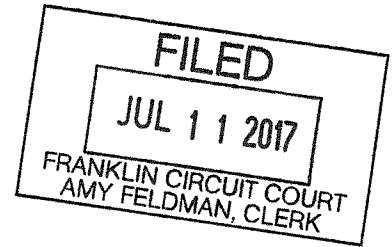


COMMONWEALTH OF KENTUCKY
FRANKLIN CIRCUIT COURT
DIVISION I
CIVIL ACTION NO. 15-CI-1144



NANCY G. ATKINS, in her capacity as
COMMISSIONER OF THE KENTUCKY
DEPARTMENT OF INSURANCE and LIQUIDATOR
OF KENTUCKY HEALTH COOPERATIVE, INC.

PETITIONER

v. NOTICE OF FILING OF FOURTH REPORT TO THE COURT

KENTUCKY HEALTH COOPERATIVE, INC.

RESPONDENT

Comes the Petitioner, Commissioner Nancy G. Atkins, in her capacity as Liquidator of Kentucky Health Cooperative, Inc., by and through her deputy liquidator and the undersigned counsel, and hereby gives notice of the filing of Kentucky Health Cooperative, Inc.'s Fourth Report to the Court with Financial Statements as of March 31, 2017, a copy of which is attached hereto.

Respectfully submitted,



Paul C. Harnice
Sarah J. Bishop
STOLL KEENON OGDEN PLLC
201 West Main Street, Suite A
P.O. Box 5130
Frankfort, KY 40602
Telephone: (502) 875-6220
Facsimile: (502) 875-6235
sarah.bishop@skofirm.com

And

Perry M. Bentley
STOLL KEENON OGDEN PLLC
300 West Vine Street, Suite 2100
Lexington, KY 40507-1801
Telephone: (859) 231-3000
Facsimile: (859) 253-1093
perry.bentley@skofirm.com

CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing was served via U.S. Mail, this 11th day of July, 2017, upon the following:

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

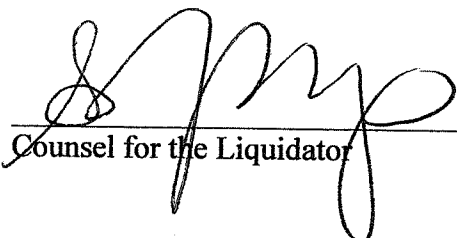
Hon. Barry L. Dunn
Public Protection Cabinet
656 Chamberlin Ave., Suite B
Frankfort, KY 40601

Hon. Greg E. Mitchell
Frost Brown Todd LLC
Lexington Financial Center
250 West Main Street, Suite 2800
Lexington, KY 40507

Hon. Patricia K. Burgess
Frost Brown Todd LLC
7310 Turfway Road, Suite 210
Florence, KY 41042

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

Hon. Christopher L. Thacker
Hon. John N. Billings
Billings Law Firm, PLLC
111 Church Street, Suite 200
Lexington, KY 40507


Counsel for the Liquidator

KENTUCKY HEALTH COOPERATIVE, INC

("KYHC")

FOURTH REPORT TO THE COURT

WITH FINANCIAL STATEMENTS

AS OF

March 31, 2017

SUBMITTED BY:

Donald F. Roof, CFE, MCM – 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.

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.

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

On January 21, 2016, the Franklin Circuit Court issued an order prohibiting healthcare service 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.

On December 28, 2016, the Franklin Circuit Court issued an order directing the Liquidator to accept at face amount the timely filed healthcare service provider POCs below \$1,000 which had not been processed as of December 28, 2016 and prohibiting healthcare service providers affected by such order from collecting any perceived or actual outstanding balances from KYHC members. The December 28, 2016 order was clarified by the Order of Clarification issued by the Franklin Circuit Court on February 1, 2017.

On May 10, 2017, the Franklin Circuit Court issued an order substituting Nancy G. Atkins, Commissioner of the Kentucky Department of Insurance as Liquidator of KYHC, replacing former Commissioner and Liquidator H. Brian Maynard effective May 1, 2017.

FINANCIAL STATEMENTS

The following unaudited 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, 2017.

KENTUCKY HEALTH COOPERATIVE, INC.
STATEMENT OF ASSETS

	3/31/2017			<u>Note</u>
	<u>Assets</u>	<u>Non-admitted</u>	<u>Net Admitted Assets</u>	
Bonds	\$2,228,009	\$ -	\$ 2,228,009	
Cash and short term investments	21,219,159	-	21,219,159	
Investment income due and accrued	77,747	-	77,747	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	5,162	-	5,162	
Risk corridors receivable	17,499,611	(17,499,611)	-	A
Reinsurance:				
Amounts recoverable from reinsurers	-	-	-	
CSR reconciliation receivable	445	-	445	
Healthcare receivable	-	-	-	
Totals	\$41,030,133	\$ (17,499,611)	\$ 23,530,522	

Note A: This amount is comprised of the remaining risk corridors balance from the 2014 plan year and the entire 2015 plan year risk corridors balance, \$68,567,131 and \$77,074,941 respectively. Due to the uncertainty of collecting these funds from CMS this asset has been non-admitted.

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

	3/31/2017		
	<u>Reported by KYHC</u>	<u>Adjustments by Special Deputy Liquidators</u>	<u>Final Liability</u>
	<u>Per Exam</u>		<u>Note</u>
Claims payable - adjudicated	\$78,320,252	\$ -	\$78,320,252
Claims payable - not processed	3,269,294	-	\$3,269,294
Unpaid claims adjustment expenses	355,811	-	\$355,811
Premiums received in advance	1,523,010	-	\$1,523,010
APTC/CSR payable	11,110,550	-	\$11,110,550
General expenses due or accrued	1,732,693	-	\$1,732,693
Accrued Exchange assessments and fees	2,158,284	-	\$2,158,284
Accrued premium taxes (9010 fees)	2,999,498	-	\$2,999,498
Ceded reinsurance premiums payable	160	-	\$160
Accrued broker commissions	588,941	-	\$588,941
Accrued premium taxes (PCORI and RAUF)	112,057	-	\$112,057
Claims interest expense	2,519,183	-	\$2,519,183
Start-up loan	-	-	\$0
Total Liabilities	104,689,733	-	104,689,733
Surplus notes (solvency loan)	124,497,900	-	124,497,900
Solvency CMS Offset	(16,967,102)	-	(16,967,102)
Solvency loan interest payable	687,818	-	687,818
Unassigned funds	(171,878,216)	-	(171,878,216)
Total Capital and Surplus	(63,659,600)	-	(63,659,600)
Total Liabilities, Capital and Surplus	\$41,030,133	\$0	\$41,030,133

KENTUCKY HEALTH COOPERATIVE, INC.
INCOME STATEMENT

3/31/2017

Net Premium Income	\$	-
Claims		1,952,830
Less reinsurance recoveries		
Federal		(1,971,935)
Excess		-
Plus CSR gain		(4,100,663)
Claims expense		<u>(6,072,598)</u>
Unpaid claim adjustment expense		-
Net claims expense		<u>(4,119,768)</u>
Net underwriting gain (loss)		4,119,768
Administrative expenses		
Salaries, wages & benefits		218,510
Outsourced services		274,598
Member materials		(28)
Provider network		0
Taxes, licenses & fees		0
Legal, accounting & actuarial		181,114
Consulting		43,555
Postage & phone		24,730
Other administrative		19,751
IT equipment & service		3,966
Service charges		1,113
Solvency loan interest expense		0
Depreciation expense		-
Total administrative expenses		<u>767,309</u>
Underwriting margin		3,352,459
Investment income (net)		1,090
Net realized capital gains (losses)		8,320
Net income (loss)	\$	<u><u>3,361,869</u></u>

THIRD PARTY LITIGATION

On May 13, 2016, the Liquidator filed litigation against CGI Technologies and Solutions, Inc. ("CGI") in the action styled H. Brian Maynard, Liquidator of Kentucky Health Cooperative, Inc. vs. CGI Technologies and Solutions, Inc., Franklin Circuit Court, Division No. 2, Case No. 16-CI-531. That action was subsequently removed to the United States District Court for the Eastern District of Kentucky and the Liquidator and CGI continue to litigate procedural issues regarding the proper form and venue for the dispute between the Liquidator and CGI.

On October 28, 2016, the Liquidator instructed that litigation be filed in the action styled Jeff Gaither, Deputy Liquidator of Kentucky Health Cooperative, Inc. vs. Beam Partners, LLC, Terry S. Shilling, Janie Miller, individually and in her representative capacity as Chief Executive Officer, Kentucky Health Cooperative, Inc., Officers and Board of Directors of the Kentucky Health Cooperative, Inc., and Joseph E. Smith, individually and in his representative capacity as Chairman of the Board of Directors of Kentucky Health Cooperative, Inc., Franklin Circuit Court, Division No. 2, Case No. 16-CI-1160. This action was also removed to the United States District Court for the Eastern District of Kentucky, but at the Liquidator's request, after briefing and oral argument, was subsequently remanded to the Franklin Circuit Court, where the litigation is now proceeding.

On July 6, 2017, the Liquidator filed litigation against the United States of America in the action styled Nancy G. Atkins, in her capacity as Liquidator of Kentucky Health Cooperative, Inc. v. The United States of America., U.S. Court of Federal Claims, Case No. 17-906 C. This action seeks damages and other relief for the Defendant's (1) violation of Section 1342 of the Patient Protection and Affordable Care Act and 45 C.F.R. § 153.510(b); and (2) breach of its risk corridors program payment obligations.

The Liquidator continues to investigate potential claims against other third parties that may have liability to the Liquidation Estate pursuant to her responsibilities under KRS 304.33-240. The Liquidator will continue to keep the Court apprised on all of these matters.

PROOF OF CLAIM PROCESS

The Liquidator implemented a process which allowed any party who believed they had a claim against KYHC to file a POC with the Liquidation Estate. Pursuant to the Court's January 15, 2016 Order of Liquidation, all proof of claim forms were to be submitted to the Liquidator by October 15, 2016. Any proof of claim form received with a post mark after October 15, 2016 has been considered late.

The Liquidator received 19,651 timely filed POCs. The Liquidator has adjudicated all timely filed POCs with consideration given to the Court's December 28, 2016 Order. For each timely filed proof of claim received, claimants have been notified of the Liquidator's final determination via a Final Determination Letter.

Pursuant to KRS 304.33-400, claimants that timely filed a POC have been afforded an opportunity to object to the Liquidator's final determination of their claim. To date, the Liquidator has received 1,002 objections. On June 30, 2017, the Liquidator filed her first Motion to Sustain Certain Objections and Allow Claims. The Liquidator will continue to review and resolve all timely filed objections.

ORDER OF DISTRIBUTION

The order of distribution of claims from the liquidation estate are governed by KRS 304.33-430. The first fifty dollars (\$50) of the amount allowed on each claim in the classes under subsections (3) to (7), inclusive, of KRS 304.33-430 shall be deducted from the claim and included in the class under subsection (9). Claims may not be cumulated by assignment to avoid application of the \$50 deductible. Subject to the \$50 deductible provision, every claim in each class shall be paid in full or adequate funds retained for the payment before the members of the next class receive any payment. A summary of the classes per KRS 304.33-430 follows (for complete details please see KRS 304.33-430):

- (1) Administration costs. The costs and expenses of administration, including but not limited to the following: the actual and necessary costs of preserving or recovering the assets of the insurer; compensation for all services rendered in the liquidation; any necessary filing fees; the fees and mileage payable to witnesses; and reasonable attorney's fees.
- (2) Health maintenance organization out-of-network claims.
- (3) Loss and unearned premium claims. Claims by policyholders, beneficiaries and insureds arising from and within the coverage of and not in excess of the applicable limits of insurance policies and insurance contracts issued by the company. See KRS 304.33-430 (3) for a complete list of exclusions.
- (4) Claims of the federal government other than those claims included in class 2.
- (5) Wages. Debts due to employees for services performed, not to exceed one thousand dollars (\$1,000) to each employee which have been earned within one year before the filing of the petition for liquidation.
- (6) Residual classification. All other claims including claims of the federal, any state or local government, not falling within other classes under this section.
- (7) Judgments. Claims based solely on judgments.
- (8) Interest on claims already paid. Interest at the legal rate compounded annually on all claims in the classes (1) to (7) of this section, inclusive, from the date of petition for liquidation or the date on which the claim becomes due, whichever is later, until the date on which the dividend is declared.

- (9) Miscellaneous subordinated claims. The remaining claims or portions of claims not already paid, with interest as in subsection (8) of this section. This includes:
- a. The first fifty dollars (\$50) of each claim in the classes under subsection (3) to (7), inclusive, of this section;
 - b. Late filed claims/proof of claims.
- (10) Preferred ownership claims. Surplus or contribution notes, or similar obligations.

SUMMARY OF PENDING ISSUES

- Resolution of remaining claims and objections
- Development and resolution of any current/future litigation
- Securing maximum payment from liable parties
- Collection of outstanding receivables (such as receivables from the federal government)
- Distribution of assets

Respectively submitted,



Donald F. Roof, CFE, MCM
Special Deputy Liquidator
Kentucky Health Cooperative