

TRILOGY HEALTH INSURANCE, INC.
(A Wholly-Owned Subsidiary of Trilogy Health Holdings, LLC)

STATUTORY FINANCIAL STATEMENTS

December 31, 2015 and 2014


Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

TRILOGY HEALTH INSURANCE, INC.
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December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Stockholder and Board of Directors
Trilogy Health Insurance, Inc.
Brookfield, Wisconsin

We have audited the accompanying financial statements of Trilogy Health Insurance, Inc. (the Company), which are comprised of the statutory balance sheets as of December 31, 2015 and 2014, and the related statutory statements of income, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibilities for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 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 audits 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 Company'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 Company'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 opinions.

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

As described in Note 1 to the financial statements, the financial statements are prepared by the Company in accordance with 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, to meet the requirements of the state of Wisconsin.

The effects on the statutory financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America have not been determined but are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin described in Note 1.

Strohm Ballweg, LLP

Madison, Wisconsin

March 15, 2016

TRILOGY HEALTH INSURANCE, INC.
STATUTORY BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ADMITTED ASSETS		
Bonds (long-term certificates of deposit)	\$ 235,000	\$ 787,761
Cash	<u>6,229,727</u>	<u>2,081,546</u>
Cash and invested assets	<u>6,464,727</u>	2,869,307
Investment income due and accrued	747	13,704
Amounts recoverable from reinsurers	20,346	-
Net deferred tax asset	331,990	-
Electronic data processing equipment	35,160	35,066
Other receivables	<u>440,040</u>	<u>192,222</u>
Total admitted assets	<u>\$ 7,293,010</u>	<u>\$ 3,110,299</u>
LIABILITIES AND CAPITAL AND SURPLUS		
Liabilities:		
Claims unpaid	\$ 2,392,829	\$ 1,704,700
Unpaid claim adjustment expenses	59,182	45,630
Accounts payable and other liabilities	168,652	155,139
Federal income tax payable	6,770	-
Amounts due to affiliates	<u>8,900</u>	<u>920</u>
Total liabilities	<u>2,636,333</u>	<u>1,906,389</u>
Capital and surplus:		
Common stock, \$1 par value, 2,000,000 shares authorized, 1,000,000 shares issued and outstanding	1,000,000	1,000,000
Gross paid in and contributed surplus	5,408,000	5,408,000
Surplus notes	750,000	750,000
Unassigned surplus (deficit)	<u>(2,501,323)</u>	<u>(5,954,090)</u>
Total capital and surplus	<u>4,656,677</u>	<u>1,203,910</u>
Total liabilities and capital and surplus	<u>\$ 7,293,010</u>	<u>\$ 3,110,299</u>

See Notes to Statutory Financial Statements.

TRILOGY HEALTH INSURANCE, INC.
STATUTORY STATEMENTS OF INCOME
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Premiums earned, net of reinsurance	<u>\$ 17,718,056</u>	<u>\$ 5,145,842</u>
Benefits incurred, net of reinsurance	12,282,093	4,476,421
Claims adjustment expenses	743,902	381,144
General administrative expenses	<u>1,475,354</u>	<u>1,107,121</u>
Total underwriting deductions	<u>14,501,349</u>	<u>5,964,686</u>
Net underwriting gain (loss)	3,216,707	(818,844)
Net investment income earned	18,468	24,757
Surplus note interest expense	<u>(75,833)</u>	<u>(855,960)</u>
Total investment and other expense	<u>(57,365)</u>	<u>(831,203)</u>
Net income (loss) before federal income taxes	3,159,342	(1,650,047)
Federal income tax expense	<u>62,770</u>	<u>2,023</u>
Net income (loss)	<u>\$ 3,096,572</u>	<u>\$ (1,652,070)</u>

See Notes to Statutory Financial Statements.

TRILOGY HEALTH INSURANCE, INC.
STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
Years Ended December 31, 2015 and 2014

	Common Stock	Gross Paid In and Contributed Surplus	Surplus Notes	Unassigned Surplus (Deficit)	Total
Balance, January 1, 2014	\$ 1,000,000	\$ 2,770,000	\$ 2,000,000	\$(4,269,660)	\$ 1,500,340
Net loss	-	-	-	(1,652,070)	(1,652,070)
Change in net deferred income tax	-	-	-	70,294	70,294
Change in nonadmitted assets	-	-	-	(102,654)	(102,654)
Change in surplus notes	-	-	(1,250,000)	-	(1,250,000)
Surplus paid in	-	2,638,000	-	-	2,638,000
Balance, December 31, 2014	1,000,000	5,408,000	750,000	(5,954,090)	1,203,910
Net income	-	-	-	3,096,572	3,096,572
Change in net deferred income tax	-	-	-	(1,075,482)	(1,075,482)
Change in nonadmitted assets	-	-	-	1,431,677	1,431,677
Balance, December 31, 2015	<u>\$ 1,000,000</u>	<u>\$ 5,408,000</u>	<u>\$ 750,000</u>	<u>\$(2,501,323)</u>	<u>\$ 4,656,677</u>

See Notes to Statutory Financial Statements.

TRILOGY HEALTH INSURANCE, INC.
STATUTORY STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash from operations:		
Net premiums collected	\$ 17,470,238	\$ 5,145,842
Net investment income received	31,425	24,694
Miscellaneous income received	-	124,488
Benefits and loss related payments	(11,600,758)	(3,123,314)
Commissions and other expenses paid	(2,172,233)	(1,583,657)
Federal and foreign income taxes paid	<u>(56,000)</u>	<u>(9,677)</u>
Net cash from operations	<u>3,672,672</u>	<u>578,376</u>
Cash from investments:		
Proceeds from bonds sold	787,761	-
Cost of bonds acquired	<u>(235,000)</u>	<u>(22,937)</u>
Net cash from investments	<u>552,761</u>	<u>(22,937)</u>
Cash from financing and miscellaneous sources:		
Reduction of surplus notes	-	(2,000,000)
Issuance of surplus notes	-	750,000
Surplus paid in	-	2,638,000
Surplus note interest paid	(75,833)	(855,960)
Other cash applied	<u>(1,419)</u>	<u>(87,096)</u>
Net cash from financing and miscellaneous sources	<u>(77,252)</u>	<u>444,944</u>
Net change in cash	4,148,181	1,000,383
Cash:		
Beginning of year	<u>2,081,546</u>	<u>1,081,163</u>
End of year	<u>\$ 6,229,727</u>	<u>\$ 2,081,546</u>

See Notes to Statutory Financial Statements.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies

Nature of Business. Trilogy Health Insurance, Inc. (the Company) is a wholly-owned subsidiary of Trilogy Health Holdings, LLC (THH). As of January 16, 2014, the Company received an amended certificate of authority and became a health maintenance organization that provides health services to Medicaid recipients under a contract with the Wisconsin Department of Health Services (DHS), specifically BadgerCare Plus and Medicaid Supplemental Security Income eligible recipients.

Prior to January 16, 2014, the Company was a health insurance company that served the needs of the small business fully-insured market, primarily in eastern Wisconsin. In connection with the change in business plan, certain assets of the Company, including cash of \$550,000 and non-insurance contract rights, were assigned to Trilogy Health Solutions, Inc., an affiliate of the Company, in exchange for the assumption of the Company's surplus notes of \$2,000,000. On January 21, 2014, with OCI approval, the Company paid interest owed to the surplus note holders as of December 31, 2013, in the amount of \$855,960. Also following the OCI's review and approval, THH received \$1,198,000 in surplus contributions from three parties on January 21, 2014. THH utilized \$1,188,000 to capitalize the Company on January 22, 2014.

A summary of the Company's significant accounting policies follows:

Basis of Presentation. The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the OCI. Prescribed statutory accounting practices include state insurance laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The Company had no such specifically permitted practices. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP) was adopted as a component of prescribed or permitted practices by the OCI.

Statutory accounting practices vary in some respects from U.S. generally accepted accounting principles (GAAP). Such significant differences include the following:

- Investments in bonds (long-term certificates of deposit) are classified and reported as bonds; under GAAP, these investments would be classified and reported as long-term investments.
- Certain assets designated as "nonadmitted assets" (principally deferred tax assets, furniture and fixtures, nonoperating software, and prepaid expenses) are charged against surplus; under GAAP, furniture and fixtures and nonoperating software would be recognized as assets net of accumulated depreciation; and prepaid expenses would be recorded as an asset. Deferred taxes would be accounted for as reflected later in this note.
- Acquisition costs, including salaries and other items, are charged to current operations as incurred; under GAAP, these acquisition costs would be deferred and recognized as an expense over the periods covered by the policies.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

- Deferred income taxes are provided for differences between the financial statement and the tax bases of assets and liabilities. However, limitations are placed on the admissibility of deferred tax assets and all changes in deferred tax assets and liabilities are reported as changes in surplus, and state income taxes are excluded from the calculation. Under GAAP, deferred income taxes would be provided for differences between the financial statement and the tax bases of assets and liabilities and any deferred tax assets would be reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized and changes in deferred tax assets and liabilities would be reported through operations and/or surplus depending on their characteristics, and state income taxes would be included in the calculation.
- Surplus notes are classified as a component of capital and surplus, and interest is not accrued until the payment of the interest is approved by the OCI; under GAAP, surplus notes would be classified as liabilities and interest would be accrued through the financial statement date.
- Statutory financial statements are prepared in a form using language and groupings substantially the same as the annual statement of the Company filed with the NAIC and state regulatory authorities which differ from the presentation and disclosure of financial statements presented under GAAP.

The effects of these variances from GAAP on the accompanying statutory financial statements have not been determined.

Accounting Estimates. The preparation of statutory 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. Estimates that are particularly susceptible to significant change in the near-term due to relatively little development experience are the liabilities for claims unpaid and unpaid claim adjustment expenses. In estimating these liabilities, management uses the methodology discussed in the claims payable and unpaid claim adjustment expenses paragraph of this note. In addition, management estimates the amount of deferred tax assets expected to be realized in future years and health care receivables are based upon management's judgement of the ultimate collectability of the accounts.

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

Bonds. Bonds consist of investments in long-term certificates of deposit and are carried at cost, which approximates fair value. Bonds are the Company's only financial instruments and are categorized at Level 2 in a fair value hierarchy based on the reliability of inputs to the valuation techniques.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

Fair Value Measurements. Financial instruments are categorized in a fair value hierarchy based on the reliability of inputs to the valuation techniques as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Company does not have any financial instruments in Level 1 or Level 3. The Company does not have any liabilities measured at fair value at December 31, 2015 and 2014. The Company also did not have any transfers between levels in 2015 or 2014.

Cash. For purposes of reporting cash flows, the Company follows statutory accounting practices and considers cash in checking accounts and certain money market accounts to be cash. Total deposits of \$6,464,727 were held at two financial institutions at December 31, 2015, with balances that exceed the amount insured by the Federal Deposit Insurance Corporation. The Company does not believe it is exposed to any significant credit risk on the amounts not insured.

Furniture and Equipment. Electronic Data Processing equipment is recorded as an admitted asset at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of the assets' useful lives or three years.

Furniture and equipment and nonoperating software are considered nonadmitted assets for statutory financial statement reporting purposes. Straight-line depreciation is calculated on these assets and charged to expense over their useful lives, which vary from three to seven years. Leasehold improvements are also considered nonadmitted assets for statutory financial reporting purposes. Straight-line depreciation is calculated on leasehold improvements and charged to expense over the life of the lease. The net change in book value (cost less depreciation) is charged or credited directly to surplus.

Depreciation expense for all depreciable assets was \$33,372 and \$31,864 in 2015 and 2014, respectively.

Note 1 ~ Nature of Business and Summary of Significant Accounting Policies (Continued)

Other Receivables. Receivables from DHS are stated at net realizable value, based upon management's judgment of the ultimate collectability of the accounts. Collection trends are monitored and any adjustments required are reflected in current earnings.

Claims Unpaid and Unpaid Claim Adjustment Expenses. The liabilities for claims unpaid and unpaid claim adjustment expenses include amounts determined by using company experience and industry averages to estimate amounts incurred but unpaid. Such liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liabilities will differ from the amounts provided. The methods for making such estimates and for establishing the resulting liabilities are annually reviewed, and any adjustments are reflected in income currently.

Contract with the Wisconsin Department of Health Services. The Plan has a contract with DHS to provide services to qualified Medicaid recipients in exchange for monthly interim payments. The contract represents the majority of the Company's source of premium income for the years ended December 31, 2015 and 2014.

Recognition of Premium. The Company recognizes premiums as revenue in the period in which the coverage relates.

Medicaid Pass-Through Payments. The Company receives certain payments from the Medicaid program, which are fully passed through to designated providers. The Company, therefore, serves as a fiscal conduit between the State of Wisconsin and providers and does not assume insurance risk in such arrangements. The Company received instruction from the OCI to exclude such payments from the statutory statements of income. The Company received pass-through payments amounting to \$2,380,685 and \$664,406 in 2015 and 2014, respectively. The Company records a liability when funding is received from the state, and relieves the liability when payments are made to providers.

Reinsurance. Reinsurance premiums, claim and claim adjustment expense recoveries, and receivables related to reinsured business, are accounted for based on the terms of the reinsurance contracts.

Federal Income Taxes. The Company is taxed as an insurance company under Section 831 of the Internal Revenue Code. The Company records deferred income taxes on temporary differences between the financial and tax bases of the Company's assets and liabilities based upon enacted tax rates.

Subsequent Events. Subsequent events were evaluated through March 15, 2016, which is the date the financial statements were available to be issued.

TRILOGY HEALTH INSURANCE, INC.
NOTES TO STATUTORY FINANCIAL STATEMENTS
December 31, 2015 and 2014

Note 2 ~ Claims Unpaid and Unpaid Claim Adjustment Expenses

Activity in the liabilities for claims unpaid and unpaid claims adjustment expenses for the years ended December 31, 2015 and 2014, are summarized as shown below:

	<u>2015</u>	<u>2014</u>
Balance at January 1	\$ 1,750,330	\$ 205,000
Less reinsurance recoveries	-	-
Net balance at January 1	<u>1,750,330</u>	<u>205,000</u>
Incurred related to:		
Current year	13,460,199	4,857,565
Prior years	(434,204)	-
Total incurred	<u>13,025,995</u>	<u>4,857,565</u>
Paid related to:		
Current year	11,008,188	3,107,235
Prior years	1,316,126	205,000
Total paid	<u>12,324,314</u>	<u>3,312,235</u>
Net balance at December 31	2,452,011	1,750,330
Plus reinsurance recoveries	-	-
Balance at December 31	<u>\$ 2,452,011</u>	<u>\$ 1,750,330</u>

The Company began its new business plan as a health maintenance organization in 2014 while its prior year's group health business was in run-off. There was no change in estimates on prior year net losses and claim adjustment expenses incurred as amounts were assumed under the agreement with Trilogy Health Solutions during run-off. In 2015, the liability for claims unpaid developed favorably, primarily due to lower than anticipated medical claims.

Note 3 ~ Reinsurance

The Company utilizes a reinsurance agreement to reduce its exposure to large losses. Reinsurance permits recovery of a portion of large losses, but it does not discharge the primary liability of the Company as direct insurer of the risks reinsured. The Company purchases excess of loss reinsurance coverage for any individual's claims that exceeded \$200,000 on a cumulative basis during the contract period.

The following table presents the effects of this excess of loss reinsurance contract on financial statement amounts as of and for the year ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Premiums ceded	\$ 146,730	\$ 46,159
Benefits recovered	143,647	-
Benefits recoverable	20,346	-

TRILOGY HEALTH INSURANCE, INC.
NOTES TO STATUTORY FINANCIAL STATEMENTS
December 31, 2015 and 2014

Note 4 ~ Federal Income Taxes

Federal income tax expense differs from the amount obtained by applying the federal income tax rate of 34 percent to pretax income for the years ended December 31, 2015 and 2014, due to the following:

	2015	2014
Computed expected federal income tax (benefit)	\$ 1,074,176	\$ (561,016)
Increase (decrease) in taxes resulting from:		
Discounting of claim liabilities	1,660	4,515
Gain on surplus notes assumed by affiliate	-	493,000
Net operating loss carryforward (utilized)	(1,067,087)	72,988
Alternative minimum tax	62,770	-
Other	(8,749)	(7,464)
Federal income tax expense	\$ 62,770	\$ 2,023

The components of the net deferred tax asset/(liability) at December 31, 2015 and 2014, were as follows:

	Ordinary	Capital	Total
<u>2015</u>			
Gross deferred tax assets	\$ 386,423	\$ -	\$ 386,423
Statutory valuation allowance	-	-	-
	386,423	-	386,423
Deferred tax asset nonadmitted	(54,433)	-	(54,433)
	331,990	-	331,990
Deferred tax liability	-	-	-
	\$ 331,990	\$ -	\$ 331,990
<u>2014</u>			
Gross deferred tax assets	\$ 1,461,905	\$ -	\$ 1,461,905
Statutory valuation allowance	-	-	-
	1,461,905	-	1,461,905
Deferred tax asset nonadmitted	(1,461,905)	-	(1,461,905)
	-	-	-
Deferred tax liability	-	-	-
	\$ -	\$ -	\$ -

TRILOGY HEALTH INSURANCE, INC.
NOTES TO STATUTORY FINANCIAL STATEMENTS
December 31, 2015 and 2014

Note 4 ~ Federal Income Taxes (Continued)

The admitted deferred tax asset was determined using the guidance related to admissibility provided in the following paragraphs of NAIC *Statement of Statutory Accounting Principles No. 101 (SSAP 101)*:

	Ordinary	Capital	Total
<u>2015</u>			
11a. Ability to recover taxes paid in prior years	\$ -	\$ -	\$ -
11b. Expected to be realized, after application of threshold limitations	331,990	-	331,990
11c. Offset of deferred tax liabilities	-	-	-
	\$ 331,990	\$ -	\$ 331,990
		2015	2014
Ratio Used to Determine Recovery Period and Threshold Limitation amount under paragraph 11b		555%	349%
Amount of Adjusted Capital And Surplus Used To Determine Recovery Period And Threshold Limitation under paragraph 11b		\$ 4,324,687	\$ 1,203,910

TRILOGY HEALTH INSURANCE, INC.
NOTES TO STATUTORY FINANCIAL STATEMENTS
December 31, 2015 and 2014

Note 4 ~ Federal Income Taxes (Continued)

The major components of current income taxes incurred and net deferred tax assets as of December 31, 2015 and 2014, were as follows:

	2015	2014	Change
Current income tax (benefit):			
Federal	\$ 62,770	\$ 2,023	\$ 60,747
Federal income tax on net capital gains	-	-	-
Utilization of capital loss carryforwards	-	-	-
Federal income taxes incurred	62,770	2,023	60,747
Deferred tax assets:			
Unpaid loss and LAE	6,916	5,256	1,660
Fixed assets	20,007	23,554	(3,547)
Compensation and benefit accruals	9,393	8,115	1,278
Nonadmitted assets	5,480	5,526	(46)
Net operating loss carryforward	286,265	1,354,039	(1,067,774)
Other	58,362	65,415	(7,053)
Total deferred tax assets	386,423	1,461,905	(1,075,482)
Non-admitted deferred tax assets	54,433	1,461,905	(1,407,472)
Total admitted deferred tax assets	331,990	-	331,990
Deferred tax liabilities:			
Net unrealized capital gains	-	-	-
Other	-	-	-
Total deferred tax liabilities	-	-	-
Net deferred tax assets	\$ 331,990	\$ -	\$ 331,990

At December 31, 2015, the Company had no income taxes incurred in the current and prior year that are available for recoupment in the event of future net operating losses. At December 31, 2015, the Company had a federal net operating loss carryforward of \$841,954, which expires in various amounts through 2034. In addition, the Company has \$78,448 of alternative minimum tax credit carryforward that can be used to offset future federal income tax expense.

The Company also pays Wisconsin income taxes at a rate of 7.9 percent of Wisconsin taxable income. The Company incurred no Wisconsin state income taxes for the years ended December 31, 2015 and 2014.

As of December 31, 2015, the Company had not identified any material loss contingencies arising from uncertain tax positions. The Company had no tax-planning strategies that had a material impact on adjusted gross and net admitted deferred tax assets.

Note 5 ~ Related Party Transactions

In 2014, in connection with the change in business plan described in Note 1, certain assets of the Company, including cash of \$550,000 and non-insurance contract rights, were assigned to Trilogy Health Solutions, Inc. (THS), an affiliate of the Company, in exchange for the assumption of the Company's surplus notes of \$2,000,000. The difference of \$1,450,000 was an addition to Gross Paid In Surplus.

Following OCI's review and approval, THH received \$1,198,000 in surplus contributions from three parties on January 21, 2014. THH utilized \$1,188,000 to capitalize the Company on January 22, 2014.

Under Administrative Services Agreements, the Company provides personnel and certain administrative services to THS and receives certain administrative services from Scas Management Group (SMG) and Independent Physician's Network (IPN). SMG and IPN are voting members of THH.

Total expenses charged to (from) the Company's related parties were as follows for the years ended December 31:

	2015	2014
THS	\$ 1,531,004	\$ 1,140,637
SMG	(938,138)	(522,350)
IPN	(466,436)	(139,299)
	\$ 126,430	\$ 478,988

Amounts due to THS are \$8,900 and \$920 at December 31, 2015 and 2014, respectively. Amounts due to SMG are \$3,465 and \$6,940 at December 31, 2015 and 2014, respectively.

Note 6 ~ 401(k) Plan

The Company provides eligible employees with a 401(k) qualified retirement plan as a means of savings for retirement. Employees become eligible to participate in the plan in the first month following their date of hire. Subject to certain limitations, employees may contribute up to 96 percent of their pre-tax salaries. The Company matches 100 percent of employee contributions up to the first 3 percent of salaries and 50 percent of employee contributions between 3 percent and 5 percent of salaries. Employees immediately vest in the employer matching contribution. The total contribution to the 401(k) plan was \$45,311 and \$38,416 in 2015 and 2014, respectively.

Note 7 ~ Commitments and Contingencies

The Company leases office space under a noncancelable operating lease agreement. Rental expense, including base rent and common area maintenance charges, was \$118,450 and \$117,737 in 2015 and 2014, respectively.

Note 7 ~ Commitments and Contingencies (Continued)

The Company also leases copier equipment under noncancelable operating lease agreements. Rental expense for copier leases was \$9,805 and \$9,894 in 2015 and 2014, respectively.

The leases expire in 2016 and the minimum aggregate rental commitment is \$104,284.

Note 8 ~ Capital and Surplus

The Company is required to maintain minimum capital and surplus established by OCI including calculations for compulsory and security surplus. The compulsory surplus calculation requires the Company to maintain a minimum surplus of \$750,000. The security surplus calculation requires the Company to have surplus in excess of 140 percent of the minimum compulsory surplus. In addition, the Company is subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by OCI. The RBC standards establish uniform minimum capital and surplus requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk.

The Company is also subject to a stipulation and order from the OCI that states the Company must meet prescribed compulsory and security surplus standards and maintain an RBC ratio of not less than 250 percent. If these requirements are not met, the Company must cease accepting any form of new insurance risk until the OCI lifts the stipulation. At December 31, 2015, the Company met all capital and surplus requirements.

The Company incurred a net loss of (\$1,652,070) during the year ended December 31, 2014, and as of that date, had total capital and surplus of \$1,203,910, only slightly above regulatory requirements. These factors created uncertainties about the Company's ability to continue as a going concern as of December 31, 2014. Management changed the Company's business model (as discussed in Note 1) that resulted in significantly improved operations in 2015, and as of December 31, 2015, the Company's capital and surplus has increased to \$4,656,677 and exceeded all capital and surplus requirements. As of January 1, 2016, the Company has renewed its contract with the Wisconsin Department of Health Services and is expecting that operations will continue to produce net income in future years. These facts alleviate the uncertainties about the Company's ability to continue as a going concern as of December 31, 2015.

TRILOGY HEALTH INSURANCE, INC.
NOTES TO STATUTORY FINANCIAL STATEMENTS
December 31, 2015 and 2014

Note 8 ~ Capital and Surplus (Continued)

The Company's unassigned surplus was reduced by the following cumulative amounts at December 31:

		2015		2014
Nonadmitted assets	\$	83,281	\$	1,514,958

For cash received, the Company issued surplus notes to two individual owners of THH in 2014. The surplus notes are subordinate to all policyholder claims, all creditors, and all obligations of the Company. Repayment of principal and/or interest may be made only with prior approval of the OCI. Additional information regarding the surplus notes is as follows:

Date Issued	Interest Rate	Par Value of Note	Carrying Value of Note	Principal and/or Interest Paid 2015	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
6/2/2014	7%	\$ 500,000	\$ 500,000	\$ 55,416	\$ 55,416	\$ -	6/1/2017
10/31/2014	7%	250,000	250,000	20,417	20,417	-	10/31/2017
		\$ 750,000	\$ 750,000	\$ 75,833	\$ 75,833	\$ -	

**INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION**

To the Stockholder and Board of Directors
Trilogy Health Insurance, Inc.
Brookfield, Wisconsin

Our audits were made for the purpose of forming an opinion on the statutory financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the statutory financial statements. The 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. This information is presented in a format consistent with the Annual Statement filed by the Company with the OCI. Such information has been subjected to the auditing procedures applied in the audit of the statutory 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

Strohm Ballweg, LLP

Madison, Wisconsin
March 15, 2016

TRILOGY HEALTH INSURANCE, INC.
INVESTMENT RISKS INTERROGATORIES
December 31, 2015

1. Reporting entity's total admitted assets as reported on page two of the annual statement. \$ 7,293,010

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

Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01 Park Bank	Cash and Money Market	\$ 5,641,599	77.356%
2.02 BMO Harris Bank	CD and Money Market	\$ 823,128	11.287%
2.03		\$	%
2.04		\$	%
2.05		\$	%
2.06		\$	%
2.07		\$	%
2.08		\$	%
2.09		\$	%
2.10		\$	%

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

Bonds			Preferred Stocks		
3.01 NAIC - 1	\$ 235,000	3.222%	3.07 P/RP - 1	\$	%
3.02 NAIC - 2	\$	%	3.08 P/RP - 2	\$	%
3.03 NAIC - 3	\$	%	3.09 P/RP - 3	\$	%
3.04 NAIC - 4	\$	%	3.10 P/RP - 4	\$	%
3.05 NAIC - 5	\$	%	3.11 P/RP - 5	\$	%
3.06 NAIC - 6	\$	%	3.12 P/RP - 6	\$	%

1. 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

4.02 Total admitted assets held in foreign investments \$ _____ %

4.03 Foreign-currency-denominated investments \$ _____ %

4.04 Insurance liabilities denominated in that same foreign currency \$ _____ %

(If response to 4.01 above is yes, responses are not required for Interrogatories 5-10.)

TRILOGY HEALTH INSURANCE, INC.
INVESTMENT RISKS INTERROGATORIES
December 31, 2015

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

5.01	Countries rated NAIC – 1	\$ _____	_____ %
5.02	Countries rated NAIC – 2	\$ _____	_____ %
5.03	Countries rated NAIC – 3 or below	\$ _____	_____ %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

Countries rated NAIC – 1

6.01		\$ _____	_____ %
6.02		\$ _____	_____ %

Countries rated NAIC – 2

6.03		\$ _____	_____ %
6.04		\$ _____	_____ %

Countries rated NAIC – 3 or below

6.05		\$ _____	_____ %
6.06		\$ _____	_____ %

7. Aggregate unhedged foreign currency exposure \$ _____ %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

8.01	Countries rated NAIC – 1	\$ _____	_____ %
8.02	Countries rated NAIC – 2	\$ _____	_____ %
8.03	Countries rated NAIC – 3 or below	\$ _____	_____ %

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

Countries rated NAIC – 1

9.01		\$ _____	_____ %
9.02		\$ _____	_____ %

Countries rated NAIC – 2

9.03		\$ _____	_____ %
9.04		\$ _____	_____ %

Countries rated NAIC – 3 or below

9.05		\$ _____	_____ %
9.06		\$ _____	_____ %

TRILOGY HEALTH INSURANCE, INC.
INVESTMENT RISKS INTERROGATORIES
December 31, 2015

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

Issuer	NAIC Rating	Amount	Percent
10.01		\$	%
10.02		\$	%
10.03		\$	%
10.04		\$	%
10.05		\$	%
10.06		\$	%
10.07		\$	%
10.08		\$	%
10.09		\$	%
10.10		\$	%

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes No
(If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.)

11.02 Total admitted assets held in Canadian investments	\$	%
11.03 Canadian-currency-denominated investments	\$	%
11.04 Canadian-denominated insurance liabilities	\$	%
11.05 Unhedged Canadian currency exposure	\$	%

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restriction:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes No
(If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.)

12.02 Aggregate statement value of investments with contractual sales restrictions	\$	%
Largest 3 investments with contractual sales restrictions:		
12.03	\$	%
12.04	\$	%
12.05	\$	%

TRILOGY HEALTH INSURANCE, INC.
INVESTMENT RISKS INTERROGATORIES
December 31, 2015

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes No
(If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.)

Assets held in equity interests:

13.02 _____	\$ _____	_____ %
13.03 _____	\$ _____	_____ %
13.04 _____	\$ _____	_____ %
13.05 _____	\$ _____	_____ %
13.06 _____	\$ _____	_____ %
13.07 _____	\$ _____	_____ %
13.08 _____	\$ _____	_____ %
13.09 _____	\$ _____	_____ %
13.10 _____	\$ _____	_____ %
13.11 _____	\$ _____	_____ %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes No
(If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.)

14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities \$ _____ %

Largest 3 investments held in nonaffiliated, privately placed equities:

14.03 _____	\$ _____	_____ %
14.04 _____	\$ _____	_____ %
14.05 _____	\$ _____	_____ %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes No
(If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.)

TRILOGY HEALTH INSURANCE, INC.
INVESTMENT RISKS INTERROGATORIES
December 31, 2015

15.02 Aggregate statement value of investments held in general partnership interests \$ _____ %

Largest 3 investments held in general partnership interests:

15.03 _____ \$ _____ %

15.04 _____ \$ _____ %

15.05 _____ \$ _____ %

16. Amounts and percentages of the reporting entity's total admitted assets held in the largest 10 mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes No
(If response to 16.01 above is yes, responses are not required for the remainder of Interrogatories 16 and 17.)

Total admitted assets held in Mortgage Loans:

16.02 _____ \$ _____ %

16.03 _____ \$ _____ %

16.04 _____ \$ _____ %

16.05 _____ \$ _____ %

16.06 _____ \$ _____ %

16.07 _____ \$ _____ %

16.08 _____ \$ _____ %

16.09 _____ \$ _____ %

16.10 _____ \$ _____ %

16.11 _____ \$ _____ %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

16.12 Construction loans \$ _____ %

16.13 Mortgage loans over 90 days past due \$ _____ %

16.14 Mortgage loans in the process of foreclosure \$ _____ %

16.15 Mortgage loans foreclosed \$ _____ %

16.16 Restructured mortgage loans \$ _____ %

TRILOGY HEALTH INSURANCE, INC.
INVESTMENT RISKS INTERROGATORIES
December 31, 2015

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

Loan-to-Value	Residential		Commercial		Agricultural	
17.01 Above 95%	\$ _____	% _____	\$ _____	% _____	\$ _____	% _____
17.02 91% to 95%	\$ _____	% _____	\$ _____	% _____	\$ _____	% _____
17.03 81% to 90%	\$ _____	% _____	\$ _____	% _____	\$ _____	% _____
17.04 71% to 80%	\$ _____	% _____	\$ _____	% _____	\$ _____	% _____
17.05 below 70%	\$ _____	% _____	\$ _____	% _____	\$ _____	% _____

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported in less than 2.5% of the reporting entity's total admitted assets? Yes No
(If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.)

Assets held in the 5 Largest Real Estate Holdings:

18.02 _____	\$ _____	% _____
18.03 _____	\$ _____	% _____
18.04 _____	\$ _____	% _____
18.05 _____	\$ _____	% _____
18.06 _____	\$ _____	% _____

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes No
(If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.)

19.02 Aggregate statement value of investments held in mezzanine loans \$ _____ %

Largest three investments held in mezzanine real estate loans:

19.03 _____	\$ _____	% _____
19.04 _____	\$ _____	% _____
19.05 _____	\$ _____	% _____

TRILOGY HEALTH INSURANCE, INC.
INVESTMENT RISKS INTERROGATORIES
December 31, 2015

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		
			1 st Qtr	2 nd Qtr	3 rd Qtr
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$ _____	% _____	\$ _____	\$ _____	\$ _____
20.02 Repurchase agreements	\$ _____	% _____	\$ _____	\$ _____	\$ _____
20.03 Reverse repurchase agreements	\$ _____	% _____	\$ _____	\$ _____	\$ _____
20.04 Dollar repurchase agreements	\$ _____	% _____	\$ _____	\$ _____	\$ _____
20.05 Dollar reverse repurchase agreements	\$ _____	% _____	\$ _____	\$ _____	\$ _____

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

	Owned		Written	
	\$ _____	% _____	\$ _____	% _____
21.01 Hedging	\$ _____	% _____	\$ _____	% _____
21.02 Income generation	\$ _____	% _____	\$ _____	% _____
21.03 Other	\$ _____	% _____	\$ _____	% _____

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

	At Year-End		At End of Each Quarter		
			1 st Qtr	2 nd Qtr	3 rd Qtr
22.01 Hedging	\$ _____	% _____	\$ _____	\$ _____	\$ _____
22.02 Income generation	\$ _____	% _____	\$ _____	\$ _____	\$ _____
22.03 Replications	\$ _____	% _____	\$ _____	\$ _____	\$ _____
22.04 Other	\$ _____	% _____	\$ _____	\$ _____	\$ _____

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

	At Year-End		At End of Each Quarter		
			1 st Qtr	2 nd Qtr	3 rd Qtr
23.01 Hedging	\$ _____	% _____	\$ _____	\$ _____	\$ _____
23.02 Income generation	\$ _____	% _____	\$ _____	\$ _____	\$ _____
23.03 Replications	\$ _____	% _____	\$ _____	\$ _____	\$ _____
23.04 Other	\$ _____	% _____	\$ _____	\$ _____	\$ _____

TRILOGY HEALTH INSURANCE, INC.
SUMMARY INVESTMENT SCHEDULE
December 31, 2015

	Gross Investment Holdings*		Admitted Assets as Reported In the Annual Statement**	
	Amount	Percentage	Amount	Percentage
1. Bonds				
1.1 U.S. treasury securities	\$	%	\$	%
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	\$	%	\$	%
1.22 Issued by U.S. government-sponsored agencies	\$	%	\$	%
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	\$	%	\$	%
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 State, territory, and possession general obligations	\$	%	\$	%
1.42 Political subdivisions of states, territories, and possessions and political subdivisions general obligations	\$	%	\$	%
1.43 Revenue and assessment obligations	\$	%	\$	%
1.44 Industrial development and similar obligations	\$	%	\$	%
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA	\$	%	\$	%
1.512 Issued or guaranteed by FNMA and FHLMC	\$	%	\$	%
1.513 All other	\$	%	\$	%
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC, or VA	\$	%	\$	%
1.522 Issued by non-U.S. government issuers and collateralized by MBS issued or guaranteed by agencies shown in Line 1.521	\$	%	\$	%
1.523 All other	\$	%	\$	%
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	\$ 235,000	3.635%	\$ 235,000	3.635%
2.2 Unaffiliated non-U.S. securities (including Canada)	\$	%	\$	%
2.3 Affiliated securities	\$	%	\$	%

TRILOGY HEALTH INSURANCE, INC.
SUMMARY INVESTMENT SCHEDULE
December 31, 2015

	<u>Gross Investment Holdings*</u>		<u>Admitted Assets as Reported In the Annual Statement**</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
3. Equity interests:				
3.1 Investments in mutual funds	\$ _____	%	\$ _____	%
3.2 Preferred stocks:				
3.21 Affiliated	\$ _____	%	\$ _____	%
3.22 Unaffiliated	\$ _____	%	\$ _____	%
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated	\$ _____	%	\$ _____	%
3.32 Unaffiliated	\$ _____	%	\$ _____	%
3.4 Other equity securities:				
3.41 Affiliated	\$ _____	%	\$ _____	%
3.42 Unaffiliated	\$ _____	%	\$ _____	%
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated	\$ _____	%	\$ _____	%
3.52 Unaffiliated	\$ _____	%	\$ _____	%
4. Mortgage loans:				
4.1 Construction and land development	\$ _____	%	\$ _____	%
4.2 Agricultural	\$ _____	%	\$ _____	%
4.3 Single family residential properties	\$ _____	%	\$ _____	%
4.4 Multifamily residential properties	\$ _____	%	\$ _____	%
4.5 Commercial loans	\$ _____	%	\$ _____	%
4.6 Mezzanine real estate loans	\$ _____	%	\$ _____	%
5. Real estate investments:				
5.1 Property occupied by company	\$ _____	%	\$ _____	%
5.2 Property held for production of income (includes \$_____ of property acquired in satisfaction of debt)	\$ _____	%	\$ _____	%
5.3 Property held for sale (including \$_____ property acquired in satisfaction of debt)	\$ _____	%	\$ _____	%
6. Contract loans	\$ _____	%	\$ _____	%
7. Derivatives	\$ _____	%	\$ _____	%
8. Receivables for securities	\$ _____	%	\$ _____	%
9. Securities lending	\$ _____	%	\$ _____	%
10. Cash, cash equivalents, and short-term investments	\$ 6,229,727	96.365%	\$ 6,229,727	96.365%
11. Other invested assets	\$ _____	%	\$ _____	%
12. Total invested assets	\$ 6,464,727	100.000%	\$ 6,464,727	100.000%

*Gross Investment Holdings as valued in compliance with NAIC *Accounting Practices & Procedures Manual*.

**The Company has no admitted assets in reinvested collateral related to securities lending.