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

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**Financial Report  
with Supplemental Information  
June 30, 2022**

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Draft

## Independent Auditor's Report

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

### Report on the Audit of the Financial Statements

#### **Opinions**

We have audited the 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, 2022 and 2021 and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Exchange as of June 30, 2022 and 2021 and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Exchange and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Emphasis of Matter**

As discussed in Note 2 to the financial statements, the Exchange adopted new accounting guidance of Governmental Accounting Standards Board Statement No. 87, *Leases*, on a retrospective basis. Our opinion is not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Exchange's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Exchange's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Exchange's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 is the responsibility of management and, 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 14, 2022 on our consideration of the Exchange's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Exchange's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exchange's internal control over financial reporting and compliance.

November 14, 2022

## 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.

Connect for Health Colorado's Board of Directors set four strategic goals to further our mission to increase access, affordability and choice for individuals, families and small employers purchasing health insurance in Colorado. Here's how the organization worked toward those goals in fiscal year 2022.

**Advocate to improve access to coverage in rural areas of Colorado.** C4HCO partnered with hospitals in rural and frontier areas of Colorado to increase access to expert help at their source of care. We offered assistance at 44 Enrollment Center locations statewide, with 19 of those locations in rural Colorado. Virtual enrollment options continued to be a critical tool for rural communities by reducing travel time and making appointments more accessible. On the policy front, we participated in the Colorado Rural Health Center's annual conference and held a special rural health panel at our CoverCO conference to highlight the struggles of access to care with partners across the state. We also added a position on our Community Engagement and Outreach Team to develop and strengthen relationships in Southern Colorado.

**Maximize the number of consumers and employers who shop and enroll through the health insurance marketplace and apply for available financial assistance.** C4HCO saw nearly 200,000 Coloradans sign up for a medical plan during the Open Enrollment Period that ran from Nov. 1, 2021, to Jan. 15, 2022, a 10% increase compared to the prior year open enrollment period and the highest enrollment ever achieved during open enrollment. Enacted in March 2021, the American Rescue Plan Act's ("ARP") increased ACA subsidy amounts and expanded eligibility to higher income households made it possible to offer thousands of more customers savings on their health insurance.

**Improve the ability of customers to attain and retain the right coverage for their needs.** C4HCO is the only place where Coloradans can access financial help through the ACA to make monthly premiums and health care costs more affordable. In 2021, Coloradans received \$504,486,792 in federal tax credits through the Marketplace. Nearly three quarters of our customers received this valuable financial assistance. During the Open Enrollment Period, Connect for Health Colorado launched a new state-funded program that provides customers with a certain income and who enroll in a Silver-level plan with richer plan benefits. This program will help customers afford to use their plan and access health care services.

**Ensure that Connect for Health Colorado is a healthy and thriving organization.** C4HCO made great strides in updating our training program and platform, which supports nearly 1,200 certified experts, as well as our internal rewards and recognition program. The Denver Post recognized Connect for Health Colorado as a top workplace of 2021. We also established a software development department, bringing positions inhouse instead of on contract. This growth continues to save on costs and creates greater capacity and flexibility to deliver on priority projects in 2022 and beyond.

The organization was instrumental in implementing two new pieces of state legislation during the fiscal year. The Health Insurance Affordability Act (SB 215), that provided additional healthcare discounts beyond the ACA cost sharing reductions and the Easy Enrollment bill (HB 1236) that provides for the use of State Income Tax information to aid uninsured individual's an easier eligibility assessment channel.

The Finance and Operations Committee and Board of Directors provided continuous guidance through the year, reviewing and approving the fiscal year 2023 budget in June 2022. The fiscal year 2023 budget focused on the completion of the modernization of the technology platform and addressing the

requirements placed on the organizations subsidiary to provide shopping and enrollment services for individuals not qualified to purchase insurance through the ACA marketplace.

### **Funding**

The primary source of funding for the 2022 fiscal year continued to be 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 2021 and 2022.

Additionally, Federal funding was received to support the changes to the website related to the American Rescue Plan and overall technology platform modernization. Funding was also received from the state to support the implementation of the Health Insurance Affordability Act programs. During the 2022 fiscal year, C4HCO also continued to receive reimbursements of Medicaid related costs and premium tax credit donations.

### **Subsidiary**

The wholly owned Colorado Connect public benefit corporation entered its second year of operations. Significant planning was completed in preparation for starting health plan enrollments in 2023 related to the State's Health Insurance Affordability Enterprise program.

### **Financial Statements**

C4HCO's consolidated 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 Consolidated 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 consolidated financial statements, provide the reader with an overview of the financial position and activities of the organization.

Total assets increased between 2022 and 2021 by \$0.5M (\$43.2M compared to \$42.7M). Contributing to this increase, long-term assets increased by \$1.7M (\$18.6M compared to \$17.6M) consisting of the net impact of capital investments of \$6.9M offset by \$4.2M of depreciation and amortization charges, the net impact of assets under lease of \$0.05M offset by \$0.7M of amortization and a decrease of long-term prepaids of \$0.34M (\$0.06M compared to \$0.4M) due to amortization of upfront call center costs. Capital investments primarily focused on technology development and enhancements for the platform modernization and implementation of state programs as well as changes related to the American Rescue Plan. Contributing to the decrease in total assets was the decrease in current assets of \$1.2M (\$24.6M compared to \$25.1M). Driving this decrease in current assets was the use of cash for the investment in capital assets as well as the decrease in accounts receivable \$2.3M (\$9.1M compared to \$11.4M). The decrease in accounts receivable was related to the timelier receipt of Medicaid cost reimbursement dollars as well as transitioning carrier fee billing from 60 days in arrears to 30 days in arrears. Further changes in cash are included in the discussion of the Consolidated Statements of Cash Flows.

Total assets decreased between 2021 and 2020 by \$0.7M (\$42.7M compared to \$42.0M). Contributing to this decrease, long-term assets increased by \$4.8M (\$17.6M compared to \$12.8M) consisting of the net impact of capital investments of \$6.8M offset by \$3.5M of depreciation and amortization charges, the net impact of Assets under capital lease of \$2.2M offset by \$0.7M of amortization charges and a decrease of long-term prepaids of \$0.8M (\$0.4M compared to \$1.2M) due to amortization of upfront call center costs. Capital investments primarily focused on technology development and enhancements for the platform modernization as well as changes related to the American Rescue Plan. Contributing to the decrease in total assets was the decrease in current assets of \$4.1M (\$25.1M compared to \$29.2M). Driving this decrease in current assets was the use of cash for the investment in capital assets as well as the decrease in accounts receivable \$1.0M (\$11.4M compared to \$12.4M). The decrease in accounts receivable was related to the timelier receipt of Medicaid cost reimbursement dollars as well as the decrease in fee revenue. Further changes in cash are included in the discussion of the Consolidated Statements of Cash Flows.

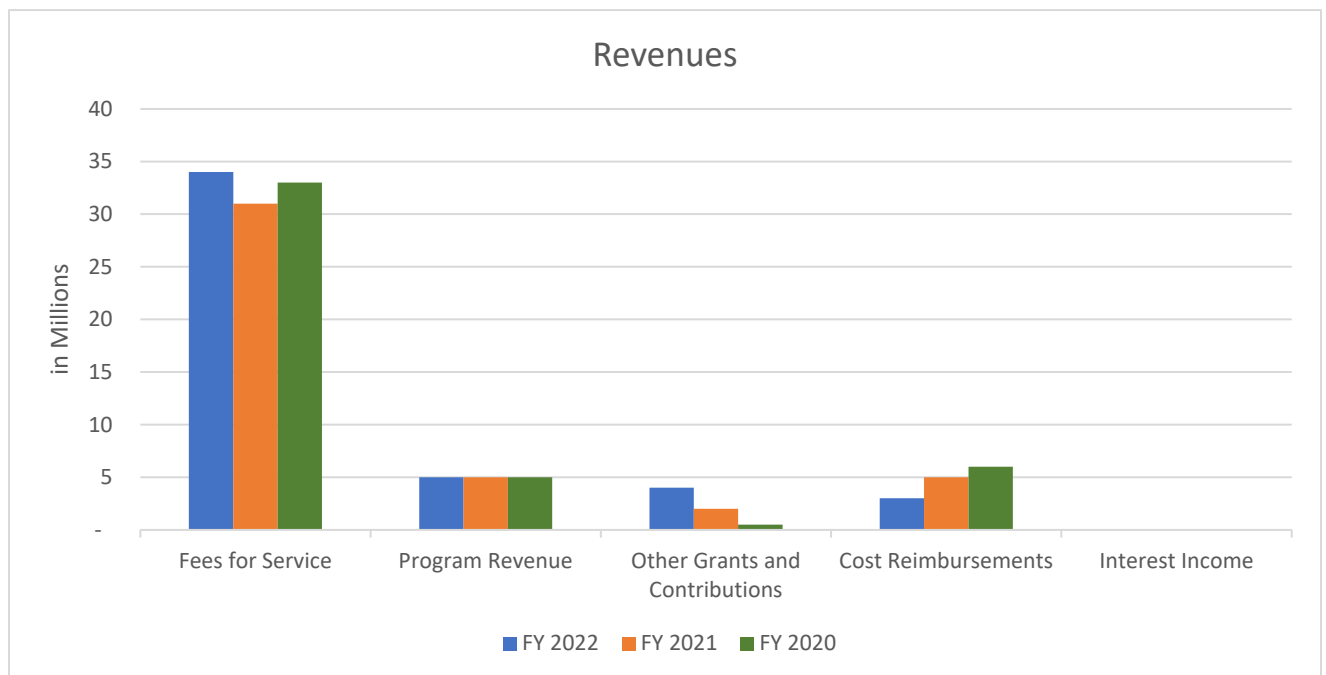
The decrease in liabilities between 2022 and 2021 of \$0.8M (\$6.7M compared to \$7.5M) consists primarily of a decrease of \$.7M in accounts payable (\$2.3M compared to \$3.0M) offset by an increase in accrued liabilities. The decrease in accounts payable was primarily related to the decrease in reliance on contract developers as we increase our employee workforce

The decrease in liabilities between 2021 and 2020 of \$0.6M (\$7.5M compared to \$6.9M) consists primarily of a decrease of \$1.1M in accounts payable (\$3.0M compared to \$4.1M) offset by an increase in accrued payroll. The decrease in accounts payable was primarily related to the decrease in reliance on contract developers as we increase our employee workforce.

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 \$1.4M in fiscal 2022. The net position increased by \$.2M in fiscal 2021.

### Operating Revenues

Total revenues for the fiscal year 2022 increased by \$3.3M or 8% (\$46.0M compared to \$42.7M) from fiscal year 2021. Total revenues for the fiscal year 2021 decreased by \$2.4M or 5% (\$42.7M compared to \$45.1M) from the prior year.



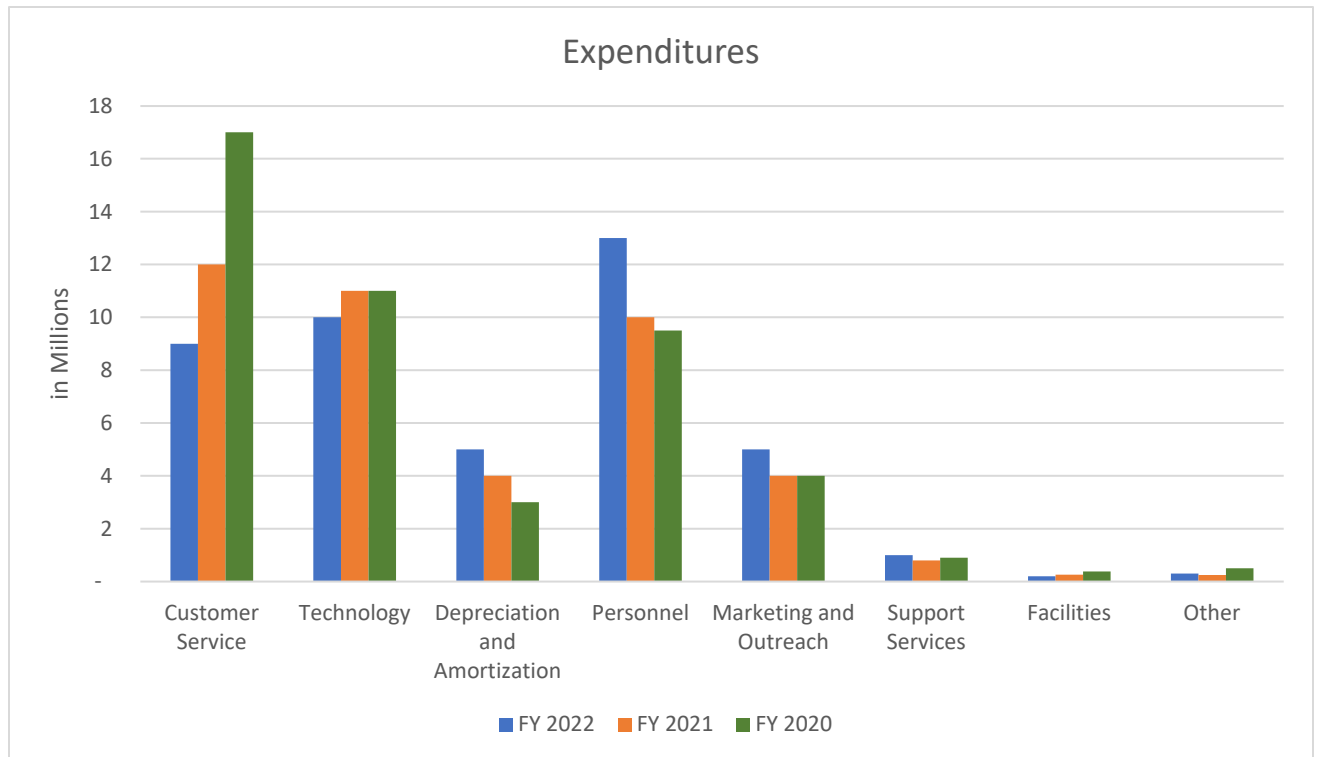
The fees for service revenue increased by \$3.1M or 10% (\$34.0M compared to \$30.9M) and decreased by \$2.4M or 7% (\$30.9M compared to \$33.3M) for fiscal years 2022 and 2021 respectively. The fiscal year 2022 increase was due primarily to the ARP which increased tax credit amounts and eligibility, positively impacting enrollments. The decrease in fees for fiscal year 2021 was due to the impact of reinsurance which decreased insurance premiums paid by customers.

During Fiscal Year 2022, C4HCO generated \$11.9M in program revenue which consisted of \$5.0M from carrier tax credits and Medicaid cost reimbursements of \$3.3M and other federal and state grants totaling \$3.6M. During Fiscal Year 2021, C4HCO generated \$11.7M in program revenue consisting of \$5.0M in carrier fee tax credits, \$5.1M in Medicaid cost reimbursements and other federal grants totaling \$1.6M. The decrease in Medicaid reimbursement of \$1.8M was due to the change in our call center vendor and internal department restructuring which decreased those expenses. The additional federal grant was for changes to the Exchange related to the American Rescue Plan (“ARP”). The state grants were specifically for platform technology work and outreach and marketing efforts to support state legislated programs.

Other revenue consists of interest income of \$0.002M and \$0.05M for fiscal year 2022 and 2021.

### Operating Expenditures

Total expenses for fiscal year 2022 increased by \$2.1M or 5% (\$44.6M compared to \$42.5M) from the prior year. Removing the impact of the change in depreciation and amortization, expenses increased by \$1.4M or 4%. Total expenses for fiscal year 2021 decreased by \$3.5M or 8% (\$42.5M compared to \$46.0M) from fiscal year 2020. Removing the impact of the change in depreciation and amortization, expenses decreased by \$4.6M or 11%.



Some of the more significant changes in expenditures for fiscal year 2022 included:

- Customer service expenses decreased by \$2.5M or 21% (\$9.3M compared to \$11.8M) due to improvements in staffing management and lower call volumes attributable to improvements in the website and expanded outreach and enrollment assistance through our broker and assistor network.



- Technology expenses decreased by \$1.4M or 12% (\$10.1M compared to \$11.5M), primarily due to the insourcing of key staff and the focusing of resources on platform modernization for which costs were capitalized.
- Depreciation expense increased by \$0.7M or 17%, which is directly related to significant work on platform modernization.
- Personnel expenses increased by \$3.2M or 32% (\$13.3M compared to \$10.1M) due to increased head count within the organization as we moved towards insourcing more key staff that were previously contractors, particularly in the technology area.
- Marketing and Outreach increased by \$1.6M or 42% primarily due to a state grant for \$1.1M to increase media and outreach.

Some of the more significant changes in expenditures for fiscal year 2021 included:

- Customer service expenses decreased by \$5.2M or 31% (\$11.8M compared to \$17.0M) due primarily to transitioning operations to a new vendor during the fourth quarter of fiscal year 2020.
- Technology expenses increased by \$0.4M or 4% (\$11.5M compared to \$11.1M), primarily due to expenditures related to platform modernization.
- Depreciation expense increased by \$1.1M or 34%, which is directly related to significant work on platform modernization.
- Personnel expenses increased by \$0.8M or 9% (\$10.1M compared to \$9.3M) due to increased head count within the organization as we reduce our reliance on contractors.

### **Consolidated Statements of Cash Flows**

The Consolidated 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 \$5.5M or 44% (\$6.8M compared to \$12.4M) in fiscal year 2022. The decrease was a combination of investment in capital and right of use assets of (\$7.8M) and the purchase of investments totaling \$7.0M offset by positive operating cash flows. Operating cash flow generated \$9.3M of cash compared to using \$4.8M in 2021. This is mainly due to increased enrollments and new revenue sources from additional grants.

Cash balances increased \$1.3M or 12% (\$12.4M compared to \$11.1M) in fiscal year 2021. The increase was a combination of investment in capital and right of use assets of (\$7.5M) offset by the sale of investments totaling \$4.0M and positive operating cash flows. Operating cash flow generated \$4.8M of cash compared to using \$0.4M in 2020. This is mainly due to the change of our call center vendor during the fourth quarter of fiscal year 2020 which decreased expenses significantly.

### **Currently Known Facts and Conditions**

C4HCO continues to operate in a dynamic environment influenced by multiple externalities. Expansion of subsidies at both the state and federal level is expected to continue to increase enrollment through the Marketplace. Originally scheduled to sunset in 2022, the increased subsidies provided through the ARP were extended an additional three years beyond the 2022 plan year.

Additionally, the Colorado legislation passed a bill (SB 81) during the 2022 session to provide additional funding to support outreach to educate consumers regarding options for health-care coverage. The funding will start in fiscal year 2023 and will utilize the current tax credit model to encourage donations to C4HCO from health plan issuers. Maximum funding through this new program is \$4 million annually for 6 years. Subsequent to the fiscal year-end, donation commitments from issuers were received totaling \$890,000.

Also occurring after the fiscal year-end, C4HCO transitioned to a new shopping and enrollment platform as part of the ongoing technology modernization effort.

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With new support for the individual market being provided through state and federal initiatives, C4HCO is expecting to play a key role in getting more Coloradan's insured. C4HCO remains focused on providing value to our customers and stakeholders and 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 Connect for Health Colorado'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](http://www.connectforhealthco.com).

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

### Statement of Net Position

June 30, 2022 and 2021

	2022	2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,883,629	\$ 12,391,325
Investments	6,993,977	-
Receivables - Net	9,118,276	11,429,504
Prepaid expenses and other assets	1,604,172	1,270,277
Security deposits	43,787	43,787
Total current assets	24,643,841	25,134,893
Noncurrent assets:		
Capital assets - Net	17,649,435	14,893,961
Operating leases right-of-use assets	904,932	1,550,810
Long-term portion of prepaid expenses	66,133	1,147,675
Total noncurrent assets	18,620,500	17,592,446
Total assets	43,264,341	42,727,339
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	2,450,714	2,967,310
Accrued liabilities and other:		
Accrued salaries and wages	1,003,580	889,436
Accrued liabilities	2,234,358	1,932,919
Lease liability	770,246	776,492
Total current liabilities	6,458,898	6,566,157
Long-term portion of lease liability	192,076	907,063
Total liabilities	6,650,974	7,473,220
<b>Net Position</b>		
Net investment in capital assets	17,649,435	14,893,961
Unrestricted	18,963,932	20,360,158
Total net position	<b>\$ 36,613,367</b>	<b>\$ 35,254,119</b>

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

### Statement of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2022 and 2021

	2022	2021
<b>Operating Revenue</b>		
Program revenue	\$ 11,985,361	\$ 11,702,194
Fees for service	34,007,850	30,963,128
Other revenue	517	5,653
Total operating revenue	45,993,728	42,670,975
<b>Operating Expenses</b>		
Personnel	13,328,562	10,116,825
Technology	10,074,615	11,476,900
Customer service	9,266,306	11,837,150
Marketing and outreach	5,325,204	3,739,008
Depreciation and amortization	4,919,911	4,191,974
Support services	1,315,886	902,322
Other	173,039	100,052
Facilities	200,686	118,723
Total operating expenses	44,604,209	42,482,954
<b>Operating Income</b>	1,389,519	188,021
<b>Nonoperating Revenue (Expense)</b>		
Investment income, net	1,817	40,438
Interest	(32,088)	(47,209)
Total nonoperating revenue (expense)	(30,271)	(6,771)
<b>Change in Net Position</b>	1,359,248	181,250
<b>Net Position - Beginning of year, as previously reported</b>	35,254,119	35,077,944
<b>Cumulative Effect of Change in Accounting</b>	-	(5,075)
<b>Net Position - Beginning of year</b>	35,254,119	35,072,869
<b>Net Position - End of year</b>	<b>\$ 36,613,367</b>	<b>\$ 35,254,119</b>

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

### Statement of Cash Flows

Years Ended June 30, 2022 and 2021

	2022	2021
<b>Cash Flows from Operating Activities</b>		
Grants and contributions received	\$ 3,637,393	\$ -
Other operating revenue received	44,667,563	44,399,081
Payments to vendors for materials and services	(21,877,736)	(25,137,370)
Payments to employees for wages, taxes, and benefits	(17,159,928)	(14,458,935)
Net cash and cash equivalents provided by operating activities	9,267,292	4,802,776
<b>Cash Flows Used in Financing Activities</b>		
Purchase of capital assets	(6,974,162)	(6,774,531)
Principal payments under lease obligations	(776,578)	(716,690)
Payments of interest under lease obligations	(32,088)	(47,209)
Net cash and cash equivalents used in financing activities	(7,782,828)	(7,538,430)
<b>Cash Flows from Investing Activities</b>		
Interest received on investments	1,817	58,029
Purchases of investment securities	(6,993,977)	-
Proceeds from sale and maturities of investment securities	-	4,000,000
Net cash and cash equivalents (used in) provided by investing activities	(6,992,160)	4,058,029
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(5,507,696)	1,322,375
<b>Cash and Cash Equivalents - Beginning of year</b>	12,391,325	11,068,950
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 6,883,629</b>	<b>\$ 12,391,325</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 1,389,519	\$ 188,021
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	4,919,911	4,191,974
Changes in assets and liabilities:		
Receivables	2,311,228	964,207
Prepaid and other assets	747,647	413,762
Accounts payable	(516,596)	(1,095,039)
Accrued and other liabilities	415,583	139,851
Total adjustments	7,877,773	4,614,755
Net cash and cash equivalents provided by operating activities	<b>\$ 9,267,292</b>	<b>\$ 4,802,776</b>
<b>Significant Noncash Transactions</b>		
Capital assets acquired through leases	\$ 55,345	\$ 195,280

June 30, 2022 and 2021

### 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 d/b/a Connect for Health Colorado (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.

On November 6, 2020, Connect for Health Colorado Company, PBC (the "Company") was incorporated. The corporation is a public benefit corporation pursuant to the Public Benefit Corporation Act of Colorado. Its purpose is for the transaction of any and all lawful business to produce a public benefit. Connect for Health Colorado Company, PBC is so integrated with the Exchange that it is, in substance, part of the Exchange. The Company is included as a blended component unit in business activities of the Exchange.

### 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 \$81,977 and \$81,949 as of June 30, 2022 and 2021, respectively.

June 30, 2022 and 2021

### Note 2 - Significant Accounting Policies (Continued)

#### ***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, which range from two to seven years. Costs of maintenance and repairs are charged to expense when incurred.

#### ***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 and 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.

June 30, 2022 and 2021

**Note 2 - Significant Accounting Policies (Continued)**

***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.

***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.

***Adoption of New Accounting Pronouncements***

In 2017, the GASB issued Statement No. 87, Leases, which improves the accounting and financial reporting for leases by governments for the financial statement users. GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring 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 GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Exchange adopted this statement effective July 1, 2020. The adoption of this statement decreased the July 1, 2020 net position by \$5,705.

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, intraentity 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 ended 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 adoption did not have a significant impact on the Exchange's financial statements.

In June 2020, the Governmental Accounting Standards Board issued 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 were effective for the Exchange for the year ending June 30, 2022 and did not have a significant impact on the Exchange's financial statements.



June 30, 2022 and 2021

**Note 2 - Significant Accounting Policies (Continued)**

**Upcoming Accounting Pronouncements**

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, to bring a uniform guidance on how to report public-private and public-public partnership arrangements. As a result, transferors in public-private or public-public arrangements will recognize receivables for installment payments; deferred inflows of resources; and, when applicable, capital assets. Operators will recognize liabilities for installment payments and intangible right-to-use assets and, when applicable, deferred outflows of resources and liabilities for assets being transferred. This statement also provides guidance for accounting and financial reporting for availability payment arrangements, in which a government compensates an operator for services such as designing, constructing, financing, maintaining, or operating an underlying asset for a period of time in an exchange or exchange-like transaction. The provisions of this statement are effective for the Exchange's financial statements for the year ending June 30, 2023.

In May 2020, the Governmental Accounting Standards Board issued 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 3 - Deposits and Investments**

Investments are stated at their estimated fair values and consist of US treasury bills in increments of \$2 to \$3 million, maturing in one year or less. These investments have a value of \$6,993,977 at June 30, 2022 and \$0 at June 30, 2021. The Exchange also holds money market funds, which are valued at cost plus accrued interest, which approximates fair value. These funds total \$501,325 and \$500,780 at June 30, 2022 and 2021, respectively, and are included in cash and cash equivalents in the statement of net position.

**Note 4 - Capital Assets and Operating Lease Right of Use Assets**

Capital asset activity of the Exchange was as follows:

	Balance July 1, 2021	Additions	Disposals and Adjustments	Balance June 30, 2022
Capital assets being depreciated:				
Web portal development	\$ 39,503,532	\$ -	\$ -	\$ 39,503,532
Software	38,553,010	6,968,779	-	45,521,789
Buildings and improvements	2,013,306	-	-	2,013,306
Machinery and equipment	1,163,977	-	-	1,163,977
Furniture and fixtures	1,235,663	5,380	-	1,241,043
Buildings - right to use assets	1,236,245	-	-	1,236,245
Equipment - right to use assets	21,395	4,860	-	26,255
Computer equipment - right to use assets	293,170	50,488	-	343,658
Subtotal	84,020,298	7,029,507	-	91,049,805
Accumulated depreciation	67,575,527	4,919,911	-	72,495,438
Net capital assets being depreciated	<u>\$ 16,444,771</u>	<u>\$ 2,109,596</u>	<u>\$ -</u>	<u>\$ 18,554,367</u>

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

## Notes to Financial Statements

June 30, 2022 and 2021

### Note 4 - Capital Assets and Operating Lease Right of Use Assets (Continued)

	Balance July 1, 2020	Additions	Disposals and Adjustments	Balance June 30, 2021
Capital assets being depreciated:				
Web portal development	\$ 39,503,532	\$ -	\$ -	\$ 39,503,532
Software	31,850,430	6,723,099	-	38,573,529
Buildings and improvements	2,013,306	-	-	2,013,306
Furniture and fixtures	1,235,663	-	-	1,235,663
Machinery and equipment	1,071,027	72,431	-	1,143,458
Buildings - right to use assets	1,779,206	-	-	1,779,206
Equipment - right to use assets	36,825	-	-	36,825
Computer equipment - right to use assets	206,897	195,280	-	402,177
Subtotal	77,696,886	6,990,810	-	84,687,696
Accumulated depreciation	64,050,951	4,191,974	-	68,242,925
Net capital assets being depreciated	<u>\$ 13,645,935</u>	<u>\$ 2,798,836</u>	<u>\$ -</u>	<u>\$ 16,444,771</u>

The following is reconciliation of net capital assets being depreciated to the accompanying statement of net position:

	2022	2021
Capital assets - Net	\$ 17,649,435	\$ 14,893,961
Operating leases right-of-use assets	904,932	1,550,810
Total	<u>\$ 18,554,367</u>	<u>\$ 16,444,771</u>

### Note 5 - Program Revenue

#### House Bill 13-1245

On May 6, 2013, the State of Colorado General Assembly passed House Bill 13-1245 (the "House Bill"), 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 that 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 for the years ended June 30, 2022 and 2021 and is included in program revenue in the statement of revenue, expenses, and changes in net position.

#### Medicaid Cost Reimbursement

Beginning during the year ended June 30, 2020, the Exchange became eligible to receive cost reimbursements from the Colorado Department of Health Care Policy & Financing for Medicaid-related costs. Revenue under the agreement is being recognized as qualifying expenses are incurred and is included in program revenue in the statement of revenue, expenses, and changes in net position. For the years ended June 30, 2022 and 2021, reimbursable expenses totaled \$3,347,968 and \$5,089,090, respectively, and have been recognized as program revenue.

**Note 5 - Program Revenue (Continued)**

**Carrier Fee Revenue**

Through the Exchange's website, individuals can choose to purchase health insurance policies from various carriers. The Exchange charges carriers that 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 \$34,007,850 and \$30,963,128 for the years ended June 30, 2022 and 2021, respectively.

**CPDHE Cost Reimbursement**

On October 28, 2020, the Exchange entered into a contract with the State of Colorado for the use and benefit of the Department of Public Health & Environment (CPDHE). This project serves to provide customer call center support services for COVID-19 testing and containment. Revenue under the agreement is being recognized as qualifying expenses are incurred and is included in program revenue in the statement of revenue, expenses, and changes in net position. CPDHE reimbursable expense totaled \$1,613,104 for the year ended June 30, 2021. There was no revenue related to this project for the year ended June 30, 2022.

**HIAE Revenue**

On July 23, 2021, the Exchange entered into a contract with the State of Colorado for the use and benefit of the Health Insurance Affordability Enterprise (HIAE). The objective of this program is to increase enrollment in health benefit plans offered by carriers across the state and to improve the stability of the market by creating a healthier risk pool for all carriers. Revenue under the agreement is recognized as certain milestones are met and is included in program revenue in the statement of revenue, expenses, and changes in net position. HIAE revenue totaled \$2,530,000 for the year ended June 30, 2022.

**ARP Grant Revenue**

On December 3, 2021, the Exchange received a notice of award from the Department of Health and Human Services under the American Rescue Plan Act of 2021. The objective of the award is to assist in modernizing the state exchange through technology updates. The total amount received under the grant was \$1,107,393 for the year ended June 30, 2022.

**Note 6 - Leases**

The Exchange leases certain assets from various third parties. The assets leased include office space and equipment. Payments are generally fixed monthly. The noncancelable terms of the leasing arrangements mature between 2022 and 2024. The discount rates applicable to these leasing arrangements range from 2.34% to 5.19%.

Lease asset activity of the Exchange is included in Note 4.

Future principal and interest payment requirements related to the Exchange's lease liability at June 30, 2022 are as follows:

Years Ending	Principal	Interest	Total
2023	\$ 770,246	\$ 15,748	\$ 785,994
2024	192,076	1,873	193,949
Total	\$ 962,322	\$ 17,621	\$ 979,943

June 30, 2022 and 2021

**Note 7 - Retirement Plan**

The Exchange established a retirement plan under Section 403(b) of the Internal Revenue 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 balances after one year of service. Total employer contributions under this plan for the Exchange were \$1,178,523 for the year ended June 30, 2022 and \$895,888 for the year ended June 30, 2021. 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, 2022. 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 within accrued liabilities as of June 30, 2022 and 2021.