

# Montana Reinsurance Association

June 21, 2022

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

RE: Montana Reinsurance Association annual audit

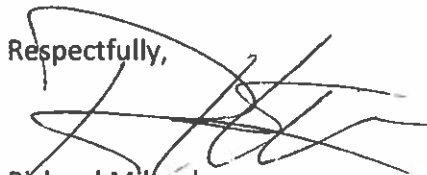
Dear Senator Bogner:

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.

The attached audit was completed by Eide Bailey, LLC and approved by the board of directors.

If you have any questions, please contact Laren Walker at [larenwalker@river9.net](mailto:larenwalker@river9.net) or Sean Slanger at [sslanger@jmgm.com](mailto:sslanger@jmgm.com).

Respectfully,



Richard Miltenberger  
Chairman, Montana Reinsurance Association

# Montana Reinsurance Association

June 21, 2022

RE: Montana Reinsurance Association annual audit

To Whom It May Concern:

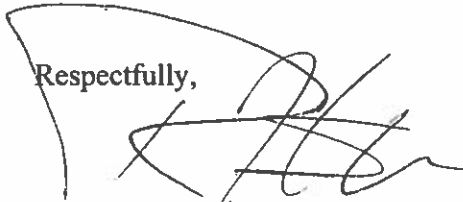
The Montana Reinsurance Association is pleased to provide the Audited Financial Statement prepared by management and audited by Eide Bailly and which comprise the statement of financial position as of December 31, 2021.

Please note that the Audited Financials show a change in net position of (\$39,257,357). 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, 2021 and 2020

# Montana Reinsurance Association

Montana Reinsurance Association

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December 31, 2021 and 2020

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## **Independent Auditor's Report**

To the Board of Directors  
Montana Reinsurance Association  
Helena, Montana

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the 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 years ended December 31, 2021 and 2020, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2021 and 2020, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Management has omitted the 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 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 the missing information.

**Supplementary Information**

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

The statistical information – projected funding and expenses related to 2021 and 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2022, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or 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  
May 19, 2022

Montana Reinsurance Association  
 Statements of Net Position  
 December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash	\$ 877	\$ 907
Federal grant receivable	49,030	-
Total current assets	\$ 49,907	\$ 907
Liabilities		
Current Liabilities		
Accounts payable	\$ 49,000	\$ 37,725
Claims payable	142,760	-
Estimated liability for claims incurred but not reported	39,115,504	32,890,000
Total current liabilities	39,307,264	32,927,725
Net Position	(39,257,357)	(32,926,818)
	\$ 49,907	\$ 907



Montana Reinsurance Association  
 Statements of Activities  
 Years Ended December 31, 2021 and 2020

	2021	2020
Functions/Programs		
General government		
Claims incurred	\$ 31,435,023	\$ 32,890,000
Contracted management services	275,000	134,000
Professional fees	21,910	33,333
Interest and bank charges	181	120
Other administrative costs	-	19
	31,732,114	33,057,472
Total expenses		
Operating grants and contributions		
Federal grants	17,626,864	119,275
State contributions	7,774,711	-
	25,401,575	119,275
Total operating grants and contributions		
Change in Net Position	(6,330,539)	(32,938,197)
Net Position, Beginning of Year	(32,926,818)	11,379
Net Position, End of Year	\$ (39,257,357)	\$ (32,926,818)

**Montana Reinsurance Association**  
 Balance Sheets – Governmental Funds  
 December 31, 2021 and 2020

	2021	2020
<b>Assets</b>		
Cash	\$ 877	\$ 907
Federal grant receivable	49,030	-
	\$ 49,907	\$ 907
<b>Liabilities and Fund Balance</b>		
Accounts payable	\$ 49,000	\$ 37,725
Claims payable	142,760	-
Total liabilities	191,760	37,725
<b>Fund Balance</b>		
Unassigned	(141,853)	(36,818)
Total fund balance (deficit)	(141,853)	(36,818)
	\$ 49,907	\$ 907

Montana Reinsurance Association  
 Reconciliation of the Balance Sheets – Governmental Funds to the Statements of Net Position  
 December 31, 2021 and 2020

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	2021	2020
Fund balance - general fund	\$ (141,853)	\$ (36,818)
<p>Amounts reported for governmental activities in the statements of net position are different because:</p>		
<p>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.</p>	(39,115,504)	(32,890,000)
Net position of governmental activities	\$ (39,257,357)	\$ (32,926,818)

**Montana Reinsurance Association**  
 Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds  
 Years Ended December 31, 2021 and 2020

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	2021	2020
<b>Revenues</b>		
Federal grants	\$ 17,626,864	\$ 119,275
State contributions	7,774,711	-
Total revenues	25,401,575	119,275
<b>Expenditures</b>		
Claims incurred	25,209,519	-
General government	297,091	167,472
Total expenditures	25,506,610	167,472
<b>Net Change in Fund Balance</b>	(105,035)	(48,197)
<b>Fund Balance (Deficit), Beginning of Year</b>	(36,818)	11,379
<b>Fund Balance (Deficit), End of Year</b>	\$ (141,853)	\$ (36,818)

Montana Reinsurance Association

Reconciliation of Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds to  
Statements of Activities  
Years Ended December 31, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
Net Change in Fund Balance	\$ (105,035)	\$ (48,197)
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>(6,225,504)</u>	<u>(32,890,000)</u>
Change in Net Position	<u>\$ (6,330,539)</u>	<u>\$ (32,938,197)</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 and actively market commercial 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 60% of 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, and a 60% coinsurance rate is applied.

The Association officially commenced operations on May 30, 2019. Claims processing began 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 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. Revenue for claims reimbursement is recognized when claims have been received from the carriers, processed by the administrator, and payment received from the State of Montana.

### **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.

### **Note 2 - Cash Deposits**

As of December 31, 2021 and 2020, the book balance of deposits were \$877 and \$907, respectively. As of December 31, 2021 and 2020, the bank balances were \$877 and \$907, respectively. Cash balances are periodically in excess of federally insured limits.



**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 Association members that are currently participating in the Montana individual marketplace. 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, 2021 and 2020, the provision for unreported and unpaid claims for the Association was \$39,115,504 and \$32,890,000, 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, 2021 and 2020:

	2021	2020
Unpaid losses and loss adjustment expenses, beginning of year	\$ 32,890,000	\$ -
Incurred losses and loss adjustment expenses		
Provision for insured events of the current year	39,115,504	32,890,000
Change in provision for insured events of prior years	(7,680,481)	-
Total incurred losses and loss adjustment expenses	31,435,023	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 prior years	25,209,519	-
Total payments	25,209,519	-
Unpaid losses and loss adjustment expenses, end of year	\$ 39,115,504	\$ 32,890,000

The provision for incurred losses and loss adjustments increased during the years ended December 31, 2021 and 2020. The change is primarily due to unanticipated developments during the year on losses incurred from previous years, and the corresponding change in the actuarial estimates of ultimate liabilities for incurred claims from those years.

**Note 4 - Management Contract**

The Association outsources administrator services as required by Montana statute (MCA 33-22-1309). 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, 2021 and 2020, was \$204,000 and \$119,000, respectively. Management service expense payable of \$34,000 were included in accounts payable at December 31, 2021 and 2020.

**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 2021 and 2020, the Association's pass-through funding amount is \$30,818,509 and \$22,490,988, respectively. The Association collected \$17,626,864 and \$119,275 in Section 1332 Waiver funds for expenditures incurred during 2021 and 2020, respectively.



Supplementary Information  
December 31, 2021

## Montana Reinsurance Association

Montana Reinsurance Association  
Statistical Information – Projected Funding and Expenses Related to 2021 and 2020 Activity  
December 31, 2021 and 2020

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	<u>(Unaudited)</u> <u>2021</u>	<u>(Unaudited)</u> <u>2020</u>
Projected Funding Available to the Association		
2021 Assessment	\$ 9,977,000	\$ 10,032,000
2021 1332 Grant Award	<u>30,818,509</u>	<u>22,490,988</u>
	<u>40,795,509</u>	<u>32,522,988</u>
Expenses		
Claims Reimbursement	25,209,519	-
Change in incurred but not reported	6,225,504	32,890,000
Administrative costs	297,091	167,472
Estimated prorated reduction in claims paid due to funding limitations	<u>-</u>	<u>(534,484)</u>
	<u>31,732,114</u>	<u>32,522,988</u>
Projected Excess Available for Future Claims	<u><u>\$ 9,063,395</u></u>	<u><u>\$ -</u></u>



Federal Awards Reports in Accordance with the Uniform  
Guidance

December 31, 2021

**Montana Reinsurance Association**



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

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, 2021, and the related notes to the financial statements, which collectively comprise the Association’s basic financial statements, and have issued our report thereon dated May 19, 2022.

**Report on 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 questioned costs* as item 2021-001 that we consider to be a significant deficiency.

#### **Report on 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Association's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Association's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

#### **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.



Boise, Idaho  
May 19, 2022



**Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors  
Montana Reinsurance Association  
Helena, Montana

**Report on Compliance for the Major Federal Program**

***Opinion on the Major Federal Program***

We have audited Montana Reinsurance Association's (the Association) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Association's major federal program for the year ended December 31, 2021. The Association's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Association complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

***Basis for Opinion on the Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Association's compliance with the compliance requirements referred to above.



### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Association's federal program.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Association's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Association's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Association's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Association's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Association's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho  
May 19, 2022

Montana Reinsurance Association  
 Schedule of Expenditures of Federal Awards  
 Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Expenditures
Department of Health and Human Services Centers for Medicare & Medicaid Services State Innovation Waiver	93.423	n/a	\$ <u>17,626,864</u>
			<u>\$ 17,626,864</u>

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Montana Reinsurance Association (the Association) under programs of the federal government for the year ended December 31, 2021. The information 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 Association, it is not intended to and does not present the financial position, changes in net position or fund balance of the Association.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, 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. No federal financial assistance has been provided to a subrecipient.

**Note 3 - Indirect Cost Rate**

The Association does not draw for indirect administrative expenses and has not elected to use the 10% de minimis cost rate.

**Section I - Summary of Auditor's Results**

**FINANCIAL STATEMENT**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

**Identification of major programs:**

Name of Federal Program	ALN
State Innovation Waiver	93.423
Dollar threshold used to distinguish between type A and type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

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**Section II - Financial Statement Findings**

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**2021-001      Financial Statement Preparation  
Significant Deficiency in Internal Control**

*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.

*View 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.

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**Section III - Federal Award Findings and Questioned Costs**

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None Reported