MCNA HEALTH CARE HOLDINGS, LLC
AND SUBSIDIARIES

Years Ended December 31, 2018 and 2017

With Report of Independent Auditors

MCNA HEALTH CARE HOLDINGS, LLC
AND SUBSIDIARIES

Years Ended December 31, 2018 and 2017
With Report of Independent Auditors

Contents

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
MCNA Health Care Holdings, LLC and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of MCNA Health Care Holdings, LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income and changes in members' capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MCNA Health Care Holdings, LLC and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Morrison, Brown, Argiz & Farra

Miami, Florida
April 30, 2019

MCNA HEALTH CARE HOLDINGS, LLC
AND SUBSIDIARIES

Consolidated Balance Sheets

($ in thousands)

	December 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 59,087	$ 100,257
Investments, net	157,614	144,920
Health insurer fee receivable	18,077	-
Contractual retainage and other receivables	16,985	6,135
Pre-paid expenses and other current assets	8,821	4,265
Total current assets	**260,584**	**255,577**
Due from related parties	11,640	7,375
Restricted cash and investments	2,890	2,800
Other assets	7,449	6,966
Total assets	**$ 282,563**	**$ 272,718**
Liabilities and Members' Capital		
Current Liabilities		
Unpaid service provider costs	$ 39,436	$ 39,318
Accounts payable and accrued expenses	11,146	14,228
Accrued dental incentive program	2,588	2,588
Note payable, current portion	1,785	14,000
Aggregate health policy reserve	600	1,276
Total current liabilities	**55,555**	**71,410**
Note payable, long term portion	10,983	-
Deferred rent	900	844
Total liabilities	**67,438**	**72,254**
Commitments and contingencies (Note14)		
Members' capital	215,125	200,464
Total liabilities and members' capital	**$ 282,563**	**$ 272,718**

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

MCNA HEALTH CARE HOLDINGS, LLC
AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
and Changes in Members' Capital
($ in thousands)

	For the Years Ended December 31,	
	2018	**2017**
Revenues		
Premiums earned	$961,881	$839,562
Reinsurance premiums, net	(1,556)	(2,042)
Aggregate health policy reserves	(99)	(7,932)
Total revenues	960,226	829,588
Expenses		
Dental service provider expenses	806,578	703,284
General and administrative	116,546	92,572
Total operating expenses	923,124	795,856
Income from operations	37,102	33,732
Other income and expenses		
Investment income, net	6,624	3,333
Interest expense	(676)	(554)
Total other income	5,948	2,779
Net income	**43,050**	**36,511**
Other comprehensive income		
Unrealized (loss) gain on securities available for sale, net	(2,889)	1,733
Comprehensive income	**40,161**	**38,244**
Members' capital - beginning of year	200,464	180,220
Distributions to members	(25,500)	(18,000)
Members' capital - end of year	**$ 215,125**	**$200,464**

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

MCNA HEALTH CARE HOLDINGS, LLC
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
($ in thousands)

	For the Years Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 43,050	$ 36,511
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	454	478
Accretion and amortization of investments	1,236	1,418
Changes in operating assets and liabilities:		
Reimbursable health insurer fee	(18,077)	16,486
Contractual retainage and other receivables	(10,850)	(2,296)
Pre-paid expenses and other current assets	(4,556)	488
Unpaid service provider costs	118	743
Accounts payable and accrued expenses	(3,083)	8
Aggregate health policy reserve	(676)	176
Accrued dental incentive program	-	338
Deferred rent	56	(36)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,672	51,478
INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	62,019	41,499
Purchase of investments	(79,291)	(74,698)
Other assets	(483)	(2,687)
Purchases of restricted investments	(90)	-
NET CASH USED IN INVESTING ACTIVITIES	(17,845)	(37.304)
FINANCING ACTIVITIES		
Proceed from borrowings on notes payable	12,768	-
Payments on notes payable	(14,000)	(2,000)
Due from related party	(4,265)	-
Members' distributions	(25,500)	(18,000)
NET CASH USED IN FINANCING ACTIVITIES	(30,997)	(20,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(41,170)	(4,408)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	100,257	104,665
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$59,087**	**$100,257**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
NON-CASH ITEMS		
Unrealized (loss) gain on investments	($2,889)	$1,733

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

MCNA Health Care Holdings, LLC ("Holdings") was formed in 2011 to be the parent company of Managed Care of North America, Inc. ("MCNA"), MCNA Insurance Company ("MCNA TX") and MCNA Systems Corp. ("Systems"). Holdings, MCNA, MCNA TX, and Systems (collectively referred to as the "Company") primarily operates to provide access to dental services through its networks of contracted providers. Such services are made available to health plans as a prepaid limited health service organization and as an accident and health insurance company to subscribers in the states where the Company operates.

The Company provides access to dental services for health maintenance and state agencies in the states of Florida, Texas, Louisiana, Iowa, Idaho, Nebraska, Arkansas, Utah and an additional contract with the state of Washington which commences on July 1, 2019.

The Company primarily achieves its purpose and objectives through contracts with the aforementioned states by servicing children's Medicaid and Children's Health Insurance Program ("CHIP") programs, as well as licensed health maintenance organizations ("HMO") and a state healthcare agency. Such contracts provide among other things, for the Company to receive monthly capitation premiums per enrolled member in exchange for paying dental providers for approved services rendered. Federal, state and local laws and regulations concerning healthcare affect this industry. The Company is subject to economic, regulatory, or other developments in the states where it operates, and is not able to predict the content or impact of future changes to such laws and regulations. Given this concentration of revenues derived from these aforementioned states, as well as regulations affecting the industry, the loss of any of these contracts could have a material adverse effect on the Company's financial condition and operations. At December 31, 2018, the Company is also licensed to provide similar dental services or third party administration in several other states.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, all significant intercompany balances and transactions have been eliminated in consolidation.

Concentration of Credit Risk

During the years ended December 31, 2018 and 2017, all Company revenues were generated from its contracts with the aforementioned state agencies and various government funded and private programs. Accordingly, certain changes to these contracts or changes in healthcare laws could have a materially adverse impact on the Company.

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash deposits in excess of the Federal Deposit Insurance Corporation's insured limit of $250 thousand. The Company generally limits exposure by placing deposits with several quality financial institutions. However, at times, such cash balances may be in excess of insured amounts.

Cash and Cash Equivalents

The Company considers cash and cash equivalents as all short-term, liquid investments that are both readily convertible to known amounts of cash and purchased with original maturities of three months or less.

Restricted Cash and Investments

The Company has certain cash and/or investments set aside to meet various solvency and other requirements specified under state insurance codes. As of December 31, 2018 and 2017, the Company's restricted cash and

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash and Investments (continued)

investments approximated $2.9 and $2.8 million, respectively, and are reflected as non-current assets in the accompanying consolidated balance sheets.

Investments

The Company classifies investments as available-for-sale securities, which are recorded at fair value. Unrealized holding gains and losses on available-for-sale debt securities that are not determined to be other than temporary are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) until realized. ASC 321, Investments – Equity Securities; require those securities having a readily determinable fair value, except for those accounted for under the equity method or those that result in consolidation of the investee, recognize changes in fair value in net income. Included in retained earnings at December 31, 2017, is $542 thousand, net unrealized gain on equity securities related to prior years. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

Financial Instruments

The Company's financial instruments are cash and cash equivalents, investments, certificate of deposits, accounts receivable, bonds, accounts payable, and long-term debt. The recorded values of these financial instruments approximate their fair values based on their short-term nature. The recorded values of bonds and long-term debt approximate their fair values, as stated interest rates approximates market rates.

Contractual Retainage and Receivables

Contractual retainage represents amounts due from health plans, primarily as surety for performance, for services provided by the Company. Included in this balance at December 31, 2018 and 2017, is $3.7 million and $1.3 million of experience rebate receivable related to prior years claim payments. $1.3 million of these amounts were collected during 2018.

Accounts receivable is stated at estimated net-realizable value. The Company recognizes allowances for doubtful accounts to ensure receivables are not overstated. Such allowances are established based on a variety of factors, including the length of time receivables are past due, significant one-time events, discussions with clients and historical experience. If circumstances change, estimates of the recoverability of receivables would be further adjusted. As of December 31, 2018 and 2017, management believes no allowance for doubtful accounts was necessary.

Other Assets

Included within the caption other assets (Note 4) on the accompanying consolidated balance sheets are advanced costs, property and equipment, net, and security deposits. Also included are fees and development costs advanced to a related entity, which provides information technology services. The Company expects these advances will be reduced in future periods as services are rendered.

Depreciation and amortization on property and equipment is computed using the straight-line method over the life of the assets, ranging from three to five years. Leasehold improvements are amortized over the shorter of the estimated useful life or term of the lease. Security deposits are required by lease contract terms.

Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed, the asset's

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets (continued)

carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Impairment of Long-Lived Assets

The Company periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairments were recorded during the years ended December 31, 2018 and 2017.

Premiums and Risk Revenues

The Company earns revenue primarily from contracts where it bears business risk. Capitation premiums are received on a per member per month ("PMPM") basis, in exchange for paying dental providers for allowed services rendered. Premiums are generally collected during the coverage month and recognized as revenue at that time.

Unpaid Service Provider Cost

The Company utilizes an established network of dentists to provide comprehensive services to its members for its premium business. The Company compensates these providers primarily on a fee-for-service basis utilizing specified fee schedules. These costs are accrued considering date of service to members, based in part on estimates, including an accrual for dental services incurred but not reported (IBNR).

Liabilities for IBNR are estimated using the Company's accumulated statistical data, adjusted for current experience. These estimates are continually reviewed and updated. Differences between estimated IBNR and actual amounts incurred are adjusted as an increase or decrease to service provider costs in the accompanying consolidated statements of comprehensive income in the period they become known. At year end, the Company's IBNR estimate for the cost of dental services is computed by an independent actuary using standard actuarial methodologies.

Management believes the amounts accrued are adequate to cover claims incurred and unpaid as of December 31, 2018 and 2017. However, as the liability for claims payable is based on estimates, the ultimate amounts paid to adjudicate the liability may vary from recorded amounts.

As of December 31, 2018 and 2017, the Company accrued $39.4 million and $39.3 million, respectively, for unpaid service provider cost. During the years ended December 31, 2018 and 2017, the Company incurred additional amounts of claims costs approximating $1.1 million and $275 thousand, respectively, related to activity in previous years. These fluctuations are due to unfavorable claims development of previously recorded unpaid claims driven by differences in expected utilization. These amounts have been recorded as an increase of claims expense and is included in the caption dental service provider expenses on the accompanying statements of comprehensive income and changes in members' capital. Total service provider expense for the years ended December 31, 2018 and 2017 approximated $806.6 million and $703.3 million, respectively.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Claims Adjustment Expenses

Claims adjustment expense is an estimate of costs expected to be incurred in connection with adjustment and recording of incurred claims. As of December 31, 2018 and 2017 approximately $14 thousand and $8 thousand, respectively, is accrued and included in the caption accounts payable and accrued expenses on the consolidated balance sheets.

Advertising and Promotional Costs

Advertising and promotional costs are generally expensed as incurred. Such costs charged to expense totaled approximately $1.7 million and $444 thousand for the years ended December 31, 2018 and 2017, respectively, and are included in the caption general and administrative expenses in the accompanying consolidated statements of comprehensive income and changes in members' capital.

Income Taxes

Holdings is an S Corporation. Qualified S Corporation Subsidiary "(Q Sub)" elections have been filed for its affiliates, and accepted by the Internal Revenue Service ("IRS"). Accordingly, Holdings and its affiliates MCNA, MCNA TX and Systems, which are considered disregarded entities for federal income tax purposes, will file a consolidated return. Under provisions of Subchapter S of the Internal Revenue Code, in lieu of corporate income tax expense or benefit, the stockholders of an S Corporation report their proportionate share of the Company's taxable income or loss. Additionally, an S Corporation is normally not subject to state taxes or state filing requirements. Therefore, no provision or liability for federal or state income tax expense nor any deferred tax benefit or liability is included in the consolidated financial statements. No elections have been made to record deferred tax assets nor has there been any deferred income tax effect on members' capital.

The Company recognizes and measures tax positions taken or expected to be taken in its tax return based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other non-interest expense, respectively. The U.S. Federal, and various states where we conduct business are the major tax jurisdictions where the Company files income tax returns. The Company is generally no longer subject to U.S. Federal or State examinations by tax authorities for years before 2015.

Comprehensive Income

Comprehensive income consists of net income from operations and other comprehensive income, which primarily includes changes in unrealized gains or losses on investments classified as available for sale. The realization of a gain or loss effectively shifts the related amount from accumulated other comprehensive income to earnings.

Deferred Rent

The Company records rent expense for its operating leases with contractual rent increases on a straight-line basis over the base term of the lease agreement commencing with the date the Company has "control and access" to the leased premises, which is generally a date prior to the "lease commencement date" in the lease agreement.

Reinsurance

In connection with its Texas business, the Company entered into a Risk Premium Reinsurance Agreement with a reinsurance company. This agreement indemnifies the Company for an agreed upon quota share (45% for the years ended December 31, 2018 and 2017) of dental services risk assumed by the reinsurer under the terms and conditions as set forth in the contract. Since all ceded funds are held by the Company and utilized regularly for

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reinsurance (continued)

claims adjudication and continuous experience refunds, there were no amounts recoverable from the reinsurer at each year-end.

Reinsurance risk charges reduce earned revenues in the accompanying consolidated statements of comprehensive income and changes in members' capital. Net reinsurance recoveries are reported as a reduction of premium revenues earned.

After its experience refund, the Company incurred net reinsurance risk charges of approximately $1.6 million and $2.0 million for the years ended December 31, 2018 and 2017, respectively.

Fair Value Measurements

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 3. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Management Estimates

The preparation of the financial statements requires management to make estimates and assumptions concerning dental costs, investment valuation, and other factors that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities as of the date of the balance sheets, and the revenues and expenses for the years ending December 31, 2018 and 2017. Such estimates are based on historical experience and other assumptions that are considered appropriate in the circumstances. While management believes the amounts for such liabilities are adequate, actual results could differ from these estimates and these differences may be material.

Recent Accounting Pronouncements - Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* which has been modified by a number of updates issued by the FASB.
ASU 2014-09 will supersede existing revenue recognition standards with a single model unless those contracts are within the scope of other standards (e.g., an insurance entity's insurance contracts). The new model requires an entity to recognize revenue for the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 will require new and enhanced disclosures.

MCNA earns substantial revenues from its managed care contracts, and has determined revenue recognition from its Children's Health Insurance Program (CHIP) and Medicaid dental plans, which comprises the majority of operations, is excluded from the scope of ASU 2014-09. The recognition of revenue under these financial service contracts is dictated by other accounting standards *governing financial service contracts ASC 944 Financial Services – Insurance (Topic 944).*

Two adoption methods are permitted under ASU 2014-09 for MCNA revenues earned from sources other than from insurance contracts. Under the full retrospective method, financial statement adjustments are applied to each reporting period presented. Under the modified retrospective method, the cumulative effect of initially applying the guidance is reflected as an adjustment to beginning retained earnings as of the date of adoption. The Company adopted this standard on January 1, 2018, using the modified retrospective method. Under this method, the cumulative effect of initially applying the guidance will be reflected as an adjustment to beginning retained earnings. This new guidance did not have any impact on the Company's consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements – Adopted (continued)

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, *Fair Value Measurements*, and as such these investments may be measured at cost. The Company has elected to early adopt ASU 2016-01 which will be effective for the Company beginning January 1, 2018 and subsequent interim periods. The adoption of ASU 2016-01 did not have a material effect on the Company's consolidated financial statements.

In May 2015, the FASB issued accounting standard update ASU 2015-09 - *Financial Services—Insurance (Topic 944) Disclosures about Short-Duration Contracts*, which expands a risk bearing entity's disclosures regarding the liability for unpaid claims and claim adjustment expenses. The update is effective retrospectively for MCNA on January 1, 2017, and for interim periods within annual periods beginning after December 15, 2017. Early application is permitted. The adoption of this standard did not have a material effect on the Company's financial statements.

Recent Accounting Pronouncements – Not Yet Adopted

In November 2016, the Financial Accounting Standards Board (FASB) issued an accounting standard update, *Statement of Cash Flows (Topic 230) Restricted Cash,* which requires a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts of restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. These amendments are effective for MCNA beginning January 1, 2019, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to have a material impact on its consolidated statements of cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 significantly changes the impairment model for most financial assets and certain other instruments. ASU 2016-13 will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, which will generally result in earlier recognition of allowances for credit losses on loans and other financial instruments. ASU 2016-13 is effective for the Company beginning January 1, 2021 and subsequent interim periods. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, as modified by ASU 2017-03, Transition and Open Effective Date Information. Under ASU 2016-02, an entity will be required to recognize assets and liabilities for the rights and obligations created by leases on the entity's balance sheet for both finance and operating leases. For leases with a term of 12 months or less, an entity can elect to not recognize lease assets, lease liabilities, and expense the lease over a straight-line basis for the term of the lease. ASU 2016-02 will require new disclosures that depict the amount, timing, and uncertainty of cash flows pertaining to an entity's leases. ASU 2016-02 is effective for MCNA beginning January 1, 2020 and must be adopted using a modified retrospective approach for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. Under this guidance, the Company will record right-of-use assets and related liabilities relating primarily to our long-term office leases.

The Company is currently evaluating the effects adoption of this guidance will have on its consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

Other recent accounting pronouncements issued by the FASB, and the American Institute of Certified Public Accountants did not have, or are not believed to have, a significant impact on our present or future financial statements.

Reclassifications

Certain items have been reclassified from 2017 to conform to 2018's presentation.

Subsequent Events

The Company has evaluated subsequent events through April 30, 2019, the date on which these consolidated financial statements were available to be issued.

2. MINIMUM SURPLUS REQUIREMENTS

In accordance with Florida statutes, MCNA is required to maintain at all times minimum capital and surplus in an amount equal to the larger of (1) $150 thousand or (2) 10 percent of total liabilities. Recent contractual requirements with Florida's Agency for Health Care Administration ("AHCA") stipulate minimum capital and surplus of $1.5 million at all times. At December 31, 2018 and 2017, MCNA's capital and surplus was in excess of its minimum statutory surplus requirement.

Pursuant to its Texas Certificate of Authority, MCNA TX must maintain: 1) minimum surplus of $20 million and 2) a premium writing to capital and surplus ratio of no more than 10 to 1 (10:1) as of December 31, 2018 and 2017; or a minimum total adjusted capital to authorized control level risk-based capital of 350 percent, whichever is less. All minimum surplus requirements for state contracts awarded to MCNA TX default to the Texas Department of Insurance requirements. At December 31, 2018 and 2017, the Company's capital and surplus was in excess of minimum statutory requirements.

3. FAIR VALUE MEASUREMENTS

ASC 820 provides guidance for using fair value to measure assets and liabilities and expands disclosures about fair value measurements. ASC 820 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (e.g., the reporting entity's own data) (Level 3) and distinguishes between observable inputs and unobservable inputs.

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

- Level 1 - *Observable Inputs.* Level 1 financial instruments are actively traded and therefore the fair value for these securities is based on quoted market prices on one or more securities exchanges.

- Level 2 - *Directly or Indirectly Observable Inputs.* Level 2 financial instruments are traded frequently though not necessarily daily. Fair value for these investments is determined using a market approach based on quoted prices for similar securities in active markets.

3. FAIR VALUE MEASUREMENTS (CONTINUED)

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

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 20187.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company's financial instruments at December 31, 2018, includes approximately $2.890 million classified as restricted investments, $1.312 million short term investments and $4.405 million of money market funds both classified as cash equivalents on the accompanying consolidated balance sheets. The Company's financial instruments are measured at fair value on a recurring basis at December 31, 2018, and is shown in the table below ($ in thousands):

Description	Fair Value 12/31/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
US Treasury Notes	$ 896	$ 896	$ -	$ -
US Treasury Bonds	5,143	5,143	-	-
Certificates of Deposit	869	869	-	-
Money Market Funds	4,405	4,405	-	-
Corporate Bonds	81,770	81,770	-	-
Municipal Bonds	39,232	39,232	-	-
Yankee Bonds	1,274	1,274	-	-
Federal Agencies	2,475	2,475	-	-
Mortgage Backed Securities	8,017	8,017	-	-
Equities	10,674	10,674	-	-
Mutual Funds	3,420	3,420	-	-
Collateralized Mortgage Obligations	3,985	3,985	-	-
Preferred Stock	2,927	2,927	-	-
Limited Partnerships	750	-	-	750
Private Equities	384	-	-	384
Total assets	**$ 166,221**	**$ 165,087**	**$ -**	**$ 1,134**

The Company's financial instruments at December 31, 2017, includes $2.600 million classified as restricted investments, and $1.649 million of short term investments and $721 thousand of money market funds classified as cash equivalents on the accompanying consolidated balance sheets. The Company's financial instruments are measured at fair value on a recurring basis at December 31, 2017, and is shown in the table below ($ in thousands):

3. FAIR VALUE MEASUREMENTS (CONTINUED)

Description	Fair Value 12/31/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
US Treasury Notes	$ 4,810	$ 4,810	$ -	$ -
Certificates of Deposit	3,512	3,512	-	-
Money Market Funds	721	721	-	-
Corporate Bonds	66,685	66,685	-	-
Municipal Bonds	44,890	44,890	-	-
Federal Agencies	2,761	2,761	-	-
Mortgage Backed Securities	7,405	7,405	-	-
Equities	10,085	10,085	-	-
Mutual Funds	4,458	4,458	-	-
Collateralized Mortgage Obligations	1,502	1,502	-	-
Preferred Stock	1,753	1,753	-	-
Limited Partnerships	890	-	-	890
Private Equities	418	-	-	418
Total assets	**$ 149,890**	**$ 148,562**	**$ -**	**$ 1,308**

4. OTHER ASSETS

Included in the caption other assets on the accompanying consolidated balance sheets is property and equipment, net; prepaid expenses and other assets, consisting of the following, at December 31 ($ in thousands):

	2018	2017
Furniture and equipment	$ 995	$ 954
Computer equipment and software	2,671	2,327
Leasehold improvements	1,075	1,066
	4,741	4,347
Less: accumulated depreciation and amortization	(3,723)	(3,269)
Total property and equipment, net	1,018	1,078
Advances – related party (see Note 6)	6,296	5,757
Other assets	135	131
	$ 7,449	**$ 6,966**

For the years ended December 31, 2018 and 2017, depreciation and amortization expense totaled approximately $454 thousand and $478 thousand, respectively.

5. CONTRACTUAL RETAINAGE AND RECEIVABLES

Included in the caption contractual retainage and receivables on the accompanying consolidated balance sheets are retroactive premiums receivable related to various state contracts, investment interest/dividends receivable and receivables on unsettled investment trades. As of December 31, 2018 and 2017, contractual retainage totaled $10.3 million and $3.6 million, respectively; and investment interest/dividends receivable totaled $1.3 million and $1.2 million, respectively. Receivables on unsettled trades totaled $1.6 million as of December 31, 2018.

Also included are amounts related to state contracts which require retainage on contractual billings to be secured as surety for performance. Retainage rates required by the respective states are: Louisiana Department of Health (2%), Iowa Department of Human Services (2%) and Idaho Department of Health and Welfare (3%). The retainage amounts are released periodically by the various state agencies, provided the Company successfully completes its contract deliverables. As of December 31, 2018 and 2017, amounts retained totaled $3.7 million and $1.3 million, respectively.

6. DUE FROM RELATED PARTIES

During 2012, the Company advanced $5 million and executed a promissory note with one of its related parties. The note bears interest at 1% per annum and matures on December 17, 2021. Interest only payments are due in equal annual installments beginning December 17, 2013 until maturity at which point the entire balance is due.
As of December 31, 2018 and 2017, $5 million is due to the Company from the related party.

During 2014, the Company advanced $750 thousand and executed a promissory note with one of its related parties. The note bears interest at 1% per annum and matures on November 23, 2021. Interest only payments are due in equal annual installments beginning November 23, 2015 until maturity at which point the entire balance is due. As of December 31, 2018 and 2017, approximately $375 thousand is due to the Company from the related party.

During 2016, the Company advanced $2 million and executed a promissory note with one of its related parties. The note bears interest at 1.45% per annum and matures on April 14, 2025. Interest only payments are due in equal annual installments beginning April 14, 2017 until maturity at which point the entire balance is due. As of December 31, 2018, $2 million is due to the Company from the related party.

During 2018, the Company advanced approximately $4.3 million to related parties. As of December 31, 2018, approximately $4.3 million is due to the Company from these related parties, repayment of this amount is expected to occur over several years. (See Note 4 for other related party disclosures).

In addition to the above related party transactions, during 2015, the Company entered into an agreement with one of its affiliates whereby it agreed to advance funding for development of proprietary software. The advances accrue interest at a rate of 3% and is calculated based on the cumulative outstanding balance at the end of each month. The Company reduces the amount advanced as services are rendered. These amounts are classified as other assets on the accompanying consolidated balance sheets and as of December 31, 2018 and 2017 approximated $6.3 million and $5.8 million, respectively. (See Note 4).

7. UNPAID SERVICE PROVIDER COST

Activity in the liability for unpaid service provider cost is summarized below ($ in thousands):

Balance at December 31, 2016	**$ 38,575**
Incurred related to:	
2017	703,009
2016	275
	703,284
Paid related to:	
2017	664,015
2016	38,526
	702,541
Balance at December 31, 2017	**$ 39,318**
Incurred related to:	
2018	805,498
2017	1,080
	806,578
Paid related to:	
2018	765,754
2017	40,706
	806,460
Balance at December 31, 2018	**$ 39,436**

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31, consists of the following ($ in thousands):

	2018	**2017**
Premium tax payable	$ 1,732	$ 963
Accounts payable	5,065	4,258
Accrued program quality initiative	-	3,000
Accrued salaries and other expenses	4,349	6,007
	$ 11,146	**$ 14,228**

9. AGGREGATE HEALTH POLICY RESERVE

Experience Rebate

The Company's contract with the Texas state Medicaid agency ("HHSC") requires payment of an Experience Rebate if pre-tax income as a percentage of revenues (Rebate Percentage") is greater than 3%, as measured by the HHSC Financial Statistical Report. The experience rebate is calculated using a graduated scale. No obligation for rebate exists if the Rebate Percentage is less than, or equal to, 3%. For every incremental increase of the Rebate Percentage scale, up to 12%, the Company's, rebate obligation increases by 20%. When the Rebate Percentage exceeds 12%, all of the excess is owed to HHSC. As of December 31, 2018 and 2017, the Company has calculated and accrued approximately $600 thousand and $1.3 million, respectively. These amounts are included on the accompanying consolidated balance sheets in the caption aggregate health policy reserves.

10. HEALTH INSURER FEE

The Affordable Care Act ("ACA") imposed an annual insurance industry assessment of $14.3 billion for 2018, which is not deductible for income tax purposes. The fee will be allocated based on health insurers' premium revenues in the previous year. Each health insurer's fee (HIF) is calculated by multiplying its market share by the annual assessment. Market share is based on commercial, Medicare, and Medicaid premium revenue.

The Consolidated Appropriations Act of 2016, Title II, § 201, Moratorium on Annual Fee on Health Insurance Providers suspended collection of the health insurance provider fee for the 2019 and 2017 calendar years. This moratorium did not affect the filing requirement and payment of these fees for 2018.

During the year ended December 31, 2018, the Company incurred expenses for the ACA annual HIF of $15.8 million. This amount is included within the general and administrative caption on the statements of comprehensive income and changes in members' capital.

In order to maintain actuarially sound fiscal guidelines, all Company contracts with premiums subject to ACA HIF amended their agreements to include reimbursement of the HIF paid, and related tax effect gross up.

Included as premium earned in the accompanying statements of comprehensive income and changes in members' capital are state approved HIF reimbursement revenues of approximately $22.7 million related to the year ended December 31, 2018. As of December 31, 2018 approximately $16 million receivable from various states is included in the caption health insurer fee receivable on the consolidated balance sheets, this amount has not yet been collected.

11. ACCRUED DENTAL INCENTIVE PROGRAM

In 2013, the Company implemented the Stellar Treatment and Recognition Reward ("STARR") incentive program for its Texas dental providers, which rewards providers who perform a high volume of certain preventive services. Providers who qualify based on specific criteria will receive an incentive payment based on a scorecard. Management can terminate the program at any time. As of December 31, 2018 and 2017, the Company accrued $2.25 million under this program, which was approved by HHSC, and is included within the caption "unpaid service provider costs" on the accompanying consolidated balance sheets. Payment of the 2017 liability was made during 2018; the 2018 liability is anticipated to be paid during the second quarter of 2019.

As of December 31, 2017, the Company accrued an additional $338 thousand in provider bonuses for Iowa, this amount has not yet been paid.

12. NOTES PAYABLE

On December 31, 2018, the Company entered into a new credit agreement whereby the lender paid off the remaining balance under a previous lending facility. Terms of the loan agreement allow for a term loan of $12.5 million, as well as allow for a revolving credit facility for up to $15 million. The term loan bears interest equal to one hundred fifty basis points over the one month LIBOR Market Index Rate (4.08% at December 31, 2018); and is collateralized by a segregated pledged bond portfolio which provides for a balance of not less than $15 million, any withdrawal of excess funds shall be in a minimum amount of $1 million, and no more than three withdrawals shall be permitted in any consecutive four quarter period. The loan matures on December 31, 2021 and requires quarterly repayments of $446 thousand, with all outstanding principal due at loan maturity date. The revolving loan bears interest equal to two hundred basis points over the one month LIBOR Market Index Rate (4.52% at December 31, 2018). At December 31, 2018, $268 thousand was drawn down under the revolving credit facility. Unused funds under this facility are subject to a .5% rate charge.

On February 2, 2015, the Company entered into a syndicated loan agreement whereby the lead lender paid off the remaining balance under a previous lending facility. Terms of the syndicated loan agreement provide that the two lenders commit to specific applicable percentages in order to allow for two term loans of $10 million each, as well as allow for a revolving credit facility for up to $15 million. The first term loan bears interest equal to three hundred twenty-five basis points over the three month LIBOR Market Index Rate (6.05% and 4.95% at December 31, 2018 and 2017, respectively). The second term loan, which is collateralized by a segregated bond portfolio, bears interest equal to one hundred seventy-five basis points over the three month LIBOR Market Index Rate (4.55% and 3.45% at December 31, 2018 and 2017, respectively). The agreement provides for a reduction in the interest rate of 50 basis points, provided the Company meets certain criteria specified within its loan covenants. On January 1, 2017, the Company met those requirements thereby reducing future interest rates by 50 basis points for each term loan. No amount of money was drawn on the line of credit, however, a 0.50% rate is charged on the undrawn credit facility. The syndicated loan of $14 million matured on February 2, 2018, and was subsequently extended through December 31, 2018; at which time the outstanding principal and interest was paid in full.

13. EMPLOYEE BENEFIT PLAN

The Company's employees participate in a 401(k) "safe harbor" plan ("the Plan") established during 2012 and sponsored by the parent company. Eligible employees are permitted to defer compensation up to IRS limitations based on their age at the end of each plan year. The Plan offers a "safe harbor" matching contribution equal to the minimum of the sum of 100% of the first 3% of annual compensation plus an additional 50% of the next 2% based on amount of compensation the employee contributes to the Plan. The Company has accrued an estimated $333 thousand and $308 thousand of expense associated with the anticipated matching portion of the Plan for years ending December 31, 2018 and 2017, respectively.

14. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company entered into non-cancelable leases for office space in Fort Lauderdale, Florida, San Antonio, Texas Metairie, Louisiana, Lincoln, Nebraska, and Little Rock, Arkansas. These leases require base monthly rent, plus the pro-rata share of common area maintenance and provide for escalating rent payments. The Fort Lauderdale office lease term began in January 2015 for a period of 103 months and includes a period of free rent. During the year ended December 31, 2015, the Company received tenant improvement allowances for one of its units in the Florida offices.

As a result of the variable rent and tenant improvement allowances, there is deferred liability of $900 thousand and $844 thousand at December 31, 2018 and 2017, respectively.

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Leases (continued)

The lease executed for the Fort Lauderdale office is with a related party, which is not part of the Company. Future affiliated lease payments are included in the minimum lease payment table below and approximate $2.0 million for years 2019 through 2021, and $1.2 million for year 2022.

As of December 31, 2018, total future minimum lease payments under operating leases approximately as follows ($ in thousands):

Years Ended December 31,	Amount
2019	$ 2,873
2020	2,868
2021	2,928
2022	1,553
Total	**$13,039**

Litigation

During the normal course of business, the Company is exposed to routine litigation. While the resolution of these matters cannot be predicted with certainty, management believes that their final outcome will not have a material adverse effect on the financial position, results of operations, or cash flows of the Company.