



Financial Statements

As of and For the Years Ended December 31, 2019 and 2018

with Independent Auditor's Report

ALASKA VACCINE ASSESSMENT PROGRAM
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INDEPENDENT AUDITOR'S REPORT

To the Council Members
Alaska Vaccine Assessment Program
Anchorage, Alaska

Report on the Financial Statements

I have audited the accompanying financial statements of the Alaska Vaccine Assessment Program, which comprise the statement of net assets-regulatory basis as of December 31, 2019 and 2018, and the related statements of activities-regulatory basis and cash flows-regulatory basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions under the requirements of the Alaska Vaccine Assessment Program. Management is also responsible 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my 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 of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 providing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Alaska Vaccine Assessment Program as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended, in accordance with the financial reporting provisions under the requirements of the Alaska Vaccine Assessment Program.

Emphasis of Matter – Basis of Accounting

I draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the financial reporting provisions under the requirements of the Alaska Vaccine Assessment Program, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Report on Other Legal and Regulatory Requirements – *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated September 11, 2020 on my consideration of Alaska Vaccine Assessment Program's internal control over financial reporting and my 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 my 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 Alaska Vaccine Assessment Program'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 Alaska Vaccine Assessment Program's internal control over financial reporting and compliance.

September 11, 2020



Blaine, Washington

ALASKA VACCINE ASSESSMENT PROGRAM
Statement of Net Assets - Regulatory Basis
December 31, 2019

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash		
Held by the State of Alaska	\$ 21,045,231	\$ 14,870,356
Held by KidsVax® LLC	<u>252,373</u>	<u>25,345</u>
	<u>21,297,604</u>	<u>14,895,701</u>
Assessments receivable		
Payers	409,077	8,581
Providers	<u>-</u>	<u>-</u>
	<u>409,077</u>	<u>8,581</u>
 Total assets	 <u>21,706,681</u>	 <u>14,904,282</u>
LIABILITIES		
Accounts payable		
Vaccines	1,724,335	145,968
KidsVax®	14,643	14,148
On behalf of Department of Health & Social Services	1,511	102,061
Refunds due to payers	401	15
Refunds due to providers	<u>-</u>	<u>607</u>
	1,740,890	262,799
Assessments collected in excess of vaccine funding and administrative activities	<u>11,356,707</u>	<u>9,004,961</u>
 Total liabilities	 <u>13,097,597</u>	 <u>9,267,760</u>
NET ASSETS		
Restricted funds due to Department of Health & Social Services	<u>\$ 8,609,084</u>	<u>\$ 5,636,522</u>

The accompanying notes should be read with these financial statements.

ALASKA VACCINE ASSESSMENT PROGRAM
Statement of Activities - Regulatory Basis
For the Year Ended December 31, 2019

	Assessments Collect in Excess of Vaccine Funding and Administrative Activities	Restricted funds Due to DHSS	2019
Assessments			
Payer assessments - children	\$ 8,236,634	\$ -	\$ 8,236,634
Payer assessments - adults	1,620,395	-	1,620,395
Provider assessments	<u>289,011</u>	<u>-</u>	<u>289,011</u>
	10,146,040	-	10,146,040
Investment income	<u>198,190</u>	<u>-</u>	<u>198,190</u>
Total revenue	<u>10,344,230</u>	<u>-</u>	<u>10,344,230</u>
Program expense			
Vaccines	7,449,170		7,449,170
DHSS administrative fee	253,652		253,652
Servicing agent	<u>269,468</u>	<u>-</u>	<u>269,468</u>
	7,972,290	-	7,972,290
Administrative costs	<u>20,194</u>	<u>-</u>	<u>20,194</u>
Total expenses	<u>7,992,484</u>	<u>-</u>	<u>7,992,484</u>
Change in net assessments collected	2,351,746	-	2,351,746
Changes in restricted funds			
Contribution of pre-AVAP funds by DHSS		3,330,256	3,330,256
Interest income - AK state pooled investments		120,841	120,841
DHSS administrative fee earned		253,652	253,652
Authorized DHHS expenditures		(732,187)	(732,187)
Balance, beginning of year	<u>9,004,961</u>	<u>5,636,522</u>	<u>14,641,483</u>
Balance, end of year	<u>\$ 11,356,707</u>	<u>\$ 8,609,084</u>	<u>\$ 19,965,791</u>

The accompanying notes should be read with these financial statements.

ALASKA VACCINE ASSESSMENT PROGRAM
Statement of Activities - Regulatory Basis
For the Year Ended December 31, 2018

	Assessments Collect in Excess of Vaccine Funding and Administrative Activities	Restricted funds Due to DHSS	2018 Total
Assessments			
Payer assessments - children	\$ 9,133,616	\$ -	\$ 9,133,616
Payer assessments - adults	2,667,516	-	2,667,516
Provider assessments	338,511	-	338,511
	<u>12,139,643</u>	<u>-</u>	<u>12,139,643</u>
Investment income	19,848	-	19,848
Total revenue	<u>12,159,491</u>	<u>-</u>	<u>12,159,491</u>
Program expense			
Vaccines	6,760,046		6,760,046
DHSS administrative fee	303,489		303,489
Servicing agent	249,129	-	249,129
	<u>7,312,664</u>	<u>-</u>	<u>7,312,664</u>
Administrative costs	16,160	-	16,160
Total expenses	<u>7,328,824</u>	<u>-</u>	<u>7,328,824</u>
Change in net assessments collected	4,830,667	-	4,830,667
Changes in restricted funds			
Collection of assessments in arrears		1,500,000	1,500,000
DHSS administrative fee earned		303,489	303,489
Authorized DHHS expenditures		(329,607)	(329,607)
Balance, beginning of year	<u>4,174,294</u>	<u>4,162,640</u>	<u>8,336,934</u>
Balance, end of year	<u>\$ 9,004,961</u>	<u>\$ 5,636,522</u>	<u>\$ 14,641,483</u>

The accompanying notes should be read with these financial statements.

ALASKA VACCINE ASSESSMENT PROGRAM

Statement of Cash Flows - Regulatory Basis

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash receipts of assessments	\$ 9,745,323	\$ 12,062,137
Collection of assessments in arrears	-	1,500,000
Cash receipts of interest	319,031	19,848
Cash disbursements for vaccines	(5,870,803)	(6,639,035)
Cash disbursements for other costs	<u>(1,121,904)</u>	<u>(514,241)</u>
 Cash flows from operating activities	 <u>\$ 3,071,647</u>	 <u>\$ 6,428,709</u>
 Cash Flows from Operating Activities:		
Change in net assessments collected	\$ 2,351,746	\$ 4,830,667
Collection of assessments in arrears	-	1,500,000
Net transfer to (from) restricted funds	(478,535)	(26,118)
Restricted portion of interest receipts	120,841	-
Adjustments to reconcile change in net assessments collected to net cash from operating activities:		
Changes in assets and liabilities		
Assessments receivable	(400,496)	(6,785)
Accounts payable - vaccines	1,578,367	121,011
Accounts payable - nonvaccine purchases	(100,055)	80,655
Refunds due	<u>(221)</u>	<u>(70,721)</u>
Cash flows from operating activities	3,071,647	6,428,709
Contribution of pre-AVAP funds by DHSS	<u>3,330,256</u>	<u>-</u>
Net change in cash	6,401,903	6,428,709
Cash, beginning of year	<u>14,895,701</u>	<u>8,466,992</u>
 Cash, ending of year	 <u>\$ 21,297,604</u>	 <u>\$ 14,895,701</u>

The accompanying notes should be read with these financial statements.

ALASKA VACCINE ASSESSMENT PROGRAM

Notes to the Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 1 – NATURE AND PURPOSE OF THE PROGRAM

The Alaska Vaccine Assessment Program (AVAP) (the Program) is a program enacted by the State of Alaska legislature in June 2014 and authorized under Alaska Statute 18.09.200 to establish a vaccine assessment account that will enable the Alaska Department of Health and Social Services (DHSS) to purchase all pediatric and most adult vaccines at costs below those of private purchase alternatives.

AVAP facilitates the universal purchase of vaccines in Alaska. It provides funding for all vaccines federally recommended for insured children and for certain adult vaccines selected by the DHSS. By collecting payments from health plans, insurers, and other responsible entities and remitting those funds to the State of Alaska, AVAP ensures

- Alaskans gain improved access to vaccines;
- Health care providers receive state-supplied vaccines at no charge; and
- Payers benefit from cost savings through the State's bulk vaccine purchase and distribution.

DHSS contracted with KidsVax, LLC based in New Hampshire as the servicing agent for administrative support services, including collection of payments from health plans, insurance companies, and other payers and providers.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements are prepared from the activities provided for under the Alaska Vaccine Assessment Program, and represent a basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements include the assessments billed to participating payers and providers, as determined by the provisions of the Program, and the expenses that are allowed to be paid from the Program, including vaccines and the costs for administering the program. Vaccines are considered to be an expense of the Program when ordered and an inventory balance is not recognized.

Cash and cash equivalents

Cash represents funds held by the State of Alaska and KidsVax for the benefit of the Alaska Vaccine Assessment Program.

Assessments receivable

Assessments receivable are stated at the amounts management expects to collect from outstanding balances. Management provides for doubtful receivables through an allowance based on its consideration of the current status of individual receivables. Because management considers all of the assessments receivable to be collectible, there was no allowance for doubtful accounts at December 31, 2019 or 2018.

ALASKA VACCINE ASSESSMENT PROGRAM
Notes to the Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Assessments collected in excess of vaccine funding and administrative activities

AVAP has collected assessments in excess of amounts required to fund Childhood and Adult vaccines and associated administrative costs. Net assessments collected accumulate and will be used for timely funding of (i) future vaccine funding obligations of the program and (ii) reasonable and necessary operating costs of AVAP.

Restricted funds due to Department of Health & Social Services

Alaska Vaccine Assessment Program owes DHSS for vaccines paid for at the inception of the program, assessments collected on behalf of DHSS, and for the annual administrative fee payable to DHSS. Alaska Vaccine Assessment Program has paid costs as authorized by DHSS, on their behalf, and these amounts have been deducted from amounts owed to DHSS. During 2019, DHSS contributed funds of \$3,330,256 into AVAP. All funds due to DHSS are not available to AVAP that is funded by payer and provider assessments.

Revenue recognition

Assessments are recognized when billed to participating payers and providers based on the number of covered lives. Assessments are billed to payers on a quarterly basis and to providers on an annual basis. Assessment rates per covered life are recommended by the State Vaccine Assessment Council and approved by the Commissioner of the State of Alaska Department of Health and Social Services on an annual basis.

Investment income earned on funds pooled with the State of Alaska funds has been allocated between restricted funds due to DHSS and AVAP based on pro-rata balances on a monthly basis.

Expenses

The terms of the Program allow for DHSS to charge an administrative fee of two and one-half percent (2.5%) of total revenue less credits approved by the Council. This fee is for direct and indirect costs incurred by DHSS in its administration of the Program.

The servicing agent earns its fee on a monthly basis in accordance with services provided to the Program. Amounts outstanding to KidsVax, LLC at December 31, 2019 and 2018 totaled \$14,643 and \$14,148, respectively.

Use of estimates in preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

ALASKA VACCINE ASSESSMENT PROGRAM
Notes to the Financial Statements
For the Years Ended December 31, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Subsequent events

Subsequent events have been evaluated through September 11, 2020, which approximates the date the financial statements were available to be issued.

NOTE 3 – CONCENTRATIONS OF RISK

For the years ended December 31, 2019 and 2018, two payers represented a total of 44% and 45% of the assessment revenue, respectively.

For the years ended December 31, 2019 and 2018, one payers represented almost all of the accounts receivable.

NOTE 4 – COLLECTION OF ASSESSMENTS IN ARREARS

Through its administrator, KidsVax, LLC (KV), AVAP has been pursuing collection from the federal Defense Health Agency (DHA) assessments for TRICARE beneficiaries residing in the State of Alaska. AVAP has benefitted from KV's multistate efforts to secure supportive federal legislation. Effective December 23, 2016, Congress adopted Section 719 of the 2017 National Defense Authorization Act (NDAA) which authorized the DHA to make payments to AVAP and certain other state vaccine programs. The 2017 NDAA provides for reimbursement of the amount assessed by AVAP generally but with certain limits. Section 718 of the 2018 NDAA made such DHA payments mandatory. Commencing in May of 2018, TRICARE started making regular AVAP assessment payments going forward. Amounts due AVAP as of December 31, 2019 and 2018 were \$407,134 and \$7,993, respectively.

KV is actively negotiating with the DHA about arrearage assessments due from AVAP's inception to May 2018. It also seeks to protect AVAP's interests with respect to both TRICARE'S limitation methodology and beneficiary counts. During 2018, \$1.5 million of arrearages were collected and DHA has to date acknowledged liability for an additional \$1 million. KV has received information from AVAP providers which suggests that DHA's liability may be higher. At this point it is uncertain what final amount will be agreed to resolve the TRICARE arrearage with DHA or when any additional payments will be received.

To help maintain payer equity in the past, DHSS had advanced funds to AVAP to provide for TRICARE and other non-participating payer beneficiaries. Accordingly, TRICARE arrearage collections are deemed DHSS restricted funds as collected.



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 Council Members
Alaska Vaccine Assessment Program
Anchorage, Alaska

I have audited, in accordance with the 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 Alaska Vaccine Assessment Program which comprise the statement of net assets-regulatory basis as of December 31, 2019 and 2018, and the related statements of activities-regulatory basis and cash flows-regulatory basis for the years then ended, and the related notes to the financial statements, and have issued my report thereon dated September 11, 2020.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Alaska Vaccine Assessment Program's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alaska Vaccine Assessment Program's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Alaska Vaccine Assessment Program's internal control over financial reporting.

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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be a material weakness. However, material weaknesses may exist that have not been identified.

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*

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alaska Vaccine Assessment Program's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 11, 2020



Blaine, Washington