Care1st Health Plan Arizona, Inc. and One Care by Care1st Health Plan Arizona, Inc.

Combined Financial Statements
as of and for the years ended December 31, 2020 and 2019, Supplemental Schedules as of and for the years ended December 31, 2020 and 2019, and Independent Auditors' Report

Care1st Health Plan Arizona, Inc. and

One Care by Care1st Health Plan Arizona, Inc.

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KPMG LLP
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Independent Auditors' Report

The Audit Committee of the Board of Directors
Care1st Health Plan Arizona, Inc. and One Care by Care1st Health Plan Arizona, Inc.:

We have audited the accompanying combined financial statements of Care1st Health Plan Arizona, Inc. and One Care by Care1st Health Plan Arizona, Inc. (the Company) which comprise the combined balance sheet as of December 31, 2020, and the related combined statements of income, comprehensive income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

U.S. generally accepted accounting principles require that the incurred and paid claims development information, and the historical claims duration information for the years ended December 31, 2019 and December 31, 2018 on page 25 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined 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 basic combined financial statements, and other knowledge we obtained during our audit of the basic combined 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.

The accompanying combined financial statements of the Company as of December 31, 2019 and for the year then ended were audited by other auditors whose report thereon, dated May 11, 2020, was restricted to the use of the board of directors and the management of the Company and for the filing with state insurance departments to whose jurisdiction the Company is subject, expressed an unmodified opinion on those financials statements in accordance with U.S. Generally Accepted Accounting Principles.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental information included in Supplemental Detailed Balance Sheet as of December 31, 2020 and Supplemental Income Statement for the Year Ended December 31, 2020, is presented for purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

St. Louis, Missouri
August 12, 2021

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
COMBINED BALANCE SHEETS AS OF DECEMBER 31, 2020 AND 2019

($ in Thousands) **ASSETS**	2020	2019
Current assets		
Cash and cash equivalents	$ 71,417	$ 40,493
Investments	14,084	12,741
Income tax receivable	1	2,060
Other receivables from government partners	1,226	1,219
Due from affiliates	—	411
Premiums receivable	11,229	1,886
Prepaid expenses and other	12,065	17,891
Total current assets	110,022	76,701
Other assets		
Restricted deposits	5	5
Investments - Long Term	120,439	123,088
Deferred tax assets	898	992
Property and equipment, net	118	230
Goodwill	8,330	8,330
Other intangibles, net	2,149	2,817
Total assets	$ 241,961	$ 212,163
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Medical claims payable	$ 79,211	$ 82,816
Accounts payable and accrued expenses	18,428	10,129
Income tax payable	2,338	1
Due to affiliates	4,174	—
Total current liabilities	104,151	92,946
Long-term liabilities		
Other payables to government partners	35,555	39,319
Other long-term liabilities	738	—
Total long-term liabilities	36,293	39,319
Stockholder's equity:		
Common stock, $0 par value, 2,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	12,614	12,614
Retained earnings	88,903	67,284
Total stockholder's equity	101,517	79,898
Total liabilities and stockholder's equity	$ 241,961	$ 212,163

See notes to combined financial statements

($ in Thousands)	2020	2019
Revenue		
Net premium revenue	$ 805,047	$ 771,421
Operating expenses		
Healthcare services, net	660,594	657,267
Selling, general and administrative expenses	80,617	64,533
Depreciation and amortization expense	780	916
Premium tax expense	15,190	14,054
ACA fee expense	14,382	—
Total expenses	771,563	736,770
Income from operations	33,484	34,651
Net investment income	3,053	5,514
Income before income taxes	36,537	40,165
Income tax expense	11,303	8,545
Net income	$ 25,234	$ 31,620

See notes to combined financial statements

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
COMBINED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

($ in Thousands)	**For the Years Ended December 31, 2020**	**2019**
Net income	25,234	31,620
Change in unrealized gain/loss on investments, net of taxes	2,385	(597)
Comprehensive income	$ 27,619	$ 31,023

See notes to combined financial statements

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
COMBINED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

($ in Thousands)	Common Stock Class A Number of Shares *	Additional Paid-In Capital	Retained Earnings	Total Stockholder's Equity
Balance, January 1, 2019	2,000	$ 12,614	$ 41,261	$ 53,875
Dividend	—	—	(5,000)	(5,000)
Change in net unrealized capital gains/losses	—	—	(597)	(597)
Net income	—	—	31,620	31,620
Balance, December 31, 2019	2,000	$ 12,614	$ 67,284	$ 79,898
Change in net unrealized capital gains/losses	—	—	2,385	2,385
Dividend	—	—	(6,000)	(6,000)
Net income	—	—	25,234	25,234
Balance, December 31, 2020	2,000	$ 12,614	$ 88,903	$ 101,517

** Includes 1,000 shares issued and authorized for Care1st Health Plan Arizona, Inc. and 1,000 shares issued and authorized for One Care by Care1st Health Plan Arizona, Inc.*

See notes to combined financial statements

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

($ in Thousands)

	2020	2019
Cash flows from operating activities		
Net income	$ 25,234	$ 31,620
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation & amortization expense	780	916
Net investment income	(154)	894
Changes in operating accounts:		
(Receivables from) / payables to government partners	(3,771)	(31,794)
Accounts payable and accrued expenses	14,125	(2,341)
Medical claims payable	(3,605)	3,959
Income taxes receivable (payable)	5,134	(2,219)
Deferred taxes, net	94	(425)
Premium receivable	(9,343)	5,309
Other, net	6,970	(9,451)
Net cash provided by (used in) operating activities	35,464	(3,532)
Cash flows from investing activities		
Proceeds from investments sold, matured or repaid	34,037	40,633
Cost of investments acquired	(32,577)	(177,356)
Net cash provided by (used in) investing activities	1,460	(136,723)
Cash flows from financing activities		
Dividends	(6,000)	(5,000)
Net cash used in financing and miscellaneous activities	(6,000)	(5,000)
Net change in cash and cash equivalents	30,924	(145,255)
Cash and cash equivalents, beginning of year	40,493	185,748
Cash and cash equivalents, end of year	$ 71,417	$ 40,493
Supplemental disclosures of cash flow information:		
Cash paid for taxes	$ 6,812	$ 11,027
Non-cash exchange of investments	1,918	—

See notes to combined financial statements

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Care1st Health Plan Arizona, Inc. ("Care1st") and One Care by Care1st Health Plan Arizona, Inc. ("One Care"), together Care1st Arizona (the "Company"), are wholly-owned subsidiaries of Centene Corporation ("Centene"), a publicly traded managed care services company. The intercompany transactions and accounts of Care1st Health Plan Administrative Services, Inc. ("TPA") a wholly-owned subsidiary of Care1st, have been eliminated in consolidation with Care1st.

Care1st provides specified health services to Medicaid members pursuant to a contract with the Arizona Health Care Cost Containment System ("AHCCCS"). Care1st also participated as an acute care subcontractor for the Arizona Department of Economic Security, Division of Developmental Disabilities program ("DDD"). Care1st did not elect to respond to the DDD request for proposal ("RFP") that was issued in 2019. As such, all existing members left Care1st as of September 30, 2019. Care1st subcontracts with hospitals, physicians and other medical providers within Arizona to care for eligible members in its designated service areas.

One Care provides Medicare Advantage ("MA") health plans and prescription drug benefits to Medicare beneficiaries through the Medicare Part D Program ("PDP") via a contract with the Centers for Medicare and Medicaid Services ("CMS"). One Care is contracted with CMS to provide managed care services as a Dual Eligible Subset Special Needs Plan ("D-SNP"). One Care is limited to only enroll members who are dually eligible for both Medicaid and Medicare and in the service areas covered under the AHCCCS agreement.

AHCCCS Agreement
On March 13, 2018, the Company announced that it received a contract award from the AHCCCS Complete Care program effective October 1, 2018. The original contract term was for five years, with two one year options for renewal. During 2020, AHCCCS revised the ACC term of contract to include an additional two-year extension through September 30, 2022. Under the contract, the Arizona Plan will provide physical and behavioral health services to eligible enrollees in the Central and North geographic service areas. As part of AHCCCS' approval of the merger agreement between Centene Corporation and WellCare, AHCCCS required transition of the Central membership to the Centene ACC health plan, Arizona Complete Health Complete Care Plan. The effective date of the membership transition is October 1, 2021.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements are prepared on the basis of accounting principles generally accepted in the United States of America (GAAP).

B. Principles of Combination

The accompanying combined financial statements of the Company have been prepared on a combined basis for entities under common control with all significant intercompany transactions and accounts being eliminated. Intercompany transactions and accounts of Care1st Health Plan Administrative Services, Inc. ("TPA"), a wholly-owned subsidiary of Care1st, have been eliminated in combination.

C. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Material estimates particularly susceptible to change in the near term include revenue recognition (including the reconciliation settlements described below, health care service costs, including the medical claims payable, and income taxes.

D. Cash and Cash Equivalents

Cash includes cash deposits in banks and cash equivalents. Cash equivalents include all highly liquid investments with maturities of three months or less when purchased. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC". At December 31, 2020 and 2019, cash and cash equivalents consisted of cash and money market accounts.

E. Funds Receivable/Held for the Benefit of Members

The Company receives certain Part D prospective subsidy payments from CMS for MA and PDP members as a fixed monthly per member amount, based on the estimated costs of providing prescription drug benefits over the plan year, as reflected in the bids. Approximately nine to ten months subsequent to the end of the plan year, or later in the case of the coverage gap discount subsidy, a settlement payment is made between CMS and the Company based on the difference between the prospective payments and actual claims experience. The subsidy components under Part D, which are recorded as a component of prepaid expenses and other or accounts payable and accrued expenses on the Combined Balance Sheets, are described below:

Low-Income Cost Sharing Subsidy ("LICS")-For qualifying low-income subsidy members, CMS reimburses the Company for all or a portion of the low income subsidy member's deductible, coinsurance and co-payment amounts above the out-of-pocket threshold.

Catastrophic Reinsurance Subsidy-CMS reimburses the Company for 80% of the drug costs after a member reaches his or her out-of-pocket catastrophic threshold through a catastrophic reinsurance subsidy.

Coverage Gap Discount Subsidy ("CGDS")-CMS provides monthly prospective payments for pharmaceutical manufacturer discounts made available to members.

Catastrophic reinsurance subsidies and LICS subsidies represent cost reimbursements under the Medicare Part D program. The Company is fully reimbursed by CMS for costs incurred for these contract elements and, accordingly, there is no insurance risk to the Company. Therefore, amounts received for these subsidies are not considered premium revenue, and are reported, net of the subsidy benefits paid, as deposits. Costs incurred over deposits received are recorded as a component of prepaid expenses and other, while deposits received in excess of costs incurred are recorded as a component of accounts payable and accrued expenses on the combined financial statements. Historically, the settlement payments between us and CMS have not been materially different from our estimates.

CGDS advance payments are recorded as assets on the financial statements as a component of prepaid expenses and other. Receivables are set up for manufacturer invoiced amounts. Manufacturer payments reduce the receivable as payments are received. After the end of the contract year, during the Medicare Part D payment reconciliation process for the CGDS, CMS will perform a cost-based reconciliation to ensure the Medicare Part D sponsor is paid for gap discounts advanced at the point of sale, based on accepted Prescription Drug Event data.

F. Net Investment Income Earned

($ IN THOUSANDS

Net investment income earned but not yet collected is recorded as investment income due and accrued in the Combined Balance Sheets. Investment income included in the accompanying Combined Statements of Income is comprised of interest and dividends earned on the Company's invested assets, on cash and cash equivalents and net realized gains and losses on the sale of investments.

G. Property and Equipment, Net

Fixed Assets are stated at historical cost less accumulated depreciation. Major improvements that extend the useful lives of the assets are capitalized. When assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the books and any resulting gain or loss is recorded in the Combined Statements of Income. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets, which ranges from three to ten years. Maintenance and repairs are charged to operating expense when incurred.

	Estimated Useful Lives
Furniture and fixtures	5-10 years
Computer and office equipment	3-5 years
Leasehold improvements	Lesser of useful life or lease term

On an ongoing basis, the Company reviews events or changes in circumstances that may indicate that the carrying value of an asset may not be recoverable. If the carrying value of an asset exceeds the sum of estimated undiscounted future cash flows, then an impairment loss is recognized in the current period for the difference between estimated fair value and carrying value. There were no impairment losses recognized during the years ended December 31, 2020 and 2019.

H. Other Receivables / Payables to Government Partners

AHCCCS limits financial risk and gain to its contractors. 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, as of December 31, 2020 and 2019, the Company recorded a payable of $34,556 and $34,245, respectively, as a component of other payables to government partners. Generally, the final reconciliation and settlement is anticipated to take place approximately 15 months after the end of the contract year.

Medicaid Minimum Loss Ratio
The Company's Medicaid contract with AHCCCS includes a provision whereby the Company is required to expend a minimum of 85% of the premiums received on allowable medical benefits expense as defined in the contract ("Financial Visibility Standards - Acute Care". The Company is also required to spend at most 10% of premiums received related to administrative expenses as defined in the same section of the contract.

Beginning Contract Year Ending ("CYE"2019, there is one profit corridor calculation called the ACC Tiered Reconciliation. AHCCCS reconciles the Contractor's total medical cost expense to the total capitation paid. There is a no payback between 0% and 2% profit, 50% payback corridor between 2% and 6% profit, and all profit above 6% of net settlement revenue must be paid back, making a maximum possible gain of 4% of settlement revenue. Maximum losses are capped at 2%. There is a receivable of $999 recorded for CYE 2019. For CYE 2020 and CYE 2021, we are accruing paybacks of $29,287 and $5,945; both place the plan in the full payback corridor. On October 23, 2020, AHCCCS notified the plans that it would suspend the withhold and quality measures performance incentive for CYE

2020. In conjunction with this decision, the 1% deduction of the alternative payment model ("APM" withhold amount in the AHCCCS Complete Care ("ACC" Tiered Reconcilation was removed which accounted for approximately $7,118 of the payback. These amounts were recorded as a component of other payables to government partners on the Combined Balance Sheets.

Medicare Risk Corridor
At December 31, 2020 and 2019, there was a balance due from/(to CMS of approximately $(2,622 and ($180, respectively, which is recorded as a component of Accounts payable and accrued expenses.

Medicare Minimum Medical Loss Ratio
Beginning in 2014, the Patient Protection and Affordable Care Act, amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the “ACA”, established a minimum medical loss ratio (“MLR” for MA and Part D prescription drug program (“Part D plans”, requiring plans to spend not less than 85% of premiums on medical and pharmacy benefits. The rules implementing the minimum MLR impose financial and other penalties for failing to achieve the minimum MLR, including requirements to refund to CMS shortfalls in amounts spent on medical benefits and termination of a plan’s MA contract for prolonged failure to achieve the minimum MLR. The MLR is determined by adding a plan’s spending for clinical services, prescription drugs and other direct patient benefits, plus its total spending on quality improvement activities and dividing the total by earned premiums (after subtracting specific identified taxes and other fees. As of December 31, 2020 and 2019 there was a payable balance of $2,264 and $3,855, respectively, which is recorded as a component of Accounts payable and accrued expenses.

I. Premium Deficiency Reserve

The Company assesses the profitability of contracts for providing health care services when operating results or forecasts indicate probable future losses. Losses are determined by comparing anticipated premiums to the total of estimated health care related costs, less reinsurance recoveries, if any, and the cost of maintaining the contracts. Losses, if any, would be recognized in the period the loss is determined and classified as health care services expenses. No premium deficiency reserve was recorded at December 31, 2020 or 2019.

J. Premium Revenue and Premiums Receivable

Premium revenues are primarily derived from the Company’s contracts with the State of Arizona and CMS. The premiums received are typically a fixed rate based on a membership category. 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 premiums. 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 in premium revenue.

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 net of uncollectible amounts pursuant to the AHCCCS contract. 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. The Company recorded $23,316 and $27,445 of reinsurance revenues in healthcare services, net for the years ended December 31, 2020 and 2019. The Company recorded $7,074 and $10,779 of reinsurance receivable as of December 31, 2020 and 2019, respectively, which is recorded as a component of prepaid expenses and other on the Combined Balance Sheets.

Prior period coverage 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.

Value Based Purchasing/Alternative Payment Model
Care1st is subject to a recoupment by AHCCCS of 1% of eligible capitation revenue to fund the AHCCCS value based purchasing/alternative payment model initiatives. The purpose of these initiatives are to encourage activity in the area of quality improvement, particularly those initiatives that are conducive to improved health outcomes and cost savings by aligning the incentives of the plan and its providers. Care1st can become eligible for a quality distribution by meeting the criteria established by AHCCCS for a measurement year. On October 23, 2020, AHCCCS notified the plans that it would suspend the withhold and quality measures performance incentive for CYE 2020. In conjunction with this decision, the 1% deduction of the APM withhold amount in the ACC Tiered Reconcilation was removed. Care1st had $2,020 and $3,248 as of December 31, 2020 and 2019, available for recoupment, which is recorded as a component of accounts payable and accrued expenses.

Risk-Adjusted Premiums
CMS provides risk-adjusted payments for MA and PDP plans based on the demographics and health severity of enrollees. The risk-adjusted premiums received are based on claims and encounter data that are submitted to CMS within prescribed deadlines. The Company develops estimates for risk-adjusted premiums utilizing historical experience, or other data, and predictive models as sufficient member risk score data becomes available over the course of each CMS plan year. The Company recognizes periodic changes to risk-adjusted premiums as revenue when the amounts are determinable and collection is reasonably assured, which is possible as additional diagnosis code information is reported to CMS, when the ultimate adjustment settlements are received from CMS, or when notification of such settlement amounts is received. CMS adjusts premiums on two separate occasions on a retrospective basis. The first retrospective adjustment for a given plan year generally occurs during the third quarter of that year. This initial settlement represents the update of risk scores for the current plan year based on the severity of claims incurred in the prior plan year. CMS then issues a final retrospective risk-adjusted premium settlement for that plan year in the following year. Historically, there have not been significant differences between estimates and amounts ultimately received. The data provided to CMS to determine members' risk scores is subject to audit by CMS even after the annual settlements occur. An audit may result in the refund of premiums to CMS. While experience to date has not resulted in a material refund, future refunds could materially reduce net premium revenue in the year in which CMS determines a refund is required. The Company's estimated risk adjusted premiums receivable as of December 31, 2020 and 2019 were $656 and $1,681, respectively, and are recorded as a component of premiums receivable on the Combined Balance Sheets.

K. Health Care Services/Medical Claims Payable

The cost of health care services is recognized in the period in which services are provided and includes an estimate of the cost of services that have been incurred but not yet reported. Such costs include payments to primary care physicians, specialists, hospitals, outpatient care facilities, pharmaceuticals, and other medical services and the costs associated with managing the extent of such care. The Company's health care costs can also include, from time to time, remediation of certain claims as a result of periodic reviews by various regulatory agencies.

The Company estimates the amount of the provision for health care service costs incurred but not reported and the unpaid loss adjustment expenses using standard actuarial methodologies based upon historical data, including the period between the date services are rendered and the date claims are received and paid, denied claim activity, expected medical cost inflation, seasonality patterns, and changes in membership. The estimates for service costs incurred but not reported are made on an accrual basis and adjusted in future periods as required. Any adjustments to the prior period estimates are included in the current period. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amounts of claims and losses paid are dependent on future developments, management is of the opinion that the recorded medical claims payable is adequate to cover such costs.

The Company contracts with various providers, including medical groups, to provide professional care to certain of its enrollees on a capitated or fixed fee per member per month basis. Additionally, the Company also contracts with hospitals, physicians, and other providers of health care, pursuant to discounted fee-for-service arrangements, hospital per diem arrangements, and case rate arrangements, under which providers bill the Company for each individual service provided to enrollees.

Amounts incurred related to prior periods represents the change in medical claims payable attributable to the difference between the original estimate of incurred claims for prior periods and the revised estimate. In developing the revised estimate, there have been no changes in the approach used to determine the key actuarial assumptions, which are the completion factor and medical cost trend. Medical claims payable are estimated under actuarial standards of practice and GAAP. The majority of the medical claims payable balance held at each year-end is associated with the most recent months' incurred services because these are the services for which the fewest claims have been paid. The degree of uncertainty in the estimates of incurred claims is greater for the most recent months' incurred services. Revised estimates for prior periods are determined in each month based on the most recent updates of paid claims for prior periods.

L. Reinsurance

We cede certain premiums and medical benefits to a highly-rated insurance company under a stop loss reinsurance agreement for the Medicare products in order to limit our exposure to catastrophic claims and increase our capacity to write larger risks and maintain our exposure to loss within our capital resources. Reinsurance contracts do not release the Company from its obligation to pay medical claims. We are contingently liable in the event the reinsurance company does not meet its contractual obligations. We evaluate the financial condition of the reinsurance company on a regular basis.

M. Income Taxes

The Company accounts for income taxes using FASB ASC 740, Income Taxes. Under FASB ASC 740, deferred federal and state income taxes are provided on an asset and liability method whereby deferred income tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax bases. Valuation allowances are established when necessary to reduce deferred income tax assets to the extent they are not realizable based on the Company's deductible temporary difference reversals, taxable income in its carryback period, its surplus, and the existence of taxable temporary differences. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the statutory financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. In determining if a deductible temporary difference or net operating loss can be realized, the Company considers future reversals of existing taxable temporary differences, future taxable income, taxable income in prior carryback periods and tax planning strategies.

For the year ended December 31, 2020, the Company filed a consolidated federal income tax return with Centene and its other subsidiaries. In accordance with the group's tax allocation agreement, the subsidiaries reimburse or recover from Centene their portion of the income taxes as calculated on a separate company basis.

The Company's policy is to classify income tax penalties and interest as income tax expense in its financial statements. During the year ended December 31, 2020, the Company incurred no penalties or interest.

The Company evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts.

N. Comprehensive Income

Comprehensive income includes all changes in stockholder's equity (except those arising from transactions with stockholders and includes net income and net unrealized appreciation (depreciation, after tax, on investments available-for-sale.

O. Recently Issued Accounting Pronouncements

In December 2019, the FASB issued an ASU which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740. The ASU also clarifies and amends certain areas of ASC Topic 740 to improve consistent application of and simplify the generally accepted accounting principles within Topic 740. The guidance is effective for annual and interim periods beginning after December 15, 2020. The Company is currently evaluating the potential impact of the ASU on the Company's combined financial position, results of operations and cash flows. The Company has determined that there are no other recently issued accounting pronouncements that will have a material impact on its financial position, results of operations or cash flows.

In June 2016, the FASB issued an ASU, and related amendments, which changes how entities measure credit losses for most financial assets and certain other investments that are not measured at fair value through net income. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The amended guidance requires the measurement of all expected credit losses for financial assets (or groups of financial assets and available-for-sale debt securities held at the reporting date over the remaining life based on historical experience, current conditions, and reasonable and supportable forecasts. The Company adopted the new guidance in 2020. The majority of the Company's receivables and other financial instruments are with government entities and, therefore, the adoption did not have a material impact on its receivables and other financial instruments. The Company evaluated its investment portfolio under the new available-for-sale debt securities impairment model guidance. The vast majority of the Company's investment portfolio are low risk, investment grade securities. The impact of the Company's evaluation of the investment portfolio did not have a material effect on the Company. The Company evaluates available-for-sale debt securities on a regular basis and records an allowance for credit losses, if necessary. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The new guidance did not have a material impact on the Company's combined financial position, results of operations or cash flows.

P. Goodwill and Other Intangible Assets, net

Acquisitions typically result in goodwill, which represents the excess of the acquisition cost over the fair value of net assets acquired. Goodwill is assigned to reporting units, which we determined to be the same as our operating segments. Refer to Note 11, *Goodwill and Other Intangible Assets, Net* for additional discussion.

We test goodwill for impairment at the reporting unit level at least annually, or more frequently if events or changes in circumstances indicate that it would be more likely than not that the fair value of a reporting unit is below its carrying value. Such events or circumstances could include a significant adverse change in business climate, an adverse action or assessment by a regulator, unanticipated competition and the testing for recoverability of a significant asset group within a reporting unit, among others. To determine whether goodwill is impaired, we compare an estimate of the fair value of the applicable reporting unit to its carrying value, including goodwill. If the carrying value exceeds the estimated fair value, we compare the implied fair value of the applicable goodwill to its carrying value to measure the amount of goodwill impairment, if any. We perform our annual goodwill impairment test based on our financial position and results of operations as of June 30 of each year, which generally coincides with the finalization of federal and state contract negotiations and our initial budgeting and planning process. The annual impairment tests are based on an evaluation of estimated future discounted cash flows. The estimated discounted cash flows are based on the best information available to us at the time, including supportable assumptions and projections we believe are reasonable. Our discounted cash flow estimates use discount rates that correspond to a weighted-average cost of capital consistent with a market-participant view. The discount rates are consistent with those used for investment decisions and take into account the operating plans and strategies of our operating segments. Certain other key assumptions utilized, including changes in membership, premium, health care costs, operating expenses, fees, assessments and taxes and effective tax rates, are based on estimates consistent with those utilized in our annual budgeting and planning process that we believe are reasonable. However, if we do not achieve the results reflected in the assumptions and estimates, our goodwill impairment evaluations could be adversely affected, and we may impair a portion of our goodwill, which would adversely affect our operating results in the period of impairment. Impairments, if any, would be classified as an operating expense. Based on the results of our annual impairment testing in 2020 and 2019, we determined that the fair value of each reporting unit substantially exceeded its carrying value and no further goodwill impairment assessment was necessary.

Other intangible assets resulting from our acquisitions include member contracts and provider contracts. We amortize other intangible assets over their estimated useful lives ranging from approximately one to 15 years. These assets are allocated to reporting units for impairment testing purposes. We review our other intangible assets for impairment when events or changes in circumstances occur, which may potentially affect the estimated useful life or recoverability of the remaining balances of our intangible assets. Such events and changes in circumstances would include significant changes in membership, state funding, federal and state government contracts and provider networks. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to current forecasts of undiscounted future net cash flows expected to be generated by the assets. Identifiable cash flows are measured at the lowest level for which they are largely independent of the cash flows of other groups of assets and liabilities. If these assets are determined to be impaired, the amount of impairment recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. During 2020 and 2019, no events or circumstances have occurred, which may potentially affect the estimated useful life or recoverability of the remaining balances of our other intangible assets. Accordingly, there were no impairment losses recognized during these periods.

Q. Medicaid Premium Taxes

The Company is subject to a 2% premium tax on all Title XIX/XXI payments received from AHCCCS for premiums, reinsurance and reconciliations. Total premium tax expense for the year ended December 31, 2020 and 2019 was $15,190 and $14,054.

R. Reserves for Contingent Liabilities

In the course of the Company's operations, the Company is involved on a routine basis in various disputes with members, health care providers, and other entities, as well as audits by government agencies and elected officials that relate to the Company's services and/or business practices that expose the Company to potential losses.

The Company recognizes an estimated loss, which may represent damages, assessment of regulatory fines or penalties, settlement costs, future legal expenses, or a combination of the foregoing, as appropriate, from such loss contingencies when it is both probable that a loss will be incurred and that the amount of the loss can be reasonably estimated. The Company's loss estimates are based in part on an analysis of potential results, the stage of the proceedings, consultation with outside counsel, and any other relevant information available.

S. Investments

Short-term investments include securities with maturities greater than three months to one year. Long-term investments include securities with maturities greater than one year.

Investments, which consist of debt securities are classified, and accounted for, as available-for-sale investments. Government, corporate and asset-backed bonds, notes, and certificates are classified as available-for-sale when the Company anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments, and other market and economic factors. Unrealized gains and losses on available-for-sale investments are recognized as direct increases or decreases in other comprehensive income. For the year ended December 31, 2020 and 2019, the Company recognized $2,385 and $(597 of unrealized gains(losses, net of tax effect, on available-for-sale investments which have been recorded in the accompanying combined statement of comprehensive income. Cost of investments sold is recognized using the specific identification method.

Investment securities in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near term could materially affect account balances and the amounts reported in the accompanying financial statements.

The Company evaluates available-for-sale debt securities on a regular basis and records an allowance for credit losses, if necessary. The Company recognizes an allowance when evidence demonstrates that the decline in fair value is credit related.

T. Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents and receivables from AHCCCS, primarily including capitation and supplement receivables, reinsurance receivables and reconciliation receivables. All cash equivalents are managed within established guidelines, which provide diversity among issuers. Concentration of credit risk with respect to the receivables from AHCCCS is high due to the single payer comprising the Company's customer base. However, since the single payer is the state government, the risk is mitigated. The receivables from providers are due from many providers such that a risk of concentration is not considered to be material.

($ IN THOUSANDS

Substantially all of the Company's revenue is earned in Arizona from its contracts with AHCCCS. Failure to renew these contracts would have a significant impact on the Company's operations.

U. Health Insurer Fee (HIF)

The Company is subject to the annual industry fee under section 9010 of the ACA. The industry fee is being levied on certain health insurers that provide insurance in the assessment year and is allocated to health insurers based on each health insurer's share of net premiums for all U.S. health insurers in the year preceding the assessment. A moratorium suspended the HIF for the 2019 calendar year. The Company incurred health insurer fee of $14,382 and $0, for the years ended December 31, 2020 and 2019, respectively. The HIF has been repealed beginning in 2021.

NOTE 3 - INVESTMENTS

Investments have been classified as available-for-sale according to management's intent. The amortized cost of investments and their approximate fair values at December 31, 2020 and 2019 are as follows:

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government	$ 7,220	$ 400	$ —	$ 7,620
Asset-backed	39,329	692	(120)	39,901
Mortgage-backed	59,193	1,741	(546)	60,388
Municipal bonds	1,745	1	(2)	1,744
Corporate bonds	24,676	203	(9)	24,870
Total	$ 132,163	$ 3,037	$ (677)	$ 134,523

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government	$ 9,234	$ 2	$ (122)	$ 9,114
Asset-backed	53,100	91	(212)	52,979
Mortgage-backed	74,251	111	(626)	73,736
Corporate bonds	—	—	—	—
Municipal bonds	—	—	—	—
Total	$ 136,585	$ 204	$ (960)	$ 135,829

($ IN THOUSANDS)

The following is a summary of maturities of available-for-sale investments as of December 31, 2020:

	At December 31, 2020	
	Amortized cost	Estimated fair value
Due in one year or less	$ 3,702	$ 3,747
Due after one year through five years	22,944	23,402
Due after five years through ten years	40,258	41,432
Due after ten years	65,259	65,942
Total	$ 132,163	$ 134,523

For each security in an unrealized position, the Company assesses whether it intends to sell the security or if it is more likely than not the Company will be required to sell the security before recovery of the amortized-cost basis for reasons such as liquidity, contractual, or regulatory purposes. If the security meets this criterion, the decline in fair value is recorded in earnings. The Company does not intend to sell these securities prior to maturity and it is not likely that the Company will be required to sell these securities prior to maturity, therefore, the Company did not record an impairment for these securities.

In addition, the Company monitors available-for-sale debt securities for credit losses. Certain investments have experienced a decline in fair value due to changes in credit quality, market interest rates and/or general economic conditions. The Company recognizes an allowance when evidence demonstrates that the decline in fair value is credit related. Evidence of a credit related loss may include rating agency actions, adverse conditions specifically related to the security, or failure of the issuer of the security to make scheduled payments.

The fair value of available-for-sale investments with gross unrealized losses by investment type and length of time that individual securities have been in a continuous unrealized loss position were as follows as of December 31, 2020 and 2019:

	December 31, 2020					
	Decline for Less Than 12 Months			Decline for Greater than 12 Months		
	Amortized Cost	Fair Value	Difference	Amortized Cost	Fair Value	Difference
Government	$ —	$ —	$ —	$ —	$ —	$ —
Asset-backed	8,845	8,725	120	—	—	—
Mortgage-backed	13,688	13,142	546	—	—	—
Municipal bonds	1,124	1,123	2	—	—	—
Corporate bonds	5,382	5,373	9	—	—	—
Total	$ 29,039	$ 28,363	$ 677	$ —	$ —	$ —

($ IN THOUSANDS)

	December 31, 2019					
	Decline for Less Than 12 Months			Decline for Greater than 12 Months		
	Amortized Cost	Fair Value	Difference	Amortized Cost	Fair Value	Difference
Government	$ 6,544	$ 6,422	$ 122	$ —	$ —	$ —
Asset-backed	26,095	25,884	212	—	—	—
Mortgage-backed	50,067	49,441	626	—	—	—
Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Total	$ 82,706	$ 81,747	$ 960	$ —	$ —	$ —

Proceeds from investments sold, matured, or repaid during 2020 and 2019 were $34,037 and $40,633, respectively. The net realized gains (losses) on the sale of investments for the years ended December 31, 2020 and 2019 were $74 and $167, respectively.

Net investment income for the years ended December 31, 2020 and 2019 were $3,053 and $5,514, respectively.

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

	2020	2019
Property and equipment		
Furniture and fixtures	$ 195	$ 195
Computer and office equipment	992	1,007
Leasehold improvements	40	40
	1,227	1,242
Accumulated depreciation	(1,109)	(1,012)
Property and equipment, net	$ 118	$ 230

The Company recognized depreciation expense of $112 and $247 for the years ended December 31, 2020 and 2019, respectively.

NOTE 5 – REGULATORY REQUIREMENTS

On a quarterly basis, AHCCCS will review the following ratios with the purpose of monitoring the financial health of the Company: Current Ratio of at least 1.0; Medical Loss Ratio of at least 85%; Administrative Cost Percentage no greater than 10%; and Equity per member of $150 (equity per member figures are not rounded to thousands) for CYE2019, $200 for CYE2020, and $250 for CYE2021 and thereafter. Once the $250 equity per member is attained, the Company must maintain compliance with that through the remainder of the contract term. The Company is in compliance with all four ratios for fiscal years 2020 and 2019. AHCCCS may elect to impose sanctions and penalties, the impact of which may be material to the combined financial statements if the plan does not meet these standards.

On March 1, 2017, the Company executed two Surety Bond contracts to perform services related to the Company's health plan contracts with AHCCCS for both its Care1st and One Care entities. The Surety Bond executed by Care1st in the amount of $63,000 was set to expire on September 30, 2019. On August 13, 2019, the $63,000 bond was renewed through September 30, 2020. On August 19, 2020 the amount was increased to $70,000 and renewed through September 30, 2021. The Surety Bond executed by One Care, for the amount of $2,500, was renewed through December 31, 2019. In August 2019, the bond increased to $3,500. On November 15, 2019, the bond was increased to $4,000 and renewed through December 31, 2020. As of December 31, 2020 and 2019, $5 has been recorded as a restricted regulatory deposit held by the Arizona State Treasurer as security for performance of obligations under the third party administrator's ("TPA") license with the Arizona Department of Insurance.

NOTE 6 - FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, establishes a common definition for fair value under US GAAP and expands disclosures about such fair value measurements. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values.

FASB ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

The following table summarizes the valuation of the Company's assets subject to recurring fair value measurement by the above FASB ASC 820 categories as of December 31, 2020 and 2019:

($ IN THOUSANDS)

	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 71,422	$ —	$ —	$ 71,422
Government bonds	7,620	—	—	7,620
Asset-backed	—	39,901	—	39,901
Mortgage-backed	—	60,388	—	60,388
Municipal bonds	—	1,744	—	1,744
Corporate bonds	—	24,870	—	24,870
Total assets at fair value	$ 79,042	$ 126,903	$ —	$ 205,945

	As of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 40,498	$ —	$ —	$ 40,498
Government bonds	9,114	—	—	9,114
Asset-backed	—	52,979	—	52,979
Mortgage-backed	—	73,736	—	73,736
Total assets at fair value	$ 49,612	$ 126,715	$ —	$ 176,327

The Company utilizes matrix pricing services to estimate fair value for securities which are not actively traded on the measurement date. The Company designates these securities as Level II fair value measurements.

($ IN THOUSANDS)

NOTE 7 – UNPAID CLAIMS

The following table summarizes the change in medical claims liability:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Gross claims payable balance at January 1,	$ 82,816	$ 78,857
Reinsurance Recoverable	(10,779)	(6,942)
Balance at January 1, net	72,037	71,915
Incurred related to current year	672,562	672,086
Incurred related to prior years	(11,968)	(14,819)
Total incurred	660,594	657,267
Paid related to current year	(601,789)	(600,289)
Paid related to prior years	(58,705)	(56,856)
Total paid	(660,494)	(657,145)
Balance at December 31, net	$ 72,137	$ 72,037
Reinsurance Recoverable at December 31,	7,074	10,779
Gross claims payable balance at December 31,	$ 79,211	$ 82,816

The incurred amounts related to prior years represent the variation between the Company’s estimated expense for prior years’ claims and the actual amounts required to satisfy such claims. During 2020 and 2019, the Company experienced approximately $11,968 of favorable development and $14,819 of favorable development, respectively.

Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions. Changes in medical utilization and cost trends and the effect of medical management initiatives may also contribute to changes in medical claim liability estimates. Management believes that the amount of medical claims liability is reasonable and adequate to cover the Company’s liability for unpaid claims as of December 31, 2020 and 2019.

Incurred claims and allocated claim adjustment expenses, total IBNR plus expected development on reported claims and cumulative claims data as of December 31, 2020 are included in the following table. For claims frequency information summarized below, a claim is defined as the financial settlement of a single medical event in which remuneration was paid to the servicing provider. Total IBNR plus the expected development on reported claims represents estimates for claims incurred but not reported, development on reported claims, and estimates for the costs necessary to process unpaid claims at the end of each period. The Company estimates its liability using actuarial methods that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. These actuarial methods consider factors such as historical data for payment patterns, cost trends, product mix, seasonality, utilization of healthcare services and other relevant factors.

($ IN THOUSANDS)

The following tables provide information about incurred and paid claims development as of December 31, 2020, net of reinsurance.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				As of December 31, 2020	
	Incurred amount				
Incurred Year	2018 (unaudited)	2019 (unaudited)	2020	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2018	$ 482,804	$ 468,538	$ 467,199	$ —	34,623
2019		672,086	661,457	1,364	1,722,186
2020			672,562	70,773	6,534,272
			$ 1,801,218		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			
Incurred Year	2018 (unaudited)	2019 (unaudited)	2020
2018	$ (410,890)	$ (468,299)	$ (467,199)
2019		(600,289)	(660,093)
2020			(601,789)
			$ (1,729,081)
Liabilities for claims and claim adjustment expenses, net of reinsurance			$ 72,137

NOTE 8 - INCOME TAXES

The income tax provision consisted of the following components for the years ended December 31, 2020 and 2019:

	Year Ended December 31, 2020	2019
Current		
Federal	$ 11,042	$ 8,810
State	899	—
Total current provision (benefit)	11,941	8,810
Deferred		
Federal	(521)	(345)
State	(117)	80
Total deferred (benefit) provision	(638)	(265)
Total provision (benefit) for income taxes	$ 11,303	$ 8,545

The reconciliation of the tax provision at the U.S. Federal Statutory Rate to the provision for income taxes includes state income taxes, ACA health insurer fee, tax exempt interest and other items.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities include loss reserves, intangible assets, net unrealized gain on investments, allowance, and other items for the years ended December 31, 2020 and December 31, 2019. Gross deferred tax assets totaled $1,558 and $1,084 at December 31, 2020 and 2019, respectively, and gross deferred tax liabilities totaled $660 and $92 at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, the Company had no operating loss or tax credit carryforwards available for tax purposes.

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. The realization of the deferred tax asset is dependent upon the Company's ability to generate sufficient taxable income in future periods. Based on historical results and the prospects for current operations, management anticipates that it is more likely than not that future taxable income will be sufficient for the realization the remaining deferred tax assets.

The Company maintains a reserve for uncertain tax positions that may be challenged by a tax authority. The Company's total liability for uncertain tax positions totaled $738 and $0 for the years ended December 31, 2020 and 2019, respectively. The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date. Related interest and penalties are treated as income tax expense under the Company's accounting policy. The total amount of interest and penalties, net of related tax benefits, recognized in the combined statements of operations for the periods ended December 31, 2020 and 2019 is $0 and $0, respectively. The total amount of interest and penalties, net of related tax benefits, recognized in the combined statements of financial position at December 31, 2020 and 2019 is $0 and $0, respectively.

The Company's federal income tax return is consolidated with Centene and its affiliates.

The method of allocation among companies is subject to a written agreement whereby allocation is made primarily on a separate company basis using the percentage method pursuant to provisions of IRC Sections §1502 and §1552 and Treasury Regulations §1.1502 and §1.1552. This percentage method allocates a tax asset (i.e., intercompany receivable) for any benefit derived by the consolidated group for the member's losses or credits that offset consolidated taxable income. In accordance with the tax sharing agreement, each member shall pay to Parent or receive from the Parent the amount of tax liability or benefit reported on each member's proforma federal income tax return within 90 days of the date Parent files its consolidated federal income tax return.

NOTE 9 - RELATED PARTY TRANSACTIONS

Dividends

In 2020, One Care paid a $6,000 extraordinary cash dividend to The WellCare Management Group, Inc. ("WCMG"). In 2019, One Care paid a $5,000 extraordinary cash dividend to its Parent Company, WCMG. Both dividends received approval from AHCCCS prior to payment of the dividend.

During 2020 and 2019, the Company incurred approximately $74,884 and $60,921, respectively, for services under the management agreement with Comprehensive Health Mgmt, Inc., which are included in general administrative expenses in the accompanying Combined Statements of Income.

The Company's amounts due (to) from related parties are as follows for the years ended December 31:

($ IN THOUSANDS)

Affiliate	Amounts due (to) from 2020	2019
Comprehensive Health Mgmt, Inc	$ (3,175)	$ 411
Centene Management Company LLC	(999)	—
Total	$ (4,174)	$ 411

NOTE 10 - COMMITMENTS AND CONTINGENCIES

From time to time, the Company may be involved in litigation arising in the ordinary course of operations. While the results of litigation cannot be predicted with certainty, management is of the opinion, after reviewing these matters with legal counsel, that the final outcome of such litigation, if any, will not have a material adverse effect on the Company's financial position.

Healthcare Regulation
The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse laws and regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

NOTE 11 – GOODWILL AND OTHER INTANGIBLE ASSETS, NET

On May 1, 2017, Care1st completed the acquisition of certain assets, including Arizona Medicaid membership and certain provider contracts, from Phoenix Health Plan. The transaction resulted in $8,330 of goodwill and $4,600 of other intangible assets for Medicaid business. At December 31, 2020 and 2019, the gross and net carrying amount of goodwill was $8,330. The table below provides additional information related to the amortization of intangibles.

	As of December 31, 2020			
	Weighted Average Amortization Period (In Years)	Gross Carrying Amount	Accumulated Amortization	Other Intangibles, Net
Membership contracts	7	$ 4,400	$ (2,302)	$ 2,098
Provider contracts	5	$ 200	$ (149)	$ 51
Total other intangible assets		$ 4,600	$ (2,451)	$ 2,149

($ IN THOUSANDS)

	As of December 31, 2019			
	Weighted Average Amortization Period (In Years)	Gross Carrying Amount	Accumulated Amortization	Other Intangibles, Net
Membership contracts	7	$ 4,400	$ (1,679)	$ 2,721
Provider contracts	5	$ 200	$ (104)	$ 96
Total other intangible assets		$ 4,600	$ (1,783)	$ 2,817

NOTE 12 - RISKS AND UNCERTAINTIES

The Company's profitability depends in large part on accurately predicting and effectively managing medical service costs. The Company continually reviews its premium and benefit structure to reflect its underlying claims experience and revised actuarial data; however, several factors could adversely affect the medical service costs. Certain of these factors, which include changes in healthcare practices, inflation, new technologies, major epidemics, natural disasters, and malpractice litigation, are beyond any health plan's control and could adversely affect the Company's ability to accurately predict and effectively control healthcare costs. Costs in excess of those anticipated could have a material adverse effect on the Company's results of operations.

The Company is monitoring the current COVID-19 pandemic. Due to market volatility and economic measures taken to contain the virus, there may be impact to our operations and financial position, however we are unable to estimate those impacts, if any, at this time.

NOTE 13 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events for potential recognition and/or disclosure through August 12, 2021, the date the combined financial statements are available to be issued.

Supplemental Detailed Balance Sheet As of December 31, 2020

ASSETS	Care1st	Care1st Administrative Services	Eliminations	Consolidated Care1st	One Care	The Company
Current assets						
Cash and cash equivalents	$ 65,809	$ —	$ —	$ 65,809	$ 5,608	$ 71,417
Investments	14,084	—	—	14,084	—	14,084
Income tax receivable	—	1	—	1	—	1
Premiums receivable	9,413	—	—	9,413	1,816	11,229
Other receivables from government partners	1,226	—	—	1,226	—	1,226
Due from affiliates	—	399	(399)	—	—	—
Prepaid expenses and other	10,306	—	—	10,306	1,759	12,065
Total current assets	100,838	400	(399)	100,839	9,183	110,022
Noncurrent assets						
Restricted deposits	—	5	—	5	—	5
Investments - Long Term	109,280	—	—	109,280	11,159	120,439
Investment in subsidiaries	405	—	(405)	—	—	—
Deferred tax assets	799	—	—	799	99	898
Property and equipment, net	118	—	—	118	—	118
Goodwill	8,330	—	—	8,330	—	8,330
Other intangibles, net	2,149	—	—	2,149	—	2,149
Total assets	$ 221,919	$ 405	$ (804)	$ 221,520	$ 20,441	$ 241,961

See preceding combined financial statements and auditors' report

Supplemental Detailed Balance Sheet As of December 31, 2020

LIABILITIES AND STOCKHOLDER'S EQUITY	**Care1st**	**Care1st Administrative Services**	**Eliminations**	**Consolidated Care1st**	**One Care**	**The Company**
Current liabilities						
Total medical claims payable	$ 72,763	$ —	$ —	$ 72,763	$ 6,448	$ 79,211
Due to affiliates	3,037	—	(399)	2,638	1,536	4,174
Income taxes payable	2,050	—	—	2,050	288	2,338
Accounts payable and accrued expenses	12,080	—	—	12,080	6,348	18,428
Total current liabilities	89,930	—	(399)	89,531	14,620	104,151
Long-term liabilities						
Other long-term liabilities	701	—	—	701	37	738
Other payables to government partners	35,555	—	—	35,555	—	35,555
Total long-term liabilities	36,256	—	—	36,256	37	36,293
Additional paid-in capital	(386)	—	—	(386)	13,000	12,614
Retained earnings (deficit)	96,119	405	(405)	96,119	(7,216)	88,903
Total stockholder's equity	95,733	405	(405)	95,733	5,784	101,517
Total liabilities and stockholder's equity	$ 221,919	$ 405	$ (804)	$ 221,520	$ 20,441	$ 241,961

See preceding combined financial statements and auditors' report

Supplemental Detailed Balance Sheet As of December 31, 2019

ASSETS	**AHCCCS**	**DDD**	**Corporate and Other**	**Total Care1st**	**Care1st Administrative Services**	**Eliminations**	**Consolidated Care1st**	**One Care**	**The Company**
Current assets									
Cash and cash equivalents	$ 20,408	$ 2,160	$ —	$ 22,568	$ 1,761	$ —	$ 24,329	$ 16,164	$ 40,493
Investments	12,741	—	—	12,741	—	—	12,741	—	12,741
Income tax receivable	1,778	—	—	1,778	—	—	1,778	282	2,060
Other receivables from government partners	1,219	—	—	1,219	—	—	1,219	—	1,219
Due from affiliates	(447)	1,974	—	1,527	—	(1,253)	274	137	411
Premiums receivable	—	—	—	—	—	—	—	1,886	1,886
Prepaid expenses and other	17,262	109	—	17,371	—	—	17,371	520	17,891
Total current assets	52,961	4,243	—	57,204	1,761	(1,253)	57,712	18,989	76,701
Noncurrent assets									
Restricted deposits	—	—	—	—	5	—	5	—	5
Investments - Long Term	123,088	—	—	123,088	—	—	123,088	—	123,088
Investment in subsidiaries	—	—	405	405	—	(405)	—	—	—
Deferred tax assets	814	—	—	814	—	—	814	178	992
Property and equipment, net	230	—	—	230	—	—	230	—	230
Goodwill	8,330	—	—	8,330	—	—	8,330	—	8,330
Other intangibles, net	2,817	—	—	2,817	—	—	2,817	—	2,817
Total assets	$ 188,240	$ 4,243	$ 405	$ 192,888	$ 1,766	$ (1,658)	$ 192,996	$ 19,167	$ 212,163

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Supplemental Detailed Balance Sheet As of December 31, 2019

LIABILITIES AND STOCKHOLDER'S EQUITY	AHCCCS	DDD	Corporate and Other	Total Care1st	Care1st Administrative Services	Eliminations	Consolidated Care1st	One Care	The Company
Current liabilities									
Total medical claims payable	$ 76,214	$ 541	$ —	$ 76,755	$ —	$ —	$ 76,755	$ 6,061	$ 82,816
Income taxes payable	—	—	—	—	1	—	1	—	1
Accounts payable and accrued expenses	7,461	116	—	7,577	107	—	7,684	2,445	10,129
Total current liabilities	83,675	657	—	84,332	1,361	(1,253)	84,440	8,506	92,946
Long-term liabilities									
Other payables to government partners	35,284	—	—	35,284	—	—	35,284	4,035	39,319
Additional paid-in capital	1,347	(5,500)	3,767	(386)	—	—	(386)	13,000	12,614
Retained earnings (deficit)	67,934	9,086	(3,362)	73,658	405	(405)	73,658	(6,374)	67,284
Total stockholder's equity	69,281	3,586	405	73,272	405	(405)	73,272	6,626	79,898
Total liabilities and stockholder's equity	$ 188,240	$ 4,243	$ 405	$ 192,888	$ 1,766	$ (1,658)	$ 192,996	$ 19,167	$ 212,163

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Supplemental Income Statement For the Year Ended December 31, 2020

	Care1st	Care1st Administrative Services	Eliminations	Consolidated Care1st	One Care	The Company
Revenue						
Total premium revenue, net	$ 757,338	$ —	$ —	$ 757,338	$ 47,709	$ 805,047
Operating Expenses						
Total healthcare services, net	624,640	—	—	624,640	35,954	660,594
Selling, general and administrative expenses	76,546	—	—	76,546	4,071	80,617
Depreciation and amortization expense	780	—	—	780	—	780
Premium tax expense	15,190	—	—	15,190	—	15,190
ACA fee expense	13,643	—	—	13,643	739	14,382
Total expenses	730,799	—	—	730,799	40,764	771,563
Income from operations	26,539	—	—	26,539	6,945	33,484
Net investment income	3,064	—	—	3,064	(11)	3,053
Income (loss) before income taxes	29,603	—	—	29,603	6,934	36,537
Income tax expense	9,541	—	—	9,541	1,762	11,303
Net income (loss)	$ 20,062	$ —	$ —	$ 20,062	$ 5,172	$ 25,234

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Supplemental Income Statement For the Year Ended December 31, 2019

	AHCCCS	DDD	Corporate and Other	Total Care1st	Care1st Administrative Services	Eliminations	Consolidated Care1st	One Care	The Company
Revenue									
Total premium revenue, net	$ 726,883	$ 4,630	$ —	$ 731,513	$ —	$ —	$ 731,513	$ 39,908	$ 771,421
Operating Expenses									
Total healthcare services, net	624,076	4,903	—	628,979	—	—	628,979	28,288	657,267
Selling, general and administrative expenses	60,923	285	—	61,208	—	—	61,208	3,325	64,533
Depreciation and amortization expense	902	14	—	916	—	—	916	—	916
Premium tax expense	14,054	—	—	14,054	—	—	14,054	—	14,054
Total expenses	699,955	5,202	—	705,157	—	—	705,157	31,613	736,770
Income from operations	26,928	(572)	—	26,356	—	—	26,356	8,295	34,651
Net investment income	5,440	—	—	5,440	—	—	5,440	74	5,514
Income (loss) before income taxes	32,368	(572)	—	31,796	—	—	31,796	8,369	40,165
Income tax expense	6,621	186	—	6,807	—	—	6,807	1,738	8,545
Net income (loss)	$ 25,747	$ (758)	$ —	$ 24,989	$ —	$ —	$ 24,989	$ 6,631	$ 31,620

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