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

**Consolidated Financial Report
with Supplemental Information
June 30, 2021**

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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 Consolidated Financial Statements

We have audited the accompanying basic financial statements of Colorado Health Benefit Exchange d/b/a Connect for Health Colorado and its subsidiary (the "Exchange") as of and for the years ended June 30, 2021 and 2020 and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Colorado Health Benefit Exchange d/b/a Connect for Health Colorado and its subsidiary as of June 30, 2021 and 2020 and the changes in their financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matter

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2021 on our consideration of Colorado Health Benefit Exchange d/b/a Connect for Health Colorado's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Colorado Health Benefit Exchange d/b/a Connect for Health Colorado's internal control over financial reporting and compliance.

November 8, 2021

Management's Discussion and Analysis

Colorado Health Benefit Exchange Overview

In 2011, the Colorado General Assembly passed Senate Bill 11-200, which created the Colorado Health Benefit Exchange, now doing business as Connect for Health Colorado (C4HCO), as a public non-profit entity governed by a Board of Directors and reviewed by the Colorado Health Insurance Exchange Oversight Committee. The organization's mission is to increase access, affordability and choice for individuals and small employers purchasing health insurance in Colorado.

The current strategic plan was revised in 2020 and serves as a guide for the organization. The four Board-approved strategic plan goals are:

- Improve access to coverage to increase enrollments in rural areas of Colorado.
- Maximize the number of consumers who shop and enroll through the health insurance marketplace and apply for available financial assistance.
- Improve the ability of customers to attain and retain coverage based on their health care needs and circumstances.
- Ensure that Connect for Health Colorado remains a healthy and thriving organization.

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

Connect for Health Colorado saw nearly 180,000 Coloradans sign up for a medical plan during the Open Enrollment Period that ran from Nov. 1, 2020, to Jan. 15, 2021, a 7.7% increase compared to the prior year open enrollment period. Enrollment was reopened in February 2021 for uninsured Coloradans to mirror Federal initiatives. Upon the issuance of the American Rescue Plan Act ("ARP") in March 2021, enrollment was extended to August 15. The ARP increased ACA subsidy amounts and expanded eligibility to higher income households resulting in an additional 32,000 Coloradans signing up for a medical plan during 2021.

Connect for Health Colorado is the only place where Coloradans can access financial help through the ACA to make monthly premiums and health care costs more affordable. In 2020, Coloradans received \$497,386,931 in federal tax credits through the Marketplace. Nearly three quarters of our customers in 2021 received this valuable financial assistance.

Across the state, Coloradan's continued to maintain insurance coverage through C4HCO in 2021, with residents from every county in the state signing up for medical coverage through the Marketplace. For a second year in a row some of the largest increases in enrollments were in rural counties due in part to the reinsurance program. Customers receiving financial help in rural counties paid slightly less for their selected plan premiums than customers receiving financial help in urban counties.

Aside from addressing the increased demands for C4HCO services due to COVID, the organization was also focused on planning for and implementing two new pieces of state legislation during the fiscal year. The Health Insurance Affordability Act (SB 215), that provides additional health insurance premium subsidies for purchasers of individual health insurance beyond the subsidies provided through the Affordable Care Act (ACA) 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 and access to subsidized health insurance plans as part of the income tax filing process. Both programs are expected to have a positive impact on enrolling more Coloradans through the Marketplace.

Connect for Health Colorado continued its multi-year commitment to invest in technology to improve the user experience. In addition to technology enhancements in response to new legislation, C4HCO continued to modernize the Marketplace platform during the fiscal year.

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 2022 budget in June 2021. The fiscal year 2022 budget focused on the completion of the modernization of the technology platform and addressing requirements placed on the organization due to state legislation passed in 2020.

Funding

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

Additionally, Federal funding was received to support the temporary implementation and operation of a COVID call center for the State of Colorado during the fiscal year. C4HCO also continued to receive funding in the 2021 fiscal year for the reimbursement of Medicaid related costs and premium tax credit donations.

Subsidiary

In late 2020 C4HCO launched Colorado Connect (“COCO”), a Public Benefit Corporation, which will assist in the implementation of parts of the State’s Health Insurance Affordability Enterprise program and provide other products that support C4HCO’s mission. COCO was incorporated in Colorado in November 2020 and is wholly owned by C4HCO. COCO had no revenue and de minimus expenses during Fiscal Year 2021 and does not impact the comparability of C4HCO’s financial statements to prior year.

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 decreased between 2021 and 2020 by \$0.8M (\$41.2M compared to \$42.0M). Contributing to this decrease, long-term assets increased by \$2.6M (\$15.4M compared to \$12.8M) consisting of the net impact of capital investments of \$6.8M offset by \$3.5M of depreciation and amortization charges and a decrease of long-term prepaids of \$0.7M (\$0.5M 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 \$3.4M (\$25.8M 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.

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

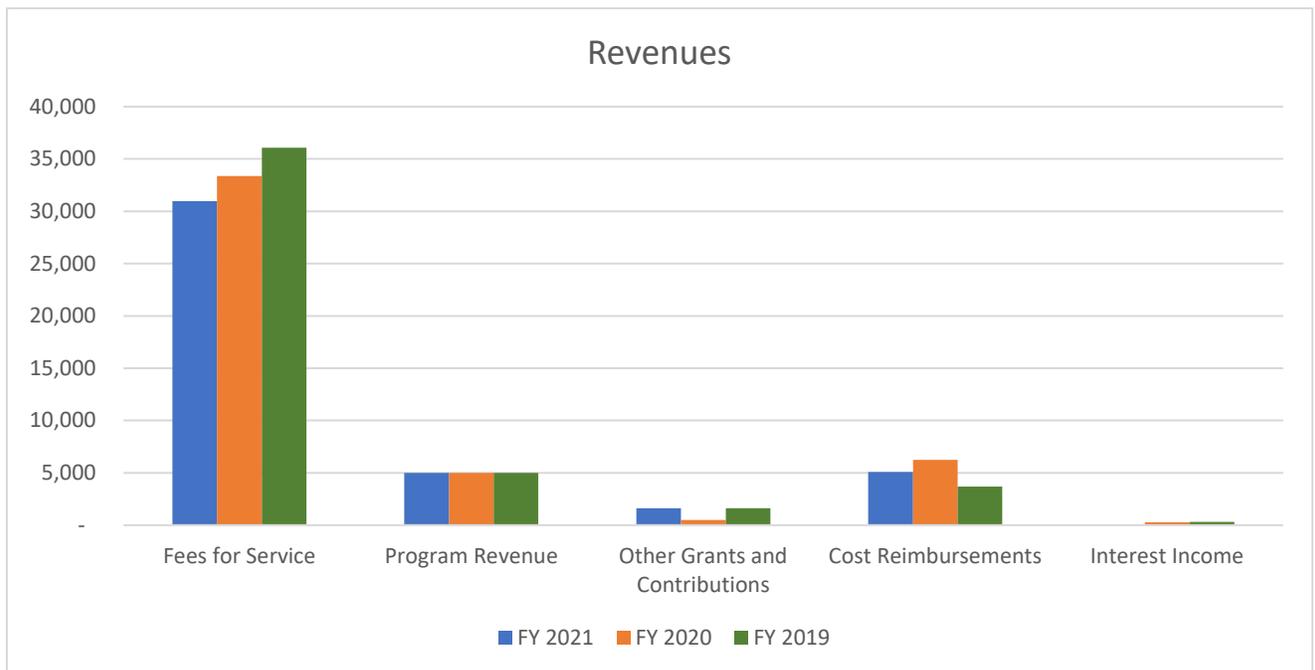
The decrease in liabilities between 2021 and 2020 of \$1.0M (\$5.9M compared to \$6.9M) consists primarily of a decrease of \$1.3M in accounts payable (\$2.8M compared to \$4.1M) offset by an increase in accrued payroll. The decrease in accounts payable was primarily related to the decrease in reliance on contract developers as we increase our employee workforce.

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

The 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 \$0.2M in fiscal 2021. The net position decreased by \$.6M in fiscal 2020.

Operating Revenues

Total revenues for the fiscal year 2021 decreased by \$2.4M or 5% (\$42.7M compared to \$45.1M) from fiscal year 2020. Total revenues for the fiscal year 2020 decreased by \$1.3M or 3% (\$45.1M compared to \$46.4M) from the prior year.



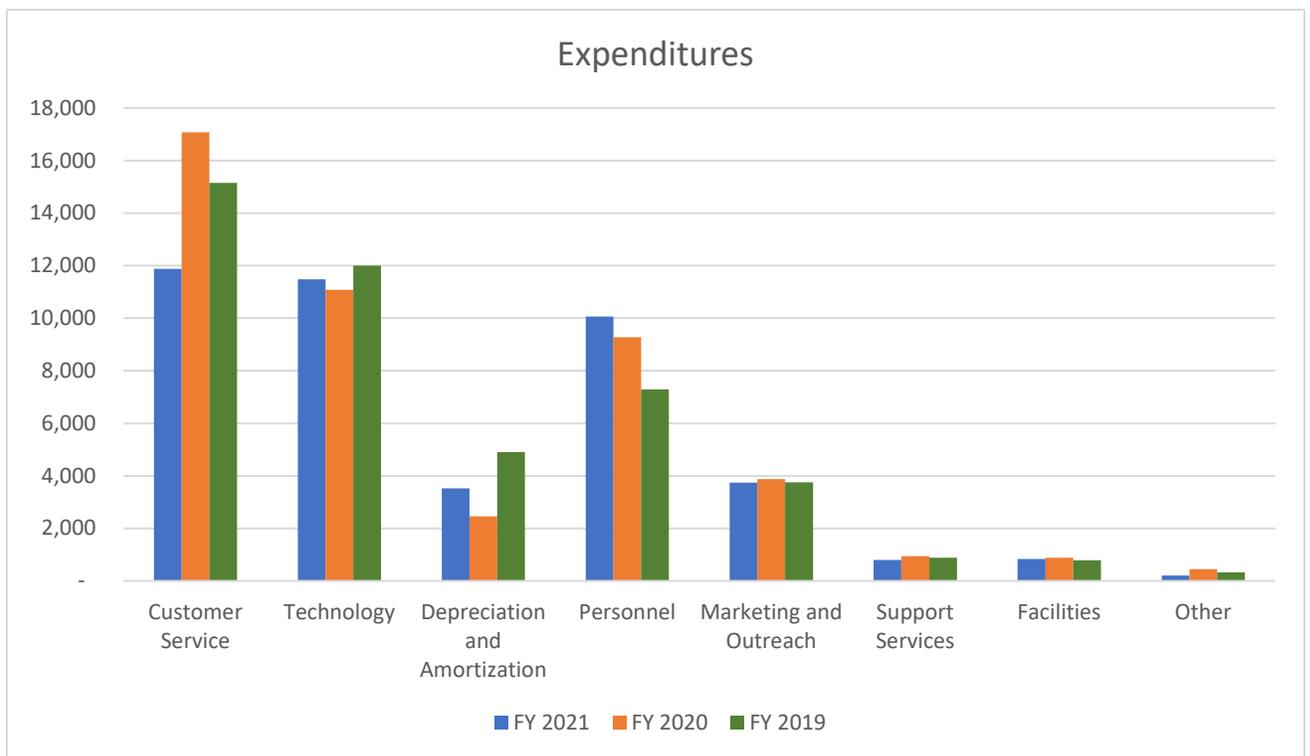
During Fiscal Year 2021, C4HCO generated \$11.7M in program revenue which consisted of \$5.0M from carrier tax credits and Medicaid cost reimbursements of \$5.1M and other federal grants totaling \$1.6M. During Fiscal Year 2020, C4HCO generated \$11.3M in program revenue consisting of \$5.0M in carrier fee tax credits and \$6.3M in Medicaid cost reimbursements. The decrease in Medicaid reimbursement of \$1.2M was due to the change in our call center vendor which decreased those expenses. The additional federal grant was to operate a COVID related call center for 3 months during the fiscal year.

The fees for service revenue decreased by \$2.4M or 7% (\$30.9M compared to \$33.3M) and decreased by \$2.7M or 8% (\$33.3M compared to \$36M) for fiscal years 2021 and 2020 respectively. The fiscal year 2021 decrease in fees for service was due to the full year impact of reinsurance which decreased insurance premiums paid by consumers. The decrease in fees for fiscal year 2020 was due to reinsurance decreasing health insurance premiums beginning January 1, 2020.

Other revenue included non-federal grants totaling \$0.5M (2020), and interest income of \$0.05M and \$0.3M for fiscal year 2020 and 2019. The reduction in non-federal grants reflects the lower funding from the Colorado Health Foundation. Fiscal year 2020 was the final year for the Colorado Health Foundation grant.

Operating Expenditures

Total expenses for fiscal year 2021 decreased by \$3.5M or 8% (\$42.5M compared to \$46.0M) from the prior year. Removing the impact of the change in depreciation and amortization, expenses decreased by \$4.6M or 11%. Total expenses for fiscal year 2020 increased by \$1.0M or 2% (\$46M compared to \$45M) from fiscal year 2019. Removing the impact of the change in depreciation and amortization, expenses increased by \$3.4M or 8%.



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 \$.3M or 3% (\$11.4M compared to \$11.1M), primarily due to expenditures related to platform modernization.
- Depreciation expense increased by \$1.1M or 44%, 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.

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

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

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 increased \$1.3M or 12% (\$12.4M compared to \$11.1M) in fiscal year 2021. The increase was a combination of investment in capital assets of (\$6.7M) offset by the sale of investments totaling \$4.0M and positive operating cash flows. Operating cash flow generated \$4.0M 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.

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

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. The increased subsidies provided through the ARP currently go through 2022. Extensions beyond 2022 are being debated in Congress at this time. The new programs at the state level that were legislated in 2020 are expected to start positively impacting enrollments in 2022.

Subsequent to the fiscal year-end additional funding was received by C4HCO from the State of Colorado to support outreach and implementation of the HIAE program. In addition, at the federal level, a grant program for the modernization of state-based exchanges was rolled out, C4HCO received \$1.1 million through this program.

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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.

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

Consolidated Statement of Net Position

June 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,391,325	\$ 11,068,950
Investments	-	4,023,317
Receivables - Net	11,429,504	12,393,711
Prepaid expenses and other assets	1,270,277	1,684,039
Security deposits	43,787	59,712
Total current assets	25,134,893	29,229,729
Noncurrent assets:		
Capital assets - Net	14,893,961	11,623,007
Long-term portion of prepaid expenses	1,147,675	1,147,675
Total noncurrent assets	16,041,636	12,770,682
Total assets	41,176,529	42,000,411
Liabilities		
Current liabilities:		
Accounts payable	2,967,310	4,062,351
Accrued liabilities and other:		
Accrued salaries and wages	889,436	817,623
Accrued liabilities	1,929,847	1,865,533
Deferred rent	55,081	42,852
Total current liabilities	5,841,674	6,788,359
Long-term portion of deferred rent	79,027	134,108
Total liabilities	5,920,701	6,922,467
Net Position		
Net investment in capital assets	14,893,961	11,623,007
Unrestricted	20,361,867	23,454,937
Total net position	\$ 35,255,828	\$ 35,077,944

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

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

Years Ended June 30, 2021 and 2020

	2021	2020
Operating Revenue		
Program revenue	\$ 11,702,194	\$ 11,249,853
Fees for service	30,963,128	33,368,356
Grants and contributions	-	500,000
Other revenue	5,653	3,220
Total operating revenue	42,670,975	45,121,429
Operating Expenses		
Personnel	10,116,825	9,275,420
Technology	11,476,900	11,083,892
Customer service	11,837,150	17,080,382
Marketing and outreach	3,739,008	3,873,686
Depreciation and amortization	3,524,574	2,455,293
Support services	902,322	943,819
Facilities	836,698	885,956
Other	100,052	445,404
Total operating expenses	42,533,529	46,043,852
Operating Income (Loss)	137,446	(922,423)
Nonoperating Revenue - Investment income	40,438	278,482
Change in Net Position	177,884	(643,941)
Net Position - Beginning of year	35,077,944	35,721,885
Net Position - End of year	\$ 35,255,828	\$ 35,077,944

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

Consolidated Statement of Cash Flows

Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Grants and contributions received	\$ -	\$ 500,000
Other operating revenue received	43,635,182	42,897,400
Payments to vendors for materials and services	(25,137,370)	(31,314,008)
Payments to employees for wages, taxes, and benefits	(14,458,935)	(12,472,026)
	<u>4,038,877</u>	<u>(388,634)</u>
Net cash and cash equivalents provided by (used in) operating activities	4,038,877	(388,634)
Cash Flows Used in Financing Activities - Purchase of capital assets	(6,774,531)	(8,773,269)
Cash Flows from Investing Activities		
Interest received on investments	58,029	251,178
Purchases of investment securities	-	(8,000,000)
Proceeds from sale and maturities of investment securities	4,000,000	7,750,000
	<u>4,058,029</u>	<u>1,178</u>
Net cash and cash equivalents provided by investing activities	4,058,029	1,178
Net Increase (Decrease) in Cash and Cash Equivalents	1,322,375	(9,160,725)
Cash and Cash Equivalents - Beginning of year	11,068,950	20,229,675
Cash and Cash Equivalents - End of year	<u>\$ 12,391,325</u>	<u>\$ 11,068,950</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	\$ 137,446	\$ (922,423)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation and amortization	3,524,574	2,455,293
Provision for doubtful accounts	-	171,804
Amortization of deferred rent	(42,200)	132,573
Changes in assets and liabilities:		
Receivables	964,207	(1,895,833)
Prepaid and other assets	413,762	(1,968,557)
Accounts payable	(1,095,039)	2,212,372
Accrued and other liabilities	136,127	(573,863)
	<u>3,901,431</u>	<u>533,789</u>
Total adjustments	3,901,431	533,789
Net cash and cash equivalents provided (used in) by operating activities	<u>\$ 4,038,877</u>	<u>\$ (388,634)</u>

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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 was incorporated. The corporation is a public benefit corporation pursuant to the Public Benefit Corporation Act of Colorado. Its purpose is for the transactions of any and all lawful business to produce a public benefit.

Note 2 - Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for proprietary (enterprise) funds. The consolidated 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).

Principles of Consolidation

The financial statements include the accounts of the Exchange and all of its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

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 consolidated 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 \$81,949 and \$258,840 as of June 30, 2021 and 2020, respectively.

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 ranging 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, 2021 and 2020

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of consolidated 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 consolidated 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

During the current year, the Exchange adopted GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying and reporting fiduciary activities. As a result of implementing this standard, there has been no change to what meets the definition of a fiduciary activity and what is reported as such.

Upcoming Accounting Pronouncements

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

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This statement addresses eight unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, 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 ending June 30, 2021 but were extended to June 30, 2022 with the issuance of the GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*. The Exchange does not believe this pronouncement will have a significant impact on its consolidated financial statements but is still making a full evaluation.

June 30, 2021 and 2020

Note 2 - Significant Accounting Policies (Continued)

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 of exchange-like transaction. The provisions of this statement are effective for the Exchange's consolidated financial statements for the year ending June 30, 2023.

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

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

Note 3 - Change in Economic Environment

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. Management has responded by delaying the payment of payroll taxes under the CARES Act. The full impact is uncertain and may have an adverse impact on the Exchange's cash flows and financial condition.

Note 4 - Deposits and Investments

Investments are stated at their estimated fair values and consist of bank certificates of deposit in increments of \$250,000, with interest rates ranging from 1.65 percent to 1.75 percent that mature in one year or less. These investments have a value of \$0 at June 30, 2021 and \$4,023,317 at June 30, 2020. The Exchange also holds money market funds, which are valued at cost plus accrued interest, which approximates fair value. These funds total \$500,780 and \$3,851,781 at June 30, 2021 and 2020, respectively, and are included in cash and cash equivalents in the statement of net position.

Fair Value Measurements

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

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

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Note 4 - Deposits and Investments (Continued)

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

Note 5 - Capital Assets

Capital asset activity of the Exchange was as follows:

	Balance July 1, 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
Furniture and fixtures	1,235,663	-	-	1,235,663
Buildings and improvements	2,013,306	-	-	2,013,306
Machinery and equipment	1,071,027	72,431	-	1,143,458
Subtotal	75,673,958	6,795,530	-	82,469,488
Accumulated depreciation	64,050,951	3,524,574	-	67,575,525
Net capital assets being depreciated	<u>\$ 11,623,007</u>	<u>\$ 3,270,956</u>	<u>\$ -</u>	<u>\$ 14,893,963</u>
	Balance July 1, 2019	Additions	Disposals and Adjustments	Balance June 30, 2020
Capital assets being depreciated:				
Web portal development	\$ 39,503,532	\$ -	\$ -	\$ 39,503,532
Software	23,361,982	8,488,448	-	31,850,430
Buildings and improvements	1,916,058	97,248	-	2,013,306
Office equipment	1,031,036	39,991	-	1,071,027
Furniture and fixtures	1,088,081	147,582	-	1,235,663
Subtotal	66,900,689	8,773,269	-	75,673,958
Accumulated depreciation	61,595,658	2,455,293	-	64,050,951
Net capital assets being depreciated	<u>\$ 5,305,031</u>	<u>\$ 6,317,976</u>	<u>\$ -</u>	<u>\$ 11,623,007</u>

June 30, 2021 and 2020

Note 6 - 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, which have been directed to CoverColorado in the past, are now pledged to the Exchange. Revenue recognized under House Bill 13-1245 totaled \$5,000,000 for the years ended June 30, 2021 and 2020 and is included in program revenue in the consolidated statement of revenue, expenses, and changes in net position.

Medicaid Cost Reimbursement

Beginning during the year ended June 30, 2019, 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 consolidated statement of revenue, expenses, and changes in net position. For the years ended June 30, 2021 and 2020, reimbursable expenses totaled \$5,089,090 and \$6,249,853, respectively, and have been recognized as program revenue.

Carrier Fee Revenue

Through the Exchange's website, individuals can choose to purchase health insurance policies from various carriers. The Exchange charges carriers 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 \$30,963,128 and \$33,368,356 for the years ended June 30, 2021 and 2020, respectively.

CPDHE Cost Reimbursement

On October 28, 2020, the Exchange entered in to a contract with State of Colorado for the use & benefit of the Department of Public Health and 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 consolidated statement of revenue, expenses, and changes in net position. CPDHE reimbursable expense totaled \$1,613,104 for the year ended in June 30, 2021.

Note 7 - Operating Leases

The Exchange is obligated under operating leases primarily for office space and equipment, expiring at various dates through June 2024. The leases require the Exchange to pay taxes, insurance, utilities, and maintenance costs. Total rent expense for office space under these leases was \$598,686 and \$720,759 for June 30, 2021 and 2020, respectively. Total rent expense for office equipment leases for the years ended June 30, 2021 and 2020 was \$130,399 and \$120,431, respectively.

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Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Note 7 - Operating Leases (Continued)

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

Years Ending June 30	Amount
2022	\$ 804,838
2023	757,025
2024	169,269
Total	<u>\$ 1,731,132</u>

Note 8 - 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 balance after one year of service. Total employer contributions under this plan for the Exchange were \$895,888 for the year ended June 30, 2021 and \$843,148 for the year ended June 30, 2020. Forfeitures were not material to the plan.

Note 9 - Contingency

The Exchange is a recipient of federal and state awards, which are subject to audits to determine compliance with applicable regulations. In July 2018, the Exchange received an audit report from the OIG recommending the repayment of \$2,567,604 in questioned federal expenditures from 2012 to 2016. The Exchange has responded to the findings with federal officials and believes there is sufficient evidence to support the allowance of \$2,104,550 of the questioned costs that were identified. Management believes it is only reasonably possible that a loss has occurred for this portion of the questioned costs, and, therefore, a liability has not been recognized for this portion of the questioned costs as of June 30, 2021. However, the Exchange believes it is probable that \$463,054 of the costs will have to be refunded, and, as a result, a liability has been recognized as of June 30, 2021 and 2020.