

Statutory Financial Statements and  
Report of Independent Certified  
Public Accountants

**Care Wisconsin Health Plan, Inc.**

December 31, 2018 and 2017

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Care Wisconsin Health Plan

We have audited the accompanying statutory financial statements of Care Wisconsin Health Plan, which comprise the statutory statements of admitted assets, liabilities, capital and surplus as of December 31, 2018, and the related statutory statements of revenues and expenses, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the basis of accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these statutory financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory 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 statutory 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 statutory financial statements referred to above present fairly, in all material respects, the financial position of Care Wisconsin Health Plan as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, as described in Note A.

**Basis of accounting**

We draw attention to note A of the statutory financial statements, which describes the basis of accounting to meet the requirements of the Office of the Commissioner of Insurance of the State of Wisconsin. The statutory financial statements are prepared by Care Wisconsin Health Plan on the basis of accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other matter**

The statutory financial statements and supplementary information of Care Wisconsin Health Plan as of and for the year ended December 31, 2017 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2017 statutory financial statements and supplementary information in their report dated April 27, 2018.

**Supplementary information**

Our audit was conducted for the purpose of forming an opinion on the statutory financial statements as a whole. The summary investment schedule and the supplemental investment risks interrogatories as of December 31, 2018, are presented for purposes of additional analysis and are not a required part of the statutory financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the statutory financial statements as a whole.

**Restriction on use**

Our report is intended solely for the information and use of Care Wisconsin Health Plan and the Office of the Commissioner of Insurance of the State of Wisconsin and is not intended to be and should not be used by anyone other than these specified parties.

*Grant Thornton LLP*

Appleton, Wisconsin  
June 17, 2019

Care Wisconsin Health Plan, Inc.  
 STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS  
 December 31,

ADMITTED ASSETS	2018	2017
<b>CASH AND INVESTED ASSETS</b>		
Cash, cash equivalents, and short-term investments	\$ 30,699,524	\$ 23,940,533
Bonds	23,573,027	23,257,718
Common stock	2,367,946	2,380,212
Total cash and invested assets	56,640,497	49,578,463
<b>HEALTH CARE AND OTHER RECEIVABLES</b>	2,281,783	2,125,355
<b>INVESTED INCOME DUE AND ACCRUED</b>	115,064	108,463
<b>TOTAL ADMITTED ASSETS</b>	<b>\$ 59,037,344</b>	<b>\$ 51,812,281</b>
<b>LIABILITIES AND CAPITAL AND SURPLUS</b>		
<b>LIABILITIES</b>		
Unpaid claims	\$ 15,837,770	\$ 13,306,925
Unpaid claims adjustment expense	460,216	367,561
Aggregate health policy reserves	4,914,552	1,294,055
Premiums received in advance	26,733	20,245
General expenses due or accrued	593,593	44,364
Amounts held under uninsured plans	2,728,767	1,382,936
Amounts due to affiliates	331,584	430,276
Total liabilities	24,893,215	16,846,362
Capital and surplus - Unassigned surplus	34,144,129	34,965,919
<b>TOTAL LIABILITIES AND CAPITAL AND SURPLUS</b>	<b>\$ 59,037,344</b>	<b>\$ 51,812,281</b>

See accompanying notes to statutory financial statements.

Care Wisconsin Health Plan, Inc.  
**STATUTORY STATEMENTS OF REVENUE AND EXPENSES**  
 Years ended December 31,

	<u>2018</u>	<u>2017</u>
<b>REVENUE</b>		
Net premium income	150,295,895	\$ 129,323,603
<b>HEALTH CARE COSTS</b>	128,992,293	102,502,388
<b>ADMINISTRATIVE EXPENSES</b>		
Claims adjustment expenses	14,882,867	12,608,111
General and administrative expenses	8,087,718	7,453,033
Reserves for health contracts	<u>3,382,140</u>	<u>546,520</u>
Total administrative expenses	<u>26,352,725</u>	<u>20,607,664</u>
<b>TOTAL HEALTH CARE COSTS AND ADMINISTRATIVE EXPENSES</b>	<u>155,345,018</u>	<u>123,110,052</u>
<b>NET UNDERWRITING GAIN (LOSS)</b>	(5,049,123)	6,213,551
<b>INVESTMENT GAINS</b>		
Net investment income earned	904,063	593,458
Net realized capital gains (losses)	<u>(80,497)</u>	<u>438,268</u>
Net investment gains	823,566	1,031,726
<b>OTHER INCOME (EXPENSE)</b>	<u>3,864,411</u>	<u>(106,853)</u>
<b>NET INCOME (LOSS)</b>	<u>\$ (361,146)</u>	<u>\$ 7,138,424</u>

See accompanying notes to statutory financial statements.

Care Wisconsin Health Plan, Inc.  
STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS  
Years ended December 31, 2018 and 2017

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Balance at January 1, 2017	\$ 28,435,769
Net income	7,138,424
Change in net unrealized gains and losses on investments	(72,251)
Change in nonadmitted assets	<u>(536,023)</u>
Balance at December 31, 2017	34,965,919
Net loss	(361,146)
Change in net unrealized gains and losses on investments	(206,955)
Change in nonadmitted assets	(279,604)
Aggregate write-ins for gains in surplus	<u>25,915</u>
Balance at December 31, 2018	<u>\$ 34,144,129</u>

See accompanying notes to statutory financial statements.

Care Wisconsin Health Plan, Inc.  
**STATUTORY STATEMENTS OF CASH FLOWS**  
 Years ended December 31,

	<u>2018</u>	<u>2017</u>
Increase (decrease) in cash, cash equivalents and short-term investments		
Cash flows from operating activities		
Premiums collected	\$ 151,883,000	\$ 128,739,946
Miscellaneous income (expense)	3,864,411	(106,853)
Net investment income	900,081	569,929
Benefits paid	(126,703,513)	(103,908,772)
Administrative and other expenses paid	<u>(22,587,074)</u>	<u>(17,329,827)</u>
Net cash provided by operating activities	7,356,905	7,964,423
Cash flows from investing activities		
Proceeds from sales and maturities of investment securities	4,915,929	6,930,434
Payment for purchase of investment securities	<u>(5,509,043)</u>	<u>(15,501,810)</u>
Net cash used in investing activities	(593,114)	(8,571,376)
Cash flows from financing and miscellaneous sources		
Other cash (applied) provided	<u>(4,800)</u>	<u>85,811</u>
Net increase (decrease) in cash, cash equivalents and short-term investments	6,758,991	(521,142)
Cash, cash equivalents and short-term investments at beginning of year	<u>23,940,533</u>	<u>24,461,675</u>
Cash, cash equivalents, and short-term investments at end of year	<u><u>\$ 30,699,524</u></u>	<u><u>\$ 23,940,533</u></u>

See accompanying notes to statutory financial statements.



**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization***

Care Wisconsin Health Plan, Inc. (the "Company") was formed under the provisions of Chapter 613 of the Wisconsin Statutes. The Company is a not-for-profit corporation organized for the purpose of providing health and long-term management and care services to the elderly and adults with disabilities under a health maintenance organization (HMO) license issued by the Office of the Commissioner of Insurance of the State of Wisconsin (OCI).

The Company operates as a managed care organization (MCO) under the Wisconsin Family Care Partnership Program ("Partnership"), which is designed to use capitated Medicaid and Medicare revenue to provide integrated health and long-term managed care services to nursing home-eligible participants, benefits under the Medicare Advantage Special Needs Program, and prescription drug benefits under Medicare Part D.

The Company operates the Partnership program under an annual contract with the Wisconsin Department of Health Services Division of Long-Term Care, subject to one-year renewals. The Partnership contract has been renewed through December 31, 2019.

The Company participates in the State of Wisconsin's Supplemental Security Income (SSI) Managed Care Program, which provides health care services for those who receive Medicaid SSI or SSI-related Medicaid because of a disability determined by the Disability Determination Bureau. SSI is designed to use Medicaid to cover medical services.

Beginning January 1, 2017, the Company offers Medicare Dual Advantage, an HMO Special Needs Program ("DSNP"), which provides health care services for those who are eligible for both Medicare and Medicaid. The DSNP is designed to use Medicare funds to cover medical services.

Care Wisconsin First, Inc. (CWF) is the sole member of the Company. The Company entered into two contracts with CWF under which CWF provides administrative services to the Company at cost.

***Basis of Presentation***

The accompanying statutory financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by OCI, whose practices differ from accounting principles generally accepted in the United States (GAAP).

Prescribed statutory accounting practices incorporated directly or by reference in state laws, regulations, and general administrative rules are applicable to all insurance enterprises domiciled in a particular state. OCI has identified the Accounting Practices and Procedures Manual, as promulgated by the National Association of Insurance Commissioners (NAIC), as a source of prescribed statutory accounting practices (SAP) for insurers domiciled in Wisconsin. Permitted SAPs encompass all accounting practices not so prescribed when such practices are approved by the insurance department of the insurer's state of domicile. The Company does not use any prescribed or permitted accounting practices that deviate from NAIC.

The more significant variances from GAAP that are applicable to the Company are as follows:

**Investments:** Investments in bonds are reported at amortized cost or market value based on their NAIC rating; for GAAP they are carried at either amortized cost or fair value based on their classification according to the Company's intent not to sell the security and the assertion that it is not more likely than not that the Company would be required to sell the security before recovery of its cost basis.

**Nonadmitted Assets:** Certain assets designated as "nonadmitted", principally certain receivables, prepaid expenses, and other assets not specifically identified as an admitted asset within NAIC's SAP, are excluded

Care Wisconsin Health Plan, Inc.  
NOTES TO STATUTORY FINANCIAL STATEMENTS - CONTINUED  
December 31, 2018 and 2017

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from the accompanying statutory statements of admitted assets, liabilities, capital surplus, and any changes in such assets are credited or charged to unassigned surplus. Under GAAP, such assets are included in the balance sheet.

**Statements of Cash Flows:** Cash and cash equivalents in the statutory statements of cash flows represent cash balances (overdrafts), cash equivalents, and short-term investments with original maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash, cash equivalents, and investment balances with initial maturities of three months or less.

***Use of Estimates in Preparation of Statutory Financial Statements***

The preparation of the accompanying statutory financial statements in conformity with accounting practices prescribed or permitted by OCI requires management to make estimates and assumptions that affect the amounts reported in the statutory financial statements and accompanying notes. The Company's significant estimates within the accompanying statutory financial statements include those related to unpaid claims and aggregate health policy reserves. Because of inherent uncertainties in estimating unpaid claims and health policy reserves, it is at least reasonably possible that estimates and assumptions used will change in the near term and that actual results may differ materially from these estimates.

***Cash and Invested Assets***

The Company maintains deposits in financial institutions that consistently exceed the Federal Deposit Insurance Corporation limits. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Short-term investments with maturities of one year or less are stated at amortized cost, using the interest method, which approximates fair value.

Bonds are stated at values prescribed by NAIC as follows:

- Investment grade bonds not backed by other loans are principally stated at amortized cost. Premiums and discounts on debt securities are amortized and accreted, respectively, using the effective interest method.
- Non-investment grade bonds with NAIC designations of 3 through 6 are stated at the lower of amortized cost or fair value. The Company's bond portfolio is reviewed quarterly and as a result the carrying value of a bond may be reduced to reflect changes in valuation resulting from asset impairment.

Common stock, consisting of equity mutual funds, is valued at fair value.

Realized capital gains and losses are determined using the specific-identification method, and are credited or charged to operations.

***Fair Value Measurements***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Care Wisconsin Health Plan, Inc.  
NOTES TO STATUTORY FINANCIAL STATEMENTS - CONTINUED  
December 31, 2018 and 2017

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Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset's or liability's fair value measurement within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

***Health Care and Other Receivables***

A portion of the Company's accounts receivable consists of amounts due from government agencies. As these amounts are under contract, the Company considers accounts receivable to be fully collectible. Other receivables relate to receivables from drug company volume discounts. The Company considers these receivables to be fully collectible. If accounts receivable were determined to become uncollectible, they would be charged to operations when that determination is made.

All non-government receivable balances outstanding greater than 90 days are non-admitted in accordance with NAIC SAP.

***Contracts with Government Agencies***

The Company has a significant concentration of funding with the Wisconsin Department of Health Services (DHS) and Centers for Medicare and Medicaid Services (CMS). Funding as a percentage of total revenues from DHS were 58% for the years ended December 31, 2018 and 2017, and from CMS were 37% and 38% for the years ended December 31, 2018 and 2017, respectively. Receivables from DHS as a percentage of total receivables were 71% and 79% as of December 31, 2018 and 2017, respectively.

***Net Premium Income***

Medicaid and Medicare premiums are based on a per-member, per-month fee without regard to the frequency of actual services rendered. Premium payments received prior to the month of coverage are recorded as premiums received in advance. Premiums are recognized as revenue in the month in which the Company is obligated to provide service to members. In addition, for certain members who qualify for additional reimbursement because of the level of treatment they are receiving, the Company is reimbursed for the amount of the actual costs incurred to provide services that exceed the members' premiums and records the amount when earned.

***Unpaid Claims and Unpaid Claims Adjustment Expense***

The unpaid claims and unpaid claims adjustment expense liabilities represent management's best estimate of the ultimate net cost of all reported and incurred but not reported claims as of the date of the statutory statements of admitted assets, liabilities, capital, and surplus. Reserves for unpaid claims are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes the reserves for unpaid claims and unpaid claims adjustment expense are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

***Aggregate Health Policy Reserves***

The Company assesses the sufficiency of unearned premiums to cover associated costs over the remaining contract period for its lines of business. If a loss is estimated, then a premium deficiency reserve is recorded. The Company does consider anticipated investment income when calculating its premium deficiency reserves. As of December 31, 2018 and 2017, the Company had \$3,928,660 and \$546,520, respectively, recorded for premium deficiency reserves included in aggregate health policy reserves.

Care Wisconsin Health Plan, Inc.  
NOTES TO STATUTORY FINANCIAL STATEMENTS - CONTINUED  
December 31, 2018 and 2017

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Also included in aggregate health policy reserves is a payable for Medicare premiums related to the Medicare Part D prescription drug program (see Note F). As of December 31, 2018 and 2017, \$985,629 and \$745,779, respectively, was recorded for Medicare premiums payable.

***Retrospectively Rated Contracts***

The Company estimates accrued retrospective premium adjustments for its health insurance business through a mathematical approach based on enrollment demographics and established rates. The amount of net premiums written by the Company during December 31, 2018 and 2017, that was subject to retrospective rating features was \$131,730,686 and \$119,890,680, respectively, representing 88% and 93%, respectively, of the total net premiums written. No other premiums written by the Company are subject to retrospective rating features.

***Health Care Costs***

Member health care is provided by CWF and various other providers. Inpatient, physician, and other professional services are compensated either on a fee-for-service basis or for a fixed dollar amount per member per month, which can be adjusted based on actual utilization. These expenses are recognized in the period the services are performed.

***Compliance with Medicare and Medicaid Laws and Regulations***

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Management believes that the Company is in substantial compliance with current laws and regulations.

***Other Income***

Included within other income (expense) on the statutory statements of revenues and expenses is \$4,100,000 received from the liquidation estate of an unrelated bankrupt insurer during 2018. The liquidator was required via a court order to distribute the residual assets to a 501(c)(3) nonprofit insurer that administers the Partnership program, of which the Company is one.

***Income Taxes***

The Company is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Company is subject to the State of Wisconsin property, income, and franchise taxes, which are included in general and administrative expenses.

On December 22, 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act (the Act), resulting in significant modifications to existing law. The Company completed the accounting for the effects of the Act during 2017 and there was no significant impact in 2018.

***Reclassifications***

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. There was no effect on capital and surplus or net income as previously reported.

***New Accounting Pronouncements***

Recent accounting pronouncements issued by the NAIC did not have, nor does the Company expect such pronouncements to have, a significant impact to the Company's present or future financial statements.

Care Wisconsin Health Plan, Inc.  
NOTES TO STATUTORY FINANCIAL STATEMENTS - CONTINUED  
December 31, 2018 and 2017

**NOTE B - CASH AND INVESTED ASSETS**

The components of the Company's cash and invested assets at December 31 were as follows:

	<u>2018</u>	<u>2017</u>
Cash, cash equivalents and short-term investments		
Cash	\$29,470,032	\$22,839,930
Money market funds	<u>1,229,492</u>	<u>1,100,603</u>
Total cash, cash equivalents and short-term investments	<u>30,699,524</u>	<u>23,940,533</u>
Bonds		
U.S. government obligations	7,853,502	8,958,605
Mortgage-backed securities	4,155,075	3,155,821
Corporate securities	<u>11,564,450</u>	<u>11,143,292</u>
Total bonds	23,573,027	23,257,718
Common stock	<u>2,367,946</u>	<u>2,380,212</u>
Total cash and invested assets	<u>\$56,640,497</u>	<u>\$49,578,463</u>

The amortized cost, unrealized gains and losses, and estimated fair value of investments in bonds at December 31 are as follows:

2018	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. government obligations	\$ 7,853,502	\$ 18,547	\$ (99,954)	\$ 7,772,095
Mortgage-backed securities	4,155,075	15,354	(113,649)	4,056,780
Corporate securities	<u>11,564,450</u>	<u>27,942</u>	<u>(202,793)</u>	<u>11,389,599</u>
Totals	<u>\$23,573,027</u>	<u>\$61,843</u>	<u>\$(416,396)</u>	<u>\$23,218,474</u>
2017	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. government obligations	\$ 8,958,605	\$ 702	\$ (94,212)	\$ 8,865,095
Mortgage-backed securities	3,155,821	21,223	(17,848)	3,159,196
Corporate securities	<u>11,143,292</u>	<u>172,945</u>	<u>(42,712)</u>	<u>11,273,525</u>
Totals	<u>\$23,257,718</u>	<u>\$194,870</u>	<u>\$(154,772)</u>	<u>\$23,297,816</u>

The Company determines a decline to be other than temporary by reviewing and evaluating relevant objective and subjective factors for each security, including the extent of the depressed value, the length of time the value has been depressed, the Company's intent and ability to hold the security, the security's current performance, the financial condition of the issuer, the industry in which the issuer operates, and the status of the market as a whole. Assessments include judgments about an obligor's or guarantor's current and projected financial position, the obligor's or guarantor's projected ability to service and repay its debt obligations, the existence of, and realizable value for, any collateral backing the obligations, and the macro-

Care Wisconsin Health Plan, Inc.  
**NOTES TO STATUTORY FINANCIAL STATEMENTS - CONTINUED**  
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economic and micro-economic outlooks for specific industries and issuers. Estimating the future cash flows of mortgage-backed securities also involves assumptions regarding the underlying collateral, such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities.

The unrealized losses and related fair values of the investments for which fair value is less than cost (or amortized cost), aggregated by security type, were as follows at December 31:

2018	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. government obligations	\$ 616,147	\$ 14,796	\$ 6,455,054	\$ 85,157	\$7,071,201	\$ 99,954
Mortgage-backed securities	771,552	18,117	2,064,137	95,532	2,835,689	113,649
Corporate securities	<u>6,006,010</u>	<u>137,595</u>	<u>2,132,406</u>	<u>65,199</u>	<u>8,138,416</u>	<u>202,793</u>
Totals	<u>\$7,393,709</u>	<u>\$170,508</u>	<u>\$10,651,597</u>	<u>\$245,888</u>	<u>\$18,045,306</u>	<u>\$416,396</u>

2017	Less than 12 months		More than 12 months		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. government obligations	\$602,932	\$1,244	\$ 7,946,005	\$ 92,968	\$ 8,548,937	\$94,212
Mortgage-backed securities	-	-	1,134,909	17,848	1,134,909	17,848
Corporate securities	<u>350,002</u>	<u>680</u>	<u>3,227,516</u>	<u>42,032</u>	<u>3,577,518</u>	<u>42,712</u>
Totals	<u>\$952,934</u>	<u>\$1,924</u>	<u>\$12,308,430</u>	<u>\$152,848</u>	<u>\$13,261,364</u>	<u>\$154,772</u>

The amortized cost and estimated fair value of investments in bonds at December 31, 2018, by contractual maturity, were as follows:

	Amortized cost	Estimated fair value
Due in one year or less	\$ 2,099,649	\$2,090,423
Due after one through five years	10,909,372	10,797,079
Due after five through ten years	6,873,365	6,723,554
Due after ten years	<u>3,690,641</u>	<u>3,607,418</u>
Totals	<u>\$23,573,027</u>	<u>\$23,218,474</u>

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations. Proceeds from maturities and sales of bonds were \$4,915,929 in 2018. These proceeds included gross realized gains of \$14,393 and gross realized losses of \$94,890 in 2018.

**NOTE C - FAIR VALUE MEASUREMENTS**

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Money market funds are valued using \$1 as the net asset value (NAV). Common stocks (mutual funds) are valued at the daily closing price as reported by the fund. Common stocks are registered with the U.S. Securities and Exchange Commission and are required to publish their NAV daily and to transact at that price. Bonds are valued based on inputs including quoted prices for identical or similar assets in active markets. The Company uses a leading, nationally recognized provider of financial market data and analytics to price the Company's bond holdings. Because many fixed-income securities do not trade on a

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**NOTES TO STATUTORY FINANCIAL STATEMENTS - CONTINUED**  
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daily basis, the provider's evaluated pricing applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare evaluations.

The methods above may produce a fair value calculation that may not be indicative of net realizable value or future fair value. Furthermore, while the Company believes these valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value on a recurring basis as of December 31:

	2018			Total assets at fair value
	Level 1	Level 2	Level 3	
Common stocks	\$2,367,946	\$ -	\$ -	\$2,367,946
Money market funds	<u>1,229,492</u>	<u>-</u>	<u>-</u>	<u>1,229,492</u>
Total assets at fair value	<u>\$3,597,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,597,438</u>

	2017			Total assets at fair value
	Level 1	Level 2	Level 3	
Common stocks	\$2,380,212	\$ -	\$ -	\$2,380,212
Money market funds	<u>1,100,603</u>	<u>-</u>	<u>-</u>	<u>1,100,603</u>
Total assets at fair value	<u>\$3,480,815</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,480,815</u>

The following tables set forth by level, within the fair value hierarchy, the fair value for all financial instruments held by the Company as of December 31:

2018	Aggregate fair value	Admitted assets	Level 1	Level 2	Level 3	Not practicable
Bonds	\$23,218,474	\$23,573,027	\$ 7,772,095	\$15,446,379	\$ -	\$ -
Common stocks	2,367,946	2,367,946	2,367,946	-	-	-
Money market funds	<u>1,229,492</u>	<u>1,229,492</u>	<u>1,229,492</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$26,815,912</u>	<u>\$27,170,465</u>	<u>\$11,369,533</u>	<u>\$15,446,379</u>	<u>\$ -</u>	<u>\$ -</u>

  

2017	Aggregate fair value	Admitted assets	Level 1	Level 2	Level 3	Not practicable
Bonds	\$23,297,816	\$23,257,718	\$ 8,865,095	\$14,432,721	\$ -	\$ -
Common stocks	2,380,212	2,380,212	2,380,212	-	-	-
Money market funds	<u>1,100,603</u>	<u>1,100,603</u>	<u>1,100,603</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$26,778,631</u>	<u>\$26,738,533</u>	<u>\$12,345,910</u>	<u>\$14,432,721</u>	<u>\$ -</u>	<u>\$ -</u>

Care Wisconsin Health Plan, Inc.  
**NOTES TO STATUTORY FINANCIAL STATEMENTS - CONTINUED**  
December 31, 2018 and 2017

**NOTE D - LINE OF CREDIT**

The Company has a revolving credit agreement with a bank in the amount of \$4,000,000. The line of credit is secured by substantially all of the Company's assets. Interest accrues at the one-month LIBOR rate (effective rate of 2.30% and 1.36% at December 31, 2018 and 2017, respectively). There were no amounts outstanding under this line of credit at December 31, 2018 and 2017.

**NOTE E - UNPAID CLAIMS**

The following table provides a reconciliation of the beginning and ending balances of the unpaid claims liability for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Unpaid claims at beginning	\$ 13,306,925	\$ 12,156,963
Add provision for claims occurring in		
Current year	130,525,384	103,991,455
Prior years	<u>(1,533,091)</u>	<u>(1,489,067)</u>
Incurred claims during the current year	128,992,293	102,502,388
Deduct payment for claims occurring in		
Current year	(114,711,241)	(93,612,814)
Prior years	<u>(11,750,207)</u>	<u>(7,739,612)</u>
Claim payments during the current year	<u>(126,461,448)</u>	<u>(101,352,426)</u>
Unpaid claims at end	<u>\$ 15,837,770</u>	<u>\$ 13,306,925</u>

The Company uses paid claims and completion factors based on historical payment patterns to estimate incurred claims. Changes in payment patterns and claim trends can result in changes to the prior year's claim estimates.

**NOTE F - UNINSURED PLAN - MEDICARE PART D**

The Company participates in the Medicare Part D prescription drug program. Standard coverage for beneficiaries under Part D includes annual deductible amounts, coinsurance for amounts up to an initial coverage limit, a range beyond the initial coverage limit in which the insured pays all of the prescription drug costs, and an annual out-of-pocket threshold, above which the insured pays the greater of a specified copayment or 5% of the drug cost.

Under the Company's prescription drug coverage for eligible members, substantially all prescription drug costs are paid by the Company. In return, the Company receives reimbursement from the Medicare program consisting of basic premiums and direct subsidies, specific reimbursement for benefit costs above the out-of-pocket threshold (reinsurance payments), and specific cost reimbursements for deductibles, coinsurance, and copayments due to members qualifying for low-income subsidies (cost-sharing portion). The cost reimbursements are paid on interim rates, which are then settled based on actual claims data.

Revenue from the Company's cost-based reimbursement payments consisted of \$3,463,404 and \$2,978,907 for reinsurance payments and \$248,569 and \$90,461 for the low-income cost-sharing portion for the years ended December 31, 2018 and 2017, respectively. The Company had a net payable of



Care Wisconsin Health Plan, Inc.  
NOTES TO STATUTORY FINANCIAL STATEMENTS - CONTINUED  
December 31, 2018 and 2017

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\$2,278,564 and \$1,944,220 at December 31, 2018 and 2017, respectively, related to estimated final settlements under this uninsured plan.

**NOTE G - REINSURANCE**

The Company has entered into a reinsurance agreement with an insurance company to limit its losses on inpatient hospital services. Under the terms of this agreement, the insurance company will reimburse the Company for 90% of the cost of each participant's annual inpatient hospital services in excess of a \$225,000 deductible, up to daily limits of \$4,000 per participant. Reinsurance premiums were approximately \$525,000 and \$414,000 in 2018 and 2017, respectively. There were approximately \$19,000 and \$(26,000) of stop-loss insurance recoveries (recoupments) in 2018 and 2017, respectively.

Reinsurance contracts do not relieve the Company from its obligations to members. The Company remains liable to its members for the portion reinsured to the extent that the reinsurance company does not meet the obligations assumed under the reinsurance contract.

**NOTE H - RELATED-PARTY TRANSACTIONS**

The Company has two contracts with CWF to provide administrative services such as personnel and management services to the Company at cost. The Company is required to pay any amounts due within 10 days of receiving a statement from CWF.

The Company incurred health care costs, claims adjustment expenses, and general and administrative expenses totaling \$21,187,220 and \$18,279,443 in 2018 and 2017, respectively, related to the two contracts with CWF.

At December 31, 2018 and 2017, the Company had amounts due to CWF of \$331,584 and \$430,276, respectively.

Care Wisconsin Health Plan, Inc.  
NOTES TO STATUTORY FINANCIAL STATEMENTS - CONTINUED  
December 31, 2018 and 2017

**NOTE I - PHARMACEUTICAL REBATE RECEIVABLES**

Included in health care and other receivables are pharmaceutical rebate receivables. The following lists the pharmaceutical rebate receivables:

Quarter	Estimated pharmacy rebates as reported on statutory financial statements	Pharmacy rebates as billed or otherwise confirmed	Actual rebates received within 90 days of billing	Actual Rebates Received Within 91 to 180 days of billing	Actual rebates received more than 180 days after billing
December 31, 2018	\$606,974	\$606,974	\$408,766	\$ -	\$ -
September 30, 2018	560,343	560,343	560,343	-	-
June 30, 2018	346,118	346,118	346,118	-	-
March 31, 2018	466,381	466,381	466,381	-	-
December 31, 2017	284,992	284,992	284,992	-	-
September 30, 2017	287,334	287,334	287,334	-	-
June 30, 2017	272,604	272,604	272,604	-	-
March 31, 2017	268,197	268,197	268,197	-	-
December 31, 2016	115,124	168,083	-	-	168,083
September 30, 2016	79,500	79,500	-	-	79,500
June 30, 2016	79,500	79,500	-	-	79,500
March 31, 2016	79,500	79,500	-	-	79,500

**NOTE J - CAPITAL AND SURPLUS**

The Company is subject to regulation by OCI, which requires, among other matters, the maintenance of a compulsory surplus for the greater of the amount of 3% of premium or \$750,000. In addition, OCI sets forth security surplus guidelines that are calculated based on a factor applied to the compulsory surplus.

The Company is also subject to certain risk-based capital (RBC) requirements as specified by NAIC and required by OCI. Under those requirements, the amount of capital and surplus maintained by the Company is to be determined based on various related risk factors.

At December 31, 2018 and 2017, management believes they have met these requirements.

The laws of the state of Wisconsin limit dividends to shareholders. Within these limitations, there are no restrictions placed on the Company's profits that may be paid as ordinary dividends to shareholders. There were no restrictions placed on the Company's surplus, including for whom the surplus is being held.

Care Wisconsin Health Plan, Inc.  
**NOTES TO STATUTORY FINANCIAL STATEMENTS - CONTINUED**  
 December 31, 2018 and 2017

**NOTE K - RISKS AND UNCERTAINTIES**

The Company's operating results and financial condition are affected by numerous factors and circumstances unique to the insurance industry, some of which it can neither predict nor control. Among them are (1) statutorily imposed regulatory capital requirements can limit an insurer's ability to underwrite new business or retain otherwise desirable risks; (2) an insurer's ability to enter into suitable reinsurance agreements is subject to prevailing conditions in reinsurance markets; (3) fluctuations in interest rates affect the value and income yield of an insurer's investment portfolio in the short term, and often affect default and prepayment rates over time; and (4) inflationary pressures and medical costs affect the magnitude of claims and claims adjustment expenses.

**NOTE L - RECONCILIATION OF DIFFERENCES FROM THE ANNUAL STATEMENT**

The statutory financial statements differ in certain respects from the annual statement filed with the OCI. A reconciliation of the differences as of December 31, 2018 is as follows:

	As reported in the annual statement	Adjustments	As reported in the accompanying financial statements
Aggregate health policy reserves	\$2,135,549	\$2,779,003 (1)	\$4,914,552
Net income (loss)	2,417,857	(2,779,003) (1)	(361,146)

(1) To adjust premium deficiency reserve.

**NOTE M - SUBSEQUENT EVENTS**

The Company evaluated its December 31, 2018, financial statements for subsequent events through June 17, 2019, the date that the financial statements were available to be issued. The Company is not aware of any additional subsequent events which would require recognition or disclosure in the financial statements.

**SUPPLEMENTARY INFORMATION**

Care Wisconsin Health Plan, Inc.  
**SUMMARY INVESTMENT SCHEDULE**  
As of December 31, 2018

Investment categories	Gross investment Holdings		Admitted assets as reported in the annual statement	
	Amount	Percentage	Amount	Percentage
<b>Bonds</b>				
U.S. Treasury securities	\$7,861,295	14%	\$7,861,295	14%
U.S. government agency obligations (excluding mortgage-backed securities)				
Issued by U.S. government agencies	-	-	-	-
Issued by U.S. government-sponsored agencies	-	-	-	-
Non-U.S. government (including Canada, excluding mortgage-backed securities)	-	-	-	-
Securities issued by states, territories, and possessions and political subdivisions in the U.S.				
States, territories and possessions general obligations	-	-	-	-
Political subdivisions of states, territories, and possessions and political subdivisions general obligations	-	-	-	-
Revenue and assessment obligations	-	-	-	-
Industrial development and similar obligations	-	-	-	-
Mortgage-backed securities (includes residential and commercial MBS)				
Pass-through securities				
Issued or guaranteed by GNMA	-	-	-	-
Issued or guaranteed by FNMA and FHLMC	2,901,650	5%	2,901,650	5%
All other	-	-	-	-
CMOs and REMICs				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	461,576	1%	461,576	1%
Issued by non-U.S. government issuers and collateralized by MBS, issued or guaranteed GNMA, by FNMA or FHLMC or VA	-	-	-	-
All other	762,006	1%	762,006	1%
Other debt and other fixed income securities (excluding short term)				
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	9,903,397	17%	9,903,397	17%
Unaffiliated non-U.S. securities	1,683,103	3%	1,683,103	3%
Affiliated securities				

Care Wisconsin Health Plan, Inc.  
**SUMMARY INVESTMENT SCHEDULE - CONTINUED**  
As of December 31, 2018

Investment categories	Gross investment Holdings		Admitted assets as reported in the annual statement	
	Amount	Percentage	Amount	Percentage
Equity interests				
Investment in mutual funds	\$2,367,946	4%	\$2,367,946	4%
Preferred stocks				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Publicly traded equity securities (excluding preferred stocks)				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Other equity securities				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Other equity interests, including tangible personal property under leases				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Mortgage loans				
Construction and land development	-	-	-	-
Agricultural	-	-	-	-
Single-family residential properties	-	-	-	-
Multifamily residential properties	-	-	-	-
Commercial loans	-	-	-	-
Mezzanine real estate loans	-	-	-	-
Real estate investments				
Property occupied by the plan	-	-	-	-
Property held for the production of income	-	-	-	-
Property held for sale	-	-	-	-
Contract loans	-	-	-	-
Derivative	-	-	-	-
Receivables for securities	-	-	-	-
Securities lending				
Cash, cash equivalents and short-term investments	30,699,524	55%	30,699,524	55%
Other invested assets	-	-	-	-
Total invested assets	<u>\$56,640,497</u>	<u>100%</u>	<u>\$56,640,497</u>	<u>100%</u>

Care Wisconsin Health Plan, Inc.  
**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES**  
December 31, 2018 and 2017

1. Reporting entity's total admitted assets as reported on page 2 of the annual statement.

\$59,037,344

2. Ten largest exposures to a single issuer/borrower/investment.

Issuer	Amount	Percentage of total admitted assets
Federal National Mortgage Association, Inc. - MBS, CMO	\$2,025,240	3.430%
Federal Home Loan Mortgage Corporation – MBS, CMO	1,337,986	2.266
BMO GOVT MONEY MARKET FD Y #605	1,299,492	2.083
JPMORGAN CHASE & CO	395,465	0.670
CAPITAL ONE FINL CORP SR GLBL FL NT	300,000	0.508
CARMAX AUT OWNER TR SER 2018-2 CL A3	299,990	0.508
HONDA RECV OWN SER 2018-3 CL A-3	299,962	0.508
BANK 2018-BN12 A4	257,451	0.436
CITIGROUP COML MTG SER 2018-B2 CL A-4	254,579	0.431
ABBVIE, INC.	250,658	0.425

3. Amount and the percentages of the reporting entity's total admitted assets held in bonds and preferred stock by NAIC rating.

Bonds	Amount	Percentage of total admitted assets
NAIC-1	\$17,532,112	29.697%
NAIC-2	5,892,388	9.981%
NAIC-3	148,527	0.252%
NAIC-4	-	-
NAIC-5	-	-
NAIC-6	-	-

Preferred stocks - None

4. Are assets held in foreign investments less than 2.5% of the reporting entity's admitted assets? If response is yes, responses are not required for interrogatories 5-10.

Yes ( ) No ( X )

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating.

NAIC Sovereign Designation	Amount	Percentage of total admitted assets
Countries designated NAIC 1	\$1,341,043	2.272%
Countries designated NAIC 2	342,060	0.579
Countries designated NAIC 3 or below	-	-

Care Wisconsin Health Plan, Inc.  
**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES - CONTINUED**  
 December 31, 2018 and 2017

6. Two largest foreign investment exposures by single country, categorized by the country's NAIC sovereign rating.

NAIC Sovereign Designation	Amount	Percentage of total admitted assets
Countries designated NAIC 1	\$740,419	1.255%
Countries designated NAIC 2	342,060	0.579
Countries designated NAIC 3	-	-

7. Aggregate unhedged foreign currency exposure.

None

8. Aggregate unhedged foreign currency exposure, categorized by NAIC sovereign rating.

None

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating.

None

10. Ten largest non-sovereign (i.e., non-governmental) foreign issues.

Issuer	Amount	Percentage of total admitted assets
BNP PARIBUS US MTN TIER2 SUB NT	\$200,305	0.339%
LLOYDS BANK PLC	200,000	0.339
AMERICA MOVIL SAB DE CV	197,870	0.335
ALIBABA GROUP HOLDING	190,232	0.322
SUMITOMO MITSUI FINLGROUP INC BOND	150,350	0.255
SHIRE ACQUISITIONS INVTS IRELA NOTE	149,970	0.254
ASTRAZENECA PLC	149,665	0.254
FOMENTO ECONOMIC MEXICANO SAB	144,190	0.244
TRINITY ACQUISITION PLC NOTE	100,522	0.170
MIZUHO FINANCIAL GROUP INC	100,000	0.169

11. Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? If response is yes, detail is not required for interrogatory 11.

Yes (X) No ( )

12. Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response is yes, detail is not required for interrogatory 12.

Yes (X) No ( )



Care Wisconsin Health Plan, Inc.  
**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES - CONTINUED**  
 December 31, 2018 and 2017

13. Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? If response is yes, responses are not required for the remainder of interrogatory 13.

Yes ( ) No (X)

Issuer	Amount	Percentage of total admitted assets
BMO GLOBAL LOW VOLATILITY EQUITY FUND CLASS I #110	\$2,367,946	4.011%

14. Are assets held in non-affiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? If response is yes, responses are not required for the remainder of interrogatory 14.

Yes (X) No ( )

15. Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? If response is yes, responses are not required for the remainder of interrogatory 15.

Yes (X) No ( )

16. Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? If response is yes, details are not required for interrogatories 16 and 17.

Yes (X) No ( )

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date.

None

18. Are assets held in real estate less than 2.5% of the reporting entity's total admitted assets? If response is yes, responses are not required for the remainder of interrogatory 18.

Yes (X) No ( )

19. Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? If response is yes, responses are not required for the remainder of interrogatory 19.

Yes (X) No ( )

20. Amounts and percentages of the reporting entity's total admitted assets subject to securities lending, repurchase, reverse repurchase, dollar repurchase and dollar reverse repurchase agreements.

None

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors.

None

Care Wisconsin Health Plan, Inc.  
SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES - CONTINUED  
December 31, 2018 and 2017

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22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps and forwards.

None

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts.

None