

Financial Statements and Supplementary Information - Statutory Basis

Wisconsin Collaborative Insurance Company

Year Ended December 31, 2018

With Reports of Independent Auditors

Wisconsin Collaborative Insurance Company

Financial Statements and Supplementary Information - Statutory Basis

Year Ended December 31, 2018

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Report of Independent Auditors

Board of Directors
Wisconsin Collaborative Insurance Company

We have audited the accompanying statutory basis financial statements of Wisconsin Collaborative Insurance Company (the Company), which comprise the balance sheet as of December 31, 2018, and the related statements of operations, changes in capital and surplus and cash flow 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 financial statements in conformity with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin. Management also is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the statutory basis financial statements, the Company prepared these financial statements using 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 U.S. generally accepted accounting principles. The effects on the financial statements of the variances between these statutory accounting practices and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the statutory basis financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of the Company at December 31, 2018, or the results of its operations or its cash flows for the year then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2018, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Ernst & Young LLP

April 25, 2019

Wisconsin Collaborative Insurance Company

Balance Sheet - Statutory Basis

	December 31
	2018
	<i>(In Thousands)</i>
Admitted assets	
Cash and invested assets:	
Cash, cash equivalents and short-term investments	\$ 15,686
Total cash and invested assets	<u>15,686</u>
Premiums receivable	534
Amounts recoverable from reinsurers	960
Amounts receivable relating to uninsured plans	8,507
Health care and other receivables	704
Total admitted assets	<u><u>\$ 26,391</u></u>
Liabilities and capital and surplus	
Liabilities:	
Unpaid claims and claims adjustment expenses	\$ 5,612
Premiums received in advance	299
Accounts payable and accrued expenses	192
Payable to affiliates	3,213
Remittances and items not allocated	72
Liability for amounts held under uninsured plans	642
Other liabilities	26
Total liabilities	<u>10,056</u>
Capital and surplus:	
Common stock, \$1 par value, 40,000,000 shares authorized, 3,000,000 issued and outstanding	3,000
Additional paid-in surplus	29,646
Unassigned surplus (deficit)	(16,311)
Total capital and surplus	<u>16,335</u>
Total liabilities and capital and surplus	<u><u>\$ 26,391</u></u>

See accompanying notes.

Wisconsin Collaborative Insurance Company

Statement of Operations - Statutory Basis

	Year Ended December 31 2018
	<i>(In Thousands)</i>
Premium income	\$ 43,724
Benefits and expenses:	
Claims and claims adjustment expenses	42,035
Operating expenses	1,636
Total benefits and expenses	<u>43,671</u>
Net underwriting gain (loss)	53
Income (loss) before federal income taxes	53
Federal income taxes (benefits)	—
Net income (loss)	<u>\$ 53</u>

See accompanying notes.

Wisconsin Collaborative Insurance Company

Statement of Changes in Capital and Surplus - Statutory Basis

	<u>Common Stock</u>	<u>Additional Paid-in Surplus</u>	<u>Unassigned Surplus (Deficit)</u>	<u>Total Capital and Surplus</u>
	<i>(In Thousands)</i>			
Balance as of January 1, 2018	\$ 3,000	\$ 17,201	\$ (10,941)	\$ 9,260
Net income (loss)	—	—	53	53
Change in nonadmitted assets	—	—	(5,423)	(5,423)
Capital contributions from parent	—	12,445	—	12,445
Balance as of December 31, 2018	<u>\$ 3,000</u>	<u>\$ 29,646</u>	<u>\$ (16,311)</u>	<u>\$ 16,335</u>

See accompanying notes.

Wisconsin Collaborative Insurance Company

Statement of Cash Flow - Statutory Basis

	Year Ended December 31 2018
	<i>(In Thousands)</i>
Operating activities:	
Premiums collected	\$ 43,474
Claims and claims adjustment expenses paid	(38,185)
General administrative and miscellaneous expenses paid	(1,001)
Net cash provided by (used in) operating activities	<u>4,288</u>
Financing or miscellaneous activities:	
Capital contributions from parent	12,445
Net transfers from (to) affiliates	(4,705)
Other	(5,701)
Net cash provided by (used in) financing or miscellaneous activities	<u>2,039</u>
Change in cash, cash equivalents and short-term investments	6,327
Cash, cash equivalents and short-term investments at beginning of year	9,359
Cash, cash equivalents and short-term investments at end of year	<u>\$ 15,686</u>

See accompanying notes.

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis

(Dollars In Thousands)

December 31, 2018

1. Nature of Operations and Significant Accounting Policies

Wisconsin Collaborative Insurance Company (the “Company”) is a Wisconsin domiciled stock insurance company that markets and underwrites hospitalization, surgical and medical, major medical, and prescription drugs for group accounts in the State of Wisconsin. The Company is licensed to write business in Wisconsin as a health company and also provides administrative services for certain other health plans. The Company operates as a licensee of the Blue Cross and Blue Shield Association (“BCBSA”). The Company is owned 50% by Crossroads Acquisition Corp. (“Crossroads”), an indirect wholly-owned subsidiary of Anthem, Inc. (“Anthem”), a publicly traded company, and 50% by Advocate Aurora Health, Inc. (“Advocate”), a Wisconsin non-stock not-for-profit corporation with hospitals, medical clinics, doctors and pharmacies located primarily in Wisconsin and Illinois.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin (“OCI”). The OCI has adopted the accounting policies found in the National Association of Insurance Commissioners’ (“NAIC”) *Accounting Practices and Procedures Manual* (“NAIC SAP”) as a component of prescribed accounting practices. Additionally, the OCI has adopted certain prescribed accounting practices that differ from those found in NAIC SAP, which impact the Company; specifically, the nonadmission of receivables from affiliates. The OCI has the right to permit other specific practices that deviate from prescribed practices. The Company employed no permitted practices in preparing the accompanying statutory basis financial statements.

For the year ended December 31, 2018, there are no differences between the Company’s capital and surplus and net income under NAIC SAP and practices prescribed by the OCI.

Various Statutory accounting principles differ from U.S. generally accepted accounting principles (“GAAP”). The more significant differences from GAAP, applicable to the Company, are as follows:

Premiums receivable: Premiums receivable are recorded at the billed amount and reduced by any amounts not deemed collectible. Generally amounts aged ninety days and older are nonadmitted assets, with the exception of government receivables. For GAAP, these amounts are recorded at the billed amount and are reported net of a valuation allowance based upon historical collection trends and management’s judgment on the collectability of these accounts.

Nonadmitted assets: Certain assets designated as nonadmitted, including prepaid expenses, intangible assets other than goodwill, certain health care and other receivable balances, and

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

certain premium receivable balances are excluded from the balance sheets by a direct charge to capital and surplus. These nonadmitted assets totaled \$8,081 at December 31, 2018. For GAAP, these amounts are carried as assets, net of a valuation allowance, if necessary.

Deferred income taxes: Statutory deferred tax assets (“DTA”) are limited to an amount equal to the sum of: (1) federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year; (2) depending on the Company’s Authorized Control Level (“ACL”) Risk Based Capital (“RBC”) ratio exclusive of the DTA, the lesser of (a) the amount of gross DTAs expected to be realized within three years after the application of (1) or 15% of surplus, if the ratio is greater than 300%, (b) the amount of gross DTAs expected to be realized within one year after the application of (1) or 10% of surplus, if the ratio is between 200 – 300%, or (c) if the ratio is below 200%, no DTA can be realized; (3) the amount of gross DTAs, after the application of (1) and (2), that can be offset against gross deferred tax liabilities (“DTL”). DTAs in excess of these limitations are nonadmitted.

Deferred taxes do not include amounts for state taxes. Changes in DTAs and DTLs are recognized as a separate component of gains and losses in surplus (“Change in net deferred income tax”). For GAAP, state income taxes are considered in the computation of deferred taxes, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets estimated to be unrealizable. Excluding the tax impact of unrealized investment gains and losses and certain other items, the change in deferred income taxes is recorded in the statements of operations.

Statements of cash flow: Cash, cash equivalents and short-term investments in the statements of cash flow represent cash balances, and investments with initial maturities of less than one year and more than three months at the date of acquisition. If in the aggregate the Company has a negative cash balance, it is reported as a negative asset and not as a liability. For GAAP, the corresponding captions of cash and cash equivalents include cash balances and investments with initial maturities of three months or less. Short-term investments are reported separately and negative cash balances are also reported separately as liabilities.

Uninsured accident and health plans: The Company provides administrative services to various customers on an uninsured basis. Under these arrangements, the customer retains the risk of funding payments for health benefits provided, and the Company may be subject to credit risk of the customer from the time of the Company’s claim payment until the Company receives the claim reimbursement. In accordance with SSAP No. 47, *Uninsured Plans*, these claim payments and subsequent reimbursements are excluded from the Company’s statutory basis statements

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

of operations, and administrative fees earned are deducted from general insurance expenses. For GAAP, these administrative fees are reported as revenue in the statements of operations.

Reinsurance: Any reinsurance balance amounts deemed to be uncollectible have been written off through a charge to operations. Policy and contract liabilities ceded to reinsurers have been reported as reductions of the related reserves rather than as assets as would be required under GAAP.

The effects of the foregoing variances from GAAP on the accompanying statutory basis financial statements have not been determined but are presumed to be material.

Other significant accounting policies are as follows:

Use of Estimates

Preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Health Care Receivables

Health care receivables represent amounts related to pharmacy rebate receivables and other health care related receivables other than premiums. Pharmacy rebate receivables are recorded when earned based upon actual rebate receivables and an estimate of receivables based upon current utilization of specific pharmaceuticals and provider contract terms. These health care receivables are subject to various admittance tests based on the nature of the receivable balance.

Other Intangible Assets

Intangible assets are fully nonadmitted and amortized using the straight-line method over ten years. Intangible asset accumulated amortization was \$1,708 in 2018.

Unpaid Claims and Claims Adjustment Expenses

Unpaid claims and claims adjustment expenses include management's best estimate of amounts based on historical claim development patterns and certain individual case estimates. The established liability considers health benefit provisions, business practices, economic conditions and other factors that may materially affect the cost, frequency and severity of claims. Reserves for unpaid claims and claims adjustment expenses are based on assumptions and estimates, and

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

while management believes such estimates are reasonable, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and changes in estimates are incorporated into current operating results.

There were no significant changes in methodologies and assumptions used in calculating the liability for unpaid claims and claims adjustment expenses.

Provider Risk Share and Other Reserves

The Company contracts with physicians or provider groups to provide medical services to the Company's members. The Company pays capitation or negotiated fees for defined services provided by the physicians. Under the terms of these agreements, certain providers are eligible to receive provider incentives based on qualitative and quantitative factors. Estimated risk-sharing settlements are continually reviewed, and necessary adjustments are included in current operations. Claims and claims adjustment expenses include all amounts incurred by the Company under these arrangements.

Premium Deficiency Reserves

Premium deficiency reserves are established for the amount of the anticipated claims and claims adjustment expenses that have not been previously expensed in excess of the recorded unearned premium reserve and future premiums on existing policies. The Company does not use anticipated investment income as a factor in the premium deficiency reserve calculation. The Company did not record premium deficiency reserves as of December 31, 2018.

Premiums

Premiums are earned over the term of the related insurance policies and reinsurance contracts. Unearned premium reserves, included in aggregate policy reserves, are established to cover the unexpired portion of premiums written and collected, and are computed by pro rata methods for direct business and based on reports received from ceding companies for reinsurance assumed. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred. The premiums paid by policyholders prior to the effective date is recorded in the balance sheets as premiums received in advance and subsequently recorded to income as earned during the coverage period. Premium rates for certain lines of business are subject to approval by the OCI.

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

At December 31, 2018, the Company reported admitted assets of \$9,041 in premiums receivable and amounts receivable relating to uninsured plans. Based upon Company experience, any uncollectible receivables are not expected to exceed \$127 that was nonadmitted at December 31, 2018; therefore, no additional provision for uncollectible amounts has been recorded. The potential for any additional loss is not believed to be material to the Company's financial condition.

Reinsurance

Reinsurance premiums, claims and claims adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Retrospectively Rated Contracts

The Company sells policies where premiums vary based on loss experience or premium stabilization programs. Premium revenue includes an adjustment for retrospectively rated refunds based on an estimate of incurred claims. Accrued retrospective premiums are reported in premiums receivable. Reserves for rate credits or policy rating refunds are reported in aggregate policy reserves.

Medical loss ratio ("MLR") rebates per the Affordable Care Act ("ACA") are reported in accordance with SSAP No. 66, *Retrospectively Rated Contracts*. A retrospectively rated contract is one that has the final policy premium calculated based on the loss experience of the insured during the term of the policy (including loss development after the term of the policy) and the stipulated formula set forth in the policy, or in the case of MLR rebates, pursuant to the *Public Health Services Act*, a formula required by law. The Company uses estimates to report in the statutory basis financial statements the aggregate policy reserve amounts for retrospectively rated contracts based on its underwriting experience, actuarial, tax, and accounting estimates and assumptions at the financial statement date and regulations and guidance available that is subject to change prior to settlement. Accordingly, the Company's use of estimates and assumptions in the preparation of the statutory basis financial statements and related footnote disclosures may differ from actual results.

The amount of net premiums written by the Company for the year ended December 31, 2018 that were subject to retrospective rating features, including MLR rebate regulations, was \$43,724, which represented 100.0% of the total net premiums written.

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

Federal Income Taxes

The Company's Federal Income Tax return is a separate filing. The Company is owned 50% by two unrelated entities and is not includable in either consolidated return. Thus, no tax sharing agreement is in place for federal income taxes.

2. Unpaid Claims and Claims Adjustment Expenses

The following table provides a reconciliation of the beginning and ending balances for unpaid claims and claims adjustment expenses:

	<u>2018</u>
Balances at January 1	\$ —
Incurred (redundancies) related to:	
Current year	42,035
Prior years	—
Total incurred	<u>42,035</u>
Paid related to:	
Current year	36,423
Prior years	—
Total paid	<u>36,423</u>
Balances at December 31	<u><u>\$ 5,612</u></u>

The Company took into account estimated anticipated subrogation and other recoveries in its determination of the liability for unpaid claims based on historical recovery patterns.

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

3. Reinsurance

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. These reinsurance agreements limit the Company's exposure to losses within its capital resources. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

The effects of reinsurance on net premiums considerations are as follows:

	Year ended December 31 2018
Direct premiums	\$ 44,088
Ceded premiums	(364)
Net premiums	<u>\$ 43,724</u>

The Company's ceded reinsurance arrangements reduced claims and claims adjustment expenses in the accompanying financial statements as follows:

	Year ended December 31 2018
Direct claims and claims adjustment expenses	\$ 43,471
Ceded claims and claims adjustment expenses	(1,436)
Net claims and claims adjustment expenses	<u>\$ 42,035</u>

4. ACA Medical Loss Ratio Rebates

The Company had no medical loss ratio rebates accrued pursuant to the *Public Health Service Act* as of December 31, 2018.

5. Federal Income Taxes

The Company has no current federal income tax recoverable (payable) as of December 31, 2018.

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

The components of net deferred tax assets (liabilities) at December 31 are as follows:

	2018		
	Ordinary	Capital	Total
Gross deferred tax assets	\$ 3,425	\$ —	\$ 3,425
Statutory valuation allowance	(3,425)	—	(3,425)
Adjusted gross deferred tax assets	—	—	—
Gross deferred tax liabilities	—	—	—
Net deferred tax asset before admissibility test	\$ —	\$ —	\$ —

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101, *Income Taxes* (“SSAP No. 101”) as of December 31, 2018 is:

Admitted pursuant to paragraph 11.a.	\$ —	\$ —	\$ —
Admitted pursuant to paragraph 11.b.	—	—	—
Admitted pursuant to paragraph 11.c.	—	—	—
Admitted deferred tax asset	—	—	—
Deferred tax liability	—	—	—
Net admitted deferred tax asset	—	—	—
Nonadmitted deferred tax asset	\$ —	\$ —	\$ —

	2018
Ratio percentage used to determine recovery period and threshold limitation amount	530%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitations	\$ 16,335

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

The impact of tax planning strategies is as follows:

	2018	
	Ordinary	Capital
Adjusted gross deferred tax assets amount	\$ —	\$ —
Percentage of adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	0%	0%
Net admitted adjusted gross deferred tax assets amount	\$ —	\$ —
Percentage of net admitted adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	0%	0%

The Company's tax planning strategies do not include the use of reinsurance.

Current federal income taxes consist of the following major components:

	2018
Federal income taxes on operations	\$ 309
Utilization of net operating loss and capital loss carry forwards	(309)
Federal income taxes	\$ —

The components of deferred income taxes are as follows:

	December 31
	2018
Deferred tax assets:	
Ordinary:	
Accrued future expenses	\$ 37
Amortization	1,914
Accounts receivable	54
Claims discount reserve	18
Net operating loss carryover	1,368
Other insurance reserves	22
Unearned premium reserve	12
Subtotal	3,425
Statutory valuation allowance adjustment	(3,425)
Nonadmitted deferred tax assets	—
Admitted ordinary deferred tax assets	\$ —

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

The Company has no repatriation transition tax or alternative minimum tax credit.

The Company's income tax expense and change in deferred income taxes differs from the amount obtained by applying the federal statutory income tax rate of 21% for the year ended December 31, 2018 as follows:

	2018
Tax expense (benefit) computed using the federal statutory rate	\$ 11
Change in nonadmitted assets	(1,139)
Prior year true-ups and adjustments	(111)
Valuation allowance	1,128
Other, net	111
Total	<u>\$ —</u>

At December 31, 2018, the Company has \$6,514 of unused net operating losses available to offset future taxable income. The losses will begin to expire in 2036. The Company had no unused tax credit carryforwards as of December 31, 2018.

The Company has no federal income taxes available for recoupment.

6. Capital and Surplus

The OCI requires the Company to maintain a minimum surplus as set forth in the state statutes. In addition, the State of Wisconsin has adopted RBC requirements as specified by the NAIC. Under those requirements, the amount of surplus to be maintained is determined based on various risk factors. The Company also is required to maintain certain capital and liquidity levels in conjunction with its BCBSA licensing. At December 31, 2018, the Company's capital and surplus exceeded all regulatory requirements.

Under Wisconsin statutes, the Company is limited in the amount of dividends that can be declared without regulatory approval. The OCI must approve any dividend that, together with all dividends declared during the preceding three years, exceeds the lesser of 10% of statutory surplus existing at the end of the prior calendar year and a limitation based on net income less realized capital gains. Also, any dividend paid from other than earned surplus shall be considered an extraordinary dividend, and will need approval of the Wisconsin Insurance Commissioner. The Company may not pay dividends during 2019 without prior approval.

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

There was no portion of unassigned surplus (deficit) representing cumulative unrealized gains (losses), net of taxes, at December 31, 2018.

7. Contingencies

Litigation and regulatory proceedings

Cigna Corporation Merger Litigation

In July 2015, Anthem and Cigna Corporation, or Cigna, announced that they entered into Agreement and Plan of Merger, or Cigna Merger Agreement, pursuant to which Anthem would acquire all outstanding shares of Cigna. In July 2016, the U.S. Department of Justice, or DOJ, along with certain state attorneys general, filed a civil antitrust lawsuit in the U.S. District Court for the District of Columbia, or District Court, seeking to block the merger. In February 2017, Cigna purported to terminate the Cigna Merger Agreement and commenced litigation against us in the Delaware Court of Chancery, or Delaware Court, seeking damages, including the \$1,850,000 termination fee pursuant to the terms of the Cigna Merger Agreement, and a declaratory judgment that its purported termination of the Cigna Merger Agreement was lawful, among other claims, which is captioned *Cigna Corp. v. Anthem Inc.*

Also in February 2017, Anthem initiated its own litigation against Cigna in the Delaware Court seeking a temporary restraining order to enjoin Cigna from terminating the Cigna Merger Agreement, specific performance compelling Cigna to comply with the Cigna Merger Agreement and damages, which is captioned *Anthem Inc. v. Cigna Corp.* In April 2017, the U.S. Circuit Court of Appeals for the District of Columbia affirmed the ruling of the District Court, which blocked the merger. In May 2017, after the Delaware Court denied the motion to enjoin Cigna from terminating the Cigna Merger Agreement, Anthem delivered to Cigna a notice terminating the Cigna Merger Agreement.

The litigation in Delaware is ongoing. A trial commenced in February 2019 and concluded in March 2019. A post trial briefing schedule has been issued with a final argument scheduled for September 2019. Anthem believes Cigna's allegations are without merit and intends to vigorously pursue the claims and defend against Cigna's allegations; however, the ultimate outcome of the litigation with Cigna cannot be presently determined.

In October 2018, a shareholder filed a derivative lawsuit in the State of Indiana Marion County Superior Court, captioned *Henry Bittmann, Derivatively, et al. v. Joseph R Swedish, et al.*, purportedly on behalf of Anthem and its shareholders against certain current and former directors and officers alleging breaches of fiduciary duties, unjust enrichment and corporate waste associated

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

with the Cigna Merger Agreement. This case has been stayed at the request of the parties. This lawsuit's ultimate outcome cannot be presently determined.

Other contingencies

The Company is involved in other pending and threatened litigation of the character incidental to the business transacted, arising out of its operations and is from time to time involved as a party in various governmental investigations, audits, reviews and administrative proceedings. These investigations, audits and reviews and administrative proceedings include routine and special investigations by state insurance departments, state attorneys general, the U.S. Attorney General and subcommittees of the U.S. Congress. Such investigations, audits, reviews and administrative proceedings could result in the imposition of civil or criminal fines, penalties, other sanctions and additional rules, regulations or other restrictions on the Company's business operations. The Company believes that any liability that may result from any one of these actions, or in the aggregate, could have a material adverse effect on the Company's financial position or results of operations.

The Company has no other known contingencies.

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

8. Uninsured Accident and Health Plans

The net gain (loss) from operations and total claim payment volume from administrative services only (“ASO”) plans was:

	ASO Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASO
For the year ended December 31, 2018			
Net reimbursement for administrative expenses (including administrative fees) in excess of (less than) actual expenses	\$ 283	\$ —	\$ 283
Total net other income or expenses (including interest paid to or received from plans)	—	—	—
Net gain (loss) from operations	\$ 283	\$ —	\$ 283
Total claim payment volume	\$ —	\$ —	\$ —

The net gain (loss) from operations from administrative service contract (“ASC”) plans was:

	ASC Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASC
For the year ended December 31, 2018			
Gross reimbursement for medical costs incurred	\$ 329,590	\$ —	\$ 329,590
Gross administrative fees earned	17,446	—	17,446
Gross expenses incurred (claims and administrative fees)	344,241	—	344,241
Net gain (loss) from operations	\$ 2,795	\$ —	\$ 2,795

The receivables from uninsured plans at December 31 are as follows:

Receivable from	Related to	2018
Uninsured plans	Uninsured business, not including pharmaceutical rebate receivables	\$ 7,491

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

9. Health Care Receivables

Pharmaceutical rebate receivables consist of reasonably estimated and billed amounts. Amounts not collected within 90 days of the invoice or confirmation date are nonadmitted. Total admitted and nonadmitted pharmaceutical rebates receivables at December 31 are as follows:

	2018	
	Admitted	Nonadmitted
Pharmaceutical rebate receivables, reported in health care and other receivables	\$ 704	\$ 13
Pharmaceutical rebate receivables, reported in amounts receivable relating to uninsured plans	1,016	75
Total pharmaceutical rebate receivables	\$ 1,720	\$ 88

The following table summarizes information about the Company's pharmaceutical rebate receivables:

Quarter	For the Quarter Ended				
	Estimated Pharmacy Rebates as Reported on 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
12/31/2018	\$ 1,720	\$ 515	\$ —	\$ —	\$ —
9/30/2018	1,597	1,136	—	—	—
6/30/2018	1,442	1,007	328	655	—
3/31/2018	798	876	217	626	—

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

Claim overpayment receivables consist of amounts that have been invoiced and meet the setoff conditions. Amounts that have not been invoiced and do not meet the setoff conditions are nonadmitted. Total admitted and nonadmitted claim overpayment receivables at December 31 are as follows:

	2018	
	Admitted	Nonadmitted
Claim overpayment receivables, reported in health care and other receivables	\$ —	\$ 71
Claim overpayment receivables, reported in amounts receivable relating to uninsured plans	—	31
Total claim overpayment receivables	<u>\$ —</u>	<u>\$ 102</u>

10. Related Party Transactions

The Company has entered into administrative services agreements with its affiliated companies. Pursuant to these agreements, various administrative, management and support services are provided to or provided by the Company. The expenses related to these administrative management and support services are allocated to or allocated by the Company in an amount equal to the direct and indirect costs and expenses incurred in providing these services. Costs include expenses such as salaries, benefits, information technology, advertising, consulting services, rent, utilities, accounting, underwriting, and product development, which support the operations of the Company. These costs are allocated based on various utilization statistics.

The Company is party to a cash concentration agreement with its affiliated companies. Under this agreement, any of the Company's affiliates may be designated as a cash manager to handle the collection and/or payment of funds on behalf of the Company. Conversely, the Company may be designated as a cash manager to handle the collection and/or payment of funds on behalf of its affiliates. Cash services covered under this agreement include the collection of premiums and other revenue, the collection of benefit and administrative expense reimbursements, the payment of policy benefits, payroll expense, operating expense, and accounts payable disbursements.

Net payments to affiliated companies pursuant to the above administrative service agreements were \$18,488 in 2018, and are included in operating expenses, claims, and claims adjustment expenses in the statutory basis statements of operations.

At December 31, 2018, the Company reported no amounts due from affiliates. At December 31, 2018, the Company reported \$3,213 due to affiliates. The receivable and payable balances represent

Wisconsin Collaborative Insurance Company

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

intercompany transactions that will be settled in accordance with the settlement terms of the intercompany agreement.

The Company received capital contributions from its parents in the amount of \$3,723, \$3,723, \$2,500, and \$2,500 on January 2, 2018, January 29, 2018, December 18, 2018, and December 26, 2018, respectively.

During 2018, the Company acquired fully-insured members for \$7,200 from Compcare Health Services Insurance Corporation, an affiliated entity.

11. Subsequent Events

Management of the Company has evaluated all events occurring after December 31, 2018 through April 25, 2019, the date the financial statements were available to be issued, to determine whether any event required either recognition or disclosure in the financial statements. It was determined there were no events that require recognition or disclosure in the financial statements through the report date.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

Board of Directors
Wisconsin Collaborative Insurance Company

We have audited, in accordance with auditing standards generally accepted in the United States, the statutory basis financial statements of Wisconsin Collaborative Insurance Company for the year ended December 31, 2018, and have issued an adverse opinion with respect to conformity with U.S. generally accepted accounting principles and an unmodified opinion with respect to conformity with accounting practices prescribed or permitted by the Wisconsin Department of Insurance thereon dated April 25, 2019. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental investment disclosures are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the statutory basis financial statements as a whole.

This report is intended solely for the information and use of the Company and state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

April 25, 2019

Wisconsin Collaborative Insurance Company

Summary Investment Schedule - Statutory Basis

(Dollars In Thousands)

December 31, 2018

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage of Gross Investment Holdings	Amount	Securities Lending Reinvested Collateral Amount	Total	Percentage of Total Admitted Invested Assets
Cash, cash equivalents and short-term investments	\$ 15,686	100.0%	\$ 15,686	\$ —	\$ 15,686	100.0%
Total invested assets	\$ 15,686	100.0%	\$ 15,686	\$ —	\$ 15,686	100.0%

Wisconsin Collaborative Insurance Company

Investment Risks Interrogatories - Statutory Basis

(Dollars In Thousands)

December 31, 2018

1. The Company's total admitted assets as reported on Page 2 of the Annual Statement are: \$ 26,391

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

	Investment	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01			\$ —	0.0%
2.02			\$ —	0.0%
2.03			\$ —	0.0%
2.04			\$ —	0.0%
2.05			\$ —	0.0%
2.06			\$ —	0.0%
2.07			\$ —	0.0%
2.08			\$ —	0.0%
2.09			\$ —	0.0%
2.10			\$ —	0.0%

3. The Company's total admitted assets held in bonds by NAIC designation are:

	Bonds	Amount	Percentage of Total Admitted Assets
3.01	NAIC - 1	\$ —	0.0%
3.02	NAIC - 2	\$ —	0.0%
3.03	NAIC - 3	\$ —	0.0%
3.04	NAIC - 4	\$ —	0.0%
3.05	NAIC - 5	\$ —	0.0%
3.06	NAIC - 6	\$ —	0.0%

The Company has no investments in preferred stock at December 31, 2018.

Wisconsin Collaborative Insurance Company

Investment Risks Interrogatories - Statutory Basis (continued)

(Dollars In Thousands)

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes [] No []

	Amount	Percentage of Total Admitted Assets
4.02 Total admitted assets held in foreign investments	\$ —	0.0%
4.03 Foreign-currency-denominated investments	\$ —	0.0%
4.04 Insurance liabilities denominated in that same foreign currency	\$ —	0.0%

5. Aggregate foreign investments are less than 2.5% of the total admitted assets.
6. Aggregate foreign investments are less than 2.5% of the total admitted assets.
7. The Company has no unhedged foreign currency exposure.
8. The Company has no unhedged foreign currency exposure.
9. The Company has no unhedged foreign currency exposure.
10. Aggregate foreign investments are less than 2.5% of the total admitted assets.
11. Assets held in Canadian investments are less than 2.5% of the total admitted assets.
12. Assets held in investments with contractual sales restrictions are less than 2.5% of the total admitted assets.
13. Assets held in equity interests are less than 2.5% of total admitted assets.
14. Assets held in nonaffiliated, privately placed equities are less than 2.5% of total admitted assets.
15. Investments in general partnership interests are less than 2.5% of the total admitted assets.
16. The Company has no investments in mortgage loans.
17. The Company has no investments in mortgage loans.
18. The Company has no investments in real estate, other than property owned and occupied by the Company.

Wisconsin Collaborative Insurance Company

Investment Risks Interrogatories - Statutory Basis (continued)

(Dollars In Thousands)

19. The Company has no potential exposure for mezzanine real estate loans.
20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-end		At End of Each Quarter (Unaudited)		
	Amount	Percentage of Admitted Assets	1st qtr	2nd qtr	3rd qtr
20.01 Securities lending	\$ —	0.0%	\$ —	\$ —	\$ —
20.02 Repurchase agreements	\$ —	0.0%	\$ —	\$ —	\$ —
20.03 Reverse repurchase agreements	\$ —	0.0%	\$ —	\$ —	\$ —
20.04 Dollar repurchase agreements	\$ —	0.0%	\$ —	\$ —	\$ —
20.05 Dollar reverse repurchase agreements	\$ —	0.0%	\$ —	\$ —	\$ —

21. The Company held no admitted assets for warrants not attached to other financial instruments, options, caps and floors.
22. The Company held no admitted assets with potential exposure for collars, swaps and forwards.
23. The Company held no admitted assets with potential exposure for futures contracts.

Wisconsin Collaborative Insurance Company

Note to Supplementary Information - Statutory Basis

(Dollars In Thousands)

December 31, 2018

Note-Basis of Presentation

The accompanying supplemental schedules present selected statutory basis financial information as of December 31, 2018 and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' *Annual Statement Instructions* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual*, and agrees to or is included in the amounts reported in Wisconsin Collaborative Insurance Company's 2018 Annual Statement as filed with the Office of the Commissioner of Insurance of the State of Wisconsin.

Captions or amounts that are not applicable have been omitted.