Arizona Physicians IPA, Inc.

Financial Statements as of and for the
Years Ended December 31, 2021 and 2020,
Supplemental Schedules as of and for the
Year Ended December 31, 2021, and
Independent Auditor's Report

ARIZONA PHYSICIANS IPA, INC.

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Arizona Physicians IPA, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, comprehensive income, changes in stockholder's equity and accumulated other comprehensive income, 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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Auditor's 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 GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's 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 auditor's 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.

Report on Supplemental Schedules

Our 2021 audit was conducted for the purpose of forming an opinion on the 2021 financial statements as a whole. The supplemental information in Exhibit I and Exhibit II are not part of financial statements; however, are a requirement of the Arizona Health Care Cost Containment System who considers these schedules an essential part of financial reporting for purposes of placing the basic financial statement in an appropriate operational, economic, and historical context. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the 2021 financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the 2021 financial statements as a whole.

Deloitte & Touche LLP

May 12, 2022

ARIZONA PHYSICIANS IPA, INC.

BALANCE SHEETS
AS OF DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 403,540,938	$ 181,099,545
Short-term investments	5,840,033	-
Premiums receivable	52,856,659	73,058,088
AHCCCS reinsurance receivable	38,439,584	59,022,805
Other contract program receivables	54,013,974	52,469,811
Other receivables — net of allowances of $2,168,795 and $2,126,346 in 2021 and 2020, respectively	15,641,036	4,456,377
Related-party receivables	22,493,542	14,677,803
Investment receivables	3,729,352	3,401,385
Other assets	24,989,988	1,864,577
Total current assets	621,545,106	390,050,391
LONG-TERM ASSETS:		
Long-term investments	568,426,980	489,945,621
Intangible assets — net	23,098,564	25,389,331
Other long-term assets	-	20,754,878
Long-term deferred income taxes — net	274,927	-
Total long-term assets	591,800,471	536,089,830
TOTAL	$ 1,213,345,577	$ 926,140,221
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Medical services payable	$ 314,974,673	$ 264,393,643
Medicaid risk sharing payable	315,105,765	167,873,122
Other payables to contract programs	56,305,865	32,028,970
Accounts payable and accrued expenses	14,301,606	8,549,353
Current federal income taxes payable	8,728,633	9,166,285
Total current liabilities	709,416,542	482,011,373
LONG-TERM LIABILITIES:		
Long-term deferred income taxes — net	-	3,814,346
Total long-term liabilities	-	3,814,346
Total liabilities	709,416,542	485,825,719
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	415,078,892	338,332,090
Accumulated other comprehensive income	11,333,749	24,466,018
Total stockholder's equity	503,929,035	440,314,502
TOTAL	$ 1,213,345,577	$ 926,140,221

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
REVENUES:		
Capitation and risk-sharing settlements	$ 3,641,873,369	$ 3,232,659,237
Delivery supplemental premiums	48,792,559	45,131,896
Investment income — net	17,471,272	16,748,332
Total revenues	3,708,137,200	3,294,539,465
MEDICAL SERVICES EXPENSES, NET	3,133,102,582	2,715,977,536
ADMINISTRATIVE EXPENSES	270,703,763	314,657,560
PREMIUM TAXES	49,704,873	45,254,504
Total expenses	3,453,511,218	3,075,889,600
INCOME BEFORE INCOME TAXES	254,625,982	218,649,865
PROVISION FOR INCOME TAXES	52,879,180	55,997,261
NET INCOME	$ 201,746,802	$ 162,652,604

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
NET INCOME	$ 201,746,802	$ 162,652,604
OTHER COMPREHENSIVE INCOME:		
Gross unrealized holding (losses) gains on investment securities during the period	(12,477,032)	19,775,470
Income tax effect	2,620,177	(4,152,848)
Total unrealized (losses) gains—net of tax	(9,856,855)	15,622,622
Gross reclassification adjustment for net realized gains included in net earnings	(4,146,094)	(3,023,669)
Income tax effect	870,680	634,970
Total reclassification adjustment—net of tax	(3,275,414)	(2,388,699)
OTHER COMPREHENSIVE (LOSS) INCOME	(13,132,269)	13,233,923
COMPREHENSIVE INCOME	$ 188,614,533	$ 175,886,527

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholder's Equity
	Shares	Amount				
BALANCE — January 1, 2020	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)	(2,388,699)
Total comprehensive income						175,886,527
Dividends	-	-	-	(80,000,000)	-	(80,000,000)
BALANCE — December 31, 2020	2	-	77,516,394	338,332,090	24,466,018	440,314,502
Comprehensive income:						
Net income	-	-	-	201,746,802	-	201,746,802
Change in net unrealized losses on investments available-for-sale — net of tax effects and reclassification adjustments	-	-	-	-	(9,856,855)	(9,856,855)
Reclassification adjustments for net realized gains included in net income — net of tax effects	-	-	-	-	(3,275,414)	(3,275,414)
Total comprehensive income						188,614,533
Dividend	-	-	-	(125,000,000)	-	(125,000,000)
BALANCE — December 31, 2021	2	$ -	$ 77,516,394	$ 415,078,892	$ 11,333,749	$ 503,929,035

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 201,746,802	$ 162,652,604
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	3,174,277	2,511,845
Deferred income taxes	(598,415)	(669,206)
Gains on sale of investments — net	(4,146,094)	(3,023,669)
Changes in operating assets and liabilities:		
Premiums receivable	20,201,429	(40,317,433)
AHCCCS reinsurance receivable	20,583,221	(22,257,106)
Other contract program receivables	(2,745,540)	(9,860,307)
Other receivables	(11,196,659)	3,534,111
Other assets	(2,370,533)	(226,052)
Investment receivables	(327,967)	(74,564)
Current income taxes	(437,652)	6,517,075
Medical services payable	50,581,030	31,360,310
Accounts payable and accrued expenses	5,777,864	2,567,761
Medicaid risk sharing payable	147,232,643	73,181,615
Other payables to contract programs	13,404,752	29,365,836
Related-party receivables	(7,815,739)	(9,575,967)
Net cash provided by operating activities	435,354,186	227,977,620
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments available-for-sale	(210,407,427)	(97,312,069)
Proceeds from maturities/sales of investments available-for-sale	110,434,727	82,058,934
Net cash used in investing activities	(99,972,700)	(15,253,135)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(125,000,000)	(80,000,000)
AHCCCS funds received (administered) — net	9,432,029	(14,354,284)
Customer funds received (administered)	2,641,488	(8,071,015)
(Applications) proceeds from other financing activities	(13,610)	7,107
Net cash used in financing activities	(112,940,093)	(102,418,192)
NET INCREASE IN CASH AND CASH EQUIVALENTS	222,441,393	110,306,293
CASH AND CASH EQUIVALENTS — Beginning of the year	181,099,545	70,793,252
CASH AND CASH EQUIVALENTS — End of year	$ 403,540,938	$ 181,099,545
SUPPLEMENTAL CASH FLOW DISCLOSURE — Cash paid for income taxes	$ 53,915,249	$ 50,149,392

See notes to financial statements.

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 was renewed October 1, 2021 and is a two-year contract with options to extend through September 30, 2027. The Company also provides Arizona Long Term Care System (“ALTCS”) benefits under the AHCCCS ALTCS contract. The ALTCS contract was renewed October 1, 2021 and is a one-year contract with options to extend through September 30, 2024.

AHCCCS also provides prior period coverage for the period 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 DES/DDD contract is a three-year contract subject to renew October 1, 2022 with options to renewal 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 equivalents include securities that have original maturity dates of three months or less from the date of acquisition. Cash equivalents also consist of the Company's share of a qualified cash pool sponsored and administered by UHS. The investment pool is recorded at cost or book/adjusted carrying value depending on the composition of the underlying securities. Interest income from the pool accrues daily to participating members based upon ownership percentage. Cash equivalents, excluding money-market funds, are reported at cost or book/adjusted carrying value depending on the nature of the underlying security, which approximates fair value.

The Company had checks outstanding of $0 and $25,610 at December 31, 2021 and 2020, respectively, which were classified in accounts payable and accrued expenses in the accompanying balance sheets. The change in this balance has been reflected as (applications) proceeds 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, 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 the intangible asset during the year ended December 31, 2021.

The gross value of the intangible asset as of December 31, 2021 is $34,361,500, and there has been accumulated amortization of $11,262,936, for a net value of $23,098,564. 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.

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 on November 1, 2022. 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, 2021 or December 31, 2020. The Company has the ability and the intent to hold the loans for the foreseeable future, until maturity, or payoff.

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 assets and other long-term assets in the accompanying balance sheets as of December 31, 2021 and December 31, 2020, respectively. 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, 2021 or December 31, 2020. The interest earned for these outstanding notes was $420,861 and $422,022 for the years ended December 31, 2021 and December 31, 2020, 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 $(670,684) and $(1,837,432) related to member SOC redetermination offsetting premiums receivable in the accompanying balance sheets at December 31, 2021 and 2020, respectively. The change in receivable is recorded as an offset 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, ALTCS and DES/DDD members is tiered beginning at 2% gains or losses. AHCCCS will recoup different percentages of gains in intervals up to profits of 6%, and 100% of gains over 6%. AHCCCS will repay all losses greater than 2%. The reconciliation includes both prospective and prior period coverage. Prior to October 1, 2021, DES/DDD recouped all gains and repayed all losses greater than 1%.

Receivables or payables and the corresponding revenues or contra-revenues are recorded depending on the calculation in accordance with the contract. The Company estimated Medicaid risk sharing payables of $315,105,765 and $167,873,122 on the accompanying balance sheets as of December 31, 2021 and 2020, respectively. The change in estimated risk share of $(141,018,415) and $(90,233,571) in 2021 and 2020, respectively, is recorded as a decrease to capitation and risk-sharing settlements in the accompanying statements of operations.

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, 2021 and 2020, were $54,641,074 and $55,876,137 respectively, and are recorded as premiums receivable in the accompanying balance sheets. The Company recognized $(5,916,671) and $1,964,525 for changes in prior year Medicare risk factor estimates during the years ended December 31, 2021 and 2020, 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 $18,002,253 and $20,645,410 in other contract program receivables as of December 31, 2021 and 2020, 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 $3,144,822 and $3,533,420 as other contract program receivables in the accompanying balance sheets in 2021 and 2020, respectively and as an increase to capitation and risk-sharing settlements in the accompanying statements of operations. The amount of Part D premiums subject to retrospective rating was $50,674,254 and $38,728,962 for the years ended December 31, 2021 and 2020, respectively, representing 1% and 1% of total revenues, excluding investment income, as of December 31, 2021 and 2020, respectively.

Medicare Plans with medical loss ratios on fully insured products, as calculated under the definitions in the Affordable Care Act ("ACA") and implementing regulations, that fall below certain targets are required to rebate ratable portions of premiums annually. The Company records estimated amounts payable for rebates on the Medicare plan as other payables to contract programs in the accompanying balance sheets and as a decrease to capitation and risk-sharing settlements in the accompanying statements of operations. The Company estimated payables of $45,415,797 and $31,977,053 as of December 31, 2021 and 2020, 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 $2,411,054 and $3,622,622 which were net against other APM receivables in other contract program receivables in the accompanying balance sheets as of December 31, 2021 and 2020, 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 $15,144,548 and $16,616,005 in medical services payable in the accompanying balance sheets for this program as of December 31, 2021 and 2020, 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 $24,213,780 and $20,974,722 as other contract program receivables in the accompanying balance sheets as of December 31, 2021 and December 31, 2020, respectively. These refunds are recorded as capitation and risk-sharing settlements in the accompanying statements of operations.

Administration of AHCCCS Funds — The Company receives and (administers) funds from AHCCCS to specific provider populations which are accounted for as other contract program receivables and other payables to contract programs on the accompanying balance sheets.

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 following contract year risk corridor settlement process.

Pediatric Services Initiative ("PSI") — The Company entered into an agreement with AHCCCS in which it will pass through dollars to qualified children's hospitals in order to preserve and promote access to inpatient and outpatient medical services.

Hospital Enhanced Access Leading to Health Improvements Initiative ("HEALTHII") — The Company entered into an agreement with AHCCCS to provide enhanced support to hospitals in order to preserve and enhance access to these facilities that deliver essential services to Medicaid members in Arizona.

COVID Reimbursement — AHCCCS will reimburse the company for COVID-19 vaccine cost, if not provided by the Federal government at no charge, and Vaccine Administration Costs made by the Company for ACC, ALTCS, and DES/DDD members for contract year 2022.

The Company recorded $13,570,571 and $12,130,460 in other contract program receivables as of December 31, 2021 and 2020, respectively and $10,872,143 and $0 in other payables to contract programs as of December 31, 2021 and 2020, respectively on the accompanying balance sheets related to the administration of AHCCCS Funds. 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, ALTCS, and DES/DDD contracts. 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 $10,115,772 and $4,227,978 in accounts payable and accrued expenses on the accompanying balance sheets related to this program as of December 31, 2021 and 2020, respectively.

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, 2021 and 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.

The estimates for incurred but not yet reported claims are developed using an actuarial process that is consistently applied, centrally controlled, and automated. The actuarial models consider factors such as historical submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates, and other relevant factors. The Company estimates such liabilities for physician, hospital, and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. These estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. The Company did not change actuarial methods during 2021 and 2020. Management believes the amount of claims unpaid and aggregate health claim reserves is a best estimate of the Company's liability for unpaid claims and aggregate health claim reserves as of December 31, 2021; however, actual payments may differ from those established estimates.

The Company contracts with hospitals, physicians, and other providers of health care under capitated or discounted fee for service arrangements, including a hospital per diem to provide medical care services to enrollees. 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 ACC. Prior to October 1, 2021, the deductible for ACC was $35,000. 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, 2021 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, 2021 and 2020, the unpaid claims adjustment expenses included in the accompanying balance sheets in the accounts payable and accrued expenses line item is $3,251,796 and $3,081,737, respectively. Claims adjustment expenses are included in administrative expenses in the accompanying statements of operations.

The 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. 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 as capitation and risk-sharing settlements in the accompanying statements of operations for the year ended December 31, 2020.

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, 2021 and 2020.

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, 2021 and 2020, 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 $2,046,175,834, $1,030,081,911, and $393,904,871, respectively, represent 55%, 28%, and 11% of total revenues, excluding investment income, for the year ended December 31, 2021. 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. 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 — The Company reviewed all recently issued guidance in 2021 and 2020 that has been adopted for 2021 or subsequent years' implementation and has determined that none of the items would have a significant impact to the 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 2021 and 2020 in the amounts of $278,000,000 and $250,000,000, 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, 2021 and 2020. Claim payments are presented net of health care receivables, including stop-loss recoveries, claim overpayment receivables, and pharmacy rebate receivables.

	2021	2020
Medical services payable, beginning of year	$ 264,393,643	$ 233,033,333
Reported medical services:		
Current year	3,151,334,889	2,737,370,728
Prior years	(18,232,307)	(21,393,192)
Total reported medical services	3,133,102,582	2,715,977,536
Claim payments:		
Payments for current year	(2,840,401,271)	(2,477,606,276)
Payments for prior years	(242,120,281)	(207,010,950)
Total claim payments	(3,082,521,552)	(2,684,617,226)
Medical services payable, end of year	$ 314,974,673	$ 264,393,643

There has been $18,232,307 of favorable prior year development from December 31, 2020 to December 31, 2021. The primary drivers consist of favorable development of $16,309,476 as a result of a change in the provision for adverse deviations in experience, favorable development of $15,756,583 in retroactivity for inpatient, outpatient, physician, and pharmacy claims. This was partially offset by unfavorable development of $13,205,662 in AHCCCS reinsurance recoveries.

At December 31, 2020, the Company recorded $21,393,192 of favorable prior year development primarily driven by 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. Original estimates are increased or decreased, as additional information becomes known regarding individual claims.

Medical costs payable included IBNR of $250,398,449 and $208,508,077 at December 31, 2021 and 2020, respectively. Substantially all of the IBNR balance as of December 31, 2021 relates to the current year. The following is information about incurred and paid medical cost development as of December 31, 2021:

	Net Incurred Medical Costs For the Year Ended December 31	
Year	**2020**	**2021**
2020	$ 2,737,370,728	$ 2,722,706,804
2021	-	3,151,334,889
Total	$ 2,737,370,728	$ 5,874,041,693

	Net Cumulative Medical Payments For the Year Ended December 31	
Year	**2020**	**2021**
2020	$ (2,477,606,276)	$ (2,718,091,019)
2021		(2,840,401,271)
Total		(5,558,492,290)
Net remaining outstanding liabilities prior to 2020		(574,730)
Total medical costs payable		$ 314,974,673

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, 2021 and 2020, except as disclosed in Note 6.

6. INVESTMENTS

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

December 31, 2021	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Debt securities — available-for-sale:				
U.S. government and agency obligations	$ 10,977,711	$ -	$ 197,711	$ 10,780,000
State and municipal obligations	190,509,995	10,220,480	262,368	200,468,107
Corporate obligations	232,335,896	4,401,118	526,066	236,210,948
U.S. agency mortgage-backed securities	77,170,407	719,753	421,779	77,468,381
Non-U.S. agency mortgage-backed securities	48,662,560	910,643	233,626	49,339,577
Total debt securities — available-for-sale	559,656,569	16,251,994	1,641,550	574,267,013
Total investments	$ 559,656,569	$ 16,251,994	$ 1,641,550	$ 574,267,013
December 31, 2020				
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	30,508,148	1,857,389	1,408	32,364,129
Total debt securities — available-for-sale	458,712,050	31,451,792	218,221	489,945,621
Total investments	$ 458,712,050	$ 31,451,792	$ 218,221	$ 489,945,621

The amortized cost and fair value of available-for-sale debt securities as of December 31, 2021, by contractual maturity, were as follows:

	2021 Amortized Cost	Fair Value
Due in one year or less	$ 5,769,714	$ 5,840,033
Due after one year through five years	117,205,171	120,445,991
Due after five years through ten years	174,863,559	180,053,847
Due after ten years	135,985,158	141,119,184
U.S. agency mortgage-backed securities	77,170,407	77,468,381
Non-U.S. agency mortgage-backed securities	48,662,560	49,339,577
Total debt securities — available-for-sale	$ 559,656,569	$ 574,267,013

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	
December 31, 2021	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Debt securities — available-for-sale:						
U.S. government and agency obligations	$ 10,780,000	$ 197,711	$ -	$ -	$ 10,780,000	$ 197,711
State and municipal obligations	23,071,565	262,368	-	-	23,071,565	262,368
Corporate obligations	91,776,035	512,948	4,074,402	13,118	95,850,437	526,066
U.S. agency mortgage-backed securities	44,889,849	421,779	-	-	44,889,849	421,779
U.S. non-agency mortgage-backed securities	25,706,589	233,626	-	-	25,706,589	233,626
Total debt securities — available-for-sale	$ 196,224,038	$ 1,628,432	$ 4,074,402	$ 13,118	$ 200,298,440	$ 1,641,550
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

The Company’s unrealized losses from all securities as of December 31, 2021 were generated from 107 positions out of a total of 331 positions. The Company believes that it will collect timely the principal and interest due on its debt securities having an amortized cost in excess of fair value. The unrealized losses were primarily caused by interest rate increases, and not by unfavorable changes in the credit quality associated with these securities which impacted our assessment on collectability of principal and interest. At each reporting period, the Company evaluates available-for-sale debt securities for any credit-related impairment when 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, noting no significant credit deterioration since purchase. As of December 31, 2021, 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 $0 and $5,122 as of December 31, 2021 and 2020, 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, 2021 and 2020.

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

December 31, 2021	**Quoted Prices in Active Markets (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total Fair and Carrying Value**
Cash and cash equivalents	$ 403,540,938	$ -	$ -	$ 403,540,938
Debt securities — available-for-sale:				
U.S. government and agency obligations	10,780,000	-	-	10,780,000
State and municipal obligations	-	200,468,107	-	200,468,107
Corporate obligations	-	236,210,948	-	236,210,948
U.S. agency mortgage-backed securities	-	77,468,381	-	77,468,381
Non-U.S. agency mortgage-backed securities	-	49,339,577	-	49,339,577
Total debt securities — available-for-sale	10,780,000	563,487,013	-	574,267,013
Total cash, cash equivalents, and investments at fair value	$ 414,320,938	$ 563,487,013	$ -	$ 977,807,951
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

Transfers between fair value hierarchy levels, if any, are recorded as of the beginning of the reporting period in which the transfer occurs. There were no transfers between Levels 1, 2 or 3 of any financial assets during 2021 or 2020.

The Company has no investments reported 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 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, 2021 and 2020.

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, 2021 and 2020, the Company's portion was $385,879,360 and $179,182,428, 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 $125,000,000 and $80,000,000 in 2021 and 2020, respectively, to its parent (see Note 9).

At December 31, 2021 and 2020, the Company reported $22,493,542 and $14,677,803, 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 assets and other long-term assets in the accompanying balance sheets as of December 31, 2021 and 2020.

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, 2021 and 2020:

	2021	**2020**
OptumRx, Inc.	$ 526,110,216	$ 473,007,779
United Behavioral Health	412,298,403	342,092,497
UHS	241,560,573	242,518,821
Dental Benefit Providers, Inc.	98,059,674	82,003,489
naviHealth, Inc.	14,827,621	-
OptumInsight, Inc.	7,926,657	9,594,734

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 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.

naviHealth, Inc. provides comprehensive post-acute services and care delivery.

OptumInsight, Inc. provides services that may include, but are not limited to, claim analytics and recovery of medical expense overpayments, retroactive fraud, waste and abuse, subrogation and premium audit services. All recoveries are returned to the Company by OptumInsight, Inc. on a monthly basis.

9. STOCKHOLDER'S EQUITY

The Company paid an extraordinary cash dividend to UHC of $125,000,000 on September 30, 2021, which was approved by AHCCCS on September 23, 2021. $75,000,000 of the dividend was distributed from Medicare earnings and $50,000,000 was distributed from ACC earnings.

The Company paid two extraordinary cash dividends totaling $80,000,000 on October 19, 2020 and December 23, 2020 which were approved by AHCCCS on October 1, 2020 and December 16, 2020. The full $80,000,000 dividend was distributed from Medicare earnings.

10. COMPLIANCE WITH FINANCIAL VIABILITY STANDARDS AND PERFORMANCE GUIDELINES

For the contract year ended September 30, 2021, the Company was in compliance with all Financial Viability Standards and Performance Guidelines.

As of December 31, 2021, one quarter into the 2022 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, 2022 is being monitored by the Company on a quarterly basis.

11. INCOME TAXES

The Company is included in the consolidated federal income tax return with its ultimate parent, UnitedHealth Group. Federal income taxes are paid to or refunded by UnitedHealth Group pursuant to the terms of a tax-sharing agreement, approved by the Board of Directors, under which taxes approximate the amount that would have been computed on a separate company basis, with the exception of net operating losses and capital losses. For these losses the Company receives a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent losses can be utilized in the consolidated federal return of UnitedHealth Group. UnitedHealth Group currently files income tax returns in the U.S. federal jurisdiction, various states, and foreign jurisdictions. The U.S. 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 returns are under review by the IRS under its Compliance Assurance Program. With the exception of a few states, UnitedHealth Group is no longer subject to income tax examinations prior to the 2014 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, 2021 and 2020 are as follows:

	2021	2020
Current provision:		
Federal	$ 53,477,595	$ 56,666,292
State and local	-	175
Total current provision	53,477,595	56,666,467
Deferred provision:		
Federal	(598,415)	(669,206)
Total deferred provision	(598,415)	(669,206)
Total provision for income taxes	$ 52,879,180	$ 55,997,261

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, 2021 and 2020 is as follows:

	2021		2020	
Tax provision at the U.S. federal statutory rate	$ 53,471,454	21 %	$ 45,916,472	21 %
Tax-exempt investment income	(600,238)	<1	(552,099)	<1
Health insurer fee	-	-	10,632,742	5
Other — net	7,964	<1	146	<1
Provision for income taxes	$ 52,879,180	21 %	$ 55,997,261	26 %

Current federal income taxes payables are $8,728,633 and $9,166,285 as of December 31, 2021 and 2020, 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, 2021 and 2020 are as follows:

	2021	2020
Deferred income tax assets:		
Bad debt reserve	$ 455,808	$ 447,424
Unpaid losses and loss adjustment expense	649,996	494,949
Unearned premium	35	18
Intangibles	2,365,217	1,884,156
Total deferred income tax assets	3,471,056	2,826,547
Deferred income tax liabilities:		
Prepaid expenses	127,936	81,843
Unrealized gain	3,068,193	6,559,050
Total deferred income tax liabilities	3,196,129	6,640,893
Net deferred income tax assets/(liabilities)	$ 274,927	$ (3,814,346)

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, 2021 or 2020.

Federal and state income taxes paid, net of refunds, were $53,915,249 and $50,149,392 in 2021 and 2020, 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. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated and disclosed all material subsequent events up to May 12, 2022, the date that the draft financial statements were available to be issued.

At December 31, 2021 the Company's ACC bond was below the minimum requirement required by AHCCCS guidance. The total bond amount was increased on January 1, 2022 to $295,000,000 to maintain contractual compliance.

On February 14th, 2022, the Company increased its Medicare bond to $68,000,000 effective March 1, 2022 due to its growth in Medicare membership.

The Company declared an extraordinary cash dividend to UHC of $100,000,000 on March 31, 2022 which was approved by AHCCCS on March 24, 2022. $75,000,000 of the dividend was distributed from ACC earnings and $25,000,000 was distributed from Medicare earnings.

There are no other events subsequent to December 31, 2021 that require disclosure.

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SUPPLEMENTAL SCHEDULES

EXHIBIT I:
SUPPLEMENTAL FINANCIAL STATEMENTS
BY CONTRACT

ARIZONA PHYSICIANS IPA, INC.

SUPPLEMENTAL BALANCE SHEET BY CONTRACT
AS OF DECEMBER 31, 2021

	ACC	DES/DDD	Medicare	ALTCS	Eliminations	Total
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ 403,540,938	$ -	$ -	$ -	$ -	$ 403,540,938
Short-term investments	5,840,033	-	-	-	-	5,840,033
Premiums receivable	195,026	-	52,803,348	(141,715)	-	52,856,659
AHCCCS reinsurance receivable	30,345,520	6,363,323	-	1,730,741	-	38,439,584
Other contract programs receivables	16,197,282	1,950,830	21,214,424	14,651,438	-	54,013,974
Other receivables — net of allowances of $2,168,795	11,408,124	635,268	2,675,294	922,350	-	15,641,036
Related-party receivable	22,493,542	-	-	-	-	22,493,542
Investment receivables	3,729,352	-	-	-	-	3,729,352
Other assets	22,327,152	-	609,218	2,053,618	-	24,989,988
Due from other lines of business	-	116,950,425	170,926,078	101,750,721	(389,627,224)	-
Total current assets	516,076,969	125,899,846	248,228,362	120,967,153	(389,627,224)	621,545,106
LONG-TERM ASSETS:						
Long-term investments	568,426,980	-	-	-	-	568,426,980
Intangible assets — net	23,098,564	-	-	-	-	23,098,564
Long-term deferred income taxes — net	274,927	-	-	-	-	274,927
Total long-term assets	591,800,471	-	-	-	-	591,800,471
TOTAL	$ 1,107,877,440	$ 125,899,846	$ 248,228,362	$ 120,967,153	$ (389,627,224)	$ 1,213,345,577
LIABILITIES AND STOCKHOLDER'S EQUITY						
CURRENT LIABILITIES:						
Medical services payable	$ 164,818,122	$ 13,486,364	$ 99,094,500	$ 37,575,687	$ -	$ 314,974,673
Medicaid risk sharing payable	209,402,816	79,543,259	-	26,159,690	-	315,105,765
Other payables to contract programs	10,872,143	-	45,433,722	-	-	56,305,865
Accounts payable and accrued expenses	10,540,834	672,070	1,027,152	2,061,550	-	14,301,606
Current federal income taxes payable	8,728,633	-	-	-	-	8,728,633
Due to other lines of business	389,627,224	-	-	-	(389,627,224)	-
Total current liabilities	793,989,772	93,701,693	145,555,374	65,796,927	(389,627,224)	709,416,542
Total liabilities	793,989,772	93,701,693	145,555,374	65,796,927	(389,627,224)	709,416,542
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	246,142,872	25,092,806	102,672,988	41,170,226	-	415,078,892
Accumulated other comprehensive income	11,333,749	-	-	-	-	11,333,749
Total stockholder's equity	313,887,668	32,198,153	102,672,988	55,170,226	-	503,929,035
TOTAL	$ 1,107,877,440	$ 125,899,846	$ 248,228,362	$ 120,967,153	$ (389,627,224)	$ 1,213,345,577

ARIZONA PHYSICIANS IPA, INC.

SUPPLEMENTAL STATEMENT OF OPERATIONS BY CONTRACT
FOR THE YEAR ENDED DECEMBER 31, 2021

	ACC	DES/DDD	Medicare	ALTCS	Total
REVENUES:					
Capitation and risk-sharing settlements	$ 1,997,383,275	$ 220,503,312	$ 1,030,081,911	$ 393,904,871	$ 3,641,873,369
Delivery supplemental premium	48,792,559	-	-	-	48,792,559
Investment income — net	17,471,272	-	-	-	17,471,272
Total revenues	2,063,647,106	220,503,312	1,030,081,911	393,904,871	3,708,137,200
MEDICAL SERVICES EXPENSES, NET:					
Hospitalization	340,019,206	52,543,350	337,243,205	19,815,918	749,621,679
Medical compensation	477,655,451	35,192,499	155,458,375	12,535,633	680,841,958
Other medical services, net	1,017,722,053	125,416,913	336,086,358	49,046,784	1,528,272,108
Long-term care institutional	-	-	-	119,917,841	119,917,841
Long-term care home-based and community-based services	-	-	-	147,410,814	147,410,814
Recoveries from AHCCCS	(65,771,795)	(13,841,210)	-	(13,348,813)	(92,961,818)
Total medical services expenses	1,769,624,915	199,311,552	828,787,938	335,378,177	3,133,102,582
ADMINISTRATIVE EXPENSES	140,540,638	14,996,205	83,658,036	31,508,884	270,703,763
PREMIUM TAXES	41,559,799	-	-	8,145,074	49,704,873
Total expenses	1,951,725,352	214,307,757	912,445,974	375,032,135	3,453,511,218
INCOME BEFORE INCOME TAXES	111,921,754	6,195,555	117,635,937	18,872,736	254,625,982
PROVISION FOR INCOME TAXES	23,242,903	1,286,983	24,429,918	3,919,376	52,879,180
NET INCOME	$ 88,678,851	$ 4,908,572	$ 93,206,019	$ 14,953,360	$ 201,746,802