Consolidated Financial Statements and Supplementary Information

CareSource

Years Ended December 31, 2020 and 2019
With Reports of Independent Auditors

CareSource

Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

CONTENTS

Building a better working world

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Report of Independent Auditors

The Board of Trustees
CareSource

We have audited the accompanying consolidated financial statements of CareSource, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive income, 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 of America. 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 at December 31, 2020 and 2019, 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, net of reinsurance for the year ended December 31, 2019 on pages 33 - 35 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, 2020 and consolidating statement of operations for the year ended December 31, 2020 is presented for purposes of additional analysis and is 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 audits 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 of America. 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 25, 2021

CareSource

Consolidated Balance Sheets

(Dollars in Thousands)

	December 31 2020	December 31 2019
Assets		
Cash, cash equivalents and restricted cash	**$ 2,189,087**	$ 909,364
Investments:		
Held-to-maturity debt securities	**524,335**	693,756
Equity securities	**120,296**	102,453
Receivables:		
Health care	**719,226**	615,612
Other	**92,461**	270,964
Reinsurance funds withheld	**108,244**	179,914
Prepaid expenses	**52,752**	86,294
Other assets	**7,614**	7,086
Property and equipment, net	**157,601**	158,129
Total assets	**$ 3,971,616**	$ 3,023,572
Liabilities and net assets		
Liabilities:		
Unpaid claims	**$ 1,087,032**	$ 1,033,217
Unpaid claims adjustment expense	**24,959**	21,597
Premiums received in advance	**227,466**	166,312
Accrued and other liabilities	**448,493**	192,579
Health care policy reserves	**192,917**	–
Hospital incentive liability	**30,090**	18,354
Sales and use tax payable	**113,269**	113,353
Accounts payable	**69,503**	94,301
Loans payable	**288,077**	196,161
Obligations under capital leases	**4,934**	6,315
Total liabilities	**2,486,740**	1,842,189
Net assets:		
Retained earnings	**1,484,876**	1,181,383
Total net assets	**1,484,876**	1,181,383
Total liabilities and net assets	**$ 3,971,616**	$ 3,023,572

See accompanying notes.

CareSource

Consolidated Statements of Operations and Comprehensive Income

(Dollars in Thousands)

	Year Ended December 31 2020	2019
Revenues		
Capitation	**$ 9,901,859**	$ 9,496,567
Delivery	**238,633**	174,679
Premium	**1,048,960**	921,255
Other	**2,032**	8,207
Total revenues	**11,191,484**	10,600,708
Expenses		
Medical expenses:		
Inpatient facility	**2,350,405**	2,543,142
Outpatient facility	**2,527,028**	2,033,174
Professional	**2,838,122**	2,978,056
Pharmacy	**2,110,304**	2,079,446
Other medical expenses, net	**(778)**	6,586
Total medical expenses	**9,825,081**	9,640,404
Administrative expenses:		
Compensation and benefits	**550,596**	462,375
Professional and temporary services	**334,898**	231,691
Marketing, advertising, communications, and promotions	**33,388**	13,801
Building expense	**16,077**	16,725
Office operations	**64,215**	62,742
Depreciation and amortization	**29,165**	33,550
Interest expense	**11,546**	20,808
Other	**57,535**	57,378
Total administrative expenses	**1,097,420**	899,070
Total expenses	**10,922,501**	10,539,474
Net investment income and realized gains		
Net investment income	**37,419**	59,839
Net realized gains	**1,115**	16,883
Total net investment income and realized gains	**38,534**	76,722
Other loss	**(4,021)**	(5,514)
Income before taxes	**303,496**	132,442
Tax (expense) benefit	**(3)**	290
Net and comprehensive income	**$ 303,493**	$ 132,732

See accompanying notes.

CareSource

Consolidated Statements of Changes in Net Assets

(Dollars in Thousands)

	Retained Earnings	Total Net Assets
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
Net income	**303,493**	**303,493**
Balance at December 31, 2020	**$ 1,484,876**	**$ 1,484,876**

See accompanying notes.

CareSource

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31	
	2020	**2019**
Operating activities		
Net income	**$ 303,493**	$ 132,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**29,165**	33,550
Amortization of held-to-maturity investments	**3,652**	6,074
Loss on asset disposals	**49**	23
Realized gain on investments	**(1,115)**	(16,883)
Unrealized gain on investments	**(9,746)**	(15,568)
Proceeds from equity securities	**13,689**	119,879
Purchase of equity securities	**(21,977)**	(8,855)
Changes in assets and liabilities:		
Decrease (increase) in health care receivables	**(103,614)**	(115,704)
Decrease (increase) in reinsurance funds withheld	**71,670**	(73,323)
Increase in other receivables	**178,503**	(77,319)
Decrease in prepaid expenses	**33,542**	29,277
Increase in other assets	**(528)**	(1,009)
Increase (decrease) in unpaid claims	**53,815**	(15,728)
Increase (decrease) in unpaid claims adjustment expense	**3,362**	(4,245)
Increase (decrease) in premium deficiency reserve	**–**	(14,315)
Increase in premiums received in advance	**61,154**	25,279
Increase (decrease) in risk corridor payable	**–**	(2,722)
Increase in accrued and other liabilities	**255,914**	14,071
Increase in health care policy reserves	**192,917**	–
Increase in hospital incentive liability	**11,736**	8,670
(Decrease) increase in sales and use tax payable	**(84)**	20,655
(Decrease) increase in accounts payable	**(24,798)**	33,603
Increase (decrease) in deferred revenues	**–**	(1,624)
Net cash provided by operating activities	**1,050,799**	76,518
Investing activities		
Proceeds from maturities/redemption of held-to-maturity securities	**329,484**	361,629
Purchase of held-to-maturity securities	**(162,409)**	(117,444)
Purchases of property and equipment	**(28,686)**	(29,435)
Net cash provided by investing activities	**138,389**	214,750
Financing activities		
Proceeds under loans	**100,000**	–
Payments under loans	**(8,084)**	(140,006)
Proceeds on line of credit	**–**	190,000
Payments on line of credit	**–**	(190,000)
Loan prepayment penalty	**–**	(6,551)
Payments on capital leases	**(1,381)**	(1,158)
Net cash provided (used in) by financing activities	**90,535**	(147,715)
Net increase in cash, cash equivalents and restricted cash	**1,279,723**	143,553
Cash, cash equivalents and restricted cash at beginning of year	**909,364**	765,811
Cash, cash equivalents and restricted cash at end of year	**$ 2,189,087**	$ 909,364
Interest paid on debt	**$ 11,404**	$ 14,125
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 (the Company or CS), formerly known as CareSource Management Group, 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 for all not-for-profit, tax exempt affiliates. The Company is a licensed third-party administrator (TPA) in the states of Ohio, Illinois, Michigan and Kentucky. The Company is the sole member of CareSource Ohio (CSOH), CareSource Indiana (CSIN), CareSource Kentucky (CSKY), CareSource Georgia (CSGA), CareSource West Virginia (CSWV), CareSource Life Services (CSLS), CareSource Network Partners (CSNP), CareSource at Home (CSAH), CareSource Reinsurance (CSRE), CareSource Virginia (CSVA), CareSource Real Estate Holdings (CSRH), CareSource Foundation (CSF) and CareSource Holding (CSH). CSH is the sole member of CareSource Management Services Holding (CSMSH) and CareSource Arkansas Health Plan (CSAR). CSMSH is the sole member of CareSource RX Innovations (CSRX), CareSource Management Services (CSMS), CareSource Oklahoma Holding (CSOKH), and Kids CareAlliance (KCA). CSOKH is the sole member of CareSource Oklahoma Health Plan (CSOK). CSOH, CSIN, CSKY, CSGA, CSLS, CSWV, and CSF are not-for-profit, tax-exempt organizations. CSRE, CSNP, CSAH, CSRH, CSMS, CSH, CSMSH, CSRX and CSOKH are single member limited liability companies that are disregarded for federal income tax purposes. CSAR, KCA and CSOK are for-profit corporations. CSVA is a not-for-profit corporation that is taxed as a for profit corporation for federal income tax purposes.

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.

Effective July 1, 2020 the CareSource Foundation, formerly a subsidiary of CSOH and the CareSource Management Group Foundation were merged to form the CSF, a subsidiary of CS.

During 2020 the Company established CSH, CSAR, CSMSH, CSRX, CSOKH, CSOK and KCA to support business development.

1.2 BASIS OF PRESENTATION

The accompanying consolidated financial statements of the Company have been prepared in accordance generally accepted accounting principles (GAAP) in the United States. The consolidated financial statements include the financial statements of the Company, CSH, CSAR, CSMSH, CSMS, CSRX, KCA, CSOKH, CSOK, CSLS, CSNP, CSAH, CSRH, CSF, CSOH, CSIN, CSRE, CSKY, CSGA, CSWV and CSVA. 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 $30,450 and $23,950 as of December 31, 2020 and 2019 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 $30,041and $57,463 as of December 31, 2020 and 2019, respectively, in provider advances outstanding from CSOH. Effective July 1, 2018, behavioral health was carved in to the benefit coverage for CSOH Medicaid members. The Ohio Department of Medicaid (ODM) required CSOH to issue advanced payments to certain behavioral health providers in order to ease the transition from fee for service to managed care. CSOH expects to recover the majority of these advances by 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 Centers for Medicare & Medicaid Services (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.

Premium amounts associated with the Health Insurance Exchange (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 CSOH, CSIN, CSGA, CSKY, and CSWV and a TPA for prescription drugs, as well as agreements with pharmaceutical manufacturers, and consists of estimated and billed amounts.

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 $2,737 and $54,414 as of December 31, 2020 and 2019, respectively. The 2019 balance included an allowance related to the HIX temporary risk corridor program for years 2015 and 2016, which was paid in 2020.

1.9 PAY FOR PERFORMANCE REVENUE

The Company has contracts with the ODM and the Indiana Family and Social Services Administration to receive incremental revenue based on certain performance measures. For the years ending December 31, 2020 and 2019, the ODM Quality Withhold Program withheld 3% and 2%, respectively, from monthly Medicaid premiums that can be earned back if certain performance measures are met. Under the MyCare Ohio program, 3% of total Medicaid revenues for both years ending December 31, 2020 and 2019 and 4% and 3% of total Medicare premium revenues for years ended December 31, 2020 and 2019, respectively are withheld to be repaid retrospectively. CSIN can earn 1.77% and 2.05% 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 $280,330 and $147,573 are included in capitation revenues on the consolidated statements of operations for the years ended December 31, 2020 and 2019, respectively, the period during which the performance measures were met. Uncollected performance based receivables, net of unpaid performance penalties, of $271,331 and $162,972 are recorded at December 31, 2020 and 2019, respectively. At December 31, 2020, this balance is included in health care receivables in the accompanying consolidated balance sheets. At December 31, 2019, funds due from the States of Ohio and Indiana for performance on quality improvement initiatives as part of the Pay for Performance programs were included in other receivables in the accompanying consolidated balance sheets.

1.10 PREMIUM TAXES AND ENHANCED PROVIDER FEES

Taxes based on revenues are paid by various health care plans. Beginning in July 2017, the State of Ohio requires a per member per month franchise fee on Medicaid and non-Medicaid revenues. CSOH 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, 2020 and 2019, the Company incurred premium and franchise fee taxes of $528,504 and $483,788, 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 2020 and 2019 was $81,268 and $85,642, 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 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.

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 $6,755 and $7,367 for the years ended December 31, 2020 and 2019, respectively. Total program expenses were $7,532 and $6,359 for the years ended December 31, 2020 and 2019, 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 CSOH 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 $154,797 and $93,508 for the years ended December 31, 2020 and 2019. Total program expenses were $144,977 and $85,372 for the years ended December 31, 2020 and 2019. The CICIP payments included in the capitation rates are anticipated to be updated annually, with the option for mid-year amendments.

Effective January 1, 2020, ODM implemented a new tiered supplemental dispensing fee for high Medicaid volume retail pharmacies in the state of Ohio. The program's duration is January 1, 2020 through June 30, 2021. Total funding received was $34,870 for the year ended December 31, 2020. Total program expenses were $23,805 for the year ended December 31, 2020.

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 CSOH, 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. CSOH, CSGA, CSIN, CSKY, CSWV and CSRE made reinsurance premium payments of $131,618 and $66,485 for the years ended December 31, 2020 and 2019, respectively, of which $117,765 and $52,609, 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 $117,524 and $75,001 are included as a reduction to medical expenses in the consolidated statements of operations for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, premium deficiency reserves of $0 and $0 were recorded, respectively.

1.14 INCOME TAXES

Primarily all active organizations of the consolidated group are recognized as exempt from federal income tax under Section 501(a) of the Internal Revenue Code as tax-exempt charitable organizations described in Internal Revenue Code Section 501(c)(3), including CS, CSOH, CSIN,CSKY, CSGA, CSWV, CSLS and CSF. CSRE, CSAH, CSNP, CSRH, CSMS, CSH, CSMSH, CSRX and CSOKH are single member limited liability companies and are thus disregarded for federal income tax purposes. CSAR, KCA and CSOK are for-profit corporations. CSVA is a non-profit taxable as a corporation for federal income tax purposes. The Company has determined that the activities of CSRE further the charitable purpose of CS 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 2017-2019 are open for audit by the Internal Revenue Service (IRS).

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The CARES Act, among other things, includes provisions relating to refundable payroll tax credits and deferral of employer social security tax payments, under sections 2302(a)(1) and (a)(2) of the CARES Act, the Company elected to defer $11,272 of the Company's share of Social Security tax due during the payroll tax deferral period of March 27, 2020 to December 31, 2020, which will be paid in two equal installments due by December 31, 2021 and December 31, 2022.

1.15 RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument*s (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. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. 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 May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief*. In November 2019, the FASB issued ASU No. 2019-11, *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. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)-Effective Dates*. This ASU delayed the effective date of ASU 2016-13 for private companies until fiscal years beginning after December 15, 2022, which for the Company would be January 1, 2023, with early adoption permitted. 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.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). 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 to ASU No. 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, 2022. The Company is currently evaluating the effects the adoption of ASU 2019-01 will have on our consolidated financial statements.

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.

On August 29, 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Cost Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This guidance amends ASC Topic 350-40 *Internal-Use Software*, to address a customer's accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. ASU 2018-15 aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Specifically, the ASU amends ASC 350 to include in its scope implementation costs of a CCA that is a service contract and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in a CCA that is considered a service contract. The guidance is effective for reporting periods beginning after December 15, 2021. The Company is currently evaluating the effects the adoption of ASU 2018-15 will have on our consolidated financial statements.

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.

Management has evaluated subsequent events through the issuance of these consolidated financial statements on March 25, 2021, 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, 2020	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governments	$ 10,395	$ 667	$ -	$ 11,062
Corporate bonds	309,561	18,967	-	328,528
Mortgage and other loan-backed securities	204,379	3,860	(40)	208,199
Total debt securities	$ 524,335	$ 23,494	$ (40)	$ 547,789

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

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. CSOH had a cash deposit of $3,500 as of December 31, 2020 and 2019, to meet the State of Ohio requirement. CSIN had a Money Market Fund in the amount of $500 as of December 31, 2020 and 2019, to meet the Indiana requirement. CSRE maintained $250 in a cash account in 2020 and 2019 to meet the Montana capital requirement. CSWV and CSGA each had a Money Market Fund in the amount of $100 as of December 31, 2020 and 2019, to meet the state requirements, respectively. CSKY had a cash deposit in the amount of $500 as of December 31, 2020 and 2019 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, 2020	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Held-to-maturity securities: Corporate bonds	$ -	$ -	$ -	$ -	$ -	$ -
Held-to-maturity securities: Mortgage and other loan-backed securities	3,310	(40)	-	-	3,310	(40)
Total	$ 3,310	$ (40)	$ -	$ -	$ 3,310	$ (40)

	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)

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

(Dollars in Thousands)

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.

The Company periodically holds investments that are impaired for which other-than-temporary impairments are recognized. There was no impairment in December 31, 2020 or 2019, 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, 2020, by contractual maturity, was as follows:

	Amortized Cost	Fair Value
One year or less	$ 78,359	$ 79,371
After 1 year through 5 years	224,140	240,157
After 5 years through 10 years	17,457	20,062
After 10 years	-	-
Mortgage and other loan-backed securities	204,379	208,199
Total	**$ 524,335**	**$ 547,789**

Proceeds from maturities/redemptions in held-to-maturity debt securities during 2020 and 2019 were $329,484 and $361,629, respectively. Realized gains on the maturities/redemptions of held-to-maturity debt securities were $1,313 and $1,134 in 2020 and 2019, respectively. Realized losses on the calls of held-to-maturity debt securities were $8 and $15 in 2020 and 2019, 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.

Proceeds from sales of investments in equity securities during 2020 and 2019 were $13,689 and $119,879, respectively. Realized gains on the sale of equity securities during 2020 and 2019 were $2,000 and $17,514, respectively. Realized losses on sale of equity securities during 2020 and 2019 were $1,809 and $1,750, respectively.

Interest income due and accrued was $3,597 and $6,087 at December 31, 2020 and 2019, respectively.

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

		2020		2019
Net unrealized gains (losses) recognized during the year on trading securities	**$**	10,558	$	31,841
Unrealized gains (losses) recognized during the year on trading securities held during the reporting period		9,778		16,077

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.

CS'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 CS'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, 2020 are outlined below:

2020				
	Assets Measured	**Fair Value Hierarchy Level**		
Assets	**at Fair Value**	**Level 1**	**Level 2**	**Level 3**
Equity securities:				
Common Stocks	$ 4,144	$ -	$ -	$ 4,144
Small cap	33,097	33,097	-	-
Mid cap	21,810	21,810	-	-
Large cap	33,183	33,183	-	-
International	28,063	28,063	-	-
Total equity securities	**120,296**	**116,152**	**-**	**4,144**
Cash and cash equivalents	2,189,087	2,189,087	-	-
Total assets	**$ 2,309,383**	**$ 2,305,239**	**$ -**	**$ 4,144**

(Dollars in Thousands)

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**

The Company had no liabilities measured at fair value on a recurring basis as of December 31, 2020 or 2019. The Company did not have any assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2020 or 2019.

Level 3 assets sold during 2020 and 2019 were $125 and $0, respectively. Level 3 assets purchased during 2020 and 2019 were $0 and $384, respectively. There have been no gain or losses, issues, settlements, or transfers in and (or) out of Level 3.

There were no transfers between any levels during 2020 and 2019.

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

2020					
	Booked/ Adjusted Carrying Value	**Fair Value**	**Fair Value Hierarchy Level**		
			Level 1	**Level 2**	**Level 3**
Assets					
Bonds	$ 524,335	$ 547,789	$ -	$ 547,789	$ -
Equity securities	120,296	120,296	116,152	-	4,144
Cash and cash equivalents	2,189,087	2,189,087	2,189,087	-	-

(Dollars in Thousands)

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)

4 PROPERTY AND EQUIPMENT, NET

Property and equipment at December 31, 2020 and 2019 is comprised as follows:

	2020	2019
Building	$ 110,946	$ 109,724
Equipment under Capital Lease	23,447	24,130
Computer Software	139,471	117,116
Computer Hardware	35,476	32,517
Land	3,513	3,513
Furniture and Fixtures	5,128	4,900
Work-in-process	14,037	14,981
Leasehold Improvements	9,630	9,333
Office Equipment	4,137	3,513
Total	**345,785**	**319,727**
Less Accumulated Depreciation and Amortization	(188,184)	(161,598)
Property and Equipment - Net	**$ 157,601**	**$ 158,129**

Depreciation and amortization expense was $29,165 and $33,550 in 2020 and 2019, respectively. The loss recognized upon disposal of fixed assets was $49 and $23 in 2020 and 2019, 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:		
2021	$	5,582
2022		4,852
2023		3,089
2024		2,269
2025		685
2026 and Beyond		666
Total	**$**	**17,143**

Lease expense related to the Company's operating lease obligations was $6,972 and $6,755 in 2020 and 2019, respectively.

Capital Leases		
Due in:		
2021	$	1,831
2022		1,730
2023		1,394
2024		377
Total future minimum lease payments, including interest		**5,332**
Imputed interest		(398)
Present value of future minimum lease payments	**$**	**4,934**

5.2 CONTRACTUAL OBLIGATIONS

In June 2020, the Company entered into an agreement with an investor to issue $400,000 of preferred units of CSMSH over a three year period beginning when issued. As of December 31, 2020, no preferred units have been issued and sold to the investor and 100% of the outstanding common units are owned by CSMSH. The issuance is expected to occur in 2021.

6 ADMINISTRATIVE SERVICES ONLY AGREEMENTS

CSOH 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 $31,195 and $28,222 and general and administrative expenses of $29,206 and $25,885 during 2020 and 2019, respectively, are included within the statements of operations.

As part of the MyCare demonstration, and in conjunction with the Company's Medicare Advantage plan and Dual Special Needs Program, 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 $88,958 and $88,344 during 2020 and 2019, respectively, and made subsidy and discount payments of $117,259 and $120,225, respectively. The Company recorded a receivable from CMS of $28,301 and $31,881 as of December 31, 2020 and 2019, 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 payable to CMS of $92,144 and receivable of $41,629 as of December 31, 2020 and 2019, 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 2020 and 2019 of $17,052 and $23,439, respectively, related to the settlement of prior year risk adjustment liabilities, due to the differences between the estimates accrued and final settlements from CMS.

ACA Section 9010 imposed a mandatory annual fee on health insurers that write certain types of health insurance on U.S. risks for each calendar year beginning on or after January 1, 2014. The annual fee is allocated to health insurers based on the ratio of the amount of an insurer’s premium written during the preceding calendar year to the amount of health insurance for all U.S. health risk for those certain lines of business that were written during the preceding calendar year. This fee is non-deductible for income tax purposes. The health insurer fee is reported in operating expenses in the same year it is paid. The health insurer fee to be paid in the following year is segregated in special surplus funds until the beginning of the year in which it is to be paid. The health insurer fee was suspended for 2019 and has resumed for 2020. The health insurer fee has been permanently eliminated beginning in 2021. The Company's portion of the annual health insurance industry fee paid during 2020 was $8,555 and is included in other administrative 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 $16,409 and $14,470 in 2020 and 2019, respectively.

In connection with the terms of deferred compensation agreements in place between CS, CSMS, and certain senior executives, expense of $14,253 and $2,687 was recorded in 2020 and 2019, respectively. The ending balance of accruals related to senior executive deferred compensation agreements was $24,099 and $10,326 at December 31, 2020 and 2019, respectively, of which $5,824 and $5,987 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 $5,450 and $4,223 at December 31, 2020 and 2019, 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 $38,447 and $37,898 in 2020 and 2019, respectively.

10 RELATED PARTY TRANSACTIONS

David Kaelber was a member of the CSOH Board through June 25, 2020. Mr. Kaelber is the Chief Medical Informatics Officer of The Metrohealth System Case Western Reserve University. The Metrohealth Corporation is a provider to CSOH. CSOH paid $254,139 and $211,379 to The Metrohealth Corporation for services provided in 2020 and 2019, respectively.

Gary L LeRoy MD was a member of the CSOH Board through June 25, 2020, and a practicing physician at the Community Health Centers of Greater Dayton. Community Health Centers is a provider to CSOH. CSOH paid Community Health Centers $1,368 and $1,605 for services provided in 2020 and 2019, respectively.

William F Marsteller was the Secretary/Treasurer of CSOH through June 25, 2020. Mr. Marsteller is a provider for Centerville Chiropractic, and CSOH made payments totaling $9 and $10 to Mr. Marsteller in 2020 and 2019, respectively.

11 SIGNIFICANT PROVIDERS

CSOH 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 CSOH members. Under this agreement, the Company pays PFK a capitated premium in exchange for PFK assuming the risk of loss for covered medical expenses incurred by pediatric members and are enrolled in specific Ohio counties. In connection with this contract, CSOH pays medical claims billed by providers for PFK members and is later reimbursed by PFK through offsetting of amounts due to PFK for capitation. CSOH 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 account from PFK's financial institution in the amount of the unpaid claims and unpaid claims adjustment expense. As of December 31, 2020 and 2019, CSOH included in its unpaid claims a liability of $49,184 and $27,017, respectively. A corresponding receivable of $49,184 and $27,017 is included in health care and other amounts receivable at December 31, 2020 and 2019, respectively.

During 2020 and 2019, PFK was paid $625,347 and $515,751, respectively, for services rendered prior to chargebacks of $367,628 and $326,997, respectively. Chargebacks resulted from CSOH directly paying certain non-PFK providers under the contract. The CSOH membership capitated to the provider constituted approximately 14% and 13% of total CSOH membership in 2020 and 2019.

As of December 31, 2020 and 2019, CSOH recorded a capitation chargeback receivable from PFK of $93,780 and $31,394, respectively. This balance represents medical expenses charged to, and paid directly by, CSOH 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:

	2020	2019
Balance January 1	**$ 1,054,815**	$ 1,074,787
Incurred Related to:		
Current Year	**9,823,276**	9,810,816
Prior Years	**43,150**	(121,915)
Total Incurred	**9,866,427**	9,688,901
Paid Related to:		
Current Year	**(8,957,277)**	(8,953,592)
Prior Years	**(851,973)**	(755,281)
Total Paid	**(9,809,250)**	(9,708,873)
Balance as of December 31	**$** 1,111,992	$ 1,054,815

Incurred claims expense for self-insurance of $38,447 and $38,239 for the years ended December 31, 2020 and 2019, respectively, are included in compensation and benefits on the consolidated statements of operations.

Included in the table above was $27,932 and $44,130 as of December 31, 2020 and 2019, respectively, related to medical incentive pool expenses.

2020

The change in prior year incurred claims was the result of ongoing analysis of recent loss development trends. During 2020 original estimates were revised, as additional information became known regarding individual claims. The Company experienced unfavorable development of prior year claims reserves. This experience is primarily attributable to actual medical cost experience that differs from that assumed at the time the liability was established. The Company has considered the emerging experience in the development of current estimates.

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.

(Dollars in Thousands)

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.

The following tables provide information about incurred and paid claims development as of December 31, 2020, 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	**2019**	**2020**	**Total IBNP**	**Reported Claims**
2019	$ 9,901,093	$ 9,945,296	$ 28,470	30,557,980
2020		9,823,276	1,083,522	30,698,699
	$ 9,901,093	**$ 19,768,572**	**$ 1,111,992**	

	Cumulative Paid Claims and Allocated Claims Adjustment Expenses	
Benefit Year	**2019**	**2020**
2019	$ 9,036,403	$ 9,875,378
2020		8,957,277
	$ 9,036,403	**$ 18,832,655**

Cumulative claim expense and paid amounts in these tables include incurred amounts prior to 2019, 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:

		2020
Cumulative Incurred Claims and Allocated Claims Adjustment Expenses	$	19,768,573
Cumulative Paid Claims and Allocated Claims Adjustment Expenses		(18,832,655)
Health Care Receivable and Other Activity Prior to 2019		176,074
Unpaid Claims and Claims Adjustment Expenses	**$**	**1,111,992**

The incurred and paid claims development information for the years ended December 31, 2019 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 $25,500 and $19,000 as of December 31, 2020 and 2019, 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%. 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 for the year ended December 31, 2019.

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 (Notes) made by CSRH payable to Wells Fargo Bank Northwest, N.A. (Wells Fargo), 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 CS, as tenant and rents due serve as collateral for the CTL Financing, in addition to the buildings. CSRH uses the rents paid by CS under the leases to make debt services payments due under the Notes.

On March 18, 2019, the Company entered into a credit agreement (Prior Credit Agreement) with Fifth Third Bank. The Prior Credit Agreement consisted of a revolving bank line of credit (Prior Revolver) totaling $100,000. The interest rate is one-month London Interbank Offered Rate (LIBOR) plus 0.9%. The Prior Credit Agreement expired on March 19, 2019. The Prior Credit Agreement contained covenants related to a leverage ratio requirement and a risk based capital (RBC) requirement of 275% for CSOH, CSGA, CSIN, and also the aggregate calculation of all statutory subsidiaries of the Company. The Company was 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 the Prior Credit Agreement. Effective June 11, 2019, the Company executed the first amendment to the Prior Credit Agreement which included a one-time waiver on the RBC requirement for the quarter ended March 31, 2019. The first amendment to the Prior Credit Agreement also decreased the CSOH 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 Prior Revolver. The Company was in compliance with all covenants at December 31, 2019. Effective March 17, 2020, the second amendment to the Prior Credit Agreement was executed. The second amendment to the Prior Credit Agreement extended the maturity of the Prior Credit Agreement for one year and amended to covenants related to the risk based capital (RBC) requirement of 250% for the aggregate calculation of all statutory subsidiaries of the Company.

(Dollars in Thousands)

The covenant for the leverage ratio requirement did not change. The Prior Credit Agreement was terminated on June 26, 2020.

On June 26, 2020, the Company entered into an amended and restated credit agreement (Credit Agreement) with Fifth Third Bank for a 364 day unsecured revolving line of credit facility (Revolver) and a three and one-half year term loan (Term Loan). The Credit Agreement consists of a Revolver totaling $50,000 and the Term Loan with a principal of $100,000. The Company is obligated to pay a commitment fee of 0.15% calculated on the unused portion of the Revolver. At December 31, 2020, the Company's outstanding balance on the Term Loan was $95,000 and there was no balance outstanding on the Revolver. The Credit Agreement includes certain covenants, including a leverage ratio requirement, a risk based capital (RBC) requirement of 250% for CSOH, CSGA, CSIN, and also the aggregate calculation of all statutory subsidiaries of the Company, and a fixed charge coverage ratio. The Company was in compliance with all covenants at December 31, 2020. Minimum principal payments on the Term Loan are $2,500, paid quarterly. The interest rate on the term loan and any revolver loans is based on LIBOR, with a 0.5% LIBOR floor, plus a leverage-based spread.

Loans payable at December 31, 2020 consists of the following:

		2020
CTL Loan due to Wells Fargo in 2044, monthly amount due is currently $1,045, escalates annually and includes interest	$	193,077
Term Loan due to Fifth Third in 2023, quarterly amount due is $2,500 excluding interest		95,000
Total debt	**$**	**288,077**

Total interest paid on the loans payable obligations for 2020 and 2019 was $11,404 and $14,125, respectively.

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

		Payments
2021	$	13,365
2022		13,661
2023		78,973
2024		4,301
2025		4,648
2026 and Beyond		173,129
Total	**$**	**288,077**

(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, 2020	Company Action Level	RBC %
CSOH	$ 1,059,828	$ 611,934	346%
CSIN	81,521	49,877	327%
CSKY	30,125	16,276	370%
CSWV	9,853	4,511	437%
CSGA	108,094	61,432	352%

Entity	Surplus as of December 31, 2019	Company Action Level	RBC %
CSOH	$ 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%

The company action level is 200 percent of the authorized control level required by the NAIC in calculating the RBC percentage. All insurance entities are in compliance with this statutory requirement, and no action was required.

Effective December 29, 2014, CS signed a guaranty agreement with CSIN, whereby CS will provide payment of funds into CSIN in the event the RBC level falls below the prescribed Company Action Level. Effective February 27, 2015, CS signed a similar guaranty agreement with CSGA, whereby CS 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 CS board of directors granted Management authority to repay any surplus notes, along with interest, or make capital distributions to CS as long as resulting RBC is no less than the minimum required in each state and consistent with targets set by CS, which is 350% in risk bearing entities. Required regulatory approval is still required. During 2020, CS received capital distributions from CSIN of $30,000 and CSKY of $10,000. During 2019, CS received capital distributions from CSKY of $15,000 and CSIN of $9,720.

During 2019, CS made a capital distribution to CSRE of $32,500. CS did not make any contributions during 2020.

15 RISKS AND UNCERTAINTIES

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.

The spread of the COVID-19 virus caused financial market volatility, economic uncertainty, and interruptions to normal business activities during 2020. The ultimate impact to the Company is unknown, but management expects possible impacts to claim and premium activity, investment values, as well as possible impacts to liquidity.

Supplementary Information

CareSource

Consolidating Balance Sheet
(Dollars in Thousands)

December 31, 2020

	CareSource*	CareSource Ohio	CareSource Management Services	CareSource Indiana	CareSource Kentucky	CareSource Georgia	CareSource West Virginia	CareSource Reinsurance, LLC	Elimination Adjustments	Consolidated	Prior Year
Assets											
Cash, cash equivalents and restricted cash	$ 244,923	$ 1,211,529	$ 187,635	$ 273,200	$ 59,894	$ 167,345	$ 22,231	$ 22,330	$ –	$ 2,189,087	$ 909,364
Investments	351	617,868	–	12,237	4,810	4,056	1,925	3,384	–	644,631	796,209
Receivables:											
Health care	230	579,043	–	41,366	12,619	153,388	2,209	4,278	(73,907)	719,226	615,612
Other	2,157	85,610	4,820	82	(50)	15	3	39	(215)	92,461	270,964
Reinsurance funds withheld	–	–	–	–	–	–	–	108,244	–	108,244	179,914
Prepaid expenses	1,171	24,329	26,446	669	132	1,063	–	9	(1,067)	52,752	86,294
Other assets	7,471	–	133	–	–	–	–	10	–	7,614	7,086
Investment in subsidiaries	1,336,934	–	–	–	–	–	–	–	(1,336,934)	–	–
Property and equipment, net	104,854	–	52,747	–	–	–	–	–	–	157,601	158,129
Due from related entities	92,847	–	20,691	–	–	–	–	–	(113,538)	–	–
Total assets	$ 1,790,938	$ 2,518,379	$ 292,472	$ 327,554	$ 77,405	$ 325,867	$ 26,368	$ 138,294	$ (1,525,661)	$ 3,971,616	$ 3,023,572
Liabilities and net assets											
Liabilities:											
Unpaid claims	$ 7,101	$ 830,396	$ 5,450	$ 91,481	$ 28,700	$ 107,389	$ 6,541	$ 84,096	$ (74,122)	$ 1,087,032	$ 1,033,217
Unpaid claims adjustment expense	67	19,392	–	2,189	554	2,582	175	–	–	24,959	21,597
Premiums received in advance	–	48,198	–	111,848	6,831	59,659	930	–	–	227,466	166,312
Accrued and other liabilities	9,336	273,166	154,205	3,871	2,881	3,605	480	949	–	448,493	192,579
Health care policy reserves	–	107,049	–	34,470	1,406	41,624	8,368	–	–	192,917	–
Hospital incentive liability	–	30,090	–	–	–	–	–	–	–	30,090	18,354
Sales and use tax payable	–	106,634	35	–	5,339	812	–	449	–	113,269	113,353
Accounts payable	414	994	67,999	45	–	51	–	–	–	69,503	94,301
Deferred revenues	1,067	–	–	–	–	–	–	–	(1,067)	–	–
Loans payable	288,077	–	–	–	–	–	–	–	–	288,077	196,161
Obligations under capital leases	–	–	4,934	–	–	–	–	–	–	4,934	6,315
Due to related entities	–	18,584	–	21,638	1,438	64,863	6,799	216	(113,538)	–	–
Total liabilities	306,062	1,434,503	232,623	265,542	47,149	280,585	23,293	85,710	(188,727)	2,486,740	1,842,189
Net assets:											
Retained earnings	1,484,876	1,083,876	59,849	62,012	30,256	45,282	3,075	52,584	(1,336,934)	1,484,876	1,181,383
Total net assets	1,484,876	1,083,876	59,849	62,012	30,256	45,282	3,075	52,584	(1,336,934)	1,484,876	1,181,383
Total liabilities and net assets	$ 1,790,938	$ 2,518,379	$ 292,472	$ 327,554	$ 77,405	$ 325,867	$ 26,368	$ 138,294	$ (1,525,661)	$ 3,971,616	$ 3,023,572

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

CareSource

Consolidating Statement of Operations
(Dollars in Thousands)

Year Ended December 31, 2020

	CareSource*	CareSource Ohio	CareSource Management Services	CareSource Indiana	CareSource Kentucky	CareSource Georgia	CareSource West Virginia	CareSource Reinsurance, LLC	Eliminating Adjustments	Consolidated	Prior Year
Revenues											
Capitation	$ (493)	$ 8,741,032	$ –	$ 418,461	$ –	$ 740,167	$ –	$ 119,980	$ (117,288)	$ 9,901,859	$ 9,496,567
Delivery	–	137,268	–	25,917	–	75,448	–	–	–	238,633	174,679
Premiums	–	369,060	–	305,311	254,462	66,489	53,638	–	–	1,048,960	921,255
Other	26,135	778	992,442	468	–	451	–	–	(1,018,242)	2,032	8,207
Total revenues	25,642	9,248,138	992,442	750,157	254,462	882,555	53,638	119,980	(1,135,530)	11,191,484	10,600,708
Expenses											
Medical expenses:											
Inpatient facility	–	1,825,096	–	227,429	43,398	239,570	14,069	843	–	2,350,405	2,543,142
Outpatient facility	–	2,141,693	–	146,379	59,605	160,251	19,637	(537)	–	2,527,028	2,033,174
Professional	2	2,339,360	–	151,229	44,498	295,556	7,089	(89)	477	2,838,122	2,978,056
Pharmacy	–	1,864,700	–	115,746	56,413	71,721	5,603	(3,879)	–	2,110,304	2,079,446
Other medical expenses, net	–	7,833	–	8,380	(720)	1,970	(984)	100,304	(117,561)	(778)	6,586
Total medical expenses	2	8,178,682	–	649,163	203,194	769,068	45,414	96,642	(117,084)	9,825,081	9,640,404
Administrative expenses:											
Compensation and benefits	(489)	3,468	547,126	591	64	956	5	279	(1,404)	550,596	462,375
Professional and temporary services	7,391	112,560	196,712	6,040	2,115	7,522	453	2,571	(466)	334,898	231,691
Marketing, advertising, communications, and promotions	–	–	33,388	–	–	–	–	–	–	33,388	13,801
Building expense	12,778	–	28,853	–	–	–	–	–	(25,554)	16,077	16,725
Office operations	297	1,804	58,416	2,106	1,172	456	134	4	(174)	64,215	62,742
Depreciation and amortization	4,708	–	24,457	–	–	–	–	–	–	29,165	33,550
Interest expense	11,019	172	312	170	–	4,718	495	–	(5,340)	11,546	20,808
Other	5,801	809,731	18,969	86,727	37,517	89,885	8,049	4,481	(1,003,625)	57,535	57,378
Allocation expense	4,032	4,001	(8,271)	113	–	125	–	–	–	–	–
Total administrative expenses	45,537	931,736	899,962	95,747	40,868	103,662	9,136	7,335	(1,036,563)	1,097,420	899,070
Total expenses	45,539	9,110,418	899,962	744,910	244,062	872,730	54,550	103,977	(1,153,647)	10,922,501	10,539,474
Net investment income and realized gains:											
Net investment income (loss)	16,106	33,404	552	954	87	505	96	1,105	(15,390)	37,419	59,839
Net realized (loss) gain	–	1,115	–	–	–	–	–	–	–	1,115	16,883
Total net investment income and realized gains	16,106	34,519	552	954	87	505	96	1,105	(15,390)	38,534	76,722
Interest in earnings (losses) of subsidiaries	289,084	–	–	–	–	–	–	–	(289,084)	–	–
Other income (loss)	18,203	(4,058)	(49)	–	–	–	–	–	(18,117)	(4,021)	(5,514)
Income (loss) before taxes	303,496	168,181	92,983	6,201	10,487	10,330	(816)	17,108	(304,474)	303,496	132,442
Tax benefit (expense)	(3)	–	–	–	–	–	–	–	–	(3)	290
Net income (loss)	$ 303,493	$ 168,181	$ 92,983	$ 6,201	$ 10,487	$ 10,330	$ (816)	$ 17,108	$ (304,474)	$ 303,493	$ 132,732

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