

Financial Statements and
Supplementary Information

Magellan Complete Care of Arizona, Inc.

Years Ended December 31, 2019 and 2020
With Report of Independent Auditors

Magellan Complete Care of Arizona, Inc.
Financial Statements and Supplementary Information
Years Ended December 31, 2019 and 2020

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Report of Independent Auditors

Board of Directors and Shareholders
Magellan Complete Care of Arizona, Inc.

We have audited the accompanying financial statements of Magellan Complete Care of Arizona, Inc., which comprise the balance sheets as of December 31, 2019 and 2020, and the related statements of comprehensive loss, changes in stockholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Magellan Complete Care of Arizona, Inc. at December 31, 2019 and 2020, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

August 10, 2021

Magellan Complete Care of Arizona, Inc.

Balance Sheets

	December 31	
	2019	2020
Assets		
Current assets:		
Cash and cash equivalents (restricted balance of \$512,887 and \$514,622 at December 31, 2019 and 2020, respectively)	\$ 5,022,162	\$ 15,131,264
Short-term investments	10,527,431	29,778,843
Accounts receivable	14,028,289	20,671,042
Other current assets	209,725	319,915
Due from Magellan Health, Inc.	–	2,397,752
Allocated corporate income taxes receivable	738,143	–
Total current assets	30,525,750	68,298,816
Total assets	\$ 30,525,750	\$ 68,298,816
 Liabilities and stockholder's equity		
Current liabilities:		
Medical claims payable	\$ 18,509,430	\$ 25,822,043
Unpaid claims adjustment expenses	113,697	149,822
Accounts payable and accrued expenses	874,501	5,962,513
Allocated corporate income taxes payable	–	957,433
Due to Magellan Health, Inc.	828,872	–
Total liabilities	20,326,500	32,891,811
 Stockholder's equity:		
Common stock, \$1.00 par value; authorized, issued and outstanding – 1,000 shares	1,000	1,000
Additional paid-in capital	21,359,350	47,756,350
Accumulated deficit	(11,178,282)	(12,323,178)
Accumulated other comprehensive income (loss)	17,182	(27,167)
Total stockholder's equity	10,199,250	35,407,005
Total liabilities and stockholder's equity	\$ 30,525,750	\$ 68,298,816

See accompanying notes to financial statements.

Magellan Complete Care of Arizona, Inc.

Statements of Comprehensive Loss

	Year Ended December 31	
	2019	2020
Net revenues	\$ 83,546,327	\$ 205,113,275
Operating expenses:		
Cost of care	75,656,657	172,985,899
Direct service costs	19,521,558	33,422,521
Total operating expenses	<u>95,178,215</u>	<u>206,408,420</u>
Operating loss	(11,631,888)	(1,295,145)
Other income:		
Net investment gain	478,858	272,238
Loss before allocated income tax expense (benefit) provision	<u>(11,153,030)</u>	<u>(1,022,907)</u>
Allocated income tax expense (benefit) provision	(2,293,444)	121,989
Net loss	<u>(8,859,586)</u>	<u>(1,144,896)</u>
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities	23,527	(44,349)
Comprehensive loss	<u>\$ (8,836,059)</u>	<u>\$ (1,189,245)</u>

See accompanying notes to financial statements.

Magellan Complete Care of Arizona, Inc.

Statements of Changes in Stockholder's Equity

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholder's Equity
	Shares	Amount				
January 1, 2019	1,000	\$ 1,000	\$ 12,109,350	\$ (2,318,696)	\$ (6,345)	\$ 9,785,309
Net loss	–	–	–	(8,859,586)	–	(8,859,586)
Capital contribution	–	–	9,250,000	–	–	9,250,000
Other comprehensive income	–	–	–	–	23,527	23,527
December 31, 2019	1,000	1,000	21,359,350	(11,178,282)	17,182	10,199,250
Net loss	–	–	–	(1,144,896)	–	(1,144,896)
Capital contribution	–	–	26,397,000	–	–	26,397,000
Other comprehensive loss	–	–	–	–	(44,349)	(44,349)
December 31, 2020	1,000	\$ 1,000	\$ 47,756,350	\$ (12,323,178)	\$ (27,167)	\$ 35,407,005

See accompanying notes to financial statements.

Magellan Complete Care of Arizona, Inc.

Statements of Cash Flows

	Year Ended December 31	
	2019	2020
Operating activities		
Net loss	\$ (8,859,586)	\$ (1,144,896)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization of investment premiums	(4,041)	235,798
Cash flows from changes in assets and liabilities:		
Account receivable	(13,166,316)	(6,642,754)
Other current assets	(169,995)	(110,190)
Medical claims payable	14,478,640	7,312,613
Unpaid claims adjustment expenses	87,423	36,125
Accounts payable and accrued expenses	647,450	5,088,012
Due to/from Magellan Health, Inc.	333,553	1,770,376
Allocated corporate income taxes receivable	(99,426)	1,695,576
Other	(4,569)	11,403
Net cash (used in) provided by operating activities	<u>(6,756,867)</u>	<u>8,252,063</u>
Investing activities		
Cost of investments acquired	(12,546,290)	(46,593,665)
Proceeds from maturities and investments	12,500,000	27,050,704
Net cash used in investing activities	<u>(46,290)</u>	<u>(19,542,961)</u>
Financing activities		
Capital contribution	6,250,000	21,400,000
Net cash provided by financing activities	<u>6,250,000</u>	<u>21,400,000</u>
Net (decrease) increase in cash and equivalents	(553,157)	10,109,102
Cash and cash equivalents at beginning of year	5,575,319	5,022,162
Cash and cash equivalents at end of year	<u>\$ 5,022,162</u>	<u>\$ 15,131,264</u>
Noncash capital contribution (<i>Note 6</i>)	\$ 3,000,000	\$ 4,997,000

See accompanying notes to financial statements.

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements

December 31, 2020

1. Organization

Magellan Complete Care of Arizona, Inc. (the “Company”) was a wholly owned subsidiary of Magellan Health Services of Arizona, Inc. (“MHS of AZ”). MHS of AZ was a wholly owned subsidiary of Magellan Healthcare, Inc. (“Magellan Healthcare”), which is a wholly owned subsidiary of Magellan Health, Inc. (“Magellan”). Magellan is engaged in the healthcare management business, and is focused on delivering innovative specialty solutions for the fastest growing, most complex areas of health including special populations, complete pharmacy benefits, and other specialty areas of healthcare.

On December 31, 2020, Molina Healthcare, Inc. (“Molina”) closed on its acquisition of 100% of the outstanding equity interests of the Magellan Complete Care (“MCC”) line of business of Magellan, which included the Company. The MCC Business was Magellan’s business of contracting with state Medicaid agencies and the U.S. Centers for Medicare and Medicaid Services to manage total medical benefits or long-term support services for Medicaid and dual eligible Medicaid and Medicare populations. In conjunction with the acquisition, Molina and the Company elected the option under ASC 805-50 to not to apply pushdown accounting to the Company’s balance sheet values as of December 31, 2020, and therefore no change in basis for assets and liabilities subsequent to the change in control was recognized.

The Company was incorporated in the State of Arizona on October 20, 2011 and on January 7, 2013 received a certificate of authority to transact health care services business in the State of Arizona (the “State”).

The Company began providing healthcare services to Medicaid recipients in Arizona on October 1, 2018 under the Arizona Health Cost Containment System (“AHCCCS”) Contract with the AHCCCS Administration. The initial term of the AHCCCS Contract is for a period of three years with the potential for up to two two-year extensions, not to exceed a total contracting period of seven years. The contract year is October 1 through September 30.

2. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates of the Company include, among other things, accounts receivable realization and medical claims payable. Actual results could differ from those estimates.

Fair Value Measurements

The Company currently does not have non-financial assets and non-financial liabilities that are required to be measured at fair value on a recurring basis. Financial assets and liabilities are to be measured using inputs from the three levels of the fair value hierarchy, which are as follows:

- Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
- Level 3 – Unobservable inputs that reflect the Company's assumptions about the assumptions that market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available, including the Company's data.

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company's financial assets and liabilities that are required to be measured at fair value as of December 31, 2019 and 2020:

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Assets:				
Cash and cash equivalents ¹	\$ —	\$ 5,009,973	\$ —	\$ 5,009,973
Investments:	512,887	—	—	512,887
U.S. Treasury securities	—	10,014,544	—	10,014,544
Corporate debt securities	\$ 512,887	\$ 15,024,517	\$ —	\$ 15,537,404
December 31, 2020				
Assets:				
Cash and cash equivalents ²	\$ —	\$ —	\$ —	\$ —
Investments:	514,622	—	—	514,622
U.S. Treasury securities	—	29,264,221	—	29,264,221
Corporate debt securities	\$ 514,622	\$ 29,264,221	\$ —	\$ 29,778,843

¹Excludes \$12,189 of cash held in bank accounts by the Company.

²Excludes \$15,131,264 of cash held in bank accounts by the Company.

All of the Company's investments are classified as "available-for-sale" and are carried at fair value, based on quoted market prices. The Company's policy is to classify all investments with contractual maturities within one year as short-term. Investment income is recognized when earned and reported net of investment expenses. Net unrealized holding gains or losses are excluded from earnings and are reported as "accumulated other comprehensive income (loss)" on the accompanying balance sheets and statements of comprehensive loss until realized, unless the losses are deemed to be other than temporary. Realized gains or losses, including any provision for other-than-temporary declines in value, are included in the statement of comprehensive loss.

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

If a debt security is in an unrealized loss position and the Company has the intent to sell the debt security, or it is more likely than not that the Company will have to sell the debt security before recovery of its amortized cost basis, the decline in value is deemed to be other than temporary and is recorded to other-than-temporary impairment losses recognized in income in the statements of comprehensive loss. For impaired debt securities that the Company does not intend to sell or it is more likely than not that the Company will not have to sell such securities, but the Company expects that it will not fully recover the amortized cost basis, the credit component of the other-than-temporary impairment is recognized in other-than-temporary impairment losses recognized in income in the statements of comprehensive loss and the non-credit component of the other-than-temporary impairment is recognized in other comprehensive income.

The credit component of other-than-temporary impairment is determined by comparing the net present value of projected future cash flows with the amortized cost basis of the debt security. The net present value is calculated by discounting the best estimate of projected future cash flows at the effective interest rate implicit in the debt security at the date of acquisition. Cash flow estimates are driven by assumptions regarding probability of default, including changes in credit ratings, and estimates regarding timing and amount of recoveries associated with a default. Furthermore, unrealized losses entirely caused by non-credit related factors related to debt securities for which the Company expects to fully recover the amortized cost basis continue to be recognized in accumulated other comprehensive (loss) income.

As of December 31, 2019 and 2020, there were no unrealized gains or losses that the Company believed to be other than temporary.

The following table is a summary of investment securities at December 31, 2019 and 2020:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2019				
U.S. Treasury securities	\$ 509,877	\$ 3,010	\$ –	\$ 512,887
Corporate debt securities	9,995,804	18,740	–	10,014,544
Total short-term investments	<u>\$ 10,505,681</u>	<u>\$ 21,750</u>	<u>\$ –</u>	<u>\$ 10,527,431</u>

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2020				
U.S. Treasury securities	\$ 514,715	\$ –	\$ (93)	\$ 514,622
Corporate debt securities	29,298,517	–	(34,296)	29,264,221
Total short-term investments	<u>\$ 29,813,232</u>	<u>\$ –</u>	<u>\$ (34,389)</u>	<u>\$ 29,778,843</u>

The maturity dates of the Company's investments as of December 31, 2020 are summarized below:

	Amortized Cost	Estimated Fair Value
2021	<u>\$ 29,813,232</u>	<u>\$ 29,778,843</u>
Total investments	<u>\$ 29,813,232</u>	<u>\$ 29,778,843</u>

The carrying value for the Company's financial instruments classified as current assets (other than short-term investments) and current liabilities approximate their fair value due to their short maturities.

Cash and Cash Equivalents

The Company considers all liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Assets

At December 31, 2019 and 2020, the Company held \$512,887 and \$514,622, respectively, in a United States Treasury security that was pledged to the Department to comply with deposit requirements. This restricted asset was held in short term investments in the accompanying balance sheets as of December 31, 2019 and 2020.

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of cash, investments and receivables. The Company maintains its cash and investments with what it believes to be high-quality financial institutions, and invests in commercial paper and corporate debt securities with a NAIC rating of “NAIC-1.” The Company’s receivables are comprised of investment income due and accrued, receivables due from Magellan and contract receivables associated with the AHCCCS Contract.

Revenue Recognition

The Company’s revenues are derived from business in North America and are considered transferred over time.

Revenue is recognized over the applicable coverage period on a per member per month (“PMPM”) basis for covered members at the rates established in the AHCCCS Contract. The AHCCCS Contract has a single performance obligation that constitutes a series for the provision of managed healthcare services for a population of enrolled members for the duration of the contract. The transaction price for PMPM contracts is entirely variable as it primarily includes per member per month fees associated with unspecified membership that fluctuates throughout the contract. The Company estimates the transaction price using an expected value methodology and amounts are only included in the net transaction price to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. The majority of the Company’s net PMPM transaction price relates specifically to its efforts to transfer the service for a distinct increment of the series (e.g., day or month) and is recognized as revenue in the month in which members are entitled to service. The remaining transaction price is recognized over the contract period (or portion of the series to which it specifically relates) based upon estimated membership as a measure of progress.

Risk Share

The Contract provides for risk sharing in the event of favorable or unfavorable operations. The risk share is based on a calculation of earnings or losses as a percentage of annual revenue. The Company retains 100% of earnings up to and including 2% of annual revenue and is at risk for 100% of the losses up to and including 2% of annual revenue. If the percentage is above 2% and

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

up to 6%, 50% of earnings within this corridor are refunded to the State and 50% of earnings are retained by the Company and in the event of losses, the Company is at risk for 50% of the losses and 50% would be due from the State. If the percentage exceeds 6%, 100% of earnings above 6% are refunded to the State and 100% of the losses are due from the State. At December 31, 2019 and 2020 the Company had a risk share receivable of \$6,573,190 and \$11,637,688, respectively, which is included within the caption accounts receivable on the accompanying balance sheets.

Accounts Receivable, Contract Assets and Contract Liabilities

The Company's accounts receivable at December 31, 2019 and 2020, totaled \$14,028,289 and \$20,671,042, respectively and were related to the AHCCCS Contract and amounts due from providers. The Company had a contract asset of \$2,045,088 for risk share at December 31, 2019 which is included within the caption accounts receivable on the accompanying balance sheets. The Company did not have any contract assets at December 31, 2020. The Company did not have any contract liabilities at December 31, 2019 or 2020.

Cost of Care, Medical Claims Payable and Other Medical Liabilities

Cost of care is recognized in the period in which members receive managed healthcare services. In addition to actual benefits paid, cost of care includes the impact of accruals for estimates of medical claims payable. Medical claims payable represents the liability for healthcare claims reported but not yet paid and claims incurred but not yet reported ("IBNR") related to the Company's managed healthcare businesses. Such liabilities are determined by employing actuarial methods that are commonly used by health insurance actuaries and that meet actuarial standards of practice.

The IBNR portion of medical claims payable is estimated based on past claims payment experience for member groups, enrollment data, utilization statistics, authorized healthcare services and other factors. This data is incorporated into contract-specific actuarial reserve models and is further analyzed to create "completion factors" that represent the average percentage of total incurred claims that have been paid through a given date after being incurred. Factors that affect estimated completion factors include benefit changes, enrollment changes, shifts in product mix, seasonality influences, provider reimbursement changes, changes in claims inventory levels, the speed of claims processing and changes in paid claim levels. Completion factors are applied to claims paid

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

through the financial statement date to estimate the ultimate claim expense incurred for the current period. Actuarial estimates of claims liabilities are then determined by subtracting the actual paid claims from the estimate of the ultimate incurred claims. For the most recent incurred months (generally the most recent two months), the percentage of claims paid for claims incurred in those months is generally low. This makes the completion factor methodology less reliable for such months. Therefore, incurred claims for any month with a completion factor that is less than 70 percent are generally not projected from historical completion and payment patterns; rather they are projected by estimating claims expense based on recent monthly estimated cost incurred per member per month times membership, taking into account seasonality influences, benefit changes and healthcare trend levels, collectively considered to be “trend factors.”

Reinsurance

Reinsurance recoveries under the AHCCCS Contract are recognized when healthcare cost exceed stated amounts provided under the contract, including estimates of such cost at the end of each accounting period. Under regular reinsurance the Company is reimbursed by AHCCCS 75% of the cost when qualified healthcare costs for those members exceed \$35,000, depending on the case type of the member. Under catastrophic reinsurance, AHCCCS will provide reimbursement for 85% of the cost for specific conditions or specific drugs if notified within 30 days of the condition being identified. AHCCCS also provides stop loss which will cover the 100% of the cost of care, other than transplants, when an individual members' cumulative cost of care exceeds \$1,000,000 within a contract year.

Deferred Income Taxes

Deferred tax assets and/or liabilities are determined by multiplying the temporary differences between financial reporting and tax reporting basis for assets and/or liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. The Company's significant deferred tax assets consist of temporary differences related non-deductible accruals.

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

3. Medical Claims Payable

Medical claims payable balances are continually monitored and reviewed. If it is determined that the Company's assumptions in estimating such liabilities are significantly different than actual results, the Company's results of operations and financial position could be impacted in future periods. Adjustments of prior period estimates may result in additional cost of care or a reduction of cost of care in the period an adjustment is made. Further, due to the considerable variability of health care costs, adjustments to claim liabilities occur each period and are sometimes significant as compared to the net income recorded in that period. Prior period development is recognized immediately upon the actuary's judgment that a portion of the prior period liability is no longer needed or that additional liability should have been accrued.

The following table presents the components of the change in medical claims payable for the years ended December 31, 2019 and 2020:

	Year Ended December 31	
	2019	2020
Medical claims payable, beginning of year	\$ 4,030,790	\$ 18,509,430
Cost of care:		
Current year	79,012,272	185,836,115
Prior years	2,042,017	(3,874,270)
Total cost of care	<u>81,054,289</u>	<u>181,961,845</u>
Claims paid and transfers to other medical liabilities:		
Current year	60,712,169	160,563,978
Prior years	5,863,480	14,085,253
Total claims paid	<u>66,575,649</u>	<u>174,649,231</u>
Medical claims payable, end of year	<u>\$ 18,509,430</u>	<u>\$ 25,822,043</u>

Estimated reinsurance recoveries of \$5,397,632 and \$8,975,946 are included as a reduction of cost of care in the Company's statements of comprehensive loss for the years ended December 31, 2019 and 2020, respectively. (See Note 2 – Reinsurance.)

Actuarial standards of practice require that claims unpaid be adequate under moderately adverse circumstances. Adverse circumstances are situations in which the actual claims experience could be higher than the otherwise estimated value of such claims. In many situations, the claims paid amount experienced will be less than the estimate that satisfies the actuarial standards of practice.

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

3. Medical Claims Payable (continued)

The Company believes that the accrual for medical claims is adequate to cover its ultimate liability for unpaid claims as of December 31, 2020; however, actual claims payments may differ from established estimates.

The Company recorded claim adjustment expenses for the estimate of costs associated with processing the incurred but unpaid claims. As of December 31, 2019 and 2020, accrued claim adjustment expenses were \$113,697 and \$149,822, respectively, and were included in unpaid claims adjustment expenses on the accompanying balance sheets.

4. Allocated Corporate Income Taxes

The Company participated in a federal and state tax allocation agreement with Magellan. Through this agreement, Magellan allocated federal tax benefits of \$2,419,282 and a state tax expense of \$125,838 for the year ended December 31, 2019, to the Company for its share of the federal and state tax provisions. Magellan allocated federal tax expense of \$121,989 for the year ended December 31, 2020, to the Company for its share of the federal tax provisions. The Company is subject to premium tax in lieu of state income tax.

The agreement calls for all parties to share the federal income tax rates, exclusions and other aspects of federal tax law proportionately, based on taxable income. These amounts are included in allocated income tax benefit in the accompanying statements of comprehensive loss.

In accordance with the federal and state tax allocation agreement, allocated federal and state income taxes payable or recoverable are required to be settled on a quarterly basis. If necessary, any final settlement under the agreement shall be due within thirty (30) days after the filing by Magellan of any annual income tax returns that includes the activities of the Company. The agreement calls for federal and state income taxes payable to be computed on the basis of pre-tax income adjusted for permanent book to tax differences with consideration of temporary items, if material.

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

4. Allocated Corporate Income Taxes (continued)

The significant components of the net deferred tax assets are as follows:

	December 31	
	2019	2020
Deferred tax assets:		
Medical claims payable	\$ 23,876	\$ 31,463
Other liabilities	22,133	31,385
Total deferred tax assets	46,009	62,848
Valuation allowance	(29,131)	(46,997)
Deferred tax assets after valuation allowance	16,878	15,851
Deferred tax liabilities	(16,878)	(15,851)
Net deferred tax assets	\$ —	\$ —

5. Related-Party Transactions

Under a Master Services Agreement (the “Agreement”) between Magellan Healthcare and the Company, Magellan Healthcare provided itself or through one or more of its affiliates, management information, legal, cash and asset management, financial, human resources, and other administrative services to the Company through December 31, 2020. Per the Agreement, the Company reimbursed Magellan Healthcare for dedicated staffing and related expenses and paid to Magellan Healthcare a monthly administrative fee equal to 5% of all capitation received by the Company with an annual true-up to actual fees incurred each year.

For the years ended December 31, 2019 and 2020, the amount charged to the Company in connection with the Agreement was \$8,541,112 and \$6,540,111, respectively. This charge is recorded as direct service costs in the accompanying statements of comprehensive loss.

During 2019, in addition to the forgiveness of \$3,000,000 of underwriting loss, Magellan Healthcare contributed capital of \$6,250,000 for a total of \$9,250,000 of contributed capital. During 2020, in addition to the forgiveness of \$4,997,000 of underwriting loss, Magellan Healthcare contributed capital of \$21,400,000 for a total of \$26,397,000 of contributed capital.

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

5. Related-Party Transactions (continued)

Health Insurer Fee

Effective January 1, 2014, Magellan began accounting for the mandated health insurer fee (“HIF”) to be paid to the federal government by health insurers, as part of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the Act) which is imposed for calendar years beginning after December 31, 2013. The HIF is based on an insurance company’s share of the industry’s net premiums written during the preceding calendar year and is payable by Magellan to federal government by September 30 of each year.

Magellan determines the amount payable by the Company based on a pro-rata allocation of the HIF assessed using the Company’s premiums subject to the HIF with respect to total Magellan premiums subject to the HIF. The Company did not write any premiums in 2018; therefore, was not subject to the annual HIF for the year ended December 31, 2018. The annual HIF for the year ended December 31, 2019 was suspended thus no fees were paid in 2019.

The Company had \$83,553,013 in health insurance premiums subject to the ACA assessment for the year ended December 31, 2019 and conducted health insurance business in 2020. The Company paid a HIF fee of \$1,567,186 in September 2020 which is recorded as direct service costs in the accompanying statements of comprehensive loss. The Company recognized revenue of \$2,023,058 for the year ended December 31, 2020 related to the reimbursement of the HIF of which \$1,982,636 related to HIF tax reimbursement and \$40,422 related to reimbursement for premium taxes on HIF revenue. The tax was repealed for calendar years beginning after December 31, 2020.

6. Stockholder’s Equity

The Company is licensed in the State of Arizona and is subject to certain minimum statutory capital and surplus requirements as determined by the Arizona Department of Insurance (the “Department”). Additionally, the terms of the Company’s contract require the Company to maintain a certain net worth at all times.

As of December 31, 2020, the Company was required to maintain a net worth of \$6,000,000 and maintained total stockholder’s equity in excess of such requirement. As of December 31, 2020, the Company is also subject to statutory Risk Based Capital (“RBC”) requirements. RBC, as defined by the NAIC, is a method of measuring the minimum amount of capital appropriate for a managed

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

6. Stockholder's Equity (continued)

care organization to support its overall business operations in consideration of its size and risk profile. The managed care organization's RBC is calculated by applying factors to various assets, premium and reserve items. As of December 31, 2020, the Company had RBC in excess of the Company Action Level, defined by the NAIC as 200%.

7. Commitments and Contingencies

Regulatory Issues

The managed healthcare industry is subject to extensive and evolving federal and state regulations. Such laws and regulations cover, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, information privacy and security, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government investigations and allegations have become more frequent concerning possible violations of fraud and abuse and false claims statutes and regulations by healthcare organizations. Violators may be excluded from participating in government healthcare programs, subject to fines or penalties or required to repay amounts received from the government for previously billed services. A violation of such laws and regulations may have a material adverse effect on the Company.

Legal

From time to time, the Company is involved in legal actions arising in the ordinary course of business. After taking into consideration legal counsel's evaluation of such actions, management believes that the resolution of such legal actions will not have a material adverse effect on the Company's financial condition or results of operations; however, there can be no assurance in this regard.

Insurance

The Company was covered under Magellan's general, professional and managed care liability insurance policies with unaffiliated insurers through December 31, 2020. Effective January 1, 2021, the Company is covered under Molina's general and professional liability insurance policies with unaffiliated insurers through March 31, 2022 and Molina's managed care and omissions policy through May 1, 2021. The general liability policies are written on an occurrence basis, with the professional liability and managed care errors and omissions liability policies written on a claims-made basis.

Magellan Complete Care of Arizona, Inc.

Notes to Financial Statements (continued)

8. Subsequent Events

The Company has evaluated events of which it is aware occurring after December 31, 2020 through August 10, 2021, the date the with U.S. generally accepted accounting principles financial statements were available to be issued, to determine whether any event required either recognition or disclosure in the statutory-basis financial statements.

No events were identified that require recognition or disclosure in the financial statements.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

Board of Directors
Magellan Complete Care of Arizona, Inc.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying detail of sub-capitated expenses, balance sheet by line of business, and statement of comprehensive loss by line of business are presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

August 10, 2021

Magellan Complete Care of Arizona, Inc.

Detail of Sub-Capitated Expenses

December 31, 2020

Detail of Sub-Capitated Expenses

The Company had no sub-capitated expenses for the years ended December 31, 2019 and 2020.

Magellan Complete Care of Arizona, Inc.

Balance Sheet by Line of Business

December 31, 2020

	<u>Medicaid</u>	<u>Medicare</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents (restricted balance of \$514,622 at December 31, 2020	\$ 15,131,264	\$ –	\$ 15,131,264
Short-term investments	29,778,843	–	29,778,843
Accounts receivable	20,680,246	(9,204)	20,671,042
Other current assets	319,915	–	319,915
Due from Magellan Health, Inc.	2,661,127	(263,375)	2,397,752
Total current assets	<u>68,571,395</u>	<u>(272,579)</u>	<u>68,298,816</u>
Total assets	<u>\$ 68,571,395</u>	<u>\$ (272,579)</u>	<u>\$ 68,298,816</u>
Liabilities and stockholder's equity			
Current liabilities:			
Medical claims payable	\$ 25,723,729	\$ 98,314	\$ 25,822,043
Unpaid claims adjustment expenses	149,822	–	149,822
Accounts payable and accrued expenses	5,962,513	–	5,962,513
Allocated corporate income taxes payable	957,433	–	957,433
Total liabilities	<u>32,793,497</u>	<u>98,314</u>	<u>32,891,811</u>
Stockholder's equity:			
Common stock, \$1.00 par value; authorized, issued and outstanding – 1,000 shares	1,000	–	1,000
Additional paid-in capital	47,756,350	–	47,756,350
Accumulated deficit	(11,952,285)	(370,893)	(12,323,178)
Accumulated other comprehensive loss	(27,167)	–	(27,167)
Total stockholder's equity	<u>35,777,898</u>	<u>(370,893)</u>	<u>35,407,005</u>
Total liabilities and stockholder's equity	<u>\$ 68,571,395</u>	<u>\$ (272,579)</u>	<u>\$ 68,298,816</u>

Magellan Complete Care of Arizona, Inc.

Statement of Comprehensive Loss by Line of Business

Year Ended December 31, 2020

	<u>Medicaid</u>	<u>Medicare</u>	<u>Total</u>
Net revenues	\$ 204,709,160	\$ 404,115	\$ 205,113,275
Operating expenses:			
Cost of care	172,608,820	377,079	172,985,899
Direct service costs	33,024,592	397,929	33,422,521
Total operating expenses	<u>205,633,412</u>	<u>775,008</u>	<u>206,408,420</u>
Operating loss	(924,252)	(370,893)	(1,295,145)
Other income:			
Net investment gain	272,238	–	272,238
Loss before allocated income tax (benefit) provision	(652,014)	(370,893)	(1,022,907)
Allocated income tax expense provision	121,989	–	121,989
Net loss	<u>(774,003)</u>	<u>(370,893)</u>	<u>(1,144,896)</u>
Other comprehensive income:			
Unrealized (losses) on available-for-sale securities	(44,349)	–	(44,349)
Comprehensive loss	<u>\$ (818,352)</u>	<u>\$ (370,893)</u>	<u>\$ (1,189,245)</u>