



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

Statutory Financial Statements and
Supplemental Information

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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St. Louis, MO 63102-1761

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 December 31, 2016 and 2015, 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, 2016 and 2015, 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 capital and surplus of the Company as of December 31, 2016 and 2015, 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 Schedule Investment Schedule – December 31, 2016, and Supplemental Investment Risk Interrogatories – December 31, 2016, 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 21, 2017

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

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

December 31, 2016 and 2015

Admitted Assets	2016	2015
Bonds	\$ 40,000,000	42,215,250
Cash, cash equivalents, and short-term investments	202,236,963	45,595,950
Investment income due and accrued	90,713	144,119
Premiums receivable	184,519,257	122,531,174
Reinsurance receivable	193,717	546,985
Receivables on uninsured plans	2,068,924	7,623,669
Federal income tax recoverable	5,547,908	289,486
Net deferred tax asset	565,656	8,179,446
Amounts due from affiliates	5,431,506	12,445,046
Healthcare receivables	2,081,225	1,632,771
Goodwill	7,938,864	6,270,024
State income tax recoverable	448,599	—
Total admitted assets	\$ 451,123,332	247,473,920
Liabilities and Capital and Surplus		
Liabilities:		
Claims payable	\$ 153,315,984	91,355,483
Accrued medical incentive pool and bonus amounts	3,926,224	3,391,701
Unpaid claims adjustment expenses	1,934,000	1,065,000
General expenses due or accrued	2,825,122	1,230,424
Premium taxes accrued	75,827,552	19,382,250
Ceded reinsurance premiums payable	1,046,285	547,874
Return of premiums payable	34,000,000	—
Payable on uninsured plans	1,053,093	3,811,835
Hospital assessment payable	80,743,791	38,276,318
State income tax payable	—	23,000
Total liabilities	354,672,051	159,083,885
Capital and surplus:		
Common stock, no par value. Authorized, 5,000 shares; issued and outstanding, 1,000 shares	—	—
Gross paid-in and contributed surplus	248,191,169	224,691,169
Special surplus	—	20,900,000
Unassigned deficit	(151,739,888)	(157,201,134)
Total capital and surplus	96,451,281	88,390,035
Total liabilities and capital and surplus	\$ 451,123,332	247,473,920

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, 2016 and 2015

	2016	2015
Revenue:		
Premium income	\$ 1,740,298,030	1,188,105,961
Expenses:		
Medical and hospital benefits	594,927,005	467,082,021
Other professional services	253,508,034	52,268,947
Emergency room	112,234,433	86,939,025
Prescription drugs	270,330,727	218,855,556
Aggregate write-ins for other hospital and medical	262,768,767	217,853,340
Incentive pool and bonus amounts	11,402,702	11,936,859
Reinsurance recoveries	(5,908,809)	(4,150,288)
Total medical and hospital expenses	1,499,262,859	1,050,785,460
Claims adjustment expenses	14,737,851	11,162,148
General administrative expenses	249,439,321	144,199,659
Total expenses	1,763,440,031	1,206,147,267
Investment income:		
Net investment income	485,833	574,566
Net realized capital gains (net of tax \$0 and \$0, respectively)	356,677	1,103
Income (loss) before federal income taxes	(22,299,491)	(17,465,637)
Federal income tax expense (benefit)	560,613	(380,272)
Net income (loss)	\$ (22,860,104)	(17,085,365)

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, 2016 and 2015

	Common stock	Gross paid-in and contributed surplus	Special surplus	Unassigned deficit	Total
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
Paid-in surplus	—	23,500,000	—	—	23,500,000
Net loss	—	—	—	(22,860,104)	(22,860,104)
Change in net deferred income tax	—	—	—	(39,397,665)	(39,397,665)
Change in nonadmitted assets	—	—	—	46,819,015	46,819,015
Change in special surplus funds	—	—	(20,900,000)	20,900,000	—
Balance, December 31, 2016	\$ —	248,191,169	—	(151,739,888)	96,451,281

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, 2016 and 2015

	2016	2015
Cash from operations:		
Premiums collected net of reinsurance	\$ 1,712,808,358	1,072,365,624
Benefits and loss-related payments	(1,437,257,143)	(990,986,987)
General administrative and claims adjustment expenses paid	(150,700,021)	(98,680,157)
Federal income taxes recovered (paid)	(5,821,348)	4,154,751
Net investment income	580,127	637,313
Net cash provided by (used in) operations	119,609,973	(12,509,456)
Cash from investments:		
Proceeds from investments sold, matured, or repaid	63,592,182	8,986,626
Cost of investments acquired	(61,061,142)	(5,879,388)
Net cash provided by investments	2,531,040	3,107,238
Cash from financing and miscellaneous sources:		
Paid-in surplus	34,500,000	20,000,000
Net cash provided by financing and miscellaneous sources	34,500,000	20,000,000
Net change in cash, cash equivalents, and short-term investments	156,641,013	10,597,782
Cash, cash equivalents, and short-term investments, beginning of year	45,595,950	34,998,168
Cash, cash equivalents, and short-term investments, end of year	\$ 202,236,963	45,595,950
Supplemental schedule of noncash investing and financing activities:		
Paid-in surplus – due from affiliates	\$ —	11,000,000

See accompanying notes to statutory financial statements.

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

Notes to Statutory Financial Statements

December 31, 2016 and 2015

(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, 2016 and 2015.

(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 2016 and 2015, 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:

	2016	2015
Goodwill	\$ 85,540,039	99,672,733
Intangible assets	5,893,681	7,170,055
Deferred tax assets	—	31,783,875
Healthcare receivables	3,579,338	3,185,213
Prepaid expenses	40,312	60,509
Total nonadmitted assets	\$ 95,053,370	141,872,385

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.

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- 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 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.

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(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 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 2016 and 2015 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, 2016 and 2015, 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 2016 or 2015.

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Notes to Statutory Financial Statements

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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 2016 and 2015, the Company earned premium revenue net of ceded reinsurance premiums of \$1,740,298,030 and \$1,188,105,961, 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 \$3,881,054 and \$2,404,653 in premiums receivable greater than 90 days as of December 31, 2016 and 2015, 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, 2016 and 2015, 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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Notes to Statutory Financial Statements

December 31, 2016 and 2015

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, 2016 and 2015, 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 \$7,938,864 and \$6,270,024 as of December 31, 2016 and 2015, respectively. Amortization expense was \$12,463,854 for the years ended December 31, 2016 and 2015.

(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.

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Notes to Statutory Financial Statements

December 31, 2016 and 2015

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, 2016 and 2015; 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 2016 and 2015, the Company incurred a premium tax equal to 5.5% and 2.25% of premium revenue, respectively. The Company records premium tax revenue and expense within premium income and general administrative expenses, respectively. During 2016 and 2015, the Company recorded premium tax income and expense of \$94,342,497 and \$26,564,467, 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.

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

Notes to Statutory Financial Statements

December 31, 2016 and 2015

(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 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, 2016 or 2015.

(u) 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, 2016 and 2015, the Company recorded liabilities of \$34,000,000 and \$0, respectively.

(v) Reclassifications

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

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

Notes to Statutory Financial Statements

December 31, 2016 and 2015

(3) Bonds

The amortized cost and estimated statutory fair values of investments in bonds at December 31, 2016 and 2015 are as follows:

		December 31, 2016			
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Statutory fair value
Special revenue and assessments	\$	40,000,000	—	—	40,000,000
Total	\$	40,000,000	—	—	40,000,000

		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	\$	42,215,250	110,863	138,460	42,187,653

The above tables exclude bonds classified as cash, cash equivalents, and short-term investments of \$0 at December 31, 2016 and 2015.

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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December 31, 2016 and 2015

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, 2016 and 2015:

December 31, 2016						
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. revenue and assessment	\$ —	—	—	—	—	—
Total	\$ —	—	—	—	—	—

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
U.S. revenue and assessment	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	\$ 23,741,468	23,620,852	120,616	847,952	830,108	17,844

The Company viewed the decrease in value of all of the securities with unrealized capital losses at December 31, 2015 as temporary. As such, no impairment of these securities was recorded as of December 31, 2015, or during the year then ended.

The amortized cost and statutory fair value of debt securities at December 31, 2016, 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	\$ 40,000,000	40,000,000
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years or more	—	—
Total	\$ 40,000,000	40,000,000

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Proceeds from sales of investments in debt securities during 2016 and 2015 were \$60,647,182 and \$2,793,696, respectively. Proceeds from maturities, repayments and other disposals of investments in debt securities during 2016 and 2015 were \$2,945,000 and \$6,192,930, respectively. Gross realized losses for the years ended December 31, 2016 and 2015 were \$22,163 and \$343, respectively. Gross realized gains for the years ended December 31, 2016 and 2015 were \$378,768 and \$1,446, respectively.

Net investment income for the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
Interest income:		
Bonds	\$ 294,238	574,477
Cash, cash equivalents, and short-term investments	215,483	30,889
Investment expenses	(23,888)	(30,800)
Net investment income	\$ 485,833	574,566

(4) Reinsurance

During 2016, 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 \$4,600,000 maximum per member per agreement term. During 2015, 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 2016 and 2015.

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 \$4,600,000 and \$2,500,000 in either 2016 or 2015, respectively.

Under this agreement, the Company recorded ceded premiums of \$10,067,253 and \$6,278,426 for the years ended December 31, 2016 and 2015 and ceded reinsurance premiums payable of \$1,046,285 and \$547,874, respectively. The Company recorded reinsurance recoveries of \$5,908,809 and \$4,150,288 for the years ended December 31, 2016 and 2015 and reinsurance receivables of \$193,717 and \$546,985, respectively.

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December 31, 2016 and 2015

(5) Income Taxes

The December 31, 2016 and 2015 balances and related disclosures are calculated and presented pursuant to Statements on Statutory Accounting Principles (SSAP) No. 101.

The net deferred tax asset (liability) at December 31, 2016 and 2015 is comprised of the following components:

	2016			2015			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Total gross deferred tax assets	\$ 35,731,425	—	35,731,425	41,185,322	—	41,185,322	(5,453,897)	—	(5,453,897)
Valuation allowance adjustment	(35,066,711)	—	(35,066,711)	—	—	—	(35,066,711)	—	(35,066,711)
Adjusted gross deferred tax assets	664,714	—	664,714	41,185,322	—	41,185,322	(40,520,608)	—	(40,520,608)
Total gross deferred tax liabilities	(99,058)	—	(99,058)	(1,222,001)	—	(1,222,001)	1,122,943	—	1,122,943
Net deferred tax assets	565,656	—	565,656	39,963,321	—	39,963,321	(39,397,665)	—	(39,397,665)
Total deferred tax assets nonadmitted	—	—	—	(31,783,875)	—	(31,783,875)	31,783,875	—	31,783,875
Net admitted deferred tax assets	\$ 565,656	—	565,656	8,179,446	—	8,179,446	(7,613,790)	—	(7,613,790)

The amount of adjusted gross deferred tax assets admitted at December 31, 2016 and 2015 is as follows:

	2016			2015			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
FIT recoverable by loss carryback Expected to be realized (lesser of i. or ii.)	\$ 565,656	—	565,656	4,367,792	—	4,367,792	(3,802,136)	—	(3,802,136)
i Expected to be realized	—	—	—	3,811,653	—	3,811,653	(3,811,653)	—	(3,811,653)
ii Surplus limitation	8,794,676	—	8,794,676	7,400,283	—	7,400,283	1,394,393	—	1,394,393
DTL offset	99,058	—	99,058	1,222,002	—	1,222,002	(1,122,944)	—	(1,122,944)
Total admitted under 11.a.-11.c.	664,714	—	664,714	9,401,447	—	9,401,447	(8,736,733)	—	(8,736,733)
Deferred tax liabilities	(99,058)	—	(99,058)	(1,222,001)	—	(1,222,001)	1,122,943	—	1,122,943
Net admitted deferred tax asset/liability under 11.a.-11.c.	\$ 565,656	—	565,656	8,179,446	—	8,179,446	(7,613,790)	—	(7,613,790)

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

	2016	2015
Authorized control level risk-based capital ratio without net deferred tax assets	215 %	222 %
Adjusted capital and surplus	\$ 87,946,761	74,002,827

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:

	2016	2015	Change
Total deferred tax assets	\$ 35,731,425	41,185,322	(5,453,897)
Total deferred tax liabilities	(99,058)	(1,222,001)	1,122,943
Net deferred tax assets	35,632,367	39,963,321	(4,330,954)
Statutory valuation allowance adjustment	(35,066,711)	—	(35,066,711)
Net deferred tax assets after statutory valuation allowance	\$ 565,656	39,963,321	(39,397,665)
Change in deferred income tax			\$ (39,397,665)

Current income taxes incurred consist of the following major components:

	2016	2015
Current year tax expense	\$ 565,656	(588,977)
Prior year adjustments	(5,043)	208,705
Current income tax expense (benefit)	\$ 560,613	(380,272)

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Deferred income tax assets and liabilities at December 31, 2016 and 2015 consist of the following major components:

	2016			2015			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Loss reserve discounting	\$ 921,489	—	921,489	812,381	—	812,381	109,108	—	109,108
Accrued liabilities	368,583	—	368,583	1,421,642	—	1,421,642	(1,053,059)	—	(1,053,059)
Nonadmitted assets	33,267,870	—	33,267,870	38,530,979	—	38,530,979	(5,263,109)	—	(5,263,109)
Net operating loss carryforward	339	—	339	339	—	339	—	—	—
Goodwill and intangible amortization	1,173,144	—	1,173,144	419,981	—	419,981	753,163	—	753,163
Total adjusted gross deferred tax assets	35,731,425	—	35,731,425	41,185,322	—	41,185,322	(5,453,897)	—	(5,453,897)
Valuation allowance adjustment	(35,066,711)	—	(35,066,711)	—	—	—	(35,066,711)	—	(35,066,711)
Total adjusted gross deferred tax assets	664,714	—	664,714	41,185,322	—	41,185,322	(40,520,608)	—	(40,520,608)
Nonadmitted deferred tax assets	—	—	—	(31,783,875)	—	(31,783,875)	31,783,875	—	31,783,875
Admitted deferred tax assets	664,714	—	664,714	9,401,447	—	9,401,447	(8,736,733)	—	(8,736,733)
Deferred tax liabilities:									
Other liabilities	(85,758)	—	(85,758)	(10,387)	—	(10,387)	(75,371)	—	(75,371)
Prepaid expenses	(13,300)	—	(13,300)	(21,178)	—	(21,178)	7,878	—	7,878
Goodwill and intangible amortization	—	—	—	(1,190,436)	—	(1,190,436)	1,190,436	—	1,190,436
Total deferred tax liabilities	(99,058)	—	(99,058)	(1,222,001)	—	(1,222,001)	1,122,943	—	1,122,943
Net admitted deferred tax asset	\$ 565,656	—	565,656	8,179,446	—	8,179,446	(7,613,790)	—	(7,613,790)

The valuation allowance adjustment to gross deferred tax assets as of December 31, 2016 and 2015 was \$35,066,711 and \$0, respectively. The net change in the total valuation allowance adjustments for the period ended December 31, 2016 was \$35,066,711.

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December 31, 2016 and 2015

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:

	2016	2015
Current income tax expense (benefit)	\$ 560,613	(380,272)
Change in deferred income tax (without tax on unrealized gains and losses)	39,397,666	5,940,180
Total income tax expense (benefit) reported	\$ 39,958,279	5,559,908
Income (loss) before taxes	\$ (22,299,491)	(17,465,637)
	35 %	35 %
Expected income tax expense (benefit) at 35% statutory rate	(7,804,822)	(6,112,974)
Increase (decrease) in actual tax reported resulting from:		
a. Tax-exempt interest	(16,091)	(7,494)
b. Health insurer fee	7,451,663	3,035,529
c. Meals and entertainment	21	—
d. Change in statutory valuation allowance	35,066,711	—
e. Change in deferred taxes on nonadmitted assets	5,263,108	4,801,351
f. Goodwill adjustment	—	3,844,706
g. Other	(2,311)	(1,210)
Total income tax expense (benefit) reported	\$ 39,958,279	5,559,908

As of December 31, 2016, the Company had \$339 of 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 \$565,656 and \$0 in 2016 and 2015, 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:

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.
Cenpatico of Arizona, Inc.	Nebraska Total Care, Inc.
Coordinated Care Corporation	Peach State Health Plan, Inc.
Coordinated Care of Washington, Inc.	Sunflower State Health Plan, Inc.
Envolve Vision of Texas, Inc.	Sunshine Health Community Solutions, Inc.
Fidelis SecureCare of Michigan Inc.	Sunshine State Health Plan, Inc.
Granite State Health Plan, Inc.	Superior Health Plan, Inc.
Hallmark Life Insurance Co.	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 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Balance at January 1, net of reinsurance ceded of approximately \$1,470,000 and \$855,000, respectively	\$ 94,747,184	31,394,001
Incurred related to:		
Current year	1,507,963,960	1,049,340,745
Prior year	<u>(8,701,104)</u>	<u>1,444,715</u>
Total incurred	<u>1,499,262,856</u>	<u>1,050,785,460</u>
Paid related to:		
Current year	1,356,114,767	955,193,185
Prior year	<u>80,653,065</u>	<u>32,239,092</u>
Total paid	<u>1,436,767,832</u>	<u>987,432,277</u>
Balance at December 31, net of reinsurance ceded of approximately \$2,426,000 and \$1,470,000, respectively	157,242,208	94,747,184
Less accrued medical incentive pool and bonus amounts	<u>3,926,224</u>	<u>3,391,701</u>
Net balance at December 31	<u>\$ 153,315,984</u>	<u>91,355,483</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 2016 and 2015, the Company experienced favorable development of \$8,701,104 and unfavorable development of (\$1,444,715) 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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December 31, 2016 and 2015

(7) 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 2016 and 2015 are detailed as follows:

Affiliate	December 31, 2016		
	Expense	Amount due from (to)	Services provided
Cenpatico Behavioral Health, LLC	\$ 215,267,244	(31,928,932)	*Behavioral health
Centene Management Company, LLC	142,526,926	3,088,182	General management services
Envolve PeopleCare, Inc.	6,507,545	(1,024,484)	*Nurse-line triage, life and health management
Envolve Vision, Inc.	17,132,004	(2,878,758)	*Managed vision
Envolve Pharmacy Solutions, Inc.	274,942,092	3,295,088	*Pharmacy benefits management
U.S. Medical Management, LLC	350,000	—	*In-home health

* Amounts due from CBH for claims reflected in amounts due from affiliates and amounts due from (to) affiliates are reflected in claims payable on the statutory statement of admitted assets, liabilities, and capital and surplus as of December 31, 2016.

Affiliate	December 31, 2015		
	Expense	Amount due from (to)	Services provided
Cenpatico Behavioral Health, LLC	\$ 17,885,419	(14,015,461)	*Behavioral health
Centene Management Company, LLC	107,665,771	230,484	General management services
Envolve PeopleCare, Inc.	8,373,334	3,073	*Nurse-line triage, life and health management
Envolve Vision, Inc.	14,095,242	(226,436)	*Managed vision
Envolve Pharmacy Solutions, Inc.	222,338,339	3,844,204	*Pharmacy benefits management
U.S. Medical Management, LLC	369,200	—	*In-home health

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

The Company recorded surplus contributions totaling \$23,500,000 and \$31,000,000 from HLH for the periods ended December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, surplus contribution receivables due from HLH of \$0 and \$11,000,000, respectively, are included in the statutory statements of admitted assets, liabilities, and capital and surplus.

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Notes to Statutory Financial Statements

December 31, 2016 and 2015

(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, 2016 and 2015, 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.

(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, 2016, the Company's adjusted capital and surplus exceeded the thresholds set forth by the NAIC RBC formula. At December 31, 2016, the Company's actual total adjusted capital was \$96,451,281. The Company's action level equaling 200% of the authorized control level was \$81,834,312 as of December 31, 2016.

(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, 2016 or 2015.

	<u>2016</u>	<u>2015</u>
Net reimbursement for administrative expense (including administrative fees) in excess of actual expenses	\$ 172,661	(878,052)
Net gain (loss) from operations	172,661	(878,052)

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(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:

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, 2016 and 2015 were as follows:

December 31, 2016						
	Aggregate fair value	Admitted assets	(Level 1)	(Level 2)	(Level 3)	Not practicable (carrying value)
Cash	\$ 81,159,383	81,159,383	81,159,383	—	—	—
Cash equivalents	1,053,224	1,053,224	1,053,224	—	—	—
Short-term investments – at fair value	120,024,356	120,024,356	—	120,024,356	—	—
Bonds	40,000,000	40,000,000	—	40,000,000	—	—
Total	<u>\$ 242,236,963</u>	<u>242,236,963</u>	<u>82,212,607</u>	<u>160,024,356</u>	<u>—</u>	<u>—</u>
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	<u>\$ 87,783,603</u>	<u>87,811,200</u>	<u>71,172,763</u>	<u>16,610,840</u>	<u>—</u>	<u>—</u>

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December 31, 2016 and 2015

(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, 2016 through April 21, 2017, which was the date the statutory financial statements were issued.

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, 2016, the Company recorded \$35,047,163 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, 2016. The Consolidated Appropriations Act, 2016 amended the effective date of Section 9010 of the ACA to apply to those calendar years beginning after December 31, 2013 and ending before January 1, 2017, as well as those calendar years beginning after December 31, 2017.

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The following table summarizes the Company's total adjusted capital, authorized control level and risk-based capital as reported at December 31, 2016 before and after the special surplus adjustment to record the estimated ACA fee assessment had it been payable as of December 31, 2016:

	<u>Current year</u>	<u>Prior year</u>
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	
B. ACA fee assessment payable for the upcoming year	\$ —	20,900,000
C. ACA fee assessment paid	35,047,163	13,742,484
D. Premium written subject to ACA 9010 assessment	—	1,194,384,387
E. Total Adjusted Capital before surplus adjustment	—	—
F. Total Adjusted Capital after surplus adjustment	—	—
G. Authorized Control Level	—	—
H. Would reporting the ACA assessment as of December 31, 2015, have triggered an RBC action level (YES/NO)?	N/A	

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Supplemental Summary Investment Schedule

December 31, 2016

	<u>Gross investment holdings</u>		<u>Admitted assets</u>	
Cash, cash equivalents, and short-term investments	\$ 202,236,963	83.49 %	202,236,963	83.49 %
Bonds:				
U.S. Treasury securities	—	—	—	—
U.S. government agency obligations (excluding mortgage-backed securities):				
U.S. government-sponsored agencies	—	—	—	—
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
Revenue and assessment obligations	40,000,000	16.51	40,000,000	16.51
Mortgage-backed securities (includes residential and commercial MBS):				
Issued or guaranteed by FNMA and FHLMC	—	—	—	—
Other debt and other fixed income securities (excluding short term):				
Unaffiliated domestic securities	—	—	—	—
Unaffiliated non-U.S. securities	—	—	—	—
Total invested assets	<u>\$ 242,236,963</u>	<u>100.00 %</u>	<u>242,236,963</u>	<u>100.00 %</u>

See accompanying independent auditors' report.

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

Supplemental Investment Risk Interrogatories

December 31, 2016

1. The Company's total admitted assets as of December 31, 2016 were: \$ 451,123,332
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. Washington Institutional Government | \$ | 45,000,000 | 9.98 % |
| 2. Deutsche Government Money Market Institutional Shares | | 20,000,000 | 4.43 |
| 3. Morgan Stanley Institutional Liquidity Prime Money Market Fund | | 20,000,000 | 4.43 |
| 4. Blackrock Liquidity Institutional Money Market Fund | | 15,000,000 | 3.33 |
| 5. Fidelity Institutional Domestic Money Market Fund | | 10,000,000 | 2.22 |
| 6. JP Morgan Prime Institutional Money Market Fund | | 10,000,000 | 2.22 |
| 7. Charlotte North Carolina CTFS PARTN | | 5,000,000 | 1.11 |
| 8. Raleigh North Carolina CTFS PARTN | | 5,000,000 | 1.11 |
| 9. Butler County Pennsylvania GEN AUTH REV | | 5,000,000 | 1.11 |
| 10. California Statewide CMNTYS DEV AUTH REV | | 5,000,000 | 1.11 |
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	\$ 85,024,356	18.85 %
NAIC-2	—	—

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 | \$ | — | — % |
| 4.03 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.