

**Colorado Health Benefit Exchange
Report to the Finance Committee
Regarding the June 30, 2014 Audit**

- **Financial statements are comparative with unmodified opinion for 2014. An OMB Circular A-133 audit was required for 2014.**
- **Statements of Net Position:**
 - Cash had a balance of \$21,181,469 at June 30, 2014, and only \$33,003 at June 30, 2013.
 - Prepaid expenses totaled \$6,956,784 at June 30, 2014 and mainly consisted of prepaid software licenses that cover several years. Because cash has been received to pay these future expenses, unearned revenue has also been recorded totaling \$6,956,784.
 - Capital assets have a net book balance of \$31,548,407 at June 30, 2014 and mainly consist of software and web portal development. Capital assets purchased during the year ended June 30, 2014 totaled \$18,697,249 and depreciation and amortization expense totaled \$4,787,198. Beginning in October 2013, when the Exchange began operations, depreciation and amortization started on the web portal development and call center capital assets.
 - Accrued liabilities totaled \$8,559,779 at June 30, 2014 and include \$1,075,373 in retainage due under the technology contract. A significant portion of the accrued liabilities balance is based on estimates using the percentage-of-completion method in recognizing its contract expenses. A receivable from the federal grant has been recognized for any liabilities recorded at June 30, 2014.
 - A restricted grant, totaling \$2,010,000 was received from The Colorado Health Foundation during the year. At June 30, 2014, grant funds totaling \$532,245 had not yet been expended on the restricted purpose and is included in unearned revenue.
- **Statement of Revenues, Expenses, and Changes in Net Position:**
 - Federal grants revenue totaled \$86,163,238 for 2014 and consists of revenue from the second Level 1 grant and Level 2 grant, under the State Planning and Establishment Grants for the Affordable Health Care Act (ACA)'s Exchanges.
 - Program revenue includes revenue mandated under HB 13-1245 totaling \$19,992,000. The Exchange received fees for service revenue totaling \$2,162,295.
 - Expenses totaled \$74,319,517 and \$26,885,158 for 2014 and 2013, respectively. The Exchange's largest expenses consist of customer service expenses totaling \$22,056,624 and technology development expenses totaling \$21,775,853 for the year ended June 30, 2014.
- **OMB A-133 audit and reporting requirements.**
- **Operational Matters Letter** – See Attached.
- **Communication with Those Charged with Governance** – See Attached.

**Colorado Health Benefit Exchange
Report to the Finance Committee, Continued
Regarding the June 30, 2014 Audit**

- **Other Matters**
 - Subsequent events update.
 - The OMB Uniform Grant Guidance was issued December 2013. The new guidance will apply to federal grants entered into after December 26, 2014.
 - The tax return is being prepared by KCE and is due May 15, 2015.
- **Acceptance of Financial Statements**
- **Executive Session with the Auditors**

DRAFT

3/17/2015

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

**Financial Statements and Required Supplementary
Information**

June 30, 2014 and 2013

(With Independent Auditor's Report Thereon)

Colorado Health Benefit Exchange

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OMB Circular A-133 Reports

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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, 2014 and 2013, 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, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 3-9 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 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 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 March 18, 2015, 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.

March 18, 2015

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 (COHBE), 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. C4HCO is serving the individual and small group markets, with an initial potential customer base of one million Coloradans.

Just before 8 a.m. on October 1, 2013, the online shopping website opened for the Exchange – in English and in Spanish – offering individuals and families 150 health plan options from 10 carriers and offering small businesses 92 health plan options from six carriers. Sixty-seven dental plans were offered, as well as a link to vision plans through a partnership with VSP. Nearly 70,000 unique visitors came to the website on the first day and the website remained up and operational over 99% of the time since opening day. Customers could browse health plans, get an estimate of financial assistance, apply for insurance affordability programs, and buy health insurance without applying for financial assistance. Customers were also offered filtering options, including a medical provider directory, the ability to narrow options by prices, carrier and coverage level.

The system remained up and running and early issues with accounts were resolved. New features, including quality ratings for health plans and improved application process for financial assistance, were added in the weeks following go-live. The Customer Service Center became ground zero for customer support activities, as well as support for agents and Health Coverage Guides, and call and wait volumes were high throughout open enrollment. Additional Customer Service Center resources were established in Denver and other sites to support demand and peak hours. By year-end, the Customer Service Center handled over 100,000 calls and over 20,000 online chats.

In December 2013, the organization launched a statewide outreach tour with a leased 24-foot RV, wrapped with the logo and branding. This tour included about 20 events around the state, in partnership with King Soopers and agents and Assistance Sites. A statewide awareness survey was conducted in December to measure knowledge of the Marketplace. The survey showed that awareness of Connect for Health Colorado tripled between April 2013 and December 2013.

Application and payment deadlines were extended later in December to accommodate a last-minute rush of customers. By the end of 2013, over 52,000 Coloradans had signed up for coverage, with nearly half of them receiving financial assistance.

The early part of 2014 focused on implementing additional technology and operational features, including payment, reconciliation and appeals processes. Outreach and marketing activities remained intense and a new advertising campaign was launched, featuring actual customers in television and radio spots emphasizing the savings and benefits of shopping through the Marketplace. In March, in anticipation of another last-minute surge of customers, walk-in sites and enrollment events were established across the state. The RV was utilized throughout the first three months of 2014, driven around the state to enrollment events and to support Assistance Sites and agents. Five walk-in sites were opened in the Denver metro area – including a former telephone store on the 16th Street Mall. The walk-in sites saw huge crowds and media attention and positive customer reviews. Staff coordinated with agents and Health Coverage Guides to staff the walk-in sites and all worked together to support customers with enrollment. Customers who had started their applications before March 31 were allowed to complete their enrollments through April 15.

Customer Service operations remained a high priority, with enhanced procedures implemented to respond to issues presented by customers. The Appeals team also ramped up, responding to customer complaints and appeals, attempting to resolve issues informally before referring to the administrative court process.

The Board continued to meet regularly, shifting more of its focus on finances and sustainability. In March, the Board approved a 1.4% administrative fee to insurance carriers that provide health plans through the Connect for Health Colorado marketplace. The Legislative Review Committee approved the organization's operational plan in January and the Board approved the budget and financing plan in June, solidifying the sustainability plan while keeping fees among the lowest in the nation.

By the end of open enrollment, Colorado's Marketplace had enrolled 124,000 Coloradans in private health insurance and supported the enrollment of over 187,000 Coloradans into Medicaid. Colorado out-performed many states and its own per capita ranking – enrolling the fourth highest number of people in private health insurance of states that built exchanges.

In mid-to-late April, the organization launched targeted marketing and outreach initiatives to Coloradans eligible to purchase health insurance with qualifying life events, including young adults graduating from college, uninsured Latinos and people moving into Colorado. This work included the launch of a new website to reflect the closed open enrollment period. Enrollments continued to grow, with over 141,000 Coloradans signed up for private health insurance as of late July 2014. The Customer Service Center remained busy with customer accounts and life-change events. Starting in the spring and continuing in the summer, increased focus was placed on preparing for renewals and automation of certain enrollment processes. The other main activities were preparing for the Shared Eligibility Service with Colorado's Department of Health Care Policy and Financing (HCPF) – which will allow customers to have a more streamlined financial application process – and preparing for newer technology systems – all with the eye on the next open enrollment period in November. In May 2014, carriers applied to Division of Insurance (DOI) for certification of health plans for the 2015 Open Enrollment period, which began on November 15, 2014. All carriers who had participated in the Marketplace in 2013 applied to continue to sell health plans for the next enrollment period.

Funding

C4HCO's primary funding, for ongoing Marketplace (technology) development, Customer Service Center implementation and management, and to fund operations was provided through federal grants awarded by the Department of Health and Human Services.

- First Level 1 Establishment Grant, \$17,951,000, awarded February 22, 2012, and closed out in 2013.
- Second Level 1 Establishment Grant, \$43,486,747, awarded September 27, 2012, and closed out in April, 2014.
- Level 2 Establishment Grant, \$116,245,677, awarded July 9, 2013.

One requirement of the Level 2 grant was to develop a sustainability plan that would ensure the ongoing operations of the Marketplace after federal funding ends. 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.

HB 13-1245 allows the following:

- C4HCO may collect a broad market assessment on medical and dental policies in the small group and individual markets sold between 2014 and 2016. For 2014, the Board decided to waive the assessment fee. For 2015, the Board voted to set the fee at \$1.25. The 2016 fee has not been determined yet.

- C4HCO has been the beneficiary of reserve funds from CoverColorado. In July 2013, they received \$15,000,000. During the first and second quarters of FY 15, they received an additional \$13,254,167.

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. For the 2014 calendar year, the Board set this fee at 1.4%.

Financial Statements

C4HCO's financial statements are prepared in accordance with accounting principles generally accepted in the United States as promulgated by the Governmental Accounting Standard 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.

The primary source of C4HCO's funding for fiscal year 2014 continued to be from federal grants. These federal funds are drawn as costs are incurred. As a result of the reimbursement method of funding, the organization maintains the lowest possible cash balance. Federal funds cannot earn interest and are not kept in interest-bearing accounts.

The change in Total Assets between 2013 and 2014 of \$45,073,563 is the combined result of the \$15,000,000 received from CoverColorado, and the grant receivable at fiscal year-end, the amounts prepaid for software and licenses, and assets capitalized according to the organization's capitalization policy, including the development of the Marketplace website portal. Depreciation of the website portal and service center assets began on October 1, 2013.

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. This amount will increase in importance as Connect for Health Colorado moves to a self-sustaining environment.

The Statement of Revenues, Expenses, and Changes in Net Position states the operating and non-operating revenues and expenses for COHBE during the year. The difference between revenues and expenses is the Change in Net Position and the cumulative differences from inception are presented as the Net Position of COHBE, reconciling the total Net Position on the statement.

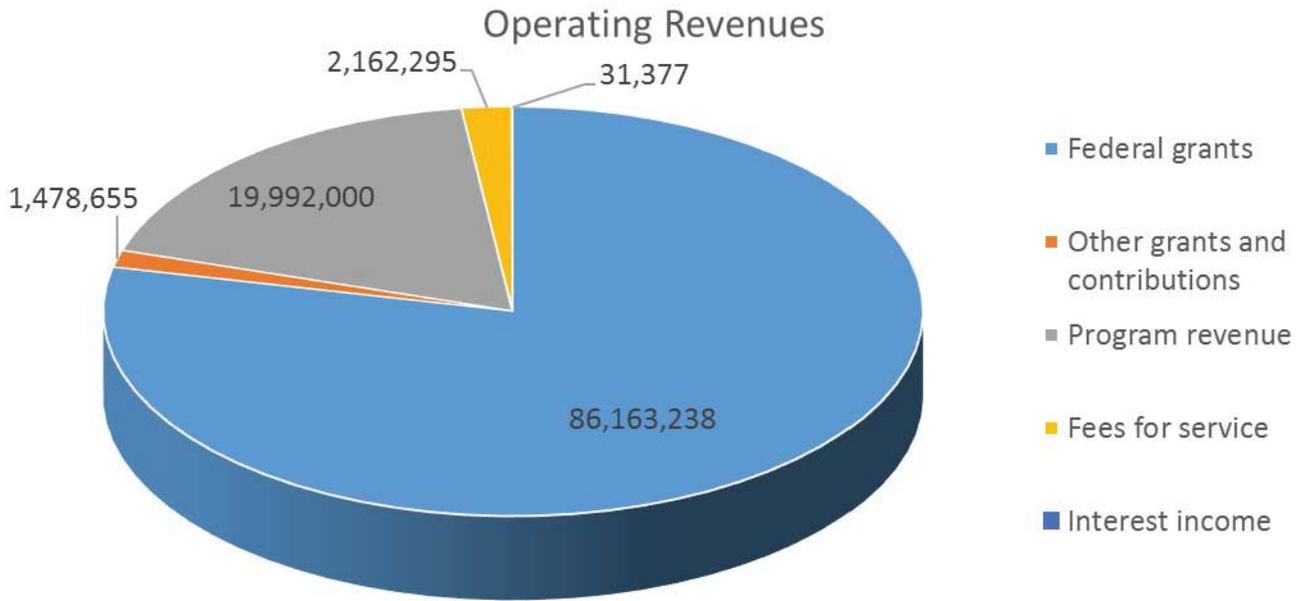
Operating Revenues

Total federal grants revenue for the year was \$86,163,238 which was an increase in grant revenue of \$42,981,626 over the prior fiscal year. This a result of the addition of the Customer Service Center expense, the additional FTE's as the staff grew to operational level, and the ongoing marketplace technology development that took place during the year. This level of revenue was expected and aligns with the grant budgets developed. As the organization moves into Fiscal Year 2015, the grant activity will decrease, and will begin to move into program revenue the second half of the fiscal year, and ongoing in future years.

There was an additional \$1,478,655 in grant revenue through The Colorado Health Foundation, to financially support the Assistance Network program activities that the Exchange was unable to fund through federal grants.

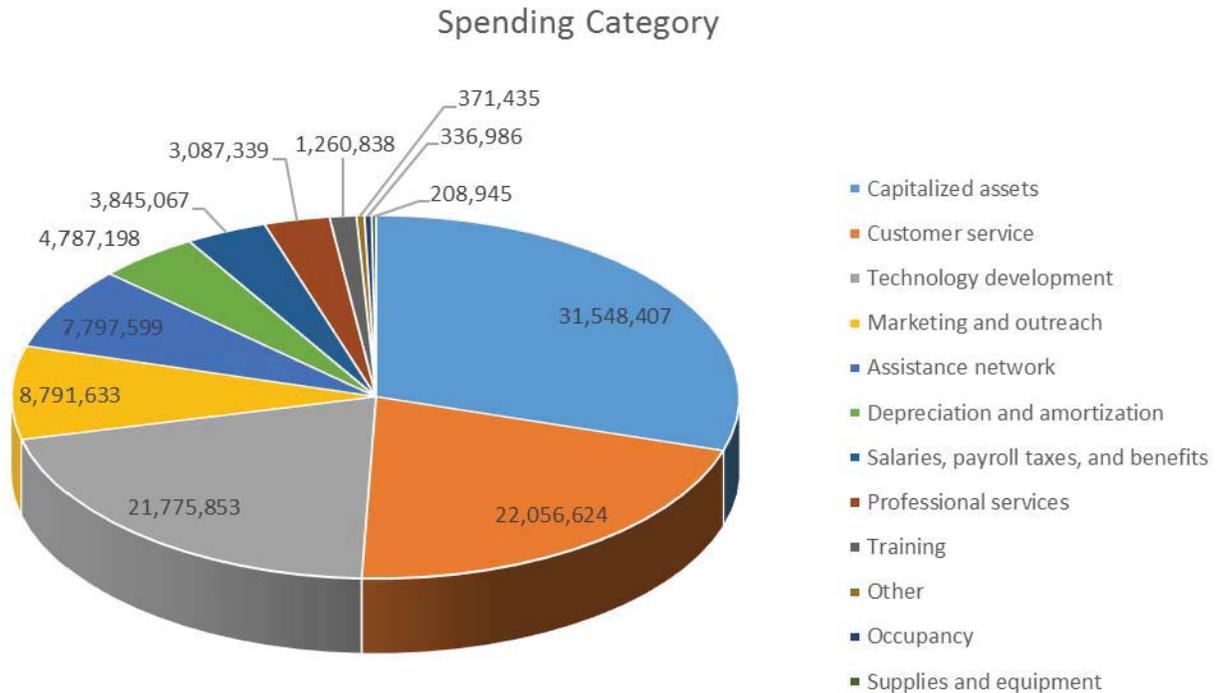
During Fiscal Year 2014, COHBE also generated \$22,154,295 in program revenue. This was the result of \$15,000,000 from CoverColorado, \$5,000,000 from the Carrier Tax Credits, and the balance is program revenue from health insurance policies sold on the Marketplace to individuals and small groups. The service fees through June 30, 2014 were \$2,162,295.

The balance of other revenue for the fiscal year was \$31,377 which was interest income generated on the program revenue, detailed below.



Expenditures

Total expenses for the fiscal year were \$74,319,517. Total expenses, plus the net position at the beginning of the year of \$17,654,643 equal the \$53,162,691 in annual revenue and is distributed as follows:



The overall proportionate mix of expenditures remains relatively the same from FY13 to FY14. Capitalized Assets, went from 39% for FY13 to 30% for FY14. This reduction has to do with the increase in Customer Service expenses from 4% to 21% in FY14, which has a direct correlation to the first open enrollment period and the interaction between COHBE and Coloradans. Marketing and Outreach increased 3% as COHBE continued to expand their interface and interaction with customers. G&A expenses remained a relatively low portion of the overall budget, with Salaries, Payroll Taxes and Benefits staying at less than 5% of the total expenditures.

Statement of Cash Flows

The Statement of Cash Flows represents COHBE’s change in cash and cash equivalents for the year and provides a summary of how cash was utilized. Due to the nature of the reimbursement method and the prescriptive requirements of the grant funding, the Statement of Cash Flows is less of a management tool and more of a reporting tool at this time.

Colorado Health Benefit Exchange Dashboard as of January, 2015

The Colorado Health Benefit Exchange’s mission is to increase access, affordability, and choice for individuals and small employers purchasing health insurance in Colorado. This current open enrollment period, which began November 15, 2014, provides COHBE with the first opportunity to compare the results of operations over the previous year’s open enrollment.

The charts below represent the known metric comparison between the organization’s first open enrollment which began on October 1, 2013 and ended March 31st, and the current open enrollment which began November 15, 2014, and will end on February 15, 2015. While the organization was able to take advantage of the auto renewal option for many of their customers, they also faced a challenging logistical situation when it was realized that the benchmark for assessing an individual’s opportunity for a tax credit to reduce their monthly premium had decreased due to successful competition within the marketplace which kept health insurance premiums at a flatline over the previous year.

Access, Affordability, and Choice	2014	2015
Submitted Enrollments	152,243	121,751
Currently Covered Lives	125,006	119,718
Individual	123,138	118,888
SHOP	1,868	830
Enrollments Utilizing APTC/CSR	69,578	61,087
Average Selected Premium		
Non Financially Assisted	\$ 281.74	\$ 287.03
Catastrophic	\$ 149.78	\$ 130.79
Bronze	\$ 258.82	\$ 270.54
Silver	\$ 317.83	\$ 328.92
Gold	\$ 350.99	\$ 358.39
Platinum	\$ 331.29	\$ 346.51
Financially Assisted - Gross/Net	\$400.36/\$128.86	\$401.12/\$172.77
Bronze	\$344.22/\$97.70	\$351.51/\$138.90
Silver	\$414.72/\$126.25	\$423.28/\$178.25
Gold	\$464.29/\$248.54	\$483.26/\$304.81
Platinum	\$450.69/\$245.53	\$497.08/\$334.55

Colorado Health Benefit Exchange also tracks their effectiveness within the State of Colorado by gathering data in regards to the various channels through which Coloradans have enrolled in health insurance coverage.

Assistance Channels	2014	2015
Broker Assisted Enrollments	47,638	45,189
Certified Brokers	1,580	1,279
HCG Assisted Enrollments	*9,817	5,821
Trained Health Coverage Guides	446	455
Certified Application Counselors	154	166
Service Center Assisted Enrollments	<i>In Progress</i>	<i>In Progress</i>
Carrier Direct	761	521

Currently Known Facts and Conditions

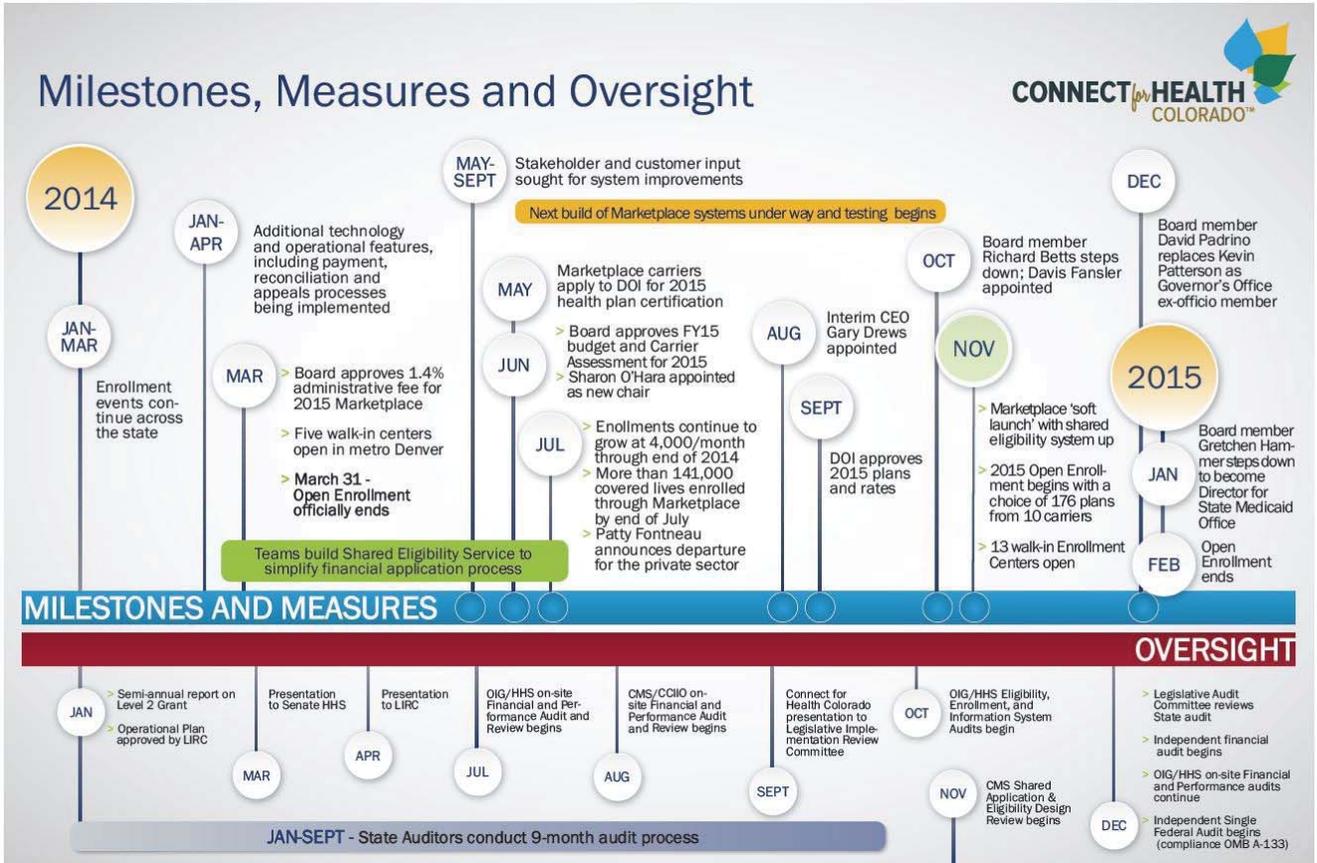
Colorado Health Benefit Exchange continues to operate in an environment of change and growth. The organization has successfully invoiced for SHOP revenue and has worked diligently with the insurance carriers and CMS to reconcile the individual policies sold on the exchange and the revenue generated by those policies. Invoicing for these individual fees, which began in the 2nd quarter of FY15, has generated close to \$2,000,000 in collected revenue, with another \$4,000,000 anticipated to be invoiced and collected in the 3rd quarter of FY15. This has been a historical exercise, which continues to be improved in efficiency. Going forward it is anticipated that invoices will be generated on a monthly basis. Additionally, the broad market assessment fee of \$1.25 per policy per month that is being collected on all policies sold in Colorado for the calendar year 2015, will begin in April, 2015. The work has already begun to manage and reconcile this invoicing process.

As it is necessary for the organization to be financially self-sustaining through these fees by the end of 2015, there is an increased need for efficiencies in processes and contract management. The organization is beginning contract re-negotiations with their major vendor partners to help streamline and reduce costs. Independent contractor services are being replaced by full time staff as needed and as appropriate.

The organization is actively seeking a Senior Internal Auditor to oversee all facets of COHBE and to help manage the audit and review needs that are ongoing. The need for this type of role became greatly apparent during 2014 with the drain on staff that was a result of the intensity of the audit and reviews that were scheduled during the year.

The Board of Directors has engaged a partner to assist in the hiring of the new Chief Executive Officer/Executive Director. This position was anticipated to be filled by December, 2014, but the search is ongoing currently. Simultaneously the organization is seeking to fill the roles of Chief Financial Officer and Chief Operating Officer.

The timeline below illustrates and complexity of the political, technical, federal and local environments within which Colorado Health Benefit Exchange continues to navigate and operate.



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, 2014 and 2013

	2014	2013
Assets:		
Current assets:		
Cash and cash equivalents	\$ 21,181,469	33,003
Accounts receivable	2,245,804	60,276
Federal grants receivable	16,455,727	13,605,958
Prepaid expenses	2,276,896	1,638,226
Total current assets	42,159,896	15,337,463
Noncurrent assets:		
Security deposits	19,719	17,545
Long-term portion of prepaid expenses	4,679,888	790,083
Total noncurrent assets	4,699,607	807,628
Capital assets (note 2):		
Web portal development	24,444,591	9,779,007
Software	9,350,432	8,577,522
Leasehold improvements	1,912,952	209,072
Office equipment	1,063,252	23,792
Furniture and fixtures	774,624	259,208
	37,545,851	18,848,601
Less accumulated depreciation and amortization	(5,997,444)	(1,210,245)
Capital assets, net	31,548,407	17,638,356
Total assets	\$ 78,407,910	33,783,447
Liabilities:		
Current liabilities:		
Accounts payable	\$ 9,019,879	889,277
Accrued liabilities	8,559,779	12,676,199
Payroll liabilities	184,179	133,919
Unearned revenue	2,801,494	1,639,326
Total current liabilities	20,565,331	15,338,721
Long-term liabilities:		
Long-term portion of unearned revenue	4,679,888	790,083
Total liabilities	25,245,219	16,128,804
Net Position:		
Net investment in capital assets	31,548,407	17,638,356
Unrestricted	21,614,284	16,287
Total net position	53,162,691	17,654,643
Commitments (notes 3 through 6)		
Total liabilities and net position	\$ 78,407,910	33,783,447

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, 2014 and 2013

	2014	2013
Operating Revenues:		
Federal grants	\$ 86,163,238	43,981,626
Other grants and contributions	1,478,655	28,470
Program revenue (note 3)	19,992,000	–
Fees for service	2,162,295	–
Interest income	31,377	–
Other revenue	–	1,565
	109,827,565	44,011,661
Operating Expenses:		
Customer service	22,056,624	1,715,053
Technology development	21,775,853	18,025,121
Marketing and outreach	8,791,633	2,123,837
Assistance network	7,797,599	–
Depreciation and amortization	4,787,198	1,147,309
Salaries, payroll taxes, and benefits	3,845,067	2,131,655
Professional services	3,087,339	1,314,809
Training	1,260,838	77,022
Other	371,435	81,056
Occupancy	336,986	144,021
Supplies and equipment	208,945	125,275
	74,319,517	26,885,158
Increase in net position	35,508,048	17,126,503
Net position at beginning of year	17,654,643	528,140
Net position at end of year	\$ 53,162,691	17,654,643

See the accompanying notes to the financial statements

Colorado Health Benefit Exchange
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Federal grants received	\$ 93,045,330	32,387,289
Other grants and contributions received	1,478,655	–
Other operating revenue received	20,000,144	30,035
Cash paid for grants to subrecipients	(6,008,388)	–
Cash paid for materials and services	(64,875,219)	(12,115,726)
Cash paid to employees and for taxes and benefits	(3,794,807)	(2,010,638)
Net cash provided by operating activities	39,845,715	18,290,960
Cash flows used in capital and related financing activities:		
Purchases of capital assets	(18,697,249)	(18,258,312)
Net cash used in capital and related financing activities	(18,697,249)	(18,258,312)
Net increase in cash and cash equivalents	21,148,466	32,648
Cash and cash equivalents at beginning of year	33,003	355
Cash and cash equivalents at end of year	\$ 21,181,469	33,003
Reconciliation of increase in net position to net cash provided by operating activities:		
Increase in net position	\$ 35,508,048	17,126,503
Adjustments to reconcile increase in net position to net cash provided by operating activities		
Depreciation and amortization	4,787,198	1,147,309
Increase in operating assets:		
Accounts receivable	(2,185,528)	(59,682)
Federal grants receivable	(2,849,769)	(12,671,271)
Prepaid expenses	(5,318,558)	(1,075,834)
Security deposits	(2,174)	(11,661)
Increase in operating liabilities		
Accounts payable and accrued liabilities	4,064,442	12,758,662
Unearned revenue	5,842,056	1,076,934
Net cash provided by operating activities	\$ 39,845,715	18,290,960

See the accompanying notes to the financial statements

Colorado Health Benefit Exchange
Notes to Financial Statements
June 30, 2014 and 2013

(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 is being provided to finance the Exchange design, development, and implementation phases. This funding began in 2011 and extends to December 31, 2015. 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) Accounts and Federal Grants Receivable

Federal grants receivable consists of unreimbursed federal grant funds as of June 30, 2014 and 2013. The Exchange considers all accounts and federal grants receivable to be fully collectible; accordingly, no allowance for doubtful amounts is considered necessary. Accounts deemed uncollectible are charged to the change in net position when that determination is made.

(e) 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 five to seven years.

Colorado Health Benefit Exchange
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Federal Grant Revenue

Federal grant revenue is recognized as related expenses are incurred and work is performed. Funding received in advance is recorded as unearned revenue. Unearned federal grant revenue at June 30, 2014 and 2013 totaled \$6,956,784 and \$2,429,409, respectively.

(g) Net Position

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

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

Restricted: Net position subject to externally imposed stipulations on their use. There are no restrictions as of June 30, 2014 and 2013 that are narrower than the Exchange.

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, 2014 and 2013.

(i) Concentrations of Credit Risk

Financial instruments which potentially subject the Exchange to concentrations of credit risk consist of cash and federal grants 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 insured by federal depository insurance. Eligible collateral includes municipal bonds, U.S. government securities, mortgages, and deeds of trust.

The Exchange’s federal grants receivable balance is due from one entity, relating to its federal grants. The Exchange receives substantially all of its revenue from federal grants. This revenue is contingent upon future approval of grant funding and appropriation by the federal government. If a significant reduction in the level of this support occurs, it would have a significant effect on the Exchange's programs and activities.

(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.

Colorado Health Benefit Exchange
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(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 March 18, 2015, and this is the date through which subsequent events were evaluated.

(m) Reclassifications

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

(2) Capital Assets

Following are the changes in capital assets:

	July 1, 2012	Additions	Retirements	June 30, 2013
Web portal development	\$ 163,922	9,615,085	—	9,779,007
Software	410,000	8,167,522	—	8,577,522
Leasehold improvements	—	209,072	—	209,072
Office equipment	—	23,792	—	23,792
Furniture and fixtures	<u>16,367</u>	<u>242,841</u>	<u>—</u>	<u>259,208</u>
	590,289	18,258,312	—	18,848,601
Less accumulated depreciation and amortization	<u>(62,936)</u>	<u>(1,147,309)</u>	<u>—</u>	<u>(1,210,245)</u>
Capital assets, net	<u>\$ 527,353</u>	<u>17,111,003</u>	<u>—</u>	<u>17,638,356</u>

Colorado Health Benefit Exchange
Notes to Financial Statements, Continued

(2) Capital Assets, Continued

	July 1, <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2014</u>
Web portal development	\$ 9,779,007	14,665,584	—	24,444,591
Software	8,577,522	772,910	—	9,350,432
Leasehold improvements	209,072	1,703,880	—	1,912,952
Office equipment	23,792	1,039,460	—	1,063,252
Furniture and fixtures	<u>259,208</u>	<u>515,416</u>	<u>—</u>	<u>774,624</u>
	18,848,601	18,697,250	—	37,545,851
Less accumulated depreciation and amortization	<u>(1,210,245)</u>	<u>(4,787,199)</u>	<u>—</u>	<u>(5,997,444)</u>
Capital assets, net	<u>\$ 17,638,356</u>	<u>13,910,051</u>	<u>—</u>	<u>31,548,407</u>

During 2013, the Exchange incurred \$377,508 in capitalized costs related to the development of a call center located in Colorado Springs. At June 30, 2013, the call center had not commenced operations and, therefore, depreciation expense was not recorded for the year ended June 30, 2013. The call center began operating in October 2013 and the Exchange began recognizing depreciation on the capital assets at that time.

From its inception, through June 30, 2013, the Exchange incurred \$9,779,007 in costs related to the development of the health benefit exchange web portal that were capitalized. At June 30, 2013, the web portal had not been placed into service yet and, therefore, amortization expense was not recorded for the year ended June 30, 2013. The web portal was placed into service in October 2013 and the Exchange began recognizing amortization on the web portal at that time.

(3) House Bill 13-1245

On May 6, 2013, the State of Colorado General Assembly passed House Bill 13-245, which outlines funding mechanisms that will help to support the Exchange in the short and long terms. Specifically, the House Bill allows for three components of the Exchange's future revenue approach. First, it allows for a fee to be placed on insurance carriers, which is not allowed to exceed \$1.80 per number of lives insured per month. The Exchange elected to waive this fee requirement for calendar year 2014. However, the Exchange has the option to exercise this fee assessment through December 2016. Second, the House Bill allows for a portion of reserves collected from the closing of CoverColorado to be transferred to the Exchange to fund operations. Lastly, any deductible donations made by insurance carriers, which have been directed to CoverColorado in the past, will now be pledged to the Exchange. Revenue recognized under House Bill 13-1245 totaled \$19,992,000 and is included in program revenue on the Statement of Revenues, Expenses, and Changes in Position.

Colorado Health Benefit Exchange
Notes to Financial Statements, Continued

(4) Leases

The Exchange has a non-cancelable operating lease for office space in Denver, Colorado, which requires monthly payments totaling \$42,153, and is scheduled to expire in March 2018. 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 a non-cancelable copier lease which requires monthly payments of \$1,731 and expires April 2015. Future minimum lease payments under non-cancelable operating leases are as follows for the years ended June 30:

2015	\$ 466,726
2016	505,842
2017	505,842
2018	<u>379,381</u>
	<u>\$ 1,857,791</u>

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, 2014 and 2013 was \$492,274 and \$121,910, respectively. Total rent expense for the copier lease for the years ended June 30, 2014 and 2013 was \$30,510 and \$17,618, respectively.

(5) Commitments

The Exchange has entered into numerous multi-year contract agreements relating to the development of a health benefit exchange. Any agreements that exceed the Exchange's current grant periods are contingent upon future grant approval and appropriated funding by the federal government.

(6) Retirement Plan

The Exchange established a retirement plan under section 403(b) of the Internal Revenue Service Code that is available to certain of its employees. 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 \$289,951 for the year ended June 30, 2014 and \$148,443 for the year ended June 30, 2013.

(7) Related Party Transaction

During fiscal 2013 and the first six months of fiscal 2014, the Exchange contracted with a company to provide employee benefit services to its employees. One of the Exchange's board members serves as President of the company. Total payments made to the company during the years ended June 30, 2014 and 2013 were \$83,367 and \$101,355, respectively, and consisted of both employer and employee premiums.

**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, 2014, 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 March 18, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2014-001 to be a material weakness.

**Board of Directors
Colorado Health Benefit Exchange**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Exchange's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 instances no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Exchange's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Exchange's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

March 18, 2015

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

**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 Circular A-133 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, 2014. The Exchange's major federal programs are 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 the requirements of laws, regulations, contracts, and grants 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 United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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.

Basis for Qualified Opinion on CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges

As described in the accompanying schedule of findings and questioned costs, the Exchange did not comply with requirements regarding CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges as described in finding numbers 2014-002 for Period of Availability, 2014-003 for Subrecipient Monitoring, and 2014-004 for Reporting. Compliance with such requirements is necessary, in our opinion, for the Exchange to comply with the requirements applicable to that program.

**Board of Directors
Colorado Health Benefit Exchange**

Qualified Opinion on CFDA No. 93.525 State Planning and Establishment Grants to the Affordable Care Act (ACA)'s Exchanges

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 its major federal program for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-005 for Cash Management and 2014-006 for Activities Allowed and Allowable Costs. Our opinion on each major federal program is not modified with respect to these matters.

The Exchange's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Exchange's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on 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 OMB Circular A-133, 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-002 for Period of Availability, 2014-003 for Subrecipient Monitoring, and 2014-004 for Reporting to be material weaknesses.

**Board of Directors
Colorado Health Benefit Exchange**

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-005 for Cash Management and 2014-006 for Activities Allowed and Allowable Costs to be significant deficiencies.

The Exchange's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Exchange's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

March 18, 2015

**Colorado Health Benefit Exchange
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Grant Number</u>	<u>Federal award year</u>	<u>Federal CFDA number</u>	<u>Federal expen- ditures</u>
<i>U.S. Department of Health and Human Services:</i>				
State Planning and Establishment				
Grants for the Affordable Care Act (ACA)'s Exchanges				
	HBEIE120131-01-02	9/27/12-1/15/14	93.525	\$ 20,759,163
State Planning and Establishment				
Grants for the Affordable Care Act (ACA)'s Exchanges				
	HBEIE130169-01-03	7/9/13-12/31/15	93.525	<u>69,893,135</u>
<i>Total U.S. Department of Health and Human Services</i>				<u>90,652,298</u>
Total Expenditures of Federal Awards				<u><u>\$ 90,652,298</u></u>

Notes to the Schedule of Expenditures of Federal Awards:

(1) Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Colorado Health Benefit Exchange under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Colorado Health Benefit Exchange, it is not intended to and does not present the net position, changes in net position, or cash flows of Colorado Health Benefit 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 OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditure are not allowable or are limited as to reimbursement.

Certain expenditures, which are included in amounts above, represent payments for prepaid expenses. In accordance with the accrual basis of accounting, these payments have been recognized as prepaid expenses on the Statement of Net Position and the grant revenue is being deferred and recognized in proportion to the recognition of the expenses. The balance of the prepaid expenses and unearned revenue at June 30, 2014 totals \$6,956,784.

Colorado Health Benefit Exchange
Schedule of Expenditures of Federal Awards, Continued
Year Ended June 30, 2014

(3) Subrecipients

Of the federal expenditures presented in the schedule, Colorado Health Benefit Exchange provided federal awards to subrecipients as follows:

<u>Federal grantor/pass-through grantor/ program title</u>	<u>Federal CFDA number</u>	<u>Federal expen- ditures</u>
Advanced Patient Advocacy	93.525	\$ 59,102
Aurora Comprehensive Community Mental Health Ce	93.525	267,944
Baca County	93.525	9,888
Boomers Leading Change in Health	93.525	115,351
Broomfield Health and Human Services	93.525	30,645
Center for African American Health	93.525	138,605
Central Presbyterian	93.525	66,546
Centura Health LINKS	93.525	207,629
Chafee County Health and Human Services	93.525	128,474
Colorado Alliance for Health Equity and Practice	93.525	113,648
Colorado Health Care Association	93.525	125,416
Colorado Motor Carriers Association	93.525	82,475
Commerce City CHS - Kids First Health Care	93.525	54,932
Community Partnership Family Resource Center	93.525	45,444
Denver Health and Hospital	93.525	202,094
Denver Human Services	93.525	266,923
Denver Indian Health and Family Services	93.525	61,116
Doctors Care	93.525	89,383
Eagle County Health and Human Services	93.525	361,673
Family Resource Center Association	93.525	362,778
Family Voices	93.525	97,717
GLBT Center	93.525	132,677
Health District of Northern Larimer	93.525	287,710
High Plains Community Health Center	93.525	160,807
Jefferson County	93.525	284,036
Kit Carson County	93.525	81,834
Lutheran Family Services	93.525	4,027
Mt San Rafael	93.525	109,959
Northeast Colorado Health Department	93.525	13,771
NW Colorado Visiting Nurses Association	93.525	319,903
Otero County	93.525	65,784
Peak Vista Community Health Centers	93.525	231,010
Pikes Peak Area Council of Government	93.525	147,730

Colorado Health Benefit Exchange
Schedule of Expenditures of Federal Awards, Continued
Year Ended June 30, 2014

(3) Subrecipients, Continued

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Federal expen- ditures
Pueblo Senior Resource Development Agency	93.525	\$ 40,514
Rio Grande	93.525	17,894
San Juan Basin Health	93.525	105,726
Servicios de La Raza	93.525	353,754
Small Business Majority Foundation	93.525	234,002
SouthWest Health Systems	93.525	10,922
Stapleton Foundation	93.525	79,712
Tri-County Health	93.525	128,031
Tri-Lakes Cares	93.525	9,206
Valley-Wide	93.525	146,637
Volunteers of America	93.525	117,314
Women's Resource Center	93.525	37,645
Total paid to subrecipients		<u>\$ 6,008,388</u>

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Colorado Health Benefit Exchange (the Exchange).
2. One material weakness during the audit of the financial statements is 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, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Three material weaknesses and two significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB A-133*.
5. The auditor's report on compliance for the major federal award program for the Exchange expresses a qualified opinion on State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (CFDA No. 93.525).
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program was State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (CFDA No. 93.525).
8. The threshold used for distinguishing between Type A and Type B programs was \$2,719,569.
9. The Exchange did not qualify as a low-risk auditee.

B. Findings—Financial Statement Audit

2014-001 Controls over Financial Reporting (Material Weakness)

Criteria: The financial statements are to be free of material misstatement.

Condition: Our audit resulted in three significant audit adjustments, which indicates an opportunity for improved internal control over financial statement reporting. The following significant audit entries were made as a result of the current year audit:

- An adjustment of \$532,245 was made to defer revenue related to grant funds received under a restricted grant that were unspent as of June 30, 2014.
- An adjustment of \$195,508 was made to reverse an accrual and expense related to a software license. The software license is an item that should be capitalized as an asset. Because the asset had not yet been received and recognized at June 30, 2014, the accrual should not be recognized on the books at June 30, 2014.
- An adjustment of \$180,000 was made to reverse a prior year accrual. The accrual had not been reversed as of July 1, 2013 which was a direct result of the conversion of accounting software from QuickBooks to Intaact, resulting in an overstatement of expenses.

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2014

Effect: At June 30, 2014, liabilities were understated by \$156,737, and net income was overstated by \$156,737.

Cause: The entries are the result of improper application of generally accepted accounting principles and failure to identify the proper accounting treatment.

Recommendation: Consideration should be given to new activity and accounting transactions, as to the proper accounting treatment that should be applied, in accordance with generally accepted accounting principles. Furthermore, accounting should be knowledgeable of generally accepted accounting principles and requirements under the accrual basis of accounting. Finally, the financial statements should be reviewed thoroughly by management to determine proper inclusion and treatment of all activity.

View of Responsible Officials and Planned Corrective Action: The Exchange's Board of Directors and management team are actively engaged in identifying and hiring of additional staff to manage and operate accounting and finance functions, including a Chief Financial Officer, Senior Internal Auditor, and others as needed. An interim Chief Financial Officer joined the Exchange on February 17, 2015. The current staff continues to improve financial policies and procedures, and internal controls.

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

2014-002 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Period of Availability – Material Weakness

Criteria: Federal awards may specify a time period during which the non-federal entity may use the federal funds. Where a funding period is specified, a non-federal entity may charge to the award only costs resulting from obligation incurred during the funding period.

Condition: Each of the grants received under this program specify a specific grant period during which funds must be obligated. However, certain purchases were made for future services that will occur outside of the grant period.

Context: Prepayments totaling \$5,645,097 were made for software maintenance and support services that will fall outside of the grant periods specified within the grant agreements.

Questioned Costs: \$5,645,097

Effect: The prepayments may be disallowed and reimbursement required.

Cause: Internal control procedures failed to identify that these costs were unallowable as the service would occur outside the period of availability.

Recommendation: We recommend that management further develop and implement policies and procedures to properly identify costs that fall outside of the award period. In situations where this may occur or has occurred, management should obtain a waiver or documentation of pre-approval for the identified costs.

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2014

Views of Responsible Officials and Planned Corrective Actions: The Exchange disagrees that any corrective action is necessary. In concept, the recommendation herein makes sense – manage grant monies in concert with the associated period of availability. The Exchange’s policies and procedures recognize and anticipate this basic finding. In reality, prudent management of grant monies dictates two things. First, stretch the money as far as it can go. Second, work with the granting agency to confirm that prepayments outside the grant period will *not* be required to be repaid; and that a less expensive package deal for software maintenance and support actually has the real impact of making the use of the grant monies more cost effective.

2014-003 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)’s Exchanges
Subrecipient Monitoring – Material Weakness

Criteria: When a pass-through entity passes a grant through to a subrecipient, federal agencies hold the pass-through entity ultimately responsible for compliance at the subrecipient level. The OMB A-133 compliance supplement states that pass-through entities have responsibility for (1) ensuring that subrecipients expending \$500,000 or more in federal awards during the subrecipient’s fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient’s audit period, (2) issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

Condition: The Exchange does not have procedures in place that allow for proper monitoring and follow-up of subrecipient audits.

Context: The Exchange requested copies of the most recent copies of audited financial statements and OMB A-133 audits during initial application for grant funds by subrecipients. However, the Exchange has not since followed up on the results of audits of its subrecipients, nor has the Exchange ensured that recipients are properly meeting audit requirements. As a result, management decisions have not been issued on any audit findings and the Exchange is unable to ensure that corrective action has been taken by subrecipients on any audit findings.

Questioned Costs: Indeterminable, but the total amount paid to subrecipients was \$6,008,388.

Effect: The amounts paid to subrecipients may be disallowed and reimbursement required.

Cause: The Exchange has not implemented internal control procedures that ensure compliance with monitoring of subrecipient audits.

Recommendation: The Exchange should establish internal control procedures that ensure compliance with the monitoring of subrecipient audits.

Views of Responsible Officials and Planned Corrective Actions: The Exchange agree that an audit requirement exists with respect to a subset of the subrecipients expending \$500,000 or more in federal awards during the subrecipient’s fiscal year. The draft report

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2014

indicates that the **total** amount paid to subrecipients was \$6,008,388. However, the relevant portion for purposes of the findings herein should directly correlate only with the subrecipients receiving \$500,000 or more (in the relevant fiscal year), not all subrecipients. The Exchange's corrective actions require implementation of procedures: (1) that ensure subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings, if any.

2014-004 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Reporting – Material Weakness

Criteria: The Federal Funding Accountability and Transparency Act (FFATA) requires direct recipients of federal funds who make subawards to capture and report subawards. A direct recipient is required to file a FFATA sub-award report by the end of the month following the month in which the direct recipient awards any sub-grant greater than or equal to \$25,000. The reporting is conducted through the FFATA Subaward Reporting System (FSRS).

Condition: The Exchange failed to comply with reporting requirements under FFATA.

Context: As a direct recipient of federal funds, the Exchange awarded \$16,017,142 in grants to 52 sub-recipients during the fiscal year. All of these grants individually exceeded the \$25,000 threshold requiring reporting under FFATA. However, the Exchange did not conduct any reporting, as required, under FFATA.

Questioned Costs: This finding did not result in questioned costs.

Effect: The Exchange did not comply with federal reporting requirements.

Cause: Management was aware of the reporting requirements but could not file the report on the FFATA website.

Recommendation: The Exchange should comply with the reporting requirements as soon as possible. Additionally, the Exchange should implement control procedures to ensure that reporting requirements are met timely in the future.

Views of Responsible Officials and Planned Corrective Actions: The Exchange remains aware of the reporting requirements under FFATA and will comply with the reporting requirements as soon as possible. Additionally, the Exchange will implement control procedures to ensure that reporting requirements are met timely moving forward.

2014-005 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Cash Management - Significant Deficiency

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2014

Criteria: Advances of federal funds should be maintained in an interest-bearing account. Also, any interest received on advances of more than \$250 per year should be remitted to the U.S. Department of Health and Human Services.

Condition: The Exchange did not maintain advances of federal funds within an interest-bearing account.

Context: Draws of federal funds are deposited, by wire transfer, directly into the Exchange's operating account, which is a non-interest bearing account. As a result, interest was not earned on any advances of federal funds.

Questioned Costs: This finding did not result in any questioned costs.

Effect: Advances received under the federal program did not generate interest that then should be remitted back to the federal government.

Cause: Management is unaware of the compliance requirement of maintaining federal funds in interest-bearing accounts, and the tracking of the interest to be remitted back to the federal government.

Recommendation: The Exchange should ensure that any federal funds received in advance are maintained in interest-bearing accounts. The interest earned on the account will need to be tracked throughout the year and any interest earned over \$250 should be remitted to the U.S. Department of Health and Human Services.

Views of Responsible Officials and Planned Corrective Actions: The Exchange will ensure that any federal funds received in advance are maintained in interest-bearing accounts and that any interest earned on such accounts will be tracked throughout the fiscal year and any and any interest earned over \$250 remitted to the U.S. Department of Health and Human Services.

2014-006 U.S. Department of Health and Human Services
CFDA No. 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges
Activities Allowed and Allowable Costs – Significant Deficiency

Criteria: Grant recipients are specifically disallowed from using funds under the program for promotional giveaways. Also, under OMB Circular A-110, the "cost-plus-a-percentage-of-cost" method of contracting is not allowed. The "cost-plus-a-percentage-of-cost" is a method of contracting or a type of contract under which the contractor is not only reimbursed his performance costs but is also paid a stated percentage of the costs.

Condition: The Exchange used federal funds to purchase certain promotional items, including sunscreen, lip balms, beanies, t-shirts, bike bottles, etc. Also, the Exchange is under contract with one of its vendors which requires that a management fee be paid at 15% of the reimbursed costs.

Context: During testing, it was noted that a federal cash draw was reduced by \$374,235 by way of "correcting" these allowable costs, as it was identified through a State audit that these funds were used to purchase promotional items and pay a 15% management fee. Although the federal funds were reimbursed by the Exchange as a result of the State

Colorado Health Benefit Exchange
Schedule of Findings and Questioned Costs, Continued
Year Ended June 30, 2014

audit, internal controls failed to identify the unallowable costs prior to purchase with federal funds.

Questioned Costs: \$135,934 for purchase of promotional items and \$238,301 for payment of a 15% management fee. All of these costs were corrected.

Effect: Unallowable costs were purchased using federal grant funds.

Cause: Employees with procurement responsibility previously understood that these types of purchases were allowed under the program.

Recommendation: Employees with procurement responsibility should be adequately trained and able to identify unallowable costs under the federal program.

Views of Responsible Officials and Planned Corrective Actions: The Exchange's procurement policies and procedures will entail such periodic and on-going training as required to allow responsible staff members to identify unallowable costs associated with federal grant monies.

**Colorado Health Benefit Exchange
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014**

There were no findings relative to federal award programs reported for the year ended June 30, 2013.

To Management and the Board of Directors of
Colorado Health Benefit Exchange:

In planning and performing our audit of the financial statements of Colorado Health Benefit Exchange (the Exchange) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Exchange's internal control over financial reporting (internal control) as a basis for designing our auditing 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.

During our audit we became aware of several matters that are opportunities for enhancing operating efficiency but are not internal control deficiencies required to be reported under Statement of Auditing Standards (SAS) No. 115. The attachment that accompanies this letter summarizes our comments and suggestions regarding those matters.

This communication is intended solely for the information and use of management, the board of directors, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

March 18, 2015

Colorado Health Benefit Exchange Operational Matters

- 1) Exchange policy requires that the Executive Director's expense reimbursements be reviewed and approved quarterly by the Board Chair or the Finance Committee Chair. It was evidenced during our testing that this procedure is being conducted, but not on a timely basis. The Executive Director's expense reimbursements that occurred during fiscal 2014 were only reviewed and approved at one time, in August 2014. It is important that this review be conducted quarterly, in order to determine the appropriateness of amounts charged to the Exchange on a timely basis.
- 2) As a 501(c)(3) non-profit organization, the Exchange currently follows OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, as required. However, it was previously determined that the Exchange, as an instrumentality of the State, is also considered a state-based government entity. Therefore, as a state-based government entity, the Exchange should also be following OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. However, the Exchange's current policies do not reference this circular, nor is staff knowledgeable and aware of this circular. Therefore, the Exchange should update its policies to include cost principles under this circular, as well as ensure employees are aware of and properly trained for the requirements under this circular.
- 3) Board members and certain Exchange employees are required to complete a conflict of interest disclosure upon hire and on an annual basis. However, this policy is not consistently followed and most employees are currently only completing this disclosure upon hire. Additionally, some board members are not completing the disclosure on a timely basis. The Exchange should adhere to its policy, requiring that this disclosure be completed consistently on an annual basis. This can be attained by requiring staff and board members to update the disclosure at one time during the year.
- 4) Although the auditor may assist in preparing the Schedule of Expenditure of Federal Awards, the auditee is responsible for preparation of the schedule. The auditor then determines whether the Schedule of Expenditures of Federal Awards is presented fairly in all material respects in relation to the financial statements as a whole and issues a report on the schedule. A Schedule of Expenditure of Federal Awards was not entirely prepared by the Exchange prior to the audit. Rather, some of the schedule was compiled by us, using information provided as part of the audit. We recommend that personnel be properly trained to prepare the schedule and that, for future audits, the schedule be prepared by personnel prior to the audit.
- 5) During our testing, we noted that, in some cases, expenditures are being made prior to finalization and signature on the related contracts. While the expenditures were ultimately approved through invoice approval and check signature, this untimely signing of contracts is not in compliance with the Exchange's internal policies.
- 6) An accrual totaling approximately \$6.8M was recorded on the books at June 30, 2014, relating to a large vendor contract. The accrual was estimated by management, using the percentage of completion method. However, when requested as part of the audit, there was no support for the methodology used to accrue the amount. The contract dates were dated after June 30, 2014 and, therefore, failed to properly support the accrual amount. In addition, there was no support obtained from vendor supporting the completion of work through June 30, 2014. However, as a result of the audit, support was requested and received from the vendor, in support of the percentage of work completed as of June 30, 2014. Therefore, although support was ultimately obtained, it was not obtained in a timely manner. The Exchange should obtain and maintain within its records support for all amounts recognized within the general ledger.

Colorado Health Benefit Exchange Operational Matters, Continued

- 7) An accrual totaling approximately \$6.8M was recorded on the books at June 30, 2014, relating to a large vendor contract. The accrual was estimated by management, using the percentage of completion method. However, when requested as part of the audit, there was no support for the methodology used to accrue the amount. The contract dates were dated after June 30, 2014 and, therefore, failed to properly support the accrual amount. In addition, there was no support obtained from vendor supporting the completion of work through June 30, 2014. However, as a result of the audit, support was requested and received from the vendor, in support of the percentage of work completed as of June 30, 2014. Therefore, although support was ultimately obtained, it was not obtained in a timely manner. The Exchange should obtain and maintain within its records support for all amounts recognized within the general ledger.
- 8) Federal Financial Reports (FFR) are required to be filed under the federal program on both an annual and quarterly basis, and include reporting of cumulative amounts received for the federal program as a whole, and individually by grant. During our review of the reports, we noted a \$430,721 difference in amounts allocated to the second Level 1 grant under the accounting records, versus amounts that were reported on the FFR. This difference is not significant to the federal grant and did not affect the cumulative amount reported for the program as a whole. However, it did indicate a lack of reconciliation procedures being conducted between federal reports and the accounting records. A cumulative reconciliation should be prepared between the accounting records and what is reported on the reports.
- 9) The Exchange has approved and allowed a 10% indirect cost rate reimbursement on some of its awards to subrecipients. However, support for the indirect cost rate has not been requested and obtained from the subrecipients. Support should be obtained from the subrecipients demonstrating that indirect costs generally exceed this amount. Note that the 10% rate is conservative and, under the new OMB Uniform Grant Guidance, an automatic 10% indirect cost rate is allowed under all federal agreements entered into after December 26, 2014.
- 10) The Exchange's new accounting software (which was implemented effective July 1, 2013) allows for activity to be recorded by fund and class, which is important for distinguishing activity on the federal grants from other activity. However, during the year, this function was not always utilized, leaving some amounts of activity unclassified. We recommend that the Exchange utilize this function, including reporting activity for each of the federal grants separately within the software.
- 11) The federal grant agreements recommend that the Exchange include contract clauses within its contracts with vendors and grants to subrecipients, that specifically promote re-use of assets. However, during our review of subrecipient agreements, we noted that there is not a specific clause included in the agreements. We recommend that the Exchange include the clause within its contract and grant agreements.
- 12) As a result of the audit, an adjustment was made to recognize two bank accounts, a liability of \$557,218 for premiums due to carriers, and \$7,911 in fee revenue earned. As the bank accounts mainly represent amounts due to carriers, the accounts were not recorded within the general ledger. However, the accounting department was properly monitoring and recognizing the activity of the accounts off the books. Because the bank accounts are assets of the Exchange, they should be recognized within the general ledger.

Colorado Health Benefit Exchange Operational Matters, Continued

- 13) Federal grant recipients are required to implement procedures to minimize the time elapsing between the transfer and disbursement of federal funds. Cash advances should be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the organization in carrying out the purpose of the project. The timing and amount of cash advances should be as close as is administratively feasible to the actual disbursements by the recipient organizations.

The Exchange's policies require that an online request for a drawdown of federal funds be made after checks are cut and other obligations are identified. After the drawdown request is submitted, federal funds are then wired to the Exchange's operating account within 1-5 days. At the time the funds are received, the checks are then disbursed and other obligations met. However, in September 2013, a large advance was requested, totaling \$14,865,471. This draw resulted in an overdrawn (or advance) balance for the program for a period of 74 days. Furthermore, after the advance was received, the Exchange continued to make draws, further increasing the amount of advanced funds held.

The Exchange requested and received the advance out of normal policy, in anticipation of a possible government shut-down, which would have resulted in a possible freeze on federal funds. Therefore, the advance was made under unusual circumstances. However, under the circumstances, management should have continued to expend the advanced funds, rather than requesting and drawing additional federal funds.

**Colorado Health Benefit Exchange
Communication with Those Charged with Governance
Regarding the June 30, 2014 Audit**

AREA	COMMENT
Our Responsibility Under U.S. Generally Accepted Auditing Standards (GAAS)	Audit performed in accordance with GAAS. The objective of an audit is reasonable, but not absolute, assurance about whether the financials are free of material misstatement. Our audit does not relieve you or management of your responsibilities.
Other Information in Documents Containing Audited Financials	The financial statements include OMB Circular A-133 required information for the year ended June 30, 2014. The financial statements include GASB 34-required Management Discussion and Analysis for the year ended June 30, 2014.
Planned Scope and Timing of Audit	The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter dated August 14, 2014.
Significant Audit Findings	<ol style="list-style-type: none"> 1. Management has the responsibility for selection and use of appropriate accounting policies. The significant policies used (such as the basis of accounting, type of entity and the definition of operating revenue) are listed in Note 1 to the financial statements. 2. No new accounting policies were adopted during the year and the application of existing policies was not changed during the year. 3. We noted no transactions were entered into in 2014 with an absence of authoritative accounting guidance or consensus. 4. There were no significant transactions recognized in a different period than when the transaction occurred. 5. Sensitive accounting estimates include the following: the collectibility of receivables, the receivable for carrier fees, the federal grants receivable, the amortization period of deferred costs, the depreciable lives of capitalized assets, and the recognition of contract revenue and expense. 6. Financial statement disclosures are neutral, consistent and clear. The related party footnote may be considered sensitive.
Difficulties Encountered in Performing the Audit	We encountered difficulties with receiving information from the Exchange in a timely in order to perform and complete the audit due to lack of staffing.
Corrected and Uncorrected Misstatements	Management has corrected all known and likely misstatements. Certain audit adjustments were made and they are described within the audit reports.
Disagreements with Management	No disagreements arose with management during the course of our audit on financial accounting, reporting or auditing matters.

**Colorado Health Benefit Exchange
Communication with Those Charged with Governance, Continued
Regarding the June 30, 2014 Audit**

AREA	COMMENT
Management Representations	We requested certain representations from management that are included in their representation letter dated March 18, 2015.
Management Consultations with Other Independent Accountants	We are not aware of any consultations by management with other accountants about accounting and auditing matters.
Other Audit Findings or Issues	There were no discussions of the application of certain accounting principles prior to our retention as auditor.

This communication is intended solely for the use of the board of directors and management of the Exchange and is not intended to be, and should not be, used by anyone other than these specified parties.

March 18, 2015