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

Financial Report
with Supplemental Information
June 30, 2019

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 year ended June 30, 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 audit. We conducted our audit 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 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, 2019 and the changes in its financial position and its cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Prior Year Financial Statements

The basic financial statements of Colorado Health Benefit Exchange d/b/a Connect for Health Colorado as of and for the year ended June 30, 2018 were audited by a predecessor auditor, which expressed an unmodified opinion on the basic financial statements. The predecessor auditor's report was dated October 22, 2018.

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

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 20, 2019 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 20, 2019

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.

The sixth open enrollment period was a successful one for C4HCO. Toward the goal of maximizing the number of consumers who shop and enroll through the Marketplace, C4HCO created a new application process, added ways of connecting with the customer service department and added a specific team to handle the complicated enrollment questions for mixed eligibility households. C4HCO's success showed in decreased wait times around enrollment deadlines and in the reduced need for in-line extensions.

Across the state, Coloradan's continued to maintain insurance coverage through C4HCO in 2019, with residents from every county in the state signing up for medical coverage through the Marketplace. The largest increases in 2019 medical enrollments were in rural counties. Overall, enrollments increased by 3 percent over the previous open enrollment period. For the 2018 plan year, C4HCO helped return $616 million to Coloradans through Advance Premium Tax Credits (APTCs). Seventy six percent of our customers in 2019 received this valuable financial assistance, an increase from sixty nine percent in 2018.

With regard to the goal of improving the customer experience, C4HCO took on a significant technology initiative by financing and designing a new application in 2018 to jointly determine eligibility for Qualified Health Plans (QHPs) and APTCs. This application provided a faster, more streamlined enrollment experience with a shorter and easier application for customers. The application also continued to support the "No Wrong Door" approach that enables customers to get the same eligibility and financial help information, regardless of whether they use the state's PEAK system or C4HCO's eligibility system. The enhanced technology allowed for better control of IT costs, quick problem resolution and rapid upgrades that will help the organization be flexible and responsive to future changes.

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 2020 budget in June 2019. The fiscal year 2020 budget focused on building the staff infrastructure needed to internalize key operating functions along with the development of the next generation of the Marketplaces technology platform and service center infrastructure.

Funding
The primary source of funding for the 2019 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 2019 and 2020.

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 will be 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 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.

Total assets decreased between 2018 and 2017 by $11.4M ($39.6M compared to $51.0M). The main contribution was the decrease in long-term assets of $11.2M ($7.5M compared to $18.7M) consisting of the net impact of capital investments of $3.3M offset by $14.5M of depreciation and amortization charges. Capital investments primarily focused on technology enhancements to the exchange software and integration with the States eligibility system.

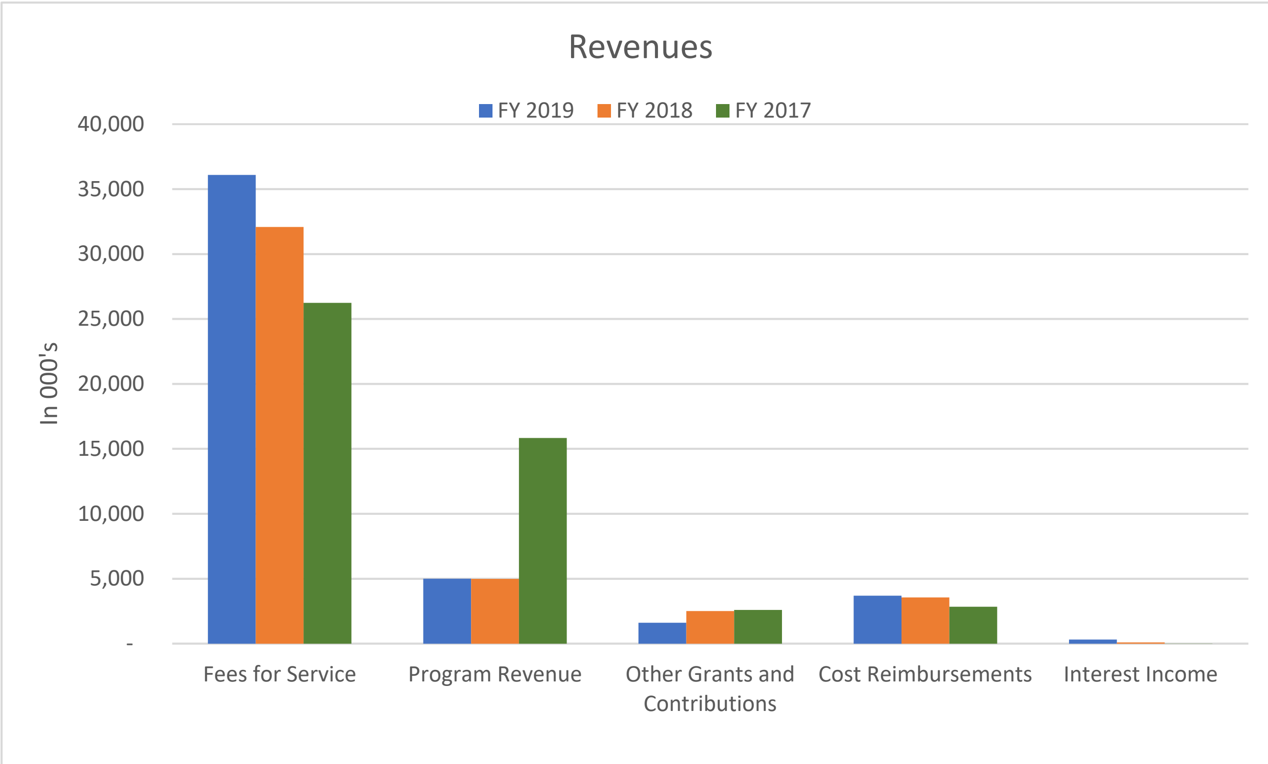
The change in liabilities between 2019 and 2018 of $.3M ($5.2M compared to $5.5M) consists primarily of a decrease of $0.6M in accounts payable ($1.9M compared to $2.5M) and an increase in accrued liabilities and payroll of $0.3M ($3.1M compared to $2.8M). The increase in accrued liabilities and payroll 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 change in liabilities between 2018 and 2017 of $0.6M ($5.5M compared to $4.9M) was impacted by the increase in accrued liabilities due primarily to costs for security improvements, maintenance and operations costs associated with the Shared Eligibility System as well as amounts related to findings from federal audits.

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 of the organization increased by $1.6M in fiscal 2019. The change in net position is higher ($3.7M) when the impact of capital investments netted for depreciation and amortization expense ($2.1M) is taken into account. The net position of the organization decreased by $12.0M in fiscal 2018. The change in net position is nearly breakeven ($0.4M) when the impact of capital investments netted for depreciation and amortization expense is taken into account.

Operating Revenues

Total revenues for the fiscal year 2019 increased by $3.5M or 8% ($46.7M compared to $43.2M) from the prior year. Total revenues for the fiscal year 2018 decreased by $4.3M or 9% ($43.2M compared to $47.5M) from fiscal year 2017.



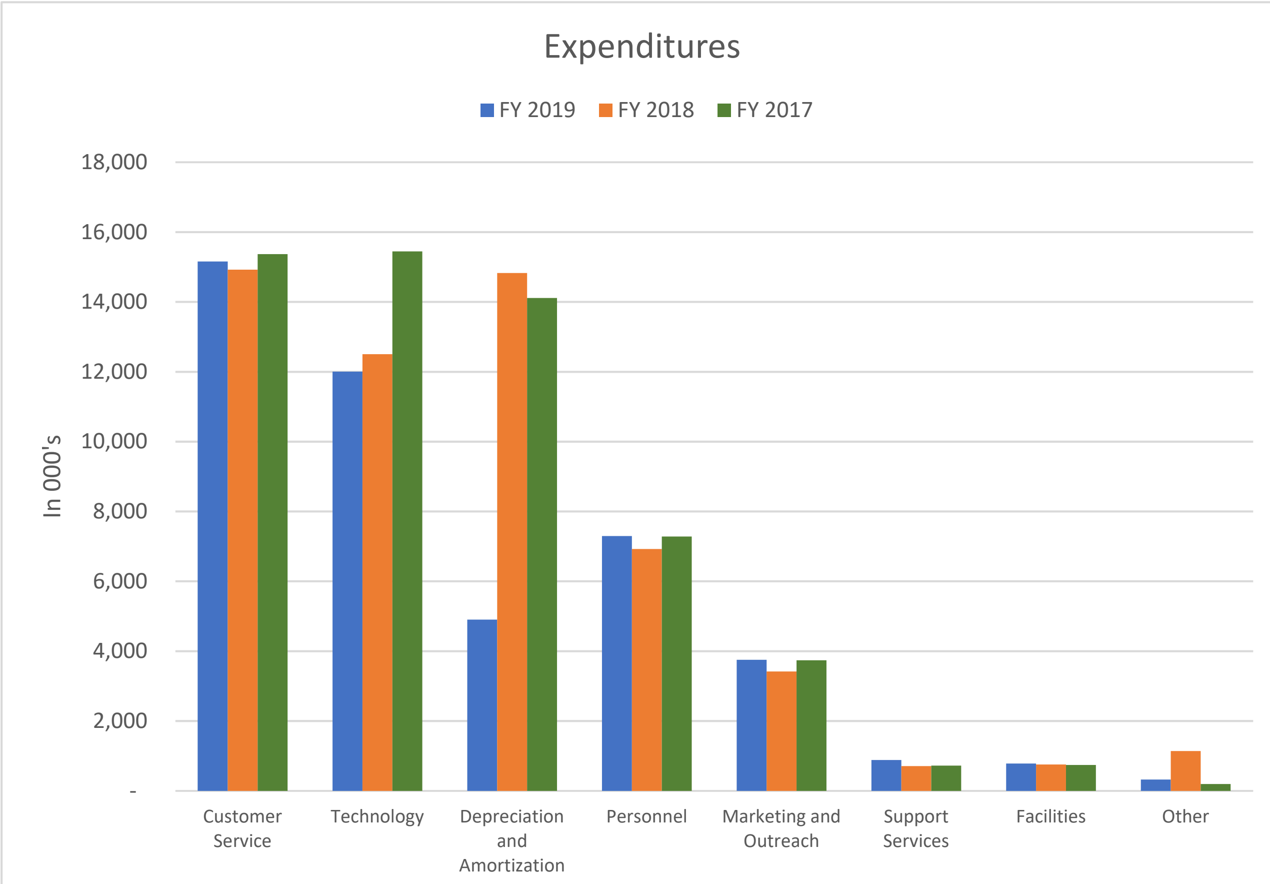
During Fiscal Year 2019, C4HCO generated $8.7M in program revenue which consisted of $5.0M from carrier tax credits and Medicaid cost reimbursements of $3.7M. In the prior fiscal year, C4HCO generated $8.5M in program revenue which consisted of $5.0M from carrier tax credits and Medicaid cost reimbursements of $3.5M. The special fee assessment was discontinued at December 31, 2016 so decreased to zero from $10.8M.

The fees for service revenue increased by $4.0M or 12% ($36.1M compared to $32.1M) and increased by $5.9M or 22% ($32.1M compared to $26.2M) for fiscal years 2019 and 2018 respectively. The increase in fees for service were due to an increase in premiums effectuated through the exchange.

Other revenue included non-federal grants totaling $1.6M (2019) and $2.5M (2018), and interest income of $0.3M (2019) and $89,000 (2018). The reduction in non-federal grants reflects the lower funding from the Colorado Health Foundation.

Operating Expenditures

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. Total expenses for the fiscal year 2018 decreased by $2.4M or 4% ($55.2M compared to $57.6M) from the prior year. Removing the impact of the change in depreciation and amortization, expenses decreased by $3.1M, or 7%, from the prior year



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 $1.0M ($.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

Some of the more significant changes in expenditures for fiscal year 2018 included:

- Customer service expenses decreased by $0.5M or 3% ($14.9M compared to $15.4M) due primarily to operational and technology improvements that resulted in reduced call volumes.

- Technology expenses decreased by $2.9M or 19% ($12.5M compared to $15.4M), primarily due to contract renegotiations that reduced costs and one-time security remediation costs for the Shared Eligibility System recorded in FY2017.
- Depreciation expense increased by $0.7M or 5%, which is directly related to capital assets placed in service from inception-to-date.
- Personnel expenses decreased by $0.4M or 5% ($6.9M compared to $7.3M).
- Marketing and outreach decreased by $0.3M or 9% ($3.4M compared to $3.7M) from the prior year. The decrease reflects the decreased use of contractors by increasing personnel within this area.
- Other expenses increased $0.9M ($1.1M compared to $0.2M), primarily due to estimates related to federal audit findings.

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 $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 $5.4M 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.

Cash balances decreased by $7.8M or 36% ($13.9M compared to $21.7M) in fiscal year 2018. The primary reason for the decrease was the purchase of investments totaling $7.5M. The investments consist entirely of certificates of deposit. As reflected in the statements of cash flows, $3.3M of cash was generated by operating activities during the year compared to $10.8M generated by operating activities in the prior year. This change was primarily the result of a higher than normal level of receivables at the end of the 2016 fiscal year that were collected in 2017 due to the close out of the broad market fee and the delay in the initial Medicaid cost reimbursements.

Currently Known Facts and Conditions
C4HCO continues to operate in an environment of change and growth. In the 2019 State of Colorado legislative session two potentially impactful bills on C4HCO were passed. A bill that provides reinsurance payments to health insurers in the individual market to aid in paying high-cost insurance claims and a bill to proceed with the development of a proposal concerning the design, costs, benefits, and implementation of a state option for health care coverage. The reinsurance bill impacted the 2020 rates resulting in premiums decreasing between 15% to 20% for Denver metro area counties and close to 30% in some rural counties. The public option proposal is currently undergoing public input and will have no immediate impact on C4HCO.

At the federal level, the Affordable Care Act's (ACA) individual mandate was repealed as part of the tax reform legislation passed in December 2017. Also, as a result of the elimination of the federal funding of cost sharing reduction's (CSR) in 2017, adjustments were made to silver plan premiums for the 2019 plan year to fill the funding void. These two actions had an impact on the rates and enrollments for the 2019 plan year. The net impact of these federal changes on C4HCO's revenues are reflected in the fiscal year 2019 revenues. Finally, the ACA is currently being challenged in the Fifth Circuit Court of Appeals with a ruling expected before the end of 2019.

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. In addition, C4HCO is in the process of implementing a new service center infrastructure that will deliver a high level of customer support more efficiently. As part of our ongoing cost reduction goals, both of these investments are expected to reduce the overall operating costs of the organization in future years.

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, 2019 and 2018

		2019		2018
Assets				
Current assets:				
Cash and cash equivalents	$	20,229,675	$	13,858,433
Investments		3,750,929		7,491,185
Receivables - net		10,669,682		9,699,821
Prepaid expenses and other assets:				
Prepaid expenses		863,157		1,067,341
Security deposits		55,448		55,448
Total current assets		35,568,891		32,172,228
Noncurrent assets:				
Capital assets - net		5,305,031		7,390,176
Long-term portion of prepaid expenses		-		26,257
Total noncurrent assets		5,305,031		7,416,433
Total assets		40,873,922		39,588,661
Liabilities				
Current liabilities:				
Accounts payable		1,849,979		2,514,613
Accrued liabilities and other:				
Accrued salaries and wages		541,431		378,969
Accrued liabilities		2,540,580		2,404,864
Deferred rent		54,659		-
Total current liabilities		4,986,649		5,298,446
Long-term portion of deferred rent		165,388		168,897
Total liabilities		5,152,037		5,467,343
Net Position				
Net investment in capital assets		5,305,031		7,390,176
Restricted		-		347,222
Unrestricted		30,416,854		26,383,920
Total net position	**$**	**35,721,885**	**$**	**34,121,318**

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenue		
Grants and contributions	$ 1,300,000	$ 2,500,000
Program revenue	8,690,289	8,533,443
Fees for service	36,084,356	32,082,713
Other revenue	304,496	1,163
Total operating revenue	46,379,141	43,117,319
Operating Expenses		
Customer service	15,153,559	14,922,562
Depreciation and amortization	4,901,913	14,825,558
Technology	12,001,518	12,501,636
Personnel	7,294,058	6,923,821
Marketing and outreach	3,402,916	3,416,669
Other	324,885	1,137,439
Facilities	1,129,889	753,441
Support services	884,317	708,814
Total operating expenses	45,093,055	55,189,940
Nonoperating Revenue - Investment income	314,481	88,780
Change in Net Position	1,600,567	(11,983,841)
Net Position - Beginning of year	34,121,318	46,105,159
Net Position - End of year	**$ 35,721,885**	**$ 34,121,318**

Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Grants and contributions received	$ 1,300,000	$ 2,500,000
Other operating revenue received	44,109,280	39,686,734
Payments to vendors for materials and services	(33,144,411)	(32,134,566)
Payments to employees for wages, taxes, and benefits	(7,131,596)	(6,881,068)
Net cash and cash equivalents provided by operating activities	5,133,273	3,171,100
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(2,816,768)	(3,579,772)
Net cash and cash equivalents used in capital and related financing activities	(2,816,768)	(3,579,772)
Cash Flows from Investing Activities		
Interest received on investments	304,737	97,595
Purchases of investment securities	(3,750,000)	(7,500,000)
Proceeds from sale and maturities of investment securities	7,500,000	-
Net cash and cash equivalents provided by (used in) investing activities	4,054,737	(7,402,405)
Net Increase (Decrease) in Cash and Cash Equivalents	6,371,242	(7,811,077)
Cash and Cash Equivalents - Beginning of year	13,858,433	21,669,510
Cash and Cash Equivalents - End of year	**$ 20,229,675**	**$ 13,858,433**
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income (loss)	$ 1,286,086	$ (12,072,621)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	4,901,913	14,825,558
Provision for doubtful accounts	(98,258)	140,769
Amortization of deferred rent	51,150	119,411
Changes in assets and liabilities:		
Receivables	(871,603)	(1,212,123)
Prepaid and other assets	230,441	963,273
Security deposits	-	(27,839)
Accrued and other liabilities	(366,456)	434,672
Total adjustments	3,847,187	15,243,721
Net cash and cash equivalents provided by operating activities	**$ 5,133,273**	**$ 3,171,100**

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 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, revenues are 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 non-governmental 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 $87,036 and $185,294 as of June 30, 2019 and 2018, 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 are 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 which 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% 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 consists 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 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, 2020.

In June 2017, the Governmental Accounting Standards Board issued GASB 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 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, 2021.

Note 3 - 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% to 2.40% that mature in one year or less. These investments have a value of $3,750,929 at June 30, 2019 and $7,491,185 at June 30, 2018. The Exchange also holds money market funds, which are valued at cost plus accrued interest, which approximates fair value. These funds total $3,946,601 and $49,979 at June 30, 2019 and 2018, 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 4 - Capital Assets

Capital asset activity of the Exchange was as follows:

Note 4 - Capital Assets (Continued)

	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

	Balance July 1, 2017	Additions	Disposals and Adjustments	Balance June 30, 2018
Capital assets being depreciated:				
Web portal development	$ 38,052,299	$ 1,451,233	$ -	$ 39,503,532
Software	18,885,390	1,815,806	-	20,701,196
Leasehold improvements	1,943,642	97,851	(125,435)	1,916,058
Office equipment	1,117,696	-	(108,825)	1,008,871
Furniture and fixtures	833,776	214,882	(94,395)	954,263
Subtotal	60,832,803	3,579,772	(328,655)	64,083,920
Accumulated depreciation	42,196,841	14,825,558	(328,655)	56,693,744
Net capital assets being depreciated	$ 18,635,962	$ (11,245,786)	$ -	$ 7,390,176

Note 5 - Program Revenue

House Bill 13-1245

On May 6, 2013, the State of Colorado General Assembly passed House Bill 13-245, which outlined funding mechanisms to support the Exchange in the short and long terms. 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 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. Revenues recognized under House Bill 13-1245 totaled $5,000,000 and $4,976,989 for the years ended June 30, 2019 and 2018, respectively, and are included in program revenue in the statements of revenues, expenses, and changes in net position.

Medicaid Cost Reimbursement

Note 5 - Program Revenue (Continued)

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 expense are incurred, and is included in program revenue in the statements of revenues, expenses, and changes in net position. For the years ended June 30, 2019 and 2018, reimbursable expenses totaled $3,690,289 and $3,556,454, 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% fee on every policy sold. Fees are calculated monthly based on information submitted by the carriers to the Centers for Medicare and Medicaid Services (CMS). Individual premiums are paid directly to the carriers by the individuals. Carrier fee revenue was $36,084,356 and $32,082,713 for the years ended June 30, 2019 and 2018, respectively.

Note 6 - 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 were $660,545 and $648,257 for June 30, 2019 and 2018, respectively. Total rent expense for office equipment leases for the years ended June 30, 2019 and 2018 were $63,408 and $44,766, respectively.

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

Years Ending June 30	Amount
2020	$ 598,153
2021	588,323
2022	568,985
2023	575,824
2024	94,650
Total	$ 2,425,935

Note 7 - 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% 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 $601,113 for the year ended June 30, 2019 and $528,435 for the year ended June 30, 2018. Forfeitures were not material to the plan.

Note 8 - 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, 2019.