Consolidated Financial Statements and Supplementary Information

CareSource

Years Ended December 31, 2021 and 2020
With Reports of Independent Auditors

CareSource

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

CONTENTS

REPORT OF INDEPENDENT AUDITORS 1

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS 4
CONSOLIDATED STATEMENTS OF OPERATIONS 5
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME 6
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS 7
CONSOLIDATED STATEMENTS OF CASH FLOWS 8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 9

1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 9
2 INVESTMENTS 17
3 FAIR VALUE OF FINANCIAL INSTRUMENTS 21
4 PROPERTY AND EQUIPMENT, NET 24
5 COMMITMENTS AND CONTINGENCIES 25
6 ADMINISTRATIVE SERVICES ONLY AGREEMENTS 27
7 AFFORDABLE CARE ACT PROVISIONS 28
8 EMPLOYEE BENEFIT PLAN 29
9 SELF-INSURANCE ACCRUALS 30
10 RELATED PARTY TRANSACTIONS 31
11 SIGNIFICANT PROVIDERS 32
12 UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSE 33
13 LOANS PAYABLE 36
14 STATUTORY REQUIREMENTS 38
15 BUSINESS COMBINATIONS 39
16 GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS 40
17 RISKS AND UNCERTAINTIES 41

SUPPLEMENTARY INFORMATION

CONSOLIDATING BALANCE SHEET 42
CONSOLIDATING STATEMENT OF OPERATIONS 43

Ernst & Young LLP
221 East Fourth Street
Suite 2900
Cincinnati, OH 45202

Tel: +1 513 612 1400
Fax: +1 513 612 1730
ey.com

Report of Independent Auditors

The Board of Trustees
CareSource

Opinion

We have audited the consolidated financial statements of CareSource (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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 (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the incurred and paid claims development, net of reinsurance for the years ended December 31, 2020 and 2019 on page 33 be presented to supplement the financial statements. Such information is the responsibility of management and, 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 of America, 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 at December 31, 2021 and consolidating statement of operations for the year ended December 31, 2021 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 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 24, 2022

CareSource

Consolidated Balance Sheets

(Dollars in Thousands)

	December 31 2021	December 31 2020
Assets		
Cash, cash equivalents and restricted cash	**$ 2,085,069**	$ 2,189,087
Investments:		
Held-to-maturity debt securities	**407,932**	524,335
Equity securities	**178,058**	120,296
Available-for-sale debt securities	**679,423**	–
Receivables:		
Health care	**604,975**	719,226
Other	**139,113**	92,461
Reinsurance funds withheld	**103,452**	108,244
Prepaid expenses	**35,798**	52,752
Other assets	**10,592**	7,614
Property and equipment, net	**197,340**	157,601
Goodwill and other intangibles	**131,876**	–
Total assets	**$ 4,573,628**	$ 3,971,616
Liabilities and net assets		
Liabilities:		
Unpaid claims	**$ 1,166,729**	$ 1,087,032
Unpaid claims adjustment expense	**12,708**	24,959
Premium deficiency reserve	**40,161**	–
Premiums received in advance	**146,666**	227,466
Accrued and other liabilities	**334,036**	448,493
Health care policy reserves	**461,068**	192,917
Hospital incentive liability	**32,171**	30,090
Sales and use tax payable	**145,510**	113,269
Accounts payable	**91,088**	69,503
Loans payable	**274,712**	288,077
Obligations under capital leases	**11,209**	4,934
Total liabilities	**2,716,058**	2,486,740
Net assets:		
Retained earnings	**1,721,004**	1,484,876
Accumulated other comprehensive loss	**(4,070)**	–
Net assets before non-controlling interests	**1,716,934**	1,484,876
Non-controlling interests	**140,636**	–
Total net assets	**1,857,570**	1,484,876
Total liabilities and net assets	**$ 4,573,628**	$ 3,971,616

See accompanying notes.

CareSource

Consolidated Statements of Operations
(Dollars in Thousands)

	Year Ended December 31	
	2021	**2020**
Revenues		
Capitation	**$ 10,823,527**	$ 9,901,859
Delivery	**243,860**	238,633
Premium	**1,297,685**	1,048,960
Other	**7,492**	2,032
Total revenues	**12,372,564**	11,191,484
Expenses		
Medical expenses:		
Inpatient facility	**2,460,888**	2,350,405
Outpatient facility	**2,645,255**	2,527,028
Professional	**3,403,122**	2,838,122
Pharmacy	**2,468,445**	2,110,304
Other medical expenses, net	**38,559**	(778)
Total medical expenses	**11,016,269**	9,825,081
Administrative expenses:		
Compensation and benefits	**555,902**	550,596
Professional and temporary services	**332,983**	334,898
Marketing, advertising, communications, and promotions	**52,701**	33,388
Building expense	**17,217**	16,077
Office operations	**83,559**	64,215
Depreciation and amortization	**33,312**	29,165
Interest expense	**13,468**	11,546
Other	**77,854**	57,535
Total administrative expenses	**1,166,996**	1,097,420
Total expenses	**12,183,265**	10,922,501
Net investment income and realized gains		
Net investment income	**44,773**	37,419
Net realized gains	**2,070**	1,115
Total net investment income and realized gains	**46,843**	38,534
Other income (loss)	**638**	(4,021)
Income before taxes	**236,780**	303,496
Income tax expense	**(16)**	(3)
Net income	**236,764**	303,493
Net income attributable to non-controlling interests	**636**	–
Net income attributable to CareSource	**$ 236,128**	$ 303,493

See accompanying notes.

CareSource

Consolidated Statements of Comprehensive Income

(Dollars in Thousands)

	Years Ended December 31	
	2021	**2020**
Net income	**$ 236,764**	$ 303,493
Other comprehensive loss:		
Change in net unrealized loss on available-for-sale debt securities	**(4,070)**	–
Other comprehensive loss	**(4,070)**	–
Net income attributable to non-controlling interests	**636**	**–**
Total CareSource comprehensive income	**$ 232,058**	$ 303,493

See accompanying notes.

CareSource

Consolidated Statements of Changes in Net Assets
(Dollars in Thousands)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Net Assets
Balance at January 1, 2020	$ 1,181,383	$ –	$ –	$ 1,181,383
Net income	303,493	–	–	303,493
Balance at December 31, 2020	1,484,876	–	–	1,484,876
Net income	**236,128**	**–**	**636**	**236,764**
Other comprehensive loss	**–**	**(4,070)**	**–**	**(4,070)**
Issuance of preferred units	**–**	**–**	**140,000**	**140,000**
Balance at December 31, 2021	**$ 1,721,004**	**$ (4,070)**	**$ 140,636**	**$ 1,857,570**

See accompanying notes.

CareSource

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended December 31 2021	2020
Operating activities		
Net income	**$ 236,764**	$ 303,493
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**33,312**	29,165
Amortization of held-to-maturity investments	**6,467**	3,652
Loss on asset disposals	**466**	49
Realized gains on investments	**(2,070)**	(1,115)
Unrealized gains on investments	**(16,685)**	(9,746)
Changes in assets and liabilities:		
Decrease (increase) in health care receivables	**114,251**	(103,614)
Decrease in reinsurance funds withheld	**4,792**	71,670
(Increase) decrease in other receivables	**(40,910)**	178,503
Decrease in prepaid expenses	**17,697**	33,542
Increase in other assets	**(455)**	(528)
Increase in unpaid claims	**79,697**	53,815
(Decrease) increase in unpaid claims adjustment expense	**(12,251)**	3,362
Increase in premium deficiency reserve	**40,161**	–
(Decrease) increase in premiums received in advance	**(80,800)**	61,154
(Decrease) increase in accrued and other liabilities	**(117,213)**	255,914
Increase in health care policy reserves	**268,151**	192,917
Increase in hospital incentive liability	**2,081**	11,736
Increase (decrease) in sales and use tax payable	**32,241**	(84)
Increase (decrease) in accounts payable	**20,007**	(24,798)
Net cash provided by operating activities	**585,703**	1,059,087
Investing activities		
Proceeds from maturities/redemption of held-to-maturity securities	**175,316**	329,484
Purchase of held-to-maturity securities	**(59,634)**	(162,409)
Proceeds from equity securities	**193**	13,689
Purchase of equity securities	**(41,271)**	(21,977)
Proceeds from available-for-sale debt securities	**54,166**	–
Purchase of available-for-sale debt securities	**(741,334)**	–
Purchases of property and equipment	**(61,518)**	(28,686)
Purchase of subsidiary, net of cash acquired	**(138,441)**	–
Net cash provided by investing activities	**(812,523)**	130,101
Financing activities		
Proceeds under loans	**–**	100,000
Payments under loans	**(13,365)**	(8,084)
Proceeds from issuance of preferred units	**140,000**	–
Payments on capital leases	**(3,833)**	(1,381)
Net cash (used in) provided by financing activities	**122,802**	90,535
Net (decrease) increase in cash, cash equivalents and restricted cash	**(104,018)**	1,279,723
Cash, cash equivalents and restricted cash at beginning of year	**2,189,087**	909,364
Cash, cash equivalents and restricted cash at end of year	**$ 2,085,069**	$ 2,189,087
Interest paid on debt	**$ 12,342**	$ 11,404
Cash flow information for noncash transactions		
Assets acquired under capital leases	**$ 10,108**	$ –

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 affiliated not-for-profit, tax exempt affiliates. The Company offers a variety of insurance products in the Medicaid, Medicare and Healthcare Exchange markets across numerous geographical markets through our affiliated health plans (collectively, the health plans). The Company is also a licensed third-party administrator (TPA).

1.2 BASIS OF PRESENTATION

The accompanying consolidated financial statements include CareSource and its subsidiaries. The Company is the sole member of CareSource Holdings (CSH), which owns 86.9% of its subsidiary, CareSource Management Services Holdings (CSMSH). The remaining ownership interests are presented as non-controlling interests in the accompanying consolidated financial statements. Income related to the non-controlling interests is separately reported within the consolidated statements of operations and comprehensive income. All intercompany balances and transactions have been eliminated in consolidation.

The Company prepared the consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"). 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 $40,841 and $30,450 as of December 31, 2021 and 2020, respectively, is included in cash, cash equivalents and restricted cash line in the accompanying consolidated balance sheet.

Restricted cash includes cash and cash equivalents on deposit to meet certain regulatory requirements of $36,350 and $26,959 as of December 31, 2021 and 2020, respectively.

Other assets on deposit to meet certain regulatory requirements include a bond of $3,491 as of December 31, 2021 and 2020, and a note receivable of $1,000 as of December 31, 2021.

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). For the remaining debt securities in our investment portfolio, we have classified those securities as available-for-sale and report those securities at fair value. Changes in fair value for available-for-sale securities are included in accumulated other comprehensive income (loss) as a separate component of net assets. 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. 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 in the accompanying consolidated statements of operations and the cost or amortized cost basis of that investment is reduced. Investment income is recognized when earned.

1.6 PROPERTY AND EQUIPMENT, NET

Property and equipment is recorded at cost, net of accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful life of the related asset.

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.

1.7 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 health plans are 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 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 revenues associated with the Federally Facilitated Health Insurance Exchange (FFE) programs include both subscriber payments and advanced premium tax credits received from CMS. All premiums are subject to the Affordable Care Act risk adjustment program.

Pharmacy rebates are attained based on an agreement between the health plans 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 $1,923 and $2,737 as of December 31, 2021 and 2020, respectively.

1.8 PAY FOR PERFORMANCE REVENUE

The health plans have contracts with the Ohio Department of Medicaid (ODM) and the Indiana Family and Social Services Administration (FSSA) to receive incremental revenue based on certain performance measures. For the years ending December 31, 2021 and 2020, the health plans had withholds ranging from 1.77% to 4% for both years. 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 $267,576 and $280,330 are included in capitation revenues in the accompanying consolidated statements of operations for the years ended December 31, 2021 and 2020, respectively, the period during which the performance measures were met. Uncollected performance based receivables, net of unpaid performance penalties, of $233,374 and $271,331 are recorded at December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, these balances are included in health care receivables in the accompanying consolidated balance sheets.

1.9 PREMIUM TAXES

Taxes based on revenues are paid by the health plans for franchise fees, health insuring corporation tax, and premium taxes. During the years ended December 31, 2021 and 2020, the Company incurred premium and franchise fee taxes of $539,000 and $528,504, respectively, which are reflected as a reduction to capitation revenue.

1.10 ENHANCED PROVIDER FEES

Funds received from the ODM and FSSA, representing pass through payments to be paid to hospitals and other health care providers, in which the Company does not assume insurance risk, are not reported as premium revenues from ODM and FSSA or as medical expenses to providers.

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 the health plans 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. The health plans made reinsurance premium payments of $110,833 and $131,618 for the years ended December 31, 2021 and 2020, respectively, of which $87,482 and $117,765, were ceded to CareSource Reinsurance (CSRE) from Partner Re and have been eliminated for purposes of consolidated presentation. Net reinsurance premiums are included as other medical expenses, net in the accompanying consolidated statements of operations. Reinsurance recoveries of $76,878 and $117,524 are included as a reduction to medical expenses in the consolidated statements of operations for the years ended December 31, 2021 and 2020, respectively.

1.13 PREMIUM DEFICIENCY RESERVE

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 not included in the calculations regarding the need for a premium deficiency reserve. As of December 31, 2021 and 2020, premium deficiency reserves of $40,161 and $0 were recorded, respectively.

1.14 INCOME TAXES

Most active entities of the consolidated group of CS 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). Certain of the Company’s subsidiaries are for-profit corporations or non-profit corporations taxable as a corporation for federal tax purposes. 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 2020, 2019 and 2018 are open for audit by the Internal Revenue Service (IRS).

1.15 BUSINESS COMBINATIONS

The Company allocates the purchase price of its acquisitions to the assets acquired and liabilities assumed based upon their respective fair values at the acquisition date, in accordance with ASC 805, *Business Combinations*, when a change of control takes place. The Company utilizes internal estimates and an independent third-party valuation firm to assist in determining the fair value of assets and liabilities acquired, by the Company, on the date of the acquisition. The excess of the acquisition price over the estimated fair value of the net assets acquired is recorded as goodwill. Any separately identifiable customer relationship assets are subsumed within residual goodwill, in accordance with ASU 2014-18, *Business Combinations: Accounting for Identifiable Intangible Assets in a Business Combination*. Goodwill is adjusted for any changes to acquisition date fair value amounts made within the measurement period. Acquisition-related transaction costs are recognized separately from the business combination and expensed as incurred.

1.16 GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS

Assets and liabilities acquired in business combinations are accounted for using the acquisition method and recorded at their respective fair values. Goodwill represents the excess of the purchase price paid by the Company over the fair value of the net assets acquired from a single consummated business combination. The Company has adopted Accounting Standards Update (ASU) 2014-18, *Business Combinations: Accounting for Identifiable Intangible Assets in a Business Combination*. Accordingly, goodwill also includes customer-related intangible assets which are subsumed into the goodwill balance as of the date of acquisition for accounting purposes. The Company has also adopted ASU 2014-02, *Intangibles Goodwill and Other, Accounting for Goodwill*, which allows a company to amortize goodwill over a period of ten years, or less than ten years if the Company demonstrates that a shorter life is more appropriate. Accordingly, the Company amortizes goodwill over a ten-year life. An entity that elects this accounting alternative is further required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. The impairment assessment is a trigger-based assessment, where a company is only required to test goodwill for impairment if an event occurs or circumstances change that indicate the fair value of the entity may be below its carrying amount. Under this alternative, an annual impairment assessment is no longer required. The Company tests for impairment at the entity level, as necessary. There was no impairment charge for goodwill during 2021.

Intangible assets with definite useful lives are amortized over their expected useful lives and tested for impairment whenever events and changes in circumstances indicate the carrying amount of the assets may not be recoverable. The trade name intangible asset has an expected useful life of 20 years. The Company's review of identifiable intangible assets with definite lives indicated that there was no impairment during 2021.

1.17 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*. In November 2021, the FASB issued ASU No. 2021-09, *Discount rate for Lessees That Are Not Public Business Entities.* 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 Company will adopt the new lease standard for the 2022 annual reporting period. The adoption of this standard will impact our consolidated balance sheet as we will record lease assets and liabilities of approximately $20,000 for our operating leases. The adoption of this standard will not have an impact on our consolidated statements of operations or cash flows.

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 Company adopted this ASU on January 1, 2021.

In March 2021, the FASB issued ASU 2021-03, *Intangibles Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*. The ASU provides an accounting alternative for private companies. The ASU allows an entity to perform a goodwill triggering event assessment (and any resulting test of goodwill for impairment) only as of the end of each reporting period, whether the reporting period is interim or annual, and eliminates the requirement for the entity to evaluate triggering events between reporting dates. The Company adopted this ASU on January 1, 2021.

1.18 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 24, 2022, 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, 2021	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governments	**$ 9,141**	**$ 431**	**$ (44)**	**$ 9,528**
Corporate bonds	**206,041**	**8,613**	**-**	**214,654**
Residential mortgage-backed	**107,273**	**573**	**(1,169)**	**106,677**
Commercial mortgage-backed	**27,654**	**314**	**(86)**	**27,882**
Collateralized debt obligations	**57,823**	**310**	**(223)**	**57,910**
Total held-to-maturity debt securities	**$ 407,932**	**$ 10,241**	**$ (1,522)**	**$ 416,651**

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 held-to-maturity	**204,379**	**3,860**	**(40)**	**208,199**
Total held-to-maturity debt securities	**$ 524,335**	**$ 23,494**	**$ (40)**	**$ 547,789**

The cost basis and fair value of the Company's investments in available-for-sale securities are summarized as follows:

December 31, 2021	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governments	**$ 8,617**	**$ 40**	**$ (41)**	**$ 8,616**
Corporate bonds	**474,324**	**1,312**	**(3,874)**	**471,762**
Residential mortgage-backed	**94,026**	**11**	**(1,196)**	**92,841**
Commercial mortgage-backed	**20,648**	**6**	**(96)**	**20,558**
Collateralized debt obligations	**85,878**	**11**	**(243)**	**85,646**
Total available-for-sale securities	**$ 683,493**	**$ 1,380**	**$ (5,450)**	**$ 679,423**

The Company held no available-for-sale securities during 2020.

(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, 2021	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Available-for-sale:						
Governments	$ 4,507	$ (41)	$ -	$ -	$ 4,507	$ (41)
Corporate bonds	344,424	(3,874)	-	-	344,424	(3,874)
Mortgage-backed securities:						
Residential	89,450	(1,196)	-	-	89,450	(1,196)
Commercial	16,570	(96)	-	-	16,570	(96)
Collateralized debt	72,481	(243)	-	-	72,481	(243)
Total available-for-sale securities	$ 527,432	$ (5,450)	$ -	$ -	$ 527,432	$ (5,450)
Held-to-maturity:						
Governments	3,846	(44)	-	-	3,846	(44)
Corporate bonds	-	-	-	-	-	-
Mortgage-backed securities:						
Residential	74,330	(1,169)	-	-	74,330	(1,169)
Commercial	9,984	(69)	522	(18)	10,506	(87)
Collateralized debt	13,163	(210)	69	(12)	13,233	(222)
Total held-to-maturity securities	$ 101,323	$ (1,492)	$ 592	$ (30)	$ 101,915	$ (1,522)
Total det securities	$ 628,755	$ (6,942)	$ 592	$ (30)	$ 629,347	$ (6,972)

	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: Mortgage and other loan-backed securities	$ 3,310	$ (40)	$ -	$ -	$ 3,310	$ (40)
Total det securities	$ 3,310	$ (40)	$ -	$ -	$ 3,310	$ (40)

(Dollars in Thousands)

Management regularly reviews the Company's debt securities 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.

The Company periodically holds investments that are impaired for which other-than-temporary impairments are recognized. There was no impairment in December 31, 2021 or 2020.

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, 2021, by contractual maturity, was as follows:

	Amortized Cost	Fair Value
One year or less	$ 45,426	$ 45,900
After 1 year through 5 years	161,889	170,415
After 5 years through 10 years	7,867	7,867
After 10 years	-	-
Mortgage and other loan-backed securities	192,750	192,469
Total	**$ 407,932**	**$ 416,651**

A summary of the amortized cost and fair value of the Company's investments in debt securities classified as available-for-sale at December 31, 2021, by contractual maturity, was as follows:

	Amortized Cost	Fair Value
One year or less	$ -	$ -
After 1 year through 5 years	212,966	210,691
After 5 years through 10 years	251,542	251,282
After 10 years	18,434	18,405
Mortgage and other loan-backed securities	200,553	199,045
Total	**$ 683,495**	**$ 679,423**

(Dollars in Thousands)

Proceeds from maturities/redemptions in held-to-maturity debt securities during 2021 and 2020 were $175,316 and $329,484, respectively. Realized gains on the maturities/redemptions of held-to-maturity debt securities were $1,961 and $1,313 in 2021 and 2020, respectively. Realized losses on the calls of held-to-maturity debt securities were $0 and $8 in 2021 and 2020, respectively.

Proceeds from sale of available-for-sale debt securities during 2021 were $114. Realized losses on available-for-sale debt securities during 2021 were $6. The Company held no available-for-sale debt securities during 2020.

Proceeds from sales of investments in equity securities during 2021 and 2020 were $193 and $13,689, respectively. Realized gains on the sale of equity securities during 2021 and 2020 were $0 and $2,000, respectively. Realized losses on the sale of equity securities during 2021 and 2020 were $0 and $1,809, respectively.

Interest income due and accrued was $6,166 and $3,597 at December 31, 2021 and 2020, respectively.

The portion of gains and losses for the year related to equity securities are as follows:

	2021	2020
Net unrealized gains (losses) recognized during the year on trading securities	**$ 16,871**	$ 10,558
Net realized gains (losses) recognized during the year on trading securities	**2,873**	780
Unrealized gains (losses) recognized during the year on trading securities held during the reporting period	**13,998**	9,778

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.

The following discussion describes the valuation on a recurring basis 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.

(Dollars in Thousands)

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 Securities

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

Private Equity Securities

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.

Assets measured at fair value on a recurring basis at December 31, 2021 are outlined below:

2021				
	Assets Measured	**Fair Value Hierarchy Level**		
Assets	**at Fair Value**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale debt securities:				
Governments	$ 8,616	$ -	$ 8,616	$ -
Corporate bonds	471,762	-	471,762	-
Residential mortgage-backed	92,841	-	92,841	-
Commercial mortgage-backed	20,558	-	20,558	-
Collateralized debt obligations	85,646	-	85,646	-
Total available-for-sale debt securities	**679,423**	**-**	**679,423**	**-**
Equity securities:				
Private equity securities	10,553	-	-	10,553
Small cap	48,782	48,782	-	-
Mid cap	31,399	31,399	-	-
Large cap	49,182	49,182	-	-
International	38,142	38,142	-	-
Total equity securities	**178,058**	**167,505**	**-**	**10,553**
Total securities	**857,481**	**167,505**	**679,423**	**10,553**
Cash and cash equivalents	2,085,069	2,085,069	-	-
Total assets	**$ 2,942,550**	**$ 2,252,574**	**$ 679,423**	**$ 10,553**

(Dollars in Thousands)

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:				
Private equity securities	$ 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**

The Company had no liabilities measured at fair value on a recurring basis as of December 31, 2021 or 2020. The Company did not have any assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2020.

Certain assets and liabilities are measured at fair value on a non-recurring basis as of December 31, 2021. As discussed in Note 15, the acquisition of The Columbus Organization (TCO) was accounted as a business combination under the acquisition method of accounting, and accordingly the assets acquired and liabilities assumed were recorded at fair value. The Acquiree accounts receivable, inventories, and other assets, due to the short discount period, were recorded at historical cost which approximates fair value. The liabilities assumed consist primarily of accounts payable, contract liabilities, accrued liabilities, income taxes payable, and customer deposits. These liabilities were recorded at cost, which approximated the fair value due to the short discount period. The working capital assets and liabilities, including the property and equipment acquired, were valued using Level 2 inputs, which included data points that are observable. Identifiable intangible assets were valued using Level 3 inputs, which are unobservable by nature, and included internal estimates of future cash flows (income approach). Significant increases (decreases) in any of those unobservable inputs in isolation would result in a significantly lower (higher) fair value measurement.

Level 3 assets sold during 2021 and 2020 were $0 and $125, respectively. Level 3 assets purchased during 2021 and 2020 were $6,409 and $0, respectively. There have been no gain or losses, issues, settlements, or transfers in and (or) out of Level 3.

Debt securities disclosed at fair value were $416,651 and $547,789 at December 31, 2021 and 2020, respectively, and were valued using level 2 inputs.

There were no transfers between any levels during 2021 and 2020.

(Dollars in Thousands)

4 PROPERTY AND EQUIPMENT, NET

Property and equipment at December 31, 2021 and 2020 is comprised as follows:

	2021	2020
Building	$ 114,307	$ 110,946
Equipment under capital lease	33,540	23,447
Computer software	176,248	139,471
Computer hardware	37,497	35,476
Land	3,513	3,513
Furniture and fixtures	5,140	5,128
Work-in-process	32,915	14,037
Leasehold improvements	7,673	9,630
Office equipment	4,548	4,137
Total	**415,381**	**345,785**
Less accumulated depreciation and amortization	(218,041)	(188,184)
Property and Equipment, Net	**$ 197,340**	**$ 157,601**

Depreciation and amortization expense was $31,772 and $29,165 in 2021 and 2020, respectively. Losses recognized upon disposal of fixed assets were $466 and $49 in 2021 and 2020, 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:		
2022	$	5,025
2023		3,220
2024		2,405
2025		825
2026		722
2027 and Beyond		34
Total	**$**	**12,231**

Lease expense related to the Company's operating lease obligations was $7,873 and $6,972 in 2021 and 2020, respectively.

Capital Leases		
Due in:		
2022	$	5,165
2023		4,800
2024		1,703
Total future minimum lease payments, including interest		**11,668**
Imputed interest		(459)
Present value of future minimum lease payments	**$**	**11,209**

5.2 NON-CONTROLLING INTERESTS

In June 2020, the Company's subsidiary, CareSource Holding LLC (CSH) entered into a definitive agreement with an investor to issue up to $400,000 of preferred units of CSMSH over a three year period following the initial closing date (the "Commitment Period"). In November 2021, CSMSH made a capital call of $140,000 and issued 1,400,000 preferred units to the investor that were outstanding as of December 31, 2021. The preferred units outstanding earn a cumulative preferred return at the rate of 10% per annum. The issued preferred units are perpetual but are subject to put and call rights at the option of the preferred unit holder or CSH, respectively, at annual specified dates during a period of up to three years following the Commitment Period based on the corresponding fair market value. The issued preferred units include a conversion feature to convert the preferred units into common units at the option of the preferred unit holder at any time, with adjustments to the conversion price based on certain events such as a split, reorganization or sale of equity interests below fair market value. The holder of the preferred units received a liquidation preference for the amount of the preferred unit issue price plus the accrued preferred return less any prior distributions. As of December 31, 2021, there were 9,250,000 common and 1,400,000 preferred units outstanding.

6 ADMINISTRATIVE SERVICES ONLY AGREEMENTS

CareSource Ohio (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 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. ACO revenues of $31,156 and $31,195 during 2021 and 2020, respectively, are included within the accompanying consolidated 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 payments as these amounts represent pass-through payments from CMS to fund deductibles, co-payments and other member benefits. The Company received prospective payments from CMS of $104,630 and $88,958 during 2021 and 2020, respectively, and made subsidy and discount payments of $134,029 and $117,259, respectively. The Company recorded a receivable from CMS of $60,510 and $28,301 as of December 31, 2021 and 2020, 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 $147,934 and risk adjustment receivable of $15,763 as of December 31, 2021 and a risk adjustment payable of $92,144 as of December 31, 2021 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 2021 and 2020 of $15,554 and $17,052, 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 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 $18,807 and $16,409 in 2021 and 2020, respectively.

In connection with the terms of deferred compensation agreements in place between CS, CareSource Management Services (CSMS), and certain senior executives, expense of $7,139 and $14,253 was recorded in 2021 and 2020, respectively. The ending balance of accruals related to senior executive deferred compensation agreements was $17,453 and $24,099 at December 31, 2021 and 2020, respectively, of which $3,966 and $5,824 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 $6,293 and $5,450 at December 31, 2021 and 2020, 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 $42,302 and $38,447 in 2021 and 2020, respectively, and is included in compensation and benefits in the accompanying consolidated statements of operations.

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 $242,923 and $254,139 to The Metrohealth Corporation for services provided in 2021 and 2020, 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 $1,807 and $1,368 for services provided in 2021 and 2020, respectively.

William F Marsteller is a member of the CSF Board and 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 $9 to Mr. Marsteller in 2021 and 2020, respectively.

11 SIGNIFICANT PROVIDERS

CSOH has agreements with three pediatric hospitals and physicians networks to provide medical services to certain CSOH members. These are collectively referred to as Accountable Care Organizations (ACO). Under these agreements, the Company pays the ACO a capitated premium in exchange for the ACO assuming the risk of loss for all medical expenses incurred by members who are under the age of 19 and are members in the applicable Ohio Medicaid regions. In connection with these contracts, CSOH pays medical claims billed by providers for ACO members and is later reimbursed by the ACO's through offsetting of amounts due for capitation. Depending on the arrangement with the ACO, CSOH has recorded either a liability for unpaid claims and unpaid claims adjustment expense for these services, and a related receivable that is secured by an escrow from the ACO's financial institution to CSOH in the amount of the unpaid claims and unpaid claims adjustment expense or CSOH reduces the capitation paid by the amount of unpaid claims and records a liability and corresponding receivable. As of December 31, 2021 and 2020, CSOH included in unpaid claims a liability of $54,312 and $49,184, respectively. A corresponding receivable of $54,312 and $49,184 is included in health care receivables in the accompanying consolidated balance sheets at December 31, 2021 and 2020, respectively.

During 2021 and 2020, the ACO was paid $1,483,174 and $625,347, respectively, for services rendered prior to chargebacks of $801,500 and $367,628, respectively. Chargebacks resulted from CSOH directly paying certain non-ACO providers under the contract. The CSOH membership capitated to the provider constituted approximately 31% and 14% of total CSOH membership in 2021 and 2020, respectively.

As of December 31, 2021 and 2020, CSOH recorded a capitation chargeback receivable from the ACO of $21,987 and $93,780, respectively, included in health care receivables in the accompanying consolidated balance sheets. This balance represents medical expenses charged to, and paid directly by CSOH on behalf of the ACO.

(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:

	2021	2020
Balance January 1	**$ 1,111,992**	$ 1,054,815
Incurred Related to:		
Current Year	**11,359,619**	9,823,276
Prior Years	**(355,855)**	43,150
Total Incurred	**11,003,764**	9,866,427
Paid Related to:		
Current Year	**(10,209,730)**	(8,957,277)
Prior Years	**(726,589)**	(851,973)
Total Paid	**(10,936,319)**	(9,809,250)
Balance as of December 31	**$ 1,179,437**	**$** 1,111,992

2021

The change in prior year incurred claims was the result of ongoing analysis of recent loss development trends. During 2021 original estimates were revised, as additional information became known regarding individual claims. The Company experienced favorable development of prior year claims reserves. This experience is primarily due to higher than historical health care cost trends assumed at December 31, 2020 as a result of COVID-19 that did not materialize and estimates for anticipated coordination of benefits recoveries developing more favorably than originally estimated. The Company has considered the emerging experience in the development of current estimates.

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.

(Dollars in Thousands)

The following tables provide information about incurred and paid claims development as of December 31, 2021, as well as cumulative claims frequency and the total of incurred but not paid (IBNP) claims liabilities.

	Incurred Claims and Allocated Claims Adjustment Expense				
Benefit Year	**2019 (Unaudited)**	**2020 (Unaudited)**	**2021**	**Total IBNP**	**Cumulative Number of Reported Claims**
2019	$ 9,901,093	$ 9,945,296	$ 9,908,684	$ 4,626	30,557,980
2020		9,823,276	9,504,034	24,922	30,698,699
2021			11,359,619	1,149,889	31,735,251
	$ 9,901,093	**$ 19,768,572**	**$ 30,772,337**	**$ 1,179,437**	

	Cumulative Paid Claims and Allocated Claims Adjustment Expenses		
Benefit Year	**2019 (Unaudited)**	**2020 (Unaudited)**	**2021**
2019	$ 9,036,403	$ 9,699,304	$ 9,904,058
2020		8,957,277	9,479,112
2021			10,209,730
	$ 9,036,403	**$ 18,656,581**	**$ 29,592,900**

The following table represents a reconciliation of claims development to the aggregate carrying amount of the liability for unpaid claims:

	2021
Cumulative Incurred Claims and Allocated Claims Adjustment Expenses	$ 30,772,337
Cumulative Paid Claims and Allocated Claims Adjustment Expenses	(29,592,900)
Unpaid Claims and Claims Adjustment Expenses	**$ 1,179,437**

The incurred and paid claims development information for the years ended December 31, 2020 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

On March 27, 2018, CareSource Real Estate Holdings (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. Effective March 17, 2020, the second amendment to the Prior Credit Agreement was executed. The second amendment 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. 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. Effective June 23, 2021, the company executed the first amendment to the Credit Agreement which extended the expiration of the Revolver to December 31, 2023. The Company is obligated to pay a leverage-based commitment fee calculated on the unused portion of the Revolver. The Credit Agreement includes certain covenants, including a leverage ratio requirement, a risk based capital (RBC) requirement of 250% for CSOH, CareSource Georgia (CSGA), CareSource Indiana (CSIN), and also the aggregate calculation of all statutory subsidiaries of the Company, and a fixed charge coverage ratio. As of September 30, 2021, the company was in violation of the leverage ratio requirement covenant under the Credit Agreement. Effective December 20, 2021, the company executed a waiver whereby Fifth Third Bank granted a one time waiver of the covenant violation. 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. The Company's outstanding balance on the Term Loan was $85,000 and $95,000 at December 31, 2021 and 2020, respectively. There was no balance outstanding on the Revolver at December 31, 2021 and 2020, respectively. The Company was in compliance with all covenants at December 31, 2021.

(Dollars in Thousands)

Loans payable at December 31, 2021 consists of the following:

		2021
CTL Loan due to Wells Fargo in 2044, monthly amount due is currently $1,056, escalates annually and includes interest	$	189,712
Term Loan due to Fifth Third in 2023, quarterly amount due is $2,500 excluding interest		85,000
Total debt	**$**	**274,712**

Total interest paid on the loans payable obligations for 2021 and 2020 was $12,342 and $11,404, respectively.

Following is a summary of payments on all borrowings for each of the next five years from the latest balance sheet as of December 31, 2021:

		Payments
2022	$	13,661
2023		78,973
2024		4,301
2025		4,648
2026		5,012
2027 and Beyond		168,117
Total	**$**	**274,712**

14 STATUTORY REQUIREMENTS

In accordance with the National Association of Insurance Commissioners (NAIC) polices and procedures, each health maintenance organization is subject to risk-based capital (RBC) requirements. RBC is a method developed by the NAIC to determine the amount of statutory capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. Below minimum RBC requirements are classified within certain levels, each of which requires specified corrective action. As of December 31, 2021 and 2020, all of our insurance subsidiaries exceeded the minimum applicable mandatory RBC requirements and/or capital and solvency requirements of their applicable governmental regulator and no action was required.

The payment of dividends to us by our insurance subsidiaries without prior approval of the insurance departments of each subsidiary's domiciliary jurisdiction is limited by formula. Dividends in excess of these amounts are subject to prior approval by the respective state insurance departments. During 2021 and 2020, respectively, CS received capital distributions of $97,079 and $40,000, including distributions which required prior approval from our regulatory authorities.

The statutory RBC necessary to satisfy regulatory requirements of our statutory-basis insurance subsidiaries was $782,709 and $744,030 as of December 31, 2021 and 2020, respectively. Statutory-basis capital and surplus of our insurance subsidiaries was $1,438,441 and $1,289,421 as of December 31, 2021 and 2020, respectively.

(Dollars in Thousands)

15 BUSINESS COMBINATIONS

On November 17, 2021, CSMSH completed the acquisition of TCO. TCO is a multi-state healthcare services organization focused on intellectually and developmentally disabled populations. This acquisition aligned our strategy to expand and diversify into health services and deliver both integrated solutions and care delivery models that are personalized for special needs populations.

In accordance with FASB accounting guidance for business combinations, the consideration transferred was allocated to the preliminary fair value of TCO's assets acquired and liabilities assumed, including identifiable intangible assets of $14,774 for a finite-lived trade name. The excess of the consideration transferred over the preliminary fair value of net assets acquired resulted in preliminary goodwill of $118,642. As of December 31, 2021, the initial accounting for the acquisition has not been finalized. Any additional payments or receipts of cash resulting from contractual purchase price adjustments or any subsequent adjustments made to the assets acquired and liabilities assumed during the measurement period will be recorded as an adjustment to goodwill.

Acquired assets (liabilities) at the acquisition date were:

		2021
Cash and cash equivalents	$	3,624
Accounts receivable and other current assets		6,516
Property and equipment		351
Deferred tax asset		2,492
Accounts payable and other current liabilities		(4,332)
Total net tangible assets	**$**	**8,651**

The results of operations of TCO has been included in our consolidated results as of the date of acquisition. Through December 31, 2021, the impact of the acquired entity on total revenues and net income was not material.

(Dollars in Thousands)

16 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table represents goodwill and intangible assets as of December 31, 2021:

2021	Useful life	Gross amount	Accumulated amortization	Net amount
Goodwill	10 years	$ 118,642	$ 1,450	$ 117,192
Trade name	20 years	14,774	90	14,684
Totals		**$ 133,416**	**$ 1,540**	**$ 131,876**

The estimated aggregate intangible amortization expense, including goodwill, for each of the next five years and thereafter is as follows:

2022	$ 12,603
2023	12,603
2024	12,603
2025	12,603
2026	12,603
2027 and thereafter	68,861
Total	**$ 131,876**

17 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 COVID-19 pandemic continues to evolve and the full extent of its impact will depend on future developments, which are highly uncertain and cannot be predicted at this time. We will continue to monitor the COVID-19 pandemic as well as resulting legislative and regulatory changes to manage our response and assess and mitigate any potential adverse impacts to our business. 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, 2021

	CareSource*	CareSource Ohio	CareSource Management Services Holdings**	CareSource Indiana	CareSource Kentucky	CareSource Georgia	CareSource West Virginia	CareSource Reinsurance, LLC	Elimination Adjustments	Consolidated	Prior Year
Assets											
Cash, cash equivalents and restricted cash	$ 265,837	$ 796,923	$ 226,810	$ 365,662	$ 69,400	$ 292,291	$ 31,672	$ 36,474	$ –	$ 2,085,069	$ 2,189,087
Investments	4,350	1,214,426	900	6,936	3,680	30,554	1,419	3,148	–	1,265,413	644,631
Receivables:											
Health care	–	461,243	–	60,958	9,385	125,550	1,758	80	(53,999)	604,975	719,226
Other	36,676	128,269	8,554	285	(52)	292	2	35	(34,948)	139,113	92,461
Reinsurance funds withheld	–	–	–	–	–	–	–	103,452	–	103,452	108,244
Prepaid expenses	1,297	9,012	24,798	528	14	1,227	–	–	(1,078)	35,798	52,752
Other assets	7,940	–	2,642	–	–	–	–	10	–	10,592	7,614
Investment in subsidiaries	1,616,093	–	–	–	–	–	–	–	(1,616,093)	–	–
Property and equipment, net	101,324	–	96,016	–	–	–	–	–	–	197,340	157,601
Goodwill and other intangibles	–	–	131,876	–	–	–	–	–	–	131,876	–
Due from related entities	115,311	–	24,237	–	–	–	–	1,177	(140,725)	–	–
Total assets	$ 2,148,828	$ 2,609,873	$ 515,833	$ 434,369	$ 82,427	$ 449,914	$ 34,851	$ 144,376	$ (1,846,843)	$ 4,573,628	$ 3,971,616
Liabilities and net assets											
Liabilities:											
Unpaid claims	$ 3,129	$ 843,239	$ –	$ 115,405	$ 33,439	$ 156,682	$ 9,669	$ 59,165	$ (53,999)	$ 1,166,729	$ 1,087,032
Unpaid claims adjustment expense	–	9,114	–	1,297	384	1,797	116	–	–	12,708	24,959
Premium deficiency reserve	–	18,926	–	–	–	21,235	–	–	–	40,161	–
Premiums received in advance	–	29,724	–	49,540	5,105	61,688	609	–	–	146,666	227,466
Accrued and other liabilities	7,181	146,951	166,345	3,471	4,683	4,355	523	527	–	334,036	448,493
Health care policy reserves	–	214,094	–	150,869	7,434	75,418	13,253	–	–	461,068	192,917
Hospital incentive liability	–	32,171	–	–	–	–	–	–	–	32,171	30,090
Sales and use tax payable	–	144,939	571	–	–	–	–	–	–	145,510	113,269
Accounts payable	1,088	6,781	80,965	778	260	1,168	48	–	–	91,088	69,503
Deferred revenues	1,078	–	–	–	–	–	–	–	(1,078)	–	–
Loans payable	274,712	–	–	–	–	–	–	–	–	274,712	288,077
Obligations under capital leases	–	–	11,209	–	–	–	–	–	–	11,209	4,934
Due to related entities	–	14,671	17,474	24,757	1,507	109,486	7,778	–	(175,673)	–	–
Total liabilities	287,188	1,460,610	276,564	346,117	52,812	431,829	31,996	59,692	(230,750)	2,716,058	2,486,740
Net assets:											
Retained earnings	1,721,004	1,153,333	99,269	88,252	29,615	18,085	2,855	84,684	(1,476,093)	1,721,004	1,484,876
Accumulated other comprehensive loss	–	(4,070)	–	–	–	–	–	–	–	(4,070)	–
Preferred units	–	–	140,000	–	–	–	–	–	(140,000)	–	–
Net assets before non-controlling interests	1,721,004	1,149,263	239,269	88,252	29,615	18,085	2,855	84,684	(1,616,093)	1,716,934	1,484,876
Non-controlling interests	140,636	–	–	–	–	–	–	–	–	140,636	–
Total net assets	1,861,640	1,149,263	239,269	88,252	29,615	18,085	2,855	84,684	(1,616,093)	1,857,570	1,484,876
Total liabilities and net assets	$ 2,148,828	$ 2,609,873	$ 515,833	$ 434,369	$ 82,427	$ 449,914	$ 34,851	$ 144,376	$ (1,846,843)	$ 4,573,628	$ 3,971,616

* CareSource balances include the accounts of non health plans.

** CareSource Management Services Holdings and subsidiaries.

All significant intercompany balances have been eliminated in consolidation.

CareSource

Consolidating Statement of Operations

(Dollars in Thousands)

Year Ended December 31, 2021

	CareSource*	CareSource Ohio	CareSource Management Services Holdings**	CareSource Indiana	CareSource Kentucky	CareSource Georgia	CareSource West Virginia	CareSource Reinsurance, LLC	Eliminating Adjustments	Consolidated	Prior Year
Revenues											
Capitation	$ –	$ 9,267,657	$ –	$ 542,259	$ –	$ 1,009,184	$ –	$ 91,909	$ (87,482)	$ 10,823,527	$ 9,901,859
Delivery	–	134,911	–	24,537	–	84,412	–	–	–	243,860	238,633
Premiums	–	322,395	–	423,005	313,086	169,034	70,165	–	–	1,297,685	1,048,960
Other	22,249	–	1,094,924	–	–	–	–	–	(1,109,681)	7,492	2,032
Total revenues	22,249	9,724,963	1,094,924	989,801	313,086	1,262,630	70,165	91,909	(1,197,163)	12,372,564	11,191,484
Expenses											
Medical expenses:											
Inpatient facility	–	1,845,323	–	244,222	44,387	310,636	16,973	(653)	–	2,460,888	2,350,405
Outpatient facility	–	2,108,062	–	203,285	68,944	238,759	24,716	1,489	–	2,645,255	2,527,028
Professional	–	2,662,895	–	218,035	61,963	451,042	9,247	(60)	–	3,403,122	2,838,122
Pharmacy	–	2,103,872	–	164,966	68,536	122,959	8,343	(231)	–	2,468,445	2,110,304
Other medical expenses, net	–	29,082	5,842	6,137	1,531	26,478	(557)	57,098	(87,052)	38,559	(778)
Total medical expenses	–	8,749,234	5,842	836,645	245,361	1,149,874	58,722	57,643	(87,052)	11,016,269	9,825,081
Administrative expenses:											
Compensation and benefits	1,069	(10,435)	568,812	(955)	(213)	(853)	(67)	–	(1,456)	555,902	550,596
Professional and temporary services	486	116,517	192,106	7,696	2,610	11,132	445	2,457	(466)	332,983	334,898
Marketing, advertising, communications, and promotions	–	–	52,701	–	–	–	–	–	–	52,701	33,388
Building expense	12,905	–	30,122	–	–	–	–	–	(25,810)	17,217	16,077
Office operations	241	1,559	77,598	2,267	1,167	763	136	2	(174)	83,559	64,215
Depreciation and amortization	4,757	–	28,555	–	–	–	–	–	–	33,312	29,165
Interest expense	12,013	1,017	385	1,300	1	5,600	496	8	(7,352)	13,468	11,546
Other	7,118	842,641	24,980	117,014	46,889	123,547	10,681	93	(1,095,109)	77,854	57,535
Allocation expense	974	3,665	(4,639)	–	–	–	–	–	–	–	–
Total administrative expenses	39,563	954,964	970,620	127,322	50,454	140,189	11,691	2,560	(1,130,367)	1,166,996	1,097,420
Total expenses	39,563	9,704,198	976,462	963,967	295,815	1,290,063	70,413	60,203	(1,217,419)	12,183,265	10,922,501
Net investment income and realized gains:											
Net investment income (loss)	154,439	45,850	238	407	89	235	28	394	(156,907)	44,773	37,419
Net realized (loss) gain	–	2,070	–	–	–	–	–	–	–	2,070	1,115
Total net investment income and realized gains	154,439	47,920	238	407	89	235	28	394	(156,907)	46,843	38,534
Interest in earnings (losses) of subsidiaries	79,319	–	–	–	–	–	–	–	(79,319)	–	–
Other income (loss)	20,319	773	(197)	–	–	–	–	–	(20,257)	638	(4,021)
Income (loss) before taxes	236,763	69,458	118,503	26,241	17,360	(27,198)	(220)	32,100	(236,227)	236,780	303,496
Tax expense	(1)	–	(15)	–	–	–	–	–	–	(16)	(3)
Net income (loss)	$ 236,762	$ 69,458	$ 118,488	$ 26,241	$ 17,360	$ (27,198)	$ (220)	$ 32,100	$ (236,227)	$ 236,764	$ 303,493
Less: Net income attibutable to non-controlling interests	636	–	–	–	–	–	–	–	–	636	–
Net income (loss) attributable to CareSource	$ 236,126	$ 69,458	$ 118,488	$ 26,241	$ 17,360	$ (27,198)	$ (220)	$ 32,100	$ (236,227)	$ 236,128	$ 303,493

* CareSource balances include the accounts of non health plans.

** CareSource Management Services Holdings and subsidiaries.

All significant intercompany balances have been eliminated in consolidation.