Statutory Basis Financial Statements and Report of Independent Certified Public Accountants

Wisconsin Physicians Service Insurance Corporation

December 31, 2019 and 2018

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Wisconsin Physicians Service Insurance Corporation

We have audited the accompanying statutory basis financial statements of Wisconsin Physicians Service Insurance Corporation (a Wisconsin non-stock corporation), which comprise the statements of admitted assets, liabilities, capital and surplus as of December 31, 2019 and 2018, and the related statements of revenues and expenses, changes in surplus and cash flows for the years 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 statutory financial statements in accordance with the basis of accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

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

Grant Thornton

Opinion
In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the financial position of Wisconsin Physicians Service Insurance Corporation as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with the basis of accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, described in Note A.

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

Supplementary information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The summary investment schedule and the supplemental investment risks interrogatories as of December 31, 2019 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Restriction on use
Our report is intended solely for the information and use of the Board of Directors and management of Wisconsin Physicians Service Insurance Corporation and the Office of the Commissioner of Insurance of the State of Wisconsin and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Tampa, Florida
May 26, 2020

Wisconsin Physicians Service Insurance Corporation

STATEMENTS OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS ($000's)

December 31,

ASSETS	**2019**	**2018**
Cash and invested assets		
Bonds	$ 57,385	$ 55,351
Stocks	59,323	59,179
Real estate, less encumbrances of $-0- in 2019 and $3,449 in 2018	26,109	32,706
Cash, cash equivalents and short-term investments	34,213	20,719
	177,030	167,955
Uncollected premiums	1,936	1,971
Receivables from subsidiaries and affiliates	662	2,836
Investment income due and accrued	450	445
Amounts receivable relating to uninsured plans	122,860	88,523
Amounts recoverable from reinsurers	296	180
Electronic data processing equipment and software, net	1,079	853
Federal and foreign income tax recoverable and interest thereon	474	2,028
Aggregate write-ins for other than invested assets	44	323
Net deferred tax asset	14,160	13,702
Health care and other amounts receivable	7,195	7,662
Contracts subject to redetermination	2,980	2,790
TOTAL ASSETS	$ 329,166	$ 289,268
LIABILITIES, CAPITAL AND SURPLUS		
Liabilities		
Claims unpaid	$ 37,872	$ 43,697
Accrued medical incentive pool and bonus amounts	104	340
Unpaid claims adjustment expenses	1,043	1,043
Aggregate health policy reserves	15,749	13,626
Premiums received in advance	12,679	12,803
Ceded reinsurance premiums payable	106	93
General expenses due or accrued	72,476	58,852
Amounts withheld or retained for account of others	161	111
Liability for amounts held under uninsured plans	3,880	5,453
Funds held under reinsurance treaties	793	740
Remittances and items not allocated	1,685	1,602
Pension liability	13,902	22,916
Other liabilities	253	255
	160,703	161,531
Capital and surplus		
Unassigned funds	164,192	127,737
Surplus appropriated for current-year ACA Section 9010 fee	4,271	-
	168,463	127,737
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$ 329,166	$ 289,268

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

Wisconsin Physicians Insurance Corporation

STATEMENTS OF REVENUES AND EXPENSES ($000's)

Years ended December 31,

	2019	2018
Underwriting income		
Premiums earned, net	$ 346,025	$ 396,043
Expenses		
Hospital and medical benefits	199,918	232,488
Emergency room and out-of-area	28,664	34,943
Outside referrals	2,513	4,574
Prescription drugs	28,868	37,151
Incentive pool, withhold adjustments and bonus amounts	(111)	123
Increase in reserves for life and accident and health contracts	-	540
Claims adjustment expenses	11,723	12,751
General administrative expenses	48,574	53,299
Net reinsurance	4,889	5,965
Total underwriting deductions	325,038	381,834
Net underwriting income	20,987	14,209
Interest income (loss)		
Net investment income earned	2,977	3,932
Net realized capital loss, net of tax effect	(4,383)	(394)
Net investment income (loss)	(1,406)	3,538
Other income (expense)	12,158	(16,593)
Net income before federal income taxes	31,739	1,154
Federal income tax expense	10,518	2,436
NET INCOME (LOSS)	$ 21,221	$ (1,282)

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

Wisconsin Physicians Insurance Corporation

STATEMENTS OF CHANGES IN SURPLUS ($000's)

Years ended December 31,

	2019	2018
Surplus at beginning of year	$ 127,737	$ 122,205
Net income (loss) for the year	21,221	(1,282)
Change in net unrealized capital gains, net of deferred income tax	4,650	(6,043)
Change in net deferred income tax	(188)	108
Change in non-admitted assets	6,440	16,210
Additional minimum pension liability	8,603	(3,461)
Surplus at end of year	$ 168,463	$ 127,737

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

Wisconsin Physicians Service Insurance Corporation

STATEMENTS OF CASH FLOWS ($000's)

Years ended December 31,

	2019	2018
Cash from operations		
Premiums collected net of reinsurance	$ 349,583	$ 398,610
Net investment income	4,619	5,815
	354,202	404,425
Benefit and loss-related payments	272,255	313,163
Commissions, expenses paid and aggregate write-ins for deduction	71,575	76,345
Federal income taxes paid (refunded)	7,966	(1,982)
	351,796	387,526
Net cash provided by operations	2,406	16,899
Cash from investments		
Proceeds from investments sold, matured or repaired		
Bonds	12,824	27,626
Stocks	8,567	196
Real estate	14,150	558
Miscellaneous	-	331
Total investment proceeds	35,541	28,711
Cost of investments acquired		
Bonds	(14,607)	(26,153)
Stocks	(7,908)	(2,595)
Miscellaneous	(8,621)	(4,039)
Total investments acquired	(31,136)	(32,787)
Net cash provided by (used in) investments	4,405	(4,076)
Cash from financing and miscellaneous sources		
Other cash provided	6,683	7,055
NET CHANGE IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS	13,494	19,878
Cash, cash equivalents and short-term investments at beginning of year	20,719	841
Cash, cash equivalents and short-term investments at end of year	$ 34,213	$ 20,719

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

NOTE A - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Wisconsin Physicians Service Insurance Corporation (the “Company”) is a service insurance corporation offering hospitalization, surgical medical, major medical, drug and dental insurance to subscribers in various states with a concentration in Wisconsin. The Company’s primary sources of revenue are providing health insurance to predominantly small and middle market businesses and individuals and processing health care claims for various governmental bodies and corporate entities.

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

Insurance Accounting Practices

The financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the Office of the Commissioner of the State of Wisconsin (OCI) for determining and reporting the financial condition and results of operations of an insurance company. The National Association of Insurance Commissioners’ (“NAIC”) Accounting Practices and Procedures Manual (NAIC SAP), has been adopted as a component of prescribed or permitted practices by the OCI. Such practices differ in certain respects from accounting principles generally accepted in the United States of America (U.S. GAAP). The more significant of these differences are as follows:

- Certain assets designated as “non-admitted assets” are excluded from the statements of admitted assets, liabilities, capital and surplus, and the change in such assets is credited or charged directly to unassigned surplus. The Company’s non-admitted assets consist of its deferred tax assets, prepaid expenses, fixed assets (other than real estate) and receivable balances over 90 days due.

- The statements of cash flows differ in certain respects from the presentation required by U.S. GAAP.

- Investments in bonds are reported at amortized cost or fair value based on their NAIC rating.

- Mutual funds are carried at fair value with the resulting unrealized gains and losses, net of applicable taxes, recorded in surplus. Under GAAP, equity securities are carried at fair value, with unrealized gains and losses, net of applicable taxes, recorded in income.

- Net income or loss from subsidiaries is recorded as a direct component of surplus.

- Net revenue from uninsured plans is recorded as an offset to claims adjustment expenses and general administrative expenses, with significant net amounts recognized as other income or expense.

- Net revenue from administrative services contracts for various governmental entities is recorded in other income (expense).

- Changes in deferred income taxes are reported as a component of surplus and are subject to statutory limitations and admissibility tests.

- The presentation of the statements of admitted assets, liabilities, capital and surplus is not in conformity with U.S. GAAP with respect to reporting other comprehensive income.

The OCI requires that insurance companies domiciled or licensed in the state of Wisconsin prepare their statutory basis financial statements in accordance with NAIC SAP, subject to any deviations prescribed or permitted by the OCI. The Company does not use any prescribed or permitted accounting practices that deviate from NAIC SAP.

Use of Estimates

In preparing financial statements in conformity with insurance accounting practices, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Claims unpaid and the related unpaid claims adjustment expenses consist of unpaid claims reported to the Company and a liability for health care claims incurred on or before December 31, which have not been reported to the Company by that date (estimated claims payable). Estimated claims payable are based on historical trends and current cost projections, which are reviewed by an independent actuary as of the date of the financial statements. It is reasonably possible that the claims and related expenses presented for payment may not follow past trends and therefore may be more or less than the $38,915 and $44,740 recorded in the financial statements as of December 31, 2019 and 2018, respectively. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in the period determined.

Cash, Short-term Investments and Investments

The Company considers all highly liquid debt instruments purchased with original maturities of one year or less and commercial paper to be short-term investments. The Company carries its financial instruments included in cash at cost, which approximates fair value because of the short maturities for the instruments held. The Company carries its financial instruments included in short-term investments at amortized cost.

Investments in debt and equity securities are stated in accordance with valuations prescribed by the NAIC. Debt securities are reported at the lower of amortized cost or fair value based on their NAIC rating, and equity securities are reported at fair market values, as determined by independent pricing sources. Unrealized investment gains and losses on equity securities arising from market value fluctuations are credited or charged to unassigned surplus. Realized gains and losses are credited or charged to operations. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, using the effective interest method. The cost of securities sold is determined using the first-in, first-out method.

The Company's investments in its wholly owned subsidiaries, The EPIC Life Insurance Company (EPIC) and WPS Health Plan, Inc. (HPI), are stated at cost plus recognized equity in undistributed net earnings and losses since dates of inception. The Company's interest in EPIC and HPI was determined based on financial statements prepared on the statutory basis of accounting practices prescribed or permitted by the OCI.

The Company has a 30% interest in Westwood, LLC, an office building and conference center in Wausau, Wisconsin. The interest in Westwood, LLC is a non-admitted asset, as required by NAIC statutory guidance, as the financial information is unaudited. The Company also had a 50% interest in Arise Health Ventures, Inc. (AHV) a holding company for a Wisconsin-based and Michigan-based health maintenance organization. The interest in AHV was admitted as of December 31, 2018 as the related financial information was audited. During 2019, the company disposed of its 50% interest in AHV.

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

Claims Unpaid

Claims unpaid is calculated using either the development method or the loss ratio method. The development method is used for blocks of business with sufficient volume to generate credible data for calculation of completion factors. In addition, case reserves for known high-dollar health cases are established as necessary. The adequacy of completion factors is monitored separately for each reserve segment that is calculated using the development method.

The loss ratio method is based on earned premium multiplied by an estimated loss percentage.

Revenue and Expense Recognition

Income from premiums is recorded as earned during the coverage period on a pro rata basis. Premiums collected in advance are reflected as liabilities. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred.

Reported and estimated claims are recognized as an expense when incurred. Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

Uncollected Premiums and Amounts Receivable

The Company considers uncollected premiums and amounts receivable less than 60 days old to be fully collectible. If non-governmental amounts become 60 days or older, they will be charged to surplus at the end of the reporting period.

Depreciation and Amortization

Depreciation and amortization of real estate and electronic data processing (EDP) equipment and software are provided in amounts sufficient to relate the cost of the related assets to operations over their estimated service lives by straight-line and accelerated methods.

The Company had the following balances of EDP equipment and software at December 31:

	2019	2018
EDP equipment	$ 5,877	$ 2,952
Software	244,168	240,077
	250,045	243,029
Accumulated depreciation and amortization	(229,126)	(212,643)
EDP equipment and software before surplus restriction	20,919	30,386
Less surplus restriction on admittable EDP	19,840	29,533
Net EDP equipment and software	$ 1,079	$ 853

The Company recorded depreciation and amortization expense of $19,242 and $21,093 related to EDP equipment and software for the years ended December 31, 2019 and 2018, respectively.

Depreciation and amortization of non-admitted furniture, fixtures and equipment are provided in amounts sufficient to relate the cost of the related assets to operations over their estimated service lives by straight-line and accelerated methods.

The Company recorded depreciation and amortization expense of $1,344 and $1,621 related to non-admitted furniture, fixtures and equipment for the years ended December 31, 2019 and 2018, respectively.

Income Taxes

Deferred income tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their amounts reported in the financial statements, using statutory tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as a change in surplus in the period that includes the enactment date. Deferred income tax assets are subject to certain admissibility limitations based on risk-based capital calculations.

The Company recognizes the financial statement benefit of a tax position after determining that the relevant tax authority would more likely than not sustain the position following an audit, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Interest and penalties, if incurred, are recognized in the statements of revenues and expenses as federal income tax expense. The Company has not recognized any interest, penalties or income tax contingencies for the years ended December 31, 2019 and 2018.

Concentration of Credit Risk

The Company maintains deposits in financial institutions that consistently exceed the Federal Deposit Insurance Corporation limit. In addition, the Company has accounts receivable related to government contracts of $102,727 and $74,546 at December 31, 2019 and 2018, respectively. The Company has not experienced any credit-related losses in such accounts and management believes it is not exposed to any significant credit risks.

Recent Accounting Pronouncements

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

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

NOTE B - INVESTMENTS

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

	2019			
	Amortized cost or cost	Estimated market value	Unrealized gains	Unrealized losses
Debt securities				
U.S. Treasury securities and obligations of U.S. government agencies	$ 13,493	$ 14,043	$ 604	$ (54)
Political subdivisions of states, territories and possessions	6,751	7,300	552	(3)
Issued by foreign governments	154	177	23	-
Corporate securities	18,656	19,946	1,298	(8)
Mortgage-backed securities	18,331	18,645	325	(11)
Total bonds	57,385	60,111	2,802	(76)
Equity securities				
Domestic	21,158	28,840	7,682	-
Total equity securities	21,158	28,840	7,682	-
Equity in subsidiaries				
EPIC [(1)]	17,525	17,525	-	-
HPI [(1)]	12,958	12,958	-	-
Total equity in subsidiaries	30,483	30,483	-	-
Total stocks	51,641	59,323	-	-
	$ 109,026	$ 119,434	$ 10,484	$ (76)

[(1)] Statutory carrying amount

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

	2018			
	Amortized cost or cost	Estimated market value	Unrealized gains	Unrealized losses
Debt securities				
U.S. Treasury securities and obligations of U.S. government agencies	$ 13,000	$ 13,071	$ 139	$ (68)
Political subdivisions of states, territories and possessions	8,385	8,824	444	(5)
Issued by foreign governments	153	147	-	(6)
Corporate securities	17,044	16,671	48	(421)
Mortgage-backed securities	16,769	16,562	23	(230)
Total bonds	55,351	55,275	654	(730)
Equity securities				
Domestic	20,252	22,434	2,397	(215)
Total equity securities	20,252	22,434	2,397	(215)
Equity in subsidiaries and affiliate				
EPIC (1)	17,530	17,530	-	-
HPI (1)	13,148	13,148	-	-
AHV (2)	6,067	6,067	-	-
Total equity in subsidiaries and affiliate	36,745	36,745	-	-
Total stocks	56,997	59,179	-	-
	$ 112,348	$ 114,454	$ 3,051	$ (945)

(1) Statutory carrying amount

(2) 50% of statutory carrying amount

The amortized cost or cost and fair market value of debt securities, by contractual maturities, were as follows at December 31, 2019:

	Amortized cost or cost	Fair market value
In one year or less	$ 1,140	$ 1,144
After one year through five years	12,465	12,865
After five years through 10 years	10,584	11,104
After 10 years	14,865	16,353
	39,054	41,466
Mortgage-backed securities	18,331	18,645
	$ 57,385	$ 60,111

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

Expected maturities for mortgage-backed securities may differ from contractual maturities because borrowers may have the right to prepay obligations without penalty.

Realized gains and losses from sales of investments, other than the divesture in AHV, were as follows for the years ended December 31:

	2019	2018
Proceeds	$ 13,157	$ 27,822
Gains	728	297
Losses	(7)	(681)
	721	(384)
Federal income tax expense (benefit) on capital gains	151	(10)
Net gain (loss)	$ 872	$ (394)

The following summary of the Company's investments, by category, in an unrealized loss position at December 31, 2019 and 2018, indicates the length of time these individual securities have been in a continuous unrealized loss position.

	2019					
	Less than 12 months		12 months or longer		Total	
	Fair market value	Unrealized losses	Fair market value	Unrealized losses	Fair market value	Unrealized losses
Debt securities						
U.S. Treasury securities and obligations of U.S. government agencies	$ 3,790	$ (54)	$ 75	$ -	$ 3,865	$ (54)
Political subdivisions of states, territories and possessions	297	(3)	-	-	297	(3)
Corporate securities	340	(4)	125	(4)	465	(8)
Mortgage-backed securities	1,079	(8)	1,951	(3)	3,030	(11)
	$ 5,506	$ (69)	$ 2,151	$ (7)	$ 7,657	$ (76)

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

	2018					
	Less than 12 months		12 months or longer		Total	
	Fair market value	Unrealized losses	Fair market value	Unrealized losses	Fair market value	Unrealized losses
Debt securities						
U.S. Treasury securities and obligations of U.S. government agencies	$ 654	$ (3)	$ 3,098	$ (65)	$ 3,752	$ (68)
Political subdivisions of states, territories and possessions	284	(3)	579	(2)	863	(5)
Issued by foreign governments	147	(6)	-	-	147	(6)
Corporate securities	994	(8)	11,987	(222)	12,981	(230)
Mortgage-backed securities	10,926	(271)	2,538	(150)	13,464	(421)
	13,005	(291)	18,202	(439)	31,207	(730)
Equity securities	3,271	(215)	-	-	3,271	(215)
	$ 16,276	$ (506)	$ 18,202	$ (439)	$ 34,478	$ (945)

The Company reviews its investment portfolio to ensure that investments that may be other than temporarily impaired are identified and that any impairment is charged against earnings in the proper period.

Management reviews several factors to determine whether a loss is other-than-temporary, such as the length of time a security is in an unrealized loss position, the extent to which fair value is less than amortized cost, the impact of changing interest rates in the short and long term, the financial condition and near term prospects of the issuer, and the Company's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Holdings have been reviewed and the Company has concluded that there were no other-than-temporary impairments as of December 31, 2019 and 2018. Issuers have continued to satisfy all contractual obligations and are expected to continue to do so. As such, the Company believes that the securities in an unrealized loss status are temporarily impaired and the Company intends to hold such securities until recovery. Issuers of equity securities continue to pay out dividends consistent with historical experience, and market values have improved with the overall market fluctuations. As such, the Company believes that the remaining debt and equity securities in an unrealized loss status are temporarily impaired and the Company intends to hold such securities until recovery.

At December 31, 2019 and 2018, the Company has securities valued at $1,718 and $1,696, respectively, in trusts. The assets are held in the trusts pursuant to certain provisions of various state statutes.

At December 31, 2019 and 2018, the Company has securities in Federal Home Loan Bank (FHLB) valued at $17 and $10, respectively. The Company also has pledged collateral to FHLB of $17,356 and $17,528 as of December 31, 2019 and 2018, respectively.

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values presented represent management's best estimates and may not be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all non-financial instruments are not required to be disclosed.

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value.

Debt and equity securities - Estimated fair value is generally based on quotes from the NAIC Security Valuation Office (SVO) where available. For investment securities for which such quotes are not available, values are obtained from independent pricing sources.

Cash, cash equivalents and short-term investments - The carrying amount for cash and cash equivalents is cost, which approximates fair value based on the short maturities of the investments held. The Company carries its financial instruments included in short-term investments at amortized cost.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. 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 following table summarizes the Company's financial assets (exclusive of pension assets) as of December 31:

	2019			
	Level 1 inputs	Level 2 inputs	Level 3 inputs	Estimated market value
Debt securities				
U.S. Treasury securities and obligations of U.S. government agencies	$ 14,043	$ -	$ -	$ 14,043
Political subdivisions of states, territories and possessions	297	7,003	-	7,300
Issued by foreign governments	-	177	-	177
Corporate securities	2,351	17,595	-	19,946
Mortgage-backed securities	-	18,645	-	18,645
Equity securities				
Domestic	28,786	-	54	28,840
	$ 45,477	$ 43,420	$ 54	$ 88,951

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

	2018			
	Level 1 inputs	Level 2 inputs	Level 3 inputs	Estimated market value
Debt securities				
U.S. Treasury securities and obligations of U.S. government agencies	$ 13,071	$ -	$ -	$ 13,071
Political subdivisions of states, territories and possessions	-	8,824	-	8,824
Issued by foreign governments	-	147	-	147
Corporate securities	2,783	13,888	-	16,671
Mortgage-backed securities	-	16,562	-	16,562
Equity securities				
Domestic	22,424	-	10	22,434
	$ 38,278	$ 39,421	$ 10	$ 77,709

The following tables summarize the fair value of the WPS Pension Plan's investments, other than cash and unsettled trades of $4,833 and $4,596 for 2019 and 2018, respectively, according to its classification in the fair value hierarchy as of December 31:

	2019			
	Level 1	Level 2	Level 3	Total
Government securities				
U.S. Treasury securities and obligations of U.S. government agencies	$ 89,424	$ -	$ -	$ 89,424
Foreign debt securities	-	17	-	17
Municipal securities	-	276	-	276
Corporate bonds and notes	-	141,640	-	141,640
Mutual funds	107,475	-	-	107,475
Total investments at fair value	$ 196,899	$ 141,933	$ -	338,832
Investment, at net asset value [(a)]				44,868
Total investments				$ 383,700

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

	2018			
	Level 1	Level 2	Level 3	Total
Government securities				
U.S. Treasury securities and obligations of U.S. government agencies	$ 78,083	$ 108	$ -	$ 78,191
Foreign debt securities	-	19	-	19
Municipal securities	-	970	-	970
Corporate bonds and notes	-	129,917	-	129,917
Mutual funds	85,233	-	-	85,233
Total investments at fair value	$ 163,316	$ 131,014	$ -	294,330
Investment, at net asset value [a]				35,370
Total investments				$ 329,700

[a] The Martingale Investment Trust Series 1: US Low Volatility LargeCap+ employs a low volatility equity strategy with the objective of earning equity market returns over the long term with lower volatility than the market index. The investment universe consists of US large cap equity securities that trade in the US. Investors are admitted to the trust on the first business day of any given month. Investors wishing to redeem their interests will be permitted to do so as of the close of the calendar month subject to certain requirements in the trust's agreement.

NOTE D - RELATED-PARTY TRANSACTIONS

Based on the Company's disposition of its 50% interest in AHV during 2019, transactions with AHV are not considered to be related party transactions after December 31, 2018, and are therefore excluded for the year ending December 31, 2019. Transactions between the Company and its wholly owned subsidiaries and affiliate including the following:

1. During 2019, the Company contributed $7,000 to HPI to ensure the adequacy of HPI's 2019 surplus. There were no contributions in 2018.

2. During 2018, the Company contributed $5,434 to AHV.

3. The Company provides office space, health insurance, claims processing, billing administration, data processing, accounting, financial, marketing and certain management services to EPIC, HPI, and AHV. The total amount charged to these subsidiaries and affiliate for these reimbursable expenses was $8,984 and $21,048 in 2019 and 2018, respectively. In connection with these services:

    a. These transactions with HPI resulted in accounts receivable from HPI of $463 and $893 at December 31, 2019 and 2018, respectively.

    b. These transactions with EPIC resulted in accounts receivable from EPIC of $221 and $131 at December 31, 2019 and 2018, respectively.

    c. These transactions with AHV resulted in accounts receivable from AHV of $857 at December 31, 2018.

4. EPIC provides disability and life insurance services to the Company. Charges to the Company for these services were $1,223 and $1,077 in 2019 and 2018, respectively. These transactions resulted in accounts payable to EPIC of $22 and $2 at December 31, 2019 and 2018, respectively.

5. The Company has an agreement with EPIC to reinsure 100% of EPIC's direct written health insurance in the CORE states (as defined by the reinsurance agreement).

   The premiums assumed by the Company were $480 and $309 in 2019 and 2018, respectively. The claims paid by the Company were $396 and $242 in 2019 and 2018, respectively. At December 31, 2019 and 2018, the Company recorded reserves of $165 and $140, respectively, related to reinsurance agreements with EPIC.

6. In accordance with the intercompany tax allocation agreement described in Note H, there is a net payable to HPI and EPIC for federal income taxes totaling $391 and $348 at December 31, 2019, and 2018, respectively.

7. Beginning in 2017, the Company and AHV jointly offer a dual option insurance product that gives subscribers the choice of the Aspirus network as well as the Company's network in one location, and offers subscribers access to the Aspirus network and the Company's network in two or more locations. In conjunction with this product, the Company and AHV entered into an adverse selection mitigation agreement to effectively spread the risk between the two entities depending on the option selected by the subscriber. As a result of this agreement, the Company recorded a receivable of $1,000 at December 31, 2018.

8. The Company has a line of credit agreement with EPIC and HPI. The line of credit allows for a maximum outstanding balance of $5,000 and bears an interest rate of LIBOR plus 1.5%. The line of credit automatically renews for additional one year periods unless the parties agree to a notice of non-renewal. As of December 31, 2019 and 2018, the Company had no amounts outstanding or due to it under the agreement.

NOTE E - REINSURANCE

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company.

During 2018, the Company entered into a reinsurance agreement to limit its exposure on larger risks. The coinsurance agreement stipulated under a single layer of coverage that the Company was responsible for all claims up to $1,000, and the reinsurer was responsible for 100% over $1,000. The agreement was still in effect for 2019.

Total reinsurance premiums ceded, which are deducted from premiums earned, were $1,147 and $1,056 in 2019 and 2018, respectively. Total ceded claims incurred, which are deducted from hospital and medical claims, were $494 and $294 in 2019 and 2018, respectively.

The Company is a reinsurer of certain services provided under various health insurance policies issued by other companies, including EPIC. Reinsurance premiums assumed, which are included in premiums earned, were $7,646 and $7,904 in 2019 and 2018, respectively. Reinsurance benefits incurred, which are included in hospital and medical claims, were $5,783 and $6,259 in 2019 and 2018, respectively.

Administrative expenses and commissions incurred related to reinsurance were $1,227 and $1,226 in 2019 and 2018, respectively.

NOTE F - ADMINISTRATIVE SERVICES CONTRACTS

The Company processes health care claims as an administrative agent for various governmental and corporate entities under both administrative services only ("ASO") and administrative services contracts ("ASC"). The administrative fees for processing these claims are netted against the related expenses to process the claims and are included in other income (expense) in the accompanying statements of revenues and expenses. Claims paid are excluded from operations because they are paid, or fully reimbursed, with governmental or corporate funds.

Claim payments and administrative expenses charged to governmental units are subject to governmental audit and possible adjustment. Any possible adjustments are not expected to have a material effect on the Company's financial position.

During 2019 and 2018, the Company made no adjustment to revenues as a result of audits of Medicare, Veterans Affairs or TRICARE receivables recorded in the previous period.

Revenue from the Company's Medicare contracts for the years ended December 31, 2019 and 2018 consisted of $111,952 and $121,536, respectively, for administrative expenses, which are netted in other income on the statutory statements of revenues and expenses.

Revenues from the Company's Department of Veterans Affairs contract for the years ended December 31, 2019 and 2018 were $118,089 and $50,601, respectively, for administrative expenses, which are netted in other income on the statutory statements of revenues and expenses.

Revenue from the Company's TRICARE contracts for the years ended December 31, 2019 and 2018 consisted of $180,339 and $193,389, respectively, for administrative expenses, which are netted in other income on the statutory statements of revenues and expenses.

As of December 31, 2019 and 2018, the Company had account balances that are greater than 10% of the Company's accounts receivable from uninsured accident and health plans, or $10,000. These were accounts receivable of $102,727 and $74,547, respectively, as of December 31, 2019 and 2018 related to its Medicare, TRICARE and Veterans Affairs contracts.

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

NOTE G - CLAIMS UNPAID AND UNPAID CLAIMS ADJUSTMENT EXPENSES

The following table provides a reconciliation of claims unpaid and unpaid claims adjustment expenses for the years ended December 31:

	2019	2018
Balance at January 1	$ 44,740	$ 43,787
Incurred related to		
Current year	281,696	333,279
Prior years	(5,232)	(5,284)
Total incurred	276,464	327,995
Paid related to		
Current year	(244,606)	(290,138)
Prior years	(37,683)	(36,904)
Total paid	(282,289)	(327,042)
Balance at December 31	$ 38,915	$ 44,740

The liability for reported and estimated claims at January 1, 2019 and 2018 developed favorably in 2019 and 2018, respectively, due primarily to lower than anticipated health claims.

NOTE H - INCOME TAXES

The Company is taxed as an insurance company. The Company files consolidated income tax returns with its wholly owned subsidiaries, EPIC and HPI. In accordance with an intercompany tax allocation agreement: (a) the subsidiaries reimburse WPS for federal and state income taxes that would be payable had the subsidiaries filed separate federal and state tax returns; and (b) WPS reimburses the subsidiaries for income tax assets of the subsidiaries that are utilized by WPS.

The method of allocation among companies is subject to a written agreement, approved by the Board of Directors, whereby allocation is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. Intercompany tax balances are settled monthly.

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

The Company has deferred tax assets and liabilities that consisted of the following components as of December 31:

	2019		
	Ordinary	Capital	Total
Total gross deferred tax assets (admitted and non-admitted)	$ 25,007	$ -	$ 25,007
Total gross deferred tax liabilities	(65)	(1,613)	(1,678)
	$ 24,942	$ (1,613)	23,329
Total deferred tax assets non-admitted			(9,169)
Net deferred tax asset			$ 14,160

	2018		
	Ordinary	Capital	Total
Total gross deferred tax assets (admitted and non-admitted)	$ 25,188	$ -	$ 25,188
Total gross deferred tax liabilities	(58)	(464)	(522)
	$ 25,130	$ (464)	24,666
Total deferred tax assets non-admitted			(10,964)
Net deferred tax asset			$ 13,702

	2019	2018
Ratio percentage used to determine recovery period and threshold limitation amount	757%	501%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	$ 153,224	$ 113,182

There are no tax planning strategies that have an impact on the determination of adjusted gross deferred tax assets and net admitted deferred tax assets. The use of reinsurance is not included in the Plan's tax planning strategies.

The components of federal income taxes were as follows for the years ended December 31:

	2019	2018
Federal income tax expense	$ 10,518	$ 2,436
Current tax expense (benefit) on realized capital gains	151	(10)
Federal income tax expense	$ 10,669	$ 2,426

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31 were as follows:

	2019	2018
Deferred tax assets		
Ordinary		
Accruals and allowances	$ 2,612	$ 2,726
Premiums collected in advance	1,093	1,081
Discounted unpaid losses	68	145
Retirement plans	4,135	6,263
Sales tax audit and interest	140	103
Deferred policy acquisition costs	10,207	9,605
Rate guarantee reserve	504	147
Long-term incentive plan	424	29
Wisconsin Insurance Security Fund	301	251
Capital loss on sale of AHV	1,802	-
Fixed assets	1,110	2,250
Non-admitted assets	3,128	2,588
Other	9	-
Total deferred tax assets	25,533	25,188
Non-admitted deferred tax assets	(9,695)	(10,964)
Net admitted deferred tax assets	15,838	14,224
Deferred tax liabilities		
Ordinary		
Salvage recoverable	-	2
Bond accretion	14	-
Partnership income difference	51	56
	65	58
Capital		
Unrecognized gains on stocks	1,613	458
Unrecognized gains on bonds	-	6
	1,613	464
Total deferred tax liabilities	1,678	522
Net deferred tax assets	$ 14,160	$ 13,702

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

The changes in net deferred income taxes from December 31, 2018 to December 31, 2019 were as follows:

	2019	2018	Change
Total gross deferred tax assets	$ 25,553	$ 25,188	$ 345
Total gross deferred tax liabilities	(1,678)	(522)	(1,156)
Net deferred tax assets	$ 23,855	$ 24,666	(811)
Tax effect of unrealized gains			623
Change in net deferred income tax assets			$ (188)

The provision for federal income taxes incurred and change in deferred income tax assets is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference for the year ended December 31 were as follows:

	2019		2018	
	Tax effect	Effective tax rate	Tax effect	Effective tax rate
Provision computed at statutory rate	$ 6,697	21%	$ 240	21%
Pension	2,640	8.3	(1,691)	(148.8)
PPACA tax	-	-	1,014	88.6
Tax Act impact	-	-	233	20.4
Fixed assets and non-admitted assets	1,877	5.9	2,656	232.1
Tax credits	-	-	(506)	(44.1)
Accrual adjustments	26	0.1	(45)	(3.9)
Compensation limit	399	1.3	147	12.8
Meals and entertainment	104	0.3	110	9.6
Tax free bond interest	(54)	(0.2)	(77)	(6.7)
Lease up fees	(78)	(0.2)	59	5.2
AHV loss on sale	(689)	(2.2)	-	-
Other	(65)	(0.3)	178	16.4
Total	$ 10,857	34%	$ 2,318	202.6%
Federal income tax expense	$ 10,518	33%	$ 2,436	212.9%
Current tax expense on realized capital gains	151	0.5	(10)	(0.9)
Change in net deferred income taxes	188	0.5	(108)	(9.4)
Total statutory income tax expense	$ 10,857	34%	$ 2,318	202.6%

At December 31, 2019, the Company did not have any unused operating loss carryforwards available to offset against future taxable income.

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

The Company did not use any tax planning strategies in determining the gross and admitted deferred tax assets as of December 31, 2019 and 2018.

In addition, as of December 31, 2019 and 2018, the Company had no tax loss contingencies which meet the more likely than not and reasonably estimated criterion for recognition as described in SSAP No. 5R, *Liabilities, Contingencies and Impairments of Assets*.

The following is income tax expense for 2019 and 2018 that is available for recoupment in the event of future net losses, subject to carryback limitations as provided for in the income tax regulations:

Years ended		Amount
2019	$	10,874
2018		3,183

The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

NOTE I - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension and Supplemental Executive Retirement Plans

The Company sponsors defined benefit pension plans covering employees who are 21 years or older who have completed at least one year of continuous service. The Wisconsin Physicians Service Insurance Corporation Employees' Pension Plan ("WPS Employees' Pension Plan") covered bargaining unit employees. The WPS Managerial Pension Plan covered non-bargaining unit employees. The WPS Employees' Pension Plan was merged into the WPS Managerial Pension Plan effective December 31, 2012, and the merged plans were renamed the WPS Pension Plan.

The Company froze the benefits of the WPS Managerial Pension Plan effective December 31, 2009, for participants with less than 10 years of credited service as of January 1, 2009. The Company froze the benefits of the WPS Managerial Pension Plan effective December 31, 2012, for all remaining participants in the plan. The Company elected to freeze the benefits for all participants of the WPS Employees' Pension Plan effective December 31, 2013.

The Company's funding policy is to make annual contributions to the defined benefit plans as deemed necessary on an actuarial basis in accordance with minimum funding requirements and maximum deductible limitations. The Company expects to make $454 of contributions to the plan in 2020.

Company contributions to these plans totaled $454 and $454 in 2019 and 2018. There were no employee contributions during 2019 or 2018. Total benefits paid from these plans approximated $18,430 and $17,582 in 2019 and 2018, respectively.

The Company has additional Supplemental Executive Retirement Plans ("SERP") for eligible executives that are unfunded. Total amounts included in the general expenses due or accrued for these plans were $2,278 and $2,490 at December 31, 2019 and 2018, respectively.

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

The Company's defined benefit plans weighted average asset allocations by asset category were as follows at December 31:

	2019	2018
Equity securities	38%	36%
Fixed income securities	61	63
Cash and cash equivalents	1	1
Total	100%	100%

The Company has an investment policy that dictates which asset types are permissible, investment objectives, delegation of specific duties and risk management goals. The Company's overall investment strategy is to achieve a mix of 98% of investments for long-term growth and 2% for near-term benefit payments, with a wide diversification of asset types, fund strategies and fund managers. The target asset allocation percentages for plan assets were as follows:

	Minimum	Maximum
Equity securities	28.0%	38.0%
Fixed income securities	62.0	72.0

Equity securities primarily include investments in companies principally located in the United States. Fixed income securities include corporate bonds of companies in diversified industries, mortgage-backed securities and U.S. Treasury securities. Investment goals include the preservation of capital and attaining investment return benchmarks over a market cycle.

The basis used to determine the overall expected long-term rate of return on assets is developed from historical returns on the investment types held by the Company, current operating results of issuers of equity securities, current interest rates available on fixed-income securities and other current economic conditions.

Assumptions used to determine the benefit obligations, which are used to determine the WPS Pension Plan funded status as of December 31, 2019 and 2018, and to compute pension expense for the period, were as follows:

	2019	2018
Discount rate	3.75%	4.75%
Expected long-term rate of return on plan assets	5.50	5.50
Rate of increase in compensation levels	N/A	N/A

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

The following tables set forth the WPS Pension Plan and SERP Plans benefit obligation, components of and change in prepaid pension cost, change in the WPS Pension Plan assets, funded status and components of net periodic benefit cost for the years ended December 31:

	2019	2018
Accumulated benefit obligation for vested employees	$ (402,435)	$ (361,200)
Fair value of plan assets	388,533	334,296
Underfunded accumulated benefits	$ (13,902)	$ (26,904)

	2019	2018
Projected benefit obligation	$ (402,435)	$ (361,200)
Fair value of plan assets	388,533	334,296
Items not yet recognized in earnings		
Unrecognized net loss	55,515	68,107
Prepaid pension cost as of December 31,	$ 41,613	$ 41,203

	2019	2018
Prepaid pension cost at beginning of year	$ 41,203	$ 37,058
Net periodic pension (cost) benefit	(43)	3,691
Employer contributions	454	454
Prepaid pension cost as of December 31,	$ 41,613	$ 41,203

	2019	2018
Projected benefit obligation at beginning of period	$ 361,200	$ 398,920
Interest cost	16,731	15,675
Actuarial (gain) loss	42,934	(35,813)
Benefits paid	(18,430)	(17,582)
Projected benefit obligation at end of period	$ 402,435	$ 361,200

	2019	2018
Fair value of plan assets at beginning of period	$ 334,296	$ 375,320
Actual return on plan assets	72,213	(23,896)
Employer contributions	454	454
Benefits paid	(18,430)	(17,582)
Fair value of plan assets at end of period	$ 388,533	$ 334,296

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

Components of net periodic benefit cost include the following for the years ended December 31:

	2019	2018
Interest cost on projected benefit obligation	$ 16,732	$ 15,675
Return on plan assets recognized	(17,872)	(20,161)
Net amortization and deferral	1,183	795
Net periodic pension cost (benefit)	$ 43	$ (3,691)

The WPS Pension Plan includes all eligible employees of the Company and one of its subsidiaries, EPIC. No pension expense was recognized in 2019 and 2018 by the aforementioned subsidiary.

The following table summarizes expected future benefit payments, which reflect expected future service, as of December 31, 2019:

Years ending December 31,	
2020	$ 19,548
2021	20,033
2022	20,502
2023	20,920
2024	21,390
2025 - 2029	113,879

WPS 401(k) Savings Plan and Bargaining Unity 401(k) Plan

The WPS 401(k) Savings Plan covers the Company's non-bargaining unit employees. The Company makes matching contributions equal to 100% of the employee's individual contributions up to a percentage of compensation ranging from 0% to 6%.

The WPS Bargaining Unit Employees 401(k) Plan covers bargaining unit employees. The Company makes matching contributions equal to 100% of the employee's individual contributions up to a percentage of compensation ranging from 0% to 6%, depending on the employee's completed years of service. In addition, non-matching contributions will be made by the Company to certain employees who participated in the WPS Employees' Pension Plan as of October 1, 2008. Non-matching contribution percentages range from 3% to 6%, depending on the completed years of service.

Company contributions to these plans totaled $8,940 and $9,651 in 2019 and 2018, respectively.

Other Post-retirement Employee Benefits

The Company has a long-term deferred compensation plan (DCP) covering certain key employees. The DCP allows these key employees to defer a portion of their base pay into a non-qualified investment trust. The assets of the investment trust were $1,099 and $826 as of December 31, 2019 and 2018, respectively. These are held by the Company and are included in cash, cash equivalents and short-term investments on the statements of admitted assets, liabilities, capital and surplus. The amounts due to these key employees as of December 31, 2019 and 2018, were $100 and $88, respectively, which is included in general expenses due or accrued on the statements of assets, liabilities, capital and surplus. Payments under the plan occur to the individuals in accordance with the plan document. Effective December 31, 2012, there are no individuals contributing to the DCP.

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

Long-term Incentive Plan

The Company has a long-term incentive plan (LTIP) for certain key employees. The LTIP includes ladders of three-year performance periods, starting with the 2018 to 2020 performance period payable in 2021, based on goal achievement. The Company has accrued approximately $2,020 and $140 at December 31, 2019 and 2018, respectively, related to the payout of the LTIP in general expenses due or accrued on the statements of assets, liabilities, capital and surplus.

NOTE J - LEASE OBLIGATIONS

The Company leases data processing and office equipment, automobiles, and certain office facilities. Total rent expense charged to operations was $12,601 and $13,267 in 2019 and 2018, respectively.

The following is a schedule by year of future minimum payments under leases as of December 31, 2019:

Years ending December 31,		
2020	$	12,810
2021		9,422
2022		4,940
2023		5,661
2024		206
Thereafter		2,993
	$	36,032

NOTE K - COMMITMENTS AND CONTINGENCIES

Legal Matters

The Company is subject to pending and threatened legal actions in the ordinary course of business, principally related to the defense of various liability and other claims related to its business as an insurer. Amounts are established by management to cover estimated losses and related expenses associated with these matters.

It is the opinion of management that the ultimate resolution of these matters will not have a material effect on the Company's financial position or results of operations.

Other

In March 2017, the Company received notification of the insolvency of Penn Treaty Insurance Company. It is expected that the insolvency will result in a retrospective premium-based guaranty fund assessment against the Company. There was $240 and $1,350 charged to operations in 2019 and 2018, respectively, resulting in a liability of $1,830 and $1,590 at December 31, 2019 and 2018, respectively, recognized using a discount rate of 4.2%.

Line of Credit

At December 31, 2019 and 2018, the Company has $-0- outstanding under a line of credit agreement with Associated Bank. The maximum borrowing capacity of $20,000 was available at both December 31, 2019 and 2018. Interest on the line of credit is at one-month LIBOR plus 1.5% (effective rate of 3.19% at December 31, 2019). The line of credit is unsecured and borrowings, if any, are due May 31, 2020. Management intends to renew this agreement.

At December 31, 2019 and 2018, the Company has $-0- outstanding under the line of credit agreement with Federal Home Loan Bank. The maximum borrowing capacity was $15,000 at both December 31, 2019 and 2018. Interest on the line of credit is one-month LIBOR (effective rate of 2.37% at December 31, 2019). The line of credit is collateralized by certain securities.

NOTE L - ENCUMBRANCE

During 2015, the Company refinanced their mortgage note payable with a new lender. The mortgage note payable is secured by certain investments held by the Company, and requires that the Company maintain certain covenants, including pledged account minimum balances. The Company paid off the outstanding mortgage in full during 2019, resulting in no outstanding balance as of December 31, 2019. The outstanding balance payable on the mortgage was $3,449 at December 31, 2018. The Company remained in compliance with all covenants while the mortgage was outstanding through the years ended December 31, 2019 and 2018.

Total interest expense charged to operations related to the mortgage was $58 and $130 in 2019 and 2018, respectively.

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

NOTE M - HEALTH CARE RECEIVABLES

The Company's pharmaceutical rebates receivables are based on current month actuals processed to date and an estimate for the remainder of the month. The estimate is based on paid claims and the underlying pharmaceutical rebate contract provisions. The Company had the following pharmaceutical rebates activity during 2019, 2018 and 2017:

Quarter	Estimated pharmacy rebates as reported by financial statements	Pharmacy rebates as invoiced/ confirmed	Actual rebates collected within 90 days of invoicing/ confirmation	Actual rebates collected within 91 to 180 days of invoicing/ confirmation	Actual rebates collected more than 180 days after invoicing/ confirmation
December 31, 2019	$ 3,243	$ -	$ -	$ -	$ -
September 30, 2019	3,143	-	-	-	-
June 30, 2019	3,192	-	-	3,818	-
March 31, 2019	3,065	-	-	3,500	56
December 31, 2018	3,649	-	-	4,093	31
September 30, 2018	3,072	-	-	3,830	108
June 30, 2018	3,013	-	-	3,871	67
March 31, 2018	3,030	-	-	3,643	33
December 31, 2017	3,148	-	-	3,720	41
September 30, 2017	2,994	-	-	3,419	25
June 30, 2017	2,380	-	-	3,494	34
March 31, 2017	2,624	-	-	3,315	60

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

NOTE N - PRESCRIBED STATUTORY ACCOUNTING PRACTICES - RECONCILIATION WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

A reconciliation of the Company's net income for the years ended December 31, 2019 and 2018, and reserves or surplus at December 31, 2019 and 2018, as determined using U.S. GAAP, with items as reported in the accompanying financial statements, was as follows:

	2019		2018	
	Net income	Reserves or surplus	Net loss	Reserves or surplus
As reported for U.S. GAAP	$ 26,644	$ 235,284	$ (4,370)	$ 195,887
Adjustments				
Recognition of non-admitted assets				
Accounts receivable	-	(14,894)	-	(12,322)
Furniture and office equipment	-	(3,700)	-	(3,824)
Computer equipment and software	-	(19,840)	-	(29,533)
Leasehold improvements	-	(7,547)	-	(4,873)
Lease up fee	-	-	-	(8)
Deferred tax asset	-	(9,695)	-	(10,964)
Other assets	-	(1,435)	34	(1,742)
Computer equipment and software	3,977	(20,622)	(40)	(24,323)
Federal income taxes	-	(256)	-	(257)
Deferred taxes	(4,156)	25,449	(1,802)	29,444
Due and unpaid commissions liability	24	(202)	39	(225)
Unrealized gains on debt securities	-	(1,987)	-	44
Pension plan benefits	(259)	(8,079)	(260)	(7,707)
Other	(5,220)	(226)	-	(260)
Unrealized gains on equity securities	(3,495)	-	-	-
Equity in net earnings of subsidiaries	3,706	(3,785)	5,117	(1,620)
As reported in the accompanying statutory financial statements	$ 21,221	$ 168,463	$ (1,282)	$ 127,737

In its administrative code, the OCI has established compulsory and security levels of surplus. As of December 31, 2019 and 2018, the Company has surplus which management believes are in compliance with these established compulsory and security levels of surplus. The laws of the State of Wisconsin limit dividends to shareholders. Within these limitations, there are no restrictions placed on the Company's profits that may be paid as ordinary dividends to shareholders. There were no restrictions placed on the Company's surplus, including for whom the surplus is being held.

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

Health insurance companies are subject to certain risk-based capital ("RBC") requirements specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a health insurance company is to be determined based on various factors related to it. At December 31, 2019 and 2018, the management of the Company believes that the Company is in compliance with the RBC requirements.

NOTE O - RISKS AND UNCERTAINTIES

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

The Company has several contracts to process claims for various governmental entities. The contracts expire at various dates through 2022. The Company is in the process of or has completed bidding on several different new and existing contracts for which final award decisions are not yet known. The Company is not assured of maintaining any of its existing contracts upon expiration, and loss of these contracts could have a material effect on the future operations of the Company.

NOTE P - HEALTH CARE REFORM

In connection with the Patient Protection and Affordable Care Act ("ACA"), the Company pays an annual insurance industry premium-based fee. This annual premium based fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the previous calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. This fee is not deductible for tax purposes and is paid in September of each year. The Continuing Resolution bill, H.R. 195, enacted on January 22, 2018, included a one-year suspension in 2019 of the health insurer fee, but the fee is scheduled to resume in calendar year 2020. The amount for 2020 has been included as surplus appropriated in the 2019 statements of admitted assets, liabilities, capital and surplus. The Company paid the federal government $4,828 in September 2018 for the annual health insurance industry fee attributable to calendar year 2018.

	2020	2019
ACA fee assessment payable	$ 4,271	$ -
ACA fee assessment paid	-	4,828
Premium written subject to ACA 9010 assessment	178,887	233,327

Would reporting the ACA assessment as of December 31, 2019, have triggered an RBC action level? No.

The ACA also established risk spreading premium stabilization programs applicable to certain commercial medical insurance products. These programs, formerly referred to as the 3Rs, included a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridors program. The transitional reinsurance and temporary risk corridors programs were for years 2014 through 2016, with potential for additional reinsurance recoveries through 2018 to the extent funds are available.

NOTES TO STATUTORY FINANCIAL STATEMENTS ($000's) - CONTINUED

The Company estimates and recognizes adjustments to premiums revenue for the risk adjustment provision by projecting the ultimate premium for the calendar year separately for individual and group plans. Estimated calendar-year settlement amounts are recognized ratably during the year and are revised each period to reflect current experience, including changes in risk scores derived from medical diagnoses submitted by providers. The Company records receivables or payables at the individual or group level.

Risk adjustment calculations will be completed and HHS will notify the Company of recoveries due or payments owed to/from the Company under the permanent risk adjustment program by June 30 of the year following the benefit year. Payments due to HHS under the permanent risk adjustment program must be remitted within 30 days of notification and will be collected prior to the distribution of recoveries by HHS. The ACA risk payable is recorded in unassigned funds on the statements of admitted assets, liabilities, capital and surplus. All other ACA receivables are included in contracts subject to redetermination on the statements of admitted assets, liabilities, capital and surplus.

The impact of risk sharing provision of the ACA on admitted assets, liabilities and revenue as of and for the year ended December 31, 2019, were as follows:

Permanent ACA Risk Adjustment Program	
Assets	
1. Premium adjustments receivable due to ACA Risk Adjustment	$ 2,979
Liabilities	
2. Risk adjustment user fees payable for ACA Risk Adjustment	(7)
3. Premium adjustments payable due to ACA Risk Adjustment	-
Operations (Revenue & Expenses)	
4. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment	4,166
5. Reported in expenses as ACA Risk Adjustment user fees (incurred/paid)	6

The following table is a roll forward of the 2018 asset and liability balances related to the ACA risk-sharing provisions.

	Accrued during the prior year on business written before December 31 of the prior year		(Received) paid as of the current year on business written before December 31 of the prior year		Differences		Adjustments		Unsettled balances as of the reporting date	
					Prior year accrued less payment (Col 1-3)	Prior year accrued less payment (Col 2-4)	To prior year balances	To prior year balances	Cumulative balance from prior years (Col 1-3+7)	Cumulative balance from prior years (Col 2-4+8)
	1	2	3	4	5	6	7	8	9	10
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	Payable
Permanent ACA Risk Adjustment Program										
1. Premium adjustments receivable	$ 2,789	$ -	$ 4,055	$ -	$ (1,265)	$ -	$ 1,265	$ -	$ -	$ -
2. Premium adjustments	-	-	-	-	-	-	-	-	-	-
Total for ACA Risk Sharing Provisions	$ 2,789	$ -	$ 4,055	$ -	$ (1,265)	$ -	$ 1,265	$ -	$ -	$ -

NOTE Q - ASSETS HELD FOR SALE

As of December 31, 2018, the Company transferred $9,168 in property held for the production of income to property classified as held for sale. This property was sold in 2019 for $14,150 resulting in a gain of $128. There were no amounts held for sale as of December 31, 2019.

NOTE R - SUBSEQUENT EVENTS

The Company evaluated its December 31, 2019, financial statements for subsequent events through May 26, 2020, the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in these financial statements, except as disclosed below.

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus outbreak a public health emergency. Although the Company has not experienced a significant impact on its operations and financial results in the first quarter of fiscal year 2020, the duration and intensity of the impact of the coronavirus and the potential resulting disruption to the Company's operations is uncertain. The Company will continue to monitor the situation closely and assess the impact on its operations and financial results as appropriate.

SUPPLEMENTARY INFORMATION

Wisconsin Physicians Service Insurance Corporation

SUMMARY INVESTMENT SCHEDULE ($000’s)

December 31, 2019

INVESTMENT CATEGORIES	Gross investment holdings		Admitted assets as reported in the annual statement	
Bonds				
United States treasury securities	$ 13,493	7.5%	$ 13,493	7.6%
Securities issued by states, territories, and possessions and political subdivisions in the United States	6,751	3.8	6,751	3.9
Other debt and other fixed income securities				
Unaffiliated domestic securities (including credit tenant loans rated SVO	18,656	10.4	18,656	10.5
Unaffiliated foreign securities	154	0.0	154	0.1
Mortgage-backed securities (including residential and commercial MBS)	18,331	10.3	18,331	10.3
Equity interests				
Invested in mutual funds	28,840	16.0	28,840	16.3
Invested in affiliates	30,483	17.0	30,483	17.2
Real estate investments				
Property occupied by Company	26,109	14.6	26,109	14.7
Cash and short-term investments	34,213	19.1	34,213	19.3
Other invested assets	1,833	1.3	-	-
Total invested assets	$ 178,863	100.0%	$ 177,030	100.0%

Wisconsin Physicians Service Insurance Corporation

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES ($000's)

December 31, 2019

1. State the reporting entity's total admitted assets as reported on page 2 of the annual statutory basis statement.

   $329,166

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

Investment	Amount	Percentage of total admitted assets
JP Morgan Chase CMBS	$ 1,086	0.3%
Minneapolis & St Paul Minn Met	536	0.2
Washington St For Issues DTD P	518	0.2
California St Pub Wks Brd Leas	517	0.2
Dallas Fort Worth Tex Intl App	516	0.2
Louisiana Loc Govt Environment	514	0.2
New York St Twy Auth Gen Rev	510	0.2
Chicago IL O'Hare Intl Rev Ser D	509	0.2
Indiana St Fin Auth Rev	507	0.2
Ohio St Commn Tpk Rev	506	0.2

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

Bonds	Amount	Percentage of total admitted assets	Preferred stocks	Amount	Percentage of total admitted assets
NAIC-1	$ 44,029	13.4%	P/RP-1	$ -	-%
NAIC-2	12,946	3.9	P/RP-2	-	-
NAIC-3	235	0.0	P/RP-3	-	-
NAIC-4	-	-	P/RP-4	-	-
NAIC-5	-	-	P/RP-5	-	-
NAIC-6	175	0.0	P/RP-6	-	-

4. Assets held in foreign investments less than 2.5% of the reporting entity's admitted assets; therefore, detail not required for interrogatories 5-10.

   Yes (X) No ( )

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

   None

6. Largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating.

   None

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES ($000's) - CONTINUED

7. Aggregate unhedged foreign currency exposure.

   None

8. Aggregate unhedged foreign currency exposure to a single country, categorized by the country's NAIC sovereign rating.

   None

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

   None

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

    None

11. Assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets, therefore no detail required.

    Yes (X) No (   )

12. Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets, therefore detail not required.

    Yes (X) No (   )

13. Assets held in equity interest less than 2.5% of the reporting entity's total admitted assets.

    Yes (   ) No (X)

    State the amounts and percentages of admitted assets held in the 10 largest equity interests.

Name of issuer	Amount	Percentage of total admitted assets
Vanguard Growth Index Fund	$ 9,763	3.0%
TIAA-CREF L/C Val Indx-Inst	8,368	2.5
Vanguard S&P Small Cap 600 Index Fund	5,825	1.8
Vanguard Developed Markets Index Fund	4,708	1.4
First Business Financial Services	122	0.0
Federal Home Loan Bank Class B2	17	0.0

14. Assets held in non-affiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets, therefore detail not required.

    Yes (X) No (   )

15. Assets held in general partnership interest less than 2.5% of the reporting entity's total admitted assets, therefore detail not required.

    Yes (X) No (   )

16. Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 16 and 17.

    Yes (X) No (   )

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

    None

18. Assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets.

    Yes (X) No (   )

19. Assets held in Mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets.

    Yes (X) No (   )

20. State the amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

    None

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

    None

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

    None

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

    None

INTERNAL CONTROL LETTER

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Board of Directors
Wisconsin Physicians Service Insurance Corporation

In planning and performing our audit of the statutory basis financial statements of Wisconsin Physicians Service Insurance Corporation (the Company) as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America (US GAAS), we considered the Company's internal control over financial reporting as a basis for designing 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 the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 Company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was not designed to identify all deficiencies in internal control that individually, or in combination, might be material. Given the limitations described herein, during our audit we did not identify any deficiencies in internal control that we consider to be unremediated material weaknesses, as previously defined as of December 31, 2019. However, unremediated material weaknesses may exist that were not identified.

This communication is intended solely for the information and use of management, the board of directors, and others within the Company and the Office of the Commissioner of Insurance of the State of Wisconsin and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Grant Thornton LLP

Tampa, Florida
May 26, 2020