

Arizona Physicians IPA, Inc.

Financial Statements as of and for the
Years Ended December 31, 2020 and 2019,
Supplemental Schedules as of and for the
Year Ended December 31, 2020, and
Independent Auditors' Report

ARIZONA PHYSICIANS IPA, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Arizona Physicians IPA, Inc.
1 East Washington Street, Suite 900
Phoenix, AZ 85004

We have audited the accompanying financial statements of Arizona Physicians IPA, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, comprehensive income, changes in stockholder's equity and accumulated other comprehensive income (loss), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Physicians IPA, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the 2020 financial statements as a whole. The supplementary information in Exhibit I and Exhibit II, although not a part of the basic financial statements, is required by the Arizona Healthcare Cost Containment System who considers it 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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

June 2, 2021

ARIZONA PHYSICIANS IPA, INC.

BALANCE SHEETS

AS OF DECEMBER 31, 2020 AND 2019

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 181,099,545 | \$ 70,793,252 |
| Short-term investments | - | 832,622 |
| Premiums receivable | 73,058,088 | 32,740,655 |
| AHCCCS reinsurance receivable | 59,022,805 | 36,765,699 |
| Other contract program receivables | 52,469,811 | 22,408,030 |
| Other receivables—net of allowances of \$2,126,346 and \$2,127,110 in 2020 and 2019, respectively | 4,456,377 | 8,000,488 |
| Related-party receivables—net | 14,677,803 | 5,101,836 |
| Investment receivables | 3,401,385 | 3,326,821 |
| Other assets | <u>1,864,577</u> | <u>1,638,525</u> |
| Total current assets | <u>390,050,391</u> | <u>181,607,928</u> |
| LONG-TERM ASSETS: | | |
| Long-term investments | 489,945,621 | 456,596,238 |
| Intangible assets—net | 25,389,331 | 27,680,097 |
| Other long-term assets | <u>20,754,878</u> | <u>20,754,878</u> |
| Total long-term assets | <u>536,089,830</u> | <u>505,031,213</u> |
| TOTAL | <u>\$ 926,140,221</u> | <u>\$ 686,639,141</u> |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | |
| CURRENT LIABILITIES: | | |
| Medical services payable | \$ 264,393,643 | \$ 233,033,333 |
| Medicaid risk sharing payable | 167,873,122 | 94,691,507 |
| Other payables to contract programs | 32,028,970 | 4,886,957 |
| Accounts payable and accrued expenses | 8,549,353 | 5,984,485 |
| Current federal income taxes payable | <u>9,166,285</u> | <u>2,649,210</u> |
| Total current liabilities | <u>482,011,373</u> | <u>341,245,492</u> |
| LONG-TERM LIABILITIES: | | |
| Long-term deferred income taxes—net | <u>3,814,346</u> | <u>965,674</u> |
| Total long-term liabilities | <u>3,814,346</u> | <u>965,674</u> |
| Total liabilities | <u>485,825,719</u> | <u>342,211,166</u> |
| CONTINGENCIES (Note 5) | | |
| STOCKHOLDER'S EQUITY: | | |
| Common stock, \$0.01 par value—1,000,000 shares authorized; two shares issued and outstanding | - | - |
| Additional paid-in capital | 77,516,394 | 77,516,394 |
| Retained earnings | 338,332,090 | 255,679,486 |
| Accumulated other comprehensive income | <u>24,466,018</u> | <u>11,232,095</u> |
| Total stockholder's equity | <u>440,314,502</u> | <u>344,427,975</u> |
| TOTAL | <u>\$ 926,140,221</u> | <u>\$ 686,639,141</u> |

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | 2020 | 2019 |
|---|-----------------------|----------------------|
| REVENUES: | | |
| Capitation and risk-sharing settlements | \$ 3,232,659,237 | \$ 2,865,097,852 |
| Delivery supplemental premiums | 45,131,896 | 45,833,489 |
| Investment income—net | <u>16,748,332</u> | <u>22,358,705</u> |
| Total revenues | <u>3,294,539,465</u> | <u>2,933,290,046</u> |
| MEDICAL SERVICES EXPENSES, NET | 2,715,977,536 | 2,536,684,037 |
| ADMINISTRATIVE EXPENSES | 314,657,560 | 241,406,936 |
| PREMIUM TAXES | <u>45,254,504</u> | <u>40,290,414</u> |
| Total expenses | <u>3,075,889,600</u> | <u>2,818,381,387</u> |
| INCOME BEFORE INCOME TAXES | 218,649,865 | 114,908,659 |
| PROVISION FOR INCOME TAXES | <u>55,997,261</u> | <u>23,480,764</u> |
| NET INCOME | <u>\$ 162,652,604</u> | <u>\$ 91,427,895</u> |

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| NET INCOME | <u>\$ 162,652,604</u> | <u>\$ 91,427,895</u> |
| OTHER COMPREHENSIVE INCOME: | | |
| Gross unrealized holding gains on investment securities during the period | 19,775,470 | 22,171,587 |
| Income tax effect | <u>(4,152,848)</u> | <u>(4,656,033)</u> |
| Total unrealized gains—net of tax | <u>15,622,622</u> | <u>17,515,554</u> |
| Gross reclassification adjustment for net realized gains included in net earnings | (3,023,669) | (4,340,360) |
| Income tax effect | <u>634,970</u> | <u>911,476</u> |
| Total reclassification adjustment—net of tax | <u>(2,388,699)</u> | <u>(3,428,884)</u> |
| OTHER COMPREHENSIVE INCOME | <u>13,233,923</u> | <u>14,086,670</u> |
| COMPREHENSIVE INCOME | <u>\$ 175,886,527</u> | <u>\$ 105,514,565</u> |

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

**STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | <u>Common Stock</u> | | <u>Additional</u> | <u>Retained</u> | <u>Accumulated</u> | <u>Total</u> |
|--|---------------------|---------------|----------------------|-----------------------|----------------------|-----------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Paid-In</u> | <u>Earnings</u> | <u>Other</u> | <u>Shareholder's</u> |
| | | | <u>Capital</u> | | <u>Comprehensive</u> | <u>Equity</u> |
| | | | | | <u>Income (Loss)</u> | |
| BALANCE—January 1, 2019 | 2 | \$ - | \$ 77,516,394 | \$ 224,251,591 | \$ (2,854,575) | \$ 298,913,410 |
| Comprehensive income: | | | | | | |
| Net income | - | - | - | 91,427,895 | - | 91,427,895 |
| Change in net unrealized gains on investments available-for-sale—net of tax effects and reclassification adjustments | - | - | - | - | 17,515,554 | 17,515,554 |
| Reclassification adjustments for net realized gains included in net income—net of tax effects | - | - | - | - | (3,428,884) | <u>(3,428,884)</u> |
| Total comprehensive income | | | | | | <u>105,514,565</u> |
| Dividend | - | - | - | <u>(60,000,000)</u> | - | <u>(60,000,000)</u> |
| BALANCE—December 31, 2019 | 2 | - | 77,516,394 | 255,679,486 | 11,232,095 | 344,427,975 |
| Comprehensive income: | | | | | | |
| Net income | - | - | - | 162,652,604 | - | 162,652,604 |
| Change in net unrealized gains on investments available-for-sale—net of tax effects and reclassification adjustments | - | - | - | - | 15,622,622 | 15,622,622 |
| Reclassification adjustments for net realized gains included in net income—net of tax effects | - | - | - | - | (2,388,699) | <u>(2,388,699)</u> |
| Total comprehensive income | | | | | | <u>175,886,527</u> |
| Dividends | - | - | - | <u>(80,000,000)</u> | - | <u>(80,000,000)</u> |
| BALANCE—December 31, 2020 | <u>2</u> | <u>\$ -</u> | <u>\$ 77,516,394</u> | <u>\$ 338,332,090</u> | <u>\$ 24,466,018</u> | <u>\$ 440,314,502</u> |

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | 2020 | 2019 |
|---|-----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 162,652,604 | \$ 91,427,895 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of other intangible assets—net | 2,290,767 | 2,290,767 |
| Amortization of investment premium—net | 2,511,845 | 2,697,653 |
| Deferred income taxes | (669,206) | (401,921) |
| Gains on sale of investments—net | (3,023,669) | (4,340,360) |
| Changes in operating assets and liabilities: | | |
| Premiums receivable | (40,317,433) | 82,078,308 |
| AHCCCS reinsurance receivable | (22,257,106) | 2,917,025 |
| Other contract program receivables | (9,860,307) | (2,606,017) |
| Other receivables | 3,534,111 | (2,212,402) |
| Other assets | (226,052) | (680,362) |
| Investment receivables | (74,564) | 559,379 |
| Current income taxes | 6,517,075 | (5,918,646) |
| Medical services payable | 31,360,310 | (34,856,506) |
| Accounts payable and accrued expenses | 2,567,761 | 176,539 |
| Medicaid risk sharing payable | 73,181,615 | 7,873,608 |
| Other payables to contract programs | 29,365,836 | 295,180 |
| Related-party receivables | (9,575,967) | (67,674,527) |
| Net cash provided in operating activities | <u>227,977,620</u> | <u>71,625,613</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments available-for-sale | (97,312,069) | (170,144,907) |
| Proceeds from maturities/sales of investments available-for-sale | <u>82,058,934</u> | <u>234,247,836</u> |
| Net cash (used in) provided investing activities | <u>(15,253,135)</u> | <u>64,102,929</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Dividends paid | (80,000,000) | (60,000,000) |
| AHCCCS funds administered | (14,354,284) | (11,461,428) |
| Customer funds administered | (8,071,015) | (4,097,715) |
| Proceeds (applications) from other financing activities | <u>7,107</u> | <u>(791,292)</u> |
| Net cash used in financing activities | <u>(102,418,192)</u> | <u>(76,350,435)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 110,306,293 | 59,378,107 |
| CASH AND CASH EQUIVALENTS—Beginning of the year | <u>70,793,252</u> | <u>11,415,145</u> |
| CASH AND CASH EQUIVALENTS—End of year | <u>\$ 181,099,545</u> | <u>\$ 70,793,252</u> |
| SUPPLEMENTAL CASH FLOW DISCLOSURE—Cash paid for income taxes | <u>\$ 50,149,392</u> | <u>\$ 29,801,331</u> |

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

1. ORGANIZATIONAL STRUCTURE AND OPERATION

Organization — Arizona Physicians IPA, Inc. (the “Company” or “APIPA”) was incorporated on September 19, 1995. The Company is a wholly owned, for-profit subsidiary of UnitedHealthcare, Inc. (“UHC”). UHC is a wholly owned subsidiary of United HealthCare Services, Inc. (“UHS”), a management corporation that provides services to the Company under the terms of a management agreement (the “Agreement”). UHS is a wholly owned subsidiary of UnitedHealth Group Incorporated (“UHG”). UHG is a publicly held company trading on the New York Stock Exchange.

Operation — The majority of the Company’s premium revenues result from its contracts with the Arizona Health Care Cost Containment System (“AHCCCS”). The Company participates in an AHCCCS Complete Care (“ACC”) integrated services contract in two geographic service areas of the state of Arizona. The ACC contract is a three-year contract subject to renew October 1, 2021 with two, two-year options to extend, for a total of seven years, or through September 30, 2025. The Company also provides Arizona Long Term Care System (“ALTCS”) benefits under the AHCCCS ALTCS contract. The Company renewed the ALTCS contract in 2020 for two-years and subject to renew twice more for one-year, or through September 30, 2024.

AHCCCS also provides prior period coverage for the period of time prior to the member’s enrollment with the Company during which time the member is eligible for covered services.

The Company contracts with the Arizona Department of Economic Security Division for Developmental Disabilities (“DES/DDD”) to provide integrated medical care to developmentally disabled individuals. The most recent contract integrates behavioral health, physical health, Children’s Rehabilitative Services (“CRS”), and some long-term care services and support. The DES/DDD contract was renewed October 1, 2019 and is a three-year contract subject to renew October 1, 2022 with seven years of potential renewal, for a total of ten years, or through September 30, 2029.

Used in conjunction with the AHCCCS and DDD/DES contracts, the Company also has a contract with the Centers for Medicare and Medicaid Services (“CMS”) to serve as a plan sponsor offering a Dual Special Needs Plan (“DSNP”) and a Fully Integrated Dual Eligible Special Needs Plan (“FIDE-SNP”) product. These products are solely funded by CMS. A DSNP is a specialized type of Medicare Advantage Prescription Drug Plan (“MAPD”) that is limited to dually eligible members and provides additional Medicaid coordination and clinical programs. The FIDE-SNP is a DSNP which coordinates the delivery of covered Medicare and Medicaid health and long-term care services, using aligned care management and specialty care network methods for high-risk beneficiaries and employs policies and procedures approved by CMS and the State to coordinate or integrate enrollment, member materials, communications, grievance and appeals, and quality improvement.

2. BASIS OF PRESENTATION, USE OF ESTIMATES AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The Company has prepared the financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Use of Estimates — These financial statements include certain amounts based on the Company’s best estimates and judgments. The Company’s most significant estimates relate to estimates and judgments for medical services expenses, net, AHCCCS reinsurance receivable, medical services payable, Medicaid risk sharing payable, and risk adjustment estimates. Certain of these estimates require the application of complex assumptions and judgments, often because they involve matters that are

inherently uncertain, and will likely change in subsequent periods. The impact of any changes in estimates is included in earnings in the period in which the estimate is adjusted.

Cash, Cash Equivalents, and Investments — Cash and cash equivalents are highly liquid investments having an original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments.

Cash and cash equivalents include the Company's share of an investment pool sponsored and administered by UHS. The investment pool consists principally of investments with original maturities of less than one year, with the average life of the individual investments being less than 60 days. The Company's share of the pool represents an undivided ownership interest in the pool and is immediately convertible to cash at no cost or penalty. The participants within the pool have an individual fund number to track those investments owned by the Company. In addition, the Company is listed as a participant in the executed custodial agreement between UHS and the custodian whereby the Company's share in the investment pool is segregated and separately maintained. The pool is primarily invested in government obligations, commercial paper, certificates of deposit, and short-term agency notes and is recorded at cost or amortized cost. Interest income from the pool accrues daily to participating members based upon ownership percentage.

The Company had checks outstanding of \$25,610 and \$28,504 at December 31, 2020 and 2019, respectively, which were classified in accounts payable and accrued expenses in the accompanying balance sheets. The change in this balance has been reflected as proceeds (applications) from other financing activities in the accompanying statements of cash flows. The outstanding checks are related to zero balance accounts. The Company does not net checks outstanding with deposits in other accounts.

Investments with maturities of less than one year are classified as short-term. All other investments are classified as available-for-sale and reported at fair value based on quoted market prices, where available.

The Company excludes unrealized gains and losses on investments in available-for-sale securities from earnings, and reports them as accumulated other comprehensive income (loss) ("AOCI"), and net of income tax effects, as a separate component of stockholder's equity. To calculate realized gains and losses on the sale of investments, the Company specifically identifies the cost of each investment sold.

The Company evaluates an investment for impairment by considering the length of time and extent to which market value has been less than cost or amortized cost, the financial condition, and near-term prospects of the issuer, as well as specific events or circumstances that may influence the operations of the issuer, and the Company's intent to sell the security, or the likelihood that it will be required to sell the security, before recovery of the entire amortized cost.

New information and the passage of time can change these judgments. The Company manages its investment portfolio to limit its exposure to any one issuer or market sector, and largely limits its investments to U.S. government and agency obligations; state and municipal obligations; mortgage-backed securities; and corporate obligations, substantially all of which are investment grade quality. Securities downgraded below policy minimums after purchase will be disposed of in accordance with the Company's investment policy.

Investment income earned and due as of the reporting date, in addition to investment income earned but not paid or collected until subsequent periods, is reported as investment receivables in the accompanying balance sheets. The Company evaluates the collectability of the amounts due and amounts determined to be uncollectible are written off in the period in which the determination is made.

Investment income-net includes investment income collected during the period, as well as the change in investment receivables on the Company's holdings. Amortization of premium or discount on bonds and

certain external investment management costs are also included in investment income-net in the accompanying statements of operations.

Intangible Assets—Net — The Company has a customer-related intangible asset resulting from a membership transfer agreement with Maricopa Integrated Health System which is recorded in intangible assets-net in the accompanying balance sheets. This definite-lived intangible asset is being amortized using the straight line method over the useful life of fifteen years. The amortization amount is recorded to administrative expenses in the accompanying statements of operations.

The Company's intangible asset is subject to impairment tests when events or circumstances indicate that an intangible asset may be impaired. There was no impairment of intangible assets during the year ended December 31, 2020.

The gross value of the intangible asset as of December 31, 2020 is \$34,361,500, and there has been accumulated amortization of \$8,972,169, for a net value of \$25,389,331. The gross value of the intangible asset as of December 31, 2019 is \$34,361,500, and there has been accumulated amortization of \$6,681,403, for a net value of \$27,680,097.

Notes Receivable — The Company has a Receivable Purchase and Servicing Agreement with OptumBank, Inc., an affiliate. The Company agrees to purchase, without recourse, up to \$21,150,000 of notes receivable associated with a real-estate term loan facility ("RETLF") issued to a subsidiary of Chicanos Por la Causa, Inc. ("CPLC"), a non-profit organization. The commercial loans are part of a community development partnership with CPLC. The loans are fixed low-interest notes and mature in full on the first day of the seventh year after the date of the loan. The loans are collateralized by the properties invested in by CPLC. Interest payments are made in arrears at the end of each quarter.

The loans are stated at outstanding principal. There are no origination costs incurred by the Company or allowance recorded on the receivable as of December 31, 2020 or December 31, 2019. The Company has the ability and the intent to hold the loans for the foreseeable future, until maturity, or payoff.

As of December 31, 2020 there are two outstanding notes receivable, \$14,303,219 originating on February 9, 2016 and \$6,451,659 originating on March 31, 2016. The receivables are reported as other long-term assets in the accompanying balance sheets. Generally, a loan is identified as impaired when it is probable that the Company will be unable to collect all amounts due (including both interest and principle) according to the contractual terms of the loan agreement. No impairments were identified as of December 31, 2020 or December 31, 2019. The interest earned for these outstanding notes was \$422,022 and \$387,319 for the years ended December 31, 2020 and December 31, 2019, respectively, and reflected as investment income-net within the accompanying statements of operations.

Premium Revenues — Capitation and risk-sharing settlements and delivery supplemental premiums are contractual. Capitation revenues are generally paid in advance of the coverage period in which benefits are to be provided and are earned and recognized during the applicable coverage period regardless of whether services are incurred. The majority of premium revenues recorded are based on capitated rates, which are monthly premiums paid for each member enrolled.

Premium revenue from AHCCCS and DDD/DES includes capitation for members' medical and behavioral coverage, reconciliation of costs, premium taxes, health insurer fee, and other contractual program requirements as described further in Note 2. These revenues are recorded as capitation and risk-sharing settlements in the accompanying statements of operations.

Prospective capitation from the ALTCS contract is paid for those members who are receiving long-term care services and reside in a nursing facility, a certified home and community based setting ("HCBS") or in their own home.

Additionally, the prospective capitation incorporates an assumed deduction for the Share of Cost (“SOC”), which members contribute to the cost of care based on their income and type of placement. The Company and its contracted providers collect members’ SOC directly from members. After the end of the contract year, AHCCCS compares actual SOC assignment to the SOC assignment assumed in the calculation of the prospective capitation rate. Assumed SOC will be fully reconciled to actual SOC assignment, and AHCCCS will either recoup or refund the total difference, as applicable. The Company recorded \$(1,837,432) and \$(661,542) related to member SOC redetermination as premiums receivable in the accompanying balance sheets at December 31, 2020 and 2019, respectively. The change in receivable are recorded as offsets to capitation and risk sharing settlements in the accompanying statement of operations.

Delivery supplemental premium payments are per delivery and intended by AHCCCS to cover the cost of maternity care. Such premiums are recognized in the month that the delivery occurs and are recorded as delivery supplemental premiums in the accompanying statements of operations and premiums receivable in the accompanying balance sheets.

Medicaid Risk Sharing — Due to the uncertainty regarding actual utilization and medical cost experience, AHCCCS limits the financial risk of the Company through risk share reconciliations. The Company has reconciliations with AHCCCS for each contract year to adjust for costs in excess or deficit of certain limits established by the contract.

The reconciliation for ACC and ALTCS members is tiered beginning at 2% gains or losses. AHCCCS will recoup different percentages of the excess in intervals up to profits of 6%. AHCCCS will repay all losses greater than 2%. The reconciliation includes both prospective and prior period coverage. DES/DDD will recoup all gains and repay all losses greater than 1%.

Receivables or payables and the corresponding revenues or contra-revenues are recorded depending on the surplus or deficit of revenues over medical and certain administrative expenses for the period and are calculated in accordance with the contract. The Company estimated Medicaid risk sharing payables of \$167,873,122 and \$94,691,507 on the accompanying balance sheets as of December 31, 2020 and 2019, respectively. The change in estimated risk share of \$(90,233,571) and \$(74,065,572) in 2020 and 2019, respectively, is recorded as a decrease to capitation and risk-sharing settlements in the accompanying statements of operations. For the year ended December 31, 2020 there was a retroactive change in risk share of \$24,705,697.

Medicare Advantage Benefits —The Company receives seven different payment elements from CMS for the DUALS and FIDE-SNP members either during the year or at final settlement in the subsequent year: CMS premium, member premium, CMS low-income premium subsidy, CMS catastrophic reinsurance subsidy, CMS low-income member cost-sharing subsidy, CMS risk share, and the CMS coverage gap discount program.

The CMS premium, member premium, and low-income premium subsidy represent payments for the Company’s insurance risk coverage under the program and are therefore recorded as capitation and risk-sharing settlements in the accompanying statements of operations. Premium revenues are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. The Company records premium payments received in advance of the applicable service period in other payables to contract programs in the accompanying balance sheets.

CMS utilizes a risk adjustment model that apportions premiums paid to all health plans according to health severity and certain demographic factors of its enrollees. The CMS risk adjustment model pays more for members whose medical history indicates they have certain medical conditions. Under this risk adjustment methodology, CMS calculates the risk-adjusted premium payment using diagnosis data from hospital inpatient, hospital outpatient, and physician treatment settings. The Company and health care providers collect, capture, and submit the necessary and available diagnosis data to CMS within prescribed deadlines. If diagnosis data submitted to CMS needs to be corrected or deleted, the revised diagnosis data can be re-submitted. The Company recognizes such changes when the amounts

become determinable and supportable. The estimated risk adjusted payments due to the Company at December 31, 2020 and 2019, were \$55,876,137 and \$30,813,664 respectively, and are recorded as premiums receivable in the accompanying balance sheets. The Company recognized \$1,964,525 and (\$1,133,380) for changes in prior year Medicare risk factor estimates during the years ended December 31, 2020 and 2019, respectively, which is recorded as capitation and risk-sharing settlements within the accompanying statements of operations.

The catastrophic reinsurance subsidy and the low-income member cost sharing subsidy (“Subsidies”) represent cost reimbursements under the Medicare Part D program. The Company is fully reimbursed by CMS for costs incurred for these contract elements, and accordingly, there is no insurance risk to the Company. Subsidies for individual members are accounted for as deposits in other contract program receivables in the accompanying balance sheets. The Company recorded \$20,645,410 and \$12,548,701 in other contract program receivables as of December 31, 2020 and 2019, respectively, for cost reimbursements under the Medicare Part D program for the catastrophic reinsurance and low-income member cost sharing subsidies. Related cash flows are presented as customer funds administered within financing activities in the accompanying statements of cash flows.

Pharmacy benefit costs and administrative costs under the contract are expensed as incurred, and are recognized in medical services expenses and administrative expenses, respectively, in the accompanying statements of operations.

The Company has Medicare Part D risk-corridor amounts from CMS which are subject to a retrospectively rated feature related to Part D premiums. The Company has estimated accrued retrospective premiums related to certain Part D premiums based on guidelines determined by CMS. The formula is tiered and based on bid medical loss ratio.

The Company recorded an estimated CMS Part D risk share adjustment receivable of \$3,533,420 and \$1,915,126 as other contract program receivables in the accompanying balance sheets in 2020 and 2019, respectively and as an increase to capitation and risk-sharing settlements in the accompanying statements of operations. The final 2019 risk-share amount is expected to be settled during the second half of 2020 and is subject to the reconciliation process with CMS. The amount of Part D premiums subject to retrospective rating was \$38,728,962 and \$36,706,180 for the years ended December 31, 2019 and 2018, respectively, representing 1% and 1% of total revenues excluding investment income as of December 31, 2020 and 2019, respectively.

Alternative Payment Model (“APM”) — AHCCCS administers the APM, a quality and performance incentive program for both providers and contractors.

As part of the APM, 1% of gross prospective capitation from all contractors in Arizona is at-risk to be redistributed based upon each contractor’s performance on selected Quality Management Performance Measures as determined by AHCCCS. AHCCCS will recoup the amounts due from contractors to be redistributed once reconciliation for the contract period is complete. For contract year 2020, the APM reconciliation was suspended due to COVID-19. The Company accrued a payable for revenues it expects to be recouped. The Company recorded \$3,622,622 and \$3,632,812 which were net against other APM receivables in other contract program receivables in the accompanying balance sheets as of December 31, 2020 and 2019, respectively. These amounts are recorded as capitation and risk-sharing settlements in the accompanying statements of operations.

The APM initiative also requires the Company to have a certain percentage of payments governed by APM strategies and performance-based incentives linked to quality and value. The Company manages APMs in which providers are rewarded for performing well on quality metrics and where providers share in a proportion of the savings they generate against cost and utilization targets. The Company accrued \$16,616,005 and \$6,539,968 in medical services payable in the accompanying balance sheets for this program as of December 31, 2020 and 2019, respectively. Amounts incurred are reported in medical services expenses, net in the accompanying statements of operations.

AHCCCS refunds the Company for performance-based payments to providers in subsequent period capitation payments. The Company accrues the estimated refund of \$20,974,722 and \$11,533,557 as other contract program receivables in the accompanying balance sheets as of December 31, 2020 and December 31, 2019, respectively. These refunds are recorded as capitation and risk-sharing settlements in the accompanying statements of operations.

Administration of AHCCCS Funds —The Company administers funds from AHCCCS to specific provider populations which are accounted for as deposits.

Rural Hospital Enhancement Payments —The Company entered into an agreement with AHCCCS in which it will pass-through supplemental inpatient reimbursement payments to qualifying rural hospitals as determined by AHCCCS. AHCCCS remits payment and informs the Company of the amount to be paid to each provider.

Nursing Facility Enhanced Payments —The Company entered into an agreement with AHCCCS to provide nursing facilities additional support through matched federal funds. The Company makes quarterly lump sum payments to ALTCS providers based on reported bed days, which is matched by increased payments from AHCCCS.

Targeted Investment Program —The Company is required to provide incentives to participating providers, specifically for physical and behavioral health care integration and coordination. The Targeted Investment program is funded through a lump sum payment from AHCCCS equal to the payment due to the providers plus an administrative service payment to the Company.

Access to Professional Services Initiative (“APSI”) —The Company is required to pass through professional services designed to preserve and enhance access and support professional training and education efforts to specific professionals. The APSI is funded through a lump sum payment from AHCCCS equal to payments due to the Qualified Practitioners affiliated with designated hospitals.

ALTCS – EPD HCBS Directed Payments — AHCCCS is directing subsidy payments to direct care staff. The payments to providers will be refunded by AHCCCS in the contract year 2020 risk corridor settlement process.

The Company recorded \$12,130,460 and \$(2,223,824) in other contract program receivables and other payables to contract programs on the accompanying balance sheets related to the Administration of AHCCCS Funds as of December 31, 2020 and 2019, respectively. The corresponding net impact of funds transferred are recorded as AHCCCS funds administered in the accompanying statements of cash flows.

Community Reinvestment — The Company is required to allocate 6% of annual net profits, on a contract-year-to-date basis, to community reinvestment activities on the ACC and ALTCS contracts. This became effective on the DES/DDD contract on October 1, 2019. Community reinvestment activities are programs that work towards improving social determinants of health, such as access to health services and improving public health. The Company recorded \$4,227,978 and \$1,248,460 in accounts payable and accrued expenses on the accompanying balance sheets related to this program as of December 31, 2020 and 2019, respectively. \$164,000 has been applied against the accrued expense as of December 31, 2020.

Medical Services Expenses, Net and Medical Services Payable — The Company’s estimate of medical services payable represents management’s best estimate of its liability for unpaid medical services as of December 31, 2020.

Each period, the Company re-examines previously established medical services payable estimates based on actual claim submissions and other changes in facts and circumstances. As more complete claims information becomes available, the Company adjusts the amount of the estimates and includes

the changes in estimates in medical services expenses, net in the period in which the change is identified.

Medical services expenses, net and medical services payable include estimates of the Company's obligations for medical care services that have been rendered on behalf of insured consumers, but for which claims have either not yet been received, processed, or paid. The Company develops estimates for medical services expenses incurred but not reported ("IBNR"), which includes estimates for claims that have not been received or fully processed, using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as time from date of service to claim processing, seasonal variances in medical care consumption, health care contract rate changes, medical care utilization and other medical cost trends, membership volume and demographics, the introduction of new technologies, benefit plan changes, and business mix changes related to products, customers, and geography (see Note 4). Judgments related to these factors contemplated the impact of COVID-19 in 2020.

The Company contracts with hospitals, physicians, and other providers of health care under capitated or discounted fee for service arrangements. Some of these contracts are with related parties (see Note 8). Capitated providers are at risk for the cost of medical care services provided to the Company's enrollees; however, the Company is ultimately responsible for the provision of services to its enrollees should the capitated provider be unable to provide the contracted services.

AHCCCS Reinsurance — AHCCCS Reinsurance is a stop-loss program provided by AHCCCS for the partial reimbursement of covered medical services and those costs incurred beyond an annual deductible per member. AHCCCS provides regular reinsurance so long as the member incurred an inpatient stay, catastrophic reinsurance for those members receiving certain drugs or diagnosed with specific disorders, transplant reinsurance and other reinsurance.

The ACC, ALTCS, and DES/DDD contracts require the respective agencies to reimburse the Company 75% (85% for catastrophic cases for ACC and DES/DDD contracts) of qualified health care costs in excess of a recovery deductible. The deductibles applied are \$50,000 for DES/DDD and \$35,000 for ACC. The deductible for members covered under the ALTCS contract is dependent upon membership enrolled with the Company. For cases where qualified medical out-of-pocket expense exceeds \$1,000,000 the Company is reimbursed for 100% of the expense.

Recoveries from AHCCCS are recorded at estimated amounts due to the Company pursuant to contractual terms. The Company reports estimated recoveries from AHCCCS as AHCCCS reinsurance receivable in the accompanying balance sheets which are offset against medical services expenses in the accompanying statements of operations.

Administrative Expenses and Premium Taxes — Administrative expenses include general expenses required for the operations of the Company, including fees paid under agreements to affiliates (see Note 8), claims adjustment expenses, and health insurance industry tax. Premium taxes are incurred on the AHCCCS contractual premiums and are generally covered by an increase in capitated premiums.

Claims adjustment expenses are those costs expected to be incurred in connection with the adjustment and recording of health claims. Pursuant to the terms of the Agreement, the Company pays a management fee to its affiliate, UHS, in exchange for administrative and management services. It is the responsibility of UHS to pay loss adjustment expenses in the event the Company ceases operations. Management believes the amount of the liability for unpaid claims adjustment expenses and associated claims interest as of December 31, 2020 is adequate to cover the Company's cost for the adjustment of unpaid claims; however, actual expenses may differ from those established estimates. Adjustments to the estimates for unpaid claims adjustment expenses are reflected in operating results in the period in which the change in estimate is identified. As of December 31, 2020 and 2019, the unpaid claims adjustment expenses included in the accompanying balance sheets in the accounts payable and accrued expenses line item is \$3,081,737 and \$2,906,617, respectively. Claims adjustment expenses are included in administrative expenses in the accompanying statements of operations.

The Affordable Care Act (“ACA”) includes an annual, nondeductible insurance industry tax (“Health Insurance Industry Tax”) to be levied proportionally across the insurance industry for risk-based health insurance products. A one-year moratorium on the collection of the Health Insurance Industry Tax occurred in 2019. The Health Insurance Industry Tax was levied in 2020 and it was permanently repealed by Congress for subsequent years.

AHCCCS has agreed to adjust the capitation payments to the Company in response to the Health Insurance Industry Tax, including the nondeductible tax effect, for up to the amounts paid for the year. The Company recorded \$45,980,363 and \$(55,885) as capitation and risk-sharing settlements in the accompanying statements of operations for the years ended December 31, 2020 and 2019, respectively.

Beginning October 1, 2019, and in accordance with AHCCCS' Pharmacy Benefit Manager (“PBM”) Transparency initiative, the Company moved to a pass through contract with its PBM. Only drug cost and dispensing fees are included in medical services expenses, net, with the remaining costs included in administrative expenses within the accompanying statements of operations. The incremental increase in administration costs due to the PBM transparency initiative is \$2,571,464, \$297,268, and \$139,804 for ACC, DES/DDD, and ALTCS, respectively.

Premium Deficiency Reserve — The Company assesses the ability for anticipated premiums to exceed health care related costs, including estimated payments for physicians and hospitals, and costs of collecting premiums and processing claims. If the anticipated future costs exceed the premiums, a loss contract accrual is recognized. The Company has no amounts recorded for premium deficiency reserves as of December 31, 2020 and 2019.

Concentration of Business and Credit Risk — Future contract awards are contingent upon the continuation of the ACC, ALTCS, and DES/DDD programs by AHCCCS and the State of Arizona, and the continuation of the CMS Medicare Advantage program along with the Company’s ability and desire to retain its status as a contractor under the programs. For the years ended December 31, 2020 and 2019, all of the Company’s total revenues and receivables were from these programs (see Note 1).

Premiums from the ACC, Medicare, and ALTCS contracts of \$1,746,328,171, \$902,853,332, and \$414,903,192 respectively, represent 53%, 28%, and 13% of total revenues, excluding investment income, for the year ended December 31, 2020. Premiums from the ACC, Medicare, and ALTCS contracts of \$1,561,162,549, \$783,262,225, and \$395,441,385 respectively, represent 54%, 27%, and 14% of total revenues, excluding investment income, for the year ended December 31, 2019. All other contracts represent less than 10% of total revenues, excluding investment income.

Concentration of credit risk with respect to receivables is limited due to the fact that AHCCCS, DES/DDD, and CMS are government agencies.

Recently Issued Accounting Standards — In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, “Financial Instruments - Credit Losses (Topic 326)” (“ASU 2016-13”). ASU 2016-13 requires the use of the current expected credit loss impairment model to develop an estimate of expected credit losses for certain financial assets. ASU 2016-13 also requires expected credit losses on available-for-sale debt securities to be recognized through an allowance for credit losses and revises certain disclosure requirements. The Company adopted ASU 2016-13 using a cumulative-effect-upon-adoption approach on January 1, 2020. The adoption resulted in no material impact to the Company’s balance sheet, results of operations, equity or cash flows. The Company has determined that there have been no other recently adopted or issued accounting standards that had or will have a material impact on its financial statements.

3. PERFORMANCE BONDS

Pursuant to its contracts with AHCCCS, DES/DDD, and CMS, the Company is required annually to provide performance bonds, in an acceptable form, to guarantee performance of the Company’s

obligations under certain contracts. To satisfy this requirement, the Company maintained surety bonds in 2020 and 2019 in the amounts of \$250,000,000 and \$257,000,000, respectively. The bonds are unsecured and require no Company assets to secure the obligations.

4. MEDICAL SERVICES PAYABLE ANALYSIS

The following table shows the components of the change in medical services payable for the years ended December 31, 2020 and 2019. Claim payments are presented net of health care receivables, including stop-loss recoveries, claim overpayment receivables, and pharmacy rebate receivables.

| | 2020 | 2019 |
|---|------------------------|------------------------|
| Medical services payable, beginning of year | \$ <u>233,033,333</u> | \$ <u>267,889,839</u> |
| Reported medical services: | | |
| Current year | 2,737,370,728 | 2,588,034,401 |
| Prior years | <u>(21,393,192)</u> | <u>(51,350,364)</u> |
| Total reported medical services | <u>2,715,977,536</u> | <u>2,536,684,037</u> |
| Claim payments: | | |
| Payments for current year | (2,477,606,276) | (2,353,866,202) |
| Payments for prior years | <u>(207,010,950)</u> | <u>(217,674,341)</u> |
| Total claim payments | <u>(2,684,617,226)</u> | <u>(2,571,540,543)</u> |
| Medical services payable, end of year | \$ <u>264,393,643</u> | \$ <u>233,033,333</u> |

There has been \$21,393,192 of favorable prior year development from December 31, 2019 to December 31, 2020. The primary drivers consist of favorable development of \$24,405,574 in AHCCCS reinsurance recoveries and favorable development of \$15,191,261 as a result of a change in the provision for adverse deviations in experience. This was partially offset by unfavorable development of \$13,926,828 in retroactivity for inpatient, outpatient, physician, and pharmacy claims and unfavorable risk share developments of \$3,810,840.

At December 31, 2019, the Company recorded \$51,350,364 of favorable prior year development primarily driven by favorable development of \$24,686,962 in retroactivity for inpatient, outpatient, physician, and pharmacy claims, favorable development of \$19,632,606 as a result of a change in the provision for adverse deviations in experience, and favorable development of \$13,587,219 in AHCCCS reinsurance recoveries. This was partially offset by unfavorable development of \$8,965,334 in retroactivity for audit recovery operations.

Medical costs payable included IBNR of \$208,508,077 and \$191,338,942 at December 31, 2020 and 2019, respectively. Substantially all of the IBNR balance as of December 31, 2020 relates to the current year. The following is information about incurred and paid medical cost development as of December 31, 2020:

| Year | Net Incurred Medical Costs For the Year Ended December 31 | |
|-------|--|-------------------------|
| | 2019 | 2020 |
| 2019 | \$ 2,588,034,401 | \$ 2,572,148,039 |
| 2020 | | <u>2,737,370,728</u> |
| Total | <u>\$ 2,588,034,401</u> | <u>\$ 5,309,518,767</u> |

| Year | Net Cumulative Medical Payments For the Year Ended December 31 | |
|---|---|------------------------|
| | 2019 | 2020 |
| 2019 | \$ (2,353,866,202) | \$ (2,566,490,674) |
| 2020 | | <u>(2,477,606,276)</u> |
| Total | | (5,044,096,950) |
| Net remaining outstanding liabilities prior to 2019 | | <u>(1,028,174)</u> |
| Total medical costs payable | | <u>\$ 264,393,643</u> |

5. CONTINGENT LIABILITIES AND GOVERNMENT REGULATIONS

The Company's business is regulated at the federal, state, and local levels. The laws and rules governing the Company's business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. Further, the Company must obtain and maintain regulatory approvals to market and sell many of its products.

The Company has been, or is currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments and other governmental authorities. The Company cannot reasonably estimate the range of loss, if any, that may result from any material government investigations, audits and reviews in which it is currently involved given the inherent difficulty in predicting regulatory action, fines and penalties, if any, and the various remedies and levels of judicial review available to the Company in the event of an adverse finding.

On February 14, 2017, the Department of Justice ("DOJ") announced its decision to pursue certain claims within a lawsuit initially asserted against the Company and filed under seal by a whistleblower in 2011. The whistleblower's complaint, which was unsealed on February 15, 2017, alleges that the Company made improper risk adjustment submissions and violated the False Claims Act. On February 12, 2018, the court granted in part and denied in part the Company's motion to dismiss. In May 2018, the DOJ moved to dismiss the Company's counterclaims, which were filed in March 2018, and moved for partial summary judgment. In March 2019, the court denied the government's motion for partial summary judgment and dismissed the Company's counterclaims without prejudice. The Company cannot reasonably estimate the outcome that may result from this matter given its procedural status.

Because of the nature of its businesses, the Company is frequently made party to a variety of legal actions and regulatory inquiries, including class actions and suits brought by members, care providers, consumer advocacy organizations, customers and regulators, relating to the Company's businesses, including management and administration of health benefit plans and other services.

The Company records liabilities for its estimates of probable costs resulting from these matters where appropriate. Estimates of costs resulting from legal and regulatory matters involving the Company are inherently difficult to predict, particularly where the matters involve: indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present novel legal theories or represent a shift in regulatory policy; involve a large number of claimants or regulatory bodies; are in the early stages of the proceedings; or could result in a change in business practices. Accordingly, the Company is often unable to estimate the losses or ranges of losses for those matters where there is a reasonable possibility or it is probable that a loss may be incurred. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions will not have a material adverse effect on the accompanying financial statements of the Company.

The Company routinely evaluates the collectability of all receivable amounts included in the accompanying balance sheets. Impairment reserves are established for those amounts where collectability is uncertain. Based on the Company's past experience, exposure related to uncollectible balances and the potential of loss for those balances not currently reserved for is not material to the Company's financial condition.

There are no other assets that the Company considers to be impaired at December 31, 2020 and 2019, except as disclosed in Note 6.

6. INVESTMENTS

A summary of investments by major security type is as follows:

| December 31, 2020 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|---------------------------|---------------------------------------|--|-----------------------|
| Debt securities—available-for-sale: | | | | |
| U.S. government and agency obligations | \$ 13,176,402 | \$ 1,093,567 | \$ - | \$ 14,269,969 |
| State and municipal obligations | 169,605,114 | 12,462,223 | 1,710 | 182,065,627 |
| Corporate obligations | 192,554,919 | 13,762,478 | 161,182 | 206,156,215 |
| U.S. agency mortgage-backed securities | 52,867,467 | 2,276,135 | 53,921 | 55,089,681 |
| Non-U.S. agency mortgage-backed securities | <u>30,508,148</u> | <u>1,857,389</u> | <u>1,408</u> | <u>32,364,129</u> |
| Total debt securities—available-for-sale | <u>458,712,050</u> | <u>31,451,792</u> | <u>218,221</u> | <u>489,945,621</u> |
| Total investments | <u>\$ 458,712,050</u> | <u>\$ 31,451,792</u> | <u>\$ 218,221</u> | <u>\$ 489,945,621</u> |
| December 31, 2019 | | | | |
| Debt securities—available-for-sale: | | | | |
| U.S. government and agency obligations | \$ 18,681,983 | \$ 604,144 | \$ - | \$ 19,286,127 |
| State and municipal obligations | 143,868,812 | 6,023,815 | 375,140 | 149,517,487 |
| Corporate obligations | 169,273,057 | 5,637,019 | 189,891 | 174,720,185 |
| U.S. agency mortgage-backed securities | 76,422,129 | 1,759,401 | 11,960 | 78,169,570 |
| Non-U.S. agency mortgage-backed securities | <u>34,701,112</u> | <u>1,039,757</u> | <u>5,378</u> | <u>35,735,491</u> |
| Total debt securities—available-for-sale | <u>442,947,093</u> | <u>15,064,136</u> | <u>582,369</u> | <u>457,428,860</u> |
| Total investments | <u>\$ 442,947,093</u> | <u>\$ 15,064,136</u> | <u>\$ 582,369</u> | <u>\$ 457,428,860</u> |

The amortized cost and fair value of available-for-sale debt securities as of December 31, 2020, by contractual maturity, were as follows:

| | 2020 | |
|--|---------------------------|-----------------------|
| | Amortized Cost | Fair Value |
| Due in one year or less | \$ - | \$ - |
| Due after one year through five years | 125,900,568 | 134,197,684 |
| Due after five years through ten years | 93,249,030 | 103,362,422 |
| Due after ten years | 156,186,837 | 164,931,705 |
| U.S. agency mortgage-backed securities | 52,867,467 | 55,089,681 |
| Non-U.S. agency mortgage-backed securities | <u>30,508,148</u> | <u>32,364,129</u> |
| Total debt securities—available-for-sale | <u>\$ 458,712,050</u> | <u>\$ 489,945,621</u> |

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

| | Less than 12 Months | | 12 Months or Greater | | Total | |
|---|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| December 31, 2020 | | | | | | |
| Debt securities—available-for-sale: | | | | | | |
| State and municipal obligations | \$ 1,855,735 | \$ 1,710 | \$ - | \$ - | \$ 1,855,735 | \$ 1,710 |
| Corporate obligations | 17,437,415 | 55,334 | 20,617,670 | 105,848 | 38,055,085 | 161,182 |
| U.S agency mortgage-backed securities | 14,783,401 | 53,921 | - | - | 14,783,401 | 53,921 |
| U.S. non-agency mortgage-backed securities | - | - | 2,765,411 | 1,408 | 2,765,411 | 1,408 |
| Total debt securities—available-for-sale | \$ 34,076,551 | \$ 110,965 | \$ 23,383,081 | \$ 107,256 | \$ 57,459,632 | \$ 218,221 |
| December 31, 2019 | | | | | | |
| Debt securities—available-for-sale: | | | | | | |
| State and municipal obligations | \$ 37,419,713 | \$ 365,814 | \$ 2,006,190 | \$ 9,326 | \$ 39,425,903 | \$ 375,140 |
| Corporate obligations | 12,749,288 | 52,028 | 22,105,694 | 137,863 | 34,854,982 | 189,891 |
| U.S agency mortgage-backed securities | 10,988,108 | 11,960 | - | - | 10,988,108 | 11,960 |
| U.S. non-agency mortgage-backed securities | 2,884,137 | 1,501 | 1,957,736 | 3,877 | 4,841,873 | 5,378 |
| Total debt securities—available-for-sale | \$ 64,041,246 | \$ 431,303 | \$ 26,069,620 | \$ 151,066 | \$ 90,110,866 | \$ 582,369 |

The Company's unrealized losses from all securities as of December 31, 2020 were generated from approximately 29 positions out of a total of approximately 275 positions. The Company believes that it will collect all principal and interest due on its investments that have an amortized cost in excess of fair value. The unrealized losses on investments were primarily caused by interest rate increases, and not by unfavorable changes in the credit ratings associated with these securities. At each reporting period, the Company evaluates impairment at each reporting period for each of the securities whereby the fair value of the investment is less than its amortized cost. The Company evaluated the expected cash flows, the underlying credit quality and credit ratings of the issuers, and the potential economic impacts of COVID-19 on the issuers, noting whether a significant deterioration since purchase or other factors that may indicate a significant credit deterioration. As of December 31, 2020, the Company did not have the intent to sell any of the securities in an unrealized loss position. Therefore, the Company believes these losses to be temporary. The allowance for credit losses were \$5,122 and \$0 as of December 31, 2020 and 2019, respectively, and are included in investment income-net in the accompanying statements of operations.

7. FAIR VALUE

Certain assets and liabilities are measured at fair value in the accompanying financial statements, or have fair values disclosed in the notes to financial statements. These assets and liabilities are classified into one of three levels of a hierarchy defined by GAAP. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The fair value hierarchy is summarized as follows:

Level 1—Quoted prices (unadjusted) for identical assets/liabilities in active markets.

Level 2—Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;

- Quoted prices for identical or similar assets/liabilities in non active markets (e.g., few transactions, limited information, non current prices, high variability over time);
- Inputs other than quoted prices that are observable for the asset/liability (e.g., interest rates, yield curves, implied volatilities, credit spreads); and
- Inputs that are corroborated by other observable market data.

Level 3—Unobservable inputs that cannot be corroborated by observable market data.

Non-financial assets and liabilities, or financial assets and liabilities that are measured at fair value on a nonrecurring basis, are subject to fair value adjustments only in certain circumstances, such as when the Company records an impairment. There were no significant fair value adjustments for these assets and liabilities recorded during the years ended December 31, 2020 and 2019.

The following table presents a summary of the fair value measurements by level for assets measured at fair value on a recurring basis:

| | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total Fair and Carrying Value |
|--|--|--|-------------------------------------|-------------------------------------|
| December 31, 2020 | | | | |
| Cash and cash equivalents | \$ 181,099,545 | \$ - | \$ - | \$ 181,099,545 |
| Debt securities—available-for-sale: | | | | |
| U.S. government and agency obligations | 14,269,969 | - | - | 14,269,969 |
| State and municipal obligations | - | 182,065,627 | - | 182,065,627 |
| Corporate obligations | - | 206,156,215 | - | 206,156,215 |
| U.S. agency mortgage-backed securities | - | 55,089,681 | - | 55,089,681 |
| Non-U.S. agency mortgage-backed securities | - | 32,364,129 | - | 32,364,129 |
| Total debt securities—available-for-sale | 14,269,969 | 475,675,652 | - | 489,945,621 |
| Total cash, cash equivalents, and investments at fair value | \$ 195,369,514 | \$ 475,675,652 | \$ - | \$ 671,045,166 |
| December 31, 2019 | | | | |
| Cash and cash equivalents | \$ 70,793,252 | \$ - | \$ - | \$ 70,793,252 |
| Debt securities—available-for-sale: | | | | |
| U.S. government and agency obligations | 19,286,127 | - | - | 19,286,127 |
| State and municipal obligations | - | 149,517,487 | - | 149,517,487 |
| Corporate obligations | - | 174,720,185 | - | 174,720,185 |
| U.S. agency mortgage-backed securities | - | 78,169,570 | - | 78,169,570 |
| Non-U.S. agency mortgage-backed securities | - | 35,735,491 | - | 35,735,491 |
| Total debt securities—available-for-sale | 19,286,127 | 438,142,733 | - | 457,428,860 |
| Total cash, cash equivalents, and investments at fair value | \$ 90,079,379 | \$ 438,142,733 | \$ - | \$ 528,222,112 |

There were no transfers between Levels 1, 2 or 3 of any financial assets during 2020 or 2019.

The Company does not have any financial assets with a fair value hierarchy of Level 3 that were measured and reported at fair value.

The following methods and assumptions were used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument:

Cash and Cash Equivalents—The carrying value of cash and cash equivalents approximates fair value, as maturities are less than three months. Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2.

Debt Securities—Fair values of debt securities are based on quoted market prices, where available. The Company obtains one price for each security, primarily from a third-party pricing service (pricing service), which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities and, if necessary, makes adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark yields, credit spreads, default rates, prepayment speeds and non-binding broker quotes.

As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to prices reported by a secondary pricing source such as its custodian, its investment consultant, and third-party investment advisors. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures, and review of fair value methodology documentation provided by independent pricing services, have not historically resulted in adjustment to the prices obtained from the pricing service.

Fair values of debt securities that do not trade on a regular basis in active markets, but are priced using other observable inputs, are classified as Level 2.

Throughout the procedures discussed above in relation to the Company's processes for validating third-party pricing information, the Company validates the understanding of assumptions and inputs used in security pricing and determines the proper classification in the hierarchy based on that understanding.

The carrying amounts reported in the accompanying balance sheets for other current financial assets and liabilities approximate fair value because of their short-term nature. These assets and liabilities are not listed in the table above.

8. RELATED-PARTY TRANSACTIONS

Management believes that its transactions with affiliates are fair and reasonable; however, operations of the Company may not be indicative of those that would have occurred if it had operated as an independent company.

In the ordinary course of business, the Company also directly contracts with related parties to provide services to its members that are routine in nature to its members. The administrative services, access fees, and cost of care services provided are calculated using a per member per month ("PMPM"), per claim, or a combination thereof. These amounts are included in medical services expenses-net and administrative expenses in the accompanying statements of operations.

The administrative services, access fees, and cost of care services provided by affiliates are calculated using one or more of the following methods: (1) a percentage of premiums; (2) use of assets; (3) direct pass-through of charges; (4) PMPM; (5) per employee per month; (6) per claim; or (7) a combination thereof consistent with the provisions contained in each contract. These amounts are included in medical services expenses, net and administrative expenses in the accompanying statements of operations. The following table identifies the amounts for the administrative services, access fees, and cost of care services provided by related parties for the years ended December 31, 2020 and 2019:

| | 2020 | 2019 |
|----------------------------------|----------------|----------------|
| OptumRx, Inc. | \$ 473,007,779 | \$ 429,073,152 |
| United Behavioral Health | 342,092,497 | 233,834,085 |
| United HealthCare Services, Inc. | 242,518,821 | 236,078,716 |
| Dental Benefit Providers, Inc. | 82,003,489 | 77,691,115 |

OptumRx, Inc. provides services that may include, but are not limited to, administrative services related to pharmacy management and pharmacy claims processing for enrollees, pharmacy incentive services, specialty drug pharmacy services, durable medical equipment services including orthotics and prosthetics and personal health products catalogues showing the healthcare products and benefit credits enrollees needed to redeem the respective products.

United Behavioral Health, Inc. provides services related to mental health and substance abuse treatment.

UHS provides, or arranges for the provision of, management, administrative, and other services deemed necessary or appropriate for UHS to provide management and operational support to the Company. The services can include, but are not limited to, the categories of management and operational services outlined in the Agreement, such as human resources, legal, facilities, general administration, treasury and investment functions, claims adjudication and payment, benefit administration, disease management, health care decision support, provider networks, quality oversight and wellness management. The amount charged to the Company for the management and operational services provided by UHS are calculated pursuant to the Agreement.

Dental Benefit Providers, Inc. provides dental care assistance.

The Company holds a \$50,000,000 subordinated revolving credit agreement with UHG, at an interest rate of London InterBank Offered Rate, plus a margin of 0.50%. This credit agreement is subordinate to the extent it does not conflict with any credit facility held by either party. The credit agreement is for a one-year term and automatically renews annually, unless terminated by either party. No amounts were outstanding under the line of credit as of December 31, 2020 and 2019.

In addition to the agreements above, UHS maintains a private short-term investment pool in which affiliated companies may participate (see Note 2). At December 31, 2020 and 2019, the Company's portion was \$179,182,428 and \$68,685,799, respectively, and is included in cash and cash equivalents in the accompanying balance sheets.

The Company has a Tax Sharing Agreement with UHG (see Note 11).

The Company paid dividends of \$80,000,000 and \$60,000,000 in 2020 and 2019, respectively, to its parent (see Note 9).

At December 31, 2020 and 2019, the Company reported \$14,677,803 and \$5,101,836, respectively, as related party receivables, which are included in the accompanying balance sheets.

The Company has a Receivable Purchase and Servicing Agreement with OptumBank, Inc., an affiliate. Under the terms of the agreement, the Company will purchase all receivables arising from a RETLF (see Note 2). The Company holds notes receivable of \$20,754,878 in other long-term assets in the accompanying balance sheets as of December 31, 2020 and 2019.

9. STOCKHOLDER'S EQUITY

The Company paid two dividends totaling \$80,000,000 during 2020. This was recorded as a decrease to retained earnings in the accompanying balance sheets. The dividends were distributed from Medicare earnings on October 19, 2020 and December 23, 2020 after approval by AHCCCS.

The Company paid a dividend of \$60,000,000 on September 30, 2019. This was recorded as a decrease to retained earnings in the accompanying balance sheets. The dividend was distributed from Medicare earnings and was approved by AHCCCS on September 19, 2019.

10. COMPLIANCE WITH FINANCIAL VIABILITY STANDARDS AND PERFORMANCE GUIDELINES

For the contract year ended September 30, 2020, the Company was in compliance with all Financial Viability Standards and Performance Guidelines.

As of December 31, 2020, one quarter into the 2021 contract year, the Company was in compliance with all Financial Viability Standards and Performance Guidelines. Performance against these standards and guidelines for the contract year ending September 30, 2021 is being monitored by the Company on a quarterly basis.

11. INCOME TAXES

The Company's operations are included in the consolidated federal income tax return of UHG. Federal income taxes are paid to or refunded by UHG pursuant to the terms of a tax-sharing agreement, under which taxes approximate the amount that would have been computed on a modified separate company basis by which current and deferred tax attributes are characterized as realized or realizable based on their expected realization by the consolidated group. The Company receives a benefit at the federal rate in the current year for net losses incurred in that year to the extent losses can be utilized in the consolidated federal income tax return of UHG. UHG currently files income tax returns in the United States, various states and localities, and non-U.S. jurisdictions. The U.S. Internal Revenue Service ("IRS") has completed exams on UnitedHealth Group's consolidated income tax returns for fiscal years 2016 and prior. UnitedHealth Group's 2017 through 2020 tax years are under advance review by the IRS under its Compliance Assurance Program. With the exception of a few states, UHG is no longer subject to income tax examinations prior to the 2013 tax year. In general, the Company is subject to examination in non-U.S. jurisdictions for years 2015 and forward. The Company does not believe any adjustments that may result from these examinations will be material to the Company.

The components of the provision for income taxes for the years ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|----------------------------------|----------------------|----------------------|
| Current provision: | | |
| Federal | \$ 56,666,292 | \$ 23,882,685 |
| State and local | <u>175</u> | <u>-</u> |
| Total current provision | <u>56,666,467</u> | <u>23,882,685</u> |
| Deferred provision: | | |
| Federal | <u>(669,206)</u> | <u>(401,921)</u> |
| Total deferred provision | <u>(669,206)</u> | <u>(401,921)</u> |
| Total provision for income taxes | <u>\$ 55,997,261</u> | <u>\$ 23,480,764</u> |

The reconciliation of the tax provision at the U.S. federal statutory rate to the provision for income taxes and the effective tax rate for the years ended December 31, 2020 and 2019 is as follows:

| | 2020 | | 2019 | |
|--|----------------------|---------------|----------------------|---------------|
| Tax provision at the U.S. federal statutory rate | \$ 45,916,472 | 21.0 % | \$ 24,130,818 | 21.0 % |
| Tax-exempt investment income | (552,099) | (0.3) | (656,530) | (0.6) |
| Health insurer fee | 10,632,742 | 4.9 | - | - |
| Other—net | <u>146</u> | <u>-</u> | <u>6,476</u> | <u>-</u> |
| Provision for income taxes | <u>\$ 55,997,261</u> | <u>25.6 %</u> | <u>\$ 23,480,764</u> | <u>20.4 %</u> |

Current federal income taxes payables are \$9,166,285 and \$2,649,210 as of December 31, 2020 and 2019, respectively.

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities, based on enacted tax rates and laws. The components of deferred income tax assets and liabilities as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|-----------------------|---------------------|
| Deferred income tax assets: | | |
| Bad debt reserve | \$ 447,424 | \$ 447,719 |
| Unpaid losses and loss adjustment expense | 494,949 | 327,750 |
| Unearned premium | 18 | 16 |
| Intangibles | <u>1,884,156</u> | <u>1,403,095</u> |
| Total deferred income tax assets | <u>2,826,547</u> | <u>2,178,580</u> |
| Deferred income tax liabilities: | | |
| Prepaid expenses | 81,843 | 25,623 |
| Investments | - | 77,459 |
| Unrealized gain | <u>6,559,050</u> | <u>3,041,172</u> |
| Total deferred income tax liabilities | <u>6,640,893</u> | <u>3,144,254</u> |
| Net deferred income tax liabilities | <u>\$ (3,814,346)</u> | <u>\$ (965,674)</u> |

The Company has not included a reconciliation of the beginning and ending amount of unrecognized tax benefits as it does not have any uncertain tax positions as of December 31, 2020 or 2019.

Federal and state income taxes paid, net of refunds, were \$50,149,392 and \$29,801,331 in 2020 and 2019, respectively.

12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES, AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company has no defined benefit plans, defined contribution plans, multiemployer plans, consolidated/holding company plans, postemployment benefits, or compensated absences plans and is not impacted by the Medicare Modernization Act on postretirement benefits, since all personnel are employees of UHS, which provides services to the Company under the terms of the Agreement (see Note 8).

13. OTHER ITEMS

COVID-19 Trends and Uncertainties

The COVID-19 pandemic continues to evolve and the ultimate impact on the Company and its results of operations, financial condition and cash flows remains uncertain. During the second quarter, the global health system experienced unprecedented levels of care deferral. As the pandemic advanced, access to and demand for care was most constrained from mid-March through April, began to recover in May and June and restored to near normal seasonal levels in the third quarter. Care patterns continued to normalize in the fourth quarter, returning to, and even exceeding, seasonal baselines, including COVID-19 treatment and testing costs, towards the end of the quarter. The temporary deferral of care experienced in 2020 may cause care patterns to moderately exceed normal baselines in future periods as utilization of health system capacity continues to increase. From time to time, health system capacity may be subject to possible increased volatility due to the pandemic. The Company has taken various

measures which could include expanded benefit coverage in areas such as COVID-19 care and testing, telemedicine, and pharmacy benefits; simplified administrative practices; and accelerated payments to care providers, all with the aim of assisting customers, care providers, members and communities in addressing the COVID-19 crisis. Temporary care deferrals impacted the Company's results of operations for the year ended December 31, 2020. The impact of temporary care deferrals was partially offset by COVID-19 related care and testing, the significant financial assistance provided to customers, rebate requirements and broader economic impacts.

Increased consumer demand for care, potentially even higher acuity care, along with continued COVID-19 care and testing costs are expected to result in increased future medical costs. Disrupted care patterns, as a result of the pandemic, may temporarily affect the ability to obtain complete member health status information, impacting future revenue in businesses utilizing risk adjustment methodologies. The ultimate overall impact is uncertain and dependent on the future pacing and intensity of the pandemic, the duration of policies and initiatives to address COVID-19, and general economic uncertainty.

14. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated and disclosed all material subsequent events up to June 2, 2021, the date that the draft financial statements were available to be issued.

There are no events subsequent to December 31, 2020 that require disclosure.

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**EXHIBIT I:
SUPPLEMENTAL FINANCIAL STATEMENTS BY CONTRACT**

ARIZONA PHYSICIANS IPA, INC.

**SUPPLEMENTAL BALANCE SHEETS BY CONTRACT
AS OF DECEMBER 31, 2020**

| | ACC | CRS (Contract Year 2018 and Prior) | DES/DDD (Including DES/DDD CRS Membership) | Medicare | ALTCS | Eliminations | Total |
|---|-----------------------|--|--|-----------------------|----------------------|-------------------------|-----------------------|
| ASSETS | | | | | | | |
| CURRENT ASSETS: | | | | | | | |
| Cash and cash equivalents | \$ 181,099,545 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 181,099,545 |
| Short-term investments | - | - | - | - | - | - | - |
| Premiums receivable | 23,227,567 | - | - | 53,173,101 | (3,342,580) | - | 73,058,088 |
| AHCCCS reinsurance receivable | 40,235,986 | - | 17,029,999 | - | 1,756,820 | - | 59,022,805 |
| Other contract programs receivables | 16,840,896 | - | 39,420 | 24,204,419 | 11,385,076 | - | 52,469,811 |
| Other receivables—net of allowances of \$2,127,110 | 2,026,613 | - | 329,342 | 1,309,585 | 790,837 | - | 4,456,377 |
| Related-party receivable—net | 14,609,366 | - | 68,714 | (277) | - | - | 14,677,803 |
| Investment receivables | 3,401,385 | - | - | - | - | - | 3,401,385 |
| Other assets | 1,474,850 | - | - | 389,727 | - | - | 1,864,577 |
| Due from other lines of business | - | - | 63,648,108 | 113,494,934 | 54,472,470 | (231,615,512) | - |
| Total current assets | <u>282,916,208</u> | <u>-</u> | <u>81,115,583</u> | <u>192,571,489</u> | <u>65,062,623</u> | <u>(231,615,512)</u> | <u>390,050,391</u> |
| LONG-TERM ASSETS: | | | | | | | |
| Long-term investments | 489,945,621 | - | - | - | - | - | 489,945,621 |
| Intangible assets—net | 25,389,331 | - | - | - | - | - | 25,389,331 |
| Other long-term assets | 20,754,878 | - | - | - | - | - | 20,754,878 |
| Total long-term assets | <u>536,089,830</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>536,089,830</u> |
| TOTAL | \$ 819,006,038 | \$ - | \$ 81,115,583 | \$ 192,571,489 | \$ 65,062,623 | \$ (231,615,512) | \$ 926,140,221 |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | |
| Medical services payable | \$ 143,414,164 | \$ - | \$ 10,733,758 | \$ 75,099,060 | \$ 35,146,661 | \$ - | \$ 264,393,643 |
| Medicaid risk sharing payable | 136,274,824 | - | 42,676,315 | - | (11,078,017) | - | 167,873,122 |
| Other payables to contract programs | - | - | - | 32,028,970 | - | - | 32,028,970 |
| Accounts payable and accrued expenses | 6,379,821 | - | 415,929 | 976,490 | 777,113 | - | 8,549,353 |
| Current federal income taxes payable | 9,166,285 | - | - | - | - | - | 9,166,285 |
| Due to other lines of business | 231,615,512 | - | - | - | - | (231,615,512) | - |
| Total current liabilities | <u>526,850,606</u> | <u>-</u> | <u>53,826,002</u> | <u>108,104,520</u> | <u>24,845,757</u> | <u>(231,615,512)</u> | <u>482,011,373</u> |
| LONG-TERM LIABILITIES: | | | | | | | |
| Long-term deferred income taxes—net | 3,814,346 | - | - | - | - | - | 3,814,346 |
| Total liabilities | <u>530,664,952</u> | <u>-</u> | <u>53,826,002</u> | <u>108,104,520</u> | <u>24,845,757</u> | <u>(231,615,512)</u> | <u>485,825,719</u> |
| STOCKHOLDER'S EQUITY: | | | | | | | |
| Common stock, \$0.01 par value—1,000,000 shares authorized; two shares issued and outstanding | - | - | - | - | - | - | - |
| Additional paid-in capital | 56,411,047 | - | 7,105,347 | - | 14,000,000 | - | 77,516,394 |
| Retained earnings | 207,464,021 | - | 20,184,234 | 84,466,969 | 26,216,866 | - | 338,332,090 |
| Accumulated other comprehensive income | 24,466,018 | - | - | - | - | - | 24,466,018 |
| Total stockholder's equity | <u>288,341,086</u> | <u>-</u> | <u>27,289,581</u> | <u>84,466,969</u> | <u>40,216,866</u> | <u>-</u> | <u>440,314,502</u> |
| TOTAL | \$ 819,006,038 | \$ - | \$ 81,115,583 | \$ 192,571,489 | \$ 65,062,623 | \$ (231,615,512) | \$ 926,140,221 |

ARIZONA PHYSICIANS IPA, INC.

SUPPLEMENTAL STATEMENTS OF OPERATIONS BY CONTRACT AS OF DECEMBER 31, 2020

| | ACC | CRS (Contract Year 2018 and Prior) | DES/DDD (Including DES/DDD CRS Membership) | Medicare | ALTCS | Total |
|---|----------------------|--|--|----------------------|---------------------|-----------------------|
| REVENUES: | | | | | | |
| Capitation and risk-sharing settlements | \$ 1,701,196,275 | \$ 6,290,853 | \$ 207,415,585 | \$ 902,853,332 | \$ 414,903,192 | \$ 3,232,659,237 |
| Delivery supplemental premium | 45,131,896 | - | - | - | - | 45,131,896 |
| Investment income—net | 16,748,332 | - | - | - | - | 16,748,332 |
| Total revenues | 1,763,076,503 | 6,290,853 | 207,415,585 | 902,853,332 | 414,903,192 | 3,294,539,465 |
| MEDICAL SERVICES EXPENSES: | | | | | | |
| Hospitalization | 190,905,783 | 1,045,394 | 58,219,556 | 277,825,252 | 16,536,797 | 544,532,782 |
| Medical compensation | 352,662,505 | 189,356 | 15,479,646 | 149,583,186 | 12,069,518 | 529,984,211 |
| Other medical services | 1,013,315,198 | 2,511,158 | 140,664,125 | 278,770,885 | 71,902,379 | 1,507,163,745 |
| Long-term care institutional | - | - | - | - | 110,993,728 | 110,993,728 |
| Long-term care home-based and community-based services | - | - | - | - | 158,698,008 | 158,698,008 |
| Recoveries from AHCCCS | (94,329,037) | (481,511) | (31,887,537) | - | (8,696,853) | (135,394,938) |
| Total medical services expenses | 1,462,554,449 | 3,264,397 | 182,475,790 | 706,179,323 | 361,503,577 | 2,715,977,536 |
| ADMINISTRATIVE EXPENSES | 162,437,712 | 4,007 | 17,748,130 | 99,205,465 | 35,262,246 | 314,657,560 |
| PREMIUM TAXES | 36,624,979 | - | 135,447 | - | 8,494,078 | 45,254,504 |
| Total expenses | 1,661,617,140 | 3,268,404 | 200,359,367 | 805,384,788 | 405,259,901 | 3,075,889,600 |
| INCOME BEFORE INCOME TAXES | 101,459,363 | 3,022,449 | 7,056,218 | 97,468,544 | 9,643,291 | 218,649,865 |
| PROVISION FOR INCOME TAXES | 27,492,967 | 603,207 | 2,255,744 | 23,374,910 | 2,270,433 | 55,997,261 |
| NET INCOME | \$ 73,966,396 | \$ 2,419,242 | \$ 4,800,474 | \$ 74,093,634 | \$ 7,372,858 | \$ 162,652,604 |