Colorado Health Insurance Cooperative Estate

Regulatory Services Group

For the Period January 1, 2021 through December 31, 2021

Report No. 22-0845-064

July 2022

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Humberto E. Cervantes, CPA, Manager
David Shockey, CPA, Supervisor
John Yang

You can contact our office at:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

DEPARTMENT OF FINANCE

Gavin Newsom ▪ Governor

915 L Street ▪ Sacramento CA ▪ 95814-3706 ▪ www.dof.ca.gov

Transmitted via e-mail

July 1, 2022

Joseph B. Holloway, Chief Executive Officer
Regulatory Services Group
100 Pine Street, 12th Floor
San Francisco, CA 94111

Final Report—Colorado Health Insurance Cooperative Estate Financial Statement Review, December 2021

The California Department of Finance, Office of State Audits and Evaluations, has completed its review of the Colorado Health Insurance Cooperative Estate assigned to the Regulatory Services Group (RSG) for the period January 1, 2021 through December 31, 2021.

The enclosed report is for your information and use. We appreciate the assistance and cooperation of RSG. If you have any questions regarding this report, please contact Rick Cervantes, Manager, or David Shockey, Supervisor, at (916) 322-2985.

Sincerely,

Cheryl L. McCormick

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

cc: Regina Alava, Chief Financial Officer, Regulatory Services Group

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DEPARTMENT OF FINANCE
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Independent Accountant's Review Report

Joseph B. Holloway, Chief Executive Officer
Regulatory Services Group
100 Pine Street, 12th Floor
San Francisco, CA 94111

We have reviewed the accompanying financial statements of the Colorado Health Insurance Cooperative Estate which comprise the Statement of Net Assets in Liquidation as of December 31, 2021, Statement of Changes in Net Assets in Liquidation, and Statement of Cash Flows in Liquidation for the period then ended; and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Regulatory Services Group (RSG) management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

RSG's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements and the related notes to the financial statements of the Colorado Health Insurance Cooperative Estate for the year ended December 31, 2021, in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

This report is intended solely for the information and use of the Colorado State Insurance Commissioner and RSG, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cheryl L. McCormick

Cheryl L. McCormick, CPA
Chief, Office of State Audits and Evaluations

June 28, 2022

Colorado Health Insurance Cooperative Estate
Statement of Net Assets in Liquidation
As of December 31, 2021

	Balance
Assets	
Participation in Pooled Investments, at Market	$ 24,586,154
Accrued Investment Income	31,703
Recoverable from Reinsurers	1
Premium Receivable	208,003
Other Receivables	(1,481)
Property and Equipment	66,809
Other Assets	126,572
Total Assets	$ 25,017,761
Liabilities	
Secured Claims	$ 116,926
Claims Against Policies, Including Guaranty Associations (Class 2) before Distributions	103,943,939
Early Access and Other Class 2 Distributions	(41,081,804)
All Other Claims (Class 7)	100,741,866
Total Liabilities	163,720,927
Net Assets (Deficiency) in Liquidation	**$ (138,703,166)**

The notes are an integral part of the financial statements.

Colorado Health Insurance Cooperative Estate
Statement of Changes in Net Assets in Liquidation
For the Year Ended December 31, 2021

Net Assets in Liquidation December 31, 2020	**$ (136,280,793)**
Expenses	
Legal Expenses	2,448,979
Consultants and Temps	15,290
Office Expenses	2,560
Net Allocated Expenses	6,082
Total Expenses	2,472,911
Investments	
Investment Income	63,869
Investment Expenses	(2,675)
Gain (Loss) on Securities	(63,265)
Net Investment Income	(2,071)
Changes in Net Assets	**(2,474,982)**
Adjustments to Legacy Balances	52,609
Net Assets in Liquidation December 31, 2021	**$ (138,703,166)**

The notes are an integral part of the financial statements.

Colorado Health Insurance Cooperative Estate
Statement of Cash Flows in Liquidation
For the Year Ended December 31, 2021

Cash Flows from Operating Activities	
Changes in Net Assets	$ (2,474,982)
Decrease (Increase) in Recoverable from Reinsurers	24,489,798
Increase (Decrease) in Accrued Administrative Expenses	(52,609)
Adjustments to Net Assets	52,609
Net Cash Flows from Operating Activities	22,014,816
Cash Flows from Investing Activities	
Decrease (Increase) in Accrued Investment Income	(25,202)
Cash Flows from Financing Activities	0
Net Increase (Decrease) in Cash	21,989,614
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	2,596,540
Cash, Cash Equivalents, and Restricted Cash at End of Period	**$ 24,586,154**

The notes are an integral part of the financial statements.

1. Organization

On January 4, 2016, Colorado State Insurance Commissioner (Commissioner) Marguerite Salazar was appointed as the liquidator of the Colorado Health Insurance Cooperative, Inc. by the Denver County District Court (Court). The Court approved the Order of Liquidation and Finding of Insolvency (Liquidation Order), which authorized the Commissioner, as liquidator, to liquidate the business of the Colorado Health Insurance Cooperative, Inc., and to act in all ways and exercise all powers necessary for the purpose of the Liquidation Order and the liquidation provisions of Colorado insurance laws. Commissioner Salazar appointed David E. Wilson of Regulatory Services Group (RSG) as Receivership Manager and Joseph B. Holloway, Jr. of INS Consultants, Inc., as Receivership Supervisor with all of the powers of the liquidator. Joseph B. Holloway, Jr. replaced David E. Wilson as Receivership Manager effective April 1, 2020. The Commissioner is granted the authority to employ such counsel, clerks, and assistants as deemed necessary to assist the Commissioner with conducting the affairs of the liquidation. Michael Conway replaced Commissioner Salazar effective January 1, 2018.

2. Basis of Presentation

The accompanying financial statements of the Colorado Health Insurance Cooperative Estate (Estate) have been prepared on the liquidation basis of accounting in conformity with generally accepted accounting principles.

Under the liquidation basis of accounting, assets are stated at their estimated net realizable values. Liabilities are stated at their ultimate amounts and are subsequently adjusted to settlement amounts upon final distribution. A new cost basis is established as of the date of liquidation.

The valuation of assets and liabilities requires many estimates and assumptions, as there are substantial uncertainties in carrying out the provisions of the liquidation proceedings. The actual value of liquidating distributions will depend upon a variety of factors including, among others, the proceeds from the sale of the Estate's assets and the actual timing of distributions.

RSG does not accrue estimates of future administrative costs because a reasonable basis for the costs cannot be determined until the Court has approved a final distribution order and the Estate is scheduled to be closed within the following twelve months.

3. Summary of Significant Accounting Policies

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles, prepared on a liquidation basis of accounting, requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of

revenue and expenses during the reporting period. Actual results could differ from those estimates.

The major estimates recorded include reserves for claims against policyholders, reinsurance recoverable on unpaid losses, and allowances for uncollectible amounts. These estimates are only partially recorded due to the unavailability of reliable or complete information.

Legacy Balances
At the time of conservation or liquidation, RSG obtains the accounting records of the Estate in order to load the account balances (legacy balances) into the general ledger system. During the liquidation process, the legacy balances on the Statement of Net Assets in Liquidation are researched and validated. This process may take several months to several years. Depending on the nature of the item, legacy balances that cannot be validated are either written off or adjusted through the Net Assets in Liquidation account.

Priority of Claims
Colorado Revised Statutes section 10-3-541 prescribes the priority of distribution of claims from the insurer's estate, as follows:

Class 1. The costs and expenses of administration during rehabilitation and liquidation.

Class 2. All claims under policies, including such claims of the federal or any state or local government that include unearned premium claims, third-party claims, and all claims of a guaranty association or foreign guaranty association.

Class 3. Claims of the federal government, except for those described in Class 2.

Class 4. Reasonable compensation to employees for services performed to the extent that they do not exceed two months of monetary compensation and represent payment for services performed within the one-year period immediately preceding the filing of the petition for liquidation. Principal Officers and directors shall not be entitled to the benefit of this priority except as otherwise approved by the liquidator and the court. Such priority shall be in lieu of any other similar priority which may be authorized by law as to wages or compensation of employees.

Class 5. Claims of any state or local government, except for those described in Class 2.

Classes 6, 7, and 8. General creditor and late filed claims (6), surplus or contribution notes (7) and shareholder claims (8).

The probability of a valid claim being paid is dependent on the valuation of the claim, the order of preference of the claim, and the amount of funds remaining after other claims having higher preference have been discharged. Each priority class of claim must be fully paid before any distribution may be made to the next priority class. All members of a class receiving partial payment must receive the same pro-rata amount.

The Estate may not have sufficient assets to pay Class 2 claims in their entirety or any other class of lower priority claims.

ASSETS:

Pooled Investments

All investments, including short-term investments and debt and equity securities, are stated at fair value, which approximates market value. Market values are those provided by the depository trust institution in possession of the securities at the balance sheet date or through brokerage institutions.

Accrued Investment Income

Accrued Investment Income represents monthly estimates of interest and dividends earned on cash and investments held by the Estate.

Recoverable from Reinsurers

Recoverable from Reinsurers includes amounts recoverable from either ceded or retroceded loss and loss adjustment expense payments, as well as any assumed reinsurance premiums and reinsurance commissions due to the Estate.

Reinsurance is the assumption by one insurer (reinsurer) of all or part of a risk originally undertaken by another insurer (cedent insurer). The use of reinsurance agreements does not eliminate the cedent insurer's obligation to pay losses in full. To the extent that a reinsurer is unable to meet its obligations, the insurer is liable for such defaulted amounts. The recoverable from reinsurers balance typically includes amounts related to losses incurred by the Estate when it was an insurer of either direct or assumed business. The balance may also include receivables for assumed reinsurance premiums and commissions due the Estate. (See Note 4)

Other Receivables

Other Receivables consists of settlement or judgment receivables, rent receivables, and all other types of receivables that do not correspond with another receivable category. Allowance amounts are established on an individual basis. (See Note 4)

LIABILITIES:

Secured Claims

Secured Claims represents liabilities of the Estate for which a creditor has perfected a lien against specific estate assets and unclaimed funds payable. Unclaimed funds payable represent funds distributed to claimants, which were returned as undeliverable and/or an accurate address could not be located. Unclaimed funds are eventually escheated to the Colorado State Controller's Office or the State Treasurer of the claimants last known address.

Accrued Administrative Expenses (Class 1)

Accrued Administrative Expenses (Class 1) represents accrued RSG expenses of administration during rehabilitation and liquidation.

Claims Against Policies, Including Guaranty Associations (Class 2)

Claims Against Policies, Including Guaranty Associations, consists of all claims of guaranty associations, claims for refund of unearned premiums, and allowable claims not covered by the guaranty associations.

Early Access and Other Class 2 Distributions
Early access distributions are payments made specifically to insurance guaranty associations based on their paid losses. Estate assets may be distributed through an early access distribution, an interim distribution, or a final distribution. All distributions must receive prior approval from the Court. Distributions are made in accordance with the priority scheme described above. On November 22, 2019, the Estate received approval from the Liquidation Court to make its fourth early access distribution in the amount of $20 million to the Colorado Life and Health Insurance Protection Association. The distribution was made on December 13, 2019.

All Other Claims (Classes 3 through 8)
Accounts payable, reinsurance and premium tax payables are liabilities with lower than Class 2 priorities. Other Class 7 liabilities are amounts due the Centers for Medicare & Medicaid Services (CMS), which are the result of the CMS initial funding of the CO-OP. The liquidator does not expect that there will be sufficient Estate funds to pay any liabilities that have been defined as lower than Class 2.

REVENUES:

Revenue
Revenue primarily consists of recoveries received by the Estate.

EXPENSES:

Legal and Consulting Expense
Expenses incurred by legal and liquidation consultants employed in the liquidation of the Estate.

Office Expenses
Include operational expenses incurred during the liquidation of the Estate.

Allocated Expenses
Allocated overhead expenses are expenses incurred by the liquidator that were not directly billed to the Estate.

INVESTMENTS:

Investment Income
Investment Income is comprised of interest and dividends earned on cash and investments held by the Estate.

Investment Expenses
Investment Expenses is comprised of investment and interest expenses related to cash and investments held by the Estate.

Gain (Loss) on Securities
Gain (Loss) on Securities consists of long and short-term gains and losses incurred as part of the investment pool, mark to market adjustments, gains and losses on non-pooled reappraisals of securities, and gains and losses incurred on the transfer of non-pooled securities into the pool. The long and short-term gains and losses and mark to market adjustments are allocated based on the Estate's proportional share in the pool.

Unrealized and realized gains and losses are included as a component of net investment income. The cost of securities sold is based on specific identification and realized gains (losses) are computed based on the securities' original cost. Transfers of non-pooled investments to a pool are a sale resulting in non-pooled realized gains and losses and a non-cash transfer. Transfers from one pool to the other are a sale resulting in pooled realized gains and losses and a non-cash transfer.

4. Litigation

In May 2017, the Estate joined the risk corridor class action litigation in the case of Health Republic Insurance Company v. the United States of America. The potential recoverable due to the Estate for the risk corridor is $111 million. On November 30, 2019, the Estate sold its risk corridor receivable for an initial non-recourse payment of $20 million and a potential recovery of additional funds assuming various recovery scenarios. On April 27, 2020, the Supreme Court of the United States ruled that the federal government was required to pay insurers for amounts owed under the risk corridor portion of the Affordable Care Act. The federal government has asserted certain setoffs to the risk corridor amounts, including interest which the liquidator opposes because it would violate the priority of distribution statutes. This matter has been briefed before the Court of Federal Claims and a ruling is pending.

The liquidator filed a motion for summary judgment on December 8, 2018 against CMS in the United States Court of Federal Claims to recover amounts due under the Affordable Care Act reinsurance program. On October 21, 2019, the Estate received a judgment against CMS for $24,489,799. The Estate received $24,489,799 less the 10 percent contingent legal fee from Crowell & Moring LLP in December 2021.

5. Subsequent Events

An early access distribution in the amount of $20 million payable to the Colorado Life and Health Insurance Protection Association was completed on May 25, 2022.