

**CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)**

Financial Statements

Independent Auditors' Report

June 30, 2013 and 2012

**CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)**

TABLE OF CONTENTS

Management Discussion & Analysis	1-7
Independent Auditors' Report.....	8-9
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position.....	11
Statements of Cash Flows	12
Notes to Financial Statements	13-19

**CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)**



Connecticut's Health Insurance Marketplace

**Management's Discussion and Analysis
(unaudited)**

1.0 Introduction

As Connecticut continues to design and build a state based insurance marketplace for its residents, tracking and profiling the financial activity of the organization is an essential task to ensure efficient operations and optimal allocation of resources. The following document contains a discussion and analysis of the Connecticut Health Insurance Exchange (hereafter referred to as Access Health CT (AHCT))'s financial performance for the 2013 Fiscal Year ended June 30, 2013. The management of AHCT has prepared this document to provide an overview and analysis of the basic financial statements of AHCT, and it should be read in conjunction with the statements, tables, exhibits and notes which follow this section.

2.0 Table of Contents

1.0 Introduction	1
2.0 Table of Contents	1
3.0 Background of Access Health CT	2
4.0 Access Health CT Business Model	3
5.0 Summarized Financial Information	5
6.0 Revenues, Expenses and Changes in Net Position	5
7.0 Access Health CT Net Position.....	6
8.0 Currently Known Facts, Decisions or Conditions	7
9.0 Awards.....	7
10.0 Contacting Access Health CT's Management	7

3.0 Background of Access Health CT:

AHCT (which is the brand name under which the Connecticut Health Insurance Exchange does business) was created under Connecticut enabling legislation –PA 11-53, effective July 1, 2011 “as a body politic and corporate, constituting a public instrumentality and political subdivision of the state” ... that “shall not be construed to be a department, institution or agency of the state.” PA 11-53 is codified at CGS 38 a – 1080 through 1090.

The goals of AHCT as outlined in CGS 38a – 108 3(b) are “to reduce the number of individuals without health insurance in this state and assist individuals and small employers in the procurement of health insurance by, among other services, offering easily comparable and understandable information about health insurance options.” AHCT was established as a Quasi-Public Agency. PA 11-53 (Section 16, 17 and 18) specifically amended the Quasi-Public Agency Act, CGS 120 et seq. to add AHCT as an agency subject to its requirements.

AHCT is governed by a 14 member Board of Directors. Members include ex officio state government officials and private sector members appointed by both the legislative and executive branches of state government. The mission of AHCT, and by extension the mission of the Board, is to increase the number of insured residents, improve health care quality, lower costs and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and health care providers that best meet their needs.

Prior to the establishment of AHCT, much of the planning for AHCT was funded by a Federal establishment planning grant that was awarded to Connecticut by the Federal Department of Health and Human Services (HHS) on September 29, 2010. Based on its progress in its State Based Marketplace planning efforts, HHS awarded a \$6.7M Establishment Grant to AHCT in August of 2011 to build on the work conducted under the initial planning grant.

On August 2, and August 23, 2012 AHCT, through the State of Connecticut Office of Policy and Management, was awarded a \$1,521,500 amendment to the existing Establishment Grant as well as a second Establishment Grant award of \$107,358,676, respectively, from HHS to further the development of and to stabilize the operations of AHCT during its first year of operations. These funds have allowed AHCT to shape its strategy successfully and meet all necessary development milestones and benchmarks during fiscal year 2013. On December 21, 2012, the grantee of these awards was changed to AHCT from the State of Connecticut Office of Policy and Management

On February 14, 2013, AHCT was awarded an additional Federal Grant in the amount of \$2,140,867 for the development and implementation of the In-Person Assister Program. Through a partnership with the State of Connecticut’s Office of the Healthcare Advocate, the implementation of this program will provide hands-on assistance directly to the uninsured individuals seeking health insurance coverage via AHCT during the initial open enrollment timeframe.

4.0 Access Health CT Business Model:

During fiscal year ended June 30, 2013, grant revenue was the only revenue source for AHCT. The investment for the development of the State Exchange is entirely funded from Federal grant dollars awarded. This Federal investment is expected to cover all development, start-up, and ongoing operating expenses until AHCT begins generating revenues from the operation of a fully-functioning state Health Insurance Marketplace beginning in October, 2013. The availability of Federal grant revenue ends December 31, 2014.

In May of 2013, the AHCT Board of Directors adopted a policy to acquire operating funds by charging a market assessment and/or user fees from health insurance carriers. The policy provides AHCT with a broad basis for achieving financial sustainability beginning in calendar year 2015.

During Fiscal Year 2013, AHCT successfully transitioned the financial management function from the Connecticut Office of Policy and Management (OPM) to AHCT as a stand-alone quasi- public entity. While AHCT leveraged OPM's infrastructure and processes to manage grant funds in fiscal year 2012, AHCT worked diligently to ensure the necessary financial processes and procedures were developed and implemented in order to assume management and administrative responsibility for all grant funds. AHCT finalized and filed a Grantee Change Application consisting of seven (7) artifacts with HHS in October of 2012, and received approval by HHS through the reissuance of the establishment grants directly to AHCT in December of 2012.

AHCT has partnered with several strategic vendors to address key requirements during continued Marketplace development:

- In October of 2012, Deloitte was selected as the System Integrator to develop a single shared eligibility system that will be used by both AHCT and the Connecticut Department of Social Services (DSS) to determine consumer eligibility for Medicaid, Qualified Health Plans within the Marketplace, and/or other public assistance programs.
- In February of 2013, Maximus was selected and on-boarded as AHCT's Call Center vendor. Start-up planning began immediately thereafter, with the goal of taking educational calls beginning in September of 2013, one month prior to the open enrollment period start.
- In April of 2013, New York Health Purchasing Alliance (Healthpass New York) was on-boarded to run AHCT's Small Business Health Options Program (SHOP). Healthpass is an independent, not-for-profit, commercial health insurance marketplace management firm.

In addition, AHCT has partnered with multiple state agencies through the execution of Memorandums of Understanding and/or Memorandums of Agreement in order to leverage state resources and expertise to assist in the support of the successful implementation of the Health Insurance Marketplace:

- AHCT negotiated and executed a Memorandum of Understanding (MOU) with the Department of Social Services (DSS) to document the specific roles and responsibilities of each agency during development and implementation of the Health Insurance

Marketplace. It was determined that costs for development of the dual eligibility system would be shared by DSS and AHCT, with a 28.53% share of design, development, and implementation costs being paid by DSS.

- In 2012, AHCT collaborated closely with the Office of Health Reform and Innovation (OHRI) on the development of an all payer claims database (APCD), to support a number of AHCT activities. As a result of changes to OHRI at the beginning of 2013, AHCT became more involved in the administration of the APCD. An MOU was executed by AHCT and the Office of the Lt. Governor for the temporary administration of the APCD from March through June of 2013. OHRI was officially dissolved by the Connecticut General Assembly (CGA) in June of 2013, and the CGA transferred responsibility for the operation of the APCD directly to AHCT.
- AHCT has executed an MOU with the Office of the Healthcare Advocate (OHA) for the management and administrative support of the Navigator and Assister programs.
- AHCT is in the process of finalizing an MOU with the Connecticut Department of Administrative Services' (DAS) Bureau of Enterprise Systems & Technology (BEST) for the technology hosting and operational support roles that BEST will serve for AHCT.

AHCT's financial report includes three financial statements:

1. The Statement of Net Position (Balance Sheet)
2. The Statement of Income, Expenses and Changes in Net Position
3. The Statement of Cash Flows

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used, similar to private industry. Income is recorded when earned, and expenses are recorded when incurred.

The Statement of Net Position presents information on AHCT assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of AHCT is improving or deteriorating.

The Statement of Income, Expenses and Changes in Net Position reports income and expenses of AHCT for the fiscal year. The difference – increase or decrease in net assets – is presented as the change in net assets for the fiscal year. The cumulative differences from inception forward are presented as the net assets of AHCT, reconciling to total net assets on the Statement of Net Position.

The Statement of Cash Flows present information showing how AHCT cash and cash equivalent positions changed during the fiscal year. The Statement of Cash Flows classifies cash receipts and cash payments as resulting from cash provided by operating activities and cash used for capital assets and related financing activities. The net result of those activities is reconciled to the cash balances reported at the end of the fiscal year. This statement is prepared using the direct method, which allows the reader to easily understand the amount of cash received and how much cash was disbursed.

5.0 Summarized Financial Information:

Summarized financial information as of and for the year ended June 30, 2013 and 2012 is as follows:

6.0 Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Government grants and contracts	\$ 45,463,090	\$ 3,448,792
Other income	513	-
	<hr/>	<hr/>
Total revenues	45,463,603	3,448,792
	<hr/>	<hr/>
Operating Expenses:		
Wages	2,734,791	309,049
Fringe benefits	626,199	79,796
Consultants	16,838,212	1,357,315
Equipment	217,628	7,280
Supplies	21,882	4,076
Travel	99,891	17,220
Administration	249,885	67,657
Maintenance	875,491	8,424
Depreciation and amortization	1,509,001	1,064
	<hr/>	<hr/>
Total operating expenses	23,172,980	1,851,881
	<hr/>	<hr/>
Change in net position	22,290,623	1,596,911
	<hr/>	<hr/>
Net position, beginning of year	1,596,911	-
	<hr/>	<hr/>
Net position, end of year	<u>\$ 23,887,534</u>	<u>\$ 1,596,911</u>

2013 operating revenues were higher than 2012, primarily due to increased cash required from grant funding to cover incurred operating and capital expenses as Access Health CT (AHCT) transitioned from designing the integrated eligibility system (individual marketplace) to development and implementation. The \$14.8m increase in consultant expenses is related to outsourcing support for developing and marketing AHCT's brand, design, development and implementation (DDI) of the individual marketplace and startup costs related to the Contact Center and Small Business Health Options (SHOP) marketplace. Salaries, benefits and related travel increases are aligned with staffing growth in administration and operations from 9 to 43 employees. The administration expense increase is due to rent expenses and related insurance costs in conjunction with the acquisition of a new office. The increase in maintenance expense is mainly due to software support and maintenance of capitalized software. Additionally, the depreciation and amortization increase is related to capitalized hardware and software in support of DDI, as well as furniture and leasehold improvements associated with build out of the new office. Total operating expenses were reduced by \$0.8M as a result of the cost reimbursement by the Department of Social Services.

7.0 Access Health CT Net Position

	<u>2013</u>	<u>2012</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 4,994,339	\$ 1,534,341
Accounts receivable	7,342,366	-
Prepaid expenses	1,003,958	25,135
Total current assets	<u>13,340,663</u>	<u>1,559,476</u>
Noncurrent assets		
Software development in progress	16,869,697	1,557,968
Equipment and software, net	<u>7,017,837</u>	<u>38,943</u>
Total noncurrent assets	<u>23,887,534</u>	<u>1,596,911</u>
Total assets	<u>\$ 37,228,197</u>	<u>\$ 3,156,387</u>
Liabilities and net position		
Current liabilities:		
Accounts payable - current	\$ 112,509	\$ 1,081,093
Accrued liabilities	9,773,138	45,622
Refundable advances	<u>30,811</u>	<u>432,761</u>
Total current liabilities	9,916,458	1,559,476
Long term liabilities:		
Accounts payable - long-term	<u>3,424,205</u>	<u>-</u>
Total liabilities	<u>13,340,663</u>	<u>1,559,476</u>
Net position:		
Net position invested capital assets	<u>23,887,534</u>	<u>1,596,911</u>
Total net position	<u>23,887,534</u>	<u>1,596,911</u>
Total liabilities and net position	<u>\$ 37,228,197</u>	<u>\$ 3,156,387</u>

In 2013, cash and cash equivalents primarily include \$4.9M received from the Department of Social Services for reimbursement of development costs incurred by AHCT. Prepaid expenses mainly include startup costs for the SHOP marketplace. Accounts receivable represents recognition that \$5.9M of funding from grants is required to cover incurred expenses, and \$1.4M for invoiced Department of Social Services cost reimbursements. The increase in software development in progress relates to the DDI effort by both the system integrator and project management consultant in support of the individual marketplace. Equipment and software includes the net book value of capitalized hardware and software required for the development of the individual marketplace, as well as furniture and leasehold improvements for build out of the new office. Total capital expenses were reduced by \$4.1M as a result of cost reimbursement by the Department of Social Services.

Accrued liabilities represent unpaid work by the system integrator and unreimbursed costs incurred on behalf of the Department of Social Services. Accounts payable – long-term are related to a 20% contractual

withholding of amounts due the system integrator. The decrease in refundable advances is related to the timing of cash utilization from grant draw downs.

8.0 Currently Known Facts, Decisions or Conditions

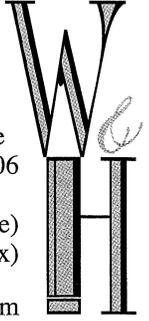
9.0 Awards

On August 28, and September 12, 2013 AHCT was awarded a \$24,960,892 amendment to the existing Establishment Grant, and a \$497,741 amendment to the existing In-Person Assister Grant respectively, from the U.S. Department of Health and Human Services pursuant to Section 1311 of the Affordable Care Act to support the on-going establishment of the state operated health insurance exchange marketplace. These funds were awarded as a result of administrative supplement requests submitted by AHCT to support unforeseen development and implementation costs.

On October 23, 2013, AHCT was awarded a new Level I Establishment Grant in the amount of \$20,303,020 by the U.S. Department of Health and Human Services pursuant to Section 1311 of the Affordable Care Act. This request was submitted primarily to fund the stabilization of AHCT's first year of operations for adherence to Federal guidance and regulations that were not contemplated at the time of the Establishment Grant funding request.

10.0 Contacting the AHCT's Management

This financial report is designed to provide citizens, taxpayers, and grantors with a general view of the AHCT's finances and to show the Exchange's accountability for the money it receives. If you have any questions about this report or need additional information, contact Mr. Steven J. Sigal, Chief Financial Officer of the Connecticut Health Insurance Exchange at 280 Trumbull Street, Hartford, CT 06103



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Connecticut Health Insurance Exchange

Report on the Financial Statements

We have audited the accompanying statements of Connecticut Health Insurance Exchange (hereafter referred to as Access Health CT ("AHCT")), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of changes in net position, revenues, expenses and change in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' 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 audits 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 net position of Access Health CT as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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.

Whittlesey & Hulley, P.C.

December 5, 2013

**CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)**

Statements of Net Position

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 4,994,339	\$ 1,534,341
Accounts receivable	7,342,366	-
Prepaid expenses	1,003,958	25,135
Total current assets	<u>13,340,663</u>	<u>1,559,476</u>
Noncurrent assets		
Software development in progress	16,869,697	1,557,968
Equipment and software, net	<u>7,017,837</u>	<u>38,943</u>
Total noncurrent assets	<u>23,887,534</u>	<u>1,596,911</u>
Total assets	<u>\$ 37,228,197</u>	<u>\$ 3,156,387</u>
Liabilities and net position		
Current liabilities:		
Accounts payable - current	\$ 112,509	\$ 1,081,093
Accrued liabilities	9,773,138	45,622
Refundable advances	30,811	432,761
Total current liabilities	<u>9,916,458</u>	<u>1,559,476</u>
Long term liabilities:		
Accounts payable - long-term	<u>3,424,205</u>	<u>-</u>
Total liabilities	<u>13,340,663</u>	<u>1,559,476</u>
Net position:		
Net position invested capital assets	<u>23,887,534</u>	<u>1,596,911</u>
Total net position	<u>23,887,534</u>	<u>1,596,911</u>
Total liabilities and net position	<u>\$ 37,228,197</u>	<u>\$ 3,156,387</u>

(The accompanying notes are an integral part of the financial statements)

**CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)**

Statements of Revenue, Expenses and Change in Net Position

For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Government grants and contracts	\$ 45,463,090	\$ 3,448,792
Other income	513	-
	<u>45,463,603</u>	<u>3,448,792</u>
Total revenues		
Operating Expenses:		
Wages	2,734,791	309,049
Fringe benefits	626,199	79,796
Consultants	16,838,212	1,357,315
Equipment	217,628	7,280
Supplies	21,882	4,076
Travel	99,891	17,220
Administration	249,885	67,657
Maintenance	875,491	8,424
Depreciation and amortization	1,509,001	1,064
	<u>23,172,980</u>	<u>1,851,881</u>
Total operating expenses		
Change in net position	22,290,623	1,596,911
Net position, beginning of year	<u>1,596,911</u>	<u>-</u>
Net position, end of year	<u>\$ 23,887,534</u>	<u>\$ 1,596,911</u>

(The accompanying notes are an integral part of the financial statements)

**CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)**

Statements of Cash Flows

For the year ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts from funding sources	\$ 39,146,801	\$ 3,881,553
Reimbursement of operating costs	817,596	-
Payments to employees	(3,034,893)	(343,223)
Payments to vendors	(19,502,350)	(406,014)
Net cash provided by operating activities	<u>17,427,154</u>	<u>3,132,316</u>
Cash flows from capital and related financing activities:		
Payments for software development in progress	(6,667,335)	(1,557,968)
Purchase of equipment and software	(11,445,032)	(40,007)
Reimbursement of equipment and software, and software development in progress	<u>4,145,211</u>	<u>-</u>
Net cash (used for) capital and related financing activities:	<u>(13,967,156)</u>	<u>(1,597,975)</u>
Net change in cash and cash equivalents	3,459,998	1,534,341
Cash and cash equivalents at beginning of year	<u>1,534,341</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 4,994,339</u>	<u>\$ 1,534,341</u>
Reconciliation of operating income to net cash provided in operating activities:		
Operating income and change in net position	\$ 22,290,623	\$ 1,596,911
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,509,001	1,064
Changes in assets and liabilities:		
Accounts receivable	(11,487,577)	-
Prepaid expenses	(978,823)	(25,135)
Accounts payable - current	(6,655,841)	1,081,093
Accrued liabilities	9,727,516	45,622
Accounts payable - long-term	3,424,205	-
Refundable advances	(401,950)	432,761
Net cash provided by operating activities	<u>\$ 17,427,154</u>	<u>\$ 3,132,316</u>

(The accompanying notes are an integral part of the financial statements)

**CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)**

Notes to Financial Statements

June 30, 2013 and 2012

NOTE 1 - PURPOSE OF ORGANIZATION:

The Connecticut Health Insurance Exchange (hereafter referred to as Access Health CT (“AHCT”)) is a body politic and corporate, and constituting a public instrumentality and political subdivision of the State of Connecticut. Access Health CT was established pursuant to Public Act No. 11-53 and is codified at CGS 38 a-1080 through 1090. The goals of AHCT are to reduce the number of individuals without health insurance in the State of Connecticut and to assist individuals and small employers in the procurement of health insurance by, among other services, offering easily comparable and understandable information about health insurance options. Access Health CT was established as a Quasi-Public Agency.

Access Health CT is governed by a 14 member Board of Directors. Members include ex officio state government officials and private sector members appointed by both the legislative and executive branches of state government. The mission of Access Health CT, and by extension the mission of the Board, is to increase the number of insured residents, improve health care quality, lower costs and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and health care providers that best meet their needs.

During fiscal years 2012 and 2013, grant revenue was the only revenue source for Access Health CT. The investment for the development of the State Marketplace is entirely funded from Federal grant dollars awarded. This Federal investment is expected to cover all development, start-up, and ongoing operating expenses until Access Health CT begins generating revenues from the operation of a fully-functioning state Health Insurance Marketplace beginning in October 2013. The availability of grant revenue ends December 31, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The financial statements have been prepared on the accrual basis.

Reporting Entity and Basis of Presentation

The accompanying financial statements of Access Health CT have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

Under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting, Access Health CT has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Access Health CT has adopted GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, deferred Inflows of Resources and Net Position, issued June 2011.

Access Health CT utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in the preparation of financial statements. Under the full accrual basis of accounting, long-term assets and liabilities are reflected in the financial statements.

Capital Assets

Capital assets comprise software development in progress, as well as equipment and other software. Access Health CT's (AHCT) policy is to treat individual assets greater than \$5,000 as capital assets. Computer equipment is recorded and tracked to ensure accountability. Assets are recorded individually to the extent possible to ensure proper accountability, accurate depreciation, and to allow for specific identification for recording of disposition.

Design, development and implementation costs incurred for the AHCT state based marketplace application are capitalized as software development in progress in accordance with GASB Statement No.51, "Accounting and Financial Reporting for Intangible Assets". The funds for this development project were provided from Federal funds awarded to AHCT and the Connecticut Department of Social Services (DSS), respectively, from each organization's U.S. Department of Health and Human Services (HHS) grant applications.

The AHCT state based marketplace application is an integrated eligibility system that determines eligibility and facilitates enrollment for both AHCT's and DSS's programs in addition to other functionality. In applying for the awarded funds, a cost allocation methodology was also filed and approved to allocate the accountability for development costs between AHCT and DSS. This allocation is 71.47% to AHCT and 28.53% to DSS. While both AHCT and DSS jointly design and develop the system, AHCT is the procuring entity and, therefore, initially funds all design, development and implementation costs and then is cost reimbursed by DSS for the 28.53% share awarded to DSS. Design, development and implementation costs, including capital assets, are presented net of the DSS reimbursement.

Depreciation and Amortization

Capital assets will be depreciated using the straight-line method over the following estimated useful lives:

Computer Equipment	3-5 years
Software	3-7 years
Furniture and Equipment	5 years

Depreciable lives are based upon actual expected use by Access Health CT, not by tax lives or other general estimates.

Cash and Investments

Access Health CT has implemented GASB Statement No. 40, Deposit and Investment Risk Disclosures.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Deposits with Financial Institutions:

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the depositor will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are uninsured or uncollateralized.

Amounts on deposit at a single financial institution occasionally exceed the federally insured limit.

Access Health CT may invest any funds not needed for immediate use or disbursement in obligations of the United States of America or United States government sponsored corporation, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any state or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service.

Access Health CT plans in the future to invest in obligations of the United States, including its instrumentalities and agencies, and the State of Connecticut Treasurer's short-term pooled investment fund (STIF). The STIF is available for use by the State's funds and agencies, public authorities and municipalities. State statutes authorized these pooled investment funds to be invested in United States Government and agency obligations, United States Postal Service obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, banker acceptances, student loans, and repurchase agreements.

Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Position

Net position represents the difference between assets and liabilities in three categories:

Net investment in capital assets – consists of net capital assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose.

Unrestricted net position – consists of all other net position that are not considered to be in the above two categories.

Reclassifications

Certain reclassifications were made to 2012 amounts to be consistent with 2013 presentation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):Subsequent Event Measurement Date

Access Health CT monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for the fiscal year ended June 30, 2013 through December 5, 2013, the date on which the financial statements were available to be issued.

NOTE 3 - CASH:

Deposits - At June 30, 2013, and 2012, the carrying amounts of Access Health CT's deposits (including checking accounts) were \$4,994,339 and \$1,534,341, respectively, and the bank balances were \$5,656,382 and \$1,699,876, respectively.

Custodial credit risk - Custodial credit risk is the risk that, in the event of a bank failure, Access Health CT will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Access Health CT does not have a deposit policy for custodial credit risk.

As of June 30, 2013 and 2012, \$5,406,382 and \$1,449,876, respectively, of Access Health CT's bank balance was uninsured and uncollateralized and therefore exposed to custodial credit risk.

Concentrations of credit risk - Access Health CT places no limits on the amount of cash in any one bank. Access Health CT does not have a policy on credit risk concentration.

NOTE 4 - EQUIPMENT AND SOFTWARE:

At June 30, 2013, equipment and software consisted of the following:

	Balance 7/1/2012	Additions	Deletions	Balance 6/30/2013
Software development in progress	\$ 1,557,968	\$ 15,311,729	\$ -	\$ 16,869,697
Equipment and software	40,007	8,487,895	-	8,527,902
	<u>\$ 1,597,975</u>	<u>\$ 23,799,624</u>	<u>\$ -</u>	<u>\$ 25,397,599</u>
	Balance 7/1/2012	Additions	Deletions	Balance 6/30/2013
Accumulated depreciation and amortization	\$ 1,064	\$ 1,509,001	\$ -	\$ 1,510,065
Net book value				<u>\$23,887,534</u>

NOTE 4 - EQUIPMENT AND SOFTWARE:(CONTINUED):

At June 30, 2012, equipment and software consisted of the following:

	Balance 7/1/2011	Additions	Deletions	Balance 6/30/2012
Software development in progress	\$ -	\$ 1,557,968	\$ -	\$ 1,557,968
Equipment and software	-	40,007	-	40,007
	<u>\$ -</u>	<u>\$ 1,597,975</u>	<u>\$ -</u>	<u>\$ 1,597,975</u>
	Balance 7/1/2011	Additions	Deletions	Balance 6/30/2012
Accumulated depreciation and amortization	\$ -	\$ 1,064	\$ -	\$ 1,064
Net book value				<u>\$ 1,596,911</u>

NOTE 5 - CONTINGENCIES AND CONCENTRATIONS:

Some grants require the fulfillment of certain conditions. Failure to fulfill the conditions could result in the return of funds. Access Health CT does not believe any funds will need to be returned, because the stipulated conditions are being met.

Reimbursement received by AHCT from DSS reimburses AHCT for the funds disbursed by AHCT for development and other costs that relate to the 28.53% share of DSS. This share was not awarded to AHCT as part of the grant application. The reimbursements are being retained by AHCT to fund ongoing design, development and other costs.

During the fiscal year ended June 30, 2013, funding came from one funder, the U.S. Department of Health and Human Services. Through December 2012 these funds passed through the State of Connecticut Office of Policy and Management (OPM). On December 21, 2012, the grantee was changed from OPM to AHCT.

NOTE 6 - COMMITMENTS:

Leases

Access Health CT has entered into various leases for office space. Estimated future payments for the leases are as follows:

Year ended June 30,

2014	\$	371,691
2015		356,339
2016		362,488
2017		371,136
2018		376,209

NOTE 6 – COMMITMENTS (CONTINUED):

Access Health CT has entered into an agreement with a contractor for its call center. The contract calls for fixed and variable costs. Estimated future fixed payments for the contract are as follows:

Year ended June 30,	
2014	\$ 6,856,769
2015	2,341,181
2016	2,341,181
2017	390,197

Access Health CT has entered into an agreement with a contractor for its Small Business Health Options Program (“SHOP”). Estimated future payments for the contract are as follows:

Year ended June 30,	
2014	\$ 4,585,000
2015	5,040,000
2016	4,380,000
2017	2,100,000

NOTE 7 – RETIREMENT AND PROFIT SHARING:

During fiscal year 2013, Access Health CT joined the State of Connecticut’s Deferred Compensation Section 457 Plan covering eligible employees. The purpose of the Plan is to enable employees who become covered under the plan to enhance their retirement security by permitting them to enter into agreements with Access Health CT to defer a portion of their salary. Participation in this Plan should not be construed to establish or create an employment contract between any eligible employee and Access Health CT.

In addition, Access Health CT established a Profit Sharing and Trust 401(a) plan for eligible employees. Access Health CT contributes a fixed rate of 3% of employee annual earnings and matches 50% of voluntary participant contributions, up to 6%, of annual earnings made by employees to the State of Connecticut’s Deferred Compensation Section 457 Plan. Also in 2013, Access Health CT made a discretionary employer contribution of 3% of employee calendar year 2012 earnings to the plan.

In total, Access Health CT made retirement and profit sharing payments of \$138,495 and \$42,169 for June 30, 2013 and June 30, 2012, respectively for both plans.

NOTE 8 – AWARDS:

Prior to the establishment of AHCT, much of the planning for AHCT was funded by a Federal establishment planning grant that was awarded to Connecticut by the Federal Department of Health and Human Services (HHS) on September 29, 2010. Based on its progress in its State Based Marketplace planning efforts, HHS awarded a \$6.7M Establishment Grant to AHCT in August of 2011 to build on the work conducted under the initial planning grant.

NOTE 8 – AWARDS (CONTINUED):

On August 2, and August 23, 2012 AHCT, through the State of Connecticut Office of Policy and Management, was awarded a \$1,521,500 amendment to the existing Establishment Grant as well as a second Establishment Grant award of \$107,358,676, respectively, from HHS to further the development of and to stabilize the operations of AHCT during its first year of operations. These funds have allowed AHCT to shape its strategy successfully and meet all necessary development milestones and benchmarks during fiscal year 2013. On December 21, 2012, the grantee of these awards was changed to AHCT from the State of Connecticut Office of Policy and Management

On February 14, 2013, AHCT was awarded an additional Federal Grant in the amount of \$2,140,867 for the development and implementation of the In-Person Assister Program. Through a partnership with the State of Connecticut's Office of the Healthcare Advocate, the implementation of this program will provide hands-on assistance directly to the uninsured individuals seeking health insurance coverage via AHCT during the initial open enrollment timeframe.

On August 28, and September 12, 2013 AHCT was awarded a \$24,960,892 amendment to the existing Establishment Grant, and a \$497,741 amendment to the existing In-Person Assister Grant respectively, from the U.S. Department of Health and Human Services pursuant to Section 1311 of the Affordable Care Act to support the on-going establishment of the state operated health insurance exchange marketplace. These funds were awarded as a result of administrative supplement requests submitted by AHCT to support unforeseen development and implementation costs.

On October 23, 2013, AHCT was awarded a new Level I Establishment Grant in the amount of \$20,303,020 by the U.S. Department of Health and Human Services pursuant to Section 1311 of the Affordable Care Act. This request was submitted primarily to fund the stabilization of AHCT's first year of operations for adherence to Federal guidance and regulations that were not contemplated at the time of the Establishment Grant funding request.