

HEALTHSOURCE RI TRUST

**Financial Statements and
Supplementary Information**

June 30, 2018

(With Independent Auditor's Report Thereon)

HEALTHSOURCE RI TRUST

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INDEPENDENT AUDITORS' REPORT

The Trustee
HealthSource RI Trust
Providence, Rhode Island:

Report on the Financial Statement

We have audited the accompanying statement of financial position of HealthSource RI Trust (the Trust), an agency fund of the State of Rhode Island, as of June 30, 2018, and the related notes to financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statement 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 Trust'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 statement.

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 statement referred to above presents fairly, in all material respects, the financial position of HealthSource RI Trust as of June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 1, the financial statement presents the financial position of HealthSource RI Trust, an agency fund of the State of Rhode Island, and does not purport to, and does not, present fairly the financial position of the State of Rhode Island as of June 30, 2018 in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Management has omitted the Management's Discussion and Analysis that is required by accounting principles generally accepted in the United States of America to be presented to supplement the financial statement. Such missing information, although not a part of the financial statement, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statement in an appropriate operational, economic, or historical context. Our opinion on the financial statement is not affected by this missing information.

Other Reporting, Required by Government Auditing Standard

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2018 on our consideration of the Trust'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 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 Trust's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
September 20, 2018

HEALTHSOURCE RI TRUST
Statement of Net Position
June 30, 2018

Assets:	
Cash	\$ 3,620,900
Accounts receivable	<u>241</u>
Total assets	<u><u>\$ 3,621,141</u></u>
Liabilities:	
Amounts due to carriers	3,612,062
Refunds payable	<u>9,079</u>
Total liabilities	<u><u>\$ 3,621,141</u></u>

See accompanying notes to financial statement.

HEALTHSOURCE RI TRUST

Notes to Financial Statement

June 30, 2018

(1) Description of Organization

HealthSource RI Trust (the Trust) was created by The Rhode Island Health Benefits Exchange (d/b/a HealthSource RI) (HSRI or Exchange), a department within the State of Rhode Island (the State). Per the Trust Declaration, the Trust was established for the purpose of 1) collecting health and dental insurance premium payments from qualified employers and individuals and paying such premium payments to issuers of Qualified Health Plans and Qualified Dental Plans (the carriers) offered through the Exchange and 2) performing other functions that are reasonably necessary for HSRI, the Trustee, to carry out the purposes of the Exchange under Section 1311 of the Patient Protection and Affordable Care Act, as amended (the Act). The Trust has no employees; therefore, administrative functions are provided by HSRI in conjunction with its role as Trustee.

The Trust is an agency fund of the State. The Trust's fiscal year is July 1 through June 30, consistent with the State's fiscal year. The year ended June 30, 2014 was the first year of Trust operations. The first additions to the Trust were received on October 1, 2013, which coincides with the start of the open enrollment period for HSRI health plans.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Trust operates as an agency fund. The Trust's financial statement are reported using the accrual basis of accounting and the economic resources measurement focus.

(b) Cash and Cash Equivalents

Cash consists of demand deposits held by a financial institution. The Trust has no cash equivalents at June 30, 2018.

(c) Amounts Due to Carriers

Amounts due to carriers are comprised of receipts of premium payments from insureds that are pending remittance to the carriers. Remittances to the carriers are paid monthly.

(d) Refunds Payable

Refunds payable are amounts collected from individuals for which coverage has not been provided by the carriers, typically due to events such as disenrollment prior to coverage being provided or return of advance payments at the request of the insured.

HEALTHSOURCE RI TRUST
Notes to Financial Statement, Continued

(3) Cash and Investments

(a) Cash Management Policy and Investment Guidelines

The investment policy of the Trust, as dictated by the Trust Declaration, is to act primarily as a pass-through entity for health insurance premiums to Qualified Health Plan and Qualified Dental Plan issuers. Therefore, it is not anticipated that there will be a long-term accumulation of principal within the Trust Fund. To the extent there are investible assets within the Trust, the Trustee will invest such assets in accordance with the published guidelines, as they may be amended from time to time, that the Rhode Island State Investment Commission, or any successor, uses when investing State funds on a short-term basis. The Trustee shall use such guidelines for the purposes of determining prudent investment of the Trust's funds, with a primary goal of principal preservation and liquidity, but funds in the Trust shall always and only be used for the purposes set forth in the Trust Declaration.

(b) Custodial Credit Risk

The carrying amount of the Trust's deposits at June 30, 2018 was \$3,620,900 and the bank balance was \$3,657,867. Of the bank balance, \$250,000 was covered by Federal Depository Insurance at June 30, 2018. Deposits in excess of \$250,000 are fully collateralized in accordance with the Trust's banking agreement.

(4) Advance Payments

Amounts due to carriers at June 30, 2018 include \$2,322,829 in payments received in advance of billing from insured parties to be remitted to the carriers in accordance with appropriate billing and carrier agreements. Insured parties who cancel or become no longer eligible for coverage prior to coverage effective dates are eligible to receive refunds in accordance with HSRI's refund policies.

(5) Related Party Transactions

Certain administrative services are performed on behalf of the Trust by HSRI. The value of these services is not considered to be material to the Trust and the Trust has not been charged for these services.

(6) Commitments and Contingencies

The Trust has no contractual commitments as of June 30, 2018.

INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION

The Trustee
HealthSource RI Trust
Providence, Rhode Island:

Our audit was performed for the purpose of forming an opinion on the statement of net position of HealthSource RI Trust, an agency fund of the State of Rhode Island, taken as a whole. The accompanying supplementary information on page 7 is presented for purposes of additional analysis and is not a required part of the financial statement. 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 statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, 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 financial statement.

EFPR Group, CPAs, PLLC

Williamsville, New York
September 20, 2018

HEALTHSOURCE RI TRUST
State of Rhode Island Required Format
Statement of Changes in Fiduciary Assets and Liabilities
Year ended June 30, 2018

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Assets:				
Cash	\$ 2,400,451	92,608,092	91,387,643	3,620,900
Accounts receivable	<u> -</u>	<u> 241</u>	<u> -</u>	<u> 241</u>
Total assets	<u>\$ 2,400,451</u>	<u>92,608,333</u>	<u>91,387,643</u>	<u>3,621,141</u>
Liabilities				
Deposits held for others:				
Carrier payments	2,377,566	91,963,347	90,728,851	3,612,062
Refunds payable	<u> 22,885</u>	<u> 684,181</u>	<u> 697,987</u>	<u> 9,079</u>
Total liabilities	<u>\$ 2,400,451</u>	<u>92,647,528</u>	<u>91,426,838</u>	<u>3,621,141</u>

INDEPENDENT AUDITORS' 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

The Trustee
HealthSource RI Trust
Providence, Rhode Island:

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 statement of financial position and have issued our report thereon dated September 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust'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 Trust'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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 Trust'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 Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

Williamsville, New York
September 20, 2018