

Colorado Health Benefit Exchange

Financial Statements

June 30, 2012

(With Independent Auditor's Report Thereon)

Independent Auditor's Report

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

We have audited the accompanying statement of financial position of Colorado Health Benefit Exchange (COHBE) as of June 30, 2012, and the related statements of activities and cash flows for the period from July 11, 2011 to June 30, 2012. These financial statements are the responsibility of COHBE's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of COHBE as of June 30, 2012, and the changes in its net assets and its cash flows for the period from July 11, 2011 to June 30, 2012 in conformity with U.S. generally accepted accounting principles.

KUNDINGER, CORDER & ENGLE, P.C.

October 2, 2012

Colorado Health Benefit Exchange
Statement of Financial Position
June 30, 2012

Assets:

Cash and cash equivalents	\$ 355
Accounts receivable	935,281
Prepaid expenses	1,352,475
Security deposits	5,884
Property and equipment, net	363,431
Web portal development (note 2)	<u>163,922</u>
Total assets	<u>\$ 2,821,348</u>

Liabilities and Net Assets:

Accounts payable	\$ 927,831
Accrued liabilities	12,902
Deferred revenue	<u>1,352,475</u>
Total liabilities	<u>2,293,208</u>

Net Assets:

Unrestricted	<u>528,140</u>
Total net assets	528,140

Commitments (notes 3 and 4)	<u> </u>
Total liabilities and net assets	<u>\$ 2,821,348</u>

See accompanying notes to financial statements.

Colorado Health Benefit Exchange
Statement of Activities
Period from July 11, 2011 to June 30, 2012

Revenue:

Federal grant revenue	\$ <u>2,431,739</u>
Total revenue	<u>2,431,739</u>

Expenses:

Program services:

Health benefit exchange	<u>1,807,866</u>
Total program services	<u>1,807,866</u>

Supporting services:

Management and general	<u>95,733</u>
Total supporting services	<u>95,733</u>
Total expenses	<u>1,903,599</u>

Change in net assets	528,140
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Net assets at beginning of period	<u>—</u>
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Net assets at end of period	\$ <u><u>528,140</u></u>
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See accompanying notes to financial statements.

Colorado Health Benefit Exchange
Statement of Cash Flows
Period from July 11, 2011 to June 30, 2012

Cash flows from operating activities:

Change in net assets	\$ 528,140
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	62,936
Increase in operating assets:	
Accounts receivable	(935,281)
Prepaid expenses	(1,352,475)
Security deposits	(5,884)
Increase in operating liabilities:	
Accounts payable and accrued liabilities	940,733
Deferred revenue	1,352,475
	<u>590,644</u>
Net cash provided by operating activities	<u>590,644</u>

Cash flows from investing activities:

Purchases of property and equipment	(426,367)
Purchases of web portal development	(163,922)
	<u>(590,289)</u>
Net cash used in investing activities	<u>(590,289)</u>

Net increase in cash and cash equivalents 355

Cash and cash equivalents at beginning of period —

Cash and cash equivalents at end of period \$ 355

See accompanying notes to financial statements.

Colorado Health Benefit Exchange
Notes to Financial Statements
June 30, 2012

(1) Summary of Significant Accounting Policies

(a) Organization

The Colorado Health Benefit Exchange (COHBE) is a nonprofit corporation organized in Colorado to facilitate a health benefit exchange to improve care for all Coloradoans. The organization commenced operations on July 11, 2011.

COHBE's activities are completely supported by federal grant revenue.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

COHBE reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. COHBE did not have any temporarily restricted or permanently restricted net assets at June 30, 2012.

(d) Cash Equivalents

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

(e) Accounts Receivable

COHBE considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful amounts is considered necessary. Accounts deemed uncollectible are charged to the change in net assets when that determination is made.

(f) Property and Equipment

COHBE follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$5,000, as well as donations of property and equipment with estimated fair value exceeding \$5,000, at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of seven years. Property and equipment consists of office furniture and equipment totaling \$16,367 and software licenses totaling \$410,000. Property and equipment at June 30, 2012 is reported net of accumulated depreciation totaling \$62,936.

(g) Federal Grant Revenue

Federal grant revenue is recognized as related expenses are incurred and work is performed. Funding received in advance is recorded as deferred revenue. Deferred revenue at June 30, 2012 totaled \$1,352,475.

Colorado Health Benefit Exchange

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Concentrations of Credit Risk

Financial instruments which potentially subject COHBE to concentrations of credit risk consist of cash and trade receivables. COHBE places its cash with creditworthy, high quality, financial institutions and the accounts are insured by the Federal Deposit Insurance Corporation. From time to time, COHBE's cash may exceed the FDIC insured limit. COHBE's accounts receivable balance is due from one entity, relating to its federal grant.

COHBE receives 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 COHBE's programs and activities.

(i) 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.

(j) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(k) Income Taxes

COHBE is a state institution that derives income solely from performing an essential government function, organized under Section IRC 115(1). COHBE believes its income meets guidelines set under Section IRC 115(1) to be excluded from tax. Accordingly, the accompanying financial statements contain no provision for income taxes.

COHBE follows guidance related to uncertainty in income taxes. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2012. If incurred, interest and penalties associated with uncertain tax positions would be recorded in the period assessed as other operating expense. No interest or penalties have been assessed as of June 30, 2012. As an entity organized under Section IRC 115(1), COHBE is not required to file a federal or state tax or informational return. The three previous tax years remain subject to examination.

Colorado Health Benefit Exchange

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(l) Donated Services

Donated services are recognized as contribution revenue if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by COHBE. No donated services were recorded in the period ended June 30, 2012 as the recognition criteria were not met.

(m) 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. COHBE's financial statements were available to be issued on October 2, 2012, and this is the date through which subsequent events were evaluated. See also note 5.

(2) Web Portal Development

During 2012, COHBE incurred \$163,922 in costs related to the development of the health benefit exchange web portal that are being capitalized. The web portal has not been placed into service yet and, therefore, amortization expense was not recorded for the period ended June 30, 2012. COHBE estimates the web portal will be placed into service in October 2013. At the time the web portal is placed into service, amortization will begin to be recorded on these costs.

(3) Leases

COHBE is obligated under two non-cancelable operating leases for office space and equipment that expire at various dates through April 2013. Total rent expense for these operating leases was \$11,768 in the period ended June 30, 2012. Future minimum lease payments under operating leases at June 30, 2012 are \$58,838 in 2013.

(4) Commitments

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

(5) Federal Grant

On September 27, 2012, COHBE received its second Level-One 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 \$43,486,747 and will cover the period September 27, 2012 to July 15, 2013.