

MEMORANDUM

To: Alissa Gardenswartz, Deputy Attorney General for Consumer Protection,
Office of the Colorado Attorney General

From: David M. Scanga, Esq., Hoskin Farina & Kampf, P.C. and Joel Glover, Esq.,
Lewis Roca Rothgerber Christie LLP

Date: October 18, 2016

Subject: Long Term Debt Obligations

You asked us to clarify the long term debt obligations referred to on Page 1 of the PYA Valuation Report dated June 24, 2016, which report was provided as Exhibit 6 to the Rocky Mountain Health Maintenance Organization, Incorporated (RMHMO) Submission of Plan of Conversion. Below are the amounts of the long term debt obligations and the components of the long term debt obligations:

1. Long Term Debt Obligations: \$17,857,861.

2. Components: The components of the long term debt obligation are referred to on Page 3 of the PYA Valuation Report as “Long Term Liabilities” (\$6,180,421) and “Deferred Income” (\$11,677,440). Those items totaled together from Page 3 equal the \$17,857,861 Long Term Debt Obligations referred to on Page 1 of the PYA Valuation Report. The long term liabilities and deferred income include the following items:

1. Medicare audit reserve (amounts reserved for Medicare audits of RMHMO’s Medicare Cost Plan)--\$2,679,732
2. Rent payable--\$237,018
3. Deferred taxes--\$0
4. Accrued retirement benefits--\$3,263,671
5. Deferred individual plan premiums (pre-payments that were made for premiums for individual plans)--\$1,785,135
6. Deferred revenue (pre-payments that were made for premiums by partially self-funded groups administered by CNIC Health Solutions, Inc.)--\$92,272
7. Prepaid group premiums (pre-payments of premiums paid by groups)--\$7,758,103
8. Deferred CMS (the difference between what RMHMO has been paid by CMS and the amount that has been recognized as revenue for the current year)--\$1,719,515
9. Deferred rent incentive (amounts that were granted as a discount for office rent which is amortized over the term of the applicable lease)--\$322,415

The long term debt obligations should not be confused with the requirement under the Stock Purchase Agreement by and among Rocky Mountain Health Maintenance, Incorporated, Rocky Mountain Health Plans Foundation and United HealthCare Services, Inc. dated July 22, 2016 (the “Stock Purchase Agreement”) to deduct “Indebtedness” from the “Purchase Price”. The term Indebtedness under the Stock Purchase Agreement is limited such that it does not include trade payables. RMHMO and its affiliated entities have a very small amount of Indebtedness, approximately \$185,000 for capital type leases, which will be deducted from the Purchase Price. The amount deducted will be used to pay off such Indebtedness at closing.

If you have any further questions regarding the long term debt obligations, please let us know.