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CoverColorado

Financial Statements

Schedule of Expenditures of Federal Awards,
and Reports Required by Government
Auditing Standards and OMB Circular A-133
Years Ended December 31, 2008 and 2007



Anton Collins Mitchell LLP



State of Colorado
Crystal Dorsey
Office of the State Auditor
Legislative Services Building
225 E. 16th Ave., Suite 555
Denver, Co 80203

Dear Ms. Dorsey:

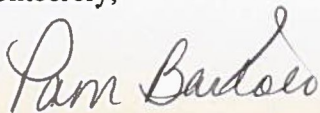
Please see attached information in regards to the following information requested.

CoverColorado is a non-profit entity created by the State legislation in 1990.

CoverColorado's purpose is to provide health insurance to Colorado residents who are considered "high risk" who are not able to obtain health insurance in the individual market due to medical conditions or chronic illness.

Financial activity; YE financial statements audited and prepared by Anton, Collins and Mitchell LLP. 17th & Grant Building 303 East 17th Ave, Suite 600 Denver, Colorado 80203 Main: 303.830.1120 Fax:303.830.8130. Copies of these audited financials are sent to Amy Zimmer, Cindy Ward and Melissa Moynham with the State of Colorado.

Sincerely,



Pam Bartolo
Administrative Services Manager

YE Financials

Cc: Amy Zimmer
Cindy Ward
Melissa Moynham



CoverColorado

Financial Statements

**Schedule of Expenditures of Federal Awards,
and Reports Required by Government
Auditing Standards and OMB Circular A-133
Years Ended December 31, 2008 and 2007**

May 28, 2009

The Honorable Bill Ritter
Governor of Colorado
Executive Chambers
State Capitol
Denver, CO 80203

Dear Governor Ritter:

Attached is the annual financial report of CoverColorado for fiscal year 2008. The 2008 report includes a copy of CoverColorado's 2008 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 Coloradans whose health prohibits or substantially limits access to commercial health insurance.

Sincerely,



Suzanne Bragg-Gamble
Executive Director

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Independent Auditors' Report

The Board of Directors
CoverColorado
Glendale, Colorado

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, 2008 and 2007, 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 opinions 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. An audit also includes 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, 2008 and 2007, 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 May 28, 2009 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.

Accountants & Consultants

17th & Grant Building • 303 East 17th Avenue, Suite 600 • Denver, Colorado 80203
303.830.1120 • Fax 303.830.8130





The Board of Directors
CoverColorado
Glendale, Colorado

Management's discussion and analysis on pages 3 to 6 is 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

Certified Public Accountants
May 28, 2009

CoverColorado

Management's Discussion and Analysis

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 balance sheet, statement of revenues and expenses and change in fund 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.

Financial Analysis

Summary of Balance Sheets

<i>December 31,</i>	2008	2007
Current assets	\$ 52,465,011	\$ 43,298,146
Furniture and equipment, net	23,850	11,778
Total assets	\$ 52,488,861	\$ 43,309,924
Current liabilities	\$ 13,496,531	\$ 13,124,440
Fund net assets	38,992,330	30,185,484
Total liabilities and fund net assets	\$ 52,488,861	\$ 43,309,924

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 consist of \$234,240 of cash and cash equivalents, \$51,516,017 of short-term investments, \$110,451 of premiums receivable, \$55,231 of Federal Grant Receivable and \$549,072 of accrued interest receivable at December 31, 2008 compared to \$3,203,815 of cash and cash equivalents, \$39,521,555 of short-term investments, \$79,596 of premiums receivable and \$493,180 of accrued interest receivable at December 31, 2007. The Program's most significant source of funds during the years ended December 31, 2008 and 2007 were premiums earned from the Program's members of \$32,909,410 and \$23,718,073, funds from the State of Colorado of \$31,817,270 and \$11,922,938, and premium tax credits of \$5,022,350 and \$4,977,650, respectively. The Program also earned \$1,280,612 and \$1,478,373 in 2008 and 2007, respectively, from federal grants. Investment income realized totaled \$1,752,124 and \$1,974,519 during the years ended December 31, 2008 and 2007, respectively.

The Program has furniture and equipment, which it uses at the office in which it conducts operations. Furniture and equipment totaling \$23,850 consists of \$83,174 of cost and \$59,324 of accumulated depreciation at December 31, 2008; furniture and equipment totaling \$11,778 consists of \$61,984 of cost and \$50,206 of accumulated depreciation at December 31, 2007.

CoverColorado

Management's Discussion and Analysis

All of the Program's liabilities are current and consist of \$13,022,035 of reserve for health policy claims, \$39,798 of advance premiums, \$8,355 of other liabilities, and \$426,343 of accrued expenses at December 31, 2008; and \$12,420,911 of reserve for health policy claims, \$261,453 of advance premiums, \$38,058 of other liabilities, and \$404,018 of accrued expenses at December 31, 2007. 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 most significant component of accrued expenses as of December 31, 2008 is an accrual for the care management program.

The Program's fund net assets at December 31, 2008 and 2007 of \$38,992,330 and \$30,185,484 represent the Program's total assets of \$52,488,861 and \$43,309,924 less total liabilities of \$13,496,531 and \$13,124,440, respectively.

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

<i>Years Ended December 31,</i>	2008	2007
Operating revenues	\$ 73,958,051	\$ 44,775,276
Operating expenses	65,151,205	55,541,410
Excess (deficit) of revenues over expenses	8,806,846	(10,766,134)
Fund net assets, beginning of year	30,185,484	40,951,618
Fund net assets, end of year	\$ 38,992,330	\$ 30,185,484

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, 2008 and 2007, the Program earned \$32,909,410 and \$23,718,073 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 receivable. During the year ended December 31, 2008 and 2007 the Program collected \$32,656,900 and \$22,390,065; advance premiums (decreased) (\$221,655) and (\$1,501,121); and premiums receivable increased/(decreased) \$30,855 and (\$173,113), respectively. During the year ended December 31, 2008, the Program received \$31,817,270 of funds from the State of Colorado and earned \$2,840,687 of investment income, primarily interest on its cash and investments, compared to \$11,922,938 of funds from the State of Colorado and \$2,553,412 of investment income, primarily interest on its cash and

Management's Discussion and Analysis

investments during the year ended December 31, 2007. During the years ended December 31, 2008 and 2007 the program recognized \$5,022,350 and \$4,977,650 of premium tax credits received from insurance companies. Total revenues for the years ended December 31, 2008 and 2007 of \$73,958,051 and \$44,775,276, consisting of the aforementioned components, is included in the statement of revenues and expenses and changes in fund net assets.

During the year ended December 31, 2008, the Program incurred \$65,151,205 of operating expenses compared to \$55,541,410 during the year ended December 31, 2007. The largest component of this amount was health policy benefits of \$59,972,477 and \$51,928,957. Health policy benefits include \$59,371,353 and \$47,129,316 of benefits paid plus increases in the reserve for health policy claims of \$601,124 and \$4,799,641. The Program incurred general and administrative expenses of \$5,169,610 and \$3,602,717. The most significant components of general and administrative expenses were administrative fees to the Program's third party administrator of \$1,438,476 and \$748,835, salaries paid to employees of \$346,985 and \$282,635, and care management consulting fees of \$2,645,397 and \$1,866,338 respectively. Depreciation expense for the years ended December 31, 2008 and 2007 was \$9,118 and \$9,736, respectively.

The excess/(deficit) of revenues over expenses for the years ended December 31, 2008 and 2007 of \$8,806,846 and (\$10,766,134) was composed of revenues of \$73,958,051 and \$44,775,276 less expenses of \$65,151,205 and \$55,541,410, respectively. The excess of revenues over expenses represents the only change in the fund net assets.

Summary of Statements of Cash Flows

<i>Years Ended December 31,</i>	2008	2007
Net cash provided by (used in) operating activities	\$ 7,957,514	\$ (5,957,281)
Net cash (used in) provided by investing activities	(10,927,089)	7,553,297
(Decrease) increase in cash and cash equivalents	(2,969,575)	1,596,016
Cash and cash equivalents, beginning of year	3,203,815	1,607,799
Cash and cash equivalents, end of year	\$ 234,240	\$ 3,203,815

During the year ended December 31, 2008, cash and cash equivalent balances decreased \$2,969,575 from \$3,203,815 to \$234,240 compared to an increase of \$1,596,016 from \$1,607,799 to \$3,203,815 during the year ended December 31, 2007.

For the year ended December 31, 2008 cash provided by operations of \$7,957,514 is composed primarily of \$32,656,900 of premiums received, funds received from Federal grant of \$1,225,381, funds received from the State of Colorado of \$31,817,270, funds received from insurance companies for premium tax credits of \$5,022,350, other funds received of \$87,722 and investment income received of

CoverColorado

Management's Discussion and Analysis

\$1,696,232 for total cash received from operations of \$72,505,855. Cash used in operations of \$64,548,341 was composed of health policy claims paid of \$59,371,353 and \$5,176,988 of general and administrative expenses paid.

For the year ended December 31, 2007 cash used in operations of \$5,957,281 is composed primarily of cash received including \$22,390,065 of premiums received, funds received from Federal grant of \$3,136,769, funds received from the State of Colorado of \$11,922,938, funds received from insurance companies for premium tax credits of \$4,977,650, other funds received of \$124,830 and investment income received of \$2,019,974 for total cash received from operations of \$44,572,226. Cash used in operations of \$50,529,507 was composed of health policy claims paid of \$47,129,316 and \$3,400,191 of general and administrative expenses paid.

During the year ended December 31, 2008, the Program purchased furniture and equipment of \$21,190. During 2008 and 2007, the Program received proceeds from the maturity of investments of \$32,462,230 and \$35,246,937, respectively, and purchased \$43,368,129 and \$27,692,044 of U.S. Government agency bonds, respectively.

Economic and Industry Considerations

During 2008 the total participants of CoverColorado grew by 20%. By year-end, there were approximately 8,500 participants. As commercial premiums for 2009 are increasing on average by less than 6%, a mid-year increase in CoverColorado premiums will not occur as in prior years, and as the current economic climate of job loss continues, the participant growth is expected to continue at the same pace during 2009.

Sources of funding of the Program did not change significantly in 2008, as most of the funding still came from member premiums, the Colorado Unclaimed Property Fund, Premium Tax Credits, Federal CMS Operational and Bonus Grants and interest income. The funding for 2009 is significantly different due to the passage of HB08-1390. Effective January 2009, the funding is to be 25% from the Colorado Unclaimed Property Fund, 25% from carrier assessments, and the balance from premiums, tax credits, and grants.

In addition, HB08-1390 required that a long-term funding task force be convened to make recommendations on potential revisions to the funding of CoverColorado. That task force met numerous times throughout 2008 and early 2009. The final report was released in March 2009. It is unknown if any of the recommendations of the task force will be implemented during the 2010 legislative session.

CoverColorado

Balance Sheets

<i>December 31,</i>	2008	2007
Assets		
Current:		
Cash and cash equivalents	\$ 234,240	\$ 3,203,815
Short-term investments (Note 1)	51,516,017	39,521,555
Federal grant receivable	55,231	-
Premiums receivable	110,451	79,596
Accrued interest receivable	549,072	493,180
Total current assets	52,465,011	43,298,146
Furniture and equipment, net of accumulated depreciation of \$59,324 and \$50,206	23,850	11,778
Total assets	\$ 52,488,861	\$ 43,309,924
Liabilities and Fund Net Assets		
Current:		
Reserve for health policy claims (Note 2)	\$ 13,022,035	\$ 12,420,911
Advance premiums	39,798	261,453
Accrued expenses and other liabilities	434,698	442,076
Total current liabilities	13,496,531	13,124,440
Commitments and contingencies (Notes 2, 4, 5 and 6)		
Fund net assets	38,992,330	30,185,484
Total liabilities and fund net assets	\$ 52,488,861	\$ 43,309,924

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

CoverColorado

Statements of Revenues and Expenses and Changes in Fund Net Assets

<i>Years Ended December 31,</i>	2008	2007
Revenues:		
Premiums earned	\$ 32,909,410	\$ 23,718,073
State of Colorado appropriations (Note 3)	31,817,270	11,922,938
Premium tax credits	5,022,350	4,977,650
Investment income (Note 1)	2,840,687	2,553,412
Federal grants	1,280,612	1,478,373
Surplus Lines Association	-	75,000
Rose Community Foundation Grant	-	49,830
Colorado Health Foundation Grant	63,120	-
Assessments	24,602	-
Total revenues	73,958,051	44,775,276
Expenses:		
Health policy benefits (Note 2)	59,972,477	51,928,957
General and administrative expenses (Notes 4, 5 and 6)	5,169,610	3,602,717
Depreciation	9,118	9,736
Total expenses	65,151,205	55,541,410
Excess (deficit) of revenues over expenses	8,806,846	(10,766,134)
Fund net assets at beginning of year	30,185,484	40,951,618
Fund net assets at end of year	\$ 38,992,330	\$ 30,185,484

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

CoverColorado

Statements of Cash Flows

<i>Years Ended December 31,</i>	2008	2007
Cash flows from operating activities:		
Premiums received	\$ 32,656,900	\$ 22,390,065
Assessments	24,602	-
State of Colorado	31,817,270	11,922,938
Federal grant	1,225,381	3,136,769
Premium tax credits received	5,022,350	4,977,650
Other income	63,120	124,830
Health policy claims paid	(59,371,353)	(47,129,316)
General and administrative expenses paid	(5,176,988)	(3,400,191)
Investment income received	1,696,232	2,019,974
Net cash provided by (used in) operating activities	7,957,514	(5,957,281)
Cash flows from investing activities:		
Proceeds from maturity and sale of investments	32,462,230	35,246,937
Purchase of investments	(43,368,129)	(27,692,044)
Purchase of furniture and equipment	(21,190)	(1,596)
Net cash (used in) provided by investing activities	(10,927,089)	7,553,297
(Decrease) increase in cash and cash equivalents	(2,969,575)	1,596,016
Cash and cash equivalents, beginning of year	3,203,815	1,607,799
Cash and cash equivalents, end of year	\$ 234,240	\$ 3,203,815

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

CoverColorado

Statements of Cash Flows

<i>Years Ended December 31,</i>	2008	2007
Reconciliation of excess (deficit) of revenues over expenses:		
Changes in fund net assets	\$ 8,806,846	\$ (10,766,134)
Adjustments to reconcile changes in fund net assets to net cash provided by operating activities:		
Depreciation	9,118	9,736
Unrealized gain on investments	(1,088,563)	(578,893)
Changes in operating assets and liabilities:		
Premiums receivable	(30,855)	173,113
Accrued interest receivable	(55,892)	45,454
Federal grant receivable	(55,231)	1,658,396
Reserve for health policy claims	601,124	4,799,641
Advance premiums	(221,655)	(1,501,121)
Accrued expenses and other liabilities	(7,378)	202,527
Net cash provided by (used in) operating activities	\$ 7,957,514	\$ (5,957,281)

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

Summary of Significant Accounting Policies

Organization and Nature of Business

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.

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.

Summary of Significant Accounting Policies

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 fund net assets.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is provided using the straight-line method 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, 2008.

During 2007, the Program revised its actuarial methodology for calculating the incurred but not reported claims reserves by using a reserve margin of 15% in the current period compared to 10% in the prior year. The revision of methodology resulted from an increase in catastrophic claims seen during the period arising from trends among new participants entering the program.

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.

Summary of Significant Accounting Policies

Revenues

The Program is primarily funded by premiums charged to insureds, an allocated portion of the Unclaimed Property Trust Fund, 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 2007 and 2008, 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 fifty percent 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 twenty-five percent 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 twenty-five percent 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 prepaid primarily 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 HB08-1390, special fees will be assessed every year to fund 25% of the costs of the program. After an actuarial evaluation, CoverColorado notified insurers of assessments of approximately \$12.0 million due in July 2009 and \$12.0 million due in December 2009. The assessments

Summary of Significant Accounting Policies

are earned and recognized when the insurance carriers are legally obligated to make the payments or when funds are received, if earlier. Because 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.

Credit Risk Concentration

The Program maintains its cash in commercial banks that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to specified limits. The balance, at times, may exceed FDIC limits.

1. CASH AND INVESTMENTS

The Program's cash equivalents include highly liquid investments with maturities of three months or less. 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, 2008, 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.

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 as of December 31, 2008 and 2007, consisted of direct obligations of U.S. Government agencies and have been rated Aaa by Moody's Investors Service at the date of purchase.

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

<i>December 31, 2008</i>	Amortized Cost	Estimated Fair Value
U.S. Government agency bonds	\$ 50,070,003	\$ 51,516,017

<i>December 31, 2007</i>	Amortized Cost	Estimated Fair Value
U.S. Government agency bonds	\$ 39,164,103	\$ 39,521,555

Realized investment income was \$1,752,124 and \$1,974,519 for the years ended December 31, 2008 and 2007. Unrealized gains were \$1,088,563 in 2008 and \$578,893 in 2007.

CoverColorado

Notes to Financial Statements

1. CASH AND INVESTMENTS (CONTINUED)

The following represents the maturities of investments as of December 31, 2008:

	Estimated Fair Value
12 Months or Less	\$ 17,277,359
13 to 24 Months	19,959,378
25 to 36 Months	14,279,280
	\$ 51,516,017

2. RESERVE FOR HEALTH POLICY CLAIMS

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

	2008	2007
Balance at January 1,	\$ 12,420,911	\$ 7,621,270
Incurred (recovered) related to:		
Current year	61,567,942	51,126,168
Prior years	(1,595,465)	802,789
Total incurred	59,972,477	51,928,957
Paid related to:		
Current year	51,123,618	40,715,540
Prior years	8,247,735	6,413,776
Total paid	59,371,353	47,129,316
Balance at December 31,	\$ 13,022,035	\$ 12,420,911

As a result of changes in estimates of insured events in prior years, the provision for prior year health policy claims increased by \$601,124 in 2008 compared to an increase of \$4,799,641 in 2007. The increase in the reserve for health policy claims is primarily attributable to the increase in the number of Program participants in 2008 and the change in reserve methodology discussed in the Summary of Significant Accounting Policies in 2007.

CoverColorado

Notes to Financial Statements

3. FUNDS HELD BY THE STATE TREASURER

Funds held by the State Treasurer are as follows:

<i>December 31,</i>	2008	2007
Funds held by the State Treasurer at beginning of year	\$ 3,307,646	\$ 2,000,000
Unclaimed Property Trust Fund	28,509,624	13,230,584
	31,817,270	15,230,584
Less amounts transferred to the Program	31,817,270	11,922,938
Funds held by the State Treasurer	\$ -	\$ 3,307,646

Funds held by the State Treasurer represent the unused amounts allocated to the Program by the General Assembly of the State of Colorado totaling \$0 and \$3,307,646 as of December 31, 2008 and 2007, respectively. 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 2007, the Program amended a multi-year agreement with a third-party administrator for its general administration, including processing of claims and collection of premiums with the administrator. Fees for such services were approximately \$1,438,000 and \$749,000 for the years ended December 31, 2008 and 2007.

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).

CoverColorado

Notes to Financial Statements

5. PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO (CONTINUED)

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, 2008 and 2007 were \$40,482 and \$30,899 respectively, which was equal to the Program's required contributions for those years.

6. 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, 2008 and 2007 was \$35,240 and \$34,246, 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:

<i>Year Ending December 31,</i>	
2009	\$ 48,214
2010	50,868
2011	53,301
2012	54,628
Thereafter	161,902
	<hr/>
	\$ 368,913

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.

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 is 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.

Schedule of Expenditures of Federal Awards Year Ended December 31, 2008

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		\$ 1,280,612
Subtotal Direct Programs			1,280,612
Pass-Through Programs From:			
Colorado Department of Public Health and Environment			
HIV Care Formula Grant	93.917	EPI-QT7-HHS	3,673
HIV Care Formula Grant	93.917	EPI-QT8-HHS	4,478
Subtotal Pass-Through Programs			8,151
Total U.S. Department of Health and Human Services			1,288,763
Total Expenditures of Federal Awards			\$ 1,288,763

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

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, 2008.

3. SUB-RECIPIENTS

There were no sub-recipients of federal awards during the year ended December 31, 2008.



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, 2008, which collectively comprise CoverColorado's basic financial statements and have issued our report thereon dated May 28, 2009. 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 and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 08-01 to be a significant deficiency in internal control over financial reporting.

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17th & Grant Building • 303 East 17th Avenue, Suite 600 • Denver, Colorado 80203
303.830.1120 • Fax 303.830.8130



Board of Directors
CoverColorado
Denver, Colorado

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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*.

We noted certain matters that we reported to the management of CoverColorado in a separate letter dated May 28, 2009.

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

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

Certified Public Accountants
May 28, 2009



Report on Compliance With Requirements Applicable to 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 the compliance of CoverColorado with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. 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 requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

Internal Control Over Compliance

The 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 federal programs. In planning and performing our audit, we considered CoverColorado's internal control over compliance with the requirements that could have a direct

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Board of Directors
CoverColorado
Denver, Colorado

and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non compliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be 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

Certified Public Accountants
May 28, 2009

Schedule of Findings and Questioned Costs Year Ended December 31, 2008

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes _____ X _____ No
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____ X _____ Yes _____ 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?

_____ X _____ Yes _____ No

Schedule of Findings and Questioned Costs
Year Ended December 31, 2008

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?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Schedule of Findings and Questioned Costs
Year Ended December 31, 2008

Section II – Financial Statement Findings

Finding 08-01:

Federal Agency: U.S. Department of Health and Human Services
CFDA 93.780, Grants to States for the Operation of Qualified High Risk Pools
Award number: 1GOCMSO3290 Award year: July 1, 2008 to December 31, 2009

Criteria: 2 CFR 215.21(b)(3) requires recipients of federal awards to maintain effective internal control and accountability for all assets. Internal control over financial reporting requires the timely processing, reconciliation and review of grant billing and revenue recognition.

Condition: The Program has not properly recognized revenue for the bonus grant resulting in improper recognition of revenue in the current period.

Questioned Costs: None.

Context and Cause: CoverColorado did not have sufficient review controls in place to properly assess and implement revenues related to the new bonus grant.

Effect: This results in the Program potentially misstating its financial information.

Recommendation: We recommend that bonus grant awards be recognized as revenue when eligible costs for reimbursement have been incurred.

Views of responsible officials and planned corrective action: Suzanne Bragg-Gamble, Executive Director, agrees and has indicated that such revenue recognition policies will be put in place going forward.

Summary Schedule of Prior Audit Findings

Schedule of Findings and Questioned Costs Reference Number	Description	Status
2007-01	Applied premium billings and cash receipts	Implemented
