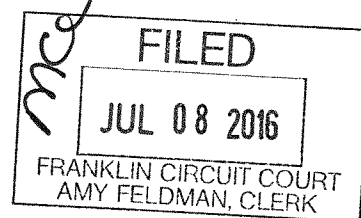


**COMMONWEALTH OF KENTUCKY
FRANKLIN CIRCUIT COURT
DIVISION I
CIVIL ACTION NO. 15-CI-1144**



**H. BRIAN MAYNARD, in his capacity as
COMMISSIONER OF THE KENTUCKY
DEPARTMENT OF INSURANCE and LIQUIDATOR
OF KENTUCKY HEALTH COOPERATIVE, INC.**

PETITIONER

v. NOTICE OF FILING OF SECOND REPORT TO THE COURT

KENTUCKY HEALTH COOPERATIVE, INC.

RESPONDENT

Comes the Petitioner, Commissioner H. Brian Maynard, in his capacity as Liquidator of Kentucky Health Cooperative, Inc., by and through his special deputy liquidators and the undersigned counsel, and hereby gives notice of the filing of Kentucky Health Cooperative, Inc.'s Second Report to the Court as of March 31, 2016, a copy of which is attached hereto.

Respectfully submitted,
Signature on file with original document

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Sarah J. Bishop
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CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing was served via U.S. Mail, this 24 day of July, 2016, upon the following:

Hon. Michael R. Wilson
Kentucky Department of Insurance
P.O. Box 517
Frankfort, KY 40602

Hon. Barry Dunn
Public Protection Cabinet
500 Mero Street, 5th Floor
Frankfort, KY 40601

Hon. Douglas L. McSwain
Hon. Ben T. Keller
Wyatt, Tarrant & Combs, LLP
250 West Main Street, Suite 1600
Lexington, KY 40507

Signature on file with original document

Counsel for the Rehabilitator

118121.153254/4543306.1

KENTUCKY HEALTH COOPERATIVE, INC.
(KYHC)
SECOND REPORT TO THE COURT
AS OF
MARCH 31, 2016

SUBMITTED BY:
Jeffry W. Gaither, CFE – Special Deputy Liquidator

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DESCRIPTION OF KENTUCKY HEALTH COOPERATIVE, INC.

Kentucky Health Cooperative, Inc. (KYHC) was a consumer-governed, private, non-profit health insurance entity that offered qualified health plans primarily in the individual and small group markets in the Commonwealth of Kentucky in accordance with the provisions of the Patient Protection and Affordable Care Act enacted on March 23, 2010. KYHC commenced operations in November 2011, became a licensed issuer during 2013, and began offering qualified health plans on the Kentucky Health Benefit Exchange in October 2013 with effective dates of coverage beginning January 1, 2014.

Start-up Loans

In June 2012 KYHC obtained a Start-up Loan from the US Department of Health and Human Services, Centers for Medicare & Medicaid Services (CMS) to finance KYHC's start-up costs. The original loan had a maximum principal amount of \$11,985,800. During 2013, two amendments were entered into that increased the principal loan amount to \$21,996,872. The Start-up Loan provisions contemplate multiple disbursements conditioned on the successful completion of milestones and achievement of ongoing activities. As of March 31, 2016 CMS had disbursed a total of \$19,568,223 to KYHC. The Start-up Loan is a general obligation of KYHC and is subordinate to (a) claims payments, (b) basic operating expenses, and (c) maintenance of required reserve funds while operating as a healthcare insurer under Commonwealth of Kentucky Insurance Laws.

There is no interest charged on the principal amount borrowed under the Start-up Loans. Principal payments in an amount equal to the disbursement amount were originally due five years from the disbursement date. All principal payments are subject to KYHC's ability to meet the Commonwealth of Kentucky's solvency requirements.

Solvency Loans

In June 2012 KYHC obtained a Solvency Loan from CMS to establish risk-based and other capital reserves necessary to meet the Commonwealth of Kentucky's reserve requirements and other state insurance laws. The original maximum amount of principal was \$46,875,700. During 2014 the maximum principal amount was increased to \$124,497,900.

Provisions of the Solvency Loan contemplate multiple loan disbursements at irregular intervals related to levels of enrollment or claims, or as necessary to remain compliant with Commonwealth of Kentucky's insurance law solvency requirements. Interest will be charged on the Solvency Loan

at 0.25%. The loan documents provide that “Interest shall not compound and shall be computed annually for the twelve months ending on the anniversary of each disbursement.” And “Principal repayments of the Solvency Loan will be as stated in Schedule A of the Solvency Loan Promissory Note, but in any event no later than 15 years from the respective Disbursement date of the individual Loan Disbursement installments, subject to Borrower’s ability to meet State Reserve Requirements and other solvency regulations or requisite surplus note arrangements.” Principal and interest payments can only be made out of KYHC’s surplus earnings and only with the prior approval of the Kentucky Commissioner of Insurance. At March 31, 2016 \$124,497,900 had been disbursed from the Solvency Loan’s available funds.

The Solvency Loan is a surplus note and is recorded as a component of capital and surplus when funds are drawn rather than as a liability. It is subordinate to (a) policyholder obligations, (b) claimant and beneficiary claims of policies issued by KYHC, (c) KYHC’s operating expenses, and (d) applicable Commonwealth of Kentucky reserve and solvency requirements.

2014 Financial Results

The Kentucky Department of Insurance (KY DOI) performed a routine financial analysis of the December 31, 2014 annual statement. During this analysis it was noted that KYHC reported a net loss of \$50,445,923. Total reported capital and surplus as of December 31, 2014 was \$65,226,070. Several hazardous financial condition indicators were triggered as a result of this analysis.

Risk Corridors Receivable

On July 31, 2015 KYHC submitted a final report to CMS requesting a \$77,005,594 payment for the risk corridors program for the 2014 plan year.

On October 1, 2015, CMS issued a memo to various state insurance Commissioners, including then Kentucky Insurance Commissioner Sharon Clark, and to the CEOs of the issuers regarding the risk corridors program. The memo indicated that for the 2014 plan year issuers requesting a risk corridors payment from CMS would only be paid approximately 12.6% of the requested payment amount at that time. The remaining 2014 risk corridors claims payments would be paid out of the risk corridors collections for the 2015 plan year, and out of the 2016 plan year if necessary. CMS indicated that the risk corridors payments would be disbursed during December 2015 and January 2016.

The memo went on to indicate “Since this is a three year program, we will not know the total loss or gain for the program until the fall of 2017 when the data from all three years of the program can be analyzed and verified. In the event of a shortfall for the 2016 program year, HHS will explore other sources of funding for risk corridors payments, subject to the availability of appropriations. This includes working with Congress on the necessary funding for outstanding risk corridors payments.”

As noted above KYHC requested a risk corridors payment from CMS for the 2014 plan year of \$77,005,594. On October 2, 2015, the Special Deputy Liquidator received an e-mail from Mr. Kevin Counihan, Chief Executive Officer Health Insurance Marketplaces (a division of CMS) indicating that KYHC would be receiving a risk corridors payment of \$9,642,095 for the 2014 plan year. The remaining balance of \$67,363,499 and any 2015 plan year risk corridors payment would not be collected by KYHC until after the 2015 plan year risk corridors program data is submitted in August 2016, subject to availability of funds.

Targeted Financial Examination June 30, 2015

The KY DOI completed a report summarizing the results of a targeted financial examination of KYHC on October 6, 2015. The report recommended reducing KYHC’s 2014 and 2015 plan years risk corridors receivable from \$81,600,000 to \$9,642,095 (a reduction of \$71,957,905).

The non-admission of the unfunded portion of the risk corridors receivable also decreased Total Capital and Surplus by \$71,957,905 to \$(10,938,882).

Based upon the aforementioned, the report of the targeted financial examination recommended that the KY DOI take formal action to prevent KYHC from writing new business for the 2016 and subsequent plan years.

On October 29, 2015, the Franklin Circuit Court placed KYHC into rehabilitation.

On January 15, 2016, the Franklin Circuit Court placed KYHC into liquidation. The court order placing KYHC into liquidation set a deadline of October 15, 2016 for claim and proof of claim (POC) form submissions. The POC process is described in further detail in a separate section of this report.

As part of the liquidation process claim payments were suspended as of January 15, 2016. However, KYHC will continue to process claims in order to determine its outstanding claim liability, and to provide members/providers with explanation of benefits (EOB)/explanation of payments (EOP). The EOBs/EOPs will allow members/providers to determine the member’s and

KYHC's portion of the allowed charges. It should be noted that on January 21, 2016, Franklin Circuit Court issued an order prohibiting healthcare services providers from billing KYHC insureds for any portion of a bill that is the responsibility of KYHC, except as specifically permitted by a provider's contract with KYHC.

FINANCIAL STATEMENTS

The following financial statements include a Statement of Assets, a Statement of Liabilities, Surplus and Other Funds, and an Income Statement for the period ending March 31, 2016.

KENTUCKY HEALTH COOPERATIVE, INC.

STATEMENT OF ASSETS

	3/31/2016		Net Admitted	<u>Note</u>
	Assets	Non-admitted	Assets	
Bonds	\$4,764,436	\$ -	\$ 4,764,436	
Cash and short term investments	20,359,346	-	20,359,346	
Investment income due and accrued	20,253	-	20,253	
Premiums and considerations:				
Uncollected premiums and agents' balances				
in course of collection	3,047	-	3,047	
Risk corridors receivable	19,816,029	(19,816,029)	-	A
Reinsurance:				
Amounts recoverable from reinsurers	32,526,702	(30,837,219)	1,689,483	B
Health care receivable	553,361	-	553,361	
Recoupment receivable	4,192,692	-	4,192,692	
Totals	\$82,235,866	\$ (50,653,248)	\$ 31,582,618	

Note A: KYHC estimated a risk corridor receivable in the amount of \$19,816,029 as of 3/31/2016. However, due to the uncertainty of collecting these funds from CMS this asset has been non-admitted.

Note B: KYHC estimated a federal reinsurance receivable in the amount of \$30,837,219 as of 3/31/2016. However, due to the uncertainty of collecting these funds from CMS this portion of the asset has been non-admitted. The admitted portion totaling \$1,689,483 is related to KYHC's excess insurance.

KENTUCKY HEALTH COOPERATIVE, INC.
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS

		3/31/2016		
	<u>Reported by KYHC</u>	<u>Adjustments by</u>	<u>Special Deputy</u>	
	<u>Per Exam</u>	<u>Liquidators</u>	<u>Final Liability</u>	<u>Note</u>
Claims payable - adjudicated	\$59,772,134	\$ -	\$59,772,134	
Claims payable - not processed	41,055,499	-	41,055,499	
Unpaid claims adjustment expenses	4,399,036	-	4,399,036	
Premiums received in advance	1,346,454	-	1,346,454	
APTC/CSR payable	4,521,276	-	4,521,276	
General expenses due or accrued	2,698,261	-	2,698,261	
Accrued Exchange assessments and fees	2,324,846	-	2,324,846	C
Accrued premium taxes (9010 fees)	2,999,498	-	2,999,498	C
Ceded reinsurance premiums payable	584,975	-	584,975	
Risk adjustment payable	8,000,000	(8,000,000)	-	D
Start-up loan	19,568,223	(19,568,223)	-	E
Total Liabilities	147,270,202	(27,568,223)	119,701,979	
Surplus notes	124,497,900	(23,085,026)	101,412,874	F
Unassigned funds	(189,532,235)	-	(189,532,235)	
Total Capital and Surplus	(65,034,335)	(23,085,026)	(88,119,361)	
Total Liabilities, Capital and Surplus	\$82,235,867	(\$50,653,249)	\$31,582,618	

Note C: KYHC estimates a total \$5.3 million in accrued Exchange assessments and fees and premium taxes. The Special Deputy Liquidator believes per KRS 304.33-430 these liabilities will be classified as a lower class than member/provider payables in the order of distribution. Therefore the Special Deputy Liquidator does not plan to pay these fees unless otherwise directed by the Court.

Note D: KYHC estimates that it will owe CMS approximately \$8,000,000 for the 2015 plan year risk assessment program. Because CMS is withholding funds due KYHC (see Notes A and B on the previous page) we will not pay the risk adjustment payable until the risk corridors receivable and reinsurance receivable have been settled.

Note E: CMS has indicated that it will not pay KYHC any amount owed until all of the loans (start-up and solvency) have been fully repaid. Per Note A, KYHC has non-admitted the risk corridors receivable asset which totals \$19,816,029. The first \$19,568,223 will be used to offset the start-up loan while the remaining balance of \$247,806 will be offset against the solvency loan.

Note F: CMS has indicated that it will not pay KYHC any amount owed to it until all of the loans (start-up and solvency) have been fully repaid. Per Note B, KYHC has non-admitted the federal reinsurance receivable amount of \$30,837,219. This amount, along with the remaining \$247,806 from Note D, will be offset against the solvency loan. The risk adjustment payable per Note C will be netted against the federal reinsurance amount owed to KYHC. Thus the solvency loan amount will be reduced by \$23,085,026 which equals \$30,837,219 plus \$247,806 less \$8,000,000.

KENTUCKY HEALTH COOPERATIVE, INC.**INCOME STATEMENT****3/31/2016**

Net Premium Income	\$ 195,333
Claims	16,619,885
Less reinsurance recoveries	
Federal	(6,626,138)
Excess	(1,690,107)
Total Reinsurance Recoveries	(8,316,245)
Claims expense	8,303,640
Unpaid claim adjustment expense	-
Net claims expense	8,303,640
Net underwriting gain (loss)	(8,108,307)
Administrative expenses	
Salaries, wages & benefits	857,975
Outsourced services	2,225,779
Member materials	2,792
Provider network	8,868
Taxes, licenses & fees	2,917,699
Legal, accounting & actuarial	92,326
Consulting	12,240
Postage & phone	120,025
Other administrative	157,058
IT equipment & service	179,395
Service charges	5,358
Depreciation expense	49,920
Total administrative expenses	6,629,435
Underwriting margin	(14,737,742)
Investment income (net)	(421)
Net realized capital gains (losses)	(64,954)
Net income (loss)	\$ (14,803,117)

THIRD PARTY LITIGATION

The Liquidator continues to investigate potential claims against third parties that may have some liability to the Liquidation Estate pursuant to his responsibilities under KRS 304.33-240. The Liquidator has filed litigation against CGI Technologies and Solutions, Inc. and may assert other claims against third parties in the future. The Liquidator will continue to keep the Court apprised.

CMS LETTER TERMINATING THE KYHC LOAN AGREEMENT

On February 11, 2016, Centers for Medicare & Medicaid Services (CMS) provided the Special Deputy Liquidator a letter via email which provided notice of the termination of the loan agreement between KYHC and CMS effective February 11, 2016. The termination letter is attached as Exhibit A.

CMS is declaring that the unpaid principal amount of the loans, together with all interest accrued thereon, and all fees, costs, expenses, indemnities and other amounts payable under the loan agreement, are immediately due and payable, subject to all terms, conditions, limitations of the loan agreement, and applicable law.

CMS LETTER IMPLEMENTING A HOLD ON PAYABLES TO KYHC

On March 8, 2016, CMS provided the Special Deputy Liquidator a letter via email indicating that CMS has implemented an administrative hold on payables to KYHC. The letter is attached as Exhibit B. As noted in the letter the administrative hold applies to advanced payments of premium tax credits (including cost-sharing reduction), payments under the reinsurance, risk corridors and risk adjustment programs established under the Affordable Care Act (ACA), and any other amounts owed KYHC under any law or program.

The Special Deputy Liquidators have consulted with their legal counsel on how to proceed. We will continue to keep Franklin Circuit Court updated of any new developments related to this matter.

As noted above, the Start-up Loan agreement contains provisions which state it is a general obligation of KYHC and is subordinate to (a) claims payments, (b) basic operating expenses, and (c) maintenance of required reserve funds while operating as a healthcare insurer under Commonwealth of Kentucky Insurance Laws. There is no interest charged on the principal amount borrowed under the Start-up Loans. Principal payments in an amount equal to the disbursement

amount are due five years from the disbursement date. All principal payments are subject to KYHC's ability to meet the Commonwealth of Kentucky's solvency requirements.

As noted above, the Solvency Loan agreement contains provisions which state it is subordinate to (a) policyholder obligations, (b) claimant and beneficiary claims of policies issued by KYHC, (c) KYHC's operating expenses, and (d) applicable Commonwealth of Kentucky reserve and solvency requirements. Payments of principal and interest are to be calculated and repaid no later than 15 years from the respective disbursement date of the individual loan disbursement installments. Principal and interest payments can only be made out of KYHC's surplus earnings and only with the prior approval of the Kentucky Commissioner of Insurance.

PROOF OF CLAIM PROCESS

The Liquidator has implemented a process which allows any party who believes they have a claim against KYHC to file a "proof of claim" form with KYHC. Pursuant to the Court's January 15, 2016 Order of Liquidation, all proof of claim forms must be submitted to KYHC by October 15, 2016. Any proof of claim form submitted after October 15, 2016 will be denied. As of June 8, 2016 KYHC has received 7,591 proofs of claims with a requested payment amount of \$24,025,242. 3,238 of these have been submitted by insureds of KYHC requesting payments totaling \$8,345,286. The remaining 4,353 proofs of claims have been submitted by providers requesting payments of \$15,679,956. All proof of claims will be reviewed by KYHC. Based upon that review the claim in question will either be reprocessed, in which case a new explanation of benefits and explanation of payment will be generated, or the claimant will be notified that the claim in question was originally processed correctly. For each proof of claim received, KYHC will notify the claimant of its final determination by mailing the claimant a Final Determination Letter. If the claimant disagrees with KYHC's final determination they will have the right to object. The Final Determination Letter will include instructions on how a claimant can file a formal objection with the Court.

PROJECTED CASH FLOW FOR 2016

A cash flow projection which contains several elements whose actual results could vary significantly from the projected amounts is attached as Exhibit C. A brief description of its key elements follows.

Risk Corridors – In the first report to Franklin Circuit Court, the Special Deputy Liquidators estimated that the liquidation estate would receive \$9.7 million in December 2016 and \$9.7 million

again in December 2017 as payments against the \$67 million receivable balance for the 2014 risk corridors program. However, after considering the March 8, 2016 letter from CMS indicating it has implemented an administrative hold on payables to KYHC (specifically including the risk corridors program) the Special Deputy Liquidator has chosen to exclude these amounts from the attached cash flow projection. The exclusion of the risk corridor receivable significantly reduces the amount of assets available to the liquidation estate to pay its obligations.

Risk Adjustment – The Special Deputy Liquidators are estimating that the liquidation estate will have a payable of \$8 million for the 2015 risk adjustment program. It is the Special Deputy Liquidators' position that a payable to CMS would be assigned a lower class than claims payments to members/providers per KRS 304.33-430. Due to the administrative hold placed on all payables to KYHC by CMS, as indicated in the March 8, 2016 letter noted above, the Special Deputy Liquidators do not anticipate paying the 2015 risk adjustment payable until otherwise directed by the Court.

Federal Reinsurance – The 2015 federal reinsurance program is based on a coinsurance rate of 50% (determined by CMS). The coinsurance rate applies to a member's claims amount in excess of \$45,000 up to \$250,000 (a \$205,000 layer of claims at a 50% coinsurance rate would result in a reinsurance payment of \$102,500). This coinsurance rate is subject to change based upon the amount of reinsurance fees collected by CMS – which will be determined by August 2016.

In the first report to the Court the Special Deputy Liquidators estimated a recoverable amount \$26.7 million. CMS was offering an early payout of a portion of the reinsurance funds which were to be distributed in March 2016, and the Special Deputy Liquidators anticipated receiving approximately \$10 million at that time. However, due to the administrative hold placed on all payables to KYHC by CMS (as indicated in the March 8, 2016 letter noted above) KYHC did not receive an early payout of the reinsurance funds. CMS did not provide an explanation as to why KYHC did not receive an early payout.

KYHC submitted its enrollment, claims and supplemental data for the 2015 plan year to the EDGE Server on April 25, 2016. Based upon this data KYHC is calculating a reinsurance payment for the 2015 plan year, using a 50% coinsurance rate, of \$31,894,879.36.

Due to the administrative hold placed on all payables to KYHC by CMS the Special Deputy Liquidators do not expect to receive an immediate payment from CMS for the 2015 plan year

federal reinsurance program. The exclusion of the 2015 plan year reinsurance receivable significantly reduces the amount of assets available to the liquidation estate to pay its obligations.

The Special Deputy Liquidators disagree with CMS's administrative hold of these payables and have consulted with their legal counsel on how to proceed. We will continue to keep Franklin Circuit Court updated of any new developments related to this matter.

9010 Fees – The 9010 fees are imposed by the Patient Protection and Affordable Care Act of 2010 on covered entities engaged in the business of providing health insurance for United States health risks. The Special Deputy Liquidators have estimated these fees to be \$3.0 million. However, the Special Deputy Liquidators believe KRS 304.33-430 sets this liability as a lower class than member/provider claims. Therefore the Special Deputy Liquidators do not plan to pay this fee unless otherwise directed by the Court.

KY GAP Assessment – The Patient Protection and Affordable Care Act of 2010 allows state-based exchanges to levy a fee on entities engaged in the business of providing health insurance in Kentucky. The Special Deputy Liquidators have estimated these fees to be \$2.3 million. However, the Special Deputy Liquidators believe KRS 304.33-430 sets this liability as a lower class than member/provider claims. Therefore the Special Deputy Liquidators do not plan to pay this fee unless otherwise directed by the Court.

Start-up Loans – KYHC currently has \$4.2 million in unused, uncommitted start-up funds. Legal counsel for the liquidation estate is researching the issue of whether the liquidation estate will be able to use these funds to pay claims. KYHC will not return these unused funds until otherwise directed by the Court.

Unpaid Claim Liability – As of March 31, 2016, KYHC estimated its unpaid claim liability to be \$100,827,633. This estimate can be broken down by claims payable but already adjudicated in the amount of \$59,772,134, and an estimate of the claims payable but not adjudicated (both known and unknown) in the amount of \$41,055,499. The claims payable but not adjudicated was estimated using the Milliman model and includes a \$7,500,000 reserve cushion.

Respectfully submitted,
Signature on file with original document

Jeffrey W. Gaither, CFE
Special Deputy Liquidator
Kentucky Health Cooperative

Exhibit A
Termination Letter of KYHC Loan Agreement

Department of Health & Human Services
Centers for Medicare & Medicaid Services
Center for Consumer Information and Insurance Oversight
200 Independence Avenue SW
Washington, DC 20201



February 11, 2016

VIA ELECTRONIC MAIL: Jeff.Gaither@ky.gov

Mr. Jeff Gaither
Special Deputy Liquidator
Kentucky Health Cooperative
9700 Ormsby Station Rd.
Louisville, KY 41057-2506

Re: Termination of the Kentucky Health Cooperative Loan Agreement

Dear Mr. Gaither:

In accordance with section 15.3 and 16.2 of the Loan Agreement between the Kentucky Health Cooperative (KYHC) and the Centers for Medicare & Medicaid Services (CMS), CMS is hereby terminating the agreement on February 11, 2016. Under section 16.2 of Loan Agreement, CMS has the authority to terminate this agreement in our sole and absolute discretion. We have determined that KYHC will not be able to maintain a viable and sustainable CO-OP that serves the interest of its community and the goals of the program.

This determination was based on the Franklin Circuit Court of Franklin County, Kentucky granting the Kentucky Department of Insurance's (DOI) request for an order of liquidation on January 15, 2016. The order of liquidation concluded, among other things, that KYHC is insolvent as defined by the Kentucky Insurers Rehabilitation and Liquidation law KRS 304.33.030(18), which is an event of default under section 15.1 of the Loan Agreement. KYHC did not provide CMS with a plan to remedy or cure such default as required under section 15.2 of the Loan Agreement. Moreover, this event of default cannot be cured in accordance with section 15.2 of the Loan Agreement. Please be assured that we have come to this conclusion following careful consideration and a thorough investigation.

Pursuant to section 15.3 of the Loan Agreement, CMS is declaring that the unpaid principal amount of the loans, together with all interest accrued thereon, and all fees, costs, expenses, indemnities and other amounts payable under this Agreement, are immediately due and payable, subject to all terms, conditions, limitations of the loan agreement, and applicable law.

Exhibit A
Termination Letter of KYHC Loan Agreement

CMS has notified the DOI regarding our decision to terminate your Loan Agreement. This was a difficult decision, and it was made after detailed review and much consideration. Further, we appreciate the dedication and hard work of you and your team in a very challenging business, but we believe this action is in the best interest of consumers and the membership of KYHC.

Please let me know if you have any questions.

Sincerely,

Signature on file with original document

Chief Executive Officer, Health Insurance Marketplaces
Director, Center for Consumer Information & Insurance Oversight

Cc: Joseph Smith, Chair, Board of Directors
H. Brian Maynard, Commissioner, Kentucky Department of Insurance
David Hurt, Special Deputy Liquidator
Matthew Lynch, Director, Insurance Programs Group
Meghan Elrington-Clayton, Acting Director, CO-OP Program Division
Reed Cleary, Manager of the Finance and Risk Management Team
Chanda McNeal, Manager, Operations Management Team
Kathleen Scelzo, CO-OP Program Account Manager
Kitichia Weekes, Regional Office Account Manager

Exhibit B
Administrative Hold on Payables to KYHC

DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

Center for Consumer Information & Insurance Oversight

200 Independence Avenue SW Washington, DC 20201



March 8, 2016

VIA ELECTRONIC MAIL:

Mr. Jeff Gaither

Kentucky Health Cooperative, Inc.

9700 Ormsby Station Rd

Louisville, KY 40223

Dear Mr. Jeff Gaither:

Due to the pending wind-down of Kentucky Health Cooperative, Inc., the Centers for Medicare and Medicaid Services (CMS) has implemented an administrative hold on payables to the issuer. The administrative hold applies to advanced payments of premium tax credits (including the cost-sharing reduction portion) authorized by sections 1401, 1402, and 1403 of the Affordable Care Act (ACA),¹ payments under the Reinsurance, Risk Corridors, and Risk Adjustment programs established in sections 1341, 1342, and 1343 of the ACA (including the early reinsurance payment for the 2015 benefit year),² refunds of reinsurance contributions, amounts due to the issuer as determined by the cost-sharing reduction reconciliation process set forth at 45 CFR § 156.430, and any other amounts owed to the issuer under any law or program.

¹ The implementing regulations for Sections 1401-1403 of the Affordable Care Act are set forth at 45 CFR Part 156, Subpart E.

² The implementing regulations for Sections 1341, 1342, and 1343 of the Affordable Care Act are set forth at 45 CFR Part 153.

Exhibit B
Administrative Hold on Payables to KYHC

CMS has implemented this payment hold at the request of the United States Department of Justice (DOJ), which represents the interests of the Federal government in these wind-down proceedings pursuant to Federal law.

Sincerely,

Kevin J. Counihan

Chief Executive Officer, Health Insurance Marketplaces

Director, Center for Consumer Information & Insurance Oversight

Exhibit C Cash Flow Projection

Cash Flow Projections													
KPHC													
Actual thru 3/31/2016	Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
Actual thru 3/31/2016	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Description	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Operating Cash													
Cash Equivalents													
Short-term Investments													
Bonds													
Total Available for Operations	24,279,797	22,513,038	20,735,518	19,929,493	20,638,824	21,041,348	20,472,669	19,906,682	19,390,714	18,874,399	17,796,198	7,300,276	3,191,263
Start-up Cash	4,452,777	4,325,277	4,325,200	4,380,264	4,380,264	4,380,264	4,380,264	4,380,264	4,380,264	4,380,264	195,487	62,487	62,487
Total Cash & Invested Assets	28,732,574	26,838,315	25,113,718	24,314,757	25,019,088	25,421,612	24,852,933	24,286,946	23,770,978	23,254,663	17,991,685	7,362,763	3,253,750
Member Premium (incl APIC)	22,934,915	8,773	(27,798)	307,108	0	0	0	0	0	0	0	0	289,041
Inter / (Debt) in Net AR	(153,150)	124,498	85,120	(1,114)	0	0	0	0	0	0	0	0	212,004
Inter / (Debt) in Advanced Prem	(6,559,034)	6,7129	401,862	(972,871)	0	0	0	0	0	0	0	0	(207,069)
Inter / (Debt) in APIC/CSH Payable	0	0	0	0	0	0	0	0	0	0	0	0	(70,352)
Other Non-Cash Differences	942,269	(34,000)	(14,891)	0	0	0	0	0	0	0	0	0	0
Ceded premium paid	0	0	0	0	0	0	0	0	0	0	0	0	0
Fed (83.3% in Jan & 16.7% in Oct)	(2,569,812)	(1,754,128)	0	0	0	0	0	0	0	0	0	0	(2,569,812)
Excess	(4,808,153)	0	0	0	0	0	0	0	0	0	0	0	0
Risk Corridor	8,278,776	35,369	976,118	0	0	0	0	0	0	0	0	0	0
Risk Adjustment	211,147,458	(1,552,935)	1,404,917	(956,877)	0	0	0	0	0	0	0	0	0
Net Premium Received	284,888	25,504	(5,164)	(821)	2,000	2,000	2,000	2,000	2,000	2,000	2,000	500	36,198
Net Invest Income (from Cash Flo													
Claims Pd (1/3 of last 3 mo exp)	(317,122,800)	0	0	0	0	0	0	0	0	0	0	0	(10,000,000)
CSR	15,747,955	0	0	0	0	0	0	0	0	0	0	0	0
Rx Rebates	1,082,711	0	0	0	0	0	0	0	0	0	0	0	0
Difference (c/o in Claims Payable)	21,345,362	859,953	371,291	81,701	0	0	0	0	0	0	0	0	0
Claim dev +/- 0%	0	0	0	0	0	0	0	0	0	0	0	0	0
Reim Burdenies	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal	58,098,058	140,835	0	1,331,196	1,000,000	0	0	0	0	0	0	0	0
Excess	84,192	0	0	0	0	0	0	0	0	0	0	0	0
PT recoveries	521,760	0	0	0	0	0	0	0	0	0	0	0	0
Net Claims Paid	(217,807,892)	859,953	514,126	81,701	0	1,331,196	1,000,000	0	0	0	0	0	(2,474,811)
Admin & Other Expenses Paid													
Salaries & Benefits	(5,723,281)	(294,171)	(243,373)	(231,843)	(179,146)	(172,541)	(113,743)	(115,541)	(110,543)	(110,000)	(92,451)	(91,569)	(127,203)
Commissions	(4,676,969)	0	0	0	0	0	0	0	0	0	0	0	0
Outsourced Svc	(11,511,890)	(521,738)	(584,716)	(445,844)	(399,355)	(368,375)	(302,375)	(304,375)	(302,375)	(304,375)	(304,375)	(1,639,313)	(1,639,313)
IT Equip & Svc	(1,493,287)	(15,364)	(196,671)	(25,238)	(20,000)	(16,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(12,000)	(12,000)
Provider network	(1,284,000)	(8,659)	(8,659)	(1,196)	0	0	0	0	0	0	0	0	0
Taxes (Inc & Fed)	(3,314,616)	(5,248)	(4,503)	91,672	0	0	0	0	0	0	0	0	0
901D Fees	(1,483,327)	(20,333)	(20,333)	(20,333)	(20,333)	(20,333)	(20,333)	(20,333)	(20,333)	(20,333)	(20,333)	(20,333)	(20,333)
Rent	(228,694)	(40,333)	(40,333)	(40,333)	(40,333)	(40,333)	(40,333)	(40,333)	(40,333)	(40,333)	(40,333)	(40,333)	(40,333)
Legal, Acting & Cons	(1,148,054)	(60,000)	(110,160)	(110,160)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)
Member materials	(700,000)	8,776	(1,743)	(2,493)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Other	(1,656,000)	(141,100)	(7,100)	(51,750)	(65,000)	(45,000)	(45,000)	(45,000)	(45,000)	(45,000)	(45,000)	(45,000)	(45,000)
WV Start-up Exp	(41,100)	0	0	0	0	0	0	0	0	0	0	0	0
CSG Invoice Held	(41,100)	0	0	0	0	0	0	0	0	0	0	0	0
Inter / (Debt) in Admin Payables	(252,760)	(125,750)	(188,939)	(556,497)	0	0	0	0	0	0	0	0	0
Admin Expenses Paid	(84,068,429)	(4,474,823)	(4,665,343)	(4,601,273)	(6,628,945)	(5,968,876)	(5,111,718)	(5,115,978)	(5,115,978)	(5,115,978)	(4,955,397)	(4,832,417)	(4,832,417)
Gain / (Loss) on sale of Assets													
Inter / (Debt) in Cash from Ops	(43,038,893)	(2,482,283)	248,512	(1,777,525)	(966,029)	709,312	402,024	(513,178)	(515,978)	(515,978)	(1,078,321)	(17,105,533)	(3,129,813)
Micro-cash differences	(310,703)	260,032	0	0	0	0	0	0	0	0	0	0	0
Start-up Loans Received	131,000	0	0	0	0	0	0	0	0	0	0	0	0
Inter / (Debt) in Start-up Loan Cash	(127,311)	(133,000)	(2,577)	65,084	0	0	0	0	0	0	0	0	0
Inter / (Debt) in Cash & Investment	(43,444,000)	(2,515,271)	246,935	(1,712,440)	(966,029)	709,312	402,024	(515,178)	(515,978)	(515,978)	(1,078,321)	(17,105,533)	(3,129,813)

100,000,000 Estimated
87,539,450 Estimated
12.5% Profit %