



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

Statutory Financial Statements and
Supplemental Information

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
Suite 900
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Louisiana Healthcare Connections, Inc. (the Company), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of the years ended December 31, 2015 and 2014, 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 statutory 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 statutory 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 statutory 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 statutory 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 statutory financial statements.

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

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

As described in note 2 to the financial statements, the statutory 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 statutory financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the statutory 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 principles and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the statutory financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of Louisiana Healthcare Connections, Inc. as of December 31, 2015 and 2014, or the results of its operations or its cash flows for the years ended December 31, 2015 and 2014.

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 capital and surplus of Louisiana Healthcare Connections, Inc. as of December 31, 2015 and 2014, 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 taken as a whole. The supplementary information included in the Supplemental Summary Investment Schedule – December 31, 2015 and Supplemental Investment Risk Interrogatories – December 31, 2015, is presented for purposes of additional analysis and is not a required part of the statutory 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 statutory 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 statutory financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

KPMG LLP

St. Louis, Missouri
May 6, 2016

LOUISIANA HEALTHCARE CONNECTIONS, INC.

(A Wholly Owned Subsidiary of Centene Corporation)

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

December 31, 2015 and 2014

Admitted Assets	2015	2014
Bonds	\$ 42,215,250	45,384,911
Cash, cash equivalents and short-term investments	45,595,950	34,998,168
Investment income due and accrued	144,119	143,344
Premiums receivable	122,531,174	6,242,963
Reinsurance receivable	546,985	261,988
Receivables on uninsured plans	7,623,669	9,379,773
Federal income tax recoverable	289,486	4,063,965
Net deferred tax asset	8,179,446	12,044,550
Amounts due from affiliates	12,445,046	252,956
Healthcare receivables	1,632,771	181,422
Goodwill	6,270,024	4,768,983
State income tax recoverable	—	4,876
Total admitted assets	<u>\$ 247,473,920</u>	<u>117,727,899</u>
Liabilities and Capital and Surplus		
Liabilities:		
Claims payable	\$ 91,355,483	31,094,001
Accrued medical incentive pool and bonus amounts	3,391,701	300,000
Unpaid claims adjustment expenses	1,065,000	486,000
General expenses due or accrued	1,230,424	676,715
Premium taxes accrued	19,382,250	2,184,690
Ceded reinsurance premiums payable	547,874	—
Payable on uninsured plans	3,811,835	4,689,887
Hospital assessment payable	38,276,318	13,674,246
State income tax payable	23,000	—
Total liabilities	<u>159,083,885</u>	<u>53,105,539</u>
Capital and surplus:		
Common stock, no par value. Authorized, 5,000 shares; issued and outstanding, 1,000 shares	—	—
Gross paid-in and contributed surplus	224,691,169	193,691,169
Special surplus	20,900,000	8,600,000
Unassigned deficit	<u>(157,201,134)</u>	<u>(137,668,809)</u>
Total capital and surplus	<u>88,390,035</u>	<u>64,622,360</u>
Total liabilities and capital and surplus	<u>\$ 247,473,920</u>	<u>117,727,899</u>

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, 2015 and 2014

	2015	2014
Revenue:		
Premium income	\$ 1,188,105,961	451,095,271
Expenses:		
Medical and hospital benefits	467,082,021	222,912,929
Other professional services	52,268,947	15,262,495
Emergency room	86,939,025	38,356,481
Prescription drugs	218,855,556	95,370,281
Aggregate write-ins for other hospital and medical	217,853,340	—
Incentive pool and bonus amounts	11,936,859	1,334,829
Reinsurance recoveries	(4,150,288)	(801,305)
Total medical and hospital expenses	1,050,785,460	372,435,710
Claims adjustment expenses	27,495,443	12,437,168
General administrative expenses	127,866,364	67,523,403
Total expenses	1,206,147,267	452,396,281
Investment income:		
Net investment income	574,566	508,043
Net realized capital losses (net of tax \$0 and \$0, respectively)	1,103	(8,268)
Income (loss) before federal income taxes	(17,465,637)	(801,235)
Federal income tax expense (benefit)	(380,272)	4,158,131
Net income (loss)	\$ (17,085,365)	(4,959,366)

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, 2015 and 2014

	<u>Common stock</u>	<u>Gross paid-in and contributed surplus</u>	<u>Special surplus</u>	<u>Unassigned deficit</u>	<u>Total</u>
Balance, December 31, 2013	\$ —	59,900,000	—	(12,254,173)	47,645,827
Paid-in surplus	—	133,791,169	—	—	133,791,169
Net loss	—	—	—	(4,959,366)	(4,959,366)
Change in net deferred income tax	—	—	—	45,186,632	45,186,632
Change in nonadmitted assets	—	—	—	(157,041,902)	(157,041,902)
Change in special surplus funds	—	—	8,600,000	(8,600,000)	—
Balance, December 31, 2014	—	193,691,169	8,600,000	(137,668,809)	64,622,360
Paid-in surplus	—	31,000,000	—	—	31,000,000
Net loss	—	—	—	(17,085,365)	(17,085,365)
Change in net deferred income tax	—	—	—	(5,940,181)	(5,940,181)
Change in nonadmitted assets	—	—	—	15,793,221	15,793,221
Change in special surplus funds	—	—	12,300,000	(12,300,000)	—
Balance, December 31, 2015	\$ —	224,691,169	20,900,000	(157,201,134)	88,390,035

See accompanying notes to statutory financial statements.

LOUISIANA HEALTHCARE CONNECTIONS, INC.
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Statutory Statements of Cash Flow

Years ended December 31, 2015 and 2014

	2015	2014
Cash from operations:		
Premiums collected net of reinsurance	\$ 1,072,365,624	451,033,404
Benefits and loss-related payments	(990,986,987)	(375,347,562)
General administrative and claims adjustment expenses paid	(98,680,157)	(67,749,285)
Federal income taxes recovered (paid)	4,154,751	(8,905,583)
Net investment income	637,313	550,209
Net cash used in operations	(12,509,456)	(418,817)
Cash from investments:		
Proceeds from investments sold, matured, or repaid	8,986,626	12,015,988
Cost of investments acquired	(5,879,388)	(22,401,613)
Net cash provided by (used in) investments	3,107,238	(10,385,625)
Cash from financing and miscellaneous sources:		
Paid-in surplus	20,000,000	8,000,000
Net cash provided by financing and miscellaneous sources	20,000,000	8,000,000
Net change in cash, cash equivalents and short-term investments	10,597,782	(2,804,442)
Cash, cash equivalents and short-term investments, beginning of year	34,998,168	37,802,610
Cash, cash equivalents and short-term investments, end of year	\$ 45,595,950	34,998,168
Supplemental schedule of noncash investing and financing activities:		
Paid-in surplus – due from affiliates	\$ 11,000,000	20,000,000

See accompanying notes to statutory financial statements.

LOUISIANA HEALTHCARE CONNECTIONS, INC.
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Notes to Statutory Financial Statements

December 31, 2015 and 2014

(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 basis. DHH ended the SSP as of January 31, 2015. The Company's contracts with DHH account for 100% of the Company's revenue for the years ended December 31, 2015 and 2014.

(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 2015 and 2014, there were no differences between SAP and NAIC SAP that significantly 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:

	<u>2015</u>	<u>2014</u>
Goodwill	\$ 99,672,733	110,837,627
Intangible assets	7,170,055	11,246,429
Deferred tax assets	31,783,875	33,858,952
Healthcare receivables	3,185,213	1,366,849
Prepaid expenses	<u>60,509</u>	<u>355,749</u>
Total nonadmitted assets	<u>\$ 141,872,385</u>	<u>157,665,606</u>

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

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- B. The statutory financial statements reflect certain assets and liabilities net of ceded reinsurance.
- C. Under SAP, debt securities are 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, 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 NAIC 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

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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 Bloomberg 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 NAIC market value below cost, which are judged to be other-than-temporary, are written down to estimated NAIC market 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 2015 and 2014 related to other-than-temporary impairments.

Investment securities are exposed to various risks, such as interest rate, market and credit. 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 the LDI regulations, the Company is required to maintain certain insolvency deposits of not 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, 2015 and 2014, 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 2015 or 2014.

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(g) Premium Income and Related Receivables

Premium income is recognized in the period in which members are entitled to receive covered services. 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.

During 2015 and 2014, the Company earned premium revenue net of ceded reinsurance premiums of \$1,188,105,961 and \$451,095,271, respectively, under a contract with DHH. The current contract with DHH runs through January 31, 2018 and can be extended up to 24 months. The contract consolidated at risk membership with the SSP membership under an at risk model. Substantially all premiums are based on a fixed amount per eligible enrolled member per month.

Premiums receivable consist of amounts due from DHH. 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 \$2,404,653 and \$0 in premiums receivable greater than 90 days as of December 31, 2015 and 2014, respectively.

(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) Receivable (Payable) on Uninsured Plans

Under the Company's SSP contract with DHH, an incentive payment is due to the Company for the difference between medical expense savings achieved under the contract and benchmarks set by DHH. Amounts become due following sufficient run out of claims experience and a reconciliation process. The receivable is estimated in the interim using an actuarial model. Of the total receivable, 50% is reserved to be paid to providers under the contract. As of December 31, 2015 and 2014, the Company had no receivables on uninsured plans greater than 90 days.

(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.

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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, 2015 and 2014, 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. The Company records pharmaceutical rebate receivables based on actual utilization and estimated rebate rates and admits those receivables recorded during the three months immediately preceding the reporting date.

(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 \$6,270,024 and \$4,768,983 as of December 31, 2015 and 2014, respectively. Amortization expense was \$12,463,854 and \$6,084,558 for the years ended December 31, 2015 and 2014, respectively.

(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

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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, 2015 and 2014; 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.

(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 2015 and 2014, the Company incurred a premium tax equal to 2.25% of premium revenue. The Company records premium tax revenue and expense within premium income and general administrative expenses, respectively. During 2015 and 2014, the Company recorded premium tax income and expense of \$26,564,467 and \$10,119,520, respectively.

(q) *Hospital Assessment Payable*

Hospital assessment payables consist 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.

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(r) *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.

(s) *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 ASO contract have been deducted from general administrative expenses in accordance with SSAP No. 47, *Uninsured Plans*.

(t) *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 fifteen percent 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, 2015 or 2014.

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Notes to Statutory Financial Statements

December 31, 2015 and 2014

(3) Bonds

The amortized cost and estimated statutory fair values of investments in bonds at December 31, 2015 and 2014 are as follows:

	December 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Statutory fair value
U.S. government obligations	\$ 28,363,968	45,951	87,056	28,322,863
Special revenue and assessments	1,688,406	9,715	6,660	1,691,461
Mortgage-backed securities	2,011,996	39,267	—	2,051,263
Industrial and miscellaneous	10,150,880	15,930	44,744	10,122,066
Total	<u>\$ 42,215,250</u>	<u>110,863</u>	<u>138,460</u>	<u>42,187,653</u>
	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Statutory fair value
U.S. government obligations	\$ 28,245,505	49,177	89,240	28,205,442
Political subdivisions of states, territories and possessions	100,000	—	—	100,000
Special revenue and assessments	1,584,140	7,762	3,027	1,588,875
Mortgage-backed securities	2,363,644	63,988	—	2,427,632
Industrial and miscellaneous	13,091,622	34,979	35,384	13,091,217
Total	<u>\$ 45,384,911</u>	<u>155,906</u>	<u>127,651</u>	<u>45,413,166</u>

The above tables exclude bonds classified as cash, cash equivalents and short-term investments of \$0 and \$252,240 at December 31, 2015 and 2014, 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.

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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, 2015 and 2014:

	December 31, 2015					
	Decline for less than 12 months			Decline for greater than 12 months		
	Amortized cost	Statutory fair value	Difference	Amortized cost	Statutory fair value	Difference
U.S. government agency obligations \$	16,862,305	16,776,169	86,136	99,983	99,063	920
Special revenue and assessments	449,298	447,721	1,577	142,888	137,805	5,083
Industrial and miscellaneous	6,429,865	6,396,962	32,903	605,081	593,240	11,841
Total	<u>\$ 23,741,468</u>	<u>23,620,852</u>	<u>120,616</u>	<u>847,952</u>	<u>830,108</u>	<u>17,844</u>

	December 31, 2014					
	Decline for less than 12 months			Decline for greater than 12 months		
	Amortized cost	Statutory fair value	Difference	Amortized cost	Statutory fair value	Difference
U.S. government agency obligations \$	2,149,260	2,143,263	5,997	8,188,536	8,105,294	83,242
Special revenue and assessments	418,097	417,028	1,069	165,303	163,346	1,957
Industrial and miscellaneous	6,500,838	6,474,960	25,878	409,885	400,377	9,508
Total	<u>\$ 9,068,195</u>	<u>9,035,251</u>	<u>32,944</u>	<u>8,763,724</u>	<u>8,669,017</u>	<u>94,707</u>

The Company views the decrease in value of all of the securities with unrealized capital losses at December 31, 2015 and 2014 as temporary, expects recovery in fair value, anticipates continued payments under the terms of the securities, and has the intent and ability to hold these securities until maturity or a recovery in fair value occurs. Therefore, no impairment of these securities was recorded as of December 31, 2015 and 2014, or during the years then ended.

The amortized cost and statutory fair value of debt securities at December 31, 2015, by contractual maturity, are shown below. Actual maturities may differ due to call or prepayment options. Mortgage-backed securities are included in the one through five years category.

	Amortized cost	Statutory fair value
Due one year or less	\$ 8,487,977	8,488,961
Due after one year through five years	32,783,931	32,759,901
Due after five years through ten years	761,887	759,109
Due after ten years or more	181,455	179,682
Total	<u>\$ 42,215,250</u>	<u>42,187,653</u>

The Company had the option to redeem at amortized cost some of the securities included in the due after ten years or more category above.

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Proceeds from sales of investments in debt securities during 2015 and 2014 were \$2,793,696 and \$5,440,528, respectively. Proceeds from maturities, repayments and other disposals of investments in debt securities during 2015 and 2014 were \$6,192,930 and \$6,325,465, respectively. Gross realized losses for the years ended December 31, 2015 and 2014 were \$343 and \$9,140, respectively. Gross realized gains for the years ended December 31, 2015 and 2014 were \$1,446 and \$872, respectively.

Net investment income for the years ended December 31, 2015 and 2014 was as follows:

	2015	2014
Interest income:		
Bonds	\$ 574,477	533,703
Cash, cash equivalents and short-term investments	30,889	4,244
Investment expenses	(30,800)	(29,904)
Net investment income	\$ 574,566	508,043

(4) Reinsurance

During 2015 and 2014, the Company obtained reinsurance coverage from an affiliated insurance entity equal to 90% of hospital inpatient services in excess of \$200,000 per covered person per agreement term to a \$2,500,000 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 2015 and 2014.

The loss reinsurance agreement also provides for certain coverage in the event of the insolvency of the Company, as defined in the reinsurance agreement. The reinsurance company agrees to continue benefits to the Company's members who are hospitalized at the time of the insolvency until the earlier of the member's discharge from the hospital or the date the covered person becomes eligible for health insurance coverage or benefit under another group or blanket policy or plan or any federal, state, or local governmental plan or program. The reinsurance company will also continue benefits for any member for medical services incurred after the date of insolvency provided that premium was received. Coverage for such medical services will continue 30 days after the Company becomes insolvent. The reinsurance company's aggregate maximum liability under this provision of the reinsurance agreement will not exceed \$2,500,000 in either 2015 or 2014.

Under this agreement, the Company recorded ceded premiums of \$6,278,426 and \$3,503,528 for the years ended December 31, 2015 and 2014 and ceded reinsurance premiums payable of \$547,874 and \$0, respectively. The Company recorded reinsurance recoveries of \$4,150,288 and \$801,305 for the years ended December 31, 2015 and 2014 and reinsurance receivables of \$546,985 and \$261,988, respectively.

(5) Income Taxes

The December 31, 2015 and 2014 balances and related disclosures are calculated and presented pursuant to Statements on Statutory Accounting Principles (SSAP) No. 101.

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The net deferred tax asset (liability) at December 31, 2015 and 2014 is comprised of the following components:

	2015			2014			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Total gross deferred tax assets	\$ 41,185,322	—	41,185,322	45,940,052	—	45,940,052	(4,754,730)	—	(4,754,730)
Valuation allowance adjustment	—	—	—	—	—	—	—	—	—
Adjusted gross deferred tax assets	41,185,322	—	41,185,322	45,940,052	—	45,940,052	(4,754,730)	—	(4,754,730)
Total gross deferred tax liabilities	(1,222,001)	—	(1,222,001)	(36,550)	—	(36,550)	(1,185,451)	—	(1,185,451)
Net deferred tax assets	39,963,321	—	39,963,321	45,903,502	—	45,903,502	(5,940,181)	—	(5,940,181)
Total deferred tax assets nonadmitted	(31,783,875)	—	(31,783,875)	(33,858,952)	—	(33,858,952)	2,075,077	—	2,075,077
Net admitted deferred tax assets	\$ 8,179,446	—	8,179,446	12,044,550	—	12,044,550	(3,865,104)	—	(3,865,104)

The amount of adjusted gross deferred tax assets admitted at December 31, 2015 and 2014 is as follows:

	2015			2014			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
FIT recoverable by loss carryback	\$ 4,367,792	—	4,367,792	4,157,879	—	4,157,879	209,913	—	209,913
Expected to be realized (lesser of i. or ii.)	3,811,653	—	3,811,653	7,886,671	—	7,886,671	(4,075,018)	—	(4,075,018)
i. Expected to be realized	3,811,653	—	3,811,653	41,745,623	—	41,745,623	—	—	—
ii. Surplus limitation	7,400,283	—	7,400,283	7,886,671	—	7,886,671	—	—	—
DTL offset	1,222,002	—	1,222,002	36,550	—	36,550	1,185,452	—	1,185,452
Total admitted under 11.a.-11.c.	9,401,447	—	9,401,447	12,081,100	—	12,081,100	(2,679,653)	—	(2,679,653)
Deferred tax liabilities	(1,222,001)	—	(1,222,001)	(36,550)	—	(36,550)	(1,185,451)	—	(1,185,451)
Net admitted deferred tax asset/liability under 11.a.-11.c.	\$ 8,179,446	—	8,179,446	12,044,550	—	12,044,550	(3,865,104)	—	(3,865,104)

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

	2015	2014
Authorized control level risk-based capital ratio without net deferred tax assets	222%	367%
Adjusted capital and surplus	\$ 74,002,827	52,577,810

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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:

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Total deferred tax assets	\$ 41,185,322	45,940,052	(4,754,730)
Total deferred tax liabilities	(1,222,001)	(36,550)	(1,185,451)
Net deferred tax assets	39,963,321	45,903,502	(5,940,181)
Statutory valuation allowance adjustment	—	—	—
Net deferred tax assets after statutory valuation allowance	\$ <u>39,963,321</u>	<u>45,903,502</u>	<u>(5,940,181)</u>
Change in deferred income tax			\$ <u><u>(5,940,181)</u></u>

Current income taxes incurred consist of the following major components:

	<u>2015</u>	<u>2014</u>
Current year tax expense	\$ (588,977)	4,158,131
Prior year adjustments	208,705	(253)
Current income tax expense (benefit)	\$ <u><u>(380,272)</u></u>	<u><u>4,157,878</u></u>

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Deferred income tax assets and liabilities at December 31, 2015 and 2014 consist of the following major components:

	2015			2014			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Loss reserve discounting	\$ 812,381	—	812,381	98,475	—	98,475	713,906	—	713,906
Accrued liabilities	1,421,642	—	1,421,642	1,641,460	—	1,641,460	(219,818)	—	(219,818)
Nonadmitted assets	38,530,979	—	38,530,979	43,332,329	—	43,332,329	(4,801,350)	—	(4,801,350)
Net operating loss carryforward	339	—	339	340	—	340	(1)	—	(1)
Goodwill and intangible amortization	419,981	—	419,981	—	—	—	419,981	—	419,981
Other	—	—	—	867,448	—	867,448	(867,448)	—	(867,448)
Total adjusted gross deferred tax assets	41,185,322	—	41,185,322	45,940,052	—	45,940,052	(4,754,730)	—	(4,754,730)
Valuation allowance adjustment	—	—	—	—	—	—	—	—	—
Total adjusted gross deferred tax assets	41,185,322	—	41,185,322	45,940,052	—	45,940,052	(4,754,730)	—	(4,754,730)
Nonadmitted deferred tax assets	(31,783,875)	—	(31,783,875)	(33,858,952)	—	(33,858,952)	2,075,077	—	2,075,077
Admitted deferred tax assets	9,401,447	—	9,401,447	12,081,100	—	12,081,100	(2,679,653)	—	(2,679,653)
Deferred tax liabilities:									
Investments	(10,387)	—	(10,387)	(10,387)	—	(10,387)	—	—	—
Prepaid expenses	(21,178)	—	(21,178)	(26,163)	—	(26,163)	4,985	—	4,985
Goodwill and intangible amortization	(1,190,436)	—	(1,190,436)	—	—	—	(1,190,436)	—	(1,190,436)
Total deferred tax liabilities	(1,222,001)	—	(1,222,001)	(36,550)	—	(36,550)	(1,185,451)	—	(1,185,451)
Net admitted deferred tax asset	\$ 8,179,446	—	8,179,446	12,044,550	—	12,044,550	(3,865,104)	—	(3,865,104)

The valuation allowance adjustment to gross deferred tax assets as of December 31, 2015 and 2014 was \$0. The net change in the total valuation allowance adjustments for the period ended December 31, 2015 was \$0.

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The Company's income tax incurred and change in deferred income tax differs from the amount obtained by applying the federal statutory rate of 35% to income before income taxes as follows:

	2015	2014
Current income tax expense (benefit)	\$ (380,272)	4,157,878
Change in deferred income tax (without tax on unrealized gains and losses)	5,940,180	(45,186,632)
Total income tax expense (benefit) reported	\$ 5,559,908	(41,028,754)
Income (loss) before taxes	\$ (17,465,637)	(801,235)
	35%	35%
Expected income tax expense (benefit) at 35% statutory rate	(6,112,974)	(280,432)
Increase (decrease) in actual tax reported resulting from:		
a. Tax-exempt interest	(7,494)	(5,846)
b. Health insurer fee	3,035,529	2,371,836
c. Meals and entertainment	—	(25)
d. Change in deferred taxes on nonadmitted assets	4,801,351	(43,114,034)
e. Goodwill adjustment	3,844,706	—
f. Other	(1,210)	(253)
Total income tax expense (benefit) reported	\$ 5,559,908	(41,028,754)

As of December 31, 2015, the Company had no net operating loss carry forwards available for tax purposes. Federal income taxes incurred that are available for recoupment in the event of future net losses were \$0 and \$4,367,792 in 2015 and 2014, respectively.

The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

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

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

AECC Total Vision Health Plan of Texas, Inc.	Hallmark Life Insurance Co.
Absolute Total Care, Inc.	Home State Health Plan, Inc.
Bankers Reserve Life Insurance Company of Wisconsin	IlliniCare Health Plan, Inc.
Buckeye Community Health Plan, Inc.	Kentucky Spirit Health Plan, Inc.
California Health & Wellness Plan	Magnolia Health Plan, Inc.
CeltiCare Health Plan of Massachusetts, Inc.	Managed Health Services Insurance Corp.
Cenpatco of Arizona, Inc.	Peach State Health Plan, Inc.
Coordinated Care Corporation	Sunflower State Health Plan, Inc.
Coordinated Care of Washington, Inc.	Sunshine State Health Plan, Inc.
Fidelis SecureCare of Michigan Inc.	Superior Health Plan, Inc.
Granite State Health Plan, Inc.	Trillium Community Health Plan, 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.

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(6) Claims Payable

Following is a summary of claims-related expenses and payments during 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Balance at January 1, net of reinsurance ceded of approximately \$855,000 and \$1,352,000, respectively	\$ 31,394,001	33,382,939
Incurred related to:		
Current year	1,049,340,745	377,558,030
Prior year	1,444,715	(5,122,320)
Total incurred	<u>1,050,785,460</u>	<u>372,435,710</u>
Paid related to:		
Current year	955,193,185	346,206,347
Prior year	32,239,092	28,218,301
Total paid	<u>987,432,277</u>	<u>374,424,648</u>
Balance at December 31, net of reinsurance ceded of approximately \$1,470,000 and \$855,000, respectively	94,747,184	31,394,001
Less accrued medical incentive pool and bonus amounts	<u>3,391,701</u>	<u>300,000</u>
Net balance at December 31	<u>\$ 91,355,483</u>	<u>31,094,001</u>

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 2015 and 2014, the Company experienced unfavorable development of \$(1,444,715) and favorable development of \$5,122,320 on prior years 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.

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(7) Related-Party Transactions

In addition to the reinsurance agreement in note 4 to the statutory financial statements, the Company's transactions with and amounts due from (to) related parties in exchange for services provided for the years ended December 31 2015 and 2014 are as follows:

December 31, 2015			
Affiliate	Expense	Amount due amounts from (to)	Services provided
Cenpatico Behavioral Health, LLC (CBH)	\$ 17,885,419	(14,015,461)	*Behavioral health
Centene Management Company, LLC	107,665,771	230,484	General management services
NurseWise LP	3,343,420	(1,748)	*Nurse-line triage
Nurtur Health, Inc.	5,029,914	4,821	Life and health management
Opticare Vision Company, Inc.	14,095,242	(226,436)	*Managed Vision
US Script, Inc.	222,338,339	1,032,974	*Pharmacy benefits management

* Amounts due from CBH for claims reflected in amounts due from affiliates and amounts due from (to) all affiliates for capitated benefits reflected in claims payable on the statutory statement of admitted assets, liabilities, and capital and surplus as of December 31, 2015.

December 31, 2014			
Affiliate	Expense	Amount due amounts from (to)	Services provided
Cenpatico Behavioral Health, LLC	\$ 684,578	(23,521)	*Behavioral health
Centene Management Company, LLC	50,416,670	252,956	General management services
NurseWise LP	1,550,521	—	*Nurse-line triage
Nurtur Health, Inc.	2,532,775	(6,925)	*Life and health management
Opticare Vision Company, Inc.	5,075,147	(107,959)	*Managed Vision
US Script, Inc.	96,966,129	199,903	*Pharmacy benefits management

* Amounts due from (to) affiliate reflected in claims payable in statutory statement of admitted assets, liabilities, and capital and surplus as of December 31, 2014.

The Company recorded surplus contributions totaling \$31,000,000 and \$0 from HLH for the periods ended December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, surplus contribution receivables due from HLH of \$11,000,000 and \$0, respectively, are included in the statutory statements of admitted assets, liabilities, and capital and surplus.

(8) 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, 2015 and 2014, 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.

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(9) 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, 2015, the Company's adjusted capital and surplus exceeded the thresholds set forth by the NAIC RBC formula. At December 31, 2015, the Company's actual total adjusted capital was \$88,390,035. The Company's action level equaling 200% of the authorized control level was \$66,547,890 as of December 31, 2015.

(10) 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.

(11) 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, 2015 or 2014.

	<u>2015</u>	<u>2014</u>
Net reimbursement for administrative expense (including administrative fees) in excess of actual expenses	\$ (878,052)	4,689,886
Net gain (loss) from operations	(878,052)	4,689,886

(12) Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in 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:

<u>Level input</u>	<u>Input definition</u>
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

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The carrying values and estimated fair values of the Company's financial instruments at December 31, 2015 and 2014 were as follows:

December 31, 2015						
	Aggregate fair value	Admitted assets	(Level 1)	(Level 2)	(Level 3)	Not practicable (carrying value)
Cash	\$ 35,182,898	35,182,898	35,182,898	—	—	—
Cash Equivalents	1,299,942	1,299,942	1,299,942	—	—	—
Short-term investments – at fair value	9,113,110	9,113,110	9,113,110	—	—	—
Bonds	42,187,653	42,215,250	25,576,813	16,610,840	—	—
Total	\$ 87,783,603	87,811,200	71,172,763	16,610,840	—	—

December 31, 2014						
	Aggregate fair value	Admitted assets	(Level 1)	(Level 2)	(Level 3)	Not practicable (carrying value)
Cash	\$ 10,707,154	10,707,154	10,707,154	—	—	—
Short-term investments – at fair value	24,038,777	24,038,777	24,038,777	—	—	—
Short-term investments – at amortized cost	252,237	252,237	—	252,237	—	—
Bonds	45,413,166	45,384,911	28,106,550	17,306,616	—	—
Total	\$ 80,411,334	80,383,079	62,852,481	17,558,853	—	—

(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, 2015 through May 6, 2016, which was the date the statutory financial statements were issued.

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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, 2015, the Company recorded \$8,672,939 of nondeductible expense for the ACA annual health insurer fee based on net assessable premium of \$454,598,799, which was paid on September 30, 2015.

As of December 31, 2015, the Company has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2016, and estimates their portion of the annual health insurance industry fee to be payable on September 30, 2016 to be approximately \$20,900,000 based on net assessable premium of \$1,194,400,000. This assessment is not expected to have a significant impact to the Company's surplus as of December 31, 2016 compared to the Company's surplus as of December 31, 2015. Had the estimated ACA fee assessment payable been recorded as of December 31, 2015, the Company would remain in compliance with minimum statutory requirements in Louisiana Insurance Code, Title 22. During 2016, the Company expects to be reimbursed by DHH in order to maintain actuarial soundness of premiums, which would offset this negative surplus and risk based capital impact that could occur on an interim basis.

The following table summarizes the Company's total adjusted capital, authorized control level and risk-based capital as reported at December 31, 2015 before and after the special surplus adjustment to record the estimated ACA fee assessment had it been payable as of December 31, 2015:

	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)?	YES	
B. ACA fee assessment payable for the upcoming year	\$ 20,900,000	\$ 8,600,000
C. ACA fee assessment paid	\$ 13,742,484	\$ 6,776,675
D. Premium written subject to ACA 9010 assessment	\$ 1,194,384,387	\$ 454,598,799
E. Total Adjusted Capital before surplus adjustment	\$ 88,390,034	
F. Total Adjusted Capital after surplus adjustment	\$ 67,490,034	
G. Authorized Control Level	\$ 33,254,887	
H. Would reporting the ACA assessment as of December 31, 2015, have triggered an RBC action level (YES/NO)?	NO	

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

Supplemental Summary Investment Schedule

December 31, 2015

	<u>Gross investment holdings</u>		<u>Admitted assets</u>	
Cash, cash equivalents and short-term investments	\$ 45,595,950	51.92%	\$ 45,595,950	51.92%
Bonds:				
U.S. treasury securities	748,084	0.85	748,084	0.85
U.S. government agency obligations (excluding mortgage-backed securities):				
U.S. government-sponsored agencies	27,615,884	31.45	27,615,884	31.45
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
Revenue and assessment obligations	1,845,120	2.11	1,845,120	2.11
Mortgage-backed securities (includes residential and commercial MBS):				
Issued or guaranteed by FNMA and FHLMC	2,011,996	2.30	2,011,996	2.30
Other debt and other fixed income securities (excluding short term):				
Unaffiliated domestic securities	5,870,169	6.68	5,870,169	6.68
Unaffiliated non-U.S. securities	4,123,997	4.70	4,123,997	4.70
Total invested assets	<u>\$ 87,811,200</u>	<u>100.0%</u>	<u>\$ 87,811,200</u>	<u>100.0%</u>

See accompanying independent auditors' report.

LOUISIANA HEALTHCARE CONNECTIONS, INC.
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Supplemental Investment Risk Interrogatories

December 31, 2015

1. The Company's total admitted assets as of December 31, 2015 were: \$ 247,473,920

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. Deutsche DWS Institutional	\$ 5,000,000	2.02%
2. Dreyfus Instit Cash Adv/Instit	4,000,000	1.62
3. Kimberly Clark Corporation	420,000	0.17
4. AIA Group, Ltd	398,935	0.16
5. Amgen, Inc	390,000	0.16
6. Aflac, Inc	386,853	0.16
7. Electricite De France	379,090	0.15
8. Royal Bank of Scotland GRP PLC	361,469	0.15
9. Select Income Reit	347,783	0.14
10. Vitality Rev, Ltd	310,000	0.13

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

Rating	Bonds	
	Amount	Percentage
NAIC-1	\$ 49,965,349	20.19%
NAIC-2	2,662,951	1.08

4. Assets held in foreign investments

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?		Yes
4.02 Total admitted assets held in foreign investments	\$ 4,123,997	1.67%
4.03 Foreign-currency-denominated investments	—	—
4.04 Insurance liabilities denominated in that same foreign currency	—	—

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.