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CONNECTICUT HEALTH INSURANCE EXCHANGE (DBA ACCESS HEALTH CT)

FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)

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Independent Auditors' Report

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Independent Auditors' Report

To the Board of Directors
Connecticut Health Insurance Exchange
Hartford, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the Connecticut Health Insurance Exchange as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Connecticut Health Insurance Exchange's basic 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 of 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 auditors' 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 auditors consider 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.

An independent member of Baker Tilly International

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Connecticut Health Insurance Exchange as of June 30, 2018, and the changes in financial position and cash flows thereof for the year 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 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required 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

The financial statements of the Connecticut Health Insurance Exchange as of June 30, 2017 were audited by other auditors whose report dated January 18, 2018 expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2018 on our consideration of the Connecticut Health Insurance Exchange's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Connecticut Health Insurance Exchange's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Connecticut Health Insurance Exchange's internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
October 29, 2018

access health CT

Connecticut's Health Insurance Marketplace

Management's Discussion and Analysis
(unaudited)

1.0 Introduction

Tracking and profiling the financial activity of the state based insurance marketplace 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 or "exchange"))'s financial performance and net position for the fiscal years ended June 30, 2018, 2017 and 2016. 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 that follow this section.

2.0 Table of Contents

3.0 Background of Access Health CT:

AHCT, which is the brand name under which the Connecticut Health Insurance Exchange does business, was created pursuant to Connecticut enabling legislation Public Act (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 Connecticut General Statutes (CGS) § 38a-1080 through 1093. AHCT was established as a Quasi-Public Agency, subject to the requirements of the Quasi-Public Agency Act, CGS §1-120 *et seq.*

The goals of AHCT as outlined in CGS § 38a - 1083(b) mirror the goals of the Federal Patient Protection and Affordable Care Act (ACA) "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 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. Lieutenant Governor Nancy Wyman serves as chair of the Exchange Board of Directors. AHCT staff has worked closely with its Board to ensure that its governance structure remains in compliance with the ACA and any and all relevant State and Federal regulations. The Board meets primarily monthly and has focused on Exchange strategy and policy development, and the operations of the Exchange's Qualified Health Plan (QHP) requirements. Future updates and changes to the ACA, or any other applicable Federal and/or State laws, regulations, and guidance continue to be monitored and changes are made by the Board to the Exchange's Bylaws and Policies and Procedures as required.

Section 1311 of the ACA provides funding assistance to the states to help them plan and establish their marketplaces. AHCT received establishment and various Federal assistance awards pursuant to the ACA between 2010 and 2016. All of these CMS grants were closed as of December 31, 2016.

AHCT successfully launched its State-based Integrated Eligibility System and Health Insurance Marketplace on October 1, 2013, for the plan year beginning January 1, 2014. According to the ACA, a marketplace must be self-sustaining by January 1, 2015. The operational sustainability of AHCT is achieved by issuing annual Health and Dental Marketplace Assessments to carriers that are capable of offering a qualified health plan through the Exchange. Connecticut PA 11-53 and 13-247 initially gave AHCT the authority to charge assessments to fund the Exchange's operations and to charge interest and penalties to carriers failing to pay the assessments and fees required. This is now codified at CGS 38a-1083 (c)(7).

During its 2014 legislative session, the Connecticut General Assembly passed PA 14-217, which included provisions providing additional enforcement authority for the Exchange's assessment. Specifically, the Legislature added Subsection (d) to CGS 38a-1083 directing the Commissioner of Insurance to see that all laws respecting the authority of the Exchange are faithfully executed. In enforcing the assessment, the Commissioner "has all the powers specifically granted under Title 38a and all further powers that are reasonable and necessary."

AHCT issued its first annual Health and Dental Marketplace Assessment in January 2014 to carriers that are capable of offering a qualified health plan through the exchange. Assessments are billed and collected on a calendar year basis, with $33.4M and $31.0M collected for 2016 and 2017 assessments, respectively. Collections for 2018 calendar year assessments were $15.0M as of June 30, 2018.

4.0 Access Health CT Business Model:

During fiscal years ended June 30, 2014 - 2017, grant funds and health and dental marketplace assessments were the two revenue sources for AHCT, with the fiscal year ended June 30, 2018 being the first year of self-sustainment solely from the health and dental marketplace assessments. The investment for the development of the State Exchange was entirely funded from Federal grant dollars awarded. This Federal investment was expected to cover all development, start-up, and operating expenses during the first year of operations and approved extension periods. The ongoing operational charges for AHCT were not funded by Federal grant funds after December 31, 2014. Ongoing operations are funded with health and dental marketplace assessments and cost reimbursements from the Connecticut Department of Social Services (DSS) related to operational functions and maintaining and operating the IES.

AHCT's commitment to transitioning to a self-sustaining entity has focused on building a sustainable operating model. Continued efforts in technology, plan management and consumer engagement by AHCT has been fundamental to the success and progress of AHCT to date. AHCT continues to work diligently on technology, focusing on three essential areas: improving operational processes, growing sustainability across the technology footprint and enhancing the customer experience through innovation. AHCT continues to ensure the necessary financial processes and procedures are developed and implemented.

AHCT has leveraged the federal risk adjustment program, but operated its own transitional reinsurance, leveraging an existing state asset to run its state-based reinsurance program through Health Reinsurance Association (HRA). HRA established the transitional reinsurance program in compliance with the requirements of Section 1341 of the Affordable Care Act and Standards Related to Reinsurance, Risk Corridors and Risk Adjustment. The primary contract between HRA and AHCT was executed in June 2015 to provide services for the plan years included in the transitional reinsurance program, 2014 through 2016. On April 7, 2017, Connecticut transitioned the operation of the transitional reinsurance program to CMS for the remainder of the 2015 benefit year and for the entire 2016 benefit year.

The Connecticut General Assembly passed Public Act 15-5 granting AHCT the authority to create legal subsidiaries during its 2015 legislative session. This authority will support the exchange's sustainability efforts to generate additional revenue by offering additional products or services. Sections 503 and 504 of Public Act 15-5 amended CGS 38a-1083 to provide, in part, that "(a) The exchange may establish one or more subsidiaries for such purposes as prescribed by resolution of the board of directors of the exchange, which purposes shall be consistent with the purposes of the exchange, provided no subsidiary shall be established for the purpose of providing insurance broker services, except dental or vision services, as necessary." No legal subsidiaries have yet been established.

AHCT has partnered with several strategic vendors to address key requirements of marketplace development and operations:

- AHCT utilizes a call center vendor for customer support and services. In August 2016, AHCT executed a contract with Faneuil, Inc. to provide customer care and other business processing support, following an extensive open bid process.

- Marketing and communications firms have supported AHCT's creative development, community outreach, media buying and the execution of AHCT's campaigns to reach and engage Connecticut consumers. AHCT contracted with RDW Group, Global Strategies, Grossman Heinz and Touchpoint during fiscal years 2018, 2017 and 2016. In 2018, AHCT executed a new contract for brand/reputation management and public relations services with Mintz & Hoke following an open bid process.

- AHCT leveraged State of Connecticut contracts with Sir Speedy, which supported operations specific to notice and forms issuance and Scan-Optics, which scans paper applications and other documents.

4.0 Access Health CT Business Model: *(Continued)*

In addition, AHCT has continued its partnerships with multiple state agencies through the execution of Memorandums of Understanding (MOU) and/or Memorandums of Agreement (MOA) in order to leverage state resources and expertise to operate the Exchange:

- AHCT maintains its MOU with DSS to document the specific roles and responsibilities of each agency. As a result, certain costs are shared by DSS and AHCT and the parties have paid varying allocation rates since 2013. New IES design, development, and implementation costs are paid 84% by DSS. Additionally, the allocation of costs to DSS for Call Center operations is based on utilization, and is approximately 70% with some other operational costs shared at a rate of 86%, paid by DSS starting in 2018. DSS also operates a joint hearing unit on behalf of AHCT with AHCT paying its allocated costs based on actual utilization starting in 2018.

- AHCT leveraged an existing DSS Contract with Conduent for operational support services. This arrangement did not require a contract directly with Conduent. AHCT is cost-sharing certain operational services with DSS based on the volume of use applicable to AHCT. The MOA with DSS states that costs will be split with DSS covering 86% of costs and AHCT covering 14% starting in 2018.

- AHCT has an MOU with the Connecticut Department of Administrative Services' (DAS) Bureau of Enterprise Systems & Technology (BEST) for technology hosting and support roles that BEST provides to AHCT for the IES shared by AHCT and DSS. The allocation of costs for certain operational costs are shared, 86% paid by DSS starting in 2018.

5.0 Summarized Financial Information:

AHCT's financial report includes three financial statements:

1. The Statements of Net Position
2. The Statements of Revenues, Expenses and Changes in Net Position
3. The Statements 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 revenues, 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 presents 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.

6.0 Revenues, Expenses and Changes in Net Position:

Summarized financial information as of and for the year ended June 30, 2018, 2017 and 2016 is as follows:

	2018	2017	2016
Operating Revenues:			
Marketplace assessment	$ 31,229,615	$ 32,139,640	$ 30,455,332
Government grants and contracts		1,465,829	9,482,162
Grants		41,000	41,000
Miscellaneous revenue	29,200		
Total operating revenues	31,258,815	33,646,469	39,978,494
Operating Expenses:			
Wages	6,909,678	7,758,067	7,025,627
Fringe benefits	2,343,400	2,674,823	2,244,497
Consultants	18,111,518	18,685,426	24,312,816
Maintenance	2,808,419	3,523,209	2,621,610
Administration	1,085,813	1,255,895	1,145,493
Equipment	662,185	408,033	361,999
Travel	100,772	90,323	128,347
Supplies	14,179	11,302	34,437
Depreciation and amortization	1,949,331	2,057,924	11,969,729
Total operating expenses	33,985,295	36,465,002	49,844,555
Net Operating Loss	(2,726,480)	(2,818,533)	(9,866,061)
Nonoperating revenues			
Interest income	201,480	73,919	15,995
Change in net position	(2,525,000)	(2,744,614)	(9,850,066)
Net position, beginning of year	28,583,054	31,327,668	41,177,734
Net Position, End of Year	$ 26,058,054	$ 28,583,054	$ 31,327,668

Total 2018 operating revenues have decreased, due to the anticipated decrease in Government Grants and Contracts as the sole source of funding as well as a decrease in the Marketplace Assessments. Marketplace Assessments are charged to all health and dental carriers that are capable of offering a qualified health plan through the Exchange to generate the funding necessary to support the operations of AHCT. Marketplace Assessment revenue decreased in 2018 compared to 2017, due to a decrease in the underlying carrier premiums used in the calculation of assessments. The increase in 2017 over 2016 resulted from an increase in these same premiums. Marketplace Assessments are billed and collected on a calendar year basis.

6.0 Revenues, Expenses and Changes in Net Position: *(Continued)*

Operating expenses consist primarily of consultant expenses that are related to technology; the Individual and SHOP marketplaces; marketing AHCT's brand; as well as operating costs for the Call Center. Depreciation and amortization are related to capitalization of the IES. Total operating expenses decreased each year in 2018 and 2017 compared to the prior years primarily due to reductions in consultant expenses, increased operating efficiencies and more favorable vendor contracts.

Salaries, benefits and related travel expenses are aligned with staffing in administration and operations. Wages in 2018 decreased due to lower salaried employees replacing positions resulting from turnover. As of June 30, 2018, the organization had 89 permanent full-time employees and 1 college intern. Permanent staff was 85 in 2017, and 92 in 2016, plus seasonal (durational) staff required for open enrollment. The 2019 fiscal year budget has funding for 93 permanent staff with no durational staff.

Administration expenses include rent, insurance and operating expenses associated with business operations and are relatively stable year over year. Depreciation and amortization decreased to $1.9M in 2018 as capital expenditures decreased and initial capital assets reach the end of their depreciable lives. As a result of the cost reimbursement from DSS for shared costs, total operating expenses were reduced by $20.0M, $33.6M and $48.7M in 2018, 2017 and 2016 respectively.

7.0 Access Health CT Net Position:

	2018	2017	2016
Assets:			
Current assets:			
Cash and cash equivalents	$ 26,011,166	$ 23,349,254	$ 24,586,547
Accounts and grants receivable	1,413,610	7,094,741	16,924,057
Prepaid expenses	205,642	184,038	187,022
Total current assets	27,630,418	30,628,033	41,697,626
Noncurrent assets:			
Security deposit	1,197	8,653	8,653
Capital assets not being depreciated	167,320		1,848,035
Capital assets, net of accumulated depreciation	5,408,736	7,161,568	4,451,391
Total noncurrent assets	5,577,253	7,170,221	6,308,079
Total assets	33,207,671	37,798,254	48,005,705
Liabilities:			
Current liabilities:			
Accounts payable	525,664	391,646	1,669,600
Accrued liabilities	6,014,645	6,522,685	14,703,783
Unearned revenue	609,308	2,300,869	304,654
Total current liabilities	7,149,617	9,215,200	16,678,037
Net position:			
Net investment in capital assets	5,576,056	7,161,568	6,299,426
Unrestricted	20,481,998	21,421,486	25,028,242
Total Net Position	$ 26,058,054	$ 28,583,054	$ 31,327,668

Cash and cash equivalents primarily include funds received from DSS for reimbursement of costs incurred by AHCT and marketplace assessments received, net of expenditures.

7.0 Access Health CT Net Position: *(Continued)*

Accounts receivable at June 30, 2018 includes $0.2M from DSS and $1.2M from carriers for Marketplace Assessments in 2018. The accounts receivable from DSS represents the DSS reimbursable portion of amounts paid and accrued by AHCT. This results from timing of payments and billings. At June 30, 2017, $3.1M was due from DSS and $3.9M from carriers for 2017 assessments.

Accounts Payable and Accrued Liabilities represents accrued expenses for consulting services, administrative services and amounts due to DSS for shared services incurred on behalf of AHCT.

8.0 Capital Assets:

At June 30, 2018, AHCT had $44.6M invested in capital assets, $5.6M net of accumulated depreciation. This consists primarily of capitalization of software development costs for the IES, as well as equipment and other software.

Capital Assets at Year End, Net of Depreciation

	2018	2017	2016
Capital assets not being depreciated	$ 167,320	$	$ 1,848,035
Capital assets, net of accumulated depreciation	5,408,736	7,161,568	4,451,391
	$ 5,576,056	$ 7,161,568	$ 6,299,426

Major Additions

	2018	2017	2016
Capital assets not being depreciated	$ 167,320	$	$ 1,668,300
Capital assets, net of accumulated depreciation	196,499	4,768,101	849,632
	$ 363,819	$ 4,768,101	$ 2,517,932

9.0 Currently Known Facts, Decisions or Conditions:

In February 2018, CEO Jim Wadleigh announced his resignation effective April 6, 2018. The Access Health Board of Directors decided that Shan Jeffreys, then COO, Melinda Brayton, Director, Human Resources and James Michel, Director, Finance would serve as Access Health CT's Executive Leadership Team to run the day to day operations until a new Chief Executive Officer was selected.

James Michel was selected as the Interim Chief Executive Officer by the Board of Directors effective June 14, 2018 and permanent CEO on September 20, 2018. Mr. Michel joined Access Health CT in March 2013 as its first Operations Manager; promoted to Director of Operations in June 2014; and to Director of Finance in June 2017.

Anthony Crowe was appointed as Chief Operating Office in July 2018. He joined Access Health CT in 2013 holding several roles leading enterprise initiatives focused on growing community partnerships, improving the customer experience and strengthening operations system.

In 2018, AHCT began focusing on creating organizational values. This will provide guidance in terms of how the organization operates, and how employees work with each other and with customers. Values incorporate the mission and vision of the organization and define behaviors. Employees have been asked to serve on the Values Committee, Communications Subcommittee, Rewards and Recognition Subcommittee; and the Hiring and Performance Management Subcommittee.

9.0 Currently Known Facts, Decisions or Conditions: *(Continued)*

New features were released for the 2019 Open Enrollment focusing on the AHCT consumer and their shopping experience as well as multiple customer service improvements. The features including a new homepage and redesigned shopping screens; window shopping for 2019 plans prior to Open Enrollment; a revamped decision support tool; selection of a primary care physician; and Verification Help Tool dedicated to assist consumers with verification document uploads. Customer service improvements include a new registered "Help" via Chat; new customer service scripting technology; redesigned customer surveys; and the launching of a new Customer Experience Command Center.

In April 2016 and May of 2017, the AHCT Board of Directors voted to approve for calendar year 2018, the Exchange's Market Assessment Rate of 165 basis points. This market assessment rate has remained unchanged since May of 2015.

In May of 2018, AHCT executed a contract with Blum Shapiro to provide financial and programmatic audit services following an extensive open-bid process that included evaluation of past experience, in-person presentations and the cost of services. Blum Shapiro replaced Whittlesey & Hadley. AHCT policy states that AHCT shall not contract with the same person, firm or corporation to conduct financial audits of the Exchange for more than six (6) consecutive fiscal years of the Exchange.

In August of 2018, AHCT executed a contract with Mintz & Hoke to provide brand/reputation management and public relations support and crisis communication following an extensive open-bid process that included past experience and in-person presentations and an evaluation of the cost of services. Mintz & Hoke replaced Global Strategy Group.

10.0 Contacting AHCT's Management:

This financial report is designed to provide citizens, taxpayers, and grantors with a general view of 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. James Michel, Chief Executive Officer.

Basic Financial Statements

CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
Assets:		
Current assets:		
Cash and cash equivalents	$ 26,011,166	$ 23,349,254
Accounts receivable	1,413,610	7,094,741
Prepaid expenses	205,642	184,038
Total current assets	27,630,418	30,628,033
Noncurrent assets:		
Security deposit	1,197	8,653
Capital assets not being depreciated	167,320	
Capital assets, net of accumulated depreciation	5,408,736	7,161,568
Total noncurrent assets	5,577,253	7,170,221
Total Assets	33,207,671	37,798,254
Liabilities:		
Current Liabilities:		
Accounts payable	525,664	391,646
Accrued liabilities	6,014,645	6,522,685
Unearned revenue	609,308	2,300,869
Total current liabilities	7,149,617	9,215,200
Net Position:		
Net investment in capital assets	5,576,056	7,161,568
Unrestricted	20,481,998	21,421,486
Total Net Position	$ 26,058,054	$ 28,583,054

The accompanying notes are an integral part of the financial statements

CONNECTICUT HEALTH INSURANCE EXCHANGE
(DBA ACCESS HEALTH CT)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Revenues:		
Marketplace assessment	$ 31,229,615	$ 32,139,640
Government grants and contracts		1,465,829
Grants		41,000
Miscellaneous revenue	29,200	
Total operating revenues	31,258,815	33,646,469
Operating Expenses:		
Wages	6,909,678	7,758,067
Fringe benefits	2,343,400	2,674,823
Consultants	18,111,518	18,685,426
Maintenance	2,808,419	3,523,209
Administration	1,085,813	1,255,895
Equipment	662,185	408,033
Travel	100,772	90,323
Supplies	14,179	11,302
Depreciation and amortization	1,949,331	2,057,924
Total operating expenses	33,985,295	36,465,002
Operating Loss	(2,726,480)	(2,818,533)
Nonoperating Revenues:		
Interest income	201,480	73,919
Change in Net Position	(2,525,000)	(2,744,614)
Net Position at Beginning of Year	28,583,054	31,327,668
Net Position at End of Year	$ 26,058,054	$ 28,583,054

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 YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities:		
Receipts from marketplace assessments	$ 32,294,171	$ 32,514,623
Reimbursement of operating costs	20,018,994	33,545,572
Receipts from funding sources		3,629,599
Receipts from miscellaneous sources	29,200	
Payments to employees	(9,257,348)	(10,550,215)
Payments to vendors	(40,260,766)	(57,530,725)
Net cash provided by (used in) operating activities	2,824,251	1,608,854
Cash Flows from Capital and Related Financing Activities:		
Payments for software development in progress	(167,320)	
Purchase of equipment and software	(196,499)	(2,920,066)
Net cash provided by (used in) capital and related financing activities	(363,819)	(2,920,066)
Cash Flows from Investing Activities:		
Interest and dividend income	201,480	73,919
Net Change in Cash and Cash Equivalents	2,661,912	(1,237,293)
Cash and Cash Equivalents at Beginning of Year	23,349,254	24,586,547
Cash and Cash Equivalents at End of Year	$ 26,011,166	$ 23,349,254
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating income (loss)	$ (2,726,480)	$ (2,818,533)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,949,331	2,057,924
Change in assets and liabilities:		
(Increase) decrease in accounts and grants receivable	5,681,131	9,829,316
(Increase) decrease in prepaid expenses	(21,604)	2,984
(Increase) decrease in security deposit	7,456	
Increase (decrease) in accounts payable	134,018	(1,277,954)
Increase (decrease) in accrued liabilities	(508,040)	(8,181,098)
Increase (decrease) in unearned revenue	(1,691,561)	1,996,215
Total adjustments	5,550,731	4,427,387
Net Cash Provided by (Used in) Operating Activities	$ 2,824,251	$ 1,608,854

The accompanying notes are an integral part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Connecticut Health Insurance Exchange dba Access Health CT (hereafter referred to as Access Health CT (AHCT)) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant policies of the AHCT are described below.

A. Reporting Entity

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 Connecticut General Statute (CGS) 38a-1080 through 1093. 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.

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.

The investment for the development of the State Marketplace was entirely funded from Federal grant awards. This Federal investment covered all development, start-up and ongoing operating expenses. In 2014, pursuant to policies and procedures and statutory authority, AHCT began charging a market assessment to fund its operations.

Beginning in 2014, Americans had access to health coverage through newly established exchanges in each state. In Connecticut, individuals and small businesses use AHCT to purchase affordable health insurance from a choice of qualified health plans offered by various insurers. AHCT ensures that participating health plans meet certain standards and uses ratings from the National Committee on Quality Assurance (NCQA) and converts it to a star system to facilitate choices. Individuals and families purchasing health insurance through AHCT may qualify for premium tax credits if their household income is between 138% and 400% of the Federal Poverty Level (FPL) and between 100% and 138% of the FPL for certain individuals and families that may not meet the residency requirements for Medicaid, and reduce cost-sharing if their household income is between 138% and 250% of the FPL. AHCT coordinates eligibility and enrollment with State Medicaid and Children's Health Insurance Programs to ensure all Connecticut residents have affordable health coverage.

B. Basis of Accounting and Financial Statement Presentation

AHCT is a quasi-public agency accounted for as an enterprise fund and categorized as a business-type activity. Operations are financed on a continuing basis primarily through marketplace assessments.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses are those that result from providing and delivering goods and services. Nonoperating revenues and expenses are those related to capital and related financing, noncapital financing or investing activities.

C. Cash and Cash Equivalents

AHCT's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

D. Accounts Receivable

All receivables are reported net of estimated uncollectible amounts. No allowance was recorded as of June 30, 2018 and 2017.

E. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

F. Capital Assets

Capital assets are defined by AHCT's policy as individual assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets comprise software development in progress, as well as equipment and other software. 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) 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 16% to AHCT and 84% to DSS. Prior to November 2014, the allocation was 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 share awarded to DSS. Design, development and implementation costs, including capital assets, are presented net of the DSS reimbursement.

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

Software	3 years
Furniture and equipment	5 years

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

G. Net Position

Net position represents the difference between assets and liabilities. The components of net position are detailed below:

Net Investment in Capital Assets
This component of net position consists of capital assets, net of accumulated depreciation.

Restricted
Net position is considered restricted when there are externally imposed restrictions by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted
This component of net position includes anything that does not meet the definition of "restricted" or "net investment in capital assets".

H. Marketplace Assessments

Connecticut PA 11-53 authorizes AHCT to "charge assessments or user fees to health carriers that are capable of offering a qualified health plan through the Exchange". This assessment authority is a critical underpinning for AHCT's operational sustainability. Public Act 13-247 gives AHCT the authority to charge interest and penalties to carriers failing to pay the assessments and fees required to fund Exchange operations. This is codified at CSG 38a-1083(c)(7).

Marketplace assessment payments received prior to the accounting period they pertain to are recorded as unearned revenue and amortized to revenue over the related term. As of June 30, 2018 and 2017, unearned revenue is entirely comprised of marketplace assessments.

I. Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Reclassifications

Certain amounts in the financial statements as of June 30, 2017 have been reclassified, with no effect on net position, to be consistent with the classifications adopted for the year ended June 30, 2018.

K. Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through October 29, 2018, which represents the date the financial statements were available to be issued.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

AHCT 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.

AHCT invests 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.

At June 30, 2018 and 2017, the carrying amounts of AHCT's cash and cash equivalents were as follows:

Account	2018	2017
Deposits with financial institutions:		
Operating	$ 1,912,156	$ 7,860,315
Small business health options program (SHOP)	237,117	328,527
State Short-Term Investment Fund (STIF)	23,861,893	15,160,412
	$ 26,011,166	$ 23,349,254

Deposits

Deposit 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. 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. AHCT does not have a deposit policy for custodial credit risk. As of June 30, 2018 and 2017, $2,003,883 and $7,985,311, respectively, of Access Health CT's bank balance was uninsured and uncollateralized and therefore exposed to custodial credit risk as follows:

	2018	2017
Uninsured and uncollateralized	$ 1,778,495	$ 7,161,780
Uninsured and collateral held by the pledging bank's trust department, not in AHCT's name	225,388	823,531
Total Amount Subject to Custodial Credit Risk	$ 2,003,883	$ 7,985,311

The bank balance of the AHCT, exposed to custodial credit risk above, as of June 30, 2018 and 2017, were as follows:

Account	2018	2017
Operating	$ 2,253,883	$ 7,906,784
SHOP	237,117	328,527
	$ 2,491,000	$ 8,235,311

Cash Equivalents

At June 30, 2018 and 2017, AHCT had deposits in the STIF of $23,861,893 and $15,160,412 respectively. STIF is an investment pool of high-quality, short term money market instruments. Operated in a manner similar to money market mutual funds, STIF is rated AAAm by Standard & Poor's, and has an average maturity of under 60 days.

Concentrations of Credit Risk

AHCT places no limits on the amount of cash in any one bank. Subsequent to the year ended June 30, 2018, Access Health CT has implemented a policy on credit risk concentration. This policy entails the use of government backed securities in order to reduce credit risk.

3. RECEIVABLES

Receivables for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Marketplace assessments receivable	$ 1,190,214	$ 3,946,331
DSS reimbursement receivable	223,396	3,148,410
	$ 1,413,610	$ 7,094,741

Due to the lack of historical issues regarding collectability of receivables and short average age of receivable balances, management has not determined an allowance for doubtful accounts necessary for the years ended June 30, 2018 and 2017.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 consisted of the following:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Capital assets not being depreciated or amortized:					
Software development in progress	$	$ 167,320	$	$	$ 167,320
Capital assets being depreciated or amortized:					
Equipment and furniture	1,435,635			(8,850)	1,426,785
Leasehold improvements	271,011				271,011
Software	42,529,657	196,499			42,726,156
Total capital assets being depreciated	44,236,303	196,499	-	(8,850)	44,423,952
Less accumulated depreciation and amortization for:					
Equipment and furniture	1,167,511	197,146		(8,850)	1,355,807
Leasehold improvements	185,197	47,291			232,488
Software	35,722,027	1,704,894			37,426,921
Total accumulated depreciation and amortization	37,074,735	1,949,331	-	(8,850)	39,015,216
Total capital assets being depreciated/amortized, net	7,161,568	-	-	-	5,408,736
Capital Assets, Net	$ 7,161,568	$ (1,585,512)	$ -	$ -	$ 5,576,056

Depreciation and amortization expense related to capital assets was $1,949,331 for the year ended June 30, 2018.

Capital asset activity for the year ended June 30, 2017 consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Software development in progress	$ 1,848,035	$	$ 1,848,035	$ -
Capital assets being depreciated or amortized:				
Equipment and furniture	1,421,577	14,058		1,435,635
Leasehold improvements	239,759	31,252		271,011
Software	37,806,866	4,722,791		42,529,657
Total capital assets being depreciated	39,468,202	4,768,101	-	44,236,303
Less accumulated depreciation and amortization for:				
Equipment and furniture	878,129	289,382		1,167,511
Leasehold improvements	133,078	52,119		185,197
Software	34,005,604	1,716,423		35,722,027
Total accumulated depreciation and amortization	35,016,811	2,057,924	-	37,074,735
Total capital assets being depreciated/amortized, net	4,451,391	-	-	7,161,568
Capital Assets, Net	$ 6,299,426	$ 2,710,177	$ (1,848,035)	$ 7,161,568

Depreciation and amortization expense related to capital assets was $2,057,924 for the year ended June 30, 2017.

5. CONCENTRATIONS

For the years ended June 30, 2018 and 2017, AHCT's authorization to charge market assessments on the health insurance industry in Connecticut, as discussed in Note 1.H., results in a small number of large companies providing the majority of operating income.

6. COMMITMENTS

A. Leases

AHCT has entered into various leases for office space. Rent expense for June 30, 2018 and 2017, was $402,888 and $499,312, respectively. Estimated future payments for the leases are as follows:

Year Ended June 30,	
2019	$ 399,375
2020	408,999
2021	418,622
2022	428,246
2023	437,869

B. Other

AHCT has entered into agreements with contractors for various services. The contracts call for fixed and variable costs. Estimated future fixed payments for the contracts are as follows:

Year Ended June 30,		
2019	$	706,747
2020		18,599

7. RETIREMENT AND PROFIT SHARING

During fiscal year 2013, AHCT 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 AHCT 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, AHCT established a Profit Sharing and Trust 401(a) plan for eligible employees. AHCT contributes a fixed rate of 5% of employee annual earnings and matches 100% of voluntary participant contributions, up to 5%, of annual earnings made by employees to the State of Connecticut's Deferred Compensation Section 457 Plan.

In total, AHCT made retirement and profit sharing payments of $553,781 and $339,477 for the years ended June 30, 2018 and 2017, respectively, for both benefit plans.

8. CONTINGENCIES

Some grants require the fulfillment of certain conditions. Failure to fulfill the conditions could result in the return of funds. AHCT does not believe that any funds will need to be returned, because the stipulated conditions have been met.

DSS reimburses AHCT for the funds disbursed by AHCT for development and other costs that relate to the share of development and operational costs attributable to DSS. This share was not awarded to AHCT as part of grant awards.

AHCT is from time to time subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the ultimate liability with respect to these actions will not materially affect the financial position of AHCT.

9. SUBSEQUENT EVENTS

Throughout fiscal year 2019, AHCT will continue to monitor future updates and changes to the Affordable Care Act (ACA), or any other applicable Federal and/or State laws, regulations, and guidance for any required changes to the legal authority and governance of Connecticut's Health Insurance Marketplace. AHCT is poised to adapt to changes and proactively manage those changes in support of an ACA compliant Marketplace for the consumers of Connecticut.

Independent Auditors' Report on Internal Control

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Independent Auditors' 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*

To the Members of the Board of Directors
Connecticut Health Insurance Exchange
Hartford, Connecticut

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 the Connecticut Health Insurance Exchange as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Connecticut Health Insurance Exchange's basic financial statements, and have issued our report thereon dated October 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Connecticut Health Insurance 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Connecticut Health Insurance Exchange's internal control. Accordingly, we do not express an opinion on the effectiveness of the Connecticut Health Insurance Exchange's internal control.

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

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

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Compliance and Other Matters

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

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 Connecticut Health Insurance Exchange'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 Connecticut Health Insurance Exchange's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
October 29, 2018