

**MONTANA REINSURANCE
ASSOCIATION**

FINANCIAL REPORT

December 31, 2019



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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Management of
Montana Reinsurance Association
Missoula, Montana

We have reviewed the accompanying financial statements of Montana Reinsurance Association (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Anderson Zurmuehlen & Co. P.C.

Missoula, Montana
June 23, 2020

FINANCIAL STATEMENTS

MONTANA REINSURANCE ASSOCIATION
STATEMENT OF FINANCIAL POSITION
December 31, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ <u>11,879</u>
Total current assets	<u>11,879</u>
Total assets	<u><u>\$ 11,879</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ <u>500</u>
Total current liabilities	<u>500</u>
Total liabilities	<u>500</u>

NET ASSETS

Without restrictions	<u>11,379</u>
Total net assets	<u>11,379</u>
Total liabilities and net assets	<u><u>\$ 11,879</u></u>

The Notes to Financial Statements are an integral part of this statement.

MONTANA REINSURANCE ASSOCIATION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019

	Without Restrictions	Total
REVENUE AND SUPPORT		
Contributions	\$ 75,000	\$ 75,000
Total revenue and support	75,000	75,000
EXPENSES		
Program services		
Actuarial services	55,000	55,000
Legal fees	8,621	8,621
Total program services	63,621	63,621
Total expenses	63,621	63,621
Change in net assets	11,379	11,379
Net assets, beginning of year	-	-
Net assets, end of year	\$ 11,379	\$ 11,379

The Notes to Financial Statements are an integral part of this statement.

MONTANA REINSURANCE ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 11,379
Adjustments to reconcile change in net assets to net cash flow from operating activities:	
Change in operating liabilities:	
Accounts payable	<u>500</u>
Net cash flows from operating activities	<u>11,879</u>
Change in cash and cash equivalents	11,879
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ 11,879</u></u>

The Notes to Financial Statements are an integral part of this statement.

MONTANA REINSURANCE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Montana Reinsurance Association (the Association) is an unincorporated nonprofit association created by Montana Statute §33-22-1301 et. seq., of the Montana Reinsurance Association Act (the Act). The purpose of the Association is to reimburse health insurance exchange insurers for certain high-cost claims in the individual health insurance market in the form of a reinsurance program in order to stabilize the individual health insurance market, maintain competition, and reduce premiums (the Program).

The Association will rely on a mix of federal and state funds, including a State Innovation Waiver as provided under the Affordable Care Act, and assessments levied on member insurers. Association funds will be maintained in either a state special revenue fund or a federal special revenue fund. The state special revenue fund will include all assessments collected, any interest and income earned on the account, any other money from any other source accepted for the benefit of the account and will be used to provide funding for the administration, operation, and claims expenses incurred. The federal special revenue fund will include federal funding allocated as a result of a section 1332 waiver application, any federal or grant funding, and any interest and income earned on the account. The federal special revenue fund will be administered by the Montana State Auditor, Securities and Insurance Commissioner (Commissioner) for the benefit of the Program.

All member insurers are members of the Association as a condition of obtaining a license to issue health or disability policies in Montana, with certain exceptions. The Association performs its functions under a plan of operations established under the Act and exercises its powers through a Board of Directors. The Board of Directors consists of three directors, one each from the eligible health insurers with the largest enrollment in the individual health insurance market, one director appointed by the Commissioner who is a participating member of the Association, and one director appointed by the Governor to represent the public interest.

The Association is under the supervision of the Montana Commissioner of Securities and Insurance and is subject to the applicable provisions of the insurance laws of the State of Montana.

Basis of Accounting and Presentation

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to non-profit organizations, as codified by the Financial Accounting Standards Board.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MONTANA REINSURANCE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

The Association reports information regarding its financial position and activities according to two classes of net assets:

Net assets without restrictions – represents those resources available for day-today activities. The Board of Directors has discretionary control over these resources. Designated amounts, if any, represent those net assets that the board has set aside of a particular purpose and shall be segregated in the accounting records as “board-designated” funds.

Net assets with restrictions – represents those resources subject to donor-imposed restrictions that will be satisfied by action of the Association or by the passage of time.

Expenses are reported as decreases in net assets without restrictions.

Contributions received are recorded as support without restriction or support with restrictions, depending on the existence and/or nature of any restrictions placed by the contributor.

Support that is restricted by the contributor is reported as an increase in net assets without restrictions if the restriction expires in the reporting period in which the support is recognized. All other restricted support is reported as an increase in net assets with restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with restriction are reclassified as net assets without restriction and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For financial statement purposes, cash and cash equivalents include all deposit accounts and highly liquid securities with an original maturity of three months or less at the date of purchase. The Association’s deposit accounts are subject to limited FDIC coverage. There were no deposits held in excess of federally insured limits at December 31, 2019.

Functional Allocation of Expenses

The costs of administering the program and management administrative services have been summarized on a functional basis in the statement of activities. All costs incurred during the year ended December 31, 2019 were in support of the reinsurance program. Therefore, no further allocation was performed.

Income Taxes

The Association is exempt from federal and state income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(6). As a result, no provision for income tax is included in the financial statements.

MONTANA REINSURANCE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019

NOTE 2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure include only those without restrictions, including board designated net assets or other restrictions limiting their use within one year of the statement of financial position date. General expenditures include those listed within the general and administration classification of the statement of activities. Management has identified all cash and cash equivalents held as of December 31, 2019 as available for general operations in fiscal year 2020.

NOTE 3. ASSESSMENTS

The Association is authorized to levy annual assessments on the member insurers in the amount of 1.2% of its total premium volume covering Montana residents, from the prior calendar year, regardless of the type of license. The total premium volume may not include premiums that member insurers collect on any coverage issued for excepted benefits, as defined by the Act. If assessments and other funds collected by the Association exceed the actual losses and administrative expenses of the Association, excess funds shall be used to offset future claims or to reduce future assessments. If funds accumulated in the reinsurance program are expected to be insufficient to pay all program expenses, claims for reimbursement, and other disbursements allocable to the benefit year, all claims for reimbursement allocable to that benefit year must be reduced proportionately to the extent necessary to prevent a deficiency for that benefit year.

NOTE 4. CLAIMS

The following limits must be established by the board:

- Attachment point must be set at \$40,000 or more, but may not exceed the reinsurance cap;
- Coinsurance rate must be set between 50% and 80%; and
- Reinsurance cap must be set at \$1,000,000 or less.

These payment parameters may be adjusted annually to the extent necessary to secure federal approval of the State Innovation Waiver.

Each reinsurance payment must be calculated with respect to an eligible health insurer's incurred claim cost for an individual enrollee's covered benefits in the applicable benefit year. If the claims costs do not exceed the attachment point, the reinsurance payment is \$-0-. If the claims cost exceed the attachment point, the reinsurance payment must be calculated as the product of the coinsurance rate and the lesser of:

- Claims costs minus the attachment point; or
- Reinsurance cap minus the attachment point.

MONTANA REINSURANCE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019

NOTE 4. CLAIMS (CONTINUED)

The reinsurance payment made to the eligible health insurer cannot exceed the total amount paid by the eligible health insurer for any eligible claim. For this purpose, total amount paid for the eligible claim means the amount paid by the eligible health insurer based on the allowed amount less any deductible, coinsurance, or co-payment.

NOTE 5. CONCENTRATIONS

All of the Association's support for the year ended December 31, 2019 was received from three member insurers. The Association's assessment base in future years will be limited to those insurers licensed in the state of Montana.

NOTE 6. SUBSEQUENT EVENT

The Association evaluated subsequent events through June 23, 2020, the date which the financial statements were available to be issued.

The Association received a 1332 State Innovation Waiver for the period of January 1, 2020 through December 31, 2024. Any premium tax credit savings generated under this waiver will be passed through to the Association for operation of the program. The amount of the premium tax credit savings is unknown at this time.



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