HEALTH NET ACCESS, INC. D/B/A ARIZONA COMPLETE HEALTH – COMPLETE CARE PLAN

Financial Statements and Supplemental Information

Years Ended December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

HEALTH NET ACCESS, INC. D/B/A
ARIZONA COMPLETE HEALTH – COMPLETE CARE PLAN

Financial Statements, Supplemental Information, Additional Information,
And Uniform Guidance Supplementary Reports

Years ended December 31, 2021 and 2020

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KPMG LLP
Suite 900
10 South Broadway
St. Louis, MO 63102-1761

Independent Auditors' Report

The Board of Directors and Stockholder
Health Net Access, Inc. d/b/a Arizona Complete Health - Complete Care Plan:

Opinion

We have audited the financial statements of Health Net Access, Inc. d/b/a Arizona Complete Health - Complete Care Plan the (Company), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, comprehensive income (loss), stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of theCompany as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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, 2020 and prior on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in Schedule 1 – Contract Balance Sheet – December 31, 2021, Schedule 2 – Contract Statement of Operations – Year Ended December 31, 2021, Schedule 3 – Contract Balance Sheet – December 31, 2020 and Schedule 4 – Contract Statement of Operations – 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2022 on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with Government Auditing Standards in considering the Company's internal control over financial reporting and compliance.

KPMG LLP

St. Louis, Missouri
May 23, 2022

HEALTH NET ACCESS, INC. d/b/a
ARIZONA COMPLETE HEALTH – COMPLETE CARE PLAN
(A Wholly Owned Subsidiary of Centene Corporation)

Balance Sheets

December 31, 2021 and 2020

Assets		**2021**	**2020**
Current assets:			
Cash and cash equivalents	$	380,950,161	179,945,008
Capitation and supplement receivables		21,502,303	37,039,243
Reinsurance receivables		11,465,354	15,817,293
Provider receivables		29,367,881	60,442,496
Pharmacy receivables		1,079,193	1,696,570
Short-term investments		7,424,176	7,234,688
Income taxes receivable		3,207,582	—
Amounts due from affiliates		12,273,626	3,647,720
Prepaid expenses and other current assets		5,080,803	973,094
Total current assets		472,351,079	306,796,112
Long-term investments		77,599,009	69,483,562
Net deferred tax asset		21,943,212	1,026,371
Total assets	$	571,893,300	377,306,045
Liabilities and Stockholder's Equity			
Current liabilities:			
Medical claims payable	$	194,486,472	160,349,009
Reconciliation payables		59,105,166	18,044,403
Amounts due to affiliates		3,613,042	12,358,326
Payables to providers		16,297,472	12,520,987
Alternative payment model liability		2,745,991	1,230,613
Income taxes payable		81,135	1,537,990
Other current liabilities		7,490,184	8,286,373
Total current liabilities		283,819,462	214,327,701
Reconciliation payables		106,408,176	49,032,811
Alternative payment model liability		1,066,736	558,049
Other long-term liabilities		1,106,127	1,045,018
Total liabilities		392,400,501	264,963,579
Stockholder's equity:			
Common stock (no par value, 100 shares authorized, issued, and outstanding)		—	—
Additional paid-in capital		143,056,731	118,056,731
Retained earnings (deficit)		34,957,029	(8,609,383)
Accumulated other comprehensive income		1,479,039	2,895,118
Total stockholder's equity		179,492,799	112,342,466
Total liabilities and stockholder's equity	$	571,893,300	377,306,045

See accompanying notes to financial statements.

HEALTH NET ACCESS, INC. d/b/a
ARIZONA COMPLETE HEALTH – COMPLETE CARE PLAN
(A Wholly Owned Subsidiary of Centene Corporation)

Statements of Operations

Years ended December 31, 2021 and 2020

	2021	2020
Revenue:		
Capitation premiums	$ 1,607,269,963	1,283,677,933
Other revenue	47,908,203	48,341,014
Health insurer provider fee	—	30,623,005
Delivery supplement	33,971,803	27,340,288
Total revenue	1,689,149,969	1,389,982,240
Expenses:		
Health care services	1,504,954,922	1,186,378,432
Less reinsurance recoveries	(39,215,338)	(20,517,259)
Total health care services, net of reinsurance recoveries	1,465,739,584	1,165,861,173
Premium tax expense	36,031,152	29,336,714
Health insurer provider fee	—	23,708,331
Administrative	158,121,530	129,090,427
Interest	1,159,843	5,398,422
Total operating expenses	1,661,052,109	1,353,395,067
Income (loss) from operations	28,097,860	36,587,173
Investment income, net	2,064,624	2,643,601
Income (loss) before income tax expense/(benefit)	30,162,484	39,230,774
Income tax expense/(benefit)	(13,403,928)	14,072,603
Net income (loss)	$ 43,566,412	25,158,171

See accompanying notes to financial statements.

HEALTH NET ACCESS, INC. d/b/a
ARIZONA COMPLETE HEALTH – COMPLETE CARE PLAN
(A Wholly Owned Subsidiary of Centene Corporation)

Statements of Comprehensive Income

Years ended December 31, 2021 and 2020

		2021	2020
Net income (loss)	$	43,566,412	25,158,171
Unrealized gain (loss) on available-for-sale investments, net of tax		(1,416,079)	1,366,221
Comprehensive income	$	42,150,333	26,524,392

See accompanying notes to financial statements.

HEALTH NET ACCESS, INC. d/b/a
ARIZONA COMPLETE HEALTH – COMPLETE CARE PLAN
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Statements of Stockholder’s Equity

Years ended December 31, 2021 and 2020

	Common stock	Additional paid-in capital	Accumulated other comprehensive (loss) income	Retained earnings (deficit)	Total stockholder’s equity
Balance, December 31, 2019	$ —	99,500,000	1,528,897	(33,767,554)	67,261,343
Comprehensive income:					
Contributed capital	—	18,556,731	—	—	18,556,731
Net income (loss)	—	—	—	25,158,171	25,158,171
Change in unrealized gain on investments, net of tax	—	—	1,366,221	—	1,366,221
Balance, December 31, 2020	—	118,056,731	2,895,118	(8,609,383)	112,342,466
Comprehensive income:					
Contributed capital	—	25,000,000	—	—	25,000,000
Net income (loss)	—	—	—	43,566,412	43,566,412
Change in unrealized gain on investments, net of tax	—	—	(1,416,079)	—	(1,416,079)
Balance, December 31, 2021	$ —	143,056,731	1,479,039	34,957,029	179,492,799

See accompanying notes to financial statements.

HEALTH NET ACCESS, INC. d/b/a
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Statements of Cash Flows

Years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Net income (loss)	$ 43,566,412	25,158,171
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Capitation and supplement receivables	15,536,941	(28,796,914)
Reinsurance receivables	4,351,939	1,651,367
Reconciliation payables	41,060,763	59,033,011
Provider receivables	31,074,615	11,783,124
Pharmacy receivables	617,377	(239,692)
Income taxes receivable from affiliate	31,794,087	2,457,636
Prepaid expenses and other current assets	(4,107,709)	218,605
Due to/from affiliates	(17,371,190)	24,589,353
Medical claims payable	34,137,463	(11,944,407)
Payable to providers	4,285,172	7,615,016
Other current liabilities	(796,189)	2,719,831
Alternative payment model liability	1,576,487	(359,781)
Net cash provided by / (used in) operating activities	185,726,168	93,885,320
Cash flows from investing activities:		
Purchases of investments	(25,166,044)	(10,522,017)
Proceeds from investments	15,445,029	15,408,386
Net cash provided by / (used in) investing activities	(9,721,015)	4,886,369
Cash flows from financing activities:		
Contributed capital proceeds	25,000,000	18,556,731
Net cash provided by financing activities	25,000,000	18,556,731
Net change in cash and cash equivalents	201,005,153	117,328,420
Cash and cash equivalents, beginning of period	179,945,008	62,616,588
Cash and cash equivalents, end of period	$ 380,950,161	179,945,008
Supplemental disclosure of cash flow information:		
Income taxes paid (received)	$ 11,687,004	12,033,239

See accompanying notes to financial statements.

(1) Company, Operations, and Significant Accounting Policies

(a) Nature of Operations

Health Net Access, Inc. dba Arizona Complete Health – Complete Care Plan (the “Company” or the “Plan”) was incorporated in Arizona on April 23, 2013, and commenced operations on October 1, 2013. The Company is a wholly-owned subsidiary of Health Net, Inc. (“HNI” or “Parent”). HNI is a wholly-owned subsidiary of Centene Corporation (“Centene”).

The Company is regulated by the Arizona Health Care Cost Containment System (“AHCCCS”), Arizona’s Medicaid program. AHCCCS is approved by the Secretary of Health and Human Services and the Centers for Medicare and Medicaid Services, as a Section 1115 of the Social Security Act, Waiver Demonstration Program, which gives Arizona additional flexibility to design and improve its program, while still receiving Federal Medicaid funding.

Effective October 1, 2013, the Company became a contractor for AHCCCS, by entering into a prepaid capitated contract, pursuant to Arizona Revised Statutes Title 36 Chapter 29, and thereby started to administer acute health care services to qualified Medicaid members in Maricopa County, Arizona, in accordance with AHCCCS statute and rules, and federal law and regulations.

In March 2018, the Company was selected to provide physical and behavioral healthcare services through the AHCCCS Complete Care program in the Central and Southern regions of Arizona. The AHCCCS Complete Care program integrates physical and behavioral health care contracts under managed care plans for the majority of the AHCCCS members. The integrated delivery model offers a more cohesive health care system for members incentivizing quality health care outcomes with value based purchasing, and leverages health information technology for improved care coordination. The Company began administering the AHCCCS Complete Care contract on October 1, 2018. The contract was a three-year agreement, with the possibility of 2 two-year extensions. On August 27, 2021, the Company was granted a two-year extension (October 1, 2021 to September 30, 2023) to continue administering the AHCCCS Complete Care contract.

Effective October 1, 2018, Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care (“Cenpatico”), a related party under common control, received approval from AHCCCS to assign the remaining term of the Southern Arizona Regional Behavioral Health Authority (“RBHA”) contract to the Company. The Company began administering the Cenpatico RBHA contract on October 1, 2018. Under the RBHA contract, the Company is responsible for managing and maintaining an organized, comprehensive integrated healthcare delivery system for the benefit of eligible members within its geographic service area through September 30, 2021. Pursuant to the assignment of the RBHA contract from Cenpatico, the Company is obligated only for the activities under the contract effective October 1, 2018 and forward. Obligations under the contract for periods prior to October 1, 2018 are the responsibility of Cenpatico.

As part of AHCCCS’ approval of the merger agreement between Centene Corporation and Wellcare that occurred on January 23, 2020, AHCCCS required transition of the Care1st Health Plan Arizona Inc. central membership to the Company. Members who did not select a plan during open enrollment were auto assigned to the Company’s ACC contract. The effective date of the membership transition was October 1, 2021.

The Financial Accounting Standards Board ("FASB") sets accounting principles generally accepted in the United States of America ("GAAP") to ensure consistent reporting. References to GAAP are to the Financial Accounting Standards Codification ("FASB ASC").

The significant accounting policies followed by the Company are as follows:

(b) Basis of Presentation

The accompanying financial statements are prepared on the basis of GAAP.

(c) Management's 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"). As of December 31, 2021 and 2020, cash and cash equivalents consisted of cash and money market accounts.

(e) Revenue Recognition

Revenue includes the following amounts:

Prospective Capitation – Prospective capitation premiums are based on multi-year contracts with AHCCCS to provide care to Medicaid recipients.

Prior Period Coverage ("PPC") Capitation – PPC capitation premiums cover eligible health care costs of members related to the period prior to their enrollment in the Plan. Such premiums are recognized upon receipt.

Delivery Supplement – Delivery supplement premiums are intended to cover the costs of maternity care for deliveries during the prospective enrollment period. Such premiums are recognized in the period the delivery occurs.

Reconciliation Settlements – AHCCCS has risk sharing programs which include reconciliation settlements, which impact revenue, and are due to, or from, AHCCCS, based on predetermined profit/(loss) thresholds before income tax.

Non-Title XIX/XXI Revenue – Non-Title XIX/XXI revenue is accrued and recognized based on the current AHCCCS Allocation Schedule and as documented by Contractor Expenditure Reports.

Effective October 1, 2018, under the AHCCCS Complete Care contract, if the profit is less than or equal to 2% of the prospective capitation revenues, then the Company's share is 100%. If the profit is between 2% and 6%, then the Company's share is 50% of the amount over 2%, for a maximum of 4% of total profits. If the profit is over 6%, then the Company's share of the profits over 6% is 0%, for a maximum share of 4% of total profits. If the losses are in excess of 2%, then the Company's share over 2% of the losses is 0%, for a maximum share of 2% of total losses. Profits in excess of the percentages set forth above will be recouped by AHCCCS and losses in excess of the percentages set forth above will be paid to the Company.

AHCCCS contract revenue is also limited by the terms of the RBHA contract to a maximum profit percentage of 4%.

Revenue is recognized in the month in which the related enrollees are entitled to health care services. All of the Company's revenue is earned in Arizona from its Medicaid contracts with AHCCCS.

Capitation and supplement receivables due from AHCCCS are stated at the amount management expects to collect. The Company establishes an allowance for doubtful accounts, if necessary, based upon factors including credit risk, historical trends, and other information. As of December 31, 2021, capitation and supplement receivables due from AHCCCS are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Estimated reconciliation settlement balances are recorded as a net receivable or payable on the balance sheets by risk population. A summary of the balances as of December 31, 2021 and December 31, 2020 for all open contract years is as follows. It is expected that a final settlement with AHCCCS will not be reached until over a year after the end of the specific contract year.

	Reconciliation receivable	Reconciliation payable
2021:		
Prospective/Prior period coverage	$ —	165,513,342
Total	—	165,513,342
Less current portion	—	(59,105,166)
Non-current portion	$ —	106,408,176
2020:		
Prospective/Prior period coverage	$ —	67,077,214
Total	—	67,077,214
Less current portion	—	(18,044,403)
Non-current portion	$ —	49,032,811

(Continued)

Reconciliation receivables due from AHCCCS are stated at the amount management expects to collect. The Company establishes an allowance for doubtful accounts, if necessary, based upon factors including credit risk, historical trends, and other information. As of December 31, 2021 and December 31, 2020, there were no reconciliation receivables due from AHCCCS.

(f) Amounts due to/from Affiliates

Amounts due to/from affiliates generally consist of amounts payable or receivable to related parties under various service agreements. See Note 7 for detailed amounts due to/from affiliates.

(g) Investment and Other Income

Investment and other income consists principally of investment income. Investment income is derived from the Company's cash and cash equivalents, restricted deposits, short-term and long-term investments. The Company recognizes investment income when earned.

(h) Interest

Interest consists of interest paid on claims. The Company incurred $1,159,843 and $5,398,422 for interest in the years ended December 31 2021 and 2020, respectively.

(i) 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. The Company incurred health insurer fees of $23,708,331 for the year ended December 31, 2020. The HIF has been repealed for 2021.

(j) 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.

(Continued)

Under the RBHA contract, the Company contracts with various at-risk providers for the provision of a full range of integrated healthcare services to eligible adults and children for Title XIX, Title XXI and Non-Title XIX programs, and physical healthcare services to Seriously Mentally Ill Title XIX eligible adults. Health care services are purchased under fee-for-service or block purchase arrangements. Fee-for-service contract expenses are accrued as incurred. Healthcare services provided under block purchase arrangements are accrued based upon contract terms. From time to time, the Company amends their provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

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.

(k) Expense Allocation

Certain direct, indirect and administrative expenses are incurred which benefit more than one program. Such common expenses are allocated based upon an AHCCCS approved cost allocation plan as submitted by the Company, which is primarily based upon enrollment, claims and costs by lines of business.

(l) 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, 2021 or 2020.

(m) Reinsurance

AHCCCS provides a stop-loss reinsurance program for the Company for partial reimbursement of reinsurable covered medical services incurred for members. The program includes a deductible, which varies based on the Company's enrollment and the eligibility category of the members. AHCCCS reimburses the Company based on a coinsurance amount for reinsurable covered services incurred above the deductible. Coinsurance percentages vary by nature of the claim for Medicaid claims. Reinsurance is stated at the actual and estimated amounts due to the Company pursuant to the applicable AHCCCS contract. Reinsurance under the AHCCCS Complete Care contract is subject to a $35,000 deductible for claims effective October 1, 2018. Effective October 1, 2021, this deductible increased to $50,000. All claims are subject to a 75% coinsurance, except catastrophic and transplant claims which are 85% coinsurance, for the years ended December 31, 2021 and 2020.

To be eligible for reinsurance billing, qualified healthcare expenses must be incurred during the contract year. Reinsurance is recorded based on actual billed reinsurance claims and expected reinsurance for claims not yet paid. Reinsurance is subject to review by AHCCCS, and as a result, there is at least a reasonable possibility that recorded reinsurance will change by a material amount in the near future.

Reinsurance receivables represent the expected payment from AHCCCS to the Company for certain enrollees whose qualifying medical expenses paid by the Company were in excess of specified deductible limits. Reinsurance receivables are stated at the amount management expects to collect. Balances that are still outstanding after management has used reasonable collection efforts are written off. Management considers reinsurance receivables to be fully collectible as of December 31, 2021 and, accordingly, an allowance for doubtful accounts is not considered necessary.

(n) Pharmacy Receivables

Pharmacy receivables include rebates the Company expects to receive from its pharmacy benefit manager, a related party under common control, based on the volume of drugs purchased. The Company records a receivable and a reduction of other medical services expenses for estimated rebates due based on purchase information. Pharmaceutical rebates totaled approximately $1,166,887 and $174,884 for the years ended December 31, 2021 and 2020, respectively, which are included as reductions in other medical services expenses in the accompanying statements of operations. Pharmacy rebates receivable totaled $1,079,193 and $1,696,570 at December 31, 2021 and 2020, respectively. Additionally, pharmacy receivables include balances due to the Company from the pharmacy benefit manager for routine monthly services provided based on timing and amounts of payments. Such receivables totaled $198,376 and $193,167 at December 31, 2021 and 2020, respectively, which are included as amounts due from affiliates on the balance sheets.

As of December 31, 2021, management believes the pharmacy receivable balances are fully collectible and accordingly, an allowance has not been established.

(o) Provider Receivables

In the normal course of business, provider receivables are created through advances or claims overpayments. Throughout 2021 and 2020, pursuant to an AHCCCS initiative to ensure those behavioral health providers transitioning from a block payment model to a fee-for-service model would have an adequate cash position through the transition, the Company increased its advanced funding to certain providers. Those providers experiencing significant cash flow deficiencies (less than 60 days cash on hand) were able to request up to the entire quarter's expected claims funding. Amounts due from providers are expected to be collected within one year. Provider receivables may be recouped

(Continued)

through withholding payments in future periods. Provider receivables are stated at the amount management expects to collect. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to earnings and a credit to provider receivables. As of December 31, 2021, management believes the provider receivable balances are fully collectible and accordingly, an allowance has not been established.

The Company experienced claims system issues beginning October 1, 2018 that led to provider advances, reprocessing of claims and provider overpayments. Due to claims system configuration issues, the providers were not receiving cash payments, as a result, the Company made advance payments to providers to ensure continuity of care as it worked through claims system configuration. Provider overpayments occurred when corrective action required provider records to be voided and replaced. The Company incorrectly paid providers fee-for-service (FFS) and block payments for the same services. These were duplicative and therefore incorrect payments. The Company has completed updates to system configuration related to FFS and Block duplicative payments. The Company identified potential claim recoveries from certain providers due to claim reviews and alerted AHCCCS of the estimated impacts. Management estimates approximately $20.2 million in overpayments to providers in 2020 and 2019 and continues working with providers to resolve.

(p) 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. Included in long-term investments, is an equity method investment in an affiliate entity of the Company and under common control by Centene.

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. The Company recognized an unrealized loss of $1,416,079 as of December 31, 2021, and an unrealized gain of $1,366,221 as of December 31, 2020, net of tax effect, on available-for-sale investments which have been recorded in the accompanying statements 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.

Investments that experience a decline in value that is judged to be other than temporary are written down to fair value and a realized loss is recorded. To calculate realized gains and losses on the sale of investments, the Company uses the specific amortized cost of each investment sold.

(q) Premium Taxes

The Company is subject to a 2% premium tax on all payments received from AHCCCS for premiums, reinsurance and reconciliations. Total premium tax expenses for the years ended December 31, 2021 and 2020 were $36,031,152 and $29,336,714, respectively. As of December 31, 2021 and 2020, premium taxes totaled $677,153 receivable, and $1,952,020 payable, and are included in capitation and supplement receivables, and other current liabilities, respectively, in the accompanying balance sheets.

(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) Payable to Providers

The contracts with certain providers allow for the providers to earn certain value based incentives on performance pursuant to defined contract stipulations which are evaluated regularly by the Company. The estimates calculated by management for the incentives expected to be earned by providers are recorded as a liability in the period of performance of the providers. The contracts with certain providers also require a monthly review of provider performance to estimate amounts due to providers for changes in membership, changes in the blended per member per month rate and any wrap services provided to unassigned members. These estimates are recorded as a liability in the period of performance of the providers. For 2021, they total $16,297,472, and are included on the payable to providers line on the balance sheets. For 2020, they totaled $12,520,987.

(t) Alternative Payment Model Liability

AHCCCS subjects 1% of funded gross prospective capitation of AHCCCS Complete Care (ACC) contractors in Arizona to measurements based on each contractor's performance on selected Quality Management Performance Measures as determined by AHCCCS. The program is an effort to encourage activity for AHCCCS contractors in the area of quality improvement, particularly those initiatives that are conducive to improved health outcomes and cost savings. As of December 31, 2021 and 2020, the Company accrued $3,812,727 and $1,788,662, respectively, for the alternative payment model. This represents the portion of the 1% the Company estimates as a potential repayment to AHCCCS based on the results of the performance measures. The change in the accrual is recorded as an offset to capitation premium revenue for the years ended December 31, 2021 and 2020.

(Continued)

(u) Medicaid Risk Adjustment

AHCCCS at times performs a review of the Medicaid program rates for its enrollees and assesses the appropriateness of rates applied to services for those enrollees, specific to the ACC contract. This risk adjustment of capitation payments modifies revenue to contractors based on the health status of the contractors' covered population relative to the average health status of the overall population. AHCCCS prospectively applied risk adjustment to monthly ACC capitation rates for the entirety of calendar years 2020 and 2021. Risk adjustment factors were updated quarterly. Risk adjustment was based on each managed care organization (MCO)'s utilization compared to the all MCO average, separately for each rate cell and region.

(v) 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, future taxable income, taxable income in its carryback period, , 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 financial statements 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.

For the years ended December 31, 2021 and 2020, the Company files 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. The total amount of interest and penalties, net of related tax benefits, recognized in the statements of operations for the period ending December 31, 2021 and 2020 is $33,559 and $(70,513), respectively.

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.

(w) 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.

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.

(x) Fair Value Measurements

FASB ASC 820, *Fair Value Measurements,* establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, 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.

(y) 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 adopted the new guidance in the first quarter of 2021. The new guidance did not have a material impact on the Company's 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.

(2) Contract Performance Bonds

In accordance with the terms of its contracts with AHCCCS, the Company is required to post performance bonds with AHCCCS equal to 100% of the first monthly AHCCCS payment to the Company each contract year based on gross capitation payments, as specified in each contract. The amount of each bond is subject to adjustment as certain conditions change and its method of calculation is specified in the contracts. The actual amount is reset each year upon expiration. The performance bonds must be maintained to guarantee payment of the Company's obligations under the contracts.

In compliance with its contracts, the Company secured performance bonds for the AHCCCS Complete Care and RBHA contracts. Each performance bond covers the Company through September 30, 2022. The performance bond requirement for the AHCCCS Complete Care contract was met through the purchase of a surety bond in the amount of $144,000,000 and the performance bond requirement for the RBHA contract was met through the purchase of a surety bond in the amount of $32,000,000. The performance bonds cover the minimum coverage requirements for the applicable contracts. The cost of these bonds were $360,000 for ACC, and $80,000 for RBHA. At December 31, 2021, the amounts remaining in prepaid expenses were $98,264 for ACC, and $60,000 for RBHA.

(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, 2021 and 2020 are as follows:

	2021			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Asset-backed	$ 9,854,665	38,274	(8,782)	9,884,157
Mortgage-backed	12,115,316	122,456	(108,257)	12,129,515
Corporate bonds	40,728,818	1,427,536	(357,243)	41,799,111
Municipal bonds	16,785,786	851,323	(26,707)	17,610,402
Equity investment	3,600,000	—	—	3,600,000
Total	$ 83,084,585	2,439,589	(500,989)	85,023,185

	2020			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Asset-backed	$ 14,728,895	134,964	(14,440)	14,849,419
Mortgage-backed	6,155,074	254,425	(16,055)	6,393,444
Corporate bonds	39,087,786	2,402,712	(10,250)	41,480,248
Municipal bonds	12,962,574	1,034,439	(1,874)	13,995,139
Total	$ 72,934,329	3,826,540	(42,619)	76,718,250

The following is a summary of maturities of available-for-sale investments as of December 31, 2021. Actual maturities may differ from contractual maturities due to call or prepayment options. Private equity investments are included in the five years through ten years category.

	Amortized cost	Fair value
Amounts maturing in:		
One year or less	$ 6,014,296	6,044,039
After one year through five years	25,695,713	26,374,596
After five years through ten years	36,888,089	38,101,145
After ten years	14,486,486	14,503,405
Total	$ 83,084,584	85,023,185

The Company regularly evaluates its investments for impairment. The Company considers factors affecting the issuer, factors affecting the industry the issuer operates within, and general debt and equity market trends. The Company considers the length of time an investment's fair value has been below carrying value, the severity of the decline, the near term prospects for recovery to cost, and the Company's intent and ability to hold the investment until maturity or market recovery is realized. If and when a determination is made that a decline in fair value below the cost basis is other than temporary, the related investment is written down to its estimated fair value through a charge to realized losses on investments. 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, there is no indication of other-than-temporary impairment for these securities. For the years ended December 31, 2021 and 2020, there were no other than temporary impairments of investments.

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, 2021 and 2020:

	2021					
	Decline for less than 12 months			Decline for greater than 12 months		
	Amortized cost	Fair value	Difference	Amortized cost	Fair value	Difference
Asset-backed	$ 1,808,083	1,799,301	8,782	—	—	—
Mortgage-backed	6,809,169	6,700,912	108,257	—	—	—
Corporate bonds	14,908,787	14,560,975	347,812	560,601	551,170	9,431
Municipal bonds	2,620,997	2,594,290	26,707	—	—	—
Total	$ 26,147,036	25,655,478	491,558	560,601	551,170	9,431

	2020					
	Decline for less than 12 months			Decline for greater than 12 months		
	Amortized cost	Fair value	Difference	Amortized cost	Fair value	Difference
Asset-backed	$ 3,564,267	3,560,406	3,861	1,838,534	1,827,954	10,580
Mortgage-backed	962,692	946,639	16,053	—	—	—
Corporate bonds	1,843,690	1,833,439	10,251	—	—	—
Municipal bonds	200,247	198,373	1,874	—	—	—
Total	$ 6,570,896	6,538,857	32,039	1,838,534	1,827,954	10,580

Proceeds from investments sold, matured, or repaid during 2021 and 2020 were $15,445,029 and $15,408,386, respectively. The net realized gains on the sale of investments for the years ended December 31, 2021 and 2020 were $33,477 and $141,792, respectively.

Net investment income for the years ended December 31, 2021 and 2020 was as follows:

		2021	2020
Investment income:			
Cash and cash equivalents	$	120,446	204,583
Investments		1,992,443	2,498,280
Investment expenses		(48,265)	(59,262)
Net investment income	$	2,064,624	2,643,601

(4) Fair Value Measurements

Assets and liabilities recorded at fair value in the balance sheets are categorized based upon observable or unobservable inputs used to estimate fair value. Level inputs are as follows:

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 tables summarize the valuation of the Company's assets subject to recurring fair value measurement by the above FASB ASC 820 categories as of December 31, 2021 and 2020.

		2021			
		Level I	Level II	Level III	Total
Cash and cash equivalents	$	380,950,161	—	—	380,950,161
Investment available for sale:					
Short-term investments:					
Asset backed		—	406,576	—	406,576
Corporate bonds		—	5,098,133	—	5,098,133
Mortgage backed		—	676,684	—	676,684
Municipal bonds		—	1,242,784	—	1,242,784
Long-term investments:					
Asset backed		—	9,477,581	—	9,477,581
Corporate bonds		—	36,700,977	—	36,700,977
Mortgage backed		—	11,452,832	—	11,452,832
Municipal bonds		—	16,367,618	—	16,367,618
Total assets at fair value	$	380,950,161	81,423,185	—	462,373,346

	2020			
	Level I	**Level II**	**Level III**	**Total**
Cash and cash equivalents	$ 179,945,008	—	—	179,945,008
Investment available for sale:				
Short-term investments:				
Asset backed	—	3,966,977	—	3,966,977
Corporate bonds	—	3,196,935	—	3,196,935
Mortgage backed	—	—	—	—
Municipal bonds	—	70,776	—	70,776
Long-term investments:				
Asset backed	—	10,882,442	—	10,882,442
Corporate bonds	—	38,283,312	—	38,283,312
Mortgage backed	—	6,393,445	—	6,393,445
Municipal bonds	—	13,924,363	—	13,924,363
Total assets at fair value	$ 179,945,008	76,718,250	—	256,663,258

The fair value of the above investments are measured using quoted market prices multiplied by the quantity held when quoted market prices are observable. If quoted market prices are not available, fair value is determined using one, or a combination, of the following methods (1) matrix pricing for similar instruments, (2) quoted prices for recent trading activity of assets with similar characteristics, or (3) using an income approach valuation technique that considers, among other things, rates currently observed in publicly traded debt markets for debt of similar terms to companies with comparable credit risk and a credit value adjustment to consider the likelihood of counterparty nonperformance, after consideration of the impact of collateralization and netting agreements, if applicable. In addition, the aggregate carrying amount of the Company's private equity investments accounted for on an equity method basis was $3,600,000 and $0 at December 31, 2021 and 2020, respectively, and are not included in the tables above.

The Company does not have any additional financial assets or liabilities that are not already carried at fair value and disclosed above.

(5) Income Taxes

Significant components for the income tax provision (benefit) are as follows for the years ended December 31, 2021 and 2020, respectively:

		2021	2020
Current provision (benefit):			
Federal	$	6,302,545	12,624,491
State and local		781,130	1,695,570
Total current provision (benefit)		7,083,675	14,320,061
Deferred benefit		(20,487,602)	(247,448)
Total provision (benefit) for income taxes	$	(13,403,928)	14,072,603

The reconciliation of the tax provision at the U.S. Federal Statutory Rate to the provision for income taxes includes state income taxes, tax exempt interest, deferred intercompany transfer, and other items.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities include loss reserves, unearned premiums, net unrealized gain on investments, intangible assets, and other items for the years ended December 31, 2021 and December 31, 2020. Gross deferred tax assets totaled $22,463,419 and $2,007,879 at December 31, 2021 and 2020, respectively, and gross deferred tax liabilities totaled $520,207 and $981,508 at December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, 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 valuation allowance adjustment to gross deferred tax assets as of December 31, 2021 and 2020 was $0 and $0, respectively. 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 reserve for uncertain tax positions totaled $1,476,728 and $1,449,179 at December 31, 2021 and December 31, 2020, 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 statements of operations for the period ending December 31, 2021 and 2020 is $33,559 and $(70,513) respectively. The total amount of interest and penalties, net of related tax benefits, recognized in the balance sheets as of December 31, 2021 and 2020 is $82,289 and $48,730 respectively. As of December 31, 2021 Centene’s tax returns are under federal examination for tax years 2014 through 2018.

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.

(6) Medical Claims Liability

The following table summarizes the change in medical claims liability:

		2021	2020
Balance at January 1	$	160,349,009	172,293,416
Incurred related to current year		1,500,950,716	1,211,699,598
Incurred related to prior year		(35,211,132)	(45,838,425)
Total incurred		1,465,739,584	1,165,861,173
Paid related to current year		1,309,548,787	1,053,506,898
Paid related to prior year		122,053,334	124,298,682
Total paid		1,431,602,121	1,177,805,580
Balance at December 31	$	194,486,472	160,349,009

The incurred amounts related to prior years represent the variation between the Company's estimated expenses for prior years' claims and the actual amounts required to satisfy such claims. During 2021 and 2020, the Company experienced $35,211,132 and $45,838,425, respectively of favorable development.

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 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, 2021 and 2020.

Incurred and paid claims development as of December 31, 2021 is as follows, net of reinsurance:

Cumulative incurred claims for the year ended December 31			
Claim year	2019 (unaudited)	2020 (unaudited)	2021
2019	$ 1,209,934,093	1,164,095,668	1,174,926,439
2020		1,211,699,598	1,165,657,694
2021			1,500,950,716
Total incurred claims			$ 3,841,534,849

Cumulative paid claims for the ended December 31			
Claim year	2019 (unaudited)	2020 (unaudited)	2021
2019	$ 1,046,622,316	1,161,939,359	1,174,768,693
2020		1,053,506,898	1,162,730,897
2021			1,309,548,787
Total payment of incurred claims			$ 3,647,048,377
Medical claims liability			194,486,472

Incurred claims and allocated claim adjustment expenses, total IBNR plus expected development on reported claims and cumulative claims data as of December 31, 2021 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. Information is summarized as follows:

	December 31, 2021		
	Incurred claims and allocated claim adjustment expenses	Total IBNR plus expected development on reported claims	Cumulative number of paid claims
2019	$ 1,174,926,439	157,744	6,214,610
2020	1,165,657,694	2,926,797	5,595,490
2021	1,500,950,716	191,401,929	5,708,075

(Continued)

(7) Related Party Transactions

The Company relies on affiliate services to conduct its business in order to achieve cost savings. The Company does nevertheless exercise ultimate control over its assets and operations and retains the ultimate authority and responsibility regarding its powers, duties, and responsibilities. The Company's transactions, amounts due (to), and amounts due from related parties in exchange for services provided for the years ended December 31, 2021 and 2020 are as follows:

Affiliate		Amounts due (to) from ACC 2021	RBHA 2021	Total 2021
Centene Management Company LLC	$	10,122,065	1,375,665	11,497,730
Bankers Rsrv-Reinsurance			69,316	69,316
HN Pharmaceutical Services		33,724	164,652	198,376
Envolve People Care, Inc.		171,641	144,052	315,693
Cenpatico Integrated Care		(97,206)	45,221	(51,985)
Envolve Vision, Inc.		128,608	18,682	147,290
Envolve Dental, Inc.		(3,455,344)	(60,492)	(3,515,836)
	$	6,903,488	1,757,096	8,660,584

Affiliate		Amounts due (to) from ACC 2020	RBHA 2020	Total 2020
Centene Management Company LLC	$	1,360,113	1,760,024	3,120,137
Bankers Rsrv-Reinsurance		—	103,592	103,592
HN Pharmaceutical Services		144,423	48,744	193,167
Envolve People Care, Inc.		1,335	(101,332)	(99,997)
Cenpatico Integrated Care		—	145,435	145,435
Envolve Vision, Inc.		65,748	18,308	84,056
Envolve Dental, Inc.		(11,832,786)	(424,207)	(12,256,993)
	$	(10,261,167)	1,550,564	(8,710,603)

On April 1, 2016, the Company and Centene Management Company ("CMC") entered into a management agreement whereby CMC agrees to manage the general and administrative function of the Company inclusive of payroll, facilities, and other administrative expenses. The management fee is based on the variable degree of management services required to support the differing categories of membership covered by the Company and the size of the Company's operations. The fee can be modified each month to account for net revenue earned in excess or below the specified percentages and to comply with the AHCCCS financial viability standards (see Note 10). The management agreement is in effect for one year with automatic one year extensions unless the agreement is terminated as elected by either party or for matters of default as defined in the management agreement. The Company recorded management fees per the management agreement of $133,614,727 and $109,691,609 for the years ended December 31,

(Continued)

2021 and 2020, respectively. This amount is included in administrative expenses in the accompanying statements of operations.

The Company is a party to a Claims Administration Service Agreement with Health Net Pharmaceutical Services ("HNPS"), an affiliated company wholly owned by HNI which is wholly owned by Centene. HNPS provides pharmacy benefit management services to eligible enrollees. The Company incurred expense to HNPS of $232,266,640 and $183,640,183, net of rebates, for these services for the years ended December 31, 2021 and 2020, respectively, which are included in health care services in the accompanying statements of operations. Claims encounters are submitted to AHCCCS to substantiate these payments. HNPS also receives an administration fee from the Company for administering pharmacy claims processing. For the years ended December 31, 2021 and 2020, these administration fees totaled $5,082,840 and $8,114,519, respectively, and are included in administrative expenses in the accompanying statements of operations.

Envolve Vision, Inc., an affiliated company wholly-owned by Envolve Holdings, Inc. which is wholly-owned by Centene, provides a vision network and manages the vision benefits for eligible enrollees pursuant to an agreement with the Company that was established on July 1, 2016. The Company incurred expense to Envolve Vision, Inc. of $2,625,502 and $2,736,614 for these services during the years ended December 31, 2021 and 2020, respectively. These amounts are included in health care services in the accompanying statements of operations.

Envolve Dental, Inc., an affiliated company wholly-owned by Envolve Holdings, Inc. which is wholly-owned by Centene, provides dental services for eligible enrollees pursuant to an agreement with the Company that was established on October 1, 2016. The Company incurred expense to Envolve Dental, Inc. of $30,702,379 and $20,518,122 for these services during the years ended December 31, 2021 and 2020, respectively. These amounts are included in health care services in the accompanying statements of operations.

Envolve PeopleCare, Inc., an affiliated company wholly-owned by Envolve Holdings, Inc. which is wholly-owned by Centene, provides disease management, nurse triage, and call center services to eligible enrollees through a contract with HNI that was established July 1, 2016. The Company incurred expense to HNI related to the services provided by Envolve PeopleCare, Inc. of $3,565,929 and $2,751,793 during the years ended December 31, 2021 and 2020, respectively. These amounts are included in health care services in the accompanying statements of operations.

(8) Commitments and Contingencies

(a) Liability Insurance

The Company, through Centene, maintains professional and general liability insurance. The professional liability coverage is written on a claims made basis and insures losses up to $15,000,000 with a self-insured retention of $25,000,000. There is an umbrella policy over the professional liability coverage with a limit of $15,000,000. The general liability insurance is written on an occurrence basis and insures losses up to $2,000,000 per claim and $4,000,000 in the aggregate. Claims reported endorsement (tail coverage) is available if the professional policy is not renewed to cover claims incurred but not reported. The Company anticipates that renewal coverage will be available at the expiration of the current policy. The Company participates in the above policy with its affiliates. Per claim and aggregate limits are applicable to all covered entities as a group.

(b) Litigation

Periodically, the Company may be involved in litigation and claims arising in the normal course of operations. In the opinion of management based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial.

(c) 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.

Health reform legislation at both the federal and state levels continues to evolve. Changes continue to impact existing and future laws and rules. Such changes may impact the way the Company does business, restrict revenue and enrollment growth in certain products and market segments, restrict premium growth rates for certain products and market segments, increase medical, administration and capital costs, and expose the Company to increased risk of loss or further liabilities. The Company's operating results, financial position and cash flows could be adversely impacted by such changes.

(d) Community Reinvestment Program

Effective October 1, 2018, the Company approved a Community Reinvestment program, as described in their contract with AHCCCS. Under the program, the Company will place a minimum of 6% of its after tax profits into the program. For the years ended December 31, 2021 and 2020, the Company had met or exceeded that amount. The program funds community projects that enhance the lives of people in the communities in the Company's geographic service areas.

For the years ended December 31, 2021 and 2020, the Company approved amounts that resulted in appropriations of approximately $1,524,000 and $1,008,000, respectively, to be spent on various community projects. During the years ended December 31, 2021 and 2020, the Company spent approximately $919,000 and $322,000, respectively, of the appropriated funds. At December 31, 2021 and 2020, the Company has recorded a liability for unspent community reinvestment program funds of approximately $1,613,000 and $686,000, respectively, which is included in other current liabilities in the accompanying balance sheets.

(9) Risks and Uncertainties

The Company's profitability depends in large part on accurately predicting and effectively managing healthcare 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 healthcare 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.

(10) Contract Requirements

In accordance with its contracts with AHCCCS, the Company is required to maintain certain minimum financial reporting and viability measures. The Company must meet a minimum capitalization requirement based on the number of members enrolled as well as various quarterly financial viability standards and performance guidelines. As of December 31, 2021, and December 31 2020, the Company was in compliance with the requirements for both the AHCCCS Complete Care contract and the RBHA contract.

The RBHA contract is limited by the terms of its contract with AHCCCS to profit that can be earned under the various programs, generally up to 4%. The Company is subject to a profit risk corridor calculation that calculates a return of premium to the extent certain financial ratios are not met by program types. For the years ended December 31, 2021 and 2020, the Company recorded a profit corridor of $28,707,390 and $26,675,155, respectively.

The ACC contract is limited by the terms of its contract with AHCCCS to profit that can be earned under the various programs, generally up to 4%. The Company is subject to a profit risk corridor calculation that calculates a return of premium to the extent certain financial ratios are not met by program types. For the years ended December 31, 2021, and 2020, the Company recorded profit corridors of $131,079,938 and $40,402,059 respectively.

Under the RBHA contract, the Company is required to meet quarterly and contract year end minimum encounter submission percentages, or be subject to sanction by AHCCCS. Typically, the Company has up to eight months after fiscal year end to submit encounters related to the fiscal year. As of December 31, 2021, the Company anticipates meeting the required encounter threshold for the year ended September 30, 2022. Accordingly, as of December 31, 2021, the Company has not recorded a liability associated with an encounter sanction.

Should the Company be in default of any material obligations under its contracts with AHCCCS, AHCCCS may, at its discretion, in addition to other remedies, either adjust the amount of future payment or withhold future payment until they have received satisfactory resolution of the default or exception. In addition, although it has not expressed an intention to do so, AHCCCS has the right to terminate the contracts in whole or in part without cause by giving the Company 90 days written notice. Further, if monies are not appropriated by the state or are not otherwise available, the contracts with AHCCCS may be cancelled upon written notice until such monies are so appropriated or available.

For the years ended December 31, 2021 and 2020, the Company recorded expenses for sanctions from AHCCCS of approximately $104,000 and ($577,000), respectively, which are included in administrative expenses in the statements of operations. The Company has estimated sanctions to be paid of approximately $650,000. These estimated sanctions relate primarily to noncompliance with certain contract requirements and performance measures for contract year 2019. If the Company were to be subject to additional sanctions or its contracts with AHCCCS were terminated or not renewed, this would have a material adverse impact on the Company's business, its reputation, results of operations, cash flows or financial condition.

(11) Subsequent events

In connection with the preparation of the financial statements, the Company evaluated subsequent events after the financial statement date of December 31, 2021 through May 23, 2022, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

HEALTH NET ACCESS, INC. d/b/a
ARIZONA COMPLETE HEALTH – COMPLETE CARE PLAN

Additional Information

Schedule 1 – Contract Balance Sheet

December 31, 2021

Assets		ACC Contract	RBHA Contract	Total
Current assets:				
Cash and cash equivalents	$	320,742,521	60,207,640	380,950,161
Capitation and supplement receivables		15,240,457	6,261,846	21,502,303
Reinsurance receivables		11,244,297	221,057	11,465,354
Provider receivables		19,085,907	10,281,974	29,367,881
Pharmacy receivables		1,079,193	—	1,079,193
Short-term investments		5,939,260	1,484,916	7,424,176
Income taxes receivable		2,814,690	392,892	3,207,582
Amounts due from affiliates		10,456,038	1,817,588	12,273,626
Prepaid expenses and other current assets		4,617,764	463,039	5,080,803
Total current assets		391,220,127	81,130,952	472,351,079
Long-term investments		46,961,043	30,637,966	77,599,009
Net deferred tax asset		21,549,687	393,525	21,943,212
Total assets		459,730,857	112,162,443	571,893,300
Liabilities and Stockholder’s Equity				
Current liabilities:				
Medical claims payable		166,843,676	27,642,796	194,486,472
Reconciliation payables		44,158,020	14,947,146	59,105,166
Amounts due to affiliates		3,552,550	60,492	3,613,042
Payable to providers		11,482,686	4,814,786	16,297,472
Alternative payment model liability		2,745,991	—	2,745,991
Income taxes payable		75,411	5,724	81,135
Other current liabilities		2,731,367	4,758,817	7,490,184
Total current liabilities		231,589,701	52,229,761	283,819,462
Reconciliation payables		92,647,933	13,760,243	106,408,176
Alternative payment model liability		1,066,736	—	1,066,736
Other long-term liabilities		926,888	179,239	1,106,127
Total liabilities		326,231,258	66,169,243	392,400,501
Total stockholder’s equity		133,499,599	45,993,200	179,492,799
Total liabilities and stockholder’s equity	$	459,730,857	112,162,443	571,893,300

See accompanying independent auditors’ report.

HEALTH NET ACCESS, INC. d/b/a
ARIZONA COMPLETE HEALTH – COMPLETE CARE PLAN

Additional Information

Schedule 2 – Contract Statement of Operations

December 31, 2021

	ACC Contract	RBHA Contract	Total
Revenue:			
Capitation premiums	$ 1,260,992,985	346,276,978	1,607,269,963
Other revenue	20,000	47,888,203	47,908,203
Delivery supplement	33,971,803	—	33,971,803
Total revenue	1,294,984,788	394,165,181	1,689,149,969
Expenses:			
Health care services	1,156,706,684	348,248,238	1,504,954,922
Less reinsurance (recoveries) expense	(36,409,779)	(2,805,559)	(39,215,338)
Total health care services, net of reinsurance recoveries	1,120,296,905	345,442,679	1,465,739,584
Premium tax	28,818,745	7,212,407	36,031,152
Administrative	120,339,058	37,782,472	158,121,530
Interest	797,808	362,035	1,159,843
Total operating expenses	1,270,252,516	390,799,593	1,661,052,109
(Loss) income from operations	24,732,272	3,365,588	28,097,860
Investment and other income, net	1,965,492	99,132	2,064,624
(Loss) income before income tax benefit	26,697,764	3,464,720	30,162,484
Income tax (benefit) expense	(14,266,561)	862,633	(13,403,928)
Net (loss) income	40,964,325	2,602,087	43,566,412
Other comprehensive gain:			
Unrealized gain (loss) on available-for-sale investments, net of tax	(956,839)	(459,240)	(1,416,079)
Comprehensive (loss) income	$ 40,007,486	2,142,847	42,150,333

See accompanying independent auditors' report.

HEALTH NET ACCESS, INC. d/b/a
ARIZONA COMPLETE HEALTH – COMPLETE CARE PLAN

Additional Information

Schedule 3 – Contract Balance Sheet

December 31, 2020

Assets		ACC Contract	RBHA Contract	Total
Current assets:				
Cash and cash equivalents	$	130,333,832	49,611,176	179,945,008
Capitation and supplement receivables		30,341,973	6,697,270	37,039,243
Reinsurance receivables		15,421,198	396,095	15,817,293
Provider receivables		38,324,473	22,118,023	60,442,496
Pharmacy receivables		1,528,479	168,091	1,696,570
Short-term investments		7,234,688	—	7,234,688
Amounts due from affiliates		1,571,619	2,076,101	3,647,720
Prepaid expenses and other current assets		534,938	438,156	973,094
Total current assets		225,291,200	81,504,912	306,796,112
Long-term investments		40,859,523	28,624,039	69,483,562
Net deferred tax asset		684,545	341,826	1,026,371
Total assets		266,835,268	110,470,777	377,306,045
Liabilities and Stockholder’s Equity				
Current liabilities:				
Medical claims payable		129,783,088	30,565,921	160,349,009
Reconciliation payables		—	18,044,403	18,044,403
Amounts due to affiliates		11,832,786	525,540	12,358,326
Payable to providers		9,801,036	2,719,951	12,520,987
Alternative payment model liability		1,230,613	—	1,230,613
Income taxes payable		712,020	825,970	1,537,990
Other current liabilities		3,286,732	4,999,641	8,286,373
Total current liabilities		156,646,275	57,681,426	214,327,701
Reconciliation payables		40,402,059	8,630,752	49,032,811
Alternative payment model liability		558,049	—	558,049
Other long-term liabilities		736,772	308,246	1,045,018
Total liabilities		198,343,155	66,620,424	264,963,579
Total stockholder’s equity		68,492,113	43,850,353	112,342,466
Total liabilities and stockholder’s equity	$	266,835,268	110,470,777	377,306,045

See accompanying independent auditors’ report.

HEALTH NET ACCESS, INC. d/b/a
ARIZONA COMPLETE HEALTH – COMPLETE CARE PLAN

Additional Information

Schedule 4 – Contract Statement of Operations

December 31, 2020

	ACC Contract	RBHA Contract	Total
Revenue:			
Capitation premiums	$ 932,813,767	350,864,166	1,283,677,933
Other revenue	—	48,341,014	48,341,014
Health insurer provider fee	21,510,202	9,112,803	30,623,005
Delivery supplement	27,340,288	—	27,340,288
Total revenue	981,664,257	408,317,983	1,389,982,240
Expenses:			
Health care services	839,491,969	346,886,463	1,186,378,432
Less reinsurance (recoveries) expense	(15,535,367)	(4,981,892)	(20,517,259)
Total health care services, net of reinsurance recoveries	823,956,602	341,904,571	1,165,861,173
Premium tax	23,380,008	5,956,706	29,336,714
Health insurer provider fee	16,653,199	7,055,132	23,708,331
Administrative	91,560,929	37,529,498	129,090,427
Interest	3,646,458	1,751,964	5,398,422
Total operating expenses	959,197,196	394,197,871	1,353,395,067
(Loss) income from operations	22,467,061	14,120,112	36,587,173
Investment and other income, net	2,643,601	—	2,643,601
(Loss) income before income tax benefit	25,110,662	14,120,112	39,230,774
Income tax (benefit) expense	8,670,038	5,402,565	14,072,603
Net (loss) income	16,440,624	8,717,547	25,158,171
Other comprehensive gain:			
Unrealized gain (loss) on available-for-sale investments, net of tax	1,366,221	—	1,366,221
Comprehensive (loss) income	$ 17,806,845	8,717,547	26,524,392

See accompanying independent auditors’ report.

KPMG LLP
Suite 900
10 South Broadway
St. Louis, MO 63102-1761

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors and Stockholder
Health Net Access, Inc. d/b/a Arizona Complete Health – Complete Care Plan:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Health Net Access, Inc. d/b/a Arizona Complete Health – Complete Care Plan (Health Net Access, Inc.), which comprise the statement of financial position as of December 31, 2021, and the related statements of operations, comprehensive income (loss), stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 23, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Health Net Access, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Health Net Access, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Health Net Access, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Health Net Access, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health Net Access, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Net Access, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

St. Louis, Missouri
May 23, 2022