

Arkansas Health Insurance Marketplace

Independent Auditor's Reports and Financial Statements

June 30, 2018



Arkansas Health Insurance Marketplace

June 30, 2018

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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, 2018, 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, 2018, 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 Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Organization's basic financial statements. The schedule of expenditures of federal awards is presented for purpose of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards 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. Such 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 schedule of expenditures of federal awards 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 also have issued our report dated October 17, 2018, on our consideration of the Organization'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 Organization'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 the Organization's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
October 17, 2018

Arkansas Health Insurance Marketplace Management's Discussion and Analysis (Unaudited) June 30, 2018

Introduction

This management's discussion and analysis of the financial performance of Arkansas Health Insurance Marketplace (the Organization) provides an overview of the Organization's financial activities for the year ended June 30, 2018. It should be read in conjunction with the accompanying financial statements of the Organization.

Financial Highlights

- Net position (assets less liabilities) decreased by approximately \$937,000 (or 42.93%) during fiscal year 2018 to \$1.2 million at the end of fiscal year 2018.
- Total operating revenues decreased by approximately \$4.9 million (or 42.05%) during fiscal year 2018 to \$6.8 million.
- Total operating expenses decreased by approximately \$4.4 million (or 36.62%) during fiscal year 2018 to \$7.7 million.

Using This Annual Report

The Organization's financial statements consist of three statements—a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Organization, including resources held by the Organization but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Organization is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any organization's finances is "Is the Organization as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses and changes in net position report information about the Organization's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Arkansas Health Insurance Marketplace

Management's Discussion and Analysis (Unaudited)

June 30, 2018

These two statements report the Organization's net position and changes in it. The Organization's total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of the Organization's financial health or financial position. Over time, increases or decreases in the Organization's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Organization's health benefit exchange enrollments and changes in legislation and regulations should also be considered to assess the overall financial health of the Organization.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Organization's Activities

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. 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. Effective for coverage beginning January 1, 2018, the Organization's sole insurance provider for the SHOP no longer accepted new enrollments. The board also voted to operate an individual market state-run health insurance exchange in 2016 for coverage beginning January 1, 2017.

The Organization's Net Position

The Organization's net position is the difference between its assets and liabilities reported in the statement of net position. The Organization's net position decreased by \$937,090 (42.93%) in fiscal year 2018 over fiscal year 2017, as shown in *Table 1*.

**Arkansas Health Insurance Marketplace
Management's Discussion and Analysis (Unaudited)
June 30, 2018**

Table 1 – Statement of Net Position

	<u>2018</u>	<u>2017</u>
Assets		
Current and other assets	\$ 1,451,607	\$ 750,312
Capital assets	<u>94,203</u>	<u>2,009,541</u>
Total assets	<u>\$ 1,545,810</u>	<u>\$ 2,759,853</u>
Liabilities		
Current liabilities	<u>\$ 299,911</u>	<u>\$ 576,864</u>
Total liabilities	<u>299,911</u>	<u>576,864</u>
Net Position		
Net investment in capital assets	94,203	2,009,541
Unrestricted	<u>1,151,696</u>	<u>173,448</u>
Total net position	<u>1,245,899</u>	<u>2,182,989</u>
Total liabilities and net position	<u>\$ 1,545,810</u>	<u>\$ 2,759,853</u>

The preceding *Table 1* reflects the condensed statement of net position. To conform with the 2018 presentation, certain reclassifications have been made to the 2017 balances. The Organization is engaged only in business-type activities.

For more detailed information, see the statement of net position.

Major Factors Affecting the Statement of Net Position

In fiscal year 2018, current and other assets increased by approximately \$701,000 and current liabilities decreased by approximately \$277,000. Changes were due to positive results from operations in 2018.

In 2018, capital assets decreased by approximately \$1.9 million. Due to the impairment of the SHOP Marketplace Platform, approximately \$1.8 million of capital assets were written off.

As mentioned previously, overall net position decreased by \$937,090 in fiscal year 2018 compared to a decrease of \$477,389 in fiscal year 2017.

Arkansas Health Insurance Marketplace
Management's Discussion and Analysis (Unaudited)
June 30, 2018

Operating Results and Changes in the Organization's Net Position

In 2018, the Organization's net position decreased by \$937,090, or 42.93%, as shown in *Table 2*. This decrease is made up of several different components and represents a decline of 96.29% compared with the decrease in net position for 2017 of \$477,389.

Table 2 – Statement of Revenues, Expenses and Changes in Net Position

	<u>2018</u>	<u>2017</u>
Operating Revenue		
Federal grants	\$ 505,038	\$ 5,261,348
Fee assessments	6,258,746	4,356,579
Contracts	-	2,056,163
Other income	1,691	554
	<u>6,765,475</u>	<u>11,674,644</u>
Operating Expenses		
Cost of services	2,376,569	2,238,085
Salaries and fringe benefits	1,185,973	1,570,096
Equipment	9,976	37,505
Supplies	834	22,799
Software licenses	8,226	6,240
Travel	16,412	46,636
Building rental	138,045	117,000
Equipment rental	5,049	5,188
Dues and subscriptions	6,993	6,428
Administrative and miscellaneous	17,057	66,000
Network services	22,812	22,834
Professional services	63,774	84,210
Building ground and maintenance	-	307
Contract services	1,570,830	7,335,075
Payroll taxes	72,345	-
Information networking	292,331	-
Long-lived asset impairment	1,799,156	-
Depreciation	116,183	593,630
	<u>7,702,565</u>	<u>12,152,033</u>
Operating Loss and Change in Net Position	(937,090)	(477,389)
Net Position, Beginning of Year	<u>2,182,989</u>	<u>2,660,378</u>
Net Position, End of Year	<u>\$ 1,245,899</u>	<u>\$ 2,182,989</u>

Arkansas Health Insurance Marketplace Management's Discussion and Analysis (Unaudited) June 30, 2018

Major Factors Affecting the Statement of Revenues, Expenses and Changes in Net Position

In total, operating revenue decreased in fiscal year 2018 compared to fiscal year 2017 by approximately \$4.9 million.

Federal Grant HBEIE150210 ended in December 2017 and resulted in a decrease of operating revenue of \$4.8 million in fiscal year 2018 compared to fiscal year 2017. The federal grant supported the development and implementation of a SHOP Marketplace Platform as well as six months of operations for the SHOP Marketplace hosted by that platform during fiscal year ended June 30, 2017. The federal grant only supported marketing, outreach and operations during fiscal year 2018.

Beginning on January 1, 2017, revenue to support operations of the Organization came from a fee of 3% on each plan sold on the SHOP and Individual Health Insurance Marketplaces. The revenue is reflected as fee assessments in the statement of revenues, expenses and changes in net position. The fee assessments increased by approximately \$1.9 million in fiscal year 2018 compared to fiscal year 2017. The increase was due to a full year of fees in fiscal year 2018 compared to six months of fees in fiscal year 2017.

The contracts revenue decreased by approximately \$2.1 million in fiscal year 2018 compared to fiscal year 2017 due to the ending of the SHOP.

Expenses decreased in fiscal year 2018 from \$11.6 million (exclusive of depreciation) in fiscal year 2017 to \$7.6 million (exclusive of depreciation) in fiscal year 2018. Some highlights of the fiscal year 2018 expense activity compared to fiscal year 2017 include an increase in cost of services of approximately \$138,000, primarily made up of the fee to run the Individual Marketplace on the federal platform and a decrease in contract services expenses of \$5.8 million. In 2017, contract services were used to assist with the design, development, implementation and operations of the Organization and the SHOP. The operation services were only needed for the first six months of fiscal year 2018. In addition, the services were supported by the federal grant. There was an impairment loss of approximately \$1.8 million due to the SHOP ending and the SHOP website platform no longer being used.

Capital Assets

As of year-end, the Organization had approximately \$94,000 invested in a variety of capital assets as reflected in the following schedule, which represents a decrease (deductions and depreciation) of approximately \$1.9 million from fiscal year 2017 to fiscal year 2018. The majority of the decrease in capital assets is due to the impairment of the SHOP website platform, as no carriers participated in providing SHOP coverage during 2018.

**Arkansas Health Insurance Marketplace
Management's Discussion and Analysis (Unaudited)
June 30, 2018**

Capital Assets at Year-End (Net of Depreciation)

The following table represents the detailed components of capital assets and related accumulated depreciation at June 30:

	<u>2018</u>	<u>2017</u>
Website development and modifications in progress	\$ -	\$ 2,819,624
Furniture and equipment	<u>164,291</u>	<u>164,291</u>
	164,291	2,983,915
Less accumulated depreciation	<u>70,088</u>	<u>974,373</u>
Total capital assets	<u>\$ 94,203</u>	<u>\$ 2,009,542</u>

Debt Outstanding

As of June 30, 2018, the Organization had no debt outstanding.

Economic Factors

The State of Arkansas has requested a waiver from the United States Secretary of Health and Human Services to allow the maximum income of Arkansans who qualify for Medicaid to decrease from 138% of the federal poverty level to 100% of the federal poverty level. If that waiver is granted, the approximately 60,000 Arkansans who are currently between 100% and 138% of the federal poverty level would no longer receive Medicaid services for their health care. If the waiver is granted, the Organization would experience an increase in the number of enrollments, which would cause the related fee assessments revenue to increase.

The Organization will increase the fee assessed on plans sold on the exchange to 4.25% for 2019 plans compared to the 3.0% fee assessed for 2018 plans. In 2018, 67% of that assessment fee went to the Federal Facilitated Marketplace (FFM) as a technology fee. However, the FFM technology fee will increase in 2019 to 70.6% of the gross fees.

Financial Contact

The individual to be contacted regarding this report is the Director of Finance of the Arkansas Health Insurance Marketplace at 501.313.4197. Specific requests may be submitted to the Director of Finance of the Arkansas Health Insurance Marketplace, 1401 W. Capitol Avenue, Suite 430, Little Rock, Arkansas 72201.

Arkansas Health Insurance Marketplace
Statement of Net Position
June 30, 2018

Assets

Current Assets

Cash and cash equivalents	\$ 1,320,539
Other receivable	114,256

Total current assets	1,434,795
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Noncurrent Assets

Furniture and equipment	164,291
Less accumulated depreciation	70,088

Capital assets, net	94,203
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Other Assets

Prepaid expenses and other	16,812
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Total assets	\$ 1,545,810
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Liabilities and Net Position

Current Liabilities

Accounts payable	\$ 212,624
Accrued expenses	87,287

Total current liabilities	299,911
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Net Position

Net investment in capital assets	94,203
Unrestricted	1,151,696

Total net position	1,245,899
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Total liabilities and net position	\$ 1,545,810
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Arkansas Health Insurance Marketplace
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2018

Operating Revenues	
Federal grants	\$ 505,038
Fee assessments	6,258,746
Other income	<u>1,691</u>
Total operating revenues	<u>6,765,475</u>
Operating Expenses	
Cost of services	2,376,569
Salaries and fringe benefits	1,185,973
Equipment	9,976
Supplies	834
Software licenses	8,226
Travel	16,412
Building rental	138,045
Equipment rental	5,049
Dues and subscriptions	6,993
Administrative and miscellaneous	17,057
Network services	22,812
Professional services	63,774
Contract services	1,570,830
Payroll taxes	72,345
Information networking	292,331
Long-lived asset impairment	1,799,156
Depreciation	<u>116,183</u>
Total operating expenses	<u>7,702,565</u>
Operating Loss and Change in Net Position	(937,090)
Net Position, Beginning of Year	<u>2,182,989</u>
Net Position, End of Year	<u><u>\$ 1,245,899</u></u>

Arkansas Health Insurance Marketplace
Statement of Cash Flows
Year Ended June 30, 2018

Cash Flows from Operating Activities	
Federal grant receipts	\$ 415,926
Receipts for services	6,258,746
Other receipts	1,690
Cash paid for material and services	(4,843,276)
Cash paid for personnel expenses	<u>(1,156,356)</u>
Net cash provided by operating activities	<u>676,730</u>
Increase in Cash and Cash Equivalents	676,730
Cash and Cash Equivalents, Beginning of Year	<u>643,809</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,320,539</u></u>
Reconciliation of Operating Loss to	
Net Cash Flows from Operating Activities	
Operating loss	\$ (937,090)
Adjustments to reconcile operating income to net cash provided by operating activities	
Long-lived asset impairment	1,799,155
Depreciation	116,183
Changes in	
Grant receivable	24,994
Other receivable	(114,106)
Other assets	64,547
Accounts payable	(306,570)
Accrued expenses	<u>29,617</u>
Net cash provided by operating activities	<u><u>\$ 676,730</u></u>

Arkansas Health Insurance Marketplace

Notes to Financial Statements

June 30, 2018

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

Nature of Operations and Reporting Entity

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. Effective for coverage beginning January 1, 2018, the Organization's sole insurance provider for the SHOP no longer accepted enrollments. 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).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent 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.

Arkansas Health Insurance Marketplace

Notes to Financial Statements

June 30, 2018

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.

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018, cash equivalents consisted of funds swept from a deposit account into a bank repurchase agreement. At June 30, 2018, approximately \$1.1 million was held in the bank repurchase agreement, and this amount was not federally insured.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition 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.

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

There was an impairment loss of approximately \$1.8 million for the year ended June 30, 2018, based on the discontinuation of the SHOP due to the lack of carrier participation. The impairment loss is included in the nonoperating expenses section in the accompanying statement of revenues, expenses and changes in net position.

Arkansas Health Insurance Marketplace

Notes to Financial Statements

June 30, 2018

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. The Organization has no restricted net position at June 30, 2018. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definitions of net investment in capital assets or restricted.

Note 2: Deposits and Investments

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, 2018, the Organization's deposit accounts did not exceed federally insured limits.

Investments

The Organization may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At June 30, 2018, the Organization had the following investments and maturities:

Type	June 30, 2018				
	Fair Value	Maturities in Years			More than 10
Less than 1		1-5	6-10		
Repurchase agreement	\$ 1,088,281	\$ 1,088,281	\$ -	\$ -	-

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, they will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Organization's investments in the repurchase agreement at June 30, 2018, are held by the counterparty in other than the Organization's name. The Organization's investment policy does not address how securities underlying repurchase agreements are to be held.

Arkansas Health Insurance Marketplace

Notes to Financial Statements

June 30, 2018

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statement of net position as follows:

Carrying value	
Deposits	\$ 232,258
Investments	1,088,281
	<u>1,320,539</u>
	<u>\$ 1,320,539</u>

Included in the following statement
of net position caption

Cash and cash equivalents	\$ 1,320,539
	<u>\$ 1,320,539</u>

Note 3: Capital Assets

Capital assets activity for the year ended June 30, 2018, was:

	Beginning Balance	Additions and Transfers, Net	Retirements and Transfers, Net	Ending Balance
Capital assets, depreciable				
Website development and modifications	\$ 2,819,624	\$ -	\$ 2,819,624	\$ -
Furniture and equipment	<u>164,291</u>	<u>-</u>	<u>-</u>	<u>164,291</u>
Total capital assets, depreciable	<u>2,983,915</u>	<u>-</u>	<u>2,819,624</u>	<u>164,291</u>
Less accumulated depreciation				
Website development and modifications	918,460	102,008	1,020,468	-
Furniture and equipment	<u>55,913</u>	<u>14,175</u>	<u>-</u>	<u>70,088</u>
Total accumulated depreciation	<u>974,373</u>	<u>116,183</u>	<u>1,020,468</u>	<u>70,088</u>
Capital assets, net	<u>\$ 2,009,542</u>	<u>\$ (116,183)</u>	<u>\$ 1,799,156</u>	<u>\$ 94,203</u>

Arkansas Health Insurance Marketplace

Notes to Financial Statements

June 30, 2018

Note 4: Operating Leases

The Organization has a noncancellable operating lease for office space, which expires in fiscal year ending 2021. The Organization also has a noncancellable lease of office equipment, which expires in fiscal year ending 2020. Future minimum lease payments at June 30, 2018, were:

2019	\$	98,432
2020		99,141
2021		<u>98,700</u>
	\$	<u><u>296,273</u></u>

Note 5: Subsequent Events

Subsequent events have been evaluated through October 17, 2018, which is the date the financial statements were available to be issued.

Supplementary Information

Arkansas Health Insurance Marketplace
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services/ State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525			\$ 505,038
				<u>\$ 505,038</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, 2018. 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). A Uniform Guidance compliance audit was not required as total federal expenditures were less than the Uniform Guidance compliance audit threshold of \$750,000. 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 position 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% de minimis indirect cost rate allowed under the Uniform Guidance.

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

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), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated October 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001, that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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*.

Arkansas Health Insurance Marketplace's Response to the Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management'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 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
October 17, 2018

Arkansas Health Insurance Marketplace

Summary Schedule of Findings and Responses

Year Ended June 30, 2018

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Summary of Finding
2018-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Organization’s internal control environment over financial reporting did not detect an adjustment related to the Organization’s revenues and expenses that was needed to prevent the financial statements from being misstated.</p> <p>Context – Effective and accurate financial statements are essential to managing and communicating financial position and results of operations to interested parties. An audit adjustment was needed to properly state revenues and expenses in the 2018 financial statements.</p> <p>Effect – Potentially significant misstatement in the financial statements.</p> <p>Cause – Due to improper cutoff of accounts payable and accounts receivable, revenues and expenses were overstated prior to audit adjustment. Invoices relating to services performed in the prior year were not recorded as payables in the proper year. This also resulted in receivables not being properly recorded in the prior year, since the invoices were reimbursed by a third party. Recording revenues and expenses in the proper period is necessary for the presentation of financial statements in accordance with GAAP.</p> <p>Recommendation – We recommend the Organization strengthen controls and processes related to monthly and year-end procedures around accounts payable and accounts receivable.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will work to ensure proper policies and procedures are established.</p>