



**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and Required Supplementary Information

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## Independent Auditors' Report

The Board of Directors  
Commonwealth Health Insurance Connector Authority:

### Report on the Financial Statements

We have audited the accompanying financial statements of the Commonwealth Health Insurance Connector Authority (the Health Connector), a component unit of the Commonwealth of Massachusetts, which comprise the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position and the Statements of Cash Flows as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Health Connector's basic financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 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.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth Health Insurance Connector Authority as of June 30, 2014 and



2013, and the changes in its financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

***Other Matters***

***Required Supplementary Information***

U.S. generally accepted accounting principles require that the Management’s Discussion and Analysis on pages 3–8 and the Schedule of Funding Progress on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2014 on our consideration of the Health 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 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 Health Connector’s internal control over financial reporting and compliance.

**KPMG LLP**

December 23, 2014

# COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Unaudited

June 30, 2014 and 2013

## Introduction

The following discussion and analysis of the financial performance and activity of the Commonwealth Health Insurance Connector Authority (the Health Connector) is intended to provide an introduction to and an overview and analysis of the basic financial statements for the years ended June 30, 2014 (FY14) and 2013 (FY13). The management of the Health Connector has prepared this discussion, and it should be read in conjunction with the financial statements and the notes thereto, which follow this section.

## Background of the Health Connector

The Health Connector is a body politic and corporate and a public instrumentality of the Commonwealth of Massachusetts (the Commonwealth). The Health Connector is established pursuant to Chapter 176Q of the Massachusetts General Laws (as amended from time to time, c. 176Q or the Health Connector Governing Act), as added by Section 101 of Chapter 58 of the Acts of 2006 (c. 58 or the Health Care Reform Act of 2006), and is an independent public entity not subject to the supervision and control of any other office, department, commission, board, bureau, agency or political subdivision of the Commonwealth.

The Health Connector is governed by an eleven member public private Board, comprised of four ex-officio members – the Secretary of Administration and Finance, who serves as chair of the Board; the Director of Medicaid; the Executive Director of the Group Insurance Commission; and the Commissioner of Insurance – and seven members of the public, four appointed by the Governor and three appointed by the Attorney General. Public sector members encompass a range of interests and expertise, including organized labor, employee health benefits, consumers, small business, actuarial science, health economics and health insurance brokerage.

The Health Connector's primary responsibility is to facilitate the availability, choice and adoption of private health insurance plans to eligible individuals and groups. Until December 2013, the Health Connector administered two programs:

- Commonwealth Care – a subsidized health insurance program for adults without access to employer sponsored health insurance and with family income at or below 300% of the federal poverty level (FPL).
- Commonwealth Choice – an unsubsidized program for individuals and small groups including sole proprietorship, labor union, educational, professional, civic, trade, church, not-for-profit or social organization or firms, corporations, partnerships or associations actively engaged in business that, on at least 50% of its working days during the preceding year, employed at least one but not more than 50 employees.

With major provisions of the Affordable Care Act (ACA) going into effect on January 1<sup>st</sup>, 2014, the Health Connector has been operating as a State-Based Marketplace (SBM) that meets ACA requirements and offering the following ACA-compliant programs:

- Qualified Health Plans (QHPs) and Qualified Dental Plans (QDPs) for eligible individuals. Individuals with income up to 400% FPL may be eligible for federal tax credits, and individuals with income up to 250% FPL may be eligible for federal cost-sharing reduction.
- ConnectorCare, a subsidized health insurance program for individuals at 300% or less of the FPL. ConnectorCare plans are a subset of Qualified Health Plans. In addition to federal tax credits and cost-

## COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Unaudited

June 30, 2014 and 2013

sharing reductions, ConnectorCare members also receive state subsidies to further offset premium and point-of-service costs.

- SHOP, or QHP and QDP programs for small businesses. Small businesses may be eligible for ACA Small Business Tax Credits up to 50% of the cost of health insurance for businesses with fewer than 25 full time equivalent employees, who earn on average \$50,000 a year or less in 2014.
- ACA-required Navigator program, to provide grants to community organizations that assist individuals and small businesses with enrollment.
- A Massachusetts-state-based risk adjustment program, the only state-specific program in the nation (federal certification received from CMS in March 2013).
- The Wellness Track program. Enacted under Chapter 288 of the 2010 State Law, Wellness Track is designed to allow eligible employers to earn up to a 15% rebate on the premium contribution for promoting a healthy workforce.

In addition, the Health Connector continues to be responsible for, among other things, policy development around the Affordability Schedule and Minimum Credible Coverage rules and public education and outreach.

The Commonwealth experienced significant IT challenges during its initial roll out of the new eligibility and enrollment system in October 2013. As such, member transition and enrollment into new, ACA-compliant programs for many were put on hold. To mitigate the problem and ensure protection of residents' access to affordable coverage, the Commonwealth put in place a series of initiatives towards this goal, one of which being the temporary extension of Commonwealth Care through calendar year (CY) 2014. As such, the Health Connector's programs include Commonwealth Care for the entire FY2014.

### Health Connector Operations

As of June 30, 2014, the Health Connector employed approximately 59 full-time equivalent personnel in business administration and program functions (*e.g.*, finance, legal, communications and public outreach, plan management and information technology), as well as support functions, including an appeals unit to manage the appeals process for the individual mandate and Commonwealth Care eligibility determinations. Additionally, the Health Connector subcontracts a significant amount of back office operations to public entities and private vendors, primarily IT development and maintenance, customer service and business operations.

The Health Connector has played a critical role in implementing national health care reform initiatives in Massachusetts. Financing for the implementation efforts came, in part from four grants from the United States Department of Health and Human Services (HHS), including the Exchange Planning Grant and the Level 1, Level 1A and Level 2 Exchange Establishment grants totaling \$162.4 million. These funds primarily support one-time, ACA transition and implementation activities but also help to offset the cost of Health Connector personnel and other operating costs in CY2014. The availability of these funds in 2014 was the principal reason the Health Connector was able to suspend issuer administrative fees until January 1, 2015.

### Current Year Activities

FY14 was a transition year for the Health Connector as the programs established by chapter 58, Commonwealth Care and Commonwealth Choice continued, while at the same time the new ACA-required programs, including ConnectorCare, QHPs and QDPs, tax credits for small businesses, the Navigator program and the Massachusetts-specific risk adjustment program started up. Many key accomplishments relative to ACA transition, including

# COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Unaudited

June 30, 2014 and 2013

policy and programmatic initiatives, were achieved. However, because of IT-related challenges with the original system, IT and operational work has been a major focus throughout FY14 as work to implement a new IT system for the 2015 Open Enrollment period and stabilize operations was performed.

## **The Financial Statements**

The Health Connector's financial report includes three financial statements: the Statement of Net Position (similar to a balance sheet); the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used, similar to private industry. Revenue is recorded when earned, and expenses are recorded when incurred.

The Statement of Net Position presents information on the Health Connector's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Health Connector is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position reports the operating revenues and expenses and nonoperating revenues and expenses of the Health Connector for the fiscal year. The difference – increase or decrease in net position – is presented as the change in net position for the fiscal year. The cumulative differences from inception forward are presented as the net position of the Health Connector, reconciling to total net position on the Statement of Net Position.

The Statement of Cash Flows presents information showing how the Health Connector's cash and cash equivalents position changed during the fiscal year. The Statement of Cash Flows classifies cash receipts and cash payments as resulting from operating activities, capital and related financing activities, noncapital financing activities and investing activities. The net result of those activities is reconciled to the cash and short-term investment balances reported at the end of the fiscal year. This statement is prepared using the direct method, which allows the reader to easily understand the amount of cash received and how much cash was disbursed.

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Unaudited

June 30, 2014 and 2013

**Summarized Financial Information**

Summarized financial information as of and for the years ended June 30, 2014, 2013, and 2012 is as follows:

<b>Table 1</b>			
<b>Net Position</b>			
(In thousands)			
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Current assets	\$ 113,662	53,800	37,229
Capital assets	743	1,579	133
Total assets	<u>114,405</u>	<u>55,379</u>	<u>37,362</u>
Current liabilities	84,266	24,724	9,407
Long term liabilities	3,064	2,529	2,037
Total liabilities	<u>87,330</u>	<u>27,253</u>	<u>11,444</u>
Net position:			
Invested in capital assets	743	1,579	133
Unrestricted	26,331	26,546	25,785
Total net position	<u>\$ 27,074</u>	<u>28,125</u>	<u>25,918</u>

<b>Table 2</b>			
<b>Changes in Net Position</b>			
(In thousands)			
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Operating revenues	\$ 796,882	894,265	848,606
Operating expenses	874,824	918,270	848,646
Operating loss	(77,942)	(24,005)	(40)
Nonoperating revenue	76,891	26,212	3,282
Transfer to Mass Health	—	—	2,000
Increase (decrease) in net position	<u>\$ (1,051)</u>	<u>2,207</u>	<u>1,242</u>

**Financial Highlights**

For FY14, the Health Connector had a net operating loss of \$77,942,312 on operating revenues of \$796,882,162 and operating expenses of \$874,824,474. For FY13, the Health Connector had a net operating loss of \$24,005,333 on operating revenues of \$894,264,536 and operating expenses of \$918,269,869.

Operating revenues include \$669,563,966 of Commonwealth Care capitation and \$61,157,837 of Commonwealth Care enrollee contributions. Commonwealth Care capitation revenue is received from the Commonwealth Care Trust Fund (CCTF) and is paid to the Managed Care Organizations (MCOs) based on a contractual per member

## COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Unaudited

June 30, 2014 and 2013

per month (PMPM) capitation rate multiplied by the number of enrollees per month. The CCTF is a fund that is managed and administered by the Commonwealth. The MCOs are the health plans contracted by the Health Connector to organize medical services to Commonwealth Care enrollees. Enrollee contributions are paid by individuals enrolled in the Commonwealth Care program with income levels that are above 100% of the FPL. Contribution amounts are on a sliding scale based on income and are collected by the Health Connector. In FY14, the sum of capitation revenue and enrollee contributions for Commonwealth Care decreased by \$133,368,105 compared with FY13, offset by the same amount of change in capitation expense. The main drivers of this change were the migration of Commonwealth Care enrollees at or below 133% of the FPL to Mass Health effective January 1, 2014, offset by an increase in capitation expense due to the addition of the Medical Security Program (MSP) enrollees effective January 1, 2014, and a higher settlement liability from the FY13 aggregate risk sharing arrangement compared with the previous year.

Starting in FY14, operating revenues include \$44,875,828 in premiums billed to QHP and QDP enrollees for the period January 1, 2014 through June 30, 2014. Premiums for QHP and QDP enrollees are billed one month in advance of the coverage period. Premium payments collected by the Health Connector from QHP and QDP enrollees are paid to the carriers on a monthly basis. Also starting in FY14 and included in operating revenues are state-funded premium wrap subsidies and state-funded cost sharing reduction subsidies. Both subsidies which are part of the Health Connector's ConnectorCare program, supplement federal subsidies to further strengthen affordability of coverage for individuals with income at or below the 300% of the FPL. These subsidies which are funded from the CCTF are paid to the carriers on a monthly basis.

An additional \$16,659,630 represents the Health Connector's Commonwealth Care administrative fee for FY14 which decreased by \$5,970,276 compared to FY13 mainly due to the migration of Commonwealth Care enrollees at or below 133% of the FPL to Mass Health effective January 1, 2014. The Commonwealth Choice administrative fee for FY14 was \$3,923,113 and compared with FY13, decreased by \$3,294,119 due to the suspension of the Commonwealth Choice administrative fee effective January 1, 2014. Nonoperating revenue which includes federal grant revenue of \$74,830,382, a state appropriation of \$2,000,000 and investment income of \$60,658 increased by \$50,678,426 compared with FY13. Most of the change is due to increased spending related to the ongoing implementation of the ACA. The majority of the increased spending which is funded by federal grants was charged to Consulting and Professional Support, Customer Service and Premium Billing, Salaries, Benefits, and Payroll Taxes, and Communications. The state appropriation of \$2 million received by the Health Connector in FY14 was used to fund activities that are ineligible for federal reimbursement, but required of ACA Marketplaces.

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2014 and 2013

For FY13, the Health Connector had a net operating loss of \$24,005,333 on operating revenues of \$894,264,536 and operating expenses of \$918,269,869. For FY12, the Health Connector had a net operating loss of \$39,555 on operating revenues of \$848,606,708 and operating expenses of 848,646,263. In FY13, the sum of the capitation revenue and enrollee contributions for Commonwealth Care increased by \$48,458,136 compared with FY12, offset by the same amount of change in capitation expense. The main drivers of this change were a 13% increase in the member months and a higher settlement liability from the FY12 aggregate risk sharing arrangement compared with the previous year, offset by 7% decrease in the capitation rate paid to the MCO's. For FY13 Nonoperating income consists of federal grant revenue of \$26,133,761 and investment income of \$78,853. The overall increase in net position for FY13 was \$2,207,281.

Operating revenues for FY13 include \$800,467,936 of Commonwealth Care capitation and \$63,621,972 of Commonwealth Care enrollee contributions. Commonwealth Care capitation revenue is received from the Commonwealth Care Trust Fund (CCTF) and is paid to the MCOs based on a contractual per member per month (PMPM) capitation rate multiplied by number of enrollees per month. The CCTF is a fund that is managed and administered by the Commonwealth. The MCOs are the health plans contracted by the Health Connector to organize medical services to Commonwealth Care and enrollees. Enrollee contributions are paid by individuals enrolled in the Commonwealth Care program with income levels that are above 100% of the FPL. Contribution amounts are on a sliding scale based on income and are collected by the Health Connector. These funds are subsequently paid to the CCTF as an offset to the MCO capitation payments. An additional \$22,629,906 represents the Health Connector administrative fee for FY13. The Commonwealth Choice program generated \$7,217,232 of operating revenue on total premiums collected of \$197,428,969. The Health Connector administrative fee for Commonwealth Choice is 3.5% of total premiums billed and collected. The administrative fee for the Alliance and Business Express products is 2.5% of premiums billed and collected.

**Contacting the Authority's Management**

This financial report is designed to provide citizens, taxpayers and creditors with a general view of the Health Connector's finances and to show the Health Connector's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jean Yang, Executive Director of the Commonwealth Health Insurance Connector Authority at 100 City Hall Plaza, 6th Floor, Boston, MA 02108.

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and short-term investments (note 2)	\$ 38,468,506	29,216,588
Restricted asset – short-term investments (note 3)	3,531,792	7,457,754
Accounts receivable – Commonwealth Care enrollees, net (note 4)	692,270	1,255,545
Accounts receivable - qualified health and dental plan enrollees, net (note 5)	3,471,208	—
Accounts receivable – Federal Grants	33,100,212	15,603,863
Due from Commonwealth (note 6)	34,173,803	—
Other assets	223,869	266,470
<b>Total current assets</b>	<b>113,661,660</b>	<b>53,800,220</b>
<b>Noncurrent assets (note 10):</b>		
Capital assets – computers and equipment	102,484	102,484
Less accumulated depreciation	(24,550)	(9,910)
<b>Total computers and equipment</b>	<b>77,934</b>	<b>92,574</b>
Capital assets – furniture and fixtures	267,669	267,669
Less accumulated depreciation	(188,236)	(161,470)
<b>Total furniture and fixtures</b>	<b>79,433</b>	<b>106,199</b>
Capital assets – computer software	813,738	1,562,771
Less accumulated depreciation	(227,960)	(182,900)
<b>Total computer software</b>	<b>585,778</b>	<b>1,379,871</b>
<b>Total noncurrent assets</b>	<b>743,145</b>	<b>1,578,644</b>
<b>Total assets</b>	<b>114,404,805</b>	<b>55,378,864</b>
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	12,217,353	7,825,616
Unearned revenue (note 11)	12,826,529	170,407
Accrued salary and benefits (note 1(i))	623,447	454,411
Liabilities to be paid from restricted assets (note 3)	3,531,792	7,457,754
Other liabilities	55,067,046	8,816,096
<b>Total current liabilities</b>	<b>84,266,167</b>	<b>24,724,284</b>
<b>Long term liabilities:</b>		
OPEB obligation (note 8)	3,064,418	2,529,088
<b>Total long term liabilities</b>	<b>3,064,418</b>	<b>2,529,088</b>
<b>Total liabilities</b>	<b>87,330,585</b>	<b>27,253,372</b>
<b>Net position:</b>		
Invested in capital assets	743,145	1,578,644
Unrestricted	26,331,075	26,546,848
<b>Commitments and contingencies (notes 9, 12 and 13)</b>		
<b>Total net position</b>	<b>\$ 27,074,220</b>	<b>28,125,492</b>

See accompanying notes to financial statements.

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**

(A Component Unit of the Commonwealth of Massachusetts)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Commonwealth Care capitation	\$ 669,563,966	800,467,936
Commonwealth Care enrollee contributions	61,157,837	63,621,972
Commonwealth Care administrative fee	16,659,630	22,629,906
Qualified health and dental plan enrollee premiums	44,875,828	—
State wrap premium subsidy - ConnectorCare	195,344	—
State cost sharing reduction subsidy - ConnectorCare	240,114	—
Commonwealth Choice administrative fee	3,923,113	7,217,232
Other revenue	266,330	327,490
	<u>796,882,162</u>	<u>894,264,536</u>
Total operating revenues		
Operating expenses:		
Commonwealth Care capitation	730,721,803	864,089,908
Carrier payments - qualified health and dental plan enrollee premiums	44,875,828	—
State wrap premium subsidy - ConnectorCare	195,344	—
State cost sharing reduction subsidy - ConnectorCare	240,114	—
Enrollment and eligibility services - Commonwealth Care	3,312,372	7,641,601
Consulting and professional support (note 13)	56,984,153	20,138,902
Customer service and premium billing	24,421,001	15,021,747
Website development and management services	213,165	956,747
Navigator program	1,138,860	—
Salaries, benefits, and payroll taxes	6,587,397	5,730,916
Communications	3,967,114	2,821,971
General and administrative	283,353	164,172
IT and communications	836,548	767,190
Facility and related	605,123	558,420
Depreciation expense	86,467	36,677
Program appeals	324,982	337,958
Other expense	30,850	3,660
	<u>874,824,474</u>	<u>918,269,869</u>
Total operating expenses		
Operating loss	<u>(77,942,312)</u>	<u>(24,005,333)</u>
Nonoperating revenue:		
Federal grant revenue	74,830,382	26,133,761
State appropriation	2,000,000	—
Investment income	60,658	78,853
	<u>76,891,040</u>	<u>26,212,614</u>
Total nonoperating revenue		
Increase (decrease) in net position	(1,051,272)	2,207,281
Net position – beginning of fiscal year	<u>28,125,492</u>	<u>25,918,211</u>
Net position – end of fiscal year	\$ <u><u>27,074,220</u></u>	\$ <u><u>28,125,492</u></u>

See accompanying notes to financial statements.

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Cash paid to employees	\$ (3,378,349)	(2,917,367)
Cash paid to contractors	(17,310)	(22,537)
Cash paid to vendors	(78,534,819)	(36,888,951)
Cash refunds paid due to enrollee overpayments	(915,679)	(635,116)
Cash received from Commonwealth	705,919,835	864,089,908
Cash paid to MMCO's (capitation net of stop loss premiums)	(700,563,568)	(855,444,627)
Cash paid to MMCO's (stop loss settlements)	(10,818,710)	(7,236,275)
Interest paid to MMCO's	(14,356)	(22,098)
Cash received from Commonwealth Care enrollees	61,871,098	64,326,552
Cash paid to Commonwealth (BOA sweep)	(61,112,641)	(63,527,854)
Cash paid to carriers	(43,544,303)	—
Cash received from qualified health and dental plan enrollees	56,148,928	—
Interest received	15,081	14,356
Operating revenue:		
Administrative fees	20,582,743	29,847,138
Other	293,316	308,980
Net cash used for operating activities	(54,068,734)	(8,107,891)
Cash flows from capital and related financing activities:		
Cash received from federal grants	57,334,032	12,122,591
Cash received from Commonwealth (state appropriation)	2,000,000	—
Purchase of capital assets	—	(1,482,355)
Net cash provided by capital and related financing activities	59,334,032	10,640,236
Cash flow from investing activities:		
Investment earnings	60,658	78,853
Net cash provided by investing activities	60,658	78,853
Net increase in cash and short-term investments	5,325,956	2,611,198
Cash and short-term investments at the beginning of the fiscal year	36,674,342	34,063,144
Cash and short-term investments at the end of the fiscal year	\$ 42,000,298	36,674,342
Reconciliation of operating revenues operating income to cash used for operating activities:		
Operating loss	\$ (77,942,312)	(24,005,333)
Adjustments to reconcile operating income to cash used for operating activities:		
(Increase) decrease in nonfederal accounts receivable	(37,081,736)	(17,203)
(Increase) decrease in other assets	42,601	68,622
Depreciation	86,467	36,677
Disposal of capital assets	749,033	—
Increase (decrease) in accounts payable, and accrued liabilities	60,077,213	15,809,346
Net cash used for operating activities	\$ (54,068,734)	(8,107,891)

See accompanying notes to financial statements.

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2014 and 2013

**(1) Summary of Significant Accounting Policies**

**(a) Reporting Entity**

The Commonwealth Health Insurance Connector Authority (the Health Connector) is an independent body politic and corporate and public health instrumentality of the Commonwealth of Massachusetts (the Commonwealth) established pursuant to Chapter 176Q of the Massachusetts General Laws as added by Section 101 of Chapter 58 of the Acts of 2006 (c. 58 or the Health Care Reform Act of 2006).

It is governed by an eleven member public private Board, comprised of four ex officio members – the Secretary of Administration and Finance, who serves as chair of the Board, the Director of Medicaid, the Executive Director of the Group Insurance Commission and the Commissioner of Insurance – and seven members of the public, four appointed by the Governor and three appointed by the Attorney General.

Due to its relationship with the Commonwealth, the Health Connector is considered a discretely presented component unit and is presented as such in the Commonwealth’s financial statements. The Health Connector has no relationship with other entities that could be considered component units

**(b) Basis of Presentation**

Prior to January 1, 2014, the Health Connector administered two programs - Commonwealth Care and Commonwealth Choice – that focused on providing insurance coverage to individuals and small groups. Since January 1, 2014, the Health Connector has been operating as a state-based health insurance Marketplace (SBM) and is responsible for implementing the provisions of the Federal Health Care Reform Act or Affordable Care Act (ACA) within the Commonwealth of Massachusetts. As such, the Health Connector began offering insurance programs that comply with the ACA such as ConnectorCare, QHPs and QDPs.

The accompanying financial statements of the Health Connector have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The Health Connector has prepared a “Statement of Net Position,” a “Statement of Revenues, Expenses and Changes in Net Position” and a “Statement of Cash Flows,” along with the required supplementary information titled “Management’s Discussion and Analysis” which precedes the financial statements.

The Health Connector utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in the preparation of financial statements. Under the full accrual basis of accounting, long term assets and liabilities are reflected in the financial statements.

**(c) Cash and Cash Equivalents**

The Health Connector considers all highly liquid investments with an original maturity of 30 days or less when purchased to be cash equivalents.

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2014 and 2013

**(d) Investments**

The Health Connector is authorized to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, bonds or notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts, and repurchase agreements. These investments are recorded at fair value. Investments consist entirely of amounts held in the Massachusetts Municipal Depository Trust (MMDT), an external investment pool maintained by the State Treasurer and managed by Federated Investors. For purposes of risk categorization, MMDT shares are not categorized. For credit quality, the MMDT is unrated.

The fair value of the Health Connector's position in the MMDT is the same as the value of the MMDT shares and is valued as of June 30, 2014 and 2013.

**(e) Capital Assets**

The Health Connector defines capital assets as classes of assets with an initial aggregate cost of more than \$49,999 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

**(f) Depreciation**

Depreciation is calculated on the straight-line method based on the estimated useful lives of between 3 and 10 years for the applicable assets beginning in the fiscal year of acquisition.

**(g) Revenue Recognition**

The Health Connector's major revenue sources are Commonwealth Care capitation revenue, Commonwealth Care enrollee contributions, QHP and QDP enrollee contributions and administrative fees from the Commonwealth Care program and Commonwealth Choice program. The Health Connector recognizes revenue when earned. Interest income and investment income is recognized when earned.

**(h) Operating and Nonoperating Revenues and Expenses**

Operating revenues include Commonwealth Care capitation and Commonwealth Care enrollee contributions. Operating revenues also include administrative fees, which are based on the number of Commonwealth Care and Commonwealth Choice program enrollees. Beginning on January 1, 2014, operating revenues include premiums billed to QHP and QDP enrollees that are billed one month in advance of the coverage period. Also beginning on January 1, 2014, operating revenues include state-funded premium wrap subsidies and state-funded cost sharing reduction subsidies. Both subsidies which are part of the Health Connector's ConnectorCare program, supplement federal subsidies to further strengthen affordability of coverage for individuals with income at or below the 300% of the FPL

Federal grants and investment income are reported as nonoperating revenue. Also reported in nonoperating revenue is a \$2 million state appropriation to fund activities that are ineligible for federal reimbursement, but are required of ACA Exchanges.

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2014 and 2013

Operating expenses include capitation payments to the MCOs, which represent payment for medical and administrative cost for Commonwealth Care enrollees. Also included in operating expenses are QHP and QDP enrollee premiums billed and collected by the Health Connector and paid to the carriers. Operating expenses also include state-funded premium wrap and cost sharing subsidies received from the CCTF and paid to the carriers. In addition, the Health Connector includes as operating expenses, payments to the Commonwealth for eligibility and enrollment services, as well as payments to Dell for call center, customer service and premium billing services for Commonwealth Care enrollees and QHP and QDP enrollees. Also included as an operating expense are payments to SBSB for call center, customer service and premium billing services for the Commonwealth Choice program. Other significant operating expenses include the cost to develop healthcare reform policy and regulations, provide information to the general public on all matters related to healthcare reform, general marketing, advertising, development and maintenance of a web site, and operation of an appeals unit.

**(i) *Compensated Absences and Other Employee Benefits***

Employees earn the right to be compensated during absences for vacation, personal and sick time (earned time or ET). Upon retirement, termination or death, certain employees are compensated for ET (subject to certain limitations) at their then current rate of pay. Accumulated ET is recorded as an expense and liability as benefits accrue. As of June 30, 2014 and 2013, the ET liability was \$408,597 and \$287,869, respectively.

The employees of the Health Connector participate in the Commonwealth's Group Insurance Commission (GIC) for all healthcare benefits except for dental and vision benefits which are purchased directly through Delta Dental and Vision Service Plan.

**(j) *Restricted Assets***

The Health Connector's restricted assets as of June 30, 2014 and 2013 represent Stop Loss premiums paid by the MCOs and held by the Health Connector for payment of claims in excess of stop loss limits.

**(k) *Use of Estimates***

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(2) *Cash and Investments***

The Health Connector has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

**(a) *Deposits with Financial Institutions***

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the depositor will not be able to recover deposits or will not be able to recover collateral securities

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2014 and 2013

that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are uninsured or uncollateralized.

As of June 30, 2014, the Health Connector had bank deposits of \$12,707,830 that exceeded the Federal Deposit Insurance Corporation (FDIC) coverage of \$250,000. As of June 30, 2013, there was no custodial credit risk as all Health Connector deposits were fully insured by the FDIC.

**(b) Investments**

The Health Connector's investment policy is to ensure that cash is invested in a stable investment option with consistent and competitive yields. As of June 30, 2014 and 2013, available cash is invested in the MMDT Cash Portfolio option.

For purposes of risk categorization, MMDT shares are not categorized. The fair value of the Health Connector's position in MMDT as of June 30, 2014 and 2013 was \$29,251,226 and \$36,729,148, respectively, and is the same as the value of MMDT shares. The unrestricted portion of the MMDT investment account funds operating accounts with other financial institutions and is classified as part of cash and short-term investments.

**(3) Restricted Assets**

As of June 30, 2014 and 2013, the Health Connector recorded restricted assets of \$3,531,792 and \$7,457,754, respectively, which represent Stop Loss premiums paid by the MCOs and held by the Health Connector. Based on the contractual arrangement between the Health Connector and the MCOs, such funds will be paid to the MCOs based on individual claims submitted that exceed contractual stop loss limits. If funds are remaining at the end of the risk settlement period, funds will be paid to all the participating MCOs on a pro-rata basis. If premiums paid by the MCOs are insufficient to cover the cost of individual claims submitted, an invoice will be sent to all the participating MCOs on a pro-rata basis to fund the deficit.

**(4) Accounts Receivable – Commonwealth Care Enrollees**

As of June 30, 2014 and 2013, the unpaid portion of health insurance premiums billed to Commonwealth Care enrollees was \$14,042,270 and \$12,405,545, respectively. The allowance for uncollectible accounts receivable at June 30, 2014 and 2013 was \$13,350,000 and \$11,150,000, respectively.

**(5) Accounts Receivable – Qualified Health and Dental Plan Enrollees**

As of June 30, 2014, the unpaid portion of the health insurance premium billed to QHP and QDP enrollees was \$3,871,208. The allowance for uncollectible accounts receivable at June 30, 2014 was \$400,000.

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2014 and 2013

**(6) Due from Commonwealth**

As of June 30, 2014, the amount due from the Commonwealth was \$34,173,803 which includes \$23,266,268 of unpaid capitation owed to the MCO's for Medical Security Program (MSP) enrollees and \$11,088,067 which represents the Commonwealth's Information Technology Division's (ITD) share of FY14 integrated eligibility system costs paid by the Health Connector offset by \$180,532 owed to the Commonwealth. (See note 13).

**(7) Pension Plan**

The employees of the Health Connector participate in the State Employees' Retirement System (SERS), a cost-sharing multiple-employer defined benefit public employee retirement system, covering substantially all employees of the Commonwealth and certain employees of independent authorities and agencies. The SERS is administered by the Commonwealth and is part of its reporting entity. No stand-alone financial report is issued.

Health Connector employees contribute 5% to 9% of their gross wages based on when they joined SERS and an additional 2% on the portion of their wages that exceeds \$30,000. The employee retirement contributions for the year ended June 30, 2014 and 2013 were \$535,780 and \$469,263, respectively. The Health Connector does not make employer contributions for its participation in the SERS.

**(8) Other Postemployment Benefits**

**(a) Plan Description**

The Health Connector provides post-employment health care and life insurance benefits (OPEB) for retired employees through the Group Insurance Commission (GIC). The GIC administers and manages health coverage options and benefits to participating employees and retirees. As of January 1, 2011, the date used for actuarial census data, the Health Connector had no retirees and 45 active employees who met the eligibility requirements. The plan does not issue a separate financial report.

**(b) Benefits Provided**

The Health Connector provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Health Connector and meet the eligibility criteria will receive these benefits. The Health Connector also offers dental to retirees; however these benefits are completely paid by the retirees, and therefore there is no OPEB liability for these dental benefits.

**(c) Funding Policy**

Employees who retire after July 1, 1994 but on or before October 1, 2009 contribute 15% of the cost of the health plan, as determined by the GIC. Employees who retire after October 1, 2009 contribute 20% of the cost of the plan as determined by the GIC. In both cases, the Health Connector contributes the remainder of the health plan costs on a pay-as-you-go basis.

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2014 and 2013

(d) **Annual OPEB Costs and Net OPEB Obligation**

The Health Connector's FY14 annual OPEB expense is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of 30 years. The following table shows the components of the Health Connector's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the Health Connector's net OPEB obligation based on an actuarial valuation as of January 1, 2011 (in thousands).

Annual required contribution (ARC)	\$	520
Adjustment to ARC including interest on net OPEB obligation		26
		546
Annual OPEB cost (AOC)		546
Contributions made		(11)
		535
Increase in net OPEB obligation		535
Net OPEB obligation – beginning of year		2,529
		2,529
Net OPEB obligation – end of year	\$	3,064

The Health Connector's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows for 2014 and the preceding year (in thousands):

	Annual OPEB cost	Percentage of OPEB cost contributed		Net OPEB obligation
Fiscal year ended:				
June 30, 2014	\$ 546	2.0%	\$	3,064
June 30, 2013	501	1.8		2,529
June 30, 2012	459	1.2		2,037

The Health Connector's net OPEB obligation as of June 30, 2014 and 2013 is recorded in long term liabilities.

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2014 and 2013

(e) ***Funded Status and Funding Progress***

The funded status of the plan as of June 30, 2014, based on an actuarial valuation as of January 1, 2011, was as follows (in thousands):

Actuarially accrued liability (AAL)	\$	2,130
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	\$	2,130
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	\$	4,258
UAAL as a percentage of covered payroll		50%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Health Connector are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(f) ***Actuarial Methods and Assumptions***

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Health Connector and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2011 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Health Connector has not advance funded its obligation. The actuarial assumptions included a rate of 4.5% investment rate of return and an annual healthcare cost trend rate of 8.0% which decreases to a 5.0% long-term trend rate for all healthcare benefits after six years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years. This has been calculated assuming the amortization payment increases at a rate of 4.5% (generally same as cost trend rate).

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2014 and 2013

**(9) Operating Lease**

The Health Connector has an operating lease for office space at 100 City Hall Plaza. The lease terminates on August 30, 2016. Future minimum operating lease payments at June 30, 2014 are as follows:

Fiscal year:		
2015	\$	421,338
2016		413,400
2017		68,900
		903,638
	\$	903,638

During fiscal 2014, the amount of operating lease payments was \$520,143. During fiscal 2013, the amount of operating lease payments was \$437,015.

**(10) Capital Assets**

Capital assets as of June 30, 2014 and 2013 are as follows:

	<b>Beginning balance June 30, 2013</b>	<b>Increases/ Decreases</b>	<b>Ending balance June 30, 2014</b>
Capital assets:			
Computers and Equipment	\$ 102,484	—	102,484
Furniture and fixtures	267,669	—	267,669
Computer software	1,562,771	(749,033)	813,738
Total capital assets	1,932,924	(749,033)	1,183,891
Less accumulated depreciation:			
Computers and Equipment	(9,910)	(14,640)	(24,550)
Furniture and fixtures	(161,470)	(26,766)	(188,236)
Computer software	(182,900)	(45,060)	(227,960)
Total accumulated depreciation	(354,280)	(86,466)	(440,746)
Total capital assets, net	\$ 1,578,644	(835,499)	743,145



**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2014 and 2013

services, advice and expertise to further the development of the HIX/IES. The services performed under this contract provide long-term benefit to the HIX/IES project, which is a capital project of the Commonwealth's Information Technology Department (ITD). As a result, ITD agreed to fund a portion of the total cost incurred by the Health Connector. Under an agreement entered into by ITD and the Health Connector, \$11,088,067 of costs was billed to ITD in FY2014. The remaining costs of \$9,544,377 associated with this effort are included in consulting and professional support expenses in the accompanying statement of revenues, expenses and changes in net position. The contractual agreement with ITD ended on April 30, 2014.

As of September 2014, a contract effective May 1, 2014 was executed by ITD with an outside vendor to provide future services related to HIX/IES. Currently, no cost sharing arrangement between ITD and the Health Connector exists with regard to these ongoing and future costs

**COMMONWEALTH HEALTH INSURANCE CONNECTOR AUTHORITY**  
(A Component Unit of the Commonwealth of Massachusetts)

Schedule of Funding Progress

Required Supplementary Information

June 30, 2014

(Dollars in thousands)

(Unaudited)

**Other postemployment benefits**

<b>Actuarial valuation</b>	<b>Assets (a)</b>	<b>Actuarial accrued liability (AAL) – (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll ((b-a)/(c))</b>
January 1, 2011*	—	2,130	2,130	—	4,258	50
January 1, 2010	—	2,779	2,779	—	4,809	58
January 1, 2009	—	2,319	2,319	—	4,809	48
January 1, 2008	—	1,869	1,869	—	4,030	46
January 1, 2007	—	813	813	—	2,183	37

\* Actuarial valuation update using census data as of January 1, 2011.

See accompanying independent auditors' report.