My Choice Family Care, Inc.

(a not-for-profit corporation)

Financial Report

December 31, 2018

Contents

Independent Auditor's Report

To the Audit Committee
My Choice Family Care, Inc.

We have audited the accompanying financial statements of My Choice Family Care, Inc. (the "Company"), which comprise the statement of financial position as of December 31, 2018 and 2017 and the related statements of activities and changes in net assets 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of My Choice Family Care, Inc. as of December 31, 2018 and 2017 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Company adopted the provisions of Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, as of December 31, 2018. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

May 28, 2019

Statement of Financial Position

December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 68,266,608	$ 52,759,243
Short-term investments	-	9,000,000
Accounts receivable:		
Member accounts receivable - Net (Note 3)	1,389,889	915,218
Performance incentive receivable (Note 2)	1,571,716	-
Other	243,722	525,309
Total accounts receivable	3,205,327	1,440,527
Prepaid expenses and other current assets	346,176	318,948
Total current assets	71,818,111	63,518,718
Property and Equipment - Net (Note 4)	3,551,041	3,124,992
Restricted Assets - Short-term investments (Note 8)	6,027,224	6,369,687
Total assets	**$ 81,396,376**	**$ 73,013,397**
Liabilities and Net Assets		
Current Liabilities		
Unpaid claims, claim adjustment, and care management expenses: (Note 6)		
Claims incurred but not reported and unpaid reported claims	$ 26,059,367	$ 24,222,254
Care management expenses	1,573,417	1,857,300
Claim adjustment expenses	162,858	158,350
Total unpaid claims, claim adjustment, and care management expenses	27,795,642	26,237,904
Accounts payable and accrued expenses	603,513	714,523
Current portion of capital lease obligation (Note 11)	44,384	-
Capitation payable	442,016	1,665,563
Amounts payable relating to uninsured plans	1,966,156	-
Accrued payroll-related expenses	828,098	588,585
Total current liabilities	31,679,809	29,206,575
Capital Lease Obligation (Note 11)	134,373	-
Total liabilities	31,814,182	29,206,575
Net Assets - Without donor restrictions	49,582,194	43,806,822
Total liabilities and net assets	**$ 81,396,376**	**$ 73,013,397**

See notes to financial statements.

Statement of Activities and Changes in Net Assets

Years Ended December 31, 2018 and 2017

	2018	2017
Revenue		
Premiums earned:		
Capitation revenue	$ 295,435,728	$ 279,773,634
Member obligation revenue	38,420,424	36,545,842
Other revenue	807,147	1,270,225
Total premiums earned and other revenue	334,663,299	317,589,701
Operating Expenses		
Member service costs (Note 6)	284,003,875	262,773,552
Care management expenses (Note 6)	31,135,430	31,404,694
Claim adjustment expenses (Note 6)	1,935,662	1,770,405
General and administrative	13,308,748	10,718,513
Total operating expenses	330,383,715	306,667,164
Operating Income	4,279,584	10,922,537
Nonoperating Income - Net investment income (Note 5)	1,071,607	221,759
Income - Before contributions	5,351,191	11,144,296
Contribution from State of Wisconsin Department of Health Services (Note 8)	424,181	-
Change in Net Assets	5,775,372	11,144,296
Net Assets - Beginning of year	43,806,822	32,662,526
Net Assets - End of year	**$ 49,582,194**	**$ 43,806,822**

Statement of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 5,775,372	$ 11,144,296
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	490,978	346,363
Loss on disposal of equipment	432	5,286
Changes in operating assets and liabilities:		
Accounts receivable - Net	(1,764,800)	144,103
Capitation receivable	-	7,368,303
Prepaid expenses and other current assets	(27,228)	14,978
Unpaid claims, claim adjustment, and care management expenses	1,557,738	1,368,181
Accounts payable and accrued expenses	(111,010)	(323,342)
Accrued payroll-related expenses	239,513	399,013
Capitation payable	(1,223,547)	1,665,563
Amounts payable relating to uninsured plans	1,966,156	-
Net cash provided by operating activities	6,903,604	22,132,744
Cash Flows from Investing Activities		
Purchases of property and equipment	(715,075)	(1,930,317)
Purchases of short-term investments	-	(14,304,569)
Proceeds from sales and maturities of short-term investments	9,342,463	-
Net cash provided by (used in) investing activities	8,627,388	(16,234,886)
Cash Flows Used in Financing Activities - Payments on capital lease obligations	(23,627)	-
Net Increase in Cash and Cash Equivalents	15,507,365	5,897,858
Cash and Cash Equivalents - Beginning of year	52,759,243	46,861,385
Cash and Cash Equivalents - End of year	**$ 68,266,608**	**$ 52,759,243**
Significant Noncash Transactions - Equipment obtained via capital lease	$ 202,384	$ -

See notes to financial statements.

Note 1 - Nature of Business

My Choice Family Care, Inc. (the "Company" or MCFC) is a Managed Care Organization (MCO) that operates the State of Wisconsin Family Care Program (Family Care). The Company administers the family care benefit for both frail elders (age 65 and over) and persons with disabilities (ages 18 and over) who are determined to be eligible by a resource center. MCFC is responsible for creating a comprehensive plan of care for eligible members, contracting with a wide range of service providers, and monitoring the quality of services that members receive. MCFC delivers member-centered, community-based, outcome-focused, managed long-term care services and member-centered care planning for all Family Care members. In return for coordinating and managing these services, MCFC receives a capitated rate payment per member per month from the State of Wisconsin. As of December 31, 2018 and 2017, MCFC offers the family care benefit to eligible members in 26 and 9 counties, respectively.

Note 2 - Significant Accounting Policies

Basis of Presentation

The financial statements of the Company have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP).

Cash, Cash Equivalents, and Short-term Investments

Cash and cash equivalents include cash and highly liquid certificates of deposit with a maturity of three months or less. Short-term investments consist of certificates of deposit with a maturity of greater than three months. Certificates of deposit are carried at cost, which approximates fair market value.

Cash, cash equivalents, and short-term investment balances on deposit with the bank exceed the federal depository insurance limit. Custodial credit risk is the risk that, in the event of a bank failure, the Company's deposits may not be returned to it. The Company's policy related to custodial credit risk of bank deposits is to maintain all deposits in a high-quality institution. The Company maintains balances in its deposit accounts to adequately cover current operating and claims payment expenses and, as a result, generally requires balances that exceed the federal depository insurance limit. The Company believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is not always practical to insure all deposits. As a result, the Company evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

All of the Company's cash, cash equivalents, and short-term investments are held in custody at U.S. Bank.

Cash, cash equivalents, and short-term investments that are limited in their use by contractual agreements are presented separately on the statement of financial position as restricted assets.

Property and Equipment

Property and equipment are recorded at cost less depreciation. Property and equipment are depreciated over their estimated useful lives using the straight-line method. Costs of maintenance and repairs are charged to expense when incurred.

Unpaid Claims, Claim Adjustment, and Care Management Expenses

The reported liability for unpaid claims, claim adjustment, and care management expenses is composed of three components: a liability for claims on hand that have not been paid and for claims incurred but not yet reported, unpaid contracted care management expenses, and unpaid claims adjustment expenses.

Note 2 - Significant Accounting Policies (Continued)

Claims incurred but not reported are based primarily on past experience, including claim payment patterns, enrollment and eligibility data, and other information and are determined in part by actuarial calculations. Management believes that the liability for unpaid claims, claim adjustment, and care management expenses is appropriately established in the aggregate and makes a reasonable provision to cover the ultimate cost of reported and unreported claims. Because such liabilities are based on estimates, the ultimate net cost may vary materially from such estimates. These estimates are regularly reviewed and updated using the most current information available. Any resulting adjustments are reflected in operations in the period the need for such adjustments becomes apparent.

Estimates for unpaid claims and claim adjustment expenses are derived by service category using various actuarial estimation methods, including specific authorized inventory method, forecasts using smoothed weighted-average development factors and per member, per day and per member, per month exposure-based approaches.

Capitation and Member Obligation Revenue

The Company receives the majority of its funding from an annual Medicaid contract with the State of Wisconsin Department of Health Services (DHS). This funding, referred to within the statement of activities and changes in net assets as capitation revenue, is based on Medical Assistance (MA) capitated payment rates for Family Care eligible members and is recognized in the month that members are entitled to receive services. The capitated rates are calculated annually by the DHS actuary with year-end adjustments to account for the High Cost Risk Pool (HCRP) and member target group case mix, which may result in significant adjustments to revenue recognized in future periods. If rate adjustments are expected and estimable, management estimates the impact of those adjustments on revenue based on a variety of factors, when practical to do so based on data available. While management believes these estimates are accurate, it is reasonably possible that a change in estimate will occur in the near term as a result of actual rate adjustments differing from projected rate adjustments. The impact of these estimated rate adjustments, along with any adjustments to capitation revenue resulting from member cost-sharing modifications, are reflected within the capitation receivable or payable on the statement of financial position. The capitation payable balance totaled $442,016 and $1,665,563 as of December 31, 2018 and 2017, respectively. Management considers all amounts receivable from the State of Wisconsin to be collectible, and, therefore, an allowance for doubtful accounts related to this receivable was not recorded at December 31, 2018 or 2017.

The 2018 contract with DHS also includes performance incentive provisions (withheld portion and bonus portion) whereby receipt of a portion (one half percent withheld and one half percent bonus) of the Company's capitation rate is contingent upon certain performance measures being met. The amount withheld for the performance incentive during the year ended December 31, 2018 is estimated to be $1,571,716, all of which is recognized as revenue and is recorded as a performance incentive receivable at December 31, 2018 based on the Company having met the withheld portion performance measures. There was no withhold of capitation revenue related to performance incentive programs during the year ended December 31, 2017.

MCFC also receives funding from its members who have responsibility for cost-share and/or room and board costs if the member resides in a residential healthcare facility. This member obligation revenue is recognized in the period in which members utilize the services. Accounts receivable from members are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Note 2 - Significant Accounting Policies (Continued)

Amounts Payable Relating to Uninsured Plans

In 2018, MCFC began receiving Direct Care Workforce pass-through payments from DHS that are subsequently paid to providers. The Company treats all transactions relating to these programs as uninsured plans and reports the excess of payments received from DHS over payments made to providers as amounts payable relating to uninsured plans on the statement of financial position. As of December 31, 2018, amounts payable relating to uninsured plans totaled $1,966,156.

Functional Allocation of Expenses

Costs of providing the program and support services have been disclosed on a functional basis in Note 13. Costs have been allocated between program and support services on several bases and estimates. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

The Company is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements. As of December 31, 2018 and 2017, the Company had no unrecognized tax benefits. There were no penalties or interest recognized or accrued during 2018 or 2017. The Company files tax returns in U.S. federal and state of Wisconsin jurisdictions.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company considers the accounting estimate for unpaid member services and capitation receivables (payables) critical in the preparation of the financial statements. The Company uses information available at the time the estimates are made; however, these estimates could change materially if different information or assumptions were used. Additionally, these estimates may not ultimately reflect the actual amounts of the final transactions that occur.

Reclassification

Certain 2017 amounts have been reclassified to conform to the 2018 presentation. The Company reclassified working capital reserves from restricted assets to current assets on the statement of financial position.

Accounting Pronouncement Adopted

As of January 1, 2018, the Company elected to adopt ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard requires net assets to be classified into two categories, net assets with donor restrictions and net assets without donor restrictions. The standard also requires changes in the way certain information is aggregated and reported by the Company, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and presentation of expenses by both functional and natural classification. The adoption of the ASU did not result in any restatements of net assets or changes in net assets.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Company's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The adoption of this standard will not impact the Company's insurance contract revenue, as these have been scoped out of the new guidance. The Company does not believe adopting the provisions of this ASU in the future will have a significant impact on its other revenue streams; however, management has not yet quantified the impact of the change.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of activities and changes in net assets and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Company's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the year of adoption. The effects of implementing this standard on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and instead reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Company's year ending December 31, 2021. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018. The Company does not believe adopting the provisions of this ASU in the future will have a material impact on the financial statements; however, management has not yet quantified the impact of the change.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including May 28, 2019, which is the date the financial statements were available to be issued.

Note 2 - Significant Accounting Policies (Continued)

On January 19, 2019, the Company entered into a stock purchase agreement to purchase all the outstanding shares of common stock of an unrelated party for approximately $7,800,000, subject to adjustments as described in the stock purchase agreement at the closing date. The purchase is currently being reviewed by the Wisconsin Office of the Commissioner of Insurance and has not been finalized as of the date of this report.

Note 3 - Member Accounts Receivable

The following is a summary of net accounts receivable from members at December 31, 2018 and 2017:

	2018	2017
Member receivables	$ 2,313,669	$ 2,119,783
Less allowance for doubtful accounts	(923,780)	(1,204,565)
Net member accounts receivable	$ 1,389,889	$ 915,218

Note 4 - Property and Equipment

Property and equipment as of December 31, 2018 and 2017 are summarized as follows:

	2018	2017
Furniture, equipment, and software (5-10 year depreciable life)	$ 3,668,348	$ 2,954,023
Leasehold improvements	202,384	-
Work in progress (nondepreciable)	587,307	589,692
Total cost	4,458,039	3,543,715
Accumulated depreciation and amortization	906,998	418,723
Net property and equipment	$ 3,551,041	$ 3,124,992

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was $490,978 and $346,363, respectively.

Note 5 - Investment Income

Investment income is composed of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Interest income - Cash, cash equivalents, and short-term investments	$ 1,115,833	$ 244,190
Investment expenses	(44,226)	(22,431)
Net investment income	$ 1,071,607	$ 221,759

Note 6 - Liability for Unpaid Claims, Claim Adjustment, and Care Management Expenses

The following summarizes activity in the liability for unpaid claims, claim adjustment, and care management expenses for the years ended December 31, 2018 and 2017:

	2018	2017
Liability as of January 1	$ 26,237,904	$ 24,869,723
Incurred (recovered) related to:		
Current year	316,544,533	296,263,450
Prior years	530,434	(314,799)
Total incurred	317,074,967	295,948,651
Paid related to:		
Current year	289,273,082	270,231,123
Prior years	26,244,147	24,349,347
Total paid	315,517,229	294,580,470
Liability as of December 31	$ 27,795,642	$ 26,237,904

As a result of changes to estimates for incurred claims, claim adjustment, and care management expenses attributable to insured events of prior periods, claims expense increased (decreased) by approximately $530,000 and $(315,000) during the years ended December 31, 2018 and 2017, respectively. Changes in unpaid claims, claim adjustment, and care management expenses are generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Note 6 - Liability for Unpaid Claims, Claim Adjustment, and Care Management Expenses (Continued)

The following is information about incurred and paid claims development as of December 31, 2018 and 2017, as well as IBNR and cumulative reported claims by period:

	Incurred Claims and Claims Adjustment Expenses for the Periods Ended December 31 (Amounts in 000s, except for cumulative number of reported claims)			As of December 31, 2018	
Claim Period*	2016	2017	2018	Total IBNR	Cumulative Number of Reported Claims
2016	$ 99,457	$ 99,702	$ 99,736	$ -	291,883
2017		296,264	296,760	24	769,185
2018			316,545	26,035	964,009
Total			$ 713,041		

	Cumulative Paid Claims and Allocated Claims Adjustment Expenses for the Periods Ended December 31 ($ in 000s)		
Claim Period*	2016	2017	2018
2016	$ 99,457	$ 99,263	$ 99,297
2017		270,465	296,675
2018			289,273
Total			$ 685,245
Total liability for claims and claim adjustment expenses			$ 27,796

*The 2016 claim period in the tables above represents the period from September 1, 2016 through December 31, 2016. The 2017 and 2018 claim periods in the tables represent the periods from January 1 through December 31 of the respective years.

Note 7 - Liquidity and Availability of Resources

The Company's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2018	2017
Cash and cash equivalents	$ 68,266,608	$ 52,759,243
Accounts and interest receivable	3,205,327	1,440,527
Short-term investments	-	9,000,000
Total	$ 71,471,935	$ 63,199,770

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

Note 7 - Liquidity and Availability of Resources (Continued)

The Company has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Company invests cash in excess of daily requirements in various cash equivalents, including money market funds.

The Company also realizes there could be unanticipated liquidity needs.

Note 8 - Reserve Requirements

As required under the annual contract with DHS to administer the Family Care program, MCFC shall demonstrate its capacity for financial solvency and stability along with its ability to assume the level of financial risk by maintaining certain reserves. MCFC shall maintain a working capital reserve, restricted reserve, and solvency reserve. The working capital and restricted reserves are maintained by the Company in the form of either money market funds or certificates of deposit. The solvency reserve is held by the Wisconsin Department of Administration in the form of certificates of deposit.

The purpose of the working capital reserve is to provide ongoing liquid assets to manage routine fluctuations in revenue and expenses that will occur in the normal course of business operations. The minimum working capital balance is calculated as 3 percent of MCFC's budgeted capitation revenue (net of cost share) for the DHS contract period. Balances related to the working capital reserve are reported in current assets on the statement of financial position.

The purpose of the restricted reserve is to provide continuity of care for enrolled members, accountability to taxpayers, and effective program administration. The restricted reserve provides additional liquid assets to underwrite the risk of financial volatility due to extraordinary and unbudgeted program expenditures. The restricted reserve is required to be funded based on a graduated scale using a percentage of budgeted capitation revenue (net of cost share) for the DHS contract period. Balances related to the restricted reserve are reported as restricted assets on the statement of financial position.

The solvency reserve fund provides for continuity of services and smooth transition of members from the existing MCO to another entity or in the event the existing MCO becomes irreversibly insolvent. The solvency reserve funds are required to be pledged to a separate account with the State of Wisconsin Department of Administration. During the year ended December 31, 2018, the Wisconsin Office of Commissioner of Insurance transferred $424,181 into the Company's solvency reserve account as a result of the liquidation of two other managed care organizations in the State of Wisconsin. This transfer is reflected in the statement of activities and changes in net assets. Balances related to the restricted reserve are reported as restricted assets on the statement of financial position.

As of December 31, 2017, the Company met the working capital, solvency, and restricted reserve requirements, as identified in its 2017 DHS contract. As of December 31, 2018, the Company met the working capital reserve requirement, as identified in its 2018 DHS contract. However, the amounts set aside by the Company at December 31, 2018 related to the restricted and solvency reserves were less than the minimum requirements identified in its 2018 contract with DHS. These shortages were a result of the Company's adjustment of reserve balances on December 26, 2018 to align with the 2019 contract minimums, which were less than the 2018 contract minimums. As of the date of this report, the Company is in compliance with all minimum reserve requirements identified in its 2019 contract with DHS.

Note 8 - Reserve Requirements (Continued)

The minimum required reserve balances for the 2018 and 2017 DHS contract years (January 1 - December 31) and the actual reserve balances as of December 31, 2018 and 2017 are as follows:

	2018		2017	
	Required	Actual	Required	Actual
Working capital reserve	$ 9,494,950	$ 40,138,302	$ 8,699,393	$ 34,312,143
Restricted reserve	4,164,983	3,975,434	3,899,798	4,200,000
Solvency reserve	2,169,687	2,051,790	2,103,727	2,169,687
Total	$ 15,829,620	$ 46,165,526	$ 14,702,918	$ 40,681,830

Note 9 - Retirement Plans

The Company sponsors a 401(k) plan for its employees. The plan is fully funded and provides for the Company to make a required matching contribution. Contributions to the plan totaled $446,788 and $298,360 for the years ended December 31, 2018 and 2017, respectively.

Note 10 - Operating Leases

The Company is obligated under various operating leases through 2028 related to the rental of office space and office equipment. The leases also require the Company to pay a portion of taxes, insurance, utilities, and maintenance costs. Total rent expense under these leases was $534,910 and $395,019 for the years ended December 31, 2018 and 2017, respectively.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2019	$ 459,908
2020	491,441
2021	468,461
2022	419,681
2023	390,279
Thereafter	1,540,828
Total	$ 3,770,598

Note 11 - Capital Leases

The Company leases vehicles under long-term lease arrangements that are classified as capital leases. For financial statement purposes, the present values of the net minimum lease payments have been capitalized and are being amortized over the useful lives of the assets. Under the terms of the lease agreements, payments ranging from $468 to $501 are due monthly through October 2022. The leases have been imputed with interest at annual rates of 4.75 percent.

At December 31, 2018, property under capital leases consists of vehicles with a gross cost of $202,384 and accumulated depreciation on the property under capital leases of $16,456.

Depreciation expense on property under capital leases was $16,456 as of December 31, 2018 and is included in the depreciation amount disclosed in Note 4.

Note 11 - Capital Leases (Continued)

The future minimum lease payments under capital leases are as follows:

Years Ending December 31	Amount
2019	$ 58,116
2020	58,116
2021	58,116
2022	34,354
Total	208,702
Less amount representing interest	29,945
Present value of net minimum lease payments	178,757
Less current obligations	44,384
Long-term obligations under capital leases	$ 134,373

Note 12 - Contingencies

Periodically, the Company is involved in litigation and claims arising in the normal course of operations. In the opinion of management, based on consultation with legal counsel, potential losses from these matters are considered to be immaterial.

Note 13 - Functional Expenses

The Company provides various services to its members. Expenses related to providing these services are as follows as of December 31:

	2018	2017
Program expenses - Insurance operations:		
Claims incurred	$ 284,003,875	$ 262,773,552
Care management unit fees	20,153,499	23,889,675
Claims processing fees	1,935,662	1,770,405
Salaries, benefits, and taxes	10,482,661	7,232,150
Other	499,270	282,869
Total program expenses - Insurance operations	317,074,967	295,948,651
Support services:		
Salaries, benefits, and taxes	7,704,613	4,228,354
Depreciation and amortization	490,978	346,363
Other	5,113,157	6,143,796
Total support services:	13,308,748	10,718,513
Total	$ 330,383,715	$ 306,667,164