

# Arizona Physicians IPA, Inc.

Financial Statements as of and for the  
Years Ended December 31, 2023 and 2022,  
Supplemental Schedules as of and for the  
Year Ended December 31, 2023, and  
Independent Auditor's Report

# ARIZONA PHYSICIANS IPA, INC.

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Arizona Physicians IPA, Inc.  
1 East Washington Street, Suite 900  
Phoenix, AZ 85004

### **Opinion**

We have audited the accompanying financial statements of Arizona Physicians IPA, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, comprehensive income, changes in stockholder's equity and accumulated other comprehensive income, and cash flows, for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.

### **Report on Supplemental Schedules**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information in Exhibit I and Exhibit II are not part of financial statements; however, they are a requirement of the Arizona Health Care Cost Containment System who considers these schedules an essential part of financial reporting for purposes of placing the basic financial statement in an appropriate operational, economic, and historical context. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the 2023 financial statements as a whole.



May 14, 2024

# ARIZONA PHYSICIANS IPA, INC.

## BALANCE SHEETS AS OF DECEMBER 31, 2023 AND 2022

	2023	2022
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 329,401,038	\$ 297,084,820
Short-term investments	3,983,625	12,916,942
Premiums receivable	83,041,183	60,910,575
AHCCCS reinsurance receivable	27,592,648	33,679,018
Other contract program receivables	62,478,431	33,419,337
Other receivables — net of allowances of \$1,681,354 and \$2,177,378 in 2023 and 2022, respectively	11,326,526	4,732,772
Related-party receivables — net	3,468,090	-
Investment receivables	6,966,002	8,240,140
Other assets	<u>32,438,420</u>	<u>27,871,775</u>
Total current assets	<u>560,695,963</u>	<u>478,855,379</u>
LONG-TERM ASSETS:		
Long-term investments	907,885,498	815,109,354
Intangible assets — net	18,517,031	20,807,797
Long-term deferred income taxes	<u>12,436,398</u>	<u>15,091,839</u>
Total long-term assets	<u>938,838,927</u>	<u>851,008,990</u>
TOTAL	<u>\$ 1,499,534,890</u>	<u>\$ 1,329,864,369</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
CURRENT LIABILITIES:		
Medical services payable	\$ 313,499,234	\$ 306,805,312
Medicaid risk sharing payable	587,935,008	510,264,046
Other payables to contract programs	117,210,572	29,504,204
Accounts payable and accrued expenses	32,207,321	19,627,405
Related-party payables — net	-	2,666,168
Current federal income taxes payable	<u>8,964,320</u>	<u>10,993,698</u>
Total current liabilities	<u>1,059,816,455</u>	<u>879,860,833</u>
Total liabilities	<u>1,059,816,455</u>	<u>879,860,833</u>
CONTINGENCIES (Note 5)		
STOCKHOLDER'S EQUITY:		
Common stock, \$0.01 par value — 1,000,000 shares authorized; two shares issued and outstanding	-	-
Additional paid-in capital	77,516,394	77,516,394
Retained earnings	392,615,589	415,188,769
Accumulated other comprehensive loss	<u>(30,413,548)</u>	<u>(42,701,627)</u>
Total stockholder's equity	<u>439,718,435</u>	<u>450,003,536</u>
TOTAL	<u>\$ 1,499,534,890</u>	<u>\$ 1,329,864,369</u>

See notes to financial statements.

## ARIZONA PHYSICIANS IPA, INC.

### STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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	2023	2022
REVENUES:		
Capitation and risk-sharing settlements	\$ 4,347,024,557	\$ 3,965,436,854
Delivery supplemental premiums	53,045,927	49,185,178
Investment income — net	<u>63,463,326</u>	<u>26,665,831</u>
Total revenues	<u>4,463,533,810</u>	<u>4,041,287,863</u>
MEDICAL SERVICES EXPENSES — Net	3,781,675,329	3,393,163,794
ADMINISTRATIVE EXPENSES	341,399,667	316,200,909
PREMIUM TAXES	<u>53,736,684</u>	<u>54,459,632</u>
Total expenses	<u>4,176,811,680</u>	<u>3,763,824,335</u>
INCOME BEFORE INCOME TAXES	286,722,130	277,463,528
PROVISION FOR INCOME TAXES	<u>59,295,310</u>	<u>57,353,651</u>
NET INCOME	<u>\$ 227,426,820</u>	<u>\$ 220,109,877</u>

See notes to financial statements.

## ARIZONA PHYSICIANS IPA, INC.

### STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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	2023	2022
NET INCOME	<u>\$ 227,426,820</u>	<u>\$ 220,109,877</u>
OTHER COMPREHENSIVE INCOME (LOSS):		
Gross unrealized holding gains (losses) on investment securities during the period	19,848,896	(72,647,464)
Income tax effect	<u>(4,168,268)</u>	<u>15,255,967</u>
Total unrealized gains (losses) — net of tax	<u>15,680,628</u>	<u>(57,391,497)</u>
Gross reclassification adjustment for net realized gains (losses) included in net earnings	4,294,366	(4,248,254)
Income tax effect	<u>(901,817)</u>	<u>892,133</u>
Total reclassification adjustment — net of tax	<u>(3,392,549)</u>	<u>3,356,121</u>
OTHER COMPREHENSIVE INCOME (LOSS)	<u>12,288,079</u>	<u>(54,035,376)</u>
COMPREHENSIVE INCOME	<u>\$ 239,714,899</u>	<u>\$ 166,074,501</u>

See notes to financial statements.

## ARIZONA PHYSICIANS IPA, INC.

### STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY AND ACCUMULATED OTHER COMPREHENSIVE LOSS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholder's Equity
	Shares	Amount				
BALANCE — January 1, 2022	2	\$ -	\$ 77,516,394	\$ 415,078,892	\$ 11,333,749	503,929,035
Comprehensive income:						
Net income	-	-	-	220,109,877	-	220,109,877
Change in net unrealized losses on investments available-for-sale — net of tax effects and reclassification adjustments	-	-	-	-	(57,391,497)	(57,391,497)
Reclassification adjustments for net realized losses included in net income — net of tax effects	-	-	-	-	3,356,121	<u>3,356,121</u>
Total comprehensive income						<u>166,074,501</u>
Dividends	-	-	-	(220,000,000)	-	<u>(220,000,000)</u>
BALANCE — December 31, 2022	2	-	77,516,394	415,188,769	(42,701,627)	450,003,536
Comprehensive income:						
Net income	-	-	-	227,426,820	-	227,426,820
Change in net unrealized gains on investments available-for-sale — net of tax effects and reclassification adjustments	-	-	-	-	15,680,628	15,680,628
Reclassification adjustments for net realized capital gains included in net income — net of tax effects	-	-	-	-	(3,392,549)	<u>(3,392,549)</u>
Total comprehensive income						<u>239,714,899</u>
Dividends	-	-	-	(250,000,000)	-	<u>(250,000,000)</u>
BALANCE — December 31, 2023	<u>2</u>	<u>\$ -</u>	<u>\$ 77,516,394</u>	<u>\$ 392,615,589</u>	<u>\$ (30,413,548)</u>	<u>\$ 439,718,435</u>

See notes to financial statements.



# ARIZONA PHYSICIANS IPA, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 227,426,820	\$ 220,109,877
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of other intangible assets — net	2,290,767	2,290,767
Amortization of investment premium — net	(2,962,245)	3,010,363
Deferred income taxes — net	(611,010)	(453,079)
(Gains) losses on sale of investments — net	(4,294,366)	4,248,254
Changes in operating assets and liabilities:		
Premiums receivable	(22,130,607)	(8,053,916)
AHCCCS reinsurance receivable	6,086,370	4,760,566
Other contract program receivables	(4,237,906)	(10,172,174)
Other receivables	(6,593,754)	10,908,264
Other assets	(4,566,645)	(2,881,787)
Investment receivables	1,286,607	(4,382,036)
Current income taxes	(2,029,378)	2,265,065
Medical services payable	6,693,922	(8,169,361)
Accounts payable and accrued expenses	12,579,916	5,325,799
Medicaid risk sharing payable	77,670,962	195,158,281
Other payables to contract programs	(29,450,877)	(15,964,121)
Related-party receivables — net	(6,134,258)	25,159,710
Net cash provided by operating activities	<u>251,024,318</u>	<u>423,160,472</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments available-for-sale	(412,351,874)	(487,814,446)
Proceeds from maturities/sales of investments available-for-sale	<u>351,320,187</u>	<u>158,397,336</u>
Net cash used in investing activities	<u>(61,031,687)</u>	<u>(329,417,110)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(250,000,000)	(220,000,000)
AHCCCS funds received	115,817,460	1,922,658
Customer funds (administered) received	(23,481,403)	18,006,615
Applications from other financing activities	<u>(12,470)</u>	<u>(128,753)</u>
Net cash used in financing activities	<u>(157,676,413)</u>	<u>(200,199,480)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	32,316,218	(106,456,118)
CASH AND CASH EQUIVALENTS — Beginning of the year	<u>297,084,820</u>	<u>403,540,938</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 329,401,038</u>	<u>\$ 297,084,820</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE — Cash paid for income taxes	<u>\$ 61,935,698</u>	<u>\$ 55,541,664</u>

See notes to financial statements.

# ARIZONA PHYSICIANS IPA, INC.

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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### 1. ORGANIZATIONAL STRUCTURE AND OPERATION

**Organization** — Arizona Physicians IPA, Inc. (the “Company” or “APIPA”) was incorporated on September 19, 1995. The Company is a wholly owned, for-profit subsidiary of UnitedHealthcare, Inc. (“UHC”). UHC is a wholly owned subsidiary of United HealthCare Services, Inc. (“UHS”), a management corporation that provides services to the Company under the terms of a management agreement (the “Agreement”). UHS is a wholly owned subsidiary of UnitedHealth Group Incorporated (“UHG”). UHG is a publicly held company trading on the New York Stock Exchange.

**Operation** — The majority of the Company’s premium revenues result from its contracts with the Arizona Health Care Cost Containment System (“AHCCCS”). The Company participates in an AHCCCS Complete Care (“ACC”) integrated services contract in two geographic service areas of the state of Arizona. The ACC contract was renewed October 1, 2023 and is a two-year contract with options to extend through September 30, 2027. The Company also provides Arizona Long Term Care System (“ALTCS”) benefits under the AHCCCS ALTCS contract which is currently held in two geographic service areas of the state of Arizona. The current ALTCS contract was renewed October 1, 2023 and is a one-year contract through September 30, 2024. The Company is one of two statewide awardees for a new ALTCS contract that will be effective on October 1, 2024. The initial term of the new Contract shall be for three initial years (October 1, 2024 - September 30, 2027) with four (1) one year options to extend but not to exceed a total contract period of seven years (September 30, 2031).

AHCCCS also provides prior period coverage for the period prior to the member’s enrollment with the Company during which time the member is eligible for covered services.

The Company contracts with the Arizona Department of Economic Security Division for Developmental Disabilities (“DES/DDD”) to provide integrated medical care to developmentally disabled individuals. The DES/DDD contract was renewed October 1, 2023 and is a one year contract with options to extend through September 30, 2029.

Used in conjunction with the AHCCCS and DDD/DES contracts, the Company also has a contract with the Centers for Medicare and Medicaid Services (“CMS”) to serve as a plan sponsor offering a Dual Special Needs Plan (“DSNP”) and a Fully Integrated Dual Eligible Special Needs Plan (“FIDE-SNP”) product. These products are solely funded by CMS. A DSNP is a specialized type of Medicare Advantage Prescription Drug Plan (“MAPD”) that is limited to dually eligible members and provides additional Medicaid coordination and clinical programs. The FIDE-SNP is a DSNP which coordinates the delivery of covered Medicare and Medicaid health and long-term care services, using aligned care management and specialty care network methods for high-risk beneficiaries and employs policies and procedures approved by CMS and the State to coordinate or integrate enrollment, member materials, communications, grievance and appeals, and quality improvement.

### 2. BASIS OF PRESENTATION, USE OF ESTIMATES AND SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** — The Company has prepared the financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

**Use of Estimates** — These financial statements include certain amounts based on the Company’s best estimates and judgments. The Company’s most significant estimates relate to estimates and judgments for medical services expenses, net, AHCCCS reinsurance receivable, medical services payable, Medicaid risk sharing payable, and risk adjustment estimates. Certain of these estimates require the

application of complex assumptions and judgments, often because they involve matters that are inherently uncertain, and will likely change in subsequent periods. The impact of any changes in estimates is included in earnings in the period in which the estimate is adjusted.

**Cash, Cash Equivalents, and Investments** — Cash and cash equivalents are highly liquid investments having an original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments.

Cash equivalents include securities that have original maturity dates of three months or less from the date of acquisition. Cash equivalents also consist of the Company's share of a qualified cash pool sponsored and administered by UHS. The investment pool is recorded at cost or book/adjusted carrying value depending on the composition of the underlying securities. Interest income from the pool accrues daily to participating members based upon ownership percentage. Cash equivalents, excluding money-market funds, are reported at cost or book/adjusted carrying value depending on the nature of the underlying security, which approximates fair value.

Investments with maturities of less than one year are classified as short-term. All other investments are classified as available-for-sale and reported at fair value based on quoted market prices, where available.

The Company excludes unrealized gains and losses on investments in available-for-sale securities from earnings, and reports them as accumulated other comprehensive loss, and net of income tax effects, as a separate component of stockholder's equity. To calculate realized gains and losses on the sale of investments, the Company specifically identifies the cost of each investment sold.

The Company evaluates an investment for impairment by considering the length of time and extent to which market value has been less than cost or amortized cost, the financial condition, and near-term prospects of the issuer, as well as specific events or circumstances that may influence the operations of the issuer, and the Company's intent to sell the security, or the likelihood that it will be required to sell the security, before recovery of the entire amortized cost.

New information and the passage of time can change these judgments. The Company manages its investment portfolio to limit its exposure to any one issuer or market sector, and largely limits its investments to U.S. government and agency obligations; state and municipal obligations; mortgage-backed securities; and corporate obligations, substantially all of which are investment grade quality. Securities downgraded below policy minimums after purchase will be disposed of in accordance with the Company's investment policy.

Investment income earned and due as of the reporting date, in addition to investment income earned but not paid or collected until subsequent periods, is reported as investment receivables in the accompanying balance sheets. The Company evaluates the collectability of the amounts due and amounts determined to be uncollectible are written off in the period in which the determination is made.

Investment income-net includes investment income collected during the period, as well as the change in investment receivables on the Company's holdings. Amortization of premium or discount on bonds, realized gains and losses, and certain external investment management costs are also included in investment income-net in the accompanying statements of operations.

**Intangible Assets — Net** — The Company has a customer-related intangible asset resulting from a membership transfer agreement with Maricopa Integrated Health System which is recorded in intangible assets-net in the accompanying balance sheets. This definite-lived intangible asset is being amortized using the straight line method over the useful life of fifteen years. The amortization amount is recorded to administrative expenses in the accompanying statements of operations.

The Company's intangible asset is subject to impairment tests when events or circumstances indicate that an intangible asset may be impaired. There was no impairment of the intangible asset during the year ended December 31, 2023.

The gross value of the intangible asset as of December 31, 2023 is \$34,361,500, and there has been accumulated amortization of \$15,844,469, for a net value of \$18,517,031. The gross value of the intangible asset as of December 31, 2022 is \$34,361,500, and there has been accumulated amortization of \$13,553,703, for a net value of \$20,807,797.

**Notes Receivable** — The Company has a Receivable Purchase and Servicing Agreement with OptumBank, Inc., an affiliate. The Company agrees to purchase, without recourse, up to \$21,150,000 of notes receivable associated with a real-estate term loan facility ("RETLF") issued to a subsidiary of Chicanos Por la Causa, Inc. ("CPLC"), a non-profit organization. The commercial loans are part of a community development partnership with CPLC. The loans are fixed low-interest notes and mature on July 31, 2024. The loans are collateralized by the properties invested in by CPLC. Interest payments are made in arrears at the end of each quarter.

The loans are stated at outstanding principal. There are no origination costs incurred by the Company or allowance recorded on the receivable as of December 31, 2023 or December 31, 2022. The Company has the ability and the intent to hold the loans for the foreseeable future, until maturity, or payoff.

There are two outstanding notes receivable, \$14,303,219 originating on February 9, 2016 and \$6,451,659 originating on April 15, 2016. The receivables are reported as other assets in the accompanying balance sheets as of December 31, 2023 and December 31, 2022, respectively. Generally, a loan is identified as impaired when it is probable that the Company will be unable to collect all amounts due (including both interest and principle) according to the contractual terms of the loan agreement. No impairments were identified as of December 31, 2023 or December 31, 2022. The interest earned for these outstanding notes was \$558,784 and \$443,537 for the years ended December 31, 2023 and December 31, 2022, respectively, and reflected as investment income-net within the accompanying statements of operations.

**Premium Revenues** — Capitation and risk-sharing settlements and delivery supplemental premiums are contractual. Capitation revenues are generally paid in advance of the coverage period in which benefits are to be provided and are earned and recognized during the applicable coverage period regardless of whether services are incurred. The majority of premium revenues recorded are based on capitated rates, which are monthly premiums paid for each member enrolled.

Premium revenue from AHCCCS and DDD/DES may include capitation for members' medical and behavioral coverage, reconciliation of costs, premium taxes, and other contractual program requirements as described further in Note 2. These revenues are recorded as capitation and risk-sharing settlements in the accompanying statements of operations.

Prospective capitation from the ALTCS contract is paid for those members who are receiving long-term care services and reside in a nursing facility, a certified home and community based setting ("HCBS") or in their own home.

Additionally, the prospective capitation incorporates an assumed deduction for the Share of Cost ("SOC"), which members contribute to the cost of care based on their income and type of placement. The Company and its contracted providers collect members' SOC directly from members. After the end of the contract year, AHCCCS compares actual SOC assignment to the SOC assignment assumed in the calculation of the prospective capitation rate. Assumed SOC will be fully reconciled to actual SOC assignment, and AHCCCS will either recoup or refund the total difference, as applicable. The Company recorded \$2,600,407 and \$312,353 related to member SOC redetermination offsetting premiums receivable in the accompanying balance sheets at December 31, 2023 and 2022, respectively. The change in receivable is recorded as an offset to capitation and risk sharing settlements in the accompanying statement of operations.

Delivery supplemental premium payments are per delivery and intended by AHCCCS to cover the cost of maternity care. Such premiums are recognized in the month that the delivery occurs and are recorded as delivery supplemental premiums in the accompanying statements of operations and premiums receivable in the accompanying balance sheets.

**Medicaid Risk Sharing** — Due to the uncertainty regarding actual utilization and medical cost experience, AHCCCS limits the financial risk of the Company through risk share reconciliations. The Company has reconciliations with AHCCCS for each contract year to adjust for costs in excess or deficit of certain limits established by the contract.

The reconciliation for ACC, ALTCS and DES/DDD members is tiered beginning at 2% gains or losses. AHCCCS will recoup different percentages of gains in intervals up to profits of 6%, and 100% of gains over 6%. AHCCCS will repay all losses greater than 2%. The reconciliation includes both prospective and prior period coverage.

Receivables or payables and the corresponding revenues or contra-revenues are recorded depending on the calculation in accordance with the contract. The Company estimated Medicaid risk sharing payables of \$587,935,008 and \$510,264,046 on the accompanying balance sheets as of December 31, 2023 and 2022, respectively. The change in estimated risk share of \$(150,152,527) and \$(265,646,082) in 2023 and 2022, respectively, is recorded as a decrease to capitation and risk-sharing settlements in the accompanying statements of operations.

**Medicare Advantage Benefits** — The Company receives seven different payment elements from CMS for the DUALS and FIDE-SNP members either during the year or at final settlement in the subsequent year: CMS premium, member premium, CMS low-income premium subsidy, CMS catastrophic reinsurance subsidy, CMS low-income member cost-sharing subsidy, CMS risk share, and the CMS coverage gap discount program.

The CMS premium, member premium, and low-income premium subsidy represent payments for the Company's insurance risk coverage under the program and are therefore recorded as capitation and risk-sharing settlements in the accompanying statements of operations. Premium revenues are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. The Company records premium payments received in advance of the applicable service period in other payables to contract programs in the accompanying balance sheets.

CMS utilizes a risk adjustment model that apportions premiums paid to all health plans according to health severity and certain demographic factors of its enrollees. The CMS risk adjustment model pays more for members whose medical history indicates they have certain medical conditions. Under this risk adjustment methodology, CMS calculates the risk-adjusted premium payment using diagnosis data from hospital inpatient, hospital outpatient, and physician treatment settings. The Company and health care providers collect, capture, and submit the necessary and available diagnosis data to CMS within prescribed deadlines. If diagnosis data submitted to CMS needs to be corrected or deleted, the revised diagnosis data can be re-submitted. The Company recognizes such changes when the amounts become determinable and supportable. The estimated risk adjusted payments due to the Company at December 31, 2023 and 2022, were \$84,428,562 and \$66,405,325 respectively, and are recorded as premiums receivable in the accompanying balance sheets. The Company recognized \$2,133,932 and \$5,218,448 for changes in prior year Medicare risk factor estimates during the years ended December 31, 2023 and 2022, respectively, which is recorded as capitation and risk-sharing settlements within the accompanying statements of operations.

The catastrophic reinsurance subsidy and the low-income member cost sharing subsidy ("Subsidies") represent cost reimbursements under the Medicare Part D program. The Company is fully reimbursed by CMS for costs incurred for these contract elements, and accordingly, there is no insurance risk to the Company. Subsidies for individual members are accounted for as deposits in other contract program receivables in the accompanying balance sheets. The Company recorded \$23,482,257 in other contract program receivables and \$12,285,230 in other payables to contract programs as of December 31, 2023

and 2022, respectively, for cost reimbursements under the Medicare Part D program for the catastrophic reinsurance and low-income member cost sharing subsidies. Related cash flows are presented as customer funds received and other payables to contract programs in the accompanying statements of cash flows.

Pharmacy benefit costs and administrative costs under the contract are expensed as incurred, and are recognized in medical services expenses and administrative expenses, respectively, in the accompanying statements of operations.

The Company has Medicare Part D risk-corridor amounts from CMS which are subject to a retrospectively rated feature related to Part D premiums. The Company has estimated accrued retrospective premiums related to certain Part D premiums based on guidelines determined by CMS. The formula is tiered and based on bid medical loss ratio.

The Company recorded an estimated CMS Part D risk share adjustment receivable of \$2,486,169 and \$264,057 as other contract program receivables in the accompanying balance sheets in 2023 and 2022, respectively and as an increase to capitation and risk-sharing settlements in the accompanying statements of operations. The amount of Part D premiums subject to retrospective rating was \$64,538,859 and \$61,518,391 for the years ended December 31, 2023 and 2022, respectively, representing 1% and 2% of total revenues, excluding investment income, as of December 31, 2023 and 2022, respectively.

Medicare Plans with medical loss ratios on fully insured products, as calculated under the definitions in the Affordable Care Act (“ACA”) and implementing regulations, that fall below certain targets are required to rebate ratable portions of premiums annually. The Company records estimated amounts payable for rebates on the Medicare plan as other payables to contract programs in the accompanying balance sheets and as a decrease to capitation and risk-sharing settlements in the accompanying statements of operations. The Company estimated payables of \$0 and \$17,198,968 as of December 31, 2023 and 2022, respectively.

**Alternative Payment Model (“APM”)** — AHCCCS administers the APM, a quality and performance incentive program for both providers and contractors.

As part of the APM, 1% of gross prospective capitation from all contractors in Arizona is at-risk to be redistributed based upon each contractor’s performance on selected Quality Management Performance Measures as determined by AHCCCS. AHCCCS will recoup the amounts due from contractors to be redistributed once reconciliation for the contract period is complete. The Company accrued a payable for revenues it expects to be recouped. The Company recorded \$4,839,840 and \$4,582,494 which were net against other APM receivables in other contract program receivables in the accompanying balance sheets as of December 31, 2023 and 2022, respectively. These amounts are recorded as capitation and risk-sharing settlements in the accompanying statements of operations.

The APM initiative also requires the Company to have a certain percentage of payments governed by APM strategies and performance-based incentives linked to quality and value. The Company manages APMs in which providers are rewarded for performing well on quality metrics and where providers share in a proportion of the savings they generate against cost and utilization targets. The Company accrued \$20,979,038 and \$16,540,661 in medical services payable in the accompanying balance sheets for this program as of December 31, 2023 and 2022, respectively. Amounts incurred are reported in medical services expenses, net in the accompanying statements of operations.

AHCCCS refunds the Company for performance-based payments to providers in subsequent period capitation payments. The Company accrues the estimated refund of \$39,811,268 and \$40,098,017 as other contract program receivables in the accompanying balance sheets as of December 31, 2023 and December 31, 2022, respectively. These refunds are recorded as capitation and risk-sharing settlements in the accompanying statements of operations.

**Administration of AHCCCS Funds** — The Company receives funds from AHCCCS to specific provider populations which are accounted for as other contract program receivables and other payables to contract programs on the accompanying balance sheets.

**Rural Hospital Enhancement Payments** — The Company entered into an agreement with AHCCCS in which it will pass-through supplemental inpatient reimbursement payments to qualifying rural hospitals as determined by AHCCCS. AHCCCS remits payment and informs the Company of the amount to be paid to each provider.

**Nursing Facility Enhanced Payments** — The Company entered into an agreement with AHCCCS to provide nursing facilities additional support through matched federal funds. The Company makes quarterly lump sum payments to ALTCS providers based on reported bed days, which is matched by increased payments from AHCCCS.

**Targeted Investment Program** — The Company is required to provide incentives to participating providers, specifically for physical and behavioral health care integration and coordination. The Targeted Investment program is funded through a lump sum payment from AHCCCS equal to the payment due to the providers plus an administrative service payment to the Company.

**Access to Professional Services Initiative (“APSI”)** — The Company is required to pass through professional services designed to preserve and enhance access and support professional training and education efforts to specific professionals. The APSI is funded through a lump sum payment from AHCCCS equal to payments due to the Qualified Practitioners affiliated with designated hospitals.

**EPD HCBS Directed Payments** — AHCCCS is directing subsidy payments to direct care staff. The payments to providers will be refunded by AHCCCS in the following contract year risk corridor settlement process.

**Pediatric Services Initiative (“PSI”)** — The Company entered into an agreement with AHCCCS in which it will pass through dollars to qualified children’s hospitals in order to preserve and promote access to inpatient and outpatient medical services.

**Hospital Enhanced Access Leading to Health Improvements Initiative (“HEALTHII”)** — The Company entered into an agreement with AHCCCS to provide enhanced support to hospitals in order to preserve and enhance access to these facilities that deliver essential services to Medicaid members in Arizona.

**American Rescue Plan Act (“ARPA”)** — The company entered into an agreement with AHCCCS to pass through federal dollars to providers as a result of Section 9817 of the federal ARPA legislation that provides qualifying states with a temporary increase to the Federal Medical Assistance Percentage for certain Medicaid expenditures for HCBS.

**COVID Reimbursement** — AHCCCS will reimburse the company for COVID-19 vaccine cost, if not provided by the Federal government at no charge, and Vaccine Administration Costs made by the Company for ACC, ALTCS, and DES/DDD members for contract year 2023.

The Company recorded \$2,159,059 and \$810,376 in other contract program receivables as of December 31, 2023 and 2022, respectively and \$117,191,846 and \$34,603 in other payables to contract programs as of December 31, 2023 and 2022, respectively on the accompanying balance sheets related to the administration of AHCCCS Funds. The corresponding net impact of funds transferred are recorded as AHCCCS funds received in the accompanying statements of cash flows.

**Community Reinvestment** — The Company is required to allocate 6% of annual net profits, on a contract-year-to-date basis, to community reinvestment activities on the ACC, ALTCS, and DES/DDD contracts. Community reinvestment activities are programs that work towards improving social

determinants of health, such as access to health services and improving public health. The Company recorded \$21,337,320 and \$15,261,069 in accounts payable and accrued expenses on the accompanying balance sheets related to this program as of December 31, 2023 and 2022, respectively.

**Medical Services Expenses, Net and Medical Services Payable** — The Company's estimate of medical services payable represents management's best estimate of its liability for unpaid medical services as of December 31, 2023 and 2022.

Each period, the Company re-examines previously established medical services payable estimates based on actual claim submissions and other changes in facts and circumstances. As more complete claims information becomes available, the Company adjusts the amount of the estimates and includes the changes in estimates in medical services expenses, net in the period in which the change is identified.

The estimates for incurred but not yet reported claims are developed using an actuarial process that is consistently applied, centrally controlled, and automated. The actuarial models consider factors such as historical submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates, and other relevant factors. The Company estimates such liabilities for physician, hospital, and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. These estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. The Company did not change actuarial methods during 2023 and 2022. Management believes the amount of claims unpaid and aggregate health claim reserves is a best estimate of the Company's liability for unpaid claims and aggregate health claim reserves as of December 31, 2023; however, actual payments may differ from those established estimates.

The Company contracts with hospitals, physicians, and other providers of health care under capitated or discounted fee for service arrangements, including a hospital per diem to provide medical care services to enrollees. Some of these contracts are with related parties (see Note 8). Capitated providers are at risk for the cost of medical care services provided to the Company's enrollees; however, the Company is ultimately responsible for the provision of services to its enrollees should the capitated provider be unable to provide the contracted services.

**AHCCCS Reinsurance** — AHCCCS Reinsurance is a stop-loss program provided by AHCCCS for the partial reimbursement of covered medical services and those costs incurred beyond an annual deductible per member. AHCCCS provides regular reinsurance so long as the member incurred an inpatient stay, catastrophic reinsurance for those members receiving certain drugs or diagnosed with specific disorders, transplant reinsurance and other reinsurance.

The ACC, ALTCS, and DES/DDD contracts require the respective agencies to reimburse the Company 75% (85% for catastrophic cases for ACC and DES/DDD contracts) of qualified health care costs in excess of a recovery deductible. The deductibles applied are \$150,000 for DES/DDD, ALTCS, and ACC. Prior to October 1, 2023, the deductible for ACC, ALTCS, and DES/DDD were \$75,000. For cases where qualified medical out-of-pocket expense exceeds \$1,000,000 the Company is reimbursed for 100% of the expense.

Recoveries from AHCCCS are recorded at estimated amounts due to the Company pursuant to contractual terms. The Company reports estimated recoveries from AHCCCS as AHCCCS reinsurance receivable in the accompanying balance sheets which are offset against medical services expenses in the accompanying statements of operations.

**Administrative Expenses and Premium Taxes** — Administrative expenses include general expenses required for the operations of the Company, including fees paid under agreements to affiliates (see Note 8), claims adjustment expenses, and health insurance industry tax. Premium taxes are incurred on the AHCCCS contractual premiums and are generally covered by an increase in capitated premiums.



Claims adjustment expenses are those costs expected to be incurred in connection with the adjustment and recording of health claims. Pursuant to the terms of the Agreement, the Company pays a management fee to its affiliate, UHS, in exchange for administrative and management services. It is the responsibility of UHS to pay loss adjustment expenses in the event the Company ceases operations. Management believes the amount of the liability for unpaid claims adjustment expenses and associated claims interest as of December 31, 2023 is adequate to cover the Company's cost for the adjustment of unpaid claims; however, actual expenses may differ from those established estimates. Adjustments to the estimates for unpaid claims adjustment expenses are reflected in operating results in the period in which the change in estimate is identified. As of December 31, 2023 and 2022, the unpaid claims adjustment expenses included in the accompanying balance sheets in the accounts payable and accrued expenses line item is \$3,250,619 and \$3,321,060, respectively. Claims adjustment expenses are included in administrative expenses in the accompanying statements of operations.

**Premium Deficiency Reserve** — The Company assesses the ability for anticipated premiums to exceed health care related costs, including estimated payments for physicians and hospitals, and costs of collecting premiums and processing claims. If the anticipated future costs exceed the premiums, a loss contract accrual is recognized. The Company has no amounts recorded for premium deficiency reserves as of December 31, 2023 and 2022.

**Concentration of Business and Credit Risk** — Future contract awards are contingent upon the continuation of the ACC, ALTCS, and DES/DDD programs by AHCCCS and the State of Arizona, and the continuation of the CMS Medicare Advantage program along with the Company's ability and desire to retain its status as a contractor under the programs. For the years ended December 31, 2023 and 2022, all of the Company's total revenues and receivables were from these programs (see Note 1).

Premiums from the ACC, Medicare, and ALTCS contracts of \$2,184,826,529, \$1,496,024,113, and \$454,679,937, respectively, represent 50%, 34%, and 10% of total revenues, excluding investment income, for the year ended December 31, 2023. Premiums from the ACC, Medicare, and ALTCS contracts of \$2,200,311,257, \$1,180,165,625, and \$401,922,645, respectively, represent 55%, 29%, and 10% of total revenues, excluding investment income, for the year ended December 31, 2022. All other contracts represent less than 10% of total revenues, excluding investment income.

Concentration of credit risk with respect to receivables is limited due to the fact that AHCCCS, DES/DDD, and CMS are government agencies.

**Recently Issued Accounting Standards** — The Company reviewed all recently issued guidance in 2023 and 2022 that has been adopted for 2023 or subsequent years' implementation and has determined that none of the items would have a significant impact to the financial statements.

### 3. PERFORMANCE BONDS

Pursuant to its contracts with AHCCCS, DES/DDD, and CMS, the Company is required annually to provide performance bonds, in an acceptable form, to guarantee performance of the Company's obligations under certain contracts. To satisfy this requirement, the Company maintained surety bonds in 2023 and 2022 in the amounts of \$319,000,000 and \$307,000,000, respectively. The bonds are unsecured and require no Company assets to secure the obligations.

#### 4. MEDICAL SERVICES PAYABLE ANALYSIS

The following table shows the components of the change in medical services payable for the years ended December 31, 2023 and 2022. Claim payments are presented net of health care receivables, including stop-loss recoveries, claim overpayment receivables, and pharmacy rebate receivables.

	<b>2023</b>	<b>2022</b>
Medical services payable, beginning of year	\$ <u>306,805,312</u>	\$ <u>314,974,673</u>
Reported medical services:		
Current year	3,796,103,071	3,421,410,158
Prior years	<u>(14,427,742)</u>	<u>(28,246,364)</u>
Total reported medical services	<u>3,781,675,329</u>	<u>3,393,163,794</u>
Claim payments:		
Payments for current year	(3,484,519,744)	(3,113,793,927)
Payments for prior years	<u>(290,461,663)</u>	<u>(287,539,228)</u>
Total claim payments	<u>(3,774,981,407)</u>	<u>(3,401,333,155)</u>
Medical services payable, end of year	\$ <u>313,499,234</u>	\$ <u>306,805,312</u>

There has been \$14,427,742 of favorable prior year development from December 31, 2022 to December 31, 2023. The primary drivers consist of favorable development of \$18,259,940 as a result of a change in provision for adverse deviations in experience and favorable development of \$6,126,677 in AHCCCS reinsurance recoveries. This was partially offset by unfavorable development of \$7,180,437 in risk share activity, \$3,027,863 in pharmacy rebates, and \$982,132 in retroactivity for inpatient, outpatient, physician, and pharmacy claims.

At December 31, 2022, the Company recorded \$28,246,364 of favorable prior year development primarily driven by favorable development of \$18,264,350 as a result of a change in provision for adverse deviations in experience, favorable development of \$10,663,620 in AHCCCS reinsurance recoveries, and favorable development of \$6,912,930 in retroactivity for inpatient, outpatient, physician, and pharmacy claims. This was partially offset by unfavorable development of \$4,214,006 in risk share activity and unfavorable development of \$3,226,217 in pharmacy rebates. Original estimates are increased or decreased, as additional information becomes known regarding individual claims.

Medical costs payable included incurred but not reported ("IBNR") of \$235,059,032 and \$238,946,340 at December 31, 2023 and 2022, respectively. Substantially all of the IBNR balance as of December 31, 2023 relates to the current year. The following is information about incurred and paid medical cost development as of December 31, 2023:

Year	<b>Net Incurred Medical Costs</b>	
	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2023</b>
2022	\$ 3,421,410,158	\$ 3,410,434,024
2023	<u>-</u>	<u>3,796,103,071</u>
Total	<u>\$ 3,421,410,158</u>	<u>\$ 7,206,537,095</u>

Year	Net Cumulative Medical Payments For the Year Ended December 31	
	2022	2023
2022	\$ (3,113,793,927)	\$ (3,408,478,257)
2023		<u>(3,484,519,744)</u>
Total		(6,892,998,001)
Net remaining outstanding liabilities prior to 2022		<u>(39,860)</u>
Total medical costs payable		<u>\$ 313,499,234</u>

## 5. CONTINGENT LIABILITIES AND GOVERNMENT REGULATIONS

The Company's business is regulated at the federal, state, and local levels. The laws and rules governing the Company's business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. Further, the Company must obtain and maintain regulatory approvals to market and sell many of its products.

The Company has been, or is currently involved, in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments, and other governmental authorities. The Company cannot reasonably estimate the range of loss, if any, that may result from any material government investigations, audits and reviews in which it is currently involved given the inherent difficulty in predicting regulatory action, fines and penalties, if any, and the various remedies and levels of judicial review available to the Company in the event of an adverse finding.

On February 14, 2017, the DOJ announced its decision to pursue certain claims within a lawsuit initially asserted against UHG and filed under seal by a whistleblower in 2011. The whistleblower's complaint, which was unsealed on February 15, 2017, alleges that UHG made improper risk adjustment submissions and violated the False Claims Act. On February 12, 2018, the court granted in part and denied in part UHG's motion to dismiss. In May 2018, the DOJ moved to dismiss UHG's counterclaims, which were filed in March 2018, and moved for partial summary judgment. In March 2019, the court denied the government's motion for partial summary judgment and dismissed UHG's counterclaims without prejudice. UHG cannot reasonably estimate the outcome that may result from this matter given its procedural status.

Because of the nature of its businesses, the Company is frequently made party to a variety of legal actions and regulatory inquiries, including class actions and suits brought by members, care providers, consumer advocacy organizations, customers and regulators, relating to the Company's businesses, including management and administration of health benefit plans and other services.

The Company records liabilities for its estimates of probable costs resulting from these matters where appropriate. Estimates of costs resulting from legal and regulatory matters involving the Company are inherently difficult to predict, particularly where the matters involve: indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present novel legal theories or represent a shift in regulatory policy; involve a large number of claimants or regulatory bodies; are in the early stages of the proceedings; or could result in a change in business practices. Accordingly, the Company is often unable to estimate the losses or ranges of losses for those matters where there is a reasonable possibility or it is probable that a loss may be incurred. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions will not have a material adverse effect on the accompanying financial statements of the Company.

The Company routinely evaluates the collectability of all receivable amounts included in the accompanying balance sheets. Impairment reserves are established for those amounts where collectability is uncertain. Based on the Company's past experience, exposure related to uncollectible balances and the potential of loss for those balances not currently reserved for is not material to the Company's financial condition.

There are no assets that the Company considers to be impaired at December 31, 2023 and 2022.

## 6. INVESTMENTS

A summary of investments by major security type is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2023</b>				
Debt securities — available-for-sale:				
U.S. government and agency obligations	\$ 95,096,871	\$ 75,213	\$ 1,723,045	\$ 93,449,039
State and municipal obligations	204,914,537	879,306	6,740,586	199,053,257
Corporate obligations	366,007,077	460,034	14,609,417	351,857,694
U.S. agency mortgage-backed securities	218,859,442	467,807	13,006,924	206,320,325
Non-U.S. agency mortgage-backed securities	<u>65,225,432</u>	<u>-</u>	<u>4,036,624</u>	<u>61,188,808</u>
Total debt securities — available-for-sale	<u>950,103,359</u>	<u>1,882,360</u>	<u>40,116,596</u>	<u>911,869,123</u>
Total investments	<u>\$ 950,103,359</u>	<u>\$ 1,882,360</u>	<u>\$ 40,116,596</u>	<u>\$ 911,869,123</u>
<b>December 31, 2022</b>				
Debt securities — available-for-sale:				
U.S. government and agency obligations	\$ 8,409,919	\$ -	\$ 1,152,251	\$ 7,257,668
State and municipal obligations	272,996,739	1,737,072	11,625,728	263,108,083
Corporate obligations	401,325,688	196,497	23,615,469	377,906,716
U.S. agency mortgage-backed securities	126,286,046	265,423	14,325,976	112,225,493
Non-U.S. agency mortgage-backed securities	<u>72,796,669</u>	<u>-</u>	<u>5,268,333</u>	<u>67,528,336</u>
Total debt securities — available-for-sale	<u>881,815,061</u>	<u>2,198,992</u>	<u>55,987,757</u>	<u>828,026,296</u>
Total investments	<u>\$ 881,815,061</u>	<u>\$ 2,198,992</u>	<u>\$ 55,987,757</u>	<u>\$ 828,026,296</u>

The amortized cost and fair value of available-for-sale debt securities as of December 31, 2023, by contractual maturity, were as follows:

	2023 Amortized Cost	Fair Value
Due in one year or less	\$ 4,012,527	\$ 3,983,625
Due after one year through five years	285,158,500	279,078,573
Due after five years through ten years	204,633,096	194,908,253
Due after ten years	172,214,362	166,389,539
U.S. agency mortgage-backed securities	218,859,442	206,320,325
Non-U.S. agency mortgage-backed securities	<u>65,225,432</u>	<u>61,188,808</u>
Total debt securities — available-for-sale	<u>\$ 950,103,359</u>	<u>\$ 911,869,123</u>

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

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2023</b>						
Debt securities — available-for-sale:						
U.S. government and agency obligations	\$ 71,548,123	\$ 707,693	\$ 7,394,174	\$ 1,015,352	\$ 78,942,297	\$ 1,723,045
State and municipal obligations	23,208,558	104,097	112,800,214	6,636,489	136,008,772	6,740,586
Corporate obligations	9,761,703	29,108	272,163,130	14,580,309	281,924,833	14,609,417
U.S. agency mortgage-backed securities	33,464,865	104,658	96,447,185	12,902,266	129,912,050	13,006,924
U.S. non-agency mortgage-backed securities	16,397,174	460,116	44,791,634	3,576,508	61,188,808	4,036,624
Total debt securities — available-for-sale	<u>\$ 154,380,423</u>	<u>\$ 1,405,672</u>	<u>\$ 533,596,337</u>	<u>\$ 38,710,924</u>	<u>\$ 687,976,760</u>	<u>\$ 40,116,596</u>
<b>December 31, 2022</b>						
Debt securities — available-for-sale:						
U.S. government and agency obligations	\$ 4,971,767	\$ 882,219	\$ 2,285,901	\$ 270,032	\$ 7,257,668	\$ 1,152,251
State and municipal obligations	152,713,095	9,571,377	19,445,339	2,054,351	172,158,434	11,625,728
Corporate obligations	293,630,744	16,165,505	61,901,900	7,449,964	355,532,644	23,615,469
U.S. agency mortgage-backed securities	76,925,658	9,110,444	25,109,815	5,215,532	102,035,473	14,325,976
U.S. non-agency mortgage-backed securities	51,278,880	2,524,410	16,249,456	2,743,923	67,528,336	5,268,333
Total debt securities — available-for-sale	<u>\$ 579,520,144</u>	<u>\$ 38,253,955</u>	<u>\$ 124,992,411</u>	<u>\$ 17,733,802</u>	<u>\$ 704,512,555</u>	<u>\$ 55,987,757</u>

The Company's unrealized losses from all securities as of December 31, 2023 were generated from 285 positions out of a total of 344 positions. The Company believes that it will collect timely the principal and interest due on its debt securities having an amortized cost in excess of fair value. The unrealized losses were primarily caused by interest rate increases, and not by unfavorable changes in the credit quality associated with these securities which impacted our assessment on collectability of principal and interest. At each reporting period, the Company evaluates available-for-sale debt securities for any credit-related impairment when the fair value of the investment is less than its amortized cost. The Company evaluated the expected cash flows, the underlying credit quality and credit ratings of the issuers, noting no significant credit deterioration since purchase. As of December 31, 2023, the Company did not have the intent to sell any of the securities in an unrealized loss position. Therefore, the Company believes these losses to be temporary. There was no allowance for credit losses as of December 31, 2023 and 2022.

## 7. FAIR VALUE

Certain assets and liabilities are measured at fair value in the accompanying financial statements, or have fair values disclosed in the notes to financial statements. These assets and liabilities are classified into one of three levels of a hierarchy defined by GAAP. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety 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 or liability.

The fair value hierarchy is summarized as follows:

**Level 1** — Quoted prices (unadjusted) for identical assets/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/liabilities in nonactive markets (e.g., few transactions, limited information, noncurrent prices, high variability over time);

- Inputs other than quoted prices that are observable for the asset/liability (e.g., interest rates, yield curves, implied volatilities, credit spreads); and
- Inputs that are corroborated by other observable market data.

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

Non-financial assets and liabilities, or financial assets and liabilities that are measured at fair value on a nonrecurring basis, are subject to fair value adjustments only in certain circumstances, such as when the Company records an impairment. There were no significant fair value adjustments for these assets and liabilities recorded during the years ended December 31, 2023 and 2022.

The following table presents a summary of the fair value measurements by level for assets measured at fair value on a recurring basis:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair and Carrying Value
<b>December 31, 2023</b>				
Cash and cash equivalents	\$ 329,401,038	\$ -	\$ -	\$ 329,401,038
Debt securities — available-for-sale:				
U.S. government and agency obligations	93,449,039	-	-	93,449,039
State and municipal obligations	-	199,053,257	-	199,053,257
Corporate obligations	-	351,857,694	-	351,857,694
U.S. agency mortgage-backed securities	-	206,320,325	-	206,320,325
Non-U.S. agency mortgage-backed securities	-	61,188,808	-	61,188,808
Total debt securities — available-for-sale	<u>93,449,039</u>	<u>818,420,084</u>	<u>-</u>	<u>911,869,123</u>
Total cash, cash equivalents, and investments at fair value	<u>\$ 422,850,077</u>	<u>\$ 818,420,084</u>	<u>\$ -</u>	<u>\$ 1,241,270,161</u>
<b>December 31, 2022</b>				
Cash and cash equivalents	\$ 290,097,928	\$ 6,986,892	\$ -	\$ 297,084,820
Debt securities — available-for-sale:				
U.S. government and agency obligations	7,257,668	-	-	7,257,668
State and municipal obligations	-	263,108,083	-	263,108,083
Corporate obligations	-	377,906,716	-	377,906,716
U.S. agency mortgage-backed securities	-	112,225,493	-	112,225,493
Non-U.S. agency mortgage-backed securities	-	67,528,336	-	67,528,336
Total debt securities — available-for-sale	<u>7,257,668</u>	<u>820,768,628</u>	<u>-</u>	<u>828,026,296</u>
Total cash, cash equivalents, and investments at fair value	<u>\$ 297,355,596</u>	<u>\$ 827,755,520</u>	<u>\$ -</u>	<u>\$ 1,125,111,116</u>

Transfers between fair value hierarchy levels, if any, are recorded as of the beginning of the reporting period in which the transfer occurs. There were no transfers between Levels 1, 2 or 3 of any financial assets during 2023 or 2022.

The Company has no investments reported with a fair value hierarchy of Level 3 that were measured and reported at fair value.

The following methods and assumptions were used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument:

**Cash and Cash Equivalents** — The carrying value of cash and cash equivalents approximates fair value, as maturities are less than three months. Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2.

**Debt Securities** — Fair values of debt securities are based on quoted market prices, where available. The Company obtains one price for each security, primarily from a third-party pricing service (pricing service), which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities and, if necessary, makes adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark yields, credit spreads, default rates, prepayment speeds and non-binding broker quotes.

As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to prices reported by a secondary pricing source such as its custodian, its investment consultant, and third-party investment advisors. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures, and review of fair value methodology documentation provided by independent pricing services, have not historically resulted in adjustment to the prices obtained from the pricing service.

Fair values of debt securities that do not trade on a regular basis in active markets, but are priced using other observable inputs, are classified as Level 2.

Throughout the procedures discussed above in relation to the Company's processes for validating third-party pricing information, the Company validates the understanding of assumptions and inputs used in security pricing and determines the proper classification in the hierarchy based on that understanding.

The carrying amounts reported in the accompanying balance sheets for other current financial assets and liabilities approximate fair value because of their short-term nature. These assets and liabilities are not listed in the table above.

## 8. RELATED-PARTY TRANSACTIONS

Management believes that its transactions with affiliates are fair and reasonable; however, operations of the Company may not be indicative of those that would have occurred if it had operated as an independent company.

In the ordinary course of business, the Company also directly contracts with related parties to provide services to its members that are routine in nature to its members. The administrative services, access fees, and cost of care services provided are calculated using a per member per month ("PMPM"), per claim, or a combination thereof. These amounts are included in medical services expenses-net and administrative expenses in the accompanying statements of operations.

The Company held a \$50,000,000 subordinated revolving credit agreement with UHG, at an interest rate of London InterBank Offered Rate, plus a margin of 0.50%. This credit agreement is subordinate to the extent it does not conflict with any credit facility held by either party. This agreement was amended effective December 31, 2022 due to the elimination of London InterBank Offered Rate as an interest rate

benchmark in 2023. No amounts were outstanding under the line of credit as of December 31, 2022. This agreement was replaced with a new agreement, which was effective as of January 1, 2023.

Effective January 1, 2023, the Company entered into a new subordinated revolving credit agreement with UHS at an interest rate of Fed Funds Target rate — Upper Bound plus 50 basis points. The Company's subordinated credit agreement value is below the holding company threshold of the lesser of 3% of admitted assets or 25% of capital and surplus. This agreement has replaced the previous agreement, which was held to an interest rate of London InterBank Offered Rate plus a margin of 50 basis points.

In addition to the agreements above, UHS maintains a private short-term investment pool in which affiliated companies may participate (see Note 2). At December 31, 2023 and 2022, the Company's portion was \$187,468,500 and \$288,231,250, respectively, and is included in cash and cash equivalents in the accompanying balance sheets.

The Company has a Tax Sharing Agreement with UHG (see Note 11).

The Company paid dividends of \$250,000,000 and \$220,000,000 in 2023 and 2022, respectively, to its parent (see Note 9).

At December 31, 2023 and 2022, the Company reported \$3,468,090 and \$2,666,168, respectively, as related-party receivables and related-party payables, which are included in the accompanying balance sheets.

The Company has a Receivable Purchase and Servicing Agreement with OptumBank, Inc., an affiliate. Under the terms of the agreement, the Company will purchase all receivables arising from a RETLF (see Note 2). The Company holds notes receivable of \$20,754,878 in other assets in the accompanying balance sheets as of December 31, 2023 and 2022.

The administrative services, access fees, and cost of care services provided by affiliates are calculated using one or more of the following methods: (1) a percentage of premiums; (2) use of assets; (3) direct pass-through of charges; (4) PMPM; (5) per employee per month; (6) per claim; or (7) a combination thereof consistent with the provisions contained in each contract. These amounts are included in medical services expenses, net and administrative expenses in the accompanying statements of operations. The following table identifies the amounts for the administrative services, access fees, and cost of care services provided by related parties for the years ended December 31, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
OptumRx, Inc.	\$ 578,428,513	\$ 520,652,645
United Behavioral Health	520,908,328	457,082,989
UHS	298,494,220	273,543,768
Dental Benefit Providers, Inc.	77,488,233	113,971,952
AxelaCare Intermediate Holdings, LLC	55,344,289	45,317,557
naviHealth, Inc.	42,501,185	38,153,051
XLHome, P.C.	15,442,771	12,391,055
Optum Health Networks, Inc.	13,923,725	12,899,294
Ear Professionals International Corporation	10,574,352	8,029,110
OptumInsight, Inc.	5,396,582	8,109,503

OptumRx, Inc. provides services that may include, but are not limited to, administrative services related to pharmacy management and pharmacy claims processing for enrollees, manufacturer rebate administration, pharmacy incentive services, specialty drug pharmacy services, durable medical



equipment services including orthotics and prosthetics and personal health products catalogues showing the healthcare products and benefit credits enrollees needed to redeem the respective products.

United Behavioral Health provides services related to mental health and substance abuse treatment.

UHS provides, or arranges for the provision of, management, administrative, and other services deemed necessary or appropriate for UHS to provide management and operational support to the Company. The services can include, but are not limited to, the categories of management and operational services outlined in the Agreement, such as human resources, legal, facilities, general administration, treasury and investment functions, claims adjudication and payment, benefit administration, disease management, health care decision support, medical management, credentialing, preventative health services, utilization management reporting and expenses incurred for new business that will be effective in the subsequent year.

Dental Benefit Providers, Inc. provides dental care assistance.

AxelaCare Intermediate Holdings, LLC provides home infusion therapy services.

naviHealth, Inc. provides comprehensive post-acute services and care delivery.

XLHome, P.C. provides house call services to the Company's members.

Optum Health Networks, Inc. provides services that may include, but are not limited to, care management services to eligible members and/or arranging for the delivery of clinical services to the Company's enrollees.

Ear Professionals International Corporation provides hearing support services.

OptumInsight, Inc. provides services that may include, but are not limited to, coordination of benefits and data mining, Retrospective Fraud and Waste Abuse, subrogation and audit services. All recoveries are returned to the Company by OptumInsight, Inc. on a monthly basis.

## **9. STOCKHOLDER'S EQUITY**

The Company paid extraordinary cash dividends to UHC of \$100,000,000 and \$150,000,000 on June 29, 2023 and December 28, 2023, which were approved by AHCCCS on June 22, 2023 and December 21, 2023, respectively. \$150,000,000 of the dividends was distributed from ACC earnings, \$40,000,000 of the dividends was distributed from ALTCS earnings, and \$60,000,000 was distributed from Medicare earnings.

The Company paid extraordinary cash dividends to UHC of \$100,000,000 and \$120,000,000 on April 4, 2022 and December 30, 2022, which were approved by AHCCCS on March 24, 2022 and December 22, 2022, respectively. \$135,000,000 of the dividends was distributed from ACC earnings and \$85,000,000 was distributed from Medicare earnings.

## **10. COMPLIANCE WITH FINANCIAL VIABILITY STANDARDS AND PERFORMANCE GUIDELINES**

For the contract year ended September 30, 2023, the Company was out of compliance on the Medicare administrative cost percentage due to a true-up of the management fee based on prior year estimates. The management fee was re-evaluated in October to adjust to reflect actuals and the Company was back in compliance as of December 31, 2023. The Company was in compliance with all other Financial Viability Standards and Performance Guidelines for the contract year ended September 30, 2023.

As of December 31, 2023, one quarter into the 2024 contract year, the Company was in compliance with all Financial Viability Standards and Performance Guidelines. Performance against these standards and guidelines for the contract year ending September 30, 2024 is being monitored by the Company on a quarterly basis.

## 11. INCOME TAXES

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act. Included in the Inflation Reduction Act was a new corporate alternative minimum tax (“CAMT”). The CAMT is calculated as 15% of adjusted financial statement income and applies only to corporations with average annual adjusted financial statement income in excess of \$1 billion for three prior taxable years. The applicability of the CAMT is determined on a tax-controlled group basis.

The Company’s operations are included in the consolidated federal income tax return of UHG. Federal and state income taxes are paid to, or refunded by, UHG pursuant to the terms of a tax sharing agreement (TSA), under which taxes approximate the amount that would have been computed on a separate company basis. UHG currently files income tax returns in the U.S. and various states. The U.S. Internal Revenue Service (IRS) has completed exams on the consolidated income tax returns for fiscal years 2016 and prior. UHG’s 2017 through 2020 tax years are under review by the IRS under its Compliance Assurance Program. With the exception of a few states, the Company is no longer subject to income tax examinations prior to the 2014 tax year. In general, the Company is subject to examination in non-U.S. jurisdictions for years 2015 and forward.

The controlled group has not made any material modifications to the methodology used to project the CAMT.

The components of the provision for income taxes for the years ended December 31, 2023 and 2022 are as follows:

	<b>2023</b>	<b>2022</b>
Current provision:		
Federal	\$ 59,906,320	\$ 57,806,730
State and local	<u>-</u>	<u>-</u>
Total current provision	<u>59,906,320</u>	<u>57,806,730</u>
Deferred provision:		
Federal	<u>(611,010)</u>	<u>(453,079)</u>
Total deferred provision	<u>(611,010)</u>	<u>(453,079)</u>
Total provision for income taxes	<u>\$ 59,295,310</u>	<u>\$ 57,353,651</u>

The reconciliation of the tax provision at the U.S. federal statutory rate to the provision for income taxes and the effective tax rate for the years ended December 31, 2023 and 2022 is as follows:

	<u>2023</u>		<u>2022</u>	
Tax provision at the U.S. federal statutory rate	\$ 60,211,648	21 %	\$ 58,267,342	21 %
Tax-exempt investment income	(916,338)	<1	(913,721)	<1
Other — net	<u>-</u>	<u>-</u>	<u>30</u>	<u>&lt;1</u>
Provision for income taxes	<u>\$ 59,295,310</u>	<u>21 %</u>	<u>\$ 57,353,651</u>	<u>21 %</u>

Current federal income taxes payables are \$8,964,320 and \$10,993,698 as of December 31, 2023 and 2022, respectively.

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities, based on enacted tax rates and laws. The components of deferred income tax assets and liabilities as of December 31, 2023 and 2022 are as follows:

	<b>2023</b>	<b>2022</b>
Deferred income tax assets:		
Bad debt reserve	\$ 354,138	\$ 457,578
Unpaid losses and loss adjustment expense	806,733	643,457
Unearned premium	87	13
Intangibles	3,327,339	2,846,278
Unrealized losses	<u>8,029,189</u>	<u>11,295,640</u>
Total deferred income tax assets	<u>12,517,486</u>	<u>15,242,966</u>
Deferred income tax liabilities:		
Prepaid expenses	<u>81,088</u>	<u>151,127</u>
Total deferred income tax liabilities	<u>81,088</u>	<u>151,127</u>
Net deferred income tax assets/liabilities	<u>\$ 12,436,398</u>	<u>\$ 15,091,839</u>

The Company has not included a reconciliation of the beginning and ending amount of unrecognized tax benefits as it does not have any uncertain tax positions as of December 31, 2023 or 2022.

Federal and state income taxes paid, net of refunds, were \$61,935,698 and \$55,541,664 in 2023 and 2022, respectively.

## **12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES, AND OTHER POSTRETIREMENT BENEFIT PLANS**

The Company has no defined benefit plans, defined contribution plans, multiemployer plans, consolidated/holding company plans, postemployment benefits, or compensated absences plans and is not impacted by the Medicare Modernization Act on postretirement benefits, since all personnel are employees of UHS, which provides services to the Company under the terms of the Agreement (see Note 8).

## **13. SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated and disclosed all material subsequent events up to May 14, 2024, the date that the draft financial statements were available to be issued.

On April 30, 2024, the CPLC loan's maturity date was extended to July 31, 2024.

There are no events subsequent to December 31, 2023 that require disclosure.

\* \* \* \* \*

## **SUPPLEMENTAL SCHEDULES**

**EXHIBIT I:  
SUPPLEMENTAL FINANCIAL STATEMENTS  
BY CONTRACT**

**ARIZONA PHYSICIANS IPA, INC.**

**SUPPLEMENTAL BALANCE SHEET BY CONTRACT  
AS OF DECEMBER 31, 2023**

	ACC	DES/DDD	Medicare	ALTCS	Eliminations	Total
<b>ASSETS</b>						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 329,401,038	\$ -	\$ -	\$ -	\$ -	\$ 329,401,038
Short-term investments	3,983,625	-	-	-	-	3,983,625
Premiums receivable	(2,032,358)	-	80,691,736	4,381,805	-	83,041,183
AHCCCS reinsurance receivable	16,941,845	8,600,771	-	2,050,032	-	27,592,648
Other contract programs receivables	29,844,378	4,512,177	25,999,010	2,122,866	-	62,478,431
Other receivables—net of allowances of \$1,681,354	5,518,121	579,351	3,928,089	1,300,965	-	11,326,526
Related-party receivables — net	3,468,090	-	-	-	-	3,468,090
Investment receivables	6,966,002	-	-	-	-	6,966,002
Other assets	22,416,910	-	4,656,779	5,364,731	-	32,438,420
Due from other lines of business	-	165,946,735	136,306,906	140,670,311	(442,923,952)	-
Total current assets	<u>416,507,651</u>	<u>179,639,034</u>	<u>251,582,520</u>	<u>155,890,710</u>	<u>(442,923,952)</u>	<u>560,695,963</u>
LONG-TERM ASSETS:						
Long-term investments	907,885,498	-	-	-	-	907,885,498
Intangible assets — net	18,517,031	-	-	-	-	18,517,031
Long-term deferred income taxes — net	12,436,398	-	-	-	-	12,436,398
Total long-term assets	<u>938,838,927</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>938,838,927</u>
TOTAL	<u>\$ 1,355,346,578</u>	<u>\$ 179,639,034</u>	<u>\$ 251,582,520</u>	<u>\$ 155,890,710</u>	<u>\$ (442,923,952)</u>	<u>\$ 1,499,534,890</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>						
CURRENT LIABILITIES:						
Medical services payable	\$ 132,773,074	\$ 14,229,341	\$ 118,709,131	\$ 47,787,688	\$ -	\$ 313,499,234
Medicaid risk sharing payable	407,311,687	121,841,408	-	58,781,913	-	587,935,008
Other payables to contract programs	109,867,531	-	18,726	7,324,315	-	117,210,572
Accounts payable and accrued expenses	28,394,162	473,056	1,475,223	1,864,880	-	32,207,321
Current federal income taxes payable	8,964,320	-	-	-	-	8,964,320
Due to other lines of business	442,923,952	-	-	-	(442,923,952)	-
Total current liabilities	<u>1,130,234,726</u>	<u>136,543,805</u>	<u>120,203,080</u>	<u>115,758,796</u>	<u>(442,923,952)</u>	<u>1,059,816,455</u>
Total liabilities	<u>1,130,234,726</u>	<u>136,543,805</u>	<u>120,203,080</u>	<u>115,758,796</u>	<u>(442,923,952)</u>	<u>1,059,816,455</u>
STOCKHOLDER'S EQUITY:						
Common stock, \$0.01 par value — 1,000,000 shares authorized; two shares issued and outstanding	-	-	-	-	-	-
Additional paid-in capital	56,411,047	7,105,347	-	14,000,000	-	77,516,394
Retained earnings	199,114,353	35,989,882	131,379,440	26,131,914	-	392,615,589
Accumulated other comprehensive loss	(30,413,548)	-	-	-	-	(30,413,548)
Total stockholder's equity	<u>225,111,852</u>	<u>43,095,229</u>	<u>131,379,440</u>	<u>40,131,914</u>	<u>-</u>	<u>439,718,435</u>
TOTAL	<u>\$ 1,355,346,578</u>	<u>\$ 179,639,034</u>	<u>\$ 251,582,520</u>	<u>\$ 155,890,710</u>	<u>\$ (442,923,952)</u>	<u>\$ 1,499,534,890</u>

## ARIZONA PHYSICIANS IPA, INC.

### SUPPLEMENTAL STATEMENT OF OPERATIONS BY CONTRACT FOR THE YEAR ENDED DECEMBER 31, 2023

	ACC	DES/DDD	Medicare	ALTCS	Total
REVENUES:					
Capitation and risk-sharing settlements	\$ 2,131,780,641	\$ 264,539,906	\$ 1,496,024,073	\$ 454,679,937	\$ 4,347,024,557
Delivery supplemental premium	53,045,927	-	-	-	53,045,927
Investment income — net	63,463,326	-	-	-	63,463,326
	<u>2,248,289,894</u>	<u>264,539,906</u>	<u>1,496,024,073</u>	<u>454,679,937</u>	<u>4,463,533,810</u>
MEDICAL SERVICES EXPENSES, NET:					
Hospitalization	230,560,395	32,261,325	388,957,688	21,345,247	673,124,655
Medical compensation	410,271,697	15,845,090	255,815,632	54,020,493	735,952,912
Other medical services, net	1,328,244,118	208,012,566	593,109,151	14,184,725	2,143,550,560
Long-term care institutional	-	-	-	144,482,792	144,482,792
Long-term care home-based and community-based services	-	-	-	174,654,867	174,654,867
Recoveries from AHCCCS	(62,462,095)	(20,378,913)	-	(7,249,449)	(90,090,457)
	<u>1,906,614,115</u>	<u>235,740,068</u>	<u>1,237,882,471</u>	<u>401,438,675</u>	<u>3,781,675,329</u>
ADMINISTRATIVE EXPENSES	156,691,852	17,342,091	138,200,802	29,164,922	341,399,667
PREMIUM TAXES	44,498,096	-	-	9,238,588	53,736,684
	<u>2,107,804,063</u>	<u>253,082,159</u>	<u>1,376,083,273</u>	<u>439,842,185</u>	<u>4,176,811,680</u>
INCOME BEFORE INCOME TAXES	140,485,831	11,457,747	119,940,800	14,837,752	286,722,130
PROVISION FOR INCOME TAXES	28,992,195	2,369,508	24,804,248	3,129,359	59,295,310
NET INCOME	<u>\$ 111,493,636</u>	<u>\$ 9,088,239</u>	<u>\$ 95,136,552</u>	<u>\$ 11,708,393</u>	<u>\$ 227,426,820</u>