KPMG

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

Financial Statements

December 31, 2022 and 2021

(With Independent Auditors’ Report Thereon)

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

Financial Statements

Years ended December 31, 2022 and 2021

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KPMG LLP
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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:

Report on the Audit of the Financial Statements

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, 2022 and 2021, and the related statements of operations, comprehensive income, 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 the Company as of December 31, 2022 and 2021, 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 available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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, 2021 and prior on page 24 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

KPMG LLP

St. Louis, Missouri
August 11, 2023

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

(A Wholly Owned Subsidiary of Centene Corporation)

Balance Sheets

December 31, 2022 and 2021

Assets		**2022**	**2021**
Current assets:			
Cash and cash equivalents	$	172,403,118	380,950,161
Capitation and supplement receivables		33,425,160	21,502,303
Reinsurance receivables		20,035,771	11,465,354
Provider receivables		6,168,561	29,367,881
Pharmacy receivables		1,601,430	1,079,193
Short-term investments		14,545,315	7,424,176
Income taxes receivable		—	3,207,582
Amounts due from affiliates		2,250,002	12,228,405
Prepaid expenses and other current assets		15,782,247	5,080,803
Total current assets		266,211,604	472,305,858
Long-term investments		394,616,525	77,599,009
Net deferred tax assets		26,064,543	21,943,212
Total assets	$	686,892,672	571,848,079
Liabilities and Stockholder’s Equity			
Current liabilities:			
Medical claims liability	$	201,135,688	194,486,472
Reconciliation payables		100,694,281	59,105,166
Amounts due to affiliates		1,044,661	3,567,821
Payables to providers		5,762,783	16,297,472
Alternative payment model liability		7,172,887	2,745,991
Income taxes payable		2,575,739	81,135
Other current liabilities		13,148,208	7,490,184
Total current liabilities		331,534,247	283,774,241
Long-term liabilities:			
Reconciliation payables		182,768,247	106,408,176
Payables to providers		7,640,860	—
Alternative payment model liability		1,159,943	1,066,736
Other long-term liabilities		1,534,724	1,106,127
Total long-term liabilities		193,103,774	108,581,039
Total liabilities		524,638,021	392,355,280
Stockholder’s equity:			
Common stock, (no par value – 100 shares authorized; issued and outstanding)		—	—
Additional paid-in capital		143,056,731	143,056,731
Retained earnings		34,095,750	34,957,029
Accumulated other comprehensive (loss) income		(14,897,830)	1,479,039
Total stockholder’s equity		162,254,651	179,492,799
Total liabilities and stockholder’s equity	$	686,892,672	571,848,079

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, 2022 and 2021

	2022	2021
Revenues:		
Capitation premiums	$ 2,086,102,330	1,607,269,963
Other revenue	47,393,981	47,908,203
Delivery supplement	44,136,150	33,971,803
Total revenue	2,177,632,461	1,689,149,969
Expenses:		
Health care services	1,907,470,093	1,504,954,922
Less: reinsurance recoveries	(44,545,195)	(39,215,338)
Total health care services, net of reinsurance recoveries	1,862,924,898	1,465,739,584
Premium tax expense	52,558,894	36,031,152
Administrative	204,099,384	158,121,530
Interest	754,667	1,159,843
Total operating expenses	2,120,337,843	1,661,052,109
Income from operations	57,294,618	28,097,860
Investment and other income, net	12,715,618	2,064,624
Income before federal income taxes	70,010,236	30,162,484
Federal income tax expense (benefit)	15,871,515	(13,403,928)
Net income	$ 54,138,721	43,566,412

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, 2022 and 2021

		2022	2021
Net income	$	54,138,721	43,566,412
Change in unrealized loss arising during the period, net of tax benefit $(4,489,469) and $(401,854), respectively)		(16,376,869)	(1,416,079)
Comprehensive income	$	37,761,852	42,150,333

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 Stockholder's Equity

Years ended December 31, 2022 and 2021

		Common stock	Additional paid-in capital	Accumulated comprehensive income (loss)	Retained earnings	Total stockholder's equity
Balance – December 31, 2020	$	—	118,056,731	2,895,118	(8,609,383)	112,342,466
Contributed capital		—	25,000,000	—	—	25,000,000
Net income		—	—	—	43,566,412	43,566,412
Change in unrealized income, 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
Net income		—	—	—	54,138,721	54,138,721
Change in unrealized income, net of tax		—	—	(16,376,869)	—	(16,376,869)
Distribution to parent		—	—	—	(55,000,000)	(55,000,000)
Balance – December 31, 2022	$	—	143,056,731	(14,897,830)	34,095,750	162,254,651

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 Cash Flows

Years ended December 31, 2022 and 2021

		2022	2021
Cash flows from operating activities:			
Net income	$	54,138,721	43,566,412
Adjustments to reconcile net income to net cash provided by operating activities:			
Changes in assets and liabilities:			
Capitation and supplement receivables		(11,922,857)	15,536,941
Reinsurance receivables		(8,570,417)	4,351,939
Reconciliation receivables and payables		117,949,185	41,060,763
Provider receivables		23,199,320	31,074,615
Pharmacy receivables		(522,237)	617,377
Income taxes receivable from affiliate		6,529,887	32,223,325
Prepaid expenses and other current assets		(10,701,444)	(4,107,709)
Amounts due to (from) affiliates		7,455,243	(17,371,190)
Medical claims liability		6,649,216	34,137,463
Payable to providers		(2,893,829)	4,285,172
Other current liabilities		6,086,620	(796,187)
Alternative payment model liability		4,520,104	1,576,487
Net cash provided by operating activities		191,917,512	186,155,408
Cash flows from investing activities:			
Purchases of investments		(369,208,269)	(25,166,044)
Proceeds from investments		23,743,714	15,015,789
Net cash used in investing activities		(345,464,555)	(10,150,255)
Cash flows from financing activities:			
Contributed capital		—	25,000,000
Dividend to stockholders		(55,000,000)	—
Net cash (used in) provided by financing activities		(55,000,000)	25,000,000
Net change in cash and cash equivalents		(208,547,043)	201,005,153
Cash, cash and cash equivalents, beginning of period		380,950,161	179,945,008
Cash, cash and cash equivalents, end of period	$	172,403,118	380,950,161
Supplemental disclosures of cash flow information:			
Income taxes paid	$	8,913,030	11,687,004

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 health care 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 Company is currently in an extension until September 30, 2023.

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. The RBHA contract did end on September 30, 2022, but RBHA was incorporated into the amended ACC contract starting October 31, 2022. 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.

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 U.S. generally accepted accounting principles ("GAAP"). Certain prior year amounts were reclassified to conform with the current year presentation.

(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"). Periodically, the balance of certain of the Company's bank accounts exceeds the federally insured limit. The Company has not experienced any losses from maintaining cash balances in excess of such limits. As of December 31, 2022 and 2021, 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, 2022, 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, 2022 and December 31, 2021 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.

2022		**Reconciliation receivable**	**Reconciliation payable**
Prospective/Prior period coverage	$	—	283,462,528
Total		—	283,462,528
Less current portion		—	(100,694,281)
Non-current portion	$	—	182,768,247

2021		**Reconciliation receivable**	**Reconciliation payable**
Prospective/Prior period coverage	$	—	165,513,342
Total		—	165,513,342
Less current portion		—	(59,105,166)
Non-current portion	$	—	106,408,176

(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, 2022 and 2021, 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 $754,667 and $1,159,843 for interest in the years ended December 31, 2022 and 2021, respectively.

(i) Health Care Services/Medical Claims Liability

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.

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.

(j) 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.

(k) 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, 2022 and 2021.

(l) 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 $50,000 deductible for claims effective October 1, 2021. All claims are subject to a 75% coinsurance, except catastrophic and transplant claims which are 85% coinsurance, for the year ended December 31, 2022 and 2021.

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, 2022 and 2021, accordingly, an allowance for doubtful accounts is not considered necessary.

(m) 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 $879,921 and $1,166,887 for the year ended December 31, 2022 and 2021, respectively, which are included as reductions in health care services in the accompanying statements of operations.

Pharmacy rebates receivable totaled $1,601,430 and $1,079,193 at December 31, 2022 and 2021, 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 $683,429 and $198,376 at December 31, 2022 and 2021, respectively, which are included as amounts due from affiliates on the balance sheets. As of December 31, 2022 and 2021, management believes the pharmacy receivable balances are fully collectible and accordingly, an allowance has not been established.

(n) Provider Receivables

In the normal course of business, provider receivables are created through advances or claims overpayments. Throughout 2022 and 2021, 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 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, 2022 and 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. As of December 31, 2022, management estimates approximately $5.7 million in overpayments to providers in 2020 and 2019 and continues working with providers to resolve.

(o) 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 years ended December 31, 2022 and 2021, the Company recognized unrealized losses of $16,376,869 and $1,416,079, respectively 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.

(p) 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 expense for the years ended December 31, 2022 and 2021 was $52,558,894 and $36,031,152, respectively. As of December 31, 2022 and 2021, premium taxes totaled $2,188,078 payable and $677,153 receivable and are included in other current liabilities and prepaid expenses and other current assets, respectively, in the accompanying balance sheets.

(Continued)

(q) 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.

(r) 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 2022 and 2021, they total $5,762,783 and $16,297,472, respectively, of short term payables, and $7,640,860 and $0, respectively, of long term payables, and are included on the payable to providers lines on the balance sheets.

(s) Alternative Payment Model Liability

AHCCCS subjects 1% of funded gross prospective capitation of AHCCCS Complete Care (ACC) 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, 2022 and 2021, the Company accrued $8,332,830 and $3,812,727, 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, 2022 and 2021.

(t) 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 2021 and 2022. 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.

(u) 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 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 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.

For the years ended December 31, 2022 and 2021, 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 statement of operations for the period ending December 31, 2022 and 2021 is $49,350 and $33,559, 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.

(v) 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.

(w) 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.

(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 a performance bond for the AHCCCS Complete Care and RBHA contracts. The performance bond covers the Company through September 30, 2023. The performance bond requirement for the AHCCCS Complete Care and RBHA contracts were met through the purchase of a surety bond in the amount of $184,678,345. The performance bonds cover the minimum coverage requirements for contracts. The cost of the bond was $461,696. At December 31, 2022, the amounts remaining in prepaid expenses was $346,272.

(3) Investments

Short-term and long-term investments and restricted deposits by investment type at December 31, 2022 and 2021 are as follows:

	December 31, 2022			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Asset-backed	$ 46,997,745	—	(612,544)	46,385,201
Mortgage-backed	83,404,675	9,148	(7,187,417)	76,226,406
Municipal bonds	128,358,734	938,175	(4,265,175)	125,031,734
Corporate bonds	155,317,829	638,751	(8,908,238)	147,048,342
Equity investment	4,201,585	—	—	4,201,585
Commercial paper	10,268,572	—	—	10,268,572
Total	$ 428,549,140	1,586,074	(20,973,374)	409,161,840

	December 31, 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
Municipal bonds	16,785,786	851,323	(26,707)	17,610,402
Corporate bonds	40,728,818	1,427,536	(357,243)	41,799,111
Equity investment	3,600,000	—	—	3,600,000
Total	$ 83,084,585	2,439,589	(500,989)	85,023,185

The Company's investment policies are designed to provide liquidity, preserve capital, and maximize total return on invested assets with the focus on high-credit quality securities. The Company limits the size of investment in any single issuer other than U.S. Treasury securities and obligations of U.S. government corporations and agencies. The Company's residential mortgage-backed securities are issued by the Federal National Mortgage Association, Government National Mortgage Association or Federal Home Loan Mortgage Corporation, which carry implicit or explicit guarantees of the U.S. government.

For each security in an unrealized loss 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 other than temporary and 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, there is no indication of other-than-temporary impairment for these securities.

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 at December 31, 2022 and 2021 were as follows:

	December 31, 2022					
	Decline for less than 12 months			Decline for greater than 12 months		
	Amortized cost	Fair value	Difference	Amortized cost	Fair value	Difference
Asset-backed	$ 46,656,445	46,100,561	555,884	341,300	284,639	56,661
Mortgage-backed	76,697,532	70,209,172	6,488,360	6,337,742	5,638,685	699,057
Municipal bonds	100,627,175	96,677,516	3,949,659	2,597,927	2,282,412	315,515
Corporate bonds	115,362,948	108,360,219	7,002,729	15,276,570	13,371,061	1,905,509
Total	339,344,100	321,347,468	17,996,632	24,553,539	21,576,797	2,976,742

	December 31, 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	—	—	—
Municipal bonds	14,908,787	14,560,975	347,812	560,601	551,170	9,431
Corporate bonds	2,620,997	2,594,290	26,707	—	—	—
Total	26,147,036	25,655,478	491,558	560,601	551,170	9,431

The contractual maturities of available-for-sale investments at December 31, 2022 are as follows. Actual maturities may differ from contractual maturities due to call or prepayment options. Private equity investments are excluded from the table below because they do not have a contractual maturity.

	At December 31, 2022	
	Amortized cost	Estimated fair value
Due in one year or less	$ 13,765,874	13,725,961
Due after one year through five years	62,906,668	60,093,899
Due after five years through ten years	194,766,669	187,273,336
Due after ten years	152,908,342	143,867,058
Total	$ 424,347,553	404,960,254

Proceeds from investments sold, matured, or repaid during 2022 and 2021 were $345,464,555 and $13,599,708, respectively. The net realized losses and gains on the sale of investments for the years ended December 31, 2022 and 2021 were $(6,696) and $33,477, respectively.

Net investment income for the years ended December 31, 2022 and 2021 was as follows:

	2022	2021
Investment income:		
Cash and cash equivalents	$ 1,689,465	120,446
Investments	11,149,955	1,992,443
Investment Expenses	(123,802)	(48,265)
Net investment income	$ 12,715,618	2,064,624

(4) Fair Value Measurements

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

Level input	Input definition
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at December 31, 2022 and 2021 for assets measured at fair value:

	2022			
	Level I	Level II	Level III	Total
Cash and cash equivalents	$ 172,403,118	—	—	172,403,118
Investments available for sale:				
Short-term investments:				
Asset backed	—	54,892	—	54,892
Corporate	—	13,528,701	—	13,528,701
Mortgaged backed	—	375,080	—	375,080
Municipal bonds	—	586,642	—	586,642
Long-term investments:				
Asset backed	—	46,330,309	—	46,330,309
Corporate	—	149,084,200	—	149,084,200
Mortgaged backed	—	75,943,197	—	75,943,197
Municipal bonds	—	119,057,234	—	119,057,234
Total assets at fair value	$ 172,403,118	404,960,255	—	577,363,373

	2021			
	Level I	**Level II**	**Level III**	**Total**
Cash and cash equivalents	$ 380,950,161	—	—	380,950,161
Investments available for sale:				
Short-term investments:				
Asset backed	—	406,576	—	406,576
Corporate	—	5,098,133	—	5,098,133
Mortgaged 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	—	36,700,977	—	36,700,977
Mortgaged 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

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 $4,201,585 and $3,600,000 at December 31, 2022 and 2021, respectively, and are not included in the tables above.

The Company has no other assets or liabilities subject to recurring fair value measurement at December 31, 2022 and 2021.

(5) Income Taxes

The income tax provision consisted of the following components for the years ended December 31, 2022 and 2021:

		2022	2021
Current provision:			
Federal	$	13,251,316	6,302,545
State		1,792,498	781,130
Total current provision		15,043,814	7,083,675
Deferred provision:			
Federal		2,628,560	(20,482,702)
State		(1,800,859)	(4,901)
Total deferred provision		827,701	(20,487,603)
Total provision	$	15,871,515	(13,403,928)

The reconciliation of the tax provision at the U.S. Federal Statutory Rate to the provision for income taxes includes state income taxes and tax exempt interest.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities include investments, loss reserves, unearned premiums, intangibles, and other items for the years ended December 31, 2022 and December 31, 2021. Gross deferred tax assets totaled $26,277,018 and $22,463,419 at December 31, 2022 and 2021, respectively, and gross deferred tax liabilities totaled $212,475 and $520,207 at December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, the Company had no operating loss or tax credit carryforwards available for tax purposes.

The valuation allowance adjustment to gross deferred tax assets as of December 31, 2022 and 2021 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 of 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 $1,855,976 and $1,476,728 for the years ended December 31, 2022 and 2021, 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 years ended December 31, 2022 and 2021 is $49,350 and $33,559,

(Continued)

respectively. The total amount of interest and penalties, net of related tax benefits, recognized in the statement of financial position as of December 31, 2022 and 2021 is $131,639 and $82,289, 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.

(6) Medical Claims Liability

The following table summarizes the change in medical claims liability:

		2022	2021
Balance at January 1	$	194,486,472	160,349,009
Incurred related to current year		1,920,663,200	1,500,950,716
Incurred related to prior year		(57,738,302)	(35,211,132)
Total incurred		1,862,924,898	1,465,739,584
Paid related to current year		1,715,005,568	1,309,548,787
Paid related to prior year		141,270,114	122,053,334
Total paid		1,856,275,682	1,431,602,121
Balance at December 31	$	201,135,688	194,486,472

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 2022 and 2021, the Company experienced $57,738,302 and $35,211,132 of favorable development, respectively. The favorable development recognized during 2022 and 2021 was primarily driven by the hospital directed payment program, which included offsetting favorable development recorded within premium revenue.

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. While the Company has evidence that medical management initiatives are effective on a case-by-case basis, medical management initiatives primarily focus on events and behaviors prior to the incurrence of the medical event and generation of a claim. Accordingly, any change in behavior, leveling of care, or coordination of treatment occurs prior to claim generation and as a result, the costs prior to the medical management initiative are not known by the Company. Additionally, certain medical management initiatives are focused on member and provider education with the intent of influencing behavior to appropriately align the medical services provided with the member's acuity. In these cases, determining whether the medical management initiative changed the behavior cannot be determined. Because of the complexity of the Company's business and the volume of claims it processes, the Company is unable to practically quantify the impact of these initiatives on changes in estimates of IBNR. 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, 2022 and 2021.

Incurred and paid claims development as of December 31, 2022 is as follows, net of reinsurance:

Cumulative incurred claims for the year ended December 31	2020 (unaudited)	2021 (unaudited)	2022
Claim year:			
2020	$ 1,211,699,598	1,176,488,466	$ 1,174,357,876
2021	—	1,500,950,716	1,445,343,003
2022	—	—	1,920,663,200
Total incurred claims			$ 4,540,364,079

Cumulative paid claims for the year ended December 31	2020 (unaudited)	2021 (unaudited)	2022
Claim year:			
2020	$ 1,053,506,898	1,173,403,923	$ 1,176,308,671
2021	—	1,309,548,787	1,447,914,152
2022	—	—	1,715,005,568
Total paid claims			$ 4,339,228,391
Medical claims liability			$ 201,135,688

Incurred claims and allocated claim adjustment expenses, total IBNR plus expected development on reported claims and cumulative claims data as of December 31, 2022 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, 2022		
		Incurred claims and allocated claim adjustment expenses	Total IBNR plus expected development on reported claims	Cumulative paid claims
Claim year:				
2022	$	1,174,357,876	(1,950,796)	5,617,025
2023		1,445,343,003	(2,571,148)	6,346,904
2024		1,920,663,200	205,657,632	6,852,313

(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, 2022 and 2021 are as follows:

Affiliate		Amounts due (to) from Total 2022
Centene Management Company	$	138,216
Bankers Rsrv-Reinsurance		69,316
Envolve People Care, Inc.		(110)
CBH Arizona		(76,599)
Envolve Vision, Inc.		62,894
Envolve Pharmacy Solutions (EPS)		1,979,576
Envolve Dental, Inc.		(11,816)
VPA P.C.		(956,136)
	$	1,205,341

Affiliate		Total 2021
Centene Management Company LLC	$	11,497,730
Bankers Rsrv-Reinsurance		69,316
Envolve Pharmacy Solutions (EPS)		198,376
Envolve People Care, Inc.		315,693
Cenpatico Integrated Care		(51,985)
Envolve Vision, Inc.		147,290
Envolve Dental, Inc.		(3,515,836)
	$	8,660,584

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 $173,349,791 and $133,614,727 for the years ended December 31, 2022 and 2021, 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 Envolve Pharmacy Solutions ("EPS"), an affiliated company wholly owned by Envolve Holdings, Inc. which is wholly owned by Centene. EPS provides pharmacy benefit management services to eligible enrollees. The Company incurred expense to EPS of $302,512,490 and $232,266,640, net of rebates, for these services for the years ended December 31, 2022 and 2021, respectively, which are included in health care services in the accompanying statements of operations. Claims encounters are submitted to AHCCCS to substantiate these payments. EPS also receives an administration fee from the Company for administering pharmacy claims processing. For the years ended December 31, 2022 and 2021, these administration fees totaled $3,275,127 and $5,082,840, 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 $3,950,711 and $2,625,502 for these services during the years ended December 31, 2022 and 2021, 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 $43,341,801 and $30,702,379 for these services during the years ended December 31, 2022 and 2021, 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 $0 and $3,565,929 during the years ended December 31, 2022 and 2021, 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 $10,000,000 with a self-insured retention of $25,000,000. 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, 2022 and 2021, 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, 2022 and 2021 the Company approved amounts that resulted in appropriations of approximately $5,634,160 and $1,524,000, respectively, to be spent on various community projects. During the years ended December 31, 2022 and 2021, the Company spent approximately $1,293,965 and $919,000, respectively, of the appropriated funds. At December 31, 2022 and 2021, the Company has recorded a liability for unspent community reinvestment program funds of approximately $5,634,160 and $1,613,000, 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, 2022, and December 31 2021, 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, 2022 and 2021, the Company recorded a profit corridor of $19,992,079 and $28,707,390, 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, 2022 and 2021, the Company recorded profit corridors of $258,434,290 and $131,079,938 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, 2022, the Company anticipates meeting the required encounter threshold for the year ended September 30, 2023. Accordingly, as of December 31, 2022, 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, 2022 and 2021, the Company recorded expenses for sanctions from AHCCCS of approximately $0 and $104,000, 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, 2022 through August 11, 2023, which is the date the financial statements were available to be issued.