

**Colorado Health Benefit Exchange
Preliminary Report to the Finance and Operations Committee
Regarding the June 30, 2016 Audit**

- 1) **Draft Financial Statements:** There are several areas that have not yet been completely tested, which could impact the financial statement results, including the following:
 - a) Confirmations of accounts receivable have not yet been sent. Subsequent receipts have been tested, representing approximately 70% of the accounts receivable balance at year-end.
 - b) Confirmation of a prepaid balance with HCPF has not yet been sent or vouched to supporting documentation.
 - c) The Single Audit testwork has not yet been completed, including testing financial statement amounts related to the federal grant.
 - d) We will need to obtain an update on the OIG audit prior to issuance to determine if any liabilities need to be recognized at year-end.

- 2) **Audit Status**
 - a) There have been no audit adjustments or internal control deficiencies identified to date.
 - b) An adjustment was not made, totaling \$149,850, to reverse expenses that were incurred in fiscal 2015, but were recorded in fiscal 2016, due to immateriality.
 - c) The Single Audit has not yet been completed, including following up on prior year findings.

- 3) **Going Concern Considerations**
 - a) The auditor is responsible for evaluating conditions or events identified during the audit, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going concern for a period not to exceed one year beyond the financial statement date, or June 30, 2017.
 - b) Effective with the fiscal year ended June 30, 2017 audit, the auditor will be required to evaluate going concern for a period not to exceed one year beyond the financial statement issuance date.

- 4) **Estimated Date of Completion:** We expect to present the final financial statement audit and Single Audit reports at the Finance and Operations Committee meeting on November 28, 2016.

- 5) **Appreciation to Staff**

DRAFT

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10/19/2016

**Colorado Health Benefit Exchange
(dba Connect for Health Colorado)**

**Financial Statements and Required Supplementary
Information**

June 30, 2016 and 2015

(With Independent Auditor's Report Thereon)

Colorado Health Benefit Exchange
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents	\$ 12,745,709	33,741,071
Accounts receivable, net of allowance for doubtful accounts of \$123,966 in 2016 and \$33,201 in 2015	12,774,535	6,136,214
Prepaid expenses	2,706,305	2,888,962
Total current assets	<u>28,226,549</u>	<u>42,766,247</u>
Noncurrent assets:		
Security deposits	36,535	18,719
Long-term portion of prepaid expenses	1,400,256	3,020,387
Total noncurrent assets	<u>1,436,791</u>	<u>3,039,106</u>
Capital assets (note 2):		
Web portal development	36,228,577	32,687,048
Software	18,819,730	16,209,994
Leasehold improvements	1,943,642	1,943,642
Office equipment	1,117,696	1,083,698
Furniture and fixtures	833,776	833,776
	<u>58,943,421</u>	<u>52,758,158</u>
Less accumulated depreciation and amortization	<u>(28,088,422)</u>	<u>(15,517,072)</u>
Capital assets, net	<u>30,854,999</u>	<u>37,241,086</u>
Total assets	<u>\$ 60,518,339</u>	<u>83,046,439</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 3,666,229	7,564,485
Accrued liabilities	337,221	566,092
Payroll liabilities	330,370	220,109
Unearned revenue	-	5,123,051
Total current liabilities	<u>4,333,820</u>	<u>13,473,737</u>
Long-term liabilities:		
Long-term portion of unearned revenue	47,874	38,378
Total liabilities	<u>4,381,694</u>	<u>13,512,115</u>
Net Position:		
Net investment in capital assets	30,854,999	37,241,086
Restricted (note 1(g))	183,750	-
Unrestricted	25,097,896	32,293,238
Total net position	<u>56,136,645</u>	<u>69,534,324</u>
Commitments (notes 4 and 5)		
Total liabilities and net position	<u>\$ 60,518,339</u>	<u>83,046,439</u>

See the accompanying notes to the financial statements.

Colorado Health Benefit Exchange
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues:		
Federal grants	\$ 5,275,074	45,815,793
Other grants and contributions	3,063,800	3,032,245
Program revenue (note 3)	22,178,323	26,398,708
Fees for service	14,664,752	6,863,548
Interest income	22,950	45,799
Other revenue	109,772	20,161
Total operating revenues	<u>45,314,671</u>	<u>82,176,254</u>
Operating Expenses:		
Customer service	17,436,973	20,844,789
Depreciation and amortization	12,571,350	9,519,628
Technology development	12,355,107	13,689,543
Salaries, payroll taxes, and benefits	7,347,143	5,318,520
Professional services	3,709,953	4,790,577
Assistance network	2,755,762	7,795,220
Marketing and outreach	1,052,820	4,659,798
Other	620,762	498,317
Occupancy	496,641	446,612
Supplies and equipment	139,583	133,901
Training	135,491	335,185
Bad debt	90,765	33,201
Total operating expenses	<u>58,712,350</u>	<u>68,065,291</u>
Increase (decrease) in net position	(13,397,679)	14,110,963
Net position at beginning of year	<u>69,534,324</u>	<u>55,423,361</u>
Net position at end of year	<u>\$ 56,136,645</u>	<u>69,534,324</u>

See the accompanying notes to the financial statements.

Colorado Health Benefit Exchange
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Federal grants received	\$ 220,626	60,480,227
Other grants and contributions received	3,063,800	2,500,000
Other operating revenue received	30,187,604	29,408,190
Cash paid for federal grants to subrecipients	–	(4,712,409)
Cash paid to vendors for materials and services	(41,045,247)	(56,882,179)
Cash paid to employees for wages, taxes and benefits	(7,236,882)	(5,282,590)
Net cash provided by (used in) operating activities	<u>(14,810,099)</u>	<u>25,511,239</u>
Cash flows used in capital and related financing activities:		
Purchases of capital assets	<u>(6,185,263)</u>	<u>(12,951,637)</u>
Net cash used in capital and related financing activities	<u>(6,185,263)</u>	<u>(12,951,637)</u>
Net increase (decrease) in cash and cash equivalents	(20,995,362)	12,559,602
Cash and cash equivalents at beginning of year	<u>33,741,071</u>	<u>21,181,469</u>
Cash and cash equivalents at end of year	<u>\$ 12,745,709</u>	<u>33,741,071</u>
Reconciliation of increase in net position to net cash provided by (used in) operating activities:		
Increase (decrease) in net position	\$ (13,397,679)	14,110,963
Adjustments to reconcile increase in net position to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,571,350	9,519,628
Provision for doubtful accounts	90,765	33,201
Decrease (increase) in operating assets:		
Accounts receivable	(6,729,086)	(3,923,611)
Federal grants receivable	–	16,455,727
Prepaid expenses	1,802,788	1,047,435
Security deposits	(17,816)	1,000
Decrease in operating liabilities:		
Accounts payable and accrued liabilities	(4,016,866)	(9,413,151)
Unearned revenue	(5,113,555)	(2,319,953)
Net cash provided by (used in) operating activities	<u>\$ (14,810,099)</u>	<u>25,511,239</u>

See the accompanying notes to the financial statements.

Colorado Health Benefit Exchange
Notes to Financial Statements
June 30, 2016 and 2015

(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 is being provided to finance the Exchange design, development, and implementation phases. This funding began in 2011 and ended June 30, 2016. 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 proprietary (enterprise) funds. 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).

(c) Cash Equivalents

For purposes of the statements 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 Receivable

The change in net position is charged with an allowance for estimated uncollectible accounts based on an analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the change in net position when that determination is made. At June 30, 2016 and 2015, the Exchange has recognized an allowance of \$123,966 and \$33,201, respectively.

(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.

Colorado Health Benefit Exchange
Notes to Financial Statements, Continued

(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. Any funding received in advance is recorded as unearned revenue. At June 30, 2016, there is no unearned revenue related to federal grant funds. At June 30, 2015, federal grant funds received in advance and recognized as unearned revenue total \$5,120,886.

(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 where there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2016, restricted net position totals \$183,750 and consists of grant funds received that are restricted for a specific purpose and have not yet been spent. At June 30, 2015, there is no restricted net position.

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 years ended June 30, 2016 and 2015.

(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 receives a significant portion of its revenue from federal grants and state-mandated funding under House Bill 13-1245 (see note 3). This revenue is contingent upon future approval of funding and appropriation by the 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.

Colorado Health Benefit Exchange
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued**(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.

(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 28, 2016, and this is the date through which subsequent events were evaluated.

(m) Reclassifications

Certain prior year financial statement amounts have been reclassified to conform to current year presentation.

(2) Capital Assets

Following are the changes in capital assets:

	July 1, 2014	<u>Additions</u>	<u>Retirements</u>	June 30, 2015
Web portal development	\$ 24,444,591	8,242,457	—	32,687,048
Software	11,611,102	4,598,892	—	16,209,994
Leasehold improvements	1,912,952	30,690	—	1,943,642
Office equipment	1,063,252	20,446	—	1,083,698
Furniture and fixtures	<u>774,624</u>	<u>59,152</u>	—	<u>833,776</u>
	39,806,521	12,951,637	—	52,758,158
Less accumulated depreciation and amortization	<u>(5,997,444)</u>	<u>(9,519,628)</u>	—	<u>(15,517,072)</u>
Capital assets, net	\$ <u>33,809,077</u>	<u>3,432,009</u>	—	<u>37,241,086</u>

Colorado Health Benefit Exchange

Notes to Financial Statements, Continued

(2) Capital Assets, Continued

	July 1, <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2016</u>
Web portal development	\$ 32,687,048	3,541,529	—	36,228,577
Software	16,209,994	2,609,736	—	18,819,730
Leasehold improvements	1,943,642	—	—	1,943,642
Office equipment	1,083,698	33,998	—	1,117,696
Furniture and fixtures	<u>833,776</u>	<u>—</u>	<u>—</u>	<u>833,776</u>
	52,758,158	6,185,263	—	58,943,421
Less accumulated depreciation and amortization	<u>(15,517,072)</u>	<u>(12,571,350)</u>	<u>—</u>	<u>(28,088,422)</u>
Capital assets, net	<u>\$ 37,241,086</u>	<u>(6,386,087)</u>	<u>—</u>	<u>30,854,999</u>

(3) 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 fee to be placed on insurance carriers, which is not allowed to exceed \$1.80 per number of lives insured per month. Effective January 1, 2015, the Exchange assessed a fee of \$1.25 per number of lives insured per month. The Exchange then raised this fee to \$1.80 per number of lives insured per month, effective January 1, 2016. The Exchange has the option to exercise this fee assessment through December 2016. Second, the House Bill 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 by insurance carriers, which have been directed to CoverColorado in the past, will now be pledged to the Exchange. Revenue recognized under House Bill 13-1245 totaled \$22,178,323 and \$26,398,708 for the years ended June 30, 2016 and 2015, respectively, and is included in program revenue on the Statement of Revenues, Expenses, and Changes in Net Position.

(4) Leases

The Exchange has a non-cancelable operating lease for office space in Denver, Colorado, which requires monthly payments totaling \$42,153, and is scheduled to expire in March 2018. Furthermore, the Exchange has a cancelable operating lease for office space in Colorado Springs, Colorado, which is being used for its call center. This lease is scheduled to expire in August 2020, unless the cancellation option is exercised, which requires 90 days notice. The Exchange is also obligated under a non-cancelable copier lease which requires monthly payments of \$1,882 and expires June 2018. Future minimum lease payments under non-cancelable operating leases are as follows for the years ended June 30:

2017	\$ 528,426
2018	<u>401,965</u>
	<u>\$ 930,391</u>

Colorado Health Benefit Exchange

Notes to Financial Statements, Continued

(4) Leases, Continued

Lease expense in the accompanying financial statements is being recognized on the straight-line method, evenly over the term of each lease. Total rent expense for office space for the years ended June 30, 2016 and 2015 was \$646,728 and \$591,165, respectively. Total rent expense for the copier lease for the years ended June 30, 2016 and 2015 was \$28,902 and \$27,169, respectively.

(5) Retirement Plan

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 \$507,830 for the year ended June 30, 2016 and \$353,963 for the year ended June 30, 2015.