

Montana Reinsurance Association

August 17, 2021

Senator Kenneth Bogner, Chair
Economic Affairs Interim Committee
Montana Legislature
Montana State Capitol Building
1301 E. 6th Ave.
Helena, MT 59601

RE: Montana Reinsurance Association annual audit

Dear Senator Bogner:

As outlined in the code, § 33-22-1308(4) and § 33-22-1313(2)(a) & (b); the Board of Directors for the Montana Reinsurance Association must submit the annual audit and the association's reinsurance payments and other expenses for the previous calendar year, including administrative expenses and any incurred but not reported claims for the previous calendar year to the Economic Affairs Interim Committee.

As indicated in our letter on June 29, 2021, the completed audit was finished and submitted to the Board on June 26, 2021 for review. The board has reviewed the audit, resolved a few outstanding issues and formally adopted the audit. Please find the enclosed audit report along with a cover letter that helps explain some of its unique details.

If you have any questions, please contact Laren Walker at larenwalker@river9.net or Sean Slanger at sslanger@jimgm.com.

Respectfully,



Richard Miltenberger
Chairman, Montana Reinsurance Association

Montana Reinsurance Association

RE: Montana Reinsurance Association annual audit

To Whom It May Concern:

The Montana Reinsurance Association is pleased to provide the Audited Financial Statement prepared by management and audited by Eide Bailly and which comprise the statement of financial position as of December 31, 2020.

Please note that the Audited Financials show a change in net position of (\$32,890,000). However, there has not been an actual realized loss. Rather, the change in net position is a result of the accounting methods required for government accounting.

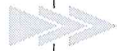
Because the Montana Reinsurance Program accounting method is based on an accrual basis, the estimated claims incurred but not reported (IBNR) are expensed in the year the claims are incurred by the participating carriers. The revenue, however, is not recognized until it is received as outlined in the Revenue Recognition description.

As a result, the financial statements will show a deficit in a given year. The revenue that covers this deficit is recognized in the following year when it is received for the payment of claims. In addition, in the case that the claims exceed the amount of revenue available, the reimbursement to the carriers is reduced on a prorated basis such that there will never be a deficit.

Respectfully,



Richard Miltenberger
Chairman, Montana Reinsurance Association
406-459-0203
richard@mhc.coop



Financial Statements
December 31, 2020 and 2019

Montana Reinsurance Association

Montana Reinsurance Association
Table of Contents
December 31, 2020 and 2019

Independent Auditor’s Report	1
Financial Statements	
Statements of Net Position	3
Statements of Activities	4
Balance Sheets – Governmental Funds and Reconciliation of Balance Sheets – Government Funds to Statements of Net Position	5
Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds and Reconciliation of Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds to Statements of Activities	6
Notes to Financial Statements	7
Supplementary Information	
Statistical Information – Projected Funding and Expenses Related to 2020 Activity	12
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 <i>Government Auditing Standards</i>	13
Schedule of Findings and Responses	15



Independent Auditor's Report

To the Board of Directors
Montana Reinsurance Association
Helena, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Montana Reinsurance Association (the Association), a public corporation of the State of Montana, as of and for the year ended December 31, 2020, and the related notes to the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Association as of December 31, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical information – projected funding and expenses related to 2020 activity is not presented in accordance with accounting principles generally accepted in the United States of America, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Matters

The 2019 financial statements were reviewed by other accountants and their report thereon, dated June 23, 2020, stated they were not aware of any material modifications that should be made to those statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2021 on our consideration of the Association’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 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 on 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.



Boise, Idaho
August 13, 2021

Montana Reinsurance Association

Statements of Net Position
December 31, 2020 and 2019

	(Audited) Governmental Activities 2020	(Reviewed) Governmental Activities 2019
Assets		
Current Assets		
Cash	\$ 907	\$ 11,879
Total current assets	<u>\$ 907</u>	<u>\$ 11,879</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 37,725	\$ 500
Estimated liability for claims incurred but not reported	<u>32,890,000</u>	<u>-</u>
Total current liabilities	32,927,725	500
Net Position	<u>(32,926,818)</u>	<u>11,379</u>
	<u>\$ 907</u>	<u>\$ 11,879</u>

Montana Reinsurance Association
 Statements of Activities
 Years Ended December 31, 2020 and 2019

	(Audited) Governmental Activities 2020	(Reviewed) Governmental Activities 2019
	<u>2020</u>	<u>2019</u>
Functions/Programs		
General government		
Claims incurred	\$ 32,890,000	\$ -
Contracted management services	134,000	55,000
Professional fees	33,333	8,621
Interest and bank charges	120	-
Other administrative costs	19	-
	<u>33,057,472</u>	<u>63,621</u>
Total expenses	33,057,472	63,621
Operating grants and contributions		
Federal grant revenue	119,275	-
State contribution	-	75,000
	<u>119,275</u>	<u>75,000</u>
Total operating grants and contributions	119,275	75,000
Change in Net Position	(32,938,197)	11,379
Net Position, Beginning of Year	<u>11,379</u>	<u>-</u>
Net Position, End of Year	<u><u>\$ (32,926,818)</u></u>	<u><u>\$ 11,379</u></u>

Montana Reinsurance Association

Balance Sheets – Governmental Funds and Reconciliation of Balance Sheets – Government Funds to Statements
of Net Position
December 31, 2020 and 2019

	(Audited) General Fund 2020	(Reviewed) General Fund 2019
Assets		
Cash	\$ 907	\$ 11,879
	<u>\$ 907</u>	<u>\$ 11,879</u>
Liabilities and Fund Balance		
Accounts payable	\$ 37,725	\$ 500
Total liabilities	<u>37,725</u>	<u>500</u>
Fund Balance		
Restricted by state code	-	11,379
Unassigned	<u>(36,818)</u>	<u>-</u>
Total fund balance	<u>(36,818)</u>	<u>11,379</u>
	<u>\$ 907</u>	<u>\$ 11,879</u>
<u>Reconciliation to the Statements of Net Position</u>		
Fund balance - general fund	\$ (36,818)	\$ 11,379
Amounts reported for governmental activities in the statements of net position are different because:		
The estimated liability for claims incurred but not reported are not due and payable in the current period using available resources and therefore are not reported in the general fund.	<u>(32,890,000)</u>	<u>-</u>
Net position of governmental activities	<u>\$ (32,926,818)</u>	<u>\$ 11,379</u>

Montana Reinsurance Association

Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds and Reconciliation
of Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds to Statements of
Activities

Years Ended December 31, 2020 and 2019

	<u>(Audited)</u> <u>General Fund</u> <u>2020</u>	<u>(Reviewed)</u> <u>General Fund</u> <u>2019</u>
Revenues		
Federal grants	\$ 119,275	\$ -
State contribution	<u>-</u>	<u>75,000</u>
Total revenues	<u>119,275</u>	<u>75,000</u>
Expenditures		
Current		
General government	<u>167,472</u>	<u>63,621</u>
Total expenditures	<u>167,472</u>	<u>63,621</u>
Net Change in Fund Balance	(48,197)	11,379
Fund Balance, Beginning of Year	<u>11,379</u>	<u>-</u>
Fund Balance (Deficit), End of Year	<u>\$ (36,818)</u>	<u>\$ 11,379</u>
<u>Reconciliation to the Statements of Activities</u>		
Net Change in Fund Balance	\$ (48,197)	\$ 11,379
Amounts reported for governmental activities in the statements of activities are different because:		
Estimated claims incurred but not reported do not require the use of current financial resources and therefore are not reported as expenditures in the general fund.	<u>(32,890,000)</u>	<u>-</u>
Change in Net Position	<u>\$ (32,938,197)</u>	<u>\$ 11,379</u>

Note 1 - Principal Activity and Significant Accounting Policies

Organization

The Montana Reinsurance Association (the Association) is a Montana mutual benefit non-profit corporation created pursuant to Title 33, Chapter 22, Part 13 of the Montana Revised Statutes on April 30, 2019. The members of the Association are Insurers that offer individual health plans and are actively marketing individual health plans in the State of Montana. 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 Montana statutes and is governed by a five-member Board of Directors (the Board), one of which is appointed by the Montana Commissioner of Securities and Insurance and a participating member of the Association, one appointed by the Governor to represent the public interest, and three from the eligible health insurers with the largest enrollment in the individual health insurance market.

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 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 the 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 Association.

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. In the normal course of business, the member insurers seek to limit their exposure to loss on any single insured and to recover a portion of losses paid by ceding reinsurance to the Association. Starting in 2020, the Association covers losses of \$40,000 or greater. The Association will pay the lesser of 1) the claims costs minus the attachment point or 2) Reinsurance cap minus the attachment point. The Reinsurance cap is set at \$101,750.

The Association officially commenced operations on May 30, 2019. Claims processing will begin in 2021. The Association began in accordance with its Plan of Operations dated March 25, 2020 approved by the Montana Commissioner of Insurance on April 1, 2020.

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.

Government-Wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities are normally supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Due to the significant lag time between when claims are incurred (expense recognition) and when claims are paid meeting the eligibility requirements for reimbursement (revenue recognition), financial statements can show a deficit in a given year. The revenue that covers this deficit is recognized in the following year when it is received by the Association for the reimbursement of claims paid. In the case that the claims exceed the amount of revenue available from both state and federal sources, the reimbursement to the carriers is reduced on a prorated basis such that there is never a deficit.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

As a public corporation created by State Code, the financial statements of the Association have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and state funding are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be measurable when cash is received by the government. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Association considers revenues to be available if they are collected within 30 to 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to claims and judgments are recorded only when payment is due.

The Association reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Association. It is used to account for all financial resources used to operate the Association.

Association Member Assessments and Revenue Recognition

Beginning in 2020 and each year thereafter, the Commissioner of Securities and Insurance assesses each member insurer 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 expected benefits as defined in Montana Statute 33-22-140. Assessments are recognized as revenue by the State of Montana. The State of Montana may contribute funds to the Association as needed. If assessments and other funds collected by the Association exceed the actual losses and administrative expenses of the Association, the Board shall use the excess funds to offset future claims or to reduce future assessments. The Association will recognize assessment revenue as claims are paid and funds are requested from the State. The revenue will be reported as State contributions on the statement of revenues, expenses and changes in net position.

Grant Revenue and Revenue Recognition

Operating expenses and claim payments are expensed in the period the services are incurred. The Association's federal grant is received on a reimbursement basis. Amounts received are recognized as revenue when the Association has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of net position.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing the financial statements include those assumed in determining the accrued liability for claims incurred but not reported. It is at least reasonably possible that the significant estimates used will change within the next year.

Subsequent Events

The Association has evaluated subsequent events through August 13, 2021, the date which the financial statements were available to be issued.

Note 2 - Cash Deposits

As of December 31, 2020 and 2019, the book balance of deposits were \$907 and \$11,879, respectively. As of December 31, 2020 and 2019, the bank balances were \$907 and \$11,879, respectively. The Association did not exceed FDIC insurance coverage on its cash deposit balances.

Note 3 - Provisions for Unpaid Claims and Claims Administration

In accordance with accounting principles generally accepted in the United States of America, the Association estimates its liability for claims that were incurred before year end, but for which payment will not be made until after year end. The estimate is based on information concerning incurred but not reported claims provided by the member insurers which are currently participating in the Association. The Association's Board monitors the estimates with assistance from actuarial consultants, and the necessary adjustments are reflected in current operations. As of December 31, 2020 and 2019, the provision for unreported and unpaid claims for the Association was \$32,890,000 and \$0, respectively. Differences between actual and estimated claims are charged to operations in the year that the differences, if any, become known.

The following represents the changes in the provision for unreported and unpaid claims for the years ended December 31, 2020 and 2019:

	(Audited) 2020	(Reviewed) 2019
Unpaid losses and loss adjustment expenses, beginning of year	\$ -	\$ -
Incurred losses and loss adjustment expenses		
Provision for insured events of the current year	(32,890,000)	-
Change in provision for insured events of prior year	-	-
Total incurred losses and loss adjustment expenses	(32,890,000)	-
Payments		
Losses and loss adjustment expense attributable to insured events of the current year	-	-
Losses and loss adjustment expense attributable to insured events of the prior year	-	-
Total payments	-	-
Unpaid losses and loss adjustment expenses, end of year	\$ (32,890,000)	\$ -

The provision for incurred losses and loss adjustments increased during the year ended December 31, 2020, and remained at \$0 for the year ended December 31, 2019. The change is due to operations beginning in 2020 and the corresponding change in the actuarial estimates of ultimate liabilities for incurred claims.

Note 4 - Management Contract

Effective June 1, 2020, the Association entered into an administrative services agreement with River 9 Consulting, Inc. (River 9). This agreement stipulates a flat monthly fee of \$17,000 per month. If River 9 is required to process reinsurance claim reimbursements for more than 1,800 members, the Association will pay River 9 a onetime fee of \$60 for each member over 1,800 in the month in which the reinsurance claim reimbursements are processed.

The management service expense for the years ended December 31, 2020 and 2019, was \$119,000 and \$0, respectively, of which \$34,000 and \$0 was payable at December 31, 2020 and 2019, respectively.

Note 5 - Insurance/Risk Management

The Association is exposed to various risks of loss related to tort claims as well as errors and omissions by employees. The Association is covered through commercial insurance purchased by River 9 to the extent of its employees' involvement with the Association. Current insurance coverage is summarized as follows:

Individual Claims	\$ 1,000,000
Aggregate Claims	\$ 3,000,000

Note 6 - Affordable Care Act and Section 1332 Waiver

On August 16, 2019, the State of Montana received approval from the United States Department of Health & Human Services, Centers for Medicare & Medicaid Services ("CMS") of its Application for State Innovation Waiver under Section 1332 of the Patient Protection and Affordable Care Act ("Section 1332 Waiver Application"). On August 29, 2019 the State of Montana accepted the Section 1332 Waiver by executing and delivering to CMS the Specific Terms and Conditions of the Section 1332 Waiver ("STCs"). The Section 1332 Waiver Application and the STCs are collectively referred to as the "Section 1332 Waiver." The waiver is effective for the period from January 1, 2020 through December 31, 2024. For 2020, the Association's pass-through funding amount is \$22,490,988. The Association collected \$119,275 in Section 1332 Waiver funds for expenditures incurred during 2020.

Note 7 - Uncertainties

The general economy has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Association is closely monitoring its operations and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of the financial statements, the Association has not experienced a major detrimental impact, however, given the current economic climate, there are risks and uncertainties related to this matter.



Supplementary Information
December 31, 2020

Montana Reinsurance Association

Montana Reinsurance Association
 Statistical Information – Projected Funding and Expenses Related to 2020 Activity
 December 31, 2020

	(Unaudited) 2020
	<u> </u>
Projected Funding Available to the Association	
2020 Assessment	\$ 10,032,000
2020 1332 Grant Award	<u>22,490,988</u>
	<u>32,522,988</u>
 Expenses	
Projected Claims Reimbursement (Incurred but not recorded)	32,890,000
Administrative costs	167,472
Estimated prorated reduction in claims paid due to funding limitations	<u>(534,484)</u>
	<u>32,522,988</u>
 Projected Net Change	 <u><u>\$ -</u></u>



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*

To the Board of Directors
Montana Reinsurance Association
Helena, Montana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Montana Reinsurance Association (the Association), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated August 13, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an 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 entity'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 2020-001 that we consider to be a significant deficiency.

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 financial statements. 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*.

The Association's Response to Findings

The Association's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Association'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 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.

Boise, Idaho
August 13, 2021

2020 – 001

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL

Financial Statement Preparation

Criteria:

Management should have an internal control system in place designed to provide for the presentation of the financial statements being audited. This also includes the ability to prepare the footnote disclosures required by the Governmental Accounting Standards Board (GASB).

Condition:

The Association does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Although this circumstance is not unusual for an organization of your size, the preparation of financial statements as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by Association personnel. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.

Cause:

The size of the Association and the limited number of accounting personnel makes it difficult to implement this level of internal control.

Effect:

Management must rely on the auditing firm to report financial data reliably in accordance with generally accepted accounting principles.

Recommendation:

Management and those charged with governance should make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials:

The Board of Directors and management accept the degree of risk associated with this condition because of cost and/or other considerations.