Capital Health Plan, Inc.

Financial Statements
December 31, 2023 and 2022

Capital Health Plan, Inc.
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December 31, 2023 and 2022

Report of Independent Auditors

To the Management and Board of Directors of Capital Health Plan, Inc.

Opinion

We have audited the accompanying financial statements of Capital Health Plan, Inc. (the "Company"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, and of cash flows for the years then ended, including 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 as of December 31, 2023 and 2022, 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 audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' 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 audit. 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 from 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 the financial statements are available to be issued.

Auditors' 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 from material misstatement, whether due to fraud or error, and to issue an auditors' 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 US 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 US 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.

PricewaterhouseCoopers LLP

Jacksonville, Florida
March 28, 2024

Capital Health Plan, Inc.
Statements of Financial Position
December 31, 2023 and 2022

(in thousands of dollars)	**2023**	**2022**
Assets		
Current assets		
Cash and cash equivalents	$ 21,865	$ 16,813
Short-term debt securities, available for sale	3,999	3,227
Premiums and other receivables, net	60,102	52,742
Receivables for securities	9,646	4,095
Interest receivable	2,702	2,305
Prepaid expense and inventories	5,155	4,636
Total current assets	103,469	83,818
Property and equipment, net	42,465	42,512
Debt securities, available for sale	472,754	452,022
Equity securities	120,182	103,085
Other assets	5,575	4,938
Total assets	$ 744,445	$ 686,375
Liabilities and Net Assets		
Current liabilities		
Liability for medical claims	$ 87,900	$ 81,113
Unearned premiums	14,332	14,359
Accounts payable and accrued expenses	14,207	12,459
Payable for securities	10,594	6,854
Accrued payroll and other benefits	12,313	12,460
Line of credit	3,894	-
Total current liabilities	143,240	127,245
Noncurrent liabilities		
Deferred compensation payable	5,135	4,463
Accumulated postretirement benefit obligation	7,049	6,493
Total liabilities	155,424	138,201
Net assets without donor restrictions	589,021	548,174
Total liabilities and net assets	$ 744,445	$ 686,375

The accompanying notes are an integral part of these financial statements.

Capital Health Plan, Inc.
Statements of Activities
Years Ended December 31, 2023 and 2022

(in thousands of dollars)	2023	2022
Revenues		
Premiums earned	$ 1,078,673	$ 1,006,141
Other	5,533	5,085
Premiums and other revenues	1,084,206	1,011,226
Investment income, net	32,527	(14,356)
Total revenues	1,116,733	996,870
Expenses		
Medical expenses		
CHP-Incenter services	55,731	52,866
Affiliated primary care	35,352	34,654
Hospital inpatient	263,068	220,253
Physician referrals	218,427	211,380
Emergency care	59,088	46,139
Pharmacy	119,958	112,329
Outpatient	301,971	274,956
Subtotal medical expenses	1,053,595	952,577
Less: Recovery, reinsurance and other party liability	(6,221)	(2,986)
Total medical expenses	1,047,374	949,591
Administrative expenses	44,235	40,832
Total expenses	1,091,609	990,423
Excess of revenues over expenses	25,124	6,447
Nonoperating rental loss	(144)	(154)
Net periodic benefit cost	(686)	(1,403)
Other postretirement benefit changes	40	5,309
Net change in unrealized gains and (losses) on debt investments	16,513	(55,525)
Change in net assets without donor restrictions	40,847	(45,326)
Net assets		
Beginning of year	548,174	593,500
End of year	$ 589,021	$ 548,174

The accompanying notes are an integral part of these financial statements.

Capital Health Plan, Inc.
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

(in thousands of dollars)	2023	2022
Cash flows from operating activities		
Change in net assets without donor restrictions	$ 40,847	$ (45,326)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Amortization of (premium) and discount on investments, net	(460)	1,742
Net change in unrealized (gains) and losses on debt investments	(16,513)	55,525
Net change in unrealized (gains) and losses on equity investments	(18,311)	23,074
Net realized losses on investments	4,353	4,601
Depreciation	3,178	3,486
Change in certain assets and liabilities		
Premiums and other receivables, net	(7,360)	(10,720)
Liability for medical claims	6,787	8,838
Postretirement benefit obligation	556	(3,972)
Other, net	693	(3,139)
Net cash provided by operating activities	13,770	34,109
Cash flows from investing activities		
Purchases of property and equipment	(3,131)	(1,499)
Purchases of debt investments	(260,570)	(269,560)
Purchases of equity investments	(1,040)	(10,977)
Sales and maturities of debt investments	248,229	252,724
Sales of equity investments	3,900	-
Net cash used in investing activities	(12,612)	(29,312)
Cash flows from financing activities		
Net borrowing under line of credit agreement	3,894	-
Net cash provided by financing activities	3,894	-
Net increase in cash and cash equivalents	5,052	4,797
Cash and cash equivalents		
Beginning of year	16,813	12,016
End of year	$ 21,865	$ 16,813
Supplemental disclosure of cash flow information		
Interest paid	$ -	$ 42

The accompanying notes are an integral part of these financial statements.

1. Background

Organization

Capital Health Plan, Inc. (“CHP”) is a not-for-profit federally qualified and state licensed staff model Health Maintenance Organization (“HMO”), which provides health care services to subscribers in Leon and surrounding counties in Florida. CHP offers comprehensive fully insured coverage to large and small group employers, Medicare Advantage members and individual commercial coverage on and off the health insurance exchange.

CHP has an affiliation agreement with Blue Cross and Blue Shield of Florida, Inc., d/b/a Florida Blue, giving Florida Blue majority control of the corporate membership of CHP. Florida Blue is a wholly owned subsidiary of GuideWell Mutual Holding Corporation, a not-for-profit, policyholder owned mutual insurance holding company. The affiliation provides that Florida Blue may supply certain administrative services and products to CHP and also commits Florida Blue to loan CHP operating funds, if necessary.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Prepaid Expense and Inventories

Prepaid expenses are expense payments made in advance for licenses, maintenance and insurance premiums. As of December 31, 2023 and 2022, these prepaid expenses totaled $4.5 million and $4.1 million, respectively.

Inventories, consisting principally of medical and eye care supplies, are stated at the lower of cost or market, using the “first-in, first-out” method. Inventories totaled $0.6 million and $0.5 million for December 31, 2023 and 2022, respectively.

Receivables and Payable for securities

The amounts receivable or payable for investments with settlements pending result from the sales or purchases of investments made prior to the end of the fiscal year, but settled after the fiscal year-end.

Investments

Debt securities are classified as investments available for sale and are reported at fair value. Unrealized gains and losses on fair value adjustments are excluded from the excess of revenues over expenses and are included in the net change in unrealized gains and losses on debt investments in the statements of activities. Debt securities consist primarily of U.S. Government treasury and agency securities (including mortgage-backed), municipal bonds, corporate bonds, and mortgage-backed and asset-backed securities. Investments available for sale with a maturity of less than one year are classified as short-term debt investments available for sale in the statements of financial position. Equity securities are comprised of mutual funds and reported at fair market value. Unrealized gains and losses on equity securities are included in the excess of revenues over expenses in the statements of activities.

Prior to January 1, 2023, the Company applied the other-than-temporary impairment model for securities in an unrealized loss position which did not result in any impairments for 2022. Beginning on January 1, 2023, the Company applied the current expected credit loss ("CECL") model; this model retained many similarities with the previous other-than-temporary impairment model except for eliminating from consideration the length of time over which the fair value had been less than cost. Also, under the CECL model, expected losses on available-for-sale debt securities are recognized through an allowance for credit losses rather than as reductions in the amortized cost of the securities. For debt securities whose fair value is less than their amortized cost which the Company does not intend to sell or is not required to sell, the Company evaluates the expected cash flows to be received as compared to amortized cost and determine if an expected credit loss has occurred. In the event of an expected credit loss, only the amount of the impairment associated with the expected credit loss is recognized in income with the remainder, if any, of the loss recognized below the excess of revenues over expenses. To the extent the Company has the intent to sell the debt security or it is more likely than not the Company will be required to sell the debt security before recovery of its amortized cost basis, the Company recognizes an impairment loss in income in an amount equal to the full difference between the amortized cost basis and the fair value.

Potential expected credit loss impairment is considered using a variety of factors, including the extent to which the fair value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a debt security; changes in the quality of the debt security's credit enhancement; payment structure of the debt security; changes in credit rating of the debt security by the rating agencies; failure of the issuer to make scheduled principal or interest payments on the debt security and changes in prepayment speeds. For debt securities, the Company takes into account expectations of relevant market and economic data. For example, with respect to mortgage and asset-backed securities, such data includes underlying loan level data and structural features such as seniority and other forms of credit enhancements. The Company estimates the amount of the expected credit loss component of a debt security as the difference between the amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate of future cash flows discounted at the implicit interest rate at the date of purchase. The allowance for expected credit loss cannot exceed the full difference between the amortized cost basis and the fair value.

Fair Value

As defined in ASC 820, *Fair Value Measurement*, fair value is 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 (an exit price methodology). Market data and assumptions that are believed to be used by market participants in pricing the asset or liability including assumptions about risk and the risks inherent in the inputs to the valuations technique are utilized. These inputs may be readily observable, market corroborated, or generally unobservable. Valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs are utilized. Fair value balances are then classified based on the observability of those inputs.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash demand deposits and money market funds with original maturities within 90 days or less from the date of purchase. CHP places its cash and cash equivalents with creditworthy financial institutions and thus limits its credit exposure. The carrying amounts of cash and cash equivalents approximate their fair value.

Concentration of Credit Risk

Investments in cash demand deposits are held primarily in accounts with major banks which exceed federally insured amounts. Investments in money market accounts are not federally insured. The financial stability of these institutions and money market accounts are reviewed on a continuous basis. Credit losses are not anticipated. Investments in debt securities are diversified and include securities that are investment grade rated at the time of purchase by nationally recognized statistical rating organizations. Investment credit ratings are continuously reviewed, and holdings are adjusted accordingly.

CHP has concentration of credit risk with respect to unpaid premiums and business volume. CHP maintains the right to terminate coverage for employer groups and individuals who fail to pay premiums timely. CHP has one customer, the State of Florida, that accounts for 33% and 34% of CHP's direct premium income for 2023 and 2022, respectively. CHP has provided health care coverage to State of Florida employees and its retirees for 42 years. CHP has a current contract through 2026, which includes three additional one-year renewal options. While inherently impossible to predict, a loss of the State of Florida contract could have adverse results on CHP operations.

Geographic Concentration Risk

CHP's business is generated within a limited service area. Accordingly, a disruption in membership or revenue within this service area might have a more significant effect on the Company than a more geographically diversified company and could have an adverse impact on CHP's financial condition and operating results.

Recently Adopted Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). Five additional ASU Updates were issued in 2022, 2019, and 2018 to address specific issues and areas for improvements to the new CECL standard. This guidance was effective for private companies beginning January 1, 2023. The new CECL model generally calls for the immediate recognition of all expected credit losses and applies to loans, accounts and trade receivables, other financial assets measured at amortized cost, loan commitments, off-balance sheet credit exposures, debt securities, other financial assets measured at fair value through other comprehensive income, and beneficial interests in securitized financial assets. This guidance replaces the previous incurred loss model for measuring expected credit losses, requires expected losses on available-for-sale debt securities to be recognized through an allowance for credit losses rather than as reductions in the amortized cost of the securities, and provides for additional disclosure requirements. The Company's investment portfolio includes significant available-for-sale debt securities. The Company adopted ASU 2016-13 on January 1, 2023, however, it did not have a material impact to the financial statements and related disclosures.

Long-Lived Assets

Long-lived assets are assessed annually for impairment. An impairment is considered to have occurred only if the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows. Impairment losses are measured as the difference between the carrying amount and the fair value of the long-lived asset. There were no long-lived asset impairments recognized in 2023 and 2022.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method, based on the estimated useful lives of the related assets, which range from three to forty years. Upon retirement or disposal, the asset and corresponding accumulated depreciation are removed from CHP's accounts, and any gain or loss is reflected in operations.

Liability for Medical Claims
The liability for medical claims includes an accrual for incurred but unpaid and unreported claims. The liability is based upon estimates of the eventual net cost of such services provided to members through the end of the year. Estimates of unpaid and unreported claims are based primarily upon claims payment experience. The methods used in determining the liability are periodically reviewed, and any adjustments resulting from these revisions are reflected in current operations. The assumptions used are actuarially based and include adequate provision for all incurred but unpaid and unreported claims.

Premium Deficiency Reserve
CHP establishes a premium deficiency reserve when it is probable that health care costs will exceed the anticipated premiums of existing contracts. CHP lines of business were analyzed to determine if a premium deficiency reserve was required which includes anticipated investment income. There was no premium deficiency reserve established as of December 31, 2023 and 2022.

Revenue Recognition
All of CHP's individual and group contracts provide for the individual or the group to be fully insured. Premiums for these contracts are billed on a monthly basis in advance of the coverage period and are recognized as revenue earned over the period of coverage. Investment income, net, and Other revenue, which consist primarily of co-payments and fee-for-service income, are recognized when earned.

Accounting for the Medicare Advantage and Part D Prescription Drug Program
CHP offers Medicare Advantage and Part D prescription drug insurance coverage under a contract with the Centers for Medicare & Medicaid Services ("CMS"). Premiums received in advance are recorded as unearned premiums. Costs for covered medical and prescription drugs are expensed as incurred. CMS utilizes a risk adjustment model which adjusts the payment for enrollees based on the underlying health condition of the beneficiaries. Under this model, member payments are adjusted in subsequent periods after CHP has submitted the final medical diagnosis information to CMS. CHP recorded net premium payable of $1.2 million and net premium receivable of $7.5 million for these unsettled premiums at December 31, 2023 and 2022, respectively.

Under the Medicare Part D program, a risk sharing arrangement provides a risk corridor whereby the target amount (premiums received from members and CMS based on CHP's annual bid amount less administrative expenses) is compared to actual drug cost incurred during the contract year. Based upon the actual drug expense incurred, a receivable from, or a payable to, CMS is recorded as an adjustment to premiums. Reconciliations for both individual and employer group Medicare members on the final risk sharing, low-income and reinsurance amounts are required annually. CHP recorded a net receivable of $4.2 million and $4.1 million at December 31, 2023 and 2022, respectively.

As a Medicare plan sponsor, CHP administers the Medicare coverage gap subsidy, a discount from pharmaceutical manufacturers on brand drug costs to Medicare Part D enrollees exceeding their initial coverage limit until they qualify for catastrophic coverage. Amounts paid to pharmacies for this discount by CHP are recorded as a receivable in premiums and other receivables, net, until the discount reimbursement is received from the pharmaceutical manufacturers. As of December 31, 2023 and 2022, pharmaceutical manufacturer receivables were $6.5 million and $5.0 million, respectively.

Premiums and Other Receivables, Net

Premiums and other receivables are reported net of an allowance for estimated uncollectible accounts of $0.8 million and $0.7 million at December 31, 2023 and 2022, respectively, which is calculated based upon historical activity and management's estimate of collectability. The carrying amount of CHP's receivables approximate their fair values. None of the receivables are held for sale.

Pharmacy Rebates

Pharmacy rebates ("rebates") are generally volume discounts negotiated with drug manufacturers by CHP's pharmacy benefit manager on behalf of the Company. Rebates are earned when an eligible medication is dispensed to CHP's members. CHP estimates rebates based upon a previous rebate billings to drug manufacturers for the three most recent months and prior months are based on actual amounts invoiced to drug manufacturers. Rebates are recorded in premiums and other receivables and as a reduction to pharmacy medical expense. Pharmacy rebate receivables were $38.2 million and $29.8 million at December 31, 2023 and 2022, respectively.

Health Care Service Cost Recognition

CHP contracts with various health care providers for the provision of certain medical services to its members. CHP compensates these providers on a capitated and noncapitated basis. These expenses are included as components of medical expenses in the statements of activities.

Reinsurance Recognition

Reinsurance premiums are recorded as medical expense when incurred and reinsurance recoveries are recorded as a reduction of medical expense when the eligible insured amount of the event can be estimated.

Malpractice Insurance

Malpractice insurance coverage is provided on a claims-made basis. The claims-made policies, which are subject to renewal on an annual basis, cover only claims made during the term of the policies. CHP is not aware of any claims that arose during the fiscal year that will be reported outside the policy renewal period. Accordingly, no provision for such claims was made for the years ended December 31, 2023 and 2022.

Use of Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, the Company is required to make estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Tax Status

CHP has been granted an exemption from federal income tax under the Internal Revenue Code, Section 501(c)(4). The Internal Revenue Code provides for taxation of certain unrelated business income. CHP had no significant unrelated business income in 2023 and 2022.

4. Liquidity and Available Resources

CHP has $619 million of financial assets available to meet cash needs for general expenditures occurring within one year of the statement of financial position date.

Financial assets available to cover general expenditures are comprised of:

(in thousands of dollars)	2023
Cash and cash equivalents	$ 21,865
Short-term debt securities, available for sale	3,999
Debt securities, available for sale	472,754
Equity securities	120,182
	$ 618,800

None of the financial assets are subject to donor restrictions and $37.5 million of equity securities is subject to collateralized restriction under CHP's secured line of credit agreement (Note 12). Although CHP does not intend to draw from its investments comprised of debt and equity securities for general expenditures, these investments are available for use if necessary. CHP's cash forecasting process structures the liquidity of its financial assets to be available as general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, CHP's secured line of credit in the amount of $30 million can be drawn upon in the event of an unanticipated liquidity need. CHP maintains sufficient financial resources to meet general expenditure needs within one year of December 31, 2023.

5. Premiums and Other Receivables, Net

Receivables at December 31 are summarized as follows:

(in thousands of dollars)	2023	2022
Pharmacy receivables	$ 44,702	$ 34,855
Premiums receivable	8,095	7,803
Other receivables	8,100	10,800
	60,897	53,458
Allowance for uncollectible accounts	(795)	(716)
	$ 60,102	$ 52,742

6. Statement of Functional Expenses

The following tables present expenses by nature and function for the years ending December 31, 2023 and 2022, respectively:

	Medical Expense				
(in thousands of dollars)	Other Services	CHP - Incenter Services	Total Services	Administrative Expenses	Total
2023					
Affiliated primary care	$ 35,352	$ -	$ 35,352	$ -	$ 35,352
Hospital inpatient	263,068		263,068		263,068
Physician referrals	218,427		218,427		218,427
Emergency care	59,088		59,088		59,088
Pharmacy	119,958		119,958		119,958
Outpatient	301,971		301,971		301,971
Recovery, reinsurance and other party liability	(6,221)		(6,221)		(6,221)
Salary and benefits		39,292	39,292	21,574	60,866
Technology, licenses and fees		2,929	2,929	7,180	10,109
Depreciation and occupancy		4,796	4,796	1,578	6,374
Professional services		504	504	3,824	4,328
Other expenses		2,936	2,936	10,079	13,015
Medical supplies		5,274	5,274		5,274
	$ 991,643	$ 55,731	$ 1,047,374	$ 44,235	$ 1,091,609
2022					
Affiliated primary care	$ 34,654	$ -	$ 34,654	$ -	$ 34,654
Hospital inpatient	220,253		220,253		220,253
Physician referrals	211,380		211,380		211,380
Emergency care	46,139		46,139		46,139
Pharmacy	112,329		112,329		112,329
Outpatient	274,956		274,956		274,956
Recovery, reinsurance and other party liability	(2,986)		(2,986)		(2,986)
Salary and benefits		37,537	37,537	20,208	57,745
Technology, licenses and fees		2,466	2,466	6,064	8,530
Depreciation and occupancy		5,026	5,026	1,629	6,655
Professional services		442	442	3,775	4,217
Other expenses		2,721	2,721	9,156	11,877
Medical supplies		4,674	4,674	-	4,674
	$ 896,725	$ 52,866	$ 949,591	$ 40,832	$ 990,423

Direct expenses relating to only one function are directly charged as incurred. Certain categories of expenses and support services are allocated to CHP incenter services and administrative expenses. The allocation method is consistently applied and uses square footage for building depreciation and occupancy, head count and units of service for information technology and head count for human resources support services.

7. Investments

The composition of investments in debt securities at December 31, 2023 and 2022 is set forth in the following table. Investments are carried at fair value and consist of the following:

(in thousands of dollars)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023				
Debt securities				
U.S. Government and agencies	$ 351,638	$ 1,532	$ (28,043)	$ 325,127
Corporate	107,581	649	(6,069)	102,161
Commercial mortgage-backed securities	6,870	9	(604)	6,275
Other	44,926	320	(2,056)	43,190
Total debt securities	$ 511,015	$ 2,510	$ (36,772)	$ 476,753
2022				
Debt securities				
U.S. Government and agencies	$ 347,853	$ 190	$ (37,053)	$ 310,990
Corporate	108,083	55	(9,730)	98,408
Commercial mortgage-backed securities	7,499	-	(738)	6,761
Other	42,589	21	(3,520)	39,090
Total debt securities	$ 506,024	$ 266	$ (51,041)	$ 455,249

The gross unrealized losses and fair value of debt securities, classified by investment category and length of time of such a decline, at December 31, 2023 and 2022 are as follows:

	One Year or Less		More Than One Year		Total	
(in thousands of dollars)	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
2023						
Debt securities						
U.S. Government and agencies	$ 25,731	$ (229)	$ 210,863	$ (27,814)	$ 236,594	$ (28,043)
Corporate	2,981	(42)	76,481	(6,027)	79,462	(6,069)
Commercial mortgage-backed securities	461	(12)	5,352	(592)	5,813	(604)
Other	2,361	(76)	26,434	(1,980)	28,795	(2,056)
Total debt securities	$ 31,534	$ (359)	$ 319,130	$ (36,413)	$ 350,664	$ (36,772)
2022						
Debt securities						
U.S. Government and agencies	$ 151,663	$ (12,509)	$ 144,059	$ (24,544)	$ 295,722	$ (37,053)
Corporate	74,871	(6,102)	19,916	(3,628)	94,787	(9,730)
Commercial mortgage-backed securities	5,529	(496)	1,232	(242)	6,761	(738)
Other	24,745	(1,664)	12,982	(1,856)	37,727	(3,520)
Total debt securities	$ 256,808	$ (20,771)	$ 178,189	$ (30,270)	$ 434,997	$ (51,041)

Our unrealized loss from all debt securities was generated from approximately 3,000 positions out of a total of approximately 4,000 positions at December 31, 2023. Approximately 3,000 of our debt securities in an unrealized loss position were investment-grade quality, with a weighted average credit rating of AA+ at December 31, 2023. All issuers of debt securities owned by the Company that were trading at an unrealized loss at December 31, 2023 remain current on all contractual payments. After taking into account these and other factors previously described, the Company believes these unrealized losses primarily were caused by an increase in market interest rates in the current markets since the time the debt securities were purchased. At December 31, 2023, the Company did not intend to sell any debt securities with an unrealized loss position and it is not likely that the Company will be required to sell these debt securities before recovery of their amortized cost basis. Additionally, the Company did not record any material credit allowances for debt securities that were in an unrealized loss position at December 31, 2023. There were no material other-than-temporary impairments in 2022.

The amortized cost and fair value of debt securities as of December 31, 2023 and 2022 are shown below by expected maturity. Expected maturities may differ from actual maturities due to call or prepayment provisions.

	2023		2022	
(in thousands of dollars)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,046	$ 3,999	$ 3,296	$ 3,227
Due after one year through five years	179,993	175,431	175,002	165,628
Due after five years through ten years	96,861	91,288	102,903	91,127
Due after ten years	230,115	206,035	224,823	195,267
	$ 511,015	$ 476,753	$ 506,024	$ 455,249

Proceeds from maturities of debt securities during 2023 and 2022 were $0 million and $1.5 million, respectively, and are included in Sales and maturities of debt investments in the Statements of Cash Flows.

Proceeds from sales of investments during 2023 and 2022 were $257.7 million and $252.1 million, respectively. Gross gains of $2.0 million and $0.4 million and gross losses of $6.3 million and $5.0 million were realized in 2023 and 2022, respectively. During 2023 and 2022, no realized losses were recorded for the write-down of securities deemed to be other-than-temporarily impaired.

The following is a summary of investment income, net for the years ended December 31, 2023 and 2022:

(in thousands of dollars)	2023	2022
Investment income		
Dividends and interest	$ 18,673	$ 15,580
Amortization of discount and (premium) on investments, net	460	(1,742)
Net realized (losses) and gains on investments	(4,353)	(4,601)
Net change in unrealized gains and (losses) on equity investments	18,311	(23,074)
Total investment income	33,091	(13,837)
Less: Investment expenses	(564)	(519)
Investment income, net	$ 32,527	$ (14,356)

8. Fair Value

Inputs used to measure fair value are prioritized by the fair value hierarchy established by ASC 820. Highest priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and lowest to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy defined by ASC 820 are as follows:

Level 1 Pricing inputs are based on quoted prices available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. United States of America Treasury and agency notes and mutual funds are generally included in this category.

Level 2 Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 generally includes those financial instruments that are valued using models or other valuation methodologies. Corporate bonds and commercial mortgage-backed securities are generally included in this category.

Level 3 Pricing inputs include significant inputs that are generally less observable or unobservable from objective sources and may include internally developed methodologies that result in management's best estimate of fair value from the perspective of a market participant. Fixed-income securities priced solely using broker quotes or other proprietary pricing methodologies are generally included in this category.

The following methods and assumptions were used to determine fair value of each class:

Debt Securities
CHP obtains pricing for debt securities from a single pricing service, Intercontinental Exchange ("ICE") Data Services. Based on CHP's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services, CHP has not historically adjusted the prices obtained from the pricing service. In situations where ICE Data Services does not have multiple observable inputs or the ability to price a given security, a price is obtained from another pricing service or by obtaining nonbinding broker or dealer quotes.

Equity Securities
Fair values are generally designated as Level 1 and are carried at fair value which are based on quoted market prices.

The following table presents disclosures about fair value measurements at December 31, 2023 and 2022 for assets measured at fair value on a recurring basis. The Company did not hold any investments classified as Level 3 during the years ended December 31, 2023 and 2022.

(in thousands of dollars)	**Assets (Level 1)**	**Inputs (Level 2)**	**Total**
2023			
Short-term debt securities available for sale			
U.S. Government and agencies	$ -	$ 3,799	$ 3,799
Corporate	-	-	-
Other	200	-	200
	200	3,799	3,999
Debt securities available for sale			
U.S. Government and agencies	72,457	248,871	321,328
Corporate	-	102,161	102,161
Commercial mortgage-backed securities	-	6,275	6,275
Other	-	42,990	42,990
	72,457	400,297	472,754
Total debt securities available for sale	72,657	404,096	476,753
Equity securities	120,182	-	120,182
Total investments	$ 192,839	$ 404,096	$ 596,935
2022			
Short-term debt securities available for sale			
U.S. Government and agencies	$ -	$ 3,227	$ 3,227
Corporate	-	-	-
Other	-	-	-
	-	3,227	3,227
Debt securities available for sale			
U.S. Government and agencies	71,136	236,627	307,763
Corporate	-	98,408	98,408
Commercial mortgage-backed securities	-	6,761	6,761
Other	201	38,889	39,090
	71,337	380,685	452,022
Total debt securities available for sale	71,337	383,912	455,249
Equity securities	103,085	-	103,085
Total investments	$ 174,422	$ 383,912	$ 558,334

Equity security holdings are comprised of indexed mutual funds with a fair value of $120.2 million and $103.1 million at December 31, 2023 and 2022, respectively, which are valued on a daily basis. These funds may be redeemed, net of fees, daily without restriction.

Transfers between levels are recognized at the beginning of the reporting period. There were no material transfers into or out of levels 1 or 2 in 2023 or 2022.

There were no realized or unrealized gains (losses) included in investment income, net, for the years ended December 31, 2023 and 2022 for Level 3 investments.

9. Property and Equipment, Net

Property and equipment, net, at December 31 consisted of the following:

(in thousands of dollars)	2023	2022
Land	$ 8,327	$ 8,327
Buildings	54,708	53,090
Furniture, fixtures and equipment	19,806	19,183
	82,841	80,600
Accumulated depreciation	(40,376)	(38,088)
	$ 42,465	$ 42,512

Depreciation expense during 2023 and 2022 was $3.2 million and $3.5 million, respectively. During 2023, CHP disposed of fully depreciated equipment that was deemed to be no longer in use.

CHP property subject to lease agreements in which CHP acts as lessor were as follows:

(in thousands of dollars)	2023	2022
Building	$ 6,024	$ 5,909
Less: Accumulated depreciation	(3,079)	(2,763)
	$ 2,945	$ 3,146

10. Leases

CHP leases general office space to several tenants under operating leases. Rent payment terms are generally fixed with annual rate escalators over the term of the lease. The initial terms of the leases typically span multiple years and may contain one or more renewal options to extend the lease terms from three to five years. Lease agreements do not allow for the transfer of title or a purchase option.

The expected lease rent payments remaining based on lease terms, not including extension options as of December are as follows:

(in thousands of dollars)	
2024	$ 759
2025	782
2026	683
2027	398
2028	97
	$ 2,719

11. Commitments and Contingencies

Litigation

In the normal course of business, CHP is routinely involved in litigation with insured parties, beneficiaries, healthcare providers and others. In management's opinion, based upon the advice of external legal counsel, there is no litigation or unasserted claims outstanding that would have a material adverse effect on CHP's financial position, results of operations or cash flows.

Regulatory Environment

The Patient Protection and Affordable Care Act and The Health Care and Education Reconciliation Act of 2010 (collectively referred to as "Health Care Reform") transformed various aspects of, and increased regulation within, the U.S. health insurance industry. The following outlines specific provisions of Health Care Reform that impact CHP's financial position, results of operation and cash flow.

Medical loss ratio ("MLR") regulation of Health Care Reform. Fully insured commercial health plans in the individual and group health insurance markets are required to spend at least 85% of premiums earned from large employer groups and 80% of premiums earned from individual and small group markets on a combination of medical care claims and activities to improve health care quality. The regulations require health plans to provide rebates to policy holders for any portion below these minimum thresholds. As of December 31, 2023 and 2022, CHP's MLR exceeded these requirements and therefore had no rebates due to policyholders. Medicare Advantage and Part D plans are also subject to the 85% requirement. CHP exceeded the MLR minimum threshold for the contract year 2023 and 2022, and therefore had no rebate due to CMS.

As prescribed by Health Care Reform, the risk adjustment program provides for retrospective adjustments of revenue for certain ACA individual and small group plans. The risk adjustment program is designed such that payment to plans with higher relative risk is funded by transfers from plans with lower relative risk. Risk adjustment assessments and distributions are computed based on CHP's risk score versus the overall market risk score after applying adjustments. The risk adjustment program includes a high-cost risk pool which reimburses issuers with members who incur claim costs above $1.0 million at 60 percent. The cost of the high-cost risk pool program is charged to all participating plans based on a percent of premiums. CHP records a risk adjustment receivable or payable, with an adjustment to premiums when the amounts are reasonably estimable and collection is reasonably assured. CHP records charges for the high-cost risk pool premiums in the risk adjustment payable. During 2023 and 2022, CHP paid risk adjustment assessments of $4.8 million and $5.3 million, respectively, and recorded risk adjustments payable of $4.9 million for December 31, 2023 and 2022 for small group plans. During 2023, CHP paid risk adjustment assessments of $0.9 million and recorded risk adjustments receivable of $2.2 million as of December 31, 2023 for ACA individual plans. CHP did not record a high-cost risk pool recovery for the years ended December 31, 2023 and 2022.

12. Line of Credit

In June 2023, CHP amended its $30 million secured Line of Credit Agreement with Capital City Bank, extending the terms until June 30, 2026. Shares in Vanguard Institutional Fund, maintained by the Bank of New York Mellon, secure the line at no less than an 80% loan to collateral value ratio. The agreement includes a variable floating rate of one month secured overnight financing rate ("SOFR") plus 1.40% subject to a minimum interest rate of not less than 1.50% annually. The interest rate was 6.75% and 5.42% at December 31, 2023 and 2022. As of December 31, 2023 and 2022, CHP had $3.9 million and $0 borrowing outstanding, respectively. The agreement governing borrowing includes covenants, which serve to ensure that CHP maintains adequate liquidity. CHP was in compliance with all debt covenants during each year and at December 31, 2023 and 2022.

13. Liability for Medical Claims

Activity in the liability for medical claims is summarized as follows for the years ended December 31:

(in thousands of dollars)	2023	2022
Balances at January 1,	$ 81,113	$ 72,275
Incurred related to		
Current year	851,482	753,963
Prior years	(6,031)	5,899
Total incurred	845,451	759,862
Paid related to		
Current year	763,932	681,487
Prior years	74,732	69,537
Total paid	838,664	751,024
Balances at December 31,	$ 87,900	$ 81,113

The balances above are comprised of claims unpaid ($87.1 million and $80.5 million at December 31, 2023 and 2022, respectively), and unpaid claims adjustment expenses ($0.8 million and $0.6 million for December 31, 2023 and 2022).

Changes in the provision for medical claims attributable to insured events of the prior year are primarily the result of changes in estimates due to changes in medical cost trends that emerged when compared to historical levels. These estimates are reviewed regularly by management and periodically by an independent consulting actuary and are adjusted as necessary as new information becomes known. Such adjustments are included in current operations.

CHP establishes a liability for incurred but not reported claims based on actuarial analysis using historical payment patterns, completions factors, utilization data and current trends. Claim frequency is not used in the calculation of the liability. The following table presents information about the short-duration incurred and paid claims development as of December 31, 2023, net of reinsurance. The claim frequency represents the number of unique paid claims. Claims that did not result in a liability are not included in the frequency metric.

	Incurred Claims, Net of Reinsurance			Claim
(in thousands of dollars)	2021	2022	2023	Frequency
Date of service				
2021	$ 736,315	$ 735,916	$ 735,726	1.5 million
2022		751,066	745,402	1.4 million
2023			848,653	1.5 million
Cumulative incurred costs	$ 736,315	$ 1,486,982	$ 2,329,781	
	Paid Claims, Net of Reinsurance			
	2021	**2022**	**2023**	
Date of service				
2021	664,040	734,252	735,726	
2022		678,591	745,052	
2023			761,103	
Cumulative paid costs	$ 664,040	$ 1,412,843	2,241,881	
Total liability for claims and claim adjustment expenses			$ 87,900	

The liability for claims outstanding and unpaid claims adjustment expense in the statement of financial position includes incurred but not reported claims of $84.7 million and $77.4 million as of December 31, 2023 and 2022, respectively. The reinsurance recoverable related to unpaid claims are included in Premium and other receivables, net in the statement of financial position.

14. Contractual Agreements

Hospitalization and Other Medical Services

CHP has entered into contractual agreements with various hospitals and other health service providers to provide medical services to CHP's members. In general, these agreements automatically renew annually but can be terminated by sufficient notice. Effective January 1, 2022 CHP entered in a risk sharing arrangement with a health care provider whereby CHP agrees to share risk or savings with the contracted provider.

15. Employee Benefits

Pension Plan

CHP has a simplified employee pension plan (defined contribution plan) whereby contributions are made directly to employees' individual retirement accounts. Contributions, which are discretionary, are determined annually by CHP's management and allocated among participants in proportion to their eligible compensation during the plan year. All employees are eligible to participate and 100% vesting occurs after a six-month length of service requirement is met. Employer contributions during 2023 and 2022 were $4.8 million and $4.7 million respectively.

Postretirement Benefits Other Than Pensions

CHP adopted a postretirement benefit plan effective January 1, 2016 that provides health care insurance to retiring employees that meet certain age and service eligibility requirements. CHP recorded an accumulated postretirement benefit obligation liability of $7.2 million and $6.6 million as of December 31, 2023 and 2022, respectively. Current obligations of $0.1 million were classified as current liabilities in the Statements of Financial Position at December 31, 2023 and 2022. The following table reflects the components of the benefit obligation at December 31, 2023 and 2022:

(in thousands of dollars)	2023	2022
Change in benefit obligation		
Benefit obligation, beginning of year	$ 6,602	$ 10,577
Service cost	197	393
Interest cost	327	305
Actuarial (gains) losses	149	(4,605)
Benefits paid	(109)	(68)
Benefit obligation, end of year	$ 7,166	$ 6,602
Net periodic benefit cost		
Current service cost	$ 197	$ 393
Current interest cost	327	305
Amortization of prior service cost	162	705
Net periodic benefit cost	$ 686	$ 1,403

CHP expects to amortize $1.1 million of unrecognized prior service cost and $0.8 million of unrecognized gain from accumulated postretirement benefit obligation into net periodic benefit cost during 2024. Actuarial gains and (losses) are amortized using the straight-line method over the remaining service period of active employees expected to receive benefits from the plan.

Weighted-average assumptions used in determining the postretirement benefit obligation as of December 31, 2023 were:

Discount rate	4.8 %
Initial 2024 post-Medicare medical trend	6.1 %
Ultimate post-Medicare medical trend	3.7 %

The health care premiums will be supported by CHP general assets as well as contributions received for eligible participants. The Company expects to receive minimal contributions to the postretirement health care plan during 2024.

The following table provides expected benefit payments for the years indicated:

2024	$ 117
2025	148
2026	162
2027	177
2028	184
2029-2033	1,243

16. Reinsurance

CHP reinsures certain risks with another insurance company. The reinsurance agreements provides coverage for eligible inpatient hospital and transplant services in excess of a specific deductible of $1,000,000 for commercial group members and $700,000 for Medicare members during 2023 and 2022, respectively. In addition, a minimum aggregated specific deductible of approximately $900,000 and $300,000 applies for the policy year 2023 and 2022, respectively. The reinsurance policy has a maximum reinsurance coverage limit of $5.0 million and $3.0 million per member per year for 2023 and 2022, respectively. Individual commercial exchange members are covered in excess of a $600,000 and $500,000 deductible with no maximum reinsurance coverage limit for the policy years 2023 and 2022, respectively. If the reinsurance carrier fails to meet its commitment under the reinsurance agreements, CHP will be liable for the covered services. Total premiums paid during 2023 and 2022 were $1.3 million and $1.1 million, respectively. Reinsurance recoveries were $3.0 million and $2.5 million for 2023 and 2022, respectively. Amounts due to CHP under reinsurance agreements were $4.0 million and $2.2 million at December 31, 2023 and 2022, respectively, and were included in premiums and other receivables, net in the statements of financial position.

17. Statutory Surplus

CHP is domiciled in the State of Florida and is required to prepare statutory financial statements in accordance with the *NAIC Accounting Practices and Procedures Manual,* subject to any deviations prescribed or permitted by the State of Florida Insurance Commissioner, the basis for statutory accounting practices (“SAP”). These financial statements, which are subject to examination by the Office of Insurance Regulation of the State of Florida (“OIR”), differ from generally accepted accounting principles under which the accompanying financial statements were prepared. Significant differences resulting from these accounting practices include: 1) certain assets such as receivable greater than 90 days old, prepaid expense and equipment are nonadmitted assets under statutory accounting practices, and 2) debt securities are generally recorded at amortized cost and those with NAIC designations of three or lower are nonadmitted assets.

A reconciliation of statutory reserves and surplus to net assets, as determined using GAAP as of December 31, 2023 and 2022 is as follows:

(in thousands of dollars)	**2023**	**2022**
Statutory capital and surplus	$ 581,447	$ 568,269
Net unrealized gains (losses) on debt investments	(34,262)	(50,775)
Nonadmitted assets	41,836	30,680
Net assets - GAAP	$ 589,021	$ 548,174

CHP is required by Florida statute to maintain statutory capital and surplus (excluding goodwill) of $21.7 million and $20.0 million as of December 31, 2023 and 2022, respectively. Additionally, regulations require each HMO to ensure its statutory basis net income before taxes is not less than 2% of total revenues. If the HMO fails to meet the 2% requirement, a corrective action plan may be required. An HMO can request a waiver for filing the corrective action plan if net earnings is less than two percent of total revenue, but not a loss, and where certain other criteria are met. An administrative rule specifies a waiver shall be granted if these conditions are met. At December 31, 2023, CHP did not meet the annual net income threshold for 2023, CHP met all of the criteria for a waiver and has requested a waiver for filing a corrective action plan. For 2022, CHP met this required 2% net income threshold.

18. Related Party Transactions

A certain CHP Board member is affiliated with Capital City Bank where CHP maintains a banking relationship, including a secured line of credit (Note 12). CHP earned interest income from this financial institution, net of service charges paid, of approximately $166,000 and $24,000 in 2023 and 2022, respectively. Interest paid to Capital City Bank was approximately $0 and $42,000 for 2023 and 2022, respectively. Total deposits maintained at this financial institution were approximately $0.6 and $8.1 million at December 31, 2023 and 2022, respectively. An entity partially owned by Capital City Bank leases office space from CHP. Payments received from this entity in 2023 and 2022 were approximately $116,000 and $113,000, respectively.

CHP provides medical services to subscribers who are employed by certain companies who are managed or partially owned by certain members of CHP's board of directors. Total premiums paid to provide these services were $4.7 million and $4.4 million in 2023 and 2022, respectively.

CHP maintains an agreement with Florida Blue whereby the companies combine to offer certain group purchasers a multiple option health care program, which includes consolidated billing, administrative services, and a provision for equalizing underwriting gains and losses on these particular groups. CHP recorded a liability related to this agreement of $2.9 million at December 31, 2023 and 2022, respectively. CHP recorded $4.3 million and $3.3 million in premiums collected from these groups under the consolidated billing arrangement with Florida Blue in 2023 and 2022, respectively. CHP recorded net equalization underwriting gains of $0.4 million and losses of $0.2 million in 2023 and 2022, respectively.

CHP also has agreements with Florida Blue and other related entities to provide certain administrative services. The total fees incurred under these agreements were $0.3 million in 2023 and 2022.

CHP contracted with Prime Therapeutics, Inc. ("Prime"), a pharmacy benefits management company, to administer its pharmaceutical benefits program. Prime is a related party to CHP through common control by Florida Blue. For 2023 and 2022, CHP recorded pharmacy expense net of rebates recoveries of $166 million and $150 million, respectively, under this agreement. Total administration fees during 2023 and 2022 were $2.7 million and $2.4 million, respectively. CHP had a payable due to Prime of $2.4 million and $3.1 million at December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, CHP had a receivable for rebates of $38.6 million and $30.3 million, respectively.

19. Subsequent Events

CHP has evaluated subsequent events through March 28, 2024, the date the financial statements were available for issuance. No such events were noted.