Colorado Health Benefit Exchange
Report to the Finance Committee
Regarding the June 30, 2013 Audit

- **Single-year presentation with unmodified opinion for 2013**

- **The Exchange has adopted the pronouncements of the Governmental Accounting Standards Board (GASB). An OMB Circular A-133 audit was required for 2013.**

- **Statement of Net Position:**

  - Cash had a balance of only $33,003 at June 30, 2013. When cash is received from federal grant draws, it is immediately used to satisfy obligations under the federal grant.

  - Prepaid expenses totaled $2,428,309 at June 30, 2013 and mainly consisted of prepaid software licenses that cover several years. Because cash has been received to pay these future expenses, unearned revenue has also been recorded totaling $2,428,409.

  - Capital assets have a net book balance of $17,638,356 at June 30, 2013 and mainly consist of software and web portal development. Capital assets purchased during the year ended June 30, 2013 totaled $18,258,312 and depreciation and amortization expense totaled $1,147,309. Beginning in October 2013, when the Exchange began operations, depreciation and amortization started on the web portal development and call center capital assets.

  - Accrued liabilities totaled $12,676,199 at June 30, 2013 and include $2,029,750 in retainage due under the technology contract. Revenue and expenses under this contract are being recognized according to the percentage-of-completion method and an additional $10,208,439 in expenses have been accrued under this contract at June 30, 2013. A receivable from the federal grant has been recognized for any liabilities recorded at June 30, 2013.

- **Statement of Revenues, Expenses, and Changes in Net Position:**

  - Federal grants revenue totaled $43,981,626 for 2013 and consists of revenue from the first level one grant, second level one grant, and level two grant, under the State Planning and Establishment Grants for the Affordable Health Care Act (ACA)'s Exchanges.

  - Expenses totaled $26,885,158 for 2013. The Exchange's largest expense consists of technology development expenses totaling $18,025,121 for the year ended June 30, 2013.

- **Required Communications with Those Charged with Governance** – See Attached.

- **Other Matters**

  - Subsequent events update.

  - A Form 990 is required for the Exchange for the year ended June 30, 2013 and is being prepared by KCE.

- **Acceptance of Financial Statements**

- **Executive Session with the Auditors**

DRAFT 11/11/2013

Colorado Health Benefit Exchange
(dba Connect for Health Colorado)

Financial Statements and Required Supplementary Information

June 30, 2013

(With Independent Auditor's Report Thereon)

Colorado Health Benefit Exchange

Table of Contents

Independent Auditor's Report

Board of Directors
Colorado Health Benefit Exchange:

Report on the Financial Statements

We have audited the accompanying financial statements of Colorado Health Benefit Exchange (the Exchange), as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colorado Health Benefit Exchange as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Colorado Health Benefit Exchange

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and on pages 3-5 be presented to supplement the basic financial statements. Such information, although not 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. 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 basis 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.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the 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 November 14, 2013, on our consideration of the Exchange'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 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 Exchange's internal control over financial reporting and compliance.

November 14, 2013

Management's Discussion and Analysis

In 2011, the Colorado General Assembly passed Senate Bill 11-200, which created the Colorado Health Benefit Exchange (COHBE) as a public, non-profit entity governed by a Board of Directors and reviewed by the Legislative Health Benefit Exchange Implementation Review Committee. Doing business as Connect for Health Colorado, the organization's mission is to increase access, affordability and choice for individuals and small employers purchasing health insurance in Colorado. COHBE is intended to reflect the unique needs of the state, seek Colorado-specific solutions, and to support an open competitive marketplace. COHBE will serve the individual and small group markets, with an initial potential customer base of one million Coloradans. Beginning October 1, 2013, consumers will be able to access COHBE through the website, over the phone through trained representatives at the new Customer Service Center, or in-person with a trained Health Coverage Guide (navigator and assistor) or certified broker in their community.

In the individual market, consumers will be able to browse plan features and prices, get an estimate of potential savings through new federal financial assistance, and fill out the online application for insurance affordability programs and purchase health insurance. Consumers will be able to filter plan options by medical provider and facility, monthly premium, cost-sharing tier or carrier. If eligible for a premium tax credit, consumers will be able to choose how much of the tax credit to use up-front to reduce costs.

In the small group market, COHBE will offer employers the ability to work online, or with brokers and other trained representatives to provide small group coverage to employees. COHBE will operate alongside existing carrier and broker sales and distribution channels, allowing employers the ability to provide employees with greater choice of health plans and assisting with administrative tasks, such as aggregating payments.

Colorado's Exchange has been built upon a foundation of support from the Governor, State Agency partners, legislators, businesses, consumers, health care advocates, providers and other stakeholder groups. COHBE continues to convene regular public meetings to discuss planning activities and policies with advisory groups, Board committees and the entire Board. COHBE worked with stakeholders to design and implement a financial plan that will ensure long-term sustainability with conservative enrollment targets and minimal disruption to and financial burden on the market. All meeting information and key documents are posted on the website, www.connectforhealthco.com.

Funding

COHBE's initial funding, to establish the Marketplace (technology) and fund operations through December 31, 2014, is provided through federal grants awarded by the Department of Health and Human Services:

- First Level 1 Establishment Grant, $17,951,000, awarded February 22, 2012
- Second Level 1 Establishment Grant, $43,486,747, awarded September 27, 2012
- Level 2 Establishment Grant $116,245,677, awarded July 9, 2013

One requirement of the Level 2 grant was to develop a sustainability plan that would ensure the ongoing operations of the Marketplace after federal funding stops. In June 2013, Colorado's Governor signed HB 13-1245 into law, which in conjunction with administrative fees charged for policies purchased on the COHBE Marketplace, supports COHBE becoming a self-sustaining entity after the end of the federal grant period.

HB 13-1245 allows the following:

- COHBE may collect a broad market assessment on medical and dental policies in the small group and individual markets sold in 2014, 2015, and 2016. Due to other revenue considerations, the COHBE Board decided to set the assessment for 2014 at $0.00.
- COHBE is the beneficiary of reserve funds from CoverColorado (the State's High Risk Pool). The first transfer of reserves, $15,000,000, was completed in July 2013 and the second transfer, estimated to be $8,500,000, is expected in the spring of 2015.
- COHBE is the beneficiary of Carrier Tax Credit Donations up to an aggregated $5,000,000 annually, beginning in 2013. Annually, carriers may elect to donate a portion of their tax premium liability to COHBE; in 2013, the full $5,000,000 was pledged.

Beginning in 2014, COHBE will charge administrative fees on all policies sold through the Marketplace. COHBE's Board will set the fee on an annual basis considering such factors as annual budget requirements, technology and operational reserves, average premiums and enrollment projections. For its initial year of operations, the Board set this fee at 1.4%.

Financial Statements

COHBE's financial statements are prepared in accordance with accounting principles generally accepted in the United States as promulgated by the Governmental Standards Accounting Board (GASB). The Statements of Net Position; Revenues, Expenses, and Changes in Net Position; and Cash Flows are prepared on an accrual basis, and combined with the auditor's notes, provide the reader with an overview of the financial position and activities of the organization.

Fiscal year 2013 was COHBE's first full year of financial operations, as a result of this and a change in reporting from the prior year, the audited statements are not shown on a comparison basis, but changes in position are addressed in this Management Discussion and Analysis.

COHBE's funding came from three Federal grants during the fiscal year. Claims are drawn against these grants as costs are incurred. As a result of the reimbursement method of funding, the organization maintains the lowest possible cash balance. Federal funds cannot earn interest and are not kept in interest bearing accounts.

The change in Total Assets between 2012 and 2013 of $30,962,099 primarily represents the grant receivable at fiscal year end, the amounts prepaid for software and licenses, and assets capitalized according to the organization's capitalization policy, including the development of the Marketplace website portal. Depreciation of the website portal and service center assets will begin October 1, 2013.

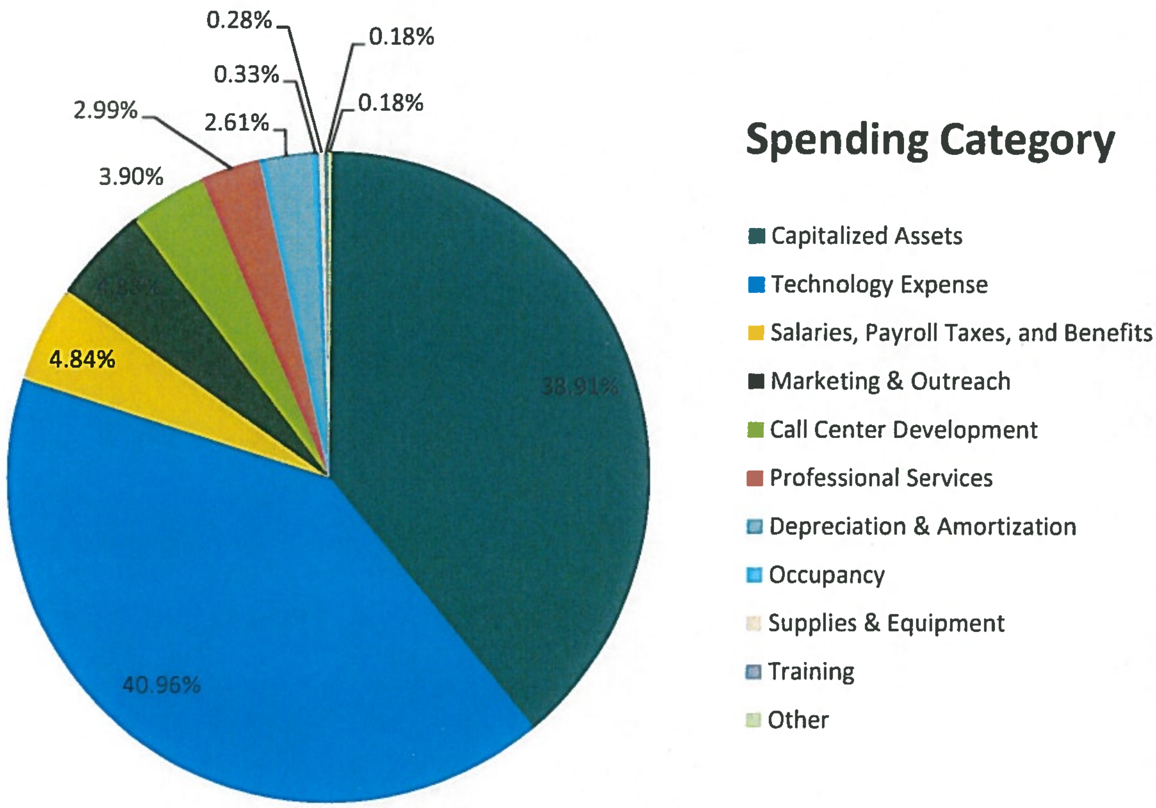
COHBE has no debt, and its primary liabilities are Accrued Liabilities and Unearned Revenue. Unearned Revenue represents the amount drawn on the grants for prepaid expenses and will be recognized as the expenses are recorded.

The difference between Assets and Liabilities represents the Net Position of the organization, and the change in Net Position over time is one indicator of the organization's improving or declining financial position.

The Statement of Revenues, Expenses, and Changes in Net Position states the operating and non-operating revenues and expenses for COHBE during the year. The difference between revenues and expenses is the Change in Net Position and the cumulative differences from inception are presented as the Net Position of COHBE, reconciling the total Net Position on the statement.

The increase in grant revenues of $41,579,922 over the prior fiscal year is a result of the longer period of time being reported and the activities that took place during the year. This level of revenue was expected and aligns with the grant budgets developed. The volume of activity and financial transactions in this fiscal year is significantly higher than the prior period. It is expected for this heightened level to continue through 2014.

Total expenses for the fiscal year were $26,885,158. Total expenses, plus the amount of capitalized assets for the period of $17,126,503 equal the $44,011,661 in annual revenue and is distributed as follows:



The Statement of Cash Flows represents COHBE's change in cash and cash equivalents for the year and provides a summary of how cash was utilized. Due to the nature of the reimbursement method and the prescriptive requirements of the grant funding, the Statement of Cash Flows is less of a management tool and more of a reporting tool at this time.

Financial Contact

COHBE's financial statements are designed to present users with a general overview of COHBE's finances and to demonstrate COHBE's accountability. If there are questions about the report or additional information is needed, please contact COHBE, 3773 Cherry Creek North Drive #1025, Denver, CO, 80209.

Colorado Health Benefit Exchange

Statement of Net Position

June 30, 2013

Assets:		
Current assets:		
Cash and cash equivalents	$	33,003
Accounts receivable		60,276
Federal grants receivable		13,605,958
Prepaid expenses		1,638,226
Total current assets		15,337,463
Noncurrent assets:		
Security deposits		17,545
Long-term portion of prepaid expenses		790,083
Total noncurrent assets		807,628
Capital assets (note 2):		
Software		8,577,522
Furniture and fixtures		94,395
Office equipment		20,169
Call center capital assets (note 3)		377,508
Web portal development (note 4)		9,779,007
		18,848,601
Less accumulated depreciation and amortization		(1,210,245)
Capital assets, net		17,638,356
Total assets	$	33,783,447
Liabilities:		
Current liabilities:		
Accounts payable	$	889,277
Accrued liabilities		12,676,199
Payroll liabilities		133,919
Unearned revenue		1,639,326
Total current liabilities		15,338,721
Long-term liabilities:		
Long-term portion of unearned revenue		790,083
Total liabilities		16,128,804
Net Position:		
Net investment in capital assets		17,638,356
Unrestricted		16,287
Total net position		17,654,643
Commitments (notes 5, 6, and 7)		
Total liabilities and net position	$	33,783,447

See accompanying notes to financial statements.

Colorado Health Benefit Exchange
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2013

Operating Revenues:	
Federal grants	$ 43,981,626
Other revenue	30,035
Total operating revenues	44,011,661
Operating Expenses:	
Technology development	18,025,121
Salaries, payroll taxes, and benefits	2,131,655
Marketing and outreach	2,123,837
Call center development	1,715,053
Professional services	1,314,809
Depreciation and amortization	1,147,309
Occupancy	144,021
Supplies and equipment	125,275
Training	77,022
Other	81,056
Total operating expenses	26,885,158
Increase in net position	17,126,503
Net position at beginning of year	528,140
Net position at end of year	$ 17,654,643

See accompanying notes to financial statements.

Colorado Health Benefit Exchange
Statement of Cash Flows
Year Ended June 30, 2013

Cash flows from operating activities:	
Federal grants received	$ 32,387,289
Other operating revenue received	30,035
Cash paid for materials and services	(12,115,726)
Cash paid to employees and for taxes and benefits	(2,010,638)
Net cash provided by operating activities	18,290,960
Cash flows used in capital and related financing activities:	
Purchases of capital assets	(18,258,312)
Net cash used in capital and related financing activities	(18,258,312)
Net increase in cash and cash equivalents	32,648
Cash and cash equivalents at beginning of year	355
Cash and cash equivalents at end of year	$ 33,003
Reconciliation of increase in net position to net cash provided by operating activities:	
Increase in net position	$ 17,126,503
Adjustments to reconcile increase in net position to net cash provided by operating activities:	
Depreciation and amortization	1,147,309
Increase in operating assets:	
Accounts receivable	(59,682)
Federal grants receivable	(12,671,271)
Prepaid expenses	(1,075,834)
Security deposits	(11,661)
Increase in operating liabilities:	
Accounts payable and accrued liabilities	12,758,662
Deferred revenue	1,076,934
Net cash provided by operating activities	$ 18,290,960

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

In 2011, the Colorado General Assembly passed, and the Governor signed into law, Senate Bill 11-200, which authorized the creation of Colorado Health Benefit Exchange (the Exchange) for the purpose of establishing a state health insurance exchange in compliance with the Patient Protection and Affordable Care Act (ACA) of 2010. The Exchange was organized as an instrumentality of the State and further defined as a nonprofit corporation created to facilitate a health benefit exchange to increase access, affordability, and choice for individuals and small employers purchasing health insurance in Colorado.

Federal grant funding will finance the Exchange design, development, and implementation phases. However, the Exchange must be self-sustaining beginning in 2015. The Exchange began conducting business in October 2013.

During the year ended June 30, 2013, the Exchange began doing business as Connect for Health Colorado.

(b) Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for business type activities. The financial statements have been presented on the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred. The Exchange has adopted the pronouncements of the Governmental Accounting Standards Board (GASB). The Exchange has no relationship with other entities that could be considered component units.

(c) Cash Equivalents

For purposes of the statement of cash flows, the Exchange considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents.

(d) Accounts and Federal Grants Receivable

Federal grants receivable consists of unreimbursed federal grant funds as of June 30, 2013. The Exchange considers all accounts and federal grants receivable to be fully collectible; accordingly, no allowance for doubtful amounts is considered necessary. Accounts deemed uncollectible are charged to the change in net position when that determination is made.

(e) Capital Assets

The Exchange follows the practice of capitalizing, at cost, all expenditures for capital assets in excess of $5,000 and groups of lower cost assets that exceed $5,000, as well as donations of capital assets, with estimated fair values exceeding $5,000, at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from five to seven years.

(1) Summary of Significant Accounting Policies, Continued

(f) Federal Grant Revenue

Federal grant revenue is recognized as related expenses are incurred and work is performed. Funding received in advance is recorded as unearned revenue. Unearned revenue at June 30, 2013 totaled $2,429,409.

(g) Net Position

Net position represents all assets, less liabilities. Net position is displayed in the statement of net position in the following categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation.
Restricted: Net position subject to externally imposed stipulations on their use. There are no restrictions as of June 30, 2013.
Unrestricted: All remaining net position that does not meet the definition of "net investment in capital assets" or "restricted".

(h) Operating Revenue and Expenses

The Exchange distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses include all items related to establishing and running a health insurance marketplace. There were no non-operating items for the year ended June 30, 2013.

(i) Concentrations of Credit Risk

Financial instruments which potentially subject the Exchange to concentrations of credit risk consist of cash and federal grants receivable. The Exchange's bank accounts at year-end were entirely covered by federal depository insurance or by collateral held by the Exchange's custodial banks under provisions of the Colorado Public Deposit Protection Act (PDPA). PDPA requires financial institutions to pledge collateral having a market value of at least 102% of the aggregate public deposits not incurred by federal depository insurance. Eligible collateral includes municipal bonds, U.S. government securities, mortgages, and deeds of trust.

The Exchange's federal grants receivable balance is due from one entity, relating to its federal grant. The Exchange receives substantially all of its revenue from a federal grant. This revenue is contingent upon future approval of grant funding and appropriation by the federal government. If a significant reduction in the level of this support occurs, it would have a significant effect on the Exchange's programs and activities.

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(1) Summary of Significant Accounting Policies, Continued

(k) Risk Management

The Exchange is subject to the risk of loss from various events, including, but not limited to, natural disasters and destruction of assets. The Exchange is currently covered by a commercial insurance program that contains multiple individual policies to mitigate risk exposure. Settled claims from these risks have not exceeded the insurance coverage in any of the past fiscal years.

(l) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The Exchange's financial statements were available to be issued on November 14, 2013, and this is the date through which subsequent events were evaluated. See also notes 9 and 10.

(2) Capital Assets

Capital assets consist of the following as of June 30, 2013:

	July 1, 2012	Additions	Retirements	June 30, 2013
Software	$ 410,000	8,167,522	–	8,577,522
Furniture and fixtures	16,367	78,028	–	94,395
Office equipment	–	20,169	–	20,169
Call center capital assets	–	377,508	–	377,508
Web portal development	163,922	9,615,085	–	9,779,007
	590,289	18,258,312	–	18,848,601
Less accumulated depreciation and amortization	(62,936)	(1,147,309)	–	(1,210,245)
Capital assets, net	$ 527,353	17,111,003	–	17,638,356

(3) Call Center Capital Assets

During 2013, the Exchange incurred $377,508 in capitalized costs related to the development of a call center located in Colorado Springs. At June 30, 2013, the call center had not commenced operations and, therefore, depreciation expense was not recorded for the year ended June 30, 2013. The call center began operating in October 2013 and the Exchange began recognizing depreciation on the capital assets at that time.

(4) Web Portal Development

From its inception, through June 30, 2013, the Exchange incurred $9,779,007 in costs related to the development of the health benefit exchange web portal that were capitalized. At June 30, 2013, the web portal had not been placed into service yet and, therefore, amortization expense was not recorded for the year ended June 30, 2013. The web portal was placed into service in October 2013 and the Exchange began recognizing amortization on the web portal at that time.

(5) Leases

The Exchange has a non-cancelable operating lease for office space in Denver, Colorado, which is scheduled to expire in March 2018. Future minimum lease payments for the years ended June 30 are as follows:

2014	$ 360,628
2015	372,492
2016	372,492
2017	372,492
2018	279,369
	$ 1,757,473

Total rent expense for office space for the year ended June 30, 2013 was $121,910.

The Exchange is also obligated under a non-cancelable operating lease for the use of a copier. The lease requires monthly payments of $1,731 and expires April 2015. Future minimum lease payments under the copier lease are $20,775 in 2014 and $16,447 in 2015. Total rent expense for the copier lease for the year ended June 30, 2013 was $17,618.

(6) Commitments

During 2012 and 2013, the Exchange entered into numerous multi-year contract agreements relating to the development of a health benefit exchange. Any agreements that exceed the Exchange's current grant periods are contingent upon future grant approval and appropriated funding by the federal government.

(7) Retirement Plan

During 2013, the Exchange established a retirement plan under section 403(b) of the Internal Revenue Service Code that is available to its employees. The Exchange contributes 5% of employee salaries for eligible employees. In addition, the Exchange matches 100% of the employee's elective deferral amount that does not exceed 5% of the total employee's compensation. Employees are 100% vested in their account balance after one year of service. Total employer contributions under this plan for the Exchange were $148,443 for the year ended June 30, 2013.

(8) Related Party Transaction

During 2013, the Exchange contracted with a company to provide employee benefit services to its employees. One of the Exchange's board members serves as President of the company. Total payments made to the company during the year ended June 30, 2013 were $101,355 and consisted of both employer and employee premiums.

(9) Federal Grant

On July 9, 2013, COHBE received its level two federal grant award from the Department of Health and Human Services, for the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges. The grant totals $116,245,677 and will cover the period July 9, 2013 through December 31, 2014.

(10) House Bill 13-1245

On May 6, 2013, the State of Colorado General Assembly passed House Bill 13-245, which outlines funding mechanisms that will help to support the Exchange in the short and long terms. Specifically, the House Bill allows for three components of the Exchange's future revenue approach. First, it allows for a broad-based assessment to be placed on insurance carriers. Second, it allows for a portion of reserves collected from the closing of CoverColorado to be transferred to the Exchange to fund operations. Lastly, any deductible donations made in the past by insurance carriers to CoverColorado will now be pledged to the Exchange.

On July 1, 2013, a portion of the reserves collected from CoverColorado, totaling $15,000,000, was transferred to the Exchange to fund future operations.

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*

Board of Directors
Colorado Health Benefit Exchange:

We 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 Colorado Health Benefit Exchange (the Exchange), which comprise the statement of net position as of June 30, 2013, the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Exchange'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 statements, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control. Accordingly, we do not express an opinion on the effectiveness of the Exchange's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2013-1 to be a material weakness.

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.

Board of Directors
Colorado Health Benefit Exchange

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Exchange's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 result 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.

November 14, 2013

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

Board of Directors
Colorado Health Benefit Exchange:

Report on Compliance for Each Major Federal Program

We have audited Colorado Health Benefit Exchange's (COHBE's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Exchange's major federal programs for the year ended June 30, 2013. The Exchange's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Exchange's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Exchange'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 each major federal program. However, our audit does not provide a legal determination of the Exchange's compliance.

Opinion on Each Major Federal Program

In our opinion, the Exchange complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Board of Directors
Colorado Health Benefit Exchange

Report on Internal Control over Compliance

Management of the Exchange 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 Exchange's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Exchange'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

November 14, 2013

Colorado Health Benefit Exchange
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal grantor/pass-through grantor/program title	Grant Number	Federal award year	Federal CFDA number	Federal expen-ditures
U.S. Department of Health and Human Services:				
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	HBEIE120111-01-03	2/22/12-4/15/13	93.525	$ 15,519,261
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	HBEIE120131-01-02	9/27/12-1/15/14	93.525	28,120,325
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	HBEIE130169-01-00	7/9/13-12/31/14	93.525	342,040
Total U.S. Department of Health and Human Services				43,981,626
Total Expenditures of Federal Awards				$ 43,981,626

Notes to the Schedule of Expenditures of Federal Awards:

(1) Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Colorado Health Benefit Exchange under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the Schedule presents only a selected portion of the operations of Colorado Health Benefit Exchange, it is not intended to and does not present the net position, changes in net position, or cash flows of Colorado Health Benefit Exchange.

(2) Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Colorado Health Benefit Exchange (the Exchange).
2. One material weakness relating to the audit of the financial statements is reported in the *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*.
3. No instances of noncompliance material to the financial statements of the Exchange, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB A-133*.
5. The auditor's report on compliance for the major federal award program for the Exchange expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program included State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (CFDA No. 93.525).
8. The threshold used for distinguishing between Type A and B programs was $1,319,449.
9. The Exchange did not qualify as a low-risk auditee.

B. Findings–Financial Statement Audit

2013-1 Financial Reporting and Audit Adjustments (Material Weakness)

Condition: An indication of an internal control deficiency is when one or more adjusting entries are made during the course of an audit. The following significant audit entries were made as a result of the current year audit:

- An adjustment of $119,355 to reverse an accrued liability relating to marketing that had been recorded at June 30, 2013.
- An adjustment of $1,440,527 to record accrued liabilities related to the technology contract for work that had been completed as of June 30, 2013.
- An adjustment of $172,000 to reverse an accrued liability that had been double-booked.
- An adjustment of $86,973 to expense planning activities related to web portal development that were capitalized.

Cause: Some of the audit adjustments relating to accrued liabilities and accounts payable were the result of adequate reviews of account balances not being able to be conducted at June 30, 2013 due to the timing of the start of the audit. Additionally, supporting documents were not adequately reviewed for accurate accounting treatment due to time constraints. Further, reconciliations were not accurately conducted between the technology contractor's percentage of completion reports and clients records. Lastly, with respect to the audit adjustment to expense web portal planning activities, the Exchange did not adequately review balances at June 30, 2013 to determine if all items capitalized were proper.

Most of the problems noted above were attributable to the early timing of the audit. During the period in which the audit was conducted, the Exchange was in the midst of a transition in which the Exchange was about to open the website to public usage and also implementing new accounting software. Because the audit was conducted at approximately the same time period as in the prior year, it did not allow for adequate time to properly review and finalize the accounting records.

Effect: Liabilities were understated at June 30, 2013, by $1,264,072. Lastly, capital assets were overstated by $86,975 at June 30, 2013.

Recommendation: The start of the audit should be pushed back a week or two to allow time for proper review of closing items. We also recommend that balances, particularly relating to liabilities and capital assets, be properly reviewed at the end of each fiscal year. Further, the technology vendor's reports and transactions should be reviewed thoroughly and reconciled to the Exchange's accounting records.

Management's response:

Each month, and at the end of the fiscal year, accrual entries are posted to accurately represent work in progress that will result in an expense or liability, but which has not been invoiced or paid as of the end of the period. This ensures COHBE is recognizing financial activities in the period in which they are incurred. Three of the four audit adjusting entries are related to period end accruals. Following is an explanation of each entry and the plan to correct:

- COHBE's advertising firm submitted an invoice in June that included an advertising insertion order that was to occur in July, August and September. If this had occurred at any time other than the end of the fiscal period, the liability as posted would have been acceptable provided the expenses were incurred during the fiscal year. Because this occurred at the end of the fiscal year, and the expenses beyond the current period were not paid by the end of the fiscal year, an audit adjustment was required. The total amount of the invoice was $120,055.68, and of that amount $700.68 did pertain to costs in June 2013, and the remaining $119,355 was neither prepaid expense (because the invoice had not been paid) nor was it an expense in the period. As such, that portion of the invoice should have been posted as a liability as of July 1, 2013, rather than as of June 30. There are two ways this circumstance may be addressed in the future:

1. All invoices are paid as of the last day of the period so that any with prepaid expenses can be recorded as prepaid. While this is ideal, it is not possible since, in the normal course of business operations, all invoices are not received prior to the close of a period.

2. Any invoices received at the end of a period that have expenses for future periods will be separated and posted as Part 1 for the current period and Part 2 for the future period. This method will be applied and is only applicable to the end of the fiscal year.

- At the end of each month, COHBE requests information from each contractor working on a fixed price or deliverables based (versus time and materials based) agreement for the percentage of work completed under the agreement as of the date of the period. In addition, for some vendors, an exact breakdown of the work to be expensed versus capitalized is also requested. CGI provides a monthly spreadsheet showing the percentage complete under each deliverable as well as the cost distribution for each aspect of their work. At fiscal year-end, there were two deliverables that were not correctly recorded, Del 12 for $819,610 – 100% expense, and Del 18B for $620,917. The total of these two deliverables, $1,440,527 represents the second audit adjustment.

1. It is the CFO's responsibility to review all month-end accruals and adjusting entries. Due to the timing of the audit and the transition to a new financial management system, this full review did not occur before the transactions were forwarded to the auditors. In the future, the COHBE audit will not be scheduled to start before mid-August to allow enough time for the year close and the review of all entries.

- Each month, COHBE must accrue the estimated amount of labor expense for the customer service center. At the end of the fiscal year, the ability to receive the labor reporting directly from the ACD/IVR system was not yet in place, and COHBE posted the accrual based on the invoice received from the vendor. Typically, the labor would have been accrued in advance of the invoice and reversed as of the beginning of the next period. This difference in process resulted in the accrual not being reversed. This would have been caught at the beginning of the next month when the accrued liabilities are reconciled, but as with the item discussed above, the timing of the audit did not permit the reconciliation to take place prior to the audit.

1. Each month accrued liabilities are reconciled and extra caution will be taken in the future to ensure this is done prior to the start of the audit.

- The fourth adjusting entry is related to classification of assets and expenses. COHBE has created a detailed schedule of each contract showing every statement of work for every vendor and whether that work or some portion thereof is expensed and/or capitalized, including the methodology used for the determination. At the end of the fiscal year, an updated version of this schedule was provided to the auditors and through their testing, it was discovered that one agreement, totaling $86,975, was capitalized in error and should have been expensed.

1. It is the CFO's responsibility to review all capitalized assets and any change in assets in a period. Prior to the current fiscal year, the CFO worked with the Controller to determine whether costs under each agreement were expensed, capitalized or some combination thereof. Now, the CFO will also review each capitalized asset entry as part of each period's close.

C. Findings and Questioned Costs–Major Federal Award Programs Audit

None.

Colorado Health Benefit Exchange
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

There were no findings relative to federal award programs related to the period from July 11, 2011 to June 30, 2012 that were required to be reported.

Colorado Health Benefit Exchange
Communication with Those Charged with Governance
Regarding the June 30, 2013 Audit

AREA	COMMENT
Our Responsibility Under U.S. Generally Accepted Auditing Standards (GAAS)	Audit performed in accordance with GAAS. The objective of an audit is reasonable, but not absolute, assurance about whether the financials are free of material misstatement. Our audit does not relieve you or management of your responsibilities.
Other Information in Documents Containing Audited Financials	The financial statements include OMB Circular A-133 required information for the year ended June 30, 2013. The financial statements include GASB 34-required Management Discussion and Analysis for the year ended June 30, 2013.
Planned Scope and Timing of Audit	The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter dated July 30, 2013.
Significant Audit Findings	1. Management has the responsibility for selection and use of appropriate accounting policies. The significant policies used (such as the basis of accounting, type of entity and the definition of operating revenue) are listed in Note 1 to the financial statements. 2. Management began reporting according to GASB accounting standards for state and local governments. 3. We noted no transactions were entered into in 2013 with an absence of authoritative accounting guidance or consensus. 4. There were no significant transactions recognized in a different period than when the transaction occurred. 5. Sensitive accounting estimates include the following: the collectibility of receivables, the amortization period of deferred costs, the depreciable lives of capitalized software licenses, and the recognition of contract revenue and expense. 6. Financial statement disclosures are neutral, consistent and clear. The related party footnote may be considered sensitive.
Difficulties Encountered in Performing the Audit	We encountered no significant difficulties in dealing with management in performing and completing our audit.
Corrected and Uncor-rected Misstatements	Management has corrected all known and likely misstatements. Certain audit adjustments were made and they are described within the audit reports.
Disagreements with Management	No disagreements arose with management during the course of our audit on financial accounting, reporting or auditing matters.

Colorado Health Benefit Exchange
Communication with Those Charged with Governance, Continued
Regarding the June 30, 2013 Audit

AREA	COMMENT
Management Representations	We requested certain representations from management that are included in their representation letter dated November 14, 2013.
Management Consultations with Other Independent Accountants	We are not aware of any consultations by management with other accountants about accounting and auditing matters.
Other Audit Findings or Issues	There were no discussions of the application of certain accounting principles prior to our retention as auditor.

This information is intended solely for the use of the board of directors and management of the Exchange and is not intended to be, and should not be, used by anyone other than these specified parties.

November 14, 2013