

**Colorado Health Benefit Exchange
(dba Connect for Health Colorado)**

Financial Statements and Required Supplementary Information

June 30, 2018 and 2017

(With Independent Auditor's Report Thereon)

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Office of the State Auditor

November 15, 2018

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Colorado Health Benefit Exchange

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Independent Auditor's Report

Board of Directors Colorado Health Benefit Exchange:

Report on the Financial Statements

We have audited the accompanying financial statements of Colorado Health Benefit Exchange (the Exchange), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 financial statements referred to above present fairly, in all material respects, the financial position of Colorado Health Benefit Exchange as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Board of Directors
Colorado Health Benefit Exchange**

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who 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 supplementary 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 basis 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2, *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exchange's internal control over financial reporting and compliance.

Kundinger, Coudra & Congle, P.C.

October 22, 2018

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 Legislative Health Benefit Exchange Implementation Review Committee. The organization's mission is to increase access, affordability and choice for individuals and small employers purchasing health insurance in Colorado. C4HCO is intended to reflect the unique needs of the state, seek Colorado-specific solutions, and to support an open competitive marketplace.

The organization faced significant external actions during fiscal year 2018 including a decrease in the enrollment period by 22 days and last-minute changes to the ACA prior to the open enrollment period. The continued uncertainty in the insurance markets contributed to average premiums increasing by over 30% in the individual market in 2018. Despite these negative impacts on the Marketplace, the level of enrollment through the exchange stayed relatively flat in 2018 with the effectuated enrollments decreasing less than 1 percent from the prior year's levels.

Colorado maintained insurance coverage through the exchange across the state in 2018 with residents from every county in the state signing up for medical coverage through the Marketplace. For the 2017 plan year, C4HCO helped return \$494 million to Coloradans through Advance Premium Tax Credits. Sixty nine percent of our customers in 2018 are receiving this valuable financial assistance, an increase from sixty one percent in 2017. Improvements were made in serving customers during the 5th open enrollment period with a 35% reduction in caller wait time.

Connect for Health Colorado technology operations faced significant challenges during the year. Discontinued funding of Cost-Sharing Reductions (CSRs), announced two weeks before the start of Open Enrollment for 2018, required last minute adjustments to the plan and rate offerings. As a result of continual coordination with the state Division of Insurance and the seven health insurance companies offering Marketplace coverage for 2018, the Marketplace was able open on time, despite the late-hour changes.

In keeping with the push toward a more agile organization, the IT and Operations Teams were combined during the year to create more efficiencies and cohesive management of day-to-day operations and more fully align technology initiatives with business needs. C4HCO continued to improve the customer experience by implementing the following upgrades to the Marketplace:

- Enrollment steps were reduced by creating pre-calculated suggested plans for 2018 eligibility.
- Processes to ensure accurate plans and premiums were put into place.
- Enhancements to Payment Web Services simplified online payment and reduced errors.
- Added new functionality to the quick cost and plan finder tool by adding prescription drug cost estimates to give customers an even better snap shot of what they might expect to spend.

Development also started on the next generation of the eligibility system which is expected to be operational for the next open enrollment period.

Early in the year a new strategic plan was completed and implemented that will serve as a guide for the organization over the coming years. The Board approved strategic plan goals include:

- 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 Connect for Health Colorado is a healthy and thriving organization.

These goals will help drive the organization to long-term sustainability through 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.

Connect for Health Colorado adjusted to structural changes during the year within the organization and to the significant changes in the environment it operates. 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 2019 budget in June 2018. The fiscal year 2019 budget continued to focus on cost management but also addressed the need to start investing in the next generation of the Marketplaces technology platform and maintain adequate reserves to fund future capital investments.

Funding

C4HCO has not received any funding from federal grants for two fiscal years. The primary sources of funding for the fiscal year were administrative fees on health plans. An additional source of funding was the reimbursement of Medicaid costs incurred by C4HCO. The plan defining the allocation methodology of the portion of the organization's costs related to Medicaid was approved in September 2017. This resulted in the recouping of Medicaid related costs incurred by C4HCO from both the 2017 and 2018 fiscal years.

In June 2013, Colorado's Governor signed HB 13-1245 into law, which in conjunction with administrative fees charged for policies purchased on the Marketplace, supports C4HCO becoming a self-sustaining entity after the end of the federal grant period. More specifically HB 13-1245 allowed for C4HCO to collect a broad market assessment on medical and dental policies in the small group and individual markets sold between 2014 and 2017. This funding source officially ended on December 31, 2016.

Beginning on January 1, 2014, C4HCO charged administrative fees on all policies sold through the Marketplace. The Board will continue to set the 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% for plan year 2018. The administrative fee and the Medicaid costs reimbursements contribute to the long-term sustainability of the organization.

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.

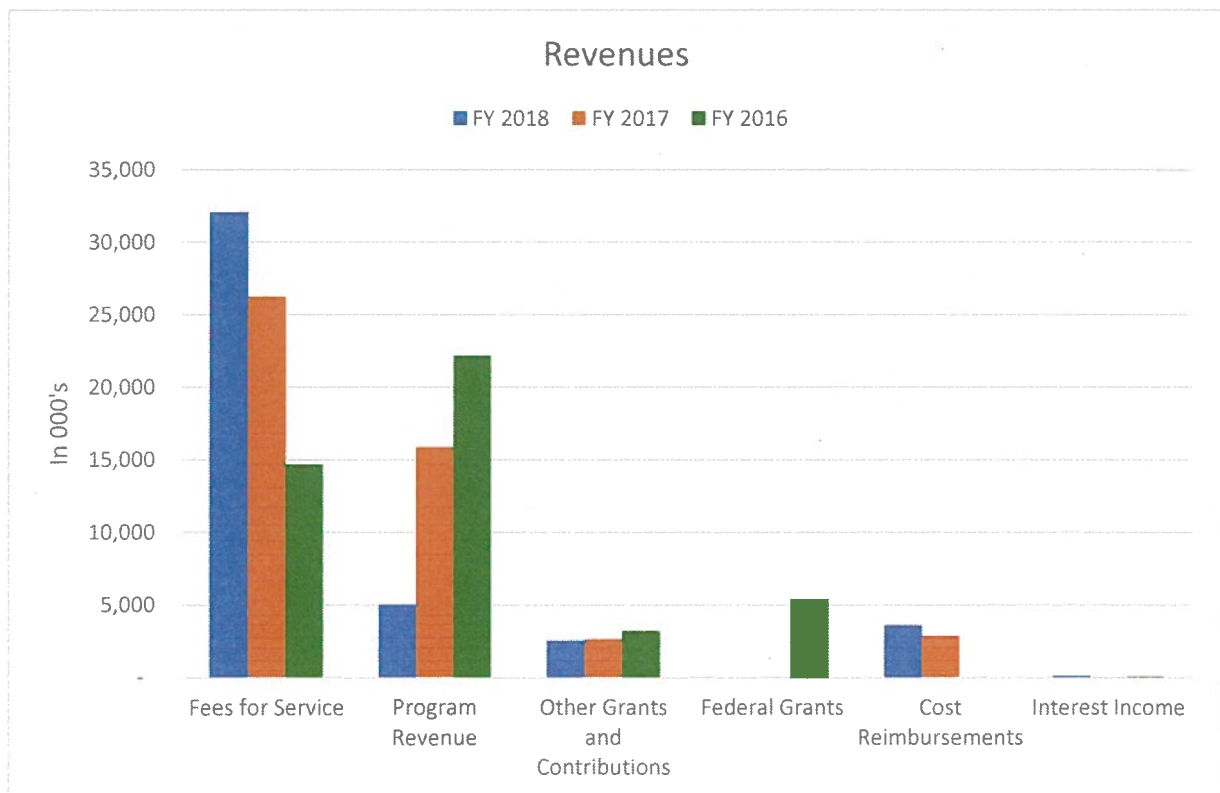
Total assets decreased between 2018 and 2017 by \$11.4M (\$39.6M compared to \$51.0M). Contributing to this decrease, long-term assets decreased by \$11.2M (\$7.5M compared to \$18.7M) consisting of the net impact of capital investments of \$3.3M offset by \$14.5M of depreciation and amortization charges. Capital investments primarily focused on technology enhancements to the exchange software and integration with the States eligibility system. Contributing to the decrease in total assets was the decrease in current assets of \$0.2M (\$32.1M compared to \$32.3M). Driving this decrease in current assets was a decrease in cash balances of \$7.8M (\$13.9M compared to \$21.7M) and an increase to investments of \$7.5M. Further changes in cash are included in the discussion of the Statements of Cash Flows.

The change in liabilities between 2018 and 2017 of \$0.6M (\$5.5M compared to \$4.9M) consists primarily of a decrease of \$0.7M in accounts payable (\$2.5M compared to \$3.2M) and an increase in accrued liabilities of \$1.1M (\$2.4M compared to \$1.3M). The increase in accrued liabilities was 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. These costs and amounts were still being determined at the end of the fiscal year. The liability for these expenses represents an estimate of probable expenses.

The difference between assets and liabilities represents the net position of the organization, and the change in net position over time is one indicator of the organization's improving or declining financial position. 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 (\$11.6M) is taken into account.

Operating Revenues

Total revenues for the fiscal year decreased by \$4.3M or 9% (\$43.2M compared to \$47.5M) from the prior year.



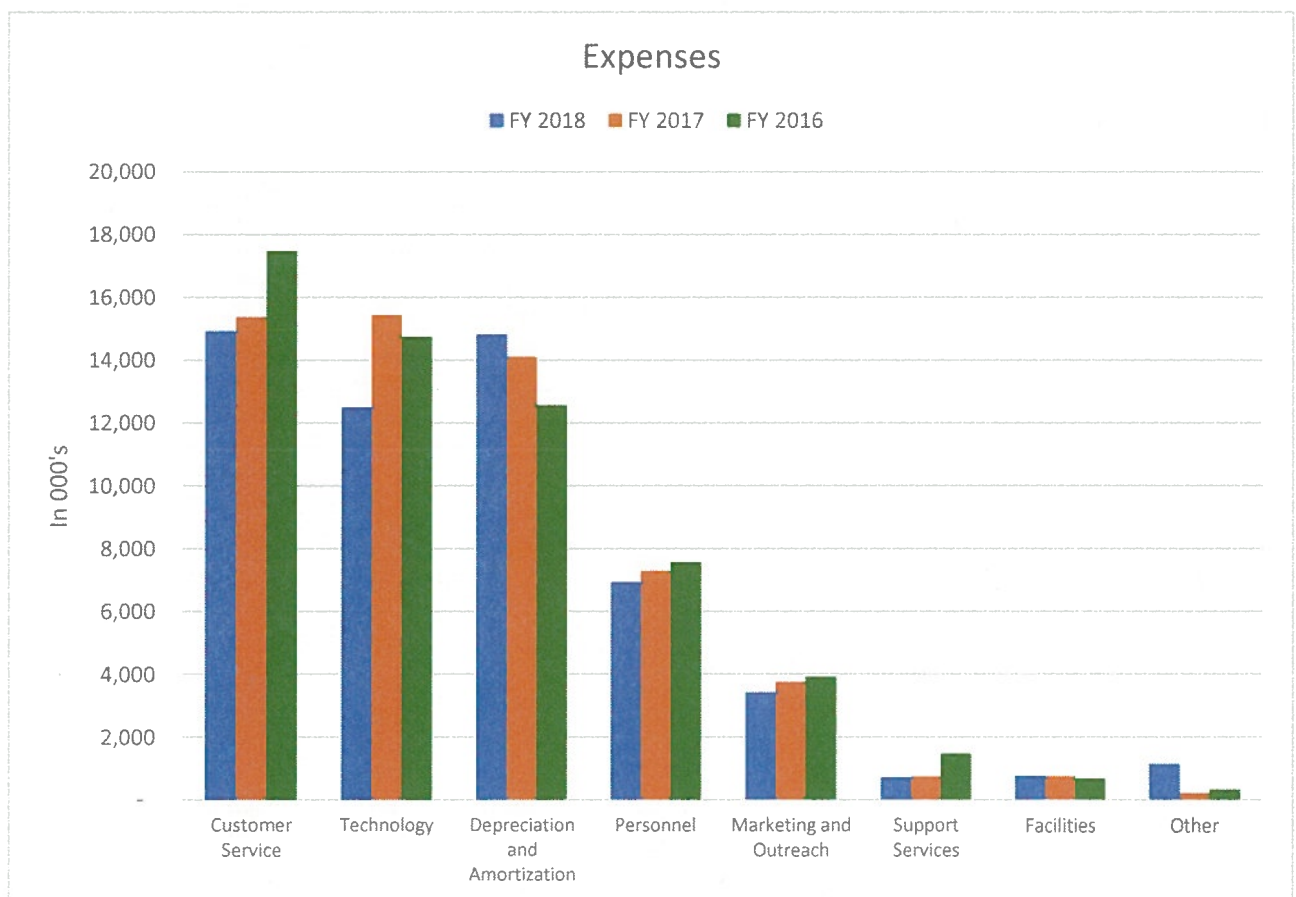
During Fiscal Year 2017, C4HCO generated \$8.5M in program revenue which consisted of \$5.0M from carrier tax credits and Medicaid cost reimbursements of \$3.5M. The special fee assessment was discontinued at December 31, 2016 so it decreased to \$0 from \$10.8M.

The fees for service revenue increased by \$5.9M or 22% (\$32.1M compared to \$26.2M). The increase in fees for service was due to an increase in average premiums effectuated through the exchange.

Other revenue recorded in 2018 included non-federal grants totaling \$2.5M, and interest income of \$88,780.

Operating Expenses

Total expenses for the fiscal year 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 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. A significant portion of capital assets became fully depreciated during fiscal year 2018.
- 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. These estimates are subject to change due to ongoing discussion with the related granting agencies.

Statements of Cash Flows

The Statements of Cash Flows represent C4HCO's change in cash and cash equivalents for the year and provides a summary of how cash was utilized. Cash balances decreased by \$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

Connect for Health Colorado continues to operate in an environment of change and growth. While the impact of approaching elections is not discernable, this environment of change is expected to continue. While the future political impacts on the Affordable Care Act are uncertain, the foundational mission of the Marketplace as originally envisioned by the state to increase access, affordability, and choice for individuals and small employers purchasing health insurance in Colorado remains the same. With an eye to the future, C4HCO continues with its plans for sustainability and providing value to its customers and stakeholders. Since the end of the fiscal year the organization has completed the development of the first phase of a new eligibility system and is finalizing the technology and operations roadmaps for the organization. These roadmaps will support the attainment of the goals set forth in the organizations strategic plan and will support the long-term sustainability of the organization. With significantly smaller increases in individual premiums for the 2019 plan year, C4HCO is anticipating a positive impact on enrollment and is prepared to be open for shopping for the next plan year starting November 1.

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.

Colorado Health Benefit Exchange
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Assets:		
Current assets:		
Cash and cash equivalents	\$ 13,858,433	21,669,510
Investments (notes 2 and 3)	7,491,185	-
Accounts receivable, net of allowance for doubtful accounts of \$185,294 in 2018 and \$44,525 in 2017	9,699,821	8,628,467
Prepaid expenses	1,067,341	1,992,752
Total current assets	<u>32,116,780</u>	<u>32,290,729</u>
Noncurrent assets:		
Security deposits	55,448	27,609
Long-term portion of prepaid expenses	26,257	64,119
Total noncurrent assets	<u>81,705</u>	<u>91,728</u>
Capital assets (note 4):		
Web portal development	39,503,532	38,052,299
Software	20,701,196	18,885,390
Leasehold improvements	1,916,058	1,943,642
Office equipment	1,008,871	1,117,696
Furniture and fixtures	954,263	833,776
	<u>64,083,920</u>	<u>60,832,803</u>
Less accumulated depreciation and amortization	<u>(56,693,744)</u>	<u>(42,196,841)</u>
Capital assets, net	<u>7,390,176</u>	<u>18,635,962</u>
Total assets	<u>\$ 39,588,661</u>	<u>51,018,419</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 2,514,613	3,220,679
Accrued liabilities	2,404,864	1,306,876
Payroll liabilities	378,969	336,216
Deferred rent	-	6,744
Total current liabilities	<u>5,298,446</u>	<u>4,870,515</u>
Long-term liabilities:		
Long-term portion of deferred rent	168,897	42,742
Total liabilities	<u>5,467,343</u>	<u>4,913,257</u>
Net Position:		
Net investment in capital assets	7,390,176	18,635,962
Restricted (note 1(g))	347,222	130,761
Unrestricted	26,383,920	27,338,439
Total net position	<u>34,121,318</u>	<u>46,105,162</u>
Commitments and contingency (notes 6, 7 and 8)		
Total liabilities and net position	<u>\$ 39,588,661</u>	<u>51,018,419</u>

See the accompanying notes to the financial statements.

Colorado Health Benefit Exchange
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues:		
Grants and contributions	\$ 2,500,000	2,590,000
Program revenue (note 5)	8,533,443	18,661,919
Fees for service	32,082,713	26,231,541
Investment income (note 2)	88,780	5,614
Other revenue	1,163	6,937
	43,206,099	47,496,011
Operating Expenses:		
Customer service	14,922,562	15,376,380
Depreciation and amortization	14,825,558	14,108,419
Technology	12,501,636	15,436,922
Personnel	6,923,821	7,283,055
Marketing and outreach	3,416,669	3,739,410
Other	1,137,442	194,048
Facilities	753,441	737,982
Support services	708,814	722,906
	55,189,943	57,599,122
Decrease in net position	(11,983,844)	(10,103,111)
Net position at beginning of year	46,105,162	56,208,273
Net position at end of year	\$ 34,121,318	46,105,162

See the accompanying notes to the financial statements.

Colorado Health Benefit Exchange
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Grants and contributions received	\$ 2,500,000	2,590,000
Other operating revenue received	39,686,734	48,967,024
Interest and dividends received	97,595	5,614
Cash paid to vendors for materials and services	(32,134,566)	(33,472,247)
Cash paid to employees for wages, taxes and benefits	(6,881,068)	(7,277,208)
Net cash provided by operating activities	<u>3,268,695</u>	<u>10,813,183</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	<u>(3,579,772)</u>	<u>(1,889,382)</u>
Net cash used in capital and related financing activities	<u>(3,579,772)</u>	<u>(1,889,382)</u>
Cash flows from investing activities:		
Purchases of investments	<u>(7,500,000)</u>	—
Net cash used in investing activities	<u>(7,500,000)</u>	—
Net increase (decrease) in cash and cash equivalents	(7,811,077)	8,923,801
Cash and cash equivalents at beginning of year	<u>21,669,510</u>	<u>12,745,709</u>
Cash and cash equivalents at end of year	<u>\$ 13,858,433</u>	<u>21,669,510</u>
Reconciliation of decrease in net position to net cash provided by operating activities:		
Decrease in net position	\$ (11,983,844)	(10,103,111)
Adjustments to reconcile decrease in net position to net cash provided by operating activities:		
Depreciation and amortization	14,825,558	14,108,419
Provision for doubtful accounts	140,769	(79,441)
Unrealized loss on investments	8,815	—
Amortization of deferred rent	119,411	1,612
Decrease (increase) in operating assets:		
Accounts receivable	(1,212,123)	4,225,509
Prepaid expenses	963,273	2,049,690
Security deposits	(27,839)	8,926
Increase in operating liabilities:		
Accounts payable and accrued liabilities	<u>434,675</u>	<u>601,579</u>
Net cash provided by operating activities	<u>\$ 3,268,695</u>	<u>10,813,183</u>

See the accompanying notes to the financial statements.

Colorado Health Benefit Exchange
Notes to Financial Statements
June 30, 2018 and 2017

(1) Summary of Significant Accounting Policies

(a) Organization

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 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.

(b) 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).

(c) Cash Equivalents

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

(d) Investments

The Exchange reports investments at fair value. Fair value is determined as more fully described in note 3. 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-government 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.

Colorado Health Benefit Exchange

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Accounts Receivable

The change in net position is charged with an allowance for estimated uncollectible accounts based on an analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the change in net position when that determination is made. At June 30, 2018 and 2017, the Exchange has recognized an allowance of \$185,294 and \$44,525, respectively.

(f) Capital Assets

The Exchange follows the practice of capitalizing, at cost, all expenditures for capital assets in excess of \$5,000 and groups of lower cost assets that exceed \$5,000, as well as donations of capital assets, with estimated fair values exceeding \$5,000, at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to seven years.

(g) Net Position

Net position represents all assets, less liabilities. Net position is displayed in the statements of net position in the following categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation.

Restricted: Net position where there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2018 and 2017, restricted net position totals \$347,222 and \$130,761, respectively, and consists of grant funds received that are restricted for a specific purpose and have not yet been spent.

Unrestricted: All remaining net position that does not meet the definition of “net investment in capital assets” or “restricted”.

(h) Operating Revenue and Expenses

The Exchange distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses include all items related to establishing and running a health insurance marketplace. There were no non-operating items for the years ended June 30, 2018 and 2017.

(i) 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.

Colorado Health Benefit Exchange
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(i) Concentrations of Credit Risk, Continued

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 (see note 5). 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 the Medicaid cost reimbursement agreement if it is determined that certain amounts are unallowable reimbursements.

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(k) 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.

(l) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The Exchange's financial statements were available to be issued on October 22, 2018, and this is the date through which subsequent events were evaluated.

(m) Prior Year Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(2) 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 1.35% to 2.30%, that mature in one year or less. These investments have a value of \$7,491,185 at June 30, 2018 and \$0 at June 30, 2017. The Exchange also holds money market funds in the Invesco Government and Agency Fund, which are valued at net asset value. These funds total \$49,979 and \$0 at June 30, 2018 and 2017, respectively, and are included in cash and cash equivalents in the statements of net position. The Invesco Government and Agency Fund is rated AAAM by Standard & Pools.

Colorado Health Benefit Exchange

Notes to Financial Statements, Continued

(2) Investments, Continued

Investment return consisted of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Interest income from cash and cash equivalents	\$ 47,617	5,614
Interest and dividend income from investments	49,978	–
Unrealized loss on investments	<u>(8,815)</u>	<u>–</u>
	<u>\$ 88,780</u>	<u>5,614</u>

(3) Fair Value Measurements

The Exchange uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value of investments into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for the asset or liability (Level 3). All of the Exchange's investments are considered to be Level 1 investments.

(4) Capital Assets

Following are the changes in capital assets:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
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	<u>833,776</u>	<u>214,882</u>	<u>(94,395)</u>	<u>954,263</u>
	60,832,803	3,579,772	(328,655)	64,083,920
Less accumulated depreciation and amortization	<u>(42,196,841)</u>	<u>(14,825,558)</u>	<u>328,655</u>	<u>(56,693,744)</u>
Capital assets, net	<u>\$ 18,635,962</u>	<u>(11,245,786)</u>	<u>–</u>	<u>7,390,176</u>
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2017</u>
Web portal development	\$ 36,228,577	1,823,722	–	38,052,299
Software	18,819,730	65,660	–	18,885,390
Leasehold improvements	1,943,642	–	–	1,943,642
Office equipment	1,117,696	–	–	1,117,696
Furniture and fixtures	<u>833,776</u>	<u>–</u>	<u>–</u>	<u>833,776</u>
	58,943,421	1,889,382	–	60,832,803
Less accumulated depreciation and amortization	<u>(28,088,422)</u>	<u>(14,108,419)</u>	<u>–</u>	<u>(42,196,841)</u>
Capital assets, net	<u>\$ 30,854,999</u>	<u>(12,219,037)</u>	<u>–</u>	<u>18,635,962</u>

Colorado Health Benefit Exchange

Notes to Financial Statements, Continued

(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 \$4,976,989 and \$15,828,209 for the years ended June 30, 2018 and 2017, respectively, and are included in program revenue in the statements of revenues, expenses, and changes in net position.

Medicaid Cost Reimbursement

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 expenses 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, 2018 and 2017, reimbursable expenses totaled \$3,556,454 and \$2,833,710, respectively, and have been recognized as program revenue.

(6) Leases

The Exchange had a non-cancelable operating lease for office space in Denver, Colorado, that required monthly payments totaling \$42,153, and expired in March 2018. Effective April 1, 2018, the Exchange entered into a new non-cancelable operating lease in Denver, Colorado, for office space, which is scheduled to expire in August 2023. Furthermore, the Exchange has a cancelable operating lease for office space in Colorado Springs, Colorado, which is being used for its call center. This lease is scheduled to expire in August 2020, unless the cancellation option is exercised, which requires 90 days notice. The Exchange is also obligated under several non-cancellable leases for office equipment. Future minimum lease payments for the years ending June 30 are as follows:

2019	\$ 499,548
2020	595,968
2021	586,138
2022	568,439
2023 and thereafter	<u>670,474</u>
	\$ <u>2,920,567</u>

Colorado Health Benefit Exchange

Notes to Financial Statements, Continued

(6) Leases, Continued

Lease expense in the accompanying financial statements is being recognized on the straight-line method, evenly over the term of each lease. Total rent expense for office space for the years ended June 30, 2018 and 2017 was \$648,257 and \$654,792, respectively. Total rent expense for office equipment leases for the years ended June 30, 2018 and 2017 was \$44,766 and \$35,088, respectively.

(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 \$528,435 for the year ended June 30, 2018 and \$548,553 for the year ended June 30, 2017. Forfeitures were not material to the plan.

(8) Contingency

The Exchange is a recipient of federal and state awards which are subject to audits to determine compliance with applicable regulations. On December 27, 2016, the Exchange received an audit report from the Department of Health and Human Services Office of the Inspector General (OIG) recommending the repayment of \$9,678,635 in questioned federal expenditures from 2012 to 2014. A significant portion of these expenditures had been previously identified as unallowable by the Exchange and, as a result, reimbursement requests made under the federal grant in previous periods were reduced for the unallowable expenditures identified. The Exchange has responded to the findings with federal officials and believes there is sufficient evidence to support the allowance of the questioned costs under the federal program of the remaining questioned costs that were identified. While the maximum amount of the possible loss can be reasonably estimated at this time, management believes that it is reasonably possible (but not probable) that a loss has occurred for a portion of the recommended repayment. Therefore, a liability has not been recognized for these questioned costs as of June 30, 2018.

In July 2018, the Exchange received an additional 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 \$1,865,588 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, 2018. However, the Exchange believes it is probable that \$702,016 of the costs will have to be refunded and, as a result, a liability has been recognized as of June 30, 2018.

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

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

We have audited, in accordance with the 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, the financial statements of Colorado Health Benefit Exchange (the Exchange), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Exchange's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control. Accordingly, we do not express an opinion on the effectiveness of the Exchange's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Exchange's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Board of Directors
Colorado Health Benefit Exchange**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kundinger, Cochrane & Congle, P.C.

October 22, 2018

**Independent Auditor's Report on Compliance for Each Major Program and
on Internal Control over Compliance Required by the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited Colorado Health Benefit Exchange's (the Exchange's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Exchange's major federal programs for the year ended June 30, 2018. The Exchange's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Exchange's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the USA; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Exchange's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Exchange's compliance.

Opinion on Each Major Federal Program

In our opinion, the Exchange complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Internal Control over Compliance

Management of the Exchange is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Exchange's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the Exchange's internal control over compliance.

Board of Directors
Colorado Health Benefit Exchange

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kuendinger, Coedra & Congle, P.C.

October 22, 2018

Colorado Health Benefit Exchange
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal grantor/pass-through grantor/program title	Grant Number	Grant award year	Federal CFDA number	Federal expenditures
<i>U.S. Department of Health and Human Services:</i>				
Passed through Colorado's Department of Health Care Policy and Financing:				
Medical Assistance Program	18-107263	7/1/17-6/30/18	93.778	\$ <u>3,556,454</u>
<i>Total U.S. Department of Health and Human Services</i>				<u>3,556,454</u>
Total Expenditures of Federal Awards				<u><u>\$ 3,556,454</u></u>

Notes to the Schedule of Expenditures of Federal Awards:

(1) Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Colorado Health Benefit Exchange (the Exchange) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Exchange, it is not intended to and does not present the net position, changes in net position, or cash flows of the Exchange.

(2) Summary of Significant Accounting Policies:

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Indirect Cost Rate:

The Exchange has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

(4) Subrecipient Awards:

There were no awards passed through by the Exchange to subrecipients.

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Colorado Health Benefit Exchange (the Exchange) were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the financial statements are reported in the *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Exchange were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award programs are reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance*.
5. The auditor's report on compliance for the major federal award program for the Exchange expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The major program tested was the Medical Assistance Program (CFDA No. 93.778).
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The Exchange was determined to be a low-risk auditee.

B. Findings—Financial Statements Audit

None.

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

None.

**Colorado Health Benefit Exchange
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018**

There were no findings reported in the audit for the year ended June 30, 2017.