

Trinity Healthshare, Inc.

FINANCIAL STATEMENTS

December 31, 2018



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REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Trinity Healthshare, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Trinity Healthshare, Inc. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and net deficit, functional expenses, and cash flows for the period from June 27, 2018 (date of inception) through December 31, 2018, and the related notes to the 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 accounting principles generally accepted in the United States of America; this includes 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 audit. We conducted our audit 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 auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Trinity Healthshare, Inc. as of December 31, 2018, and the changes in its net deficit, and its cash flows for the period from June 27, 2018 (date of inception) through December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization has experienced expenses in excess of revenues and has a net deficit as of December 31, 2018 that raised substantial doubt about the Organization's ability to continue as a going concern. The Organization is in the process of renegotiating its program that will become effective January 1, 2020 and is expected to result in the Organization's revenues exceeding its expenses. Our opinion is not modified with respect to that matter.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Atlanta, Georgia
November 7, 2019



FINANCIAL STATEMENTS

Trinity Healthshare, Inc.
Statement of Financial Position

December 31, 2018

Assets

Current assets

Cash and cash equivalents	\$ 850,207
Prepaid advertising	234,811
Deferred membershare expenses	1,424,147
Receivable from Aliera	5,176,341

Total current assets	7,685,506
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Security deposit	4,954
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Total assets	\$ 7,690,460
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Liabilities and Net Deficit

Current liabilities

Accounts payable and accrued expenses	\$ 22,846
Deferred membershare revenues	2,774,029
Membershare benefits liability	5,740,915

Total current liabilities	8,537,790
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Net deficit without donor restrictions	(847,330)
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Total liabilities and net deficit	\$ 7,690,460
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The accompanying footnotes are an integral part of this statement.

Trinity Healthshare, Inc.
Statement of Activities and Net Deficit

Period from June 27, 2018 (date of inception) through December 31, 2018

Revenues	
Membershare contributions	\$ 7,882,929
Member application fees	348,177
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Total revenues	8,231,106
Expenses	
Program services	8,991,419
Management and general	87,017
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Total expenses	9,078,436
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Change in net deficit	(847,330)
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Net deficit without donor restrictions at beginning of period	-
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Net deficit without donor restrictions at end of period	\$ (847,330)
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The accompanying footnotes are an integral part of this statement.

Trinity Healthshare, Inc.
Statement of Functional Expenses

Period from June 27, 2018 (date of inception) through December 31, 2018

	Program Services	Management and General	Total
Membershare benefits	\$ 5,740,915	\$ -	\$ 5,740,915
Commissions	1,785,940	-	1,785,940
Advertising	630,735	-	630,735
Management fees	527,028	-	527,028
Membershare benefits administration	97,716	-	97,716
Health care network fees	70,938	-	70,938
Charitable contributions	67,000	-	67,000
Employee compensation and benefits	34,279	34,279	68,558
Legal	-	41,558	41,558
Telemedicine	26,463	-	26,463
Rent	10,405	10,406	20,811
Miscellaneous	-	774	774
Total expenses	\$ 8,991,419	\$ 87,017	\$ 9,078,436

The accompanying footnotes are an integral part of this statement.

Trinity Healthshare, Inc.
Statement of Cash Flows

Period from June 27, 2018 (date of inception) through December 31, 2018

Operating activities	
Change in net deficit	\$ (847,330)
Adjustments to reconcile change in net deficit to net cash provided by operating activities:	
Change in operating assets and liabilities:	
Prepaid advertising	(234,811)
Deferred membershare expenses	(1,424,147)
Receivable from Aliera Healthcare	(5,176,341)
Security deposit	(4,954)
Accounts payable and accrued expenses	22,846
Membershare benefits liability	5,740,915
Deferred membershare revenues	2,774,029
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Net cash provided by operating activities	850,207
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Net increase in cash and cash equivalents	850,207
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Cash and cash equivalents at beginning of period	-
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Cash and cash equivalents at end of period	\$ 850,207
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There were no non-cash investing and financing activities for the period ended December 31, 2018.

The accompanying footnotes are an integral part of this statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Trinity Healthshare, Inc. (“Trinity” or the “Organization”) is an Internal Revenue Code Section 501(c)(3) not-for-profit organization providing health care sharing options to its members as a health care sharing ministry (“HCSM”). The Organization offers a unique medical payment arrangement to its members that are located primarily throughout the United States.

The Organization’s members agree to voluntarily contribute to the payment of other members’ medical needs. As the products offered by the Organization are not insurance, payment of a member’s medical bills are not guaranteed since they are subject to the willingness and ability of other members and availability of funds for such payments to be made.

The Organization has contracted with Alera Healthcare, Inc. (“Alera”) which markets and administers the health care sharing products that Trinity offers to its members. Certain of the Organization’s products (“Side-by-Side Products”) have components that are specific to Alera (minimum essential health care services) and components that are specific to Trinity. Revenues and membershare benefit costs on Side-by-Side Products are allocated between Trinity and Alera based on their terms specified in their Management and Administration Agreement dated August 13, 2018. See Notes 2 and 3.

During the period ended December 31, 2018, Trinity experienced expenses in excess of revenues of \$885,220 and has a deficit of that amount as of December 31, 2018. Management also anticipates that expenses will be in excess of revenues for the year ended December 31, 2019. This raises substantial doubt about the Organization’s ability to continue as a going concern. As of the date of these financial statements, the Organization’s management is renegotiating its management agreement and other services contracts with Alera in order for Trinity to generate revenues in excess of expenses beginning January 1, 2020. Trinity’s ability to continue as a going concern will depend upon its ability to reach an agreement with Alera that will result in positive total cash flows for the Organization.

Basis of Accounting

The Organization’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates and Certain Significant Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period, including the allocation of expenses to program services, management and general, and fundraising. Actual results could differ from those estimates. Management's estimate of membershare benefits incurred but not reported (Note 3) and resolution of legal and regulatory matters (Note 5) are considered significant estimates as it is at least reasonably possible that the estimates will change in the next year and such changes could have a material effect on the Organization's financial statements.

Basis of Reporting

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Under these provisions, net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of December 31, 2018, there are no net assets with donor restrictions.

Revenue Recognition

Revenues from members include membershare contributions and application fee revenues received from members for the Organization's health care sharing programs and shared revenue for the sale of Side-by-Side Products offered in conjunction with Alera. Membershare contribution revenues are recognized over the month to which they relate. Application fee revenues are recognized over the initial month of membership.

Receivable from Alera represents member revenues collected by Alera that are in process of being remitted to Trinity, net of any advance payments received from Alera by Trinity.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

Deferred membershare revenues represents Trinity's share of membershare revenues that were collected by Alera during the reporting period that relate to a future accounting period. Deferred membershare expenses represents commissions, management fees, and other expenses associated with those future revenues.

Receivables

The Organization provides for an allowance for doubtful accounts equal to cost of collecting amounts owed to the Organization plus the estimated amount of receivables that are not expected to be received in full. In management's opinion, no allowance for doubtful accounts is necessary as of December 31, 2018.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers demand deposits at banks, money market funds, and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit

The Organization has cash deposits with a financial institution which fluctuate and often are in excess of federally insured limits. If this financial institution were not to honor its contractual liability to the Organization, then the Organization could incur losses.

Membershare Benefits Liability

The Organization has estimated a liability for unpaid membershare benefits and membershare benefits adjustment expenses ("membershare benefits liability"). Membershare benefits are recognized based on the service date. The membershare benefits liability has been estimated based on actual subsequent benefit payments made plus an estimate of membershare benefits incurred but not reported ("IBNR"). The IBNR benefit payments has been estimated by management based on the historical experience of Trinity and other HCSMs modified for current trends and changes in benefits, which could vary as the membershare benefits are ultimately settled. Revisions in estimates are reported in the period in which they are determined.

Functional Allocation of Expenses

The Organization allocates its expenses on a functional basis for its program services. The statement of functional expenses presents the natural classification detail of expenses by function. Employee compensation and benefits are allocated based on the responsibilities of specific personnel. Program and management costs are allocated based on asset usage and management's estimate of departmental use.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Organization expenses advertising costs as incurred. Expenses incurred were \$630,735 for the period ended December 31, 2018, and are included in program expenses. Prepaid advertising represents internet advertising costs paid in 2018 that will be used during 2019.

Legal Professional Fees

The Organization expenses legal professional fees as incurred.

Income Taxes

The Organization qualifies for tax exempt status under Section 501(c)(3) of the Internal Revenue Code as a nonprofit, charitable organization. Under Section 501(c)(3), nonprofit organizations are taxed only on unrelated business income as defined by the Internal Revenue Code. The Organization had no unrelated business income for the period ended December 31, 2018. Trinity's income tax returns since inception are subject to examination by tax authorities, and may change upon examination.

NOTE 2: PROGRAM CONCENTRATION

The Organization's health care sharing program is marketed and managed by Alera under the parties' management agreement. Under the agreement, Alera owns rights to the membership roster that is generated while Alera manages the program. Fees incurred to Alera by the Organization during the period ended December 31, 2018, total \$2,508,085 and include management fees (including marketing costs), commissions, membership benefit administration, health care network, and telemedicine costs.

In accordance with the management agreement, Trinity retains 100% of membership contributions on its stand-alone products and \$25 from each member's application fees; the remainder is retained by Alera. Member contributions for Side-by-Side Products are allocated 65% to Alera and 35% to Trinity. However, since Trinity serves as HCSM on Side-by-Side Products, all membershare benefits for these products will be paid by Trinity. In exchange for Trinity assuming the liability for membershare benefit payments relating to the minimum essential health care services costs on Side-by-Side Products that Alera otherwise would have borne, additional membershare contribution revenues in an equal amount have been allocated to Trinity to cover the additional benefit outlay.

NOTE 3: MEMBERSHARE BENEFITS LIABILITY FOR UNPAID MEMBERSHARE BENEFITS

The membershare benefits liability represents the amount of future payments to be made on individual membershare benefits with service dates through the balance sheet date. This liability includes benefits for services that have been reported to the Organization, as well as estimated IBNR benefit payments.

NOTE 3: MEMBERSHARE BENEFITS LIABILITY FOR UNPAID MEMBERSHARE BENEFITS (CONTINUED)

The accompanying financial statements report all anticipated claims relating to the Trinity’s stand-alone products and the Side-by-Side Products. However, as described in Note 2, variability in the level of membershare benefit payments for minimum essential health care services costs on Side-by-Side Products is the responsibility of Alera, since Alera will allocate to Trinity revenues in the amount of any such benefits that are paid. Based on management’s analysis, Alera’s portion of member benefits on Side-by-Side products is estimated to be 38%. Accordingly, Trinity has provided for 62% of benefits related to Side-by-Side products as well as 100% of membershare benefits on its stand-alone products.

Management believes that the membershare benefits liability is adequate to satisfy the ultimate membershare benefits liabilities. There is a reasonable possibility that the estimates could change by a material amount in the near term. The estimates for membershare benefits liability are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations. The Organization has no retrospectively rated programs.

The following is a summary of membershare benefits liability and reserves for incurred but unreported membershare benefits and unpaid membershare benefits adjustment expenses at December 31, 2018:

Balance – Beginning of period	\$	-
Incurred related to:		
Current period		5,740,915
Prior period		-
<hr/>		
Total incurred		5,740,915
Paid related to:		
Current period		-
Prior period		-
<hr/>		
Total paid		-
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Balance – End of period	\$	<u>5,740,915</u>

Included in the membershare benefits liability as of December 31, 2018 is estimated IBNR benefits of \$291,500. Trinity’s initial payment to the administrator for membershare benefits was made in January, 2019.

NOTE 4: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of the statement of financial position date, comprise the following:

Financial assets at period end:	
Cash and cash equivalents	\$ 850,207
Deferred membershare expenses	1,424,147
Receivable from Alera	5,176,341
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Financial assets available to meet general expenditures within one year	<u>\$ 7,450,695</u>

The Organization generally receives member contributions in advance of member benefit requests, thus allowing for liquidity to cover approved benefit payments. As an HCSM, the Organization is not required to make benefit payments, since benefit payments are not guaranteed. Thus, benefit payments can be deferred or denied and liquidity shortfalls would be avoided.

NOTE 5: CONTINGENCIES AND REGULATORY MATTERS

From time to time, the Organization has asserted and unasserted claims arising in the normal course of business. The Organization does not expect material losses, if any, arising from these asserted and unasserted claims to have a material effect on the financial statements, however, ultimate outcome of such claims is unknown.

The insurance regulators of certain states have made inquiries of the Organization to assess whether it qualifies as a HCSM under their state's law. The Organization believes that it meets the federal and state requirements in the states in which it operates and cooperates with the regulators regarding their requests. Ultimate outcome of the current inquiries is unknown.

As of the date these financial statements are available to be issued, there are no assessments or losses that are probable of being paid, therefore no liability has been recorded as of December 31, 2018.

NOTE 6: OPERATING LEASE

The Organization subleases its office space from Alera on a month-to-month basis. The monthly rent amount was \$4,917 as of December 31, 2018. Rent expense was \$20,811 for the period ended December 31, 2018.

NOTE 7: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 7, 2019, which is the date the financial statements were available to be issued.