020 subject to the availability of the Organization's federal grant funding. Future minimum lease payments at June 30, 2016, were:

2017	\$	126,000
2018		126,000
2019		126,000
2020		<u>10,500</u>
	\$	<u>388,500</u>

Note 5: Commitments

The Organization has entered into various multi-year contract agreements relating to the development of the state-based health insurance exchange. At June 30, 2016, the Organization had approximately \$7,600,000 of commitments remaining under the contracts.

Note 6: Concentrations

Economic Dependency

The Organization is currently dependent on federal grant funding for its operational expenditures. The current grant award runs through December 31, 2017. If a material change in the level of support provided by the federal government occurs, such a change could have a material effect on the Organization's operations.

Information Technology Vendor

The Organization has contracted with and is dependent upon one information technology vendor to develop its core information technology systems including, but not limited to, the state-based exchange web portal and corresponding information technology infrastructure.

Supplementary Information

Arkansas Health Insurance Marketplace
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	N/A	N/A	\$ 11,934,938
				<u>\$ 11,934,938</u>

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Board of Directors
Arkansas Health Insurance Marketplace
Little Rock, Arkansas

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 Arkansas Health Insurance Marketplace (the Organization) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 30, 2016.

Internal Control over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Organization's 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
December 30, 2016

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Arkansas Health Insurance Marketplace
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of Arkansas Health Insurance Marketplace (the Organization) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2016. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Organization's major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Major Federal Program

In our opinion, Arkansas Health Insurance Marketplace complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Arkansas Health Insurance Marketplace is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
December 30, 2016

Arkansas Health Insurance Marketplace
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)? Yes None reported

Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for major federal award programs was:

Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? Yes No

Arkansas Health Insurance Marketplace
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2016

7. The Organization's major programs were:

Cluster/Program	CFDA Number
State Planning and Establishment grants for the Affordable Care Act (ACA)'s Exchanges	93.525

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee? Yes No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
No matters are reportable.	

Findings Required to be Reported by *Uniform Guidance*

Reference Number	Finding
No matters are reportable.	

Arkansas Health Insurance Marketplace
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

Reference Number	Summary of Finding	Status
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No matters are reportable.