



*Report of Independent Auditors and
Statutory Basis Financial Statements*

AllCare CCO, Inc.

December 31, 2021 and 2020

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Report of Independent Auditors

The Board of Governors
AllCare CCO, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the statutory basis financial statements of AllCare CCO, Inc., which comprise the statutory statements of admitted assets, liabilities, and capital, and surplus as of December 31, 2021 and 2020, and the related statutory statements of revenue and expenses, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory basis financial statements.

In our opinion, the accompanying statutory basis financial statements present fairly, in all material respects, the financial position of AllCare CCO, Inc. as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in conformity with accounting practices prescribed or permitted by the Oregon Health Authority.

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 AllCare CCO, Inc. 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 statutory basis financial statements in conformity with accounting practices prescribed or permitted by the Oregon Health Authority, 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 statutory basis financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AllCare CCO, Inc.'s ability to continue as a going concern within 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 statutory basis 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 statutory basis 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 statutory basis 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 statutory basis 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 AllCare CCO, Inc.'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 statutory basis financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AllCare CCO, Inc.'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.

Basis of Accounting

As described in Note 2 to the statutory basis financial statements, to meet the requirements of the Oregon Health Authority, the financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Oregon Health Authority, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Restriction on Use

Our auditor's report is intended solely for the information and use of the Board of Governors, management of AllCare CCO, Inc., the Oregon Health Authority, National Association of Insurance Commissioners, and for the filing with state insurance departments whose jurisdiction AllCare CCO, Inc. is subject to, and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

San Francisco, California
June 30, 2022

Statutory Basis Financial Statements

AllCare CCO, Inc.
Statutory Basis Statements of Admitted Assets, Liabilities, Capital, and Surplus
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ADMITTED ASSETS		
CASH AND INVESTED ASSETS		
Bonds	\$ 10,095,000	\$ 8,500,000
Cash, cash equivalents, and short-term investments	39,421,165	38,137,203
Other invested assets	2,275,684	2,551,807
Receivables for securities	<u>2,608</u>	<u>5,292</u>
Total cash and invested assets	51,794,457	49,194,302
Investment income due and accrued	13,440	18,646
Uncollected premiums in the course of collection	8,954,457	3,845,136
Amounts recoverable from reinsurers	2,280,205	597,682
Other amounts receivable under reinsurance contracts	-	20,925
Current federal income tax recoverable	511,377	511,377
Net deferred tax asset	1,662,506	1,229,372
Aggregate write-ins for other than invested assets	<u>196,637</u>	<u>196,637</u>
Total admitted assets	<u><u>\$ 65,413,079</u></u>	<u><u>\$ 55,614,077</u></u>
LIABILITIES, CAPITAL, AND SURPLUS		
LIABILITIES		
Claims unpaid	\$ 22,667,306	\$ 18,257,492
Accrued medical incentive pool and bonus amounts	4,138,266	6,257,725
Unpaid claims adjustment expenses	635,965	468,169
Aggregate health policy reserves	2,577,262	2,145,814
General expenses due and accrued	443,505	358,708
Current federal income tax payable and interest thereon	1,632,746	-
Amounts withheld or retained for the account of others	1,750,685	1,518,564
Amounts due to parent, subsidiaries and affiliates	862,449	1,322,311
Aggregate write-ins for other liabilities	<u>593,546</u>	<u>-</u>
Total liabilities	<u>35,301,730</u>	<u>30,328,783</u>
CAPITAL AND SURPLUS		
Gross paid in and contributed surplus	350,000	350,000
Unassigned surplus	<u>29,761,349</u>	<u>24,935,294</u>
Total capital and surplus	<u>30,111,349</u>	<u>25,285,294</u>
Total liabilities, capital, and surplus	<u><u>\$ 65,413,079</u></u>	<u><u>\$ 55,614,077</u></u>

AllCare CCO, Inc.
Statutory Basis Statements of Revenues and Expenses
Years Ended December 31, 2021 and 2020

	2021	2020
UNDERWRITING REVENUES		
Net premium income	\$ 291,105,338	\$ 264,319,121
Total underwriting revenues	291,105,338	264,319,121
UNDERWRITING EXPENSES		
Hospital and medical benefits	74,053,283	59,684,811
Other professional services	119,430,287	106,892,108
Emergency room and out-of-area	12,701,015	11,457,973
Prescription drugs	33,680,731	29,857,523
Aggregate write-ins for other hospital and medical	7,728,207	7,790,525
Incentive pool, withhold adjustments and bonus amounts	7,683,271	11,606,334
Subtotal	255,276,794	227,289,274
Net reinsurance recoveries	(2,229,997)	(1,183,243)
Claims adjustment expenses	12,371,296	12,578,532
General administrative expenses	19,693,057	17,692,588
Total underwriting deductions	285,111,150	256,377,151
NET UNDERWRITING GAIN	5,994,188	7,941,970
NET INVESTMENT INCOME EARNED	143,055	288,800
AGGREGATE WRITE-INS FOR OTHER INCOME OR EXPENSES	47,779	89,300
NET INCOME BEFORE FEDERAL INCOME TAXES	6,185,022	8,320,070
FEDERAL INCOME TAX EXPENSE	1,632,746	1,865,657
NET INCOME	\$ 4,552,276	\$ 6,454,413

AllCare CCO, Inc.
Statutory Basis Statements of Changes in Capital and Surplus
Years Ended December 31, 2021 and 2020

	<u>Total Capital and Surplus</u>
Balance, December 31, 2019	\$ 17,883,779
Net income	6,454,413
Change in net deferred income tax	1,295,060
Change in nonadmitted assets	<u>(347,958)</u>
Balance, December 31, 2020	25,285,294
Net income	4,552,276
Change in net deferred income tax	377,688
Change in nonadmitted assets	<u>(103,909)</u>
Balance, December 31, 2021	<u><u>\$ 30,111,349</u></u>

AllCare CCO, Inc.
Statutory Basis Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATIONS		
Cash from underwriting:		
Premiums collected net of reinsurance	\$ 286,448,390	\$ 269,323,243
Net investment income	148,260	349,717
	286,596,650	269,672,960
Benefits and loss related payments	(252,611,241)	(218,923,285)
Commissions, expenses paid and aggregate write-ins for deductions	(31,763,981)	(29,962,173)
Federal income taxes paid	-	(2,224,009)
	2,221,428	18,563,493
CASH FLOWS FROM INVESTMENTS		
Proceeds from investments sold, matured, or repaid:		
Bonds	3,250,000	3,850,000
Other invested assets	276,123	1,052,861
Miscellaneous proceeds	2,684	-
	3,528,807	4,902,861
Costs of investments acquire (long-term only):		
Bonds	(4,845,000)	(5,410,000)
Miscellaneous applications	-	(5,292)
	(4,845,000)	(5,415,292)
	(1,316,193)	(512,431)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
Other cash applied	378,727	(406,559)
	378,727	(406,559)
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS - in net increase in		
cash, cash equivalents, and short-term investments	1,283,962	17,644,503
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS, beginning of year		
	38,137,203	20,492,700
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS, end of year		
	\$ 39,421,165	\$ 38,137,203

AllCare CCO, Inc.

Notes to the Statutory Basis Financial Statements

NOTE 1 – DESCRIPTION OF OPERATIONS

AllCare CCO, Inc. (“AllCare” or “Company”), was incorporated in September 2004. On July 1, 2012, AllCare was awarded one of the first Coordinated Care Organization (“CCO”) contracts in the State of Oregon to serve the Medicaid population in Southern Oregon. The adoption of this contract has facilitated the integration of Mental and Dental Health Services in with its current Physical Health Services at AllCare.

AllCare Health, Inc. owns one hundred percent of AllCare Health Plan, Inc. (“AHI”), AllCare CCO, Inc., AllCare Independent Physician Association, Inc., AllCare eHealth Services, LLC, AllCare Management Services, LLC (“AMS”), AllCare Development, LLC (“ADEV”), AllCare PACE, LLC, and AllCare Medical Group, LLC.

In July 2016, AllCare filed amended articles of incorporation with the State of Oregon to become an Oregon Benefit Corporation. In August 2017, AllCare completed a certification process and received Certified B Lab status. AllCare’s B Lab certification was renewed in 2021.

AllCare entered into its second five contract on January 1, 2020, and the contract is for the years 2020-2025. The contract is renewed annually each year of the five-year period. In addition, AllCare has entered into a separate contract with the Oregon Health Authority (“OHA”) called Cover All Kids (“CAK”). This contract provides benefits for the undocumented children within AllCare’s service area.

AllCare contracts with six independent Risk Accepting Entities (“RAE”) to provide, or arrange to provide, covered health services to enrollees assigned to the RAE on a fully capitated basis. The six RAE’s are as follows: Options for Southern Oregon, Inc., Curry Community Health, Capitol Dental Care, Inc., Willamette Dental Group, Advantage Dental, and ReadyRide.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation - The Company’s statutory basis financial statements are presented on a basis of accounting practices prescribed or permitted by the OHA.

The OHA has adopted National Association of Insurance Commissioner’s (“NAIC”) codification of Statements of Statutory Accounting Principles (“SSAP”) as its statutory basis accounting effective January 1, 2020.

Account practices and procedures of the NAIC as prescribed or permitted by the OHA comprise a comprehensive basis of accounting that differs from accounting principles generally accepted in the United States of America (“GAAP”).

The most significant differences are:

Assets are reported under SSAP at “admitted asset” value. Certain assets designated as “nonadmitted assets,” including deferred federal income taxes in excess of certain statutory limits, prepaid expenses, certain premium receivable balances, and other assets not specifically identified as admitted assets in accordance with the requirements of SSAP, are deemed to be assets which are not readily available to pay claims, and are adjusted against capital and surplus in the accompanying statutory basis statements of admitted assets, liabilities, capital, and surplus. Following GAAP, “nonadmitted assets” are included in the balance sheet, net of any valuation allowances.

Nonadmitted assets (principally a portion of deferred taxes, prepaid expenses and certain receivables) are excluded from the statutory basis statement of admitted assets, liabilities, capital, and surplus through a direct charge to unassigned surplus. Under GAAP, nonadmitted assets are included in the balance sheet.

Investments in bonds are generally carried at amortized cost under SSAP; while, under GAAP, they are carried at either amortized cost or fair value based on their classifications according to the Company's ability and intent to hold or trade the securities.

Investment impairment – The Company's investments consist primarily of debt securities with a NAIC rating of 1 and 2. At December 31, 2021 and 2020, the Company deemed all securities, which were in an unrealized loss position, to be temporarily impaired. Positive evidence considered in reaching the Company's conclusion that the investments in an unrealized loss position are not other-than- temporarily impaired ("OTTI") included:

- 1) there were no specific events which caused such concerns;
- 2) the Company's ability and intent to retain the investment for a sufficient amount of time to allow an anticipated recovery in value;
- 3) the Company determined that the changes in market value were considered normal in relation to overall fluctuations in interest rates;
- 4) the length of time and the extent to which the market value has been below amortized cost; and
- 5) whether the issuer is experiencing significant financial difficulties or difficulties being experienced by the entire industry sector or subsector.

The Company recognizes OTTI on bonds (other than loan-backed securities) when it is either probable that the Company will not collect all amounts due to the contractual terms of the bond in effect at the date of acquisition or when the Company has made a decision to sell the bond prior to its maturity at an amount below its amortized cost. When OTTI is recognized, the bond is written down to fair value and the amount of the write-down, equal to the difference between the bond's carrying value and fair value, is recorded as a realized capital loss in the statutory basis statements of operations and changes in capital and stockholders' surplus.

Net deferred tax assets are admitted based upon a three-component admission calculation. They are limited to (1) the amount of federal income taxes paid in prior years that can be recovered through net operating loss carrybacks for temporary differences that reverse during the timeframe corresponding with Internal Revenue Service ("IRS") loss carryback provisions, plus (2) a calculation based on future reversals of temporary differences and subject to a limit based on adjusted capital and surplus. The amount is reduced by the amount recognized under (1), plus (3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. Any remaining deferred tax assets are nonadmitted.

Unearned premiums and loss adjustment expenses are recorded net of ceded unearned insurance premiums and reinsurance recoverable on unpaid losses and loss adjustment expenses, respectively.

AllCare CCO, Inc.

Notes to the Statutory Basis Financial Statements

Presentation methodology – The presentation methodology of the statutory statement of cash flows is not in conformity with GAAP.

The presentation methodology of the statutory statement of admitted assets, liabilities, capital, and surplus is not in conformity with GAAP in regards to reporting of comprehensive income.

Accounting changes are recognized as a separate component of surplus rather than as a component of net income.

Cash, cash equivalents, and short-term investments in the statutory statement of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with original maturities of three months or less.

Consolidation – The results of AHI's operations are not included in the Company's statutory basis financial statements even though the Company is AHI's wholly owned subsidiary. Under GAAP, financial statements of wholly owned subsidiaries are consolidated with AHI.

A reconciliation of net income and surplus of the Company, as determined in accordance with SSAP to amounts determined in accordance with GAAP, were as follows at December 31:

	2021		2020	
	Net Income	Capital and Surplus	Net Income	Capital and Surplus
Statutory basis amounts	\$ 4,552,276	\$ 30,111,349	\$ 6,454,413	\$ 25,285,294
SSAP to GAAP differences:				
Investments	(104,518)	(104,518)	(9,741)	(9,741)
Income taxes	430,553	341,254	1,583,453	288,390
Cumulative effects of changes in basis of accounting	-	49,208	-	58,949
Other nonadmitted assets	-	451,867	-	347,958
GAAP basis amounts	<u>\$ 4,878,311</u>	<u>\$ 30,849,160</u>	<u>\$ 8,028,125</u>	<u>\$ 25,970,850</u>

There were no differences between AllCare's net income and capital and surplus and NAIC practices prescribed and permitted by the State of Oregon.

Cash, cash equivalents, and short-term investments – AllCare considers cash to be cash in the bank or on hand, available for current use. It considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Short-term investments are defined as all investments with remaining maturities of one year or less at the time of acquisition. Cash, cash equivalents, and short-term investments are stated at cost, which approximates fair market value.

Bonds – Long-term bonds include bonds and other investments that have maturities of greater than one year at the date of acquisition and are stated at amortized cost, as required by the NAIC. Discounts and premiums are amortized or accreted using the scientific method. Long-term bonds consisted of certificates of deposit and are classified as Class 1 bonds of \$10,095,000 and \$8,500,000, respectively, at December 31, 2021 and 2020.

Other invested assets – Other invested assets consists of two affiliated investments. The first is a line of credit issued to AMS, which is carried at the outstanding amount of principal and interest in the amount of \$1,765,684 and \$1,921,807 at December 31, 2021 and 2020, respectively. The second is a loan provided to ADEV, which is carried at the outstanding amount of principle and interest in the amount of \$510,000 and \$630,000 at December 31, 2021 and 2020, respectively.

Reinsurance – In the normal course of business, AllCare seeks to limit its exposure to losses on any single insured and to recover a portion of benefits paid by ceding reinsurance to its single reinsurer under excess coverage agreements. In addition, AllCare is required to obtain certain reinsurance as a contractor of OHA. These agreements call for AllCare to cede reinsurance premiums to its reinsurer on a per member, per month basis. In return, the reinsurer assumes 90% of the risk in excess of specified limits. Reinsurance agreements do not relieve AllCare from its obligation to service providers. Amounts recoverable are estimated in a manner consistent with the claim liability associated with the reinsurance policy. Reinsurance premiums and reinsurance recoveries are included in net premium income. Reinsurance premiums were \$2,989,989 and \$2,690,552 for the years ended December 31, 2021 and 2020, respectively. AllCare had \$2,229,997 of reinsurance recoveries on paid losses and \$2,280,205 in reinsurance receivables on paid losses for the year ended December 31, 2021. AllCare had \$1,183,243 of reinsurance recoveries on paid losses and \$597,682 in reinsurance receivables on paid losses for the year ended December 31, 2020.

Claims unpaid – Claims unpaid represent capitation and noncapitation payments for services rendered during the year. The claims unpaid liability is based on experience statistics related to the nature and volume of work performed. This estimated liability is periodically evaluated by management in order to maintain it at a level that is sufficient to absorb probable incurred but not reported claims. Management's evaluation of the adequacy of the estimate is based on an analysis of claims paid after the date of the statutory basis statement of admitted assets, liabilities, capital, and surplus, and an actuarial review of historical claim experience. Any adjustments are reflected in the period determined.

Accrued medical incentive pool and bonus amounts – AllCare has developed metric programs with primary care, pediatrics, specialty, dental health, behavioral health, non-emergent medical transportation and facilities; these programs are funded by the quality bonus pool funds provided by OHA's quality metric program. Providers will receive bonuses based upon member access and results of quality incentive metrics as established under the value based payment program. As of December 31, 2021 and 2020, \$3,924,764 and \$5,998,848, respectively, has been accrued in as accrued medical incentive pool payouts.

Premium deficiency reserves – AllCare evaluates anticipated losses, loss adjustment expenses, commissions and other acquisition and maintenance costs relative to unearned premium reserves and future installment premiums to determine if an additional liability exists. AllCare considers additional revenues and subsequent payments under risk mitigation programs in the evaluation of premium deficiencies. Contracts are grouped in accordance with the manner with how they serviced and measured in determining the additional liability. Anticipated investment income is included as a factor in determining the premium deficiency liability. There was no premium deficiency reserve recorded in the aggregate health policy reserve line item on the statutory basis financial statements as of December 31, 2021 and 2020.

Net premium income – AllCare's revenues consist of premiums earned from capitation payments received from OHA and are recognized as revenue during the period in which AllCare is obligated to provide services to members. Maternity case rate premiums are recognized in the period that a birth occurs.

AllCare CCO, Inc.

Notes to the Statutory Basis Financial Statements

Managed Care Organization (“MCO”) tax revenue are received as part of the premium payment and are recorded in premium revenue when received. MCO amounts received are to be paid in full to OHA on a quarterly basis and are recorded as an expense upon based upon the month the tax is associated with the revenues. With the passage of House Bill 2391, health insurance carriers are required to pay 2.0 percent of the gross amount of premiums earned on health benefit plans issued or renewed effective in 2018. OHA includes an additional 2.0 percent in the premium capitation to AllCare. These amounts are recorded as net premium income when received. The assessment is due quarterly to the State of Oregon and the amount is reported as expense upon payment. AllCare paid \$6,980,284 and \$6,510,410 in premium assessments for the years ended December 31, 2021 and 2020, respectively, which is included in net premium income.

Qualified Directed Payments (“QDP”) are payments made by OHA to CCOs from three Quality and Access pools for distinct provider classes; one for Rural Type A and B hospitals; one for Public Academic Health Centers; and one for DRG hospitals. QDPs are tied to inpatient discharges and outpatient encounters by Medicaid members enrolled in a CCO. The payments are included in the premium payment and are recorded in net premium income when received. QDP amounts received are to be paid in full to designated entities and are also recorded as an expense upon receipt.

OHA has established risk corridors for the costs of treatment for hepatitis C under the CCO contract and for the CAK contract. These risk corridors utilize specific percentages above and below a target amount establishing “band” of risks, which define how AllCare and OHA will review the adjusted costs of the expense of the Members receiving eligible services, subject to settlement. At December 31, 2021 and 2020, AllCare has recorded an estimated payable of \$2,466,277 and \$778,385, respectively, for the CCO hepatitis C corridor and \$32,058 and \$50,000, respectively for the CAK corridor, which are recorded in general expenses due and accrued. The risk corridor amounts will be settled during 2022.

Quality bonus pool revenues – As part of the CCO contract with OHA, there is bonus funding available to AllCare. AllCare has recorded an estimated receivable of \$7,757,681 and \$2,723,113 as of December 31, 2021 and 2020, respectively. The metrics will be final and award notifications will be made during June 2022.

Health care service cost recognition – AllCare contracts with various health care providers for the provision of certain medical care services to its plan members. Under the terms of certain contracts with participating providers, a percentage of their fees are retained by AllCare to cover potential deficits. AllCare evaluates the contract withhold annually and may return a portion to the providers based on its ability to meet claim obligations. Operating expenses include all amounts incurred by AllCare under the aforementioned contracts.

The cost of other health care services provided or contracted for is accrued in the period in which it is provided to a member based in part on estimates, including accrual for medical services provided but not reported to AllCare.

Net investment income – Investment income consists of interest earnings from certificates of deposits, corporate bonds, cash and sweep balances. Interest represents amounts earned on investment holdings and is accrued when earned. Investment transaction, custodial, and advisory fees are expensed when incurred.

Income taxes – Deferred income taxes are recognized, subject to an admissibility test for net deferred tax assets, representing the future tax consequences attributable to differences between the statutory basis financial statement carrying amount of assets and liabilities and their respective federal tax basis. Recorded deferred income taxes are adjusted to reflect subsequent changes in income tax rates and other tax law provisions as they are enacted. The net change in deferred taxes is recorded in unassigned surplus. AllCare recognizes interest and penalties to unrecognized tax benefits as a component of income tax expense.

Dividend – OHA restricts the payment of dividends to AHI. Under the State of Oregon regulations, the payment of dividends by AllCare cannot be made except from earned profits of AllCare and only in certain circumstances, and not without prior written approval from the OHA. In 2021 and 2020, no dividends were paid or declared.

Use of estimates – The preparation of the statutory basis financial statements in conformity with SSAP requires management to make estimates and assumptions affecting the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Claims unpaid represent significant estimates. Actual results could differ significantly from those estimates.

Concentrations of risk – Financial instruments potentially subjecting AllCare to concentrations of risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation (“FDIC”) insurance thresholds.

During the years ended December 31, 2021 and 2020, the majority of revenues were generated from the contract with OHA to provide medical services to residents within Josephine, Jackson, southern Douglas, and Curry counties, Oregon. Loss of contract due to nonrenewal or legislative decisions that impact program funding or result in discontinuation could materially affect the financial position of AllCare.

Fair value measurements – The Statutory Accounting Principles Working Group (the “Working Group”) adopted SSAP No. 100 “Fair Value Measurements”. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are based on the inputs to the valuation as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

AllCare CCO, Inc.

Notes to the Statutory Basis Financial Statements

The following table presents the fair value measurement of assets recognized in the accompanying statutory basis statement of admitted assets, liabilities, capital, and surplus measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

		2021			
Admitted Assets	Admitted Assets	Fair Value	Level 1	Level 2	Level 3
Investments					
Bonds	\$ 10,095,000	\$ 10,039,697	\$ -	\$ 10,039,697	\$ -
Cash and cash equivalents	257,453	257,453	257,453	-	-
Other invested assets	<u>2,275,683</u>	<u>2,275,683</u>	<u>-</u>	<u>-</u>	<u>2,275,683</u>
	<u>\$ 12,628,136</u>	<u>\$ 12,572,833</u>	<u>\$ 257,453</u>	<u>\$ 10,039,697</u>	<u>\$ 2,275,683</u>
		2020			
Admitted Assets	Admitted Assets	Fair Value	Level 1	Level 2	Level 3
Investments					
Bonds	\$ 8,500,000	\$ 8,549,208	\$ -	\$ 8,549,208	\$ -
Cash and cash equivalents	372,219	372,219	372,219	-	-
Other invested assets	<u>2,551,807</u>	<u>2,551,807</u>	<u>-</u>	<u>-</u>	<u>2,551,807</u>
	<u>\$ 11,424,026</u>	<u>\$ 11,473,234</u>	<u>\$ 372,219</u>	<u>\$ 8,549,208</u>	<u>\$ 2,551,807</u>

A summary of the Company's investments in corporate bonds on December 31, 2021 by contractual maturity, is as follows:

Years to maturity	
One or less	\$ -
After one through five	<u>10,095,000</u>
	<u>\$ 10,095,000</u>

Restricted assets – As of December 31, 2021 and 2020, restricted assets consist of bonds, short-term investments and cash equivalents held at Key Bank. These funds are restricted held for contractual insolvency requirements and are required by OHA for AllCare to maintain its status as a contractor. The reserves are required to ensure future payment of medical claims or contract withholds and settlements. The bonds have varying maturity dates from 2022 through 2024. As of December 31, 2021 AllCare was not in compliance with required requirement for OHA and as of December 31, 2020, AllCare was in compliance with required reserve requirements for OHA.

AllCare CCO, Inc.
Notes to the Statutory Basis Financial Statements

Restricted assets were at December 31, 2021 and 2020:

Restricted Asset Category	2021						
	Total Gross (Admitted & Nonadmitted) Restricted from Current Year	Total Gross (Admitted & Nonadmitted) Restricted from Prior Year	Increase / (Decrease)	Total Current Year Nonadmitted Restricted	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
	On deposit with state	\$ 10,352,453	\$ 8,872,208	\$ 1,480,245	\$ -	\$ 10,352,453	15.718%

Restricted Asset Category	2020						
	Total Gross (Admitted & Nonadmitted) Restricted from Current Year	Total Gross (Admitted & Nonadmitted) Restricted from Prior Year	Increase / (Decrease)	Total Current Year Nonadmitted Restricted	Total Current Year Admitted Restricted	Gross (Admitted & Nonadmitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
	On deposit with state	\$ 8,872,208	\$ -	\$ 8,872,208	\$ -	\$ 8,872,208	15.854%

NOTE 3 – RISK BASED CAPITAL REQUIREMENTS

Risk based capital requirements have been adopted by the NAIC and the OHA, which established that certain required amounts of capital be maintained. The OHA has a \$2,500,000 minimum net capital and surplus requirement. At December 31, 2021 and 2020, AllCare's surplus was \$30,111,340 and \$25,285,294, respectively.

NOTE 4 – CASH, CASH EQUIVALENTS, SHORT-TERM INVESTMENTS, AND BONDS

The cost or amortized cost, gross unrealized gains (losses), and NAIC-designated fair value of cash, cash and equivalents, and short-term investments, and bonds were as follows at December 31:

	2021			
	Cost or Amortized Cost	Gross Unrealized		NAIC- Designated Fair Value
		Gains	Losses	
Bonds	\$ 10,095,000	\$ -	\$ (55,303)	\$ 10,039,697
Cash, cash equivalents, and short-term investments	39,421,165	-	-	39,421,165
Total bonds and cash, cash equivalents, and short-term investments	<u>\$ 49,516,165</u>	<u>\$ -</u>	<u>\$ (55,303)</u>	<u>\$ 49,460,862</u>

	2020			
	Cost or Amortized Cost	Gross Unrealized		NAIC- Designated Fair Value
		Gains	Losses	
Bonds	\$ 8,500,000	\$ 49,208	\$ -	\$ 8,549,208
Cash, cash equivalents, and short-term investments	38,137,203	-	-	38,137,203
Total bonds and cash, cash equivalents, and short-term investments	<u>\$ 46,637,203</u>	<u>\$ 49,208</u>	<u>\$ -</u>	<u>\$ 46,686,411</u>

AllCare CCO, Inc.
Notes to the Statutory Basis Financial Statements

The carrying value and NAIC fair value of bonds at December 31, 2021 and 2020 by contractual maturity are showing below:

	December 31, 2021		December 31, 2020	
	Carrying Value	NAIC Fair Value	Carrying Value	NAIC Fair Value
Due in one year or less	\$ -	\$ -	\$ -	\$ -
Due after one year through five years	<u>10,095,000</u>	<u>10,039,697</u>	<u>8,500,000</u>	<u>8,549,208</u>
Total	<u>\$ 10,095,000</u>	<u>\$ 10,039,697</u>	<u>\$ 8,500,000</u>	<u>\$ 8,549,208</u>

NOTE 5 – CLAIMS UNPAID (INCURRED BY NOT REPORTED MEDICAL CLAIMS PAYABLE) AND UNPAID CLAIMS ADJUSTMENTS EXPENSES

Activity for incurred but not reported medical claims payable and unpaid claims adjustment expenses as of December 31, are summarized as follows:

	2021	2020
Balance, beginning of the year	\$ 18,725,661	\$ 14,347,245
Incurred related to:		
Current year	164,972,508	126,416,753
Prior year	<u>(4,012,329)</u>	<u>(2,443,976)</u>
Total incurred	160,960,179	123,972,777
Paid related to:		
Current year	(141,669,237)	(107,691,092)
Prior year	<u>(14,713,332)</u>	<u>(11,903,269)</u>
Total paid	<u>(156,382,569)</u>	<u>(119,594,361)</u>
Balance, end of the year	<u>\$ 23,303,271</u>	<u>\$ 18,725,661</u>

Reconciliation to the statutory basis statements of admitted assets, liabilities, capital, and surplus:

	2021	2020
Claims unpaid	\$ 22,667,306	\$ 18,257,492
Unpaid claims adjustment expense	<u>635,965</u>	<u>468,169</u>
	<u>\$ 23,303,271</u>	<u>\$ 18,725,661</u>

As a result of changes between actual payments for medical services and estimated amounts in previous years, claims expenses decreased for the years ended December 31, 2021 and 2020, by \$4,012,329 and \$2,443,976, respectively. Management believes the decrease in estimated prior years' claims expense is largely a result of lower-than-expected adverse health care claims expense.

AllCare CCO, Inc.
Notes to the Statutory Basis Financial Statements

NOTE 6 – INCOME TAXES

The components of the net admitted deferred tax assets recognized at December 31, were as follows:

	<u>2021</u>	<u>2020</u>
Gross deferred tax assets	\$ 1,672,748	\$ 1,306,591
Deferred tax assets nonadmitted	<u>(10,242)</u>	<u>(65,688)</u>
Net deferred tax assets	<u>1,662,506</u>	<u>1,240,903</u>
Net deferred tax liabilities	<u>-</u>	<u>(11,531)</u>
Net admitted deferred tax assets	<u>\$ 1,662,506</u>	<u>\$ 1,229,372</u>

The following are admission calculation components at December 31:

	<u>2021</u>	<u>2020</u>
Net admitted deferred tax assets realized from income tax recoverable	\$ 1,662,506	\$ 1,229,372
Ratio percentage used to determine recovery period and threshold limitation amount	290%	293%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	\$ 28,448,844	\$ 24,055,922

The provision for incurred taxes on earnings for the years ended December 31, was as follows:

	<u>2021</u>	<u>2020</u>
Federal income tax expense	<u>\$ 1,632,746</u>	<u>\$ 1,865,657</u>

AllCare CCO, Inc.
Notes to the Statutory Basis Financial Statements

The tax effects of temporary differences that give rise to significant portions of deferred tax assets were as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets		
Discount on unpaid losses	\$ 441,524	\$ 418,166
Withholding payable	166,115	327,380
Accrued quality bonus	824,200	416,745
Charitable contribution carryover	124,131	80,629
Nonadmitted assets	<u>116,778</u>	<u>63,671</u>
	1,672,748	1,306,591
Deferred tax assets nonadmitted	<u>(10,242)</u>	<u>(65,688)</u>
Admitted deferred tax asset	<u>1,662,506</u>	<u>1,240,903</u>
Deferred tax liabilities		
Investments	<u>-</u>	<u>11,531</u>
Net admitted deferred tax asset	<u>\$ 1,662,506</u>	<u>\$ 1,229,372</u>

The significant items causing a difference between statutory federal income tax rate and its effective income tax rate are as follows:

	<u>2021</u>	<u>2020</u>
Provision computed at statutory rate	\$ 1,298,855	\$ 1,746,104
Change in nonadmitted assets	(42,865)	(63,671)
Change in valuation allowance	-	(1,111,835)
True-ups	<u>(932)</u>	<u>-</u>
	<u>\$ 1,255,058</u>	<u>\$ 570,598</u>
Federal income tax expense	\$ 1,632,746	\$ 1,865,657
Change in net deferred income taxes	<u>(377,688)</u>	<u>(1,295,059)</u>
Total statutory income taxes	<u>\$ 1,255,058</u>	<u>\$ 570,598</u>

The Company's federal income tax return is consolidated with the following entities:

- AllCare Health, Inc. – AHI (Parent)
- AllCare Health Plan, Inc. – (Subsidiary)
- AllCare CCO, Inc. – the Company (Subsidiary)
- AllCare Independent Physician Association, Inc. (Subsidiary)
- AllCare Management Services, LLC (Disregarded Entity LLC)
- AllCare Development, LLC (Disregarded Entity LLC)
- AllCare eHealth Services, LLC (Disregarded Entity LLC)
- AllCare PACE, LLC (Disregarded Entity LLC)
- AllCare Medical Group, LLC (Disregarded Entity LLC)

The method of allocation among companies is subject to a written agreement, whereby allocation is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. Intercompany tax balances are settled annually.

Authoritative accounting guidance requires that the tax benefit of net operating losses, temporary differences, and credit carryforwards be recorded as an asset to the extent that management assesses that realization is “more likely than not.” Realization of the future tax benefits is dependent on the Company’s ability to generate sufficient taxable income within the carryforward period. Because the Company files its tax returns on a consolidated basis with AHI, the realization of the Company’s deferred tax assets must be assessed on a consolidated basis. Based on the consolidated group’s history of taxable income, management believes that recognition of deferred tax assets arising from future tax benefits above is currently “more likely than not” and, accordingly has removed the valuation allowance. There was a change in the valuation allowance in the amount of \$0 and \$1,111,835 for the years ended December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, the Company does not have any material loss contingencies and has not accrued any penalties or interest for unrecognized tax benefits. The Company recognizes interest and penalties to unrecognized tax benefits as a component of income tax expense. The Company believes that unrecognized tax benefits will not change within 12 months of this reporting date.

The Company is subject to U.S. federal income taxes. To the extent allowed by law, tax authorities may have the right to examine prior periods when net operating losses or tax credits were generated and carried forward, and make adjustments up to the amount of the net operating loss or credit carryforward amount.

NOTE 7 – RECONCILIATION OF ANNUAL STATEMENT TO AUDITED STATUTORY BASIS FINANCIAL STATEMENTS

There were no differences between the annual statement as filed with the OHA and the audited statutory basis financial statements for the years ended December 31, 2021 and 2020.

NOTE 8 – RELATED PARTY TRANSACTIONS

AllCare has a Management Services Agreement (the “Agreement”) with AMS. Under the Agreement, AMS performs the management and administration services for AllCare in exchange for fees of \$40 per member per month (“PMPM”) for CCO members for the years ended December 31, 2021 and 2020. In addition, there is a 10% administrative fee based upon the quality pool bonus received by AllCare. Management fee expenses paid by AllCare totaled \$27,574,568 and \$25,821,510 for the years ended December 31, 2021 and 2020.

As of December 31, 2021, AllCare had a note receivable from ADEV in the amount of \$510,000 recorded in other invested assets, a receivable from AHI of \$511,377 recorded in current federal income tax recoverable, a note receivable from AMS in the amount of \$1,765,683 recorded in other invested assets, a payable to AMS for its portion of the quality dollars earned and reimbursement of expenses in the amount of \$831,113 recorded in amounts due to parent, subsidiaries and affiliates, and a payable to AllCare Health, Inc. of \$31,336 for a claims refund deposited in error recorded in amounts due to parent, subsidiaries and affiliates.

AllCare CCO, Inc.

Notes to the Statutory Basis Financial Statements

As of December 31, 2020, AllCare had a note receivable from ADEV in the amount of \$630,000 recorded in other invested assets, a receivable from AHI of \$511,377 recorded in federal income tax recoverable, a note receivable from AMS in the amount of \$1,921,807, recorded in other invested assets, and has a payable to AMS for its portion of the quality dollars earned and reimbursement of expenses in the amount of \$1,322,311 recorded in amounts due to parent, subsidiaries and affiliates.

AllCare is a guarantor on the long-term debt incurred by a related party, ADEV. At December 31, 2021 and 2020, the outstanding balance on this note was \$8,101,600 and \$8,495,200, respectively. AllCare is also a guarantor on a term note and line of credit incurred by a related party, AMS. At December 31, 2021, the outstanding balance on this note and line of credit were \$127,515 and \$600,000, respectively. At December 31, 2020, the outstanding balance on this note and line were of credit \$295,259 and \$502,920, respectively. There are financial loan covenants associated with all the notes. Management believes they were in compliance with all covenants as of December 31, 2021.

There was no dividend declared or paid for the years ended December 31, 2021 and 2020.

AllCare entered into an agreement with the local county Public Health Department in 2015 and provides staffing for various services including women's health primary care services and immunization services. AllCare employs the staff responsible for providing these services and during 2021 and 2020, staffing and benefits paid were \$130,377 and \$283,961, respectively. As part of the agreement, the Public Health Department shares 50% of the revenues earned from these services, and in 2021 and 2020, AllCare earned \$47,779 and \$89,300, respectively.

NOTE 9 – CCO MINIMUM MEDICAL LOSS RATIO REQUIREMENT FOR THE ACA EXPANSION POPULATION

The state requires a minimum medical loss ratio ("MMLR") of 85% calculated based upon the calendar year. As of December 31, 2021 and 2020, AllCare met the required minimum 85% medical loss ratio. Since the minimum requirement was satisfied, there were no amounts accrued for the MMLR.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, AllCare is a party to claims and legal actions by enrollees, providers, and others. After consulting with legal counsel, AllCare's management is of the opinion that any liability that may ultimately be incurred as a result of claims or legal actions will not have a material effect on the financial position or results of operations of AllCare.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from health care programs, together with the imposition of significant fines and penalties, as well as significant repayment for previously billed patient services. While AHI is subject to similar regulatory reviews, management believes that the outcome of any potential regulatory review will not have a material adverse effect on AllCare's financial position.

NOTE 11 – HEALTH CARE REFORM

The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of health care coverage. The expansion is accomplished primarily through incentives to individuals to obtain and employers to provide health care coverage, and an expansion in Medicaid eligibility. The Affordable Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste, and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the health care delivery system. The Affordable Care Act allowed for the expansion of Medicaid members in the State of Oregon. Any future federal or state changes in eligibility requirements or federal or state funding could have an impact on AllCare. With the changes in the executive branch, the future of Affordable Care Act and impact of future changes in Medicaid to AllCare is uncertain at this time.

NOTE 12 – COVID-19

On January 10, 2020, the World Health organization declared the novel coronavirus outbreak a public health emergency. Allcare's results of operations could be adversely affected to the extent that coronavirus or any other epidemic harms the global economy. Although AllCare does not expect the impact on its operations and financial results to be significant, the duration and intensity of the impact of the coronavirus and resulting disruption to AllCare's operations is uncertain. AllCare developed numerous programs during 2020 and 2021 as a direct result of the COVID pandemic. These programs were developed to help stabilize the provider network and the community benefit organizations within its service areas.

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statutory basis statement of admitted assets, liabilities, capital, and surplus date, but before the statutory basis financial statements are available to be issued. AllCare recognizes in the statutory basis financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statutory basis statement of admitted assets, liabilities, capital, and surplus, including the estimates inherent in the process of preparing the statutory basis financial statements. AllCare's statutory basis financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statutory basis statement of admitted assets, liabilities, capital, and surplus but arose after the statutory basis statement of admitted assets, liabilities, capital, and surplus date and before statutory basis financial statements are available to be issued.

AllCare has evaluated subsequent events through June 30, 2022, which is the date the statutory basis financial statements were available to be issued.

