

**CoverColorado**

425 South Cherry Street, Suite 160  
Glendale, CO 80246



Conducted by:

DIVISION OF INSURANCE  
STATE OF COLORADO

---

CERTIFICATE OF COPY

I, **Marcy Morrison**, Commissioner of Insurance of the State of Colorado, do hereby certify that the attached is a true and correct copy of the Financial Examination Report as of December 31, 2006 for **CoverColorado** now on file as a record of this office.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal of office at the City and County of Denver on this 6th day of March 2008.

A handwritten signature in cursive script that reads "Marcy Morrison".

**Marcy Morrison**  
**Commissioner of Insurance**

REPORT OF FINANCIAL EXAMINATION

OF

COVERCOLORADO

425 South Cherry Street, Suite 160  
Glendale, CO 80246

AS OF

DECEMBER 31, 2006

TABLE OF CONTENTS

	<u>PAGE</u>
SALUTATION .....	2
SCOPE OF EXAMINATION.....	3
HISTORY AND CAPITAL.....	4
History .....	4
Funding.....	4
Dividends to Stockholders.....	4
AFFILIATED COMPANIES .....	4
Parent, Subsidiaries and Affiliates.....	4
Acquisitions, Mergers or Sales .....	5
Holding Company Filings .....	5
MANAGEMENT AND CONTROL .....	5
Board of Directors .....	5
Officers .....	6
Committees .....	6
Conflict of Interest.....	7
Service and Management Agreements .....	7
CORPORATE RECORDS .....	8
Fidelity Bond and Other Insurance.....	9
Employees' and Agents' Welfare.....	9
TERRITORY AND PLAN OF OPERATION .....	9
Territory.....	9
Plan of Operation.....	9
GROWTH OF THE COMPANY .....	10
REINSURANCE.....	11
STATUTORY DEPOSIT .....	11
ACCOUNTS AND RECORDS .....	11
FINANCIAL STATEMENTS .....	12
STATEMENT OF ADMITTED ASSETS, LIABILITIES AND SURPLUS.....	13
STATEMENT OF OPERATIONS .....	14
STATEMENT OF SURPLUS.....	15
RECONCILIATION OF SURPLUS.....	16
ANALYSIS OF EXAMINATION CHANGES .....	17
COMPARATIVE FINANCIAL STATEMENTS.....	18
NOTES TO FINANCIAL STATEMENTS .....	19
SUMMARY .....	20
RECOMMENDATIONS .....	21
CONCLUSION.....	23

Report of Financial Examination as of December 31, 2006	<b>CoverColorado</b>	2
--	----------------------	---

Glendale, Colorado  
December 7, 2007

Honorable Marcy Morrison  
Commissioner of Insurance  
Division of Insurance  
State of Colorado  
1560 Broadway, Suite 850  
Denver, Colorado 80202

Commissioner:

Pursuant to your instructions and in compliance with Section 10-8-510., C.R.S., an examination has been made of the financial condition and affairs of:

CoverColorado  
425 South Cherry Street, Suite 160  
Glendale, CO 80246

and the report thereon is respectfully submitted.

CoverColorado, hereinafter referred to as the "Program," was previously examined as of December 31, 2001, for the period January 1, 1997 through December 31, 2001. The Colorado Division of Insurance, hereinafter referred to as the "Division" conducted that examination as well as the current examination.

The Company has adequately addressed all recommendations contained in the prior examination report.

Report of Financial Examination as of December 31, 2006	<b>CoverColorado</b>	3
--	----------------------	---

### SCOPE OF EXAMINATION

This examination covers the period from January 1, 2002 through December 31, 2006. During the course of the examination, assets were verified and valued and all known liabilities were established as of December 31, 2006. Accounting and other pertinent records were reviewed to the extent deemed appropriate. The work performed was in accordance with statutory requirements and followed procedures prescribed in the Colorado Examiners Handbook and the NAIC Financial Condition Examiners Handbook, as adapted for the nature of the Program and the fact that they are not required to adhere to NAIC Statutory Practices and Procedures nor to file the statutory health blank. The extent of review on any given account or activity was based on the results of a planning process that included an evaluation of the Program's internal controls, as well as other factors, which included an analytical review of financial data, the Program's financial performance during the period under examination, prior examination findings and materiality. Consideration was also given to the use of audit work performed by the Program's independent accounting firm and, where appropriate, has been used herein. All phases of the examination were conducted to determine compliance with the insurance laws and regulations of the State of Colorado, as applicable to the Program. Specific details pertaining to the various phases of the examination are set forth under the appropriate caption in subsequent sections of this report.

The determination to reflect financial adjustments in the financial statements was dependent upon: the materiality of a particular adjustment; the aggregate of all immaterial adjustments the total of which exceeds the planned materiality; and/or compliance with pertinent laws and regulations. Planned materiality was determined based on the Company's surplus, admitted assets and/or operating results.

Report of Financial Examination as of December 31, 2006	<b>CoverColorado</b>	4
--	----------------------	---

## HISTORY AND CAPITAL

### History

The Program was created by the Colorado General Assembly in 1990 as a nonprofit, unincorporated public entity subject to the requirements of Section 10-8-501, et seq., C.R.S. Effective July 1, 2001, Section 10-8-501, C.R.S., was amended to change the name from “Colorado Uninsurable Health Insurance Plan” to “CoverColorado”. In accordance with Section 10-8-504, C.R.S., the Program is an instrumentality of the State; except that the debts and liabilities of the Program shall not constitute debts and liabilities of the State and neither the Program nor the board is an agency of the State of Colorado.

The purpose of the Program, pursuant to 10-8-502, C.R.S., is to provide access to health insurance for those Colorado residents who are now termed “high risk” because they are unable to obtain health insurance or unable to obtain health insurance except at prohibitive rates or with restrictive exclusions.

The Program began offering comprehensive, individual major medical insurance in April of 1991. As of December 31, 2006, the Program had approximately 5,500 participants.

### Funding

Per Section 10-8-530, C.R.S., the Program is funded as follows:

- a. Moneys transmitted pursuant to section 38-13-116.5(2.7), C.R.S.;
  - b. Premiums charged pursuant to section 10-8-512;
  - c. Moneys remaining in the CoverColorado cash fund, created pursuant to this section, as it existed prior to July 1, 1997;
  - d. Special fees assessed against insurers as provided in subsection (1.5) of this section;
  - e. Any moneys accepted through gifts, grants, or donations received by the board of directors for operation of the program, including contributions received pursuant to the premium tax credit allocation provisions of section 10-8-534.
- (1.3) The board shall report to the state treasurer annually... if the program’s moneys will not be adequate over the next twenty-four month period to provide for the projected claims, administrative expenses, reserves for claims incurred but not reported, and surplus equal to ten percent of projected annual claims...the state treasurer shall transmit to the board the amount necessary to meet the projected claims, administrative expenses, reserves for claims incurred but not reported, and surplus equal to ten percent of projected annual claims, pursuant to and within the limitations of section 38-13-116.5(2.7), C.R.S...

### Dividends to Stockholders

The Program does not issue stock and, thus, has no stockholders.

## AFFILIATED COMPANIES

### Parent, Subsidiaries and Affiliates

The Company has no parent, subsidiaries or affiliates.

Acquisitions, Mergers or Sales

During the examination period, there were no corporate acquisitions, mergers or sales.

Holding Company Filings

The Company is not a member of an insurance holding company system and is not subject to the holding company filing requirements of Section 10-3-804, C.R.S., and Colorado Insurance Regulation 3-4-1.

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the second amendment to the Plan of Operation, the Program’s board of directors is to be the governing body of the Program. There are to be seven voting members of the board that will be appointed by the governor with the consent of the senate, as follows:

- One director shall be a medical professional who specializes in chronic diseases;
- Two directors shall be individuals that are currently or have been insured by the Program;

Four directors shall be representatives of carriers:

- one from an HMO;
- one from a sickness and accident insurer;
- one from a stop-loss or excess loss carrier;
- one “at large” member with one of the qualifications of the above three.

The commissioner of insurance, or his/her designee, and a member of the general assembly of Colorado shall serve as ex-officio non-voting members of the board. The initial appointee from the general assembly was a member of the state senate, appointed by the president of the senate. After two years, a representative of the state house of representatives was appointed by the speaker of the house. The appointments continue to rotate in two-year terms for the senate and the house.

The Program’s board of directors meets regularly on a bi-monthly basis, January, March, May, July, September and November. The September meeting is generally held as a board retreat. During the examination period, the board held 60 regular meetings. Special meetings of the board may be called by the chair of the board or by any two directors. The notice of any special meeting shall state the business to be transacted at the meeting. During the examination period, the board held one special meeting.

Directors duly appointed and serving at December 31, 2006, together with their city and state of residence and position on the board are as follows:

<u>Name and Address</u>	<u>Board Position</u>
Judith Jung Denver, CO	Representative of Sickness and Accident Insurance Carriers, Anthem Blue Cross and Blue Shield
Susan Hutton Littleton, CO	Consumer Representative, Uninsurable
Michael Norris Greenwood Village, CO	Stop Loss or Excess Loss Representative Assistant Vice-President, Great West Healthcare

Report of Financial Examination as of December 31, 2006	<b>CoverColorado</b>	6
--	----------------------	---

<u>Name and Address</u>	<u>Board Position</u>
John Hopkins Grand Junction, CO	Representative of HMOs Rocky Mountain HMO
Christine Gilroy, MD Denver, CO	Physician Representative
Daryl Edmonds Denver, CO	Represents Other Carrier Cigna Healthcare
Donald L. Shovein Fort Collins, CO	Consumer Representative, Uninsurable

In addition to the above, John J. Postolowski, Deputy Commissioner of Finance and Administration, Colorado Division of Insurance, and Senator Jim Isgar, State Senate District 6, serve as an ex-officio, non-voting members of the board.

All of the above directors were serving at the time of this report, except that Representative Ann McGihon replaced Senator Jim Isgar and the State Treasurer, Cary Kennedy, was added to the composition of the board as a third ex-officio director, as stated in the fourth amendment to the Plan of Operation as of July 2007.

#### Officers

The first amendment to the Plan of Operation, approved on September 3, 1996, stated that the Program's board of directors shall elect a chairman, vice-chairman and a secretary-treasurer from its membership at the November meeting each year. The addition of the secretary-treasurer was to bring the Plan of Operation in line with the practice of the board since 1993. The second amendment to the Plan of Operation, which was approved by the Division on August 1, 2002, requires an election of a chairman and vice-chairman. The fourth amendment to the Plan of Operation, effective July 22, 2007, indicates the election of a secretary again. The fourth amendment to the Plan of Operation also allows the board to appoint an Executive Director of the Program.

Officers duly elected or appointed and serving at December 31, 2006 were as follows:

<u>Officer</u>	<u>Position</u>
Judith Jung	Chair
Susan Hutton	Vice Chair
Christine Gilroy, MD	Secretary-Treasurer
Barbara Brett	Executive Director

The above officers were serving at the date of this report, with the exception of Barbara Brett, who retired as executive director as of September 1, 2007. She has been replaced by Suzanne Bragg-Gamble as the Program's Executive Director.

#### Committees

Per the Plan of Operation, the board may appoint appropriate legal, actuarial and other committees as necessary. As of December 31, 2006, the Program had two committees of the board of directors, a Grievance Committee and a Legislative Committee.

Report of Financial Examination as of December 31, 2006	<b>CoverColorado</b>	7
--	----------------------	---

The members of the Grievance Committee were:

Judith Jung	Christine Gilroy, MD
Barbara Crawford	Scotti Hutton

The Program states that the Grievance Committee does not keep minutes, but does keep track of its decisions by retaining copies of the letters sent to the parties bringing the grievances to the committee. The Grievance Committee does reverse denials previously issued.

The members of the Legislative Committee were:

Judith Jung	Don Shovein
John Hopkins	Barb Crawford

The Legislative Committee met telephonically as necessary during the examination period, especially during the legislative sessions of the Colorado House and Senate when bills or amendments are being considered by the legislature. No minutes were kept of these meetings.

During the examination period, the Program set up various committees for specific purposes, after the completion of which, the committees were dissolved. These included: Disease Management, Standards, Advanced Care Management, Investment, and Disease Management/Case Management. None of these committees of the board kept minutes, but reported to the board of directors as appropriate.

**Recommendation No. 1:**

**It is recommended that the Program amend its Plan of Operation to require any committees of the board of directors to complete minutes of each meeting, including a statement as to each matter considered and the action taken with regard to each.**

The Standards Committee developed the “Governing Principles of the Board of Directors of CoverColorado,” setting out the responsibilities of each member of the board, their duties and authority.

Conflict of Interest

The “Governing Principles of The Board of Directors of CoverColorado” (principles) includes the policies regarding the disclosure of potential conflicts of interest. The principles call for the annual disclosure by all directors, as well as the responsibilities of the board and actions to take when potential conflicts are disclosed. Attached to the principles are two annual disclosure forms, one for the directors and one for contractors. The Program was only able to provide some of the disclosure forms completed in 2005.

**Recommendation No. 2:**

**It is recommended that the Program develop procedures for the annual distribution, collection, maintenance and review of conflict of interest disclosure forms pursuant to the requirements of Section 7 of the Program’s “Governing Principles of The Board of Directors of CoverColorado.”**

Service and Management Agreements

The Program entered into an Administrative Services Agreement with Pacificare Health Plan Administrators, Inc. (PHPA), effective September 1, 2004, for the administration of the Program’s enrollment, customer service, premium and claim functions. PHPA is also responsible for contracting

Report of Financial Examination as of December 31, 2006	<b>CoverColorado</b>	8
--	----------------------	---

with a network of qualified providers throughout the State of Colorado. PHPA has arranged for the use of the provider network(s) of PHPA, the Private HealthCare Systems (PHCS) network and PHPA's affiliates. The agreement is for a term of three years, through August 31, 2007, unless otherwise terminated. Monthly fees are to be paid to PHPA based on the number of participants enrolled each month, calculated on the last day of the previous month for the following effective month. In 2006, the Program paid service fees of \$582,432.

The Program entered into a Pharmaceutical Services Agreement with Prescription Solutions (Rx Solutions), also effective on September 1, 2004 for the administration of the Program's pharmacy benefit program. The agreement is for a term of three years, through August 31, 2007, unless otherwise terminated. The Program pays for medication costs and any other agreed upon costs and fees, as outlined in an attached schedule, on a semi-monthly basis pursuant to invoices received from Rx Solutions. Rx Solutions also arranges for rebates from drug manufacturers, of which the Program is remitted 70% of the rebates on retail prescriptions and \$2.75 per claim for mail-in prescriptions. Rx Solutions has the right of offset should the Program fail to pay any invoice from Rx Solutions. During 2006, the Program paid Rx Solutions \$8,272,323 in fees and received rebates of \$291,827.

### CORPORATE RECORDS

The Program was created by the Colorado General Assembly in 1990 as a nonprofit, unincorporated public entity subject to the requirements of Section 10-8-501, et seq., C.R.S. Therefore the Program has no Articles of Incorporation.

The Program does not have by-laws per se, but is required by Section 10-8-507, C.R.S, to submit a Plan of Operation to the Commissioner of Insurance for approval. Any amendments to the Plan of Operation need to be filed for approval also.

The second amendment to the Plan of Operation approved by the Division on August 1, 2002, contained significant changes and additions to the previous plan. Some of the changes included the amendment of the composition of the board to include a representative from the legislature as a non-voting member of the board and added an additional insurer representative to the board. Entire sections were added regarding:

- Executive sessions
- Meetings by Teleconference
- The assessment of special fees against insurers as a further funding mechanism, as well as the procedures for such assessments.
- Advance notice of board meetings to interested parties, including using the website
- Investment Guidelines
- Conflicts between the Plan of Operation and state or federal law shall be deemed to be amended to be in compliance with applicable law.

The third amendment to the Plan of Operation was approved on May 2, 2003 and greatly expanded the indemnification policies and procedures for members of the board.

Review of the minutes indicated that the board of directors meetings were held in accordance with the provisions of the Plan of Operation and adequately record the deliberations and determinations made by the board. However, there is no record that the board of directors or a committee thereof ratified, at least quarterly, the investment transactions of the Program during the examination period. Ratification of the investment transactions is not included in the guidelines in the Plan of Operation, nor is a requirement

Report of Financial Examination as of December 31, 2006	<b>CoverColorado</b>	9
--	----------------------	---

that the ratification and the transaction records be maintained in a permanent record. Therefore, the Program is not in compliance with Section 10-3-234(1)(b)(II) and (2), C.R.S.

**Recommendation No. 3:**

**It is recommended that the Program amend its Plan of Operation to establish procedures for the ratification of investment transactions by the board of directors or an appointed committee thereof at least quarterly and that a permanent record of the transactions be maintained in the applicable minutes as required by Section 10-3-234(1)(b)(II) and (2), C.R.S.**

Fidelity Bond and Other Insurance

The Program is not required to obtain fidelity bond coverage.

Employees' and Agents' Welfare

The Program makes health insurance available to its employees and their dependants for a maximum dollar amount per month paid by the Program. Additional premium will be paid by the employee. The maximum dollar amount per month will be set annually by the board. The Program provides dental coverage to its employees at no cost. Optional dependant coverage is also available, but the employee must cover all premiums for his or her dependants. The Program provides \$12,000 term life insurance at no cost to its employees. Alternatively, the employee shall be compensated for the purchase of the same amount of life insurance from the Public Employees Retirement Association (PERA).

The Program provides a short-term disability program. This program provides coverage for disabilities occurring because of accident or sickness on a 24-hour basis. If the employee becomes disabled and the disability is certified by a physician, benefits at 60% of pre-disability income begin after the longest of 30 calendar days or the date of injury and/or sick leave is exhausted through the 180th day. A voluntary employee paid long-term disability (LTD) plan is available to employees who work at least 30 hours per week.

Employees are eligible to enroll in the PERA retirement program. No other pension plans are offered.

TERRITORY AND PLAN OF OPERATION

Territory

The Program was statutorily created pursuant to Section 10-8-501, et al, C.R.S., and is an instrumentality of the State of Colorado. Therefore, there is no certificate of authority required of the Program. The Program offers coverage to qualified Colorado residents only.

Plan of Operation

The purpose of the Program, pursuant to statute, is to provide access to health insurance for those Colorado residents who are now termed "high risk" because they are unable to obtain health insurance or unable to obtain health insurance except at prohibitive rates or with restrictive exclusions. Per Section 10-8-521, C.R.S., if a health carrier denies coverage to an individual; offers coverage at a premium rate exceeding the rate available through the Program or offers coverage with significant exclusions; the carrier is required to send notice to the applicant that the individual may be eligible coverage under the Program, including information about available benefits, exclusions and premium subsidies, and the name, address and telephone number of the Program. The Program does not market its products through

agents or brokers, however, any agents or brokers that assist potential participants in the application preparation are paid a flat \$25 fee for their services.

Provider contracts are executed between PHPA, through an affiliate, Pacificare of Colorado, Inc. (POCI) and the various providers in its network. The most recent financial examination report on POCI was reviewed and it was noted that the contracts reviewed for POCI were in compliance with the "hold harmless" provision required by Section 10-16-427, C.R.S., and Colorado Insurance Regulation 4-7-1(12)(B). In addition, termination provisions in the contracts provide that enrollees will be afforded an opportunity to maintain ongoing care, while an inpatient, until release, in accordance with Section 10-16-705(4), C.R.S.

### GROWTH OF THE COMPANY

The growth of the Company during the examination period is presented in the following schedules:

Year	Admitted Assets	Liabilities	Surplus
2002	\$ 26,627,364	\$ 9,479,410	\$ 17,147,954
2003	31,594,900	15,531,135	16,063,765
2004	45,544,935	22,460,877	23,084,058
2005	47,640,355	7,492,081	40,148,274
2006	52,396,365	9,623,393	42,772,972

Amounts reported in the schedules above were extracted from the filed statutory annual reports. For 2006 the amounts were determined by this financial examination.

Further summaries of the Company's revenues and expenses progress are reflected in the two tables as follows:

Year	Revenues	Medical and hospital expenses	Claims adjustment expenses	Loss ratio (%)	Adm. expenses	Adm. exp. ratio (%)	Combined Ratio*
2002	\$16,427,424	\$21,954,780	\$0	133.6	\$2,422,062	14.8	148.4
2003	30,213,144	28,782,284	0	95.3	3,007,299	10.0	105.3
2004	46,248,108	36,619,970	0	79.2	3,148,686	6.8	86.0
2005	46,055,872	27,758,690	0	60.3	2,077,071	4.5	64.8
2006	40,824,602	37,556,469	0	92.0	2,511,243	6.2	98.2

\*A combined ratio of greater than 100% is the result of a net underwriting loss

Each of the above ratios were calculated by the examiners

Year	Total revenue	Total deductions	Net underwriting gain/(loss)	Investment and other income	Net income before dividends and taxes
2002	\$ 16,427,424	\$ 24,376,842	\$ (7,949,418)	\$ 1,135,143	\$ (6,814,275)
2003	30,213,144	31,789,583	(1,576,439)	484,942	(1,091,497)
2004	46,248,108	39,768,656	6,479,452	539,420	7,018,872
2005	46,055,872	29,835,761	16,220,111	852,993	17,073,104
2006	40,824,602	40,067,712	756,890	1,840,410	2,597,300

The dollar figures reported in the schedules above were extracted from the filed statutory annual reports.

#### REINSURANCE

As of December 31, 2006, the Program had no reinsurance programs in place.

#### STATUTORY DEPOSIT

The Program is not required to establish a statutory or special deposit with the Division.

#### ACCOUNTS AND RECORDS

The Program operates its own local area network and contracts for Information Technology services. The Program uses commercial “off the shelf” products for its significant financial/business applications. The Program maintains an active web presence which is segregated from the business applications. The Program performs its financial reporting, however, it utilizes a third party administrator (TPA) for all premium and claims processing.

The balances in the Program’s 2006 trial balance for balance sheet and revenue accounts were traced to the filed 2006 annual report without exception. For the years ended 2002 through 2005, the Program’s trial balances and supporting schedules were reviewed, and balances were traced from the general ledger to the balance sheets of the respective annual reports. Test checks performed during the course of verifying the assets and liabilities revealed no material differences. Internal controls were reviewed in conjunction with the verification of individual asset and liability accounts and appear to be adequate given the small staff employed by the Program.

The Program is audited annually by an independent certified public accounting firm in accordance with Colorado Insurance Regulation 3-1-4. The CPA firm's work papers were made available for review by the examination team and were used as appropriate during the examination.

The Program has two custodial accounts for the safekeeping of its securities. Neither of these investment accounts were established in conjunction with a custodial agreement as required by Colorado Insurance Regulation 3-1-6(IV). The regulation has been revised and has been replaced by Colorado Insurance Regulation 3-1-16(V) as of October 2, 2006.

**Recommendation No. 4:**

**It is recommended that the Program obtain written custodial/safekeeping agreements for its investment accounts that comply with the requirements of Colorado Insurance Regulation 3-1-16(5) and that these agreements are authorized by the Program's board of directors or a committee thereof.**

The Program has established policies and procedures in place regarding escheat funds. The Program has made filings in a timely manner in compliance with Section 38-13-101, et seq., C.R.S. during the examination period.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities and Surplus as of December 31, 2006, as determined by this examination. This statement is followed by supporting statements and reconciliations presented in the following order:

Statement of Operations, For The Year Ended 2006

Statement of Surplus, For The Year Ended 2006

Reconciliation of Surplus, December 31, 2001 through December 31, 2006

Analysis of Examination Changes, December 31, 2006

Comparative Financial Statements, December 31, 2001 and December 31, 2006

STATEMENT OF ADMITTED ASSETS, LIABILITIES AND SURPLUS  
DECEMBER 31, 2006

ASSETS

	<u>Assets</u>	<u>Assets not admitted</u>	<u>Net admitted assets</u>
Cash and cash equivalents	\$ 1,607,799	\$ 0	\$ 1,607,799
Investments	46,497,555	0	46,497,555
Restricted cash held by the State Treasurer	2,000,000	0	2,000,000
Accounts receivable (Note 1)	1,931,023	178,646	1,752,377
Accrued interest receivable	538,634	0	538,634
Total assets	<u>\$52,575,011</u>	<u>\$178,646</u>	<u>\$52,396,365</u>

LIABILITIES AND SURPLUS

Reserve for health policy claims	\$ 7,621,270
Advance premium	1,762,574
Accrued expenses	239,549
Total liabilities	<u>\$ 9,623,393</u>
Surplus (Note 2)	<u>\$42,772,972</u>
Total liabilities and surplus	<u>\$52,396,365</u>

STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED 2006

Revenues:

Premiums earned	\$25,068,166	
Federal TAA Grant	2,019,074	
State of Colorado	8,000,000	
Premium tax credits	5,727,288	
Assessments	10,074	
Total revenues		<u>\$40,824,602</u>

Expenses:

Health policy benefits	\$37,556,469	
General and administrative expenses	2,511,243	
Total expenses		<u>\$40,067,712</u>
Gain from operations		<u>\$ 756,890</u>

Investment income:

Net increase in fair value of investments	<u>\$ 1,840,410</u>	
Total investment income		<u>1,840,410</u>
Net income		<u><u>\$ 2,597,300</u></u>

STATEMENT OF SURPLUS  
FOR THE YEAR ENDED 2006

Surplus, December 31, previous year		<u>\$ 40,148,274</u>
Net income	\$ 2,597,300	
Change in non-admitted assets	(157,255)	
Change in unrealized losses	184,653	
Change in surplus for the year		<u>\$ 2,624,698</u>
Surplus, December 31, 2006		<u><u>\$ 42,772,972</u></u>

RECONCILIATION OF SURPLUS  
DECEMBER 31, 2001 THROUGH DECEMBER 31, 2006

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Surplus December 31, previous year	\$23,983,093	\$17,147,954	\$16,063,765	\$23,084,058	\$40,148,274
Net income	\$(6,814,275)	\$(1,091,497)	\$ 7,018,872	\$17,073,104	\$ 2,597,300
Change in unrealized losses	0	0	0	0	184,653
Change in non-admitted assets	(20,864)	7,308	1,421	(8,888)	(157,255)
Net change in surplus	<u>\$(6,835,139)</u>	<u>\$(1,084,189)</u>	<u>\$ 7,020,293</u>	<u>\$17,064,216</u>	<u>\$ 2,624,698</u>
Surplus end of reporting period	<u>\$17,147,954</u>	<u>\$16,063,765</u>	<u>\$23,084,058</u>	<u>\$40,148,274</u>	<u>\$42,772,972</u>

The above amounts were extracted from the Company's filed annual statements. The 2006 amounts were determined by examination.

ANALYSIS OF EXAMINATION CHANGES  
DECEMBER 31, 2006

<u>Admitted assets</u>	<u>Per annual report</u>	<u>Per examination</u>	<u>Surplus Increase (Decrease)</u>
Accounts Receivable (Note 1)	\$ 93,981	\$ 1,752,377	\$ 1,658,396
Total assets	<u>\$50,737,970</u>	<u>\$52,396,365</u>	<u>\$ 1,658,396</u>
<u>Liabilities &amp; surplus</u>			
Total liabilities	<u>\$ 9,623,393</u>	<u>\$ 9,623,393</u>	<u>\$ 0</u>
Total surplus	<u>\$41,114,577</u>	<u>\$42,772,972</u>	<u>\$ 1,658,396</u>
Net change per examination			<u>\$ 1,658,396</u>
Surplus per annual report			\$41,114,577
Net change per examination			<u>1,658,396</u>
Surplus per examination			<u><u>\$42,772,972</u></u>

COMPARATIVE FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND DECEMBER 31, 2006

ADMITTED ASSETS

	<u>December 31, 2001*</u>	<u>December 31, 2006*</u>
Cash and cash equivalents	\$ 7,594,546	\$ 1,607,799
Investments	0	46,497,555
Restricted cash held by the State Treasurer	22,345,610	2,000,000
Accounts receivable	1,150	1,752,377
Accrued interest receivable	1,590	538,634
	<hr/>	<hr/>
Total assets	<u>\$29,942,896</u>	<u>\$52,396,365</u>

\* The above amounts were determined per examination.

LIABILITIES AND SURPLUS

	<u>December 31, 2001*</u>	<u>December 31, 2006*</u>
Reserve for health policy claims	\$ 5,413,765	\$ 7,621,270
Advance premium	439,201	1,762,574
Accrued expenses	106,837	239,549
	<hr/>	<hr/>
Total liabilities	\$ 5,959,803	\$ 9,623,393
Surplus	<u>\$23,983,093</u>	<u>\$42,772,972</u>
	<hr/>	<hr/>
Total liabilities and surplus	<u>\$29,942,896</u>	<u>\$52,396,365</u>

\* The above amounts were determined per examination.

Report of Financial Examination as of December 31, 2006	<b>CoverColorado</b>	19
--	----------------------	----

NOTES TO FINANCIAL STATEMENTS

Note 1 – Accounts Receivable and Surplus

The balance reported for accounts receivable included a receivable for TAA Grant funds receivable from CMS as of 11/1/06 of \$1,658,396. The CPA non-admitted this balance because it had not been collected within 3 months of year-end per SSAP #6. This is not a valid use of SSAP #6, which only applies to direct and group billed uncollected premiums as well as amounts due from agents and brokers. The receivable was due from an agency of the U.S. Government, so the collectibility of the balance is not in question. The Program drew down the funds completely by the end of October 2007. As a result, the balance of \$1,658,396 has been readmitted for purposes of this examination with the resulting increase in surplus in the same amount.

Note 2: Surplus

The Program is not subject to the requirements of Section 10-16-411, C.R.S., which requires other health insurers to maintain a minimum surplus level or an amount equivalent to the risk-based capital (RBC) requirements set forth in Colorado Insurance Regulation 3-1-11.

Report of Financial Examination as of December 31, 2006	<b>CoverColorado</b>	20
--	----------------------	----

SUMMARY

The results of this examination disclosed that as of December 31, 2006, the Program had admitted assets of \$52,396,365, liabilities of \$9,623,393, and total surplus of \$42,772,972. Total surplus was increased by \$1,658,396 as a result of this examination.

RECOMMENDATIONS

A summary of recommendations made as a result of this examination follows:

<u>ISSUE</u>	<u>REC NO.</u>	<u>PAGE NO.</u>	<u>RECOMMENDATION</u>
During the examination period, the Program set up various committees for specific purposes, after the completion of which, the committees were dissolved. These included: Disease Management, Standards, Advanced Care Management, Investment, and Disease Management/Case Management. None of these committees of the board kept minutes, but reported to the board of directors as appropriate.	1	7	It is recommended that the Program amend its Plan of Operation to require any committees of the board of directors to complete minutes of each meeting, including a statement as to each matter considered and the action taken with regard to each.
The "Governing Principles of The Board of Directors of CoverColorado," includes the policies regarding the disclosure of potential conflicts of interest. The principles call for the annual disclosure of all directors and the board's responsibility and actions to take when potential conflicts are disclosed. Attached to the principles are two annual disclosure forms, one for the directors and one for contractors. The Program was only able to provide some of the disclosure forms completed in 2005.	2	7	It is recommended that the Program develop procedures for the annual distribution, collection, maintenance and review of conflict of interest disclosure forms pursuant to the requirements of section 7 of the Program's "Governing Principles of The Board of Directors of CoverColorado."
There is no record that the board of directors or a committee thereof ratified, at least quarterly, the investment transactions of the Program during the examination period. Ratification of the investment transactions is not included in the guidelines in the Plan of Operation, nor is a requirement that the ratification and the transaction records be maintained in a permanent record. The Program is not in compliance with Section 10-3-234(1)(b)(II) and (2), C.R.S.	3	8	It is recommended that the Program amend its Plan of Operation to establish procedures for the ratification of investment transactions by the board of directors or an appointed committee thereof at least quarterly and that a permanent record of the transactions be maintained in the applicable minutes as required by Section 10-3-234(1)(b)(II) and (2), C.R.S.

<u>ISSUE</u>	<u>REC NO.</u>	<u>PAGE NO.</u>	<u>RECOMMENDATION</u>
The Program has two custodial accounts for the safekeeping of its securities. Neither of these investment accounts were established in conjunction with a custodial agreement as required by Colorado Insurance Regulation 3-1-6(IV). The regulation has been revised and has been replaced by Colorado Insurance Regulation 3-1-16(V) as of October 2, 2006.	4	11	It is recommended that the Program obtain written custodial/safekeeping agreements for its investment accounts that comply with the requirements of Colorado Insurance Regulation 3-1-16(5) and that these agreements are authorized by the Program's board of directors or a committee thereof.

CONCLUSION

The courtesy, assistance and cooperation extended by the officers and employees of the Company during the course of this examination is hereby acknowledged.

David P. Rudine and Craig Chupp, Actuaries for the Division, conducted the actuarial phase of the examination. Philip E. Gates, EDP Auditor for the Division, conducted the Information System phase of the examination.

In addition to the undersigned, Marcella B. Rivera, Examiner for the Division, participated in the examination.

Respectfully submitted,

---

Julie A. Hansen, CFE  
Examiner-in-Charge  
Division of Insurance  
State of Colorado