

Colorado Health Benefit Exchange

**Financial Statements and OMB Circular
A-133 Reports**

June 30, 2012

(With Independent Auditor's Report Thereon)

Colorado Health Benefit Exchange

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OMB Circular A-133 Reports

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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 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 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2012, on our consideration of COHBE'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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

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)

Total liabilities and net assets	<u>\$ 2,821,348</u>
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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>
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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	<u>1,352,475</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	<u>(163,922)</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	<u>—</u>
Cash and cash equivalents at end of period	\$ <u><u>355</u></u>

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.

**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 the financial statements of Colorado Health Benefit Exchange (COHBE) as of and for the period from July 11, 2011 to June 30, 2012, and have issued our report thereon dated October 2, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of COHBE is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered COHBE's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of COHBE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of COHBE's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether COHBE'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*.

Board of Directors
Colorado Health Benefit Exchange

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KUNDINGER, CORDER & ENGLE, P.C.

October 2, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

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 COHBE's major federal programs for the period from July 11, 2011 to June 30, 2012. COHBE's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of COHBE's management. Our responsibility is to express an opinion on COHBE's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 COHBE'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. Our audit does not provide a legal determination of COHBE's compliance with those requirements.

In our opinion, COHBE complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period from July 11, 2011 to June 30, 2012.

Internal Control over Compliance

Management of COHBE is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered COHBE's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 COHBE's internal control over compliance.

Board of Directors
Colorado Health Benefit Exchange

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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KUNDINBER, CORDER & ENGLE, P.C.

October 2, 2012

Colorado Health Benefit Exchange
Schedule of Expenditures of Federal Awards
Period from July 11, 2011 to June 30, 2012

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal award year</u>	<u>Federal CFDA number</u>	<u>Agency or pass-through number</u>	<u>Federal expen- ditures</u>
<i>U.S. Department of Health and Human Services:</i>				
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	2/22/12-10/15/12	93.525	N/A	\$ <u>2,431,739</u>
Total expenditures of federal awards				\$ <u><u>2,431,739</u></u>

Notes to the Schedule of Expenditures of Federal Awards:

(1) Basis of Presentation

The schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Colorado Health Benefit Exchange under programs of the federal government for the period from July 11, 2011 to June 30, 2012. 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 financial position, changes in net assets, or cash flows of Colorado Health Benefit Exchange.

(2) Summary of Significant Accounting Policies

Expenditures reported on 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.

(3) Prepaid Expenses

During 2012, additional federal funds were received and spent on expenses that will be recognized in future accounting periods. In accordance with generally accepted accounting principles, these amounts have been recognized as prepaid expenses and deferred revenue in the accompanying financial statements. Therefore, these amounts are not included in the Schedule of Expenditures of Federal Awards. For the period from July 11, 2011 to June 30, 2012, these amounts totaled \$1,352,475.

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs
Period from July 11, 2011 to June 30, 2012

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Colorado Health Benefit Exchange.
2. No significant deficiencies relating to the audit of the financial statements are 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 Colorado Health Benefit Exchange were disclosed during the audit.
4. No significant deficiencies in internal control relating to the audit of major federal award programs are reported in the *Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award program for Colorado Health Benefit Exchange expresses an unqualified opinion on the major federal program.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
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 \$300,000.
9. Colorado Health Benefit Exchange did not qualify as a low-risk auditee.

B. Findings—Financial Statement Audit

None.

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

None.

Colorado Health Benefit Exchange
Summary Schedule of Prior Audit Findings
Period from July 11, 2011 to June 30, 2012

This is the first year of operations for COHBE. Therefore, a Summary Schedule of Prior Audit Findings is not applicable.