Colorado Health Benefit Exchange d/b/a Connect for Health Colorado

Financial Report
with Supplemental Information
June 30, 2020

Contents

Independent Auditor's Report

To the Board of Directors
Colorado Health Benefit Exchange d/b/a Connect
for Health Colorado

Report on the Financial Statements

We have audited the accompanying basic financial statements of Colorado Health Benefit Exchange d/b/a Connect for Health Colorado (the "Exchange") as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise the Exchange's basic 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 audits 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Colorado Health Benefit Exchange d/b/a Connect for Health Colorado as of June 30, 2020 and 2019 and the changes in its financial position and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Colorado Health Benefit Exchange d/b/a Connect
for Health Colorado

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental 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 November 9, 2020 on our consideration of Colorado Health Benefit Exchange d/b/a Connect for Health Colorado's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Colorado Health Benefit Exchange d/b/a Connect for Health Colorado's internal control over financial reporting and compliance.

November 9, 2020

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 Colorado Health Insurance Exchange Oversight Committee. The organization's mission is to increase access, affordability and choice for individuals and small employers purchasing health insurance in Colorado.

The current strategic plan, adopted in 2017, serves as a guide for the organization. The four Board-approved strategic plan goals are:

- Advocate to improve access to coverage in rural areas of Colorado.
- Maximize the number of consumers and employers who shop and enroll through the health insurance marketplace and apply for available financial assistance.
- Improve the ability of customers to attain and retain the right coverage for their needs.
- Ensure that C4HCO is a healthy and thriving organization.

These goals help drive the organization to long-term sustainability through the expansion of enrollment. In addition, the strategic plan is expected to further Marketplace innovation resulting in improvements to the customer shopping experience along with encouraging the expansion of health insurance coverage across the state.

166,850 Coloradans enrolled for 2020 coverage during the seventh open enrollment period. Residents saw a different range of premiums to choose from than in the previous open enrollment period because of a new program that the state implemented, known as reinsurance. Statewide rates for full price premiums dropped by 20 percent, which led to an uptick in new enrollments in many of Colorado's counties for customers who do not qualify for financial help.

Across the state, Coloradans continued to maintain insurance coverage through C4HCO in 2020, with residents from every county in the state signing up for medical coverage through the Marketplace. One of Connect for Health Colorado's strategic goals is to advocate to improve access to coverage in rural areas of Colorado. For the 2020 plan year, the largest increases in enrollments were in rural counties due in part to the reinsurance program.

For the 2019 plan year, C4HCO helped return $721 million to Coloradans through Advance Premium Tax Credits (APTCs). Seventy four percent of our customers in 2020 received this valuable financial assistance. To help as many people as possible get covered during the COVID-19 outbreak, we opened an emergency Special Enrollment period from March 20 – April 20, 2020. More than 14,000 Coloradans enrolled in health insurance plans during this period.

Connect for Health Colorado's technology improvements made it easier than ever for residents to apply for a health insurance plan and financial help. During the seventh Open Enrollment period, our customers shopped for a 2020 health insurance plan on our new website and used an updated application system. Additionally, the organization successfully transitioned to a new service center contractor and call center technology platform. As part of this transition C4HCO completed the internalization of key service center operations. Both of these changes are expected to result in higher service levels and lower operating costs.

The Finance and Operations Committee, Board of Directors and the Colorado Health Insurance Exchange Oversight Committee provided continuous guidance through the year, reviewing the fiscal year 2021 budget in June 2020. The fiscal year 2021 budget focused on completing the development of the next generation of the Marketplaces technology platform and continued internalization of key operations.

Funding
The primary source of funding for the 2020 fiscal year was administrative fees levied on health plans. The Board sets the administrative fee on an annual basis considering such factors as annual budget requirements, technology and operational reserves, average premiums and enrollment projections. The Board set fee remained at 3.5% of C4HCO generated premiums for plan year 2020 and 2021.

Additional sources of funding came from the reimbursement of Medicaid related costs, premium tax credit donations and grant funding from the Colorado Health Foundation. The grant funding has historically helped support the assistance network. The Colorado Health Foundation grant closed out at the end of Fiscal Year 2020.

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 increased between 2020 and 2019 by $1.1M ($42.0M compared to $40.9M). The main contribution was the increase in long-term assets of $7.5M ($12.8M compared to $5.3M) consisting of the net impact of capital investments of $8.7M offset by $2.4M of depreciation and amortization charges and an increase in long-term prepaids of $1.2M due to the transition of our call center to a new vendor. Capital investments primarily focused on technology enhancements for the platform modernization. The contribution of long-term assets was offset by the use of current assets which decreased by $6.3M ($29.2M compared to $35.5M). This decrease was primarily a use of cash for the investment in capital assets. See the discussion of the Statements of Cash Flows for further information.

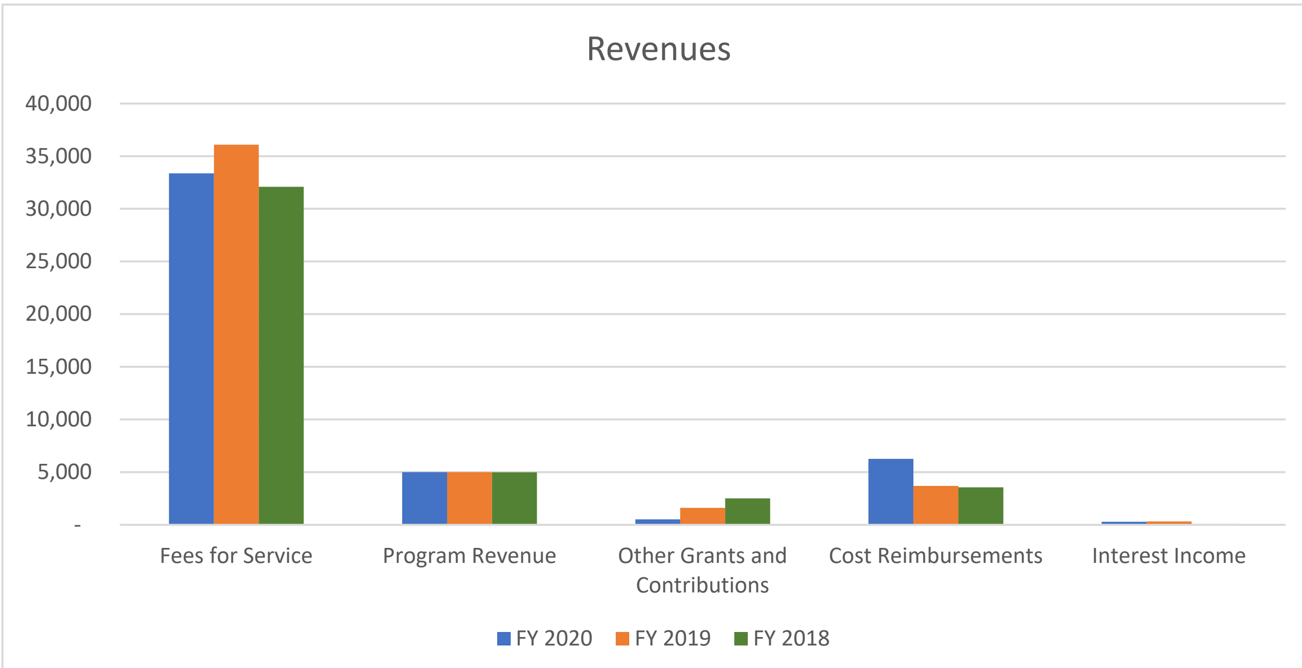
Total assets increased between 2019 and 2018 by $1.3M ($40.9M compared to $39.6M). Contributing to this increase, long-term assets decreased by $2.2M ($5.3M compared to $7.5M) consisting of the net impact of capital investments of $2.8M offset by $4.9M of depreciation and amortization charges. Capital investments primarily focused on technology development and enhancements to the new eligibility system. Contributing to the increase in total assets was the increase in current assets of $3.5M ($35.6M compared to $32.1M). Driving this increase in current assets was an increase in cash balances of $6.3M ($20.2M compared to $13.9M) and a decrease to investments of $3.7M. Further changes in cash are included in the discussion of the Statements of Cash Flows.

The change in liabilities between 2020 and 2019 of $1.7M ($6.9M compared to $5.2M) was impacted by the increase in accounts payable related to contract developers working on the platform modernization project.

The change in liabilities between 2019 and 2018 of $.3M ($5.2M compared to $5.5M) consists primarily of a decrease of $0.6M in accounts payable ($1.9M compared to $2.5M) and an increase in accrued liabilities and payroll of $0.3M ($3.1M compared to $2.8M). The increase in accrued liabilities and payroll was due primarily to costs for maintenance and operations costs associated with the Shared Eligibility System as well as employee benefits. These costs and amounts were still being determined at the end of the fiscal year. The liability for these expenses represents an estimate of probable expenses.

The difference between assets and liabilities represents the net position of C4HCO, and the change in net position over time is one indicator of the C4HCO's improving or declining financial position. The net position decreased by $.6M in fiscal 2020. The net position of the organization increased by $1.6M in fiscal 2019.

Operating Revenues
Total revenues for the fiscal year 2020 decreased by $1.3M or 3% ($45.1M compared to $46.4M) from fiscal year 2019. Total revenues for the fiscal year 2019 increased by $3.2M or 7% ($46.4M compared to $43.2M) from the prior year.



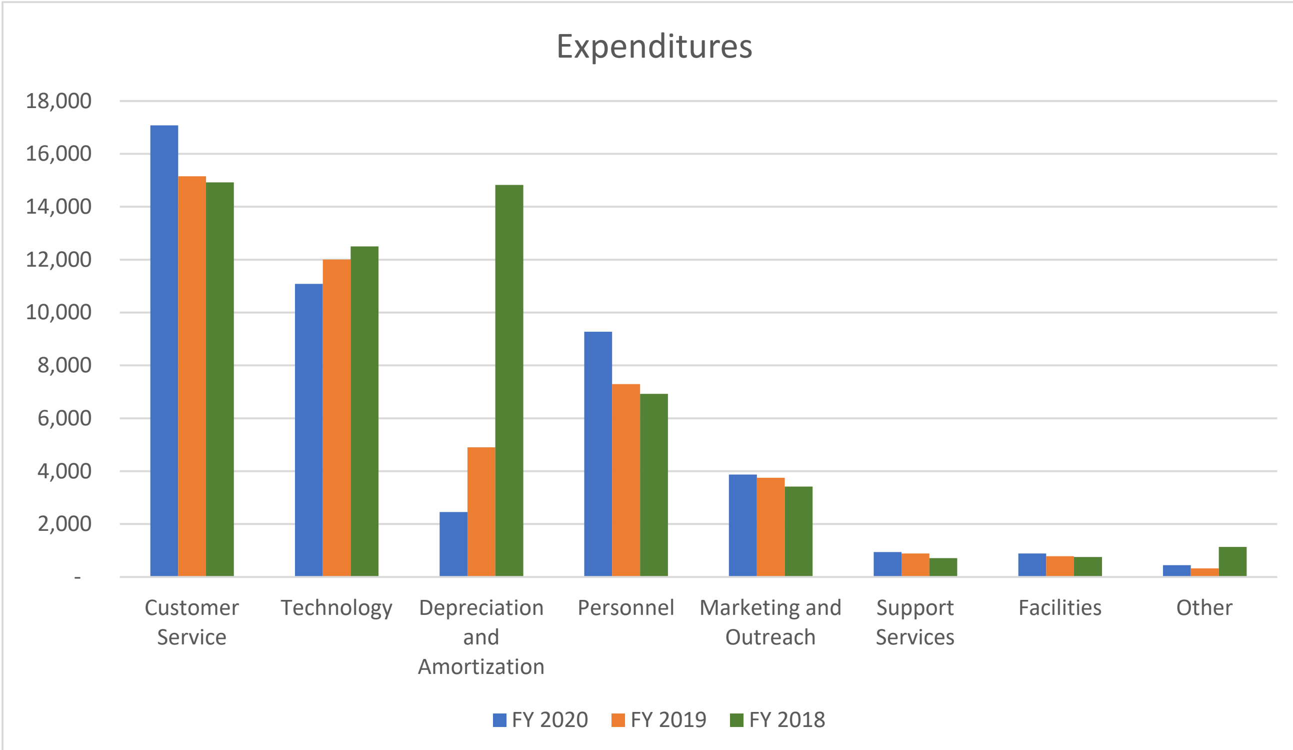
During Fiscal Year 2020, C4HCO generated $11.3M in program revenue consisting of $5.0M in carrier fee tax credits and $6.3M in Medicaid cost reimbursements. During Fiscal Year 2019, C4HCO generated $8.7M in program revenue which consisted of $5.0M from carrier tax credits and Medicaid cost reimbursements of $3.7M. The increase in Medicaid reimbursement of $2.6M was due to the change of the shopping platform with the implementation of the new eligibility system which generated more Medicaid-related work for C4HCO.

The fees for service revenue decreased by $2.7M or 8% ($33.3M compared to $36M) and increased by $4.0M or 12% ($36.1M compared to $32.1M) for fiscal years 2020 and 2019 respectively. The decrease in fees for fiscal year 2020 was due to reinsurance decreasing health insurance premiums beginning January 1, 2020. The fiscal year 2019 increase in fees for service was due to an increase in premiums effectuated through the exchange.

Other revenue included non-federal grants totaling $.5M (2020) and $1.6M (2019), and interest income of $0.3M for fiscal year 2020 and 2019. The reduction in non-federal grants reflects the lower funding from the Colorado Health Foundation. Fiscal year 2020 was the final year for the Colorado Health Foundation grant.

Operating Expenditures

Total expenses for fiscal year 2020 increased by $1.0M or 2% ($46M compared to $45M) from fiscal year 2019. Removing the impact of the change in depreciation and amortization, expenses increased by $3.4M or 8%. Total expenses for fiscal year 2019 decreased by $10.1M or 18% ($45.0M compared to $55.1M) from the prior year. Removing the impact of the change in depreciation and amortization, expenses remained similar to prior year at $40.2M.



Some of the more significant changes in expenditures for fiscal year 2020 included:

- Customer service expenses increase by $1.8M or 12% ($17.0M compared to $15.2M) due to one-time costs associated with transitioning the call center to a new provider. The new provider was fully operational by the fourth quarter of the fiscal year and on-going operating costs were at expected levels.
- Technology expenses decreased by $.9M or 8% ($11.1M compared to $12.0M) due to reducing the use of contractors and bringing more expertise in-house.
- Depreciation and Amortization reduced by $2.4M or 50% ($2.5M compared to $4.9M) due to the new eligibility system having a significantly lower cost than the shared eligibility system it replaced.
- Personnel expenses increase by $2.0M or 27% ($9.3M compared to $7.3M) due to increased head count as C4HCO brings more expertise in house and reduces the reliance on contractors.

Some of the more significant changes in expenditures for fiscal year 2019 included:

- Customer service expenses increased by $0.3M or 2% ($15.2M compared to $14.9M) due primarily to transitioning operations in-house and the learning curve of the new eligibility system.
- Technology expenses decreased by $.5M or 4% ($12.0M compared to $12.5M), primarily due to contract renegotiations that reduced costs.
- Depreciation expense decreased by $9.9M or 67%, which is directly related to a significant portion of capital assets that became fully depreciated in fiscal year 2018. The majority of these assets were related to the shared eligibility system.
- Personnel expenses increased by $0.4M or 5% ($7.3M compared to $6.9M) due to increased head count within the organization.
- Marketing and outreach increased by $0.3M or 10% ($3.7M compared to $3.4M) from the prior year. The increase reflects the organizations decision to expand its outreach coverage.
- Other expenses decreased $0.8M ($.3M compared to $1.3M), primarily due to estimates related to federal audit findings that were recorded in fiscal year 2018. These estimates are subject to change due to ongoing discussion with the related granting agencies

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 decreased by $9.1M or 45% ($11.1M compared to $20.2M) in fiscal year 2020. The primary reason for the decrease was the $8.7M investment in capital assets for the modernization project along with the one-time costs for transition to a new call center operator. Operating cash flow used $.4M of cash compared to generating $5.1M in fiscal year 2019. This decrease of $5.5M is related to a net loss for fiscal year 2020 as well as an increase in prepaids of $2.0M related to the transition of the call center to a new vendor during March of 2020.

Cash balances increased $6.3M or 46% ($20.2M compared to $13.9M) in fiscal year 2019. The primary reason for this increase was the sale of investments totaling $3.7M. Operating cash flow generated $5.1M of cash compared to $3.3M in fiscal year 2018. This improvement can primarily be attributed to higher revenues ($3.6M increase) compared to fiscal year 2018.

Currently Known Facts and Conditions
C4HCO continues to operate in an environment of change and growth. In the shortened 2020 State of Colorado legislative session two potentially impactful bills on C4HCO were passed. The Health Insurance Affordability Act (SB 215) provides ongoing funding for the reinsurance program established in 2019. In addition, the bill provides additional health insurance premium subsidies for purchasers of individual health insurance beyond the subsidies provided through the Affordable Care Act (ACA). The Easy Enrollment bill (HB 1236) was also passed during the session. The bill provided for the use of State Income Tax information to aid uninsured individual's an easier eligibility assessment channel and access to subsidized health insurance plans as part of the income tax filing process.

At the federal level, the ACA continued to face a challenge in the federal courts. Currently the case (California vs Texas) is scheduled to be reviewed by the United States Supreme Court in November 2020. The case, supported by 20 states, challenges the ACA's minimum essential coverage provision and if successful could eliminate all or most of the ACA.

With the constantly changing environment both at the state and federal level, C4HCO remains focused on providing value to our customers and stakeholders. C4HCO is continuing its extensive investment in the next generation of the marketplace technology which will allow for a much higher level of flexibility to adjust to new opportunities and customer needs.

Contacting Colorado Health Benefit's Financial Management
This Management's Discussion and Analysis, the accompanying financial statements, the notes to the financial statements, and the single audit section 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 .

Statement of Net Position

June 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	$ 11,068,950	$ 20,229,675
Investments	4,023,317	3,750,929
Receivables - Net	12,393,711	10,669,682
Prepaid expenses and other assets	1,684,039	863,157
Security deposits	59,712	55,448
Total current assets	29,229,729	35,568,891
Noncurrent assets:		
Capital assets - Net	11,623,007	5,305,031
Long-term portion of prepaid expenses	1,147,675	-
Total noncurrent assets	12,770,682	5,305,031
Total assets	42,000,411	40,873,922
Liabilities		
Current liabilities:		
Accounts payable	4,062,351	1,849,979
Accrued liabilities and other:		
Accrued salaries and wages	817,623	541,431
Accrued liabilities	1,865,533	2,540,580
Deferred rent	42,852	54,659
Total current liabilities	6,788,359	4,986,649
Long-Term portion of deferred rent	134,108	165,388
Total liabilities	6,922,467	5,152,037
Net Position		
Net investment in capital assets	11,623,007	5,305,031
Unrestricted	23,454,937	30,416,854
Total net position	**$ 35,077,944**	**$ 35,721,885**

Colorado Health Benefit Exchange d/b/a Connect for Health Colorado

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2020 and 2019

	2020	2019
Operating Revenue		
Grants and contributions	$ 500,000	$ 1,300,000
Program revenue	11,249,853	8,690,289
Fees for service	33,368,356	36,084,356
Other revenue	3,220	304,496
Total operating revenue	45,121,429	46,379,141
Operating Expenses		
Customer service	17,080,382	15,153,559
Technology	11,083,892	12,001,518
Personnel	9,275,420	7,294,058
Marketing and outreach	3,873,686	3,751,147
Depreciation and amortization	2,455,293	4,901,913
Support services	943,819	884,317
Facilities	885,956	781,658
Other	445,404	324,885
Total operating expenses	46,043,852	45,093,055
Operating (Loss) Income	(922,423)	1,286,086
Nonoperating Revenue - Investment income	278,482	314,481
Change in Net Position	(643,941)	1,600,567
Net Position - Beginning of year	35,721,885	34,121,318
Net Position - End of year	**$ 35,077,944**	**$ 35,721,885**

See notes to financial statements.

Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Grants and contributions received	$ 500,000	$ 1,300,000
Other operating revenue received	42,897,400	44,109,280
Payments to vendors for materials and services	(31,314,008)	(33,144,411)
Payments to employees for wages, taxes, and benefits	(12,472,026)	(7,131,596)
Net cash and cash equivalents (used in) provided by operating activities	(388,634)	5,133,273
Cash Flows Used in Financing Activities - Purchase of capital assets	(8,773,269)	(2,816,768)
Cash Flows from Investing Activities		
Interest received on investments	251,178	304,737
Purchases of investment securities	(8,000,000)	(3,750,000)
Proceeds from sale and maturities of investment securities	7,750,000	7,500,000
Net cash and cash equivalents provided by investing activities	1,178	4,054,737
Net (Decrease) Increase in Cash and Cash Equivalents	(9,160,725)	6,371,242
Cash and Cash Equivalents - Beginning of year	20,229,675	13,858,433
Cash and Cash Equivalents - End of year	**$ 11,068,950**	**$ 20,229,675**
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	$ (922,423)	$ 1,286,086
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation and amortization	2,455,293	4,901,913
Provision for doubtful accounts	171,804	(98,258)
Amortization of deferred rent	132,573	51,150
Changes in assets and liabilities:		
Receivables	(1,895,833)	(871,603)
Prepaid and other assets	(1,968,557)	230,441
Accounts payable	2,212,372	(664,634)
Accrued and other liabilities	(573,863)	298,178
Total adjustments	533,789	3,847,187
Net cash and cash equivalents (used in) provided by operating activities	**$ (388,634)**	**$ 5,133,273**

See notes to financial statements.

Note 1 - Nature of Business

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's design, development, and implementation phases. This funding began in 2011 and ended on 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.

Note 2 - Significant Accounting Policies

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, revenue is recognized when earned, and expenses are recognized when incurred. The Exchange has adopted the pronouncements of the Governmental Accounting Standards Board (GASB).

Cash Equivalents

The Exchange considers all investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

The Exchange reports investments at fair value. The Exchange's management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable.

The Exchange's investment policy allows for investments in U.S. Treasury and instrumentality obligations, money market funds, bank certificates of deposit, repurchase agreements, and nongovernmental bonds. As a means of limiting its exposure to investment losses from changing interest rates, the Exchange's investment policy limits investment maturities to less than five years.

Accounts Receivable

An allowance for doubtful accounts is established based on a specific assessment of accounts receivable collectibility. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance for doubtful accounts on accounts receivable balances was $258,840 and $87,036 as of June 30, 2020 and 2019, respectively.

Capital Assets

Property and equipment are recorded at cost. The straight-line method is used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives ranging from three to seven years. Costs of maintenance and repairs are charged to expense when incurred.

Note 2 - Significant Accounting Policies (Continued)

Net Position

Net position of the Exchange is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of proprietary funds is charges to customers for sales or services. Operating expenses for these funds include the cost of sales or services, administrative expenses, and may include depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Grant Revenue

The Exchange receives federal, state, and local grants, as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Concentrations of Credit Risk

Financial instruments that potentially subject the Exchange to concentrations of credit risk consist of cash and cash equivalents, investments, and accounts 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 percent of the aggregate public deposits not incurred by federal depository insurance. Eligible collateral includes municipal bonds, U.S. government securities, mortgages, and deeds of trust. The Exchange's investments are fully covered by federal depository insurance.

Accounts receivable mainly consist of amounts due from carriers for fees assessed. Also included in accounts receivable are amounts due under the Medicaid cost reimbursement agreement. Credit risk associated with accounts receivable is limited due to the number and creditworthiness of the carriers. However, the Exchange is subject to the risk of loss from the amounts due under Medicaid cost reimbursement agreements if it is determined that certain amounts are unallowable reimbursements.

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 of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Significant Accounting Policies (Continued)

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.

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, Fiduciary Activities. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The provisions of this statement were originally effective for the Exchange's financial statements for the year ending June 30, 2020 but were extended to June 30, 2021 with the issuance of the GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*. The Exchange is currently evaluating the impact this standard will have on the financial statements when adopted.

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The provisions of this statement were originally effective for The Exchange's financial statements for the year ending June 30, 2021 but were extended to June 30, 2022 with the issuance of the GASB Statement 95, *Postponement of the Effective Date of Certain Authoritative Guidance.* The Exchange is currently evaluating the impact this standard will have on the financial statements when adopted..

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This statement addresses eight unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The provisions of this statement were originally effective for the Exchange's financial statements for the year ending June 30, 2021 but were extended to June 30, 2022 with the issuance of the GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*. The Exchange does not believe this pronouncement will have a significant impact on its financial statements but is still making a full evaluation.

In May 2020, the Governmental Accounting Standards Board issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which defines SBITAs and provides accounting and financial reporting for SBITAs by governments. This statement requires a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITAs. The Exchange is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Exchange's financial statements for the year ending June 30, 2023.

Note 2 - Significant Accounting Policies (Continued)

In June 2020, the Governmental Accounting Standards Board issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 should be considered a pension plan or an other employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The Exchange is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement related to 457 plans are effective for the Exchange's financial statements for the year ending June 30, 2022.

Note 3 - Change in Economic Environment

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. Management has responded by delaying the payment of Payroll taxes under the CARES Act. In addition, the Exchange had a Special Enrollment period from Mid-March to the end of April 2020, which allowed additional uninsured Coloradoans to obtain health coverage. The full impact is uncertain and may have an adverse impact on the Exchange's cash flows and financial condition.

Note 4 - Deposits and Investments

Investments are stated at their estimated fair values and consist of bank certificates of deposit in increments of $250,000, with interest rates ranging from 2.35 percent to 2.40 percent that mature in one year or less. These investments have a value of $4,023,317 at June 30, 2020 and $3,750,929 at June 30, 2019. The Exchange also holds money market funds, which are valued at cost plus accrued interest, which approximates fair value. These funds total $3,851,781 and $3,946,601 at June 30, 2020 and 2019, respectively, and are included in cash and cash equivalents in the statements of net position.

Fair Value Measurements

The Exchange categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Exchange's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Note 5 - Capital Assets

Capital asset activity of the Exchange was as follows:

	Balance July 1, 2019	Additions	Disposals and Adjustments	Balance June 30, 2020
Capital assets being depreciated:				
Web portal development	$ 39,503,532	$ -	$ -	$ 39,503,532
Software	23,361,981	8,488,448	-	31,850,429
Furniture and fixtures	1,088,081	147,582	-	1,235,663
Buildings and improvements	1,916,058	97,248	-	2,013,306
Machinery and equipment	1,031,036	39,991	-	1,071,027
Subtotal	66,900,688	8,773,269	-	75,673,957
Accumulated depreciation	61,595,657	2,455,293	-	64,050,950
Net capital assets being depreciated	$ 5,305,031	$ 6,317,976	$ -	$ 11,623,007

	Balance July 1, 2018	Additions	Disposals and Adjustments	Balance June 30, 2019
Capital assets being depreciated:				
Web portal development	$ 39,503,532	$ -	$ -	$ 39,503,532
Software	20,701,196	2,660,785	-	23,361,981
Leasehold improvements	1,916,058	-	-	1,916,058
Office equipment	1,008,871	22,165	-	1,031,036
Furniture and fixtures	954,263	133,818	-	1,088,081
Subtotal	64,083,920	2,816,768	-	66,900,688
Accumulated depreciation	56,693,744	4,901,913	-	61,595,657
Net capital assets being depreciated	$ 7,390,176	$ (2,085,145)	$ -	$ 5,305,031

Note 6 - Program Revenue

House Bill 13-1245

On May 6, 2013, the State of Colorado General Assembly passed House Bill 13-1245, which outlined funding mechanisms to support the Exchange in the short and long term. Specifically, the House Bill allowed for three components of the Exchange's revenue. First, it allowed for a fee to be placed on insurance carriers, through December 2016, which was not allowed to exceed $1.80 per number of lives insured per month. The Exchange assessed a fee of $1.80 per number of lives insured per month, beginning on January 1, 2016 through the expiration of the option on December 31, 2016. Second, the House Bill allowed for a portion of reserves collected from the closing of CoverColorado to be transferred to the Exchange to fund operations, which were fully received in a previous year. Lastly, any deductible donations made by insurance carriers, which have been directed to CoverColorado in the past, are now pledged to the Exchange. Revenue recognized under House Bill 13-1245 totaled $5,000,000 and $5,000,000 for the years ended June 30, 2020 and 2019, respectively, and is included in program revenue in the statement of revenue, expenses, and changes in net position.

Note 6 - Program Revenue (Continued)

Medicaid Cost Reimbursement

Beginning during the year ended June 30, 2018, 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 expense are incurred, and is included in program revenue in the statement of revenue, expenses, and changes in net position. For the years ended June 30, 2020 and 2019, reimbursable expenses totaled $6,249,853 and $3,690,289, respectively, and have been recognized as program revenue.

Carrier Fee Revenue

Through the Exchange's website, individuals can choose to purchase health insurance policies from various carriers. The Exchange charges carriers who sell plans on the website a 3.5 percent fee on every policy sold. Fees are calculated monthly based on information submitted by the carriers to the Centers for Medicare & Medicaid Services (CMS). Individual premiums are paid directly to the carriers by the individuals. Carrier fee revenue was $33,368,356 and $36,084,356 for the years ended June 30, 2020 and 2019, respectively.

Note 7 - Operating Leases

The Exchange is obligated under operating leases primarily for office space and equipment, expiring at various dates through August 2023. The leases require the Exchange to pay taxes, insurance, utilities, and maintenance costs. Total rent expense for office space under these leases was $720,759 and $660,545 for June 30, 2020 and 2019, respectively. Total rent expense for office equipment leases for the years ended June 30, 2020 and 2019 was $120,431 and $63,408, respectively.

Future minimum annual commitments under these operating leases are as follows:

Years Ending June 30	Amount
2021	$ 752,888
2022	736,991
2023	689,178
2024	109,719
Total	$ 2,288,776

Note 8 - Retirement Plan

The Exchange established a retirement plan under Section 403(b) of the Internal Revenue Service Code that is available to its employees and may be amended by the board of directors. The Exchange contributes 5 percent of employee salaries for eligible employees. In addition, the Exchange matches 100 percent of the employee's elective deferral amount that does not exceed 5 percent of the employee's total compensation. Employees are 100 percent vested in their account balance after one year of service. Total employer contributions under this plan for the Exchange were $843,148 for the year ended June 30, 2020 and $601,113 for the year ended June 30, 2019. Forfeitures were not material to the plan.

Note 9 - Contingency

The Exchange is a recipient of federal and state awards, which are subject to audits to determine compliance with applicable regulations. In July 2018, the Exchange received an audit report from the OIG recommending the repayment of $2,567,604 in questioned federal expenditures from 2012 to 2016. The Exchange has responded to the findings with federal officials and believes there is sufficient evidence to support the allowance of $2,104,550 of the questioned costs that were identified. Management believes it is only reasonably possible that a loss has occurred for this portion of the questioned costs and, therefore, a liability has not been recognized for this portion of the questioned costs as of June 30, 2019. However, the Exchange believes it is probable that $463,054 of the costs will have to be refunded, and, as a result, a liability has been recognized as of June 30, 2020 and 2019.