# KEYSTONE FAMILY HEALTH PLAN

Financial Statements

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

# Independent Auditors' Report

The Board of Directors
Keystone Family Health Plan:

We have audited the accompanying financial statements of Keystone Family Health Plan, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations and comprehensive income (loss), changes in partners' 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 accordance 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 from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 Keystone Family Health Plan as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Emphasis of Matter*

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for leases as of January 1, 2020, due to the early adoption of ASU 2016-02, Leases (ASC 842), as amended, using the modified retrospective transition method. Our opinion is not modified with respect to this matter.

*Other Matters*

U.S. generally accepted accounting principles require that the 2019 service year incurred and paid claims development information on page 22 within Note 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Philadelphia, Pennsylvania
March 26, 2021

**KEYSTONE FAMILY HEALTH PLAN**

Balance Sheets

(In thousands)

| | December 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 126,430 | $ 158,752 |
| Investments | 170,496 | 146,204 |
| Premium receivables | 600,988 | 526,597 |
| Due from affiliates | 297,195 | 378,686 |
| Other current assets | 1,856 | 1,627 |
| Total current assets | 1,196,965 | 1,211,866 |
| Operating lease right-of-use assets | 13,858 | — |
| Goodwill | 36,972 | 36,972 |
| Intangible assets, net | 555 | 1,220 |
| Other long-term assets | 2 | 2,003 |
| Total assets | $ 1,248,352 | $ 1,252,061 |
| **Liabilities and Partners' Equity** | | |
| Current liabilities: | | |
| Accrued medical expenses | $ 764,066 | $ 732,520 |
| Accounts payable and accrued expenses | 35,407 | 26,764 |
| Total current liabilities | 799,473 | 759,284 |
| Long-term operating lease liabilities | 8,979 | — |
| Deferred income taxes | 740 | — |
| Other long-term liabilities | — | 1,322 |
| Total liabilities | 809,192 | 760,606 |
| Commitments and contingencies (Notes 13 and 14) | | |
| Partners' equity: | | |
| Paid-in capital | 201,982 | 356,982 |
| Retained earnings | 235,426 | 133,775 |
| Accumulated other comprehensive income | 1,752 | 698 |
| Total partners' equity | 439,160 | 491,455 |
| Total liabilities and partners' equity | $ 1,248,352 | $ 1,252,061 |

See accompanying notes to financial statements.

**KEYSTONE FAMILY HEALTH PLAN**

Statements of Operations and Comprehensive Income (Loss)

(In thousands)

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | **2019** |
| Premium revenues | $ 6,306,054 | $ 5,762,364 |
| Operating expenses: | | |
| Medical expenses [1] | 5,571,477 | 5,364,630 |
| General and administrative [2] | 422,329 | 380,184 |
| Premium assessments and health insurer fee | 221,025 | 119,701 |
| Total operating expenses | 6,214,831 | 5,864,515 |
| Income (loss) from operations | 91,223 | (102,151) |
| Other (income) expenses: | | |
| Investment income [3] | (25,745) | (33,048) |
| Interest expense [4] | 207 | 519 |
| Income (loss) before income tax expense (benefit) | 116,761 | (69,622) |
| Income tax expense (benefit) | 15,110 | (4,492) |
| Net income (loss) | 101,651 | (65,130) |
| Change in unrealized gain on investments | 1,054 | 1,208 |
| Comprehensive income (loss) | $ 102,705 | $ (63,922) |

[1] Medical expenses includes affiliated expenses of $128,717 and $124,644 for the years ended December 31, 2020 and 2019, respectively.

[2] General and administrative includes affiliated expenses of $387,339 and $307,452 for the years ended December 31, 2020 and 2019, respectively.

[3] Investment income includes affiliated income of $1,441 and $4,218 for the years ended December 31, 2020 and 2019, respectively.

[4] Interest expense includes affiliated expenses of $207 and $519 for the years ended December 31, 2020 and 2019, respectively.

See accompanying notes to financial statements.

**KEYSTONE FAMILY HEALTH PLAN**

Statements of Changes in Partners' Equity

(In thousands)

| | Paid-in capital | Retained earnings | Accumulated other comprehensive income | Total |
|---|---|---|---|---|
| Balances at January 1, 2019 | $ 141,982 | $ 192,415 | $ 5,980 | $ 340,377 |
| Net loss | — | (65,130) | — | (65,130) |
| Cumulative-effect adjustment related to the adoption of new accounting standard (Note 2) | — | 6,490 | (6,490) | — |
| Other comprehensive income | — | — | 1,208 | 1,208 |
| Comprehensive loss | — | (58,640) | (5,282) | (63,922) |
| Contributions | 215,000 | — | — | 215,000 |
| Balances at December 31, 2019 | 356,982 | 133,775 | 698 | 491,455 |
| Net income | — | 101,651 | — | 101,651 |
| Other comprehensive income | — | — | 1,054 | 1,054 |
| Comprehensive income | — | 101,651 | 1,054 | 102,705 |
| Distributions | (155,000) | — | — | (155,000) |
| Balances at December 31, 2020 | $ 201,982 | $ 235,426 | $ 1,752 | $ 439,160 |

See accompanying notes to financial statements.

**KEYSTONE FAMILY HEALTH PLAN**

Statements of Cash Flows

(In thousands)

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | **2019** |
| Cash flows from operating activities: | | |
| Net income (loss) | $ 101,651 | $ (65,130) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Noncash items included in net income: | | |
| Amortization of operating lease right-of-use assets | 5,303 | — |
| Net realized gains on investments | (21,410) | (20,753) |
| Other | 1,143 | 314 |
| Changes in assets and liabilities: | | |
| Premium receivables | (74,391) | (208,039) |
| Due from affiliates, net | 146,358 | (240,637) |
| Accrued medical expenses | 31,546 | 385,979 |
| Accounts payable and accrued expenses | 3,057 | 10,821 |
| Operating lease liabilities | (5,823) | — |
| Other assets and other liabilities, net | (218) | (1,249) |
| Total adjustments | 85,565 | (73,564) |
| Net cash provided by (used in) operating activities | 187,216 | (138,694) |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | 39,164 | 66,242 |
| Purchase of investments | (38,867) | (70,046) |
| Payments of advances to affiliates | (1,098,214) | (1,100,779) |
| Reimbursement of advances to affiliate | 1,033,347 | 1,073,736 |
| Net cash used in investing activities | (64,570) | (30,847) |
| Cash flows from financing activities: | | |
| Proceeds from advances from affiliates | (1,308,557) | 724,212 |
| Repayment of advances from affiliates | 1,308,557 | (724,212) |
| Cash contributed by Partners | — | 215,000 |
| Cash distributed to Partners | (155,000) | — |
| Other financing activities, net | — | (10,258) |
| Net cash (used in) provided by financing activities | (155,000) | 204,742 |
| Net (decrease) increase in cash, cash equivalents and restricted cash equivalents | (32,354) | 35,201 |
| Cash, cash equivalents and restricted cash equivalents at beginning of year | 158,784 | 123,583 |
| Cash, cash equivalents and restricted cash equivalents at end of year | 126,430 | 158,784 |
| Adjustment for restricted cash equivalents | — | (32) |
| Cash and cash equivalents at end of year | $ 126,430 | $ 158,752 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Income taxes | $ (10,116) | $ — |
| Interest | (207) | (519) |
| | | |
| Non-cash operating activities: | | |
| Operating right-of-use lease assets obtained in exchange for lease obligations | $ 18,881 | $ — |

See accompanying notes to financial statements.

## (1) Organization and Description of Business

Keystone Family Health Plan (the Company) is a Pennsylvania partnership formed to provide access to comprehensive quality health care for those who are poor and chronically ill in the State of Pennsylvania.

BMH LLC (BMH) owns 100% of the partnership interests in the Company through two wholly owned subsidiaries, BMH SubCo I LLC and BMH SubCo II LLC. BMH is a Delaware limited liability company formed to serve as the entity through which Independence Health Group, Inc. (IHG) and Blue Cross Blue Shield of Michigan (BCBSM) jointly own and invest in the managed care business conducted by the Company. IHG and BCBSM are collectively referred to as the Members. The Company was originally formed in 1996 by Mercy Health Plan and wholly owned subsidiaries of IHG.

## (2) Summary of Significant Accounting Policies

### *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include accrued medical expenses and premium deficiency reserves. Actual results could differ from those estimates. The COVID-19 Pandemic, as further discussed in Note 3, has increased the degree of uncertainty inherent in certain estimates and assumptions.

### *Cash and Cash Equivalents*

Cash and cash equivalents include cash, debt securities, and other highly liquid investments with original maturities of three months or less when purchased. The carrying value of cash equivalents approximates fair value due to the short-term nature of these investments. Cash equivalents totaled $5,625 and $3,076 as of December 31, 2020 and 2019, respectively. Cash overdraft balances are reported within Accounts payable and accrued expenses on the accompanying Balance Sheets with changes in such balances reflected within Cash flows from financing activities on the accompanying Statements of Cash Flows.

As of December 31, 2019, the Company maintained restricted cash as collateral for one of its primary leased facilities described in Note 13. In March 2020, the collateral requirement associated with this lease agreement was rescinded. Restricted cash equivalents are included in Other long-term assets on the accompanying Balance Sheet as of December 31, 2019.

### *Investments*

The Company accounts for its debt securities in accordance with Accounting Standards Codification (ASC) 320, *Investments – Debt Securities*, and for its equity securities in accordance with ASC 321, *Investments – Equity Securities*. The Company classifies its debt securities as available-for-sale. Both debt and equity securities are carried at fair value on the accompanying Balance Sheets. Restricted investment securities are classified as long term on the accompanying Balance Sheets, regardless of the contractual maturity date, due to the nature of the restrictions.

Realized gains and losses on the sale of investments are recognized on the specific-identification basis as of the trade date. Realized losses also include losses for fair value declines on debt securities that are considered to be other-than-temporary. Unrealized gains and losses on available-for-sale debt securities, net of tax, are reflected in Partners' equity as a component of Accumulated other comprehensive income on the accompanying Balance Sheets and, accordingly, have no effect on earnings. Unrealized gains and losses on equity securities are recognized within Investment income on the accompanying Statements of Operations and Comprehensive Income (Loss). Dividend and interest income are recognized when earned. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts using the effective-interest method.

The Company manages its investment portfolio to diversify risk by limiting exposure to any one issuer or market sector and avoiding speculative investments, while maximizing returns over the long-term. Mortgage backed securities must carry agency guarantees. Securities downgraded below policy minimums after purchase will be disposed of in accordance with the Company's investment policy.

The Company regularly reviews its debt securities to determine whether a decline in fair value below the carrying value is other-than-temporary. Factors considered in determining whether an other-than-temporary impairment loss exists include duration and severity of the loss, adverse conditions specifically related to the security, the industry or the geographic area, the financial condition and near-term prospects of the issuer, analysis and guidance provided by rating agencies and analysts, and changes in fair value subsequent to the balance sheet date.

When the Company determines that an other-than-temporary impairment loss exists for a debt security that the Company intends to sell or more likely than not will be required to sell prior to recovering the security's amortized cost basis less any current-period credit loss, the cost basis of the security is written down to fair value, and the total amount of the impairment is included in operations as a realized investment loss.

When the Company determines that an other-than-temporary impairment loss exists for a debt security and the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security prior to recovering the security's amortized cost basis less any current-period credit loss, the portion of the total impairment that is attributable to the credit loss is recognized in operations as a realized investment loss, and the cost basis of the security is reduced by the amount of the credit-related impairment. The noncredit-related component of the impairment loss is included within Other comprehensive income on the accompanying Statements of Changes in Partners' Equity. Subsequent recoveries in the fair value of the credit loss portion of other-than-temporarily impaired securities are recognized at disposition.

***Financial Instruments***

The Company determines the fair value of its assets and liabilities in accordance with ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 provides information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. ASC 820 establishes a fair value hierarchy to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and lowest priority to unobservable inputs. The lowest level of input that is significant to the valuation is utilized in the fair value classification of financial assets and liabilities.

Investments that estimate fair value using the net asset value per share in a manner consistent with the measurement principles of ASC 946, *Financial Services – Investment Companies*, are not classified within the fair value hierarchy pursuant to ASC 820-10-35-54B. The fair value of the Company's investments in money market funds with published daily net asset values have been measured using the net asset value per share and are disclosed according to this guidance.

***Leases***

The Company accounted for its leases under ASC 840*, Leases*, through December 31, 2019. Effective January 1, 2020, the Company adopted Accounting Standards Update (ASU or Update) No. 2016-02 and accounts for its leases in accordance with ASC 842, *Leases.* The Company considers any contract that conveys the right to control the use of identified property and equipment for a period of time in exchange for consideration to be a lease. The Company determines whether the contract into which it has entered is a lease at the lease commencement date. Upon lease commencement, if the Company is the lessee in the lease, it classifies the lease as either a finance lease or an operating lease; if the Company is the lessor in the lease, it classifies the lease as either a sales-type lease, direct financing lease or operating lease.

At the lease commencement date, the Company recognizes a lease right-of-use (ROU) asset and a lease liability based on the present value of the lease payments over the lease term. The ROU asset also includes any lease pre-payments and indirect costs and excludes any lease incentives. The Company has property and equipment lease agreements with both lease and non-lease components that are accounted for as a single lease component within General and administrative on the accompanying Statements of Operations and Comprehensive Income (Loss). Variable lease payments are expensed as incurred and represent amounts that are neither fixed in nature, such as maintenance and other services provided by the lessor, nor tied to an index or rate. Most of the Company's leases do not provide an implicit rate, and as such, pursuant to the private company accounting alternative, the Company has elected to use a risk-free discount rate, based on the information available at the lease commencement date, in determining the present value of the lease payments. The Company's expected life of a lease may consider options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

The ROU asset is assessed for impairment at least annually and upon the occurrence of certain events. If the ROU asset is determined to be impaired, the Company will recognize an impairment loss in accordance with existing long-lived assets impairment accounting guidance equal to the sum of: 1) the straight-line amortization of the remaining balance of the ROU asset post-impairment and 2) the accretion of the lease liability representative of the amount that produces a constant periodic discount rate on the remaining balance of the lease liability. The new basis of the impaired ROU asset will then be amortized from the date of the impairment to the earlier of the end of the useful life of the asset or the end of the lease term.

***Goodwill and Intangible Assets***

Goodwill represents the excess of the aggregate purchase price over the fair value of the Company's net assets acquired by BMH in a purchase business combination which occurred on November 30, 2011. The Company separately recognizes identifiable intangible assets resulting from business combinations. The Company assesses goodwill and intangible assets for impairment at least annually and upon the occurrence of certain events. Operating results, economic projections, and anticipated cash flows, among other factors, are taken into consideration by the Company as part of this assessment. Inherent uncertainties exist with respect to the factors considered and the Company's judgment in applying such factors during its assessment.

Impairment of goodwill and intangible assets could result from changes in economic and operating conditions in future periods.

***Premium Revenues***

The Company records premium revenues based on membership records and premium rates for each membership category. Premium revenues are comprised of the following:

- *Capitation* – Capitated premiums are calculated based on a fixed premium per member per month and are recognized as revenue in the month in which the Company is obligated to provide services to such members. Capitated premiums are generally collected in the month in which services are provided; however, at times such premiums can be collected up to three months in arrears.

  Capitated premium rates also include funds designated for distribution to local hospitals in order to promote continued access to quality care for members. The Company is required to remit these funds, net of the premium assessment, to designated hospitals. The premium revenues earned under these programs that were not received as of year-end are included in Premium receivables on the accompanying Balance Sheets, with a corresponding liability for amounts due to the designated hospitals included in Accrued medical expenses.

  The Company is contractually required to expend a minimum percentage of capitated premiums on eligible medical expense. To the extent that the Company expends less than the minimum percentage of capitated premiums on eligible medical cost, the Company is required to refund all or some portion of the difference between the minimum and the actual allowable medical expense incurred. The Company estimates the amount due as a reduction of capitation premium based on the terms of the contract.

- *Quality incentives* – Certain contracts include incentives if certain quality thresholds are met. These incentives are generally recognized as revenue in the period such revenues are reasonably estimable and are settled upon expiration of the measurement period, which typically occurs within the subsequent contract year. Premium incentives recognized were $25,090 and $25,719 for the years ended December 31, 2020 and 2019, respectively.

- *Risk-sharing arrangements* – The Company's contracts contain risk-sharing arrangements, such as risk corridors or premium rates based on the health status of a member. In the case of a risk corridor, premiums received are compared to actual medical costs incurred during the contract year. If actual medical costs incurred vary from premiums received by an amount greater or less than a predetermined threshold, an adjustment is recorded to premium revenues. Premiums related to risk sharing arrangements are reasonably estimable and adjustments are made to those estimates based on actual experience. Due to the nature of these arrangements, the settlement of related balances could extend into future reporting periods.

- *Other* – Includes premiums related to supplemental services provided, such as maternity deliveries. Premiums for supplemental services are reasonably estimable based on historical trends and adjustments are made to those estimates based on actual experience.

The Centers for Medicare and Medicaid Services (CMS) reimburses the Company for costs incurred related to the catastrophic reinsurance and low income member cost sharing elements of the Medicare contracts. Accordingly, there is no insurance risk to the Company. Amounts received for these subsidies are not reflected as premium revenues but rather are accounted for as deposits. The Company administers and pays for the subsidized portion of the claims on behalf of CMS, and a settlement occurs subsequent to year-end between CMS and the Company based on actual claims experience. Cash flows related to these subsidies are presented within Cash flows from financing activities on the accompanying Statements of Cash Flows.

To the extent that premium receipts differ from recorded revenue, the amount of the difference is recorded as either premium receivables or premium overpayments until such time that the differences are resolved. The Company regularly evaluates the collectability of its premium receivables from the respective agencies; however, the Company believes the credit risk associated with its premium receivables is limited, as its primary customers consist of the federal government and the government of the state in which it operates.

***Medical Expenses***

Medical expenses consist of capitation payments for primary care physicians, subcontracted medical services, claims paid on a fee-for-service basis based upon contracted rates with providers, prescription drug costs, net of rebates, and premium deficiency reserves. Rebates are recognized when earned according to the contractual arrangements with the drug manufacturer.

Accrued medical expenses include medical expenses billed and not paid, an estimate for costs incurred but not reported (IBNR), and estimated costs to process these claims. The Company determines IBNR in accordance with actuarial principles and assumptions that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. Actuarial Standards of Practice require that the liabilities be adequate under moderately adverse circumstances. Actuarial estimates are based upon authorized healthcare services, past claims payment experience, member census, and other relevant factors.

To estimate IBNR the Company uses the triangulation method. The triangulation method uses estimates of completion factors, which are then applied to the total paid claims, net of coordination of benefits, to date for each incurred month. This provides an estimate of the total projected incurred claims and total amount outstanding of claims incurred but not reported. Consideration is also given to changes in turnaround time and claims processing, which may impact completion factors. The Company utilizes a medical loss ratio reserve methodology until there is sufficient paid claim data to rely on the triangulation method. The Company consistently applies its reserving methodology from period to period and periodically reviews actual and anticipated experience compared to the assumptions used to establish medical costs.

The estimation of IBNR utilizes a high degree of judgment. As a result, considerable variability and uncertainty is inherent in such estimates and the adequacy of such estimates is highly sensitive to changes in assumed completion factors and assumed health care cost trends. At each reporting date, the Company recognizes the actuarial best estimate of the ultimate liability considering the potential volatility in these factors. While the Company believes the accrual for medical expenses is adequate, actual claim payments could materially differ from such estimates. The Company recognizes any change in estimates in medical expenses in the period in which the change is identified.

The Company establishes reserves, if required, for the probability that future healthcare and contractual maintenance costs will exceed anticipated future premiums. The premium deficiency reserves are reviewed

periodically and any change in estimate is recognized in the period in which it is identified. Anticipated investment income is not utilized in the calculation of such premium deficiency reserves. A premium deficiency reserve was recorded as of December 31, 2019 as the contracted premium rates in effect through December 31, 2020 were determined to be insufficient to provide for estimated medical and administrative expenses related to such period. A premium deficiency reserve of $0 and $50,300 as of December 31, 2020 and 2019, respectively, is included within Accrued medical expenses on the accompanying Balance Sheets. A premium deficiency reserve (decrease) increase of ($50,300) and $50,300 for the years ended December 31, 2020 and 2019, respectively, is included within Medical expenses on the accompanying Statements of Operations and Comprehensive Income (Loss).

***Premium Assessments***

Pennsylvania managed care organizations (MCOs) are assessed a fixed per member per month fee for each member enrolled with the MCO. The premium revenues paid to the MCOs are increased to account for the cost of the tax.

***Health Insurer Fee***

ASC 720-50, *Other Expenses – Fees Paid to the Federal Government by Pharmaceutical and Health Insurers*, provides guidance for the recognition and classification of an entity's share of the annual health insurance industry assessment mandated by the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (as amended, collectively, referred to as the ACA). The assessment is levied on health insurers for each calendar year and is not deductible for income tax purposes. The Company estimates and records the liability for the assessment in full once it provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method.

The Company recognized premium revenue in the amount of $85,954 for the year ended December 31, 2020 as reimbursement for the assessment and associated tax effects. Expenses incurred related to the assessment amounted to $63,462 for the year ended December 31, 2020. The Consolidated Appropriations Act of 2018 suspended collection of the annual health insurance fee only for the 2019 calendar year. Accordingly, no premium revenue or expenses related to the assessment and associated tax effects were recognized for the year ended December 31, 2019.

The Further Consolidated Appropriations Act of 2020 repealed the collection of the annual health insurance fee for the 2021 calendar year and thereafter. Thus premiums written during the year ended December 31, 2020 were not subject to this assessment and effective January 1, 2021, the Company will not recognize any premium revenue or expenses related to this assessment.

***Income Taxes***

Effective January 1, 2019, BMH made an election with the Internal Revenue Service (IRS) to be classified as an association taxable as a corporation. As a result of such election, the Company is included in the consolidated federal income tax returns of BMH, which includes the aggregate taxable income or loss of BMH and its subsidiaries (the consolidated federal tax group).

The Company is a member of a tax allocation agreement that specifies the manner in which the consolidated federal tax group will share the consolidated federal tax liability and also how certain tax attributes are to be treated among members of the consolidated federal tax group. Federal tax expenses are allocated to the Company under the "modified separate-return approach" (or "benefits for loss" method). Pursuant to this method, the Company is assumed to file a separate return with the taxing authority, thereby reporting its taxable income or loss and paying the applicable tax or receiving the appropriate refund as if the Company was a separate taxpayer, except that net operating losses (or other current or deferred tax attributes) are characterized as realized (or realizable) by the Company when those tax attributes are realized (or realizable) by the consolidated federal tax group regardless of whether the Company would not otherwise have realized the attributes on a stand-alone basis.

Income taxes are accounted for under the asset and liability method in accordance with ASC 740, *Income Taxes*. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

Deferred tax assets are required to be reduced by a valuation allowance when it is more likely than not that all or a portion of the deferred tax assets will not be realized. At each balance sheet date, BMH re-evaluates the consolidated federal tax group's deferred tax assets and assesses the need for a valuation allowance. Such assessment considers all available evidence, both positive and negative, with greater merit placed on evidence that is objectively verifiable. This requires management to exercise judgment and make assumptions regarding whether the consolidated federal tax group's deferred tax assets will be realized in future periods. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

The Company's policy is to account for interest on tax liabilities as Interest expense, and to account for tax penalties as a component of General and administrative on the accompanying Statements of Operations and Comprehensive Income (Loss).

***Contingencies***

The Company accrues for loss contingencies associated with outstanding litigation, claims and assessments for which it has determined it is probable that a loss contingency exists and the amount of loss can be reasonably estimated. The Company expenses professional fees associated with litigation, claims and assessments as incurred as a component of General and administrative on the accompanying Statements of Operations and Comprehensive Income (Loss).

***Regulation***

Vista Health Plan, Inc. (Vista), an indirect wholly owned subsidiary of IHG as further discussed in Note 9, must maintain statutory surplus in excess of: (i) the minimum surplus level required by the respective contracts and (ii) a risk based capital ratio of at least 300%. Such requirements are designed to reflect the risk profile of Vista and are based on the combined results of the Company and AmeriHealth Caritas Health Plan (ACHP), an affiliate under common ownership. Vista was in compliance with these requirements as of

December 31, 2020 and 2019. Vista has the option to require the Company to maintain a minimum equity level based on a percentage of the Company's premium revenues.

***Recently Adopted Accounting Guidance***

*Leases*

Effective January 1, 2020, the Company adopted ASU No. 2016-02, which, as amended, supersedes ASC 840. The amendments in this Update require recognition of ROU assets and lease liabilities by lessees for leases previously classified as operating leases under ASC 840. The accounting applied by a lessor remains largely unchanged under this Update. The amendments in this Update are effective for nonpublic business entities that have not yet adopted ASC 842 for fiscal years beginning after December 15, 2021; however, the Company elected to early adopt this Update effective January 1, 2020 using the modified retrospective transition method.

As part of the Company's adoption of ASU No. 2016-02, the Company elected the practical expedient package that, for expired or existing contracts, allowed the Company to carry forward the assessment of: 1) whether those contracts contained leases, 2) the lease classifications, and 3) whether previously capitalized costs continue to qualify as initial direct costs. In addition, the Company elected the practical expedients that allow the carryforward of historical lease classification, the combination of lease and non-lease components, and the use of risk-free discount rates in the measurement of its lease liabilities.

As of the January 1, 2020 adoption date (the ASC 842 adoption date), the Company did not have any finance leases or any leases for which it was the lessor. Upon adoption, the Company recognized $18,941 of operating lease ROU assets and operating lease liabilities on its Balance Sheet, of which $5,503 was classified as current liabilities and is included within Accounts payable and accrued expenses. While the adoption of this Update materially affected the Company's Balance Sheet as of the ASC 842 adoption date by requiring the recognition of operating leasing arrangements previously considered off-balance sheet arrangements per ASC 840, the adoption of this Update had no impact on the Company's retained earnings, results of operations or liquidity on the ASC 842 adoption date.

*Receivables – Nonrefundable Fees and Other Costs*

Effective January 1, 2020, the Company adopted ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The amendments in this Update require the premium on callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount is not impacted by the provisions of this Update. The adoption of this Update did not have a material impact on the Company's financial position, results of operations or liquidity.

*Financial Instruments*

Effective January 1, 2019, the Company adopted Accounting Standards Update (ASU or Update) No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This Update, as amended, requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in earnings. Additionally, the provisions of this Update

allow the reporting entity to account for investments without readily determinable fair values at cost and revise certain disclosures regarding financial assets and liabilities. The adoption of this guidance resulted in an adjustment to retained earnings in the amount of $6,490 as of the January 1, 2019 adoption date and materially impacted earnings post-adoption due to market fluctuations related to the Company's equity portfolio.

***Recently Issued Accounting Guidance***

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This Update, as amended, requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected and to recognize credit losses relating to available-for-sale debt securities through an allowance for credit losses. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the impact of this Update on its financial instruments. The adoption of this Update could have a material impact on the Company's financial position and results of operations in future periods.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact this Update will have on its financial position. The Company does not currently expect this Update will have a material impact on its financial position, results of operations or liquidity.

## (3) Significant Risks and Uncertainties

Premium revenues and associated contractual expiration dates as a percentage of the Company's total premium revenues for the years ended December 31, 2020 and 2019 are as follows:

| | | % of Premium Revenues | |
|---|---|---|---|
| **Contract** | **Expiration Date [1]** | **2020** | **2019** |
| Commonwealth of Pennsylvania, | | | |
| Department of Human Services: | | | |
| HealthChoices | December 31, 2021 | 49.3% | 49.7% |
| Community HealthChoices | December 31, 2022 | 48.0 | 48.0 |
| CMS | December 31, 2021 | 2.7 | 2.3 |
| | | 100.0% | 100.0% |

[1] Contracts contain renewal options

While management will attempt to reach agreement for new contracts with the respective agencies, there can be no assurance that such agreements can be reached. The discontinuation of involvement with the Commonwealth of Pennsylvania Department of Human Services (DHS) could have a material adverse effect on the future operations of the Company.

The enactment of the ACA in March 2010 transformed the U.S. healthcare delivery system through a series of complex initiatives; however, the implementation of the ACA continues to face certain judicial and political challenges, both at the federal and state levels of the U.S. government, to repeal or change certain of its significant provisions. Changes to, or repeal of, portions or the entirety of the ACA, as well as judicial interpretations in response to legal and other constitutional challenges, could materially and adversely affect the Company's results of operations, financial position or liquidity.

In March 2020, the World Health Organization identified the spread of a new strain of the coronavirus, COVID-19, as a pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen that could have a material impact on the Company's financial condition, results of operations and cash flows. The extent of the impact of the COVID-19 pandemic on the Company's financial statements will depend on future developments, which are highly uncertain and cannot be predicted at this time. Factors that may determine the severity of the impact include the duration and spread of the outbreak, the extent and effectiveness of the actions taken to contain the spread of the virus and address its impacts, the costs of prevention and treatment of the Company's members and how quickly and to what extent normal economic and operating conditions can resume.

## (4) Investments

Total investments are comprised of the following as of December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Equity securities | $ 6,870 | $ 12,189 |
| Mutual funds | 117,565 | 94,048 |
| Debt securities | 46,061 | 39,967 |
| Investments | $ 170,496 | $ 146,204 |

Debt securities consist of the following as of December 31, 2020 and 2019:

| December 31, 2020 | Cost/ amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | $ 7,315 | $ 567 | $ (19) | $ 7,863 |
| Corporate debt securities | 25,153 | 1,849 | (13) | 26,989 |
| Mortgage-backed securities | 10,922 | 290 | (3) | 11,209 |
| Total investments | $ 43,390 | $ 2,706 | $ (35) | $ 46,061 |

| December 31, 2019 | Cost/ amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | $ 10,260 | $ 135 | $ (10) | $ 10,385 |
| Corporate debt securities | 19,900 | 927 | (12) | 20,815 |
| Mortgage-backed securities | 8,620 | 152 | (5) | 8,767 |
| Total investments | $ 38,780 | $ 1,214 | $ (27) | $ 39,967 |

Contractual maturities of debt securities classified as available-for-sale were as follows as of December 31, 2020:

| | Cost/ amortized cost | Fair value |
|---|---|---|
| Due within one year | $ 1,268 | $ 1,269 |
| Due after one year through five years | 16,797 | 17,406 |
| Due after five years through ten years | 7,460 | 8,144 |
| Due after ten years | 6,943 | 8,033 |
| | 32,468 | 34,852 |
| Mortgage-backed securities | 10,922 | 11,209 |
| Total debt securities | $ 43,390 | $ 46,061 |

Proceeds from the sale of investment securities and the related gross realized gains and losses for the years ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Proceeds from sales | $ 24,298 | $ 61,465 |
| Gross realized gains | 2,696 | 12,675 |
| Gross realized lossess | (2,295) | (941) |

The Company recognized $21,009 and $9,019 in net gains on equity securities held as of December 31, 2020 and 2019, respectively, for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the estimated fair value and unrealized losses for securities in a temporary unrealized loss position are as follows:

| | Less than 12 months | | | 12 months or longer | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| December 31, 2020 | Number of Lots | Fair value | Unrealized losses | Number of Lots | Fair value | Unrealized losses | Number of Lots | Fair value | Unrealized losses |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 14 | $ 1,354 | $ (19) | — | $ — | $ — | 14 | $ 1,354 | $ (19) |
| Corporate debt securities | 62 | 2,103 | (13) | — | — | — | 62 | 2,103 | (13) |
| Mortgage-backed securities | 1 | 388 | (3) | 4 | 36 | — | 5 | 424 | (3) |
| Total temporarily impaired securities | 77 | $ 3,845 | $ (35) | 4 | $ 36 | $ — | 81 | $ 3,881 | $ (35) |

| | Less than 12 months | | | 12 months or longer | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| December 31, 2019 | Number of Lots | Fair value | Unrealized losses | Number of Lots | Fair value | Unrealized losses | Number of Lots | Fair value | Unrealized losses |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 9 | $ 2,990 | $ (10) | 2 | $ 415 | $ — | 11 | $ 3,405 | $ (10) |
| Corporate debt securities | 61 | 1,124 | (12) | — | — | — | 61 | 1,124 | (12) |
| Mortgage-backed securities | 5 | 1,083 | (4) | 1 | 61 | (1) | 6 | 1,144 | (5) |
| Total temporarily impaired securities | 75 | $ 5,197 | $ (26) | 3 | $ 476 | $ (1) | 78 | $ 5,673 | $ (27) |

The unrealized losses on debt security investments were primarily due to a widening of credit spreads rather than a decline in credit quality. The Company believes, based on its analysis, that the securities in an unrealized loss position are not other-than-temporarily impaired. However, depending on developments involving both the issuers and overall economic conditions, these investments may be impaired in the future.

## (5) Fair Value Measurements

Certain assets and liabilities are measured at fair value on the accompanying Balance Sheets. The fair values are based on valuations that include inputs that can be classified within one of three levels of a hierarchy established by GAAP. The levels of the hierarchy and related inputs for each level are as follows**:**

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

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

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in markets that are not active;
- Inputs other than quoted prices that are observable for the asset/liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

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

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the

fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

When available, the Company uses quoted values and other data as inputs to determine the fair values of its investments and classifies these assets and liabilities in Level 1. For securities not actively traded, fair value is estimated using valuation methodologies based on available and observable market information or matrix pricing. These financial assets and liabilities are classified as Level 2.

Securities with fixed maturities other than U.S. Treasury securities generally do not trade in an active market. The fair value estimates of such debt security investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such debt security investments are included in the amount disclosed as Level 2 of the hierarchy. The estimated fair values of U.S. Treasury securities are included in the amount disclosed as Level 1 as the estimates are based on unadjusted market prices.

The Company's equity securities and mutual funds trade on a major exchange in an active market. Accordingly, such investments are disclosed as Level 1.

***Recurring Fair Value Measurements***

The Company's investment securities are measured at fair value on a recurring basis. The following is a summary of the fair value measurements of the Company's investments by level within the fair value hierarchy as of December 31, 2020 and 2019:

| December 31, 2020 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equity securities | $ 6,870 | $ — | $ — | $ 6,870 |
| Mutual funds | 117,565 | — | — | 117,565 |
| Debt securities: | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 3,948 | 3,915 | — | 7,863 |
| Corporate debt securities | — | 26,989 | — | 26,989 |
| Mortgage-backed securities | — | 11,209 | — | 11,209 |
| Total investments | $ 128,383 | $ 42,113 | $ — | $ 170,496 |

| December 31, 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equity securities | $ 12,189 | $ — | $ — | $ 12,189 |
| Mutual funds | 94,048 | — | — | 94,048 |
| Debt securities: | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 7,062 | 3,323 | — | 10,385 |
| Corporate debt securities | — | 20,815 | — | 20,815 |
| Mortgage-backed securities | — | 8,767 | — | 8,767 |
| Total investments | $ 113,299 | $ 32,905 | $ — | $ 146,204 |

The fair value of the Company's other financial instruments, principally cash and cash equivalents, receivables, other current assets, and payables approximate their carrying values as of December 31, 2020 and 2019 because of the short maturity of such items.

***Nonrecurring Fair Value Measurements***

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. The net assets acquired, the resulting goodwill, and other intangible assets recognized through business combinations were recorded at fair value using Level 3 inputs as of the acquisition date.

## (6) Goodwill and Intangible Assets

Goodwill and intangible assets are related to the business combination discussed in Note 2.

***Goodwill***

There was no change in the carrying amount of goodwill for the years ended December 31, 2020 or 2019.

***Intangible assets, net***

As of December 31, 2020 and 2019, intangible assets, net and the related weighted average amortization periods (in years) are as follows:

| December 31, 2020 | Amortization period | Gross carrying value | Accumulated amortization | Net carrying value |
|---|---|---|---|---|
| Provider network | 9.9 | 6,590 | (6,036) | 554 |
| License | 10.0 | 12 | (11) | 1 |
| Intangible assets, net | | $ 6,602 | $ (6,047) | $ 555 |

| December 31, 2019 | Amortization period | Gross carrying value | Accumulated amortization | Net carrying value |
|---|---|---|---|---|
| Membership | 4.5 | $ 36,620 | $ (36,620) | $ — |
| Provider network | 9.9 | 6,590 | (5,372) | 1,218 |
| License | 10.0 | 12 | (10) | 2 |
| Intangible assets, net | | $ 43,222 | $ (42,002) | $ 1,220 |

Amortization is recognized using the straight-line method over the estimated useful lives of the assets. Amortization expense relating to intangible assets charged to operations was $665 and $666 for the years ended December 31, 2020 and 2019, respectively, and is included within General and administrative on the accompanying Statements of Operations and Comprehensive Income (Loss).

Estimated amortization expense relating to intangible assets for the year ended December 31, 2021 is $555, after which the Company's intangible assets will have been fully amortized.

## (7) Accrued Medical Expenses

Activity in accrued medical expenses is summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 732,520 | $ 346,541 |
| Premium deficiency reserves | (50,300) | — |
| Incurred related to: | | |
| Current year | 5,663,343 | 5,335,875 |
| Prior year | (41,566) | (21,545) |
| Total incurred | 5,621,777 | 5,314,330 |
| Paid related to: | | |
| Current year | 4,958,985 | 4,668,070 |
| Prior year | 580,946 | 310,581 |
| Total paid | 5,539,931 | 4,978,651 |
| Premium deficiency reserves | — | 50,300 |
| Balance, end of year | $ 764,066 | $ 732,520 |

Reserves for incurred claims attributable to insured events of prior periods decreased by $41,566 from $682,220 in 2019 to $640,654 in 2020 and by $21,545 from $346,541 in 2018 to $324,996 in 2019. Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions as well as changes in utilization and loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. Due to the Company's contractual risk-sharing arrangements discussed in Note 2, the above changes in estimates resulted in a (decrease) increase to premium revenues of ($288) and $5,410 for the years ended December 31, 2020 and 2019, respectively.

Accrued medical expenses include IBNR plus expected development on reported claims of $687,796 and $578,334 as of December 31, 2020 and 2019, respectively. Substantially all of the IBNR plus expected development on reported claims as of December 31, 2020 and 2019 relates to the respective year as substantially all claims are paid within one year of their incurred date.

The following is a summary of incurred and paid claims development information as of December 31, 2020:

| Date of Service | Incurred Claims For the Years ended December 31, 2019 (Unaudited) | 2020 |
|---|---|---|
| 2019 | $ 5,336,440 | $ 5,294,874 |
| 2020 | | 5,663,343 |
| Total incurred | | $ 10,958,217 |

| Date of Service | Cumulative Paid Claims For the Years ended December 31, 2019 (Unaudited) | 2020 |
|---|---|---|
| 2019 | $ 4,668,070 | $ 5,249,016 |
| 2020 | | 4,958,985 |
| Total paid | | $ 10,208,001 |
| Net remaining outstanding liabilities prior to 2019 | | 13,850 |
| Accrued medical expenses | | $ 764,066 |

There is no single or common claims frequency metric used in the health care industry. The Company believes a relevant metric is the number of fully insured members for whom a medical claim was paid. This metric is expected to be consistent and comparable over time. The cumulative number of fully insured members for whom a medical claim was paid was 532,518 and 499,583 for the years ended December 31, 2020 and 2019, respectively. Claims that did not result in a liability are excluded from the frequency metric.

## (8) Income Taxes

The components of income tax expense (benefit) for the years ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Current: | | |
| Federal | $ 10,297 | $ (2,618) |
| State | 4,501 | (1,384) |
| Total current | 14,798 | (4,002) |
| Deferred: | | |
| Federal | 204 | (321) |
| State | 108 | (169) |
| Total deferred | 312 | (490) |
| Income tax expense (benefit) | $ 15,110 | $ (4,492) |

A reconciliation of income tax at the statutory federal rate to income tax at the effective rate for the years ended December 31, 2020 and 2019 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Income tax expense (benefit) at the statutory federal rate | $ 24,520 | $ (14,621) |
| Adjustments to income taxes resulting from: | | |
| State income tax, net of federal tax benefits | 8,546 | (5,493) |
| Valuation allowance | (17,957) | 17,957 |
| Effect of change in tax status (Note 2) | — | (2,338) |
| Nondeductible expenses | 1 | 3 |
| Income tax expense (benefit) | $ 15,110 | $ (4,492) |

Components of deferred income taxes as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Deferred tax assets: | | |
| Premium deficiency reserve | $ — | $ 14,533 |
| Estimated claims incurred but not reported | 9,324 | 7,631 |
| Acquisition and start-up costs | 1,147 | 909 |
| Prepaid expenses | 272 | — |
| Other | — | 61 |
| Gross deferred tax assets | 10,743 | 23,134 |
| Valuation allowance | — | (17,957) |
| Gross deferred tax assets after valuation allowance | 10,743 | 5,177 |
| Deferred tax liabilities: | | |
| Change in fair value of equity securities | 8,677 | 2,606 |
| Unrealized investment gains | 2,646 | 2,218 |
| Intangible assets | 160 | 353 |
| Gross deferred tax liabilities | 11,483 | 5,177 |
| Net deferred tax liabilities | $ (740) | $ — |

In response to the significant operational challenges and liquidity issues that businesses are facing as a result of the COVID-19 Pandemic, on March 25, 2020, The Coronavirus Aid, Relief, and Economic Security (the CARES) Act was signed into law. The CARES Act provides tax relief measures for businesses by temporarily reversing or modifying changes to the tax law made previously by the Tax Cuts and Jobs Act of 2017. BMH filed Form 3115 with the IRS on behalf of the Company to change certain tax accounting methods used in the determination of taxable income. In accordance with ASC 740, the tax effects to the Company resulting from the revaluation of the deferred tax assets in connection with the CARES Act have been accounted for in the fiscal year ended 2020, the reporting period of the enactment of the CARES Act, as a component of income tax expense on the accompanying Statement of Operations and Comprehensive Income (Loss).

The Company recorded valuation allowances of $0 and $17,957 as of December 31, 2020 and 2019, respectively, as a result of BMH's assessment of the realizability of the consolidated federal tax group's deferred tax assets.

Federal tax years 2019 through 2020 are open for examination as of December 31, 2020.

## (9) Transactions with Affiliates

AmeriHealth Caritas Services (ACS), an affiliate under common ownership, performs on behalf of the Company the administrative portion of certain services, such as claims processing, enrollment services utilization management, finance and information systems. Costs incurred related to these administrative services were $231,143 and $208,525 for the years ended December 31, 2020 and 2019, respectively, and are included in General and administrative on the accompanying Statements of Operations and Comprehensive Income (Loss).

The Company maintains a Staffing Services Agreement (Agreement) with ACS for an initial term of five years with an automatic annual renewal thereafter unless terminated by either party pursuant to the Agreement. In connection with the Agreement, ACS furnishes to the Company employees necessary to carry out the business operations of the Company. Costs incurred related to the compensation and benefits for the assigned employees amounted to $98,270 and $74,278 for the years ended December 31, 2020 and 2019, respectively, and are included in General and administrative on the accompanying Statements of Operations and Comprehensive Income (Loss).

PerformRx, LLC and its subsidiary (collectively, PerformRx), an affiliated group wholly owned by ACHP, provide pharmacy benefit management services and supply specialty pharmacy drugs to the Company. Total charges under this agreement were $152,938 and $143,384 for the years ended December 31, 2020 and 2019, respectively, and are included in both Medical expenses and General and administrative on the accompanying Statements of Operations and Comprehensive Income (Loss). Pharmacy rebates collected on behalf of the Company's members by PerformRx are remitted to the Company on a quarterly basis. Amounts payable for specialty pharmacy drugs were $4,243 and $3,914 as of December 31, 2020 and 2019, respectively, and are included in Accrued medical expenses on the accompanying Balance Sheets.

In the ordinary course of business, the Company, ACS, and ACHP and its noninsurance subsidiaries advance monies to each other depending on specific cash needs pursuant to a revolving intercompany loan agreement. Amounts are payable on demand. The interest rate on funds advanced equals 130% of the short-term Applicable Federal Rate published by the IRS for the month in which the loan was made (0.20% and 2.07% as of December 31, 2020 and 2019, respectively). As of December 31, 2020 and 2019, $217,468 and $152,601, respectively, was included in Due from affiliates related to advances to affiliates under this agreement. Interest income relating to such advances totaled $1,441 and $4,218 for the years ended December 31, 2020 and 2019, respectively. Interest expense relating to such advances totaled $207 and $519 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, interest receivable on loans to affiliates was $30 and $321, respectively.

As discussed in Note 2, the Company is party to an affiliated tax allocation agreement. BMH delegates certain functions under this agreement to ACS, including the administration of federal and state income tax payments on behalf of the downstream consolidated group.

The Company received capital contributions in the amount of $0 and $215,000 for the years ended December 31, 2020 and 2019, respectively. In February 2020, the Company returned $155,000 of the capital contributed during the year ended December 31, 2019.

Vista maintains the risk-based contracts with DHS to provide prepaid managed care to Medicaid enrollees in the Southeastern region of Pennsylvania. Vista also maintains the risk based contract with CMS to provide prepaid healthcare services, including Medicare prescription drug coverage, to eligible Medicare enrollees in the State of Pennsylvania. Vista subcontracts to the Company the provision of such Medicaid and Medicare services through Integrated Delivery System Agreements, whereby the Company assumes risk and financial liability and responsibility with Vista for the provision of such services to eligible members.

Vista receives the member premium payments from DHS and CMS and remits such premiums to the Company. For the years ended December 31, 2020 and 2019, the Company recorded premiums of $6,306,054 and $5,762,364, respectively, earned under the subcontracts with Vista. Member premium receipts in the amount of $125,000 and $250,000 collected by Vista from DHS in December 2020 and 2019, respectively, were remitted to the Company in January of the subsequent years. Costs incurred related to administrative services provided by Vista amounted to $5,977 and $5,913 for the years ended December 31, 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, Vista charged to the Company expenses in the amount of $27,998 and $0, respectively, related to the health insurer fee premium reimbursement discussed in Note 2. Costs incurred from Vista are included in General and administrative on the accompanying Statements of Operations and Comprehensive Income (Loss).

As of December 31, 2020 and 2019, respectively, the Company had the following amounts due from affiliates:

| Due from affiliates | 2020 | 2019 |
|---|---|---|
| ACS | $ 140,219 | $ 84,965 |
| Vista | 124,148 | 250,242 |
| ACHP and subsidiaries | 32,828 | 43,479 |
| | $ 297,195 | $ 378,686 |

## (10) Line of Credit

ACHP, the Company, ACS and BMH (individually, a Borrower or, collectively, the Borrowers) maintain a Credit Agreement (Credit Agreement) with PNC Bank, National Association, PNC Capital Markets, LLC, and other banks (collectively, the Lenders). The amended terms of the Credit Agreement include a revolving line of credit in the amount of $400,000 as well as an option to request a term loan in an amount up to $300,000. The Borrowers have an option to request up to an additional $250,000 on the revolving line of credit; however, the Lenders have no obligation to facilitate such a request. The amended Credit Agreement expires on May 6, 2021. Management currently intends to apply for renewal of this Credit Agreement prior to expiration. No collateral is required under this Credit Agreement. At a Borrower's election, interest on the revolving line of credit and the term loan is calculated at a rate per annum equal to (i) the Base Rate plus the Applicable Margin, (ii) the LIBOR Rate plus the Applicable Margin or (iii) Daily LIBOR plus the Applicable Margin. The Base Rate is equal to the highest of (i) the sum of the Overnight Bank Funding Rate plus 50 basis points, (ii) the Prime Rate and (iii) the Daily LIBOR plus 100 basis points. Notwithstanding the foregoing, if the LIBOR Rate as determined under any method above would be less than fifty basis points

(0.50%), such rate shall be deemed to be fifty basis points (0.50%) for purposes of this Agreement. Applicable Margin under the Base Rate Option and the LIBOR Option as stated in the Credit Agreement equals 62.5 and 162.5 basis points, respectively.

Under the Credit Agreement, the Borrowers have certain financial covenants. As of December 31, 2020 and 2019, the Borrowers were in compliance with the financial covenants. The Borrowers may request the issuance of a standby letter of credit under this agreement. No material letters of credit were issued as of December 31, 2020. The repayment of the line of credit outstanding balance, accrued and unpaid interest and related expenses are guaranteed by IHG and BCBSM in amounts proportional to their respective ownership interests.

## (11) Employee Benefit Plans

Certain ACS employees are eligible to participate in the Pension Plan of AmeriHealth Caritas (the Plan), a noncontributory defined benefit pension plan that provides retirement benefits to employees based upon certain eligibility requirements as defined in the plan document. ACS is the sole participating employer in the Plan. As members of the same control group as ACS for Plan purposes, the Company and ACHP maintain responsibility for future plan benefits in the event of default by ACS. The total unfunded Plan obligation was $60,681 as of December 31, 2020, for which the Company may be responsible for all or a portion of this amount in the event of default by ACS.

## (12) Accumulated Other Comprehensive Income

Partners' equity, on the accompanying Balance Sheets, includes the following activity in Accumulated other comprehensive income for the years ended December 31, 2020 and 2019:

| | Year Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Accumulated other comprehensive income, beginning of period | $ 698 | $ 5,980 |
| Net unrealized gain on investment securities arising during the period, net of tax of $543 and $2,953, respectively | 1,339 | 12,942 |
| Less reclassification adjustment for net gains on investments included in net income (loss), net of tax of $115 and $2,464, respectively | (285) | (11,734) |
| Other comprehensive income | 1,054 | 1,208 |
| Adjustment related to the adoption of a new accounting standard (Note 2) | — | (6,490) |
| Accumulated other comprehensive income, end of period | $ 1,752 | $ 698 |

## (13) Leases

The Company leases facilities under long-term operating leases that are noncancelable and expire on various dates. The Company's leases have remaining lease terms of less than 1 year to 4 years, some of which include extension and termination options that have been excluded from the determination of the ROU assets and lease liabilities as the Company is not reasonably certain it will exercise any of these options.

The Company's operating lease ROU assets and long-term operating lease liabilities are presented separately on the accompanying Balance Sheet as of December 31, 2020, with the current portion of its operating lease liabilities classified within Accounts payable and accrued expenses. As of December 31, 2020, the current portion of the Company's operating lease liabilities was $5,681.

For the years ended December 31, 2020 and 2019, the Company recognized operating lease costs of $140 and $24, respectively, within General and administrative on the accompanying Statements of Operations and Comprehensive Income (Loss). As of December 31, 2020, the weighted average remaining lease term for the Company's outstanding leases and the weighted average discount rate on the Company's lease liabilities were 2.73 years and 1.64%, respectively.

Maturities of the Company's operating lease liabilities as of December 31, 2020 pursuant to ASC 842 are as follows:

| **Year ending December 31:** | | |
|---|---|---|
| 2021 | $ | 5,871 |
| 2022 | | 5,710 |
| 2023 | | 2,320 |
| 2024 | | 1,082 |
| Total undiscounted future minimum lease payments | | 14,983 |
| Less imputed interest | | 323 |
| Total operating lease liabilities | $ | 14,660 |

Prior to the adoption of the new lease accounting standard, future minimum lease commitments under noncancelable operating leases, with initial or remaining lease terms in excess of one year, pursuant to ASC 840 were as follows as of December 31, 2019:

| **Year ending December 31:** | | |
|---|---|---|
| 2020 | $ | 8,679 |
| 2021 | | 12,868 |
| 2022 | | 16,351 |
| 2023 | | 13,123 |
| 2024 | | 12,070 |
| 2025 and thereafter | | 127,306 |
| Minimum lease commitments | $ | 190,397 |

(1) Amounts include minimum lease commitments related to ABC Leases discussed below

Because the members of the Company are serviced by ACS employees working at the above referenced leased facilities, rent and all related expenses under certain lease agreements are paid by ACS and the Company's allocated portion of the costs are charged to the Company through the administrative service agreement with ACS discussed in Note 9. Such allocated expenses, which approximated $6,578 and $5,560

for the years ended December 31, 2020 and 2019, respectively, are included in General and administrative on the accompanying Statements of Operations and Comprehensive Income (Loss).

The Company and ACHP are legal parties to the operating lease agreements for the Airport Business Center (ABC Leases) expiring April 30, 2035. Future undiscounted minimum lease payments under the ABC Leases as of December 31, 2020 are $169,722. Rent and all expenses related to the ABC Leases are paid by ACS and indirectly allocated to the Company and ACHP through the administrative service agreement as noted above. Effective January 14, 2021, the ABC Leases were amended to reduce the rental rate per square foot and incorporate guarantees by IHG and BCBSM of future lease commitments in amounts proportional to their respective ownership interests.

Prior to March 2020, the ABC Leases required the Company to provide security deposits, which the Company satisfied through letters of credit from a bank that aggregated to $1,300 and were fully collateralized by the Company's restricted cash equivalents and restricted investments.

## (14) Contingencies

In the ordinary course of business, the Company is involved in and is subject to claims, contractual disputes with providers, and other uncertainties. The Company records reserves and accrues costs for certain legal proceedings and regulatory matters to the extent that it determines an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. While such reserves and accrued costs reflect the Company's best estimate of the probable loss for such matters, the recorded amounts may differ materially from the actual amount of any such losses. In some cases, no estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made because of the inherently unpredictable nature of legal and regulatory proceedings, which may be exacerbated by various factors.

Amounts accrued for legal proceedings and regulatory matters were not material as of December 31, 2020. However, it is possible that in a particular quarter or annual period the Company's financial position, results of operations, and/or liquidity could be materially adversely affected by an ultimate unfavorable resolution of or development in legal and/or regulatory proceedings. The Company believes that the ultimate outcome of any of the regulatory and legal proceedings that are currently pending against it should not have a material adverse effect on financial position, results of operations, or liquidity.

## (15) Subsequent Events

Management has evaluated events and transactions occurring subsequent to the balance sheet date through March 26, 2021, the date that the financial statements were available to be issued, for potential recognition and disclosure. No events or transactions meet the definition of a recognized or nonrecognized subsequent event within the scope of ASC 855, *Subsequent Events*.

# AMERIHEALTH CARITAS HEALTH PLAN AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

# Independent Auditors' Report

The Board of Directors
AmeriHealth Caritas Health Plan:

We have audited the accompanying consolidated financial statements of AmeriHealth Caritas Health Plan and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive income (loss), changes in partners' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmeriHealth Caritas Health Plan and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Emphasis of Matter*

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for leases as of January 1, 2020, due to the early adoption of ASU 2016-02, Leases (ASC 842), as amended, using the modified retrospective transition method. Our opinion is not modified with respect to this matter.

*Other Matters*

U.S. generally accepted accounting principles require that the 2019 service year incurred and paid claims development information on page 27 within Note 9 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic financial statements, is required by Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Philadelphia, Pennsylvania
March 26, 2021

**AMERIHEALTH CARITAS HEALTH PLAN AND SUBSIDIARIES**

Consolidated Balance Sheets

(In thousands)

| | December 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,464,063 | $ 733,392 |
| Investments | 357,117 | 379,234 |
| Premium receivables | 470,016 | 398,584 |
| Due from affiliates | 3,143 | 989 |
| Other current assets | 61,896 | 66,392 |
| Total current assets | 2,356,235 | 1,578,591 |
| Operating lease right-of-use assets | 36,878 | — |
| Property and equipment, net | 19,688 | 18,905 |
| Investment in nonconsolidated joint venture | 70,574 | 64,863 |
| Goodwill | 55,819 | 55,819 |
| Intangible assets, net | 30,256 | 47,783 |
| Other long-term assets | 14,886 | 39,190 |
| Total assets | $ 2,584,336 | 1,805,151 |
| **Liabilities and Partners' Equity** | | |
| Current liabilities: | | |
| Accrued medical expenses | $ 1,164,293 | $ 781,294 |
| Accounts payable and accrued expenses | 161,001 | 118,485 |
| Due to affiliates | 124,210 | 94,224 |
| Total current liabilities | 1,449,504 | 994,003 |
| Long-term operating lease liabilities | 28,514 | — |
| Other long-term liabilities | 40 | 2,863 |
| Total liabilities | 1,478,058 | 996,866 |
| Commitments and contingencies (Notes 16 and 17) | | |
| Partners' equity: | | |
| Paid-in capital | 1,331,992 | 1,176,992 |
| Accumulated deficit | (232,025) | (371,641) |
| Accumulated other comprehensive income | 6,163 | 2,826 |
| Total equity attributable to AmeriHealth Caritas Health Plan and Subsidiaries | 1,106,130 | 808,177 |
| Noncontrolling interest | 148 | 108 |
| Total partners' equity | 1,106,278 | 808,285 |
| Total liabilities and partners' equity | $ 2,584,336 | $ 1,805,151 |

See accompanying notes to consolidated financial statements.

**AMERIHEALTH CARITAS HEALTH PLAN AND SUBSIDIARIES**

Consolidated Statements of Operations and Comprehensive Income (Loss)

(In thousands)

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | **2019** |
| Revenues: | | |
| Premium | $ 8,188,077 | $ 6,126,109 |
| Management services [1] | 91,160 | 96,916 |
| Pharmacy sales [2] | 202,349 | 186,157 |
| Total revenues | 8,481,586 | 6,409,182 |
| Operating expenses: | | |
| Medical expenses | 6,972,892 | 5,563,879 |
| General and administrative [3] | 893,024 | 699,893 |
| Premium assessments and health insurer fee | 308,565 | 154,316 |
| Cost of pharmaceutical goods sold | 196,140 | 179,755 |
| Total operating expenses | 8,370,621 | 6,597,843 |
| Income (loss) from operations | 110,965 | (188,661) |
| Other (income) expenses: | | |
| Investment income [4] | (22,527) | (36,760) |
| Income from nonconsolidated joint ventures | (5,731) | (9,968) |
| Other expenses [5] | 2,962 | 2,490 |
| Income (loss) before income tax (benefit) expense | 136,261 | (144,423) |
| Income tax (benefit) expense | (3,358) | 9,427 |
| Net income (loss) | 139,619 | (153,850) |
| Less net (income) loss attributable to noncontrolling interest | (40) | 1,877 |
| Net income (loss) attributable to AmeriHealth Caritas Health Plan and Subsidiaries | 139,579 | (151,973) |
| Change in unrealized gain on investments | 3,337 | 3,738 |
| Comprehensive income (loss) | $ 142,916 | $ (148,235) |

[1] Management services includes affiliated services of $35,143 and $31,718 for the years ended December 31, 2020 and 2019, respectively.

[2] Pharmacy sales includes affiliated sales of $187,228 and $165,359 for the years ended December 31, 2020 and 2019, respectively.

[3] General and administrative includes affiliated expenses of $748,115 and $585,411 for the years ended December 31, 2020 and 2019, respectively.

[4] Investment income includes affiliated income of $207 and $519 for the years ended December 31, 2020 and 2019, respectively.

[5] Other expenses includes affiliated expenses of $241 and $815 for the years ended December 31, 2020 and 2019, respectively.

See accompanying notes to consolidated financial statements.

**AMERIHEALTH CARITAS HEALTH PLAN AND SUBSIDIARIES**

Consolidated Statements of Changes in Partners' Equity

(In thousands)

| | Partners' Equity Attributable to AmeriHealth Caritas Health Plan and Subsidiaries | | | | |
|---|---|---|---|---|---|
| | **Paid-in capital** | **Accumulated deficit** | **Accumulated other comprehensive income (loss)** | **Noncontrolling interest** | **Total** |
| Balances at January 1, 2019 | $ 1,090,992 | $ (158,725) | $ (1,555) | $ 3,852 | $ 934,564 |
| Net loss | — | (151,973) | — | (1,877) | (153,850) |
| Cumulative-effect adjustment related to the adoption of new accounting standard (Note 2) | — | (643) | 643 | — | — |
| Other comprehensive income | — | — | 3,738 | — | 3,738 |
| Comprehensive loss | — | (152,616) | 4,381 | (1,877) | (150,112) |
| Contributions | 86,000 | — | — | — | 86,000 |
| Distributions | — | (60,300) | — | (1,867) | (62,167) |
| Balances at December 31, 2019 | 1,176,992 | (371,641) | 2,826 | 108 | 808,285 |
| Net income | — | 139,579 | — | 40 | 139,619 |
| Other comprehensive income | — | — | 3,337 | — | 3,337 |
| Comprehensive income | — | 139,579 | 3,337 | 40 | 142,956 |
| Contributions | 155,000 | — | — | — | 155,000 |
| Refund of tax distribution | — | 37 | — | — | 37 |
| Balances at December 31, 2020 | $ 1,331,992 | $ (232,025) | $ 6,163 | $ 148 | $ 1,106,278 |

See accompanying notes to consolidated financial statements.

**AMERIHEALTH CARITAS HEALTH PLAN AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

(In thousands)

| | Year Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Cash flows from operating activities: | | |
| Net income (loss) | $ 139,619 | $ (153,850) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Noncash items included in net income (loss): | | |
| Depreciation and amortization | 12,814 | 8,727 |
| Amortization of operating lease right-of-use assets | 10,371 | — |
| Net realized gains on investments | (11,010) | (9,137) |
| Income from nonconsolidated joint ventures | (5,731) | (9,968) |
| Impairment of long-lived assets | 8,190 | — |
| Deferred income taxes | (860) | 4,707 |
| Other | (456) | 264 |
| Changes in assets and liabilities: | | |
| Premium receivables | (71,432) | 33,402 |
| Due from affiliates | (2,154) | (7) |
| Accrued medical expenses | 382,999 | 56,309 |
| Accounts payable and accrued expenses | 35,450 | (75,893) |
| Due to affiliates | 29,986 | (9,983) |
| Operating lease liabilities | (10,768) | — |
| Other assets and other liabilities, net | 4,534 | 1,363 |
| Total adjustments | 381,933 | (216) |
| Net cash provided by (used in) operating activities | 521,552 | (154,066) |
| Cash flows from investing activities: | | |
| Capital expenditures | (4,260) | (4,442) |
| Proceeds from sales and maturities of investments | 451,059 | 607,530 |
| Purchase of investments | (414,588) | (517,600) |
| Payment of advances to affiliates | (1,308,557) | (724,212) |
| Reimbursement of advances to affiliate | 1,308,557 | 724,212 |
| Net cash provided by investing activities | 32,211 | 85,488 |
| Cash flows from financing activities: | | |
| Proceeds from advances from affiliates | — | 143,469 |
| Repayment of advances from affiliates | — | (175,869) |
| Cash contributed by Partners | 155,000 | 86,000 |
| Distributions | — | (62,167) |
| Proceeds from borrowings under lines of credit | 435,000 | 470,000 |
| Repayment of borrowings under lines of credit | (435,000) | (470,000) |
| Other financing activities, net | (3,402) | (17,259) |
| Net cash provided by (used in) financing activities | 151,598 | (25,826) |
| Net increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents | 705,361 | (94,404) |
| Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year | 767,348 | 861,752 |
| Cash, cash equivalents, restricted cash and restricted cash equivalents at end of year | 1,472,709 | 767,348 |
| Adjustment for restricted cash and restricted cash equivalents | (8,646) | (33,956) |
| Cash and cash equivalents at end of year | $ 1,464,063 | $ 733,392 |
| Supplemental disclosure of cash flow information: | | |
| Cash recovered (paid) during the period for: | | |
| Income taxes | $ 12,297 | $ (1,339) |
| Interest | (2,315) | (2,091) |
| Non-cash operating activities: | | |
| Operating right-of-use lease assets obtained in exchange for lease obligations | $ 48,696 | $ — |

See accompanying notes to consolidated financial statements.

## (1) Organization and Description of Business

AmeriHealth Caritas Health Plan and its subsidiaries (the Company) provide access to comprehensive quality health care for those who are poor and chronically ill. The Company provides managed care and pharmacy services through contracts with government agencies in 12 states and the District of Columbia.

BMH LLC (BMH) owns 100% of the partnership interests in AmeriHealth Caritas Health Plan (ACHP) through two wholly owned subsidiaries, BMH SubCo I LLC and BMH SubCo II LLC. BMH is a Delaware limited liability company formed in 2011 to serve as the entity through which Independence Health Group, Inc. (IHG) and Blue Cross Blue Shield of Michigan (BCBSM) jointly own and invest in the managed care businesses conducted by the Company. IHG and BCBSM are collectively referred to as the Members. ACHP was originally formed in 1996 by Mercy Health Plan and wholly owned subsidiaries of IHG.

## (2) Summary of Significant Accounting Policies

### *Basis of Presentation*

The accompanying consolidated financial statements include the accounts of ACHP and its subsidiaries in which the Company has a controlling financial interest. The Company's consolidated joint venture is AmeriHealth Nebraska, Inc. (ANI). Blue Cross and Blue Shield of Nebraska holds a 30% ownership interest in ANI. Intercompany transactions and balances have been eliminated in consolidation.

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include accrued medical expenses and premium deficiency reserves. Actual results could differ from those estimates. The COVID-19 Pandemic, as further discussed in Note 3, has increased the degree of uncertainty inherent in certain estimates and assumptions.

### *Cash and Cash Equivalents*

Cash and cash equivalents include cash, debt securities, and other highly liquid investments with original maturities of three months or less when purchased. The carrying value of cash equivalents approximates fair value due to the short-term nature of these investments. Cash equivalents totaled $1,021,470 and $62,962 as of December 31, 2020 and 2019, respectively. Cash overdraft balances are reported within Accounts payable and accrued expenses on the accompanying Consolidated Balance Sheets with changes in such balances reflected within Cash flows from financing activities on the accompanying Consolidated Statements of Cash Flows.

The Company maintains restricted cash and cash equivalents to meet statutory deposit requirements. Restricted cash and cash equivalents are included in Other long-term assets on the accompanying Consolidated Balance Sheets.

***Investments***

The Company accounts for its debt securities in accordance with Accounting Standards Codification (ASC) 320, *Investments – Debt Securities,* and for its equity securities in accordance with ASC 321, *Investments – Equity Securities.* The Company classifies its debt securities as available-for-sale. Both debt and equity securities are carried at fair value on the accompanying Consolidated Balance Sheets. Restricted investment securities are classified as long term on the accompanying Consolidated Balance Sheets, regardless of the contractual maturity date, due to the nature of the restrictions.

Realized gains and losses on the sale of investments are recognized on the specific-identification basis as of the trade date. Realized losses also include losses for fair value declines on debt securities that are considered to be other-than-temporary. Unrealized gains and losses on available-for-sale debt securities, net of tax, are reflected in Partners' equity as a component of Accumulated other comprehensive income on the accompanying Consolidated Balance Sheets and, accordingly, have no effect on earnings. Unrealized gains and losses on equity securities are recognized within Investment income on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss). Dividend and interest income are recognized when earned. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts using the effective-interest method.

The Company manages its investment portfolio to diversify risk by limiting exposure to any one issuer or market sector and avoiding speculative investments, while maximizing returns over the long-term. Mortgage backed securities must carry agency guarantees. Securities downgraded below policy minimums after purchase will be disposed of in accordance with the Company's investment policy.

The Company regularly reviews its debt securities to determine whether a decline in fair value below the carrying value is other-than-temporary. Factors considered in determining whether an other-than-temporary impairment loss exists include duration and severity of the loss, adverse conditions specifically related to the security, the industry or the geographic area, the financial condition and near-term prospects of the issuer, analysis and guidance provided by rating agencies and analysts, and changes in fair value subsequent to the balance sheet date.

When the Company determines that an other-than-temporary impairment loss exists for a debt security that the Company intends to sell or more likely than not will be required to sell prior to recovering the security's amortized cost basis less any current-period credit loss, the cost basis of the security is written down to fair value, and the total amount of the impairment is included in operations as a realized investment loss.

When the Company determines that an other-than-temporary impairment loss exists for a debt security and the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security prior to recovering the security's amortized cost basis less any current-period credit loss, the portion of the total impairment that is attributable to the credit loss is recognized in operations as a realized investment loss, and the cost basis of the security is reduced by the amount of the credit-related impairment. The noncredit-related component of the impairment loss is included within Other comprehensive income on the accompanying Consolidated Statements of Changes in Partners' Equity. Subsequent recoveries in the fair value of the credit loss portion of other-than-temporarily impaired securities are recognized at disposition.

***Equity Method Investments***

The Company accounts for investments in joint ventures in which it has significant influence but does not have a controlling financial interest in accordance with ASC 323, *Investments – Equity Investments and Joint Ventures*. The Company assesses its investment in its nonconsolidated joint venture for impairment at least annually and if there is evidence of a loss in value of the investments. If the loss in value of an investment represents an other-than-temporary decline, an impairment loss is recognized to the extent that the carrying value of an investment exceeds its fair value. Factors considered in determining whether an other-than-temporary impairment loss exists include the current and near-term projected financial condition of the investee, the duration and severity of the estimated loss in the fair value of the investee, presence of changes in legal factors, business climate, industry or geographic area that have a significant adverse impact on the investee, the inability of the investee to independently maintain required capital and surplus or significant doubts about the investee's ability to continue as a going concern, the probability of the Company selling or otherwise disposing of its investment in the investee prior to recovery of the estimated loss in the fair value of the investee and the intent of other investors to continue providing support or maintain their existing financial commitment to the investee.

***Financial Instruments***

The Company determines the fair value of its assets and liabilities in accordance with ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 provides information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. ASC 820 establishes a fair value hierarchy to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and lowest priority to unobservable inputs. The lowest level of input that is significant to the valuation is utilized in the fair value classification of financial assets and liabilities.

Investments that estimate fair value using the net asset value per share in a manner consistent with the measurement principles of ASC 946, *Financial Services – Investment Companies*, are not classified within the fair value hierarchy pursuant to ASC 820-10-35-54B. The fair value of the Company's investments in money market funds with published daily net asset values have been measured using the net asset value per share and are disclosed according to this guidance.

***Other Current Assets***

Other current assets consist of pharmacy rebates receivables, inventory, prepaid expenses, federal and state tax receivables and other miscellaneous receivables.

The Company enters into contracts with certain drug manufacturers, which provide for rebates to the Company based on the utilization of prescription drugs by the Company's members and Pharmacy Benefit Management (PBM) members. Rebates are recognized when earned according to the contractual arrangements with the drug manufacturer.

Inventory is comprised of prescription drugs. The cost of the Company's inventory has been determined using the first-expired, first-out method, which approximates the first-in, first-out method. Inventory is stated at the lower of cost or net realizable value, which was $17,816 and $12,564 as of December 31, 2020 and 2019, respectively.

***Leases***

The Company accounted for its leases under ASC 840, *Leases*, through December 31, 2019. Effective January 1, 2020, the Company adopted Accounting Standards Update (ASU or Update) No. 2016-02 and accounts for its leases in accordance with ASC 842, *Leases*. The Company considers any contract that conveys the right to control the use of identified property and equipment for a period of time in exchange for consideration to be a lease. The Company determines whether the contract into which it has entered is a lease at the lease commencement date. Upon lease commencement, if the Company is the lessee in the lease, it classifies the lease as either a finance lease or an operating lease; if the Company is the lessor in the lease, it classifies the lease as either a sales-type lease, direct financing lease or operating lease.

At the lease commencement date, the Company recognizes a lease right-of-use (ROU) asset and a lease liability based on the present value of the lease payments over the lease term. The ROU asset also includes any lease pre-payments and indirect costs and excludes any lease incentives. The Company has property and equipment lease agreements with both lease and non-lease components that are accounted for as a single lease component within General and administrative on the accompanying Consolidated Statements of Operations. Variable lease payments are expensed as incurred and represent amounts that are neither fixed in nature, such as maintenance and other services provided by the lessor, nor tied to an index or rate. Most of the Company's leases do not provide an implicit rate, and as such, pursuant to the private company accounting alternative, the Company has elected to use a risk-free discount rate, based on the information available at the lease commencement date, in determining the present value of the lease payments. The Company's expected life of a lease may consider options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

The ROU asset is assessed for impairment at least annually and upon the occurrence of certain events. If the ROU asset is determined to be impaired, the Company will recognize an impairment loss in accordance with existing long-lived assets impairment accounting guidance equal to the sum of: 1) the straight-line amortization of the remaining balance of the ROU asset post-impairment and 2) the accretion of the lease liability representative of the amount that produces a constant periodic discount rate on the remaining balance of the lease liability. The new basis of the impaired ROU asset will then be amortized from the date of the impairment to the earlier of the end of the useful life of the asset or the end of the lease term.

***Goodwill and Intangible Assets***

The Company recognizes goodwill and separately identifiable intangible assets resulting from business combinations. The Company assesses goodwill and intangible assets for impairment at least annually and upon the occurrence of certain events. Operating results, economic projections, and anticipated cash flows, among other factors, are taken into consideration by the Company as part of this assessment. Inherent uncertainties exist with respect to the factors considered and the Company's judgment in applying such factors during its assessment. Impairment of goodwill and intangible assets could result from changes in economic and operating conditions in future periods.

***Premium Revenues***

The Company records premium revenues based on membership records and premium rates for each membership category pursuant to its contracts with the respective agencies. Premium revenues are comprised of the following:

- *Capitation* – Capitated premiums are calculated based on a fixed premium per member per month pursuant to the respective contract and are recognized as revenue in the month in which the Company is obligated to provide services to such members. Capitated premiums are generally collected in the month in which services are provided; however, at times such premiums can be collected up to three months in arrears.

  Under certain state contracts, capitated premium rates also include funds designated by the respective state agencies for distribution to local hospitals and non-hospital medical care and educational organizations in order to promote continued access to quality care for members. The Company is required to remit these funds, net of premium assessments, to designated organizations pursuant to the terms of the respective state contracts. The premium revenues earned under these programs that were not received as of year-end are included in Premium receivables on the accompanying Consolidated Balance Sheets, with a corresponding liability for amounts due to the designated organizations included in Accrued medical expenses.

  Certain Medicaid contracts require the Company to expend a minimum percentage of capitated premiums on eligible medical expense. To the extent that the Company expends less than the minimum percentage of capitated premiums on eligible medical cost, the Company is required to refund to the respective state agencies all or some portion of the difference between the minimum and the actual allowable medical expense incurred. The Company estimates the amounts due to the respective state agencies as a reduction of capitation premium based on the terms of the contracts with the respective state agencies.

- *Quality incentives* – The contracts with certain agencies include incentives if certain quality thresholds are met. These incentives are generally recognized as revenue in the period such revenues are reasonably estimable and are settled upon expiration of the measurement period, which typically occurs within the subsequent contract year. Premium incentives recognized were $64,702 and $61,244 for the years ended December 31, 2020 and 2019, respectively.

- *Risk-sharing arrangements* – Certain contracts contain risk-sharing arrangements, such as risk corridors or premium rates based on the health status of a member. In the case of a risk corridor, premiums received are compared to actual medical costs incurred during the contract year. If actual medical costs incurred vary from premiums received by an amount greater or less than a predetermined threshold, an adjustment is recorded to premium revenues. Premiums related to risk sharing arrangements are reasonably estimable and adjustments are made to those estimates based on actual experience. Due to the nature of these arrangements, the settlement of related balances could extend into future reporting periods.

- *Other* – Includes premiums related to supplemental services provided, such as maternity deliveries. Premiums for supplemental services are reasonably estimable based on historical trends and adjustments are made to those estimates based on actual experience.

The Centers for Medicare and Medicaid Services (CMS) reimburses the Company for costs incurred related to the catastrophic reinsurance and low income member cost sharing elements of the Medicare contracts. Accordingly, there is no insurance risk to the Company. Amounts received for these subsidies are not reflected as premium revenues, but rather are accounted for as deposits. The Company administers and pays for the subsidized portion of the claims on behalf of CMS, and a settlement occurs subsequent to year-end

between CMS and the Company based on actual claims experience. Amounts payable to CMS were $3,242 and $6,681 as of December 31, 2020 and 2019, respectively, and are included in Accounts payable and accrued expenses on the accompanying Consolidated Balance Sheets. Cash flows related to these subsidies are presented within Cash flows from financing activities on the accompanying Consolidated Statements of Cash Flows.

To the extent that premium receipts differ from recorded revenue, the amount of the difference is recorded as either premium receivables or premium overpayments until such time that the differences are resolved. The Company regularly evaluates the collectability of its premium receivables from the respective agencies. The allowance for uncollectible premiums was $2,572 and $1,042 as of December 31, 2020 and 2019, respectively. Premium overpayments amounted to $4,713 and $0 as of December 31, 2020 and 2019, respectively, and are included in Accounts payable and accrued expenses on the accompanying Consolidated Balance Sheets.

***Management Services***

The Company provides or makes available management, administrative, and PBM services, including rebates processing, to affiliated and nonaffiliated insurance companies and managed care plans specializing in Medicaid, Medicare Part D, and commercial insurance. The customers retain the risk of financing health care costs for their members and the Company provides coordination and facilitation of medical and PBM services, transaction processing, and access to contracted networks of health care professionals and pharmacies. The Company has neither the obligation to fund customers' healthcare costs nor primary responsibility to provide healthcare services.

Management services are performed throughout the contract period. Management services revenue is determined either as (i) the base fee calculated on a per member per month basis, (ii) a fixed fee per unit, or (iii) the actual costs incurred for the services. The Company recognizes management services revenue over time in the amount of base fees and/or reimbursed costs when the related services are provided to customers. Rebates from pharmaceutical manufactures, net of amounts payable to the customers, are included in Management services on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss). Certain contracts include various performance-based guarantees that provide for potential reimbursement to customers if certain standards or other metrics are not met.

***Pharmacy Sales***

The Company supplies specialty pharmacy drugs to members of other affiliated and nonaffiliated managed care organizations (MCOs) and insurance companies. The Company recognizes pharmacy sales revenue upon shipment when control of the promised goods is transferred to the customer. Pharmacy sales revenue is recognized in the amount of consideration expected to be received for the provided goods. Due to the nature of the product, customers may neither return the product nor receive a refund. The Company accounts for shipping and handling as fulfillment costs.

***Medical Expenses***

Medical expenses consist of capitation payments for primary care physicians, subcontracted medical services, claims paid on a fee for service basis based upon contracted rates with providers, reinsurance recoveries, prescription drug costs, net of rebates, and premium deficiency reserves. The Company maintains reinsurance for medical expenses with commercial carriers, which is more fully described in Note 10.

Accrued medical expenses include medical expenses billed and not paid, an estimate for costs incurred but not reported (IBNR), and estimated costs to process these claims. The Company determines IBNR in accordance with actuarial principles and assumptions that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. Actuarial Standards of Practice require that the liabilities be adequate under moderately adverse circumstances. Actuarial estimates are based upon authorized healthcare services, past claims payment experience, member census, and other relevant factors.

To estimate IBNR the Company uses the triangulation method. The triangulation method uses estimates of completion factors, which are then applied to the total paid claims, net of coordination of benefits, to date for each incurred month. This provides an estimate of the total projected incurred claims and total amount outstanding of claims incurred but not reported. Consideration is also given to changes in turnaround time and claims processing, which may impact completion factors. The Company utilizes a medical loss ratio reserve methodology until there is sufficient paid claim data to rely on the triangulation method. The Company consistently applies its reserving methodology from period to period and periodically reviews actual and anticipated experience compared to the assumptions used to establish medical costs.

The estimation of IBNR utilizes a high degree of judgment. As a result, considerable variability and uncertainty is inherent in such estimates and the adequacy of such estimates is highly sensitive to changes in assumed completion factors and assumed health care cost trends. At each reporting date, the Company recognizes the actuarial best estimate of the ultimate liability considering the potential volatility in these factors. While the Company believes the accrual for medical expenses is adequate, actual claim payments could materially differ from such estimates. The Company recognizes any change in estimates in medical expenses in the period in which the change is identified.

The Company establishes reserves, if required, for the probability that future healthcare and contractual maintenance costs will exceed anticipated future premiums and reinsurance recoveries on those contracts. The premium deficiency reserves are reviewed periodically and any change in estimate is recognized in the period in which it is identified. Anticipated investment income is not utilized in the calculation of such premium deficiency reserves. A premium deficiency reserve was recorded as of December 31, 2020 and 2019 as the contracted premium rates in effect through December 31, 2021 and 2020, respectively, were determined to be insufficient to provide for estimated medical and administrative expenses related to such periods. A premium deficiency reserve of $5,461 and $16,000 as of December 31, 2020 and 2019, respectively, is included within Accrued medical expenses on the accompanying Consolidated Balance Sheets. A premium deficiency reserve (decrease) increase of ($10,539) and $12,900 for the years ended December 31, 2020 and 2019, respectively, is included within Medical expenses on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

***Premium Assessments***

MCOs domiciled in Pennsylvania, Louisiana, New Hampshire, Michigan and the District of Columbia are assessed a state tax on the premium revenues received from the respective state agencies. The premium revenues paid to the MCOs are increased to account for the cost of the tax.

***Health Insurer Fee***

ASC 720-50, *Other Expenses – Fees Paid to the Federal Government by Pharmaceutical and Health Insurers*, provides guidance for the recognition and classification of an entity's share of the annual health

insurance industry assessment mandated by the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (as amended, collectively, referred to as the ACA). The assessment is levied on health insurers for each calendar year and is not deductible for income tax purposes. The Company estimates and records the liability for the assessment in full once it provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method.

The Company recognized premium revenue from the respective state agencies in the amount of $137,730 for the year ended December 31, 2020 as reimbursement for the assessment and associated tax effects. Expenses incurred related to the assessment amounted to $105,847 for the year ended December 31, 2020. The Consolidated Appropriations Act of 2018 suspended collection of the annual health insurance fee only for the 2019 calendar year. Accordingly, no premium revenue or expenses related to the assessment and associated tax effects were recognized for the year ended December 31, 2019.

The Further Consolidated Appropriations Act of 2020 repealed the collection of the annual health insurance fee for the 2021 calendar year and thereafter. Thus premiums written during the year ended December 31, 2020 were not subject to this assessment and effective January 1, 2021, the Company will not recognize any premium revenue or expenses related to this assessment.

***Income Taxes***

Effective January 1, 2019, BMH made an election with the Internal Revenue Service (IRS) to be classified as an association taxable as a corporation. As a result of such election, the Company is included in the consolidated federal income tax returns of BMH, which includes the aggregate taxable income or loss of BMH and its subsidiaries (the consolidated federal tax group). Certain subsidiaries of the Company are C Corporations of their respective states and are also subject to state income tax.

The Company is a member of a tax allocation agreement that specifies the manner in which the consolidated federal tax group shares the consolidated federal tax liability and also how certain tax attributes are to be treated among members of the consolidated federal tax group. Federal tax expenses are allocated to the Company under the “modified separate-return approach” (or “benefits for loss” method). Pursuant to this method, the Company is assumed to file a separate return with the taxing authority, thereby reporting its taxable income or loss and paying the applicable tax or receiving the appropriate refund as if the Company was a separate taxpayer, except that net operating losses (or other current or deferred tax attributes) are characterized as realized (or realizable) by the Company when those tax attributes are realized (or realizable) by the consolidated federal tax group regardless of whether the Company would not otherwise have realized the attributes on a stand-alone basis.

Income taxes are accounted for under the asset and liability method in accordance with ASC 740, *Income Taxes*. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

Deferred tax assets are required to be reduced by a valuation allowance when it is more likely than not that all or a portion of the deferred tax assets will not be realized. At each balance sheet date, BMH re-evaluates the consolidated federal tax group's deferred tax assets and assesses the need for a valuation allowance. Such assessment considers all available evidence, both positive and negative, with greater merit placed on evidence that is objectively verifiable. This requires management to exercise judgment and make assumptions regarding whether the consolidated federal tax group's deferred tax assets will be realized in future periods. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

The Company's policy is to account for interest on tax liabilities as interest expense, a component of Other expenses, and to account for tax penalties as a component of General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

***Contingencies***

The Company accrues for loss contingencies associated with outstanding litigation, claims and assessments for which it has determined it is probable that a loss contingency exists and the amount of loss can be reasonably estimated. The Company expenses professional fees associated with litigation, claims and assessments as incurred as a component of General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

***Regulation***

Certain subsidiaries of the Company are regulated by their respective Department of Insurance (DOI) and prepare their statutory financial statements in accordance with accounting principles and practices prescribed and permitted by the respective states. Prescribed statutory accounting practices include state laws, regulations, general administrative rules, as well as the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual* and a variety of other NAIC publications.

Among other rules and regulations, such subsidiaries are required to maintain statutory surplus in excess of: (i) a minimum surplus level as defined by each respective agency and (ii) a minimum risk-based capital (RBC) ratio. Certain states also require entities to maintain regulatory deposits. The Company's regulated subsidiaries were in compliance with the requirements of their respective DOI as of December 31, 2020 and 2019. The Company's ability to pay dividends is dependent, among other factors, on its ability to collect cash dividends from its subsidiaries. The Company's regulated subsidiaries are subject to restriction on amounts of dividends and other distributions that may be paid to their equity holders without prior approval of the applicable state insurance departments.

The Company's ability to pay dividends is dependent, among other factors, on its ability to collect cash dividends from its subsidiaries. The Company's regulated subsidiaries are subject to restriction on amounts of dividends and other distributions that may be paid to their equity holders without prior approval of the applicable state insurance departments. As of December 31, 2020, the amount of capital and surplus that was available for the payment of dividends or return of capital was $37,361.

| | 2020 | 2019 |
|---|---|---|
| Minimum aggregate capital and surplus required by state agencies | $ 247,703 | $ 287,505 |
| Aggregate statutory capital and surplus | 513,105 | 459,151 |

Vista Health Plan, Inc. (Vista), an indirect wholly owned subsidiary of IHG as further discussed in Note 12, must maintain statutory surplus in excess of: (i) the minimum surplus level required by the respective contracts with the Commonwealth of Pennsylvania Department of Human Services (DHS) and (ii) a RBC ratio of at least 300%. Such requirements are designed to reflect the risk profile of Vista and are based on the combined results of ACHP and Keystone Family Health Plan (KFHP), an affiliate of the Company through common ownership. Vista was in compliance with these requirements as of December 31, 2020 and 2019. Vista has the option to require ACHP to maintain a minimum equity level based on a percentage of ACHP's premium revenues.

***Recently Adopted Accounting Guidance***

*Leases*

Effective January 1, 2020, the Company adopted ASU No. 2016-02, which, as amended, supersedes ASC 840. The amendments in this Update require recognition of ROU assets and lease liabilities by lessees for leases previously classified as operating leases under ASC 840. The accounting applied by a lessor remains largely unchanged under this Update. The amendments in this Update are effective for nonpublic business entities that have not yet adopted ASC 842 for fiscal years beginning after December 15, 2021; however, the Company elected to early adopt this Update effective January 1, 2020 using the modified retrospective transition method.

As part of the Company's adoption of ASU No. 2016-02, the Company elected the practical expedient package that, for expired or existing contracts, allowed the Company to carry forward the assessment of: 1) whether those contracts contained leases, 2) the lease classifications, and 3) whether previously capitalized costs continue to qualify as initial direct costs. In addition, the Company elected the practical expedients that allow the carryforward of historical lease classification, the combination of lease and non-lease components, and the use of risk-free discount rates in the measurement of its lease liabilities.

As of the January 1, 2020 adoption date (the ASC 842 adoption date), the Company did not have any finance leases or any leases for which it was the lessor. Upon adoption, the Company recognized $48,308 of operating lease ROU assets and operating lease liabilities on its Consolidated Balance Sheet, of which $10,204 was classified as current liabilities, and is included within Accounts payable and accrued expenses. While the adoption of this Update materially affected the Company's Consolidated Balance Sheet as of the ASC 842 adoption date by requiring the recognition of operating leasing arrangements previously considered off-balance sheet arrangements per ASC 840, the adoption of this Update had no impact on the Company's retained earnings, results of operations or liquidity on the ASC 842 adoption date.

*Receivables – Nonrefundable Fees and Other Costs*

Effective January 1, 2020, the Company adopted ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The amendments in this Update require the premium on callable debt securities to be amortized to the earliest

call date. The amortization period for callable debt securities purchased at a discount is not impacted by the provisions of this Update. The adoption of this Update did not have a material impact on the Company's financial position, results of operations or liquidity.

*Financial Instruments*

Effective January 1, 2019, the Company adopted ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This Update, as amended, requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in earnings. Additionally, the provisions of this Update allow the reporting entity to account for investments without readily determinable fair values at cost and revise certain disclosures regarding financial assets and liabilities. The adoption of this guidance resulted in an adjustment to Accumulated deficit in the amount of ($643) as of the January 1, 2019 adoption date and materially impacted earnings post-adoption due to market fluctuations related to the Company's equity portfolio.

***Recently Issued Accounting Guidance***

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This Update, as amended, requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected and to recognize credit losses relating to available-for-sale debt securities through an allowance for credit losses. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the impact of this Update on its financial instruments. The adoption of this Update could have a material impact on the Company's financial position and results of operations in future periods.

In August 2018, the FASB issued ASU No. 2018-15*, Intangibles—Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* The amendments in this Update require capitalization of implementation costs incurred in a hosting arrangement that is a service contract. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the impact this Update will have on its financial position, results of operations and liquidity.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact this Update will have on its financial position, results of operations and liquidity.

On July 27, 2017, the Financial Conduct Authority, responsible for regulating the London Interbank Offered Rate (LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, announced replacement of U.S. dollar LIBOR with a new index calculated by short-term repurchase agreements, backed by U.S. Treasury securities, called the Secured Overnight Financing Rate. In March 2020, the FASB issued ASU

No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by a change in the reference rate from LIBOR, if certain conditions are met. This Update is effective immediately and expires after December 31, 2022. The Company is currently evaluating the impact these Updates will have on its contracts, but does not expect these Updates will have an impact on its financial position, results of operations or liquidity.

In December 2020, the FASB issued ASU No. 2020-08, *Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs,* which clarifies the guidance in ASU No. 2017-08, discussed above, by stating an entity should reevaluate whether a callable debt security is within the scope of ASC 310-20 for each reporting period. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2021. Early adoption is permitted for fiscal years beginning after December 15, 2020. The Company does not currently expect this Update will have a material impact on its financial position, results of operations or liquidity.

***Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications have no effect on net income (loss) or partners' equity as previously reported.

## (3) Significant Risks and Uncertainties

Premium revenues and associated contractual expiration dates for each state that exceeded 10% of the Company's total premium revenues for the years ended December 31, 2020 and/or 2019 are as follows:

| | | % of Premium Revenues | |
|---|---|---|---|
| **State** | **Expiration Date** | **2020** | **2019** |
| Pennsylvania | Various dates from December 31, 2021 to December 31, 2022 | 42.5% | 31.9% |
| South Carolina | June 30, 2021 | 18.0 | 22.5 |
| Louisiana | December 31, 2021 | 15.9 | 18.8 |
| Delaware | December 31, 2021 | 9.7 | 10.6 |

The Company's contracts with the respective state agencies and CMS to provide Medicaid and Medicare managed care services to eligible recipients expire at various dates through June 30, 2024. Certain contracts include additional renewal options. These agreements are subject to earlier termination by the respective agencies on certain conditions. While management will attempt to reach agreement for new contracts with the respective agencies, there can be no assurance that such agreements can be reached. The discontinuation of involvement with certain agencies could have a material adverse effect on the future operations of the Company.

The enactment of the ACA in March 2010 transformed the U.S. healthcare delivery system through a series of complex initiatives; however, the implementation of the ACA continues to face certain judicial and political challenges, both at the federal and state levels of the U.S. government, to repeal or change certain of its significant provisions. Changes to, or repeal of, portions or the entirety of the ACA, as well as judicial

interpretations in response to legal and other constitutional challenges, could materially and adversely affect the Company's results of operations, financial position or liquidity.

In March 2020, the World Health Organization identified the spread of a new strain of the coronavirus, COVID-19, as a pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen that could have a material impact on the Company's financial condition, results of operations and cash flows. The extent of the impact of the COVID-19 pandemic on the Company's consolidated financial statements will depend on future developments, which are highly uncertain and cannot be predicted at this time. Factors that may determine the severity of the impact include the duration and spread of the outbreak, the extent and effectiveness of the actions taken to contain the spread of the virus and address its impacts, the costs of prevention and treatment of the Company's members, and how quickly and to what extent normal economic and operating conditions can resume.

## (4) Investments

Total investments are comprised of the following as of December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Mutual funds | $ 41,124 | $ 32,344 |
| Debt securities | 315,993 | 346,890 |
| Investments | $ 357,117 | $ 379,234 |

Debt securities consist of the following as of December 31, 2020 and 2019:

| December 31, 2020 | Cost/ amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | $ 38,810 | $ 1,468 | $ (8) | $ 40,270 |
| Corporate debt securities | 241,502 | 5,746 | (22) | 247,226 |
| Mortgage-backed securities | 27,725 | 782 | (10) | 28,497 |
| Total investments | $ 308,037 | $ 7,996 | $ (40) | $ 315,993 |

| December 31, 2019 | Cost/ amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | $ 31,034 | $ 482 | $ (19) | $ 31,497 |
| Corporate debt securities | 288,736 | 2,929 | (54) | 291,611 |
| Mortgage-backed securities | 23,361 | 433 | (12) | 23,782 |
| Total investments | $ 343,131 | $ 3,844 | $ (85) | $ 346,890 |

Contractual maturities of debt securities classified as available-for-sale were as follows as of December 31, 2020:

| | Cost/ amortized cost | Fair value |
|---|---|---|
| Due within one year | $ 168,776 | $ 168,815 |
| Due after one year through five years | 76,979 | 79,806 |
| Due after five years through ten years | 19,384 | 21,066 |
| Due after ten years | 15,173 | 17,809 |
| | 280,312 | 287,496 |
| Mortgage-backed securities | 27,725 | 28,497 |
| Total debt securities | $ 308,037 | $ 315,993 |

Proceeds from the sale of investment securities and the related gross realized gains and losses for the years ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Proceeds on sales | $ 230,976 | $ 324,006 |
| Gross realized gains | 4,838 | 4,668 |
| Gross realized losses | (376) | (610) |

The Company recognized $6,548 and $5,078 in net gains on equity securities held as of December 31, 2020 and 2019, respectively, for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the estimated fair value and unrealized losses for securities in a temporary unrealized loss position are as follows:

| | Less than 12 months | | | 12 months or longer | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| December 31, 2020 | Number of lots | Fair value | Unrealized losses | Number of lots | Fair value | Unrealized losses | Number of lots | Fair value | Unrealized losses |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 6 | $ 1,050 | $ (8) | — | $ — | $ — | 6 | $ 1,050 | $ (8) |
| Corporate debt securities | 6 | 4,666 | (18) | 3 | 1,747 | (4) | 9 | 6,413 | (22) |
| Mortgage-backed securities | 2 | 1,598 | (9) | 1 | 21 | (1) | 3 | 1,619 | (10) |
| Total temporarily impaired securities | 14 | $ 7,314 | $ (35) | 4 | $ 1,768 | $ (5) | 18 | $ 9,082 | $ (40) |

| | Less than 12 months | | | 12 months or longer | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| December 31, 2019 | Number of lots | Fair value | Unrealized losses | Number of lots | Fair value | Unrealized losses | Number of lots | Fair value | Unrealized losses |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 8 | $ 4,044 | $ (18) | 1 | $ 1,239 | $ (1) | 9 | $ 5,283 | $ (19) |
| Corporate debt securities | 49 | 62,021 | (54) | — | — | — | 49 | 62,021 | (54) |
| Mortgage-backed securities | 4 | 2,445 | (11) | 1 | 150 | (1) | 5 | 2,595 | (12) |
| Total temporarily impaired securities | 61 | $ 68,510 | $ (83) | 2 | $ 1,389 | $ (2) | 63 | $ 69,899 | $ (85) |

The unrealized losses on debt security investments were primarily due to a widening of credit spreads rather than a decline in credit quality. The Company believes, based on its analysis, that the securities in an unrealized loss position are not other-than-temporarily impaired. However, depending on developments involving both the issuers and overall economic conditions, these investments may be impaired in the future.

In order to meet statutory and contractual requirements, the Company maintains restricted investments in the amount of $3,796 and $2,792 as of December 31, 2020 and 2019, respectively, which are included in Other long-term assets on the accompanying Consolidated Balance Sheets.

## (5) Fair Value Measurements

Certain assets and liabilities are measured at fair value on the accompanying Consolidated Balance Sheets, such as the Company's investment securities, together with goodwill and other intangible assets recognized through business combinations. The fair values are based on valuations that include inputs that can be classified within one of three levels of a hierarchy established by GAAP. The levels of the hierarchy and related inputs for each level are as follows:

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

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

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in markets that are not active;
- Inputs other than quoted prices that are observable for the asset/liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

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

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

When available, the Company uses quoted values and other data as inputs to determine the fair values of its investments and classifies these assets and liabilities in Level 1. For securities not actively traded, fair value

is estimated using valuation methodologies based on available and observable market information or matrix pricing. These financial assets and liabilities are classified as Level 2.

Securities with fixed maturities other than U.S. Treasury securities generally do not trade in an active market. The fair value estimates of such debt security investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such debt security investments are included in the amount disclosed as Level 2 of the hierarchy. The estimated fair values of U.S. Treasury securities are included in the amount disclosed as Level 1 as the estimates are based on unadjusted market prices.

The Company's equity securities and mutual funds trade on a major exchange in an active market. Accordingly, such investments are disclosed as Level 1.

***Recurring Fair Value Measurements***

The Company's investment securities are measured at fair value on a recurring basis. The following is a summary of the fair value measurements of the Company's investments by level within the fair value hierarchy as of December 31, 2020 and 2019:

| December 31, 2020 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Mutual funds | $ 41,124 | $ — | $ — | $ 41,124 |
| Debt securities: | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 22,544 | 17,726 | — | 40,270 |
| Corporate debt securities | — | 247,226 | — | 247,226 |
| Mortgage-backed securities | — | 28,497 | — | 28,497 |
| Total investments | $ 63,668 | $ 293,449 | $ — | $ 357,117 |

| December 31, 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Mutual funds | $ 32,344 | $ — | $ — | $ 32,344 |
| Debt securities: | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 19,101 | 12,396 | — | 31,497 |
| Corporate debt securities | — | 291,611 | — | 291,611 |
| Mortgage-backed securities | — | 23,782 | — | 23,782 |
| Total investments | $ 51,445 | $ 327,789 | $ — | $ 379,234 |

The fair value of the Company's other financial instruments, principally cash and cash equivalents, receivables, other current assets and payables approximate their carrying values as of December 31, 2020 and 2019 because of the short maturity of such items.

***Nonrecurring Fair Value Measurements***

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. The net assets acquired, the resulting goodwill, and other intangible assets recognized through business combinations were recorded at fair value using Level 3 inputs as of the acquisition date.

## (6) Investment in Nonconsolidated Joint Venture

Blue Cross Complete of Michigan LLC (BCC) is a joint venture formed by the Company and Michigan Medicaid Holdings (MMH), a direct wholly owned subsidiary of BCBSM, each holding a 50% ownership interest. BCC provides Medicaid services to eligible recipients in the State of Michigan.

BCC's summary balance sheets as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Current assets | $ 376,036 | $ 304,944 |
| Other noncurrent assets | 5,684 | 7,170 |
| Total assets | $ 381,720 | $ 312,114 |
| Total liabilities | $ 240,572 | $ 182,387 |
| Total equity, including accumulated other comprehensive income of $3 and $43 as of December 31, 2020 and 2019, respectively | 141,148 | 129,727 |
| Liabilities and equity | $ 381,720 | $ 312,114 |

Summary statements of operations for BCC for the years ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Premium revenues | $ 1,260,041 | $ 1,146,190 |
| Income from operations | 16,746 | 20,501 |
| Net income | 11,461 | 19,935 |
| Net income attributable to equity method investee | 11,461 | 19,935 |
| Net income attributable to ACHP and Subsidiaries | 5,731 | 9,968 |

A reconciliation of income tax at the statutory federal rate to income tax at the effective rate related to BCC for the years ended December 31, 2020 and 2019 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Income tax expense at the statutory federal rate | $ 3,919 | $ 5,300 |
| Adjustments to income taxes resulting from: | | |
| Nondeductible health insurer fee | 3,280 | — |
| Nondeductible expenses and other | 2 | 3 |
| Income tax expense | $ 7,201 | $ 5,303 |

## (7) Property and Equipment

Property and equipment, net consist of the following as of December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Land | $ 1,234 | $ 1,234 |
| Building | 10,626 | 10,626 |
| Equipment | 2,904 | 3,140 |
| Software | 3,966 | 3,709 |
| Furniture and fixtures | 8,232 | 7,474 |
| Leasehold improvements | 13,692 | 10,695 |
| Property and equipment, at cost | 40,654 | 36,878 |
| Less accumulated depreciation and amortization | 20,966 | 17,973 |
| Property and equipment, net | $ 19,688 | $ 18,905 |

Depreciation and software amortization expense are computed using the straight line method over the estimated useful lives of the assets, which range from three to thirty-nine years. Land is not depreciated. Depreciation and software amortization expense charged to operations was $3,477 and $2,777 for the years ended December 31, 2020 and 2019, respectively and is included within General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

## (8) Goodwill and Intangible Assets

Goodwill is related to the revaluation of the Company associated with a series of transactions occurring on November 30, 2011, through which a change in control of the Company resulted, as well as the acquisition of Florida True Health, Inc. on December 31, 2018. Intangible assets are primarily related to these same events; however, provider networks, contracts, and trade names were also acquired through other business combinations.

### *Goodwill*

There was no change in the carrying amount of goodwill for the years ended December 31, 2020 or 2019.

### *Intangible assets, net*

As of December 31, 2020 and 2019, intangible assets, net and the related weighted average amortization periods (in years) are as follows:

| December 31, 2020 | Weighted average amortization period | Gross carrying value | Accumulated amortization | Net carrying value |
|---|---|---|---|---|
| Intangible assets subject to amortization: | | | | |
| Membership | 7.0 | $ 7,840 | $ (7,840) | $ — |
| Provider networks | 9.5 | 12,970 | (9,763) | 3,207 |
| Licenses | 10.0 | 263 | (238) | 25 |
| Contracts | 9.0 | 7,571 | (5,577) | 1,994 |
| Customer relationships | 9.0 | 18,000 | (18,000) | — |
| Trade name | 1.0 | 4,300 | (4,300) | — |
| Intangible assets not subject to amortization: | | | | |
| Trade names | — | 25,030 | — | 25,030 |
| Intangible assets, net | | $ 75,974 | $ (45,718) | $ 30,256 |

| December 31, 2019 | Weighted average amortization period | Gross carrying value | Accumulated amortization | Net carrying value |
|---|---|---|---|---|
| Intangible assets subject to amortization | | | | |
| Membership | 4.7 | $ 22,970 | $ (22,597) | $ 373 |
| Provider networks | 9.5 | 12,970 | (8,340) | 4,630 |
| Licenses | 10.0 | 263 | (212) | 51 |
| Contracts | 7.4 | 11,931 | (9,010) | 2,921 |
| Customer relationships | 9.0 | 18,000 | (16,167) | 1,833 |
| Trade names | 20.0 | 9,100 | (455) | 8,645 |
| Intangible assets not subject to amortization: | | | | |
| Trade names | — | 29,330 | — | 29,330 |
| Intangible assets, net | | $ 104,564 | $ (56,781) | $ 47,783 |

Amortization expense is recognized using the straight-line method over the estimated useful lives of the assets. Amortization expense relating to intangible assets charged to operations was $9,337 and $5,950 for the years ended December 31, 2020 and 2019, respectively, and is included within General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

During the year ended December 31, 2020, the Company elected to rebrand one of its subsidiaries effective January 1, 2021. The trade name associated with this subsidiary was recognized upon acquisition and assigned an indefinite useful life at acquisition. Upon the Company's rebranding election, this trade name, with a gross carrying value of $4,300, was assigned a useful life ending December 31, 2020 and fully amortized as of December 31, 2020.

During the year ended December 31, 2020, the Company recognized an impairment loss of $8,190 due to the full impairment of a certain trade name. The impairment loss is included in General and Administrative on the accompanying 2020 Consolidated Statement of Operations and Comprehensive Income (Loss).

Estimated amortization expense relating to intangible assets for the succeeding five years is as follows:

| | |
|---|---|
| 2021 | $ 2,249 |
| 2022 | 1,330 |
| 2023 | 1,034 |
| 2024 | 384 |
| 2025 | 229 |

## (9) Accrued Medical Expenses

Activity in accrued medical expenses is summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance, beginning of year | $ 781,294 | $ 724,985 |
| Premium deficiency reserves | (16,000) | (3,100) |
| Incurred related to: | | |
| Current year | 7,088,174 | 5,616,682 |
| Prior year | (104,743) | (65,703) |
| Total incurred | 6,983,431 | 5,550,979 |
| Paid related to: | | |
| Current year | 6,009,762 | 4,857,889 |
| Prior year | 580,131 | 649,681 |
| Total paid | 6,589,893 | 5,507,570 |
| Premium deficiency reserves | 5,461 | 16,000 |
| Balance, end of year | $ 1,164,293 | $ 781,294 |

Reserves for incurred claims attributable to insured events of prior periods decreased by $104,741 from $765,294 in 2019 to $660,553 in 2020 and by $65,703 from $721,885 in 2018 to $656,182 in 2019. Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions as well as changes in utilization and loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. Due to the Company's contractual risk-sharing arrangements discussed in Note 2, the above changes in estimates resulted in a (decrease) increase to premium revenues of ($13,359) and $8,107 for the years ended December 31, 2020 and 2019, respectively.

Accrued medical expenses include IBNR plus expected development on reported claims of $876,014 and $488,079 as of December 31, 2020 and 2019, respectively. Substantially all of the IBNR plus expected

development on reported claims as of December 31, 2020 and 2019 relates to the respective year as substantially all claims are paid within one year of their incurred date.

The following is a summary of incurred and paid claims development information as of December 31, 2020:

| | Incurred Claims, Net of Reinsurance For the Years ended December 31, | |
|---|---|---|
| **Date of Service** | **2019** | **2020** |
| | (Unaudited) | |
| 2019 | $ 5,618,870 | $ 5,515,586 |
| 2020 | | 7,088,174 |
| Total incurred | | $ 12,603,760 |

| | Cumulative Paid Claims, Net of Reinsurance For the Years ended December 31, | |
|---|---|---|
| **Date of Service** | **2019** | **2020** |
| | (Unaudited) | |
| 2019 | 4,857,838 | $ 5,439,425 |
| 2020 | | 6,009,762 |
| Total paid | | $ 11,449,187 |
| Net remaining outstanding liabilities prior to 2019 | | 4,259 |
| Premium deficiency reserves | | 5,461 |
| Accrued medical expenses | | $ 1,164,293 |

There is no single or common claims frequency metric used in the health care industry. The Company believes a relevant metric is the number of fully insured members for whom a medical claim was paid. This metric is expected to be consistent and comparable over time. The cumulative number of fully insured members for whom a medical claim was paid was 1,286,003 and 1,290,457 for the years ended December 31, 2020 and 2019, respectively. Claims that did not result in a liability are excluded from the frequency metric.

## (10) Reinsurance

Certain subsidiaries of the Company maintain stop-loss reinsurance coverage for medical expenses with commercial insurance carriers to reduce the risk of catastrophic loss and facilitate the acquisition of certain insurance contracts. Under such reinsurance agreements, the Company is reimbursed up to a certain percentage of the covered services on a per member per contract period basis, with a maximum reinsurance recovery per contract period. The Company recognizes reinsurance recoveries when eligible claims are incurred and submitted for reimbursement. The reinsurance coverage does not relieve the Company of its primary obligation to the plan members. Reinsurance recoverables were $1,550 and $223 as of December 31, 2020 and 2019, respectively.

Direct and ceded premiums earned for the years ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Direct | $ 8,192,293 | $ 6,128,210 |
| Ceded | (4,216) | (2,101) |
| Premium | $ 8,188,077 | $ 6,126,109 |

The impact of reinsurance on medical expenses for the years ended December 31, 2020 and 2019 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Direct | $ 6,979,780 | $ 5,564,397 |
| Ceded | (6,888) | (518) |
| Medical expenses | $ 6,972,892 | $ 5,563,879 |

## (11) Income Taxes

The components of income tax (benefit) expense for the years ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Current: | | |
| Federal | $ (17,007) | $ 2,675 |
| State | 14,509 | 2,045 |
| Total current | (2,498) | 4,720 |
| Deferred: | | |
| Federal | (687) | 6,241 |
| State | (173) | (1,534) |
| Total deferred | (860) | 4,707 |
| Income tax (benefit) expense | $ (3,358) | $ 9,427 |

A reconciliation of income tax at the statutory federal rate to income tax at the effective rate for the years ended December 31, 2020 and 2019 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Income tax expense (benefit) at the statutory federal rate | $ 28,615 | $ (30,329) |
| Less partnership and disregarded entities | (1,203) | (2,093) |
| Adjustment to income taxes resulting from: | | |
| State and local income tax, net of federal tax benefits | 16,944 | 342 |
| Nondeductible health insurer fee | 15,996 | — |
| Effect of change in tax status (Note 2) | — | 214 |
| Effect of change in tax accounting methods (discussed herein) | (13,883) | — |
| Change in valuation allowance | (50,297) | 41,121 |
| Nondeductible expenses and other | 470 | 172 |
| Income tax (benefit) expense | $ (3,358) | $ 9,427 |

Components of deferred income taxes as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 122,734 | $ 157,939 |
| Estimated claims incurred but not reported | 8,510 | 4,172 |
| Premium deficiency reserves | — | 2,910 |
| Acquisition and start-up costs | 3,092 | 17,653 |
| Prepaid expenses | 587 | — |
| Other | 2,958 | 2,758 |
| Gross deferred tax assets | 137,881 | 185,432 |
| Valuation allowance | (112,700) | (162,997) |
| Gross deferred tax assets after valuation allowance | 25,181 | 22,435 |
| Deferred tax liabilities: | | |
| Intangible assets | 4,455 | 9,645 |
| Deferred gain on business combination | 7,216 | 7,216 |
| Premium deficiency reserves | 4,006 | — |
| Unrealized investment gains recognized in other comprehensive income | 1,780 | 920 |
| Unrealized gains on equity securities | 2,900 | 1,267 |
| Other | 4,824 | 3,387 |
| Gross deferred tax liabilities | 25,181 | 22,435 |
| Net deferred tax assets | $ — | $ — |

In response to the significant operational challenges and liquidity issues that businesses are facing as a result of the COVID-19 Pandemic, on March 25, 2020, The Coronavirus Aid, Relief, and Economic Security (the CARES) Act was signed into law. The CARES Act provides tax relief measures for businesses by temporarily reversing or modifying changes to the tax law made previously by the Tax Cuts and Jobs Act of 2017, including the provision of a five-year net operating loss (NOL) carryback and the ability to amend tax returns to carry back NOLs to fully offset taxable income. This carryback provision allows taxpayers with NOLs to apply losses generated in 21% rate tax years to potentially offset taxable income in 35% rate tax years. To avail itself of the NOL tax relief measures of the CARES Act, BMH filed Form 3115 with the IRS in order to change the following tax accounting methods used in the determination of the consolidated federal tax group's taxable income:

- ***Prepaid expenses***: Prepaid expenses will no longer be amortized over the period of expected benefit, but will be expensed at the time the expenses are due and paid, as "all events" and economic performance have occurred.

- ***Software:*** Costs attributable to various software assets, including but not limited to internally developed software, will continue to depreciate as 3-year property under the appropriate 36-month recovery period for applicable tax years. However, the Company will revoke the previous election to not claim additional first-year depreciation and claim any missed bonus depreciation for the taxable year ended December 31, 2018.

- ***Start-Up costs***: All costs attributable to the launch of businesses will no longer be treated as capital expenditures recoverable through amortization. The Company will continue to capitalize and amortize costs incurred prior to the commencement of the business, but will treat costs incurred after the commencement of the business as current period expenses.

- ***QLHI /QIP***: Eligible leasehold expenditures for assets placed into service after October 23, 2004 and before January 1, 2018, will no longer be depreciated over a 39-year recovery period, but will be depreciated over a 15-year recovery period as Qualified Leasehold Improvements (QLHI). In addition, eligible expenditures for owned or leased improvements for assets placed into service after December 31, 2017 will be depreciated over a 15-year recovery period as Qualified Improvement Property (QIP).

In accordance with ASC 740, the tax effects to the Company resulting from BMH's revaluation of the consolidated federal tax group's deferred tax assets in connection with the CARES Act have been accounted for in the fiscal year ended 2020, the reporting period of the enactment of the CARES Act, as a component of Income tax (benefit) expense on the accompanying Consolidated Statement of Operations and Comprehensive Income (Loss).

The Company recorded a valuation allowance of $112,700 and $162,997 as of December 31, 2020 and 2019, respectively, as a result of BMH's assessment of the realizability of the consolidated federal tax group's deferred tax assets. The reduction in the valuation allowance as of December 31, 2020 was primarily driven by BMH's ability to apply the NOL tax relief measures within the CARES Act as discussed above. The amount of the valuation allowance recorded could be subsequently adjusted if estimates of future taxable income during the carryforward periods are decreased or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as

projections for growth. If in subsequent periods, BMH determines it is more likely than not that all or a portion of the consolidated federal tax group's deferred tax assets will be realized through future taxable income, the tax benefits related to the valuation allowance being reversed will be accounted for as a reduction of income tax expense in the period in which BMH made such determination.

The Company has federal and state tax NOL carryforwards, which will expire as follows:

| Year of Expiration | Federal NOL Carryforwards | State NOL Carryforwards |
|---|---|---|
| 2033 | $ 9,549 | $ 9,549 |
| 2034 | 16,950 | 16,950 |
| 2035 | 101,047 | 93,973 |
| 2036 | 225,826 | 5,597 |
| 2037 | 150,355 | 39 |
| 2038 | 44,758 | 44,737 |
| 2039 | 88 | 35,668 |
| | $ 548,573 | $ 206,513 |

$496,033 of the above-mentioned $548,573 NOL carryforwards were incurred prior to the inclusion of certain subsidiaries in the tax allocation agreement discussed in Note 2. These NOL carryforwards have a full valuation allowance recorded against them, net of any DTLs on these entities, which can only be reversed by future taxable income generated by the respective subsidiary. $52,540 of the above-mentioned NOL carryforwards are available to offset future federal taxable income of the Company, if any, through 2039.

Federal tax years 2017 through 2020 are open for examination as of December 31, 2020.

## (12) Transactions with Affiliates

AmeriHealth Caritas Services, LLC (ACS), an affiliate under common ownership, performs on behalf of the Company the administrative portion of certain services, such as claims processing, enrollment services, utilization management, finance, and information systems. Costs incurred related to these administrative services were $459,736 and $347,618 for the years ended December 31, 2020 and 2019, respectively, and are included in General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company maintains a Staffing Services Agreement (Agreement) with ACS for an initial term of five years with an automatic annual renewal thereafter unless terminated by either party pursuant to the Agreement. In connection with the Agreement, ACS furnishes to the Company employees necessary to carry out the business operations of the Company. Costs incurred related to the compensation and benefits for the assigned employees amounted to $276,107 and $236,347 for the years ended December 31, 2020 and 2019, respectively, and are included in General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company provides PBM services and supplies specialty pharmacy drugs to KFHP under a PBM agreement. Revenue recognized for such services and sales amounted to $152,938 and $143,384 for the years

ended December 31, 2020 and 2019, respectively, and is included in both Management services and Pharmacy sales on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss). Pharmacy rebates billed and collected on behalf of KFHP's members by the Company are remitted to KFHP on a quarterly basis.

The Company provides PBM services and supplies specialty pharmacy drugs to certain subsidiaries of IHG. Revenue recognized for such sales and services amounted to $14,564 and $10,434 for the years ended December 31, 2020 and 2019, respectively, and is included in Pharmacy sales on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company provides PBM services and supplies specialty pharmacy drugs to BCC. Revenue recognized for such services and sales amounted to $54,869 and $43,259 for the years ended December 31, 2020 and 2019, respectively, and is included in both Management services and Pharmacy sales on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

In the ordinary course of business, KFHP, ACS, and the Company advance monies to each other depending on specific cash needs pursuant to a revolving intercompany loan agreement. Amounts are payable on demand. The interest rate on funds advanced equals 130% of the short-term Applicable Federal Rate published by the U.S. Internal Revenue Service for the month in which the loan was made (0.20% and 2.07% as of December 31, 2020 and 2019, respectively). As of December 31, 2020 and 2019, $32,000 was included in Due to affiliates related to advances to the Company under this agreement. Interest income relating to such advances totaled $207 and $519 for the years ended December 31, 2020 and 2019, respectively, and is included in Investment income on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss). Interest expense relating to such advances totaled $241 and $815 for the years ended December 31, 2020 and 2019, respectively, and is included in Other expenses on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss). As of December 31, 2020 and 2019, accrued interest on loans from affiliates was $5 and $57, respectively.

As discussed in Note 2, the Company is a party to an affiliated tax allocation agreement. BMH delegates certain functions under this agreement to ACS, including the administration of federal and state income tax payments on behalf of the downstream consolidated group.

The Company received capital contributions in the amount of $155,000 and $86,000 for the years ended December 31, 2020 and 2019, respectively. The Company distributed $0 and $62,167 for the years ended December 31, 2020 and 2019, respectively.

Vista maintains the risk-based contracts with DHS to provide prepaid managed care to Medicaid enrollees in certain regions of Pennsylvania. Vista also maintains the risk-based contract with CMS to provide prepaid healthcare services, including Medicare prescription drug coverage, to eligible Medicare enrollees in the State of Pennsylvania. Vista subcontracts to the Company the provision of such Medicaid and Medicare services under contracts with DHS and CMS through Integrated Delivery System Agreements, whereby the Company assumes risk and financial liability and responsibility with Vista for the provision of such services to eligible members.

Vista receives the member premium payments from DHS and CMS and remits such premiums to the Company. For the years ended December 31, 2020 and 2019, the Company recorded premiums of $3,482,502 and $1,954,632, respectively, earned under the subcontracts with Vista. Costs incurred related to

administrative services provided by Vista amounted to $215 and $1,446 for the years ended December 31, 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, Vista charged to the Company expenses in the amount of $12,057 and $0, respectively, related to the health insurer fee premium reimbursement discussed in Note 2. Costs incurred from Vista are included in General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

As of December 31, 2020 and 2019, the Company had the following amounts due from/to affiliates:

| Due from affiliates | 2020 | 2019 |
|---|---|---|
| IHG and Subsidiaries | $ 1,360 | $ 989 |

| Due to affiliates | 2020 | 2019 |
|---|---|---|
| ACS | $ 93,258 | $ 53,676 |
| KFHP | 28,585 | 39,566 |
| BCC | 585 | 982 |
| | $ 122,428 | $ 94,224 |

## (13) Line of Credit

The Company, KFHP, ACS and BMH (individually, a Borrower or, collectively, the Borrowers) maintain a Credit Agreement (Credit Agreement) with PNC Bank, National Association, PNC Capital Markets, LLC, and other banks (collectively, the Lenders). The amended terms of the Credit Agreement include a revolving line of credit in the amount of $400,000 as well as an option to request a term loan in an amount up to $300,000. The Borrowers have an option to request up to an additional $250,000 on the revolving line of credit; however, the Lenders have no obligation to facilitate such a request. The amended Credit Agreement expires on May 6, 2021. Management currently intends to apply for renewal of this Credit Agreement prior to expiration. No collateral is required under this Credit Agreement. At a Borrower's election, interest on the revolving line of credit and the term loan is calculated at a rate per annum equal to (i) the Base Rate plus the Applicable Margin, (ii) the LIBOR Rate plus the Applicable Margin or (iii) Daily LIBOR plus the Applicable Margin. The Base Rate is equal to the highest of (i) the sum of the Overnight Bank Funding Rate plus 50 basis points, (ii) the Prime Rate and (iii) the Daily LIBOR plus 100 basis points. Notwithstanding the foregoing, if the LIBOR Rate as determined under any method above would be less than fifty basis points (0.50%), such rate shall be deemed to be fifty basis points (0.50%) for purposes of this Agreement. Applicable Margin under the Base Rate Option and the LIBOR Option as stated in the Credit Agreement equals 62.5 and 162.5 basis points, respectively. Interest was calculated based on LIBOR plus the applicable margin (interest rates ranging from 1.77% to 1.86% as of December 31, 2020 and 3.00% to 3.16% as of December 31, 2019). For the years ended December 31, 2020 and 2019, interest expense associated with the Credit Agreement was $2,721 and $1,676, respectively, which is included as a component of Other expenses on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

Under the Credit Agreement, the Borrowers have certain financial covenants. As of December 31, 2020 and 2019, the Borrowers were in compliance with the financial covenants. The Borrowers may request the issuance of a standby letter of credit under this agreement. No material letters of credit were issued as of

December 31, 2020. The repayment of the line of credit outstanding balance, accrued and unpaid interest and related expenses are guaranteed by IHG and BCBSM in amounts proportional to their respective ownership interests.

## (14) Employee Benefit Plans

Certain ACS employees are eligible to participate in the Pension Plan of AmeriHealth Caritas (the Plan), a noncontributory defined benefit pension plan that provides retirement benefits to employees based upon certain eligibility requirements as defined in the plan document. ACS is the sole participating employer in the Plan. As members of the same control group as ACS for Plan purposes, the Company and KFHP maintain responsibility for future plan benefits in the event of default by ACS. The total unfunded Plan obligation was $60,681 as of December 31, 2020, for which the Company may be responsible for all or a portion of this amount in the event of default by ACS.

## (15) Accumulated Other Comprehensive Income

Partners' equity, on the accompanying Consolidated Balance Sheets, includes the following activity in Accumulated other comprehensive income for the years ended December 31, 2020 and 2019:

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | **2019** |
| Accumulated other comprehensive income (loss), beginning of period | $ 2,826 | $ (1,555) |
| Net unrealized gain on investments arising during period, net of tax of ($1,892) and $2,115, respectively | 6,814 | 7,796 |
| Less reclassification adjustment for net gains on investments included in net income (loss), net of tax of $1,032 and $852, respectively | (3,477) | (4,058) |
| Other comprehensive income | 3,337 | 3,738 |
| Adjustments related to the adoption of a new accounting standards (Note 2) | — | 643 |
| Accumulated other comprehensive income, end of period | $ 6,163 | $ 2,826 |

## (16) Leases

The Company leases facilities under long-term operating leases that are noncancelable and expire on various dates. The Company's leases have remaining lease terms of less than 1 year to 5 years, some of which include extension and termination options that have been excluded from the determination of the ROU assets and lease liabilities, as the Company is not reasonably certain it will exercise any of these options.

The Company's operating lease ROU assets and long-term operating lease liabilities are presented separately on the accompanying Consolidated Balance Sheet as of December 31, 2020, with the current portion of its operating lease liabilities classified within Accounts payable and accrued expenses. As of December 31, 2020, the current portion of the Company's operating lease liabilities was $10,830.

For the years ended December 31, 2020 and 2019, the Company recognized operating lease costs of $8,150 and $8,576, respectively, within General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss). As of December 31, 2020, the weighted average remaining

lease term for the Company's outstanding leases and the weighted average discount rate on the Company's lease liabilities were 3.62 years and 1.59%, respectively.

Maturities of the Company's operating lease liabilities as of December 31, 2020 pursuant to ASC 842 are as follows:

| **Year ending December 31,** | | |
|---|---|---|
| 2021 | $ | 11,363 |
| 2022 | | 11,441 |
| 2023 | | 10,026 |
| 2024 | | 6,748 |
| 2025 | | 914 |
| Total undiscounted future minimum lease payments | | 40,492 |
| Less imputed interest | | 1,148 |
| Total operating lease liabilities | $ | 39,344 |

Prior to the adoption of the new lease accounting standard, future minimum lease commitments under noncancelable operating leases, with initial or remaining lease terms in excess of one year, pursuant to ASC 840 were as follows as of December 31, 2019:

| Year ending December 31: | | |
|---|---|---|
| 2020 | $ | 11,196 |
| 2021 | | 11,342 |
| 2022 | | 11,432 |
| 2023 | | 10,019 |
| 2024 | | 6,950 |
| 2025 and thereafter | | 903 |
| Minimum lease commitments | $ | 51,842 |

Because the members of the Company are serviced by ACS employees working at the above referenced leased facilities, rent and all related expenses under certain lease agreements are paid by ACS and the Company's allocated portion of the costs are charged to the Company through the administrative service agreement with ACS discussed in Note 12. Such allocated expenses, which approximated $4,789 and $3,858 for the years ended December 31, 2020 and 2019, respectively, are included in General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company and KFHP are legal parties to the operating lease agreements for the Airport Business Center (ABC Leases) expiring April 30, 2035. Future undiscounted minimum lease payments under the ABC Leases as of December 31, 2020 are $169,722. Rent and all expenses related to the ABC Leases are paid by ACS and indirectly allocated to the Company and KFHP through the administrative service agreement as noted above. Effective January 14, 2021, the ABC Leases were amended to reduce the rental rate per square foot and incorporate guarantees by IHG and BCBSM of future lease commitments in amounts proportional to their respective ownership interests.

## (17) Contingencies

In the ordinary course of business, the Company is involved in and is subject to claims, contractual disputes with providers, and other uncertainties. The Company records reserves and accrues costs for certain legal proceedings and regulatory matters to the extent that it determines an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. While such reserves and accrued costs reflect the Company's best estimate of the probable loss for such matters, the recorded amounts may differ materially from the actual amount of any such losses. In some cases, no estimate of the possible loss or range of loss in excess of amounts accrued, if any, can be made because of the inherently unpredictable nature of legal and regulatory proceedings, which may be exacerbated by various factors.

Amounts accrued for legal proceedings and regulatory matters were not material as of December 31, 2020. However, it is possible that in a particular quarter or annual period the Company's financial position, results of operations, and/or liquidity could be materially adversely affected by an ultimate unfavorable resolution of or development in legal and/or regulatory proceedings. The Company believes that the ultimate outcome of any of the regulatory and legal proceedings that are currently pending against it should not have a material adverse effect on financial position, results of operations, or liquidity.

## (18) Subsequent Events

Management has evaluated events and transactions occurring subsequent to the balance sheet date through March 26, 2021, the date that the financial statements were available to be issued, for potential recognition and disclosure. No events or transactions meet the definition of a recognized or nonrecognized subsequent event within the scope of ASC 855, *Subsequent Events*.