Care1st Health Plan

Consolidated Financial Statements
As of and for the Years Ended
December 31, 2015 and 2014

Care1st Health Plan

Consolidated Financial Statements

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Care1st Health Plan

Contents

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Independent Auditor's Report

The Board of Directors
Care1st Health Plan
Monterey Park, California

We have audited the accompanying consolidated financial statements of Care1st Health Plan and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in member's fund/stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Care1st Health Plan and its subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

April 25, 2016

Consolidated Financial Statements

Care1st Health Plan

Consolidated Balance Sheets

As of December 31,	**2015**	2014
Assets		
Current assets		
Cash and cash equivalents	**$ 555,112,000**	$ 316,122,000
Investments	**4,833,000**	15,672,000
Receivables, net	**126,486,000**	120,542,000
Prepaid expenses and other current assets	**89,868,000**	34,972,000
Deferred tax assets, net	**23,910,000**	1,818,000
Total current assets	**800,209,000**	489,126,000
Fixed assets, net	**26,423,000**	26,942,000
Restricted regulatory deposits	**33,900,000**	33,900,000
Intangible assets, net	**13,750,000**	16,852,000
Goodwill, net	**4,545,000**	5,195,000
Total assets	**$ 878,827,000**	572,015,000
Liabilities and Member's Fund/Stockholders' Equity		
Current liabilities		
Capitation and medical claims payable	**$ 326,854,000**	288,879,000
Risk-sharing arrangements	**6,268,000**	18,559,000
Accounts payable	**8,468,000**	17,929,000
Accrued expenses	**8,057,000**	10,868,000
Unearned revenue	**63,739,000**	2,044,000
Income tax payable, net	**49,285,000**	15,223,000
Other current liabilities	**180,661,000**	55,486,000
Total current liabilities	**643,332,000**	408,988,000
Deferred tax liabilities, net	**3,038,000**	6,842,000
Total liabilities	**646,370,000**	415,830,000
Commitments, Contingencies and Subsequent Event		
Member's Fund/Stockholders' Equity		
Preferred stock:		
Series A, nonvoting; no par value; 1,000,000 shares authorized, 46,000 shares issued and outstanding, liquidation preference of $4,551,000	**-**	46,000
Series B, nonvoting; no par value; 1,000,000 shares authorized, 10,000 shares issued and outstanding, liquidation preference of $996,000	**-**	10,000
Common stock:	**-**	
Series A, no par value; 1,000,000 shares authorized, 3,000 shares issued and outstanding	**-**	3,000
Series B, no par value; 1,000,000 shares authorized, 3,000 shares issued and outstanding	**-**	3,000
Additional paid-in capital	**-**	40,081,000
Stockholder's notes receivable	**-**	(13,569,000)
Retained earnings	**-**	129,467,000
Unrestricted member's fund	**232,508,000**	-
Accumulated other comprehensive (loss) income, net of tax	**(51,000)**	144,000
Total member's fund/stockholders' equity	**232,457,000**	156,185,000
Total liabilities and member's fund/stockholders' equity	**$ 878,827,000**	$ 572,015,000

See accompanying notes to consolidated financial statements.

Care1st Health Plan

Consolidated Statements of Operations and Comprehensive Income

For the years ended December 31,	**2015**	2014
Revenues		
Premium revenue	**$ 2,235,186,000**	$ 1,680,789,000
Interest income	**1,212,000**	919,000
Other revenue	**25,925,000**	7,910,000
Total revenues	**2,262,323,000**	1,689,618,000
Expenses		
Healthcare services	**1,915,709,000**	1,450,512,000
Selling, general and administrative expenses	**241,581,000**	179,012,000
Depreciation and amortization	**7,355,000**	7,170,000
Total expenses	**2,164,645,000**	1,636,694,000
Income before provision for income taxes	**97,678,000**	52,924,000
Provision for income taxes	**50,740,000**	35,047,000
Net income	**46,938,000**	17,877,000
Change in unrealized (losses) gains on available-for-sale securities, net of related tax effects	**(195,000)**	446,000
Comprehensive income	**$ 46,743,000**	$ 18,323,000

See accompanying notes to consolidated financial statements.

Care1st Health Plan

Consolidated Statements of Changes in Member's Fund/Stockholders' Equity

	Preferred Stock				Common Stock									
	Series A		Series B		Series A		Series B		Additional Paid-In-Capital	Stockholders' Notes Receivable	Retained Earnings	Unrestricted Member's Fund	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity/ Member's Fund
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Balance, January 1, 2014	46,000	$ 46,000	10,000	$ 10,000	3,000	$ 3,000	3,000	$ 3,000	$ 33,940,000	$ (2,000,000)	$ 111,590,000	$ -	$ (302,000)	$ 143,290,000
Restricted stock promissory note receivable (See Note 15)	-	-	-	-	-	-	-	-	-	(11,569,000)	-	-	-	(11,569,000)
Stock-based compensation expense	-	-	-	-	-	-	-	-	6,141,000	-	-	-	-	6,141,000
Unrealized holding gain on investments, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	446,000	446,000
Net income	-	-	-	-	-	-	-	-	-	-	17,877,000	-	-	17,877,000
Balance, December 31, 2014	46,000	46,000	10,000	10,000	3,000	3,000	3,000	3,000	40,081,000	(13,569,000)	129,467,000	-	144,000	156,185,000
Payment on stockholders' notes receivable (See Note 10)	-	-	-	-	-	-	-	-	-	13,569,000	-	-	-	13,569,000
Stock-based compensation expense (See Note 10)	-	-	-	-	-	-	-	-	15,960,000	-	-	-	-	15,960,000
Unrealized holding losses on investments, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	(195,000)	(195,000)
Conversion into nonprofit mutual benefit corporation (See Note 1)	(46,000)	(46,000)	(10,000)	(10,000)	(3,000)	(3,000)	(3,000)	(3,000)	(56,041,000)	-	(129,467,000)	185,570,000	-	-
Net income	-	-	-	-	-	-	-	-	-	-	-	46,938,000	-	46,938,000
Balance, December 31, 2015	-	$ -	-	$ -	-	$ -	-	$ -	$ -	$ -	$ -	$ 232,508,000	$ (51,000)	$ $232,457,000

See accompanying notes to consolidated financial statements.

Care1st Health Plan

Consolidated Statements of Cash Flows

For the years ended December 31,	**2015**	2014
Cash flows from operating activities		
Net income	**$ 46,938,000**	$ 17,877,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**7,355,000**	7,170,000
Stock compensation expense	**15,960,000**	6,141,000
Deferred income taxes	**(25,896,000)**	3,794,000
Changes in assets and liabilities:		
Receivables	**(5,944,000)**	(37,978,000)
Prepaid expenses and other current assets	**(54,896,000)**	(27,277,000)
Income taxes	**34,062,000**	12,079,000
Capitation and medical claims payable	**37,975,000**	147,194,000
Risk-sharing arrangements	**(10,291,000)**	11,430,000
Accounts payable	**(9,461,000)**	10,067,000
Accrued expenses	**(2,811,000)**	1,418,000
Unearned revenue	**61,695,000**	1,411,000
Other current liabilities	**125,175,000**	44,267,000
Net cash provided by operating activities	**219,861,000**	197,593,000
Cash flows from investing activities		
Proceeds from sale of investments, net	**10,644,000**	4,646,000
Purchases of fixed assets	**(3,084,000)**	(1,700,000)
Increased regulatory deposits	**-**	(21,998,000)
Net cash provided by (used in) investing activities	**7,560,000**	(19,052,000)
Cash flows from financing activities		
Repayment (advance) of stockholders' note receivable	**11,569,000**	(11,569,000)
Payments on long-term debt	**-**	(6,900,000)
Net cash provided by (used in) financing activities	**11,569,000**	(18,469,000)
Net increase in cash and cash equivalents	**238,990,000**	160,072,000
Cash and cash equivalents		
Beginning of year	**316,122,000**	156,050,000
End of year	**$ 555,112,000**	$ 316,122,000
Supplemental information		
Cash paid for income taxes	**$ 40,140,000**	$ 20,610,000
Cash paid for interest	**-**	506,000
Non-cash transactions		
Change in unrealized (loss) gain on investments, net	**$ (195,000)**	$ 446,000
Shareholders' notes receivable (Note 15)	**2,000,000**	-

See accompanying notes to consolidated financial statements.

1. Organization and Significant Accounting Policies

Organization

Care1st Health Plan (the "Company") is a Health Maintenance Organization ("HMO") principally engaged in providing managed health care services to under-served communities. The Company was incorporated under the laws of the State of California on March 7, 1994 for the purpose of providing medical and hospital services to Medi-Cal beneficiaries residing in Los Angeles County. Since its incorporation, the Company has expanded into a full service health plan offering multiple health care options that include Medicare, Medi-Cal Health, and Cal MediConnect. Effective October 8, 2015, Cumulus Holding Company, Inc., a California nonprofit mutual benefit corporation ("Cumulus") and a subsidiary of California Physicians' Service dba Blue Shield of California, a California nonprofit mutual benefit corporation ("CPS") acquired 100% of the issued and outstanding shares of common and preferred stock of the Company (the "Acquisition"). At that date, the Company amended its articles of incorporation and became a California nonprofit mutual benefit corporation. Under Section 5056 of the California Corporation Code, Cumulus became the sole member of the Company. Cumulus selected not to utilize push down accounting.

The Company has maintained a California full service health plan license under the Knox-Keene Act since 1995 and is regulated by the Department of Managed Health Care (the "DMHC").

In 1995, the Company entered into an agreement with the Local Initiative Health Authority for Los Angeles County ("L.A. CARE") to provide health care services to eligible Medi-Cal beneficiaries. In 2006, the Company acquired WATTsHealth Foundation, Inc. dba UHP Healthcare ("UHP") and as part of the 2006 UHP transaction, the Company also acquired UHP's Medicare Advantage program, Denti-Cal program, and commercial insurance programs as well as additional Medi-Cal subscribers.

In October 2003, the Company formed a wholly-owned Arizona subsidiary, Care1st Health Plan Arizona, Inc. (the "Arizona Plan"), for the purpose of providing specified health services to Medicaid members pursuant to a contract with the Arizona Health Care Cost Containment System ("AHCCCS"). The Arizona Plan also participates in Arizona's Acute Care Program, Division of Developmental Disabilities Program ("DDD"), and Children's Health Insurance Program ("KidsCare"). The Arizona Plan subcontracts with hospitals, physicians and other medical providers within Arizona to care for eligible AHCCCS and KidsCare members in Maricopa County. In October 2013, the Arizona Plan's care for eligible AHCCCS and KidsCare members expanded to Pima County.

In March 2005, the Company formed a wholly-owned Arizona subsidiary, ONECare by Care1st Health Plan of Arizona, Inc. ("ONECare"), which commenced operations in October 2005 when the Company was granted the Medicare Advantage Prescription Drug Contracting ("MAPD") license by the Centers for Medicare & Medicaid Services ("CMS"). ONECare provides health care services to enrollees in Maricopa County eligible for Medicare coverage including the Part D Prescription Drug Benefit. Coverage for members in Pima County began January 2014.

In June 2005, the Company was granted the Geographic Managed Care ("GMC") contract by the California Department of Health Care Services ("DHCS") to provide health care services to Medi-Cal beneficiaries in San Diego County.

Beginning 2006, the Company continued to expand its presence in California by obtaining licensure from CMS to be a Medicare Advantage plan provider in San Bernardino, Orange, Riverside, Santa Clara, San Joaquin, and Stanislaus counties in addition to Los Angeles. In 2012, the Company was selected by the DHCS to participate in the Dual Eligible Demonstration Pilot Project in San Diego County. Starting in 2014, the Company began operation of a Medicare Advantage plan in El Paso County in Texas.

In 2014, the Company was granted the Cal MediConnect contract by the DHCS and CMS to provide health care services to beneficiaries dually eligible for Medi-Cal and Medicare in Los Angeles and San Diego Counties. Also in 2014, the Company began participating in the Managed Long Term Services and Support program (“MLTSS”) for Los Angeles and San Diego Counties.

Basis of Presentation

The following significant accounting policies are in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for each reporting period. Significant items subject to such estimates and assumptions include the valuation of receivables and retroactive capitation rate adjustments and settlements, goodwill, intangible assets, long-lived assets, capitation and medical claims payable including incurred but not reported claims, income taxes, and risk-sharing arrangements. Estimates were made based on the Company’s knowledge of current events and anticipated future events. Actual results could materially differ from those estimates. The Company evaluates and updates its assumptions and estimates on an ongoing basis.

Cash and Cash Equivalents

The Company considers all highly liquid investments that are readily convertible to cash, with original maturity dates of three months or less when purchased, to be cash and cash equivalents.

Restricted Regulatory Deposits

As a condition for licensure, the Company is required to maintain certain funds on deposit or pledged to various state agencies. The Company records these restricted regulatory deposits at fair value and classify the amounts as noncurrent assets regardless of the contractual maturity date of the securities held due to the nature of the states' requirements (see Note 6).

Investments

Investments as of December 31, 2015 and 2014 consist of certificates of deposits, fixed income debt securities with short-term maturities, mutual funds, and asset backed securities. Investments in certificates of deposits are those with maturity dates of more than three months when purchased. The Company classifies its investment securities as available-for-sale and reports them at fair value in the accompanying consolidated balance sheet. Unrealized holdings gains or losses, net of the related tax effects, are excluded from earnings and are reported as a separate component in other comprehensive income. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. The Company does not invest in trading securities or held-to-maturity securities (see Note 2).

The Company evaluates an investment for impairment by considering the length of time and extent to which market value has been less than cost or amortized cost, the financial condition and near-term prospects of the issuer, the specific events or circumstances that may influence the operations of the issuer, and the Company's intent to sell the security or the likelihood that it will be required to sell the security before recovery of the entire amortized cost. As December 31, 2015 and 2014, there were no unrealized losses that the Company believed to be other-than-temporary.

Fixed Assets

Fixed assets are stated at cost, net of depreciation. Major betterments are capitalized while routine repairs and maintenance are charged to expense, as incurred. When fixed assets are retired, or otherwise disposed, the appropriate accounts are relieved of costs and accumulated depreciation, and any resulting gain or loss is reflected in the consolidated statement of operations and comprehensive income for the related period. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

	Estimated Lives
Buildings and improvements	10 – 39 years
Furniture and fixtures	5 – 10 years
Computer software	3 years
Computer and office equipment	3-5 years
Vehicles	5 years
Leasehold improvements	Lesser of useful life or lease term

Goodwill

Goodwill represents the excess of purchase consideration paid over the fair value of net assets acquired in a business acquisition. Goodwill recorded at December 31, 2015 and 2014 is fully attributable to the asset acquisition of UHP in 2006. The Company amortizes goodwill on a straight-line basis over a period of ten years (See Note 8). The Company tests goodwill impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The carrying amount of goodwill is considered impaired when fair value of the reporting unit or on an entity-wide basis is less than its carrying value. No impairments were recorded during the years ended December 31, 2015 and 2014.

Long-Lived Assets and Amortizable Intangibles

Intangible assets consist primarily of Medi-Cal membership subscribers, Medicare subscribers and a Provider Network acquired in asset acquisitions. Acquired intangible assets with finite lives are amortized on a straight-line basis over their respective estimated useful lives. The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The carrying amount of a long-lived asset is considered impaired when anticipated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. No impairments were recorded during the years ended December 31, 2015 and 2014.

Comprehensive Income

Comprehensive income includes net earnings and unrealized net gains and losses on investments. Other comprehensive income is net of reclassification adjustments to adjust for items currently included in net earnings, such as realized gains and losses on investment securities. The Company recorded an unrealized loss relating to the available-for-sale securities of $325,000 ($195,000, net of tax), included in other comprehensive income for the year ended December 31, 2015. The Company recorded an unrealized gain relating to the available-for-sale securities of $743,000 ($446,000, net of tax), included in other comprehensive income for the year ended December 31, 2014.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, restricted regulatory deposits, receivables, prepaid expenses and other current assets, accounts payable and accrued expenses, capitation and medical claims payable, and risk-sharing arrangements at December 31, 2015 and 2014, approximate fair value because of the relatively short-term nature of these instruments. Investments are recorded at fair value.

Recognition of Premium Revenue and Related Healthcare Services

Premium revenues are primarily derived from the Company's contracts with various state and Medicare programs where the premium is typically at a fixed rate based on membership category, and the Company assumes the economic risk of funding its customers' health care and related administrative costs. Membership and category eligibility are periodically reconciled with the various programs and such reconciliations could result in adjustments to revenue. Premium revenues are recognized in the period in which eligible individuals are entitled to receive health care benefits. Premium billings may be subsequently adjusted to reflect changes in membership as a result of retroactive terminations, additions or other changes. Health care premium payments received in advance for a service period are recorded as unearned revenues. The Company recognizes revenue on retroactive healthcare premium adjustments that result in a benefit, generally when the amounts are determinable and collectability is reasonably assured.

The Company's Medicare Advantage and Part D premium revenues are subject to periodic adjustment under CMS' risk adjustment payment methodology. The CMS risk adjustment model provides higher per member payments for enrollees diagnosed with certain conditions and lower payments for enrollees who are healthier. Health care providers collect, capture, and submit available diagnosis data to CMS within prescribed deadlines. CMS uses submitted diagnosis codes, demographic information, and special statuses to determine the risk score for most Medicare Advantage beneficiaries. CMS also retroactively adjusts risk scores during the year based on additional data. The Company estimates risk adjustment based upon the data submitted and expected to be submitted to CMS. As a result of the variability of factors that determine such estimations, the actual amount of CMS' retroactive payments or receipts could be materially more or less than those estimates. Changes in revenue from CMS resulting from the periodic changes in risk adjustments scores for the Company's membership are recognized when the amounts become determinable and in the case of receipts the collectability is reasonably assured.

The Company arranges comprehensive healthcare services for its members principally through capitation, a fixed monthly payment made without regard to the frequency, extent or nature of the healthcare services actually furnished. Benefits are provided to enrolled members generally through the Company's contractual relationships with physician groups and hospitals. The Company's contracted providers may, in turn, contract with specialists or referral providers for specific services and the Company is responsible for any related payments to those referral providers. Such expenses are determined on a per-member-month basis and are included in health care services expense in the accompanying consolidated statement of operations and comprehensive income.

The Company maintains a program that provides incentives to participating contracted primary care providers and hospitals through the use of risk-sharing agreements. Payments are made to contracted primary care providers and hospitals based on the risk-sharing agreements. Expenses related to the program are recorded as incurred based on contracted amounts.

Arizona AHCCCS Specific Revenue Recognition

Delivery supplemental payments are intended by AHCCCS to cover the costs of maternity care for deliveries during a prospective enrollment period. Such premiums are recognized in the month the delivery occurs.

Reinsurance revenues are recorded at estimated amounts due to the Arizona Plan pursuant to the AHCCCS contract net of estimated uncollectible amounts. Acute reinsurance revenue is recognized as a percentage of expenses incurred by members whose medical costs exceed a stated deductible per member per contract year. Catastrophic reinsurance revenue is recognized as the actual costs paid by the Arizona Plan. These revenues are included as an offset of other medical expenses.

Prior Period Coverage ("PPC") capitation premiums are payments received from AHCCCS for the period of time, prior to the member's enrollment, during which a member is eligible for covered services. Such premiums are recognized upon receipt.

Claims Payable and Related Expenses

The Company recognizes the cost of medical benefits in the period in which services are provided, including an estimate of the cost of medical benefits incurred but not reported (IBNR). Medical benefits expense includes direct medical expenses and certain medically-related administrative costs. The IBNR portion of medical claims payable is estimated based on past claims payment experience for member groups, enrollment data, utilization statistics, authorized healthcare services and other factors. Medical claims payable balances are continually monitored and reviewed. If it is determined that the Company's assumptions in estimating such liabilities are significantly different than actual results, the Company's consolidated results of operations and consolidated financial position could be impacted in future periods. Adjustments of prior period estimates may result in additional cost of care or a reduction of cost of care in the period an adjustment is made. Further, due to the considerable variability of healthcare costs, adjustments to claim liabilities occur each period and are sometimes significant as compared to the net income recorded in that period. As the liability is based upon estimates, the ultimate settlement of claims may be materially more or less than the amount included in the consolidated financial statements. While the ultimate amount of program expenses is dependent on future developments, the Company believes that the liability for claims payable is adequate to cover such expenses.

The following table presents the roll-forward of incurred but not reported medical claims reserves included in capitation and medical claims payable in the accompanying consolidated balance sheets:

	December 31, 2015	December 31, 2014
Beginning Balance	**$ 202,936,000**	$ 116,302,000
Health care claims expenses incurred during the period	**1,011,818,000**	888,855,000
Health care claims paid:	**(953,017,000)**	(802,221,000)
Current period	**(809,132,000)**	(710,639,000)
Previous period	**(143,885,000)**	(91,582,000)
Ending Balance	**$ 261,737,000**	$ 202,936,000

Health care claims expenses are included in healthcare services expense in the accompanying consolidated statement of operations and comprehensive income.

Premium Deficiency Reserve

The Company also periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future healthcare services expenses could exceed future premium payments under contracts and, where appropriate, records a premium deficiency reserve.

Advertising

Costs associated with advertising and promotions services are recorded as selling, general and administrative expense when incurred. Advertising expenses totaled approximately $5,235,000 and $3,431,000 for the years ended December 31, 2015 and 2014, respectively.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 718 (ASC 718) (See Note 10).

Income Taxes

Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting basis and the tax basis of assets and liabilities. The Company records a valuation allowance when it is more likely than not that the deferred tax assets will not be realized. Each period, the Company evaluates the need for a valuation allowance for its deferred tax assets and adjusts the valuation allowance so that the Company records net deferred tax assets only to the extent that it has concluded it is more likely than not that these deferred tax assets will be realized.

The Company recognizes liabilities for uncertain tax positions based on a two-step process. To the extent a tax position does not meet a more-likely-than-not level of certainty based on technical merits, no benefit is recognized in the consolidated financial statements. If a position meets the more-likely-than-not level of certainty based on technical merits, it is recognized in the consolidated financial statements at the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. Interest and penalties related to unrecognized tax benefits are recognized on liabilities recorded for uncertain tax positions and are recorded in the provision for income taxes. The actual liability for unrealized tax benefits may be materially different from the Company's estimates, which could result in the need to record additional liabilities for unrecognized tax benefits or potentially adjust previously-recorded liabilities for unrealized tax benefits, and may materially affect its operating results.

The Company's unrecognized tax benefits were immaterial at December 31, 2015 and 2014. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months. For the years ended December 31, 2015 and 2014, the Company did not record any interest and/or penalties expense related to unrecognized tax positions in the accompanying consolidated statement of operations and comprehensive income.

Effective October 8, 2015, the Company became a member of a consolidated group which files combined returns for federal and state, respectively, for its ultimate parent company CPS. The Company adopted the separate return method for current and deferred income taxes for the period subsequent to the Acquisition for the year ended December 31, 2015. Under this method, the subsidiary is assumed to file a separate return with the taxing authority, thereby reporting its taxable income or loss and paying the applicable tax to or receiving the appropriate refund from its parent. For the period post acquisition by CPS during the current year ended December 31, 2015, the Company recognized an income tax receivable of $4,868,000 based on it's hypothetical, current year separate return, and this amount reflects the refund that would have been available through a carryback of the taxable loss on that basis. This amount is reflected net of the income tax payable of $49,285,000 in the accompanying consolidated balance sheet at December 31, 2015.

The Company is subject to taxation in the United States and state jurisdictions. The Company's tax years for 2013 and forward are open for examination by the United States tax authority and 2011 and forward are subject to examination by state taxing authorities.

During the year ended December 31, 2014, the Internal Revenue Service (IRS) completed their examination of the 2012 tax year with immaterial adjustments to that tax year.

Concentration of Credit Risk

The Company maintains cash and cash equivalents in deposit accounts at financial institutions that, at times, may exceed federally insured limits. Historically, the Company has not experienced any losses related to such accounts. The Company's non-interest bearing cash balances are insured up to $250,000 per depositor at each final institution.

The Company's operations are concentrated in a limited number of states, which could cause its revenues, profitability, or cash flow to change suddenly and unexpectedly as a result of significant premium rate reductions or payment delays, a loss of a material contract, legislative actions, changes in Medicaid or Medicare eligibility methodologies, or an unexpected increase in utilization in those states.

The premium revenues related to the Medi-Cal Agreements represent approximately 52% and 49% of the Company's total consolidated premium revenue for the years ended December 31, 2015 and 2014, respectively.

The premium revenues related to the AHCCCS Agreement represent approximately 14% and 18% of the Company's total consolidated premium revenue for the years ended December 31, 2015 and 2014, respectively.

The premium revenues related to the Medicare Agreements represent approximately 33% and 31% of the Company's total consolidated premium revenue for the years ended December 31, 2015 and 2014, respectively.

The premium revenues related to other agreements represent approximately 1% and 2% of the Company's total consolidated premium revenue for the years ended December 31, 2015 and 2014, respectively.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2018, including interim periods therein. Three basic transition methods are available — full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. January 1, 2019) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is permitted for fiscal years beginning after December 31, 2016, if the Company meets such criteria per ASU 2014-09. The Company is currently analyzing the impact of this accounting standard on its financial statements.

In August 2014, FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern*.

This ASU provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Specifically, this ASU provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of the adoption of the updated standard on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740), Balance Sheet Presentation and Deferred Tax Assets and Liabilities.* The ASU amends existing guidance by simplifying the presentation of deferred income taxes on a net basis as non-current deferred tax assets or liabilities. ASU No. 2015-17 did not modify the requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount. This ASU is effective for reporting periods beginning after December 15, 2017 with earlier adoption permitted. The Company is currently analyzing the impact of this accounting standard on its consolidated financial statements.

In February 2016, FASB issued ASU 2015-17, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently analyzing the impact of the pending adoption of this new standard on its consolidated financial statements.

Reclassifications

Certain amounts in the 2014 consolidated financial statements have been reclassified to conform with the current year presentation.

2. Investments

The following is a summary of available-for-sale securities:

	December 31, 2015		
	Amortized cost	Gross unrealized gain (loss)	Fair value (net carrying amount)
Fixed income debt securities	$ 97,000	$ 6,000	$ 103,000
Mutual funds	1,365,000	-	1,365,000
Asset backed securities	3,696,000	(331,000)	3,365,000
Total	$ 5,158,000	$ (325,000)	$ 4,833,000

	December 31, 2014		
	Amortized cost	Gross unrealized gain (loss)	Fair value (net carrying amount)
Fixed income debt securities	$ 6,276,000	$ 31,000	$ 6,307,000
Mutual funds	1,188,000	-	1,188,000
Asset backed securities	4,228,000	712,000	4,940,000
Certificates of deposits	3,237,000	-	3,237,000
Total	$ 14,929,000	$ 743,000	$ 15,672,000

The net carrying value and estimated fair value of investments at December 31, 2015 and 2014, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without penalties.

	December 31, 2015	
Available-for-sale investments	**Amortized cost**	**Fair value**
Due in one year or less	**$ 97,000**	**$ 103,000**
Due after one year through three years	**-**	**-**
Due after three years	**3,696,000**	**3,365,000**
	3,793,000	**3,468,000**
Mutual funds	**1,365,000**	**1,365,000**
	$ 5,158,000	**$ 4,833,000**

	December 31, 2014	
Available-for-sale investments	Amortized cost	Fair value
Due in one year or less	$ 4,712,000	$ 5,530,000
Due after one year through three years	4,731,000	4,319,000
Due after three years	4,298,000	4,635,000
	13,741,000	14,484,000
Mutual funds	1,188,000	1,188,000
	$ 14,929,000	$ 15,672,000

Proceeds from investments sold for the years ended December 31, 2015 and 2014 totaled $10,644,000 and $4,646,000, respectively. Realized gains and losses as a result of these sales were de minimus for the years ended December 31, 2015 and 2014.

3. Fair Value Measurements

Accounting literature establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Financial assets and liabilities that are remeasured and reported at fair value at each reporting period are classified and disclosed in one of the following three levels:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3 Unobservable inputs for the asset or liability, such as discounted cash flow models or valuations.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.
The Company's Level 1 assets include certain cash and cash equivalents (money market mutual funds) and investments.

The Company's Level 2 assets include asset-backed securities and bonds issued by government-sponsored enterprises, such as Corporate Debt.

The following table reflects the Company's assets required to be measured at fair value on a recurring basis on the consolidated balance sheets:

	December 31, 2015		
	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets			
Cash and cash equivalents			
Money market mutual funds	$ 109,516,000	$ -	$ -
Investments (available-for-sale)			
Fixed income debt securities	-	103,000	-
Mutual funds	1,365,000	-	-
Asset backed securities	-	3,365,000	
	$ 110,881,000	$ 3,468,000	$ -

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	December 31, 2014		
	Fair Value Measurement Using		
	Level 1	Level 2	Level 3
Assets			
Cash and cash equivalents			
Money market mutual funds	$ 73,635,000	$ -	$ -
Investments (available-for-sale)			
Fixed income debt securities	-	6,307,000	-
Mutual funds	1,188,000	-	-
Asset backed securities	-	4,940,000	-
Certificates of deposits	3,237,000	-	-
	$ 89,307,000	$ 11,247,000	$ -

The following is a description of valuation inputs and techniques that the Company utilizes to fair value each major category of investments:

- *Money Market Mutual Funds & Mutual Funds*– Certain cash balances and highly liquid cash equivalents purchased with maturities of three months or less are held by the Company as part of its general cash management strategy, and as part of the Company's investment balance. Mutual funds registered with the Securities and Exchange Commission as mutual funds under the Investment Company Act of 1940 are valued based on quoted prices from the applicable exchange, and to the extent valuation adjustments are not applied to these securities, are categorized as Level 1.

- *Fixed Income Debt Securities* — Fixed income debt securities are valued using inputs and techniques, which include third-party pricing vendors and brokers, dealer quotations, and recently executed transactions in securities of the issuer or comparable issuers. Adjustments to individual securities may be applied to recognize trading differences compared to other similar securities issued by the same issuer. To the extent that these inputs are observable and timely, the values of these securities are categorized as Level 2.

- *Asset-Backed Securities* — Asset-backed securities are valued using dealer quotations or price quotes from pricing vendors and brokers. To the extent that these inputs are observable and timely, the values of asset-backed securities are categorized as Level 2.

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4. Current Assets

Receivables, net consist of the following:

	December 31, 2015	December 31, 2014
Due from L.A. CARE	**$ 54,732,000**	$ 78,059,000
Due from AHCCCS, net of allowances of $347,000 and $260,000, respectively	**2,153,000**	3,541,000
Due from GMC San Diego County	**50,658,000**	35,267,000
Due from Cal MediConnect (CMC) – Los Angeles County	**10,519,000**	2,163,000
Due from Cal MediConnect (CMC) – San Diego County	**5,740,000**	1,207,000
Other	**2,684,000**	305,000
Total receivables, net	**$ 126,486,000**	$ 120,542,000

At December 31, 2015 and 2014, the Company recorded amounts owed by L.A. CARE of $54,732,000 and $78,059,000, respectively. These amounts due to the Company generally related to Medi-Cal enrollee capitation receivables under the local initiative including retroactive premiums due for MLTSS.

At December 31, 2015 and 2014, $2,153,000 and $3,541,000, respectively, of the AHCCCS receivables were primarily related to reinsurance receivables due to the Arizona Plan, net of allowances for collectability.

At December 31, 2015 and 2014, the Company recorded receivables in the amount of $50,658,000 and $35,267,000, respectively, related to Medi-Cal enrollee programs in San Diego for enrollee capitation including retroactive premiums due for MLTSS.

At December 31, 2015 and 2014, the Company recorded receivables in the amount of $16,259,000 and $3,370,000, respectively, primarily related to dual eligible programs in San Diego and Los Angeles for enrollee capitation.

Other receivables at December 31, 2015 and 2014 in the amount of $2,684,000 and $305,000, respectively, are largely for reimbursement for Health Insurer Fees and accruals for incentives under the AHCCCS Payment Reform Initiative program.

Prepaid expenses and other current assets consist of the following:

	December 31, 2015	December 31, 2014
Prepaid expenses	**$ 4,485,000**	$ 2,333,000
Other current assets	**85,383,000**	32,639,000
Total prepaid expenses and other current assets	**$ 89,868,000**	$ 34,972,000

Other current assets consist primarily of MLTSS risk corridor estimates and rate recasts related to the Los Angeles County and San Diego County program, Medicare Part C and Part D risk adjustment estimates for Federal Reinsurance payments, Low Income Cost Sharing Subsidy (LICS), Part D Gap Discounts and Pharmacy rebates to be received.

5. Other Current Liabilities, Net

Other current liabilities, net consist of the following:

	December 31, 2015	December 31, 2014
Settlement payable due to AHCCCS, net	**$ 54,866,000**	$ 20,113,000
Other current liabilities	**125,795,000**	35,373,000
	$ 180,661,000	$ 55,486,000

Due to uncertainty regarding actual utilization, AHCCCS intends to limit its financial risk to its contractors. Accordingly, profits and losses by defined risk code groupings are annually reconciled as defined for each contract year ending in the month of September. In accordance with the reconciliations, profits and losses are generally limited to a defined percentage of the net capitation received for the specified risk code groupings. Profits or losses in excess of the corridor are reimbursed to, or recovered from, AHCCCS by the contractor. Accordingly, at December 31, 2015 and 2014, the Arizona Plan recorded a net payable of $54,866,000 and $20,113,000, respectively. The payables are included in other current liabilities in the accompanying consolidated balance sheets. Generally, the final reconciliation and settlement is anticipated to take place no more than 15 months after the contract year-end.

Under Section 1202 of the Patient Protection and Affordable Care Act (ACA), the Company receives monthly payments from DHCS in which the Company is responsible to pay eligible providers the appropriate amounts in full consistent with federal rules set forth in 42 C.F.R Part 447, Subpart (G). The full amount must be passed onto the eligible providers. Accordingly, the Company recognizes these payments as a liability within other current liabilities on its consolidated balance sheets at December 31, 2015 and 2014. As of December 31, 2015 and 2014, the Company had approximately $40,788,000 and $28,500,000, respectively, in pass through payments to be distributed to such eligible providers.

The Company has incentive programs to providers for meeting Healthcare Effectiveness Data and Information Set (HEDIS) measures and encounter data. As of December 31, 2015 and 2014, the Company accrued $75,154,000 and $0, respectively, in other current liabilities in the accompanying consolidated balance sheets.

At December 31, 2015 and 2014, the Company has accrued a liability to AHCCCS in the amount of $3,073,000 and $0, respectively, for payments that could be recouped under the Value Based Purchasing program.

Other current liabilities also include pass-through amounts and withholdings in the amount of $6,780,000 and $6,873,000, at December 31, 2015 and 2014, respectively.

6. Regulatory Requirements

The Company must meet certain minimum requirements under the Knox-Keene Health Care Service Plan Act of 1975, as amended (the "Knox-Keene" or the "Act"), to ensure that the Company can provide the medical benefits for which it has contracted. The Company is required by the Act to maintain a minimum deposit. Pursuant to these requirements, as of December 31, 2015 and 2014, $300,000 was invested in certificates of deposit, respectively, and is recorded as a restricted regulatory deposit in the accompanying consolidated balance sheets. In addition, the Company is required to maintain a minimum tangible net equity as defined by Section 1300.76 of the Act. As of December 31, 2015 and 2014, the Company was in compliance with the Act.

On a quarterly basis, AHCCCS will review the following ratios with the purpose of monitoring the financial health of the Arizona Plan: Current Ratio of at least 1.0; Equity per Member of $170 for Contractors with enrollment less than 100,000 and $115 for Contractors with enrollment greater than 100,000; Medical Loss Ratio of at least 85%; and the Administrative Cost Percentage no greater than 10%. The Arizona Plan is in compliance with all four ratios for fiscal year 2015. AHCCCS may elect to impose sanctions and penalties, the impact of which may be material to the consolidated financial statements if the plan does not meet these standards. However, as of December 31, 2015, no sanctions have been imposed against the Arizona Plan.

The Company maintains restricted regulatory deposits totaling $32,500,000 as security to meet the performance bond obligation as of December 31, 2015 and 2014, respectively (see Note 12). Total restricted regulatory deposits amounted to $33,900,000 (including the $300,000 required under Knox-Keene, and $1,100,000 required for the State of Texas) each at December 31, 2015 and 2014.

7. Fixed Assets, Net

Fixed assets consist of the following:

	December 31, 2015	December 31, 2015
Land	**$ 5,791,000**	$ 5,791,000
Buildings and improvement	**21,845,000**	21,673,000
Furniture and fixtures	**5,232,000**	5,081,000
Purchased software	**5,240,000**	3,542,000
Computer equipment	**8,752,000**	7,826,000
Leasehold improvements	**1,128,000**	1,128,000
Motor vehicles	**24,000**	24,000
	48,012,000	45,065,000
Less accumulated depreciation	**(21,589,000)**	(18,123,000)
Total	**$ 26,423,000**	$ 26,942,000

Depreciation expense amounted to $3,603,000 and $3,414,000 for the years ended December 31, 2015 and 2014, respectively.

8. Intangible Assets and Goodwill, Net

The following table provides a summary of goodwill and intangible assets and the related accumulated amortization:

	Amortization Period	**December 31, 2015**	December 31, 2014
Goodwill, net	10 years (*)	**$ 4,545,000**	$ 5,195,000
Licensing costs	20 years	**1,609,000**	$ 1,609,000
Maxicare Medi-Cal subscribers and assignment	13 years	**15,000,000**	15,000,000
UHP intangible assets			
Medi-Cal subscribers	13 years	**8,860,000**	8,860,000
Medicare subscribers	12 years	**6,040,000**	6,040,000
Provider network	15 years	**9,970,000**	9,970,000
Non-compete agreement	5 years	**70,000**	70,000
Other	20 years	**476,000**	476,000
Total acquisition cost of intangible assets		**42,025,000**	42,025,000
Less accumulated amortization		**(28,275,000)**	(25,173,000)
Intangible assets, net		**$ 13,750,000**	$ 16,852,000

(*) Effective January 1, 2013, goodwill is amortized on a straight-line basis over a period of ten years.

The weighted average useful life of intangible assets at December 31, 2015 and 2014 was 5.0 years and 5.9 years, respectively.

The following table summarizes the changes in goodwill:

Goodwill, at January 1, 2014	$ 5,844,000
Amortization	(649,000)
Goodwill, net at December 31, 2014	5,195,000
Amortization	(650,000)
Goodwill, net at December 31, 2015	$ 4,545,000

The total estimated future amortization related to goodwill and intangible assets are as follows:

For the years ending December 31,	Total
2016	$ 3,676,000
2017	3,676,000
2018	3,510,000
2019	2,947,000
Thereafter	4,486,000
Total	$ 18,295,000

The Company recorded amortization expense related to intangible assets of $3,102,000 and $3,107,000 for the years ended December 31, 2015 and 2014, respectively.

The Company recorded amortization expense related to goodwill of $650,000 and $649,000 for the years ended December 31, 2015 and 2014, respectively.

Licensing Costs

Licensing costs relate to fees incurred by the Company to obtain the necessary regulatory licenses.

9. Member's Fund/Stockholders' Equity

Pursuant to the Acquisition, Cumulus acquired 100% of the issued and outstanding shares of the Company. The Company's articles of incorporation were amended and restated whereby it became a nonprofit mutual benefit corporation. At that time, all of the Company's existing issued and outstanding shares of common and preferred stock were automatically cancelled and ceased to exist and were converted into a right to receive one membership interest in the corporation. Cumulus became the sole member of the Company. The Company's shareholders' equity with the exception of accumulated other comprehensive income was recorded as unrestricted member's fund on October 8, 2015 in the accompanying consolidated statement of changes in member's fund.

10. Stock-based Compensation

Restricted Stock

On March 1, 2014, the Company granted 6,928 restricted shares of its common stock ("restricted stock") to certain management with a total fair value of $22,100,000. The restricted stock cliff vest on the third anniversary of the grant date or when a change of control event occurs, as defined if earlier. Additionally, the restricted stock had a shareholder put option where the shareholder had the option to sell an equivalent number of their restricted stock based on the prevailing fair market value up to the outstanding balance of the related party promissory notes to the extent that the promissory notes remained outstanding at the determination date, as defined. The Company had a call option whereby it could repurchase the restricted stock based on the prevailing fair market value in the event that the shareholder's employment with the Company was terminated.

The Company computed the fair value of the restricted stock using a combination of the income and market approaches on which the underlying enterprise value was determined. In accordance with generally accepted accounting principles, stock-based compensation on the fair value of the shares was to be recognized ratably over the three year period. Prior to the Acquisition, the Company recognized $5,520,000 in stock-based compensation expense. The restricted stock agreement had a change in control feature whereby should that occur prior to the end of the three year period, all remaining unrecognized compensation would be recognized at that date. As a result of the Acquisition, a change of control occurred and all of the remaining unrecorded stock-based compensation expense of approximately $10,440,000 was recognized.Accordingly, the total stock-based compensation expensed recognized for the years ended December 31, 2015 and 2014 was $15,960,000 and $6,141,000, respectively. The stock based compensation expense was recorded as an addition to member's fund and included in the Company's selling, general and administrative expenses on the accompanying consolidated statements of operations and comprehensive income for the years ended December 31, 2015 and 2014.

Notes receivable recorded by the Company for advances to management in connection with obligations related to the restricted stock grants and a loan to a stockholder in the amount of $11,569,000 and $2,000,000, respectively, were fully repaid at the date of the Acquisition. These notes were originally reflected by the Company as a contra to stockholders' equity and was repaid at the date of the Acquisition. Additionally all restricted stock grants cliff vested at the date of the Acquisition as a result of the change of control event. None of these shares were issued or outstanding at December 31, 2015 (See Note 9).

11. Income Taxes

The provision (benefit) for income taxes consist of the following:

	December 31, 2015	December 31, 2014
Current		
Federal	**$ 62,035,000**	$ 26,083,000
State	**14,601,000**	5,170,000
	76,636,000	31,253,000
Deferred		
Federal	**(20,763,000)**	2,897,000
State	**(5,133,000)**	897,000
	(25,896,000)	3,794,000
Total	**$ 50,740,000**	$ 35,047,000

The provision (benefit) for income taxes differs from the statutory rate of 35% due to the following:

		December 31, 2015		December 31, 2014
Federal income tax at statutory rate of 35%	**$**	**34,364,000**	$	18,489,000
State tax, net of federal tax benefit		**6,154,000**		3,944,000
Transaction costs		**1,652,000**		-
162(m)(6) limitation		**1,397,000**		9,310,000
Affordable Care Act health insurer fee		**6,364,000**		2,176,000
Other, net		**809,000**		1,128,000
Total provision	**$**	**50,740,000**	$	35,047,000
Effective tax rate		**51.9%**		66.1%

The Company's deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

		December 31, 2015		December 31, 2014
Deferred tax assets				
State taxes	**$**	**125,000**	$	2,333,000
Vacation accrual		**1,159,000**		1,176,000
Other accruals and allowances		**180,000**		1,776,000
Other current liabilities		**18,127,000**		52,000
Deferred revenue		**5,867,000**		-
Other		**1,067,000**		457,000
Total deferred tax assets		**26,525,000**		5,794,000
Deferred tax liabilities				
Depreciation and amortization		**(3,149,000)**		(3,565,000)
State taxes		**(1,548,000)**		(192,000)
Section 83(b) election		**-**		(6,761,000)
Other		**(956,000)**		(300,000)
Total deferred tax liabilities		**(5,653,000)**		(10,818,000)
Total deferred tax assets (liabilities), net	**$**	**20,872,000**	$	(5,024,000)

Deferred tax assets and liabilities are classified as follows:

	December 31, 2015	December 31, 2014
Deferred tax assets, net, current	**$ 23,910,000**	$ 1,818,000
Deferred tax liabilities, net, noncurrent	**(3,038,000)**	(6,842,000)
Total deferred tax assets, net	**$ 20,872,000**	$ (5,024,000)

The Company pays premium tax on certain capitation and premiums. For the years ended December 31, 2015 and 2014, the premium taxes were approximately $26,649,000 and $24,841,000, respectively, and are included in selling, general and administrative expenses.

12. Commitments and Contingencies

Operating Leases

The Company leases various equipment, automobiles, and buildings under noncancellable operating leases.

Future minimum lease payments under operating lease obligations with an initial term of one year or more are as follows:

For the years ending December 31,	Operating Leases
2016	$ 1,689,000
2017	1,519,000
2018	1,000,000
	$ 4,208,000

The Company's operating lease obligations expire at various dates through April 2018.

Rent expense of approximately $2,066,000 and $2,074,000 was charged to selling, general, and administrative expenses for the years ended December 31, 2015 and 2014, respectively.

L.A. CARE Agreement

During 1996, the State of California Department of Health Services (the "SDHS") contracted with L.A. CARE Health Plan to be the locally created healthcare service plan for Los Angeles County. L.A. CARE commenced operations effective May 1, 1997, at which time the Company's contract with the SDHS terminated, and Medi-Cal enrollment was assigned by L.A. CARE to the Company. The Company has a current contract with L.A. CARE through September 30, 2020.

GMC SD Agreement

During 2005, the Company entered into a contract with the California Department of Health Care Services ("DHCS") as a Geographic Managed Care ("GMC") Plan to provide health care to Medi-Cal beneficiaries in San Diego County. The Company continues to operate in the San Diego GMC program and maintains a current contract through December 31, 2016.

AHCCCS Agreement

On March 22, 2013, the Company was notified that the Arizona Plan received a contract award from AHCCCS Acute Care Program effective October 1, 2013. The contract term is for three years, with two one year options for renewal. Under the contract, the Arizona Plan will provide services to eligible enrollees in Maricopa and Pima Counties.

Performance Bond

Pursuant to its contract with the State of Arizona, the Arizona Plan is required to provide either a performance bond or designated substitute to guarantee performance of the Plan's obligations under the contract. As of December 31, 2015, the Arizona plan has $30,000,000 of funds on deposit with the Arizona State Treasurer to meet the performance bond requirement of its AHCCCS operation and $2,500,000 of funds on deposit with the Arizona State Treasurer to meet the performance bond requirements of its Medicare operation (see Note 6).

General Matters and Litigation

The Company is subject to claims and legal proceedings which include the usual obligations incurred by a health plan. The Company purchases commercial Managed Care Errors and Omissions Insurance. The Company is party to legal proceedings and claims that arise in the ordinary course of business. Based on currently available information and consideration of policy limits and deductibles, management does not believe that the outcome of the proceedings will have a material effect on the Company's consolidated financial statements.

AHCCCS Audit

AHCCCS periodically audits, among other things, the accuracy, timeliness and omission rates of encounters. Errors are subject to sanction. Additionally, the AHCCCS contract requires the plan to meet identified Minimum Performance Standards ("MPS") related to clinical quality measures. Should the Company fail to meet the MPS, the Company could be sanctioned. The Company must submit a corrective action plan to AHCCCS with 30 days following notification of a deficiency. Based on the results of the corrective action plan, AHCCCS may waive the sanctions and penalties. Should AHCCCS not waive them, the impact of the penalties and sanctions could be material to the overall consolidated financial position of the Company. MPS results have not yet been issued by AHCCCS for the contract year ended September 30, 2015.

RADV Audits

CMS has been performing Risk Adjustment Data Validation ("RADV") audits of selected plans to validate provider coding practices under the risk adjustment model used to calculate the premium paid for members.

In February 2012, CMS published the final methodology for payment adjustments determined as a result of its various RADV audits, including its methods for sampling, payment error calculation, and extrapolation of the error rate across the relevant plan population. One or more of the Company's contracts may be selected in the future for RADV audits of subsequent contract years.

13. Retirement Plan

The Company sponsors a 401(k) defined contribution retirement plan (the "Plan"), available to all employees meeting eligibility requirements. Employees' contributions are voluntary, with an annual maximum contribution of 20% of gross compensation, not to exceed the IRS limit. The employer's matching contribution is based on the Safe Harbor requirements under the 401(k) defined contribution retirement plan. The employee has a choice of investing in various investment funds, subject to Internal Revenue Service limits. The Company incurred approximately $1,845,000 and $1,544,000 in employer contribution expense for the years ended December 31, 2015 and 2014, respectively.

14. The Acquisition

Pursuant to the Acquisition, certain expenses incurred by the Company that were contingent on the close of the transaction were recorded in the accompanying consolidated statement of operations and comprehensive income as expenses during the year ended December 31, 2015. Cumulus selected not to utilize push down accounting. Expenses totaling $35,750,000 included $15,735,000 of transactions costs, $10,440,000 of compensation related to the restricted stock grants (See Note 10), and $9,575,000 of employee bonuses were recorded as part of selling, general and administrative expenses for the year ended December 31, 2015.

The purchase price for the Acquisition was subject to certain withholding, escrow and conditions as defined pursuant to the Stock Purchase Agreement.

15. Related Party Transactions

Prior to the Acquisition, the Company entered into various agreements with stockholders to provide medical care services to a significant number of the Company's members. The amounts due to stockholders include accrued capitation, and amounts related to their risk-sharing agreements with the Company in which funds remaining in the hospital and medical expense pools are paid according to the agreements. For the years ended December 31, 2015 and 2014, the Company had paid under its capitation and risk-sharing arrangements approximately $108,415,000 and $62,236,000, respectively, to related parties.

The Company also has made capitation, claims and risk pool settlement payments in the normal course of business to two related party IPAs, in the amount of approximately $15,980,000 and $1,516,000 for the years ended December 31, 2015 and 2014, respectively.

In March 2012, the Company extended a loan to a stockholder in the amount of $2,000,000 payable in March 2015, as amended, at an interest rate of 1% per annum. The promissory note specified repayment of principal and interest on the maturity date or offset against future distributions by the Company. The Company reflected this note as a contra to stockholders' equity. As of the date of the Acquisition, the balance was paid in full by reducing the amount to that stockholder for risk sharing payments, by agreement. This amount was reflected as a non cash item in the accompanying consolidated statement of cash flow for the year ended December 31, 2015.

In March 2014, the Company executed an agreement to advance monies to certain management in a form of promissory notes totaling $11,600,000 payable in 3 years in connection with obligations related to the restricted stock grants. The promissory note was recorded as a contra to stockholders' equity. As of the date of the Acquisition, the balance was paid in full.

16. Subsequent Events

Management has evaluated events that have occurred subsequent to December 31, 2015 through April 25, 2016, the date on which the consolidated financial statements were available to be issued.

On March 11, 2016, the Company extended its contract with DHCS as a GMC Plan to provide health care to Medi-Cal beneficiaries in San Diego County through December 31, 2017.

Supplemental Schedules

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600 Anton Blvd., Suite 500
Costa Mesa, CA 92626

Independent Auditor's Report on Supplemental Schedules

The Board of Directors
Care1st Health Plan
Monterey Park, California

Our audits of the consolidated financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements taken as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

BDO USA, LLP

April 25, 2016

Care1st Health Plan

Supplemental Consolidating Balance Sheet

December 31, 2015	Care1st Health Plan California	Care1st Health Plan Arizona*	Eliminations	Care1st Health Plan Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 425,446,000	$ 129,666,000	$ -	$ 555,112,000
Investments	4,833,000	-	-	4,833,000
Receivables, net	121,717,000	4,769,000	-	126,486,000
Prepaid expenses and other current assets	87,835,000	2,033,000	-	89,868,000
Due from affiliates	206,000	-	(206,000)	-
Deferred tax assets, net	22,989,000	921,000	-	23,910,000
Total current assets	663,026,000	137,389,000	(206,000)	800,209,000
Fixed assets, net	24,982,000	1,441,000	-	26,423,000
Restricted regulatory deposits	16,400,000	17,500,000	-	33,900,000
Intangible assets, net	13,750,000	-	-	13,750,000
Goodwill, net	4,545,000	-	-	4,545,000
Total assets	$ 722,703,000	$ 156,330,000	$ (206,000)	$ 878,827,000
Liabilities and Member's Fund				
Current liabilities				
Capitation and medical claims payable	$ 294,692,000	$ 32,162,000	$ -	$ 326,854,000
Risk-sharing arrangements	6,268,000	-	-	6,268,000
Accounts payable	5,080,000	3,388,000	-	8,468,000
Accrued expenses	6,387,000	1,670,000	-	8,057,000
Due to affiliates	-	205,000	(205,000)	-
Income tax payable	39,826,000	9,459,000	-	49,285,000
Unearned revenue	63,739,000	-	-	63,739,000
Other current liabilities	122,722,000	57,939,000	-	180,661,000
Total current liabilities	538,714,000	104,823,000	(205,000)	643,332,000
Deferred tax liabilities, net	2,772,000	266,000	-	3,038,000
Total liabilities	541,486,000	105,089,000	(205,000)	646,370,000
Member's Fund				
Unrestricted member's fund	181,268,000	51,241,000	(1,000)	232,508,000
Accumulated other comprehensive loss	(51,000)	-	-	(51,000)
Total member's fund	181,217,000	51,241,000	(1,000)	232,457,000
Total liabilities and member's fund	$ 722,703,000	$ 156,330,000	$ (206,000)	$ 878,827,000

* Consolidated including ONECare.

See accompanying notes to consolidated financial statements.

Care1st Health Plan

Supplemental Consolidating Statement of Operations and Comprehensive Income

For the year ended December 31, 2015	Care1st Health Plan California	Care1st Health Plan Arizona*	Eliminations	Care1st Health Plan Consolidated
Revenues				
Premium revenue	$ 1,899,882,000	$ 335,307,000	$ -	$ 2,235,189,000
Interest income	1,161,000	51,000	-	1,212,000
Other revenue	4,755,000	21,167,000	-	25,922,000
Intercompany revenue allocation	5,313,000	-	(5,313,000)	-
Total revenues	1,911,111,000	356,525,000	(5,313,000)	2,262,323,000
Operating expenses				
Healthcare services	1,631,286,000	284,423,000	-	1,915,709,000
Selling, general and administrative expenses	202,110,000	44,764,000	(5,313,000)	241,561,000
Depreciation and amortization	6,848,000	507,000	-	7,355,000
Interest expense	3,000	17,000	-	20,000
Total expenses	1,840,247,000	329,711,000	(5,313,000)	2,164,645,000
Income before provision for income taxes	70,864,000	26,814,000	-	97,678,000
Provision for income taxes	37,930,000	12,810,000	-	50,740,000
Net income	32,934,000	14,004,000	-	46,938,000
Change in unrealized losses on available-for-sale securities, net of related tax effects	(195,000)	-	-	(195,000)
Comprehensive income	$ 32,739,000	$ 14,004,000	$ -	$ 46,743,000

* Consolidated including ONECare.

See accompanying notes to consolidated financial statements.

Care1st Health Plan

Supplemental Detailed Balance Sheet for Care1st Health Plan Arizona

December 31, 2015	AHCCCS	DDD	OTHER	Subtotal	ONECare (MA)	TPA	Eliminations	Total
Assets								
Current Assets								
Cash and cash equivalents	$ 120,912,000	$ 1,000,000	$ 1,160,000	$ 123,072,000	$ 1,365,000	$ 5,229,000	$ -	$ 129,666,000
Receivables, net	3,442,000	58,000	-	3,500,000	1,000	1,268,000	-	4,769,000
Prepaid expenses and other current assets	422,000	36,000	-	458,000	1,575,000	-	-	2,033,000
Investment in affiliates	727,000	-	-	727,000	-	-	(727,000)	-
Deferred tax assets, net	921,000	-	-	921,000	-	-	-	921,000
Total current assets	126,424,000	1,094,000	1,160,000	128,678,000	2,941,000	6,497,000	(727,000)	137,389,000
Fixed assets, net	1,441,000	-	-	1,441,000	-	-	-	1,441,000
Regulatory deposits	15,000,000	-	-	15,000,000	2,500,000	-	-	17,500,000
Total assets	$ 142,865,000	$ 1,094,000	$ 1,160,000	$ 145,119,000	$ 5,441,000	$ 6,497,000	$ (727,000)	$ 156,330,000

See accompanying notes to consolidated financial statements.

Care1st Health Plan

Supplemental Detailed Balance Sheet for Care1st Health Plan Arizona

December 31, 2015	AHCCCS	DDD	OTHER	Subtotal	ONECare (MA)	TPA	Eliminations	Total
Current liabilities								
Medical claims payable:								
Hospitalization	$ 11,843,000	$ 29,000	$ 85,000	$ 11,957,000	$ 1,586,000	$ -	$ -	$ 13,543,000
Physician	5,272,000	68,000	-	5,340,000	327,000	-	-	5,667,000
Other medical expenses	8,470,000	115,000	-	8,585,000	779,000	-	-	9,364,000
PPC expenses	3,588,000	-	-	3,588,000	-	-	-	3,588,000
Total medical claims payable	29,173,000	212,000	85,000	29,470,000	2,692,000	-	-	32,162,000
Other current liabilities								
Accounts payable and accrued expenses	4,666,000	-	-	4,666,000	199,000	193,000	-	5,058,000
Settlement payable, net	57,941,000	-	-	57,941,000	(2,000)	-	-	57,939,000
Income tax payable	9,176,000	215,000	-	9,391,000	-	68,000	-	9,459,000
Due to (from) affiliates	(2,378,000)	(6,622,000)	4,842,000	(4,158,000)	(1,572,000)	5,935,000	-	205,000
Total current liabilities	98,578,000	(6,195,000)	4,927,000	97,310,000	1,317,000	6,196,000	-	104,823,000
Deferred income tax liabilities, net	266,000	-	-	266,000	-	-	-	266,000
Total liabilities	98,844,000	(6,195,000)	4,927,000	97,576,000	1,317,000	6,196,000	-	105,089,000
Stockholder's equity *								
Common stock	1,000	-	-	1,000	-	-	-	1,000
Additional paid-in capital	1,113,000	(1,500,000)	-	(387,000)	8,727,000	-	(727,000)	7,613,000
Retained earnings (deficit)	42,907,000	8,789,000	(3,767,000)	47,929,000	(4,603,000)	301,000	-	43,627,000
Total stockholder's equity (deficit)	44,021,000	7,289,000	(3,767,000)	47,543,000	4,124,000	301,000	(727,000)	51,241,000
Total liabilities and stockholder's equity	$ 142,865,000	$ 1,094,000	$ 1,160,000	$ 145,119,000	$ 5,441,000	$ 6,497,000	$ (727,000)	$ 156,330,000

*****Represents California's stockholder ownership in Arizona. On consolidation, Arizona's common stock, additional paid-in capital and retained earnings (deficit) is eliminated into the unrestricted member's fund.

See accompanying notes to consolidated financial statements.

Care1st Health Plan

Supplemental Detailed Balance Sheet for Care1st Health Plan Arizona

For the year ended December 31, 2015	AHCCCS	DDD	OTHER	Subtotal	ONECare (MA)	TPA	Total
Revenues:							
Capitation	$ 315,527,000	$ 4,367,000	$ -	$ 319,894,000	$ 24,350,000	$ -	$ 344,244,000
PPC capitation	21,088,000	-	-	21,088,000	-	-	21,088,000
Delivery supplement	16,094,000	-	-	16,094,000	-	-	16,094,000
Prospective Settlement	(39,535,000)	-	-	(39,535,000)	-	-	(39,535,000)
TWG settlement	(2,454,000)	-	-	(2,454,000)	-	-	(2,454,000)
PPC settlement	(4,130,000)	-	-	(4,130,000)	-	-	(4,130,000)
Other	14,959,000	130,000	-	15,089,000	1,542,000	4,536,000	21,167,000
Total premium revenues	321,549,000	4,497,000	-	326,046,000	25,892,000	4,536,000	356,474,000
Interest income	51,000	-	-	51,000	-	-	51,000
Total revenues	321,600,000	4,497,000	-	326,097,000	25,892,000	4,536,000	356,525,000
Operating Expenses:							
Healthcare expenses							
Hospitalization	66,913,000	(201,000)	-	66,712,000	5,157,000	-	71,869,000
Physician	88,983,000	629,000	-	89,612,000	5,357,000	-	94,969,000
Other medical expenses	111,650,000	2,059,000	-	113,709,000	11,742,000	-	125,451,000
Reinsurance and third party liability recoveries	(7,671,000)	(192,000)	-	(7,863,000)	(3,000)	-	(7,866,000)
Net healthcare expenses	259,875,000	2,295,000	-	262,170,000	22,253,000	-	284,423,000
Administrative Expenses:							
Selling, general and administrative expenses	29,326,000	483,000	-	29,809,000	3,446,000	4,268,000	37,523,000
Depreciation and amortization	507,000	-	-	507,000	-	-	507,000
Premium tax expense	7,241,000	-	-	7,241,000	-	-	7,241,000
Interest expense	17,000	-	-	17,000	-	-	17,000
Total expenses	296,966,000	2,778,000	-	299,744,000	25,699,000	4,268,000	329,711,000
Income before provision for income taxes	24,634,000	1,719,000	-	26,353,000	193,000	268,000	26,814,000
Provision for income taxes	12,309,000	402,000	-	12,711,000	-	99,000	12,810,000
Net income	$ 12,325,000	$ 1,317,000	$ -	$ 13,642,000	$ 193,000	$ 169,000	$ 14,004,000

See accompanying notes to consolidated financial statements.