AMERIHEALTH CARITAS LOUISIANA, INC.

Statutory Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
AmeriHealth Caritas Louisiana, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of AmeriHealth Caritas Louisiana, Inc., which comprise the statutory statements of admitted assets, liabilities, and surplus as of December 31, 2019 and 2018, and the related statutory statements of revenues and expenses and changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices prescribed or permitted by the Louisiana Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by AmeriHealth Caritas Louisiana, Inc. using statutory accounting practices prescribed or permitted by the Louisiana Department of Insurance, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices and U.S. generally accepted accounting principles also are described in Note 14.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of AmeriHealth Caritas Louisiana, Inc. as of December 31, 2019 and 2018, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of AmeriHealth Caritas Louisiana, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Louisiana Department of Insurance described in Note 2.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company's contract with the State of Louisiana Department of Health expires on December 31, 2020. Our opinion is not modified with respect to this matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the supplemental investment risk interrogatories and supplemental summary investment schedule is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Louisiana Department of Insurance. 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 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.

/s/KPMG LLP

Philadelphia, Pennsylvania
March 26, 2020

AMERIHEALTH CARITAS LOUISIANA, INC.

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus

(In thousands)

	December 31,	
	2019	**2018**
Admitted Assets		
Cash, cash equivalents, and short-term investments	$ 183,101	$ 175,175
Investment securities	16,034	11,973
Restricted investment securities	1,000	1,009
Premiums receivable	102,295	69,617
Healthcare receivables	403	1,490
Investment income receivable	252	542
Federal income tax recoverable	332	607
Deferred income taxes	—	1,247
EDP equipment and software, net	11	15
Total admitted assets	$ 303,428	$ 261,675
Liabilities and Capital and Surplus		
Accrued medical expenses	$ 171,497	$ 142,556
Unpaid claims adjustment expenses	1,138	1,523
Premium deficiency reserves	3,800	—
Accounts payable and accrued expenses	1,434	5,675
Due to affiliates	7,724	6,521
Premium assessment	17,850	18,421
Total liabilities	203,443	174,696
Commitments and contingencies (Notes 12 and 13)		
Capital and surplus:		
Paid-in surplus	115,171	63,871
Unassigned funds	(37,336)	23,108
Special surplus	22,150	—
Total capital and surplus	99,985	86,979
Total liabilities and capital and surplus	$ 303,428	$ 261,675

See accompanying notes to statutory financial statements.

AMERIHEALTH CARITAS LOUISIANA, INC.

Statutory Statements of Revenues and Expenses

(In thousands)

	Year Ended December 31, 2019	Year Ended December 31, 2018
Premiums revenues	$ 1,149,101	$ 1,100,184
Underwriting deductions:		
Medical and hospital expenses	1,030,764	931,527
Claims adjustment expenses	24,779	22,461
Administrative expenses	128,961	140,957
Premium deficiency reserves	3,800	—
Total underwriting deductions	1,188,304	1,094,945
Net underwriting (loss) gain	(39,203)	5,239
Investment income	3,681	3,522
(Loss) income before federal income tax (benefit) expense	(35,522)	8,761
Federal income tax (benefit) expense	(332)	6,127
Net (loss) income	$ (35,190)	$ 2,634

See accompanying notes to statutory financial statements.

AMERIHEALTH CARITAS LOUISIANA, INC.

Statutory Statements of Changes in Capital and Surplus

(In thousands)

	Paid-in surplus	Unassigned funds	Special surplus	Total
Balances at January 1, 2018	$ 63,871	$ 11,237	$ 19,080	$ 94,188
Change in nonadmitted assets	—	(541)	—	(541)
Change in net deferred income taxes	—	98	—	98
Dividend to stockholder	—	(9,400)	—	(9,400)
Net income	—	2,634	—	2,634
Change in subsequent year Affordable Care Act assessment (Note 2)	—	19,080	(19,080)	—
Balances at December 31, 2018	63,871	23,108	—	86,979
Change in nonadmitted assets	—	(1,095)	—	(1,095)
Change in net deferred income taxes	—	(2,009)	—	(2,009)
Capital contributions	51,300	—	—	51,300
Net loss	—	(35,190)	—	(35,190)
Change in subsequent year Affordable Care Act assessment (Note 2)	—	(22,150)	22,150	—
Balances at December 31, 2019	$ 115,171	$ (37,336)	$ 22,150	$ 99,985

See accompanying notes to statutory financial statements.

AMERIHEALTH CARITAS LOUISIANA, INC.

Statutory Statements of Cash Flows

(In thousands)

	Year Ended December 31, 2019	2018
Cash flows from operating activities:		
Premiums collected	$ 1,116,423	$ 1,081,638
Claims expenses paid	(1,002,547)	(930,650)
General administrative expenses paid	(157,569)	(163,605)
Investment income received	3,526	2,834
Federal income taxes recovered (paid)	606	(6,838)
Net cash used in operating activities	(39,561)	(16,621)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	12,239	290
Cost of investments acquired	(15,845)	(11,977)
Net cash used in investing activities	(3,606)	(11,687)
Cash flows from financing and other activities:		
Dividend to stockholder	—	(9,400)
Capital contributions	51,300	—
Other cash applied	(207)	(351)
Net cash provided by (used in) financing and other activities	51,093	(9,751)
Net increase (decrease) in cash, cash equivalents, and short-term investments	7,926	(38,059)
Cash, cash equivalents, and short-term investments at beginning of year	175,175	213,234
Cash, cash equivalents, and short-term investments at end of year	$ 183,101	$ 175,175

See accompanying notes to statutory financial statements.

(1) Organization and Description of Business

AmeriHealth Caritas Louisiana, Inc. (the Company) was incorporated on October 5, 2010 for the purpose of providing prepaid managed care services to Medicaid enrollees in the State of Louisiana. The Company is an indirect wholly owned subsidiary of AmeriHealth Caritas Health Plan (ACHP). ACHP is a Pennsylvania partnership formed to develop and operate managed care business for Medicaid and Medicare enrollees.

The Company operates under a license issued by the Louisiana Department of Insurance (DOI).

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying statutory financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the Louisiana DOI. Such practices vary from U.S. generally accepted accounting principles (GAAP) principally in that certain assets reportable under GAAP are nonadmitted and have been excluded from the accompanying Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus and charged directly to capital and surplus; certain investments, which would be carried at estimated fair value under GAAP, are carried at amortized cost in the accompanying Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus; deferred tax assets are recognized for federal income tax purposes only; and changes in net deferred tax assets and liabilities are reflected as changes in capital and surplus. Under GAAP, such deferred tax changes are reflected in operations.

The Louisiana DOI recognizes only statutory accounting practices prescribed or permitted by the State of Louisiana for determining and reporting the financial condition and results of operations of an insurance company, and for determining insolvency under the Louisiana Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Louisiana.

Prescribed and Permitted Accounting Practices

Currently, "prescribed" statutory accounting practices are interspersed throughout the state insurance laws and regulations, NAIC SAP, and a variety of other NAIC publications. "Permitted" statutory accounting practices encompass all accounting practices that are not prescribed but are permitted by the domicile state DOI; such practices may differ from state to state, may differ from company to company within a state, and may change in the future.

The Company's Net (loss) income and Capital and surplus as stated on a NAIC SAP basis and on the basis of practices prescribed or permitted by the State of Louisiana are the same as of and for the years ended December 31, 2019 and 2018.

Use of Estimates

The preparation of statutory financial statements in conformity with accounting practices prescribed or permitted by the Louisiana DOI requires management to make estimates and assumptions that affect the amounts reported in the statutory financial statements and accompanying notes. Some of the more significant estimates include accrued medical expenses and premium deficiency reserves. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Short-Term Investments

Cash and cash equivalents include cash, debt securities, and other highly liquid investments with original maturities of three months or less when purchased. Short-term investments consist primarily of investments with an original maturity of 91 days to one year when purchased. Interest income from cash, cash equivalents, and short-term investments is included in Investment income on the accompanying Statutory Statements of Revenues and Expenses.

Cash equivalents and short-term investments totaled $39,785 and $57,571 as of December 31, 2019 and 2018, respectively.

Investment Securities

Bonds and other debt instruments are stated at amortized cost or at values prescribed by the Louisiana DOI. Bonds with an NAIC designation of 3 through 6 are reported at the lower of amortized cost or fair value. The amortized cost of bonds is adjusted for amortization of premiums and accretion of discounts using the effective-interest method. Realized gains and losses on the sale of investments are recognized on the specific-identification basis as of the trade date. Realized losses also include losses for fair value declines that are considered to be other-than-temporary. Interest income is recognized when earned.

The Company manages it investment portfolio to limit its exposure to any one issuer or market sector and limits its investments to investment grade quality. Securities downgraded below policy minimums after purchase will be disposed of in accordance with the Company's investment policy.

The Company regularly reviews its debt securities to determine whether a decline in fair value below the carrying value is other-than-temporary. Factors considered in determining whether an other-than-temporary impairment loss exists include duration and severity of the loss, adverse conditions specifically related to the security, the industry or the geographic area, the financial condition and near-term prospects of the issuer, analysis and guidance provided by rating agencies and analysts, and changes in fair value subsequent to the balance sheet date.

Pursuant to Statement of Statutory Accounting Principles (SSAP) No. 43R, *Loan-backed and Structured Securities*, a loan-backed security is other-than-temporarily impaired if the present value of future cash flows expected to be collected from the security is less than the amortized cost of the security or where the Company intends to sell or does not have the intent and ability to retain the investment in the loan-backed security for the time sufficient to recover the security's amortized cost basis. A fixed maturity security falling outside the scope of SSAP No. 43R is other-than-temporarily impaired if it is probable that the Company will not be able to collect all amounts due under the security's contractual terms or where the Company does not have the intent to hold the security for a period of time sufficient to allow for any anticipated recovery.

When the Company determines that an other-than-temporary impairment loss exists for a loan-backed security and the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security prior to recovering the security's amortized cost basis less any current-period credit loss, the portion of the total impairment that is attributable to the credit loss is recognized in operations as a realized investment loss, and the cost basis of the security is reduced by the amount of the credit-related impairment.

When the Company determines that an other-than-temporary impairment loss exists for: (1) a loan-backed security that the Company intends to sell or does not have the intent and ability to retain the investment in the loan-backed security for the time sufficient to recover the amortized cost basis or (2) an invested asset falling outside the scope of SSAP No. 43R, the security is written down to fair value, and the amount of the impairment is included in operations as a realized investment loss. The fair value then becomes the new cost basis of the investment, and any subsequent recoveries in fair value are recognized at disposition. The discount or reduced premium recorded for fixed maturity securities, based on the new cost basis, is amortized over the remaining useful life of the security based on the amount and timing of future estimated cash flows.

Restricted Investment Securities

The Company holds restricted investment securities of $1,000 and $1,009 as of December 31, 2019 and 2018, respectively. These amounts are restricted pursuant to Louisiana Statute RS22:254(A), which requires an entity to deposit with the Commissioner of the DOI a safe keeping receipt or trust receipt from banking corporations doing a banking business within the State of Louisiana or from a savings and loan association or other insured financial institution chartered to do business in the State of Louisiana evidencing that the entity has deposited $1,000 in cash to guarantee its financial responsibility.

Financial Instruments

The Company determines the fair value of its assets and liabilities in accordance with SSAP No. 100, *Fair Value*. SSAP No. 100 provides information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SSAP No. 100 establishes a fair value hierarchy to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and lowest priority to unobservable inputs. The lowest level of input that is significant to the valuation is utilized in the fair value classification of financial assets and liabilities. The Company's policy is to recognize transfers between levels as of the end of the reporting period.

Investments that estimate fair value using the net asset value per share in a manner consistent with SSAP No. 100 are not classified within the fair value hierarchy pursuant to SSAP No. 2R, *Cash, Cash Equivalent, Drafts, and Short-Term Investments*. The fair value of the Company's investments in money market mutual funds with published daily net asset values have been measured using the net asset value per share and are disclosed pursuant to this guidance.

Healthcare Receivables

Healthcare receivables consist of pharmacy rebates receivable and claim overpayment receivables. In accordance with SSAP No. 84, *Health Care and Government Insured Plan Receivables*, healthcare receivables of $4,986 and $3,174 as of December 31, 2019 and 2018, respectively, were nonadmitted.

Fixed Assets

Furniture and fixtures and leasehold improvements are designated as "nonadmitted assets" and are charged directly to capital and surplus. Electronic data processing (EDP) equipment exceeding 3% of statutory capital and surplus for the most recently filed statement with the Louisiana DOI (adjusted to exclude EDP equipment and deferred taxes) are designated as nonadmitted assets and are charged directly to capital and surplus. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets, which ranges from three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of the remaining lease term or estimated useful life of the asset. Maintenance and repairs are charged to operations when incurred.

Premium Revenues

The Company records premium revenues based on membership records and premium rates for each membership category. Premium revenues are comprised of the following:

- *Capitation* – Capitated premiums are calculated based on a fixed premium per member per month and are recognized as revenue and generally collected in the month in which the Company is obligated to provide service to such members.

  Capitated premium rates also include funds designated for distribution to designated organizations in order to promote continued access to quality care for members. The Company is required to remit these funds, net of the premium assessment, directly to the designated organizations. The premiums revenue earned under this program that was not received as of year-end is included in Premiums receivable on the accompanying Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus, with a corresponding liability for amounts due to the designated organizations included in Accrued medical expenses.

  The Company is required to expend a minimum percentage of capitated premiums on eligible medical expense. To the extent that the Company expends less than the minimum percentage of capitated premiums on eligible medical cost, the Company is required to refund all or some portion of the difference between the minimum and the actual allowable medical expense incurred. The Company estimates the amounts due as a reduction of capitation premium.

- *Quality incentives* - Incentive revenues can be earned when certain quality thresholds are met. These incentives are generally recognized as revenue in the period such revenues are reasonably estimable and are settled upon expiration of the measurement period, which typically occurs within the subsequent contract year. Premium incentives recognized were $12,494 and $11,463 for the years ended December 31, 2019 and 2018, respectively.

- *Risk-sharing arrangement* – The risk-sharing arrangement provides a risk corridor whereby premiums received are compared to actual medical costs incurred during the contract year. If actual medical costs incurred vary from premiums received by an amount greater or less than a predetermined threshold, an adjustment is recorded to premiums revenue. Premiums related to risk sharing arrangements are reasonably estimable and adjustments are made to those estimates based on actual experience. Due to the nature of this arrangement, the settlement of related balances could extend into future reporting periods.

- *Other* – Includes premiums related to supplemental services provided, such as maternity deliveries. Premiums for supplemental services are reasonably estimable based on historical trends and adjustments are made to those estimates based on actual experience.

To the extent that premium payments differ from recorded revenue, the amount of the difference is recorded as either premiums receivable or premium overpayments until such time that the differences are resolved. The Company regularly evaluates the collectability of its premiums receivable.

ACA Assessment

SSAP No. 106, *Affordable Care Act Section 9010 Assessment*, provides specific guidance related to the assessment in Section 9010 of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (as amended, collectively, referred to as the ACA). Pursuant to this section of the ACA, qualifying health insurers are subject to an annual fee for each calendar year. This annual fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the aggregate amount of health premiums written for any U.S. health insurance provider during the preceding calendar year. A health insurance entity's portion of the annual fee is paid no later than September 30 of the applicable calendar year and is not tax deductible. The liability and expense related to the assessment is estimated and recorded in full on January 1 once the entity provides qualifying health insurance in the applicable calendar year in which the assessment is paid.

During the data year preceding the calendar year in which the fee is payable, qualifying health insurers are required to reclassify from unassigned funds to special surplus the amount of the estimated subsequent fee year assessment. This segregation is accrued monthly throughout the data year and has no impact on total capital and surplus.

Premiums written amounted to $1,149,101 for the year ended December 31, 2019, which are the basis for the determination of the ACA assessment to be paid in the subsequent year. The Company estimates its portion of the ACA assessment payable in September 2020 to be $22,150, which is reflected as Special surplus on the accompanying 2019 Statutory Statement of Changes in Capital and Surplus.

The Consolidated Appropriations Act of 2018 suspended collection of the health insurance fee for the 2019 calendar year. Thus, premiums written during 2018 were not subject to this assessment and segregation of surplus was not required as of December 31, 2018.

(In thousands)

Total capital and surplus and authorized control level as of December 31, 2019 and 2018 are as follows:

		2019		2018
Capital and surplus	$	99,985	$	86,979
Authorized control level		32,788		29,077

Total capital and surplus and authorized control level adjusted to reflect the estimated impact of the subsequent year assessment as if it had been recognized as of December 31, 2019 and 2018 are as follows:

		2019		2018
Capital and surplus	$	77,835	$	86,979
Authorized control level		32,788		29,077

If the estimate of the 2019 data year fee, as reported in Special surplus, had been recognized in the 2019 Statutory Statement of Revenues and Expenses, the Company would still have been in compliance with the minimum capital and surplus requirements. No segregation of surplus was required as of December 31, 2018.

Medical and Hospital Expenses

Medical and hospital expenses consist of capitation payments for primary care physicians, subcontracted medical services, claims paid on a fee-for service basis based upon contracted rates with providers, and prescription drug costs, net of rebates. Rebates are recognized when earned according to the contractual arrangements with the drug manufacturer, which is more fully described in Note 10.

Accrued medical expenses and Unpaid claims adjustment expenses include medical expenses billed and not paid, an estimate for costs incurred but not reported (IBNR), and estimated costs to process these claims. The Company determines IBNR in accordance with actuarial principles and assumptions that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. Actuarial Standards of Practice require that the liabilities be adequate under moderately adverse circumstances. Actuarial estimates are based upon authorized healthcare services, past claims payment experience, member census, and other relevant factors.

To estimate IBNR the Company uses the triangulation method. The triangulation method uses estimates of completion factors, which are then applied to the total paid claims net of coordination of benefits to date for each incurred month. This provides an estimate of the total projected incurred claims and total amount outstanding of claims incurred but not reported. Consideration is also given to changes in turnaround time and claims processing, which may impact completion factors. The Company utilizes a medical loss ratio reserve methodology until there is sufficient paid claims data to rely on the triangulation method. The Company consistently applies its reserving methodology from period to period and periodically reviews actual and anticipated experience compared to the assumptions used to establish medical costs.

The estimation of IBNR utilizes a high degree of judgment. As a result, considerable variability and uncertainty is inherent in such estimates and the adequacy of such estimates is highly sensitive to changes in assumed completion factors and assumed health care cost trends. At each reporting date, the Company recognizes the actuarial best estimate of the ultimate liability considering the potential volatility in these factors. While the Company believes the accrual for medical expenses is adequate, actual claim payments could materially differ from such estimates. The Company recognizes any change in estimates in medical expenses in the period in which the change is identified.

Premium Deficiency Reserves

The Company establishes reserves, if required, for the probability that future healthcare and contractual maintenance costs will exceed anticipated future premiums and reinsurance recoveries on those contracts. The premium deficiency reserves are reviewed periodically and any change in estimate is recognized in the period in which it is identified. Anticipated investment income is not utilized in the calculation of such premium deficiency reserves. A premium deficiency reserve of $3,800 was recorded as of December 31, 2019 as the contracted premium rates in effect through December 31, 2020 were determined to be insufficient to provide for estimated medical and administrative expenses related to such period.

Premium Assessment

Louisiana health maintenance organizations (HMOs) are assessed a 5.50% state tax on the premiums revenue received. The premiums revenue paid to the HMOs is increased to account for the cost of the tax. Taxes incurred under this program amounted to $63,233 and $60,516 for the years ended December 31, 2019 and 2018, respectively, and are included within Administrative expenses on the accompanying Statutory Statements of Revenues and Expenses.

Income Taxes

The Company is a Louisiana Insurance Company that is subject to state and federal income tax. Deferred income tax assets and liabilities represent the expected future federal tax consequences of temporary differences generated by statutory accounting. Deferred tax assets (DTAs) and deferred tax liabilities (DTLs) are computed by means of identifying temporary differences, which are measured using a balance sheet approach whereby statutory and tax-basis balance sheets are compared.

The Company is subject to federal income taxes under provisions of Section 1012.b of the Tax Reform Act of 1986 and the newly enacted Tax Cuts and Jobs Act (H.R. 1) (Tax Reform Bill). The financial statement effects of a change in tax law are recorded as a component of capital and surplus.

Pursuant to SSAP No. 101, *Income Taxes,* gross DTAs are first reduced by a statutory valuation allowance adjustment to an amount that is more likely than not to be realized (adjusted gross DTAs). Adjusted gross DTAs are then admitted in an amount equal to the sum of paragraphs a, b, and c below:

a) Federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a timeframe corresponding with Internal Revenue Service tax loss carryback provisions.

b) The amount of adjusted gross DTAs, after the application of paragraph a. above, expected to be realized within the applicable period and that is no greater than the applicable percentage, as determined using the applicable Realization Threshold Limitation Table. The applicable period refers to the number of years in which the DTA will reverse in the Company's tax return and the applicable percentage refers to the percentage of the Company's statutory capital and surplus as required to be shown on the Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus adjusted to exclude any net DTAs, EDP equipment and operating system software, and any net positive goodwill (Stat Cap ExDTA). The Realization Threshold Limitation Tables allow DTAs to be admitted based upon either realization within 3 years and 15% of Stat Cap ExDTA, 1 year and 10% of Stat Cap ExDTA, or no DTA admitted pursuant to this paragraph. In general, the Realization Threshold Limitation Tables allow the Company to admit more DTAs if total DTAs as reported by the Company are a smaller percentage of statutory capital and surplus.

c) The amount of gross DTAs, after the application of paragraphs a. and b. above that can be offset against existing gross DTLs. In applying this offset, the Company considers the character (i.e. ordinary versus capital) of the DTAs and DTLs such that offsetting would be permitted in the tax return under existing enacted federal income tax laws and regulations and the reversal patterns of temporary differences.

Changes in DTAs and DTLs are recognized as a separate component of gains and losses in surplus except to the extent allocated to changes in unrealized gains and losses. Changes in DTAs and DTLs allocated to unrealized gains and losses are netted against the related changes in unrealized gains and losses and are reported as a change in net unrealized capital gains, which is also a separate component of gains and losses in surplus.

The Company is a member of a tax sharing agreement that specifies the manner in which the group will share the consolidated tax liability and also how certain tax attributes are to be treated among members of the group. Current and deferred taxes are allocated to the Company under the modified separate-return method (or benefits for loss method). Under this method, the Company is assumed to file a separate return with the taxing authority, thereby reporting its taxable income or loss and paying the applicable tax or receiving the appropriate refund as if the Company was a separate taxpayer, except that net operating losses (or other current or deferred tax attributes) are characterized as realized (or realizable) by the Company when those tax attributes are realized (or realizable) by the consolidated federal tax return group even if the Company would not otherwise have realized the attributes on a stand-alone basis.

During 2019, the tax sharing agreement was amended and restated, by which BMH LLC (BMH), the indirect parent of ACHP, replaced AMHP Holdings Corp. (Holdings), a wholly owned subsidiary of ACHP, as the common parent of the tax group effective for the 2019 tax year. As such, the Company is included in the consolidated federal income tax return of BMH for the 2019 tax year, which includes the aggregate taxable income or loss of BMH and its subsidiaries. For the 2018 tax year, the Company was included in the consolidated federal income tax return of Holdings, which included the aggregate taxable income of Holdings and its subsidiaries.

Regulation

Under applicable Louisiana state laws and regulations, the Company is required to maintain a minimum net worth of $3,000. The Company is also required by the State of Louisiana to maintain a minimum regulatory deposit as discussed in Note 2. As of December 31, 2019 and 2018, the Company is in compliance with these requirements.

(In thousands)

The NAIC adopted Risk Based Capital (RBC) standards for health organizations, including HMOs, that are designed to identify weakly capitalized companies by comparing each company's adjusted capital and surplus to its required capital and surplus (RBC Ratio). The RBC Ratio is designed to reflect the risk profile of the Company. Within certain ratio ranges, regulators have increasing authority to take action as the RBC Ratio decreases. There are four levels of regulatory action, ranging from requiring insurers to submit a comprehensive plan to the state insurance commissioner to requiring the state insurance commissioner to place the insurer under regulatory control. As of December 31, 2019 and 2018, the Company's statutory surplus exceeded the level required pursuant to the RBC calculation.

Contingencies

The Company accrues for loss contingencies associated with outstanding litigation, claims and assessments for which it has determined it is probable that a loss contingency exists and the amount of loss can be reasonably estimated. The Company expenses professional fees associated with litigation, claims and assessments as incurred.

(3) Business Concentration

The Company's premiums revenue for the years ended December 31, 2019 and 2018 is comprised of revenue received from the State of Louisiana Department of Health (LDH). The Company's contract with LDH expires on December 31, 2020. The discontinuation of involvement with LDH could have a material adverse effect on the future operations of the Company.

The ACA made broad-based changes to the U.S. health care system. Continuous efforts of the U.S Presidential and other government offices to either repeal, amend, or restrict funding for various aspects of the ACA create uncertainty about the future of the ACA. The Further Consolidated Appropriations Act of 2020, passed on December 20, 2019, included a full repeal, with various effective dates, of three taxes originally imposed by the ACA: the 40% Excise Tax on employer-sponsored coverage (the Cadillac Tax), the Health Insurance Industry Fee, and the Medical Device Tax. All remaining provisions of the law remain in effect. The Company's results of operations, financial position, and liquidity could be materially and adversely affected by future changes to the ACA.

(4) Restricted Assets

As of December 31, 2019 and 2018, the Company's restricted assets consisted of the following:

	Total gross restricted			Percentage of total	Percentage of admitted
	2019	2018	Change	assets	assets
On deposit with the State of Louisiana:					
Restricted investment securities	$ 1,000	$ 1,009	$ (9)	0.3%	0.3%

(In thousands)

(5) Investment Securities

The Company's investment securities consisted of the following as of December 31, 2019 and 2018:

	December 31, 2019			
	Cost/ Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Industrial and miscellaneous	$ 16,034	$ 10	$ (3)	$ 16,041

	December 31, 2018			
	Cost/ Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Industrial and miscellaneous	$ 11,973	$ 1	$ (4)	$ 11,970

The statement value and estimated fair value of debt securities by contractual maturity date as of December 31, 2019 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Statement value	Fair value
Due within one year	$ 13,769	$ 13,774
Due after one year through five years	2,265	2,267
Total debt securities	$ 16,034	$ 16,041

Proceeds from the sale of investment securities and the related gross realized gains and losses for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Proceeds on sales	$ 10,852	$ —
Gross realized gains	73	—
Gross realized losses	—	—

(In thousands)

The estimated fair value and unrealized losses for securities in a temporary unrealized loss position as of December 31, 2019 and 2018 are as follows:

	December 31, 2019					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Description of securities:						
Industrial and miscellaneous	$ 3,690	$ (3)	$ —	$ —	$ 3,690	$ (3)

	December 31, 2018					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Description of securities:						
Industrial and miscellaneous	$ 4,221	$ (4)	$ —	$ —	$ 4,221	$ (4)

The unrealized losses on these investments were primarily due to a widening of credit spreads rather than a decline in credit quality. The Company believes, based on its analysis, that these securities are not other-than-temporarily impaired. However, depending on developments involving both the issuers and overall economic conditions, these investments may be impaired in the future.

(6) Fair Value Measurement

Certain assets and liabilities are measured at fair value on the accompanying Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus. The fair values are based on valuations that include inputs that can be classified within one of three levels of a hierarchy. The levels of the hierarchy and related inputs for each level are as follows:

Level 1 – Unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in nonactive markets;
- Inputs other than quoted prices that are observable for the asset/liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

(In thousands)

When available, the Company uses quoted values and other data as inputs to determine the fair values of its investments and classifies these assets and liabilities in Level 1. For securities not actively traded, fair value is estimated using valuation methodologies based on available and observable market information or matrix pricing. These financial assets and liabilities are classified as Level 2.

Securities with fixed maturities other than U.S. Treasury securities generally do not trade in an active market. The fair value estimates of such fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value of the Company's investment securities are disclosed as Level 2 of the fair value hierarchy as of December 31, 2019 and 2018.

(7) Fixed Assets

As of December 31, 2019 and 2018, the Company's fixed assets consist of the following:

	December 31, 2019			December 31, 2018		
	EDP equipment and software	Furniture and fixtures and leasehold improvements	Total	EDP equipment and software	Furniture and fixtures and leasehold improvements	Total
Cost basis	$ 47	1,896	$ 1,943	$ 90	$ 1,858	$ 1,948
Accumulated depreciation	(36)	(1,489)	(1,525)	(75)	(1,193)	(1,268)
Nonadmitted assets	—	(407)	(407)	—	(665)	(665)
Admitted balance	$ 11	$ -	$ 11	$ 15	$ —	$ 15

Depreciation and amortization expense charged to operations was $301 and $257 for the years ended December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, the Company disposed of fully depreciated fixed assets that were no longer in service in the amount of $44 and $106, respectively.

(8) Accrued Medical Expenses and Unpaid Claims Adjustment Expenses

Activity in Accrued medical expenses and Unpaid claims adjustment expenses is summarized as follows:

	2019	2018
Balance, beginning of year	$ 144,079	$ 142,827
Incurred related to:		
Current year	1,064,754	977,669
Prior year	(9,211)	(23,681)
Total incurred	1,055,543	953,988
Paid related to:		
Current year	893,069	834,539
Prior year	133,918	118,197
Total paid	1,026,987	952,736
Balance, end of year	$ 172,635	$ 144,079

Reserves for incurred claims and unpaid claim adjustment expenses attributable to insured events of prior years decreased by $9,211 from $144,079 in 2018 to $134,868 in 2019 and by $23,681 from $142,827 in 2017 to $119,146 in 2018. Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions as well as changes in utilization and loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

(9) Related-Party Transactions

The Company subcontracts the administrative portion of certain services, such as claims processing, to AmeriHealth Caritas Services, LLC (ACS), an affiliate of ACHP under common ownership. Total costs incurred related to these administrative services were $54,689 and $48,234 for the years ended December 31, 2019 and 2018, respectively, and are included in both Administrative expenses and Claims adjustment expenses on the accompanying Statutory Statements of Revenues and Expenses.

The Company maintains a Staffing Services Agreement (Agreement) with ACS for an initial term of five years, with an automatic annual renewal thereafter unless terminated by either party pursuant to the Agreement. In connection with the Agreement, ACS furnishes to the Company employees necessary to carry out the business operations of the Company. Costs incurred related to the compensation and benefits for the assigned employees amounted to $22,450 and $21,318 for the years ended December 31, 2019 and 2018, respectively, and are included in both Administrative expenses and Claims adjustment expenses on the accompanying Statutory Statements of Revenues and Expenses.

PerformRx, LLC (PerformRx), a wholly owned subsidiary of ACHP, provides pharmacy benefit management (PBM) services to the Company. Total costs incurred for these services were $6,472 and $5,515 for the years ended December 31, 2019 and 2018, respectively, and are included in both Administrative expenses and Claims adjustment expenses on the accompanying Statutory Statements of Revenues and Expenses.

PerformSpecialty, LLC (PerformSpecialty), a wholly owned subsidiary of PerformRx, supplies specialty pharmacy drugs to the Company through a pharmacy provider contract between PerformRx and PerformSpecialty. Pharmacy costs incurred related to drugs purchased from PerformSpecialty were $6,547 and $6,042 for the years ended December 31, 2019 and 2018, respectively, and are included in Medical and hospital expenses on the accompanying Statutory Statements of Revenues and Expenses. Amounts due to PerformSpecialty were $173 and $184 as of December 31, 2019 and 2018, respectively, and are included in Accrued medical expenses on the accompanying Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus.

As discussed in Note 2, the Company is party to an affiliated tax allocation agreement. BMH delegates certain functions under this agreement to ACS, including the administration of federal and state income tax payments on behalf of the downstream consolidated group. Amounts due under this agreement were $332 and $595 as of December 31, 2019 and 2018, respectively, and are presented within federal income tax recoverable on the accompanying Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus.

(In thousands)

As of December 31, 2019 and 2018, Due to affiliates is comprised of the following:

	2019	2018
ACS	$ 6,692	$ 6,022
PerformRx	1,032	499
	$ 7,724	$ 6,521

The Company received capital contributions in the amount of $51,300 and $0 during the years ended December 31, 2019 and 2018, respectively.

On August 14, 2018, the Company declared a $9,400 dividend distribution to ACHP, which was paid on September 7, 2018.

(10) Pharmacy Rebates Receivable

As discussed in Note 9, PerformRx provides PBM services to the Company and maintains the contractual arrangements with the drug manufacturers for rebates that cover the Company's membership. The Company receives those rebates collected by PerformRx relating to the Company's membership on a quarterly basis pursuant to the agreement. In accordance with SSAP No. 84, pharmacy rebates receivable of $829 and $1,397 as of December 31, 2019 and 2018, respectively, were nonadmitted.

Quarter Ended	Admitted pharmacy rebates receivable	Actual rebates collected to date
December 31, 2019	$ 403	$ —
September 30, 2019	762	—
June 30, 2019	—	742
March 31, 2019	1,558	1,509
December 31, 2018	1,487	1,591
September 30, 2018	1,486	1,514
June 30, 2018	1,444	1,483
March 31, 2018	1,504	1,418

(In thousands)

(11) Income Taxes

Components of the net DTAs as of December 31, 2019 and 2018 are as follows:

	December 31, 2019		
	Ordinary	Capital	Total
Gross DTAs	$ 9,555	$ —	$ 9,555
Statutory valuation allowance adjustments	(9,498)	—	(9,498)
Adjusted gross DTAs	57	—	57
DTAs nonadmitted	—	—	—
Subtotal net admitted DTAs	57	—	57
DTLs	(57)	—	(57)
Net admitted DTAs	$ —	$ —	$ —

	December 31, 2018		
	Ordinary	Capital	Total
Gross DTAs	$ 2,075	$ —	$ 2,075
Statutory valuation allowance adjustments	—	—	—
Adjusted gross DTAs	2,075	—	2,075
DTAs nonadmitted	(762)	—	(762)
Subtotal net admitted DTAs	1,313	—	1,313
DTLs	(66)	—	(66)
Net admitted DTAs	$ 1,247	$ —	$ 1,247

	Change		
	Ordinary	Capital	Total
Gross DTAs	$ 7,480	$ —	$ 7,480
Statutory valuation allowance adjustments	(9,498)	—	(9,498)
Adjusted gross DTAs	(2,018)	—	(2,018)
DTAs nonadmitted	762	—	762
Subtotal net admitted DTAs	(1,256)	—	(1,256)
DTLs	9	—	9
Net admitted DTAs	$ (1,247)	$ —	$ (1,247)

(In thousands)

The amount of gross DTAs admitted under each component of SSAP No. 101 for the years ended December 31, 2019 and 2018 is as follows:

	December 31, 2019		
	Ordinary	**Capital**	**Total**
A. Federal income taxes paid in prior years recoverable through loss carrybacks	$ —	$ —	$ —
B. Adjusted gross DTAs expected to be realized after application of the threshold limitations:			
1. Adjusted gross DTAs expected to be realized following the balance sheet date	—	—	—
2. Adjusted gross DTAs allowed per limitation threshold	14,996	—	14,996
Lesser of B1 or B2	—	—	—
C. Adjusted gross DTAs offset by gross DTLs	57	—	57
Admitted DTAs as the result of application of SSAP No. 101	$ 57	$ —	$ 57

	December 31, 2018		
	Ordinary	**Capital**	**Total**
A. Federal income taxes paid in prior years recoverable through loss carrybacks	$ 1,247	$ —	$ 1,247
B. Adjusted gross DTAs expected to be realized after application of the threshold limitations:			
1. Adjusted gross DTAs expected to be realized following the balance sheet date	—	—	—
2. Adjusted gross DTAs allowed per limitation threshold	8,572	—	8,572
Lesser of B1 or B2	—	—	—
C. Adjusted gross DTAs offset by gross DTLs	66	—	66
Admitted DTAs as the result of application of SSAP No. 101	$ 1,313	$ —	$ 1,313

(Continued)

(In thousands)

	Change		
	Ordinary	Capital	Total
A. Federal income taxes paid in prior years recoverable through loss carrybacks	$ (1,247)	$ —	$ (1,247)
B. Adjusted gross DTAs expected to be realized after application of the threshold limitations:			
1. Adjusted gross DTAs expected to be realized following the balance sheet date	—	—	—
2. Adjusted gross DTAs allowed per limitation threshold	6,424	—	6,424
Lesser of B1 or B2	—	—	—
C. Adjusted gross DTAs offset by gross DTLs	(9)	—	(9)
Admitted DTAs as the result of application of SSAP No. 101	$ (1,256)	$ —	$ (1,256)

	December 31	
	2019	2018
(a) Ratio percentage used to determine recovery period and threshold limitation amount	305%	295%
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation above	$ 99,974	$ 85,717

There was no impact from tax planning strategies on the Company’s adjusted gross DTAs or net admitted DTAs as of December 31, 2019 or 2018. The Company’s tax-planning strategies do not include the use of reinsurance tax-planning strategies.

There are no temporary differences for which DTLs are not recognized.

There are no unrecognized DTLs for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures. There are no unrecognized DTLs for temporary differences.

The valuation allowance adjustments to gross DTAs were $9,498 and $0 as of December 31, 2019 and 2018, respectively. The net change in the total valuation allowance adjustments for the years ended December 31, 2019 and 2018 was an increase of $9,498 and $0, respectively.

(In thousands)

Components of deferred income taxes as of December 31, 2019 and 2018 are as follows:

		2019		2018		Change
Assets:						
Ordinary:						
Start-up costs	$	618	$	704	$	(86)
Fixed assets		253		229		24
Discounting of unpaid losses		304		300		4
Premium deficiency reserve		798		—		798
Net operating loss carry-forward		6,216		—		6,216
Nonadmitted assets		1,232		842		390
Other		134		—		134
Subtotal		9,555		2,075		7,480
Nonadmitted ordinary DTAs		—		(762)		762
Statutory valuation allowance adjustment		(9,498)		—		(9,498)
Admitted ordinary DTAs		57		1,313		(1,256)
Liabilities:						
Ordinary:						
Discounting of unpaid losses		57		66		(9)
DTLs		57		66		(9)
Net DTAs	$	—	$	1,247	$	(1,247)

The change in the net deferred income taxes is comprised of the following:

		2019		2018		Change
Total assets	$	9,555	$	2,075	$	7,480
Total liabilities		(57)		(66)		9
Net assets		9,498		2,009		7,489
Statutory valuation allowance adjustment		(9,498)		—		(9,498)
Change in net deferred income taxes	$	—	$	2,009	$	(2,009)

(Continued)

(In thousands)

A reconciliation of income tax at the statutory federal rate to income tax at the effective rate for the years ended December 31, 2019 and 2018 is as follows:

		2019		2018
Current federal income tax (benefit) expense	$	(332)	$	6,127
Change in net deferred income taxes		2,009		(98)
Total income tax expense reported	$	1,677	$	6,029
(Loss) income before federal income tax (benefit) expense	$	(35,522)	$	8,761
Statutory federal tax rate		21%		21%
Expected income tax (benefit) expense at statutory federal tax rate		(7,460)		1,840
Adjustments to income tax resulting from:				
Nondeductible expenses for meals and entertainment		5		4
Change in valuation allowance adjustment		9,498		—
Change in nonadmitted assets		(390)		(100)
ACA assessment		—		4,285
Other		24		—
Total income tax expense reported	$	1,677	$	6,029

The Company is included in the consolidated federal income tax return of BMH. The Company's federal income tax return is consolidated with the following entities:

- BMH, LLC
- AMHP Holdings Corp.
- AmeriHealth Caritas District of Columbia, Inc.
- Select Health of South Carolina, Inc.
- AmeriHealth Caritas Iowa, Inc.
- Community Behavioral Healthcare Network of Pennsylvania, Inc.
- AmeriHealth Caritas Delaware, Inc.
- AmeriHealth Michigan, Inc.
- AmeriHealth Caritas Texas, Inc.
- CBHNP Services, Inc.
- AmeriHealth Caritas New Hampshire, Inc.
- AmeriHealth Caritas New Mexico, Inc.
- AmeriHealth Caritas North Carolina, Inc.
- AmeriHealth Caritas West Virginia, Inc.
- AmeriHealth Caritas Ohio, Inc.
- BMH Subco I LLC
- AmeriHealth Caritas Indiana, LLC
- Keystone Family Health Plan
- PerformSpecialty, LLC

(In thousands)

- Florida True Health, Inc.
- AmeriHealth Caritas Minnesota, Inc.
- AmeriHealth Caritas Services, LLC
- BMH Subco II LLC
- AmeriHealth Caritas Health Plan
- PerformRx, LLC

The tax sharing agreement, as discussed in Note 2, specifies the manner in which the group will share the consolidated tax liability and also how certain tax attributes are to be treated among members of the group. Under the tax sharing agreement, the Company pays to or receives from BMH the amount, if any, by which the federal income tax liability was affected as a result of including the Company in the group.

(12) Leases

The Company maintains non-cancelable operating lease agreements for facilities expiring on various dates. The monthly base rent amount includes scheduled increases as defined in the agreements. The Company is also responsible for real estate taxes, utilities, and all other expenses associated with the operation of its leased facilities. Rent expense for operating leases amounted to $922 and $849 for the years ended December 31, 2019 and 2018, respectively, and is included in Administrative expenses on the accompanying Statutory Statements of Revenues and Expenses. Recognition of rent expense on a straight-line basis in accordance with SSAP No. 22, *Leases*, resulted in deferred rent of $13 and $15 as of December 31, 2019 and 2018, respectively, which is included within Accounts payable and accrued expenses on the accompanying Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus.

Future minimum lease payments under such non-cancelable lease agreements as of December 31, 2019 are as follows:

2020	$	909
2021		893
2022		874
2023		889
2024 and thereafter		600
	$	4,165

(13) Contingencies

In the ordinary course of business, the Company is involved in and is subject to claims, contractual disputes with providers, and other uncertainties. The Company records reserves and accrues costs for certain legal proceedings and regulatory matters to the extent that it determines an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. While such reserves and accrued costs reflect the Company's best estimate of the probable loss for such matters, the recorded amounts may differ materially from the actual amount of any such losses. In some cases, no estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made because of the inherently unpredictable nature of legal and regulatory proceedings, which may be exacerbated by various factors.

(In thousands)

As of the balance sheet date, amounts accrued for legal proceedings and regulatory matters were not material. However, it is possible that in a particular quarter or annual period the Company's financial position, results of operations, and/or liquidity could be materially adversely affected by an ultimate unfavorable resolution of or development in legal and/or regulatory proceedings. The Company believes that the ultimate outcome of any of the regulatory and legal proceedings that are currently pending against it should not have a material adverse effect on financial position, results of operations, or liquidity.

(14) Reconciliation to GAAP

The following schedule reconciles total capital and surplus in accordance with NAIC SAP reflected in the accompanying Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus to stockholder's equity as of December 31, 2019 and 2018, as determined under GAAP:

	2019	2018
Total Capital and surplus as reported in the accompanying Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus	$ 99,985	$ 86,979
Net unrealized gains on investments	131	71
Difference between GAAP and statutory net DTA	—	(856)
Nonadmitted assets excluded from capital and surplus:		
Fixed assets, net	136	665
Deferred income taxes	—	762
Healthcare receivables	4,986	3,174
Prepaid expenses and other	744	170
Stockholder's equity as determined under GAAP	$ 105,982	$ 90,965

For the years ended December 31, 2019 and 2018, statutory Net (loss) income of ($35,190) and $2,634, respectively, reported in accordance with NAIC SAP, differed from GAAP Net (loss) income of ($35,665) and $2,639, respectively, primarily due to different accounting treatment of deferred tax assets.

(15) Subsequent Events

For statutory reporting purposes, management has evaluated events and transactions occurring subsequent to year-end through March 1, 2020, the date that the 2019 annual statement was filed with the NAIC, for potential recognition and disclosure. Management continued to evaluate events and transactions occurring subsequent to year-end through March 26, 2020, the date that the audited statutory financial statements were available to be issued, for potential recognition and disclosure. Management determined that the following event meets the definition of a subsequent event under the scope of SSAP No. 9, *Subsequent Events*:

- In March 2020, the World Health Organization identified the spread of a new strain of the coronavirus, COVID-19, as a pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which could have a material impact on the Company's financial condition, results of operations, and cash flows. The extent of the impact of COVID-19 on the Company's financial statements will depend on certain developments, including the duration and spread of the outbreak and impact on our members and our operations, all of which are uncertain and cannot be predicted at this time.

No additional events or transactions require recognition or disclosure in the statutory financial statements.

SUPPLEMENTAL EXHIBITS TO STATUTORY FINANCIAL STATEMENTS

AMERIHEALTH CARITAS LOUISIANA, INC.

Supplemental Investment Risk Interrogatories

December 31, 2019

(In thousands)

Total admitted assets as of December 31, 2019: $303,428

1. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the appendix to the *SVO Practices and Procedures Manual* as exempt; (ii) property occupied by the Company; and (iii) policy loans.

Issuer	Investment category		Statement value	Percentage of total admitted assets
a. Regions Trust Cash Sweep	Cash Equivalent	$	3,249	1.1%
b. Caterpillar Finl Svcs Mtns BE	Bonds		1,900	0.6
c. State Str Corp	Cash Equivalent		1,860	0.6
d. Nordea Bk AB Mtn 144A	Cash Equivalent		1,856	0.6
e. Siemens Fin NV	Cash Equivalent		1,855	0.6
f. UBS AG Stamford BRH	Bonds		1,848	0.6
g. GS Bk USA Instl Ctf Dep	Bonds		1,845	0.6
h. ING U S FDG LLC IAM COMLP 4/A2	Cash Equivalent		1,845	0.6
i. Toyota Motor Cred	Cash Equivalent		1,845	0.6
j. United Overseas Bk Ltd Disc Co 0%	Cash Equivalent		1,832	0.6

2. State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

Bonds				Preferred stocks			
NAIC-1	$	49,874	16.4%	P/PSF-1	$	—	—%
NAIC-2		3,556	1.2	P/PSF-2		—	—
NAIC-3		—	—	P/PSF-3		—	—
NAIC-4		—	—	P/PSF-4		—	—
NAIC-5		—	—	P/PSF-5		—	—
NAIC-6		—	—	P/PSF-6		—	—

3. The Company holds no foreign investments.

4. The Company holds no Canadian investments.

5. The Company holds no investments with contractual sales restrictions.

6. The Company holds no equity interests.

AMERIHEALTH CARITAS LOUISIANA, INC.

Supplemental Investment Risk Interrogatories

December 31, 2019

(In thousands)

7. The Company holds no nonaffiliated, privately placed equities.
8. The Company holds no general partnership interests.
9. The Company holds no mortgage loans.
10. The Company holds no real estate.
11. The Company holds no mezzanine real estate loans.
12. The Company does not have admitted assets subject to securities lending agreements, repurchase agreements, reverse repurchase agreements, dollar repurchase agreements, or dollar reverse repurchase agreements.
13. The Company does not hold warrants.
14. The Company does not have exposure to collars, swaps, or forwards.
15. The Company does not have exposure for futures contracts.

See accompanying independent auditor's report.

Schedule 2

AMERIHEALTH CARITAS LOUISIANA, INC.

Supplemental Summary Investment Schedule

December 31, 2019

(In thousands)

Investment categories	Gross investment holdings*		Admitted assets as reported in the annual statement	
Bonds:				
U.S. Treasury securities	$ —	—%	$ —	—%
U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
Issued by U.S. government agencies	—	—	—	—
Issued by U.S. government sponsored agencies	—	—	—	—
Foreign government (including Canada, excluding mortgage-backed securities)	—	—	—	—
Securities issued by states, territories, and possessions, and political subdivisions in the United States:				
State, territory, and possession general obligations	—	—	—	—
Political subdivisions of states, territories, and possessions and political subdivisions general obligations	—	—	—	—
Revenue and assessment obligations	—	—	—	—
Industrial development and similar obligations	—	—	—	—
Mortgage-backed securities (includes residential and commercial mortgage-backed securities):				
Pass-through securities:				
Guaranteed by GNMA	—	—	—	—
Issued by FNMA and FHLMC	—	—	—	—
Privately issued	—	—	—	—
CMOs and REMICs:				
Issued by FNMA and FHLMC	—	—	—	—
Privately issued and collateralized by mortgage-backed securities issued or guaranteed by GNMA, FNMA, and FHLMC	—	—	—	—
All other privately issued	—	—	—	—
Other debt and other fixed-income securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by SVO)	14,805	7.40	14,805	7.40
Unaffiliated foreign securities	2,229	1.11	2,229	1.11
Affiliated securities	—	—	—	—
Equity interests:				
Investments in mutual funds	—	—	—	—
Preferred stocks:				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Publicly traded equity securities (excluding preferred stocks):				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Other equity securities:				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Other equity interests including tangible personal property under lease:				
Affiliated	—	—	—	—
Unaffiliated	—	—	—	—
Mortgage loans:				
Construction and land development	—	—	—	—
Agricultural	—	—	—	—
Single-family residential properties	—	—	—	—
Multifamily residential properties	—	—	—	—
Commercial loans	—	—	—	—

(Continued)

Schedule 2

AMERIHEALTH CARITAS LOUISIANA, INC.

Supplemental Summary Investment Schedule

December 31, 2019

(In thousands)

Investment categories	Gross investment holdings*		Admitted assets as reported in the annual statement	
Real estate investments:				
Property occupied by company	$ —	—%	$ —	—%
Property held for production of income	—	—	—	—
Property held for sale	—	—	—	—
Collateral loans	—	—	—	—
Policy loans	—	—	—	—
Receivable for securities	—	—	—	—
Cash, cash equivalents, and short-term investments	183,101	91.49	183,101	91.49
Write-in for invested assets	—	—	—	—
Total invested assets	$ 200,135	100.00 %	$ 200,135	100.00 %

* Gross Investment Holdings as valued in compliance with *NAIC Accounting Practices and Procedures Manual.*

See accompanying independent auditor's report.