Consolidated Financial Statements and Report of Independent Certified Public Accountants

Care Wisconsin First, Inc. and Affiliate

December 31, 2018 and 2017

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Care Wisconsin First, Inc. and Affiliate

Report on the financial statements

We have audited the accompanying consolidated financial statements of Care Wisconsin First, Inc. and Affiliate (a nonprofit organization) (collectively, the "Entity"), which comprise the consolidated balance sheets as of December 31, 2018, and the related consolidated statements of operations and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

GrantThornton

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Care Wisconsin, Inc. and Affiliate as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter

The consolidated financial statements and supplementary information of Care Wisconsin, Inc. and Affiliate as of and for the year ended December 31, 2017 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2017 consolidated 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 consolidated financial statements as a whole. The consolidating balance sheet as of December 31, 2018, and the consolidating statement of operations for the year ended December 31, 2018, are presented for purposes of additional analysis, rather than to present the financial position and results of operations of the individual entities, and are not a required part of the consolidated financial statements. The combining schedule of revenue and expenses for the year ended December 31, 2018, as required by the Wisconsin Department of Health Services, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating, combining and supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 17, 2019, on our consideration of the Entity'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 solely 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 the effectiveness of the Entity's 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 Entity's internal control over financial reporting and compliance.

Grant Thornton LLP

Appleton, Wisconsin
June 17, 2019

Care Wisconsin First, Inc. and Affiliate
CONSOLIDATED BALANCE SHEETS
December 31,

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 49,845,033	$ 62,654,279
Health care receivables - net	15,273,953	6,806,459
Investments	37,582,725	37,704,233
Prepaid expenses and other	2,519,357	2,064,015
Deferred income taxes	125,000	50,000
Total current assets	105,346,068	109,278,986
ASSETS LIMITED AS TO USE	6,109,221	5,146,325
DEFERRED COMPENSATION PLAN ASSETS	242,600	535,955
PROPERTY AND EQUIPMENT - NET	2,191,366	2,923,930
OTHER ASSETS	72,591	119,442
TOTAL ASSETS	$ 113,961,846	$ 118,004,638
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 9,390,331	$ 4,747,866
Income tax payable	86,071	3,500
Accrued member services	49,389,201	41,785,975
Accrued salaries and benefits	3,146,626	2,757,053
Unearned revenue	170,166	103,622
Premium deficiency reserve	21,477,611	546,520
Total current liabilities	83,660,006	49,944,536
LONG-TERM LIABILITIES		
Deferred compensation plan liability	242,600	535,955
Deferred rent	471,311	602,081
Total long-term liabilities	713,911	1,138,036
Total liabilities	84,373,917	51,082,572
NET ASSETS - WITHOUT DONOR RESTRICTION	29,587,929	66,922,066
TOTAL LIABILITIES AND NET ASSETS	$ 113,961,846	$ 118,004,638

The accompanying notes are an integral part of these consolidated financial statements.

Care Wisconsin First, Inc. and Affiliate
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended December 31, 2018

	2018	2017
Operating activities		
REVENUE		
Medicaid premiums	$ 412,141,092	$ 349,362,671
Medicare premiums	45,421,584	37,668,439
Medicare Part D	10,703,394	10,852,614
Member cost share	13,660,066	11,406,515
Room and board	34,447,469	27,656,368
Other third-party payor	111,801	93,351
Total revenue	516,485,406	437,039,958
EXPENSES		
Member services		
Long-term care	409,097,687	315,554,952
Acute and primary care	58,318,102	47,095,750
Total member services	467,415,789	362,650,702
Care management services	47,507,416	40,081,424
Supporting services - administrative	22,765,881	19,646,804
Premium deficiency reserve	20,931,091	546,520
Total expenses	558,620,177	422,925,450
Change in net assets before taxes and non-operating activities	(42,134,771)	14,114,508
Provision for state income taxes		
Current expense	261,031	661,868
Deferred benefit	(75,000)	(57,000)
Total provision for state income taxes	186,031	604,868
Change in net assets before non-operating activities	(42,320,802)	13,509,640
Non-operating activities		
Investment return, net	450,681	1,506,311
Other revenue, gains and losses, net	4,535,984	16,128
CHANGE IN NET ASSETS	(37,334,137)	15,032,079
NET ASSETS AT BEGINNING	66,922,066	51,889,987
NET ASSETS AT END	$ 29,587,929	$ 66,922,066

The accompanying notes are an integral part of these consolidated financial statements.

Care Wisconsin First, Inc. and Affiliate
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018

	Program					
	Partnership	SSI	Family Care	DSNP	Administrative Expenses	Total
Member services	$ 111,787,749	$ 15,008,801	$ 334,504,601	$ 6,114,638	$ -	$ 467,415,789
Salaries and benefits	8,475,415	826,487	28,245,527	431,217	17,813,649	55,792,295
Information technology	404,793	40,932	1,804,447	21,139	1,065,345	3,336,656
Professional services	2,318,460	25,480	1,075,485	12,798	1,609,863	5,042,086
Occupancy	353,953	38,007	1,615,695	19,669	950,904	2,978,228
Staff travel	132,748	3,598	888,148	1,722	481,341	1,507,557
Office expenses	78,635	17,550	281,704	2,323	178,335	558,547
Depreciation	77,485	7,547	302,841	3,611	666,444	1,057,928
Premium deficiency reserve	1,844,411	-	17,548,951	1,537,729	-	20,931,091
TOTAL	$ 125,473,649	$ 15,968,402	$ 386,267,399	$ 8,144,846	$ 22,765,881	$ 558,620,177

The accompanying notes are an integral part of this consolidated financial statement.

Care Wisconsin First, Inc. and Affiliate
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31,

	2018	2017
Cash flows from operating activities		
Change in net assets	$ (37,334,137)	$ 15,032,079
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,057,927	1,158,860
Provision for bad debts	647,608	567,283
Change in net realized and unrealized losses (gains) on investments	1,011,099	(545,461)
Loss on disposal of property and equipment	2,034	-
Deferred income taxes	(75,000)	(57,000)
Changes in operating assets and liabilities		
Health care receivables	(9,115,102)	(3,150,645)
Prepaid expenses and other assets	(455,341)	(727,318)
Deferred compensation plan assets/liability	-	112,647
Accounts payable	4,642,465	861,159
Income tax payable	82,571	(57,712)
Accrued member services	7,603,226	2,915,998
Accrued salaries and benefits	389,573	(43,122)
Unearned revenue	66,544	50,574
Other assets	46,852	-
Deferred rent	(130,770)	53,662
Premium deficiency reserve	20,931,091	546,520
Net cash (used in) provided by operating activities	(10,629,360)	16,717,524
Cash flows from investing activities		
Purchases of investments and assets limited as to use	(10,223,919)	(43,739,099)
Proceeds from sales of investments and assets limited as to use	8,371,431	22,636,026
Capital expenditures	(327,398)	(1,406,637)
Net cash used in investing activities	(2,179,886)	(22,509,710)
Net decrease in cash and cash equivalents	(12,809,246)	(5,792,186)
Cash and cash equivalents at beginning of year	62,654,279	68,446,465
Cash and cash equivalents at end of year	$ 49,845,033	$ 62,654,279
Supplemental cash flow information		
Cash paid during the year for		
Income taxes	$ 179,090	$ 719,580

The accompanying notes are an integral part of these consolidated financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

Care Wisconsin First, Inc. and Affiliate ("Care Wisconsin") and Care Wisconsin Health Plan, Inc. (the "Health Plan") (collectively the "Company") are not-for-profit corporations organized for the purpose of providing health and long-term care services to the frail elderly and adults with disabilities in 49 counties in Wisconsin.

Care Wisconsin provides managed care under the State of Wisconsin's Family Care Program ("Family Care") in 44 counties. At December 31, 2018 and 2017, 8,595 and 7,318 members, respectively, in these counties were enrolled in Family Care, which provides care management and a Medicaid benefit and service package covering long-term care services. Care Wisconsin is the sole member of the Health Plan.

As a state-certified managed care organization and licensed health maintenance organization (HMO), the Health Plan provides integrated, managed health and long-term care services to nursing home-eligible members under the State of Wisconsin's Family Care Partnership Program ("Partnership"), serving members in 7 counties. Partnership serves the frail elderly and adults with physical and/or developmental disabilities and is designed to use capitated Medicaid and Medicare revenues to cover all medical and long-term care services. At December 31, 2018 and 2017, 1,903 and 1,578 members, respectively, were enrolled in Partnership through the Health Plan.

The Health Plan 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. Through the SSI Managed Care Program, the Health Plan serves members in 36 counties. The SSI Managed Care Program is designed to use Medicaid funds to cover medical services. At December 31, 2018 and 2017, 2,827 and 1,745 members, respectively, were enrolled in the SSI Managed Care Program through the Health Plan.

Beginning January 1, 2017, the Health Plan offers Medicare Dual Advantage, an HMO Special Needs Program ("DSNP") in 27 counties. At December 31, 2018 and 2017, 472 and 160 members in these counties, respectively, were enrolled in 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.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Care Wisconsin and the Health Plan. All significant intercompany accounts and transactions have been eliminated.

Financial Statement Presentation

The consolidated financial statements are prepared on the accrual basis of accounting.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, functional expenses and investment return. ASU 2016-14 shall be applied retrospectively. The Company adopted this guidance beginning January 1, 2018, and as such, prior year financial statements have been adjusted to conform with the new guidance. There was no impact on the Company's previously reported net assets or change in net assets.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with U.S. GAAP, requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Cash Equivalents

The Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding assets limited as to use.

Health Care Receivables

Health care receivables are amounts due from Medicare, Medicaid and others and are stated at the amount management expects to collect from outstanding balances. The carrying amounts of accounts receivable are reduced by allowances that reflect management's best estimate of the amount that will not be collected. Delinquent accounts are not charged interest.

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). Balances as a percentage of total revenues from DHS were 80% for the years ended December 31, 2018 and 2017, and from CMS were 11% for the years ended December 31, 2018 and 2017. Receivables from DHS as a percentage of total receivables were 89% and 84% for the years ended December 31, 2018 and 2017, respectively.

Investments, Assets Limited as to Use and Deferred Compensation Plan Assets

Investments, assets limited as to use and deferred compensation plan assets are measured at fair value in the accompanying consolidated balance sheets. Assets limited to use include cash and cash equivalents held to satisfy DHS regulatory requirements. Deferred compensation plan assets include mutual funds held for the benefit of certain employees. Investment income or loss (including unrealized and realized gains and losses, interest and dividends) is included in change in net assets unless the income or loss is restricted by donor or law.

Investment transactions are recorded on the trade date. Realized gains and losses on the sale of investments are calculated based on the specific identification of the securities sold. Investment management and custodial fees are recorded as a reduction of investment income.

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.

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.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life. Interest costs incurred on borrowed funds during the period of the construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives are as follows:

Leasehold improvements	3 - 15 years
Furniture and equipment	2 - 13 years
Vehicles	3 - 5 years

Prepaid Software

Prepaid software and related implementation costs are amortized over the length of the agreement as of date of implementation. The amounts are considered part of prepaid assets and other or other assets, dependent upon length. These amounts were reported in 2017 as part of property and equipment, and reclassified in the current year to conform to the 2018 presentation.

Accrued Member Services and Member Services Expense

The Company contracts with various health care providers for the provision of medical and long-term care services to its members. The Company generally compensates contracted providers under negotiated fee-for-service arrangements or for a fixed dollar amount per member per month, which can be adjusted based on actual utilization.

The cost of health care services contracted is accrued in the period in which the services are provided to a member based, in part, on estimates, including an accrual for medical and long-term care services provided but not reported to the Company. The accrual for services provided but not reported to the Company represents management's best estimate of the ultimate net cost of all incurred but not reported claims as of the balance sheet date. These estimates are calculated using individual case-basis valuations and statistical analysis. 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 accrual for services incurred but not reported is adequate. These estimates are continually reviewed and adjusted in current operations as necessary as experience develops or new information becomes known.

Premium Deficiency Reserve

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 reserve. At December 31, 2018 and 2017, the Company had $21,477,611 and $546,520, respectively, recorded for premium deficiency reserves.

Deferred Rent

Deferred rent relates to lease incentives provided by the landlord of the administrative building in Madison and is the difference between lease payments and lease expense on a straight-line basis. Deferred rent is being amortized into rent expense over the term of the lease.

Net Assets

Net assets without donor restriction consist of net assets that are not subject to donor-imposed stipulations and include those expendable resources which have been designated for special use by the Company's Board of Directors. Net assets with donor restriction are those whose use by the Company has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Company in perpetuity.

The Company has no net assets with donor restrictions at December 31, 2018 and 2017.

Medicaid and Medicare Premiums, Member Cost Share and Room and Board

The Company's primary source of revenue are capitation payments under the Medicare and Medicaid programs. Medicare and Medicaid capitation payments are recognized as revenue in the month for which coverage is provided. Capitation payments received prior to the month of coverage are recorded as unearned revenue. Member cost share revenue consists of amounts received directly from certain members who are required to share a cost of the program as a condition of their enrollment. Member room and board revenue consists of amounts received directly from certain members to reimburse the program for room and board payments.

The Company has contracted with CMS to provide services under the Partnership and DSNP programs. Medicare capitation payments under these programs are received from CMS. This contract is intended to cover all Medicare-eligible expenses including pharmaceuticals under the Medicare Part D program. Estimated provisions to approximate expected settlements for the Medicare Part D program are included in the accompanying consolidated financial statements.

Cost Allocation

The financial statements report certain expense categories that are attributable to more than one support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Expenses by function have been allocated between program services and administrative classifications on a functional basis in the accompanying consolidated statement of functional expenses. Expenses are allocated on the basis of actual expenditures, number of full-time equivalent employees, revenue, and estimates made by management.

Advertising Costs

Advertising costs are expensed as incurred, and totaled approximately $52,000 and $75,000 for the years ended December 31, 2018 and 2017, respectively.

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which amends the accounting for revenue recognition. The amendments are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. Subsequent to ASU No. 2014-09, the FASB issued subsequent updates. The subsequent updates extended the effective date of ASU No. 2014-09 and added clarification to the new revenue recognition framework. Insurance contracts are not in scope of this new guidance. As such, management does not believe this new guidance will have a material impact on the Company's consolidated financial statements. The above standards are effective for all annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 requires that lease arrangements longer than 12 months result in a company recognizing an asset and liability. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2019, although early adoption is permitted. The Company is in the process of evaluating the impact of ASU No. 2016-02 on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software*. ASU No. 2018-15 require an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. ASU No. 2018-15 is effective for annual periods beginning after December 15, 2020, although early adoption is permitted. The Company has elected to early adopt the guidance, and has applied the impacts retrospectively to its consolidated financial statements resulting in a prior year reclassification to the balance sheet.

Taxes

The Company is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Care Wisconsin is also exempt from Wisconsin income taxes on related income. The Health Plan is liable for Wisconsin property, income and franchise taxes. The provision for income taxes is recorded net of any recoveries during the year.

Deferred income taxes are established for temporary differences in the reporting of unrealized gains and losses on investment securities, the allowance for doubtful accounts and certain accruals and prepaids for financial statement and income tax purposes. Deferred tax balances are adjusted to reflect tax rates based on currently enacted tax laws that will be in effect in the years in which the temporary differences are expected to reverse. Deferred tax expense is the result of changes in the deferred tax asset and liability.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company has applied the uncertain tax position guidance to all tax positions for which the statute of limitations remains open and concluded there are no uncertain tax positions that would require adjustments to the financial statements. The Company recognizes, if necessary, interest and penalties related to unrecognized tax benefits in the provision for income taxes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended December 31, 2018 and 2017.

On December 22, 2017, tax reform legislation commonly known as the Tax Cuts and Jobs Act of 2017 (the Act) was passed; resulting in significant modifications to existing tax law. There were no material effects on the Company's financial statements as a result of the Act.

Reclassifications

Certain reclassifications have been made to the 2017 amounts to conform to the 2018 presentation. There was no impact to net assets or change in net assets as previously reported.

NOTE B - REIMBURSEMENT ARRANGEMENTS WITH THIRD-PARTY PAYORS

Care Wisconsin and the Health Plan have contracts with DHS and CMS to provide services to qualified Medicare and Medicaid recipients (the "Contracts"). The Contracts represent Care Wisconsin's and the Health Plan's source of premium income for Family Care, Partnership, SSI and DSNP. The contract with DHS is renewable annually. The contract with CMS is renewable for successive one-year periods. The Health Plan or CMS may terminate the contracts with 30 days written notice.

Medicaid capitation is subject to a year-end calculation that takes into consideration level of acuity and target group. Retroactive rate adjustments also include payments for a high cost risk pool. Retroactive rate adjustments resulted in an increase in revenue of approximately $11,768,000 in 2018, of which approximately $9,986,000 was an increase in revenue relating to services in 2018 and $1,782,000 was an increase of revenue relating to services in 2017 and prior. Retroactive rate adjustments resulted in an increase of $6,727,000 in 2017, of which approximately $3,701,000 was an increase in revenue relating to services in 2017 and $3,026,000 was an increase of revenue relating to services in 2016 and prior.

Medicare capitation rates are estimated and prospectively paid to the Company subject to a year-end calculation that takes into consideration level of acuity, member age and other demographics. There are also retroactive adjustments for members whose primary coverage is under the Medicare program.

The Health Plan covers prescription drug benefits in accordance with Medicare Part D under a contract with CMS. The payments the Health Plan receives from CMS and its members, which are determined from an annual bid, represent amounts for providing prescription drug insurance coverage. The payment from CMS is subject to risk sharing through the Medicare Part D risk-sharing corridor provisions. Receipts for reinsurance and low-income cost subsidies represent reimbursements of prescription drug cost for which the Health Plan has no underwriting risk.

The risk corridor provisions compare costs targeted in the Health Plan's bids to actual prescription drug costs, limited to costs that would have been incurred under the standard coverage as defined by CMS. Variances exceeding certain thresholds may result in CMS making additional payments to the Health Plan or the Health Plan paying back the funds to CMS. The Health Plan estimates and recognizes an adjustment to premium revenues related to these risk corridor provisions based on pharmacy claims experience to date as if the annual contract were to terminate at the end of the reporting period. Accordingly, the estimate provides no consideration of future pharmacy claims experience. At December 31, 2018 and 2017, the Health Plan recorded a risk-sharing payable, recorded in accounts payable, of approximately $982,000 and $742,000, respectively.

Reinsurance and low-income subsidies represent reimbursements from CMS in connection with the Medicare Part D program for which the Health Plan assumes no risk. Reinsurance subsidies represent reimbursement for CMS's portion of prescription drug costs that exceed the member's out-of-pocket threshold or catastrophic coverage level. Low-income cost subsidies represent reimbursement from CMS for all or a portion of the deductible, coinsurance and copayment amounts above the out-of-pocket threshold for low-income beneficiaries. Monthly prospective payments from CMS for reinsurance and low-income cost subsidies are based on assumptions submitted with an annual bid. A reconciliation and related settlement of CMS's prospective subsidies against actual prescription drug cost paid by the Health Plan are made after the end of the year. The Health Plan records these subsidies in accounts payable in the accompanying consolidated financial statements. The Plan has recorded a net liability related to these subsidies of approximately $2,738,000 and $1,387,000 for the years ended December 31, 2018 and 2017, respectively.

Revenue from the Company's cost-based reimbursement payments consisted of approximately $9,284,000 and $8,801,000 for reinsurance payments and approximately $249,000 and $90,000 for the low-income cost-sharing portion for the years ended December 31, 2018 and 2017, respectively.

To promote member access to acute care, children's and rehabilitation hospitals throughout Wisconsin, Medicaid provides a hospital access payment amount per inpatient discharge. Access payments are intended to reimburse hospital providers based on Wisconsin Medicaid volume. In 2018 and 2017, the Company received Wisconsin Medicaid access payments from the SSI Managed Care Program of approximately $3,895,000 and $2,927,000, respectively, and paid out the same amount to providers. These amounts are included in Medicaid premiums and acute and primary care member services, respectively, in the accompanying consolidated statements of operations and changes in net assets.

NOTE C - HEALTH CARE RECEIVABLES

Health care receivables consisted of the following at December 31:

	2018	2017
Medicaid capitation receivable	$ 13,549,770	$ 5,711,646
Medicare risk-sharing receivable	26,479	22,371
Medicare Part D receivable	3,204	14,942
Member receivable	1,676,440	1,331,247
Claim refund receivable	328,581	64,174
Other	425,267	315,542
Subtotal	16,009,741	7,459,922
Less - Allowance for doubtful accounts	735,788	653,463
Health care receivables - net	$ 15,273,953	$ 6,806,459

NOTE D - INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments

Investments, stated at fair value, consisted of the following at December 31:

	2018	2017
Debt securities		
U.S. government and state obligations	$ 10,986,630	$ 5,986,883
Corporate bonds	16,371,562	23,051,258
Mortgage-backed securities	5,971,718	4,340,765
Equity mutual funds	4,252,815	4,325,327
Total investments	$ 37,582,725	$ 37,704,233

The amortized cost and fair value, together with unrealized gains and losses, of investments are as follows at December 31, 2018:

	Amortized cost	Fair value	Unrealized gains	Unrealized losses
Debt securities				
U.S. Treasury securities	$11,113,113	$10,986,630	$18,547	$(145,029)
Corporate debt securities	16,654,683	16,371,562	32,077	(315,198)
Mortgage-backed securities	6,100,557	5,971,718	24,782	(153,622)
	33,868,353	33,329,910	75,406	(613,849)
Equity mutual funds	4,996,707	4,252,815	-	(743,892)
	$38,856,060	$37,582,725	$75,406	$(1,357,741)

The amortized cost and fair value of debt securities, by contractual maturities, are as follows at December 31, 2018:

	Amortized cost	Fair value
In one year or less	$ 3,351,119	$ 3,338,197
After one year through five years	15,874,077	15,692,554
After five years through 10 years	9,263,571	9,023,952
After 10 years	5,379,586	5,275,206
	$33,868,353	$33,329,909

The following tables summarize the Company's investments by category in an unrealized loss position at December 31, 2018 and 2017, by indicating the length of time these individual securities have been in a continuous loss position.

	2018					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Treasury securities	$ 616,147	$ 14,796	$9,669,588	$130,233	$10,285,735	$ 145,029
Corporate debt securities	9,001,770	224,375	3,368,059	90,823	12,369,829	315,198
Mortgage-backed securities	1,423,830	29,932	2,815,616	123,690	4,239,446	153,622
Equity mutual funds	4,252,815	743,892	-	-	4,252,815	743,892
	$15,294,562	$1,012,995	$15,853,263	$344,746	$31,147,825	$1,357,741

Assets Limited as to Use

Assets limited as to use consisted of the following at December 31:

	2018	2017
Regulatory requirements		
Cash	$ 4,121,181	$ 3,558,225
Certificates of deposit	1,988,040	1,588,100
Total assets limited as to use	$ 6,109,221	$ 5,146,325

Investment Income

Investment income, including gains and losses on investments and assets limited to use, consisted of the following for the years ended December 31:

	2018	2017
Interest income	$ 1,359,773	$ 899,416
Dividend income	183,686	123,410
Net realized gains	515,396	680,532
Change in net unrealized losses	(1,526,498)	(135,071)
Investment management and custodial fees	(81,676)	(61,976)
Total investment income	$ 450,681	$ 1,506,311

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

NOTE E - 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 a net asset value (NAV) of $1. Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds are registered with the Securities and Exchange Commission and are required to publish their NAV daily and to transact at that price.

When quoted market prices are available in an active market, debt securities are classified within Level 1 of the fair value hierarchy. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing or discounted cash flow models. The fair value of securities estimated using pricing models or matrix pricing is generally classified within Level 2 of the fair value hierarchy. The significant inputs include the yield and expected maturity date.

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

	2018			
	Level 1	Level 2	Level 3	Total Assets at Fair Value
Equity mutual funds	$4,495,415	$ -	$ -	$4,495,415
Debt securities				
U.S. government obligations	-	10,986,630	-	10,986,630
Corporate bonds	-	16,371,562	-	16,371,562
Mortgage-backed securities	-	5,971,718	-	5,971,718
Total assets at fair value	$4,495,415	$33,329,910	$ -	$37,825,325

	2017			
	Level 1	Level 2	Level 3	Total Assets at Fair Value
Equity mutual funds	$4,815,529	$ -	$ -	$4,815,529
Fixed income mutual funds	45,753	-	-	45,753
Debt securities				
U.S. government obligations	-	5,986,883	-	5,986,883
Corporate bonds	-	23,051,258	-	23,051,258
Mortgage-backed securities	-	4,340,765	-	4,340,765
Total assets at fair value	$4,861,282	$33,378,906	$ -	$38,240,188

Reconciliation of the fair value hierarchy tables to the consolidated financial statements is as follows:

	2018	2017
Investments	$ 37,582,725	$ 37,704,233
Deferred compensation plan assets	242,600	535,955
Totals	$ 37,825,325	$ 38,240,188

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2018	2017
Leasehold improvements	$ 1,608,386	$ 1,580,238
Furniture and equipment	7,468,925	7,258,168
Vehicles	27,706	27,706
Total property and equipment	9,105,017	8,866,112
Less - Accumulated depreciation	6,913,651	6,036,400
Net depreciated value	2,191,366	2,829,712
Assets not placed in service	-	94,218
Property and equipment - net	$ 2,191,366	$ 2,923,930

Assets not placed in service consist of software costs and computer equipment. Depreciation expense for the years ended December 31, 2018 and 2017, was $1,057,927 and $1,158,860, respectively.

NOTE G - 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). The line of credit expires on July 20, 2019. There were no amounts outstanding under this line of credit at December 31, 2018 and 2017.

NOTE H - OPERATING LEASES

The Company leases certain equipment and facilities (other than the administrative building) under leases classified as operating leases. These leases have terms ranging from month-to-month to 10 years, expiring in various years through 2020.

Care Wisconsin also leases an administrative building under a twelve year operating lease, which expires in 2027. No rent was due for the first 18 months, then base rent started at $34,116 monthly with increases in base rent throughout the remaining term of the lease. Deferred rent of $471,311 and $602,081 is recorded as a long-term liability in the accompanying consolidated balance sheets at December 31, 2018 and 2017, respectively, related to this lease.

Future minimum lease payments, by year and in the aggregate, under noncancelable lease agreements consisted of the following at December 31, 2018

2019	$ 1,647,515
2020	1,106,138
2021	766,716
2022	698,328
2023	699,993
Thereafter	1,869,052
Total minimum lease payments	$ 6,787,742

Total rental expense was approximately $1,826,000 and $1,776,000 in 2018 and 2017, respectively.

NOTE I - ACCRUED MEMBER SERVICES

The following table provides a reconciliation of the beginning and ending balances of accrued member services at December 31:

	2018	2017
Accrued member services at beginning	$ 41,785,975	$ 38,869,977
Incurred related to		
Current period	470,777,447	359,344,955
Prior periods	(3,361,658)	3,305,747
Total incurred	467,415,789	362,650,702
Paid related to		
Current period	421,316,503	324,093,518
Prior periods	38,496,060	35,641,186
Total paid	459,812,563	359,734,704
Accrued member services at end	$ 49,389,201	$ 41,785,975

The following tables provide information about incurred and paid claims development as of December 31, 2018, as well as cumulative claims frequency and the total of accrued member services. The cumulative claim frequency is measured by claim event, and includes claims covered under capitated arrangements. The benefit period is the calendar year.

Incurred claims and allocated claims adjustment expenses			
Benefit period	2017	2018	Total reported and estimated accrued member services
2017	$366,928,062	$363,510,981	$32,365
2018		472,721,091	49,356,836

Cumulative paid claims and allocated claims adjustment expenses		
Benefit period	2017	2018
2017	$325,093,011	$363,478,616
2018		423,364,255

The following table presents a reconciliation of claims development to the aggregate carrying amount of the liability for reported and estimated accrued member services.

	2018
Incurred claims and allocated claims adjustment expenses	$836,232,072
Less cumulative paid claims and allocated claims adjustment expenses	(786,842,871)
Reported and estimated accrued member services	$49,389,201

NOTE J - REGULATORY REQUIREMENTS

DHS requires the Company to maintain restricted and solvency reserves under the Family Care contract. The required minimum balance for these reserves was approximately $4,107,000 and $5,136,000 at December 31, 2018 and 2017, respectively. The balance in the reserves were approximately $4,121,000 and $5,146,000 as of December 31, 2018 and 2017, respectively, and are included in assets limited as to use in the accompanying consolidated balance sheets. The Company has met all requirements as of December 31, 2017, but as of December 31, 2018, the Company is out of compliance with the working capital requirement of the DHS contract for the Managed Medicaid Program. The Company has submitted a plan for restoring the working capital balances to DHS, as well as the Office of the Commissioner of Insurance of the State of Wisconsin (OCI) and continues to have ongoing conversations with DHS and OCI to monitor progress on reaching these liquidity levels. Additionally, management continues to evaluate its contracted rates and control expenses to reach the required level of liquidity.

HMOs must comply with the minimum capital rules established by OCI. These rules specify a minimum amount of net worth required based on a determinable percentage of subscriber premiums. The Health Plan is also required to maintain a compulsory and security surplus as determined in accordance with accounting practices prescribed or permitted by OCI. In addition, the Health Plan is subject to risk-based capital (RBC) requirements promulgated by the National Association of Insurance Commissioners. The RBC requirements establish minimum levels of capital and surplus based on the operations and risks of the Health Plan. As of December 31, 2018 and 2017, management believes the Health Plan has met the minimum net worth, compulsory and surplus, and RBC requirements.

NOTE K - REINSURANCE

The Health Plan entered into a stop-loss insurance agreement with an insurance company to limit its losses on inpatient hospital services. Generally, under the terms of this agreement, the insurance company will reimburse the Health Plan 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 or $2,000 per participant, depending on the type of covered service. Stop-loss insurance premiums were approximately $525,000 and $414,000 in 2018 and 2017, respectively, included in supporting services – administrative, and there were approximately $19,000 and $0 of stop-loss insurance recoveries in 2018 and 2017, respectively, included in other revenue, gains and losses, net in the accompanying consolidated statements of operations and changes in net assets.

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

NOTE L - SELF-INSURED PLANS

The Company is self-insured for its employees' health and dental care. The claims under these plans are accrued as the incidents that give rise to them occur. Unpaid claim accruals are based on the estimated ultimate cost of the claims, including claims administration expenses. The Company has entered into a reinsurance agreement to limit losses on claims for health insurance up to $75,000 per claim. A liability for the claims unpaid, including incurred but not reported claims, under these self-insured plans was $1,060,000 at December 31, 2018 and $746,000 at December 31, 2017, and is included in accrued salaries and benefits in the accompanying consolidated balance sheets.

NOTE M - TAXES

The Health Plan is subject to Wisconsin income taxes. The provision for current state income taxes was $261,031 and $661,868 in 2018 and 2017, respectively. Deferred income tax assets and liabilities consisted of the following at December 31:

	2018	2017
Current deferred income tax assets (liabilities)		
Allowance for doubtful accounts	$ 20,000	$ 21,000
Discounted unpaid losses	20,000	8,000
Unrealized losses (gains) on investments	56,000	(22,000)
Prepaid pharmacy	(62,000)	-
Premium deficiency reserve	91,000	43,000
Current deferred income tax assets	$ 125,000	$ 50,000

NOTE N - RETIREMENT PLAN

Substantially all employees of the Company are eligible to participate in a 401(k) salary reduction retirement plan. Under the provisions of the plan, the Company makes a matching contribution equal to 50% of each participant's contribution, with a maximum contribution of 3% of each employee's compensation. The Company's retirement plan expense was approximately $949,000 and $933,000 for the years ended December 31, 2018 and 2017, respectively.

NOTE O - DEFERRED COMPENSATION

Care Wisconsin has deferred compensation plans under Section 457(b) and Section 457(f) of the Code. The 457(b) plan is intended primarily for certain key employees to defer compensation until retirement or termination of employment, whichever is sooner. The 457(f) plan requires Care Wisconsin to fund an amount equal to $25,000 per year, less any amounts contributed by Care Wisconsin under the 457(b) plan, through 2017. The 456(f) plan allows Care Wisconsin to make additional payments to the account at its discretion, with Board of Directors' approval. The 457(f) plan was closed and paid out to the key employee in 2017 upon the plan's maturity. Care Wisconsin made contributions totaling $25,000 in 2017 to the 457(f) plan. No contributions to the plan were made in 2018. At December 31, 2018 and 2017, deferred compensation plan assets totaled $242,600 and $535,955, respectively, and the deferred compensation plan liability totaled $242,600 and $535,955, respectively.

NOTE P - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to credit risk consist principally of accounts receivable, cash deposits in excess of insured limits in financial institutions, and investments which are uninsured.

The Company maintains depository relationships with an area financial institution. Cash held by the financial institution in excess of federally insured limits is uninsured. Management believes this financial institution has a strong credit rating and that credit risk related to these deposits is minimal.

NOTE Q - MALPRACTICE INSURANCE

The Company has professional liability insurance for claims losses up to $1,000,000 per claim and $3,000,000 per year to cover professional liability claims incurred during a policy year regardless of when claims are reported (occurrence coverage). The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the Company for the annual period through June 1, 2020.

NOTE R - 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. The first and most significant risk the Company faces is the loss of capitation payments under the Medicare and Medicaid programs. On an annual basis, DHS sets the capitation rates of the Family Care, Partnership and SSI programs. DHS contracts with an independent actuary to arrive at an appropriate capitated rate based on claims history experience and the member's acuity. Other factors and circumstances that can affect the Company's operating results 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 in 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 S - FUNCTIONAL EXPENSES

Expenses incurred by the Company were as follows for the year ended December 31, 2017:

Partnership	$ 102,032,005
SSI	13,939,219
Family Care	285,919,710
DSNP	1,387,712
Total program expenses	403,278,646
Administrative expenses	19,646,804
Total expenses	$ 422,925,450

NOTE T - LIQUIDITY AND AVAILABILITY

To meet cash needs for general expenditures, the Company has net current financial assets, available within one year of the financial statement date, consisting of the following as of December 31, 2018:

	Care Wisconsin First, Inc.	Care Wisconsin Health Plan, Inc.	Consolidated
Cash and cash equivalents	$19,145,509	$30,699,524	$49,845,033
Health care receivables, net	12,680,731	2,593,222	15,273,953
Investments	11,996,305	25,586,420	37,582,725
	$ 43,822,545	$ 58,879,166	$102,701,711

Overall cash and investment amounts and performance are reviewed annually by the Finance and Investment Committee of the Board of Directors. As more fully described in note G, the Company also has availability under the line of credit of $4,000,000 should an unanticipated liquidity need be identified.

NOTE U - 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 subsequent events which would require recognition or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

Care Wisconsin First, Inc. and Affiliate
CONSOLIDATING BALANCE SHEET
December 31, 2018

ASSETS	Care Wisconsin First, Inc.	Care Wisconsin Health Plan, Inc.	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	$ 19,145,509	$ 30,699,524	$ -	$ 49,845,033
Health care receivables - net	13,012,315	2,593,222	(331,584)	15,273,953
Investments	11,996,305	25,586,420	-	37,582,725
Prepaid expenses and other	1,673,623	845,734	-	2,519,357
Deferred income taxes		125,000	-	125,000
Total current assets	45,827,752	59,849,900	(331,584)	105,346,068
ASSETS LIMITED AS TO USE	6,109,221	-	-	6,109,221
DEFERRED COMPENSATION PLAN ASSETS	242,600	-	-	242,600
PROPERTY AND EQUIPMENT - NET	2,191,366	-	-	2,191,366
OTHER ASSETS	72,591	-	-	72,591
TOTAL ASSETS	$ 54,443,530	$ 59,849,900	$ (331,584)	$ 113,961,846
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Intercompany accounts payable	$ -	$ 331,584	$ (331,584)	$ -
Accounts payable	4,155,344	5,234,987	-	9,390,331
Income tax payable	-	86,071	-	86,071
Accrued member services	34,048,827	15,340,374	-	49,389,201
Accrued salaries and benefits	3,146,626	-	-	3,146,626
Unearned revenue	143,433	26,733	-	170,166
Premium deficiency reserve	17,548,951	3,928,660	-	21,477,611
Total current liabilities	59,043,181	24,948,409	(331,584)	83,660,006
LONG-TERM LIABILITIES				
Deferred compensation plan liability	242,600	-	-	242,600
Deferred rent	471,311	-	-	471,311
Total long-term liabilities	713,911	-	-	713,911
Total liabilities	59,757,092	24,948,409	(331,584)	84,373,917
NET ASSETS - WITHOUT DONOR RESTRICTION	(5,313,562)	34,901,491	-	29,587,929
TOTAL LIABILITIES AND NET ASSETS	$ 54,443,530	$ 59,849,900	$ (331,584)	$ 113,961,846

Care Wisconsin First, Inc. and Affiliate
CONSOLIDATING BALANCE SHEET
December 31, 2017

ASSETS	Care Wisconsin First, Inc.	Care Wisconsin Health Plan, Inc.	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	$ 38,713,745	$ 23,940,534	$ -	$ 62,654,279
Health care receivables - Net	4,911,453	2,325,282	(430,276)	6,806,459
Investments	12,002,762	25,701,471	-	37,704,233
Prepaid expenses and other	1,403,877	660,138	-	2,064,015
Deferred income taxes	-	50,000	-	50,000
Total current assets	57,031,837	52,677,425	(430,276)	109,278,986
ASSETS LIMITED AS TO USE	5,146,325	-	-	5,146,325
DEFERRED COMPENSATION PLAN ASSETS	535,955	-	-	535,955
PROPERTY AND EQUIPMENT - NET	2,923,930	-	-	2,923,930
OTHER ASSETS	119,442	-	-	119,442
TOTAL ASSETS	$ 65,757,489	$ 52,677,425	$ (430,276)	$ 118,004,638
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Intercompany accounts payable	$ -	$ 430,276	$ (430,276)	$ -
Accounts payable	1,417,082	3,330,784	-	4,747,866
Income tax payable	-	3,500	-	3,500
Accrued member services	29,239,851	12,546,124	-	41,785,975
Accrued salaries and benefits	2,757,053	-	-	2,757,053
Unearned revenue	83,376	20,246	-	103,622
Premium deficiency reserve	-	546,520	-	546,520
Total current liabilities	33,497,362	16,877,450	(430,276)	49,944,536
LONG-TERM LIABILITIES				
Deferred compensation plan liability	535,955	-	-	535,955
Deferred rent	602,081	-	-	602,081
Total long-term liabilities	1,138,036	-	-	1,138,036
Total liabilities	34,635,398	16,877,450	(430,276)	51,082,572
NET ASSETS - WITHOUT DONOR RESTRICTION	31,122,091	35,799,975	-	66,922,066
TOTAL LIABILITIES AND NET ASSETS	$ 65,757,489	$ 52,677,425	$ (430,276)	$ 118,004,638

Care Wisconsin First, Inc. and Affiliate
CONSOLIDATING STATEMENT OF OPERATIONS
Year ended December 31, 2018

	Care Wisconsin First, Inc.	Care Wisconsin Health Plan, Inc.	Eliminations	Total
Operating activities				
REVENUE				
Care Wisconsin Health Plan contract	$ 21,187,220	$ -	$ (21,187,220)	$ -
Medicaid premiums	321,080,742	91,060,350	-	412,141,092
Medicare premiums	-	45,421,584	-	45,421,584
Medicare Part D	-	10,703,394	-	10,703,394
Member cost share	11,102,994	2,557,072	-	13,660,066
Room and board	29,480,538	4,966,931	-	34,447,469
Other third-party payor	111,801	-	-	111,801
Total revenue	382,963,295	154,709,331	(21,187,220)	516,485,406
EXPENSES				
Member services				
Long-term care	334,504,601	74,593,086	-	409,097,687
Acute and primary care	-	58,318,102	-	58,318,102
Total member services	334,504,601	132,911,188	-	467,415,789
Care management services	47,507,417	13,293,569	(13,293,570)	47,507,416
Supporting services - administrative	20,527,865	10,131,666	(7,893,650)	22,765,881
Premium deficiency reserve	17,548,951	3,382,140	-	20,931,091
Total expenses	420,088,834	159,718,563	(21,187,220)	558,620,177
Change in net assets before taxes and non-operating activities	(37,125,539)	(5,009,232)	-	(42,134,771)
Provision for state income taxes				
Current expense	-	261,031	-	261,031
Deferred benefit	-	(75,000)	-	(75,000)
Total provision for state income taxes	-	186,031	-	186,031
Change in net assets before non-operating activities	(37,125,539)	(5,195,263)	-	(42,320,802)
Non-operating activities				
Investment return, net	252,950	197,731	-	450,681
Other revenue, gains and losses, net	436,937	4,099,047	-	4,535,984
CHANGE IN NET ASSETS	$ (36,435,652)	$ (898,485)	$ -	$ (37,334,137)

Care Wisconsin First, Inc. and Affiliate
CONSOLIDATING STATEMENT OF OPERATIONS
Year ended December 31, 2017

	Care Wisconsin First, Inc.	Care Wisconsin Health Plan, Inc.	Eliminations	Total
Operating activities				
REVENUE				
Care Wisconsin Health Plan contract	$ 18,279,443	$ -	$ (18,279,443)	$ -
Medicaid premiums	270,746,179	78,616,492	-	349,362,671
Medicare premiums	-	37,668,439	-	37,668,439
Medicare Part D	-	10,852,614	-	10,852,614
Member cost share	9,431,733	1,974,782	-	11,406,515
Room and board	24,107,270	3,549,098	-	27,656,368
Other third-party payor	93,351	-	-	93,351
Total revenue	322,657,976	132,661,425	(18,279,443)	437,039,958
EXPENSES				
Member services				
Long-term care	257,273,443	58,281,509	-	315,554,952
Acute and primary care	-	47,095,750	-	47,095,750
Total member services	257,273,443	105,377,259	-	362,650,702
Care management services	40,081,424	11,435,157	(11,435,157)	40,081,424
Supporting services - administrative	17,855,703	8,635,387	(6,844,286)	19,646,804
Premium deficiency reserve	-	546,520	-	546,520
Total expenses	315,210,570	125,994,323	(18,279,443)	422,925,450
Change in net assets before taxes and non-operating activities	7,447,406	6,667,102	-	14,114,508
Provision for state income taxes				
Current expense	-	661,868	-	661,868
Deferred benefit	-	(57,000)	-	(57,000)
Total provision for state income taxes	-	604,868	-	604,868
Change in net assets before non-operating activities	7,447,406	6,062,234	-	13,509,640
Nonoperating activities				
Investment return, net	480,374	1,025,937		1,506,311
Other revenue, gains and losses, net	39,255	(23,127)	-	16,128
CHANGE IN NET ASSETS	$ 7,967,035	$ 7,065,044	$ -	$ 15,032,079

Care Wisconsin First, Inc.
COMBINING STATEMENT OF REVENUE AND EXPENSES - GAAP BASIS
Year ended December 31, 2018

	Partnership Program	SSI Program	DSNP	Total Care Wisconsin Health Plan, Inc.	Family Care Program	Total Care Wisconsin First, Inc.
REVENUE						
Care Wisconsin Health Plan contract	$ -	$ -	$ -	$ -	$ 21,187,220	$ 21,187,220
Medicaid premiums	72,502,141	18,558,209	-	91,060,350	321,080,742	321,080,742
Medicare premiums	38,873,756	-	6,547,828	45,421,584	-	-
Medicare Part D	10,244,205	-	459,188	10,703,393	-	-
Member cost share	2,557,072	-	-	2,557,072	11,102,994	11,102,994
Room and board	4,966,931	-	-	4,966,931	29,480,538	29,480,538
Other third-party payor	-	-	-	-	111,801	111,801
Total revenue	129,144,105	18,558,209	7,007,016	154,709,330	382,963,295	382,963,295
EXPENSES						
Member services						
Long-term care	67,040,688	6,593,430	958,968	74,593,086	334,504,601	334,504,601
Acute and primary care	44,747,061	8,415,371	5,155,669	58,318,101	-	-
Total member services	111,787,749	15,008,801	6,114,637	132,911,187	334,504,601	334,504,601
Care management services	11,841,489	959,601	492,479	13,293,569	47,507,417	47,507,417
Supporting services - administrative	8,009,920	1,196,928	924,819	10,131,667	20,527,865	20,527,865
Premium deficiency reserve	1,844,411	-	1,537,728	3,382,139	17,548,951	17,548,951
Total expenses	133,483,569	17,165,330	9,069,663	159,718,562	420,088,834	420,088,834
Change in net assets before taxes and non-operating activities	(4,339,464)	1,392,879	(2,062,647)	(5,009,232)	(37,125,539)	(37,125,539)
Provision for state income taxes						
Current expense	174,621	86,410	-	261,031	-	-
Deferred benefit	-	-	(75,000)	(75,000)	-	-
Total provision for state income taxes	174,621	86,410	(75,000)	186,031	-	-
Change in net assets before non-operating activities	(4,514,085)	1,306,469	(1,987,647)	(5,195,263)	(37,125,539)	(37,125,539)
Non-operating activities						
Investment return, net	$ 197,731	$ -	$ -	197,731	252,950	252,950
Other revenue, gains and losses, net	4,099,047	-	-	4,099,047	436,937	436,937
CHANGE IN NET ASSETS	$ (217,307)	$ 1,306,469	$ (1,987,647)	$ (898,485)	$ (36,435,652)	$ (36,435,652)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Care Wisconsin First, Inc. and Affiliate

We have audited, 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, the consolidated financial statements of Care Wisconsin First, Inc. and Affiliate (the "Entity"), which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 17, 2019.

Internal control over financial reporting
In planning and performing our audit of the consolidated financial statements, we considered the Entity's internal control over financial reporting ("internal control") to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be material weaknesses in the Entity's internal control.

Compliance and other matters
As part of obtaining reasonable assurance about whether the Entity's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

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compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Entity's response to findings

The Entity's response to our findings, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on the Entity's response.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Appleton, Wisconsin
June 17, 2019

Care Wisconsin First, Inc. and Affiliate
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2018

SECTION I - INDEPENDENT AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued?	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	Yes
b. Significant deficiency(ies) identified?	None Reported
3. Noncompliance material to the financial statements noted?	No

SECTION II - Financial Statement Findings

Financial Statement Finding 2018-001: The premium deficiency reserve was insufficient at year-end.

Criteria or specific requirement: A premium deficiency reserve should be recorded for all lines of business where the unearned premiums are expected to be insufficient to meet future claims and expenses in the upcoming year in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition: The Company utilized their third quarter 2018 budget to assess the premium deficiency reserve initially. The Company did not revisit the budgets used to determine this reserve at year-end after experiencing unfavorable claims development during the fourth quarter.

Context: Premium deficiency reserve was not accurate.

Cause: The misstatement was the result of specific controls not being designed and implemented to ensure technical accounting analyses, specifically related to the premium deficiency reserve, were completed, subsequently updated (if necessary) and reviewed in a timely manner.

Effect: Once the issue related to the premium deficiency reserve was identified, the Company re-assessed the premium deficiency reserve for all lines of business as of year-end with the assistance of their external actuary. As a result, the Company recorded an approximate $20,000,000 increase to their premium deficiency reserve.

Recommendation: We recommend that there be more regular and timely monitoring of the premium deficiency reserve.

Views of responsible officials and planned corrective actions: The Company will update the Financial Reporting Policy (FIN018) to include a section on a Premium Deficiency Reserves (PDR) calculation. The policy will describe the process of using the business plan fiscal document prepared in the fall for the following fiscal year, along with year-end results to determine necessity and amount of the PDR. In March, the PDR will be subsequently reviewed based on current year results to determine if any adjustments are needed to the previously calculated reserve.

Responsible parties and completion date: Controller, July 2019

SECTION III - Federal and State Award Findings and Questioned Costs

No matters were reported.

SECTION IV - Other Issues

1.	Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern?	No
2.	Does the audit report show audit issues (i.e., material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the Family Care Audit Guide?	
	Department of Health Services	No
3.	Was a management letter or other document conveying audit comments issued as a result of this audit?	Yes
4.	Name and signature of partner	Amy Henselin
5.	Date of report	June 17, 2019