Consolidated Financial Statements and Supplementary Information

CareSource Management Group Co.

Years Ended December 31, 2019 and 2018
With Reports of Independent Auditors

CareSource Management Group Co.

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

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Report of Independent Auditors

The Board of Trustees
CareSource Management Group Co.

We have audited the accompanying consolidated financial statements of CareSource Management Group Co., which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 consolidated financial position of CareSource Management Group Co. at December 31, 2019 and 2018, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the incurred and paid claims development for the year ended December 31, 2018 on pages 38 - 40 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet as of December 31, 2019 and consolidating statement of operations for the year ended December 31, 2019 are presented for purposes of additional analysis and are not a required part of the financial statements. 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 audit of the consolidated 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

March 26, 2020

CareSource Management Group Co.

Consolidated Balance Sheets
(Dollars in Thousands)

	December 31 2019	December 31 2018
Assets		
Cash, cash equivalents and restricted cash	**$ 909,364**	$ 765,811
Investments:		
Held-to-maturity debt securities	**693,756**	942,896
Equity securities	**102,453**	178,260
Available-for-sale securities	**–**	3,885
Receivables:		
Health care	**615,612**	499,908
Other	**270,964**	193,645
Reinsurance funds withheld	**179,914**	106,591
Prepaid expenses	**86,294**	115,571
Other assets	**7,086**	6,077
Property and equipment, net	**158,129**	154,794
Total assets	**$ 3,023,572**	$ 2,967,438
Liabilities and net assets		
Liabilities:		
Unpaid claims	**$ 1,033,217**	$ 1,048,945
Unpaid claims adjustment expense	**21,597**	25,842
Premium deficiency reserve	**–**	14,315
Premiums received in advance	**166,312**	141,033
Risk corridor payable	**–**	2,722
Accrued and other liabilities	**192,579**	178,508
Hospital incentive liability	**18,354**	9,684
Sales and use tax payable	**113,353**	92,698
Accounts payable	**94,301**	60,698
Deferred revenues	**–**	1,624
Loans payable	**196,161**	342,718
Obligations under capital leases	**6,315**	–
Total liabilities	**1,842,189**	1,918,787
Net assets:		
Retained earnings	**1,181,383**	1,049,984
Accumulated other comprehensive loss	**–**	(1,333)
Total net assets	**1,181,383**	1,048,651
Total liabilities and net assets	**$ 3,023,572**	$ 2,967,438

See accompanying notes.

CareSource Management Group Co.

Consolidated Statements of Operations

(Dollars in Thousands)

	Year Ended December 31	
	2019	**2018**
Revenues		
Capitation	**$ 9,496,567**	$ 9,005,407
Delivery	**174,679**	230,973
Premium	**921,255**	1,186,368
Other	**8,207**	929
Total revenues	**10,600,708**	10,423,677
Expenses		
Medical expenses:		
Inpatient facility	**2,543,142**	2,756,749
Outpatient facility	**2,033,174**	2,168,915
Professional	**2,978,056**	2,682,663
Pharmacy	**2,079,446**	2,059,450
Other medical expenses, net	**6,586**	2,071
Total medical expenses	**9,640,404**	9,669,848
Administrative expenses:		
Compensation and benefits	**462,375**	407,706
Professional and temporary services	**231,691**	203,162
Marketing, advertising, communications, and promotions	**13,801**	13,932
Building expense	**16,725**	16,943
Office operations	**62,742**	63,566
Depreciation and amortization	**33,550**	37,985
Interest expense	**20,808**	11,834
Other	**57,378**	64,929
Total administrative expenses	**899,070**	820,057
Total expenses	**10,539,474**	10,489,905
Net investment income and realized gains		
Net investment income	**59,839**	12,935
Net realized gains	**16,883**	18,102
Total net investment income and realized gains	**76,722**	31,037
Other (loss) income	**(5,514)**	1,892
Income (loss) before taxes	**132,442**	(33,299)
Tax benefit (expense)	**290**	(290)
Net income (loss)	**$ 132,732**	$ (33,589)

See accompanying notes.

CareSource Management Group Co.

Consolidated Statements of Comprehensive Income (Loss)

(Dollars in Thousands)

	Year Ended December 31	
	2019	**2018**
Net income (loss)	**$ 132,732**	$ (33,589)
Other comprehensive loss		
Net unrealized loss on available-for-sale securities	–	(1,816)
Total other comprehensive loss	–	(1,816)
Total comprehensive income (loss)	**$ 132,732**	$ (35,405)

See accompanying notes.

CareSource Management Group Co.

Consolidated Statements of Changes in Net Assets

(Dollars in Thousands)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Net Assets
Balance at January 1, 2018	$ 1,083,573	$ 483	$ 1,084,056
Other comprehensive loss	–	(1,816)	(1,816)
Net loss	(33,589)	–	(33,589)
Balance at December 31, 2018	1,049,984	(1,333)	1,048,651
Adoption of Accounting Standards Update No. 2016-01	(1,333)	1,333	–
Balance at January 1, 2019	1,048,651	–	1,048,651
Net income	**132,732**	**–**	**132,732**
Balance at December 31, 2019	**$ 1,181,383**	**$ –**	**$ 1,181,383**

See accompanying notes.

CareSource Management Group Co.

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31	
	2019	**2018**
Operating activities		
Net income (loss)	**$ 132,732**	$ (33,589)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	**33,550**	37,985
Amortization of held-to-maturity investments	**6,074**	2,260
Loss on asset disposals	**23**	50
Realized gain on investments	**(16,883)**	(18,102)
Unrealized (gain) loss on investments	**(15,568)**	39,271
Proceeds from equity securities	**119,879**	65,513
Purchase of equity securities	**(8,855)**	(109,401)
Changes in assets and liabilities:		
Increase in health care receivables	**(115,704)**	(143,200)
(Increase) decrease in reinsurance funds withheld	**(73,323)**	32,583
Increase in other receivables	**(77,319)**	(131,844)
Decrease (increase) in prepaid expenses	**29,277**	(103,002)
Increase in other assets	**(1,009)**	(1,218)
(Decrease) increase in unpaid claims	**(15,728)**	101,435
(Decrease) increase in unpaid claims adjustment expense	**(4,245)**	2,027
(Decrease) increase in premium deficiency reserve	**(14,315)**	14,315
Increase (decrease) in premiums received in advance	**25,279**	(4,890)
Decrease in risk corridor payable	**(2,722)**	–
Increase in accrued and other liabilities	**14,071**	22,622
Increase (decrease) in hospital incentive liability	**8,670**	(1,526)
Increase (decrease) in sales and use tax payable	**20,655**	(29,123)
Increase in accounts payable	**33,603**	19,435
Decrease in deferred revenues	**(1,624)**	(677)
Net cash provided by (used in) operating activities	**76,518**	(239,076)
Investing activities		
Proceeds from maturities/redemption of held-to-maturity securities	**361,629**	370,679
Purchase of held-to-maturity securities	**(117,444)**	(648,636)
Proceeds from sales of available-for-sale securities	**–**	16,955
Purchase of available-for-sale securities	**–**	(637)
Purchases of property and equipment	**(29,435)**	(43,594)
Net cash provided by (used in) investing activities	**214,750**	(305,233)
Financing activities		
Proceeds under loans	**–**	201,233
Payments under loans	**(140,006)**	(7,979)
Proceeds on line of credit	**190,000**	–
Payments on line of credit	**(190,000)**	–
Loan prepayment penalty	**(6,551)**	–
Payments on capital leases	**(1,158)**	(761)
Net cash (used in) provided by financing activities	**(147,715)**	192,493
Net increase (decrease) in cash, cash equivalents and restricted cash	**143,553**	(351,816)
Cash, cash equivalents and restricted cash at beginning of year	**765,811**	1,117,627
Cash, cash equivalents and restricted cash at end of year	**$ 909,364**	$ 765,811
Interest paid on debt	**$ 14,125**	$ 11,398
Cash flow information for noncash transactions		
Assets acquired under capital leases	**$ 7,473**	$ –

See accompanying notes.

1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 NATURE OF OPERATIONS

CareSource Management Group Co. (the Company or CSMG) is a not-for-profit organization, operating in Ohio. The Company was formed to act for the benefit of, and to carry out, as a supporting organization, the purposes of CareSource (CS), CareSource Indiana (CSIN), CareSource Kentucky (CSKY), CareSource Georgia (CSGA), CareSource West Virginia (CSWV), CareSource Reinsurance (CSRE), CareSource Life Services (CSLS), CareSource Network Partners (CSNP), CareSource at Home (CSAH), CareSource Virginia (CSVA), CareSource Real Estate Holdings (CSRH) and any other CareSource not-for-profit tax-exempt company. CSMG is a licensed third-party administrator (TPA) in the states of Ohio, Michigan, Indiana, Kentucky, Georgia, and West Virginia. The Company is the special member of CS. CareSource Foundation (CSF) is a subsidiary of CS. CSMG is a sole member of CSMG Foundation (CSFM). The Company is also the sole member of CSIN, CSKY, CSGA, CSWV, CSLS, CSNP, CSAH, and CSRE. CSIN, CSKY, CSGA, CSLS, CSWV and CSVA are not-for-profit corporations and CSRE, CSNP, CSAH, and CSRH are single member limited liability companies that are disregarded for federal income tax purposes. Additionally, CareSource Management Services (CSMS), a for-profit corporation that provides administrative and management services to CSMG, is a subsidiary of CSMG. As of December 31, 2019, CSMS was converted to a limited liability company.

The Company offers a variety of insurance products in multiple markets across numerous geographical markets. Most offerings relate to either Medicaid, Medicare, or Healthcare Exchange.

Medicaid

CS provides services to Ohio's Medicaid members through an annual Provider Agreement with the Ohio Department of Medicaid (ODM). Populations served through the Medicaid program include the Temporary Assistance for Needy Families (TANF), Children's Health Insurance Program (CHIP), Aged, Blind or Disabled children and adults (ABAD), Medicaid Expansion under the Affordable Care Act, and Adoption and Foster Kids. In Ohio, the TANF and CHIP populations are collectively known as Covered Families and Children (CFC).

In March 2012, CSMG signed a Dual Eligible Medicare/Medicaid Alliance Agreement (the Alliance) with Humana, Inc. (Humana) to jointly (as Humana-CareSource) participate in state bid opportunities for Medicaid and provide coverage for people who qualify for Medicaid in states outside of Ohio under a full risk arrangement. The Alliance created the potential to expand CSMG into additional states with Humana and increase service offerings to potential members.

In August 2012, CSMG created CSRE, a Montana domiciled captive insurance entity, for the purposes of reinsuring risk outside of Ohio associated with the Alliance with Humana. In 2012, Humana – CareSource was awarded a contract in the Commonwealth of Kentucky to serve Medicaid beneficiaries in Region 3 of the Commonwealth's Medicaid program. Populations served through the program included TANF, ABAD, certain dual eligible Medicaid-Medicare members, and Medicaid Expansion. Effective January 1, 2016, the Company's Vermont domiciled captive insurance company merged into CSRE. Due to this merger, CSRE serves as a direct reinsurer to Partner Re. Partner Re provides reinsurance coverage to CS, CSGA, CSIN, CSKY, CSRE and CSWV, and then cedes a portion of the risk to CSRE. In addition, CSRE provides errors and omissions insurance coverage to CSMG with a $1,000 annual aggregate and per occurrence limit for the annual coverage period from December 1 through November 30. Coverage in excess of these amounts is provided through an umbrella policy obtained by CSMG from an unrelated third-party commercial insurer. CSRE also provides a medical stop loss insurance coverage to CSMG for employee claims for the annual coverage period from January 1 through December 31. CSRE does not provide reinsurance or insurance for any other entities.

The current term of the Medicaid contract with the Commonwealth of Kentucky ended in June 2019, but contained one (1) additional six (6) month renewal period that was mutually agreed upon. CSRE continued doing business with Humana in the same capacity through 2019. Under the terms of the Alliance, the risk associated with the Medicaid members in this population are 100% ceded to CSRE. Effective December 31, 2019, the Company ended its relationship with Humana and will not continue servicing members in the Kentucky Medicaid program. CSRE will continue to process claims runout for effective dates of service December 31, 2019 and prior through December 31, 2022 as agreed upon with Humana.

In 2015, the Company was awarded a contract in the state of Georgia to serve Medicaid beneficiaries in the TANF population, under the names of Georgia Families, Peachcare for Kids, and Planning for Healthy Babies. The contract period began on July 1, 2017.

In 2016, the Company was awarded a Medicaid managed care contract by the Indiana Family and Social Services Administration and the Office of Medicaid Policy and Planning to serve Medicaid beneficiaries in the TANF and Expansion populations, under the program names Hoosier Healthwise (HHW) and Healthy Indiana Plan 2.0 (HIP 2.0), respectively. The contract period for HHW began on January 1, 2017 and the contract period for HIP 2.0 began on February 1, 2017. HIP 2.0 is a consumer-driven modeled Medicaid product.

The Company's Medicaid enrollment is dependent upon members who voluntarily select the plan or who are auto-assigned to the plan by the State. For each member enrolled in the plan, the Company receives monthly capitation payments (per member per month, or PMM) in exchange for providing (or contracting to provide) the required services in the Provider Agreement. CS is paid an additional amount for each newborn baby delivered from a qualifying Medicaid member in Georgia, Indiana, and Ohio. Capitation rates are determined by the State Departments of Medicaid annually.

Medicare

Effective May 1, 2014, CareSource started providing coverage to Dual Eligible individuals under an eight year demonstration program known as MyCare Ohio designed to implement and test a Medicare-Medicaid Integrated Care Delivery System. CareSource is part of a three-way provider agreement with ODM and the Centers for Medicare & Medicaid Services (CMS) to provide services to this Dual Eligible population. For each member enrolled in the plan, CareSource receives monthly capitation payments in exchange for providing (or contracting to provide) the required services in the provider agreement. The level of care the member is eligible for and whether CS is providing both Medicaid and Medicare coverage determines the amount of premium received.

On October 15, 2016, CS began offering Medicare Advantage plans to qualified individuals, with an effective date of January 1, 2017. CS receives monthly premium revenues from subscribers and from CMS in exchange for providing the services outlined in the individual insurance policies. Premium amounts include both subscriber payment and CMS payments for Medicare Parts C and D.

Healthcare Exchange

On October 1, 2013, CS began offering policies to qualified individuals in Ohio's federally facilitated exchange, also known as Health Insurance Exchange (HIX) with an effective date of January 1, 2014. On November 15, 2014, the Company expanded into two additional markets and began offering HIX policies to qualified individuals in Indiana and Kentucky, with an effective date of January 1, 2015. CSWV began offering HIX policies to qualified individuals on West Virginia's federally facilitated exchange on November 1, 2015, with an effective date of January 1, 2016.

Other Services

Effective July 1, 2013, the Company executed a contract with ODM to provide case management services for the Home and Community Based Waiver program (see Note 6.)

On November 10, 2015, CSMG incorporated CSNP with the purpose of consolidating provider contracting to establish common contracts across the Company's various products. This entity was not operational as of December 31, 2018. Effective January 1, 2019, a Healthcare Network Agreement was entered between TriWest Healthcare Alliance Corp. (Tri-West) and CSNP, on behalf of itself and its affiliates, in support of Prime Contract VA791-13-D-0054, which TriWest has secured with the Department of Veterans Affairs. In this agreement, TriWest is subcontracting the development and maintenance of provider networks in the States of Ohio, Indiana, and Georgia to CSNP and its affiliaties.

On December 23, 2015, CSMG incorporated CSAH for business in home health and services care. The operations of this were ended as of December 31, 2019, and the entity will be liquidated in 2020.

(Dollars in Thousands)

CSLS was established on December 23, 2015. CSLS serves members with training and guidance pertaining to life skills.

CSVA was established on January 28, 2016. CSVA was capitalized with $2,000 in 2016. The insurance license for this entity was surrendered in June 2018.

CSFM was established on August 25, 2016. This entity supports all non-Ohio markets.

Effective July 1, 2016, CS was awarded funding from the Ohio Department of Mental Health and Addiction Services (OhioMHAS) for a Community Transition Program (CTP). This is a renewable program in which CS assists in providing continuing treatment services and access to recovery supports for ex-offenders with substance abuse disorders returning to the community from the Ohio Department of Rehabilitation and Correction institutions. This program ended December 31, 2019.

CSRH was established on March 27, 2018 as a bankruptcy remote special purpose entity as part of the Credit Tenant Loan (CTL) financing.

As of December 31, 2019 and 2018, the Company had members enrolled in the following programs:

	2019 (unaudited)	**2018 (unaudited)**
Medicaid – Families and Children	1,119,893	1,124,024
Medicaid – Expansion	281,726	303,548
Healthcare Exchange	121,132	186,169
Medicaid – Aged, Blind, and Disabled Adults	84,233	76,120
MyCare Dual Eligible	28,479	28,306
Medicaid – Aged, Blind, and Disabled Children	31,925	29,507
Medicare Advantage	3,842	2,670
Community Transition Program	3,581	4,006
Total	**1,674,811**	**1,754,350**

1.2 BASIS OF PRESENTATION

The accompanying consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the financial statements of the Company, CSMS, CS, CSIN, CSRE, CSKY, CSGA, CSWV, CSVA, CSLS, CSAH, CSRH, CSF and CSFM. All intercompany balances and transactions have been eliminated in consolidation.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

1.3 CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The Company considers highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Cash equivalents are stated at amortized cost, which approximates fair value. Restricted cash in the amount of $23,950 and $22,950 as of December 31, 2019 and 2018 is included in cash and cash equivalents to secure a CSGA irrevocable letter of credit issued in accordance with the Department of Community Health (DCH) contract and funds on deposit with the state insurance departments to satisfy regulatory requirements. Restricted cash amounts are included in cash, cash equivalent and restricted cash line on the consolidated balance sheet.

1.4 REINSURANCE FUNDS WITHHELD

The Company has established a reinsurance funds withheld account held with an unrelated third party insurer for the captive insurance entity. Reinsurance funds withheld includes amounts that are held in the form of cash and utilized solely to pay loss and loss adjustment expenses.

1.5 INVESTMENTS

Debt securities that the Company has the intent and ability to hold until maturity are designated upon purchase as held-to-maturity and are recorded at amortized cost (using the interest method). Equity securities are measured at fair value based on market inputs, with changes in fair value recorded in investment income as they occur.

All single class and multiclass mortgage-backed/asset-backed securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., CMOs), other than high credit quality securities, are designated upon purchase as held-to-maturity and are recorded at amortized cost. These securities are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the security is written down to fair value. If high credit quality securities are adjusted, the retrospective method is used.

Exchange traded funds are classified as equity securities and are measured at fair value based on market inputs, with changes in fair value recorded in investment income as they occur.

Common stocks are classified as equity securities and are recorded at fair value based on quoted market prices (see Note 3 for policies related to the determination of fair value). Changes in the fair value of trading securities are included in investment income as they occur.

Realized gains or losses on securities are determined using the specific identification basis. When a decline in the value of a specific investment is considered to be other-than-temporary at the balance sheet date, a provision for impairment is included in net realized gains (losses) in the consolidated statements of operations and the cost or amortized cost basis of that investment is reduced. Investment income is recognized when earned.

1.6 Prepaid Expenses

Prepaid expenses include insurance agreements, software licensing & maintenance agreements, and other short-term agreements. The associated expenses are recognized in the consolidated statements of operations during the period in which the related services are provided or goods are delivered. Prepaid expenses also includes $57,463 and $83,500 as of December 31, 2019 and 2018, respectively in provider advances outstanding from CS. Effective July 1, 2018, behavioral health was carved in to the benefit coverage for CS Medicaid members. ODM required CS to issue advanced payments to certain behavioral health providers in order to ease the transition from fee for service to managed care. CS expects to recover the majority of these advances in 2022.

1.7 Property and Equipment, Net

Property and equipment, net (of accumulated depreciation) consists primarily of assets with a cost of more than $5 and an estimated useful life in excess of one year upon acquisition. Depreciation is computed on the straight-line basis over the estimated useful life of the related asset. Assets with a cost of $5 or less or an initial estimated useful life of less than one year are expensed when acquired.

Assets are reviewed for impairment at least annually, or whenever adverse events or changes in circumstances indicate the carrying value of the asset may not be recoverable. Losses are recognized for a long-lived asset to be held and used in operations when the undiscounted future cash flows expected to result from the use of the asset are less than its carrying value.

Amortization of assets recorded under capital leases is included in depreciation expense.

1.8 REVENUES AND RECEIVABLES

Capitation revenues are received monthly and are recognized as revenue in the period in which the health care service plans are obligated to provide services to their members. The Company is eligible to receive supplemental delivery payments for newborns and/or obstetric deliveries for Medicaid programs in Georgia, Indiana, and Ohio. Revenue for these services is recognized in the period in which the maternity delivery occurs. Premium receivables, which are included in health care receivables, are recorded for amounts earned but not received as of the balance sheet date. Premiums billed and collected in advance of the coverage period are recorded as premiums received in advance.

Premium revenues also includes the Medicare Advantage CMS premium and the premium under the Medicare Part D program. As a part of the Medicare Advantage program and the Medicare component of the MyCare program, periodic changes in member risk factor adjustment scores, for certain diagnoses, result in changes to Medicare revenues. The Company recognizes such changes when the amounts become determinable and supportable, and collectability is reasonably assured.

Effective January 1, 2014, both the State of Ohio and Commonwealth of Kentucky elected to participate in Medicaid Expansion under the Affordable Care Act (ACA). Capitation revenue for the Expansion population were federally funded by CMS and a risk corridor based on contribution margin was put into place in the Commonwealth of Kentucky to protect managed care plans and CMS from potentially inaccurate rate setting. Estimated payments associated with the risk corridor are recorded as an adjustment to capitation revenue. As of December 31, 2018, the Company had a recorded payable of $2,722 related to the estimated Medicaid Expansion Risk Corridor for calendar year 2015. The entire balance was paid in 2019 and no additional accruals were required.

Premium amounts associated with the HIX programs include both subscriber payments and advanced premium tax credits received from CMS. All premiums are subject to the Affordable Care Act risk-sharing provisions. Premium income has been adjusted to account for certain of these provisions as summarized in Note 7.

Pharmacy rebates are attained based on an agreement between CS, CSIN, CSRE, CSGA, CSKY, and CSWV and a TPA for prescription drugs, as well as agreements with pharmaceutical manufacturers, and consists of estimated and billed amounts.

Other receivables includes investment receivables and funds due from the States of Ohio, Kentucky and Indiana for performance on quality improvement initiatives as part of the Pay for Performance programs discussed below.

All receivables are regularly reviewed for collectability and any allowances for credit losses are recorded as an offset to the applicable asset. The Company recorded allowances of $54,414 and $53,253 as of December 31, 2019 and 2018, respectively, which are primarily related to the HIX temporary risk corridor program for years 2015 and 2016.

1.9 PAY FOR PERFORMANCE REVENUE

The Company has contracts with the ODM, the Kentucky Department for Medicaid Services, and the Indiana Family and Social Services Administration to receive incremental revenue based on certain performance measures. In April 2018, ODM began a new program structure by withholding 2% of monthly Medicaid premiums and 3% of MyCare premiums to be earned back if certain performance measures are met. CSIN can earn 1.58% and 1.82% of total capitation revenue for its HHW and HIP businesses, respectively, if certain performance measures are met. These performance measures are generally linked to various quality-of-care measures determined by each respective contract. The Company determines the amount of quality withhold or pay for performance revenues based on its ongoing internal evaluation against the quality-of-care metrics. Amounts earned of $147,573 and $148,288 are included in capitation revenues on the consolidated statements of operations for the years ended December 31, 2019 and 2018, respectively, the period during which the performance measures were met. Uncollected performance based receivables, net of unpaid performance penalties, of $162,972 and $152,486 are recorded at December 31, 2019 and 2018, respectively.

1.10 PREMIUM TAXES AND ENHANCED PROVIDER FEES

Taxes based on revenues are paid by various health care plans. In July 2017, the State of Ohio required a per member per month franchise fee on Medicaid and non-Medicaid revenues. CS, CSRE and CSKY are also subject to an additional 1% health insuring corporation tax and CSGA is subject to a 2.5% premium tax. During the years ended December 31, 2019 and 2018, the Company incurred premium and franchise fee taxes of $483,788 and $478,938, respectively, which are recorded as a reduction of capitation revenue.

The State of Ohio also maintains a hospital incentive for participating providers, which is designed as a 100% pass-through payment to all managed care plans, which are then required to provide supplemental payments to contracted hospital providers. Capitation rates to all plans include an amount equal to the payment to participating hospitals, which is distributed by the Ohio Hospital Authority (OHA). Total hospital incentive provider payment incurred in 2019 and 2018 was $85,642 and $89,221, respectively, and was recorded as a reduction of capitation revenue.

The Commonwealth of Kentucky provides a hospital incentive, which is designed to provide enhanced reimbursement for participating providers through supplemental payments. The program is a 100% pass-through. Capitation rates to all managed care plans prior to July 1, 2017 include an amount equal to the payment amount to providers. Thereafter, capitation rates to all managed care plans are based on estimated membership for the period resulting in an estimated semi-annual supplemental payment that is spread evenly across the six month period with a reconciliation to follow. These provider incentive payments totaled $50,364 and $43,563 in 2019 and 2018, respectively. The Company records these incentive payments as a reduction of capitation revenue.

Effective January 1, 2016, ODM implemented a new enhanced maternal health program, which is designed to target geographic areas with high infant mortality rates. Specific CFC capitation rates were increased to include funding for this program. Total funding received was $7,367 and $6,931 for the years ended December 31, 2019 and 2018, respectively. Total program expenses were $6,359 and $7,671 for the years ended December 31, 2019 and 2018, respectively. At the close of the program there will be a reconciliation of the total amount funded from ODM versus total program expenses and any unused funds or funds due will be settled between CS and ODM.

Effective July 1, 2018, ODM implemented a new care innovation and community improvement program (CICIP), which is designed to increase alignment of quality improvement strategies between ODM, Managed Care Plans (MCPs), and both public and nonprofit hospital agencies. Capitation rates were increased to include funding for this program. Total funding received was $93,508 and $48,405 for the years ended December 31, 2019 and 2018. Total program expenses were $85,372 and $48,543 for the years ended December 31, 2019 and 2018. The CICIP payments included in the capitation rates are anticipated to be updated annually, with the option for mid-year amendments.

1.11 MEDICAL EXPENSES, UNPAID CLAIMS, AND UNPAID CLAIMS ADJUSTMENT EXPENSE

Medical expenses consist primarily of inpatient, outpatient and professional fees paid to providers, and pharmacy costs, net of rebates. Medical expenses paid on behalf of members are recognized in the period in which services are provided, and include an estimate of unpaid claims and unpaid claims adjustment expense. Professional fees consist of amounts paid to various health care providers for the provision of certain medical care services to its members on a fee-for-service basis or on a capitated basis.

Unpaid claims represent management's best estimate of the ultimate net cost of all reported and unreported claims incurred but not paid at the balance sheet date. Unpaid claims adjustment expense represents an estimate of medical-related administrative costs that have been incurred but not yet paid. Significant assumptions in the estimation process include historical experience and trends in benefit costs, seasonality, utilization, provider contract terms, adjudicated claims, payment cycles, and the frequency and severity of claims incurred, all of which can vary by program and claim type. Although considerable variability is inherent in such estimates, management believes that the liabilities for unpaid claims and unpaid claims adjustment expense are adequate. These estimates are continually reviewed and revised as necessary as experience develops or new information becomes known. The effects of such revisions are included in current operating results.

1.12 REINSURANCE

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. The ceded reinsurance agreements provide CS, CSGA, CSIN, CSKY, CSWV and CSRE the ability to maintain their exposure to loss within their capital resources. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured plan.

The Company is contingently liable in the event the reinsurers do not meet their contractual obligations. CS, CSGA, CSIN, CSKY, CSWV and CSRE made reinsurance premium payments of $66,485 and $48,593 for the years ended December 31, 2019 and 2018, respectively, of which $52,609 and $38,294, were ceded to CSRE from Partner Re and have been eliminated for purposes of consolidated presentation. Net reinsurance premiums are included as other medical expense in the consolidated statements of operations. Reinsurance recoveries of $75,001 and $56,751 are included as a reduction to medical expenses in the consolidated statements of operations for the years ended December 31, 2019 and 2018, respectively.

1.13 PREMIUM DEFICIENCY RESERVES

A premium deficiency reserve is a reserve that is established when future premiums and current reserves are not sufficient to cover future claims payments and expenses for the remainder of a contract period. Anticipated investment income is included in the calculations regarding the need for a premium deficiency reserve. As of December 31, 2019 and 2018, premium deficiency reserves of $0 and $14,315 were recorded, respectively.

1.14 INCOME TAXES

Primarily all active members of the consolidated group are recognized as exempt from federal income tax under Section 501(a) of the Internal Revenue Code as nonprofit charitable organizations described in Internal Revenue Code Section 501(c)(3), with the exception of CSRE, CSAH, CSNP, CSRH and CSMS. CSRE, CSAH, CSNP, CSRH and CSMS are single member limited liability companies and are thus disregarded for federal income tax purposes. The Company has determined that the activities of CSRE further the charitable purpose of CSMG and, as such, the related earnings are not taxable as unrelated business income. Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the enacted tax rates in effect for the years the differences are expected to reverse.

The Company includes interest and penalties in the tax expense line of the consolidated statements of operations in the period in which they are incurred, including the after-tax cost of interest and penalties related to unrecognized tax benefits. The Company annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements. Currently, tax years 2015-2018 are open for audit by the Internal Revenue Service (IRS).

The Tax Cuts and Jobs Act (Act) was enacted on December 22, 2017. For tax-exempt entities, the Act requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income subject to tax, pay an excise tax on compensation above certain thresholds, and record income or losses for tax determination purposes from unrelated business activities on an activity-by-activity basis, among other provisions. The Further Consolidated Appropriations Act, 2020, P.L. 116-94, H.R. 1865, was signed into law by the President of the United States on Friday, December 20, 2019. Division Q, Title III, Section 302 of the bill repealed Section 512(a)(7), the section taxing qualified transportation fringe benefits. As of and for the year ended December 31, 2019, the Company has made reasonable estimates of the provision for income taxes, the compensation excise tax, and the effects, if any, on existing deferred tax balances based on accounting guidance included in ASC 740, *Income Taxes*. The Company estimates unrelated business income tax to be $0 and excise tax to be $512 for year ending 2019. The Company will continue to revise and refine the calculations as additional IRS guidance is issued.

1.15 RECENT ACCOUNTING PRONOUNCEMENTS

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825 10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASC 2016-01)*, or ASU 2016-01. The amendments in ASU 2016-01 change the accounting for non-consolidated equity investments that are not accounted for under the equity method of accounting by requiring changes in fair value to be recognized in income. Additionally, ASU 2016-01 simplifies the impairment assessment of equity investments without readily determinable fair values; requires entities to use the exit price when estimating the fair value of financial instruments; and modifies various presentation disclosure requirements for financial instruments. We adopted ASU 2016-01 on January 1, 2019 as a cumulative-effect adjustment and reclassified $1,333 of unrealized gains and losses on equity securities reported in accumulated other comprehensive income (loss) to unassigned surplus on our consolidated balance sheet. Effective January 1, 2019, future changes in fair value on equity securities are recognized within net investment income on the consolidated statements of operations.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, or ASU 2016-15. This update addresses the presentation and classification on the statement of cash flows for eight specific items, with the objective of reducing existing diversity in practice in how certain cash receipts and cash payments are presented and classified. We adopted ASU 2016-15 on January 1, 2019. The adoption of ASU 2016-15 did not have a material impact on our statement of cash flows, results of operations or financial position.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows *(Topic 230): Restricted Cash*, or ASU 2016-18. This update amends ASC Topic 230 to add and clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. We adopted ASU 2016-18 on January 1, 2018 using a retrospective approach. The adoption of ASU 2016-18 did not have a material impact on our consolidated statements of cash flows and did not impact our results of operations or consolidated financial position.

In December 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, or ASU 2016-10. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross verses Net)*. These updates provide additional clarification and implementation guidance on the previously issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* Collectively, these updates require a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. These updates supersede almost all existing revenue recognition guidance under GAAP, with certain exceptions, including an exception for substantially all of the Company's revenues that are derived from insurance contracts that will continue to be accounted for in accordance with the provisions of ASC Topic 944, Financial Services - Insurance. Our revenues subject to these ASUs represent approximately 1% of our consolidated total revenues. We adopted these standards on January 1, 2019 using the modified retrospective approach. The impact of these standards did not have a material impact on our beginning retained earnings, results of operations, consolidated statements of cash flows or consolidated financial position.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, or ASU 2018-13. The amendments in ASU 2018-13 eliminate, add, and modify certain disclosure requirements for fair value measurements. The amendments are effective for annual periods beginning after December 15, 2019. We adopted the new disclosure requirements on January 1, 2020, on a prospective basis.

In March 2019, the FASB issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements and Accounting Standards Update No. 2018-10*, *Codification Improvements to Topic 842, Leases*. These updates provide additional clarification, an optional transition method, a practical expedient and implementation guidance on the previously issued ASU No. 2016-02, *Leases (Topic 842)*, or ASU 2016-02. Collectively, these updates supersede the lease guidance in Accounting Standards Codification, or ASC, Topic 840 and require lessees to recognize for all leases, with the exception of short-term leases, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis. Concurrently, lessees will be required to recognize a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The updated guidance is effective for reporting periods beginning after December 15, 2021. The Company is currently evaluating the effects the adoption of ASU 2019-01 will have on our consolidated financial statements.

In November 2019, the FASB issued ASU No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. In May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief*. In April 2019, the FASB issued Accounting Standards Update No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. These updates provide an option to irrevocably elect to measure certain individual financial assets at fair value instead of amortized cost and provide additional clarification and implementation guidance on certain aspects of the previously issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, or ASU 2016-13, and have the same effective date and transition requirements as ASU 2016-13. The updated guidance amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. This guidance also applies a new current expected credit loss model for determining credit-related impairments for financial instruments measured at amortized cost. The updated guidance is effective for reporting periods beginning after December 15, 2022. The Company is currently evaluating the effects the adoption of ASU 2016-13 will have on the consolidated financial position of the Company and the related disclosures.

1.16 SUBSEQUENT EVENTS

The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the balance sheet date. For non-recognized subsequent events that must be disclosed to keep the consolidated financial statements from being misleading, the Company is required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made.

CSMG and CSIN entered into an asset contribution agreement with CSMS effective January 1, 2020 to transfer, contribute or otherwise assign to CSMS assets, rights and properties necessary to operate the business.

CareSource Holding LLC was established on January 24, 2020 and a subsidiary CareSource Arkansas Health Plan Co., a for-profit Health Management Organization was established on January 28, 2020. The entities are not operational as of the issue date of the consolidated financial statements.

Subsequent to December 31, 2019, the spread of the COVID-19 virus caused significant financial market volatility, economic uncertainty, and interruptions to normal business activities. As of the date of issuance of these financial statements, the full impact to the Company is unknown but management expects a decrease in the fair value of the common stock investment portfolio, possible interruptions to day-to-day business activities and possible impacts to claim and premium activity.

Management has evaluated subsequent events through the issuance of these consolidated financial statements on March 26, 2019, and has determined that there have been no additional events or transactions that have occurred during this period that materially impacted the amounts or disclosures in the Company's consolidated financial statements.

(Dollars in Thousands)

2 INVESTMENTS

The amortized cost basis and fair value of the Company's investments in held-to-maturity debt securities are summarized as follows:

December 31, 2019	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governments	**$ 10,990**	**$ 605**	**$ -**	**$ 11,595**
Corporate bonds	**582,912**	**11,918**	**(955)**	**593,875**
Mortgage and other loan-backed securities	**99,854**	**790**	**(20)**	**100,624**
Total debt securities	**$ 693,756**	**$ 13,313**	**$ (975)**	**$ 706,094**

December 31, 2018	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governments	$ 15,176	$ 572	$ (41)	$ 15,707
Corporate bonds	659,030	1,865	(17,310)	643,585
Mortgage and other loan-backed securities	268,690	23	(5,631)	263,082
Total debt securities	$ 942,896	$ 2,460	$ (22,982)	$ 922,374

The cost basis and fair value of the Company's investments in available-for-sale securities was $5,218 and $3,885 in 2018, respectively. In 2019, the Company adopted ASU 2016-01 which eliminated the available-for-sale classification. These investments are now classified as equity securities. Realized and unrealized gains and losses on equity securities are included in the statement of operations.

As a condition for licensure, the managed care operations in each of the licensed subsidiaries are required to maintain certain funds on deposit or pledged to various state agencies. CS had a cash deposit of $3,500 as of December 31, 2019, previously maintained as a pledged bond in 2018, to meet the State of Ohio requirement. CSIN had a Money Market Fund in the amount of $500 as of December 31, 2019, previously held as a Certificate of Deposit in 2018, to meet the Indiana requirement. CSRE maintained $250 in a cash account in 2019 and 2018 to meet the Montana capital requirement. CSWV and CSGA each had a Money Market Fund in the amount of $100 as of December 31, 2019 and 2018, to meet the state requirements, respectively. CSKY had a cash deposit in the amount of $500 as of December 31, 2019 and 2018 to meet the Kentucky requirement.

(Dollars in Thousands)

The following table shows gross unrealized losses and the fair values of investments in held-to-maturity and available-for-sale securities, aggregated by the length of time that individual securities have been in a continuous loss position.

	Less Than 12 Months		12 Months or More		Total	
December 31, 2019	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Held-to-maturity securities: Corporate bonds	**$ 34,481**	**$ (524)**	**$ 18,663**	**$ (432)**	**$ 53,144**	**$ (956)**
Held-to-maturity securities: Mortgage and other loan-backed securities	**2,278**	**(20)**	**-**	**-**	**2,278**	**(20)**
Total	**$ 36,759**	**$ (544)**	**$ 18,663**	**$ (432)**	**$ 55,422**	**$ (976)**

	Less Than 12 Months		12 Months or More		Total	
December 31, 2018	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Available-for-sale securities: Exchange traded funds	$ -	$ -	$ -	$ (1,333)	$ -	$ (1,333)
Held-to-maturity securities: Governments	-	-	3,459	(41)	3,459	(41)
Held-to-maturity securities: Corporate bonds	403,748	(8,346)	181,553	(8,964)	585,301	(17,310)
Held-to-maturity securities: Mortgage and other loan-backed securities	124,438	(951)	137,787	(4,681)	262,225	(5,631)
Total	$ 528,186	$ (9,297)	$ 322,799	$ (15,019)	$ 850,985	$ (24,315)

Management regularly reviews the Company's held-to-maturity investments for impairment. If the fair value of any investment falls below its amortized cost basis or carrying amount, the decline in fair value is analyzed to determine whether or not it is an other-than-temporary impairment. The decision to record an other-than-temporary impairment loss incorporates both quantitative criteria and qualitative information. The Company considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than book value; (b) the financial condition and near term prospects of the issuer; (c.i.) for noninterest-related declines in corporate and government bonds, the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in value; (c.ii.) for interest-related declines in corporate and government bonds, the intent of the Company to sell the investment at the reporting date; (c.iii.) for mortgage and other loan-backed securities, whether the Company expects to recover the entire amortized cost basis of the security and whether the Company has the intent to sell or intent and ability to hold the investments for a period of time sufficient to allow for any anticipated recovery in value; (d) whether the debtor is current on interest and principal payments; and (e) general market conditions and industry or sector specific factors.

(Dollars in Thousands)

The Company periodically holds investments that are impaired for which other-than-temporary impairments are recognized. The Company had an impairment of $0 and $502 as of December 31, 2019 and 2018, respectively.

A summary of the amortized cost and fair value of the Company's investments in debt securities classified as held-to-maturity at December 31, 2019, by contractual maturity, was as follows:

	Amortized Cost	Fair Value
One year or less	$ 211,442	$ 212,135
After 1 year through 5 years	252,288	258,436
After 5 years through 10 years	95,564	100,722
After 10 years	34,608	34,177
Mortgage and other loan-backed securities	99,854	100,624
Total	**$ 693,756**	**$ 706,094**

Proceeds from maturities/redemptions in held-to-maturity debt securities during 2019 and 2018 were $361,629 and $370,679, respectively. Realized gains on the maturities/redemptions of held-to-maturity debt securities were $1,134 and $30 in 2019 and 2018, respectively. Realized losses on the calls of held-to-maturity debt securities were $15 and $523 in 2019 and 2018, respectively. Included in these transactions were proceeds from sales of held-to-maturity debt securities of $118,656 in 2019. The net realized gain from the sale of these held-to-maturity debt securities was $862 in 2019. The held-to-maturity debt securities sold were the investments held as collateral against the FHLB loan. The decision was made in 2019 to pay off the FHLB loan and the proceeds were used in the payoff. There were no held-to-maturity debt securities sold prior to maturity during 2018.

Realized gains and losses on the sale of available-for-sale securities during 2018 were $2,580 and $223, respectively. Unrealized losses of $1,816 were recognized in 2018.

(Dollars in Thousands)

Proceeds from sales of investments in trading securities during 2018 were $65,513. Realized gains and losses on the sale of trading securities were $16,299 and $61 in 2018, respectively.

Proceeds from sales of investments in equity securities during 2019 were $119,879. Realized gains and losses on the sale of equity securities were $17,514 and $1,750 in 2019, respectively.

Interest income due and accrued was $6,087 and $6,874 at December 31, 2019 and 2018, respectively.

The portion of trading gains for the year related to trading securities still held at the reporting date is calculated as follows:

	2019	2018
Net unrealized gains (losses) recognized during the year on trading securities	**$ 31,841**	$ (23,033)
Unrealized gains (losses) recognized during the year on trading securities held during the reporting period	**16,077**	(39,271)

3 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses fair value measurements to record the fair value of certain assets and to estimate the fair value of financial instruments not recorded at fair value but required to be disclosed at fair value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company's financial instruments carried at fair value have been classified, for disclosure purposes, based on a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. The Company's Level 1 assets and liabilities primarily include exchange-traded equity and open-end fund equity securities.
- Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves. The Company's Level 2 assets and liabilities include held-to-maturity debt securities.
- Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

CSMG's management is responsible for the valuation process and uses data from outside sources (including nationally recognized pricing services and broker/dealers) in establishing fair value. Valuation techniques utilized by pricing services and prices obtained from external sources are reviewed by CSMG's internal investment professionals who are familiar with the securities being priced and the markets in which they trade to ensure the fair value determination is representative of an exit price. To validate the appropriateness of the prices obtained, these investment managers consider widely published indices (as benchmarks), recent trades, changes in interest rates, general economic conditions and the credit quality of the specific issuers. In addition, the Company communicates directly with the investment managers regarding the methods and assumptions used in pricing, including verifying, on a test basis, the inputs used by the service to value specific securities.

(Dollars in Thousands)

The following discussion describes the valuation methodologies utilized by the Company for assets or liabilities measured or disclosed at fair value. Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument, including discount rates, estimates of timing, amount of expected future cash flows, and the credit standing of the issuer.

Debt Securities

The fair values of actively traded debt securities are determined through the use of third-party pricing services that utilize inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Equity Exchange Traded Fund Securities

The fair values of exchange traded fund securities are based on quoted prices in active markets for identical assets.

Common Stocks

The fair values of common stocks are based on redemption values as provided by the issuer.

Cash and Cash Equivalents

The fair values of cash and cash equivalents are based on quoted market prices.

Loans Payable

The carrying amount of outstanding borrowings under the loans payable approximates fair value because the interest rates fluctuate with market interest rates.

Assets measured at fair value on a recurring basis at December 31, 2019 are outlined below:

2019				
	Assets Measured	**Fair Value Hierarchy Level**		
Assets	**at Fair Value**	**Level 1**	**Level 2**	**Level 3**
Equity securities:				
Common Stocks	$ 4,269	$ -	$ -	$ 4,269
Small cap	26,220	26,220	-	-
Mid cap	17,799	17,799	-	-
Large cap	30,382	30,382	-	-
International	23,783	23,783	-	-
Total equity securities	**102,453**	**98,184**	**-**	**4,269**
Cash and cash equivalents	909,364	909,364	-	-
Total assets	**$ 1,011,817**	**$ 1,007,548**	**$ -**	**$ 4,269**

(Dollars in Thousands)

Assets measured at fair value on a recurring basis at December 31, 2018 are outlined below:

2018				
	Assets Measured	**Fair Value Hierarchy Level**		
Assets	**at Fair Value**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities:				
Common stock	$ 3,885	-	-	3,885
Total available-for-sale securities	**$ 3,885**	**$ -**	**$ -**	**$ 3,885**
Trading securities:				
Small cap	49,874	49,874	-	-
Mid cap	28,849	28,849	-	-
Large cap	53,671	53,671	-	-
International	45,866	45,866	-	-
Total trading securities	**178,260**	**178,260**	**-**	**-**
Cash and cash equivalents	765,811	765,811	-	-
Total assets	**$ 947,956**	**$ 944,071**	**$ -**	**$ 3,885**

The Company had no liabilities measured at fair value on a recurring basis as of December 31, 2019 or 2018. The Company did not have any assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2019 or 2018.

Level 3 assets purchased were $384 and $637 in 2019 and 2018, respectively. There have been no gain or losses, sales, issues, settlements, or transfers in and (or) out of Level 3.

There were no transfers between any levels during 2019 and 2018.

The carrying amounts and fair values of the Company's significant financial instruments follow:

2019					
	Booked/ Adjusted Carrying Value	**Fair Value**	**Fair Value Hierarchy Level**		
			Level 1	**Level 2**	**Level 3**
Assets					
Bonds	$ 693,756	$ 706,094	$ -	$ 706,094	$ -
Equity securities	102,453	102,453	98,184	-	4,269
Cash and cash equivalents	909,364	909,364	909,364	-	-

(Dollars in Thousands)

2018					
	Booked/ Adjusted Carrying Value	**Fair Value**	**Fair Value Hierarchy Level**		
			Level 1	**Level 2**	**Level 3**
Assets					
Bonds	$ 942,896	$ 922,374	$ -	$ 922,374	$ -
Available-for-sale securities	3,885	3,885	-	-	3,885
Trading securities	178,260	178,260	178,260	-	-
Cash and cash equivalents	765,811	765,811	765,811	-	-

(Dollars in Thousands)

4 PROPERTY AND EQUIPMENT, NET

Property and equipment at December 31, 2019 and 2018 is comprised as follows:

	2019	2018
Building	$ 109,724	$ 61,559
Equipment under Capital Lease	24,130	17,383
Computer Software	117,116	119,144
Computer Hardware	32,517	28,507
Land	3,513	3,513
Furniture and Fixtures	4,900	4,537
Work-in-process	14,981	44,277
Leasehold Improvements	9,333	12,863
Office Equipment	3,513	3,785
Total	**319,727**	**295,568**
Less Accumulated Depreciation and Amortization	(161,598)	(140,774)
Property and Equipment - Net	**$ 158,129**	**$ 154,794**

Depreciation and amortization expense was $33,550 and $37,985 in 2019 and 2018, respectively. The loss recognized upon disposal of fixed assets was $23 and $50 in 2019 and 2018, respectively.

(Dollars in Thousands)

5 COMMITMENTS AND CONTINGENCIES

5.1 Leases

The Company leases equipment and office space under non-cancellable operating leases, which expire at various times through January 2027.

Future Minimum Lease Payments Under These Operating Leases:		
2020	$	5,904
2021		4,502
2022		3,745
2023		3,060
2024		2,291
2025 and Beyond		1,339
Total	**$**	**20,841**

Lease expense related to the Company's operating lease obligations was $6,755 and $6,741 in 2019 and 2018, respectively.

Capital Leases		
Due in:		
2020	$	1,679
2021		1,831
2022		1,730
2023		1,394
2024		377
Total future minimum lease payments, including interest		**7,011**
Imputed interest		(696)
Present value of future minimum lease payments	**$**	**6,315**

6 ADMINISTRATIVE SERVICES ONLY AGREEMENTS

CS holds a contract with the ODM to provide case management services for the Home and Community Based Services Waiver program. The structure of the program requires an entity to be qualified by the State of Ohio for accounting purposes as an uninsured, administrative services only (ASO) plan. Once qualified as an ASO, the entity performs administrative services and only pays related expenses once reimbursed by the State of Ohio. Revenues of $28,222 and $20,142 and general and administrative expenses of $25,885 and $18,545 during 2019 and 2018, respectively, are included within the statements of operations.

Effective January 1, 2019, a Healthcare Network Agreement was entered between TriWest Healthcare Alliance Corp. and CSNP, on behalf of itself and its affiliates, in support of Prime Contract VA791-13-D-0054, which TriWest has secured with the Department of Veterans Affairs. In this agreement, TriWest is subcontracting the development and maintenance of the Indiana provider network to CSNP and its affiliates. Revenues of $6,583 net of related expenses of $408 during 2019 are netted within general and administrative expenses on the statements of revenues and expenses.

As part of both the MyCare demonstration, and in conjunction with the Company's Medicare Advantage plan, the Company receives reinsurance and low-income cost subsidies that represent funding from CMS in connection with the Medicare Part D program, for which the Company assumes no risk. Reinsurance subsidies represent funding from CMS for its portion of prescription drug costs that exceed the member's out-of-pocket threshold, or the catastrophic coverage level. Low-income cost subsidies represent funding from CMS for all or a portion of the deductible, the coinsurance and co-payment amounts above the out-of-pocket threshold for low-income beneficiaries. Monthly prospective payments from CMS for reinsurance and low-income cost subsidies are based on assumptions submitted with the annual bid. A reconciliation and related settlement of CMS' prospective subsidies against actual prescription drug costs paid is made after the end of the year. The Company does not recognize premium revenue or medical expenses for these subsidies or discounts. The Company received prospective payments from CMS of $88,344 and $76,053 during 2019 and 2018, respectively, and made subsidy and discount payments of $120,225 and $96,502, respectively. The Company recorded a receivable from CMS of $31,881 and $20,449 as of December 31, 2019 and 2018, respectively, related to the low income subsidy and reinsurance components of administered Medicare products.

7 AFFORDABLE CARE ACT PROVISIONS

All premiums received related to the sale of individual medical insurance products on the federally facilitated exchange are subject to the risk adjustment program, designed to more evenly spread the financial risk borne by issuers.

The Company's estimate of amounts receivable and/or payable under the risk adjustment program is based on our estimate of both our own and the state average risk scores. The Company recorded a risk adjustment receivable from CMS of $41,629 and liability of $718 as of December 31, 2019 and 2018, respectively, and expects to refine the estimates as new information becomes available, including additional data released by the Department of Health and Human Services, or HHS, regarding estimates of state average risk scores. CS recognized a decrease in premiums in 2019 and 2018 of $23,439 and $17,329, respectively, related to the settlement of the 2017 and 2016 risk adjustment liabilities, due to the differences between the estimates accrued and final settlements from CMS.

The most significant of the taxes and fees established by the ACA is the Health Insurance Provider (HIP) Fee. The annual HIP Fee is allocated to health insurers based on the ratio of the amount of an insurer's net premium revenues written during the preceding calendar year to an adjusted amount of health insurance for all U.S. health risk for certain lines of business written during the preceding calendar year. The HIP Fee is non-deductible for federal income tax purposes. As part of the Consolidated Appropriations Act of 2016, collection of the fee for the 2017 and 2019 fee years have been suspended. Total fees paid for the 2018 fee year in 2019 were $5,816. Total estimated expenses for the 2020 fee year are $8,705 and are included in operating expenses.

8 EMPLOYEE BENEFIT PLAN

The Company has a qualified defined contribution plan under section 401(k) of the Internal Revenue Code, as permitted by the Employee Retirement Income Security Act, covering employees age 21 or older meeting certain eligibility requirements. The Company matches 100%, up to 6% of employee contributions. Benefit plan expense under this plan was $14,470 and $12,675 in 2019 and 2018, respectively.

In connection with the terms of deferred compensation agreements in place between CSMG, CSMS, and certain senior executives, expense of $2,687 and $4,763 was recorded in 2019 and 2018, respectively. The ending balance of accruals related to senior executive deferred compensation agreements was $10,326 and $8,299 at December 31, 2019 and 2018, respectively, of which $5,987 and $6,190, respectively, was funded in separate accounts. All deferred compensation expense was based in part on Company performance and is at the discretion of the Company.

9 SELF-INSURANCE ACCRUALS

The Company is self-insured for employee medical and pharmaceutical programs. The Company had recorded liabilities totaling $4,223 and $4,961 at December 31, 2019 and 2018, respectively. These costs include an estimate for expected settlements on pending claims and an estimate for claims incurred but not reported. These estimates are based on the Company's assessment of outstanding claims, historical analysis, and current payment trends. The Company records an estimate for the claims incurred but not reported using an estimated lag period. The lag period assumptions have been consistently applied for the periods presented. The Company believes that these liabilities are adequate based on current facts and circumstances. Medical and pharmaceutical expense was $37,898 and $36,253 in 2019 and 2018, respectively.

10 RELATED PARTY TRANSACTIONS

David Kaelber is a member of the CS Board and Vice Chairman of the Quality Committee. Mr. Kaelber is the Chief Medical Informatics Officer of The Metrohealth System Case Western Reserve University. The Metrohealth Corporation is a provider to CareSource. CareSource paid $211,379 and $219,074 to The Metrohealth Corporation for services provided in 2019 and 2018, respectively.

Gary L LeRoy MD is a member of the CS Board and a family physician at Community Health Centers of Greater Dayton. Community Health Centers is a provider to CareSource. CareSource paid $1,605 and $1,829 to Community Health Centers for services provided in 2019 and 2018, respectively.

William F Marsteller was the Secretary/Treasurer of the CS Board, a member of the Audit and Compliance Committee, and a member of the Finance Committee. Mr. Marsteller is a provider for Centerville Chiropractic, and CS paid $10 and $8 to Centerville Chiropractic in 2019 and 2018, respectively.

11 SIGNIFICANT PROVIDERS

CS has an agreement with Children's Hospital and Physicians' Health Care Network (dba Partners for Kids or PFK) for PFK to provide medical services to certain CS members. Under this agreement, the Company pays PFK a capitated premium in exchange for PFK assuming the risk of loss for all medical expenses incurred by members who are under the age of 19 and are members in the Central and Southeast Ohio Medicaid regions (PFK members). In connection with this contract, CS pays medical claims billed by providers for PFK members and is later reimbursed by PFK through offsetting of amounts due to PFK for capitation. CS has recorded a liability for unpaid claims and unpaid claims adjustment expense for these services, and a related receivable that is secured by an esrcow from PFK's financial institution to CS in the amount of the unpaid claims and unpaid claims adjustment expense. As of December 31, 2019 and 2018, CS included in its unpaid claims a liability of $27,017 and $21,500, respectively. A corresponding receivable of $27,017 and $21,500 is included in health care and other amounts receivable at December 31, 2019 and 2018, respectively.

During 2019 and 2018, PFK was paid $515,751 and $473,589, respectively, for services rendered prior to chargebacks of $326,997 and $232,380, respectively. Chargebacks resulted from CS directly paying certain non-PFK providers under the contract. The CS membership capitated to the provider constituted approximately 13% of total CS membership in 2019 and 2018.

As of December 31, 2019 and 2018, CS recorded a capitation chargeback receivable from PFK of $31,394 and $56,800, respectively. This balance represents medical expenses charged to, and paid directly by, CS on behalf of PFK.

(Dollars in Thousands)

12 UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSE

Activity in the liabilities for unpaid claims and claims adjustment expense is summarized as follows:

	2019	2018
Balance January 1	**$ 1,074,787**	$ 971,325
Incurred Related to:		
Current Year	**9,810,816**	9,599,429
Prior Years	**(121,915)**	94,373
Total Incurred	**9,688,901**	9,693,802
Paid Related to:		
Current Year	**(8,953,592)**	(8,684,746)
Prior Years	**(755,281)**	(905,594)
Total Paid	**(9,708,873)**	(9,590,340)
Balance as of December 31	**$ 1,054,815**	$ 1,074,787

Incurred claims expense for self-insurance of $38,239 and $36,253 for the years ended December 31, 2019 and 2018, respectively, are included in compensation and benefits on the consolidated statements of operations.

Included in the table above was $44,130 and $23,456 as of December 31, 2019 and 2018, respectively, related to medical incentive pool expenses.

2019

The Company experienced favorable development of prior year claims reserves. Paid claims development in the newly formed CSIN and CSGA Medicaid programs resulted in the release of prior year IBNR balances in the current year. Focus on quality, claim processing efficiencies and recoveries mostly in CS Medicaid in 2019 also continued to reduce prior year claims development. The natural delay in receipt of reinsurance claims and uneven payments throughout the year caused off-setting unfavorable prior year activity in our captive business.

(Dollars in Thousands)

2018

The Company experienced unfavorable development of prior year claims reserves. Configuration issues in the initial coding of Ohio Medicaid's 2017 adoption of Enhanced All Patient Grouper for outpatient claims caused significant claim reprocessing early in 2018. A re-evaluation of standard Medicaid edits for CS and CSRE implemented in 2016 and 2017 caused by provider appeals resulted in subsequent unfavorable claims adjustments. Prior year claims were adjusted as we developed our policies in newly implemented CSIN and CSGA Medicaid programs, which affected the current year results. The Company also turned their focus to reducing claims inventory and improving processing quality during the year and these efforts caused further unfavorable paid claims development due to payment of claims from 2017 and prior.

The following tables provide information about incurred and paid claims development as of December 31, 2019, as well as cumulative claims frequency and the total of incurred but not paid (IBNP) claims liabilities.

	Cumulative Incurred Claims and Allocated Claims Adjustment Expense			Cumulative Number of
Benefit Year	**2018**	**2019**	**Total IBNP**	**Reported Claims**
2018	$ 9,416,633	$ 9,294,718	$ 11,257	30,557,980
2019		9,810,816	1,043,558	30,698,699
	$ 9,416,633	**$ 19,105,535**	**$ 1,054,815**	

	Cumulative Paid Claims and Allocated Claims Adjustment Expenses	
Benefit Year	**2018**	**2019**
2018	$ 8,610,466	$ 9,365,747
2019		8,953,592
	$ 8,610,466	**$ 18,319,339**

Cumulative claim expense and paid amounts in these tables include incurred amounts prior to 2018, whereas ending IBNP balances do not include these balances in the Company's balance sheets. The following table represents a reconciliation of claims development to the aggregate carrying amount of the liability for unpaid claims:

		2019
Cumulative Incurred Claims and Allocated Claims Adjustment Expenses	$	19,105,535
Cumulative Paid Claims and Allocated Claims Adjustment Expenses		(18,319,339)
Other Activity Prior to 2018		268,619
Unpaid Claims and Claims Adjustment Expenses	**$**	**1,054,815**

The incurred and paid claims development information for the years ended December 31, 2018 and prior is presented as required unaudited supplementary information. The provided claims frequency amounts are not a precise tool for understanding utilization of medical services. Medical services could be impacted by a variety of factors including changes in provider billing practices, provider reimbursement arrangements, mixture of services, benefit design and processing systems. The cumulative number of reported claims has been provided to comply with FASB accounting standards and is not used by management in claims analysis. The cumulative number of reported claims may not be comparable to similar measures reported by other companies as there is no universal claims frequency metric.

Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid claims and claims adjustment expense are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known.

13 LOANS PAYABLE

In accordance with the DCH contract, CSGA is required to maintain an irrevocable letter of credit issued for the benefit of DCH. CSGA secured the letter of credit by way of a hold on cash in the amount of $19,000 and $18,000 as of December 31, 2019 and 2018, respectively.

On July 12, 2017, CSRE was awarded membership in the Federal Home Loan Bank of Cincinnati (FHLB). Between September 7, 2017 and November 14, 2017, CSRE borrowed a total of $150,000 from the FHLB. The loans are each at a fixed rate for a 20 year term with interest rates ranging from 2.64% to 2.93%. The monthly CSRE payment of principal and interest is $813. All loans have a 'make whole' prepayment penalty. The loan is secured by marketable securities pledged by CSRE and held by the FHLB at a ratio of approximately 103% of the outstanding balance. At December 31, 2018, CSRE had pledged collateral of $146,041. FHLB advances require the member to purchase FHLB stock. To meet this requirement CSRE has purchased 35,085 shares of stock. The stock has a par value of $100 dollars. There are no financial covenants related to the FHLB loans payable. In December 2019, CSRE liquidated the assets pledged as collateral and paid in full the remaining balance of the loan. Included in the payoff was a prepayment penalty of $6,551.

On March 27, 2018, CSRH entered into three Credit Tenant Loan (CTL Financing) agreements by mortgaging three properties. The CTL Financing evidenced by three Senior Secured Notes made by CSRH payable to Wells Fargo Bank Northwest, N.A., as Trustee. The Notes were issued and sold to Wells Fargo pursuant to a Note Purchase Agreement between CSRH and Wells Fargo. The notes are for a 26 year term with an effective interest rate of 4.84%. In addition, three separate lease agreements were entered into between CSRH, as landlord, and CSMG, as tenant and rents due serve as collateral for the CTL Financing, in addition to the mortgages. CSRH uses the rents paid by CSMG under the leases to make debt services payments due under the Notes.

(Dollars in Thousands)

On March 18, 2019, the Company closed on an unsecured revolving line of credit facility with Fifth Third Bank. The facility size is $100,000 and the interest rate is one-month LIBOR + 0.9%. The credit agreement is for a term of one year and includes certain covenants, including a leverage ratio requirement and a risk based capital (RBC) requirement of 275% for CS, CSGA, CSIN, and also the aggregate calculation of all statutory subsidiaries of the Company. The Company is obligated to pay a commitment fee calculated on the unused portion. As of March 31, 2019, the Company was in violation of the RBC requirement under this credit agreement. Effective June 11, 2019, the Company executed the first amendment to its line of credit which included a one-time waiver on the RBC requirement for the quarter ended March 31, 2019. This amendment also decreased the CS RBC requirement to 250% for June 30, 2019, and to 260% for September 30, 2019. At December 31, 2019, the Company had no amounts outstanding on the unsecured line of credit. The Company was in compliance with all covenants at December 31, 2019. Effective March 17, 2020, the second amendment to this credit agreement was executed. The second amendment extends the credit agreement for one year and states the RBC requirement for each quarterly the covenant is 250%. The covenant for leverage ratio requirement did not change.

Loans payable at December 31, 2019 consists of the following:

		2019
CTL Loan due to Wells Fargo in 2044, monthly amount due is currently $1,035, escalates annually and includes interest	$	196,161
Total debt	**$**	**196,161**

Total interest paid on the loans payable obligations for 2019 and 2018 was $14,125 and $11,398, respectively.

Following is a summary of payments on all borrowings for each of the next five years from the latest balance sheet:

		Payments
2020	$	3,084
2021		3,365
2022		3,661
2023		3,973
2024		4,301
2025 and Beyond		177,777
Total	**$**	**196,161**

(Dollars in Thousands)

14 STATUTORY REQUIREMENTS

In accordance with the National Association of Insurance Commissioners (NAIC) policies and procedures, each health maintenance organization is required to maintain a statutory surplus identified as risk based capital (RBC). The NAIC allows individual states to modify the necessary RBC requirement limits.

The statutory surplus balances and required RBC ratios for the Company's licensed insurance entities were as follows:

Entity	Surplus as of December 31, 2019	Minimum RBC Requirements	RBC %
CS	$ 842,006	$ 559,316	301%
CSIN	87,736	40,790	430%
CSKY	31,234	14,594	428%
CSWV	10,270	4,373	470%
CSGA	92,197	49,385	373%

Entity	Surplus as of December 31, 2018	Minimum RBC Requirements	RBC %
CS	$ 753,040	$ 545,861	276%
CSIN	73,359	56,127	261%
CSKY	32,219	19,881	324%
CSWV	9,827	5,044	390%
CSGA	79,166	50,017	317%
CSVA	2,009	17	24,314%

All insurance entities are in compliance with this statutory requirement, and no action was required.

Effective December 29, 2014, CSMG signed a guaranty agreement with CSIN, whereby CSMG will provide payment of funds into CSIN in the event the RBC level falls below the prescribed Company Action Level. Effective February 27, 2015, CSMG signed a similar guaranty agreement with CSGA, whereby CSMG will provide payment of funds into CSGA in the event the RBC level falls below the prescribed Company Action Level.

Effective November 7, 2019, the CSMG board of directors granted Management authority to repay any surplus notes, along with interest, or make capital distributions to CSMG as long as resulting RBC is no less than the minimum required in each state and consistent with targets set by CSMG, which is 350% in risk bearing entities. Required regulatory approval is still required. During 2019, CSMG received capital distributions from CSKY of $15,000 and CSIN of $9,720. CSMG did not receive any contributions during 2018.

During 2019, CSMG made a capital distribution to CSRE of $32,500. CSMG did not make any contributions during 2018.

15 LEGAL PROCEEDINGS

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Penalties associated with violations of these laws and regulations include significant fines and penalties, exclusion from participating in publicly funded programs, and the repayment of previously billed and collected revenues.

From time to time, the Company is involved in legal actions in the ordinary course of business, some of which seek monetary damages that are not covered by insurance. The outcome of such legal actions is inherently uncertain. Nevertheless, the Company believes that these actions, when finally concluded and determined, are not likely to have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Supplementary Information

CareSource Management Group Co.

Consolidating Balance Sheet

(Dollars in Thousands)

December 31, 2019

	CareSource Management Group*	Consolidated CareSource**	CareSource Indiana	CareSource Kentucky	CareSource Georgia	CareSource West Virginia	CareSource Reinsurance, LLC	Elimination Adjustments	Consolidated	Prior Year
Assets										
Cash, cash equivalents and restricted cash	$ 133,430	$ 526,819	$ 120,793	$ 31,111	$ 59,963	$ 24,039	$ 13,209	$ –	$ 909,364	$ 765,811
Investments	–	764,274	21,322	–	7,104	–	3,509	–	796,209	1,125,041
Receivables:										
Health care	–	386,790	115,128	39,082	102,783	3,285	18,418	(49,874)	615,612	499,908
Other	11,675	250,576	6,083	135	732	147	1,820	(204)	270,964	193,645
Reinsurance funds withheld	–	–	–	–	–	–	179,914	–	179,914	106,591
Prepaid expenses	23,340	61,373	461	5	1,122	–	12	(19)	86,294	115,571
Other assets	6,836	–	–	–	–	–	250	–	7,086	6,077
Investment in subsidiaries	1,107,987	–	–	–	–	–	–	(1,107,987)	–	–
Property and equipment, net	158,129	–	–	–	–	–	–	–	158,129	154,794
Due from related entities	116,537	–	–	–	–	–	–	(116,537)	–	–
Total assets	$ 1,557,934	$ 1,989,832	$ 263,787	$ 70,333	$ 171,704	$ 27,471	$ 217,132	$ (1,274,621)	$ 3,023,572	$ 2,967,438
Liabilities and net assets										
Liabilities:										
Unpaid claims	$ 10,425	$ 776,970	$ 66,162	$ 23,408	$ 56,018	$ 6,355	$ 143,957	$ (50,078)	$ 1,033,217	$ 1,048,945
Unpaid claims adjustment expense	2,211	15,603	1,557	468	1,593	165	–	–	21,597	25,842
Premium deficiency reserve	–	–	–	–	–	–	–	–	–	14,315
Premiums received in advance	–	13,807	97,761	7,589	14,572	9,422	23,161	–	166,312	141,033
Risk corridor payable	–	–	–	–	–	–	–	–	–	2,722
Accrued and other liabilities	100,186	66,734	11,477	5,233	3,362	1,045	4,542	–	192,579	178,508
Hospital incentive liability	–	18,354	–	–	–	–	–	–	18,354	9,684
Sales and use tax payable	–	100,856	–	2,786	–	–	9,711	–	113,353	92,698
Accounts payable	61,253	32,955	83	–	10	–	–	–	94,301	60,698
Deferred revenues	–	–	–	–	–	–	19	(19)	–	1,624
Loans payable	196,161	–	–	–	–	–	–	–	196,161	342,718
Obligations under capital leases	6,315	–	–	–	–	–	–	–	6,315	–
Due to related entities	–	46,465	938	1,080	61,196	6,592	266	(116,537)	–	–
Total liabilities	376,551	1,071,744	177,978	40,564	136,751	23,579	181,656	(166,634)	1,842,189	1,918,787
Net assets:										
Retained earnings	1,181,383	918,088	85,809	29,769	34,953	3,892	35,476	(1,107,987)	1,181,383	1,049,984
Accumulated other comprehensive loss	–	–	–	–	–	–	–	–	–	(1,333)
Total net assets	1,181,383	918,088	85,809	29,769	34,953	3,892	35,476	(1,107,987)	1,181,383	1,048,651
Total liabilities and net assets	$ 1,557,934	$ 1,989,832	$ 263,787	$ 70,333	$ 171,704	$ 27,471	$ 217,132	$ (1,274,621)	$ 3,023,572	$ 2,967,438

* CareSource Management Group balances include the accounts of CareSource CSMG Foundation, CareSource Life Services, CareSource Network Partners, CareSource at Home, CareSource Virginia, CareSource Real Estate Holdings, and CareSource Management Services. All significant intercompany balances have been eliminated in consolidation.

** Consolidated CareSource balances include the accounts of the CareSource Foundation, a wholly-owned subsidiary of CareSource. All intercompany balances have been eliminated in consolidation.

CareSource Management Group Co.

Consolidating Statement of Operations

(Dollars in Thousands)

Year Ended December 31, 2019

	CareSource Management Group*	Consolidated CareSource **	CareSource Indiana	CareSource Kentucky	CareSource Georgia	CareSource West Virginia	CareSource Reinsurance, LLC	Eliminating Adjustments	Consolidated	Prior Year
Revenues										
Capitation	$ 793	$ 7,587,646	$ 362,834	$ –	$ 671,780	$ –	$ 926,468	$ (52,954)	$ 9,496,567	$ 9,005,407
Delivery	–	131,909	23,197	–	19,573	–	–	–	174,679	230,973
Premiums	–	379,545	253,133	236,599	–	51,978	–	–	921,255	1,186,368
Other	165,115	3,017	1,817	–	1,748	–	–	(163,490)	8,207	929
Total revenues	165,908	8,102,117	640,981	236,599	693,101	51,978	926,468	(216,444)	10,600,708	10,423,677
Expenses										
Medical expenses:										
Inpatient facility	–	1,982,583	148,179	42,325	159,015	13,541	197,499	–	2,543,142	2,756,749
Outpatient facility	–	1,555,091	120,658	48,642	126,062	15,080	167,641	–	2,033,174	2,168,915
Professional	17	2,254,143	138,508	36,421	263,363	7,872	278,077	(345)	2,978,056	2,682,663
Pharmacy	–	1,654,211	108,606	52,810	61,493	6,098	196,228	–	2,079,446	2,059,450
Other medical expenses, net	–	21,101	(5,397)	(3,541)	1,816	448	44,775	(52,616)	6,586	2,071
Total medical expenses	17	7,467,129	510,554	176,657	611,749	43,039	884,220	(52,961)	9,640,404	9,669,848
Administrative expenses:										
Compensation and benefits	450,423	(1,331)	14,472	(294)	(1,069)	(30)	–	204	462,375	407,706
Professional and temporary services	226,877	850	2,431	58	275	42	1,158	–	231,691	203,162
Marketing, advertising, communications, and promotions	13,451	–	350	–	–	–	–	–	13,801	13,932
Building expense	28,650	–	726	–	–	–	–	(12,651)	16,725	16,943
Office operations	57,102	2,189	1,897	1,053	385	136	(20)	–	62,742	63,566
Depreciation and amortization	33,550	–	–	–	–	–	–	–	33,550	37,985
Interest expense	10,471	127	1,910	464	4,023	541	10,232	(6,960)	20,808	11,834
Other	13,864	13,720	17,276	33,911	69,150	7,800	65,344	(163,687)	57,378	64,929
Allocation expense	(659,483)	614,164	45,319	–	–	–	–	–	–	–
Total administrative expenses	174,905	629,719	84,381	35,192	72,764	8,489	76,714	(183,094)	899,070	820,057
Total expenses	174,922	8,096,848	594,935	211,849	684,513	51,528	960,934	(236,055)	10,539,474	10,489,905
Net investment income and realized gains:										
Net investment income (loss)	1,800	48,197	737	469	867	385	7,427	(43)	59,839	12,935
Net realized (loss) gain	(1)	15,991	–	–	42	–	851	–	16,883	18,102
Total net investment income and realized gains	1,799	64,188	737	469	909	385	8,278	(43)	76,722	31,037
Interest in earnings (losses) of subsidiaries	119,720	–	–	–	–	–	–	(119,720)	–	–
Other income (loss)	19,937	(5,961)	–	–	–	–	121	(19,611)	(5,514)	1,892
Income (loss) before taxes	132,442	63,496	46,783	25,219	9,497	835	(26,067)	(119,763)	132,442	(33,299)
Tax benefit (expense)	290	–	–	–	–	–	–	–	290	(290)
Net income (loss)	$ 132,732	$ 63,496	$ 46,783	$ 25,219	$ 9,497	$ 835	$ (26,067)	$ (119,763)	$ 132,732	$ (33,589)

* CareSource Management Group balances include the accounts of CareSource CSMG Foundation, CareSource Life Services, CareSource Network Partners, CareSource at Home, CareSource Virginia, CareSource Real Estate Holdings, and CareSource Management Services. All intercompany balances have been eliminated in consolidation.

** Consolidated CareSource balances include the accounts of the CareSource Foundation, a wholly-owned subsidiary of CareSource. All significant intercompany balances have been eliminated in consolidation.