HAWAI'I HEALTH CONNECTOR

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OCTOBER 26, 2015 RESPONSE TO ENERGY AND COMMERCE COMMITTEE, SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS: QUESTIONS FOR THE RECORD

The below are the responses as requested, for the record:

The Honorable Susan W. Brooks

Question 1

In Indiana we have a significant problem below 150% of the federal povery level (FPL) enrolled in the Indiana Marketplace, the majority of which – those below 138% of the FPL --- should have moved to the Health Indiana Plan (HIP) once it became available. The Administration, however, maintains a 'passive' re-enrollment where individuals are kept in the Marketplace even if they don't update their financial information; in many cases individuals are not informed that they actually qualify for the less costly HIP program.

How do you view this omission? Is this a leadership issue? It is an intentional lack of transparency:

Answer: Healthcare.gov does not accept any form of automatic enrollment or carry-over enrollment as described in the question for states that are transitioning from operating their own enrollment systems to Healthcare.gov. In general, individuals receiving APTC often do not understand their options either for less costly or for broader coverage. This is not uncommon in many states. For example, Hawaii also is home to a significant population (approximately 40,000) of migrants from the Compact of Free Association (COFA) States who are enrolled on the Connector. Many of these individuals are below 138% and have chronic health conditions that remain untreated. Not only will it be extremely challenging to re-enroll this population, but also Healthcare.gov is not designed to intake and assist these populations in a way that is sensitive to their linguistic or cultural makeup. Much like Indiana, Healthcare.gov is unable to adapt to our state Premium Assistance Program (PAP), which is designed to assist with premium payments for this low-income population. We know that premium costs for this population have increased significantly, in part due to "cost-shifting," where maintained both "grandfathered" or "grandmothered" (transition plans) for their commercial clients in order to separate risk and increase premiums on the middle class, which cannot afford 30% increases in health premiums. (see Health Affairs Blog for "cost-shifting": http://healthaffairs.org/blog/2015/10/26/health-risk-continues-to-improve-in-covered-california/)

Question 2

In Indiana, initial projections showed that 500,000 Hoosiers were eligible for tax subsidies through the federal marketplace. Instead, recent numbers show that enrollment is less than 150,000.

a. 350,000 is more than a minor calculation error. In your experience, how would you explain this vast discrepancy?

Answer: While I can't explain what happened in Indiana, I can tell you that Hawaii had a similar experience, though on a much smaller scale for the following reasons:

a. *There was no disciplined and formal "market analysis" performed prior to the decision to establish a State Based Exchange;*
b. *Instead there were "anecdotal" citations from studies that did not even attempt to reconcile the data with actual population demographics*
c. *Definitions of "uninsured" and "under-insured" were not applied consistently – this is especially true when the studies attempted to use data from 3rd party sources such as the Kaiser Foundation;*
d. *In Hawaii, we performed new market research in less than 60 days and determined that the original work was so seriously flawed that it was not useful in any way whatsoever.*

The Honorable Tim Murphy

Question 1

Please provide the committee with a detailed breakdown of the establishment and operational costs for the exchange that you represent.

[See below.]

Federal Grants

Summary of Grant Funding Expended, Obligated and Unobligated From Grant Inception Dates through August 31, 2015

Grant Summaries:	Expended	Unliquidated Obligations	Unobligated Balance	Total
Level One (1st)	$ 14,440,144	$ -	$ -	$ 14,440,144
Level One (2nd)	61,815,492	-	-	61,815,492
Level Two	64,860,741	789,435	62,436,458	128,086,634
	$ 141,116,377	$ 789,435	$ 62,436,458	$ 204,342,270

Grant Activity:	Expended	Unliquidated Obligations	Unobligated Balance	Total
Personnel Costs	$ 10,728,400	$ -	$ 4,870,383	$ 15,598,783
IT Contracts	90,316,922	789,435	36,519,993	127,626,350
Non-IT Contracts	25,516,102	-	15,316,973	40,833,075
DHS Costs Allocated for Shared Services	4,957,653	-	2,242,347	7,200,000
Other (Including Marketplace Assister Sub-Grants)	9,597,300	-	3,486,762	13,084,062
	$ 141,116,377	$ 789,435	$ 62,436,458	$ 204,342,270

Federal Grant Funding Discussion:

- The 1st and 2nd Level One grants were fully expended in November 2013 and December 2014, respectively.
- Level Two grant funding of approximately $62 million was unobligated as of August 31, 2015. Estimated utilization of approximately $9 million of grant funding is budgeted for the remaining ten (10) month period of fiscal year 2016.
- In April 2015, the Level Two grant was extended through December 31, 2015 for certain allowable consumer outreach expenses and other marketplace establishment costs. On September 30, 2015, the Connector submitted to CCIIO a request for a no-cost extension of the Level Two grant through June 30, 2016.

Summary Cash Flow: Extended Services Operating/Transition Budget

	Fiscal Year 2016		**July to October 2016**	
	Grant Funded Establishment / Transition	**Non-Grant Funding**	**Non-Grant Funding**	**Total**
Beginning Cash Balance, July 1, 2015	$ -	$ 5,815,000	$ 530,115	$ 5,815,000
Support and Revenue:				
Federal Grants	9,442,759	-	-	9,442,759
Issuer Fees	-	535,000	-	535,000
State Appropriation	-	2,000,000	-	2,000,000
Total Support and Revenue	9,442,759	2,535,000	-	11,977,759
Expenditures:				
Personnel Costs	598,923	2,320,150	391,489	3,310,562
IT Contracts	5,582,042	4,686,248	-	10,268,290
Consumer Assistance / Outreach Contracts	2,955,967	2,608,278	-	5,564,245
Medicaid Outreach Reimbursement for Shared-Services	-	(3,300,000)	-	(3,300,000)
Other Contracts	30,128	997,655	90,000	1,117,783
Facilities & Administrative Expenses	275,700	507,553	107,200	890,453
Total Expenditures	9,442,759	7,819,885	588,689	17,851,333
Net Cash Proceeds (Deficit)	-	(5,284,885)	(588,689)	(5,873,574)
Ending Cash Balances, June 30, 2016 and October 31, 2016		$ 530,115	$ (58,574)	$ (58,574)

Questions 2

Is the exchange which you represent required to perform an audit examining how grant money was spent, either at the state or federal level? If so, please provide the committee with copies of any and all applicable audits.

Please see attached financial audits performed by outside auditors. Currently, the U.S. Treasury Inspector General has requested information from the Connector on our eligibility and enrollment transactions. We are compiling and sending those responses. The Government Accountability Office (GAO) requested that the Connector complete a survey, which was delivered in the fall of 2014.

As we testified, CMS has performed activities they have characterized as "audits," however we know of no audit performed by CMS that would meet generally accepted accounting or government audit standards for a contractor performing work, in the nature performed by Connector with funding provided by the US Government. As required under our federal grant, the Connector performs an A-133 audit and has attached the results of those audits. No such similar audit was performed for or by CMS or the State of Hawaii under the standards listed above.

Appendix A – 2014 Audit

HAWAII HEALTH CONNECTOR

FINANCIAL STATEMENTS, INDEPENDENT AUDITOR'S REPORTS, AND SUPPLEMENTARY SCHEDULE

For the Year Ended June 30, 2014

CW Associates
A Hawaii Certified Public Accounting Corporation

HAWAII HEALTH CONNECTOR

INTRODUCTION

For the Year Ended June 30, 2014

Hawaii Health Connector (Connector) was incorporated in the State of Hawaii in August 2011 as a nonprofit Hawaii corporation. The Connector's application for tax-exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code was approved by the U.S Internal Revenue Service in February 2014, effective retroactive to August 2011. The Connector's mission is to help the people of Hawaii live happier and healthier lives by making quality health insurance accessible to all, making the acquisition of health insurance affordable and simpler, and improving the integration between public and private health insurance plans. The Connector was established by Act 205 of the 2011 Hawaii State Legislature to be Hawaii's health insurance exchange as mandated by the federal Patient Protection and Affordable Care Act of 2010.

The Connector receives federal awards directly from the U.S. Department of Health and Human Services from its State Planning and Establishment Grants for the Affordable Care Act's Exchanges program.

This report is the result of a single audit of the Connector conducted in accordance with auditing standards generally accepted in the United States of America; the *Government Auditing Standards* issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

This report includes the financial statements of the Connector for the year ended June 30, 2014, with comparative information for the year ended June 30, 2013, and the accompanying notes to the financial statements and independent auditor's report. It also includes, for the year ended June 30, 2014, the independent auditor's reports required by the Government Accountability Office's *Government Auditing Standards*, the schedule of expenditures of federal awards, and independent auditor's reports required by OMB Circular A-133. There are no findings or questioned costs, and therefore, no corrective action plan is reported by the auditor under those captions in the final sections of this report.

HAWAII HEALTH CONNECTOR

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For the Year Ended June 30, 2014

HAWAII HEALTH CONNECTOR

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended June 30, 2014
(With Prior Year Comparative Information)

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Board of Directors of Hawaii Health Connector:

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Health Connector (Connector), a nonprofit Hawaii corporation, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Connector as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Comparative Information

We have previously audited the financial statements of the Connector as of and for the year ended June 30, 2013 and our report dated February 21, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the accompanying prior year comparative information is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated February 20, 2015, on our consideration of the Connector'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* in considering the Connector's internal control over financial reporting and compliance.

CW Associates, CPAs

Honolulu, Hawaii
February 20, 2015

HAWAII HEALTH CONNECTOR

STATEMENT OF FINANCIAL POSITION

As of June 30, 2014
(With Prior Year Comparative Information)

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash	$ 65,646	$ 10,445
Grants and other receivables	28,582,037	18,317,926
Prepaid expenses	1,489,264	41,304
Total current assets	30,136,947	18,369,675
HEALTH INSURANCE EXCHANGE SOFTWARE AND PURCHASED SOFTWARE LICENSES, Net	37,054,922	18,823,018
PROPERTY AND EQUIPMENT, Net	556,543	498,058
TRADEMARK	24,926	23,561
LEASE SECURITY DEPOSITS	33,323	15,814
TOTAL ASSETS	$67,806,661	$37,730,126
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$20,262,668	$15,855,009
Accrued liabilities	8,252,471	2,449,489
Total current liabilities	28,515,139	18,304,498
NET ASSETS		
Unrestricted net assets	39,291,522	19,425,628
Total net assets	39,291,522	19,425,628
TOTAL LIABILITIES AND NET ASSETS	$67,806,661	$37,730,126

See accompanying notes to the financial statements.

HAWAII HEALTH CONNECTOR

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014
(With Prior Year Comparative Information)

	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Government grants	$68,741,365	$34,281,554
Issuer fee revenue	120,836	-
Contributions and other revenue	39,887	2,003
Total revenue and support	68,902,088	34,283,557
Expenses		
Program services	45,364,833	11,017,896
Management and general	3,671,361	3,920,692
Total expenses	49,036,194	14,938,588
Increase in unrestricted net assets	19,865,894	19,344,969
INCREASE IN NET ASSETS	19,865,894	19,344,969
NET ASSETS – Beginning of year	19,425,628	80,659
NET ASSETS – End of year	$39,291,522	$19,425,628

See accompanying notes to the financial statements.

HAWAII HEALTH CONNECTOR

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2014
(With Prior Year Comparative Information)

	Program Services	Management and General	2014 Total	2013 Total
Program management fees	$ 16,294,963	$ -	$ 16,294,963	$ 6,248,983
Consumer assistance and outreach	8,017,498	-	8,017,498	1,029,936
Department of Human Services cost allocation and IT costs	5,709,444	-	5,709,444	-
Salaries and benefits	3,329,316	1,555,321	4,884,637	2,646,315
Amortization of health insurance exchange software and purchased software licenses	4,054,414	-	4,054,414	-
IT Maintenance and operations	3,788,420	-	3,788,420	1,397,077
Marketplace assistor program	2,612,713	-	2,612,713	-
Legal fees	-	1,442,335	1,442,335	760,498
Other professional fees	673,233	356,146	1,029,379	2,196,737
Occupancy	346,637	231,637	578,274	265,334
Depreciation of property and equipment	128,136	54,916	183,052	63,444
Supplies	149,210	13,259	162,469	94,049
Conferences and travel	135,714	5,585	141,299	193,938
Other expenses	125,135	12,162	137,297	42,277
Total	$ 45,364,833	$ 3,671,361	$ 49,036,194	$ 14,938,588

See accompanying notes to the financial statements.

HAWAII HEALTH CONNECTOR

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2014
(With Prior Year Comparative Information)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 19,865,894	$ 19,344,969
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization of health insurance exchange software and purchased software licenses	4,054,414	-
Depreciation of property and equipment	183,052	63,444
Increase in:		
Grants and other receivables	(10,264,111)	(17,362,005)
Prepaid expenses	(1,447,960)	(30,013)
Increase in:		
Accounts payable	4,407,659	15,002,103
Accrued liabilities	5,802,982	2,336,894
Net cash provided by operating activities	22,601,930	19,355,392
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to health insurance exchange software and purchased software licenses	(22,286,318)	(18,823,018)
Additions to property and equipment	(241,537)	(516,591)
Additions to trademarks	(1,365)	(23,561)
Increase in lease security deposits	(17,509)	(6,357)
Net cash used by investing activities	(22,546,729)	(19,369,527)
NET INCREASE (DECREASE) IN CASH	55,201	(14,135)
CASH – Beginning of year	10,445	24,580
CASH – End of year	$ 65,646	$ 10,445

See accompanying notes to the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Hawaii Health Connector (Connector) commenced operations in July 2011, and was incorporated in the State of Hawaii in August 2011 as a nonprofit Hawaii corporation. The Connector's application for tax-exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code was approved by the U.S. Internal Revenue Service in February 2014, effective retroactively to August 2011. The Connector's mission is to help the people of Hawaii live happier and healthier lives by making quality health insurance accessible to all, making the acquisition of health insurance affordable and simpler, and improving the integration between public and private health insurance plans. The Connector was established by Act 205 of the 2011 Hawaii State Legislature to be Hawaii's health insurance exchange as mandated by the federal Patient Protection and Affordable Care Act of 2010.

Approximately 99% of revenue and support is derived from federal government grants and State of Hawaii appropriations. The loss of such funding would have a material adverse effect on the Connector as it would not have sufficient resources to fund its operations.

Basis of Accounting

The Connector reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets (none in 2014 and 2013), and permanently restricted net assets (none in 2014 and 2013). Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support is reported when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported when pledged as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. Revenue from government grants is recognized to the extent of expenditures made in accordance with the related agreements (including expenditures for software, software licenses, trademarks, and property and equipment, which are capitalized and amortized or depreciated, if applicable, for financial reporting purposes). Revenue received in excess of such expenditures is deferred. Other expenses are recorded when the related liability is incurred, including advertising, public relations, and outreach expenses which amounted to approximately $8,017,000 and $1,030,000 for the years ended June 30, 2014 and 2013, respectively. Expenses are allocated on a functional basis between program services and supporting services based on estimates by management. Expenses that can be identified with the program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases according to a defined methodology.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require 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. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near term.

Concentrations of Credit Risk

Financial instruments that potentially subject the Connector to credit risk include cash and grants and other receivables. At June 30, 2014 and 2013, the Connector's cash on deposit with financial institutions was fully insured by federal deposit insurance. Management evaluates the credit standings of these financial institutions to ensure that all funds are adequately safeguarded as required by federal regulations. Receivables are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual receivable amounts. At June 30, 2014 and 2013, management determined that no allowance for doubtful accounts was required.

Health Insurance Exchange Software and Purchased Software Licenses

Health insurance exchange (HIX) software and purchased software licenses are stated at cost. Amortization of HIX software and purchased software licenses is computed using the straight-line method over an estimated useful life of the lesser of 5 years or the remaining life of the software license and begins when the HIX software and purchased software licenses are placed in service. HIX software and purchased software licenses are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over estimated useful lives of the shorter of 5 years or the remaining lease term for leasehold improvements and 3 to 7 years for office furniture and equipment. Property and equipment and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Expenditures for repairs and maintenance are expensed. Major improvements are capitalized.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on certain gross receipts within Hawaii plus an additional 0.5% on certain gross receipts within the City and County of Honolulu. The gross receipts of the Connector for the years ended June 30, 2014 and 2013 were exempt from the Hawaii general excise tax.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trademark

The Connector's trademark is stated at the cost of legal fees and related amounts incurred to register the trademark with the Hawaii State Department of Commerce and Consumer Affairs. Management intends to renew the trademark's registration for each successive five-year renewal period that the Connector is conducting its authorized activities, and accordingly, the trademark has an indefinite life not subject to amortization.

Income Taxes

The Connector is a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code. Therefore qualifying contributions to the Connector may be tax deductible.

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Connector's tax positions as of June 30, 2014 and 2013 and for the years then ended by reviewing its income tax returns and conferring with its tax advisors, and determined that the Connector had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. The Connector filed its initial return for the period ended June 30, 2012 in October 2013; which is open for examination by taxing authorities until the statutes of limitations expire.

NOTE B – GRANTS AND OTHER RECEIVABLES

At June 30, 2014 and 2013, grants and other receivables consisted of the following:

	2014	2013
Grants receivable	$28,515,744	$18,309,976
Other receivables	66,293	7,950
Grants and other receivables	$28,582,037	$18,317,926

Amounts received for government grants are subject to audit and adjustment by government agencies. Any disallowed claim, including amounts already collected, may constitute a liability. Management expects such amounts, if any, to be immaterial to the financial statements.

NOTE C – HEALTH INSURANCE EXCHANGE SOFTWARE AND PURCHASED SOFTWARE LICENSES

At June 30, 2014 and 2013, health insurance exchange software and purchased software licenses consisted of the following:

	2014	2013
Health insurance exchange software	$30,752,676	$ 9,642,060
Purchased software licenses	10,356,660	9,180,958
Total	41,109,336	18,823,018
Accumulated amortization	(4,054,414)	-
Health insurance exchange software and purchased software licenses, net	$37,054,922	$18,823,018

In 2012, the Connector entered into a software design, development, and implementation (DDI) and software license agreement (Agreement) that granted the Connector ownership of the developed software and non-transferable, non-exclusive licenses to operate, access, and use the licensed software for the operation of a health insurance exchange for the State of Hawaii as mandated by the federal Patient Protection and Affordable Care Act of 2010. The agreement, as amended, includes total DDI and license costs of approximately $53,000,000 of which $41,000,000 was incurred through June 30, 2014. The remaining $12,000,000 of health insurance exchange software deliverables and license rights were completed or acquired, respectively, in October 2014.

In addition, the Connector has an operations and maintenance (M&O) contract with the software vendor to maintain and operate the health insurance exchange for the period October 1, 2013 through September 30, 2015, with options to extend. Pursuant to the contract, the Connector incurred M&O expenses of approximately $3,800,000 and $1,400,000 during the years ended June 30, 2014 and 2013, respectively. The Connector expects to incur future M&O expenses of approximately $1,400,000 for the remaining 15 month period of the contract.

NOTE D – PROPERTY AND EQUIPMENT

At June 30, 2014 and 2013, property and equipment consisted of the following:

	2014	2013
Office furniture and equipment	$715,160	$513,659
Leasehold improvements	88,919	48,883
Total	804,079	562,542
Accumulated depreciation	(247,536)	(64,484)
Property and equipment, net	$556,543	$498,058

NOTE E – LINE-OF-CREDIT

The Connector had a $150,000, revolving line-of-credit with First Hawaiian Bank, which was available to September 2014 with interest at the Bank's prime rate plus 0.50%. At June 30, 2014 and 2013, the Bank's prime rate was 4.375%. At June 30, 2014 and 2013, there were no drawings on the line-of-credit. The line-of-credit was not renewed on maturity.

NOTE F – LEASES

The Connector leases facilities under operating leases expiring April 2017. Lease expense amounted to $312,762 and $174,931 for the years ended June 30, 2014 and 2013, respectively.

At June 30, 2014, future minimum lease payments approximated the following:

Years ending June 30th:	
2015	$137,800
2016	$ 96,700
2017	$ 82,900

NOTE G – CONTINGENCIES

The Connector may be subject to legal proceedings in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve such matters, if any, will not be material to the financial statements. However, it is at least reasonably possible that such estimates may change within the near term.

The Connector operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects, if any, on the financial statements of the Connector from such changes in economic conditions are not presently determinable.

NOTE H – FINANCIAL STATEMENT PRESENTATION

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation to further detail operating expenses.

The financial statements include certain prior year comparative information. Such information does not include sufficient detail to constitute a complete presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Connector's financial statements as of and for the year ended June 30, 2013, from which the information was derived.

NOTE I – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

HAWAII HEALTH CONNECTOR

REPORT REQUIRED BY GAO *GOVERNMENT AUDITING STANDARDS*

For the Year Ended June 30, 2014

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors of Hawaii Health Connector:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hawaii Health Connector (Connector), a nonprofit Hawaii corporation, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2015.

Internal Control over Financial Reporting

Management of the Connector is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Connector's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Connector's internal control. Accordingly, we do not express an opinion on the effectiveness of the Connector's internal control.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Connector'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

CW Associates, CPAs

Honolulu, Hawaii
February 20, 2015

HAWAII HEALTH CONNECTOR

REPORTS REQUIRED BY OMB CIRCULAR A-133

For the Year Ended June 30, 2014

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Directors of Hawaii Health Connector:

Report on Compliance for Each Major Federal Program

We have audited the compliance of Hawaii Health Connector (Connector), a nonprofit Hawaii corporation, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2014. The Connector's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Connector's major federal program based on our audit of the type of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Connector's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Connector's compliance.

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Opinion on the Major Federal Program

In our opinion, the Connector complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Connector is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Connector's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstance for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Connector'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Connector as of and for the year ended June 30, 2014, and have issued our report thereon dated February 20, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 (Continued)

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

CW Associates, CPAs

Honolulu, Hawaii
February 20, 2015

HAWAII HEALTH CONNECTOR

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures	
Department of Health and Human Services				
Direct Programs:				
State Planning and Establishment Grants for the Affordable Care Act's Exchanges*	93.525*	N/A*	$68,812,629	*
Total Expenditures of Federal Awards			$68,812,629	

* Denotes major programs, comprising 100% of total expenditures of federal awards.

See accompanying notes to the schedule of expenditures of federal awards.

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the Hawaii Health Connector 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 general-purpose financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursements.

Of the federal expenditures presented in the schedule of expenditures of federal awards, subrecipients were provided federal awards as follows:

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditure Passed Through
Department of Health and Human Services			
State Planning and Establishment Grants for the Affordable Care Act's Exchanges	93.525	I HBEIE120126-01-00	$2,989,813
Total Department of Health and Human Services			$2,989,813

HAWAII HEALTH CONNECTOR

FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2014

SUMMARY OF AUDIT RESULTS

The auditor expressed an unmodified opinion on the financial statements of Hawaii Health Connector (Connector).

No deficiencies or combinations of deficiencies material to the Connector's internal control over financial reporting were reported by the auditor.

No instances of noncompliance material to the Connector's financial statements were reported by the auditor.

The auditor expressed an unmodified opinion on compliance for the Connector's major federal award program.

No deficiencies or combinations of deficiencies material to the Connector's internal control over compliance were reported by the auditor.

No audit findings related to the Connector's major federal award program was reported by the auditor.

The program tested as a major program was the State Planning and Establishment Grants for the Affordable Care Act's Exchanges Program (federal CFDA #93.525), a direct program, which comprise 100% of total expenditures of federal awards.

The threshold for distinguishing Types A and B programs was $2,064,379 (3% of federal expenditures).

Entities may be eligible for consideration as a low-risk auditee after two consecutive years of annual single audits that report no material weaknesses in internal control or compliance and no material questioned costs, and after submitting the reporting packages and data collection forms to the Federal Audit Clearinghouse by the due dates. The Connector was not determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

In the current year, no deficiencies or combinations of deficiencies material to the Connector's internal control over financial reporting and no instances of noncompliance material to the Connector's financial statements were reported by the auditor.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

In the current year, the auditor expressed an unmodified opinion on compliance for the Connector's major federal award programs. No deficiencies or combinations of deficiencies material to the Connector's internal control over compliance were reported by the auditor in the current year.

HAWAII HEALTH CONNECTOR

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2014

FINDINGS – FINANCIAL STATEMENTS AUDIT

In the prior year, no deficiencies or combinations of deficiencies material to the Hawaii Health Connector's (Connector) internal control over financial reporting and no instances of noncompliance material to the Connector's financial statements were reported by the auditor.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

In the prior year, the auditor expressed an unmodified opinion on compliance for the Connector's major federal award program. No deficiencies or combinations of deficiencies material to the Connector's internal control over compliance were reported by the auditor.

HAWAII HEALTH CONNECTOR

CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2014

HAWAII HEALTH CONNECTOR

CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2014

CORRECTIVE ACTION PLAN

A corrective action plan for the year ended June 30, 2014 for Hawaii Health Connector (Connector) was not required because there were no current year findings or questioned costs.

Appendix B – 2013 Audit

HAWAII HEALTH CONNECTOR

FINANCIAL STATEMENTS, INDEPENDENT AUDITORS' REPORTS, AND SUPPLEMENTARY SCHEDULE

For the Year Ended June 30, 2013

CW Associates

A Hawaii Certified Public Accounting Corporation

HAWAII HEALTH CONNECTOR

INTRODUCTION

For the Year Ended June 30, 2013

Hawaii Health Connector (Connector) was incorporated in the State of Hawaii in August 2011 as a nonprofit Hawaii corporation. The Connector's application for tax-exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code was approved by the U.S Internal Revenue Service in February 2014. The Connector's mission is to help the people of Hawaii live happier and healthier lives by making quality health insurance accessible to all, making the acquisition of health insurance affordable and simpler, and by improving the integration between public and private health insurance plans. The Connector was established by Act 205 of the 2011 Hawaii State Legislature to be Hawaii's health insurance exchange as mandated by the federal Patient Protection and Affordable Care Act of 2010.

The Connector receives federal awards directly from the U.S. Department of Health and Human Services for its State Planning and Establishment Grants for the Affordable Care Act's Exchanges program.

This report is the result of a single audit of the Connector conducted in accordance with auditing standards generally accepted in the United States of America; the *Government Auditing Standards* issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

This report includes the financial statements of the Connector for the year ended June 30, 2013, with comparative information as of June 30, 2012 and for the period from July 8, 2011 to June 30, 2012, and the accompanying notes to the financial statements and independent auditors' report. It also includes the independent auditors' reports required by the Government Accountability Office's *Government Auditing Standards,* and the schedule of expenditures of federal awards and independent auditors' reports required by OMB Circular A-133, for the year ended June 30, 2013. There are no findings or questioned costs and therefore no corrective action plan is reported by the auditors under those captions in the final sections of this report.

HAWAII HEALTH CONNECTOR

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For the Year Ended June 30, 2013

HAWAII HEALTH CONNECTOR

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

For the Year Ended June 30, 2013
(With Prior Period Comparative Information)

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Directors of Hawaii Health Connector:

Report on the Financial Statements

We have audited the accompanying financial statements of Hawaii Health Connector (Connector), a nonprofit Hawaii corporation, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Connector as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Period Comparative Information

The prior period comparative information has been derived from the financial statements of the Connector as of June 30, 2012 and for the period from July 8, 2011 to June 30, 2012, which were audited by other auditors, whose report dated March 25, 2013, expressed an unmodified opinion on those financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated February 21, 2014, on our consideration of the Connector'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* in considering the Connector's internal control over financial reporting and compliance.

CW Associates, CPAs

February 21, 2014

HAWAII HEALTH CONNECTOR

STATEMENT OF FINANCIAL POSITION

As of June 30, 2013
(With Prior Period Comparative Information)

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash	$ 10,445	$ 24,580
Grants and other receivables	18,317,926	955,921
Prepaid expenses	41,304	11,291
Total current assets	18,369,675	991,792
CONNECTOR SOFTWARE AND SOFTWARE LICENSES, net	18,823,018	-
PROPERTY AND EQUIPMENT, net	498,058	44,911
TRADEMARK	23,561	-
LEASE SECURITY DEPOSITS	15,814	9,457
TOTAL ASSETS	$ 37,730,126	$ 1,046,160
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 15,855,009	$ 852,906
Accrued liabilities	2,449,489	112,595
Total current liabilities	18,304,498	965,501
NET ASSETS		
Unrestricted net assets	19,425,628	80,659
Total net assets	19,425,628	80,659
TOTAL LIABILITIES AND NET ASSETS	$ 37,730,126	$ 1,046,160

See accompanying notes to the financial statements.

HAWAII HEALTH CONNECTOR

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013
(With Prior Comparative Information for the period from July 8, 2011 to June 30, 2012)

	2013	2012
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Government grants and contracts	$34,281,554	$ 1,464,771
Contributions and other revenue	2,003	18,862
Total revenue and support	34,283,557	1,483,633
Expenses		
Program services	11,017,896	301,915
Management and general	3,920,692	1,101,059
Total expenses	14,938,588	1,402,974
Increase in unrestricted net assets	19,344,969	80,659
INCREASE IN NET ASSETS	19,344,969	80,659
NET ASSETS – Beginning of period	80,659	-
NET ASSETS – End of period	$19,425,628	$ 80,659

See accompanying notes to the financial statements.

HAWAII HEALTH CONNECTOR

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2013
(With Prior Comparative Information for the period from July 8, 2011 to June 30, 2012)

	Program Services	Management and General	2013 Total	2012 Total
Project management fees	$ 7,646,060	$ -	$ 7,646,060	$ -
Salaries and benefits	1,827,278	819,037	2,646,315	226,274
Legal fees	-	2,196,737	2,196,737	605,002
Public relations and outreach	1,029,936	-	1,029,936	-
Other professional fees	-	760,498	760,498	496,057
Occupancy	141,332	67,555	208,887	15,737
Conferences and travel	193,938	-	193,938	35,330
Supplies, maintenance and repairs	64,712	27,734	92,446	4,923
Depreciation	44,411	19,033	63,444	1,040
Telephone and internet	28,106	12,045	40,151	15,591
Other expenses	42,123	18,053	60,176	3,020
Total	$ 11,017,896	$ 3,920,692	$ 14,938,588	$ 1,402,974

See accompanying notes to the financial statements.

HAWAII HEALTH CONNECTOR

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2013
(With Prior Comparative Information for the period from July 8, 2011 to June 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 19,344,969	$ 80,659
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	63,444	1,040
Increase in:		
Grants, contracts, and other receivables	(17,362,005)	(955,921)
Prepaid expenses	(30,013)	(11,291)
Increase in:		
Accounts payable	15,002,103	852,906
Accrued liabilities	2,336,894	112,595
Net cash provided by operating activities	19,355,392	79,988
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to software and software licenses	(18,823,018)	-
Additions to property and equipment	(516,591)	(45,951)
Additions to trademarks	(23,561)	-
Increase in lease security deposits	(6,357)	(9,457)
Net cash used by investing activities	(19,369,527)	(55,408)
NET INCREASE (DECREASE) IN CASH	(14,135)	24,580
CASH – Beginning of period	24,580	-
CASH – End of period	$ 10,445	$ 24,580
SUPPLEMENTAL INFORMATION		
Expenses paid on behalf of the Connector	$ -	$ 3,862

See accompanying notes to the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Hawaii Health Connector (Connector) commenced operations in July 2011, and was incorporated in the State of Hawaii in August 2011 as a nonprofit Hawaii corporation. The Connector's application for tax-exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code was approved by the U.S. Internal Revenue Service in February 2014. The Connector's mission is to help the people of Hawaii live happier and healthier lives by making quality health insurance accessible to all, making the acquisition of health insurance affordable and simpler, and by improving the integration between public and private health insurance plans. The Connector was established by Act 205 of the 2011 Hawaii State Legislature to be Hawaii's health insurance exchange as mandated by the federal Patient Protection and Affordable Care Act of 2010.

Basis of Accounting

The Connector reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets (none in 2013 and 2012), and permanently restricted net assets (none in 2013 and 2012). Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support is reported when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported when pledged as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. Revenue from government grants and contracts is recognized to the extent of expenditures made in accordance with the related agreements (including expenditures for software, software licenses, trademarks, and property and equipment, which are capitalized and amortized or depreciated, if applicable, for financial reporting purposes). Revenue received in excess of such expenditures is deferred. Other expenses are recorded when the related liability is incurred. Expenses are allocated on a functional basis between program services and supporting services based on estimates by management. Expenses that can be identified with the program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases according to a defined methodology.

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with such generally accepted accounting principles 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. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near term.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Connector to credit risk include cash and grants and other receivables. At June 30, 2013 and 2012, the Connector's cash on deposit with financial institutions was fully insured by federal deposit insurance. Management evaluates the credit standings of these financial institutions to ensure that all funds are adequately safeguarded as required by federal regulations. Receivables are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual receivable amounts. At June 30, 2013 and 2012, management determined that no allowance for doubtful accounts was required.

Software and Software Licenses

Software and software licenses are stated at cost. Amortization of software and software licenses is computed using the straight-line method over estimated useful lives of 5 years and begins when the software and software licenses are placed in service. Software and software licenses are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over estimated useful lives of the shorter of 5 years or the remaining lease term for leasehold improvements and 3 to 7 years for office furniture and equipment. Property and equipment and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Expenditures for repairs and maintenance are expensed. Major improvements are capitalized.

Trademark

The Connector's trademark is stated at the cost of legal fees and related amounts incurred to register the trademark with the Hawaii State Department of Commerce and Consumer Affairs. Management intends to renew the trademark's registration for each successive five-year renewal period that the Connector is conducting its authorized activities. Accordingly, the trademark has an indefinite life and accordingly, is not subject to amortization.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on certain gross receipts within the State, plus an additional 0.5% on certain gross receipts within the City and County of Honolulu. The gross receipts of the Connector for the years ended June 30, 2013 and 2012 were exempt from the Hawaii general excise tax.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Connector's application for tax-exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code was approved of the U.S. Internal Revenue Service in February 2014. Qualifying contributions to the Connector may be tax deductible.

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Connector's tax positions as of June 30, 2013 and 2012 and for the periods then ended by reviewing its income tax returns and conferring with its tax advisors, and determined that the Connector had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. The income returns are open for examination by taxing authorities until their respective statutes of limitation expire.

NOTE B – GRANTS AND OTHER RECEIVABLES

At June 30, 2013 and 2012, grants and other receivables consisted of the following:

	2013	2012
Grants receivable	$18,309,976	$955,443
Other receivables	7,950	478
Grants and other receivables	$18,317,926	$955,921

Amounts received for government grants and contracts are subject to audit and adjustment by government agencies. Any disallowed claim, including amounts already collected, may constitute a liability. Management expects such amounts, if any, to be immaterial to the financial statements. Revenue and support is derived principally from government grants and contracts, the loss of which could have a material adverse effect on the Connector.

NOTE C – SOFTWARE AND SOFTWARE LICENSES

At June 30, 2013 and 2012, software and software licenses consisted of the following:

	2013	2012
Software	$ 9,642,060	$ -
Software licenses	9,180,958	-
Total	18,823,018	-
Accumulated amortization	-	-
Software and software licenses, net	$18,823,018	$ -

The Connector entered into software and software license agreements that grant non-transferable, non-exclusive licenses to operate, access, and use the licensed software for the operation of a health insurance exchange for the State of Hawaii as mandated by the federal Patient Protection and Affordable Care Act of 2010. The cost of the development of the health insurance exchange, which was still in progress at June 30, 2013, is expected to amount to approximately $48,000,000. In addition, the Connector has an operation and maintenance contract with the software vendor to maintain and operate the health insurance exchange from October 1, 2013 to September 30, 2016 at an expected total cost of approximately $14,000,000.

NOTE D – PROPERTY AND EQUIPMENT

At June 30, 2013 and 2012, property and equipment consisted of the following:

	2013	2012
Leasehold improvements	$ 48,883	$10,555
Office furniture and equipment	513,659	35,396
Total	562,542	45,951
Accumulated depreciation	(64,484)	(1,040)
Property and equipment, net	$498,058	$44,911

NOTE E – LINE-OF-CREDIT

During September 2013, the Connector obtained a $150,000, revolving line-of-credit with First Hawaiian Bank, available to September 2014 with interest at the Bank's prime rate, 4.375% in September 2013, plus 0.50%.

NOTE F – LEASES

The Connector leases facilities under operating leases expiring April 2017. Lease expense amounted to $165,474 and $9,131 for the periods ended June 30, 2013 and 2012, respectively. At June 30, 2013, future minimum lease payments approximated $185,300 in 2014, $181,300 in 2015, $193,500 in 2016 and $163,900 in 2017.

NOTE G – FINANCIAL STATEMENT PRESENTATION

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation to further detail operating expenses. Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued. The Connector operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects, if any, on the financial statements of the Connector from such changes in economic conditions are not presently determinable.

HAWAII HEALTH CONNECTOR

REPORT REQUIRED BY GAO *GOVERNMENT AUDITING STANDARDS*

For the Year Ended June 30, 2013

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors of Hawaii Health Connector:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hawaii Health Connector (Connector), a nonprofit Hawaii corporation, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 21, 2014.

Internal Control over Financial Reporting

Management of the Connector is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Connector's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Connector's internal control. Accordingly, we do not express an opinion on the effectiveness of the Connector's internal control.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Connector'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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

CW Associates, CPAs

February 21, 2014

HAWAII HEALTH CONNECTOR

REPORTS REQUIRED BY OMB CIRCULAR A-133

For the Year Ended June 30, 2013

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Hawaii Health Connector:

Report on Compliance for Each Major Federal Program

We have audited the compliance of Hawaii Health Connector (Connector), a nonprofit Hawaii corporation, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2013. The Connector's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Connector's major federal program based on our audit of the type of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Connector's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Connector's compliance.

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Opinion on the Major Federal Program

In our opinion, the Connector complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of the Connector is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Connector's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstance for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Connector'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Connector as of and for the year ended June 30, 2013, and have issued our report thereon dated February 21, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 (Continued)

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

CW Associates, CPAs

February 21, 2014

HAWAII HEALTH CONNECTOR

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2013

Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures	
Department of Health and Human Services				
Direct Programs:				
State Planning and Establishment Grants for the Affordable Care Act's Exchanges*	93.525*	N/A*	$34,227,228	*
Total Expenditures of Federal Awards			$34,227,228	

The accompanying schedule of expenditures of federal awards was prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

* Denotes major programs, comprising 100% of total expenditures of federal awards.

Of the federal expenditures presented in the schedule of expenditures of federal awards, a subrecipient was provided federal awards as follows:

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditure Passed-Through
Department of Health and Human Services			
State Planning and Establishment Grants for the Affordable Care Act's Exchanges	93.525	I HBEIE120126-01-00	$135,808
Total Department of Health and Human Services			$135,808

HAWAII HEALTH CONNECTOR

FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

HAWAII HEALTH CONNECTOR

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

SUMMARY OF AUDIT RESULTS

The auditors expressed an unmodified opinion on the financial statements of Hawaii Health Connector (Connector).

No deficiencies or combinations of deficiencies material to the Connector's internal control over financial reporting were reported by the auditors.

No instances of noncompliance material to the Connector's financial statements were reported by the auditors.

The auditors expressed an unmodified opinion on compliance for the Connector's major federal award program.

No deficiencies or combinations of deficiencies material to the Connector's internal control over compliance were reported by the auditors.

No audit findings related to the Connector's major federal award program was reported by the auditors.

The program tested as a major program was the State Planning and Establishment Grants for the Affordable Care Act's Exchanges Program (federal CFDA #93.525), a direct program, which comprise 100% of total expenditures of federal awards.

The threshold for distinguishing Types A and B programs was $1,026,817 (3% of federal expenditures).

Entities may be eligible for consideration as a low-risk auditee after two consecutive years of annual single audits that report no material weaknesses in internal control or compliance, and no material questioned costs, after submitting the reporting packages and data collection forms to the Federal Audit Clearinghouse by the due dates. The Connector was not eligible for consideration as a low-risk auditee because it was not subject to single audits in the two prior years.

FINDINGS – FINANCIAL STATEMENTS AUDIT

In the current year, no deficiencies or combinations of deficiencies material to the Connector's internal control over financial reporting and no instances of noncompliance material to the Connector's financial statements were reported by the auditors.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

In the current year, the auditors expressed an unqualified opinion on compliance for the Connector's major federal award programs. No deficiencies or combinations of deficiencies material to the Connector's internal control over compliance were reported by the auditors in the current year.

HAWAII HEALTH CONNECTOR

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2013

FINDINGS – FINANCIAL STATEMENTS AUDIT

In the prior period, the following were identified as material weaknesses to the internal control over financial reporting of Hawaii Health Connector (Connector) and of noncompliance to the financial statements of the Connector reported by the prior auditors.

Reference Number – Finding No. 2012-1

Description of Finding: Year-End Accruals (Significant Deficiency)

Finding – We noted that the Connector had not accrued certain costs for legal and other professional services that totaled approximately $479,000 as of June 30, 2012. Furthermore, we noted that the Connector improperly recorded approximately $362,000 in furniture and equipment as of June 30, 2012 that was received subsequent to that date. Appropriate audit adjustments were recorded as of June 30, 2012.

Cause and Effect – The Connector did not have a formalized process in place to ensure proper cutoff for transactions recorded in the general ledger.

Multiple adjustments were necessary to properly state the financial statements.

Recommendation – We recommend that the Connector implement a formalized process at fiscal year-end to ensure appropriate cutoff to ensure transactions are recorded in the proper period, including review by personnel knowledgeable in U.S. generally accepted accounting principles.

Management's Comment – The Hawaii Health Connector (Connector) will prepare a formal fiscal year-end process to ensure that appropriate cutoff transactions are recorded at the proper period.

Current Status

The Connector has hired experienced Accounting and Finance personnel during fiscal year 2013 to include a Chief Financial Officer (CFO)(CPA and MBA) with 20+ years of professional experience, an Accounting and Payroll Manager (CPA) with 10 years of experience, four (4) additional Finance staff, and a Procurement/Contracts Administrator to support the entity's growth, establish organizational infrastructure, and to establish policies and procedures in order to provide accurate and timely financial information. The Connector has established formal policies and procedures for all significant transaction cycles to include period-end closing processes. All financial transaction cycle policies and procedures include period-end reconciliations, cutoff procedures, and supervisor review and approval requirements to ensure the propriety and completeness of the Connector's financial reporting.

The Connector has established a Finance team that possesses the necessary expertise and knowledge of U.S. Generally Accepted Accounting Principles (GAAP) to properly establish accounting policies and internal controls over financial reporting for the entity.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

State Planning and Establishment Grants for the Affordable Care Act's Exchanges CFDA No. 93.525

Reference Number – Finding No. 2012-2

Description of Finding: Procurement and Suspension and Debarment (Significant Deficiency)

Finding – The Connector did not have formal policies and procedures governing the procurement process until May 2012. However, the Connector had an informal policy in place that required three bids or quotes to be obtained prior to any procurement action. Prior to May 2012, the Connector followed the specific guidance fin the U.S. Office of Management and Budget ("OMB") Circular No. 102, *Grants and Cooperative Agreements with State and Local Governments*, for transactions that exceeded the small purchase threshold of $100,000 as the procurement procedures were performed by the State of Hawaii, Department of Commerce and Consumer Affairs, the pass-through entity, on behalf of the Connector.

We also noted that the Connector failed to follow its own procurement policies and procedures, which required the use of purchase orders and travel request forms, when procuring services or items in excess of $1,000.

We also noted that Connector personnel did not review the Excluded Parties List System ("EPLS") for covered transactions to ensure that its vendors were not debarred or suspended from receiving payments on federally funded awards. However, we noted no contracts were awarded to suspended or debarred entities for the contracts we tested for the State Planning and Establishment Grants for the Affordable Care Act's Exchanges program.

Cause and Effect – The Connector did not have formal policies and procedures governing its procurement process. When the Connector implemented policies and procedures over procurement in May 2012, the Connector did not comply with the policies established, as personnel were not familiar with those policies and procedures.

Criteria – 2 CFR 44, *Procurement Procedures*, requires the Connector to establish written procurement procedures and ensure that contracts are executed with responsible contractors by reviewing the EPLS for debarred or suspended parties or require vendors to sign a federal suspension and debarment certification.

Recommendation – We recommend that the Connector stress the importance of complying with internal policies and procedures, and provide training related to the procurement and suspension and debarment requirements to all personnel involved with the procurement of federally funded contracts.

Furthermore, we recommend that the Connector supplement its current procurement policy to require a review of the EPLS for all contracts or transactions that exceed $25,000 or include a certification from the vendor stating that it is not suspended nor debarred from contracts funded through federal awards.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (Continued)

Reference Number – Finding No. 2012-2 (Continued)

Management's Comment – We will recommend that the procurement policy be revised to include a review of the Excluded Parties List System for all contracts or transactions that exceed $25,000. The Connector follows the suspension and debarment procedures and major contracts are subjected to check with the state's list before contracts are signed. Our contracts folder will have a folder checklist to include that verifications have been carried out that the companies are not included in suspension and debarment list.

Current Status

The Connector established a formal Procurement Policy effective January 1, 2012 which was reviewed and approved by the Connector's Board of Directors (BOD). The Procurement Policy established various levels of required authorizations and documentation based on the dollar amount of the procurement. The Procurement Policy includes solicitation, methodology, cost/price analysis, BOD and regulatory review processes, and authorization procedures as required by 2 CFR 215.44.

The Connector's Procurement Policy includes a Contract Provisions section which provides guidance for the Connector to assess if the contractor is responsible and whether they possesses the potential ability to perform successfully under the terms and conditions of the contract. Specifically, the policy includes Debarment and Suspension provisions (under E.O.s 12549 and 12689) in Article XI of the Procurement Policy requiring that all contractors with awards greater than $100,000 provide certification of their exclusion status and that of their principals prior to the award.

Reference Number – Finding No. 2012-3

Description of Finding: Unallowable Costs Charged to the Federal Program

Finding – We noted instances of unallowable costs totaling $205 that were paid with federal funds for finance and interest charges on credit cards.

Cause and Effect – We noted that the Connector does not have formal policies and procedures in place to ensure compliance with OMB Circular A-122, *Cost Principles for Non-Profit Organizations* ("Circular A-122"). We noted reviews of expenditures and purchases were performed to ensure that these expenditures were properly recorded for financial statement purposes, however, the personnel reviewing the expenditures were not necessarily knowledgeable with the cost principles included in Circular A-122, resulting in $205 of questioned costs.

Criteria – To comply with Circular A-122, Attachment B, paragraph 23, costs incurred for interest on borrowed capital are unallowable and should not be charged to the federal award.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (Continued)

Reference Number – Finding No. 2012-3 (Continued)

Recommendation – We recommend that the Connector provide a listing of allowable and unallowable costs to all employees who are involved in procuring items or services with federal funds.

Management's Comment – The Connector will conduct communication meetings to discuss allowable and unallowable costs with current team members and future staff. The Purchase Order will be revised to include a section on the suspension and debarment certification from the vendor. Travel Request form is modified and will be included in the Travel Policy of HR Manual and the Accounting Policies and Procedures.

Current Status

The Connector has established Purchase and Disbursement policies and procedures and Employee Expense Reimbursement policies and procedures which specifically identify non-allowable expenses as included in Circular A-122. The Purchase and Disbursement policies and procedures include the contents of Circular A-122, Attachment B, Selected Items of Cost and are provided to all Finance personnel and members of management with budget/purchasing responsibilities. The Employee Expense Reimbursement policies and procedures are made available to all Employees on the Connector's Internal SharePoint. All federally funded cash disbursements are reviewed and approved by the CFO and the Executive Director (ED) prior to requesting federal funds to ensure the propriety and allowability of costs.

Reference Number – Finding No. 2012-4

Description of Finding: Cash Management

Finding – The Connector does not have formal policies and procedures in place to govern its cash management process. We noted the Connector erroneously duplicated eight invoices totaling approximately $22,000 when requesting cash advances from DCCA, the pass-through entity. The federal funds were received by the Connector and held for several months before these transactions were identified and corrected as of June 30, 2012.

Cause and Effect – Although the Connector receives federal funding on a cash advance basis, the Connector did not minimize the amount of time between receipt of federal funds and disbursement of funds, which often ranged from two to four weeks. The Connector's management noted the advances requested were necessary for ongoing operations of the Connector as the timing of payments from DCCA were unknown due to delays in the actual payment of requests by the State of Hawaii, Department of Accounting and General Services, which makes payments on behalf of other state departments. Management noted that the federal granting agency was kept aware of the situation and has granted the Connector a waiver for violations of this requirement.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (Continued)

Reference Number – Finding No. 2012-4 (Continued)

Criteria – To comply with OMB Circular A-11 0, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization.

Recommendation – We recommend that the Connector implement policies and procedures to ensure that federal cash advances are requested only for immediate funding needs and disbursed immediately after receipt. As the federal granting agency reassigned the grant in question to the Connector as the direct recipient of the federal awards under this program in March 2013, the Connector should have the ability to comply with the cash management requirement subsequent to the reassignment.

Management's Comment – The Hawaii Health Connector was recently designated the 1st level one grant grantee on record. With the ability to drawdown funds from this grant, the Connector will be able to control the handling of funds in accordance with the cash management federal regulations.

Current Status

The Connector has implemented formal cash management policies and procedures which restrict requests of federal cash funding to a) actual amounts specifically identified to pay current accounts payable and payroll expenses and b) in very limited situations, for estimated expenses to be incurred within a few days period for which a definite dollar amount has not yet been established. The Connector's cash management policy requires CFO and ED review and approval of the draw document and supporting invoices prior to requesting federal award funding. The policy also requires that the CFO document the date of funding and the date the checks are signed on the federal draw request form. The Connector does not maintain cash balances of federal funds.

HAWAII HEALTH CONNECTOR

CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2013

HAWAII HEALTH CONNECTOR

CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2013

CORRECTIVE ACTION PLAN

A corrective action plan for the year ended June 30, 2013 for Hawaii Health Connector (Connector) was not required because there were no current year findings or questioned costs.

Appendix C – 2014 Report to Board of Directors

CW Associates
A Hawaii Certified Public Accounting Corporation

HAWAII HEALTH CONNECTOR

REPORT TO THE BOARD OF DIRECTORS

For the Year Ended June 30, 2014

Hawaii Health Connector:

We have audited the financial statements of Hawaii Health Connector (Connector) as of and for the year ended June 30, 2014, and have issued our report thereon dated February 20, 2015. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 20, 2014, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the Connector's internal control solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal control in a separate Report to Management dated February 20, 2015.

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Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you in our engagement letter dated June 20, 2014.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, and our firm, as appropriate, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Connector is included in Note A to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2014. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the amortization of Connector software and software licenses, and the allocation of expenses among activities in the statement of functional expenses.

Management's estimate of the allocation of expenses among activities in the statement of functional expenses is based on actual program expenses. We have evaluated key factors and assumptions used to develop the allocation of expenses among activities in the statement of functional expenses and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Connector's financial statements relate to the allocation of expenses among activities in the statement of functional expenses.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this report, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The attached schedule summarizes the uncorrected financial statement misstatements, if any, whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule summarizes the misstatements, if any, that we identified as a result of our audit procedures that were brought to the attention of, and corrected by, management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Connector's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached management representation letter dated February 20, 2015.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the Connector's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves. Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Connector, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Connector's auditor.

Uniform Administrative Requirements, Cost Principles, and Audit Requirements

The Office of Management and Budget (OMB) issued an omnibus "Supercircular" to streamline the federal government's guidance on administrative requirements, cost principles, and audit requirements for federal awards. It imposes three main categories of common requirements for administrative and accounting:

- Reforms to Administrative Requirements – The Supercircular supersedes three circulars previously defining administrative requirements and provides across-the-board deadlines and thresholds for notice requirements, small purchase limits, and new quality control and efficiency measures.

- Reforms to Cost Principles – The Supercircular consolidates the cost principles in OMB Circulars A-21, A-87 and A-122. It provides recipients more opportunity for cost recovery, such as including the cost of certain computing devices as allowable direct cost supplies. The Supercircular also introduces several methods for streamlining the process for calculating and negotiating indirect rates.

- Reforms to Audit Requirements – The single audit process remains basically unchanged, except for an increase to $750,000 from $500,000 in the dollar threshold for the determination of an A-133 audit. Organizations below the new threshold will be subject to additional oversight, including pre-award review of risks, standards for financial and program management, subrecipient monitoring, and remedies for noncompliance.

The Supercircular is effective for all new federal awards after December 26, 2014, and for additional funding of existing awards after that date. The Connector needs to be prepared to comply with the new requirements after the effective date. Early implementation is not permitted.

* * * * *

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

CW Associates, CPAs

Honolulu, Hawaii
February 20, 2015

AUDIT DIFFERENCE EVALUATION FORM

Organization: Hawaii Health Connector | Statement of Financial Position Date: June 30, 2014

Completed by: CW Associates, CPAs | Date: January 2015

Instructions: This form should be used to accumulate known audit differences detected by nonsampling substantive tests (including differences in accounting estimates) and projected audit differences from substantive procedures that used sampling. All known and likely misstatements greater than the amount considered trivial (documented at **Step 5** of NPO-CX-2) should be listed. The auditor should review the guidance beginning at paragraph 1112.15 before concluding whether to reflect the effect of prior-year unadjusted audit differences in evaluating audit differences in the current period. This form should not include normal closing entries. At the end of the audit, the auditor should evaluate all uncorrected audit differences, individually and in the aggregate, in relation to individual amounts, subtotals, or totals in the financial statements and conclude on whether they materially misstate the financial statements taken as a whole. See section 1112. The notes following the table provide footnote explanations and a listing of qualitative considerations in evaluating materiality.

Description (Nature) of Audit Difference	Known (K) or Likely (L)	Cause	Workpaper Reference	Financial Statements Effect—Amount of Over (Under) Statement of: Total Assets	Total Liabilities	Net Assets	Revenues	Expenses	Change in Net Assets	Working Capital
									$ -	
									$ -	
NONE									$ -	
									$ -	
									$ -	
Total				$ -	$ -	$ -	$ -	$ -	$ -	$ -
Less Audit Adjustments Subsequently Booked									$ -	
Net Unadjusted Audit Differences—This Year				$ -	$ -	$ -	$ -	$ -	$ -	$ -
Effect of Unadjusted Audit Differences—Prior Years									$ -	
Net Audit Differences				$ -	$ -	$ -	$ -	$ -	$ -	$ -
Financial Statement Caption Totals				$ 67,896,452	$ 28,604,930	$ 39,291,522	$ 68,902,086	$ 49,036,192	$ 19,865,894	$ 1,621,808
Net Audit Differences as % of F/S Captions				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Conclusion: Based on the results of the evaluation performed above, as well as the consideration of qualitative factors, uncorrected audit differences, individually and in the aggregate, ○ do ◉ do not cause the financial statements taken as a whole to be materially misstated.

Client:	***1684.A - Hawaii Health Connector***
Engagement:	***6/30/14 A - Hawaii Health Connector***
Period Ending:	***6/30/2014***
Trial Balance:	***TB***
Workpaper:	***3100.30 - Adjusting Journal Entries***

Account	Description	W/P Ref		Debit		Credit
	NONE					

HAWAI'I HEALTH CONNECTOR

MANAGEMENT REPRESENTATION LETTER

For the Year Ended June 30, 2014

To CW Associates, CPAs:

This representation letter is provided in connection with your audit of the financial statements of Hawaii Health Connector (Connector), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States (U.S. GAAP).

As part of your engagement, you prepared the financial statements, notes to the financial statements, and supplementary schedule. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards. In addition, you have provided us with trial balances prepared from our general ledger for use during your audit and proposed adjustments to our accounts, if any. We are in agreement with those adjustments, if any.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, make it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

Except where otherwise stated below, immaterial matters less than $170,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the auditor's report:

<u>Financial Statements</u>

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated June 20, 2014, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.

2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. With regard to nonaudit services performed by you, we acknowledge and our responsibility to:

   a. Assume all management responsibilities;

   b. Oversee the services by designating an individual who possesses suitable skill, knowledge, or experience;

   c. Evaluate the adequacy and results of the services performed; and

   d. Accept responsibility for the results of the services.

5. Significant assumptions we used in making accounting estimates are reasonable.

6. Related party relationships and transactions, if any, have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

8. The effects of uncorrected misstatements summarized in the attached schedule, if any, and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the financial statements as a whole.

9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

10. With regard to items reported at fair value, if any,:

    a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.

    b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.

    c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.

    d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

11. All assets and liabilities under the entity's control are included in the financial statements.

12. Net assets presented in the statement of financial position are appropriately classified, and reclassifications between net asset classes are appropriate.

13. We have maintained the composition of the entity's assets in amounts needed to comply with all donor restrictions, if any.
14. The entity's disclosed tax exempt status is accurate.
15. The basis used for the allocation of functional expenses is reasonable.
16. Internal controls over the receipt and recording of contributions are adequate.
17. Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
18. There are no guarantees, whether written or oral, under which the organization is contingently liable, as defined by U.S. GAAP.
19. All costs that qualify for capitalization as software and software licensing in accordance with FASB Accounting Standards Codification (ASC) 350-40, *Internal-Use Software*, have been properly capitalized.

Information Provided

20. We have provided you with:

    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, meeting minutes, and other matters;

    b. Additional information that you have requested from us for the purpose of the audit; and

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

21. All transactions have been recorded in the accounting records and are reflected in the financial statements.
22. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
23. We have no knowledge of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors, regulators, or others.
24. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
25. We have no knowledge of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives

26. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
27. We have evaluated funding commitments from the State of Hawaii and the federal government and concluded that such funding commitments are sufficient to continue the Connector's operations for one year beyond the date the financial statements are available to be issued.

28. We have a process to track the status of audit findings and recommendations, if any.

29. We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

30. We have provided views on your reported audit findings, conclusions, and recommendations, if any, as well as our planned corrective actions, if applicable, for the report.

31. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.

32. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements, and we have not consulted legal counsel concerning litigation or claims.

33. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

34. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.

35. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

36. We have disclosed to you all guarantees, whether written or oral, under which we are contingently liable.

37. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts.

38. There are no:

    a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with FASB Accounting Standards Codification (ASC) 450, *Contingencies*.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC-450.

39. We have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.

40. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

OMB Circular A-133

41. With respect to federal awards, we represent the following to you:

a. We are responsible for understanding and complying with and have complied with the requirements of Circular A-133.

b. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with Circular A-133.

c. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with Circular A-133.

d. The methods of measurement or presentation have not changed from those used in the prior period.

e. We believe the significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

f. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.

g. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.

h. We have, in accordance with Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.

i. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to our federal program and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on the major federal program; and we have complied, in all material respects, with these requirements.

j. We have provided to you our interpretations of any compliance requirements that have varying interpretations.

k. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal program. Also, if applicable, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control.

l. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.

m. We have received no requests from a federal agency to audit one or more specific programs as a major program.

n. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.

o. We have charged costs to federal awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the U.S. Office of Management and Budget Circular A-122, *Cost Principles for Not-for-Profit Organizations,* and the U.S. Office of Management and Budget's, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.

p. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).

r. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

s. We have monitored subrecipients to determine if they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.

t. We have issued management decisions timely after the receipt of subrecipients' auditor reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, if any, and have ensured that the subrecipients have taken the appropriate and timely corrective action on findings.

u. We have considered the results of subrecipients' audits and have made any necessary adjustments to our own books and records.

v. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

w. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

x. We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by Circular A-133, and we are responsible for preparing and implementing a correction action plan for each audit finding.

y. We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.

z. We have reviewed, approved, and taken responsibility for the financial statements and related notes and an acknowledgment of the auditor's role in the preparation of this information.

aa. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

Jeffrey M. Kissel — 2/20/15
Executive Director — Date

Diane J. Reich — 2/20/15
Chief Financial Officer — Date

AUDIT DIFFERENCE EVALUATION FORM

Organization: Hawaii Health Connector — Statement of Financial Position Date: June 30, 2014

Completed by: CW Associates, CPAs — Date: January 2015

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NONE									$ -	
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									$ -	
Total				$ -	$ -	$ -	$ -	$ -	$ -	$ -
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Net Audit Differences as % of F/S Captions				0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Conclusion: Based on the results of the evaluation performed above, as well as the consideration of qualitative factors, uncorrected audit differences, individually and in the aggregate, ○ do ◉ do not cause the financial statements taken as a whole to be materially misstated.

Appendix D - 2013 Report to Board of Directors

HAWAII HEALTH CONNECTOR

REPORT TO THE BOARD OF DIRECTORS

For the Year Ended June 30, 2013

Hawaii Health Connector:

We have audited the financial statements of Hawaii Health Connector (Connector) as of and for the year ended June 30, 2013, and have issued our report thereon dated February 21, 2014. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated November 8, 2013. Professional standards also require that we communicate to you the following information related.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Connector are described in Note A to the financial statements. Except for accounting policies related to software and software licenses, and trademarks, no new significant accounting policies were adopted and the application of existing significant accounting policies was not changed during the year ended June 30, 2013. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements of the Connector for the year ended June 30, 2013 were the collectability of grants and other receivables, depreciation, the recognition of grant revenue, and the allocation of expenses among activities in the statement of functional expenses. We evaluated the key factors and assumptions used to develop the above accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosure in the financial statements of the classification of net assets and the allocation of expenses among activities in the statement of functional expenses were considered to be particularly sensitive because of their significance to financial statement users.

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Facsimile (808) 531-1041
www.cwassociatescpas.com

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We provided management with a schedule summarizing uncorrected misstatements of the financial statements, if any. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. No adjusting journal entries were proposed during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

Management has provided us with certain representations about the financial statements and related matters in a *Management Representation Letter* as required by auditing standards generally accepted in the United States of America.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as your auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

With the release of Statement on Auditing Standards (SASs) Nos. 122-125, the Auditing Standards Board (ASB) has substantially completed its project to redraft all of the auditing sections in *Codification of Statements on Auditing Standards* (contained in AICPA *Professional Standards*). The Clarified Auditing Standards are now in effect. One substantive change resulting from the clarification is to the auditors' report, which now includes required headings and specific language within the report. Please contact us if you have any questions regarding the Clarified Auditing Standards.

* * * * *

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

CW Associates, CPAs

February 21, 2014