

**Colorado Health Benefit Exchange  
Report to the Finance Committee  
Regarding the June 30, 2017 Audit**

• **Highlights of the Financial Statements for the Year Ended June 30, 2017:**

- Financial statements are comparative with unmodified (i.e. “clean”) opinion for 2017. Management has not yet determined whether a Single Audit is needed for the year ended June 30, 2017. Therefore, Single Audit reports are not included at this time.

*Statements of Net Position:*

- Available cash was \$21,669,510 at June 30, 2017 compared to \$12,745,709 at June 30, 2016. The increase in cash is mostly due to the decrease in receivables.
- Accounts receivable totaled \$8,628,467 at June 30, 2017 compared to \$12,774,535 last year, a decrease of \$4,146,068. The special fee assessed on carriers under HB 13-1245 expired December 31, 2016, resulting in a decrease of \$5,088,487 in accounts receivable. Meanwhile, at June 30, 2017, accounts receivable include \$2,833,710 in estimated reimbursable costs due from HCPF under the Medicaid cost pool allocation.
- Capital assets have a net book balance of \$18,365,962 at June 30, 2017 compared to \$30,854,999 at June 30, 2016, and consist mostly of software and web portal development. Capital assets purchased during the year ended June 30, 2017 totaled \$1,889,382, compared to \$6,185,263 last year. Depreciation and amortization expense was \$14,108,419 for 2017 and \$12,571,350 for 2016.
- Accounts payable and accrued liabilities totaled \$4,527,555 at June 30, 2017 versus \$3,931,822 at June 30, 2016, an increase of \$595,733. Included in accrued liabilities at June 30, 2017 is \$1,204,709 in estimated costs due to HCPF as part of the shared eligibility system.
- Net position totaled \$46,105,162 at June 30, 2017. Of this amount, \$18,635,962 is invested in capital assets, and \$130,761 is restricted by a grant for spending on a specific purpose, leaving an unrestricted balance of \$27,338,439 (an increase of \$2,168,915 from the prior year balance of \$25,169,524).

*Statements of Revenues, Expenses, and Changes in Net Position:*

- For 2017, the Exchange had a (\$10,103,111) decrease in its net position compared to a (\$13,326,051) decrease in 2016. After eliminating depreciation, there is a \$4,005,308 increase in net position for 2017 versus a (\$754,701) decrease in 2016.
- For 2016, federal grant revenue totaled \$5,346,702 and consisted of revenue from the federal Level 2 grant, under the State Planning and Establishment Grants for the Affordable Health Care Act (ACA)’s Exchanges. This grant expired June 30, 2016 and all remaining amounts were fully drawn on the grant during fiscal 2016.
- Program revenue totaled \$18,661,919 for 2017 and consists of \$15,828,209 in revenue under HB 13-1245 and also includes \$2,833,710 in estimated reimbursable costs due from HCPF under the Medicaid cost pool allocation. For 2016, program revenue totaled \$22,178,323 and consisted only of revenue under HB 13-1245. Under HB 13-1245, a fee was assessed on carriers at \$1.80 per number of lives covered per month for calendar 2016 and \$1.25 per number of lives covered per month for calendar 2015. This fee was only allowed to be assessed through December 31, 2016. The Exchange also received tax credit contributions from carriers totaling \$5,000,000 in both 2017 and 2016.

**Colorado Health Benefit Exchange**  
**Report to the Finance Committee, Continued**  
**Regarding the June 30, 2017 Audit**

- Fees for service revenue totaled \$26,231,541 for fiscal 2017, compared to \$14,664,752 for fiscal 2016. This revenue consists of a fee assessed on carriers totaling 3.5% for each policy sold during calendar year 2017 and 2016. This fee was assessed at 1.4% for each policy sold in calendar 2015.
  - Expenses totaled \$57,599,122 and \$58,712,350 for 2017 and 2016, respectively, a decrease of \$1,113,228. Decreases were seen in many expense areas in an effort to reduce costs.
- **Management Letter** – None
  - **Communication with Those Charged with Governance** – See Attachment
  - **Other Matters**
    - Going concern assessment.
    - Subsequent events update.
    - The tax return is being prepared by KCE and is due May 15, 2018.
  - **Acceptance of Financial Statements**
  - **Executive Session with the Auditors**

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**10/19/2017**

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

**Financial Statements and Required Supplementary  
Information**

**June 30, 2017 and 2016**

**(With Independent Auditor's Report Thereon)**

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## **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 years ended June 30, 2017 and 2016, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colorado Health Benefit Exchange as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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## **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 on pages 3-7 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017, 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.

October 23, 2017

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## Management's Discussion and Analysis

### Colorado Health Benefit Exchange Overview

In 2011, the Colorado General Assembly passed Senate Bill 11-200, which created the Colorado Health Benefit Exchange, now doing business as Connect for Health Colorado (C4HCO), as a public non-profit entity governed by a Board of Directors and reviewed by the Legislative Health Benefit Exchange Implementation Review Committee. The organization's mission is to increase access, affordability and choice for individuals and small employers purchasing health insurance in Colorado. C4HCO is intended to reflect the unique needs of the state, seek Colorado-specific solutions, and to support an open competitive marketplace. C4HCO is serving the individual and small group markets, with an initial potential customer base of one million Coloradans.

The number of Coloradans selecting a health plan through the individual Marketplace during the last open enrollment increased by 5% year over year (169,000 compared to 178,000). Coloradans from every county in our state signed up for medical coverage through the Marketplace. Additionally, as of June 2017, 442 small businesses provided coverage to 2,950 employees through enrollment in the SHOP program. For the 2016 plan year, C4HCO helped return \$318 million to Coloradans through Advance Premium Tax Credits. Over sixty percent of our customers in 2017 are receiving this valuable financial assistance. Improvements were made in serving customers during the 4<sup>th</sup> open enrollment period with a 50% reduction in caller wait time and 74% of customers applying for financial assistance receiving an eligibility determination within two minutes.

Connect for Health Colorado completed a series of significant technological, organizational advancements and transitions in fiscal year 2017 to set the foundation for long-term success and sustainability. Prior to the start of the plan year 2017 open enrollment, improvements included enhanced password reset function for customers, and enhanced data transfer between Connect for Health Colorado and health insurance company systems. Internally, strong progress was made on implementing a business intelligence improvement plan which equips the Marketplace's business units with on-demand, web-based enrollment data to inform future plans and efforts. The organization re-structured contracts with key IT vendors to provide more manageable and predictable technology capacity at a lower cost. Internally, the IT team was reorganized to strengthen vendor management processes, improve efficiencies and support a more agile technology development approach for future enhancements.

In complying with federal regulation, the organization modified the process for verifying income, identity and tax-filing status for customers applying for financial assistance. These checks are critical for ensuring customers are eligible for financial assistance and receive the appropriate amount. In an effort to provide greater transparency into the total cost of healthcare coverage, the Marketplace launched the Quick Cost and Plan Finder tool arming customers with estimates, based on their healthcare usage, of their total healthcare costs using Colorado specific claims data from stakeholders and partners and used that information to guide preparations for the 2017 plan year open enrollment period. Throughout the year, the organization improved all levels of operations.

Due to the end of federal grants in the prior fiscal year along with the end of the broad market assessment during the fiscal year, the organization has taken additional steps to further reduce expenditures to buffer the impact of these revenue reductions. These expense reductions were achieved through consolidating contracts, reductions in the use of contractors, removing and streamlining management processes, platform enhancements to reduce workarounds and service center process improvements.

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Connect for Health Colorado adjusted to structural changes during the year within the organization and to the significant changes in the environment it operates. The Finance and Operations Committee, Board of Directors and the Colorado Health Insurance Exchange Oversight Committee provided continuous guidance through the year, reviewing the FY2018 budget in June 2018. The FY 2018 budget includes strategies to further reduce vendor costs, modify the organizational staffing structure and increase enrollment with a focus on long-term sustainability.

## **Funding**

Fiscal year 2017 was the first year without receiving any funding from federal grants. The primary sources of funding for the fiscal year were administrative fees on plans and the broad market assessment. An additional source of funding was developed subsequent to the end of the fiscal year that provided for the reimbursement of Medicaid costs incurred by C4HCO. The plan defining the allocation methodology of the portion of the organizations costs related to Medicaid was approved in September 2017. This will result in the recouping of Medicaid related costs incurred by C4HCO from both the 2017 and 2018 fiscal years.

In June 2013, Colorado's Governor signed HB 13-1245 into law, which in conjunction with administrative fees charged for policies purchased on the Marketplace, supports C4HCO becoming a self-sustaining entity after the end of the federal grant period. More specifically HB 13-1245 allowed for C4HCO to collect a broad market assessment on medical and dental policies in the small group and individual markets sold between 2014 and 2016. This funding source officially ended on December 31, 2016.

Beginning on January 1, 2014, C4HCO charged administrative fees on all policies sold through the Marketplace. The Board will continue to set the fee on an annual basis considering such factors as annual budget requirements, technology and operational reserves, average premiums and enrollment projections. The Board set the fee for plan year 2017 at 3.5% which is same as the prior year. The increases in both the administrative fee and the broad market assessment has provided for a smooth transition from the use of Federal grants for ongoing operational purposes and contribute to the long-term sustainability of the organization.

## **Financial Statements**

C4HCO'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 notes to the financial statements, provide the reader with an overview of the financial position and activities of the organization.

Total assets decreased between 2017 and 2016 by \$9.5M (\$51.0M compared to \$60.5M). Contributing to this decrease, long-term assets decreased by \$13.6M (\$18.7M compared to \$32.3M) consisting of the net impact of capital investments totaling \$1.9M offset by \$14.1M of depreciation and amortization charges. Capital investments primarily focused on technology enhancements to the exchange software and integration with the States eligibility system. Offsetting the decrease in total assets was the increase in current assets of \$4.1M (\$32.3M compared to \$28.2M). Driving this increase in current assets was an increase in cash balances of \$9.0M (\$21.7M compared to \$12.7M) offset by a \$4.1M decrease in receivable balances. Changes in cash are included in the discussion of the Statements of Cash Flows. The decrease in receivables resulted from both the shortening of the accounts receivable collection period and reduced levels of program and service fees at the end of the fiscal year are discussed further in the operating revenue section below.

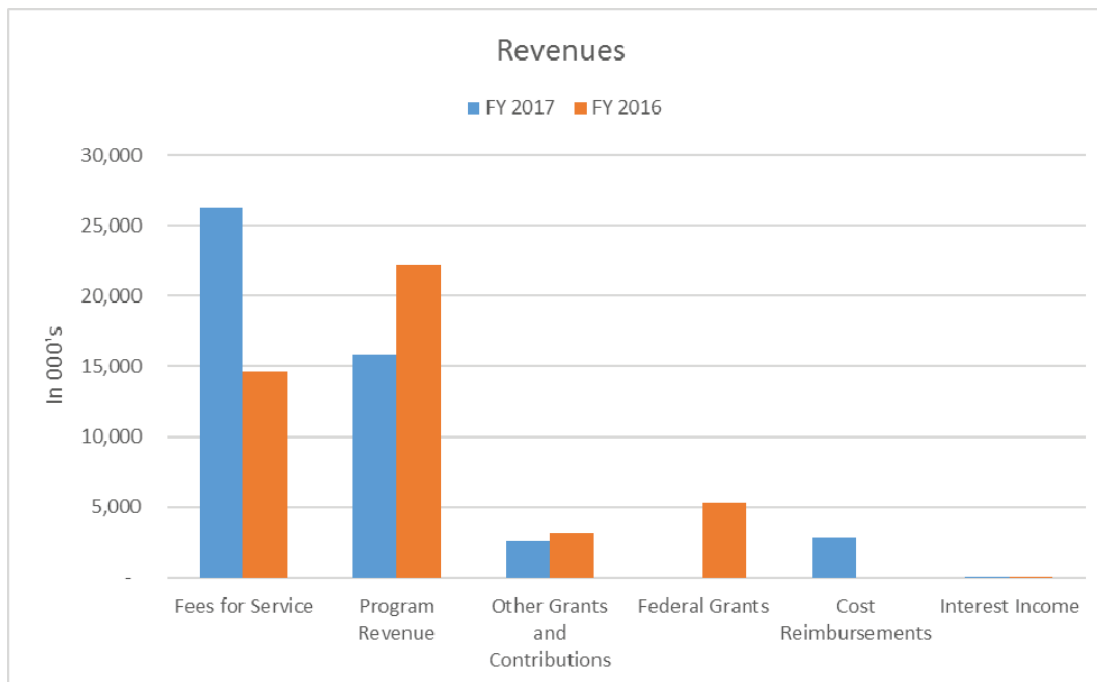
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The change in liabilities between 2017 and 2016 of \$0.6M (\$4.9M compared to \$4.3M) consists primarily of a decrease of \$0.4M in accounts payable (\$3.3M compared to \$3.7M) and an increase in accrued liabilities of \$1.0M (\$1.3M compared to \$0.3M). The increase in accrued liabilities was due primarily to costs for security improvements along with maintenance and operations costs associated with the Shared Eligibility System. These costs were still being determined at the end of the fiscal year. The liability for these expenses represent an estimate of probable expenses.

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 net position of the organization decreased by \$10.1M in fiscal 2017. The change in net position is actually positive (\$2.1M) when the impact of capital investments netted for depreciation and amortization expense (\$12.2M) is taken into account.

## Operating Revenues

Total revenues for the fiscal year increased by \$2.1M or 5% (\$47.5M compared to \$45.4M) from the prior year.



During Fiscal Year 2017, C4HCO generated \$15.8M in program revenue. Program revenue consisted of \$5.0M from carrier tax credits and \$10.8M from special fee assessments. The special fee assessment decreased by \$6.4M or 37% (\$10.8M compared to \$17.2M) from the prior year due to the discontinuance of the fee beyond December 31, 2016.

The fees for service revenue increased by \$11.5M or 79% (\$26.2M compared to \$14.7M). The increase in fees for service were due to an increase in enrollments and average premiums through the exchange along with the impact of a full year at the higher fee structure in fiscal 2017.

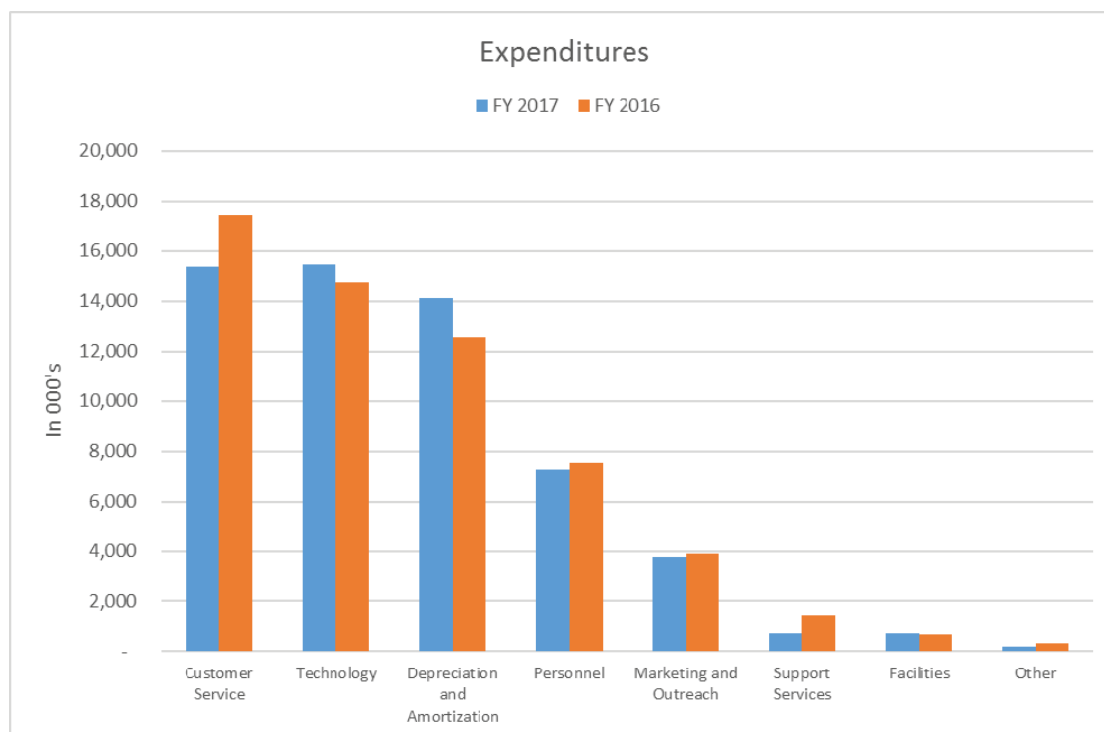
Other revenue recorded in 2017 included non-federal grants totaling \$2.6M, estimated Medicaid cost reimbursements of \$2.8M and interest income of \$5,614. All federal funds were expended in the prior fiscal year.



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## Operating Expenditures

Total expenses for the fiscal year decreased by \$1.1M or 2% (\$57.6M compared to \$58.7M) from the prior year. Removing the impact of the change in depreciation and amortization, expenses decreased by \$2.7M, or 6%, from the prior year.



Some of the more significant changes in expenditures included:

- Customer service expenses decreased by \$2.1M or 14% (\$15.4M compared to \$17.5M) due in part to operational and technology improvements that resulted in reduced call volumes.
- Technology expenses increased by \$0.7M or 4% (\$15.4M compared to \$14.7M), primarily due to one-time security remediation costs for the Shared Eligibility System.
- Depreciation expense increased by \$1.5M or 11%, which is directly related to capital assets placed in service from inception-to-date. The majority of capital assets will become fully depreciated by fiscal year 2018.
- Personnel expenses decreased by \$0.3M or 4% (\$7.3M compared to \$7.6M).
- Marketing and outreach decreased by \$0.2M or 5% (\$3.7M compared to \$3.9M) from the prior year. The decrease reflects a more focused marketing and assistance network approach.

## Statements of Cash Flows

The Statements of Cash Flows represent C4HCO's change in cash and cash equivalents for the year and provides a summary of how cash was utilized. Cash balances increased by \$8.9M or 70% (\$21.7M compared to \$12.7M) in fiscal year 2017. As reflected in the Statements of Cash Flows, \$10.8M of cash was generated by operating activities during the year compared to \$14.8M used in operating activities in the prior year. This change was primarily the result of improving the collection cycle for receivables and the close out of the broad market fee after the first 6 months of the year and the collection on the related receivables.

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## **Currently Known Facts and Conditions**

Connect for Health Colorado continues to operate in an environment of change and growth. As the result of recent elections this environment of change is expected to continue. While the future of the Affordable Care Act is uncertain at the time of this report, the foundational mission of the exchange as originally envisioned by the state to increase access, affordability, and choice for individuals and small employers purchasing health insurance in Colorado remains the same. With an eye to the future, C4HCO continues with its plans for sustainability and providing value to its customers and stakeholders. Since the end of the fiscal year the organization has continued its cost cutting initiatives and the implementation of the fiscal year budget and strategic plan that provides the roadmap to long-term sustainability for the organization. Even with recent changes to plan premiums, C4HCO is prepared to be open for shopping for the next plan year starting November 1.

## **Contacting Colorado Health Benefit's Financial Management**

This Management's Discussion and Analysis, the accompanying financial statements, and the notes to the financial statements are designed to provide readers with a general overview of Colorado Health Benefit Exchange's finances and to reflect accountability and financial transparency relating to funds received and expenditures of those funds. If you have questions about this report or need additional financial information, please contact the organization's financial team at the corporate offices. Contact information may be found on the website at [www.connectforhealthco.com](http://www.connectforhealthco.com).

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## Colorado Health Benefit Exchange Statements of Net Position June 30, 2017 and 2016

	2017	2016
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 21,669,510	12,745,709
Accounts receivable, net of allowance for doubtful accounts of \$44,525 in 2017 and \$123,966 in 2016	8,628,467	12,774,535
Prepaid expenses	1,992,752	2,706,305
Total current assets	32,290,729	28,226,549
Noncurrent assets:		
Security deposits	27,609	36,535
Long-term portion of prepaid expenses	64,119	1,400,256
Total noncurrent assets	91,728	1,436,791
Capital assets (note 2):		
Web portal development	38,052,299	36,228,577
Software	18,885,390	18,819,730
Leasehold improvements	1,943,642	1,943,642
Office equipment	1,117,696	1,117,696
Furniture and fixtures	833,776	833,776
	60,832,803	58,943,421
Less accumulated depreciation and amortization	(42,196,841)	(28,088,422)
Capital assets, net	18,635,962	30,854,999
Total assets	\$ 51,018,419	60,518,339
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 3,220,679	3,666,229
Accrued liabilities	1,306,876	265,593
Payroll liabilities	336,216	330,370
Deferred rent	6,744	1,612
Total current liabilities	4,870,515	4,263,804
Long-term liabilities:		
Long-term portion of deferred rent	42,742	46,262
Total liabilities	4,913,257	4,310,066
<b>Net Position:</b>		
Net investment in capital assets	18,635,962	30,854,999
Restricted (note 1(g))	130,761	183,750
Unrestricted	27,338,439	25,169,524
Total net position	46,105,162	56,208,273
Commitments and contingency (notes 4, 5 and 6)		
Total liabilities and net position	\$ 51,018,419	60,518,339

See the accompanying notes to the financial statements.

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## Colorado Health Benefit Exchange Statements of Revenues, Expenses, and Changes in Net Position Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Operating Revenues:</b>		
Federal grant revenue	\$ –	5,346,702
Other grants and contributions	2,590,000	3,063,800
Program revenue (note 3)	18,661,919	22,178,323
Fees for service	26,231,541	14,664,752
Interest income	5,614	22,950
Other revenue	6,937	109,772
	<u>47,496,011</u>	<u>45,386,299</u>
<b>Operating Expenses:</b>		
Technology	15,445,048	14,753,741
Customer service	15,368,254	17,476,013
Depreciation and amortization	14,108,419	12,571,350
Personnel	7,283,054	7,557,848
Marketing and outreach	3,739,410	3,908,612
Facilities	737,983	669,366
Support services	722,906	1,453,495
Other	194,048	321,925
	<u>57,599,122</u>	<u>58,712,350</u>
<b>Decrease in net position</b>	(10,103,111)	(13,326,051)
<b>Net position at beginning of year</b>	<u>56,208,273</u>	<u>69,534,324</u>
<b>Net position at end of year</b>	<u>\$ 46,105,162</u>	<u>56,208,273</u>

See the accompanying notes to the financial statements

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## Colorado Health Benefit Exchange Statements of Cash Flows Years Ended June 30, 2017 and 2016

	2017	2016
<b>Cash flows from operating activities:</b>		
Federal grants received	\$ —	220,626
Other grants and contributions received	2,590,000	3,063,800
Other operating revenue received	48,972,638	30,259,232
Cash paid to vendors for materials and services	(33,472,247)	(41,116,875)
Cash paid to employees for wages, taxes and benefits	(7,277,208)	(7,236,882)
Net cash provided by (used in) operating activities	10,813,183	(14,810,099)
<b>Cash flows used in capital and related financing activities:</b>		
Purchases of capital assets	(1,889,382)	(6,185,263)
Net cash used in capital and related financing activities	(1,889,382)	(6,185,263)
<b>Net increase (decrease) in cash and cash equivalents</b>	8,923,801	(20,995,362)
<b>Cash and cash equivalents at beginning of year</b>	12,745,709	33,741,071
<b>Cash and cash equivalents at end of year</b>	\$ 21,669,510	12,745,709
<b>Reconciliation of decrease in net position to net cash provided by (used in) operating activities:</b>		
Decrease in net position	\$ (10,103,111)	(13,326,051)
Adjustments to reconcile decrease in net position to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,108,419	12,571,350
Provision for doubtful accounts	(79,441)	90,765
Amortization of deferred rent	1,612	7,331
Decrease (increase) in operating assets:		
Accounts receivable	4,225,509	(6,729,086)
Prepaid expenses	2,049,690	1,802,788
Security deposits	8,926	(17,816)
Decrease in operating liabilities:		
Accounts payable and accrued liabilities	601,579	(4,088,494)
Deferred revenue	—	(5,120,886)
Net cash provided by (used in) operating activities	\$ 10,813,183	(14,810,099)

See the accompanying notes to the financial statements.

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## Colorado Health Benefit Exchange Notes to Financial Statements June 30, 2017 and 2016

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### (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 was initially 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, 2017 and 2016, the Exchange has recognized an allowance of \$44,525 and \$123,966, 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.

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## Colorado Health Benefit Exchange

### Notes to Financial Statements, Continued

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#### (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, 2017 and 2016, there is no unearned revenue related to government grant funds.

##### (g) Net Position

Net position represents all assets, less liabilities. Net position is displayed in the statements 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, 2017 and 2016, restricted net position totals \$130,761 and \$183,750, respectively, and consists of grant funds received that are restricted for a specific purpose and have not yet been spent.

*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, 2017 and 2016.

##### (i) Concentrations of Credit Risk

Financial instruments which potentially subject the Exchange to concentrations of credit risk consist of cash and cash equivalents, accounts receivable, and government 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 is subject to the risk of loss from government grants receivable if the government determines that certain amounts are unallowable reimbursements. Accounts receivable mainly consists of amounts due from carriers for fees assessed. Credit risk associated with accounts receivable is limited due to the number and creditworthiness of the carriers.

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## Colorado Health Benefit Exchange

### Notes to Financial Statements, Continued

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#### (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 October 23, 2017, and this is the date through which subsequent events were evaluated.

#### (2) Capital Assets

Following are the changes in capital assets:

	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>



# DRAFT

## Colorado Health Benefit Exchange

### Notes to Financial Statements, Continued

#### (2) Capital Assets, Continued

	July 1, <u>2016</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2017</u>
Web portal development	\$ 36,228,577	1,823,722	—	38,052,299
Software	18,819,730	65,660	—	18,885,390
Leasehold improvements	1,943,642	—	—	1,943,642
Office equipment	1,117,696	—	—	1,117,696
Furniture and fixtures	<u>833,776</u>	<u>—</u>	<u>—</u>	<u>833,776</u>
	58,943,421	1,889,382	—	60,832,803
Less accumulated depreciation and amortization	<u>(28,088,422)</u>	<u>(14,108,419)</u>	<u>—</u>	<u>(42,196,841)</u>
Capital assets, net	<u>\$ 30,854,999</u>	<u>(12,219,037)</u>	<u>—</u>	<u>18,635,962</u>

#### (3) Program Revenue

##### 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 revenue. First, it allows for a fee to be placed on insurance carriers, through December 2016, 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. This fee was assessed through the expiration of the option on December 31, 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, are now pledged to the Exchange. Revenues recognized under House Bill 13-1245 totaled \$15,828,209 and \$22,178,323 for the years ended June 30, 2017 and 2016, respectively, and are included in program revenue in the statements of revenues, expenses, and changes in net position.

##### Medicaid Cost Reimbursement

Beginning during the year ended June 30, 2017, the Exchange became eligible to receive cost reimbursements from the Colorado Department of Health Care Policy and Financing for Medicaid related costs. Revenue under the agreement is being recognized as qualifying expenses are incurred, and is included in program revenue in the statements of revenues, expenses, and changes in net position. For the year ended June 30, 2017, reimbursable expenses were estimated to total \$2,833,710 and have been recognized as program revenue.

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## Colorado Health Benefit Exchange

### Notes to Financial Statements, Continued

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#### (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 total \$400,083 and are due in the year ending June 30, 2018.

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, using the straight-line method, for the years ended June 30, 2017 and 2016 was \$646,728. Total rent expense for the copier lease for the years ended June 30, 2017 and 2016 was \$35,088 and \$28,902, 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 \$548,553 for the year ended June 30, 2017 and \$507,830 for the year ended June 30, 2016.

#### (6) Contingency

The Exchange is a recipient of federal and state awards which are subject to audit to determine compliance with applicable regulations. On December 27, 2016, the Exchange received an audit report from the Department of Health and Human Services Office of the Inspector General recommending the repayment of \$9,678,635 in questioned federal expenditures from 2012 to 2014. A significant portion of these expenditures had been previously identified as unallowable by the Exchange and, as a result, reimbursement requests made under the federal grant in previous periods were reduced for the unallowable expenditures identified. Connect for Health Colorado has responded to the findings with federal officials and believes there is sufficient evidence to support the allowance of the questioned costs under the federal program of the remaining questioned costs that were identified. While the maximum amount of the possible loss can be reasonably estimated at this time, management believes that it is reasonably possible (but not probable) that a loss has occurred for a portion of the recommended repayment. Therefore, a liability has not been recognized for these questioned costs as of June 30, 2017.

# DRAFT

## **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, 2017, and the related statements 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 October 23, 2017.

### **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.

*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.

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

### **Compliance and Other Matters**

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

# DRAFT

## **Board of Directors Colorado Health Benefit Exchange**

### **Purpose of this Report**

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

October 23, 2017

**Colorado Health Benefit Exchange  
Communication with Those Charged with Governance  
Regarding the June 30, 2017 Audit**

<b>AREA</b>	<b>COMMENT</b>
<b>Our Responsibility Under U.S. Generally Accepted Auditing Standards (GAAS)</b>	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.
<b>Other Information in Documents Containing Audited Financials</b>	The financial statements include GASB 34-required Management Discussion and Analysis for the year ended June 30, 2017.
<b>Planned Scope and Timing of Audit</b>	The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter dated July 31, 2017.
<b>Significant Audit Findings</b>	<ol style="list-style-type: none"> <li>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.</li> <li>2. No new accounting policies were adopted during the year and the application of existing policies was not changed during the year.</li> <li>3. We noted no transactions were entered into in 2017 with an absence of authoritative accounting guidance or consensus.</li> <li>4. There were no significant transactions recognized in a different period than when the transaction occurred, other than uncorrected misstatement noted below.</li> <li>5. Significant accounting estimates include the following: the collectability of receivables, accounts receivable for carrier fees, accounts receivable for Medicaid cost reimbursements due from HCPF, the amortization period of deferred costs, the depreciable lives of capitalized assets, and the accrued liability recognized for HCPF costs.</li> <li>6. Financial statement disclosures are neutral, consistent and clear.</li> </ol>
<b>Difficulties Encountered in Performing the Audit</b>	We encountered no significant difficulties in dealing with management in performing and completing our audit.
<b>Corrected and Uncorrected Misstatements</b>	Management has corrected all known and likely misstatements. No audit adjustments were made as part of the audit.
<b>Disagreements with Management</b>	No disagreements arose with management during the course of our audit on financial accounting, reporting or auditing matters.

(Continued)

**Colorado Health Benefit Exchange  
Communication with Those Charged with Governance, Continued  
Regarding the June 30, 2017 Audit**

<b>AREA</b>	<b>COMMENT</b>
<b>Management Representations</b>	We requested certain representations from management that are included in their representation letter dated October 23, 2017.
<b>Management Consultations with Other Independent Accountants</b>	We are not aware of any consultations by management with other accountants about accounting and auditing matters.
<b>Other Audit Findings or Issues</b>	There were no discussions of the application of certain accounting principles prior to our retention as auditor.

This communication 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.

October 23, 2017