CoverColorado

Financial Statements

and Supplementary Information
Years Ended December 31, 2010 and 2009

Anton Collins Mitchell LLP
Accountants & Consultants

An Independent Member of BDO Seidman Alliance

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COVERCOLORADO
Because everyone needs health insurance

August 31, 2011

The Honorable John Hickenlooper
Governor of Colorado
Executive Chambers
State Capitol
Denver, Colorado 80203

Dear Governor Hickenlooper:

Attached is the annual financial report of CoverColorado for fiscal year 2010. The 2010 report includes a copy of CoverColorado's 2010 financial statements, audited by Anton Collins Mitchell LLP, and management's discussion and analysis.

The Board and staff of CoverColorado appreciate the opportunity to fulfill the Program's mission of providing a health insurance program that preserves access to health care for Coloradoans whose health prohibits or substantially limits access to commercial health insurance.

Sincerely,

S Bragg-Gamble

Suzanne Bragg-Gamble
Executive Director

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CoverColorado

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We have audited the accompanying financial statements of CoverColorado (the "Program"), a component unit of the State of Colorado, as of and for the years ended December 31, 2010 and 2009, which collectively comprise the Program's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CoverColorado as of December 31, 2010 and 2009, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2011 on our consideration of CoverColorado's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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Management's discussion and analysis on pages 3 through 7 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of management's discussion and analysis. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise CoverColorado's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Anton Collins Mitchell LLP

Denver, Colorado
August 31, 2011

Overview of the Basic Financial Statements

Management’s discussion and analysis is intended to provide a narrative introduction to CoverColorado’s (the “Program”) basic financial statements. The Program’s basic financial statements consist of the statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows, summary of significant accounting policies and notes to the financial statements. The notes to the financial statements provide additional information relative to the basic financial statements.

The difference between the Program’s total assets and total liabilities is labeled as net assets and this difference is similar to the total owners’ equity presented by a commercial enterprise. Although the purpose of the Program is not to accumulate net assets, in general, as this amount increases it indicates that the financial position of the Program is improving over time.

The purpose of the statement of revenues and expenses and changes in net assets is to present the revenues and expenses of the Program. Again, the items presented on the statement of revenues and expenses and changes in net assets are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the Program. Thus, revenues are reported even when they may not be collected for several months after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of revenues and expenses and changes in net assets looks different from a commercial enterprise’s income statement, the financial statements are different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the Program reports an amount described as change in net assets, essentially the same thing.

Financial Analysis

Summary of Statements of Net Assets

December 31,	**2010**	2009
Current assets	**$ 83,705,077**	$ 68,558,398
Furniture and equipment, net	**11,392**	17,592
Total assets	**83,716,469**	68,575,990
Current liabilities	**31,980,906**	19,075,095
Net assets	**$ 51,735,563**	$ 49,500,895

All of the Program's assets are restricted as to their use: to pay claims of the Program's members and to pay for costs associated with the administration of the Program. Current assets primarily consist of $9,291,263 of cash and cash equivalents, $72,809,526 of short-term investments, $12,746 of premiums receivable, $702,280 of assessment receivable, $388,120 of federal grant receivable and $499,129 of accrued interest receivable at December 31, 2010 compared to $9,256,898 of cash and cash equivalents, $58,291,439 of short-term investments, $1,596 of premiums receivable, $503,266 of assessment receivable, $19,895 of federal grant receivable and $485,304 of accrued interest receivable at December 31, 2009. The Program's most significant source of funds during the years ended December 31, 2010 and 2009 were premiums earned from the Program's members of $53,608,933 and $41,209,166, respectively, funds from the State of Colorado of $29,142,431 and $24,255,430, respectively, assessments of $28,882,081 and $23,843,654, respectively, and premium tax credits of $5,000,000 and $5,000,000, respectively. The Program also earned $1,318,670 and $2,204,086 in 2010 and 2009, respectively, from federal grants. Investment income recognized totaled $1,130,215 and $677,696 during the years ended December 31, 2010 and 2009, respectively.

The Program has capital assets, which it uses at the office in which it conducts operations. Capital assets totaling $11,392 consists of $81,167 of cost and $69,775 of accumulated depreciation at December 31, 2010; capital assets totaling $17,592 consists of $76,719 of cost and $59,127 of accumulated depreciation at December 31, 2009.

All of the Program's liabilities are current and consist of $26,909,518 of reserve for health policy claims, $4,953,263 of advance premiums, and $118,125 of accrued expenses at December 31, 2010; $14,170,858 of reserve for health policy claims, $3,877,797 of advance premiums, $524,921 of accrued expenses, and $501,519 of assessment refunds at December 31, 2009. The reserve for health policy claims provides for claims that have been reported and not yet paid, as well as an estimate for claims that have been incurred and not yet reported. An independent actuary determines the reserve for health policy claims. The reserve for health policy claims is a significant estimate and the actual costs the Program ultimately incurs could differ from the amounts recorded. Advance premiums consist of premiums that have been received from the Program's members. These premiums have been received prior to their policy effective date and have therefore not been earned.

The Program's net assets at December 31, 2010 and 2009 of $51,735,563 and $49,500,895, respectively, represent the Program's total assets of $83,716,469 and $68,575,990, respectively, less total liabilities of $31,980,906 and $19,075,095, respectively.

Summary of Statements of Revenues and Expenses and Change in Net Assets

Years Ended December 31,	**2010**	2009
Operating revenues	**$ 119,082,330**	$ 97,190,182
Operating expenses	**116,847,662**	86,681,617
Change in net assets	**2,234,668**	10,508,565
Net assets, beginning of year	**49,500,895**	38,992,330
Net assets, end of year	**$ 51,735,563**	$ 49,500,895

As stated in the summary of significant accounting policies, the Program provides access to health insurance for those Colorado residents who are unable to obtain health insurance, or who are unable to obtain health insurance except at prohibitive rates with restrictive exclusions. The Program charges members health insurance premiums, and during the years ended December 31, 2010 and 2009, the Program earned $53,608,933 and $41,209,166 of premiums, respectively. Earned premiums are comprised of premiums collected from members, plus or minus the change in unearned premiums from the beginning of the year to the end of the year, plus or minus the change in premiums receivables and payables. During the year ended December 31, 2010, the Program received $29,142,431 of funds from the State of Colorado and earned $1,130,218 of investment income, primarily interest on its cash and investments, compared to $24,255,430 of funds from the State of Colorado and $677,696 of investment income, primarily interest on its cash and investments during the year ended December 31, 2009. During the years ended December 31, 2010 and 2009 the Program also recognized $5,000,000 of premium tax credits received from insurance companies. During the years ended December 31, 2010 and 2009 the Program recognized $28,882,081 and $23,843,654, respectively, of assessments from insurers. Total revenues for the years ended December 31, 2010 and 2009 of $119,082,330 and $97,190,182, respectively, consisting of the aforementioned components, is included in the statement of revenues and expenses and changes in net assets.

During the year ended December 31, 2010, the Program incurred $116,847,662 of operating expenses compared to $86,681,617 during the year ended December 31, 2009. The largest component of this amount was health policy benefits of $111,567,886 and $80,867,173 for the years ended December 31, 2010 and 2009, respectively. Health policy benefits include $98,829,226 and $79,718,350 of benefits paid plus increases in the reserve for health policy claims of $12,738,660 and $1,148,823 for the years ended December 31, 2010 and 2009, respectively, which results from both increases in the number of program participants and increases in per claim costs. The Program incurred general and administrative expenses of $5,269,128 and $5,802,906. The most significant components of general and administrative expenses were administrative fees to the Program’s third party administrator of $2,089,815 and $1,759,719, salaries paid to employees of $414,380 and $424,980, and care management consulting fees of $1,591,065 and $1,952,615, respectively. Depreciation expense for the years ended December 31, 2010 and 2009 was $10,648 and $11,538, respectively.

The change in net assets for the years ended December 31, 2010 and 2009 of $2,234,668 and $10,508,565, respectively, was composed of revenues of $119,082,330 and $97,190,182 less expenses of $116,847,662 and $86,681,617, respectively. The change in net assets represents the only change in the net assets.

Summary of Statements of Cash Flows

Years Ended December 31,	**2010**	2009
Net cash provided by operating activities	**$ 14,712,554**	$ 16,645,040
Net cash used in investing activities	**(14,678,189)**	(7,622,382)
Increase (decrease) in cash and cash equivalents	**34,365**	9,022,658
Cash and cash equivalents, beginning of year	**9,256,898**	234,240
Cash and cash equivalents, end of year	**$ 9,291,263**	$ 9,256,898

During the year ended December 31, 2010, cash and cash equivalent balances increased $34,365 from $9,256,898 to $9,291,263 compared to an increase of $234,240 from $9,022,658 to $9,256,898 during the year ended December 31, 2009.

For the year ended December 31, 2010 cash provided by operations of $14,712,554 is composed primarily of $54,609,551 of premiums received, funds received from Federal grant of $950,445, funds received from the State of Colorado of $29,142,431 funds received from insurance companies for premium tax credits of $5,000,000 funds received from insurers assessments of $28,181,548 and investment income received of $1,272,044 for total cash received from operations of $119,156,019. Cash used in operations of $104,443,465 was composed of health policy claims paid of $98,829,226 and $5,614,239 of general and administrative expenses paid.

For the year ended December 31, 2009 cash provided by operations of $16,645,040 is composed primarily of $45,216,950 of premiums received, funds received from Federal grant of $2,239,422, funds received from the State of Colorado of $24,255,430, funds received from insurance companies for premium tax credits of $5,000,000, funds received from insurers assessments of $23,841,907, other funds received of $150 and investment income received of $1,583,145 for total cash received from operations of $102,137,004. Cash used in operations of $85,491,964 was composed of health policy claims paid of $79,718,350 and $5,773,614 of general and administrative expenses paid.

During the year ended December 31, 2010 and 2009, the Program purchased capital assets of $4,448 and $5,280, respectively. During 2010 and 2009, the Program received proceeds from the maturity of investments of $28,831,906 and $25,572,007, respectively. During 2010 and 2009, the Program purchased $43,505,647 and $33,189,109, respectively, of corporate bonds guaranteed by the U.S. Government and U.S. Government agency bonds.

Economic and Industry Considerations

During 2010 the total participants of CoverColorado grew by 21.8%. By year-end, there were 12,715 participants. Due to the continued economic climate of job losses, participant growth continues at this pace in the first few months of 2011.

In 2010, funding came from multiple sources as defined in statute: 25% from the Colorado Unclaimed Property Fund, 25% from carrier assessments, and the balance from premiums, tax credits, grants, and investment income. This funding approach will continue in 2011.

In March, 2010, the Patient Protection and Affordable Care Act (PPACA) was passed, having a significant impact on CoverColorado's future. PPACA calls for the implementation of guarantee issue of individual health insurance by January 1, 2014, thus eliminating the need for high risk pools such as CoverColorado. Based on the provisions of this law, CoverColorado has a shortened lifespan, and will likely only continue to exist until December 31, 2013.

With this shortened horizon, the Board of Directors has begun to focus its efforts on ensuring that adequate funding is in place to support the program for the next three years. In 2010, the General Assembly passed SB10-20 to allow CoverColorado to lower the provider reimbursement rate, beginning in 2011. That reimbursement rate went into effect April 1, 2011, with the intent to realize cost savings on 20%.

PPACA also created the Pre-Existing Condition Insurance Plan in each state. This is a high risk pool for persons with pre-existing conditions who have been uninsured for six months. The pool in Colorado is called GettingUSCovered. The significance of this new pool to CoverColorado is that persons who might otherwise have joined CoverColorado can join the federal pool at lower rates. A limited amount of funding is available for GettingUSCovered, which in early 2011 covers nearly 500 individuals.

CoverColorado

Statements of Net Assets

December 31,	**2010**	2009
Assets		
Current:		
Cash and cash equivalents	**$ 9,291,263**	$ 9,256,898
Short-term investments	**72,809,526**	58,291,439
Federal grant receivable	**388,120**	19,895
Premiums receivable	**12,746**	1,596
Assessment receivable	**702,280**	503,266
Accrued interest receivable	**499,129**	485,304
Other receivable	**2,013**	-
Total current assets	**83,705,077**	68,558,398
Capital assets, net of accumulated depreciation of $69,775 and $59,127	**11,392**	17,592
Total assets	**$ 83,716,469**	$ 68,575,990
Liabilities and Net Assets		
Current:		
Reserve for health policy claims	**$ 26,909,518**	$ 14,170,858
Advance premiums	**4,953,263**	3,877,797
Assessment refunds	**-**	501,519
Accrued expenses and other liabilities	**118,125**	524,921
Total current liabilities	**31,980,906**	19,075,095
Commitments and contingencies		
Net assets	**$ 51,735,563**	$ 49,500,895

See accompanying summary of significant accounting policies and notes to financial statements.

CoverColorado

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31,	**2010**	2009
Revenues:		
Premiums earned	**$ 53,608,933**	$ 41,209,166
State of Colorado appropriations	**29,142,431**	24,255,430
Assessments	**28,882,081**	23,843,654
Premium tax credits	**5,000,000**	5,000,000
Federal grants	**1,318,670**	2,204,086
Investment income	**1,130,215**	677,696
Other income	**-**	150
Total revenues	**119,082,330**	97,190,182
Expenses:		
Health policy benefits	**111,567,886**	80,867,173
General and administrative expenses	**5,269,128**	5,802,906
Depreciation	**10,648**	11,538
Total expenses	**116,847,662**	86,681,617
Change in net assets	**2,234,668**	10,508,565
Net assets at beginning of year	**49,500,895**	38,992,330
Net assets at end of year	**$ 51,735,563**	$ 49,500,895

See accompanying summary of significant accounting policies and notes to financial statements.

CoverColorado

Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

Years Ended December 31,	**2010**	2009
Cash flows from operating activities:		
Premiums received	**$ 54,609,551**	$ 45,216,950
Assessments	**28,181,548**	23,841,907
State of Colorado	**29,142,431**	24,255,430
Federal grant	**950,445**	2,239,422
Premium tax credits received	**5,000,000**	5,000,000
Other income	**-**	150
Health policy claims paid	**(98,829,226)**	(79,718,350)
General and administrative expenses paid	**(5,614,239)**	(5,773,614)
Investment income received	**1,272,044**	1,583,145
Net cash provided by operating activities	**14,712,554**	16,645,040
Cash flows from investing activities:		
Proceeds from maturity of investments	**28,831,906**	25,572,007
Purchase of investments	**(43,505,647)**	(33,189,109)
Purchase of furniture and equipment	**(4,448)**	(5,280)
Net cash used in investing activities	**(14,678,189)**	(7,622,382)
Increase in cash and cash equivalents	**34,365**	9,022,658
Cash and cash equivalents, beginning of year	**9,256,898**	234,240
Cash and cash equivalents, end of year	**$ 9,291,263**	$ 9,256,898

See accompanying summary of significant accounting policies and notes to financial statements.

CoverColorado

Statements of Cash Flows

Years Ended December 31,	**2010**	2009
Reconciliation of change in net assets to net cash flows from operating activities:		
Changes in net assets	**$ 2,234,668**	$ 10,508,565
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	**10,648**	11,538
Unrealized losses on investments	**155,654**	841,680
Changes in operating assets and liabilities:		
Premiums receivable	**(11,150)**	108,855
Assessment receivable	**(199,014)**	(503,266)
Accrued interest receivable	**(13,825)**	63,768
Federal grant receivable	**(368,225)**	35,336
Other receivable	**(2,013)**	-
Reserve for health policy claims	**12,738,660**	1,148,823
Advance premiums	**1,075,466**	3,837,999
Assessment refunds	**(501,519)**	501,519
Accrued expenses and other liabilities	**(406,796)**	90,223
Net cash provided by operating activities	**$ 14,712,554**	$ 16,645,040

See accompanying summary of significant accounting policies and notes to financial statements.

Description of Reporting Entity

CoverColorado (the "Program") is a non-profit unincorporated public entity created pursuant to Colorado Revised Statute ("CRS") 10-8-501. The purpose of the statute is to provide access to health insurance for those Colorado residents who are unable to obtain health insurance, or who are unable to obtain health insurance except at prohibitive rates or with restrictive exclusions.

The statute had a sunset provision providing that, if not otherwise extended, the statute would be repealed effective July 1, 1993. On June 2, 1993, the sunset provision was repealed by Senate Bill 93-55.

On June 5, 2001, the General Assembly of the State of Colorado approved House Bill 01-1319 (the "Bill"), which amended CRS 10-8-501. The Bill changed the plan name from "Colorado Uninsurable Health Insurance Plan" to "CoverColorado." In addition, the Bill designated the Program as the state alternative mechanism for health care coverage under the federal "Health Insurance Portability and Accountability Act of 1996" and allowed the board of directors of the Program to assess a special fee against insurers for the financial solvency of the Program. The Bill also redefined certain program eligibility, coverage terms and the board of directors' powers and duties.

The Program is an instrumentality of the State of Colorado (the "State") and is considered to be a component unit of the State only for the purpose of the State's annual financial reporting.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All applicable Governmental Accounting Standards Board ("GASB") pronouncements, as well as all Financial Accounting Standards Board Statements and Interpretations that do not conflict with or contradict GASB pronouncements, have been implemented by the Program.

Transactions are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Program are included on the statement of net assets. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in the net total assets. The accrual basis of accounting is utilized. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

Use of Estimates

The preparation of financial statements in accordance 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 revenue and expenses during the reporting period. Significant estimates include the reserve for health policy claims. Actual results could differ from those estimates, and those differences could be material.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit, money market funds, and other investments with maturities of three months or less at the date of acquisition.

Investments

Investments are carried at fair value in the accompanying balance sheet in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value is determined using quoted market prices. Investment income, including interest, dividends and realized and unrealized gains and losses, are included in the accompanying statements of revenues and expenses and changes in net assets.

Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method with no salvage value over the estimated useful lives of the assets, which range from three to five years.

Reserve for Health Policy Claims

The reserve for health policy claims provides for reported claims and incurred but not reported claims. The actuarial projections of ultimate losses on reported claims and claims incurred but not reported are based on a composite of the Program's experience. Adjustments to the probable ultimate liability for claims are made continually, based on subsequent developments and experience, and are included in operations as incurred. However, due to the Program's relatively small size, the actual cost of settling all remaining claims may be more or less than the reserve as of December 31, 2010.

Income Taxes

The Internal Revenue Service issued a favorable determination letter dated February 4, 1992 exempting the Program from income taxes pursuant to Section 115 of the Internal Revenue Code. Management believes that the Program continues to operate in accordance with tax-exempt requirements.

Revenues

The Program is primarily funded by premiums charged to insureds, an allocated portion of the Unclaimed Property Trust Fund, commercial insurer assessments, federal grants from the Department of Health and Human Services and premium tax credits paid by insurance companies in the State of Colorado. Under law in effect during 2010 and 2009, the State Treasurer is required to transmit both interest and principal from the Unclaimed Property Trust Fund to CoverColorado in order to cover expenses of the program that are not met by premiums paid by those insured.

Effective January 1, 2009, as defined in HB 08-1390, approximately 50% of the Program's funding will be provided from a combination of member premiums, federal grants from the Department of Health and Human Services, monies in the CoverColorado cash fund, contributions from state insurance premium tax credit allocations, and other gifts, grants, and donations. Another 25% of program funding will be provided from an assessment of special fees on health insurance and stop-loss carriers that are regulated by the Colorado Division of Insurance, and the remaining 25% will be provided from the State's Unclaimed Property Trust Fund.

CoverColorado is defined as a "special purpose authority" for purposes of the Taxpayers' Bill of Rights ("TABOR"), so none of CoverColorado's revenues are subject to TABOR limits, including monies transferred from the Unclaimed Property Trust Fund.

In November 1992, the Colorado electorate approved TABOR, Article X, Section 20 of the Colorado Constitution, which restricts the State's ability to increase existing taxes or impose new taxes. The effect of this Article on the future funding of the Program, if any, is uncertain.

Premiums collected and amounts appropriated which exceed net premiums required for the year are held primarily in highly liquid investments and can be used to offset future losses or reduce plan premiums for subsequent years as determined by the board of directors of the Program and relevant statutes of the State of Colorado.

Premiums are billed monthly and are recognized as revenue during the month earned. Revenue from the State of Colorado is recognized when the funds are received from the State Treasurer. During 2004, the general assembly approved House Bill 04-1206 which allows insurance companies to receive a premium tax credit for amounts contributed to CoverColorado. Revenue from the premium tax credit program is recognized when the funds are received from the qualifying insurance companies.

In accordance with House Bill 01-1319, the Program was granted authority to assess a special fee against insurers. With the passage of HB 08-1390, special fees will be assessed every year to fund 25% of the costs of the program. After an actuarial evaluation in 2009, CoverColorado notified insurers of assessments of approximately $29.1 million due in quarterly installments of approximately $7.3 million on March 31, June 30, September 30, and December 31, 2010. After an actuarial evaluation in 2010, CoverColorado notified insurers of assessments of approximately $34.7 million due in quarterly installments of approximately $8.7 million on March 31, June 30, September 30, and December 31, 2011. The assessments are earned and recognized when the insurance carriers are legally obligated to make the payments or when funds are received, if earlier. As there is no time requirement or restriction with respect to the use of funds received from the assessment, the Program recognizes revenue upon the receipt of funds through the assessment due date.

Advance Premiums

Advance premiums consist of premiums received prior to the policy effective date.

1. CASH AND INVESTMENTS

Cash Deposits

The Program's cash equivalents include highly liquid investments with original maturities of three months or less.

Custodial credit risk is the risk that, in the event of failure of a depository financial institution, a public entity will not be able to recover its deposits. The Program's policy is in accordance with CRS 11-10.5-101, the Colorado Public Deposit Protection Act ("PDPA"), which governs the investment of public funds. PDPA requires that all units of public entities deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The financial institution is allowed to create a single collateral pool for all public funds held. The pool is maintained by another institution, or held in trust for all of the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The institution's internal records identify collateral by depositor and as such, these deposits are considered uninsured but collateralized. The State Regulatory Commission for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. At December 31, 2010 all of the Program's deposits as shown below were either insured by federal depository insurance or collateralized under PDPA and are therefore not deemed to be exposed to custodial credit risk.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which Colorado governmental units may invest.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of the investment. The Program investment policy follows the Colorado Revised Statute 24-5-601.1 to limit the maximum maturity for all securities listed below to be no more than five years from the date of purchase. Additionally, the Program manages its exposure to interest rate risk by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed by operations.

State statutes do not limit the amount the Program may invest in one issuer. At December 31, 2010, the Program's investments were held solely with KeyBanc Capital Markets, Inc. All investments held by the Program are registered securities which are held by the entity or its agent in the Program's name.

1. CASH AND INVESTMENTS (CONTINUED)

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investments consist of direct obligations of U.S. Government agencies or corporate bonds guaranteed by U.S. Government agencies and have been rated Aaa by Moody's Investors Service at the date of purchase. On August 5, 2011, the credit rating on the U.S. Government was downgraded by Standard and Poors, a nationally recognized rating agency.

A summary of the amortized cost and estimated fair value of investments is as follows:

December 31, 2010	Amortized Cost	Estimated Fair Value
U.S. Government agency bonds	**$ 48,580,661**	**$ 48,797,269**
Corporate bonds guaranteed by U.S. Government agencies	**23,780,185**	**24,012,257**
	$ 72,360,846	**$ 72,809,526**

December 31, 2009	Amortized Cost	Estimated Fair Value
U.S. Government agency bonds	$ 39,800,164	$ 40,501,400
Corporate bonds guaranteed by U.S. Government agencies	17,886,940	17,790,039
	$ 57,687,104	$ 58,291,439

Realized investment income was $1,285,869 and $1,519,376 for the years ended December 31, 2010 and 2009. Unrealized losses were ($155,654) in 2010 and ($841,680) in 2009.

The following represents the maturities of investments as of December 31, 2010:

	Estimated Fair Value
12 Months or Less	$ 23,381,850
13 to 24 Months	21,503,701
25 to 36 Months	27,923,975
	$ 72,809,526

2. RESERVE FOR HEALTH POLICY CLAIMS

The activity in the reserve for health policy claims is summarized as follows:

	2010	2009
Balance at January 1,	**$ 14,170,858**	$ 13,022,035
Incurred (recovered) related to:		
Current year	**113,320,027**	80,542,882
Prior years	**(1,752,141)**	324,291
Total incurred	**111,567,886**	80,867,173
Paid related to:		
Current year	**88,568,334**	66,394,454
Prior years	**10,260,892**	13,323,896
Total paid	**98,829,226**	79,718,350
Balance at December 31,	**$ 26,909,518**	$ 14,170,858

As a result of changes in estimates of insured events in prior years, the provision for prior year health policy claims increased by $12,738,660 in 2010 compared to an increase of $1,148,823 in 2009. The increase in the reserve for health policy claims is primarily attributable to the increase in the number of Program participants as well as increases in per claim amounts.

3. FUNDS HELD BY THE STATE TREASURER

Funds held by the State Treasurer are as follows:

December 31,	**2010**	2009
Funds held by the State Treasurer at beginning of year	**$ -**	$ -
Unclaimed Property Trust Fund	**29,142,431**	24,255,430
	29,142,431	24,255,430
Less amounts transferred to the Program	**29,142,431**	24,255,430
Funds held by the State Treasurer	**$ -**	$ -

3. FUNDS HELD BY THE STATE TREASURER (CONTINUED)

Funds held by the State Treasurer represent the unused amounts allocated to the Program by the General Assembly of the State of Colorado. These funds held by the State Treasurer are not reflected on the balance sheet of the Program as they are not assets of the Program until transferred and advanced to the Program by the State.

4. ADMINISTRATIVE AGREEMENT

During 2009, the Program terminated its third-party administrator's agreement with PacifiCare Health Plan Administrators, Inc. ("PacifiCare") effective January 1, 2010 and signed a new multi-year agreement with CNIC Health Solutions, Inc. ("CNIC") and Rocky Mountain Health Plans ("RMHP") for its general administration, including processing of claims and collection of premiums with the administrator. Fees to PacifiCare for such services were approximately $1,759,000 for the year ended December 31, 2009, and fees to RMHP for such services were approximately $2,090,000 for the year ended December 31, 2010. The agreement is cancelable by the Program with 90-days written notice any time after January 1, 2011.

5. PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO

The Program participates in the State Division Trust Fund (the "Trust"), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado ("PERA"). The Trust provides retirement and disability and death benefits for its members or their beneficiaries. All employees are members of the Trust. State statutes have assigned the Colorado Legislature the authority to establish benefit provisions of the Trust. PERA issues publicly available annual financial reports that includes financial statements and required supplemental information for the Trust. That report may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at (303) 832-9550 or 1-800-759-PERA (7372).

Plan members and the Program are required to contribute at rates set by State statutes. The contribution rate for members and the Program are established under Title 24, Article 51, Part 4 of the CRS, as amended. The current contribution rate for members is 8% and for the Program is 10.65%. The Program's contributions to the Trust for the years ended December 31, 2010 and 2009 were $57,245 and $53,359, respectively, which was equal to the Program's required contributions for those years.

6. LINE OF CREDIT

The Program has a $4,000,000 revolving line of credit with a bank, secured by all of the Program's assets. Borrowings under the agreement bear interest at the prime rate as published in the Wall Street Journal (3.25% at December 31, 2010). Payment of accrued interest on the unpaid balance is due at the end of every month. The outstanding principal balance is due upon the earlier of an event of default or expiration on November 1, 2011. In the event of default, the interest rate is raised by 3%. There was no outstanding balance at December 31, 2009 or 2010. The line of credit requires the program to comply with certain financial and non-financial covenants. The Program is in compliance with such covenants at December 31, 2010.

7. COMMITMENTS AND CONTINGENCIES

Operating Lease

The Program leases an office facility under an operating lease which expires in 2015. Total rental expense for the years ended December 31, 2010 and 2009 was $59,400 and $54,133, respectively. In July 2008 the Program extended its lease agreement and the size of its current office facility. The future minimum annual rental commitment under this lease is as follows:

Year Ending December 31,	
2011	$ 53,301
2012	54,620
2013	55,960
2014	57,282
Thereafter	48,660
	$ 269,823

Litigation

From time to time, the Program is involved in litigation incurred in the normal settlement of claims liabilities as is inherent in the Program's industry.

7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Government Grants and Funding

The Program receives certain revenues from a contract with a governmental agency. The disbursement of funds received under this contract generally requires compliance with terms and conditions specified in the contract and are subject to audit by the contracting agency. The amount of charges to this contract that may be disallowed, if any, by such audits cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

CoverColorado

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2010

Federal Grantor Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services/Centers for Medicare and Medicaid Services:			
Grants to States for Operation of Qualified High-Risk Pools	93.780		$ 1,318,670
Total U.S. Department of Health and Human Services			
Total Expenditures of Federal Awards			$ 1,318,670

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of CoverColorado and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. LOANS OUTSTANDING

There were no loans outstanding during the year ended December 31, 2010.

3. SUB-RECIPIENTS

There were no sub-recipients of federal awards during the year ended December 31, 2010.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
CoverColorado
Denver, Colorado

We have audited the financial statements of CoverColorado as of and for the year ended December 31, 2010, and have issued our report thereon dated August 31, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CoverColorado's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CoverColorado's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CoverColorado's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency (2010-1) described in the accompanying schedule of findings and questioned costs to be a material weakness.

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Board of Directors
CoverColorado
Denver, Colorado

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CoverColorado's financial statements are free of 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.*

Cover Colorado's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit CoverColorado's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anton Collins Mitchell LLP

Denver, Colorado
August 31, 2011

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Accountants & Consultants

Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133

Board of Directors
CoverColorado
Denver, Colorado

Compliance

We have audited CoverColorado's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on CoverColorado's major federal program for the year ended December 31, 2010. CoverColorado's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of CoverColorado's management. Our responsibility is to express an opinion on CoverColorado's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CoverColorado's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of CoverColorado's compliance with those requirements.

In our opinion, CoverColorado complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

Management of CoverColorado is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to the federal program. In planning and performing our audit, we considered CoverColorado's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CoverColorado's internal control over compliance.

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

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

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anton Collins Mitchell LLP

Denver, Colorado
August 31, 2011

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	X Yes	No
• Significant deficiency(s) identified that are not considered to be material weaknesses?	Yes	X No
• Noncompliance material to financial statements noted?	Yes	X No

Federal awards

Internal control over major programs:		
• Material weakness(es) identified	Yes	X No
• Significant deficiency(s) identified that are not considered to be material weaknesses?	Yes	X No
• Noncompliance material to major program(s) noted?	Yes	X No
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.780	Grants to States for Operation of Qualified High-Risk Pools

Dollar threshold used to distinguish between type A and type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	_________Yes _____X____No

Section II – Financial Statement Findings

2010-1 – Claim processing and the monitoring of the third party service provider providing claims processing

Finding and Recommendation:

CoverColorado contracts with a third party service provider to process and administer its health policy claims. During 2010, the third party service provider did not timely implement pricing changes into its system which resulted in claims being processed incorrectly. In addition, CoverColorado did not receive the pricing contract changes in a timely manner in order to implement those in their review process of claims. As a result, claims were improperly processed, and CoverColorado did not identify the errors in the claim processing.

We recommend CoverColorado enhance its review of claim processing to include not only routine processing of eligibility and procedures codes but also change management, onboarding of new pricing structures, providers, and other variables and inputs in the system that are necessary for the proper processing of a claim.

Views of Responsible Officials and Planned Corrective Actions:

During the year, CoverColorado received communications from its third party service provider which indicated transaction processing accuracy was within the terms set forth in the service level agreement. It came to light during the annual audit that claims were inaccurately being processed primarily as a result of the contract pricing changes.

CoverColorado will take an active role in monitoring the third party service provider on a go forward basis, including performance of internal audits to ensure pricing changes accurately take place in a timely manner, additional oversight of the third party service providers, and testing of select transactions.

Summary Schedule of Prior Audit Findings

Schedule of Findings and Questioned Costs Reference Number	Description	Status

None.