KPMG

LOUISIANA HEALTHCARE CONNECTIONS, INC.

(A Wholly Owned Subsidiary of Centene Corporation)

Statutory Financial Statements and
Supplemental Information

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

LOUISIANA HEALTHCARE CONNECTIONS, INC.
(A Wholly Owned Subsidiary of Centene Corporation)

Table of Contents

KPMG LLP
Suite 900
10 South Broadway
St. Louis, MO 63102-1761

Independent Auditors' Report

The Audit Committee of the Board of Directors
Louisiana Healthcare Connections, Inc.:

We have audited the accompanying financial statements of Louisiana Healthcare Connections, Inc., which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2018 and 2017, and the related statutory statements of revenue and expenses, changes in capital and surplus, and cash flow for the years then ended, and the related notes to the statutory 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 statutory accounting practices prescribed or permitted by the Louisiana Department of Insurance. 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.

Auditors' 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 auditors' 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 opinions.

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

As described in note 2 to the financial statements, the financial statements are prepared by the Company using statutory accounting practices prescribed or permitted by the Louisiana Department of Insurance, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices described in note 2 and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2018 and 2017, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Louisiana Department of Insurance described in note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the Supplemental Summary Investment Schedule – December 31, 2018 and Supplemental Investment Risk Interrogatories – December 31, 2018, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Louisiana Department of Insurance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

St. Louis, Missouri
April 26, 2019

LOUISIANA HEALTHCARE CONNECTIONS, INC.
(A Wholly Owned Subsidiary of Centene Corporation)

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus

December 31, 2018 and 2017

Admitted Assets		**2018**	**2017**
Bonds	$	93,203,409	24,396,489
Cash, cash equivalents, and short-term investments		209,352,401	231,633,106
Investment income due and accrued		691,045	243,286
Premiums receivable		198,810,525	181,533,609
Reinsurance receivable		—	672,044
Receivables on uninsured plans		94,298	—
Federal income tax recoverable		5,989,989	18,910,788
Net deferred tax asset		8,980,677	339,393
Amounts due from affiliates		20,000,000	17,457,685
Healthcare receivables		14,745,862	1,064,981
Goodwill		8,828,616	9,031,699
State income tax recoverable		554,135	691,895
Total admitted assets	$	561,250,957	485,974,975
Liabilities and Capital and Surplus			
Liabilities:			
Claims payable	$	138,801,439	137,491,908
Accrued medical incentive pool and bonus amounts		5,470,265	5,700,750
Unpaid claims adjustment expenses		2,046,000	2,020,000
General expenses due or accrued		1,016,625	923,143
Premium taxes accrued		38,618,016	43,501,283
Ceded reinsurance premiums payable		621,118	—
Amounts due to affiliates		378,231	—
Return of premiums payable		94,990,331	87,300,000
Hospital assessment payable		146,126,997	99,566,873
Other liabilities		165	—
Total liabilities		428,069,187	376,503,957
Capital and surplus:			
Common stock, no par value. Authorized, 5,000 shares; issued and outstanding, 1,000 shares		—	—
Gross paid-in and contributed surplus		306,191,169	283,191,169
Special surplus		—	40,836,193
Unassigned deficit		(173,009,399)	(214,556,344)
Total capital and surplus		133,181,770	109,471,018
Total liabilities and capital and surplus	$	561,250,957	485,974,975

See accompanying notes to statutory financial statements.

LOUISIANA HEALTHCARE CONNECTIONS, INC.
(A Wholly Owned Subsidiary of Centene Corporation)

Statutory Statements of Revenue and Expenses

Years ended December 31, 2018 and 2017

		2018	2017
Revenue:			
Premium income	$	2,279,932,452	2,103,485,141
Expenses:			
Medical and hospital benefits		1,001,942,155	739,934,005
Other professional services		58,431,555	310,830,838
Emergency room		153,198,167	155,047,650
Prescription drugs		348,198,098	350,822,259
Aggregate write-ins for other hospital and medical		362,894,811	297,815,415
Incentive pool and bonus amounts		13,296,706	13,006,397
Reinsurance recoveries		—	(8,086)
Total medical and hospital expenses		1,937,961,492	1,867,448,478
Claims adjustment expenses		24,153,373	18,475,932
General administrative expenses		331,147,703	271,948,337
Total expenses		2,293,262,568	2,157,872,747
Investment income:			
Net investment income		4,191,705	1,645,409
Net realized capital (loss) gain (net of tax benefit of $1,516 and $0, respectively)		(5,690)	1,500
Loss before federal income taxes		(9,144,101)	(52,740,697)
Federal income tax expense (benefit)		8,851,435	(16,741,953)
Net loss	$	(17,995,536)	(35,998,744)

See accompanying notes to statutory financial statements.

LOUISIANA HEALTHCARE CONNECTIONS, INC.
(A Wholly Owned Subsidiary of Centene Corporation)

Statutory Statements of Changes in Capital and Surplus

Years ended December 31, 2018 and 2017

	Common stock	Gross paid-in and contributed surplus	Special surplus	Unassigned deficit	Total
Balance, December 31, 2016	$ —	248,191,169	—	(151,739,888)	96,451,281
Paid-in surplus	—	35,000,000	—	—	35,000,000
Net loss	—	—	—	(35,998,744)	(35,998,744)
Change in net deferred income tax	—	—	—	(226,263)	(226,263)
Change in nonadmitted assets	—	—	—	14,244,744	14,244,744
Change in special surplus funds	—	—	40,836,193	(40,836,193)	—
Balance, December 31, 2017	—	283,191,169	40,836,193	(214,556,344)	109,471,018
Paid-in surplus	—	23,000,000	—	—	23,000,000
Net loss	—	—	—	(17,995,536)	(17,995,536)
Change in net deferred income tax	—	—	—	8,872,100	8,872,100
Change in nonadmitted assets	—	—	—	9,834,188	9,834,188
Change in special surplus funds	—	—	(40,836,193)	40,836,193	—
Balance, December 31, 2018	$ —	306,191,169	—	(173,009,399)	133,181,770

See accompanying notes to statutory financial statements.

LOUISIANA HEALTHCARE CONNECTIONS, INC.
(A Wholly Owned Subsidiary of Centene Corporation)

Statutory Statements of Cash Flow

Years ended December 31, 2018 and 2017

	2018	2017
Cash from operations:		
Premiums collected net of reinsurance	$ 2,270,967,151	2,158,724,504
Benefits and loss-related payments	(1,953,377,046)	(1,881,544,350)
General administrative and claims adjustment expenses paid	(296,871,510)	(288,260,930)
Federal income taxes recovered	4,070,880	3,379,073
Net investment income	3,769,058	1,514,075
Net cash provided by (used in) operations	28,558,533	(6,187,628)
Cash from investments:		
Proceeds from investments sold, matured, or repaid	17,605,319	60,884,054
Cost of investments acquired	(86,444,557)	(45,300,283)
Net cash (used in) provided by investments	(68,839,238)	15,583,771
Cash from financing and miscellaneous sources:		
Paid-in surplus	18,000,000	20,000,000
Net cash provided by financing and miscellaneous sources	18,000,000	20,000,000
Net change in cash, cash equivalents, and short-term investments	(22,280,705)	29,396,143
Cash, cash equivalents, and short-term investments, beginning of year	231,633,106	202,236,963
Cash, cash equivalents, and short-term investments, end of year	$ 209,352,401	231,633,106
Supplemental schedule of noncash investing and financing activities:		
Paid-in surplus – due from parent	$ 20,000,000	15,000,000

See accompanying notes to statutory financial statements.

(1) Organization and Operations

Louisiana Healthcare Connections, Inc. (the Company) is wholly owned by Healthy Louisiana Holdings, LLC (HLH). Centene Corporation (Centene) owns all of the issued and outstanding shares of the Company's stock through HLH.

The Company was incorporated in October 2009 and is organized as a network model Health Maintenance Organization (HMO). It is subject to regulation by the Louisiana Department of Insurance (LDI). The Company holds a contract with the Louisiana Department of Health and Hospitals (DHH) to provide Medicaid, State Children's Health Insurance Program and Supplemental Security Income Program (SSI) managed care services. On July 1, 2014, Community Health Solutions of America, Inc. (CHS) assigned its contract with DHH under the Bayou Health Shared Savings Program (SSP) to the Company. SSP serves a population substantially similar to the Company's original contract but on an administrative services only (ASO) basis. DHH ended the SSP as of January 31, 2015. The Company also holds a contract with the Centers for Medicare and Medicaid Services (CMS) to participate in the Medicare Advantage Program.

The Company is contracted with DHH to provide healthcare services to Medicaid eligible recipients through December 31, 2019. Revenue generated from the DHH contract accounted for 99.9% and 100% of premium income for the years ended December 31, 2018 and 2017, respectively. The Company contracts with CMS to provide healthcare services to Medicare eligible recipients. The contract through December 31, 2019 and is renewable annually for successive one-year terms. Revenue generated from the CMS contract accounted for approximately 0.1% and 0.0% of health plan premiums for the years ended December 31, 2018 and 2017, respectively.

(2) Basis of Presentation and Significant Accounting Policies

The statutory financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by LDI for determining and reporting the financial condition and the results of operations of an insurance company and for determining its solvency under Louisiana insurance law.

The State of Louisiana has adopted certain prescribed accounting policies found in the revised National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP), subject to any deviations prescribed or permitted by LDI (SAP). In 2018 and 2017, there were no differences between SAP and NAIC SAP that impacted the Company. SAP differs in certain respects from

U.S. generally accepted accounting principles (GAAP) followed by other types of enterprises in determining their financial position, results of operations, and cash flows. The most significant variances are as follows:

A. Under SAP, certain assets, designated as “nonadmitted assets” are excluded from the statutory statements of admitted assets, liabilities, and capital and surplus and are charged to unassigned deficit as follows:

		2018	2017
Goodwill	$	59,722,579	71,983,350
Intangible assets		3,340,935	4,617,308
Healthcare receivables		7,649,340	4,173,968
Prepaid expenses		28,456	34,000
Net deferred tax asset		230,816	—
Total nonadmitted assets	$	70,972,126	80,808,626

Under GAAP, such assets are included in the balance sheets subject to impairment and allowances.

B. The statutory financial statements reflect certain assets and liabilities net of ceded reinsurance.

C. Under SAP, debt securities are generally carried at amortized cost. Under GAAP, debt securities are carried at amortized cost only if there is both a positive intent and ability to hold to maturity. Otherwise, they are carried at fair value with unrealized gains and losses recognized in operations or accumulated other comprehensive income according to prescribed rules.

D. Under SAP, the statements of cash flow reconcile to changes in cash, cash equivalents, and short-term investments with original maturities of one year or less. Under GAAP, the statements of cash flow reconcile to changes in cash and cash equivalents with a remaining maturity period of three months or less. The statutory statements of cash flow are presented in a specified format, which differs from the format prescribed by GAAP.

E. Under SAP, net deferred income tax assets are admitted following the application of certain criteria with the resulting change in admitted deferred tax asset amount being credited directly to capital and surplus. Under GAAP and SAP, deferred income tax assets and liabilities are recorded for temporary differences between the reported amounts of assets and liabilities and those in the Company’s income tax return. Changes to deferred income tax assets and liabilities are recorded in current operations under GAAP and directly to surplus under SAP.

F. Comprehensive income is not determined for statutory reporting purposes, and there is no statement reflecting accumulated other comprehensive income.

The aggregate effect of the foregoing differences between SAP and GAAP has not been determined, but is presumed to be material.

(a) Management's Estimates

The preparation of statutory financial statements in conformity with the accounting practices prescribed or permitted by LDI 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 statutory financial statements and the reported amounts of revenue and expenses during the reporting period. Future events and their effects cannot be predicted with certainty; accordingly, the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. The Company evaluates and updates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in the evaluation, as considered necessary. Actual results could differ from those estimates.

(b) Fair Value Measurements

In the normal course of business, the Company invests in various financial assets and incurs various financial liabilities. Fair values are disclosed for all financial instruments, whether or not such values are recognized in the statutory statements of admitted assets, liabilities, and capital and surplus. Management obtains quoted market prices or other observable inputs for these disclosures. The carrying amounts reported for cash, premium and related receivables, general expenses due and accrued, and certain other current liabilities are carried at cost, which approximates fair value because of their short-term nature.

(c) Bonds

Bonds are valued as prescribed by the NAIC and are generally carried at amortized cost with the accretion of discounts and amortization of premiums being computed under the scientific method. Realized gains and losses are calculated using the specific-identification method. Asset-backed securities are revalued using currently estimated cash flows and prepayment assumptions. A prospective adjustment methodology is used for all asset-backed securities.

The Company evaluates all of its bonds for impairment based on current market prices, economic conditions, and the financial condition of the issuer. Investments that have declines in fair value below cost, which are judged to be other than temporary, are written down to estimated fair value. Factors considered in evaluating whether a decline in value is other than temporary include: (1) whether the decline is substantial, (2) the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value, (3) the duration and extent to which the fair value has been less than cost, and (4) the financial condition and near-term prospects of the issuer in relation to the anticipated recovery period. There were no charges recorded in 2018 and 2017 related to other-than-temporary impairments.

Investment securities are exposed to various risks, such as interest rate risk, market risk, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statutory statements of admitted assets, liabilities, and capital and surplus or the statutory statements of revenue and expenses.

(d) Cash, Cash Equivalents, and Short-Term Investments

Cash, cash equivalents, and short-term investments consist of cash on deposit and investments with an original maturity, upon acquisition, of less than one year.

(e) Restricted Assets

Under LDI regulations, the Company is required to maintain certain insolvency deposits of no less than $1,000,000 in a custodial account for the protection of enrollees. The Company is entitled to receive interest income on these deposits. At December 31, 2018 and 2017, assets in the amount of $1,000,000 were on deposit with government authorities or trustees as required by law and are invested in certificates of deposit and presented within cash, cash equivalents, and short-term investments.

(f) Investment Income Due and Accrued

The Company recognizes investment income when earned. Investment income due and accrued is recorded for investment income earned as of the reporting date but collected in a subsequent period. The Company performs an evaluation of these receivables to determine whether an impairment exists. No impairment charges were recorded during 2018 or 2017.

(g) Premium Income and Related Receivables

Premium income is recognized in the period in which members are entitled to receive covered services. Premiums collected in advance of the month for which coverage applies are deferred and recorded as premiums received in advance. Premiums due to the Company are recorded as premium receivables and are recorded net of an allowance based on historical trends and management’s judgment on the collectability of these accounts. In addition to a monthly capitation payment, the Company also receives payments for childbirths. These payments are recognized as revenue based on the date of the delivery.

Premiums receivable consists of amounts due from DHH and CMS. Amounts receivable under government-insured plans, including amounts over 90 days due that qualify as accident and health contracts, are admitted assets under SAP. Amounts receivable under government-insured plans include, but are not limited to, receivables under Medicare, Medicaid, and similarly funded government insured plans. The Company had $1,047,686 and $0 in premiums receivable over 90 days as of December 31, 2018 and 2017, respectively, which were included in admitted assets.

(h) Reinsurance

The Company limits its risk of certain catastrophic losses by maintaining reinsurance coverage. Premium income is recorded net of ceded reinsurance premiums. Total medical and hospital expenses are recorded net of reinsurance recoveries. The Company is liable in the event its reinsurer is unable to meet its obligations.

The Company recognizes receivables for reinsurance recoveries on paid losses that remain outstanding as of period-end.

(i) Receivables on Uninsured Plans

The Company carried a receivable of $94,298 and $0 related to the Medicare Part D low-income member cost sharing and catastrophic reinsurance subsidies, as of December 31, 2018 and 2017, respectively.

(j) Income Taxes

Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the statutory financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. In determining if a deductible temporary difference or net operating loss can be realized, the Company considers future reversals of existing taxable differences, future taxable income, taxable income in prior carryback periods and tax planning strategies.

For the years ended December 31, 2018 and 2017, the Company filed a consolidated federal income tax return with Centene and its other subsidiaries. In accordance with the group's tax allocation agreement, the subsidiaries reimburse or recover from Centene their portion of the income taxes as calculated on a separate company basis.

(k) Healthcare Receivables

Healthcare receivables consist primarily of pharmaceutical rebate receivables admitted in accordance with Statements of Statutory Accounting Principles (SSAP) No. 84, *Certain Healthcare Receivables and Receivables under Government Insured Plans*. The Company records pharmaceutical rebate receivables based on actual utilization and estimated rebate rates. Accordingly, the Company recorded admitted healthcare receivables as of December 31, 2018 and 2017 in the amount of $ 14,745,862 and $ 1,064,981, respectively.

(l) Goodwill

The Company purchased all assets from CHS related to Bayou Health, including, but not limited to, their SSP contract effective July 1, 2014. This transaction gave the Company the right to provide administrative services to approximately 210,000 Bayou Health members. Investment in the transaction was recorded using the statutory purchase method.

SSAP No. 68, *Business Combinations and Goodwill*, states that positive goodwill is limited to 10% of the acquiring entity's capital and surplus as required to be shown on the statutory statements of admitted assets, liabilities, and capital and surplus of the reporting entity for its most recently filed statement excluding any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Accordingly, the Company admitted goodwill related to the acquisition in the amount of $8,828,616 and $9,031,699 as of December 31, 2018 and 2017, respectively. Amortization expense recorded in general administrative expenses was $12,463,854 for the years ended December 31, 2018 and 2017.

(Continued)

(m) Claims Payable and Unpaid Claims Adjustment Expenses

Claims payable includes claims reported but not yet paid, or inventory, and estimates for claims incurred but not reported, or IBNR. Unpaid claims adjustment expenses include estimates for the costs necessary to process unpaid claims. The Company estimates its medical claims liability using actuarial methods that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. These actuarial methods consider factors such as historical data for payment patterns, cost trends, product mix, seasonality, utilization of healthcare services, and other relevant factors.

Actuarial Standards of Practice generally require that claims payable estimates be adequate to cover obligations under moderately adverse conditions. Moderately adverse conditions are situations in which the actual claims are expected to be higher than the otherwise estimated value of such claims at the time of estimate. In many situations, the claims amounts ultimately settled will be different than the estimate that satisfies the Actuarial Standards of Practice. The Company includes in its IBNR an estimate for claims payable under moderately adverse conditions, which represents the risk of adverse deviation of the estimates in its actuarial method of reserving.

The Company uses its judgment to determine the assumptions to be used in the calculation of the required estimates. The assumptions it considers when estimating IBNR include, without limitation, claims receipt and payment experience (and variations in that experience), changes in membership, provider billing practices, healthcare service utilization trends, cost trends, product mix, seasonality, prior authorization of medical services, benefit changes, known outbreaks of disease or increased incidence of illness such as influenza, provider contract changes, changes to fee schedules, and the incidence of high dollar or catastrophic claims.

The Company’s development of the medical claims liability estimate is a continuous process, which it monitors and refines on a monthly basis as additional claims receipts and payment information becomes available. As more complete claim information becomes available, the Company adjusts the amount of the estimates and includes the changes in estimates in medical costs in the period in which the changes are identified. In every reporting period, the operating results include the effects of more completely developed medical claims liability estimates associated with previously reported periods. The Company consistently applies its reserving methodology from period to period. As additional information becomes known, it adjusts the actuarial model accordingly to establish medical claims liability estimates. Management believes the amount of medical claims payable is reasonable and adequate to cover the Company’s liability for unpaid claims as of December 31, 2018 and 2017; however, actual claim payments may differ from established estimates.

(n) Accrued Medical Incentive Pool and Bonus Amounts

The Company participates in a physician incentive plan with certain contracted primary care providers. This plan is designed to encourage the delivery of quality care to members. Amounts are accrued and expensed as certain quality metrics are met.

(o) General Expenses Due and Accrued

The Company records general expenses due or accrued for those direct costs associated with operations incurred as of the reporting date but paid in a subsequent period.

(p) Premium Taxes Accrued

During 2018 and 2017, the Company incurred a premium tax equal to 5.5% of premium revenue. The Company records premium tax revenue and expense within premium income and general administrative expenses, respectively. During 2018 and 2017, the Company recorded premium tax income and expense of $122,290,649 and $115,703,851, respectively.

(q) Return of Premium Payable

The Company's agreement with DHH contains a profit risk corridor provision, whereby a portion of the premiums paid to the Company may be refunded. The Company estimates the return of premium payable based upon actual profits compared to the corridor established by DHH. The estimates made throughout the reporting period are reported as changes in premiums. At December 31, 2018 and 2017, the Company recorded liabilities of $94,990,331 and $87,300,000, respectively.

(r) Hospital Assessment Payable

Hospital assessment payable consists of amounts payable to hospitals to compensate them for serving Medicaid members. These amounts are a component of the premium revenue earned under the Company's at-risk contract with DHH and are made on a pass-through basis. The Company records hospital assessment revenue and expense within premium income and aggregate write-ins for other hospital and medical, respectively.

(s) Medical and Hospital Expenses

The Company contracts with various healthcare providers for the provision of certain related medical care to its members. Medical claims are submitted by providers and processed in accordance with the terms of the contract. Additionally, the Company compensates some providers on a capitation basis. The amount of the capitation payments and the frequency of the distributions to the provider are based on contractual arrangements.

The cost of other healthcare services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including an accrual for medical services provided but not reported.

(t) General Administrative Expenses

The Company has a management services agreement with Centene Management Company, LLC (CMC). Under the agreement, the Company pays CMC a fee based on a percentage of its net monthly revenue, for which CMC provides the services necessary to manage the business operations of the Company and assumes responsibility for all associated costs. CMC assumes responsibility for program planning and development, management information systems, financial systems and services, facilities arrangement, claims administration, provider and enrollee services and records, case management, care coordination, utilization and peer review, and quality assurance/quality improvement. In addition, under the agreement, the Company pays other direct costs associated with the business not covered by the management services agreement.

Administrative fees and related reimbursements from the Administrative Services Only (ASO) contract have been deducted from general administrative expenses in accordance with SSAP No. 47, *Uninsured Plans*.

(u) Dividend Restrictions

The amount of dividends that can be paid by the Company to its shareholder is limited by statute and subject to prior approval from the Commissioner of the LDI. All dividends must be paid from surplus that is fully paid in cash, unimpaired, and beyond the minimum surplus required and all other liabilities equal to 15% of its capital stock. This restriction does not apply to an issuer when its paid-in capital and surplus exceeds the minimum required by 100%. No dividends were declared or paid by the Company during the year ended December 31, 2018 or 2017.

(v) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(3) Bonds

The amortized cost and estimated fair values of investments in bonds at December 31, 2018 and 2017 are as follows:

	December 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Industrial and miscellaneous	$ 74,276,448	285,126	331,663	74,229,911
Mortgage-backed securities	7,896,351	48,465	22,334	7,922,482
Special revenue and assessments	6,186,391	28,949	15,372	6,199,968
U.S. government obligations	3,346,887	27,742	—	3,374,629
Non U.S. government obligations	1,497,332	28,933	—	1,526,265
Total	$ 93,203,409	419,215	369,369	93,253,255

	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Industrial and miscellaneous	$ 19,707,374	91,411	28,384	19,770,401
Mortgage-backed securities	1,470,838	183	2,677	1,468,344
Special revenue and assessments	1,880,288	—	5,987	1,874,301
U.S. government obligations	1,337,989	33,786	—	1,371,775
Total	$ 24,396,489	125,380	37,048	24,484,821

The above tables exclude bonds classified as cash, cash equivalents, and short-term investments of $7,814,586 and $0 at December 31, 2018 and 2017, respectively.

The fair values of the Company's bonds are evaluated based on NAIC designations set forth by the Securities Valuation Office (SVO). The SVO does not provide fair values for certain of the Company's bonds. As such, the Company utilizes independent pricing services to estimate fair market value for bonds, which are not actively traded on the measurement date or for which the SVO does not provide fair market values.

The following tables illustrate the gross unrealized losses included in the Company's investment portfolio aggregated by investment category. The tables also illustrate the length of time the securities have been in an unrealized loss position as of December 31, 2018 and 2017:

	December 31, 2018					
	Decline for less than 12 months			Decline for greater than 12 months		
	Amortized cost	Fair value	Difference	Amortized cost	Fair value	Difference
Industrial and miscellaneous	$ 25,825,046	25,573,034	252,012	7,645,674	7,566,023	79,651
Mortgage-backed securities	1,285,822	1,277,450	8,372	582,040	568,077	13,963
Special revenue and assessments	1,320,193	1,315,998	4,195	428,560	417,384	11,176
U.S. government obligations	—	—	—	—	—	—
Total	$ 28,431,061	28,166,482	264,579	8,656,274	8,551,484	104,790

	December 31, 2017					
	Decline for less than 12 months			Decline for greater than 12 months		
	Amortized cost	Fair value	Difference	Amortized cost	Fair value	Difference
Industrial and miscellaneous	$ 10,475,015	10,446,631	28,384	—	—	—
Mortgage-backed securities	1,235,838	1,233,161	2,677	—	—	—
Special revenue and assessments	880,288	874,301	5,987	—	—	—
U.S. government obligations	—	—	—	—	—	—
Total	$ 12,591,141	12,554,093	37,048	—	—	—

The Company viewed the decrease in value of all of the securities with unrealized capital losses at December 31, 2018 as temporary. As such, no impairment of these securities was recorded as of December 31, 2018, or during the year then ended.

The amortized cost and fair value of debt securities at December 31, 2018, by contractual maturity, are shown below. Actual maturities may differ due to call or prepayment options.

	Amortized cost	Statutory fair value
Due one year or less	$ 7,560,263	7,539,281
Due after one year through five years	63,627,743	63,687,990
Due after five years through ten years	21,854,503	21,865,132
Due after ten years or more	160,900	160,852
Total	$ 93,203,409	93,253,255

Proceeds from sales of investments in debt securities during 2018 and 2017 were $13,640,023 and $40,417,369, respectively. Proceeds from maturities, repayments and other disposals of investments in debt securities during 2018 and 2017 were $3,965,296 and $20,466,685, respectively. Gross realized losses for the years ended December 31, 2018 and 2017 were $7,217 and $4, respectively. Gross realized gains for the years ended December 31, 2018 and 2017 were $11 and $1,504, respectively.

Net investment income for the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
Interest income:		
Bonds	$ 1,264,397	510,723
Cash, cash equivalents, and short-term investments	2,994,868	1,178,699
Investment expenses	(67,560)	(44,013)
Net investment income	$ 4,191,705	1,645,409

(4) Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the statutory statements of admitted assets, liabilities, and capital and surplus are categorized based upon the extent to which the fair value estimates are based upon observable or unobservable inputs. Level inputs are as follows:

Level input	Input definition
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date

The carrying values and estimated fair values of the Company's financial instruments at December 31, 2018 and 2017 were as follows:

	December 31, 2018					
	Aggregate fair value	Admitted assets	Level 1	Level 2	Level 3	Not practicable (carrying value)
Cash	$ 155,032,122	155,032,122	155,032,122	—	—	—
Cash equivalents	53,700,688	53,700,462	53,700,688	—	—	—
Short-term investments	619,529	619,817	—	619,529	—	—
Bonds	93,253,255	93,203,409	—	93,253,255	—	—
Total	$ 302,605,594	302,555,810	208,732,810	93,872,784	—	—

	December 31, 2017					
	Aggregate fair value	Admitted assets	Level 1	Level 2	Level 3	Not practicable (carrying value)
Cash	$ 220,793,801	220,793,801	220,793,801	—	—	—
Cash equivalents	9,032,876	9,032,876	9,032,876	—	—	—
Short-term investments – at fair value	1,835,354	1,806,429	—	1,835,354	—	—
Bonds	24,484,821	24,396,489	—	24,484,821	—	—
Total	$ 256,146,852	256,029,595	229,826,677	26,320,175	—	—

(5) Reinsurance

During 2018 and 2017, the Company obtained reinsurance coverage from an unaffiliated insurance entity equal to 90% of hospital inpatient services in excess of $1,250,000 per covered person per agreement term up to a $3,000,000 maximum per member per agreement term. Reimbursement for services provided at hospitals is subject to coinsurance provisions. Eligible hospital expenses are limited to an average daily maximum of $15,000 in 2018 and 2017.

Under these agreements, the Company recorded ceded premiums of $821,356 and $221,242 for the years ended December 31, 2018 and 2017 and ceded reinsurance premiums payable of $621,118 and $0 as of December 31, 2018 and 2017, respectively. The Company recorded reinsurance recoveries of $0 and $8,086 for the years ended December 31, 2018 and 2017 and reinsurance receivables of $0 and $672,044, respectively.

(6) Income Taxes

The December 31, 2018 and 2017 balances and related disclosures are calculated and presented pursuant to SSAP No. 101, *Income Taxes*.

The net deferred tax asset (liability) at December 31, 2018 and 2017 is comprised of the following components:

	2018			2017			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Total gross deferred tax assets	$ 19,489,528	—	19,489,528	19,461,629	—	19,461,629	27,899	—	27,899
Valuation allowance adjustment	(10,048,965)	—	(10,048,965)	(19,106,692)	—	(19,106,692)	9,057,727	—	9,057,727
Adjusted gross deferred tax assets	9,440,563	—	9,440,563	354,937	—	354,937	9,085,626	—	9,085,626
Total gross deferred tax liabilities	(229,070)	—	(229,070)	(15,544)	—	(15,544)	(213,526)	—	(213,526)
Net deferred tax assets	9,211,493	—	9,211,493	339,393	—	339,393	8,872,100	—	8,872,100
Total deferred tax assets nonadmitted	(230,816)	—	(230,816)	—	—	—	(230,816)	—	(230,816)
Net admitted deferred tax assets	$ 8,980,677	—	8,980,677	339,393	—	339,393	8,641,284	—	8,641,284

The amount of adjusted gross deferred tax assets admitted at December 31, 2018 and 2017 is as follows:

	2018			2017			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income tax recoverable by loss carryback	$ 8,980,677	—	8,980,677	339,393	—	339,393	8,641,284	—	8,641,284
Expected to be realized (lesser of i. or ii.)	—	—	—	—	—	—	—	—	—
i Expected to be realized	—	—	—	—	—	—	—	—	—
ii Surplus limitation	17,305,872	—	17,305,872	10,009,993	—	10,009,993	7,295,879	—	7,295,879
DTL offset	229,070	—	229,070	15,544	—	15,544	213,526	—	213,526
Total admitted under 11.a.-11.c.	9,209,747	—	9,209,747	354,937	—	354,937	8,854,810	—	8,854,810
Deferred tax liabilities	(229,070)	—	(229,070)	(15,544)	—	(15,544)	(213,526)	—	(213,526)
Net admitted deferred tax asset/liability under 11.a.-11.c.	$ 8,980,677	—	8,980,677	339,393	—	339,393	8,641,284	—	8,641,284

The information used in the expected to be realized calculation consists of the following:

	2018	2017
Authorized control level risk-based capital ratio without net deferred tax assets	351%	275%
Adjusted capital and surplus	$ 115,372,477	100,099,926

Tax planning strategies have not been used to admit deferred tax assets. Deferred tax liabilities have been established for all temporary differences.

The change in deferred income taxes reported in surplus before consideration of nonadmitted assets is comprised of the following components:

	2018	2017	Change
Total deferred tax assets	$ 19,489,528	19,461,629	27,899
Total deferred tax liabilities	(229,070)	(15,544)	(213,526)
Net deferred tax assets	19,260,458	19,446,085	(185,627)
Statutory valuation allowance adjustment	(10,048,965)	(19,106,692)	9,057,727
Net deferred tax assets after statutory valuation allowance	$ 9,211,493	339,393	$ 8,872,100

Current income taxes incurred consist of the following major components:

	2018	2017
Current year tax expense	$ 9,068,155	(16,741,953)
Tax on capital (losses) gains	(1,516)	—
Prior year adjustments	(216,720)	—
Current income tax expense (benefit)	$ 8,849,919	(16,741,953)

Deferred income tax assets and liabilities at December 31, 2018 and 2017 consist of the following major components:

	2018			2017			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Discounting of unpaid losses and LAE	$ 1,591,031	—	1,591,031	622,054	—	622,054	968,977	—	968,977
Unearned premiums	7	—	7	—	—	—	7	—	7
Accrued liabilities	6,406	—	6,406	—	—	—	6,406	—	6,406
Nonadmitted assets	14,855,675	—	14,855,675	16,969,326	—	16,969,326	(2,113,651)	—	(2,113,651)
Net operating loss carryforward	203	—	203	203	—	203	—	—	—
Goodwill and intangible amortization	3,036,206	—	3,036,206	1,870,046	—	1,870,046	1,166,160	—	1,166,160
Total adjusted gross deferred tax assets	19,489,528	—	19,489,528	19,461,629	—	19,461,629	27,899	—	27,899
Valuation allowance adjustment	(10,048,965)	—	(10,048,965)	(19,106,692)	—	(19,106,692)	9,057,727	—	9,057,727
Total adjusted gross deferred tax assets	9,440,563	—	9,440,563	354,937	—	354,937	9,085,626	—	9,085,626
Nonadmitted deferred tax assets	(230,816)	—	(230,816)	—	—	—	(230,816)	—	(230,816)
Admitted deferred tax assets	9,209,747	—	9,209,747	354,937	—	354,937	8,854,810	—	8,854,810
Deferred tax liabilities:									
Investments	(8,806)	—	(8,806)	(772)	—	(772)	(8,034)	—	(8,034)
Policyholder reserves	(214,288)	—	(214,288)	—	—	—	(214,288)	—	(214,288)
Other	(5,976)	—	(5,976)	(14,772)	—	(14,772)	8,796	—	8,796
Total deferred tax liabilities	(229,070)	—	(229,070)	(15,544)	—	(15,544)	(213,526)	—	(213,526)
Net admitted deferred tax asset	$ 8,980,677	—	8,980,677	339,393	—	339,393	8,641,284	—	8,641,284

The valuation allowance adjustment to gross deferred tax assets as of December 31, 2018 and 2017 was $10,048,965 and $19,106,692, respectively. The net change in the total valuation allowance adjustments for the period ended December 31, 2018 was a decrease of $9,057,727.

The Company's income tax incurred and change in deferred income tax differs from the amount obtained by applying the federal statutory rate to income before income taxes as follows:

		2018	2017
Current income tax expense (benefit)	$	8,851,435	(16,741,953)
Tax on capital (losses) gains		(1,516)	—
Change in deferred income tax (without tax on unrealized gains and losses)		(8,872,100)	226,263
Total income tax (benefit) expense reported	$	(22,181)	(16,515,690)
Loss before taxes	$	(9,144,101)	(52,740,697)
		21%	35%
Expected income tax benefit at statutory rate		(1,920,261)	(18,459,243)
Increase (decrease) in actual tax reported resulting from:			
a. Tax-exempt interest		(17,395)	(46,175)
b. Health insurer fee		8,851,212	—
c. Meals and entertainment		7,994	30
d. Change in statutory valuation allowance		(9,057,727)	(15,960,019)
e. Change in deferred taxes on nonadmittted assets		2,113,651	4,985,660
f. Change in enacted tax rates		—	12,964,057
g. Other		345	—
Total income tax benefit reported	$	(22,181)	(16,515,690)

As of December 31, 2018, the Company had $968 net operating loss carryforwards available for tax purposes.

The amounts of federal income taxes incurred that are available for recoupment in the event of future net losses are as follows:

		Ordinary	Capital	Total
Year:				
2018	$	9,068,154	—	9,068,154
2017		—	—	—
	$	9,068,154	—	9,068,154

The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Code is $0.

The Company does not expect a significant increase in tax contingencies within 12 months of December 31, 2018.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act, which significantly changes the existing U.S. tax laws, including a reduction in the corporate tax rate from 35% to 21%, as well as other changes. As a result of enactment of the legislation, the Company incurred an additional one-time surplus decrease during the 4th quarter of 2017, primarily related to the remeasurement of certain deferred tax assets and liabilities. The decrease in surplus as of December 31, 2017 as a result of tax reform was $12,964,057.

The Tax Cuts and Jobs Act of 2017 provides for a change in the methodology employed to calculate reserves for tax purposes. Beginning January 1, 2018, a higher interest rate assumption and longer payout patterns are to be used to discount these reserves. In addition, companies are no longer able to elect to use their own experience to discount reserves, but are instead required to use the industry-based tables published by the IRS annually. The Company updated the discount rate based on available guidance and the transition resulted in an increase to deferred tax assets with corresponding increase to deferred tax liabilities of $244,902 on January 1, 2018, with no impact on the effective tax rate. The Company has completed its accounting of the effects of the TCJA on current and deferred income taxes.

The Company's federal income tax return is consolidated with:

Absolute Total Care, Inc.
AcariaHealth Pharmacy #11, Inc.
AcariaHealth Pharmacy #12, Inc.
AcariaHealth Pharmacy #13, Inc.
AcariaHealth Pharmacy #14, Inc.
AcariaHealth Pharmacy, Inc.
AcariaHealth Solutions, Inc.
AcariaHealth, Inc.
Access Medical Acquisition, Inc.
Access Medical Group of Florida City, Inc.
Access Medical Group of Hialeah, Inc.
Access Medical Group of Miami, Inc.
Access Medical Group of North Miami Beach, Inc.
Access Medical Group of Opa-Locka, Inc.
Access Medical Group of Perrine, Inc.
Access Medical Group of Tampa, Inc.
Access Medical Group of Tampa II, Inc.
Access Medical Group of Tampa III, Inc.
Access Medical Group of Westchester, Inc.
Agate Resources, Inc.
Am better of North Carolina, Inc.
Arkansas Health & Wellness Health Plan, Inc.
Bankers Reserve Life Insurance Company of Wisconsin
Bridgeway Health Solutions of Arizona, Inc.
Buckeye Community Health Plan, Inc.
Buckeye Health Plan Community Solutions, Inc.
California Health and Wellness Plan
CBHSP Arizona, Inc.
Celtic Group, Inc.
Celticare Health Plan of Massachusetts, Inc.
Cenpatico of Arizona, Inc.
Centene Company of Texas, LP
Centene Corporation
Centene Health Plan Holdings, Inc.
Centene Venture Company Florida
Centene Venture Company Kansas
Centene Venture Company Illinois
Community Medical Holdings Corp.
Coordinated Care Corporation
Coordinated Care of Washington, Inc.
Envolve - New York, Inc.
Envolve Captive Insurance Company, Inc.
Envolve Dental IPA of New York, Inc.
Envolve Dental of Florida, Inc.
Envolve Dental of Texas, Inc.
Envolve Dental, Inc.
Envolve Holdings, Inc.
Envolve Optical, Inc.
Envolve PeopleCare, Inc.
Envolve Pharmacy Solutions, Inc.
Envolve Total Vision, Inc.
Envolve Vision Benefits, Inc.
Envolve Vision of Florida, Inc.
Envolve Vision of Texas, Inc.
Envolve Vision, Inc.
Envolve, Inc.
FH Assurance Company
Forensic Health Services, Inc.
Granite State Health Plan, Inc.
Hallmark Life Insurance Company
Health Net Access, Inc.
Health Net Community Solutions of Arizona, Inc.
Health Net Community Solutions, Inc.
Health Net Health Plan of Oregon, Inc.
Health Net Life Insurance Company
Health Net Life Reinsurance Company
Health Net of Arizona Administrative Services, Inc.
Health Net of Arizona, Inc.
Health Net of California Real Estate Holdings, Inc.
Health Net of California, Inc.
Health Net Pharmaceutical Services
Health Net Services, Inc.
Health Net, Inc.
Health Plan Real Estate Holding, Inc.
Healthy Missouri Holdings, Inc.
Healthy Washington Holdings, Inc.
Home State Health Plan, Inc.
HomeScripts.com, LLC
IlliniCare Health Plan, Inc.
Integrated Mental Health Services
Interpreta, Inc.
Interpreta Holdings, Inc.
Iowa Total Care, Inc.
Kentucky Spirit Health Plan, Inc.
LBB Industries, Inc.
LiveHealthier, Inc.
LSM Holdco, Inc.
Magnolia Health Plan, Inc.
Managed Health Network
Managed Health Services Insurance Corporation
MHM Correctional Services, Inc.
MHM Health Professionals, Inc.
MHM Maryland, Inc.
MHM Services, Inc.
MHM Services of California, Inc.
MHM Solutions, Inc.
MHN Global Services, Inc.
MHN Government Services - Guam, Inc.
MHN Government Services - International, Inc.
MHN Government Services - Puerto Rico, Inc.
MHS Consulting International, Inc.
MHS Travel & Charter, Inc.
Michigan Complete Health, Inc.
Nebraska Total Care, Inc.
New York Quality Healthcare Corporation
Next Door Neighbors, Inc.
Novasys Health, Inc.
Patriots Holding Co.
Peach State Health Plan, Inc.
Pennsylvania Health & Wellness, Inc.
QuaiMed, Inc.
RX Direct, Inc.
Salus Administrative Services, Inc.
SilverSummit Healthplan, Inc.
Sunflower State Health Plan, Inc.
Sunshine Health Community Solutions, Inc.
Sunshine State Health Plan, Inc.
Superior HealthPlan Community Solutions, Inc.
Superior HealthPlan, Inc.
Trillium Community Health Plan, Inc.
U.S. Medical Management Holdings, Inc.
University Health Plans, Inc.
VPA of Texas, PLLC
VPA, P.C.
Western Sky Community Care, Inc.

The method of allocation among companies is subject to a written agreement whereby allocation is made primarily on a separate company basis using the percentage method pursuant to provisions of IRC Sections 1502 and 1552 and Treasury Regulations 1.1502 and 1.1552. This percentage method allocates a tax asset (i.e., intercompany receivable) for any benefit derived by the consolidated group for the member's losses or credits that offset consolidated taxable income. In accordance with the tax sharing agreement, each member shall pay to Centene or receive from Centene the amount of tax liability or benefit reported on each member's pro forma federal income tax return within 90 days of the date Centene files its consolidated federal income tax return.

(7) Claims Payable

Following is a summary of claims-related expenses and payments during 2018 and 2017:

		2018	2017
Balance at January 1, net of reinsurance ceded of approximately $0 and $2,426,000, respectively	$	143,192,658	157,242,208
Incurred related to:			
Current year		1,984,497,063	1,892,953,778
Prior year		(46,535,571)	(25,505,300)
Total incurred		1,937,961,492	1,867,448,478
Paid related to:			
Current year		1,849,810,925	1,758,152,400
Prior year		87,071,521	123,345,628
Total paid		1,936,882,446	1,881,498,028
Balance at December 31, net of reinsurance ceded of approximately $0 and $0, respectively		144,271,704	143,192,658
Less accrued medical incentive pool and bonus amounts		5,470,265	5,700,750
Net balance at December 31	$	138,801,439	137,491,908

The incurred amounts related to prior years represent the variation between the Company's estimated losses and claim adjustment expense for prior years' claims and the actual amounts required to satisfy such claims. During 2018 and 2017, the Company experienced favorable development of $46,535,571 and $25,505,301, respectively, on prior year claims, generally as the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims.

(Continued)

(8) Related-Party Transactions

In addition to the reinsurance agreement in note 4 to the statutory financial statements, the Company's transactions, amounts due to, and admitted amounts due from related parties in exchange for services provided for the years ended December 31, 2018 and 2017 are detailed as follows:

	Expense		Amount due from (to)		
Affiliate	**2018**	**2017**	**2018**	**2017**	**Services provided**
Centene Management Company, LLC	$ 173,712,372	168,845,107	(378,231)	402,730	General management services
Cenpatico Behavioral Health, LLC	—	262,056,282	—	(9,282,901) *	Behavioral health
Envolve PeopleCare, Inc.	3,033,149	2,896,890	(24,310) *	(203,932) *	Nurse-line triage, life and health management
Envolve Vision, Inc.	20,829,921	20,911,733	(1,874,791) *	(2,074,105) *	Managed vision
Envolve Pharmacy Solutions, Inc.	364,806,915	355,475,603	(1,354,099) *	2,054,955 **	Pharmacy benefits management
U.S. Medical Management, LLC	586,346	589,982	—	—	In-home health

* Amounts due to affiliates reflected in claims payable on the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2018 and 2017.

** Amount due from affiliate reflected in health care receivable on the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2017.

The Company recorded surplus contributions totaling $23,000,000 and $35,000,000 from HLH for the periods ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, surplus contribution receivables due from HLH of $20,000,000 and $15,000,000, respectively, are included in the statutory statements of admitted assets, liabilities, and capital and surplus.

(9) Statutory Net Worth

Under the laws of the State of Louisiana, the Company is required to maintain a minimum statutory net worth. At December 31, 2018 and 2017, the minimum requirement is $3,000,000 per Louisiana Insurance Code, Title 22 and the Company was in compliance with the minimum statutory surplus requirements.

(10) Risk-Based Capital Requirements

The Company is required to report an assessment of its solvency based upon the NAIC Managed Care Organizations Risk-Based Capital (RBC) analysis formulas, as adopted by the State of Louisiana. As of December 31, 2018, the Company's adjusted capital and surplus exceeded the thresholds set forth by the NAIC RBC formula. At December 31, 2018, the Company's actual total adjusted capital was $133,181,770. The Company's action level equaling 200% of the authorized control level was $65,746,692 as of December 31, 2018.

(11) Contingencies

From time to time, the Company may be involved in litigation arising in the ordinary course of operations. While the results of litigation cannot be predicted with certainty, management is of the opinion, after reviewing these matters with legal counsel, that the final outcome of such litigation, if any, will not have a material adverse effect on the Company's statutory financial position.

(12) Gain or Loss to the Reporting Entity from Uninsured Plans

The Company's ASO contract with DHH is being reported in accordance with SSAP No. 47, *Uninsured Plans*. No net other income or expense (including interest paid to or received from plans) was recorded. No claims were paid by the Company related to this contract for the year ended December 31, 2018 or 2017 and amounts represent the cash settlement for the runout period.

		2018	2017
Net reimbursement for administrative expense (including administrative fees) in excess of actual expenses	$	(9,490)	16,700
Net (loss) gain from operations		(9,490)	16,700

(13) Risks and Uncertainties

The Company's profitability depends in large part on accurately predicting and effectively managing medical services costs. The Company continually reviews its premium and benefit structure to reflect its underlying claims experience and revised actuarial data; however, several factors could adversely affect the medical service costs. Certain of these factors, which include changes in healthcare practices, inflation, new technologies, major epidemics, natural disasters, and malpractice litigation, are beyond any health plan's control and could adversely affect the Company's ability to accurately predict and effectively control healthcare costs. Costs in excess of those anticipated could have a material adverse effect on the Company's results of operations.

(14) Subsequent Events

In connection with the preparation of the statutory financial statements, the Company evaluated subsequent events after the statutory statement of admitted assets, liabilities, and capital and surplus date of December 31, 2018 through April 26, 2019, which was the date the statutory financial statements were available to be issued.

The $20,000,000 surplus contribution due from HLH at December 31, 2018 was paid in February 2019.

The Company is subject to an annual fee under Section 9010 of the Affordable Care Act (ACA). This annual fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee is payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due. During the year ended December 31, 2018, the Company recorded $42,148,627 of nondeductible expense for the ACA annual health insurer fee based on net assessable premium of $2,103,706,383, which was paid on October 1, 2018. The Continuing Appropriations Act, 2018 suspends the annual fee under Section 9010 of the ACA for 2019.

			Current year	Prior year
A.	Did the reporting entity write accident and health insurance premium that is subject to Section 9010 of the federal Affordable Care Act (YES/NO)?		N/A	Yes
B.	ACA fee assessment payable for the upcoming year	$	—	40,836,193
C.	ACA fee assessment paid		42,148,627	—
D.	Premium written subject to ACA 9010 assessment		—	2,103,706,383
E.	Total Adjusted Capital before surplus adjustment		—	109,471,018
F.	Total Adjusted Capital after surplus adjustment		—	68,510,036
G.	Authorized Control Level		—	36,359,817
H.	Would reporting the ACA assessment as of December 31, 2015, have triggered an RBC action level (YES/NO)?		N/A	No

Schedule 1

LOUISIANA HEALTHCARE CONNECTIONS, INC.
(A Wholly Owned Subsidiary of Centene Corporation)

Supplemental Summary Investment Schedule

December 31, 2018

	Gross investment holdings		Admitted assets	
Cash, cash equivalents, and short-term investments	$ 209,352,401	69.19%	209,352,401	69.19%
Bonds:				
Non-U.S. government (including Canada, excluding mortgage-backed securities):	1,497,332	0.49	1,497,332	0.49
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
States, territories and possessions general obligations	2,001,045	0.66	2,001,045	0.66
Political subdivisions of states, territories and possessions general obligations	1,345,842	0.45	1,345,842	0.45
Revenue and assessment obligations	6,186,391	2.05	6,186,391	2.05
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by FNMA and FHLMC	5,575,463	1.84	5,575,463	1.84
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	501,141	0.17	501,141	0.17
All other	1,819,746	0.60	1,819,746	0.60
Other debt and other fixed-income securities (excluding short term):				
Unaffiliated domestic securities	48,283,264	15.96	48,283,264	15.96
Unaffiliated non-U.S. securities	25,993,185	8.59	25,993,185	8.59
Total invested assets	$ 302,555,810	100.00%	302,555,810	100.00%

See accompanying independent auditors' report.

LOUISIANA HEALTHCARE CONNECTIONS, INC.
(A Wholly Owned Subsidiary of Centene Corporation)

Supplemental Investment Risk Interrogatories

December 31, 2018

1. The Company's total admitted assets as of December 31, 2018 were: $ 561,250,957

2. The following are the ten largest exposures to a single issuer, excluding U.S. government, U.S. government agency securities, and U.S. Government money market funds:

1.	MMDA-SP	$ 20,000,000	3.56 %
2.	Deutsche Money Market Trust	15,000,000	2.67
3.	US Bank Money Market IT&C 3	11,464,908	2.04
4.	Federal National Mortgage Association, Inc.	4,756,685	0.85
5.	Federal Home Loan Banks Office of Finance	2,199,749	0.39
6.	New Hampshire Department of Education	1,600,000	0.29
7.	The Goldman Sachs Group, Inc.	1,372,119	0.24
8.	Federal Home Loan Mortgage Corporation	1,319,920	0.24
9.	Roche Holdings, Inc.	1,179,779	0.21
10.	BNZ International Funding Limited	1,177,480	0.21

3. The amounts and percentages of the Company's total admitted assets held in bonds and preferred stocks by NAIC rating are as follows:

	Bonds	
Rating	**Amount**	**Percentage**
NAIC-1	$ 86,149,846	15.35%
NAIC-2	14,868,150	2.65

4. Assets held in foreign investments

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?		No
4.02	Total admitted assets held in foreign investments	$ 21,702,753	3.87 %
4.03	Foreign-currency-denominated investments		—
4.04	Insurance liabilities denominated in that same foreign currency		—

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

		1	2
5.01	Countries designated NAIC 1	$ 21,702,753	3.87%
5.02	Countries designated NAIC 2	—	—
5.03	Countries designated NAIC 3 or below	—	—

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

		1	2
	Countries designated NAIC 1:		
6.01	Country United Kingdom	$ 5,358,031	0.95%
6.02	Country Australia	4,320,202	0.77

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

	1	2	3	4
	Issuer	**NAIC Designation**		
10.01	Roche Holdings, Inc.	1FE	$ 1,179,779	0.21%
10.02	BNZ International Funding	1FE	1,177,480	0.21
10.03	Unilever Capital Corporation	1FE	1,085,823	0.19
10.04	Westfield UK & Europe	1FE	1,078,467	0.19
10.05	Medtronic, Inc.	1FE	1,050,854	0.19
10.06	Diageo Investment Corp	1FE	950,869	0.17
10.07	Delamare Cards MTN Issuer PLC	1FE	835,000	0.15
10.08	Anheuser-Busch InBev Finance Inc.	2FE	809,361	0.14
10.09	Equinor ASA	1FE	808,140	0.14
10.10	Skandinaviska Enskilda Banken AB	1FE	800,594	0.14

11. The amounts and percentages of the Company's total admitted assets held in held in Canadian investments and unhedged Canadian currency exposure are as follows:

Bonds	
Amount	**Percentage**
$ 5,787,763	1.03%

All other interrogatories in Section 2 of Appendix A-001 to the NAIC *Accounting Practices and Procedures Manual* have not been disclosed as they are not applicable.

See accompanying independent auditors' report.