

# **Arkansas Health Insurance Marketplace**

Independent Auditor's Reports and Financial Statements

June 30, 2017



# Arkansas Health Insurance Marketplace

June 30, 2017

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## Independent Auditor's Report

Board of Directors  
Arkansas Health Insurance Marketplace  
Little Rock, Arkansas

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Arkansas Health Insurance Marketplace (the Organization) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arkansas Health Insurance Marketplace as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

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

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*BKD, LLP*

Little Rock, Arkansas  
October 11, 2017

# **Arkansas Health Insurance Marketplace Management's Discussion and Analysis (Unaudited) June 30, 2017**

## ***Introduction***

This management's discussion and analysis of the financial performance of Arkansas Health Insurance Marketplace (the Organization) provides an overview of the Organization's financial activities for the year ended June 30, 2017. It should be read in conjunction with the accompanying financial statements of the Organization.

## ***Financial Highlights***

- Net position (assets less liabilities) decreased by approximately \$477,000 during 2017 to \$2.2 million at the end of 2017.
- Total operating revenues decreased by approximately \$265,000 (or approximately 2.22%) during 2017 to \$11.7 million.
- Total operating expenses increased by approximately \$2.1 million (or 21.11%) during 2017 to \$12.2 million.

## ***Using This Annual Report***

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

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

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

# **Arkansas Health Insurance Marketplace Management's Discussion and Analysis (Unaudited) June 30, 2017**

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

## ***The Statement of Cash Flows***

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

## ***The Organization's Activities***

The Organization was created to manage and implement a state-based health insurance exchange in Arkansas in accordance with state and federal law. The Organization is a nonprofit public benefit corporation established by the 89th Arkansas General Assembly, 2013 Regular Session by Act 1500 as a political subdivision, instrumentality and body politic of the State of Arkansas. In September 2014, the board voted to operate a state-run Small Business Health Options Program (SHOP) in 2015 for coverage beginning January 1, 2016. The board also voted to operate an individual market state-run health insurance exchange in 2016 for coverage beginning January 1, 2017.

## ***The Organization's Net Position***

The Organization's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the Statement of Net Position. The Organization's net position decreased by \$477,389 (17.94%) in 2017 over 2016, as shown in Table 1.

**Arkansas Health Insurance Marketplace**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2017**

**Table 1 – Statement of Net Position**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current and other assets	\$ 750,312	1,583,767
Capital assets	<u>2,009,541</u>	<u>2,496,592</u>
Total assets	<u>\$ 2,759,853</u>	<u>\$ 4,080,359</u>
<b>Liabilities</b>		
Current liabilities	576,864	1,419,981
Total liabilities	<u>576,864</u>	<u>1,419,981</u>
<b>Net Position</b>		
Net investment in capital assets	2,009,541	2,496,592
Restricted	173,448	163,786
Total net position	<u>2,182,989</u>	<u>2,660,378</u>
Total liabilities and net position	<u>\$ 2,759,853</u>	<u>\$ 4,080,359</u>

The preceding Table 1 reflects the condensed Statement of Net Position. The Organization is engaged only in business-type activities.

For more detailed information, see the Statement of Net Position.

**Major Factors Affecting the Statement of Net Position**

In 2017, current and other assets decreased by approximately \$1,320,000 and current liabilities decreased by approximately \$843,000.

As mentioned previously, overall Net Position decreased by \$477,389 in 2017, compared to an increase of \$1.9 million in 2016.

**Operating Results and Changes in the Organization's Net Position**

In 2017, the Organization's net position decreased by \$477,389 or 17.94%, as shown in Table 2. This decrease is made up of several different components and represents a decline of 125.05% compared with the increase in net position for 2016 of \$1,905,903.

**Arkansas Health Insurance Marketplace**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2017**

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

	<u>2017</u>	<u>2016</u>
<b>Operating Revenue</b>		
Federal grants	\$ 5,261,348	\$ 11,934,938
Fee assessments	4,356,579	-
Contracts	2,056,163	-
Other income	554	5,024
	<u>11,674,644</u>	<u>11,939,962</u>
<b>Operating Expenses</b>		
Cost of services	2,238,085	-
Salaries and fringe benefits	1,570,096	1,619,733
Equipment	37,505	13,687
Supplies	22,799	10,353
Data processing supplies	-	768
Software licenses	6,240	8,123
Travel	46,636	49,433
Building rental	117,000	138,423
Board member stipends	7,100	9,400
Dues and subscriptions	6,428	5,624
Administrative and miscellaneous	58,900	14,141
Network services	22,834	37,581
Professional services	84,210	86,456
Building ground and maintenance	307	2,184
Contract services	7,335,075	7,652,551
Depreciation	593,630	380,743
	<u>12,152,033</u>	<u>10,034,059</u>
<b>Operating Income and Change in Net Position</b>	(477,389)	1,905,903
<b>Net Position, Beginning of Year</b>	2,660,378	754,475
<b>Net Position, End of Year</b>	<u>\$ 2,182,989</u>	<u>\$ 2,660,378</u>

# **Arkansas Health Insurance Marketplace**

## **Management's Discussion and Analysis (Unaudited)**

### **June 30, 2017**

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

In total, operating revenue decreased in 2017 compared to 2016 by approximately \$265,000. The federal grants decreased \$6.7 million and the fee assessments and contracts increased by approximately \$6.4 million in 2017 compared to 2016.

Federal Grant HBEIE150210 supported the development and implantation of a SHOP Marketplace Platform as well as six months of operations for the SHOP Marketplace hosted by that platform during the fiscal year ending June 30, 2016. The federal grant also supported six months of operations for the SHOP Marketplace during the fiscal year 2017.

Beginning on January 1, 2017, revenue to support operations of the Organization came from a fee of 3% on each plan sold on the SHOP and Individual Health Insurance Marketplaces. The new revenue is reflected as fee assessments in the Statement of Revenues, Expenses, and Changes in Net Position.

Expenses increased in 2017 from \$9.6 million (exclusive of depreciation) in 2016 to \$11.6 million in 2017. Some highlights of the 2017 expense activity compared to 2016 include an increase in cost of services of approximately \$2.2 million, primarily made up of the fee to run the Individual Marketplace on the federal platform and a decrease in contract services expenses of \$317,000.

#### ***Capital Assets and Debt Administration***

##### ***Capital Assets***

As of year-end, the Organization had approximately \$2.0 million invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions and depreciation) of approximately \$487,000 from 2016 to 2017.

**Arkansas Health Insurance Marketplace  
Management's Discussion and Analysis (Unaudited)  
June 30, 2017**

**Capital Assets at Year-End (Net of Depreciation)**

The following table represents the detailed components of capital assets and related accumulated depreciation at June 30, 2017:

	<u>2017</u>	<u>2016</u>
Website development and modifications in progress	\$ 2,819,624	\$ 2,719,175
Furniture and equipment	<u>164,291</u>	<u>158,160</u>
	2,983,915	2,877,335
Less accumulated depreciation	<u>974,373</u>	<u>380,743</u>
Total capital assets	<u>\$ 2,009,542</u>	<u>\$ 2,496,592</u>

**Debt Outstanding**

As of June 30, 2017, the Organization had no debt outstanding.

**Economic Factors**

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

The Organization will continue to assess a 3.0% fee on plans sold on the exchange for 2018 plans, as it has for the 2017 plans. In 2017, 50% of that assessment fee went to the Federal Facilitated Marketplace as a technology fee. However, that FFM technology fee will increase in 2018 to 67% of the gross fees. This will result in the Organization experiencing a corresponding decrease in net revenue.

**Financial Contact**

The individual to be contacted regarding this report is the Finance Director of the Arkansas Health Insurance Marketplace at 501.313.4197. Specific requests may be submitted to the Finance Director of the Arkansas Health Insurance Marketplace, 221 W. 2nd Street, Suite 700., Little Rock, Arkansas 72201.

**Arkansas Health Insurance Marketplace**  
**Statement of Net Position**  
**June 30, 2017**

**Assets**

**Current Assets**

Cash	\$ 643,809
Grants receivable	24,994
Other receivable	150
	<hr/>
Total current assets	668,953
	<hr/>

**Noncurrent Assets**

Furniture and equipment	164,291
Website development and modifications	2,819,624
Less accumulated depreciation	974,374
	<hr/>
Capital assets, net	2,009,541
	<hr/>

**Other Assets**

Prepaid expenses and other	81,359
	<hr/>
Total assets	\$ 2,759,853
	<hr/> <hr/>

**Liabilities and Net Position**

**Current Liabilities**

Accounts payable	\$ 519,194
Accrued expenses	57,670
	<hr/>
Total current liabilities	576,864
	<hr/>

**Net Position**

Net investment in capital assets	2,009,541
Restricted	173,448
	<hr/>
Total net position	2,182,989
	<hr/>
Total liabilities and net position	\$ 2,759,853
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**Arkansas Health Insurance Marketplace**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2017**

<b>Operating Revenues</b>	
Federal grants	\$ 5,261,348
Fee assessments	4,356,579
Contracts	2,056,163
Other income	554
	<hr/>
Total operating revenues	11,674,644
	<hr/>
<b>Operating Expenses</b>	
Cost of services	2,238,085
Salaries and fringe benefits	1,570,096
Equipment	37,505
Supplies	22,799
Software licenses	6,240
Travel	46,636
Building rental	117,000
Equipment rental	5,188
Board member stipends	7,100
Dues and subscriptions	6,428
Administrative and miscellaneous	58,900
Network services	22,834
Professional services	84,210
Building ground and maintenance	307
Contract services	7,335,075
Depreciation	593,630
	<hr/>
Total operating expenses	12,152,033
	<hr/>
<b>Operating Income and Change in Net Position</b>	(477,389)
<b>Net Position, Beginning of Year</b>	2,660,378
	<hr/>
<b>Net Position, End of Year</b>	\$ 2,182,989
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**Arkansas Health Insurance Marketplace**  
**Statement of Cash Flows**  
**Year Ended June 30, 2017**

<b>Cash Flows from Operating Activities</b>	
Federal grant receipts	\$ 6,602,116
Receipts for services	6,412,742
Other receipts	554
Cash paid for material and services	(10,792,519)
Cash paid for personnel expenses	<u>(1,684,393)</u>
Net cash provided by operating activities	<u>538,500</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of capital assets	<u>(106,579)</u>
Net cash used in cash flows from capital and related financing activities	<u>(106,579)</u>
<b>Increase in Cash</b>	431,921
<b>Cash, Beginning of Year</b>	<u>211,888</u>
<b>Cash, End of Year</b>	<u><u>\$ 643,809</u></u>
<b>Reconciliation of Operating Income to</b>	
<b>Net Cash Flows from Operating Activities</b>	
Operating income	\$ (477,389)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	593,630
Changes in	
Grant receivable	1,340,768
Other assets	(75,392)
Accounts payable	(735,920)
Accrued expenses	<u>(107,197)</u>
Net cash provided by operating activities	<u><u>\$ 538,500</u></u>

# Arkansas Health Insurance Marketplace

## Notes to Financial Statements

June 30, 2017

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

#### *Nature of Operations and Reporting Entity*

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

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

#### *Basis of Accounting and Presentation*

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

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

#### *Risk Management*

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

# Arkansas Health Insurance Marketplace

## Notes to Financial Statements

June 30, 2017

### **Grants Receivable**

Grants receivable at June 30, 2017, are due from the U.S. Department of Health and Human Services. These receivables are stated at the amounts to be collected from the grantor subsequent to the statement of net position date. Due to the nature of the grants receivable, the Organization does not consider an allowance for doubtful accounts necessary.

### **Capital Assets**

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

The following estimated useful lives are used by the Organization:

Equipment	5 years
Furniture and fixtures	10 years

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

### **Compensated Absences**

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

### **Net Position**

Net position of the Organization is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings (if any) used to finance the purchase or construction of those assets. Restricted net position, if any, is net position that must be used for a particular purpose as specified by creditors or others external to the Organization. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definitions of net investment in capital assets or restricted. The Organization has no unrestricted net position at June 30, 2017.

# Arkansas Health Insurance Marketplace

## Notes to Financial Statements

June 30, 2017

### Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Organization's financial policies do not address deposit custodial credit risk. At June 30, 2017, the Organization's cash accounts exceeded federally insured limits by approximately \$364,266.

### Note 3: Capital Assets

Capital assets activity for the year ended June 30, 2017, was:

	Beginning Balance	Additions and Transfers, Net	Retirements and Transfers, Net	Ending Balance
Capital assets, depreciable				
Website development and modifications	\$ 2,719,175	\$ 100,449	\$ -	\$ 2,819,624
Furniture and equipment	<u>158,160</u>	<u>6,131</u>	<u>-</u>	<u>164,291</u>
Total capital assets, depreciable	<u>2,877,335</u>	<u>106,580</u>	<u>-</u>	<u>2,983,915</u>
Less accumulated depreciation				
Website development and modifications	354,535	563,925	-	918,460
Furniture and equipment	<u>26,208</u>	<u>29,705</u>	<u>-</u>	<u>55,913</u>
Total accumulated depreciation	<u>380,743</u>	<u>593,630</u>	<u>-</u>	<u>974,373</u>
Capital assets, net	<u>\$ 2,496,592</u>	<u>\$ (487,050)</u>	<u>\$ -</u>	<u>\$ 2,009,542</u>

# Arkansas Health Insurance Marketplace

## Notes to Financial Statements

June 30, 2017

### Note 4: Operating Leases

The Organization has a noncancellable operating lease for office space which expires in the fiscal year ending 2019 or upon the termination of the Organization's federal grant funding which occurs in the fiscal year ending 2018. The Organization also has a noncancellable lease of office equipment which expires in the fiscal year ending 2020. Future minimum lease payments at June 30, 2017, were:

2018	\$	129,565
2019		14,064
2020		<u>2,376</u>
	\$	<u>146,005</u>

### Note 5: Concentrations

#### *Information Technology Vendor*

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

### Note 6: Subsequent Events

Effective for coverages beginning in January 1, 2018, the Organization's sole insurance provider for SHOP will no longer be accepting new enrollments. The Organization will continue to administer coverage to existing participants.

## **Supplementary Information**

**Arkansas Health Insurance Marketplace**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	N/A	N/A	\$ 5,261,348
				<u>\$ 5,261,348</u>

**Notes to Schedule**

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Board of Directors  
Arkansas Health Insurance Marketplace  
Little Rock, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Arkansas Health Insurance Marketplace (the Organization) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated October 11, 2017.

### **Internal Control Over Financial Reporting**

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Organization's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BKD, LLP*

Little Rock, Arkansas  
October 11, 2017

## Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

### Independent Auditor's Report

Board of Directors  
Arkansas Health Insurance Marketplace  
Little Rock, Arkansas

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

We have audited Arkansas Health Insurance Marketplace's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2017. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

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

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

### ***Opinion on Major Federal Program***

In our opinion, Arkansas Health Insurance Marketplace complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*BKD, LLP*

Little Rock, Arkansas  
October 11, 2017

**Arkansas Health Insurance Marketplace**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2017**

**Summary of Auditor's Results**

*Financial Statements*

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

Unmodified       Qualified       Adverse       Disclaimer

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

Significant deficiency(ies)?       Yes       None reported

Material weakness(es)?       Yes       No

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

*Federal Awards*

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

Significant deficiency(ies)?       Yes       None reported

Material weakness(es)?       Yes       No

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

Unmodified       Qualified       Adverse       Disclaimer

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

**Arkansas Health Insurance Marketplace**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2017**

7. The Organization's major programs were:

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

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

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

**Findings Required to be Reported by *Government Auditing Standards***

Reference Number	Finding
No matters are reportable.	

**Findings Required to be Reported by the Uniform Guidance**

Reference Number	Finding
No matters are reportable.	

**Arkansas Health Insurance Marketplace**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2017**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
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No matters are reportable.