Financial Statements and Report of Independent Certified Public Accountants

Molina Healthcare of Arizona, Inc.

December 31, 2021 and 2020

Contents

GRANT THORNTON LLP
100 E. Wisconsin Ave., Suite 2100
Milwaukee, WI 53202

D +1 414 289 8200
F +1 414 289 9910

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholder
Molina Healthcare of Arizona, Inc.

Opinion
We have audited the financial statements of Molina Healthcare of Arizona, Inc., which comprise the balance sheet as of December 31, 2021, and the related statements of comprehensive income, shareholder's equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Molina Healthcare of Arizona, Inc. as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion
We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal

control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Matter

The financial statements of Molina Healthcare of Arizona, Inc., formerly known as Magellan Complete Care of Arizona, Inc., as of and for the year ended December 31, 2020, were audited by other auditors who expressed an unmodified opinion on those financial statements in their report dated August 10, 2021.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The detail of sub-capitated expense for the years ended September 30, 2021 and 2020, balance sheet by line of business as of December 31, 2021, and statement of comprehensive income by line of business for the year ended December 31, 2021 are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary 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. These additional procedures included 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 US GAAS. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole.

Grant Thornton LLP

Milwaukee, WI
June 16, 2022

Molina Healthcare of Arizona, Inc.

BALANCE SHEETS

(Dollars in thousands)

	December 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 49,418	$ 15,131
Investments	44,497	29,264
Receivables	19,980	20,671
Prepaid expenses and other current assets	681	2,718
Total current assets	114,576	67,784
Property and equipment, net	195	-
Restricted cash and investments	536	515
Deferred income taxes	3,410	-
Other assets	485	-
Total assets	$ 119,202	$ 68,299
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Medical claims and benefits payable	$ 43,692	$ 25,822
Unpaid claims adjustment expenses	365	150
Amounts due government agencies	26,470	4,939
Accounts payable, accrued liabilities and other	1,622	1,024
Income taxes payable	592	957
Due to affiliate	1,527	-
Total current liabilities	74,268	32,892
Other long-term liabilities	382	-
Total liabilities	74,650	32,892
Stockholder's equity		
Common stock, $1.00 par value; authorized, issued and outstanding – 1,000 shares	1	1
Additional paid-in capital	50,176	47,756
Accumulated deficit	(5,301)	(12,323)
Accumulated other comprehensive loss	(324)	(27)
Total stockholder's equity	44,552	35,407
Total liabilities and stockholder's equity	$ 119,202	$ 68,299

The accompanying notes are an integral part of these financial statements.

Molina Healthcare of Arizona, Inc.

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

	Year Ended December 31, 2021	Year Ended December 31, 2020
Net revenues	$ 241,343	$ 205,113
Operating expenses		
Cost of care	198,361	172,986
Direct service costs	34,351	33,422
Total operating expenses	232,712	206,408
Operating income (loss)	8,631	(1,295)
Other income		
Net investment gain	266	272
Income (loss) before income tax expense	8,897	(1,023)
Income tax expense	1,875	122
Net income (loss)	7,022	(1,145)
Other comprehensive loss		
Unrealized investment loss	(391)	(56)
Less: effect of income taxes	94	12
Other comprehensive loss, net of tax	(297)	(44)
Comprehensive income (loss)	$ 6,725	$ (1,189)

The accompanying notes are an integral part of these financial statements.

Molina Healthcare of Arizona, Inc.

STATEMENTS OF SHAREHOLDER'S EQUITY

(Dollars in thousands)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Total Stockholder's
	Shares	Amount	Capital	Deficit	(Loss) Income	Equity
January 1, 2020	1,000	$ 1	$ 21,359	$ (11,178)	$ 17	$ 10,199
Net loss	-	-	-	(1,145)	-	(1,145)
Capital contribution	-	-	26,397	-	-	26,397
Other comprehensive loss	-	-	-	-	(44)	(44)
December 31, 2020	1,000	1	47,756	(12,323)	(27)	35,407
Net income	-	-	-	7,022	-	7,022
Deferred tax (purchase accounting)	-	-	2,420	-	-	2,420
Other comprehensive loss	-	-	-	-	(297)	(297)
December 31, 2021	1,000	$ 1	$ 50,176	$ (5,301)	$ (324)	$ 44,552

The accompanying notes are an integral part of these financial statements.

Molina Healthcare of Arizona, Inc.
STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31, 2021	2020
Operating activities		
Net income (loss)	$ 7,022	$ (1,145)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income taxes	(896)	-
Amortization of investment premiums	454	236
Other	2	-
Cash flows from changes in assets and liabilities:		
Account receivable	691	(6,643)
Other current assets	(381)	(110)
Medical claims payable	17,870	7,313
Unpaid claims adjustment expenses	215	36
Amounts due government agencies	21,531	-
Accounts payable and accrued expenses	516	5,088
Intercompany	3,925	1,770
Income taxes	(366)	1,696
Other	-	11
Net cash provided by operating activities	50,583	8,252
Investing activities		
Cost of investments acquired	(47,427)	(46,594)
Proceeds from maturities and investments	31,348	27,051
Other	(209)	-
Net cash used in investing activities	(16,288)	(19,543)
Financing activities		
Capital contribution	-	21,400
Net cash provided by financing activities	-	21,400
Net increase in cash and cash equivalents	34,295	10,109
Cash and cash equivalents at beginning of year	15,131	5,022
Cash and cash equivalents, and restricted cash at end of year	$ 49,426	$ 15,131
Noncash capital contribution *(Note 6)*	$ 2,420	$ 4,997

The accompanying notes are an integral part of these financial statements.

NOTE 1 - BASIS OF PRESENTATION

Organization and Operations

Molina Healthcare of Arizona, Inc. (the Plan) is a wholly owned subsidiary of Molina Healthcare, Inc. (the Parent). On December 31, 2020, the Parent closed on its acquisition of 100% of the outstanding equity interests of the Magellan Complete Care line of business of Magellan Health, Inc., which included the Plan, formerly known as Magellan Complete Care of Arizona, Inc. In conjunction with the acquisition, the Parent and the Plan elected the option under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805-50 to not apply pushdown accounting to the Plan'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 Plan was incorporated in the state of Arizona (the State) on October 20, 2011 and on January 7, 2013 received a certificate of authority from the Arizona Department of Insurance (the Department) to transact health care services business in the State.

The Plan began providing healthcare services to Medicaid recipients in Arizona on October 1, 2018 under the Arizona Health Care Cost Containment System (AHCCCS) Contract with the AHCCCS Administration. The initial term of the AHCCCS Contract was 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 initial three-year term ended on September 30, 2021, and the Plan is currently operating under the first two-year extension expiring September 30, 2023. The contract year is October 1 through September 30.

As of December 31, 2021, the Plan served approximately 47,000 members eligible for Medicaid and Medicare services. The Plan contracts with independent physician associations, hospitals and other providers to provide medical services to its members. As a health maintenance organization (HMO), the Plan is at risk for all covered outpatient and inpatient claims incurred by its beneficiaries.

Basis of Presentation

The Plan prepares its financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP).

Reclassifications

Certain amounts presented in the accompanying balance sheet for the year ended December 31, 2020, have been reclassified to conform to the current year presentation.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Principal areas requiring the use of estimates include: settlements under risk or savings programs, contractual provisions that may limit revenue recognition, medical claims and benefits payable, reserves for potential absorption of claims unpaid by insolvent providers, reserves for the outcome of litigation, and valuation allowances for deferred income tax assets.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term, highly liquid investments that are both readily convertible into known amounts of cash and have a maturity of three months or less as of the date of purchase. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the accompanying balance sheets that sum to the total of the same such amounts presented in the accompanying statements of cash flows. The restricted cash presented below is included in non-current "Restricted investments" in the accompanying balance sheets.

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Cash and cash equivalents	$ 49,418	$ 15,131
Restricted cash	8	-
Total cash, cash equivalents and restricted cash presented in the statements of cash flows	$ 49,426	$ 15,131

Premium Revenue

Premium revenue is derived primarily from Medicaid and Medicare. Premium revenue is recognized in the month that members are entitled to receive healthcare services. Premiums collected in advance of a coverage period are recorded as premiums received in advance. Premium revenue is generally received based on per member per month (PMPM) rates established in advance of the periods covered, except as described below.

Risk Share

The AHCCCS 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 Plan retains all earnings up to and including 2% of annual revenue and is at risk for all the losses up to and including 2% of annual revenue. If the percentage is above 2% and up to 6%, 50% of earnings within this corridor are refunded to the State and 50% of earnings are retained by the Plan, and in the event of losses, the Plan 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, 2021 and 2020 the Plan had a risk share receivable of $11.5 million and $11.6 million, respectively, which is included within the "Receivables" in the accompanying balance sheets.

Medical Care Costs

Medical care costs are recognized in the period in which services are provided and include fee-for-service claims, pharmacy benefits, and capitation payments to providers. Under fee-for-service claims arrangements with providers, the Plan retains the financial responsibility for medical care provided and incurs costs based on actual utilization of hospital and physician services. Such medical care costs include amounts paid by the Plan as well as estimated medical claims and benefits payable for costs that were incurred but not paid as of the reporting date (IBNP). Pharmacy benefits represent payments for members' prescription drug costs, net of rebates from drug manufacturers. The Plan estimates pharmacy rebates based on historical and current utilization of prescription drugs and contractual provisions. Capitation payments represent monthly contractual fees paid to providers, who are responsible for providing medical care to members, which could include medical or ancillary costs like dental, vision and other supplemental health benefits. Such capitation costs are fixed in advance of the periods covered and are not subject to significant accounting estimates.

Medical claims and benefits payable consist mainly of fee-for-service IBNP, unpaid pharmacy claims, capitation costs and other medical costs, including amounts payable to providers pursuant to risk-sharing or other incentive arrangements and amounts payable to providers on behalf of AHCCCS in which the Plan assumes no financial risk. IBNP includes the costs of claims incurred as of the balance sheet date which have been reported to the Plan, and the Plan's best estimate of the cost of claims incurred but not yet reported to the Plan. The Plan also includes an additional reserve to ensure that its overall IBNP liability is sufficient under moderately adverse conditions. The Plan reflects changes in these estimates in the results of operations in the period in which they are determined.

The estimation of the IBNP liability requires a significant degree of judgment in applying actuarial methods, determining the appropriate assumptions and considering numerous factors. Of those factors, the Plan considers estimated completion factors and the assumed healthcare cost trend to be the most critical assumptions. Other relevant factors also include, but are not limited to, healthcare service utilization trends, claim inventory levels, changes in membership, product mix, seasonality, benefit changes or changes in Medicaid fee schedules, provider contract changes, prior authorizations and the incidence of catastrophic or pandemic cases. Because of the significant degree of judgment involved in estimation of our IBNP liability, there is considerable variability and uncertainty inherent in such estimates. Each reporting period, the recognized IBNP liability represents the Plan's best estimate of the total amount of unpaid claims incurred as of the balance sheet date using a consistent methodology in estimating the IBNP liability. The Plan believes its current estimates are reasonable and adequate; however, the development of its estimate is a continuous process that the Plan monitors and updates as more complete claims payment information and healthcare cost trend data becomes available. Actual medical care costs may be less than the Plan previously estimated (favorable development) or more than the Plan previously estimated (unfavorable development), and any differences could be material. Any adjustments to reflect favorable development would be recognized as a decrease to medical care costs, and any adjustments to reflect unfavorable development would be recognized as an increase to medical care costs, in the period in which the adjustments are determined. See Note 5, "Medical Claims and Benefits Payable," for further information.

Premium Deficiency Reserves on Loss Contracts

The Plan assesses the profitability of its contracts to determine if it is probable that a loss will be incurred in the future by reviewing current results and forecasts. For purposes of this assessment, contracts are grouped in a manner consistent with the Plan's method of acquiring, servicing and measuring the profitability of such contracts. A premium deficiency reserve is recognized if anticipated future medical care and administrative costs exceed anticipated future premium revenue, investment income and reinsurance recoveries. No premium deficiency reserves were recorded as of December 31, 2021 and 2020.

Investments

Investments are principally held in debt securities, which are grouped into two separate categories for accounting and reporting purposes: available-for-sale securities and held-to-maturity securities. Available-for-sale securities are recorded at fair value and unrealized gains and losses, if any, are recorded in equity as other comprehensive income, net of applicable income taxes. Held-to-maturity securities are recorded at amortized cost, which approximates fair value, and unrealized gains and losses are not generally recognized. Realized gains and losses and unrealized losses judged to be other than temporary with respect to available-for-sale and held-to-maturity securities are included in the determination of net income and comprehensive income. The cost of securities sold is determined using the specific-identification method, on an amortized cost basis.

Receivables

The Plan's accounts receivable at December 31, 2021 and 2020, totaled $20.0 million and $20.7 million, respectively and were related to the AHCCCS Contract and amounts due from providers. Because the

Plan's primary creditor is the state of Arizona, the allowance for doubtful accounts is insignificant. Any amounts determined to be uncollectible are charged to expense when such determination is made.

Property and Equipment

Property and equipment are stated at cost net of accumulated depreciation. Replacements and major improvements are capitalized, and repairs and maintenance are charged to expense as incurred. Furniture, equipment and automobiles are depreciated using the straight-line method over estimated useful lives ranging from three to seven years.

Restricted Investments

At December 31, 2021 and 2020, the Plan held $0.5 million in a United States Treasury security that was pledged to the Department to comply with deposit requirements.

Leases

Right-of-use (ROU) assets represent the Plan's right to use the underlying assets over the lease term, and lease liabilities represent the Plan's obligation for lease payments arising from the related leases. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when the Plan believes it is reasonably certain that it will exercise such options. If applicable, the Plan accounts for lease and non-lease components within a lease as a single lease component.

The Plan generally uses its incremental borrowing rate to determine the present value of lease payments. Lease expense for operating leases is recognized on a straight-line basis over the lease term, and the related ROU assets and liabilities are reduced to the present value of the remaining lease payments at the end of each period.

The Plan's operating lease consists of a long-term operating lease for office space. The Plan's lease agreements do not contain any material residual value guarantees or material restrictive covenants. For further information, including the amounts and location of the ROU assets and lease liabilities recognized in the accompanying balance sheets, see "Leases" under Note 9, "Commitments and Contingencies."

Income Taxes

The Plan and other subsidiaries of the Parent are included in the consolidated federal income tax return filed by the Parent. Income taxes are allocated to the Plan in accordance with an intercompany tax sharing agreement. The agreement allocates federal income taxes in an amount generally equivalent to the amount that would be computed by the Plan as if it filed a separate federal tax return. The Plan is subject to premium tax in lieu of state income tax.

In accordance with the intercompany tax sharing agreement, benefits to the Plan that arise from net operating losses will be refunded to the extent utilized on the consolidated tax return with any unused balance carried forward to offset taxable income in future periods.

Prior to December 31, 2020, the Plan participated in a federal and state tax allocation agreement with Magellan Health, Inc. The agreement called for all parties to share the federal income tax rates, exclusions and other aspects of federal tax law proportionately, based on taxable income.

The Plan recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities, along with net operating loss and tax credit carryovers. For further discussion and disclosure, see Note 8, "Income Taxes."

Health Insurer Fee

Under the Affordable Care Act, the federal government imposed an annual fee, or excise tax, on health insurers for each calendar year. The health insurer fee (HIF) was allocated to health insurers based on each health insurer's share of net premiums for all U.S. health insurers in the year preceding the assessment, and not deductible for income tax purposes. The Plan's HIF liability for 2020 was $1.6 million, which was settled in September 2020. The Further Consolidated Appropriations Act, 2020, repealed the HIF effective for the years after 2020.

Concentrations of Credit Risk

Financial instruments that potentially subject the Plan to concentrations of credit risk consist primarily of cash, cash equivalents, investments, receivables, and restricted investments. The Plan has amounts deposited in financial institutions in which the balances exceed the Financial Deposit Insurance Corporation insured limit. The Plan has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk. The Plan's investments are managed by professional portfolio managers operating under documented investment guidelines. No investment that is in a loss position can be sold by the Plan's managers without the Plan's prior approval. Concentrations of credit risk with respect to accounts receivable are comprised of investment income due and accrued, inter-company receivables and receivables associated with the AHCCCS Contract.

Risks and Uncertainties

As the COVID-19 pandemic continues to evolve, its ultimate impact to the Plan's business, results of operations, financial condition and cash flows is uncertain and difficult to predict. The Plan continues to monitor and assess the estimated operating and financial impact of the COVID-19 pandemic, and as the pandemic evolves, the Plan continues to process, assemble, and assess utilization information. The Plan believes that its cash flow generated from operations will be sufficient to withstand the financial impact of the pandemic, and will enable it to continue to support operations, regulatory requirements, and capital expenditures for the foreseeable future.

The Plan's profitability depends in large part on its ability to accurately predict and effectively manage medical care costs. The Plan continually reviews its medical costs in light of its underlying claims experience and revised actuarial data. However, several factors could adversely affect medical care costs. These factors, which include changes in healthcare practices, inflation, new technologies, major epidemics, natural disasters, and malpractice litigation, are beyond its control and may have an adverse effect on its ability to accurately predict and effectively control medical care costs. Costs in excess of those anticipated could have a material adverse effect on the Plan's financial condition, results of operations, or cash flows.

The Plan's sole Medicaid customer is the state of Arizona. The loss of the Plan's contract with the state of Arizona, which is subject to renewal on September 30, 2023, could have a material adverse effect on the Plan's financial position, results of operations, or cash flows. The Plan's ability to arrange for the provision of medical services to their members is dependent upon their ability to develop and maintain adequate provider networks. The inability to develop or maintain such networks would, in certain circumstances, have a material adverse effect on the Plan's financial position, results of operations, or cash flows.

Evaluation of Subsequent Events

The Plan has evaluated subsequent events through June 16, 2022, the date these financial statements were available to be issued. The Plan is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Plan considers the carrying amounts of current assets and current liabilities to approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization or payment. For the Plan's financial instruments measured at fair value on a recurring basis, the Plan prioritizes the inputs used in measuring fair value according to a three-tier fair value hierarchy as follows:

Level 1 - Observable Inputs. Level 1 financial instruments are actively traded and therefore the fair value for these securities is based on quoted market prices for identical securities in active markets.

Level 2 - Directly or Indirectly Observable Inputs. Fair value for these investments is determined using a market approach based on quoted prices for similar securities in active markets or quoted prices for identical securities in inactive markets.

Level 3 - Unobservable Inputs. Level 3 financial instruments are valued using unobservable inputs that represent management's best estimate of what market participants would use in pricing the financial instrument at the measurement date.

The Plan's financial instruments measured at fair value on a recurring basis were as follows (in thousands):

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Corporate debt securities	$ 31,084	$ -	$ 31,084	$ -
Mortgage-backed securities	7,925	-	7,925	-
Asset-backed securities	5,488	-	5,488	-
	$ 44,497	$ -	$ 44,497	$ -

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Corporate debt securities	$ 29,264	$ -	$ 29,264	$ -
	$ 29,264	$ -	$ 29,264	$ -

NOTE 4 - INVESTMENTS

The following table summarizes the Plan's investments as of December 31, 2021 and 2020 (in thousands).

	December 31, 2021			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 31,360	$ 1	$ (277)	$ 31,084
Mortgage-backed securities	7,999	4	(78)	7,925
Asset-backed securities	5,536	-	(48)	5,488
	$ 44,895	$ 5	$ (403)	$ 44,497

	December 31, 2020			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 29,298	$ -	$ (34)	$ 29,264
	$ 29,298	$ -	$ (34)	$ 29,264

The contractual maturities of the Plan's investments as of December 31, 2021 are summarized below (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 684	$ 682
Due after one year through five years	33,548	33,271
Due after five years through ten years	4,172	4,147
Due after ten years	6,491	6,397
Total	$ 44,895	$ 44,497

Gross realized gains and losses from sales of available-for-sale securities are calculated under the specific identification method and are included in investment income. Gross realized investment gains and losses for the year ended December 31, 2021 and 2020 were insignificant.

The Plan has determined that unrealized losses at December 31, 2021 are temporary in nature, because the change in market value for these securities resulted from fluctuating interest rates, rather than a deterioration of the credit worthiness of the issuers. So long as the Plan maintains the intent and ability to hold these securities to maturity, it is unlikely to experience losses. In the event that the Plan disposes of these securities before maturity, realized losses, if any, are expected to be immaterial.

The following table summarizes those available-for-sale investments that have been in a continuous loss position for less than 12 months. No investments have been in a continuous loss position for 12 months or more as of December 31, 2021, and 2020 (dollars in thousands):

	In a Continuous Loss Position for Less than 12 Months as of December 31, 2021			In a Continuous Loss Position for Less than 12 Months as of December 31, 2020		
	Fair Value	Unrealized Losses	Total Number of Positions	Fair Value	Unrealized Losses	Total Number of Positions
Corporate debt securities	$ 30,082	$ (277)	111	$ 29,264	$ (34)	11
Mortgage-backed securities	6,790	(78)	45	-	-	-
Asset-backed securities	5,286	(48)	31	-	-	-
Total	$ 42,158	$ (403)	187	$ 29,264	$ (34)	11

NOTE 5 - MEDICAL CLAIMS AND BENEFITS PAYABLE

Medical claims and benefits payable include amounts payable to certain providers for which the Plan acts as an intermediary on behalf of the state of Arizona without assuming financial risk. Such receipts and payments do not impact the statement of comprehensive income. The Plan refers to such programs as pass through arrangements. These non-risk provider payables amounted to $0.2 million as of December 31, 2021 and zero as of December 31, 2020.

The following table presents the components of the change in the Plan's medical claims and benefits payable for the years ended December 31 (in thousands):

	2021	2020
Balances at beginning of period	$ 25,822	$ 18,509
Components of medical care costs related to:		
Current year	210,373	185,836
Prior years	(2,591)	(3,874)
Total medical care costs	207,782	181,962
Change in non-risk provider payables	241	-
Claims paid and transfers to other medical liabilities:		
Current year	166,871	160,564
Prior years	23,282	14,085
Total paid	190,153	174,649
Balances at end of period	$ 43,692	$ 25,822

Estimated reinsurance recoveries of $9.4 million and $9.0 million are included as a reduction of cost of care in the Plan's statements of comprehensive income (loss) for the years ended December 31, 2021 and 2020, respectively.

The Plan recorded claim adjustment expenses for the estimate of costs associated with processing the incurred but unpaid claims. As of December 31, 2021, and 2020, accrued claim adjustment expenses were $0.4 million and $0.2 million, respectively, and were included in unpaid claims adjustment expenses in the accompanying balance sheets.

The Plan recognized favorable prior period claims development in the amount of $2.6 million for the year ended December 31, 2021. This amount represents the Plan's estimate as of December 31, 2021, of the extent to which the initial estimate of unpaid claims at December 31, 2020 was more than the amount that will ultimately be paid out in satisfaction of that liability.

The Plan recognized favorable prior period claims development in the amount of $3.9 million for the year ended December 31, 2020. This amount represents the Plan's estimate as of December 31, 2020, of the extent to which the initial estimate of unpaid claims at December 31, 2019 was more than the amount that will ultimately be paid out in satisfaction of that liability.

NOTE 6 - TRANSACTIONS WITH PARENT AND AFFILIATES

Administrative Services and Net Worth Requirements

The Plan has entered into an administrative services agreement with the Parent under which the Parent provides various management, financial, legal, information systems and human resources services to the Plan. Fees for such services are based on the estimated fair market value of services rendered. Payment is subordinated to the Plan's ability to comply with minimum capital and other restrictive financial requirements of the state of Arizona. Charges for these services amounted to $15.8 million for the year ended December 31, 2021, included in direct service costs. The amount charged to the Plan in connection with the master services agreement with Magellan Health, Inc. was $6.5 million for the year ended December 31, 2020, included in direct service costs.

There were no dividends or contributions in the year ended December 31, 2021. During 2020, in addition to the forgiveness of $5.0 million of underwriting loss, Magellan Healthcare contributed capital of $21.4 million for a total of $26.4 million of contributed capital. The Parent will provide future funding to the Plan, as necessary, to ensure the Plan's compliance with minimum net worth requirements.

NOTE 7 - STATUTORY REGULATIONS

The Plan is licensed in the state of Arizona and is subject to certain minimum statutory capital and surplus requirements as determined by the Department. Additionally, the terms of the Plan's contract require the Plan to maintain a certain net worth at all times.

The Plan is subject to statutory Risk Based Capital (RBC) requirements. RBC, as defined by the National Association of Insurance Commissioners (NAIC), is a method of measuring the minimum amount of capital appropriate for a managed 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, 2021, the Plan had RBC in excess of the Company Action Level, defined by the NAIC as 200% of Authorized Control Level.

NOTE 8 - INCOME TAXES

Income tax expense consisted of the following components for the years ended December 31 (in thousands):

	2021	2020
Current Federal	$ 2,764	$ 122
Deferred Federal	(889)	-
Provision for income taxes	$ 1,875	$ 122

The components of the net deferred tax asset were as follows (in thousands):

	2021	2020
Fixed assets and intangibles	$ 2,218	$ -
Accrued expenses and reserve liabilities	780	-
Medical claims payable	311	32
Other	101	31
Total deferred tax assets	3,410	63
Valuation allowance	-	(47)
Deferred tax assets after valuation allowance	3,410	16
Deferred tax liabilities	-	(16)
Net deferred tax asset	$ 3,410	$ -

The Plan evaluates the need for a valuation allowance taking into consideration the ability to carry back and carry forward tax credits and net operating losses, available tax planning strategies and future income, including reversal of temporary differences. The Plan has determined that as of December 31, 2021 no valuation allowance is needed. Therefore, the Plan decreased its valuation allowance from $47 thousand at December 31, 2020 to $0 as of December 31, 2021.

The Plan is subject to taxation in the United States. With few exceptions, the Plan is no longer subject to income tax examination for tax years before 2018.

The Plan recognizes interest and/or penalties related to unrecognized tax benefits, if any, in income tax expense. There were no unrecognized tax benefits as of December 31, 2021 and 2020.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Leases

The Plan is a party to one operating lease for the health plan office, which commenced in May 2021. The Plan's operating lease has a remaining lease term of approximately 5 years, which includes an option to extend the lease for up to 4 years. As of December 31, 2021, the weighted-average discount rate used to compute the present value of lease payments was 3.2% for operating lease liabilities. Operating lease expense was $0.1 million for the year ended December 31, 2021. There was no lease expense for the year ended December 31, 2020.

The Plan leases office space through a lease that expires in 2026. The lease contains annual escalation clauses and renewal provisions. Future minimum lease payments by year, and in the aggregate, consist of the following amounts (in thousands):

Year Ending December 31:	
2022	$ 102
2023	104
2024	106
2025	108
2026	89
Thereafter	-
Total	$ 509

Supplemental cash flow information related to the lease follows (in thousands):

	December 31, 2021	December 31, 2020
Cash used in operating activities:		
Operating leases	$ 64	$ -
ROU assets recognized in exchange for lease obligations:		
Operating leases	$ 516	$ -

Supplemental information related to leases, including location of amounts reported in the balance sheet, follows (in thousands):

	December 31, 2021	December 31, 2020
Operating leases:		
ROU assets		
Other assets	$ 465	$ -
Lease liabilities		
Accounts payable and accrued liabilities (current)	$ 90	$ -
Other long-term liabilities (non-current)	382	-
Total operating lease liabilities	$ 472	$ -

Legal Proceedings

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Penalties associated with violations of these laws and regulations include significant fines and penalties, exclusion from participating in publicly funded programs, and the repayment of previously billed and collected revenues.

The Plan is involved in legal actions in the ordinary course of business including, but not limited to, various employment claims, vendor disputes and provider claims. Some of these legal actions seek monetary damages, including claims for punitive damages, which may not be covered by insurance. The Plan reviews legal matters and updates its estimates of reasonably possible losses and related disclosures, as necessary. The Plan has accrued liabilities for legal matters for which it deems the loss to be both probable and reasonably estimable. These liability estimates could change as a result of further developments of the matters. The outcome of legal actions is inherently uncertain. An adverse determination in one or more of these pending matters could have an adverse effect on the Plan’s financial position, results of operations, or cash flows.

State’s Budget

Nearly all of the Plan’s premium revenues come from the joint federal and state funding of the Medicaid and Medicare programs. The state regularly faces significant budgetary pressures.

Professional Liability Insurance

The Parent carries (i) a claims-made managed care errors and omissions liability insurance and (ii) a healthcare professional liability insurance for their health plan operations.

Medical Claims Reinsurance

Reinsurance recoveries under the AHCCCS Contract are recognized when healthcare cost exceed stated amounts provided under the contract, including estimates of such cost as of the end of each accounting period. Under regular reinsurance, the Plan is reimbursed by AHCCCS for 75% of the cost when qualified healthcare costs for those members exceed $35,000 prior to October 1, 2021 and $50,000 after October 1, 2021, 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 million within a contract year.

Provider Claims

Many of the Plan's medical contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of various services. Such differing interpretations may lead medical providers to pursue the Plan for additional compensation. The claims made by providers in such circumstances often involve issues of contract compliance, interpretation, payment methodology, and intent. These claims often extend to services provided by the providers over a number of years. Various providers have contacted the Plan seeking additional compensation for claims that the Plan believes to have been settled. These matters, when finally concluded and determined, will not, in the Plan's opinion, have a material adverse effect on the Plan's financial position, results of operations, or cash flows.

NOTE 10 - EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

Effective December 31, 2020, the employees of the Plan are eligible to participate in a defined contribution 401(k) plan sponsored by the Parent subject to the participation eligibility set forth in the plan. Eligible employees are allowed to contribute up to the maximum allowed by law. The Plan matches up to the first 4% of compensation contributed by the employees subject to a one-year cliff vesting requirement. The Plan has no legal obligation to provide benefits under the plan. The Plan's expense recognized in connection with the 401(k) plan was $0.2 million in 2021.

Stock Plans

Effective December 31, 2020, under an equity incentive plan adopted by the Parent, the Plan's employees may be awarded Parent restricted stock or other equity incentives. Restricted stock awards generally vest in equal annual installments over periods up to four years from the date of grant.

The Parent has an employee stock purchase plan under which the eligible employees of the Plan may purchase common shares at 85% of the lower of the fair market value of Parent's common stock on either the first or last trading day of each six-month offering period. Each participant is limited to a maximum purchase of $25,000 (as measured by the fair value of the stock acquired) per year through payroll deductions.

Supplementary Information

Molina Healthcare of Arizona, Inc.

Detail of Sub-Capitated Expense

(Dollars in thousands)

Year Ended September 30, 2021

Account	Account Description	Age <1	Age 1-20	Age 21+	Duals	SSI w/o Med	Prop 204 Childless Adults	Expansion Adults	YTD Amount
	Sub-Capitated Hospitalization Expenses:								
50105-01	Hospital Inpatient	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
50110-01	Hospital Inpatient -Behavioral Health Services	-	-	-	-	-	-	-	-
50115-01	RESERVED	-	-	-	-	-	-	-	-
	Total sub-Capitated Hospitalization Expenses:	-	-	-	-	-	-	-	-
	Sub-Capitated Medical Compensation Expenses:								
50205-01	Primary Care Physician Services	-	-	86	-	97	378	87	648
50210-01	Behavioral Health Physician Services	-	-	-	-	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-	-	-	-	-
50220-01	PH FQHC/RHC Services	-	-	-	-	-	-	-	-
50225-01	Other Professional Services	-	-	-	-	-	-	-	-
50230-01	RESERVED	-	-	-	-	-	-	-	-
	Total Sub-Capitated Medical Compensation Expenses:	-	-	86	-	97	378	87	648
	Sub-Capitated Other Medical Expenses:								
50305-01	Emergency Facility Services	-	-	-	-	-	-	-	-
50310-01	PH Pharmacy	-	-	-	-	-	-	-	-
50315-01	Laboratory, Radiology and Medical Imaging	-	-	-	-	-	-	-	-
50320-01	Outpatient Facility	-	-	-	-	-	-	-	-
50325-01	Durable Medical Equipment	-	-	-	-	-	-	-	-
50330-01	Dental	-	-	-	-	-	-	-	-
50335-01	Transportation	-	-	-	-	-	-	-	-
50340-00	Nursing Facility, Home Health Care	-	-	-	-	-	-	-	-
50345-01	Therapies	-	-	-	-	-	-	-	-
50350-01	Alternative Payment Model Performance Based Payments to Providers	-	-	-	-	-	-	-	-
50355-01	Behavioral Health Day Program	-	-	-	-	-	-	-	-
50355-05	Behavioral Health Case Management Services	-	-	13	-	4	37	-	54
50355-06	Peer/Family Support	-	-	-	-	-	-	-	-
50355-07	Support Services	-	-	-	-	-	-	-	-
50355-10	Behavioral Health Crisis Intervention Services	-	-	-	-	-	-	-	-
50355-11	Living Skills Training	-	-	-	-	-	-	-	-
50355-12	Supported Employment	-	-	-	-	-	-	-	-
50355-15	Behavioral Health Rehabilitation Services	-	-	-	-	-	-	-	-
50355-20	Behavioral Health Residential Services	-	-	-	-	-	-	-	-
50355-21	Counseling	-	-	-	-	-	3	-	3
50355-22	Assessment, Evaluation and Screening	-	-	-	-	-	-	-	-
50355-23	Treatment Services	-	-	-	-	-	-	-	-
50355-25	All Other Behavioral Health Services	-	-	-	-	-	-	-	-
50360-01	RESERVED	-	-	-	-	-	-	-	-
50370-01	Other Medical Expenses	-	-	-	-	-	-	-	-
	Total Sub-Capitated Other Medical Expenses:	-	-	13	-	4	40	-	57
	Total Sub-Capitated Expenses:	$ -	$ -	$ 99	$ -	$ 101	$ 418	$ 87	$ 705

Molina Healthcare of Arizona, Inc.

Detail of Sub-Capitated Expense

(Dollars in thousands)

Year Ended September 30, 2020

Account	Account Description	Age <1	Age 1-20	Age 21+	Duals	SSI w/o Med	Prop 204 Childless Adult	Expansion Adults	YTD Amount
	Sub-Capitated Hospitalization Expenses:								
50105-01	Hospital Inpatient	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
50110-01	Hospital Inpatient -Behavioral Health Services	-	-	-	-	-	-	-	-
50115-01	RESERVED	-	-	-	-	-	-	-	-
	Total sub-Capitated Hospitalization Expenses:	-	-	-	-	-	-	-	-
	Sub-Capitated Medical Compensation Expenses:	-	-	2	-	3	10	3	18
50205-01	Primary Care Physician Services	-	-	-	-	-	-	-	-
50210-01	Behavioral Health Physician Services	-	-	-	-	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-	-	-	-	-
50220-01	PH FQHC/RHC Services	-	-	-	-	-	-	-	-
50225-01	Other Professional Services	-	-	-	-	-	-	-	-
50230-01	RESERVED	-	-	-	-	-	-	-	-
	Total Sub-Capitated Medical Compensation Expenses:	-	-	2	-	3	10	3	18
	Sub-Capitated Other Medical Expenses:								
50305-01	Emergency Facility Services	-	-	-	-	-	-	-	-
50310-01	PH Pharmacy	-	-	-	-	-	-	-	-
50315-01	Laboratory, Radiology and Medical Imaging	-	-	-	-	-	-	-	-
50320-01	Outpatient Facility	-	-	-	-	-	-	-	-
50325-01	Durable Medical Equipment	-	-	-	-	-	-	-	-
50330-01	Dental	-	-	-	-	-	-	-	-
50335-01	Transportation	-	-	-	-	-	-	-	-
50340-00	Nursing Facility, Home Health Care	-	-	-	-	-	-	-	-
50345-01	Therapies	-	-	-	-	-	-	-	-
50350-01	Alternative Payment Model Performance Based Payments to Providers	-	-	-	-	-	-	-	-
50355-01	Behavioral Health Day Program	-	-	-	-	-	-	-	-
50355-05	Behavioral Health Case Management Services	-	-	1	-	-	1	-	2
50355-06	Peer/Family Support	-	-	-	-	-	-	-	-
50355-07	Support Services	-	-	-	-	-	-	-	-
50355-10	Behavioral Health Crisis Intervention Services	-	-	-	-	-	-	-	-
50355-11	Living Skills Training	-	-	-	-	-	-	-	-
50355-12	Supported Employment	-	-	-	-	-	-	-	-
50355-15	Behavioral Health Rehabilitation Services	-	-	-	-	-	-	-	-
50355-20	Behavioral Health Residential Services	-	-	-	-	-	-	-	-
50355-21	Counseling	-	-	-	-	-	-	-	-
50355-22	Assessment, Evaluation and Screening	-	-	-	-	-	-	-	-
50355-23	Treatment Services	-	-	-	-	-	-	-	-
50355-25	All Other Behavioral Health Services	-	-	-	-	-	-	-	-
50360-01	RESERVED	-	-	-	-	-	-	-	-
50370-01	Other Medical Expenses	-	-	-	-	-	-	-	-
	Total Sub-Capitated Other Medical Expenses:	-	-	1	-	-	1	-	2
	Total Sub-Capitated Expenses:	$ -	$ -	$ 3	$ -	$ 3	$ 11	$ 3	$ 20

Molina Healthcare of Arizona, Inc.

Balance Sheet by Line of Business

(Dollars in thousands)

December 31, 2021

	Medicaid	Medicare	Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 49,418	$ –	$ 49,418
Investments	44,497	–	44,497
Receivable	19,937	43	19,980
Prepaid expenses and other current assets	681	–	681
Total current assets	114,533	43	114,576
Property and equipment, net	195	–	195
Restricted cash and investments	536	–	536
Deferred income taxes	3,410	–	3,410
Other assets	485	–	485
Total assets	$ 119,159	$ 43	$ 119,202
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current liabilities			
Medical claims payable	$ 43,443	$ 249	$ 43,692
Unpaid claims adjustment expenses	363	2	365
Amounts due government agencies	26,470	–	26,470
Accounts payable and accrued expenses	1,612	10	1,622
Income taxes payable	592	–	592
Due to affiliate	1,405	122	1,527
Total current liabilities	73,885	383	74,268
Other long-term liabilities	382	–	382
Total liabilities	74,267	383	74,650
Stockholder’s equity			
Common stock, $1.00 par value; authorized, issued and outstanding – 1,000 shares	1	–	1
Additional paid-in capital	50,176	–	50,176
Accumulated deficit	(4,961)	(340)	(5,301)
Accumulated other comprehensive loss	(324)	–	(324)
Total stockholder’s equity	44,892	(340)	44,552
Total liabilities and stockholder’s equity	$ 119,159	$ 43	$ 119,202

Molina Healthcare of Arizona, Inc.

Statement of Comprehensive Income by Line of Business

(Dollars in thousands)

Year Ended December 31, 2021

	Medicaid	Medicare	Total
Net revenues	$ 240,284	$ 1,059	$ 241,343
Operating expenses			
Cost of care	197,729	632	198,361
Direct service costs	33,963	388	34,351
Total operating expenses	231,692	1,020	232,712
Operating income	8,592	39	8,631
Other income			
Net investment gain	265	1	266
Income before income tax expense	8,857	40	8,897
Income tax expense	1,866	9	1,875
Net income	6,991	31	7,022
Other comprehensive loss			
Unrealized investment loss	(391)	–	(391)
Less: effect of income taxes	94	–	94
Other comprehensive loss, net of tax	(297)	–	(297)
Comprehensive income	$ 6,694	$ 31	$ 6,725