CARE1ST HEALTH PLAN ARIZONA, INC. AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.

Combined Financial Statements
as of and for the years ended December 31, 2022 and 2021, Supplemental Schedules as of and for the years ended December 31, 2022 and 2021, and Independent Auditors' Report

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.

General Accepted Accounting Principle-Basis Financial Statements
and Supplemental Schedules
As of and for years ended December 31, 2022 and 2021

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KPMG LLP
Suite 900
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Independent Auditors' Report

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

Opinion

We have audited the combined financial statements of Care1st Health Plan Arizona, Inc. and One Care by Care1st Health Plan Arizona, Inc. (the Company), which comprise the combined balance sheets as of December 31, 2022 and 2021, and the related combined statements of income, comprehensive income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined 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 Combined Financial Statements

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

In preparing the combined 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 combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental information included in the Supplemental Detailed Balance Sheet as of December 31, 2022 and 2021 and Supplemental Income Statement for the Year Ended December 31, 2022 and 2021, is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Required Supplementary Information

U.S. generally accepted accounting principles require that the incurred and paid claims development information, and the historical claims duration information for the years ended December 31, 2021 and 2020 on page 24 be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined financial statements, is required by Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

St. Louis, Missouri
August 22, 2023

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2022 AND 2021
($ IN THOUSANDS)

ASSETS	2022	2021
Current assets		
Cash and cash equivalents	$ 63,425	$ 47,356
Investments	10,372	8,860
Income tax receivable	1,902	287
Other receivables from government partners	5,298	2,055
Premiums receivable	2,861	3,766
Prepaid expenses and other receivables	5,901	10,256
Total current assets	89,759	72,580
Other assets		
Investments - long term	136,623	153,025
Other receivables from government partners	1,741	518
Goodwill	3,610	3,610
Other assets	405	405
Total assets	$ 232,138	$ 230,138
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Medical claims payable	$ 60,967	$ 46,052
Accounts payable and accrued expenses	5,758	11,698
Other payables to government partners	59,710	34,030
Income tax payable	—	3,787
Due to affiliates	6,126	15,710
Total current liabilities	132,561	111,277
Long-term liabilities		
Other payables to government partners	33,559	61,539
Deferred tax liability	13,227	18,466
Other long-term liabilities	299	815
Total long-term liabilities	47,085	80,820
Stockholder's equity:		
Common stock, $0 par value, 2,000 shares authorized, issued and outstanding	—	—
Additional paid-in capital	32,614	12,614
Retained earnings	19,878	25,427
Total stockholder's equity	52,492	38,041
Total liabilities and stockholder's equity	$ 232,138	$ 230,138

See notes to combined financial statements

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
COMBINED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
($ IN THOUSANDS)

	2022	2021
Revenue		
Net premium revenue	$ 429,430	$ 759,312
Operating expenses		
Healthcare services, net	372,955	632,125
Selling, general and administrative expenses	39,734	79,054
Depreciation and amortization expense	—	1
Premium tax expense	10,579	16,430
Total expenses	423,268	727,610
Income from operations	6,162	31,702
Net investment income	4,255	3,002
Income before income taxes	10,417	34,704
Income tax expense	1,833	28,300
Net income	$ 8,584	$ 6,404

See notes to combined financial statements

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
COMBINED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
($ IN THOUSANDS)

	For the Years Ended December 31,	
	2022	**2021**
Net income	$ 8,584	$ 6,404
Change in unrealized loss on investments, net of taxes	(14,133)	(2,012)
Comprehensive income	$ (5,549)	$ 4,392

See notes to combined financial statements

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
COMBINED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
($ IN THOUSANDS)

	Common Stock Class A - Number of Shares *	Additional Paid-In Capital	Retained Earnings	Total Stockholder's Equity
Balance, January 1, 2021	2,000	$ 12,614	$ 88,903	$ 101,517
Dividend	—	—	(61,000)	(61,000)
Change in net unrealized capital gains/losses	—	—	(2,012)	(2,012)
Transfer of goodwill and intangibles to Centene	—	—	(6,868)	(6,868)
Net income	—	—	6,404	6,404
Balance, December 31, 2021	2,000	$ 12,614	$ 25,427	$ 38,041
Contribution from Parent	—	20,000	—	20,000
Change in net unrealized capital gains/losses	—	—	(14,133)	(14,133)
Net income	—	—	8,584	8,584
Balance, December 31, 2022	2,000	$ 32,614	$ 19,878	$ 52,492

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

See notes to combined financial statements

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
($ IN THOUSANDS)

	2022	2021
Cash flows from operating activities:		
Net income	$ 8,584	$ 6,404
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation & amortization expense	—	1
Net investment income	1,222	3,927
(Receivables from) / payables to government partners	(6,766)	58,667
Accounts payable and accrued expenses	(1,585)	(4,922)
Medical claims payable	14,915	(33,159)
Income taxes receivable/payables	(1,647)	1,240
Deferred taxes, net	(5,239)	19,364
Premium receivable	905	7,463
Other, net	(9,584)	9,237
Net cash provided by operating activities	805	68,222
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	19,339	28,469
Cost of investments acquired	(24,075)	(59,752)
Net cash used in investing activities	(4,736)	(31,283)
Cash flows from financing activities:		
Dividends	—	(61,000)
Capital contribution	20,000	—
Net cash provided by (used in) financing activities	20,000	(61,000)
Net change in cash and cash equivalents	16,069	(24,061)
Cash and cash equivalents, beginning of year	47,356	71,417
Cash and cash equivalents, end of year	$ 63,425	$ 47,356
Supplemental disclosures of cash flow information:		
Cash paid for taxes	$ 8,719	$ 7,087

See notes to combined financial statements

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Care1st Health Plan Arizona, Inc. ("Care1st") and One Care by Care1st Health Plan Arizona, Inc. ("One Care"), together Care1st Arizona (the "Company"), are wholly-owned subsidiaries of Centene Corporation ("Centene"), a publicly traded managed care services company.

Care1st provides specified health services to Medicaid members pursuant to a contract with the Arizona Health Care Cost Containment System ("AHCCCS"). Care1st subcontracts with hospitals, physicians and other medical providers within Arizona to care for eligible members in its designated service areas.

One Care provides Medicare Advantage ("MA") health plans and prescription drug benefits to Medicare beneficiaries through the Medicare Part D Program ("PDP") via a contract with the Centers for Medicare and Medicaid Services ("CMS"). One Care is contracted with CMS to provide managed care services as a Dual Eligible Subset Special Needs Plan ("D-SNP"). One Care is limited to only enroll members who are dually eligible for both Medicaid and Medicare and in the service areas covered under the AHCCCS agreement. One Care's CMS contract expired on December 31, 2021 and was not renewed. One Care elected not to submit a bid with CMS for the 2022 plan year. The AHCCCS required D-SNP companion plan for Care1st will be operated by its related party, Bridgeway Health Solutions of Arizona, Inc., under contract H5590-009.

AHCCCS Agreement

On March 13, 2018, the Company announced that it received a contract award from the AHCCCS Complete Care ("ACC") program effective October 1, 2018. The original contract term was for five years, with two one year options for renewal. During 2020, AHCCCS revised the ACC term of contract to include an additional two-year extension through September 30, 2027. Under the contract, the Arizona Plan will provide physical and limited behavioral health services to eligible enrollees in the Central and North geographic service areas. As part of AHCCCS' approval of the merger agreement between Centene Corporation and WellCare, AHCCCS required transition of the Central membership. Members who did not select a plan during open enrollment were auto assigned to the Centene ACC health plan, Arizona Complete Health-Complete Care Plan. The effective date of the membership transition is October 1, 2021.

On November 15, 2021, the Company received a contract award from AHCCCS for an ACC-RBHA Contract under the Competitive Contract Expansion ("CCE") effective October 1, 2022. The CCE is an amendment to the existing ACC contract and includes coverage for physical and behavioral health services to Title XIX and Non-Title XIX AHCCCS members with a serious mental illness (SMI) designation. On the effective date of the contract, Care1st assumed responsibility for approximately 5,800 SMI members and 285,000 members for 24-hour crisis services in the North geographic service area.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements are prepared on the basis of accounting principles generally accepted in the United States of America (“GAAP”). Certain prior year amounts were reclassified to conform with the current year presentation.

B. Principles of Combination

The accompanying combined financial statements of the Company have been prepared on a combined basis for entities under common control with all significant intercompany transactions and accounts being eliminated.

C. Use of Estimates

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

D. Cash and Cash Equivalents

Cash includes cash deposits in banks and cash equivalents. Cash equivalents include all highly liquid investments with maturities of three months or less when purchased. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (“FDIC”). At December 31, 2022 and 2021, cash and cash equivalents consisted of cash and money market accounts.

E. Funds Receivable/Held for the Benefit of Members

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

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

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

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

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

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

F. Net Investment Income Earned

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

G. Property and Equipment, Net

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

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

On an ongoing basis, the Company reviews events or changes in circumstances that may indicate that the carrying value of an asset may not be recoverable. If the carrying value of an asset exceeds the sum of estimated undiscounted future cash flows, then an impairment loss is recognized in the current period for the difference between estimated fair value and carrying value. There were no impairment losses recognized during the years ended 2022 and 2021.

H. Other Receivables / Payables to Government Partners

AHCCCS limits financial risk and gain to its contractors. Profits and losses by defined risk code groupings are annually reconciled as defined for each contract year ending in the month of September. In accordance with the reconciliations, profits and losses are generally limited to a defined percentage of the net capitation received for the specified risk code groupings. Profits or losses in excess of the corridor are reimbursed to, or recovered from, AHCCCS by the contractor. Accordingly, as of December 31, 2022 and 2021, the Company recorded a payable of $88,153 and $91,420, respectively, as a component of other payables to government partners. Generally, the final reconciliation and settlement is anticipated to take place approximately 15 months after the end of the contract year.

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

Beginning Contract Year Ending ("CYE") 2019 through CYE 2022, there is one profit corridor calculation called the ACC Tiered Reconciliation. AHCCCS reconciles the Contractor's total medical cost expense to the total capitation paid. For CYE 2023, the profit corridor calculation was renamed ACC-RBHA Tiered Reconciliation and modified to include revenue and expenses for the SMI and Crisis membership. Under both calculations, there is a no payback between 0% and 2% profit, 50% payback corridor between 2% and 6% profit, and all profit above 6% of net settlement revenue must be paid back, making a maximum possible gain of 4% of settlement revenue. Maximum losses are capped at 2%. For CYE 2021, CYE 2022 and CYE 2023, the Company is accruing paybacks of $54,593, $27,987, and $5,573; all place the plan in the full payback corridor.

There are two additional settlements with AHCCCS – a fixed administrative expense reconciliation which had balances due to AHCCCS for CYE 2022 and CYE 2023 of $1,636 and $266 and CYE 2022 and CYE 2023 COVID 19 vaccine settlement which had receivables from AHCCCS of $0 and $9. These amounts were recorded as a component of other payables to government partners on the Combined Balance Sheets.

Medicare Risk Corridor
At December 31, 2022 and 2021, there was a balance due from CMS of approximately $13 and $216, respectively, which is recorded as a component of prepaid expenses and other receivables..

Medicare Minimum Medical Loss Ratio
Beginning in 2014, the Patient Protection and Affordable Care Act, amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the “ACA”), established a minimum medical loss ratio (“MLR”) for MA and Part D prescription drug program (“Part D plans”), requiring plans to spend not less than 85% of premiums on medical and pharmacy benefits. The rules implementing the minimum MLR impose financial and other penalties for failing to achieve the minimum MLR, including requirements to refund to CMS shortfalls in amounts spent on medical benefits and termination of a plan’s MA contract for prolonged failure to achieve the minimum MLR. The MLR is determined by adding a plan’s spending for clinical services, prescription drugs and other direct patient benefits, plus its total spending on quality improvement activities and dividing the total by earned premiums (after subtracting specific identified taxes and other fees). No payable balance was recorded at December 31, 2022 or 2021.

I. Premium Deficiency Reserve

The Company assesses the profitability of contracts for providing health care services when operating results or forecasts indicate probable future losses. Losses are determined by comparing anticipated premiums to the total of estimated health care related costs, less reinsurance recoveries, if any, and the cost of maintaining the contracts. Losses, if any, would be recognized in the period the loss is determined and classified as health care services expenses. No premium deficiency reserve was recorded at December 31, 2022 or 2021.

J. Premium Revenue and Premiums Receivable

Premium revenues are primarily derived from the Company's contracts with the State of Arizona and CMS. The premiums received are typically a fixed rate based on a membership category. The Company assumes the economic risk of funding its customers' health care and related administrative costs. Membership and category eligibility are periodically reconciled with the various programs and such reconciliations could result in adjustments to revenue. Premium revenues are recognized in the period in which eligible individuals are entitled to receive health care benefits. Premium billings may be subsequently adjusted to reflect changes in membership as a result of retroactive terminations, additions or other changes. Health care premium payments received in advance for a service period are recorded as unearned premiums. The Company recognizes revenue on retroactive healthcare premium adjustments that result in a benefit, generally when the amounts are determinable and collectability is reasonably assured in premium revenue.

Arizona AHCCCS Specific Revenue Recognition
Delivery supplemental payments are intended by AHCCCS to cover the costs of maternity care for deliveries during a prospective enrollment period. Such premiums are recognized in the month the delivery occurs.

Reinsurance revenues are recorded net of uncollectible amounts pursuant to the AHCCCS contract. Acute reinsurance revenue is recognized as a percentage of expenses incurred by members whose medical costs exceed a stated deductible per member per contract year. Catastrophic reinsurance revenue is recognized as the actual costs paid by the Arizona Plan. These revenues are included as an offset of other medical expenses. The Company recorded $12,375 and $19,549 of reinsurance revenues in healthcare services, net for the years ended December 31, 2022 and 2021. The Company recorded $2,179 and $4,654 of reinsurance receivable as of December 31, 2022 and 2021, respectively, which is recorded as a component of prepaid expenses and other on the Combined Balance Sheets.

Prior period coverage capitation premiums are payments received from AHCCCS for the period of time, prior to the member's enrollment, during which a member is eligible for covered services. Such premiums are recognized upon receipt.

Value Based Purchasing/Alternative Payment Model
Care1st is subject to a recoupment by AHCCCS of 1% of eligible capitation revenue to fund the AHCCCS value based purchasing/alternative payment model initiatives. The purpose of these initiatives are to encourage activity in the area of quality improvement, particularly those initiatives that are conducive to improved health outcomes and cost savings by aligning the incentives of the plan and its providers. Care1st can become eligible for a quality distribution by meeting the criteria established by AHCCCS for a measurement year. On October 23, 2020, AHCCCS notified the plans that it would suspend the withhold and quality measures performance incentive for CYE 2020. In conjunction with this decision, the 1% deduction of the APM withhold amount in the ACC Tiered Reconciliation was removed. Care1st had $13,424 and $9,276 as of December 31, 2022 and 2021, available for recoupment related to CYE 2021 to CYE 2023. Reserves totaling $3,216 and $2,204 as of December 31, 2022 and 2021, respectively, have been recorded as a component of other payables to government partners.

Risk-Adjusted Premiums
CMS provides risk-adjusted payments for MA and PDP plans based on the demographics and health severity of enrollees. The risk-adjusted premiums received are based on claims and encounter data that are submitted to CMS within prescribed deadlines. The Company develops estimates for risk-adjusted premiums utilizing historical experience, or other data, and predictive models as sufficient member risk score data becomes available over the course of each CMS plan year. The Company recognizes periodic changes to risk-adjusted premiums as revenue when the amounts are determinable and collection is reasonably assured, which is possible as additional diagnosis code information is reported to CMS, when the ultimate adjustment settlements are received from CMS, or when notification

of such settlement amounts is received. CMS adjusts premiums on two separate occasions on a retrospective basis. The first retrospective adjustment for a given plan year generally occurs during the third quarter of that year. This initial settlement represents the update of risk scores for the current plan year based on the severity of claims incurred in the prior plan year. CMS then issues a final retrospective risk-adjusted premium settlement for that plan year in the following year. Historically, there have not been significant differences between estimates and amounts ultimately received. The data provided to CMS to determine members' risk scores is subject to audit by CMS even after the annual settlements occur. An audit may result in the refund of premiums to CMS. While experience to date has not resulted in a material refund, future refunds could materially reduce net premium revenue in the year in which CMS determines a refund is required. The Company's estimated risk adjusted premiums receivable as of December 31, 2022 and 2021 were $0 and $3,336, respectively, and are recorded as a component of Premiums receivable on the Combined Balance Sheets.

K. Health Care Services/Medical Claims Payable

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

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

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

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

L. Reinsurance

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

M. Income Taxes

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

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

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

For the years ended December 31, 2022 and 2021, the Company filed a consolidated federal income tax return with Centene and its other subsidiaries. In accordance with the group's tax allocation agreement, the subsidiaries reimburse or recover from Centene their portion of the income taxes as calculated on a separate company basis.

The Company's policy is to classify income tax penalties and interest as income tax expense in its financial statements. During the years ended December 31, 2022 and 2021, the Company incurred no penalties or interest.

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

N. Comprehensive Income

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

O. Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which changes how entities measure credit losses for most financial assets and certain other investments that are not measured at fair value through net income. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The amended guidance requires the measurement of all expected credit losses for financial assets (or groups of financial assets) and available-for-sale debt securities held at the reporting date over the remaining life based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance is effective for annual and interim periods beginning after December 15, 2022. The Company adopted the new guidance in the first quarter of 2020. The majority of the Company's receivables and other financial instruments are with government entities and, therefore, the adoption did not have a material impact on its receivables and other financial instruments. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The new guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

P. Goodwill and Other Intangible Assets, net

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

We test goodwill for impairment at the reporting unit level at least annually, or more frequently if events or changes in circumstances indicate that it would be more likely than not that the fair value of a reporting unit is below its carrying value. Such events or circumstances could include a significant adverse change in business climate, an adverse action or assessment by a regulator, unanticipated competition and the testing for recoverability of a significant asset group within a reporting unit, among others. To determine whether goodwill is impaired, we compare an estimate of the fair value of the applicable reporting unit to its carrying value, including goodwill. If the carrying value exceeds the estimated fair value, we compare the implied fair value of the applicable goodwill to its carrying value to measure the amount of goodwill impairment, if any. We perform our annual goodwill impairment test based on our financial position and results of operations each year. The annual impairment tests are based on an evaluation of estimated future discounted cash flows. The estimated discounted cash flows are based on the best information available to us at the time, including supportable assumptions and projections we believe are reasonable. Our discounted cash flow estimates use discount rates that correspond to a weighted-average cost of capital consistent with a market-participant view. The discount rates are consistent with those used for investment decisions and take into account the operating plans and strategies of our operating segments. Certain other key assumptions utilized, including changes in membership, premium, health care costs, operating expenses, fees, assessments and taxes and effective tax rates, are based on estimates consistent with those utilized in our annual budgeting and planning process that we believe are reasonable. However, if we do not achieve the results reflected in the assumptions and estimates, our goodwill impairment evaluations could be adversely affected, and we may impair a portion of our goodwill, which would adversely affect our operating results in the period of impairment. Impairments, if any, would be classified as a direct charge against equity. Based on the results of our impairment testing in 2022 and 2021, we determined that the fair value of each reporting unit substantially exceeded its carrying value and no further goodwill impairment assessment was necessary. As discussed in Note 1, the Company was required to transition central membership to an affiliate under common control of Centene Corporation. The central membership was a portion of the reporting unit with goodwill. The Company used relative fair value based on premium revenue to determine the portion of goodwill transferred. The difference between the carrying amount of net assets transferred and proceeds received, which was zero, was considered an equity transfer to Centene Corporation since the central membership was transferred to an affiliate under common control of Centene Corporation.

Other intangible assets resulting from our acquisitions include member contracts and provider contracts. We amortize other intangible assets over their estimated useful lives ranging from approximately one to 15 years. These assets are allocated to reporting units for impairment testing purposes. We review our other intangible assets for impairment when events or changes in circumstances occur, which may potentially affect the estimated useful life or recoverability of the remaining balances of our intangible assets. Such events and changes in circumstances would include significant changes in membership, state funding, federal and state government contracts and provider networks. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to current forecasts of undiscounted future net cash flows expected to be generated by the assets. Identifiable cash flows are measured at the lowest level for which they are largely independent of the cash flows of other groups of assets and liabilities. If these assets are determined to be impaired, the amount of impairment recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. During 2022 and 2021, no events or circumstances have occurred, which may potentially affect the estimated useful life or recoverability of the remaining balances of our other intangible assets. Accordingly, there were no impairment losses recognized during this period. In 2021, due to the transfer of the Central membership discussed in Note 1, the other intangible assets were transferred to Centene Corporation through an equity transfer based on the difference between the carrying amount of net assets transferred and proceeds received, which was zero.

Q. Medicaid Premium Taxes

The Company is subject to a 2% premium tax on all Title XIX/XXI payments received from AHCCCS for premiums, reinsurance and reconciliations. Total premium tax expense for the years ended December 31, 2022 and 2021 was $10,579 and $16,430.

R. Reserves for Contingent Liabilities

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

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

S. Investments

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

Investments, which consist of debt securities are classified, and accounted for, as available-for-sale investments. Government, corporate and asset-backed bonds, notes, and certificates are classified as available-for-sale when the Company anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments, and other market and economic factors. Unrealized gains and losses on available-for-sale investments are recognized as direct increases or decreases in other comprehensive income.

($ IN THOUSANDS)

For the year ended December 31, 2022 and 2021, the Company recognized $14,133 and $2,012 of unrealized losses, net of tax effect, on available-for-sale investments which have been recorded in the accompanying combined Statements of Comprehensive Income. Cost of investments sold is recognized using the specific identification method.

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

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

T. Concentrations of Credit Risk

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

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

NOTE 3 - INVESTMENTS

Investments have been classified as available-for-sale according to management’s intent. The amortized cost of investments and their approximate fair values at December 31, 2022 and 2021 are as follows:

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government	$ 4,536	$ —	$ (545)	$ 3,991
Asset-backed	15,466	—	(1,449)	14,017
Mortgage-backed	42,814	—	(4,147)	38,667
Municipal bonds	4,652	—	(599)	4,053
Corporate bonds	98,193	142	(12,068)	86,267
Total	$ 165,661	$ 142	$ (18,808)	$ 146,995

($ IN THOUSANDS)

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government	$ 4,530	$ 114	$ —	$ 4,644
Asset-backed	26,811	337	(27)	27,121
Mortgage-backed	48,521	676	(244)	48,953
Municipal bonds	5,383	5	(81)	5,307
Corporate bonds	76,902	98	(1,140)	75,860
Total	$ 162,147	$ 1,230	$ (1,492)	$ 161,885

The following is a summary of maturities of available-for-sale investments as of December 31, 2022:

	At December 31, 2022	
	Amortized cost	Fair value
Due in one year or less	$ 3,963	$ 3,897
Due after one year through five years	52,681	47,699
Due after five years through ten years	62,130	53,436
Due after ten years	46,887	41,963
Total	$ 165,661	$ 146,995

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

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

The fair value of available-for-sale investments with gross unrealized losses by investment type and length of time that individual securities have been in a continuous unrealized loss position were as follows as of December 31, 2022 and 2021:

($ IN THOUSANDS)

	December 31, 2022					
	Decline for Less Than 12 Months			Decline for Greater than 12 Months		
	Amortized Cost	Fair Value	Difference	Amortized Cost	Fair Value	Difference
Government	$ 4,536	$ 3,991	$ 545	$ —	$ —	$ —
Asset-backed	12,425	11,379	1,046	3,042	2,638	404
Mortgage-backed	29,898	26,966	2,932	12,889	11,674	1,215
Municipal bonds	601	514	87	4,051	3,539	512
Corporate bonds	28,311	25,384	2,927	61,742	52,603	9,139
Total	$ 75,771	$ 68,234	$ 7,537	$ 81,724	$ 70,454	$ 11,270

	December 31, 2021					
	Decline for Less Than 12 Months			Decline for Greater than 12 Months		
	Amortized Cost	Fair Value	Difference	Amortized Cost	Fair Value	Difference
Government	$ —	$ —	$ —	$ —	$ —	$ —
Asset-backed	3,520	3,492	27	—	—	—
Mortgage-backed	10,850	10,755	95	4,119	3,970	149
Municipal bonds	4,208	4,127	81	—	—	—
Corporate bonds	62,721	61,647	1,074	1,711	1,645	66
Total	$ 81,299	$ 80,021	$ 1,277	$ 5,830	$ 5,615	$ 215

Proceeds from investments sold, matured, or repaid during 2022 and 2021 were $19,339 and $28,469, respectively. The net realized gains (losses) on the sale of investments for the years ended December 31, 2022 and 2021 were $(238) and $(93), respectively, which is a component of net investment income on the Combined Statements of Income.

Net investment income for the years ended December 31, 2022 and 2021 was $4,255 and $3,002, respectively.

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

	2022	2021
Property and equipment		
Furniture and fixtures	$ 195	$ 195
Computer and office equipment	790	790
Leasehold improvements	40	40
	1,025	1,025
Accumulated depreciation	(1,025)	(1,025)
Property and equipment, net	$ —	$ —

The Company did not have any depreciation expense in 2022 or 2021.

($ IN THOUSANDS)

NOTE 5 – REGULATORY REQUIREMENTS

On a quarterly basis, AHCCCS will review the following ratios with the purpose of monitoring the financial health of the Company: Current Ratio of at least 1.0; Medical Loss Ratio of at least 85%; Administrative Cost Percentage no greater than 10%; and Equity per member of $250 (ACC members) and $1,200 (SMI members). The Company is in compliance with all four ratios for CYE 2022 and with all but the administrative ratio for CYE 2021. AHCCCS may elect to impose sanctions and penalties for failure to meet the ratios, the impact of which may be material to the combined financials statements if the plan does not meet these standards. During 2022, AHCCCS issued a sanction of $25 for failure to meet the CYE 2021 administrative expense ratio. The sanction was not material to the plan.

The Company executed two Surety Bond contracts to perform services related to the Company's health plan contracts with AHCCCS for both its Care1st and One Care entities. The Surety Bond executed by Care1st in the amount of $50,000 is renewed through September 30, 2023. The Surety Bond executed by One Care, for the amount of $5,000 is renewed through December 31, 2023.

NOTE 6 - FAIR VALUE MEASUREMENTS

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

The following table summarizes the valuation of the Company's assets subject to recurring fair value measurement by the above FASB ASC 820 categories as of December 31, 2022 and 2021:

	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 63,425	$ —	$ —	$ 63,425
Government bonds	3,991	—	—	3,991
Asset-backed	—	14,017	—	14,017
Mortgage-backed	—	38,667	—	38,667
Municipal bonds	—	4,053	—	4,053
Corporate bonds	—	86,267	—	86,267
Total assets at fair value	$ 67,416	$ 143,004	$ —	$ 210,420

($ IN THOUSANDS)

	As of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 47,356	$ —	$ —	$ 47,356
Government bonds	4,644	—	—	4,644
Asset-backed	—	27,121	—	27,121
Mortgage-backed	—	48,953	—	48,953
Municipal bonds	—	75,860	—	75,860
Corporate bonds	—	5,307	—	5,307
Total assets at fair value	$ 52,000	$ 157,241	$ —	$ 209,241

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

($ IN THOUSANDS)

NOTE 7 – UNPAID CLAIMS

The following table summarizes the change in medical claims liability:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Gross claims payable balance at January 1,	$ 46,052	$ 79,211
Reinsurance Recoverable	(4,654)	(7,074)
Balance at January 1, net	41,398	72,137
Incurred related to current year	371,880	653,702
Incurred related to prior years	1,075	(21,577)
Total incurred	372,955	632,125
Paid related to current year	(314,664)	(613,984)
Paid related to prior years	(40,901)	(48,880)
Total paid	(355,565)	(662,864)
Balance at December 31, net	$ 58,788	$ 41,398
Reinsurance Recoverable at December 31,	2,179	4,654
Gross claims payable balance at December 31,	$ 60,967	$ 46,052

The incurred amounts related to prior years represent the variation between the Company's estimated expense for prior years' claims and the actual amounts required to satisfy such claims. At December 31, 2022 and 2021, the Company experienced approximately $1,075 of unfavorable development and $21,577 of favorable development, respectively.

Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions. Changes in medical utilization and cost trends and the effect of medical management initiatives may also contribute to changes in medical claim liability estimates. Management believes that the amount of medical claims liability is reasonable and adequate to cover the Company's liability for unpaid claims as of December 31, 2022 and 2021.

Incurred claims and allocated claim adjustment expenses, total IBNR plus expected development on reported claims and cumulative claims data as of December 31, 2022 are included in the following table. For claims frequency information summarized below, a claim is defined as the financial settlement of a single medical event in which remuneration was paid to the servicing provider. Total IBNR plus the expected development on reported claims represents estimates for claims incurred but not reported, development on reported claims, and estimates for the costs necessary to process unpaid claims at the end of each period. The Company estimates its liability using actuarial methods that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. These actuarial methods consider factors such as historical data for payment patterns, cost trends, product mix, seasonality, utilization of healthcare services and other relevant factors.

($ IN THOUSANDS)

The following tables provide information about incurred and paid claims development as of December 31, 2022, net of reinsurance.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				As of December 31, 2022	
	Incurred amount				
Incurred Year	2020 (unaudited)	2021 (unaudited)	2022	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2020	$ 672,562	$ 651,846	$ 651,460		2,728,282
2021		654,979	656,440	1,571	2,503,226
2022			371,880	57,217	1,094,199
			$ 1,679,780		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance				
Incurred Year		2020 (unaudited)	2021 (unaudited)	2022
2020		$ (601,789)	$ (650,166)	$ (651,460)
2021			(615,261)	(654,868)
2022				(314,664)
	All outstanding liabilities before 2020, net of reinsurance			(1,620,992)
	Liabilities for claims and claim adjustment expenses, net of reinsurance			$ 58,788

NOTE 8 - INCOME TAXES

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

	Year Ended December 31, 2022	Year Ended December 31, 2021
Current		
Federal	$ 2,417	$ 7,272
State	383	1,055
Total current provision (benefit)	2,800	8,327
Deferred		
Federal	(784)	18,025
State	(183)	1,948
Total deferred (benefit) provision	(967)	19,973
Total provision (benefit) for income taxes	$ 1,833	$ 28,300

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

The tax effects of temporary differences that give rise to deferred tax assets and liabilities include loss reserves, deferred intercompany transfers, net unrealized gain on investments, and other items for the years ended December 31, 2022 and December 31, 2021. Gross deferred tax assets totaled $5,035 and $1,248 at December 31, 2022 and 2021, respectively, and gross deferred tax liabilities totaled $18,262 and $19,714 at December 31, 2022 and 2021, respectively.

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

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

The Company maintains a reserve for uncertain tax positions that may be challenged by a tax authority. The Company's reserve for uncertain tax positions totaled $254 and $794 for the years ended December 31,2022 and 2021, respectively. The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date. Related interest and penalties are treated as income tax expense under the Company's accounting policy. The total amount of interest and penalties, net of related tax benefits, recognized in the Combined Statements of Income for the periods ended December 31, 2022 and 2021 is $23 and $21, respectively. The total amount of interest and penalties, net of related tax benefits, recognized in the Combined sBalance Sheets at December 31, 2022 and 2021 is $45 and $21, respectively. As of December 31, 2022, Centene's tax returns remain open for federal examination for tax years 2020 and 2021.

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

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

NOTE 9 - RELATED PARTY TRANSACTIONS

Dividends
In 2022, the Company did not pay any dividends. In 2021, Care 1st paid two extraordinary cash dividends totaling $55,000 to The WellCare Management Group, Inc. ("WCMG") and One Care paid a $6,000 extraordinary cash dividend to WCMG. These dividends received approval from AHCCCS prior to payment of the dividend.

Capital Contributions
In 2022 and 2021, the Company received a capital contribution of $20,000 and $0, respectively, from its Parent Company, The WellCare Management Group, Inc.

The Company's amounts due (to) from related parties are as follows for the years ended December 31, 2022 and 2021:

($ IN THOUSANDS)

Affiliate	Expense 2022	Expense 2021	Amount due (to) from 2022	Amount due (to) from 2021	Services Provided
Comprehensive Health Management, Inc	$ —	$ 67,823	$ (6,773)	$ (14,722)	General management
Centene Management Company LLC	36,036	—	1,419	(988)	General management
Dental Health and Wellness	—	—	(772)	—	Dental vendor

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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

Healthcare Regulation

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

NOTE 11 – GOODWILL AND OTHER INTANGIBLE ASSETS, NET

On May 1, 2017, Care1st completed the acquisition of certain assets, including Arizona Medicaid membership and certain provider contracts, from Phoenix Health Plan. The transaction resulted in $8,330 of goodwill and $4,600 of other intangible assets for Medicaid business. This Medicaid business was part of the membership transferred to Arizona Complete Health-Complete Care Plan as disclosed in Note 1. As a result, in 2021 a portion of goodwill was transferred to Centene Corporation along with the entire amount of other intangible assets.

At December 31, 2022 and 2021, the gross and net carrying amount of goodwill was $3,610.

NOTE 12 - RISKS AND UNCERTAINTIES

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

The Company is monitoring the current COVID-19 pandemic. Our business has been affected by the spread of COVID-19, and the extent to which COVID-19 continues to impact our business will depend on future developments, which are highly uncertain and cannot be predicted with confidence.

NOTE 13 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events for potential recognition and/or disclosure through August 22, 2023, the date the combined financial statements are available to be issued.

Supplemental Detailed Balance Sheet As of December 31, 2022

ASSETS	**Care1st**	**One Care**	**Eliminations**	**The Company**
Current assets				
Cash and cash equivalents	$ 58,790	$ 4,635	$ —	$ 63,425
Investments	7,486	2,886	—	10,372
Income tax receivable	2,518	—	(616)	1,902
Other receivables from government partners	5,298	—	—	5,298
Premiums receivable	2,861	—	—	2,861
Prepaid expenses and other receivables	5,293	608	—	5,901
Total current assets	82,246	8,129	(616)	89,759
Noncurrent assets				
Investments - Long Term	122,927	13,696	—	136,623
Other receivables from government partners	1,741	—	—	1,741
Goodwill	3,610	—	—	3,610
Other assets	405	—	—	405
Due from Affiliates	5,219	—	(5,219)	—
Deferred tax assets	—	511	(511)	—
Total assets	$ 216,148	$ 22,336	$ (6,346)	$ 232,138

See preceding combined financial statements and auditors' report

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
SUPPLEMENTAL INFORMATION
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Supplemental Detailed Balance Sheet As of December 31, 2022

LIABILITIES AND STOCKHOLDER'S EQUITY	**Care1st**	**One Care**	**Eliminations**	**The Company**
Current liabilities				
Total medical claims payable	$ 60,393	$ 574	$ —	$ 60,967
Accounts payable and accrued expenses	4,795	963	—	5,758
Other payables to government partners	59,710	—	—	59,710
Income taxes payable	—	616	(616)	—
Due to affiliates	—	11,345	(5,219)	6,126
Total current liabilities	124,898	13,498	(5,835)	132,561
Long-term liabilities				
Other payables to government partners	33,559	—	—	33,559
Deferred Tax liability	13,738	—	(511)	13,227
Other long-term liabilities	294	5	—	299
Total long-term liabilities	47,591	5	(511)	47,085
Additional paid-in capital	19,614	13,000	—	32,614
Retained earnings (deficit)	24,045	(4,167)	—	19,878
Total stockholder's equity	43,659	8,833	—	52,492
Total liabilities and stockholder's equity	$ 216,148	$ 22,336	$ (6,346)	$ 232,138

See preceding combined financial statements and auditors' report

Supplemental Detailed Balance Sheet As of December 31, 2021

ASSETS	Care1st	One Care	Eliminations	The Company
Current assets				
Cash and cash equivalents	$ 43,569	$ 3,787	$ —	$ 47,356
Investments	7,911	949	—	8,860
Income tax receivable	—	287	—	287
Other receivables from government partners	2,055	—	—	2,055
Premiums receivable	430	3,336	—	3,766
Prepaid expenses and other	6,035	4,221	—	10,256
Total current assets	60,000	12,580	—	72,580
Noncurrent assets				
Investments - Long Term	133,622	19,403	—	153,025
Other receivables from government partners	518	—	—	518
Goodwill	3,610	—	—	3,610
Other assets	405	—	—	405
Deferred tax assets	—	124	(124)	—
Total assets	$ 198,155	$ 32,107	$ (124)	$ 230,138

See preceding combined financial statements and auditors' report

CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
SUPPLEMENTAL INFORMATION
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Supplemental Detailed Balance Sheet As of December 31, 2021

LIABILITIES AND STOCKHOLDER'S EQUITY	**Care1st**	**One Care**	**Eliminations**	**The Company**
Current liabilities				
Total medical claims payable	$ 34,299	$ 11,753	$ —	$ 46,052
Accounts payable and accrued expenses	6,822	4,876	—	11,698
Other payables to government partners	34,030	—	—	34,030
Income taxes payable	3,689	98	—	3,787
Due to affiliates	7,152	8,558	—	15,710
Total current liabilities	85,992	25,285	—	111,277
Long-term liabilities				
Other payables to government partners	61,539	—	—	61,539
Deferred Tax liability	18,590	—	(124)	18,466
Other long-term liabilities	761	54	—	815
Total long-term liabilities	80,890	54	(124)	80,820
Additional paid-in capital	(386)	13,000	—	12,614
Retained earnings (deficit)	31,659	(6,232)	—	25,427
Total stockholder's equity	31,273	6,768	—	38,041
Total liabilities and stockholder's equity	$ 198,155	$ 32,107	$ (124)	$ 230,138

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CARE1ST HEALTH PLAN ARIZONA, INC.
AND ONE CARE BY CARE1ST HEALTH PLAN ARIZONA, INC.
SUPPLEMENTAL INFORMATION
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

Supplemental Income Statement For the Year Ended December 31, 2022

	Care1st	One Care	The Company
Revenue			
Total premium revenue, net	$ 427,524	$ 1,906	$ 429,430
Operating Expenses			
Total healthcare services, net	375,204	(2,249)	372,955
Selling, general and administrative expenses	39,669	65	39,734
Depreciation and amortization expense	—	—	—
Premium tax expense	10,579	—	10,579
Total expenses	425,452	(2,184)	423,268
Income from operations	2,072	4,090	6,162
Net investment income	4,008	247	4,255
Income (loss) before income taxes	6,080	4,337	10,417
Income tax expense	934	899	1,833
Net income (loss)	$ 5,146	$ 3,438	$ 8,584

See preceding combined financial statements and auditors' report

Supplemental Income Statement For the Year Ended December 31, 2021

	Care1st	One Care	The Company
Revenue			
Total premium revenue, net	$ 687,826	$ 71,486	$ 759,312
Operating Expenses			
Total healthcare services, net	572,794	59,331	632,125
Selling, general and administrative expenses	76,229	2,825	79,054
Depreciation and amortization expense	1	—	1
Premium tax expense	16,430	—	16,430
Total expenses	665,454	62,156	727,610
Income from operations	22,372	9,330	31,702
Net investment income	2,834	168	3,002
Income (loss) before income taxes	25,206	9,498	34,704
Income tax expense	26,085	2,215	28,300
Net income (loss)	$ (879)	$ 7,283	$ 6,404

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