COOPERATIVE OF
AMERICAN PHYSICIANS

INVESTED in your SUCCESS, COMMITTED to your FUTURE

2023 ANNUAL REPORT

MISSION STATEMENT

STATEMENT OF PRINCIPLES

Through its core products, the Mutual Protection Trust (MPT) and Cooperative of American Physicians Insurance Company (CAPIC), the Cooperative of American Physicians, Inc. (CAP) provides its membership with the best possible medical professional liability coverage and related services, while maintaining the highest ethical standards and striving for constant improvement.

Our members, associates, and affiliates receive services that are satisfying, dependable, effective, economical, and valuable.

We continually develop knowledge and resources that meet the changing legal, societal, and medical environment.

The organization's commitment to financial integrity justifies the continuing confidence of our members.

All business is conducted in accordance with federal, state, and local regulations.

MPT membership and claims management decisions are entrusted to the MPT Board and committees of physician members.

Our decisions are reached with information that assists us in both reducing the risks associated with operating a medical practice and enhancing patient care.

Our employees are committed to excellence and continuous quality improvement.

Our leadership provides an atmosphere of collaboration, recognition, and fair compensation.

Our dedication to the medical community, business partners, and the public at large is exemplified by our accountability, innovation, integrity, and a commitment to quality of the highest order.

We are leaders and innovators in the healthcare community.

A MESSAGE TO OUR MEMBERS

Nearly five decades ago, a small group of visionary physicians established the Cooperative of American Physicians, Inc. (CAP) with a bold mission to revolutionize medical professional liability coverage for California physicians. Against all odds, they succeeded.

Today, their legacy continues as CAP and the Mutual Protection Trust (MPT) maintain the same commitment to strengthening the future of the enterprise and providing members with innovative solutions that protect their best interests and promote exceptional patient care.

Marking another incredible chapter in the organization's history, 2023's notable achievements were proof of this ongoing commitment.

CAP reached a significant membership milestone, topping more than 13,000 California physicians, the largest member count since its founding. This remarkable accomplishment further solidified MPT's strong fiscal position and outlook which was affirmed with an A+ (Superior) rating from A.M. Best for the 17th consecutive year. This A+ rating signifies MPT's ongoing ability to withstand potential risks and fulfill its financial obligations to CAP members.

As more physicians chose us for their medical malpractice coverage and valuable services to help them maintain prosperous medical practices, we pursued several strategic endeavors to expand and diversify our product portfolio and offerings.

CAP Physicians Insurance Agency, Inc. (CAP Agency), CAP's dedicated insurance agency providing business and personal insurance products outside of medical malpractice coverage, was acquired by Symphony Risk Solutions, a leading national insurance brokerage firm. CAP members now benefit from the combined resources, talent, and experience of the two businesses and have access to a broader range of insurance options for themselves and their practices. The former CAP Agency currently operates as Symphony Risk Healthcare Services.

Cooperative of American Physicians Insurance Company (CAPIC), a wholly owned subsidiary of CAP, revamped and restructured its operations to directly offer and underwrite medical professional liability coverage tailored to large medical groups. As a direct insurance provider with an A- (Excellent) rating by A.M. Best, CAPIC delivers outstanding coverage and a seamless and efficient experience across the spectrum of its services designed for its large group clients.

Sarah E. Scher, JD
Chief Executive Officer

Stewart L. Shanfield, MD
Chair and President, CAP
and Chair, MPT

In addition to enhancing our competitive position in the marketplace, CAP continued to provide its members with services to keep them ahead of healthcare-related challenges in their practices.

The number of members using one or more of CAP's practice management programs offered through industry-leading vendors grew by 21% to almost 7,000 participants, while nearly 2,000 members requested assistance from *My Practice* for free practice management support. CAP's risk management team, through almost 12,000 points of contact, provided members with guidance to help keep patients safe and ultimately reduce their risk of a medical malpractice claim. Additionally, more than 2,000 members participated in CAP's Learning Forum, which offered 12 virtual programs addressing relevant practice and risk management topics.

It is evident that members need and value CAP's services, especially as new and existing healthcare laws rapidly impact small and independent medical practices with added risks. Assembly Bill 35 (AB 35) raised the number of caps and amounts on noneconomic damages in medical malpractice lawsuits, inviting an increase in the frequency and cost of claims. Through our educational content and programs, CAP delivered critical information to help members navigate evolving regulations and reduce litigation risk in a post-AB 35 landscape.

CAP also bolstered its advocacy efforts on behalf of its members' practices by aligning with the Physician Association of California (PAC), a new organization representing small group practice and independent physicians. As a benefit of CAP's relationship with this new association, all CAP members received an automatic complimentary membership in PAC.

CAP and MPT ended 2023 proud of the noteworthy milestones we achieved on behalf of our physician members.

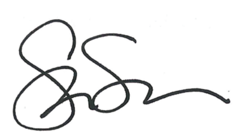
As new and present-day challenges persist, physician members can trust that they have a reliable partner to help them reach their goals and overcome ongoing obstacles. Drawing from the same determination and relentlessness of our founding members, CAP and MPT will always stand by our promise to California physicians to safeguard their medical careers and ensure that our enterprise's future is driven by an unwavering dedication to a thriving member community.

A+
(Superior) Rating from A.M. Best since 2006

Physician-founded in 1975, now serving
13,000
physician members

23,000
points of contact with physician member practices to support their success

Stewart L. Shanfield, MD
Chair and President, CAP
and Chair, MPT



Sarah E. Scher, JD
Chief Executive Officer

Cooperative of American Physicians

BOARD OF DIRECTORS AND

Mutual Protection Trust

BOARD OF TRUSTEES

2023 ANNUAL REPORT

CAP Financial Reports 2023

COOPERATIVE OF AMERICAN PHYSICIANS, INC. (CAP) AND SUBSIDIARIES AND
MUTUAL PROTECTION TRUST (MPT)

Report to the Membership

BY THE CAP AND MPT AUDIT COMMITTEE

The consolidated financial statements of CAP, the financial statements of MPT, and related financial information included in this annual report, have been prepared by CAP and MPT, whose management is responsible for its integrity. These financial statements, which necessarily reflect estimates and judgments, have been prepared in accordance with accounting principles generally accepted in the United States of America.

The financial statements, as of and for the years ended on December 31, 2023 and 2022, have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports appearing on pages 7 and 33.

CAP and MPT maintain a system of internal controls to provide reasonable assurances that assets are safeguarded and transactions are properly executed and recorded.

The Audit Committee, which consists solely of members who are not employees of CAP or MPT, meets periodically with management and the independent auditors to review the scope of their activities and to discuss internal controls and financial reporting matters. The independent auditors have full and free access to the Audit Committee and meet with the Committee both with and without the presence of management.

This report will be filed with the California Department of Financial Protection and Innovation.

Othella T. Owens, MD
Chair
CAP and MPT Audit Committee
March 27, 2024

Report of Independent Auditors

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

THE BOARD OF DIRECTORS
COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

OPINION

We have audited the consolidated financial statements of Cooperative of American Physicians, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income (loss) , changes in members' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

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

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that the incurred and paid claims development for periods prior to the most recent period (not to exceed nine prior periods) and the average annual percentage payout of incurred claims disclosed on pages 23 to 26 be presented to supplement the consolidated financial statements. Such information is the responsibility of management and, although not a part of the consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young LLP

San Francisco, California
March 27, 2024

Consolidated Balance Sheets

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	December 31	
	2023	2022
ASSETS		
Cash and cash equivalents	**$ 25,411,000**	$ 21,819,000
Restricted cash	**2,469,000**	3,800,000
Fixed income securities, at fair value	**64,200,000**	51,654,000
Equity securities, at fair value	**8,528,000**	6,604,000
Premiums receivable	**1,837,000**	18,065,000
Deferred tax asset, net	**1,557,000**	1,769,000
Receivables from affiliated entities	**1,460,000**	1,251,000
Receivables for claims and risk management services	**758,000**	3,156,000
Deferred acquisition costs	**188,000**	179,000
Other assets	**4,128,000**	8,235,000
	$110,536,000	$116,532,000
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Reserves for losses and loss adjustment expenses	**$ 44,703,000**	$ 44,919,000
Payables to affiliated entities	**580,000**	315,000
Payables to non-affiliated entities	**960,000**	732,000
Dues received in advance	**1,017,000**	1,030,000
Unearned premiums	**1,062,000**	1,045,000
Unearned claims and risk management services	**3,213,000**	5,559,000
Income taxes payable	**2,469,000**	483,000
Premiums payable	**4,302,000**	21,858,000
Accounts payable and other liabilities	**5,685,000**	5,331,000
	63,991,000	81,272,000
Contingencies and commitments *(see Note 8)*		
Members' equity:		
Members' equity	**49,169,000**	39,296,000
Accumulated other comprehensive loss	**(2,624,000)**	(4,036,000)
	46,545,000	35,260,000
	$110,536,000	$116,532,000

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

Consolidated Statements of Comprehensive Income (Loss)

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	Years Ended December 31	
	2023	2022
Revenues		
Member and participant dues	**$ 3,384,000**	$ 3,462,000
Claims and risk management service revenues	**46,913,000**	42,035,000
Premiums earned	**18,725,000**	16,437,000
Commissions earned	**1,757,000**	1,979,000
Investment income, net	**2,709,000**	502,000
Other revenues	**66,000**	275,000
Total revenues	**73,554,000**	64,690,000
Expenses		
Salaries and related expenses	**32,338,000**	30,136,000
Other operating costs	**23,489,000**	19,357,000
Losses and loss adjustment expenses	**12,755,000**	11,677,000
Total expenses	**68,582,000**	61,170,000
Other income		
Gain on sale of subsidiary	**8,123,000**	—
Employee Retention Credit	**3,000**	267,000
Total other income	**8,126,000**	267,000
Income before income taxes	**13,098,000**	3,787,000
Income tax expense	**(3,225,000)**	(987,000)
Net income	**9,873,000**	2,800,000
Other comprehensive income (loss), net		
Net unrealized gains (losses) on securities available-for-sale, net of taxes	**1,412,000**	(5,013,000)
Comprehensive income (loss)	**$11,285,000**	$ (2,213,000)

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

Consolidated Statements of Changes in Members' Equity

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	Members' Equity	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at January 1, 2022	$36,496,000	$ 977,000	$37,473,000
Net income	2,800,000	—	2,800,000
Other comprehensive loss (net of deferred income taxes of $1,333,000)	—	(5,013,000)	(5,013,000)
Balance at December 31, 2022	39,296,000	(4,036,000)	35,260,000
Net income	**9,873,000**	**—**	**9,873,000**
Other comprehensive income (net of deferred income taxes of $375,000)	**—**	**1,412,000**	**1,412,000**
Balance at December 31, 2023	**$49,169,000**	**$(2,624,000)**	**$46,545,000**

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

Consolidated Statements of Cash Flows

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	Years Ended December 31	
	2023	2022
Operating activities		
Net income	**$ 9,873,000**	$ 2,800,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization on fixed income securities	**228,000**	289,000
Net realized investment (gains) losses	**(273,000)**	1,310,000
Gain on sale of subsidiary	**(8,123,000)**	—
Employee Retention Credit	**—**	(267,000)
Deferred income taxes	**(163,000)**	(349,000)
Changes in operating assets and liabilities:		
Income taxes	**1,986,000**	(401,000)
Premiums receivable	**16,228,000**	(1,714,000)
Receivable from affiliated entities	**(209,000)**	199,000
Receivable for claims and risk management services	**2,398,000**	(61,000)
Deferred acquisition costs	**(9,000)**	47,000
Other assets	**4,107,000**	(1,133,000)
Reserves for losses and loss adjustment expenses	**(216,000)**	5,015,000
Payable to affiliated entities	**265,000**	69,000
Dues received in advance	**(13,000)**	(161,000)
Unearned premiums	**17,000**	40,000
Unearned claims and risk management services	**(2,346,000)**	60,000
Premiums payable	**(17,556,000)**	968,000
Payable to non-affiliated entities	**228,000**	(954,000)
Accounts payable and other liabilities	**354,000**	470,000
Receivable for sale of subsidiary	**243,000**	—
Net cash provided by operating activities	**7,019,000**	6,227,000
Investing activities		
Purchases of fixed income and equity securities	**(17,512,000)**	(12,627,000)
Proceeds from sales or maturities of fixed income and equity securities	**4,874,000**	9,076,000
Proceeds from sale of subsidiary	**7,880,000**	—
Net cash used in investing activities	**(4,758,000)**	(3,551,000)
Net change in cash, cash equivalents and restricted cash	**2,261,000**	2,676,000
Cash, cash equivalents and restricted cash at beginning of year	**25,619,000**	22,943,000
Cash, cash equivalents and restricted cash at end of year	**$ 27,880,000**	$ 25,619,000

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

	December 31	
	2023	2022
Cash and cash equivalents	**$25,411,000**	$21,819,000
Restricted cash	**2,469,000**	3,800,000
Cash, cash equivalents and restricted cash	**$27,880,000**	$25,619,000

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 1: ORGANIZATION

The Cooperative of American Physicians, Inc. (CAP) was incorporated in 1975 for the purpose of providing various services relating to the general and professional welfare of its membership. Members of CAP consist exclusively of physicians and surgeons licensed to practice in California ("Members"). On January 1, 2013, physician members of the Hawaii Association of Physicians for Indemnification (HAPI), a group of physicians and surgeons licensed to practice in Hawaii, became non-voting participants in CAP and received certain benefits from CAP pursuant to an agreement. Additional non-voting participants have been added through the CAPAssurance Program, which is more fully described below.

CAP formed Mutual Protection Trust (MPT) in 1977 in accordance with California legislation enacted in 1976 permitting the formation of such interindemnity arrangements to provide medical professional liability protection for physicians. MPT is a business trust governed by its Board of Trustees and is not included in the consolidation of CAP and its wholly owned subsidiaries. Physicians covered by MPT are required to be Members of CAP.

In April 2013, CAP formed CAPAssurance, a Risk Purchasing Group (CAPAssurance), a non-profit, unincorporated association domiciled in California that was established to allow large physician groups, hospitals, and facilities access to a medical professional liability insurance product. As a risk purchasing group, CAPAssurance is not a subsidiary of CAP and is comprised of physician groups and medical facilities that purchase their liability insurance through CAPAssurance. Insurance under the program is provided by a national medical professional liability insurance company, with certain risk management, claims administration, and other policy services provided by CAP under agreements that became effective in March 2013 for hospitals and July 2013 for large physician groups (collectively the CAPAssurance Program) *(see Note 2)*. In 2014, CAP began collecting premiums on new or renewal business produced through CAPAssurance. Physicians and medical facilities that are insured through the CAPAssurance Program can access various benefits of CAP as non-voting participants. CAP, with the CAPAssurance Program, can now better serve larger medical groups with professional liability coverage either through an insurance product or through the interindemnity arrangement provided by MPT. Effective October 31, 2023, the CAPAssurance Program was terminated, and the policies that were in effect at the time of termination will continue to run off.

In 2002, CAP formed the Cooperative of American Physicians Insurance Company, Inc. (CAPIC), a wholly owned subsidiary domiciled in the state of Hawaii under that state's captive insurance statutes. The original purpose of CAPIC was to offer supplemental reinsurance and insurance coverage to its affiliate, MPT, and supplemental insurance coverage to CAP. Over the years, CAPIC changed its licensing status as part of an effort to broaden its product offerings. On May 23, 2013, CAPIC was re-licensed to a Class 4 sponsored captive insurance company. Under that license, CAPIC entered into a pro rata reinsurance agreement with the CAPAssurance insurer and thereby participates in the underwriting results of the CAPAssurance Program. The terms under the arrangement did not change. CAPIC expanded its product offerings to include assumed reinsurance of large physician groups, hospitals, and medical facilities that purchase their medical professional liability insurance through the CAPAssurance Program. The terms were similar to the original pro rata reinsurance agreement that covers policies purchased through CAPAssurance. Under these reinsurance agreements, CAPIC participates on a pro-rata basis at rates that vary based on the type of insured covered by the policies. The policy acquisition costs and claims administration expenses on these policies are also reimbursed by CAPIC on the same pro rata basis per the terms of these reinsurance agreements. CAPIC amortizes these expenses over the related policy term. These expenses include certain claims administration and other policy services provided by CAP to the CAPAssurance insurer under the CAPAssurance Program. Effective November 2023, CAPIC was domiciled to the state of Arizona as a Domestic Surplus Lines Insurance Carrier. With the termination of the CAPAssurance program, CAPIC now writes business on its own paper. CAPIC is consolidated in the operations of CAP.

In 2007, CAP formed the CAP Physicians Insurance Agency, Inc. (CAP Agency), a wholly owned subsidiary of CAP domiciled in California, which provides access to business and other coverages for CAP Members and participants. In addition, under an agreement that became effective January 1, 2013, CAP Agency performs the billing and collection obligations under CAP's group disability and life program. On October 31, 2023, CAP Agency was sold to an unrelated party for consideration of $8,133,000. The results of CAP Agency's operations from January 1, 2023 through October 31, 2023 are consolidated with the operations of CAP.

Effective January 1, 2010, CAP and MPT entered into an administrative and management services agreement whereby CAP provides membership, claim, risk management, financial, legal and other administrative and management services to MPT. CAP receives monthly fees from MPT for these services. Effective January 1, 2013, MPT and CAPIC entered into a services agreement whereby CAPIC provides claims legal defense services to MPT physicians. MPT pays CAPIC monthly fees for these services that are based on actual costs incurred *(see Note 10)*.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 1: ORGANIZATION *(continued)*

CAP sponsors the CAP State Political Action Committee and the CAP Federal Political Action Committee, which solicit and accept donations from Members of CAP and make contributions in support of candidates for public office. CAP also maintains the CAP State Independent Expenditure Committee and the CAP Federal Independent Expenditure Committee, which participate in independent expenditure candidate campaigns. These committees are subject to laws and regulations of the state of California and the federal government.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements of CAP and its wholly owned subsidiary, CAPIC (collectively, the Company), have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). This basis of accounting requires the use of management estimates that affect the reported amounts of assets and liabilities, disclosure of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Intercompany transactions and balances have been eliminated in consolidation.

The expenses of CAP are incurred on behalf of its Members and participants, MPT, and the political action committees. For certain membership benefit expenses, CAP is reimbursed by MPT. Membership dues are $250 per member. For participants, the dues vary based on the benefits selected by such participants.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term highly liquid investments with maturities of 90 days or less at acquisition and are principally stated at amortized cost.

RESTRICTED CASH

Restricted cash represents funds held in premium trust accounts for CAP Agency and CAPAssurance premiums and premium related receipts, and funds held in a loss fund pursuant to a claims servicing agreement. Disbursements are made from these accounts to pay premiums to insurance companies, agent commissions to CAP Agency, dues and claims and risk management service fees to CAP, excise surplus lines taxes to taxing authorities, and approved loss payments under the claims servicing agreement.

INVESTMENTS

Investments are classified as available-for-sale and are carried at fair value. Unrealized gains and losses for fixed income securities are accounted for, net of tax, as a component of accumulated other comprehensive income in members' equity. Unrealized gains and losses for equity securities are accounted for in operations as a component of investment income, net. Realized gains and losses from sales transactions occurring during the year are recognized in operations using the specific identification method. Unrealized gains and losses are determined using the specific identification method. Investment income is recorded as earned. Premiums and discounts on investment securities are primarily amortized using the interest method over the estimated lives of the investments. Adjustments for credit related declines are recorded in operations through income when identified.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and fixed income securities. The Company places its cash investments with high credit quality financial institutions. Concentrations of credit risk with respect to fixed income securities are limited due to the large number of such investments and their distribution across many different sectors. The Company's investments in federal agency securities are considered to have an implicit guarantee as to principal from the U.S. Government and are considered to have minimal credit risk.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value amounts, defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date, have been determined using available market information and other appropriate valuation methodologies. However, considerable judgment is required in developing the estimates of fair value where quoted market prices are not available. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimating methodologies may have an effect on the estimated fair value amounts.

The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments in the accompanying consolidated financial statements and in these notes:

Cash and cash equivalents, restricted cash, income taxes receivable, premiums receivable, receivables from affiliated entities, receivables for claims and risk management services, payables to affiliated entities, dues received in advance, premiums payable, accounts payable and other liabilities. The carrying amounts for these financial instruments as reported in the accompanying consolidated balance sheets approximate their estimated fair values.

Investments. The Company determines the fair value of its financial instruments based on a fair value hierarchy, which requires an entity to disclose the use of observable inputs and minimize the use of unobservable inputs for measuring fair value. Estimates of fair value measurements for these securities are estimated using relevant inputs, including available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, an Option Adjusted Spread model is used to develop prepayment and interest rate scenarios. Industry standard models are used to analyze and value securities with embedded options or prepayment sensitivities.

Each asset class is evaluated based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.

This method of valuation will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If objectively verifiable information is not available, the Company would be required to produce an estimate of fair value using some of the same methodologies but would have to make assumptions for market-based inputs that are unavailable due to market conditions.

Because the fair value estimates of most fixed income securities are determined by evaluations that are based on observable market information rather than market quotes, most estimates of fair value for fixed income securities are based on estimates using objectively verifiable information and are included in the amount disclosed in Level 2 of the hierarchy. The values of states and municipalities, corporate bonds, residential mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities and redeemable preferred stocks are based on the observable market information and as such, are included in Level 2 of the hierarchy. Level 1 is limited to unadjusted quoted prices in active markets for identical instruments and includes U.S. Treasury securities and equity securities.

The equity securities are measured at fair value with changes in fair value being recognized in net income.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The following table presents investments in the accompanying consolidated balance sheets that are stated at fair value and the fair value measurements used as of December 31, 2023 and 2022 *(see Note 3):*

	Total	Level 1	Level 2
DECEMBER 31, 2023			
Fixed income securities:			
US Treasuries	**$ 650,000**	**$650,000**	**$ —**
States and municipalities	**18,607,000**	**—**	**18,607,000**
Corporate bonds	**12,981,000**	**—**	**12,981,000**
Residential mortgage-backed securities	**18,131,000**	**—**	**18,131,000**
Commercial mortgage-backed securities	**8,564,000**	**—**	**8,564,000**
Asset-backed securities	**5,182,000**	**—**	**5,182,000**
Redeemable preferred stock	**85,000**	**—**	**85,000**
Total fixed income securities	**$64,200,000**	**$650,000**	**$63,550,000**
DECEMBER 31, 2022			
Fixed income securities:			
US Treasuries	$ —	$ —	$ —
States and municipalities	20,151,000	—	20,151,000
Corporate bonds	8,499,000	—	8,499,000
Residential mortgage-backed securities	12,443,000	—	12,443,000
Commercial mortgage-backed securities	7,673,000	—	7,673.,000
Asset-backed securities	2,698,000	—	2,698,000
Redeemable preferred stock	190,000	—	190,000
Total fixed income securities	$51,654,000	$ —	$51,654,000

There were no securities at December 31, 2023 or 2022, whose fair value measurements were based on Level 3: Unobservable inputs.

REVENUES

Dues. Members' dues are recognized on January 1 of each year and earned ratably over the year. For participants, dues are recognized on a pro rata basis over the related agreement or insurance policy term.

Claims and Risk Management Service Revenues. These services are primarily provided to MPT, CAPIC, and previously, the CAPAssurance insurer *(see Notes 1 and 10)*. Claims and risk management services to MPT are recognized as earned and are derived under agreements to provide certain administrative, claims legal defense, and management services. For all services except claims legal defense and corporate legal services, revenues are determined based on actual expenses incurred plus a margin. Services to MPT related solely to membership administration and claim management services are directly charged to MPT after reductions for claims services provided to the CAPAssurance insurer. For all other services provided to MPT under the agreements, the calculation of service revenues is based on the ratio of assessments, dues and revenues of MPT to total assessments, dues and revenues of the Company and MPT combined. The Company excludes revenues from this administrative and management services agreement in calculating this ratio. The claims legal defense and corporate legal service revenues are determined based on actual costs incurred and represent claims legal services provided by CAPIC to MPT physicians and corporate legal defense services provided by CAP to MPT.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The claims and risk management services under the CAPAssurance Program are derived from agreements with the CAPAssurance insurer. These services consist of claims administration, risk management and certain insurance services in the areas of underwriting support, risk management, marketing, and other administrative services. The CAPAssurance insurer retains underwriting authority on all policies issued. Service fees are based on percentages of premiums on policies issued. If a policy is cancelled prior to its expiration date, the Company returns unearned service fees to the CAPAssurance insurer based on the unearned premium of the cancelled policy. These service obligations are part of other agreements that together allow the Company to offer a medical professional liability insurance product to large physician medical groups and medical facilities. The Company will not only generate claims and risk management service revenues on policies issued by the CAPAssurance insurer, but will also recognize premiums earned through the reinsurance agreements and dues revenue for any physician and medical facility participants who purchase benefits from CAP.

Through October 31, 2023, CAP recognizes the marketing services revenue under the CAPAssurance Program at the inception of the policy period since these services are complete as of the inception of the policy. Underwriting support, risk management and other administration services under the CAPAssurance Program (policy services) are recognized over the related policy term since policy services are provided during the policy term. Service fees are subject to return should the underlying policy be cancelled. For claims administration services, an estimated payout period of reported claims is used to recognize service fee revenue. This period is generally longer than the related policy term and is aligned with the Company's obligation to provide claims administration services on reported claims until final resolution of the claim, which in many cases extends beyond the expiration of the insurance policy. The allocation of service fees between claims administration and policy services is based on the premium percentages for such services as provided for in the underlying agreements. The Company determined these rates to be reasonable by comparing these percentages to the recent historical experience of the CAPAssurance insurer and found such rates comparable. The CAPAssurance insurer is a leading provider of medical professional liability insurance nationwide and is considered representative of what competitive policy services cost should approximate.

Premiums Earned. Premiums are recognized on a pro-rata basis over the policy or reinsurance contract terms. Premiums under extended reported endorsements are recognized on the effective date of the endorsement.

Commissions Earned. Through October 31, 2023, commissions on premiums billed and commission adjustments, including policy cancellations and override commissions, are recorded when estimable or received. Supplemental commissions are received from insurance companies as additional incentive for achieving specified premium volume goals and/or favorable loss experience of the insurance placed by the Company.

Supplemental commissions are recognized when the Company receives data from the insurance companies that allows the amounts to be reasonably estimated.

DEFERRED ACQUISITION COSTS

Costs that vary with and are directly related to the successful production of new and renewal insurance and reinsurance premiums are deferred to the extent they are recoverable against unearned premiums and are amortized as related premiums are earned. These acquisition costs consist mainly of commissions, premium taxes, underwriting expenses and other policy administration costs of the ceding company. Future investment income attributable to related premiums is considered in measuring the recoverability of the carrying value of this asset. All amortization of deferred acquisition costs are included in other operating expenses *(see Note 7).*

RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Reserves for losses and loss adjustment expenses under contracts of insurance and reinsurance written on a claims-made form are determined from reported losses and an amount, based on an actuarial evaluation which considers past experience, for development on such losses. Such liabilities are necessarily based on estimates and, while management believes that the amount is within a reasonable range of adequacy, the ultimate liability may be in excess of, or less than, the amount provided. Changes in estimates of the liabilities resulting from their periodic review and differences between estimates and ultimate payments are reflected in current operations.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

PREMIUMS RECEIVABLE AND PREMIUMS PAYABLE

CAP Agency and CAP record premiums receivable and payable under its agency billed business and CAPAssurance business using the accrual basis. Under this method, new and renewal premiums on policies produced by CAP Agency on agency billed business or CAP on CAPAssurance Program business are recognized based on billing date as a premium receivable from the physician group or medical facility and a premium payable to the CAPAssurance insurer. Cash received from CAP Agency or CAP billings reduce the premiums receivable and cash payments to the insurance companies reduce the premiums payable. CAPIC records premiums receivable under insurance policies issued to certain medical group entities or under reinsurance contracts entered into with MPT or the CAPAssurance insurer based on the effective date of the policy or reinsurance contract.

RECEIVABLE FOR CLAIMS AND RISK MANAGEMENT SERVICES

The receivable for claims and risk management services represents uncollected claims, risk management and insurance services fees on insurance policies issued under the CAPAssurance Program *(see Note 1)*. A receivable is established at the inception date of the issued policies and CAP collects these services fees based on the premium payment terms of the issued policies.

UNEARNED CLAIMS AND RISK MANAGEMENT SERVICES

Risk management and insurance services provided by CAP under the CAPAssurance Program are recognized over the underlying insurance policy periods. Claims administration services provided by CAP under this program are recognized over an estimated payout period of reported claims. Unearned claims and risk management services represent the amount of these services fees that relate to either the unexpired policy periods or the unexpired claim payout periods as of the balance sheet date *(see Note 1).*

CAPITAL REQUIREMENTS

CAPIC is required by the State of Arizona to maintain capital and surplus of at least $15,000,000. For CAPIC to write business in California it must maintain capital and surplus of at least $45,000,000. At December 31, 2023 CAPIC exceeded these capital and surplus requirements. No dividends were declared or paid for the year ended December 31, 2023.

CAPIC is subject to certain Risk-Based Capital (RBC) requirements as specified by the National Association of Insurance Commissioners (NAIC). Under those requirements, the amount of capital and surplus maintained by an insurance company is to be determined based on the various company specific risk factors. As of December 31, 2023 CAPIC's surplus exceeded the RBC requirements.

INCOME TAXES

CAP and its wholly owned subsidiaries file a consolidated federal income tax return. Income taxes are provided for current taxes payable or refundable and the temporary differences arising from future tax consequences of events that have been recognized in the Company's financial statements or income tax returns. The effects of income taxes are measured based on enacted tax laws and rates. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized. Interest and penalties on tax amounts paid or received are included in investment income, net and other operating costs, respectively.

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income, net. For the years ended December 31, 2023 and 2022, other comprehensive income, net consists solely of net unrealized losses, net of tax, on fixed income securities classified as available-for-sale. Reclassification adjustments related to fixed income securities sold for the years ended December 31, 2023 and 2022, were as follows:

	Years Ended December 31	
	2023	2022
Gross realized investment (losses) gains included in the calculation of investment income	**$(15,000)**	$ 3,000
Tax effect at 21%	**3,000**	(1,000)
Net realized investment (losses) gains reclassified from other comprehensive income	**$(12,000)**	$ 2,000

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

NEW ACCOUNTING STANDARDS

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Effective for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years, the FASB issued guidance that replaces the incurred loss impairment methodology, which delays recognition of credit losses until a probable loss has been incurred. The new methodology accelerates loss recognition by reflecting expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Included in the scope of this guidance are the Company's financial assets held at amortized cost. Under the new guidance, credit losses are required to be recorded through an allowance for expected credit losses account and the income statement will reflect the initial recognition of lifetime expected credit losses for any newly recognized financial assets as well as increases or decreases of expected credit losses that have taken place during the period. Credit losses for these assets are required to be presented as an allowance, rather than as a write-down of the asset, limited to the amount by which the fair value is below amortized cost. The Company adopted this guidance beginning January 1, 2023 but determined that estimated expected credit losses associated with the Company's financial assets held at amortized cost included in the scope of this new guidance was nominal as of December 31, 2023. Adoption of this guidance had no material effect on the Company's results of operations, financial position or cash flows.

As of the reporting date, the accounting for credit losses on available-for-sale (AFS) debt securities has been impacted by ASU No. 2016-13. While AFS debt securities fall outside the scope of Topic 326, improvements have been made to the existing impairment guidance for these securities. Under the updated guidance, a different impairment model is applied to AFS debt securities. The revised guidance for AFS debt securities maintains the requirement to assess credit impairments at the individual security level. A security is considered impaired when its fair value is less than its amortized cost. Notably, the updated AFS impairment guidance introduces a change in the treatment of credit losses. Instead of recording a write-down and recognizing a realized loss for impaired AFS debt securities, an "Allowance for Credit Loss" (ACL) is established. The ACL is immediately recognized in income. Any remaining portion of unrealized losses related to noncredit-related components continues to be recognized in other comprehensive income (OCI). Another amendment to the AFS impairment guidance specifies that the length of time the fair value of an AFS debt security has been below the amortized cost should no longer be considered when determining the existence of a credit loss. For AFS debt securities, the Company will continue to utilize credit model methodologies employed by its investment manager for individual securities based on assets held in an unrealized loss position. Based on recommendations from its investment manager and a review of the credit analysis provided, the Company did not determine that any securities held in an unrealized loss position were a result of credit-related decline.

In December 2023, the FASB issued ASU No. 2023-12: *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* Effective for fiscal years beginning after December 31, 2025, the FASB amended disclosure requirements to provide greater transparency on income tax disclosures, including the disaggregation of existing disclosures related to the tax rate reconciliation and income taxes paid. The Company is currently evaluating the effect the updated guidance will have on the Company's financial statement disclosures.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

SUBSEQUENT EVENTS

The Company has completed an evaluation of all subsequent events through March 27, 2024, which is the date the consolidated financial statements were available for issuance, and has concluded that no subsequent events occurred which would require recognition or disclosure.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 3: INVESTMENTS

Investment securities, exclusive of cash and cash equivalents, are comprised of the following:

	Amortized Cost/Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2023				
Fixed income securities:				
US Treasuries	**$ 600,000**	**$ 50,000**	**$ —**	**$ 650,000**
States and municipalities	**19,759,000**	**54,000**	**(1,206,000)**	**18,607,000**
Corporate bonds	**12,982,000**	**262,000**	**(263,000)**	**12,981,000**
Residential mortgage-backed securities	**19,416,000**	**247,000**	**(1,532,000)**	**18,131,000**
Commercial mortgage-backed securities	**9,434,000**	**11,000**	**(881,000)**	**8,564,000**
Asset-backed securities	**5,255,000**	**38,000**	**(111,000)**	**5,182,000**
Redeemable preferred stocks	**100,000**	**—**	**(15,000)**	**85,000**
Total fixed income securities	**$67,546,000**	**$662,000**	**$(4,008,000)**	**$64,200,000**
DECEMBER 31, 2022				
Fixed income securities:				
US Treasuries	$ —	$ —	$ —	$ —
States and municipalities	21,820,000	46,000	(1,715,000)	20,151,000
Corporate bonds	8,920,000	8,000	(429,000)	8,499,000
Residential mortgage-backed securities	14,218,000	5,000	(1,780,000)	12,443,000
Commercial mortgage-backed securities	8,732,000	6,000	(1,065,000)	7,673,000
Asset-backed securities	2,872,000	—	(174,000)	2,698,000
Redeemable preferred stocks	226,000	—	(36,000)	190,000
Total fixed income securities	$56,788,000	$ 65,000	$(5,199,000)	$51,654,000

The amortized cost and fair value of fixed income securities available-for-sale as of December 31, 2023, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 3,222,000	$ 3,178,000
Due after one year through five years	9,830,000	9,534,000
Due after five years through ten years	13,572,000	13,142,000
Due after ten years	6,817,000	6,469,000
	33,441,000	32,323,000
Mortgage-backed and asset-backed securities	34,105,000	31,877,000
	$67,546,000	$64,200,000

For the years ended December 31, 2023 and 2022, proceeds from sales of investments were $569,000 and $103,000, respectively.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 3: INVESTMENTS *(continued)*

The following table shows the gross unrealized losses and fair value aggregated by investment category and length of time those securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
DECEMBER 31, 2023						
Fixed income securities:						
States and municipalities	**$ 2,681,000**	**$ (8,000)**	**$ 9,374,000**	**$(1,198,000)**	**$12,055,000**	**$(1,206,000)**
Corporate bonds	**1,069,000**	**(16,000)**	**6,428,000**	**(247,000)**	**7,497,000**	**(263,000)**
Residential mortgage-backed securities	**470,000**	**(8,000)**	**10,383,000**	**(1,524,000)**	**10,853,000**	**(1,532,000)**
Commercial mortgage-backed securities	**723,000**	**(17,000)**	**7,338,000**	**(864,000)**	**8,061,000**	**(881,000)**
Asset-backed securities	**501,000**	**(4,000)**	**2,642,000**	**(107,000)**	**3,143,000**	**(111,000)**
Redeemable preferred stocks	**—**	**—**	**85,000**	**(15,000)**	**85,000**	**(15,000)**
Total fixed income securities	**$ 5,444,000**	**$ (53,000)**	**$36,250,000**	**$(3,955,000)**	**$41,694,000**	**$(4,008,000)**
DECEMBER 31, 2022						
Fixed income securities:						
States and municipalities	$ 8,404,000	$ (806,000)	$ 4,641,000	$ (909,000)	$13,045,000	$(1,715,000)
Corporate bonds	6,483,000	(291,000)	1,119,000	(138,000)	7,602,000	(429,000)
Residential mortgage-backed securities	5,164,000	(374,000)	6,742,000	(1,406,000)	11,906,000	(1,780,000)
Commercial mortgage-backed securities	5,463,000	(681,000)	1,727,000	(384,000)	7,190,000	(1,065,000)
Asset-backed securities	1,260,000	(37,000)	1,439,000	(137,000)	2,699,000	(174,000)
Redeemable preferred stocks	190,000	(36,000)	—	—	190,000	(36,000)
Total fixed income securities	$26,964,000	$(2,225,000)	$15,668,000	$(2,974,000)	$42,632,000	$(5,199,000)

The Company reviews, at least quarterly, its investment portfolio for credit impairment on an individual security level for all assets held in an unrealized loss position. In its impairment analysis, the Company takes into consideration numerous criteria, including industry factors, downgrades by rating agencies, liquidity, fundamental factors of the issuers, credit model methodologies and recommendations from its investment manager, as well as its ability and intent to retain its investment in the issuer to allow for any anticipated recovery in market value or maturity. If the decline is for credit issues, an allowance for credit loss is established and recognized in operations through income. Any remaining portion of unrealized losses related to the noncredit-related component will continue to be recognized in other comprehensive income.

As of December 31, 2023 and 2022, none of the Company's investments, whose estimated fair values were less than amortized cost, were considered to be the result of a credit related decline.

The Company does not intend to sell its investments whose fair values are less than amortized cost and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost bases, which may be maturity.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 3: INVESTMENTS *(continued)*

Investment income, net is summarized as follows:

	Years Ended December 31	
	2023	2022
Interest and dividend income	**$2,736,000**	$ 2,179,000
Net realized (losses) gains, fixed income securities	**(7,000)**	2,000
Net realized losses, equity securities	**(21,000)**	(11,000)
Change in unrealized gains (losses), equity securities	**301,000**	(1,301,000)
Investment management fees and expenses	**(72,000)**	(78,000)
Net amortization of premium on fixed income securities	**(228,000)**	(289,000)
Investment income, net	**$2,709,000**	$ 502,000

NOTE 4: RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The reserve for losses is established on estimates of individual claims and actuarially determined estimates of future losses based on CAPIC's past loss experience, available industry data and projections as to future claims frequency, severity, inflationary trends and settlement patterns. Estimating the reserve is a complex process and requires CAPIC to make and revise judgments and assessments regarding multiple uncertainties over an extended period of time. As a result, the reserve estimate may vary considerably from the eventual outcome. The assumptions used in establishing CAPIC's reserves are regularly reviewed and updated by management as new data becomes available. Changes to estimates of previously established reserves are included in earnings in the period in which the estimate is changed.

CAPIC believes that the methods it uses to establish reserves are reasonable and appropriate. Each year, CAPIC engages the service of an outside independent actuary to review claims data and provide observations regarding cost trends, rate adequacy and ultimate loss costs.

The activity in the reserves for losses and loss adjustment expenses is summarized as follows:

	December 31	
	2023	2022
Reserves for losses and loss adjustment expenses gross of reinsurance recoverables at beginning of year	**$ 44,919,000**	$39,904,000
Incurred related to:		
Current year	**16,229,000**	14,592,000
Prior years	**(3,474,000)**	(2,915,000)
Total incurred	**12,755,000**	11,677,000
Paid related to:		
Current year	**(1,216,000)**	(779,000)
Prior years	**(11,755,000)**	(5,883,000)
Total paid	**(12,971,000)**	(6,662,000)
Reserves for losses and loss adjustment expenses gross of reinsurance recoverables on unpaid losses and loss adjustment expenses at end of year	**$ 44,703,000**	$44,919,000

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 4: RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES *(continued)*

For the years ended December 31, 2023 and 2022, the provision for losses and loss adjustment expenses for the prior years decreased by $3,474,000 and $2,915,000, respectively. The claims-made years impacted by the provision for losses and loss adjustment expenses for prior years are as follows:

	Prior Claims-Made Years' Provision for Losses and Loss Adjustment Expense for Years Ended December 31	
Claims-Made Year	**2023**	2022
2022	**$(1,369,000)**	$ —
2021	**(1,216,000)**	(740,000)
2020	**(467,000)**	(209,000)
2019	**(1,071,000)**	(720,000)
2018	**485,000**	(529,000)
2017	**70,000**	(778,000)
2016	**136,000**	(107,000)
2015	**(26,000)**	175,000
2014	**(16,000)**	(2,000)
2013	**—**	(5,000)
	$(3,474,000)	$(2,915,000)

For the year ended December 31, 2023, CAPIC experienced favorable development of $4,165,000 due to lower than expected claims severity from claim made years 2014, 2015 and 2019 through 2022, with the exception of claims-made year 2016 through 2018 where CAPIC experienced adverse development amounting to $691,000. For the year ended December 31, 2022, CAPIC experienced favorable development of $3,090,000 due to lower than expected claims severity from 2013 through 2021, with the exception of claims-made year 2015 where CAPIC experienced adverse development amounting to $175,000.

CAPIC establishes its reserve and manages claims activity by coverage, product or line of business and various categories of reserves having similar characteristics. Therefore, CAPIC has aggregated these reserve categories into several reserve groups in the following disclosures and tables that provide a more meaningful view of the amount, timing and uncertainty of cash flows arising from the liability.

The composition of the reserve group is based on similar characteristics with respect to the risks being insured and the reporting and payout pattern of the underlying claims. In all instances, the groups follow the coverage categorization used in statutory financial reporting for U.S.-domiciled property-casualty insurance companies.

CAPIC has elected to present reserve history for all years by line of business.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 4: RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES *(continued)*

Medical Professional Liability - Claims Made

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	IBNR	Cumulative Number of Reported Claims
($ in thousands)	|-------------------				Unaudited					-------------------|		
Accident Year												
2014	$857	$ 485	$1,399	$1,331	$ 1,327	$ 1,331	$ 1,333	$ 1,323	$ 1,317	$ 1,317	$ —	28
2015		1,357	1,308	856	479	529	489	466	450	445	—	32
2016			2,437	2,835	2,971	2,863	2,740	2,653	2,594	2,582	—	73
2017				3,772	4,486	3,910	2,669	2,415	1,739	1,651	—	57
2018					5,821	4,231	4,960	4,261	3,783	3,951	82	73
2019						9,227	7,312	10,326	10,381	9,167	222	343
2020							10,096	8,660	9,699	9,613	676	331
2021								10,615	10,259	10,289	1,716	259
2022									8,006	7,127	3,424	276
2023										9,140	7,686	361
Total	$857	$1,842	$5,144	$8,794	$15,084	$22,091	$29,599	$40,719	$48,228	$55,282	$13,806	1,833

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
($ in thousands)	|-------------------				Unaudited					-------------------|
Accident Year										
2014	$ 20	$ 159	$1,161	$1,215	$ 1,255	$ 1,301	$ 1,317	$ 1,317	$ 1,317	$ 1,317
2015		9	137	302	336	440	445	443	445	445
2016			64	607	2,221	2,582	2,582	2,583	2,582	2,582
2017				66	767	1,012	1,490	1,582	1,640	1,651
2018					125	710	2,558	3,270	3,594	3,740
2019						244	2,817	4,865	5,185	7,214
2020							856	1,707	3,908	6,259
2021								308	884	3,623
2022									139	1,147
2023										719
Total	$ 20	$ 168	$1,362	$2,190	$ 4,704	$ 6,289	$12,065	$16,075	$19,694	$28,697
Liabilities for claims and claim adjustment expenses, net of reinsurance										$26,585

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 4: RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES *(continued)*

Other Liability - Claims Made

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	IBNR	Cumulative Number of Reported Claims
($ in thousands)	Unaudited											
Accident Year												
2014	$1,680	$1,307	$1,304	$1,366	$1,395	$1,392	$ 1,395	$ 1,395	$ 1,399	$ 1,399	$ 3	191
2015		1,410	1,479	1,311	1,307	1,337	1,338	1,335	1,344	1,339	—	192
2016			1,640	1,653	1,687	1,711	1,676	1,668	1,693	1,688	5	212
2017				1,630	1,660	1,788	1,752	1,761	1,789	1,781	14	222
2018					1,720	1,920	1,980	2,026	2,064	2,061	33	227
2019						1,800	1,980	1,946	2,029	1,979	52	253
2020							2,160	2,090	2,189	2,269	136	277
2021								2,040	1,650	1,486	120	218
2022									2,230	1,960	636	224
2023										2,110	1,612	205
Total	$1,680	$2,717	$4,423	$5,960	$7,769	$9,948	$12,281	$14,261	$16,387	$18,072	$2,611	2,221

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
($ in thousands)	Unaudited									
Accident Year										
2014	$ 481	$ 922	$1,177	$1,366	$1,382	$1,387	$ 1,395	$ 1,396	$ 1,396	$ 1,396
2015		423	996	1,211	1,291	1,324	1,334	1,328	1,330	1,339
2016			586	1,318	1,582	1,655	1,661	1,675	1,683	1,683
2017				618	1,321	1,613	1,694	1,757	1,765	1,767
2018					588	1,473	1,805	1,946	2,012	2,028
2019						580	1,337	1,746	1,915	1,927
2020							570	1,460	1,960	2,133
2021								360	998	1,366
2022									543	1,324
2023										498
Total	$ 481	$1,345	$2,759	$4,513	$6,164	$8,032	$ 9,796	$11,668	$13,602	$15,461
Liabilities for claims and claim adjustment expenses, net of reinsurance										$ 2,611

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 4: RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES *(continued)*

Reinsurance - Nonproportional Assumed Liability

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

($ in thousands)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	IBNR	Cumulative Number of Reported Claims
	Unaudited											
Accident Year												
2014	$3,596	$4,000	$ 3,918	$ 2,960	$ 2,644	$ 2,580	$ 2,496	$ 2,468	$ 2,468	$ 2,453	$ —	24
2015		3,034	3,374	2,847	1,908	2,070	2,198	2,117	2,300	2,284	16	22
2016			3,807	3,808	3,080	3,208	3,125	2,950	2,875	3,122	62	33
2017				3,616	3,568	3,752	3,153	2,655	2,525	2,708	160	30
2018					3,487	3,507	3,396	2,816	2,690	3,142	96	28
2019						3,657	3,386	4,335	3,311	3,464	604	26
2020							4,181	3,852	3,735	3,228	1,863	15
2021								4,049	4,068	2,840	1,471	25
2022									4,370	4,033	3,410	10
2023										4,985	4,594	5
Total	$3,596	$7,034	$11,099	$13,231	$14,687	$18,744	$21,935	$25,242	$28,342	$32,259	$12,276	218

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	Year Ended December 31									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
($ in thousands)	Unaudited									
Accident Year										
2014	$ —	$ 725	$ 1,588	$ 2,305	$ 2,305	$ 2,453	$ 2,453	$ 2,453	$ 2,453	$ 2,453
2015		29	404	766	1,201	1,608	1,859	1,859	2,268	2,269
2016			232	1,063	1,904	2,520	2,641	2,715	2,717	3,061
2017				63	186	1,329	2,064	2,108	2,118	2,548
2018					—	366	1,325	1,617	1,739	2,215
2019						—	326	1,587	2,104	2,128
2020							49	253	903	957
2021								191	329	810
2022									112	311
2023										—
Total	$ —	$ 754	$ 2,224	$ 4,197	$ 5,596	$ 8,276	$10,717	$12,783	$14,743	$16,752
Liabilities for claims and claim adjustment expenses, net of reinsurance										$15,507

Percentage Payout of Incurred Claims by Age, Net of Reinsurance table is presented as supplementary information.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 4: RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES *(continued)*

	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance									
Years	1	2	3	4	5	6	7	8	9	10
					Unaudited					
Medical Professional Liability - Claims Made	30.1%	27.4%	20.7%	11.7%	6.7%	1.7%	0.9%	0.4%	0.3%	0.0%
Other Liability - Claims Made	58.5%	25.4%	8.5%	4.2%	1.7%	1.1%	0.6%	0.0%	0.0%	0.0%
Reinsurance - Nonproportional Assumed Liability	28.7%	26.2%	17.4%	12.5%	8.0%	3.9%	1.9%	0.9%	0.4%	0.1%

Below is a reconciliation of the claims development information to the Consolidated Balance Sheet:

($ in thousands)	**December 31, 2023**
Net outstanding liabilities	
Medical Professional Liability - Claims Made	**$26,585**
Other Liability - Claims Made	**2,611**
Reinsurance - Nonproportional Assumed Liability	**15,507**
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	**44,703**
Total gross liability for unpaid claims and claim adjustment expenses	**$44,703**

NOTE 5: OTHER INCOME

On March 27, 2020, the C*oronavirus Aid, Relief, and Economic Security Act* (the "Act") which provides tax relief and incentives to help in the recovery of business that partially or fully suspended operations during the coronavirus ("COVID-19") pandemic in 2020 was enacted. The Act contains numerous benefits, one of which is the *Employee Retention Credit for Employers Subject to Closure Due to COVID-19* (the "COVID-19 Employee Retention Credit"), which provides a credit against applicable employment taxes for wages paid to employees by employers at locations that were: a) fully or partially suspended as a result of a COVID-19 related government order or b) that suffered a gross receipts decline when compared to the same quarter in the prior year (the "COVID-19 Business Suspension"). Employers that qualify are "Eligible Employers" and Employees covered by the provisions of the Act are hereinafter referred to as "COVID-19 Employees" and wages paid to the COVID-19 Employee are "potentially qualified wages." This credit was further extended and enhanced by the Consolidated Appropriations Act, 2021 on December 2020. Under this act, the COVID-19 Employee Retention Credit was extended into 2021 and the definitions of eligible employer and qualified wages were expanded. The Company qualifies for the tax credit under the Act. As of December 31,2023, CAPIC had a receivable balance of $1,191,000 from the United States government related to the Act in "Other Assets" on the Company's Consolidated Balance Sheet.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 5: OTHER INCOME *(continued)*

On October 31, 2023, the Company completed the sale of its subsidiary, CAP Agency. Total consideration received amounted to $8,133,000 of which $7,880,000 was received in cash with the remaining reflected as a receivable of $253,000. After accounting for the elimination of the parent's initial investment in the subsidiary, the total gain recognized on the sale of the subsidiary amounted to $8,123,000. This gain has been recognized in the consolidated statement of income as a separate line item.

The deconsolidation of the subsidiary occurred on October 31, 2023, when control and ownership of the subsidiary were transferred to the buyer. As a result, the Company has ceased to consolidate the financial statements of the subsidiary from that date onwards. The transaction resulting in the deconsolidation of the subsidiary was not with a related party. The buyer of the subsidiary is an entity that is not considered a related party to the Company after the deconsolidation.

NOTE 6: REINSURANCE

CAPIC is involved in the assumption of reinsurance to share risk with insureds. The following table presents the effect of reinsurance on short-duration insurance premiums written and earned:

	Years Ended December 31	
	2023	2022
Premiums written:		
Direct	**$ 3,951,000**	$ 3,765,000
Assumed	**14,657,000**	12,704,000
Total written	**$18,608,000**	$16,469,000
Premiums earned:		
Direct	**$ 3,951,000**	$ 3,765,000
Assumed	**14,773,000**	12,672,000
Total earned	**$18,724,000**	$16,437,000

CAPIC assumes reinsurance on a pro rata basis with the CAPAssurance insurer as part of the CAPAssurance Program *(see Note 1)*. Under the agreements, CAPIC participates on a pro rata basis in the first $1,000,000 of exposure on medical professional liability policies at rates that vary based on the type of insured covered by the policies *(see Note 8).*

Effective January 1, 2016, CAPIC entered into a reinsurance agreement with HAPI relating to physician medical professional liability coverage. Under the agreement, CAPIC assumes a 10% share of up to $4,650,000 in loss and defense costs in excess of $350,000 on a per claim basis. CAPIC's participation begins after the application of an aggregate deductible calculated at 15% of developed reinsurance premium.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 7: AMORTIZATION OF DEFERRED ACQUISITION COSTS

Acquisition costs under reinsurance and insurance contracts are deferred to the extent they are recoverable against unearned premiums and are amortized as related premiums are earned. The amortization of deferred acquisition costs that is included in other operating expenses totals $602,000 and $293,000 for the years ended December 31, 2023 and 2022, respectively *(see Note 2)*.

NOTE 8: CONTINGENCIES AND COMMITMENTS

CAP utilizes a number of pieces of office equipment that are vital to day-to-day operations, which are acquired through operating leases. CAP's equipment leases include both lease (fixed rent payments) and non-lease components (service and maintenance costs) which are accounted for as a single lease component as the Company has elected the practical expedient to group lease and non-lease components for all leases. Variable lease payments, such state and local taxes, are presented as lease expense in the period in which they are incurred.

The Company excludes options to extend or terminate a lease from recognition as part of its right-of-use assets and lease liabilities until those options are reasonably certain and/or executed. The Company does not have any material guarantees, options to purchase, or restrictive covenants related to its leases.

As the Company's leases do not provide an implicit rate, it uses a risk-free discount rate based on the treasury yield that most closely approximates the term of the lease at the lease commencement date in determining the present value of the lease payments.

The following table provides supplemental lease information for operating leases on the Consolidated Balance Sheet as of December 31, 2023:

Lease Component	Balance Sheet Classification	December 31 **2023**
Equipment right-of-use asset	Other assets	**$193,000**
Equipment lease liability	AP and other liabilities	**193,000**
Weighted-average remaining lease term, years		**1.44 years**
Weighted-average discount rate		**1.17%**

The total rent expense under the lease contracts was $278,000 for the year ended December 31, 2023. The components of lease expense are as follows:

Lease Component	Statement of Operations Classification	Year Ended December 31 **2023**
Operating lease expense	Other operating costs	**$197,000**
Variable lease expense	Other operating costs	**81,000**
Net lease expense		**$278,000**

The future minimum lease payments under these operating lease contracts as of December 31, 2023 are as follows:

Years Ended December 31	Amount
2024	$135,000
2025	44,000
2026	13,000
2027	3,000
2028	1,000
	$196,000

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 8: CONTINGENCIES AND COMMITMENTS *(continued)*

CAP's leases have remaining lease terms of less than half a year to 4.25 years, some of which may include options to extend the leases for up to 6.0 years and some of which may include options to terminate the leases.

The following table provides supplemental lease information for the Consolidated Statements of Cash Flows for the year ended December 31, 2023:

Supplemental Cash Flow Information Related to Leases	Year Ended December 31 **2023**
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	**$267,000**

Effective in January 2018 and December 2021, CAPIC established standby letters of credit facility with a major bank that allows for letters of credit to be issued to designated persons or entities. The purpose of the facility is to secure certain reinsurance obligations of CAPIC to CAPAssurance insurers under reinsurance agreements established as part of the CAPAssurace Program *(see Notes 1, 2 and 6)*. The maximum amount available under the facility for all standby letters of credit issued collectively is $21,688,000. The facility is collateralized by CAPIC's investment portfolio and an annual fee is charged to maintain the facility. Any drawings made under issued and active letters of credit bear interest at the bank's prime rate plus a margin. As of December 31, 2023, no drawings under this letter of credit have been made. Accordingly, there was no interest expense incurred under this facility for the year ended December 31, 2023.

NOTE 9: INCOME TAXES

The components of the income tax expense are as follows:

	Years Ended December 31	
	2023	2022
Current	**$(3,388,000)**	$(1,336,000)
Deferred	**163,000**	349,000
Total	**$(3,225,000)**	$ (987,000)

A reconciliation of income tax expense computed at the federal statutory tax rate to total income tax expense is summarized as follows:

	Years Ended December 31	
	2023	2022
Federal income tax expense at 21%	**$(2,754,000)**	$(795,000)
Adjustments in taxes resulting from:		
State income tax expense (net of federal effect)	**(897,000)**	(169,000)
Accrued market discount	**148,000**	—
Prior period true-up	**276,000**	—
Gain on CAP Agency sale	**6,000**	—
Employee benefit plan	**—**	5,000
Tax effect of PAC Committee's reimbursement for taxes	**(37,000)**	(41,000)
Non-deductible lobbying and political expenses	**—**	(28,000)
Tax-exempt investment income	**53,000**	58,000
Meals, entertainment and club dues exclusion	**(14,000)**	(11,000)
Employer paid parking	**(12,000)**	(13,000)
Preferred stock: eligible dividends received deduction	**6,000**	7,000
Total income tax expense	**$(3,225,000)**	$(987,000)

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 9: INCOME TAXES *(continued)*

The significant components of deferred income tax assets and liabilities are as follows:

	December 31	
	2023	2022
Deferred tax assets:		
Unrealized losses on fixed income securities	**$ 703,000**	$1,078,000
Unrealized losses on equity securities	**203,000**	266,000
Discounting of reserves for losses and loss adjustment expenses	**548,000**	569,000
Discounting transition adjustment pursuant to the Tax Cuts and Jobs Act	**9,000**	13,000
Employee benefit obligations	**176,000**	182,000
Office equipment lease liability	**58,000**	130,000
State taxes	**211,000**	49,000
Unearned premiums	**45,000**	44,000
Other items	**6,000**	6,000
Deferred tax assets	**1,959,000**	2,337,000
Deferred tax liabilities:		
State tax on unremitted earnings of subsidiaries	**(251,000)**	(209,000)
Accretion of bond discount	**(19,000)**	(157,000)
Office equipment right-of-use asset	**(58,000)**	(130,000)
Deferred acquisition costs	**(74,000)**	(72,000)
Deferred tax liabilities	**(402,000)**	(568,000)
Deferred tax assets, net	**$1,557,000**	$1,769,000

The Company has not established a valuation allowance against deferred tax assets as it has been determined that it is more likely than not that the assets will be realized.

As of December 31, 2023, there remain no federal net operating loss carryforwards.

Income taxes paid for the years ended December 31, 2023 and 2022 were $1,402,000 and $1,738,000, respectively. There were $5,408 in penalties on tax amounts paid in year ended December 31, 2023 and no penalties on tax amounts paid in year ended December 31, 2022.

The Company's income tax returns are subject to audit by the Internal Revenue Service and state tax authorities. Significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions because of differing interpretations of tax laws and regulations. The Company periodically evaluates its exposures associated with tax filing positions.

As of December 31, 2023 and 2022, the Company had no uncertain tax positions.

Tax years 2020 through 2022 and tax years 2019 through 2022 are subject to examination by the federal and California taxing authorities, respectively.

NOTE 10: RELATED-PARTY TRANSACTIONS

CAP and MPT operate under an administrative and management services agreement whereby CAP provides membership, claims, risk management, financial, legal and other administrative and management services to MPT. Under the agreement, CAP receives monthly fees from MPT for these services that are based on actual expenses incurred by CAP plus a margin. The margin applies to all services, except corporate legal, whose services are provided to MPT at cost. CAP charged a margin of $1,172,000 and $1,111,000 for 2023 and 2022, respectively. Total revenues of $26,434,000 and $24,752,000 for the years ended December 31, 2023 and 2022, respectively, were recognized for administrative and management services provided to MPT under the agreement that are included in claims and risk management service

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

NOTE 10: RELATED-PARTY TRANSACTIONS *(continued)*

revenues in the consolidated statements of comprehensive income. Expenses related to these agreements are included in salaries and related expenses totaling $17,313,000 and $16,628,000 for the years ended December 31, 2023 and 2022, respectively, and in other operating costs totaling $7,949,000 and $7,014,000 for the years ended December 31, 2023 and 2022, respectively.

Effective January 1, 2013, CAPIC and MPT entered into a services agreement whereby CAPIC provides claims legal defense services to MPT physicians. Under the CAPAssurance Program, claims legal defense services were also provided to the CAPAssurance insurer. CAPIC receives monthly fees for these services that are based on actual costs incurred. Claims services fees recognized under this agreement were $17,795,000 and $15,412,000 for the years ended December 31, 2023 and 2022, respectively. Included in the receivable from affiliated entities is $1,798,000 and $1,375,000 due from MPT for these services as of December 31, 2023 and 2022, respectively.

In 2023 and 2022, CAPIC had reinsurance contracts with MPT. These contracts principally provide per claim excess of loss reinsurance coverage on a claims-made form for claims reported in 2023 and 2022. These agreements can be terminated and commuted at the end of any calendar quarter prospectively by mutual agreement of CAPIC and MPT. Premiums paid by MPT under these agreements were $7,000,000 and $5,500,000 for the years ended December 31, 2023 and 2022, respectively. CAPIC also participates in a reinsurance contract that provides MPT coverage on a claims-made basis for multiple claims arising out of one common event. Premiums received by CAPIC under this contract were $178,000 and $187,000 for the years ended December 31, 2023 and 2022, respectively. For the years ended December 31, 2023 and 2022, total affiliate reinsurance premium income under all reinsurance contracts with MPT was $7,178,000 and $5,687,000, respectively.

CAP provides its Members and participants defense coverage for medical board actions with a $25,000 limit and employment practice defense coverage with a $50,000 limit. CAPIC provides insurance coverage to CAP for these benefits. MPT reimburses CAP for a significant portion of the cost of this coverage. CAP paid CAPIC $4,004,000 and $3,817,000 for the years ended December 31, 2023 and 2022, respectively, for this coverage, of which MPT reimbursed CAP $3,951,000 and $3,765,000 for the same respective years.

The Company sponsors a 401(k) savings plan for its employees. Employees' contributions are matched by the Company at a level that is determined by the Board of Directors. The contribution expense for the 401(k) savings plan was $1,191,000 and $1,157,000 for the years ended December 31, 2023 and 2022, respectively. Eligible employees vest in the Company's contribution over a four-year vesting schedule. The Company also sponsors a supplemental employee retirement program (SERP) for certain employees. Participants vest, on average, over a 10-year period. All of the expense related to the SERP is incurred by MPT. SERP liabilities for the Company's participants have been assumed by MPT.

The Company maintains a non-qualified deferred compensation program (NDCP) for eligible employees and Board members. Under the plan, participants can defer compensation or Board fees based on an annual election. Amounts deferred are credited with notional investment earnings on a tax deferred basis until such amounts are distributed to participants. Amounts deferred are remitted to MPT who administers the NDCP on behalf of the Company.

NOTE 11: STATUTORY INFORMATION

CAPIC is required to file statutory financial statements with the Arizona Department of Insurance and Financial Institutions (AZ DIFI), prepared based upon the statutory accounting principles (SAP) prescribed or permitted by AZ DIFI. CAPIC did not use any prescribed or permitted SAP that differed from the NAIC's SAP at December 31, 2023. The most significant differences between net income prepared in accordance with GAAP and statutory net income are generally due to: (a) policy acquisition costs which are deferred under GAAP but expensed for statutory purposes, (b) certain deferred income taxes which are recognized under GAAP but are not recognized for statutory purposes, and (c) net unrealized gains or losses which are included in shareholders' equity related to available-for-sale fixed maturity securities carried at fair value under GAAP but are principally carried at amortized cost for statutory purposes. The NAIC specifies risk-based capital requirements for property and casualty insurance providers. At December 31, 2023, the Company estimates that the actual statutory capital and surplus for CAPIC exceeds the minimum regulatory requirements. Net income and capital and surplus of CAPIC on a statutory basis are $2,138,000 and $48,985,000, respectively.

2023 ANNUAL REPORT

MPT Financial Reports 2023

Report of Independent Auditors

THE BOARD OF TRUSTEES
MUTUAL PROTECTION TRUST

OPINION

We have audited the financial statements of the Mutual Protection Trust, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in members' equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Mutual Protection Trust at 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Mutual Protection Trust and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mutual Protection Trust'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 Mutual Protection Trust'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.

SUPPLEMENTARY INFORMATION

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary financial information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "unaudited," 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, except for that portion marked "unaudited" on which we express no opinion, is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

San Francisco, California
March 27, 2024

Balance Sheets

MUTUAL PROTECTION TRUST

	December 31 2023	2022
ASSETS		
Trust fund corpus, restricted:		
Fixed income securities, available-for-sale, at fair value	$131,909,000	$125,071,000
Short-term investments	1,977,000	—
Cash and cash equivalents	3,133,000	3,488,000
Accrued interest receivable	935,000	688,000
Deferred tax asset	1,244,000	2,610,000
	139,198,000	131,857,000
Trust fund operating accounts:		
Fixed income securities, available-for-sale, at fair value	84,691,000	78,435,000
Short-term investments	2,323,000	—
Cash and cash equivalents	31,628,000	33,205,000
Assessments, dues and other coverages receivable	94,694,000	94,516,000
Fixed assets and intangibles, net	6,931,000	1,412,000
Deferred tax asset, net	4,545,000	5,116,000
Other assets	38,844,000	26,162,000
	263,656,000	238,846,000
	$402,854,000	$370,703,000
LIABILITIES		
Trust fund operating accounts:		
Non-assessable former members' liability	$ 42,872,000	$ 42,747,000
Unpaid claims and expenses	15,117,000	12,837,000
Deferred assessments, dues and other coverages	150,962,000	139,393,000
Payable to affiliated entity	1,420,000	1,254,000
Other liabilities	29,332,000	25,422,000
	239,703,000	221,653,000
Contingencies and commitments *(see Notes 5 and 9)*		
MEMBERS' EQUITY		
Trust fund corpus, including accumulated other comprehensive loss of $4,677,000 and $9,817,000 as of December 31, 2023 and 2022, respectively	139,198,000	131,857,000
Trust fund operations, including accumulated other comprehensive loss of $1,862,000 and $5,367,000 as of December 31, 2023 and 2022, respectively	23,953,000	17,193,000
	163,151,000	149,050,000
	$402,854,000	$370,703,000

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

Statements of Operations

MUTUAL PROTECTION TRUST

	Years Ended December 31	
	2023	2022
Assessments and dues	**$109,624,000**	$110,013,000
Revenues		
Investment income:		
Interest income, net	**8,479,000**	5,128,000
Realized losses	**(5,262,000)**	(2,357,000)
Investment income, net	**3,217,000**	2,771,000
Other coverage fees	**17,993,000**	15,092,000
Total assessments, dues and revenues	**130,834,000**	127,876,000
Expenses		
Claims costs:		
Indemnity expense	**39,463,000**	43,614,000
Defense and investigative services	**34,012,000**	30,571,000
Salaries and related expenses	**5,561,000**	5,268,000
Other operating costs	**17,100,000**	15,011,000
	96,136,000	94,464,000
General and administrative:		
Salaries and related expenses	**14,230,000**	15,222,000
Other operating costs	**17,488,000**	18,161,000
	31,718,000	33,383,000
Total expenses	**127,854,000**	127,847,000
Excess of assessments, dues and revenues over expenses before income taxes	**2,980,000**	29,000
Income tax benefit (expense)	**275,000**	(1,166,000)
Net excess (deficit) of assessments, dues and revenues over expenses	**3,255,000**	(1,137,000)
Other comprehensive income (loss), net		
Net unrealized gains (losses) on securities available-for-sale, net of taxes	**8,645,000**	(17,622,000)
Net change in members' equity through operations	**$ 11,900,000**	$ (18,759,000)

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

Statements of Changes in Members' Equity

MUTUAL PROTECTION TRUST

		Trust Fund Corpus					
	Trust Fund Operations	Active Members	Accumulated Other Comprehensive Income (Loss)	Members' Deferred Contract Receivable	Retired Members and Voluntary Terminations	Total Trust Fund Corpus	Total Members' Equity
Balance at January 1, 2022	$24,330,000	$143,235,000	$ 1,854,000	$(16,618,000)	$13,753,000	$142,224,000	$166,554,000
Cumulative effect of adoption of lease accounting standard	(49,000)	—	—	—	—	—	(49,000)
Corpus activity:							
Additions	—	8,896,000	—	(8,896,000)	—	—	—
Payments on deferred contracts receivable	—	—	—	8,366,000	—	8,366,000	8,366,000
Repayments	—	—	—	—	(6,254,000)	(6,254,000)	(6,254,000)
Contributions relinquished	—	(808,000)	—	—	—	(808,000)	(808,000)
Transfers of corpus	—	(6,180,000)	—	—	6,180,000	—	—
Net deficit of assessments, dues and revenues over expenses	(1,137,000)	—	—	—	—	—	(1,137,000)
Other comprehensive losses (net of deferred income taxes of $4,685,000)	(5,951,000)	—	(11,671,000)	—	—	(11,671,000)	(17,622,000)
Balance at December 31, 2022	17,193,000	145,143,000	(9,817,000)	(17,148,000)	13,679,000	131,857,000	149,050,000
Corpus activity:							
Additions	**—**	**10,602,000**	**—**	**(10,602,000)**	**—**	**—**	**—**
Payments on deferred contracts receivable	**—**	**—**	**—**	**8,409,000**	**—**	**8,409,000**	**8,409,000**
Repayments	**—**	**—**	**—**	**—**	**(5,271,000)**	**(5,271,000)**	**(5,271,000)**
Contributions relinquished	**—**	**(937,000)**	**—**	**—**	**—**	**(937,000)**	**(937,000)**
Transfers of corpus	**—**	**(8,065,000)**	**—**	**—**	**8,065,000**	**—**	**—**
Net excess of assessments, dues and revenues over expenses	**3,255,000**	**—**	**—**	**—**	**—**	**—**	**3,255,000**
Other comprehensive gains (net of deferred income taxes of $2,298,000)	**3,505,000**	**—**	**5,140,000**	**—**	**—**	**5,140,000**	**8,645,000**
Balance at December 31, 2023	**$23,953,000**	**$146,743,000**	**$ (4,677,000)**	**$(19,341,000)**	**$16,473,000**	**$139,198,000**	**$163,151,000**

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

Statements of Cash Flows

MUTUAL PROTECTION TRUST

	Years Ended December 31	
	2023	2022
Operating activities		
Net excess (deficit) of assessments, dues and revenues over expenses	**$ 3,255,000**	$ (1,137,000)
Adjustments to reconcile net excess (deficit) of assessments, dues and revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	**520,000**	413,000
Loss on disposal of fixed assets	**134,000**	—
Amortization on fixed income securities	**156,000**	721,000
Net realized investment losses	**5,262,000**	2,357,000
Deferred income taxes	**(361,000)**	1,212,000
Decrease in lease incentive obligation	**—**	(1,644,000)
Changes in operating assets and liabilities:		
Accrued interest receivable	**(247,000)**	(82,000)
Assessments, dues and other coverages receivable	**(178,000)**	(4,646,000)
Income taxes receivable	**87,000**	670,000
Other assets	**(12,769,000)**	5,125,000
Non-assessable former members' liability	**125,000**	536,000
Unpaid claims and expenses	**2,280,000**	(4,832,000)
Deferred assessments, dues and other coverages	**11,569,000**	8,060,000
Payable to affiliated entity	**166,000**	(197,000)
Other liabilities	**3,910,000**	3,965,000
Net cash provided by operating activities	**13,909,000**	10,521,000
Investing activities		
Fixed income securities available-for-sale:		
Purchases	**(119,573,000)**	(77,096,000)
Sales and maturities	**111,997,000**	66,474,000
Short term investments		
Net increase in short-term investments	**(4,293,000)**	—
Net additions to fixed assets and intangibles	**(6,173,000)**	(320,000)
Net cash used in investing activities	**(18,042,000)**	(10,942,000)
Financing activities		
Additions to Trust fund corpus	**8,409,000**	8,366,000
Repayments of Trust fund corpus	**(6,208,000)**	(7,062,000)
Net cash provided by financing activities	**2,201,000**	1,304,000
Net change in cash and cash equivalents	**(1,932,000)**	883,000
Cash, cash equivalents and restricted cash at beginning of year		
Trust fund corpus	**3,488,000**	3,276,000
Trust fund operations	**33,205,000**	32,534,000
	36,693,000	35,810,000
Cash, cash equivalents and restricted stock at end of year		
Trust fund corpus	**3,133,000**	3,488,000
Trust fund operations	**31,628,000**	33,205,000
	$ 34,761,000	$ 36,693,000

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

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 1: ORGANIZATION

The Mutual Protection Trust (MPT) was organized in 1977 for the purpose of providing its member physicians with medical professional liability protection and related claims administration, including defense and investigative services. Only physicians licensed to practice medicine in the state of California are eligible for membership. MPT is an interindemnity arrangement structured so that its members share the cost of medical professional liability protection. California legislation enacted in 1976 permitted the formation of a trust fund, with specific provisions including the requirement to accumulate a minimum Trust fund corpus of $10 million. The Cooperative of American Physicians, Inc. (CAP) sponsored the organization of MPT and the initial accumulated contributions from the members were transferred to the Trust fund corpus. MPT is a business trust governed by a Board of Trustees.

Each member is required to pay an Initial trust contribution based upon the member's risk classification and other factors. These contributions are accumulated into the Trust fund corpus. MPT members are allowed to pay Initial trust contributions in installments. The amount of Trust fund contributions unpaid is reported as a deferred contract receivable from members and is reported as a reduction in members' equity.

In accordance with the Mutual Protection Trust Agreement (the MPT Agreement), the Trust fund corpus may be utilized by the Board of Trustees only for (1) investment in qualified securities, (2) return of contributions to qualified members in connection with death, retirement or termination, (3) payment of claims in an amount not exceeding 10% of the Trust fund corpus, with such amounts being promptly repaid to the Trust fund corpus by levying assessments against MPT members, (4) collateral for bonds or deposits in court necessary for the appeal of judgments in an amount not exceeding 15% of the Trust fund corpus, (5) distribution to MPT members in the event of the dissolution of MPT, and (6) other lawful purposes approved in accordance with the MPT Agreement. The use of the Trust fund corpus for any other purpose is strictly prohibited.

Initial trust contributions are repaid to the member on the 10th anniversary of the membership effective date to members who have retired or who have voluntarily terminated membership in accordance with California Insurance Code Section 1280.7 and the MPT Agreement. Members must be in compliance with all terms and conditions of the MPT Agreement, including the payment of all amounts due to MPT, to be entitled to the repayment of Initial trust contributions. All repayments of Initial trust contributions require the written authorization of at least two-thirds of the Board of Trustees. Members who have voluntarily terminated membership through December 31, 2023, will receive the return of their Initial trust contributions aggregating $16,473,000, in accordance with the provisions of the MPT Agreement through the year 2033. The Initial trust contributions of members who have been involuntarily terminated pursuant to the provisions of the MPT Agreement that provide for no return of the Initial trust contribution, are recognized in operations in the year of termination since these members have relinquished the right to the return of their Initial trust contributions.

Assessments and dues are determined by the Board of Trustees in accordance with California Insurance Code Section 1280.7 and the MPT Agreement and are used to fund estimated operating needs through the succeeding fiscal year. The Board of Trustees has the ability to levy additional assessments, should there be an operating shortfall in a given year *(see Note 5)*. Assessments and dues become an obligation of active members on the date of levy by the Board of Trustees. Results from operations may vary from year to year since actual amounts may differ from the estimates used to levy assessments and dues.

Revenues are primarily comprised of other coverage fees, finance charges and net investment income. Assessments, dues and revenues are used to pay legally binding final judgments and settlements against MPT members, claims defense and investigative expenses, administrative expenses and are used to fund MPT's actuarially estimated future liability for claims against non-assessable former members in accordance with the MPT Agreement and resolution of the Board of Trustees *(see Note 4).*

BASIS OF FINANCIAL STATEMENT PRESENTATION

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). This basis of accounting necessarily requires the use of management 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 assessments, revenues and expenses during the reporting period. Actual results may differ from those estimates.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ASSESSMENTS AND DUES

Member assessments are levied by the Board of Trustees annually and recognized over the period in which membership services are rendered. Member assessments, levied in advance of the fiscal year to which they apply, are deferred and recognized in operations in the subsequent year. In November 2023 and 2022, MPT levied $121,029,000 and $118,715,000 in member assessments, respectively. The following table reconciles the assessments levied in November 2022 and 2021 to the assessments recognized in the Statements of Operations:

	Years Ended December 31	
	2023	2022
Assessment levied in November of the preceding year	**$118,715,000**	$113,603,000
November 2021 assessments transferred to 2022	**—**	16,000,000
November 2022 assessments transferred to 2023	**20,000,000**	(20,000,000)
November 2023 assessments transferred to 2024	**(28,500,000)**	—
Net adjustments to member assessments during the year	**(591,000)**	410,000
Assessments and dues recognized in the Statements of Operations	**$109,624,000**	$110,013,000

In addition to the assessments levied in November 2023 and 2022, the Board of Trustees also established annual dues of $190 per active member. In the November 2023 and 2022 assessment, approximately $617,000 and $624,000, respectively, of the annual dues were contributed based on an election made by the member, to the CAP State Political Action Committee, or to another political action committee established to support medical liability reform. From the dues levied in 2023, the Board of Trustees directed that $809,000 remain in MPT and be used to offset operating costs in 2024 and $1,000,000 be earmarked for the use of advocacy efforts through Physician Association of California. From the dues levied in 2022, the Board of Trustees directed that the residual dues of $1,775,000 be earmarked for the use of advocacy efforts through a new organization. Amounts contributed to the political action committees are not recognized in assessments and dues, and any contributions to these funds are not recognized as expenses. These funds are included in other liabilities as a payable to CAP's political action committees and totaled $617,000 and $624,000 as of December 31, 2023 and 2022, respectively.

REVENUES

Other coverage fees and finance charges are recognized when billed and earned as revenue over the period in which services are rendered. The billing for other coverage fees typically occurs in the first quarter of the calendar year.

NET CHANGE IN MEMBERS' EQUITY

Net change in members' equity consists of net excess (deficit) of assessments, dues and revenues over expenses and other comprehensive gain. MPT does not report total comprehensive income or loss since its statutory authority precludes the Board of Trustees from assessing MPT's members for anything other than operating needs. Assessments and dues are not revenues as they are levied by the Board of Trustees solely to support such operating needs. Accordingly, there is no net income or loss, or total comprehensive income or loss. Any excess of assessments, dues and revenues over expenses are the property of MPT members *(see Note 1)*. Other comprehensive gain refers to gains and losses that are not included in net excess of assessments, dues and revenues over expenses, but rather are recorded directly in members' equity. For the years ended December 31, 2023 and 2022, the net change in members' equity consists of net excess (deficit) of assessments, dues and revenues over expenses and unrealized losses on securities classified as available-for-sale.

Reclassification adjustments related to available-for-sale securities for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Net realized investment losses included in the calculation of investment income, net	**$(4,846,000)**	$(2,026,000)
Tax effect at 21%	**1,018,000**	425,000
Net realized investment losses reclassified from other comprehensive loss	**$(3,828,000)**	$(1,601,000)

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term highly liquid investments with maturities of 90 days or less at acquisition and are principally stated at amortized cost.

SHORT-TERM INVESTMENTS

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are principally stated at amortized cost.

INVESTMENTS

Investments are limited to those qualifying under California law as defined in Section 16430 of the Government Code.

Investments are classified as available-for-sale and are carried at fair value. Unrealized gains and losses are accounted for, net of tax, as a component of other comprehensive income in members' equity.

Investments in the Trust fund corpus and Trust fund operating accounts are designated as available-for-sale and are carried at fair value.

Investment income is recorded on an accrual basis. Premiums and discounts on investment securities are amortized using the interest method over the estimated lives of the investments. Realized gains and losses from sales transactions occurring during the year are recognized in operations using the specific identification method. Unrealized gains and losses are determined using the specific identification method. Adjustments for credit related declines are recorded in operations through income when identified.

CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject MPT to concentrations of credit risk, consist principally of temporary cash investments and fixed income securities; assessments, dues and other coverages receivable; and other assets. MPT places its temporary cash investments with high credit quality financial institutions. Concentrations of credit risk with respect to fixed income securities are limited due to the large number of such investments and their distribution across many different industries and geographic regions. MPT's investments in federal agency securities are considered to have an implicit guarantee as to principal from the U.S. Government and are considered to have minimal credit risk. Credit risk concentration in assessments, dues and other coverages receivable is considered minimal due to the large number of physicians totaling approximately 12,700 that comprise the total receivable.

Within other assets, financial instruments that potentially subject MPT to concentrations of credit risk are assets that support MPT's employee benefit plan obligations. Substantially all of these employee benefit plan assets are comprised of mutual funds and cash values in company-owned life insurance policies. Such cash values are also invested in mutual funds. Concentrations of credit risk are mitigated through both the large number of mutual funds used, and the diversification within each mutual fund among many different equity and fixed income positions across many companies and security issuers *(see Note 7).*

FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value amounts, defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date, have been determined using available market information and other appropriate valuation methodologies. However, considerable judgment is required in developing the estimates of fair value where quoted market prices are not available. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimating methodologies may have an effect on the estimated fair value amounts.

The following methods and assumptions were used by MPT in estimating the fair value disclosures for financial instruments in the accompanying financial statements and in these notes:

Cash and cash equivalents, assessments, dues and other coverages receivable, income taxes receivable, payable to affiliated entity. The carrying amounts for these financial instruments as reported in the accompanying balance sheets approximate their estimated fair values.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments. MPT determines the fair value of its investments based on a fair value hierarchy, which requires an entity to disclose the use of observable inputs and minimize the use of unobservable inputs for measuring fair value. Estimates of fair value measurements for these securities are estimated using relevant inputs, including available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, an Option Adjusted Spread model is used to develop prepayment and interest rate scenarios. Industry standard models are used to analyze and value securities with embedded options or prepayment sensitivities.

Each asset class is evaluated based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions.

This method of valuation will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If objectively verifiable information is not available, MPT would be required to produce an estimate of fair value using some of the same methodologies but would have to make assumptions for market-based inputs that are unavailable due to market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.

Because the fair value estimates of most fixed income securities are determined by evaluations that are based on observable market information rather than market quotes, most estimates of fair value for fixed income securities are based on estimates using objectively verifiable information and are included in the amount disclosed in Level 2 of the hierarchy. The values of states and municipalities, corporate bonds, residential mortgage-backed securities and commercial mortgage-backed securities are based on the observable market information and as such, are included in Level 2 of the hierarchy. Level 1 is limited to unadjusted quoted prices in active markets for identical instruments and includes, for example, U.S. Treasury securities.

The following table presents investments in the accompanying balance sheets that are stated at fair value and the fair value measurements used as of December 31, 2023 and 2022 *(see Note 3):*

	Total	Level 1	Level 2
DECEMBER 31, 2023			
Trust Fund Corpus, restricted:			
Fixed income securities			
States and municipalities	$ 23,761,000	$—	$ 23,761,000
Corporate bonds	56,739,000	—	56,739,000
Residential mortgage-backed securities	35,802,000	—	35,802,000
Commercial mortgage-backed securities	15,607,000	—	15,607,000
Total fixed income securities	131,909,000	$—	$131,909,000
Trust Fund Operating:			
Fixed income securities			
States and municipalities	$ 10,830,000	$—	$ 10,830,000
Corporate bonds	33,867,000	—	33,867,000
Residential mortgage-backed securities	29,270,000	—	29,270,000
Commercial mortgage-backed securities	10,724,000	—	10,724,000
Total fixed income securities	$ 84,691,000	$—	$ 84,691,000

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

	Total	Level 1	Level 2
DECEMBER 31, 2022			
Trust Fund Corpus, restricted:			
Fixed income securities			
States and municipalities	$ 31,986,000	$—	$ 31,986,000
Corporate bonds	42,654,000	—	42,654,000
Residential mortgage-backed securities	35,118,000	—	35,118,000
Commercial mortgage-backed securities	15,313,000	—	15,313,000
Total fixed income securities	$125,071,000	$—	$125,071,000
Trust Fund Operating:			
Fixed income securities			
States and municipalities	$ 16,188,000	$—	$ 16,188,000
Corporate bonds	34,176,000	—	34,176,000
Residential mortgage-backed securities	19,018,000	—	19,018,000
Commercial mortgage-backed securities	9,053,000	—	9,053,000
Total fixed income securities	$ 78,435,000	$—	$ 78,435,000

There were no securities at December 31, 2023 or 2022, whose fair value measurements were based on Level 1 or Level 3 inputs.

Other Assets. Included in other assets are mutual fund investments used to fund SERP and NDCP obligations *(see Note 7)*. The carrying amounts for these mutual fund investments in the accompanying balance sheets are stated at fair value, totaling $1,978,000 and $1,864,000 at December 31, 2023 and 2022, respectively.

ASSESSMENTS, DUES AND OTHER COVERAGES RECEIVABLE

Assessments, dues and other coverages receivable are primarily composed of assessments and dues levied by the Board of Trustees. Assessments and dues are recorded as a receivable at the time the MPT member becomes legally obligated to pay such assessments and dues under the MPT Agreement. This occurs at the time assessments and dues are levied by the Board of Trustees, which traditionally occurs in November.

FIXED ASSETS AND INTANGIBLES, NET

Fixed assets and intangibles consist of the following:

	December 31	
	2023	2022
Software	**$ 1,737,000**	$ 1,631,000
Computer equipment	**1,072,000**	5,159,000
Document imaging	**29,000**	620,000
Leasehold improvements	**8,999,000**	3,851,000
Furniture and equipment	**648,000**	4,298,000
	12,485,000	15,559,000
Accumulated amortization and depreciation	**(5,554,000)**	(14,147,000)
Fixed assets and intangibles, net	**$ 6,931,000**	$ 1,412,000

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Included in this category is capitalized software costs, which represent costs directly related to obtaining, developing or upgrading internal-use software. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are generally as follows:

Asset Description	Asset Life
Software	5 years
Computer equipment	5 years
Document imaging	5 years
Leasehold improvements	5 years
Furniture and equipment	8 years

The costs incurred with respect to the preliminary project stage are expensed in the period incurred. Costs related to application development stages are tracked separately and capitalized. Finally, costs related to the post-implementation stage are expensed in the period incurred unless such costs are incurred to modify the software's functionality significantly.

UNPAID CLAIMS AND EXPENSES AND NON-ASSESSABLE FORMER MEMBERS' LIABILITY

MPT reports its liability consistent with California Insurance Code Section 1280.7 and the MPT Agreement. Such liability at each year-end, as detailed in Note 4, represents the unpaid amount of the following items:

- Accrued liability for claims defense and investigative expenses for all open claims under MPT management;
- Total liability for legally binding final settlements and judgments against members who are current in the payment of all amounts due under the MPT Agreement and former members who have met the requirements for retirement, termination with tail coverage, transfer of membership or who are deceased; and
- Actuarially estimated future liability for claims reported and claims incurred but not reported against former MPT members who are no longer assessable because of retirement, transfer of membership, voluntary or involuntary termination with tail coverage or death (collectively referred to as non-assessable former members' liability). Also included in this liability is an estimate for claims administration and other adjusting expenses that will be incurred in administering the claims for such non-assessable former members.

INCOME TAXES

MPT files its federal income tax return as a mutual insurance company and files its California income tax return under the provision of the California Bank and Corporation Tax Law as a business trust. Income taxes are provided on the basis of items included in the determination of income for financial reporting purposes regardless of the period when such items are reported for tax purposes. Deferred tax assets and liabilities are recorded to reflect the tax consequences in future years of temporary differences between the tax bases of assets and liabilities and the corresponding bases used for the financial statements. A valuation allowance is recorded to reduce deferred tax assets to an amount that represents management's best estimate of the amount that more likely than not will be realized. The income tax effect on unrealized investment gains and losses on the Trust fund corpus investments is accounted for as deferred income taxes and is included as a separate component of the Trust fund corpus. Interest and penalties on tax amounts paid or received are included in investment income, net and general and administrative other operating costs, respectively *(see Note 8).*

CONSOLIDATED APPROPRIATIONS ACT, 2021

On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security Act* (the "Act") which provides tax relief and incentives to help in the recovery of business that partially or fully suspended operations during the coronavirus ("COVID-19") pandemic in 2020 was enacted. The Act contains numerous benefits, one of which is the *Employee Retention Credit for Employers Subject to Closure Due to COVID-19* (the "COVID-19 Employee Retention Credit" or "ERC"), which provides a credit against applicable employment taxes for wages paid to employees by employers at locations that were: a) fully or partially suspended as a result of a COVID-19 related government order OR b) that suffered a gross receipts decline when compared to the same quarter in the prior year (the "COVID-19 Business Suspension"). Employers that qualify are "Eligible Employers" and Employees covered by the provisions of the Act are hereinafter referred to as "COVID-19 Employees" and wages paid to the COVID-19 Employee are "potentially qualified wages." This credit was further extended and enhanced by the Consolidated Appropriations Act, 2021 on December 2020. Under this act, the COVID-19 Employee Retention Credit was extended into 2021 and the definitions of eligible employer and qualified wages were expanded. MPT qualified for the tax credit under the Act. During 2021, MPT applied for the COVID-19 Employee Retention Credit and received $42,000 from the Internal Revenue Service in 2022.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

NEW ACCOUNTING STANDARDS

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Effective for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years, the FASB issued guidance that replaces the incurred loss impairment methodology, which delays recognition of credit losses until a probable loss has been incurred. The new methodology accelerates loss recognition by reflecting expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Included in the scope of this guidance are MPT's reinsurance recoverables and its financial assets held at amortized cost. Under the new guidance, credit losses are required to be recorded through an allowance for expected credit losses account and the income statement will reflect the initial recognition of lifetime expected credit losses for any newly recognized financial assets as well as increases or decreases of expected credit losses that have taken place during the period. Credit losses on reinsurance recoverables are required to be presented as an allowance, rather than as a write-down of the asset, limited to the amount by which the fair value is below amortized cost. MPT adopted this guidance beginning January 1, 2023 but determined that estimated expected credit losses associated with reinsurance recoverables and other financial assets held at amortized cost included in the scope of this new guidance was nominal as of December 31, 2023. Adoption of this guidance had no material effect on MPT's results of operations, financial position or cash flows.

As of the reporting date, the accounting for credit losses on available-for-sale (AFS) debt securities has been impacted by ASU No. 2016-13. While AFS debt securities fall outside the scope of Topic 326, improvements have been made to the existing impairment guidance for these securities. Under the updated guidance, a different impairment model is applied to AFS debt securities. The revised guidance for AFS debt securities maintains the requirement to assess credit impairments at the individual security level. A security is considered impaired when its fair value is less than its amortized cost. Notably, the updated AFS impairment guidance introduces a change in the treatment of credit losses. Instead of recording a write-down and recognizing a realized loss for impaired AFS debt securities, an “Allowance for Credit Loss” (ACL) is established. The ACL is immediately recognized in income. Any remaining portion of unrealized losses related to noncredit-related components continues to be recognized in other comprehensive income (OCI). Another amendment to the AFS impairment guidance specifies that the length of time the fair value of an AFS debt security has been below the amortized cost should no longer be considered when determining the existence of a credit loss. For AFS debt securities, MPT will continue to utilize credit model methodologies employed by its investment manager for individual securities based on assets held in an unrealized loss position. Based on recommendations from its investment manager and a review of the credit analysis provided, MPT did not determine that any securities held in an unrealized loss position were a result of credit-related decline.

In December 2023, the FASB issued ASU No. 2023-12: *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* Effective for fiscal years beginning after December 31, 2025, the FASB amended disclosure requirements to provide greater transparency on income tax disclosures, including the disaggregation of existing disclosures related to the tax rate reconciliation and income taxes paid. MPT is currently evaluating the effect the updated guidance will have on MPT's financial statement disclosures.

SUBSEQUENT EVENTS

MPT has completed an evaluation of all subsequent events through March 27, 2024, which is the date the financial statements were available for issuance and has concluded that no subsequent event occurred which would require recognition or disclosure.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 3: INVESTMENTS

Fixed income securities, exclusive of cash and cash equivalents, are comprised of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2023				
Trust Fund Corpus, restricted:				
Fixed income securities, available-for-sale				
States and municipalities	**$ 26,788,000**	**$ 13,000**	**$ (3,040,000)**	**$ 23,761,000**
Corporate bonds	**55,811,000**	**1,564,000**	**(636,000)**	**56,739,000**
Residential mortgage-backed securities	**37,619,000**	**512,000**	**(2,329,000)**	**35,802,000**
Commercial mortgage-backed securities	**17,613,000**	**4,000**	**(2,010,000)**	**15,607,000**
Total fixed income securities	**$137,831,000**	**$2,093,000**	**$ (8,015,000)**	**$131,909,000**
Trust Fund Operating:				
Fixed income securities, available-for-sale				
States and municipalities	**$ 12,260,000**	**$ —**	**$ (1,430,000)**	**$ 10,830,000**
Corporate bonds	**33,387,000**	**783,000**	**(303,000)**	**33,867,000**
Residential mortgage-backed securities	**29,611,000**	**662,000**	**(1,003,000)**	**29,270,000**
Commercial mortgage-backed securities	**11,790,000**	**118,000**	**(1,184,000)**	**10,724,000**
Total fixed income securities	**$ 87,048,000**	**$1,563,000**	**$ (3,920,000)**	**$ 84,691,000**
DECEMBER 31, 2022				
Trust Fund Corpus, restricted:				
Fixed income securities, available-for-sale				
States and municipalities	$ 37,028,000	$ —	$ (5,041,000)	$ 31,987,000
Corporate bonds	44,255,000	131,000	(1,733,000)	42,653,000
Residential mortgage-backed securities	38,431,000	49,000	(3,362,000)	35,118,000
Commercial mortgage-backed securities	17,785,000	—	(2,472,000)	15,313,000
Total fixed income securities	$137,499,000	$ 180,000	$(12,608,000)	$125,071,000
Trust Fund Operating:				
Fixed income securities, available-for-sale				
States and municipalities	$ 18,707,000	$ —	$ (2,519,000)	$ 16,188,000
Corporate bonds	35,513,000	177,000	(1,514,000)	34,176,000
Residential mortgage-backed securities	20,469,000	46,000	(1,497,000)	19,018,000
Commercial mortgage-backed securities	10,540,000	—	(1,487,000)	9,053,000
Total fixed income securities	$ 85,229,000	$ 223,000	$ (7,017,000)	$ 78,435,000

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 3: INVESTMENTS *(continued)*

The amortized cost and fair value of fixed income securities available-for-sale as of December 31, 2023, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Trust Fund Corpus, restricted:		
Due after one year through five years	$ 48,335,000	$ 47,988,000
Due after five years through ten years	20,902,000	19,782,000
Due after ten years	13,362,000	12,730,000
	82,599,000	80,500,000
Residential mortgage-backed securities	37,619,000	35,802,000
Commercial mortgage-backed securities	17,613,000	15,607,000
	$137,831,000	$131,909,000
Trust Fund Operating:		
Due after one year through five years	$ 29,773,000	$ 29,551,000
Due after five years through ten years	12,868,000	12,324,000
Due after ten years	3,006,000	2,822,000
	45,647,000	44,697,000
Residential mortgage-backed securities	29,611,000	29,270,000
Commercial mortgage-backed securities	11,790,000	10,724,000
	$ 87,048,000	$ 84,691,000

For the years ended December 31, 2023 and 2022, proceeds from sales of investments were $104,249,000 and $48,701,000, respectively.

The following table shows the gross unrealized losses and fair value aggregated by investment category and length of time those securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
DECEMBER 31, 2023						
Trust Fund Corpus, restricted:						
Fixed income securities						
States and municipalities	**$ —**	**$ —**	**$23,264,000**	**$(3,040,000)**	**$23,264,000**	**$(3,040,000)**
Corporate bonds	**3,592,000**	**(88,000)**	**6,866,000**	**(548,000)**	**10,458,000**	**(636,000)**
Mortgage-backed securities	**5,000**	**—**	**33,634,000**	**(4,339,000)**	**33,639,000**	**(4,339,000)**
Total fixed income securities	**$3,597,000**	**$(88,000)**	**$63,764,000**	**$(7,927,000)**	**$67,361,000**	**$(8,015,000)**
Trust Fund Operating:						
Fixed income securities						
States and municipalities	**$ —**	**$ —**	**$10,830,000**	**$(1,430,000)**	**$10,830,000**	**$(1,430,000)**
Corporate bonds	**1,965,000**	**(21,000)**	**5,247,000**	**(282,000)**	**7,212,000**	**(303,000)**
Mortgage-backed securities	**10,000**	**—**	**16,689,000**	**(2,187,000)**	**16,699,000**	**(2,187,000)**
Total fixed income securities	**$1,975,000**	**$(21,000)**	**$32,766,000**	**$(3,899,000)**	**$34,741,000**	**$(3,920,000)**

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 3: INVESTMENTS *(continued)*

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
DECEMBER 31, 2022						
Trust Fund Corpus, restricted:						
Fixed income securities						
States and municipalities	$20,655,000	$(2,856,000)	$11,332,000	$(2,185,000)	$ 31,987,000	$ (5,041,000)
Corporate bonds	18,503,000	(897,000)	7,590,000	(836,000)	26,093,000	(1,733,000)
Mortgage-backed securities	30,465,000	(2,570,000)	14,939,000	(3,264,000)	45,404,000	(5,834,000)
Total fixed income securities	$69,623,000	$(6,323,000)	$33,861,000	$(6,285,000)	$103,484,000	$(12,608,000)
Trust Fund Operating:						
Fixed income securities						
States and municipalities	$ 6,137,000	$ (636,000)	$10,051,000	$(1,883,000)	$ 16,188,000	$ (2,519,000)
Corporate bonds	14,237,000	(758,000)	6,713,000	(756,000)	20,950,000	(1,514,000)
Mortgage-backed securities	16,944,000	(1,255,000)	7,614,000	(1,729,000)	24,558,000	(2,984,000)
Total fixed income securities	$37,318,000	$(2,649,000)	$24,378,000	$(4,368,000)	$ 61,696,000	$ (7,017,000)

MPT reviews, at least quarterly, its investment portfolio for credit impairments on an individual security level for all assets held in an unrealized loss position. In its impairment analysis, MPT takes into consideration numerous criteria, including industry factors, downgrades by rating agencies, liquidity, fundamental factors of the issuers, credit model methodologies and recommendations from its investment manager, as well as its ability and intent to retain its investment in the issuer to allow for any anticipated recovery in market value or maturity. If the decline is for credit issues, an allowance for credit loss is established and recognized in operations through income. Any remaining portion of unrealized losses related to the noncredit-related component will continue to be recognized in other comprehensive income.

As of December 31, 2023 and 2022, none of the investments whose estimated fair values were less than amortized cost were considered to be the result of a credit related decline.

MPT does not intend to sell its investments whose fair values are less than amortized cost and it is not more likely than not that MPT will be required to sell the investments before recovery of the amortized cost bases, which may be maturity.

Investment income, net is summarized as follows:

	Years Ended December 31	
	2023	2022
Interest income	**$ 8,836,000**	$ 6,111,000
Gross realized gains on sales of investments	**11,000**	11,000
Gross realized losses on sales of investments	**(5,273,000)**	(2,368,000)
Investment management fees and expenses	**(201,000)**	(262,000)
Net amortization of premium on fixed income securities	**(156,000)**	(721,000)
Investment income, net	**$ 3,217,000**	$ 2,771,000

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 4: UNPAID CLAIMS AND EXPENSES AND NON-ASSESSABLE FORMER MEMBERS' LIABILITY

Unpaid claims and expenses for assessable members are comprised of the following:

	December 31	
	2023	2022
Accrued indemnity	**$12,585,000**	$10,245,000
Accrued defense and investigative services	**2,532,000**	2,592,000
	$15,117,000	$12,837,000

MPT has assumed claims liability by providing tail coverage to certain former members who are no longer liable for assessments (non-assessable former members) including those who are retired, transferred, terminated or deceased. Members voluntarily terminating have no tail coverage from MPT unless they remain liable for assessments or pay a tail coverage fee.

Under California Insurance Code Section 1280.7, members involuntarily terminated by MPT's peer review process are entitled to receive tail coverage without liability for future assessments upon release of the right to a return of their Initial trust contributions.

The liability for claims of non-assessable former members reflects an estimate of future payments for claims reported as of each year-end, an estimate of the related defense and investigative expenses, an estimate for claims administration and other adjusting expenses, and a provision for claims incurred but not reported. Since this liability is based upon estimates, and while management believes that amounts recorded are adequate, the ultimate liability may differ from the amounts provided in the financial statements. The methodologies for making such estimates and for establishing the resulting liabilities are continually reviewed by management and the independent actuaries of MPT. Adjustments to the estimates are included in operations in the period they are determined. The actuarially estimated liability for claims of non-assessable former members is as follows:

	December 31	
	2023	2022
Claims reported:		
Members retired	**$ 9,396,000**	$11,184,000
Members voluntarily terminated, transferred and deceased	**8,272,000**	6,255,000
Members involuntarily terminated	**15,156,000**	15,764,000
Claims incurred but not reported	**8,336,000**	7,866,000
Claims administration and other adjusting expenses	**1,712,000**	1,678,000
	$42,872,000	$42,747,000

The following summarizes the years in which the actuarially estimated liability for claims reported and claims incurred but not reported for non-assessable former members are estimated to be paid:

Years Ending December 31	Amount
2024	$15,133,000
2025	8,493,000
2026	6,829,000
2027	5,505,000
2028	4,518,000
2029 and after	2,394,000
	$42,872,000

Cash and investments in MPT's Trust fund operations accounts have been retained sufficient to fund the total estimated future liability for claims against non-assessable former members of $42,872,000 at December 31, 2023. Such funds may be used for other purposes only upon approval of the Trustees, and it is the Board's intention to replenish any such funds through the regular assessment process.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 5: CONTINGENCIES

MPT is liable for unpaid claims and expenses only as required by California Insurance Code Section 1280.7 and the MPT Agreement. Any future liability beyond the amount reported in the financial statements for unpaid claims and expenses of the MPT members will become the liability of MPT only to the extent that final settlements or judgments exist against MPT members who are current in all payments due to MPT, or when an MPT member becomes a former member and qualifies for non-assessable former member status.

MPT's independent actuaries have estimated the aggregate liability of the assessable members for all actual claims and expenses, which are not the current liability of MPT, to be $165,932,000 and $145,562,000 as of December 31, 2023 and 2022, respectively. This liability is MPT's best estimate of future payments for all claims reported as of each year-end and the related defense and investigative expenses for assessable members. Additional occurrences may become reported claims in subsequent periods. Actuarial studies have estimated that this liability for unpaid claims and expenses will require funding through future assessments, which are affected by the amount of investment earnings, over a period of up to 15 years. In the highly unlikely event this contingent liability becomes due in its entirety within the next 12 months, management believes there will be sufficient available liquidity within its Trust fund operations' cash and cash equivalents, fixed income securities, reinsurance recoveries, and available lines of credit to fully fund this contingent liability prior to making any unanticipated assessment of the membership.

MPT has entered into reinsurance contracts with major foreign and domestic reinsurance companies and its affiliate, Cooperative of American Physicians Insurance Company, Inc. (CAPIC, a wholly-owned subsidiary of CAP), which provides coverage on a claims-made basis for case losses and defense costs in excess of a $1,000,000 retention. Coverage also has been purchased that applies to multiple cases arising from the same occurrence. MPT is contingently liable with respect to ceded reinsurance, if any, should any reinsurer be unable to meet its obligations under those agreements. MPT also has reinsurance contracts with major foreign and domestic reinsurance companies and CAPIC, which provides coverage on a claims-made basis for multiple claims arising out of one common, systemic event. Under these systemic event reinsurance contracts, limits of $7,000,000 are available to MPT on a claims-made basis over a $3,000,000 retention.

MPT is subject to other legal proceedings arising from the normal conduct of its business. In the opinion of management, any ultimate liability that may arise from these proceedings will not have a material effect on MPT's financial position.

NOTE 6: RELATED-PARTY TRANSACTIONS

Effective January 1, 2010, MPT and CAP entered into an administrative and management services agreement whereby CAP provides membership, claims, risk management, financial, legal and other administrative and management services to MPT. Under the agreement, MPT pays CAP monthly fees for these services that are based on actual expenses incurred by CAP plus a margin. The margin applies to all services, except legal, whose services are provided to MPT at cost. CAP charged a margin of $1,172,000 and $1,111,000 in 2023 and 2022, respectively. Fees of $26,434,000 and $24,752,000 were incurred by MPT for administrative and management services under the agreement for the years ended December 31, 2023 and 2022, respectively.

Effective January 1, 2013, MPT and CAPIC entered into a services agreement whereby CAPIC provides legal defense services to MPT physicians. MPT pays CAPIC monthly fees for these services that are based on actual costs incurred. Fees incurred under this agreement were $17,795,000 and $15,412,000 for the years ended December 31, 2023 and 2022, respectively. Included in the payable to affiliated entity is $1,798,000 and $1,375,000 payable to CAPIC for these services as of December 31, 2023 and 2022, respectively.

In 2023 and 2022, MPT had reinsurance contracts with CAPIC. These contracts principally provide per claim excess of loss reinsurance coverage on a claims-made form for MPT for claims reported in 2023 and 2022. These agreements can be terminated and commuted at the end of any calendar quarter prospectively by mutual agreement of MPT and CAPIC. Premiums paid by MPT under these agreements were $7,000,000 and $5,500,000 for the years ended December 31, 2023 and 2022, respectively. MPT also maintains reinsurance coverage on a claims-made basis for multiple claims arising out of one common event. CAPIC participates in this contract along with other non-affiliated reinsurance companies. Premiums from MPT to CAPIC under this contract were $178,000 and $187,000 for the years ended December 31, 2023 and 2022, respectively. For the years ended December 31, 2023 and 2022, total affiliate reinsurance premium expense under all reinsurance contracts with CAPIC was $7,178,000 and $5,687,000, respectively, and is included in Claims: Other Operating Costs.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 6: RELATED-PARTY TRANSACTIONS *(continued)*

CAP provides its Members and participants defense coverage for medical board actions with a $25,000 limit and employment practice defense coverage with a $50,000 limit. CAPIC provides insurance coverage to CAP for these benefits. MPT reimburses CAP for a significant portion of the cost of this coverage. CAP paid CAPIC $4,004,000 and $3,817,000 for the years ended December 31, 2023 and 2022, respectively, for this coverage, of which MPT reimbursed CAP $3,951,000 and $3,765,000 for the same respective years.

NOTE 7: EMPLOYEE BENEFITS

MPT sponsors a 401(k) savings plan for its employees. Employees' contributions are matched by MPT at a level that is determined by the Board of Trustees. The contribution expense for the 401(k) savings plan was $39,000 and $34,000 for the years ended December 31, 2023 and 2022, respectively. Eligible employees vest in MPT's contribution over a four-year vesting schedule. MPT also sponsors a supplemental employee retirement program (SERP) for certain employees. Participants vest, on average, over a 10-year period. SERP liabilities, which are included in other liabilities, totaled $4,462,000 and $4,367,000 at December 31, 2023 and 2022, respectively. The benefit and expense related to this program was $566,000 and $1,715,000 for the years ended December 31, 2023 and 2022, respectively. MPT maintains a non-qualified deferred compensation program (NDCP) for eligible employees and Board members. Under the plan, participants can defer compensation or Board fees based on an annual election. Amounts deferred are credited with notional investment earnings on a tax deferred basis until such amounts are distributed to participants. Liabilities of the NDCP, which are included in other liabilities, totaled $7,633,000 and $8,080,000 at December 31, 2023 and 2022, respectively.

MPT funds its SERP and NDCP obligations principally through life insurance policies on the participants and eligible participants. Mutual fund investments are also used to fund these obligations. The life insurance policy assets supporting these benefit plan obligations are carried at their cash surrender value, which approximates fair value, and are included in other assets, totaled $22,386,000 and $19,355,000 at December 31, 2023 and 2022, respectively. The mutual fund assets are carried at fair value, totaled $1,978,000 and $1,864,000 at December 31, 2023 and 2022, respectively.

MPT maintains a post-retirement medical benefit plan for certain employees. Beginning at the age of 62, participants can use amounts contributed to a separate post-retirement account held on their behalf (by a third-party trust) to fund eligible medical expenses. Amounts paid to the trust by MPT are not refundable and become the property of the trust on behalf of participants. The trust invests funds received from MPT in universal life insurance policies covering participants, which includes a death benefit funded by MPT until the participant reaches the vesting age of 62. While the plan establishes targeted post-retirement benefit levels for participants, there is no obligation for MPT to fully fund these levels and the employees are only eligible to receive the benefits accumulated in the third-party trust. MPT made its final premium contribution in 2016.

NOTE 8: INCOME TAXES

The components of the income tax benefit (expense) are as follows:

	Years Ended December 31	
	2023	2022
Current	**$ (87,000)**	$ 45,000
Deferred	**362,000**	(1,211,000)
Total	**$275,000**	$(1,166,000)

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 8: INCOME TAXES *(continued)*

A reconciliation of income tax benefit (expense) computed at the federal statutory tax rate to total income tax benefit (expense) is summarized as follows:

	Years Ended December 31	
	2023	2022
Federal income tax expense at 21%	**$ (626,000)**	$ (6,000)
Adjustments in taxes resulting from:		
State income tax (net of federal benefit)	**926,000**	359,000
Accrued market discount	**1,205,000**	—
Prior period true-up	**(98,000)**	—
Employer benefit plans	**49,000**	43,000
Change in valuation allowance	**(1,066,000)**	(1,470,000)
Employer paid parking	**(80,000)**	(73,000)
Meals	**(21,000)**	—
Other items	**(14,000)**	(19,000)
Total federal income tax benefit (expense)	**$ 275,000**	$(1,166,000)

The significant components of deferred income tax assets and liabilities are as follows:

	Years Ended December 31	
	2023	2022
Trust Fund Corpus, restricted:		
Deferred tax asset attributable to net unrealized investment losses	**$ 1,244,000**	$ 2,610,000
Trust Fund Operating:		
Deferred tax assets attributable to:		
Initial trust contributions	**$ 29,352,000**	$ 28,789,000
Discounting of non-assessable former members' claim and other liability	**2,178,000**	2,087,000
Net operating loss carryforward	**9,222,000**	9,651,000
Employee benefit obligations	**1,201,000**	1,941,000
Lease liabilities	**3,052,000**	1,065,000
Assessment apportionment	**1,940,000**	—
Capital loss carryover	**2,521,000**	1,026,000
Unrealized losses on fixed income securities	**495,000**	1,427,000
Other items	**151,000**	199,000
Deferred tax assets before valuation allowance	**50,112,000**	46,185,000
Valuation allowance	**(11,743,000)**	(10,677,000)
Deferred tax assets after valuation allowance	**38,369,000**	35,508,000
Deferred tax liabilities attributable to:		
Discounting of assessable members' contingent claim liability	**(30,979,000)**	(27,308,000)
Discounting transition adjustment pursuant to the Tax Cuts and Jobs Act	**(338,000)**	(508,000)
Accretion of bond discount	**(112,000)**	(1,282,000)
Internally developed software	**(148,000)**	(191,000)
Right-of-use assets	**(1,585,000)**	(754,000)
Fixed Assets	**(103,000)**	(19,000)
Deferred state liability	**(559,000)**	(330,000)
Deferred tax liabilities	**(33,824,000)**	(30,392,000)
Deferred tax asset, net	**$ 4,545,000**	$ 5,116,000

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 8: INCOME TAXES *(continued)*

ASC 740, *Income Taxes*, requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Realization of the deferred income tax asset is dependent on MPT generating sufficient taxable excess of assessments, dues and revenues over expenses in future years as the deferred income tax charges become currently deductible for tax reporting purposes. MPT evaluates the need for a valuation allowance taking into consideration all available evidence, both positive and negative, including future sources of income, tax planning strategies, future contractual cash flows and reversing temporary differences. Based on an analysis of MPT's tax position, management believes that it is more likely than not that the benefit from certain federal and state net operating loss carryforwards will not be realized. As a result, MPT recognized a valuation allowance of $11,743,000 and $10,677,000 on the deferred tax assets relating to both federal and state net operating loss carryforwards and capital losses as of December 31, 2023 and to federal and state net operating losses in 2022, respectively. The valuation allowance increased in 2023 and increased in 2022 by $1,066,000 and $1,470,000, respectively.

As of December 31, 2023, there remain federal net operating loss carryforwards totaling $29,894,000 which will expire beginning 2033, to be applied to future tax years. The net operating loss carryforward resulted primarily from a change in accounting method for incurred losses that was permitted by the Internal Revenue Service in 2008 for 2006 and subsequent tax years. As of December 31, 2023, there remains a state net operating loss carryforward totaling $33,308,000, which will expire beginning 2029 to be applied to future tax years. MPT has capital loss carryforwards totaling $8,449,000 which will expire beginning 2024, to be applied to future tax years.

MPT paid no income taxes and no tax penalties were recognized for the year ended December 31, 2023 or 2022.

Tax years 2020 through 2022 and tax years 2019 through 2022 are subject to examination by the federal and California taxing authorities, respectively. There are no income tax examinations currently in progress.

MPT's income tax returns are subject to audit by the Internal Revenue Service and state tax authorities. Significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions because of differing interpretations of tax laws and regulations. MPT periodically evaluates its exposures associated with tax filing positions.

As of December 31, 2023 and 2022, MPT had no uncertain tax positions.

NOTE 9: COMMITMENTS

MPT and CAP occupy their home office and regional office facilities under operating leases which provide for adjustments to the lease payments based upon contractual commitments and inflationary factors. MPT's building leases include both lease (fixed rent payments) and non-lease components (common-area or other maintenance costs) which are accounted for as a single lease component as MPT has elected the practical expedient to group lease and non-lease components for all leases. Variable lease payments, such as common area maintenance and real estate taxes, are presented as lease expense in the period in which they are incurred.

MPT excludes options to extend or terminate a lease from its recognition as part of its right-of-use assets and lease liabilities until those options are reasonably certain and/or executed. MPT does not have any material guarantees, options to purchase, or restrictive covenants related to its leases.

As the leases do not provide an implicit rate, MPT uses a risk-free discount rate based on the treasury yield that most closely approximates the term of the lease at the lease commencement date in determining the present value of the lease payments.

The following table provides supplemental lease information for operating leases on the Balance Sheet as of December 31, 2023:

Lease Component	Balance Sheet Classification	December 31 2023
Building right-of-use asset	Trust fund operations: Other assets	**$ 5,310,000**
Building lease liability	Trust fund operations: Other liabilities	**10,231,000**
Weighted-average remaining lease term, years		**11.68 years**
Weighted-average discount rate		**3.42%**

Notes to Financial Statements

MUTUAL PROTECTION TRUST

NOTE 9: COMMITMENTS *(continued)*

The total rent expense under the lease contracts was $4,289,000 and $3,368,000 for the years ended December 31, 2023 and 2022, respectively. The components of lease expense are as follows (rounded):

Lease Component	Statement of Operations Classification	Year Ended December 31 2023
Operating lease expense	G&A Other operating costs	$2,879,000
Variable lease expense	G&A Other operating costs	1,410,000
Net lease expense		$4,289,000

The future minimum lease payments under these operating lease contracts as of December 31, 2023, are as follows:

Years Ending December 31	Amount
2024	$ 1,003,000
2025	1,230,000
2026	978,000
2027	862,000
2028 and beyond	9,030,000
	$13,103,000

MPT's leases have remaining lease terms of 0.25 years to 13 years, some of which may include options to extend the leases for up to 10 years and some of which may include options to terminate the leases.

The following table provides supplemental lease information for the Statements of Cash Flows for the year ended December 31, 2023:

Supplemental Cash Flow Information Related to Leases	Year Ended December 31 2023
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$3,874,000

MPT maintains a line of credit in the amount of $20,000,000, which bears interest at 1.06% plus Daily Simple SOFR (Secured Overnight Financing Rate of the Federal Reserve Bank of New York), adjusted for any reserve requirement and any subsequent costs arising from a change in government regulation. There were no amounts outstanding as of December 31, 2023 and 2022. Interest expense on the line of credit was $0 for the years ended December 31, 2023 and 2022. However, MPT paid $37,000 and $47,000 as fees for access to the line of credit in 2023 and 2022, respectively. MPT's fixed income securities in the Trust Fund Operating account are pledged as collateral for amounts outstanding under the line of credit. The line of credit includes a sub-feature for letters of credit which may be used to collateralize appeal bonds obtained by MPT. There were no letters of credit outstanding under this sub-feature at December 31, 2023 or 2022.

MPT obtains surety bonds for use as collateral for judgments on appeal. MPT indemnifies the surety company for any recoveries made against the appeal bond. Fees are paid based upon the amount and duration of the appeal bond. No amounts were outstanding on appeal bonds at December 31, 2023 or 2022.

Supplementary Financial Information

MUTUAL PROTECTION TRUST

	As of and For the Years Ended December 31				
	2023	2022	2021	2020	2019
RESULTS OF OPERATIONS (In millions)					
Total assessments, dues and revenues	**$ 130.8**	$ 127.9	$ 124.2	$ 122.3	$ 134.6
Expenses					
Indemnity expense	**$ 39.4**	$ 43.6	$ 47.2	$ 46.9	$ 49.3
Defense and investigative	**34.0**	30.6	28.4	27.2	35.7
Other	**54.5**	53.6	46.8	46.6	44.4
Total expenses	**$ 127.9**	$ 127.8	$ 122.4	$ 120.7	$ 129.4
Excess (Deficit) of assessments, dues and revenues over expenses, net of income	**$ 3.3**	$ (1.1)	$ 1.7	$ (1.1)	$ 5.7
FINANCIAL POSITION					
Cash and invested assets	**$ 255.7**	$ 240.2	$ 254.1	$ 252.5	$ 237.0
Total assets	**$ 402.9**	$ 370.7	$ 382.3	$ 375.6	$ 365.0
Members' equity	**$ 163.2**	$ 149.1	$ 166.6	$ 170.1	$ 166.6
MEMBERSHIP AND CLAIMS (Unaudited)					
Active members at year end	**12,739**	12,589	12,334	12,056	11,970
Services for reported claims					
Cases opened	**727**	643	574	637	812
Cases closed	**727**	696	688	609	879
Cases under management	**1,052**	1,044	1,085	1,194	1,166
Per active member (In thousands)					
Total assessments, dues and revenues	**$ 10.3**	$ 10.2	$ 10.1	$ 10.1	$ 11.2
Indemnity expense	**3.1**	3.5	3.8	3.9	4.1
Defense and investigative	**2.7**	2.4	2.3	2.3	3.0
Other expenses	**4.3**	4.3	3.8	3.9	3.7
Total expenses	**$ 10.0**	$ 10.2	$ 9.9	$ 10.1	$ 10.8

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