# KEYSTONE FAMILY HEALTH PLAN

Financial Statements

December 31, 2021 and 2020

(With Independent Auditor's Report Thereon)

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Keystone Family Health Plan
Philadelphia, Pennsylvania

### Opinion

We have audited the financial statements of Keystone Family Health Plan (the "Company") which comprise the balance sheet as of December 31, 2021, and the related statements of operations and comprehensive income, changes in partners' equity, and cash flows for the year then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

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

### Basis for Opinion

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

### Emphasis of Matter

As a result of the related party service arrangements discussed in Note 9 to the financial statements, the financial statements do not necessarily reflect what the Company's financial position, results of operations, or cash flows would have been had the Company operated as an independent company, unaffiliated with BMH LLC and its affiliates. Our opinion is not modified with respect to this matter.

### Predecessor Auditor's Opinion on 2020 Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2020 were audited by other auditors whose report, dated March 26, 2021, expressed an unmodified opinion on those statements and included an emphasis-of-matter paragraph describing the adoption of Accounting Standards Update No. 2016-02, *Leases* (ASC 842) and an other-matter related to supplemental information included within the financial statements.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in Note 7 to the financial statements be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic 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.

Deloitte & Touche LLP

March 17, 2022

**KEYSTONE FAMILY HEALTH PLAN**

Balance Sheets

(In thousands)

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 383,595 | $ 126,430 |
| Investments | 191,110 | 170,496 |
| Premium receivables | 681,276 | 600,988 |
| Due from affiliates | 439,150 | 297,195 |
| Other current assets | 1,833 | 1,856 |
| Total current assets | 1,696,964 | 1,196,965 |
| Operating lease right-of-use assets | 9,529 | 13,858 |
| Goodwill | 36,972 | 36,972 |
| Intangible assets, net | — | 555 |
| Other long-term assets | 2 | 2 |
| Total assets | $ 1,743,467 | $ 1,248,352 |
| **Liabilities and Partners' Equity** | | |
| Current liabilities: | | |
| Accrued medical expenses | $ 879,153 | $ 764,066 |
| Accounts payable and accrued expenses | 27,530 | 35,407 |
| Total current liabilities | 906,683 | 799,473 |
| Long-term operating lease liabilities | 4,192 | 8,979 |
| Deferred tax liabilities | 4,138 | 740 |
| Total liabilities | 915,013 | 809,192 |
| Commitments and contingencies (Notes 13 and 14) | | |
| Partners' equity: | | |
| Paid-in capital | 201,982 | 201,982 |
| Retained earnings | 625,792 | 235,426 |
| Accumulated other comprehensive income | 680 | 1,752 |
| Total partners' equity | 828,454 | 439,160 |
| Total liabilities and partners' equity | $ 1,743,467 | $ 1,248,352 |

See accompanying notes to financial statements.

**KEYSTONE FAMILY HEALTH PLAN**

Statements of Operations and Comprehensive Income

(In thousands)

| | Year Ended December 31, | |
|---|---|---|
| | **2021** | **2020** |
| Premium revenues | $ 7,213,721 | $ 6,306,054 |
| Operating expenses: | | |
| Medical expenses [1] | 6,036,012 | 5,571,477 |
| General and administrative [2] | 432,645 | 422,329 |
| Premium assessments and health insurer fee | 175,040 | 221,025 |
| Total operating expenses | 6,643,697 | 6,214,831 |
| Income from operations | 570,024 | 91,223 |
| Other (income) expenses: | | |
| Investment income [3] | (19,622) | (25,745) |
| Interest expense [4] | 19 | 207 |
| Income before income tax expense | 589,627 | 116,761 |
| Income tax expense | 170,261 | 15,110 |
| Net income | 419,366 | 101,651 |
| Change in unrealized gains on investments | (1,072) | 1,054 |
| Comprehensive income | $ 418,294 | $ 102,705 |

[1] Medical expenses includes affiliated expenses of $142,750 and $128,717 for the years ended December 31, 2021 and 2020, respectively.

[2] General and administrative includes affiliated expenses of $394,601 and $387,339 for the years ended December 31, 2021 and 2020, respectively.

[3] Investment income includes affiliated income of $308 and $1,441 for the years ended December 31, 2021 and 2020, respectively.

[4] Interest expense includes affiliated expenses of $19 and $207 for the years ended December 31, 2021 and 2020, 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, 2020 | $ 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 |
| Net income | — | 419,366 | — | 419,366 |
| Other comprehensive loss | — | — | (1,072) | (1,072) |
| Comprehensive income | — | 419,366 | (1,072) | 418,294 |
| Distributions | — | (29,000) | — | (29,000) |
| Balances at December 31, 2021 | $ 201,982 | $ 625,792 | $ 680 | $ 828,454 |

See accompanying notes to financial statements.

**KEYSTONE FAMILY HEALTH PLAN**

Statements of Cash Flows

(In thousands)

| | Year Ended December 31, | |
|---|---|---|
| | **2021** | **2020** |
| Cash flows from operating activities: | | |
| Net income | $ 419,366 | $ 101,651 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Noncash items included in net income: | | |
| Amortization of operating lease right-of-use assets | 3,372 | 5,303 |
| Net realized gains on disposal of investments and net unrealized gains on equity securities | (17,657) | (21,410) |
| Other | 4,578 | 1,143 |
| Changes in assets and liabilities: | | |
| Premium receivables | (80,288) | (74,391) |
| Due from affiliates, net | (244,923) | 146,358 |
| Accrued medical expenses | 115,087 | 31,546 |
| Accounts payable and accrued expenses | (7,755) | 3,057 |
| Operating lease liabilities | (3,953) | (5,823) |
| Other assets and other liabilities, net | 24 | (218) |
| Total adjustments | (231,515) | 85,565 |
| Net cash provided by operating activities | 187,851 | 187,216 |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | 27,603 | 39,164 |
| Purchase of investments | (32,257) | (38,867) |
| Payments of advances to affiliates | (1,182,145) | (1,098,214) |
| Reimbursement of advances to affiliate | 1,285,113 | 1,033,347 |
| Net cash provided by (used in) investing activities | 98,314 | (64,570) |
| Cash flows from financing activities: | | |
| Proceeds from advances from affiliates | 346,124 | (1,308,557) |
| Repayment of advances from affiliates | (346,124) | 1,308,557 |
| Cash distributed to Partners | (29,000) | (155,000) |
| Net cash used in financing activities | (29,000) | (155,000) |
| Net increase (decrease) in cash and cash equivalents | 257,165 | (32,354) |
| Cash and cash equivalents at beginning of year | 126,430 | 158,784 |
| Cash and cash equivalents at end of year | $ 383,595 | $ 126,430 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Income taxes | $ (170,884) | $ (10,116) |
| Interest | (19) | (207) |
| Non-cash operating activities: | | |
| Operating right-of-use lease assets obtained in exchange for lease obligations | $ 957 | $ 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 Commonwealth 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 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 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

### *Basis of Presentation and 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, continues to increase 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 $353,099 and $5,625 as of December 31, 2021 and 2020, 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.

### *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. 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, but the Company does not have the intent 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 (loss) 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*. 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 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. 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. In the event the Company's leases do not provide an implicit rate, 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. For further details, see Note 13.

### *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 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. For further details, see Note 6.

***Premium Revenues***

The Company records premium revenues in accordance with ASC 944, *Financial Services-Insurance*, 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 revenues were $6,050,787 and $5,102,981 for the years ended December 31, 2021 and 2020, respectively.

  Capitated premium rates also include funds 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 the designated organizations. The premium revenues earned under these programs that were not received as of the year ended are included in Premium receivables on the accompanying Balance Sheets, with a corresponding liability for amounts due to the designated organizations included in Accrued medical expenses.

  The Company is contractually required to expend a minimum percentage of capitated premiums on eligible medical expenses. 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 revenues recognized in connection with quality incentives were $14,298 and $25,090 for the years ended December 31, 2021 and 2020, 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. Premium revenues recognized in connection with risk-sharing arrangements were $492,699 and $443,310 for the years ended December 31, 2021 and 2020, respectively.

- *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.

Vista Health Plan, Inc. (Vista), an indirect wholly owned subsidiary of IHG, maintains the risk-based contracts with the Commonwealth of Pennsylvania Department of Human Services (DHS) to provide prepaid managed care to Medicaid enrollees in certain regions of Pennsylvania. Vista also maintains the risk-based contract with the Centers for Medicare and Medicaid Services (CMS) to provide prepaid healthcare services, including Medicare prescription drug coverage, to eligible Medicare enrollees in the Commonwealth 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.

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 Accounts payable and accrued expenses, as premium overpayments, until such time that the differences are resolved.

***Allowance for Doubtful Accounts***

Premiums receivable and other accounts receivable (collectively, accounts receivables) are reported net of any existing allowance for doubtful accounts. The Company regularly evaluates the collectability of its accounts receivables with each of its customers on a specific identification basis. If a triggering event indicates an accounts receivable with a customer is at risk for collection, the Company assesses the respective customer's credit risk, financial condition, current aging status of amounts due from the customer and the status of any outstanding disputes between the Company and the customer to determine if an allowance should be established against the at-risk accounts receivable.

The Company believes the collection risk associated with its premium receivables is limited, as the associated customer is the government of the Commonwealth of Pennsylvania.

***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 claims 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 are 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 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. No premium deficiency reserves were recorded as of December 31, 2021 or 2020. A premium deficiency reserve decrease of $50,300 was recorded for the year ended December 31, 2020, and is included within Medical expenses on the accompanying Statement of Operations and Comprehensive Income.

***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. Premium assessments are included within Premium assessments and health insurer fee on the accompanying Statements of Operations and Comprehensive Income.

***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 assessment is payable with a corresponding deferred cost that is amortized to expense using a straight line method.

The Further Consolidated Appropriations Act of 2020 (the 2020 Consolidated Appropriations Act) repealed the collection of the annual health insurance fee (HIF) for the 2021 calendar year and thereafter. As such, the Company did not recognize premium revenue or expenses related to this assessment for the year ended December 31, 2021.



(Continued)

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.

### *Income Taxes*

The Company is a member of a tax allocation agreement that specifies the manner in which the consolidated federal tax group, consisting of BMH and all of its wholly owned subsidiaries, 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. However, 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, the Company 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.

### *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.

### *Regulation*

Vista must maintain statutory surplus in excess of: (i) the minimum surplus level required by the respective contracts with the DHS 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, 2021 and 2020. 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***

Effective January 1, 2021, the Company adopted Accounting Standards Update (ASU or Update) 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. This Update did not have an impact on the Company's financial position, results of operations or liquidity upon adoption, as the Company is not party to any cloud-based hosting arrangements in which the software can be bifurcated from the hosting arrangement.

***Recently Issued Accounting Guidance***

In December 2019, the Financial Accounting Standards Board (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, including the recognition of deferred taxes for certain investments, performance of intraperiod allocation and calculation of income taxes in interim periods. The amended guidance also adds guidance to reduce complexity in certain areas, such as the recognition of deferred taxes for tax goodwill and the allocation of taxes to members from a consolidated group. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2021 and must be applied prospectively. The Company adopted this Update prospectively as of January 1, 2022, which did not have a material impact on the Company's financial position, results of operations or liquidity.

In June 2016, the 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.

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. In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848): Scope,* which clarifies that certain optional expedients and exceptions in ASC 848 apply to derivative instruments that use an interest rate for margining, discounting or contract price alignment that is

modified as a result of reference rate reform. 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, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,* 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. The Company adopted this Update effective January 1, 2022, which did not have a material impact on the Company's financial position, results of operations or liquidity.

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to 1) recognition of an acquired contract liability and 2) payment terms and their effect on subsequent revenue recognized by the acquirer. The amendments in this Update require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606, *Revenue from Contracts with Customers*. Additionally, at acquisition date, an acquirer should account for the related revenue contracts in accordance with ASC 606 as if it had originated the contracts. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2023 and are required to be applied prospectively. The Company does not currently expect this Update will have a material impact on its financial position, results of operations or liquidity.

In November 2021, the FASB issued ASU No. 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*, which amends the practical expedient under ASC 842 that allows non-public entities to elect, as an accounting policy, to use a risk-free rate as the discount rate for all leases. The amendments in this Update allow these lessees to make the risk-free election by class of underlying asset rather that at the entity-wide level, as long as the rate implicit in an individual lease is not readily determinable. The amendments in this Update are effective for nonpublic business entities that have adopted ASC 842 as of November 11, 2021, for fiscal years beginning after December 15, 2021 and are required to be applied on a modified retrospective basis. The Company adopted this Update effective January 1, 2022, which did not have a material impact on the Company's financial position, results of operations or liquidity.

In November 2021, the FASB issued ASU No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, for the purpose of increasing the transparency of an entity's use of government assistance through enhanced disclosures on 1) the types of government assistance received by an entity, 2) the entity's accounting for such government assistance and 3) the effect of the government assistance on the entity's financial statements. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2021 and can be applied either prospectively or retrospectively. The Company adopted this Update prospectively effective January 1, 2022. As of the effective date of this Update, the Company had not entered into transactions that would be in-scope of ASU No. 2021-10, and thus the adoption of this Update did not impact the Company's disclosure requirements upon adoption.



(Continued)

## (3) Significant Risks and Uncertainties

Premium revenues and associated contractual expiration dates, exclusive of renewal options, as a percentage of the Company's total premium revenues for the years ended December 31, 2021 and 2020 are as follows:

| Contract | Expiration Date | % of Premium Revenues | |
|---|---|---|---|
| | | **2021** | **2020** |
| DHS: | | | |
| HealthChoices | June 30, 2022 | 45.9 % | 49.3 % |
| Community HealthChoices | December 31, 2022 | 50.8 | 48.0 |
| CMS | December 31, 2022 | 3.3 | 2.7 |
| | | 100.0 % | 100.0 % |

While management will attempt to reach agreement for new contracts with DHS, there can be no assurance that such an agreement can be reached. The discontinuation of involvement with the DHS could have a material adverse effect on the future operations of the Company.

The spread of the coronavirus strain classified as COVID-19 and its variants continues to challenge the healthcare industry, disrupt the global economy and supply chains and cause volatility within financial markets. First declared a public health emergency by the Office of the Assistant Secretary for Preparedness & Response (ASPR) on January 31, 2020, the public health emergency declaration was renewed by the ASPR effective January 16, 2022. The Company has been shielded from substantial financial losses primarily as a result of deferrals in care stemming from federal and state social distancing measures and stay-at-home directives, the U.S. federal government's expansion of Medicaid under passage of The Coronavirus Aid, Relief, and Economic Security (the CARES Act) in March 2020, the 2020 Consolidated Appropriations Act in December 2020 and increased Medicaid enrollment stemming from pandemic-driven unemployment. The extent of the impact of the COVID-19 pandemic on the Company's financial statements will depend on future developments that remain highly uncertain and unpredictable at this time. The Company continues to closely monitor evolving developments related to the COVID-19 pandemic and the potential corresponding impacts on the Company's financial condition, results of operations and cash flows.

## (4) Investments

Total investments are comprised of the following as of December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Equity securities | $ 8,662 | $ 6,870 |
| Mutual funds | 128,941 | 117,565 |
| Debt securities | 53,507 | 46,061 |
| Investments | $ 191,110 | $ 170,496 |

Debt securities consist of the following as of December 31, 2021 and 2020:

| December 31, 2021 | Cost/ amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | $ 12,587 | $ 278 | $ (122) | $ 12,743 |
| Corporate debt securities | 28,449 | 1,144 | (96) | 29,497 |
| Mortgage-backed securities | 11,307 | 112 | (152) | 11,267 |
| Total investments | $ 52,343 | $ 1,534 | $ (370) | $ 53,507 |

| 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 |

Contractual maturities of debt securities classified as available-for-sale were as follows as of December 31, 2021:

| | Cost/ amortized cost | Fair value |
|---|---|---|
| Due within one year | $ 1,417 | $ 1,437 |
| Due after one year through five years | 22,814 | 22,995 |
| Due after five years through ten years | 10,590 | 10,877 |
| Due after ten years | 6,215 | 6,931 |
| | 41,036 | 42,240 |
| Mortgage-backed securities | 11,307 | 11,267 |
| Total debt securities | $ 52,343 | $ 53,507 |

Proceeds from the sale of investment securities and the related gross realized gains and losses for the years ended December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Proceeds on sales | $ 15,967 | $ 24,298 |
| Gross realized gains | 4,708 | 2,696 |
| Gross realized losses | (442) | (2,295) |



(Continued)

The Company recognized $13,391 and $21,009 in net gains on equity securities held as of December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, 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, 2021 | 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 | 18 | $ 7,286 | $ (59) | 11 | $ 1,002 | $ (63) | 29 | $ 8,288 | $ (122) |
| Corporate debt securities | 114 | 9,184 | (80) | 3 | 371 | (16) | 117 | 9,555 | (96) |
| Mortgage-backed securities | 22 | 7,300 | (139) | 3 | 354 | (13) | 25 | 7,654 | (152) |
| Total temporarily impaired securities | 154 | $ 23,770 | $ (278) | 17 | $ 1,727 | $ (92) | 171 | $ 25,497 | $ (370) |

| | 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 | 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) |

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 within Level 1 of the fair value hierarchy. 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 within Level 2 of the fair value hierarchy.

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 classified within Level 2 of the fair value hierarchy. The estimated fair values of U.S. Treasury securities are classified within Level 1 of the fair value hierarchy as the estimates are based on unadjusted market prices.

The Company's equity securities and mutual funds that are traded on a major exchange in an active market are classified within Level 1 of the fair value hierarchy.

***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, 2021 and 2020:

| December 31, 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equity securities | $ 8,662 | $ — | $ — | $ 8,662 |
| Mutual funds | 128,941 | — | — | 128,941 |
| Debt securities: | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 1,766 | 10,977 | — | 12,743 |
| Corporate debt securities | — | 29,497 | — | 29,497 |
| Mortgage-backed securities | — | 11,267 | — | 11,267 |
| Total investments | $ 139,369 | $ 51,741 | $ — | $ 191,110 |

| 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 |


(Continued)

The fair value of the Company's other financial instruments, principally cash and cash equivalents, receivables, other current assets and other current payables and accrued expenses approximate their carrying values as of December 31, 2021 and 2020, because of the relative short maturities of such items.

***Nonrecurring Fair Value Measurements***

Certain assets and liabilities, as further discussed in Note 6, 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. Upon acquisition, net assets acquired, the resulting goodwill and other intangible assets recognized through business combinations are recorded at fair value using Level 3 inputs as of the respective acquisition dates.

## (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, 2021 or 2020.

***Intangible assets, net***

As of December 31, 2021 and 2020, intangible assets, net and the related weighted average amortization periods (in years) are as follows:

| December 31, 2021 | Amortization period | Gross carrying value | Accumulated amortization | Net carrying value |
|---|---|---|---|---|
| Provider network | 9.9 | $ 6,590 | $ (6,590) | $ — |
| License | 10.0 | 12 | (12) | — |
| Intangible assets, net | | $ 6,602 | $ (6,602) | $ — |

| 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 |

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 $555 and $665 for the years ended December 31, 2021 and 2020, respectively, and is included within General and administrative on the accompanying Statements of Operations and Comprehensive Income.



(Continued)

## (7) Accrued Medical Expenses

Activity in accrued medical expenses is summarized as follows:

| | 2021 | 2020 |
|---|---|---|
| Balance, beginning of year | $ 764,066 | $ 732,520 |
| Premium deficiency reserve, beginning of year | — | (50,300) |
| Incurred related to: | | |
| Current year | 6,191,642 | 5,663,343 |
| Prior year | (155,630) | (41,566) |
| Total incurred | 6,036,012 | 5,621,777 |
| Paid related to: | | |
| Current year | 5,283,159 | 4,958,985 |
| Prior year | 637,766 | 580,946 |
| Total paid | 5,920,925 | 5,539,931 |
| Balance, end of year | $ 879,153 | $ 764,066 |

Reserves for incurred claims attributable to insured events of prior periods decreased by $155,630 from $764,066 in 2020 to $608,436 in 2021 and decreased by $41,566 from $682,220 in 2019 to $640,654 in 2020. Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions coupled with changes in utilization and loss development trends. A significant portion of the favorable development in 2021 is attributable to the increased degree of uncertainty inherent in the Company's assumptions of utilization and incurred medical costs as a result of the COVID-19 Pandemic. 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 an increase (decrease) to premium revenues of $9,895 and $(288) for the years ended December 31, 2021 and 2020, respectively.

Accrued medical expenses include IBNR plus expected development on reported claims of $697,658 and $687,795 as of December 31, 2021 and 2020, respectively. Substantially all of the IBNR plus expected development on reported claims as of December 31, 2021 and 2020 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, 2021:

| | Incurred Claims For the Years ended December 31, | |
|---|---|---|
| **Date of Service** | **2020** | **2021** |
| | (Unaudited) | |
| 2020 | $ 5,601,043 | $ 5,445,413 |
| 2021 | | 6,191,642 |
| Total incurred | | $ 11,637,055 |

| | Cumulative Paid Claims For the Years ended December 31, | |
|---|---|---|
| **Date of Service** | **2020** | **2021** |
| | (Unaudited) | |
| 2020 | $ 4,862,150 | $ 5,499,916 |
| 2021 | | 5,283,159 |
| Total paid | | $ 10,783,075 |
| Net remaining outstanding liabilities prior to 2020 | | 25,173 |
| Accrued medical expenses | | $ 879,153 |

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 536,318 and 532,518 for the years ended December 31, 2021 and 2020, respectively. Claims that did not result in a liability are excluded from the frequency metric.

## (8) Income Taxes

The components of Income tax expense for the years ended December 31, 2021 and 2020 are as follows:

| | **2021** | **2020** |
|---|---|---|
| Current: | | |
| Federal | $ 108,882 | $ 10,297 |
| State | 57,546 | 4,501 |
| Total current | $ 166,428 | $ 14,798 |
| Deferred: | | |
| Federal | $ 2,508 | $ 204 |
| State | 1,325 | 108 |
| Total deferred | 3,833 | 312 |
| Income tax expense | $ 170,261 | $ 15,110 |

A reconciliation of income tax at the statutory federal rate to income tax at the effective rate for the years ended December 31, 2021 and 2020 is as follows:

| | 2021 | 2020 |
|---|---|---|
| Income tax expense at the statutory federal rate | $ 123,822 | $ 24,520 |
| Adjustments to income taxes resulting from: | | |
| State and local income tax, net of federal tax benefits | 46,508 | 8,546 |
| Valuation allowance | — | (17,957) |
| Nondeductible expenses and other | (69) | 1 |
| Income tax expense | $ 170,261 | $ 15,110 |

Components of deferred income taxes as of December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Deferred tax assets: | | |
| Estimated claims incurred but not reported | $ 9,786 | $ 9,324 |
| Acquisition and start-up costs | 1,060 | 1,147 |
| Prepaid expenses | — | 272 |
| Other | 196 | — |
| Gross deferred tax assets | 11,042 | 10,743 |
| Deferred tax liabilities: | | |
| Change in fair value of equity securities | 12,545 | 8,677 |
| Unrealized investment gains | 2,211 | 2,646 |
| Prepaid expenses | 424 | — |
| Intangible assets | — | 160 |
| Gross deferred tax liabilities | 15,180 | 11,483 |
| Net deferred tax liabilities | $ (4,138) | $ (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 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. During the year ended December 31, 2020, BMH filed Form 3115 with the Internal Revenue Service (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.

Federal tax years 2019 through 2021 are open for examination as of December 31, 2021.

## (9) Transactions with Related Parties

PerformRx, LLC and its subsidiary (collectively, PerformRx), an affiliated group wholly owned by ACHP, provide pharmacy benefit management (PBM) services and supply specialty pharmacy drugs to the Company.

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. 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.

In the ordinary course of business, ACHP and its noninsurance subsidiaries, 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 IRS for the month in which the loan was made (0.43% and 0.20% as of December 31, 2021 and 2020, 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.

As discussed in Note 2, Vista maintains the risk-based contracts with DHS and CMS to provide prepaid healthcare services to eligible Medicaid and Medicare enrollees, respectively, within the Commonwealth of Pennsylvania. Included in the Company's premium revenues are member premium payments collected from DHS and CMS and remitted to the Company by Vista for services provided under its subcontracts with the Company. $350,000 and $125,000 collected by Vista from DHS in December 2021 and 2020, respectively, were remitted to the Company in January of the subsequent years. Also included in the Company's operating results are costs related to administrative services provided by Vista under the subcontracts with the Company, as well as monies received from the states in which the Company operates, as reimbursement of the non-deductible tax effects of HIF, as discussed in Note 2.

The Company distributed $29,000 to the Partners during the year ended December 31, 2021. In February 2020, the Company returned $155,000 of capital contributed during the year ended December 31, 2019.

For the years ended December 31, 2021 and 2020, the Company recorded the following activity with its related parties in the accompanying Statements of Operations and Comprehensive Income:

| Related Party | Transaction Type | 2021 | 2020 | Financial Statement Line Item |
|---|---|---|---|---|
| Vista | Member premium payments | $ 7,213,721 | $ 6,306,054 | Premium revenues |
| PerformRx | Specialty pharmacy drugs | 142,068 | 126,885 | Medical expenses |
| PerformRx | Pass-through medical services | 682 | 2,102 | Medical expenses |
| PerformRx | PBM services | 24,552 | 23,951 | General and administrative |
| ACS | Administrative services | 278,484 | 231,143 | General and administrative |
| ACS | Personnel costs | 82,308 | 98,270 | General and administrative |
| Vista | Reimbursements of the non-deductible tax effects of HIF | — | 27,998 | General and administrative |
| Vista | Administrative services | 9,237 | 5,977 | General and administrative |
| ACS | Interest income | 308 | 1,441 | Investment income |
| ACS | Interest expense | 19 | 207 | Other expenses |



(Continued)

As of December 31, 2021 and 2020, respectively, the Company had the following amounts due from (to) its related parties in the accompanying Balance Sheets:

| **Accrued medical expenses** | **2021** | **2020** |
|---|---|---|
| PerformRx | $ 2,727 | $ 4,243 |

| **Due from affiliates** | **2021** | **2020** |
|---|---|---|
| Vista | $ 351,142 | $ 124,148 |
| ACS [1] | 77,722 | 140,219 |
| ACHP and subsidiaries | 10,286 | 32,828 |
| | $ 439,150 | $ 297,195 |

[1] As of December 31, 2021 and 2020, $114,500 and $217,468, respectively, was included in Due from affiliates related to advances to the Company pursuant to a revolving intercompany loan agreement. Accrued interest on loans from affiliates was $24 and $30 as of December 31, 2021 and, 2020, respectively.

## (10) Line of Credit

Terms used but not defined herein shall have the meanings set forth in the Seventh Amended and Restated Credit Agreement dated as of May 5, 2021 (Seventh Amended Credit Agreement), which amended and restated the Sixth Amended and Restated Credit Agreement dated as of May 8, 2020 (collectively referred to as the Credit Agreements).

BMH, the Company, ACHP, ACS and the Restricted Borrowers, which consist of certain of BMH's wholly owned subsidiaries, (individually, a Borrower or, collectively, the Borrowers) are parties to the Seventh Amended Credit Agreement with PNC Bank, National Association, as Administrative Agent; PNC Capital Markets, LLC, as Lead Arranger; and other banks (collectively, the Lenders). Each of the Borrowers (other than the Restricted Borrowers) are jointly and severally liable with respect to all indebtedness and obligations arising out of the Seventh Amended Credit Agreement, while each Restricted Borrower is liable only for the indebtedness made to and obligations of such Restricted Borrower under the Seventh Amended Credit Agreement. No collateral is required under the Credit Agreements.

The amended terms of the Seventh Amended 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 $600,000. 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 Seventh Amended Credit Agreement expires on May 3, 2022. Historically, BMH has applied for renewal of each amended credit agreement prior to its expiration date, and management intends currently to apply for renewal of the Seventh Amended Credit Agreement prior to its expiration date. 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) the Daily LIBOR Rate 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 the Seventh Amended Credit Agreement. Applicable Margin under the Base Rate Option equals 25 basis points (0.25%) and under the LIBOR Rate Option and Daily LIBOR Rate Option equals 125 basis points (1.25%).

Under the Credit Agreements, the Borrowers have certain financial covenants. As of December 31, 2021 and 2020, the Borrowers were in compliance with all these 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, 2021. IHG and BCBSM are Parent Guarantors of all indebtedness and obligations that arise out of the Credit Agreements 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 $30,657 as of December 31, 2021, 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, 2021 and 2020:

| | Year Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Accumulated other comprehensive income, beginning of period | $ 1,752 | $ 698 |
| Net unrealized losses (gains) on investments arising during the period, net of tax of ($798) and $543, respectively | (4,105) | 1,339 |
| Less reclassification adjustment for net gains on investments included in net income, net of tax of $1,233 and $115, respectively | 3,033 | (285) |
| Other comprehensive (loss) income | (1,072) | 1,054 |
| Accumulated other comprehensive income, end of period | $ 680 | $ 1,752 |

## (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 3 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.

On the accompanying Balance Sheets, the Company's operating lease ROU assets and long-term operating lease liabilities are presented separately, and the current portion of its operating lease liabilities is classified within Accounts payable and accrued expenses. As of December 31, 2021 and 2020, the current portion of the Company's operating lease liabilities was $5,559 and $5,681, respectively.

For the years ended December 31, 2021 and 2020, the Company recognized operating lease costs of $5,312 and $140, respectively, within General and administrative on the accompanying Statements of Operations and Comprehensive Income.

As of December 31, 2021 and 2020, the weighted average remaining lease terms and the weighted average discount rate on the Company's lease liabilities were as follows:

| | 2021 | 2020 |
|---|---|---|
| Weighted average remaining lease term (in years) | 2.10 | 2.73 |
| Weighted average discount rate | 1.30% | 1.64% |

Maturities of the Company's operating lease liabilities as of December 31, 2021 are as follows:

| Year ending December 31, | | |
|---|---|---|
| 2022 | $ | 5,646 |
| 2023 | | 2,638 |
| 2024 | | 1,597 |
| Total undiscounted future minimum lease payments | | 9,881 |
| Less imputed interest | | 130 |
| Total operating lease liabilities | $ | 9,751 |

Through December 31, 2020, the Company's allocated portion of rent expense and related expenses for leased shared service facilities to which it was party was charged to the Company through the administrative service agreement with ACS discussed in Note 9. Such allocated expenses approximated $6,578 for the year ended December 31, 2020, which is included in General and administrative on the accompanying Statement of Operations and Comprehensive Income.

The Company and ACHP are legal parties to the operating lease agreements for the Airport Business Center (ABC Leases) expiring January 31, 2037. Future undiscounted minimum lease payments under the ABC Leases as of December 31, 2021 are $146,533. 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 noted above. Future lease commitments under the ABC Leases are guaranteed by IHG and BCBSM in amounts proportional to their respective ownership interests.

## (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, 2021. 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.



(Continued)

## (15) Subsequent Events

Management has evaluated events and transactions occurring subsequent to the balance sheet date through March 17, 2022, 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, 2021 and 2020

(With Independent Auditor's Report Thereon)

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
AmeriHealth Caritas Health Plan
Philadelphia, PA

### Opinion

We have audited the consolidated financial statements of AmeriHealth Caritas Health Plan and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of operations and comprehensive income, changes in partners' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

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

### Basis for Opinion

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

### Emphasis of Matter

As a result of the related party service arrangements discussed in Note 12 to the financial statements, the financial statements do not necessarily reflect what the Company's financial position, results of operations, or cash flows would have been had the Company operated as an independent company, unaffiliated with BMH LLC and its affiliates. Our opinion is not modified with respect to this matter.

### Predecessor Auditor's Opinion on 2020 Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2020 were audited by other auditors whose report, dated March 26, 2021, expressed an unmodified opinion on those statements and included an emphasis-of-matter paragraph describing the adoption of Accounting Standards Update No. 2016-02, *Leases* (Topic 842) and an other-matter related to supplemental information included within the financial statements.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in Note 9 to the financial statements be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic 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.

Deloitte & Touche LLP

March 17, 2022

**AMERIHEALTH CARITAS HEALTH PLAN AND SUBSIDIARIES**

Consolidated Balance Sheets

(In thousands)

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,059,633 | $ 1,464,063 |
| Investments | 279,184 | 357,117 |
| Premium receivables, net | 697,724 | 470,016 |
| Due from affiliates | 6,055 | 3,143 |
| Other current assets | 121,994 | 61,896 |
| Total current assets | 3,164,590 | 2,356,235 |
| Operating lease right-of-use assets | 27,158 | 36,878 |
| Property and equipment, net | 20,283 | 19,688 |
| Investment in nonconsolidated joint venture | 78,273 | 70,574 |
| Goodwill | 55,819 | 55,819 |
| Intangible assets, net | 28,006 | 30,256 |
| Deferred tax assets | 8,228 | — |
| Other long-term assets | 14,870 | 14,886 |
| Total assets | $ 3,397,227 | $ 2,584,336 |
| **Liabilities and Partners' Equity** | | |
| Current liabilities: | | |
| Accrued medical expenses | $ 1,460,796 | $ 1,164,293 |
| Accounts payable and accrued expenses | 294,095 | 161,001 |
| Due to affiliates | 119,916 | 124,210 |
| Total current liabilities | 1,874,807 | 1,449,504 |
| Long-term operating lease liabilities | 17,983 | 28,514 |
| Other long-term liabilities | 40 | 40 |
| Total liabilities | 1,892,830 | 1,478,058 |
| Commitments and contingencies (Notes 16 and 17) | | |
| Partners' equity: | | |
| Paid-in capital | 1,331,992 | 1,331,992 |
| Retained earnings (deficit) | 170,142 | (232,025) |
| Accumulated other comprehensive income | 2,116 | 6,163 |
| Total equity attributable to Amerihealth Caritas Health Plan and Subsidiaries | 1,504,250 | 1,106,130 |
| Noncontrolling interest | 147 | 148 |
| Total partners' equity | 1,504,397 | 1,106,278 |
| Total liabilities and partners' equity | $ 3,397,227 | $ 2,584,336 |

See accompanying notes to consolidated financial statements.

**AMERIHEALTH CARITAS HEALTH PLAN AND SUBSIDIARIES**

Consolidated Statements of Operations and Comprehensive Income

(In thousands)

| | Year Ended December 31, | |
|---|---|---|
| | **2021** | **2020** |
| Revenues: | | |
| Premium | $ 9,946,530 | $ 8,188,077 |
| Management services [1] | 103,112 | 91,160 |
| Pharmacy sales [2] | 256,180 | 202,349 |
| Total revenues | 10,305,822 | 8,481,586 |
| Operating expenses: | | |
| Medical expenses | 8,367,815 | 6,972,892 |
| General and administrative [3] | 1,022,139 | 893,024 |
| Premium assessments and health insurer fee | 241,056 | 308,565 |
| Cost of pharmaceutical goods sold | 249,161 | 196,140 |
| Total operating expenses | 9,880,171 | 8,370,621 |
| Income from operations | 425,651 | 110,965 |
| Other (income) expenses: | | |
| Investment income [4] | (11,593) | (22,527) |
| Income from nonconsolidated joint venture | (7,700) | (5,731) |
| Other expenses [5] | 2,416 | 2,962 |
| Income before income tax expense (benefit) | 442,528 | 136,261 |
| Income tax expense (benefit) | 40,362 | (3,358) |
| Net income | 402,166 | 139,619 |
| Less net loss (income) attributable to noncontrolling interest | 1 | (40) |
| Net income attributable to AmeriHealth Caritas Health Plan and Subsidiaries | 402,167 | 139,579 |
| Change in unrealized gains on investments | (4,047) | 3,337 |
| Comprehensive income | $ 398,120 | $ 142,916 |

[1] Management services includes affiliated services of $36,379 and $35,143 for the years ended December 31, 2021 and 2020, respectively.

[2] Pharmacy sales includes affiliated sales of $239,099 and $186,958 for the years ended December 31, 2021 and 2020, respectively.

[3] General and administrative includes affiliated expenses of $837,813 and $748,115 for the years ended December 31, 2021 and 2020, respectively.

[4] Investment income includes affiliate income of $19 and $207 for the years ended December 31, 2021 and 2020, respectively.

[5] Other expenses includes affiliated expenses of $43 and $241 for the years ended December 31, 2021 and 2020, 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** | **Retained earnings (deficit)** | **Accumulated other comprehensive income** | **Noncontrolling interest** | **Total** |
| Balances at January 1, 2020 | $ 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 |
| Net income | — | 402,167 | — | (1) | 402,166 |
| Other comprehensive loss | — | — | (4,047) | — | (4,047) |
| Comprehensive income | — | 402,167 | (4,047) | (1) | 398,119 |
| Balances at December 31, 2021 | $ 1,331,992 | $ 170,142 | $ 2,116 | $ 147 | $ 1,504,397 |

See accompanying notes to consolidated financial statements.

**AMERIHEALTH CARITAS HEALTH PLAN AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

(In thousands)

| | Year Ended December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Cash flows from operating activities: | | |
| Net income | $ 402,166 | $ 139,619 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Noncash items included in net income: | | |
| Depreciation and amortization | 6,011 | 12,814 |
| Amortization of operating lease right-of-use assets | 8,368 | 10,371 |
| Net realized gains on disposal of investments and net unrealized gains on equity securities | (6,890) | (11,010) |
| Income from nonconsolidated joint ventures | (7,700) | (5,731) |
| Impairment of long-lived assets | — | 8,190 |
| Deferred income taxes | (7,102) | (860) |
| Other | 282 | (456) |
| Changes in assets and liabilities: | | |
| Premium receivables, net | (227,708) | (71,432) |
| Due from affiliates | (2,912) | (2,154) |
| Accrued medical expenses | 296,504 | 382,999 |
| Accounts payable and accrued expenses | 125,153 | 35,450 |
| Due to affiliates | (4,293) | 29,986 |
| Operating lease liabilities | (8,782) | (10,768) |
| Other assets and other liabilities, net | (58,626) | 4,534 |
| Total adjustments | 112,305 | 381,933 |
| Net cash provided by operating activities | 514,471 | 521,552 |
| Cash flows from investing activities: | | |
| Capital expenditures | (4,722) | (4,260) |
| Proceeds from sales and maturities of investments | 355,147 | 451,059 |
| Purchases of investments | (275,453) | (414,588) |
| Payment of advances to affiliates | (346,124) | (1,308,557) |
| Reimbursement of advances to affiliate | 346,124 | 1,308,557 |
| Net cash provided by investing activities | 74,972 | 32,211 |
| Cash flows from financing activities: | | |
| Cash contributed by Partners | — | 155,000 |
| Payments of debt issuance costs | (1,321) | — |
| Proceeds from borrowings under Line of credit | 600,000 | 435,000 |
| Repayment of borrowings under Line of credit | (600,000) | (435,000) |
| Other financing activities, net | 7,910 | (3,402) |
| Net cash provided by financing activities | 6,589 | 151,598 |
| Net increase in cash, cash equivalents, restricted cash and restricted cash equivalents | 596,032 | 705,361 |
| Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year | 1,472,709 | 767,348 |
| Cash, cash equivalents, restricted cash and restricted cash equivalents at end of year | 2,068,741 | 1,472,709 |
| Adjustment for restricted cash and restricted cash equivalents | (9,108) | (8,646) |
| Cash and cash equivalents at end of year | $ 2,059,633 | $ 1,464,063 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Cash (paid) recovered during the period for: | | |
| Income taxes | $ (46,352) | $ 12,297 |
| Interest | (2,455) | (2,315) |
| Non-cash operating activities: | | |
| Operating right-of-use lease assets obtained in exchange for lease obligations | $ 1,352 | $ 48,696 |
| Capital expenditures | 366 | (52) |

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, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), 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. All intercompany transactions and balances have been eliminated in consolidation.

### *Use of Estimates*

The preparation of financial statements in conformity with 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, continues to increase 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 $1,707,210 and $1,021,470 as of December 31, 2021 and 2020, 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. 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, but the Company does not have the intent 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 (loss) 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.

***Investment in Nonconsolidated Joint Venture***

The Company accounts for equity investments through which the Company gains significant influence over the investee but not a controlling financial interest, as defined in ASC 810, *Consolidation*, in accordance with

ASC 323, *Investments – Equity Method and Joint Ventures*. As further discussed in Note 6, as of December 31, 2021 and 2020, the Company had one equity method investment which is presented in Investment in nonconsolidated joint venture on the accompanying Consolidated Balance Sheets. The Company assesses its investment in its nonconsolidated joint venture for impairment annually or sooner, if there is evidence of a loss in value of the investment. 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*. 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) customers. 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 $18,252 and $17,816 as of December 31, 2021 and 2020, respectively. Adjustments to remeasure inventory at the lower of cost or net realizable value are reflected within cost of pharmaceutical goods sold. There were no substantial or unusual losses resulting from the remeasurement of inventory during the years ended December 31, 2021 or 2020.

***Leases***

The Company 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 and Comprehensive Income. 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. In the event the Company’s leases do not provide an implicit rate, 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. For further details, see Note 16.

***Property and equipment, net***

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight line method over the estimated useful lives of the assets. Land is not depreciated.

The Company's useful lives by major classifications of property and equipment are as follows:

| | |
|---|---|
| Land | Indefinite life |
| Building and building improvements | 39 years |
| Office furniture, fixtures and equipment | 3 years - 7 years |

Leasehold improvements are amortized on a straight-line basis over the shorter of the remaining lease term or estimated useful life of the asset.

Maintenance and repairs are charged to operations when incurred. When property and equipment are retired or otherwise disposed of, cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in earnings.

Property and equipment held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the property and equipment may not be recoverable. If upon performing its impairment assessment, the Company determines the carrying value of any property and equipment is not recoverable on an undiscounted cash flow basis, the Company recognizes an impairment loss equal to the amount by which the carrying value of the property and equipment exceeds the fair value.

***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. For further details, see Note 8.

***Revenue Recognition***

***Premium Revenues***

The Company records premium revenues in accordance with ASC 944, *Financial Services - Insurance,* 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. Capitated premium revenues were $8,467,552 and $6,899,618 for the years ended December 31, 2021 and 2020, respectively.

  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 the designated organizations pursuant to the terms of the respective state contracts. The premium revenues earned under these programs that were not received as of the year ended 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 expenses. 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 revenues recognized in connection with quality incentives were $66,060 and $64,702 for the years ended December 31, 2021 and 2020, 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. Premium revenues recognized in connection with risk-sharing arrangements were $179,263 and $114,284 for the years ended December 31, 2021 and 2020, respectively.

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

Vista Health Plan, Inc. (Vista), an indirect wholly owned subsidiary of IHG, maintains the risk-based contracts with the Commonwealth of Pennsylvania Department of Human Services (DHS) to provide prepaid managed care to Medicaid enrollees in certain regions of Pennsylvania. Vista also maintains the risk-based contract with the Centers for Medicare and Medicaid Services (CMS) to provide prepaid healthcare services, including Medicare prescription drug coverage, to eligible Medicare enrollees in the Commonwealth 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.

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 $11,152 and $3,242 as of December 31, 2021 and 2020, 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 Accounts payable and accrued expenses, as premium overpayments, until such time that the differences are resolved. Premium overpayments amounted to $37,864 and $4,713 as of December 31, 2021 and 2020, 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. 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.

***Allowance for Doubtful Accounts***

Premiums receivable and other accounts receivable (collectively, accounts receivables) are reported net of any existing allowance for doubtful accounts. The Company regularly evaluates the collectability of its accounts receivables with each of its customers on a specific identification basis. If a triggering event indicates an accounts receivable with a customer is at risk for collection, the Company assesses the respective customer's credit risk, financial condition, current aging status of amounts due from the customer and the status of any outstanding disputes between the Company and the customer to determine if an allowance should be established against the at-risk accounts receivable.

The Company believes the collection risk associated with its premium receivables is limited, as the associated customers consist primarily of the federal government and the governments of the states in which it operates, the Commonwealth of Pennsylvania and the District of Columbia. The allowance for uncollectible premiums was $2,782 and $2,572 as of December 31, 2021 and 2020, respectively.

However, the Company believes its non-insurance accounts receivables, which are included in Other current assets on the accompanying Consolidated Balance Sheets, are at higher risk for non-collectability due to the nature of the associated customers as discussed above within Management services and Pharmacy sales. As of December 31, 2021 and 2020, the gross balance of the Company's non-insurance accounts receivables was $10,002 and $8,710, respectively, and the Company's allowances for doubtful accounts associated with its non-insurance receivables were immaterial. The Company recognized bad debt expense of $3,565 and $0 for the years ended December 31, 2021 and 2020, respectively, which is included in General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income.

***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 claims 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 are 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, 2021 and 2020 as the contracted premium rates in effect through December 31, 2022 and 2021, respectively, were determined to be insufficient to provide for estimated medical and administrative expenses related to such periods. A premium deficiency reserve of $3,895 and $5,461 as of December 31, 2021 and 2020, respectively, is included within


(Continued)

Accrued medical expenses on the accompanying Consolidated Balance Sheets. A premium deficiency reserve decrease of $1,566 and $10,539 for the years ended December 31, 2021 and 2020, respectively, is included within Medical expenses on the accompanying Consolidated Statements of Operations and Comprehensive Income.

***Premium Assessments***

MCOs domiciled in the District of Columbia, Louisiana, Michigan, New Hampshire, North Carolina and the Commonwealth of Pennsylvania 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. Premium assessments are included within Premium assessments and health insurer fee on the accompanying Consolidated Statements of Operations and Comprehensive Income.

***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 assessment is payable with a corresponding deferred cost that is amortized to expense using a straight line method.

The Further Consolidated Appropriations Act of 2020 (the 2020 Consolidated Appropriations Act) repealed the collection of the annual health insurance fee (HIF) for the 2021 calendar year and thereafter. As such, the Company did not recognize premium revenue or expenses related to this assessment for the year ended December 31, 2021.

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.

***Income Taxes***

The Company is a member of a tax allocation agreement that specifies the manner in which the consolidated federal tax group, consisting of BMH and all of its wholly owned subsidiaries, 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. However, 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. Certain subsidiaries of the Company are C Corporations of their respective states or the Commonwealth of Pennsylvania and are also subject to state income tax.

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, the Company 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 Consolidated Statements of Operations and Comprehensive Income.

***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.

***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, 2021 and 2020.

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, 2021, the amount of capital and surplus that was available for the payment of dividends or return of capital was $59,587.

| | 2021 | 2020 |
|---|---|---|
| Minimum aggregate capital and surplus required by state agencies | $ 328,015 | $ 247,703 |
| Aggregate statutory capital and surplus | 774,665 | 513,105 |

Vista must maintain statutory surplus in excess of: (i) the minimum surplus level required by the respective contracts with the 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, 2021 and 2020. 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***

Effective January 1, 2021, the Company adopted Accounting Standards Update (ASU or Update) 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. This Update did not have an impact on the Company's financial position, results of operations or liquidity upon adoption, as the Company is not party to any cloud-based hosting arrangements in which the software can be bifurcated from the hosting arrangement.

***Recently Issued Accounting Guidance***

In December 2019, the Financial Accounting Standards Board (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, including the recognition of deferred taxes for certain investments, performance of intraperiod allocation and calculation of income taxes in interim periods. The amended guidance also adds guidance to reduce complexity in certain areas, such as the recognition of deferred taxes for tax goodwill and the allocation of taxes to members from a consolidated group. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2021 and must be applied prospectively. The Company adopted this Update prospectively as of January 1, 2022, which did not have a material impact on the Company's financial position, results of operations or liquidity.

In June 2016, the 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.

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. In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform*

*(Topic 848): Scope,* which clarifies that certain optional expedients and exceptions in ASC 848 apply to derivative instruments that use an interest rate for margining, discounting or contract price alignment that is modified as a result of reference rate reform. 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, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,* 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. The Company adopted this Update effective January 1, 2022, which did not have a material impact on the Company's financial position, results of operations or liquidity.

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to 1) recognition of an acquired contract liability and 2) payment terms and their effect on subsequent revenue recognized by the acquirer. The amendments in this Update require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606, *Revenue from Contracts with Customers*. Additionally, at acquisition date, an acquirer should account for the related revenue contracts in accordance with ASC 606 as if it had originated the contracts. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2023 and are required to be applied prospectively. The Company does not currently expect this Update will have a material impact on its financial position, results of operations or liquidity.

In November 2021, the FASB issued ASU No. 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*, which amends the practical expedient under ASC 842 that allows non-public entities to elect, as an accounting policy, to use a risk-free rate as the discount rate for all leases. The amendments in this Update allow these lessees to make the risk-free election by class of underlying asset rather that at the entity-wide level, as long as the rate implicit in an individual lease is not readily determinable. The amendments in this Update are effective for nonpublic business entities that have adopted ASC 842 as of November 11, 2021, for fiscal years beginning after December 15, 2021 and are required to be applied on a modified retrospective basis. The Company adopted this Update effective January 1, 2022, which did not have a material impact on the Company's financial position, results of operations or liquidity.

In November 2021, the FASB issued ASU No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, for the purpose of increasing the transparency of an entity's use of government assistance through enhanced disclosures on 1) the types of government assistance received by an entity, 2) the entity's accounting for such government assistance and 3) the effect of the government assistance on the entity's financial statements. The amendments in this Update are effective for nonpublic business entities for fiscal years beginning after December 15, 2021 and can be applied either prospectively or retrospectively. The Company adopted this Update prospectively effective January 1, 2022. As of the effective date of this Update, the Company had not entered into transactions that would be in-scope of ASU No. 2021-10, and thus the adoption of this Update did not impact the Company's disclosure requirements upon adoption.



(Continued)

## (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, 2021 and 2020 are as follows:

| | | % of Premium Revenues | |
|---|---|---|---|
| **State** | **Expiration Date** | **2021** | **2020** |
| Pennsylvania | Various dates from June 30, 2022 to December 31, 2022 | 39.2 % | 42.5 % |
| South Carolina | Various dates from December 31, 2022 to June 30, 2024 | 15.9 | 18.0 |
| Louisiana | December 31, 2022 | 14.1 | 15.9 |

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, 2025. 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 spread of the coronavirus strain classified as COVID-19 and its variants continues to challenge the healthcare industry, disrupt the global economy and supply chains and cause volatility within financial markets. First declared a public health emergency by the Office of the Assistant Secretary for Preparedness & Response (ASPR) on January 31, 2020, the public health emergency declaration was renewed by the ASPR effective January 16, 2022. The Company has been shielded from substantial financial losses primarily as a result of deferrals in care stemming from federal and state social distancing measures and stay-at-home directives, the U.S. federal government's expansion of Medicaid under passage of The Coronavirus Aid, Relief, and Economic Security (the CARES Act) in March 2020, the 2020 Consolidated Appropriations Act in December 2020 and increased Medicaid enrollment stemming from pandemic-driven unemployment. However, in an effort to limit operating profits realized by MCOs during the COVID-19 pandemic, certain states, in which the Company operates, implemented temporary risk sharing mechanisms for contract periods then-in-effect. In addition, in 2021, various states petitioned CMS to temporarily waive regulations currently prohibiting the implementation of retroactive risk mitigation arrangements with MCOs. The extent of the impact of the COVID-19 pandemic on the Company's consolidated financial statements will depend on future developments that remain highly uncertain and unpredictable at this time. The Company continues to closely monitor evolving developments related to the COVID-19 pandemic and the potential corresponding impacts on the Company's financial condition, results of operations and cash flows.

## (4) Investments

Total investments are comprised of the following as of December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Mutual funds | $ 42,048 | $ 41,124 |
| Debt securities | 237,136 | 315,993 |
| Investments | $ 279,184 | $ 357,117 |

Debt securities consist of the following as of December 31, 2021 and 2020:

| December 31, 2021 | Cost/ amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | $ 54,181 | $ 643 | $ (265) | $ 54,559 |
| Corporate debt securities | 144,670 | 3,006 | (493) | 147,183 |
| Mortgage-backed securities | 35,477 | 296 | (379) | 35,394 |
| Total investments | $ 234,328 | $ 3,945 | $ (1,137) | $ 237,136 |

| 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 |

Contractual maturities of debt securities classified as available-for-sale were as follows as of December 31, 2021:

| | Cost/ amortized cost | Fair value |
|---|---|---|
| Due within one year | $ 44,602 | $ 44,761 |
| Due after one year through five years | 110,062 | 110,449 |
| Due after five years through ten years | 27,932 | 28,666 |
| Due after ten years | 16,255 | 17,866 |
| | 198,851 | 201,742 |
| Mortgage-backed securities | 35,477 | 35,394 |
| Total debt securities | $ 234,328 | $ 237,136 |

Proceeds from the sale of investment securities and the related gross realized gains and losses for the years ended December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Proceeds on sales | $ 112,346 | $ 230,976 |
| Gross realized gains | 11,394 | 4,838 |
| Gross realized losses | (27) | (376) |

The Company recognized $(4,477) and $6,548 in net (losses) gains on equity securities held as of December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, 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, 2021** | **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 | 41 | $ 30,586 | $ (244) | 4 | $ 332 | $ (21) | 45 | $ 30,918 | $ (265) |
| Corporate debt securities | 135 | 57,761 | (471) | 1 | 506 | (22) | 136 | 58,267 | (493) |
| Mortgage-backed securities | 27 | 24,555 | (342) | 2 | 940 | (37) | 29 | 25,495 | (379) |
| Total temporarily impaired securities | 203 | $ 112,902 | $ (1,057) | 7 | $ 1,778 | $ (80) | 210 | $ 114,680 | $ (1,137) |

| | 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) |

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 $3,523 and $3,796 as of December 31, 2021 and 2020, 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 within Level 1 of the fair value hierarchy. 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 within Level 2 of the fair value hierarchy.

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 classified within Level 2 of the fair value hierarchy. The estimated fair values of U.S. Treasury securities are classified within Level 1 of the fair value hierarchy as the estimates are based on unadjusted market prices.

The Company’s equity securities and mutual funds that are traded on a major exchange in an active market are classified within Level 1 of the fair value hierarchy.

***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, 2021 and 2020:

| December 31, 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Mutual funds | $ 42,048 | $ — | $ — | $ 42,048 |
| Debt securities: | | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | 16,775 | 37,784 | — | 54,559 |
| Corporate debt securities | — | 147,183 | — | 147,183 |
| Mortgage-backed securities | — | 35,394 | — | 35,394 |
| Total investments | $ 58,823 | $ 220,361 | $ — | $ 279,184 |

| 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 |

The fair value of the Company's other financial instruments, principally cash and cash equivalents, receivables, other current assets and other current payables and accrued expenses approximate their carrying values as of December 31, 2021 and 2020, because of the relative short maturities of such items.

***Nonrecurring Fair Value Measurements***

Certain assets and liabilities, highlighted in Notes 6 and 8, 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. Upon acquisition, net assets acquired, the resulting goodwill and other intangible assets recognized through business combinations are recorded at fair value using Level 3 inputs as of the respective acquisition dates.

## (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, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Current assets | $ 443,796 | $ 376,036 |
| Other noncurrent assets | 4,848 | 5,684 |
| Total assets | $ 448,644 | $ 381,720 |
| Total liabilities | $ 293,099 | $ 240,572 |
| Total equity, including accumulated other comprehensive income of $0 and $3 of December 31, 2021 and 2020, respectively | 155,545 | 141,148 |
| Total Liabilities and equity | $ 448,644 | $ 381,720 |

Summary Statements of Operations for BCC for the years ended December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Premium revenues | $ 1,671,514 | $ 1,260,041 |
| Income from operations | 19,385 | 16,746 |
| Net income | 15,399 | 11,461 |
| Net income attributable to equity method investee | 15,399 | 11,461 |
| Net income attributable to ACHP and Subsidiaries | 7,700 | 5,731 |



(Continued)

## (7) Property and Equipment

Property and equipment, net consists of the following as of December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Land | $ 1,234 | $ 1,234 |
| Building | 10,626 | 10,626 |
| Equipment | 3,353 | 2,904 |
| Software | 4,239 | 3,966 |
| Furniture and fixtures | 8,910 | 8,232 |
| Leasehold improvements | 17,678 | 13,692 |
| Property and equipment, at cost | 46,040 | 40,654 |
| Less accumulated depreciation and amortization | 25,757 | 20,966 |
| Property and equipment, net | $ 20,283 | $ 19,688 |

Depreciation and software amortization expense charged to operations was $3,761 and $3,477 for the years ended December 31, 2021 and 2020, respectively, and is included within General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income.

## (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, 2021 or 2020.

### *Intangible assets, net*

As of December 31, 2021 and 2020, intangible assets, net and the related weighted average amortization periods (in years) are as follows:

| December 31, 2021 | Weighted average amortization period | Gross carrying value | Accumulated amortization | Net carrying value |
|---|---|---|---|---|
| Intangible assets subject to amortization: | | | | |
| Provider networks | 9.3 | $ 12,970 | $ (11,061) | $ 1,909 |
| Licenses | 10.0 | 263 | (263) | — |
| Contracts | 9.0 | 7,571 | (6,504) | 1,067 |
| Intangible assets not subject to amortization: | | | | |
| Trade names | — | 25,030 | — | 25,030 |
| Intangible assets, net | | $ 45,834 | $ (17,828) | $ 28,006 |

| 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 | 9.3 | 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 names | 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 |

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 $2,250 and $9,337 for the years ended December 31, 2021 and 2020, respectively, and is included within General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income.

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 Consolidated Statement of Operations and Comprehensive Income.

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

| | |
|---|---|
| 2022 | $ 1,330 |
| 2023 | 1,034 |
| 2024 | 384 |
| 2025 | 228 |
| 2026 | — |

## (9) Accrued Medical Expenses

Activity in accrued medical expenses is summarized as follows:

| | 2021 | 2020 |
|---|---|---|
| Balance, beginning of year | $ 1,164,293 | $ 781,294 |
| Premium deficiency reserve, beginning of year | (5,461) | (16,000) |
| Incurred related to: | | |
| Current year | 8,632,439 | 7,088,174 |
| Prior year | (263,058) | (104,743) |
| Total incurred | 8,369,381 | 6,983,431 |
| Paid related to: | | |
| Current year | 7,210,454 | 6,009,762 |
| Prior year | 860,858 | 580,131 |
| Total paid | 8,071,312 | 6,589,893 |
| Premium deficiency reserve, end of year | 3,895 | 5,461 |
| Balance, end of year | $ 1,460,796 | $ 1,164,293 |

Reserves for incurred claims attributable to insured events of prior periods decreased by $263,058 from $1,158,832 in 2020 to $895,774 in 2021 and decreased by $104,741 from $765,294 in 2019 to $660,553 in 2020. Changes in estimates of incurred claims for prior years are primarily attributable to reserving under moderately adverse conditions coupled with changes in utilization and loss development trends. A significant portion of the favorable development in 2021 is attributable to the increased degree of uncertainty inherent in the Company's assumptions of utilization and incurred medical costs as a result of the COVID-19 Pandemic. 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 an increase (decrease) to premium revenues of $2,936 and $(13,359) for the years ended December 31, 2021 and 2020, respectively.

Accrued medical expenses include IBNR plus expected development on reported claims of $1,111,961 and $876,014 as of December 31, 2021 and 2020, respectively. Substantially all of the IBNR plus expected development on reported claims as of December 31, 2021 and 2020 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, 2021 and 2020:

| | Incurred Claims, Net of Reinsurance For the Years ended December 31, | |
|---|---|---|
| **Date of Service** | **2020** | **2021** |
| | (Unaudited) | |
| 2020 | $ 7,078,214 | $ 6,815,156 |
| 2021 | | 8,632,439 |
| Total incurred | | $ 15,447,595 |

| | Cumulative Paid Claims, Net of Reinsurance For the Years ended December 31, | |
|---|---|---|
| **Date of Service** | **2020** | **2021** |
| | (Unaudited) | |
| 2020 | $ 5,920,489 | $ 6,781,347 |
| 2021 | | 7,210,454 |
| Total paid | | $ 13,991,801 |
| Net remaining outstanding liabilities prior to 2020 | | 1,107 |
| Premium deficiency reserve | | 3,895 |
| Accrued medical expenses | | $ 1,460,796 |

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 1,516,053 and 1,286,003 for the years ended December 31, 2021 and 2020, 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 $1,246 and $1,550 as of December 31, 2021 and 2020, respectively, and are recognized within Other current assets on the accompanying Consolidated Balance Sheets.



(Continued)

Direct and ceded premiums earned for the years ended December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Direct | $ 9,950,632 | $ 8,192,293 |
| Ceded | (4,102) | (4,216) |
| Premium | $ 9,946,530 | $ 8,188,077 |

The impact of reinsurance on medical expenses for the years ended December 31, 2021 and 2020 is as follows:

| | 2021 | 2020 |
|---|---|---|
| Direct | $ 8,372,277 | $ 6,979,780 |
| Ceded | (4,462) | (6,888) |
| Medical expenses | $ 8,367,815 | $ 6,972,892 |

## (11) Income Taxes

The components of income tax (benefit) expense for the years ended December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Current: | | |
| Federal | $ 7,719 | $ (17,007) |
| State | 39,745 | 14,509 |
| Total current | 47,464 | (2,498) |
| Deferred: | | |
| Federal | (9,064) | (687) |
| State | 1,962 | (173) |
| Total deferred | (7,102) | (860) |
| Income tax expense (benefit) | $ 40,362 | $ (3,358) |

A reconciliation of income tax at the statutory federal rate to income tax at the effective rate for the years ended December 31, 2021 and 2020 is as follows:

| | 2021 | 2020 |
|---|---|---|
| Income tax expense at the statutory federal rate | $ 92,931 | $ 28,615 |
| Less partnership and disregarded entities | (1,617) | (1,203) |
| Adjustments to income taxes resulting from: | | |
| State and local income tax, net of federal tax benefits | 31,404 | 16,944 |
| Nondeductible health insurer fee [1] | — | 15,996 |
| Effect of changes in tax accounting methods (discussed herein) | — | (13,883) |
| Change in valuation allowance | (82,041) | (50,297) |
| Nondeductible expenses and other | (315) | 470 |
| Income tax expense (benefit) | $ 40,362 | $ (3,358) |

[1] The health insurance industry fee assessment is not deductible for income tax purposes. The Company was not required to pay the fee in 2021, as further discussed in Note 2.

Components of deferred income taxes as of December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 42,412 | $ 122,734 |
| Estimated claims incurred but not reported | 9,465 | 8,510 |
| Acquisition and start-up costs | 2,665 | 3,092 |
| Prepaid expenses | — | 587 |
| Other | 7,398 | 2,958 |
| Gross deferred tax assets | 61,940 | 137,881 |
| Valuation allowance | (30,659) | (112,700) |
| Gross deferred tax assets after valuation allowance | $ 31,281 | $ 25,181 |
| Deferred tax liabilities: | | |
| Intangible assets | $ 3,934 | $ 4,455 |
| Deferred gain on business combination | 6,982 | 7,216 |
| Premium deficiency reserves | 3,136 | 4,006 |
| Unrealized investment gains recognized in other comprehensive income | 490 | 1,780 |
| Unrealized gains on equity securities | 1,784 | 2,900 |
| Prepaid expenses | 976 | — |
| Other | 5,751 | 4,824 |
| Gross deferred tax liabilities | 23,053 | 25,181 |
| Deferred tax assets | $ 8,228 | $ — |



(Continued)

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 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. During the year ended December 31, 2020, BMH filed Form 3115 with the Internal Revenue Service (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 on the accompanying Consolidated Statement of Operations and Comprehensive Income.

The Company recorded a valuation allowance of $30,659 and $112,700 as of December 31, 2021 and 2020, 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 Company's valuation allowance and NOL carryforwards as of December 31, 2021 was driven by the conversion of AmeriHealth Caritas Iowa, Inc., a wholly owned subsidiary of BMH, to a limited liability company (LLC), AmeriHealth Caritas Iowa, LLC (the Conversion). Pursuant to Section 332 of Chapter I of the IRS' Department of the Treasury Code of Federal Regulations, the Conversion qualifies as a liquidation (the 332 Liquidation) wherein the liquidated subsidiary's NOL carryovers, earnings and profits, capital loss carryovers and other tax methods and tax attributes are assigned to the acquiring entity. The 332 Liquidation permitted the Company to use AmeriHealth Caritas Iowa, LLC's NOL of $354,239 to reduce the Company's consolidated taxable income for the year ended December 31, 2021.

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

| Year of Expiration | Federal NOL Carryforwards | State NOL Carryforwards |
|---|---|---|
| 2034 | $ 10,816 | $ — |
| 2035 | 96,898 | 87,958 |
| 2036 | 15,996 | 5,597 |
| 2037 | 7,227 | 39 |
| 2038 | 44,758 | 44,737 |
| 2039 | 88 | 35,668 |
| 2041 | 83 | 83 |
| | $ 175,866 | $ 174,082 |

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. The above-mentioned NOL carryforwards are available to offset future federal taxable income of the Company, if any, through 2041.

Federal tax years 2018 through 2021 are open for examination as of December 31, 2021.

## (12) Transactions with Related Parties

The Company provides PBM services and supplies specialty pharmacy drugs to BCC, certain subsidiaries of IHG and KFHP. On a quarterly basis, the Company remits to its customers, pharmacy rebates billed and collected on behalf of its customers' members.

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. 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.

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 IRS for the month in which the loan was made (0.43% and 0.20% as of December 31, 2021 and 2020, 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.

As discussed in Note 2, Vista maintains the risk-based contracts with DHS and CMS to provide prepaid healthcare services to eligible Medicaid and Medicare enrollees, respectively, within the Commonwealth of Pennsylvania. Included in the Company's premium revenues are member premium payments collected from DHS and CMS and remitted to the Company by Vista for services provided under its subcontracts with the Company. Also included in the Company's operating results are costs related to administrative services provided by Vista under the subcontract with the Company, as well as monies received from the state in

which the Company operates, as reimbursement of the non-deductible tax effects of HIF, as discussed in Note 2.

The Company received capital contributions in the amount of $155,000 for the year ended December 31, 2020.

For the years ended December 31, 2021 and 2020, the Company recorded the following activity with its related parties in the accompanying Consolidated Statements of Operations and Comprehensive Income:

| Related Party | Transaction Type | 2021 | 2020 | Financial Statement Line Item |
|---|---|---|---|---|
| Vista | Member premium payments | $ 3,895,689 | $ 3,482,502 | Premium revenues |
| BCC | PBM services | 10,184 | 8,157 | Management services |
| KFHP | PBM services | 25,234 | 26,053 | Management services |
| IHG & Subsidiaries | PBM services | 961 | 933 | Management services |
| BCC | Specialty pharmacy drugs | 69,444 | 46,712 | Pharmacy sales |
| KFHP | Specialty pharmacy drugs | 142,068 | 126,615 | Pharmacy sales |
| IHG & Subsidiaries | Specialty pharmacy drugs | 27,587 | 13,631 | Pharmacy sales |
| ACS | Administrative services | 579,893 | 459,736 | General and administrative |
| ACS | Personnel costs | 256,735 | 276,107 | General and administrative |
| Vista | Reimbursements of the non-deductible tax effects of HIF | — | 12,057 | General and administrative |
| Vista | Administrative services | 1,185 | 215 | General and administrative |
| KFHP | Interest income | 19 | 207 | Investment income |
| KFHP | Interest expense | 43 | 241 | Other expenses |

As of December 31, 2021 and 2020, the Company had the following amounts due from (to) its related parties in the accompanying Consolidated Balance Sheets:

| Due from affiliates | 2021 | 2020 |
|---|---|---|
| IHG and Subsidiaries | $ 4,133 | $ 1,360 |
| BCC | 1,922 | — |
| | $ 6,055 | $ 1,360 |

| Due to affiliates | 2021 | 2020 |
|---|---|---|
| ACS | $ 112,358 | $ 93,258 |
| KFHP [1] | 7,558 | 28,585 |
| BCC | — | 585 |
| | $ 119,916 | $ 122,428 |

[1] As of December 31, 2020, $32,000 was included in Due to affiliates related to advances to the Company pursuant to a revolving intercompany loan agreement. Accrued interest on loans from affiliates was $5 as of December 31, 2020.

## (13) Line of Credit

Terms used but not defined herein shall have the meanings set forth in the Seventh Amended and Restated Credit Agreement dated as of May 5, 2021 (Seventh Amended Credit Agreement), which amended and

restated the Sixth Amended and Restated Credit Agreement dated as of May 8, 2020 (collectively referred to as the Credit Agreements).

BMH, the Company, KFHP, ACS and the Restricted Borrowers, which consist of certain of the Company's wholly owned subsidiaries, (individually, a Borrower or, collectively, the Borrowers) are parties to the Seventh Amended Credit Agreement with PNC Bank, National Association, as Administrative Agent; PNC Capital Markets, LLC, as Lead Arranger; and other banks (collectively, the Lenders). Each of the Borrowers (other than the Restricted Borrowers) are jointly and severally liable with respect to all indebtedness and obligations arising out of the Seventh Amended Credit Agreement, while each Restricted Borrower is liable only for the indebtedness made to and obligations of such Restricted Borrower under the Seventh Amended Credit Agreement. No collateral is required under the Credit Agreements.

The amended terms of the Seventh Amended 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 $600,000. 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 Seventh Amended Credit Agreement expires on May 3, 2022. Historically, BMH has applied for renewal of each amended credit agreement prior to its expiration date, and management intends currently to apply for renewal of the Seventh Amended Credit Agreement prior to its expiration date. 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) the Daily LIBOR Rate 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 the Seventh Amended Credit Agreement. Applicable Margin under the Base Rate Option equals 25 basis points (0.25%) and under the LIBOR Rate Option and Daily LIBOR Rate Option equals 125 basis points (1.25%). Interest was calculated based on LIBOR plus the applicable margin (interest rates ranging from 1.35% to 1.46% as of December 31, 2021 and 1.77% to 1.86% as of December 31, 2020). For the years ended December 31, 2021 and 2020, interest expense associated with the Credit Agreements was $2,621 and $2,721, respectively, and is included as a component of Other expenses on the accompanying Consolidated Statements of Operations and Comprehensive Income.

Under the Credit Agreements, the Borrowers have certain financial covenants. As of December 31, 2021 and 2020, the Borrowers were in compliance with all these 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, 2021. IHG and BCBSM are Parent Guarantors of all indebtedness and obligations that arise out of the Credit Agreements 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 $30,657 as of December 31, 2021, 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, 2021 and 2020:

| | Year Ended December 31, | |
|---|---|---|
| | **2021** | **2020** |
| Accumulated other comprehensive income, beginning of period | $ 6,163 | $ 2,826 |
| Net unrealized gains on investments arising during the period, net of tax of ($1,712) and ($1,892), respectively | 4,483 | 6,814 |
| Less reclassification adjustment for net gains on investments included in net income, net of tax of $2,837 and $1,032, respectively | (8,530) | (3,477) |
| Other comprehensive (loss) income | (4,047) | 3,337 |
| Accumulated other comprehensive income, end of period | $ 2,116 | $ 6,163 |

## (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.

On the accompanying Consolidated Balance Sheets, the Company's operating lease ROU assets and long-term operating lease liabilities are presented separately, and the current portion of its operating lease liabilities is classified within Accounts payable and accrued expenses. As of December 31, 2021 and 2020, the current portion of the Company's operating lease liabilities was $11,227 and $10,830, respectively.

For the years ended December 31, 2021 and 2020, the Company recognized operating lease costs of $10,840 and $8,150, respectively, within General and administrative on the accompanying Consolidated Statements of Operations and Comprehensive Income.

As of December 31, 2021 and 2020, the weighted average remaining lease terms and the weighted average discount rate on the Company's lease liabilities were as follows:

| | **2021** | **2020** |
|---|---|---|
| Weighted average remaining lease term (in years) | 2.74 | 3.62 |
| Weighted average discount rate | 1.42% | 1.59% |

Maturities of the Company's operating lease liabilities as of December 31, 2021 are as follows:

| **Year ending December 31,** | | |
|---|---|---|
| 2022 | $ | 11,634 |
| 2023 | | 10,146 |
| 2024 | | 6,871 |
| 2025 | | 1,035 |
| 2026 | | 88 |
| Total undiscounted future minimum lease payments | | 29,774 |
| Less imputed interest | | 564 |
| Total operating lease liabilities | $ | 29,210 |

Through December 31, 2020, the Company's allocated portion of rent expense and related expenses for leased shared service facilities to which it was party was charged to the Company through the administrative service agreement with ACS discussed in Note 12. Such allocated expenses approximated $4,789 for the year ended December 31, 2020, which is included in General and administrative on the accompanying Consolidated Statement of Operations and Comprehensive Income.

The Company and KFHP are legal parties to the operating lease agreements for the Airport Business Center (ABC Leases) expiring January 31, 2037. Future undiscounted minimum lease payments under the ABC Leases as of December 31, 2021 are $146,533. 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 noted above. Future lease commitments under the ABC Leases are guaranteed by IHG and BCBSM 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 were not material as of December 31, 2021. 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 17, 2022, 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*.