MCNA HEALTH CARE HOLDINGS, LLC
AND SUBSIDIARIES

Years Ended December 31, 2019 and 2018

With Report of Independent Auditors

MCNA HEALTH CARE HOLDINGS, LLC
AND SUBSIDIARIES

Years Ended December 31, 2019 and 2018
With Report of Independent Auditors

Contents

MBAF
MORRISON BROWN ARGIZ & FARRA, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As further discussed in Note 1, the Company is subject to the current economic and health conditions in the United States, including the coronavirus which was designated as a global pandemic by the World Health Organization on March 11, 2020. Management is monitoring its impact on a daily basis and will continue to adjust their operations as necessary; however, the impact of this event on the Company's results of operation, financial position, and liquidity or capital resources cannot be reasonably estimated at this time.

Morrison, Brown, Argiz & Farra

Miami, Florida
April 29, 2020

1450 BRICKELL AVENUE, 18TH FLOOR, MIAMI FL 33131 • T 305 373 5500 • F 305 373 0056 • MBAFCPA.COM

MCNA HEALTH CARE HOLDINGS, LLC
AND SUBSIDIARIES
Consolidated Balance Sheets
($ in thousands)

	December 31,	
	2019	**2018**
Assets		
Current Assets		
Cash and cash equivalents	$ 99,599	$ 59,087
Investments, net	165,228	157,614
Health insurer fee receivable	1,714	18,077
Contractual retainage and other receivables	30,024	16,985
Prepaid expenses and other current assets	7,503	8,821
Total current assets	**304,068**	**260,584**
Due from related parties	11,840	11,640
Restricted cash and cash equivalents	1,978	100
Restricted investments	18,392	2,790
Other assets	6,992	7,449
Total assets	**$ 343,270**	**$ 282,563**
Liabilities and Members' Capital		
Current Liabilities		
Unpaid service provider costs	$ 46,071	$ 39,436
Accounts payable and accrued expenses	14,216	11,146
Accrued dental incentive program	1,000	2,588
Note payable, current portion	1,786	1,785
Aggregate health policy reserves	20,666	7,100
Total current liabilities	**83,739**	**62,055**
Note payable, long term portion	23,929	10,983
Deferred rent	715	900
Total liabilities	**108,383**	**73,938**
Commitments and contingencies (Note14)		
Members' capital	234,887	208,625
Total liabilities and members' capital	**$ 343,270**	**$ 282,563**

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,	
	2019	**2018**
Revenues		
Premiums earned	$ 981,807	$ 961,882
Reinsurance premiums, net	(1,459)	(1,556)
Aggregate health policy reserves	(18,128)	(2,093)
Total revenues	962,220	958,233
Expenses		
Dental service provider expenses	817,147	806,578
General and administrative	106,398	116,546
Total operating expenses	923,545	923,124
Income from operations	38,675	35,109
Other income and expenses		
Investment income, net	9,980	6,624
Interest expense	(877)	(676)
Total other income	9,103	5,948
Net income	**47,778**	**41,057**
Other comprehensive income		
Unrealized gain (loss) on securities available for sale, net	5,984	(2,889)
Comprehensive income	**53,762**	**38,168**
Members' capital - beginning of year	208,625	195,957
Distributions to members	(27,500)	(25,500)
Members' capital - end of year	**$ 234,887**	**$ 208,625**

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, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$47,778	$41,057
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	586	454
Accretion and amortization of investments	1,140	1,236
(Gain) loss on equity securities	(3,305)	-
Changes in operating assets and liabilities:		
Reimbursable health insurer fee	16,363	(18,077)
Contractual retainage and other receivables	(13,039)	(10,850)
Prepaid expenses and other current assets	1,318	(4,556)
Unpaid service provider costs	6,635	118
Accounts payable and accrued expenses	1,482	(3,083)
Aggregate health policy reserve	13,566	1,317
Deferred rent	(185)	56
NET CASH PROVIDED BY OPERATING ACTIVITIES	72,339	7,672
INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	125,970	62,019
Purchase of investments	(125,584)	(79,291)
Purchases of restricted investments	(15,453)	(90)
Other assets	(129)	(483)
NET CASH USED IN INVESTING ACTIVITIES	(15,196)	(17,845)
FINANCING ACTIVITIES		
Proceeds from borrowings on notes payable	14,732	12,768
Payments on notes payable	(1,785)	(14,000)
Due from related party	(200)	(4,265)
Members' distributions	(27,500)	(25,500)
NET CASH USED IN FINANCING ACTIVITIES	(14,753)	(30,997)
NET INCREASE (DECREASE) IN CASH, RESTRICTED CASH AND CASH EQUIVALENTS	42,390	(41,170)
CASH, RESTRICTED CASH AND CASH EQIVALENTS AT BEGINING OF YEAR	59,187	100,357
CASH, RESTRICTED CASH AND CASH EQIVALENTS AT END OF YEAR	**$101,577**	**$59,187**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
NON-CASH ITEMS		
Unrealized gain (loss) on debt securities	$ 5,984	($2,889)

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"), MCNA Systems Corp. ("Systems") and Sierra Dental Plans ("Sierra"). 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, and Utah.

The Company primarily achieves its purpose and objectives through contracts with the aforementioned states by servicing children's and adult'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. At December 31, 2019, 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, 2019 and 2018, all Company revenues were generated from its contracts with the aforementioned state agencies and various government funded and private programs. 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.

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.

The Company has substantial investments in debt and equity securities. As disclosed in the subsequent events footnote, based on the significant negative overall economic impacts COVID-19 is having on the global and United States of America ("U.S.") securities markets, it is possible that some investments will become permanently impaired or have to be liquidated prior to regaining values that existed at December 31, 2019.

Cash, Restricted 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. The Company has certain cash and/or investments set aside to meet various solvency and other requirements specified under state insurance codes and/or contractual requirements. As of December 31, 2019, the Company

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Restricted Cash and Cash Equivalents (continued)

had restricted cash of approximately $2 million classified as a non-current asset. As of December 31, 2019, the Company had restricted cash of $100 thousand classified as a non-current asset.

	2019	2018
Cash and cash equivalents	$99,599	$59,087
Restricted cash	1,978	100
Cash, cash equivalents and restricted cash at end of year, per cash flow statement	**$101,577**	**$59,187**

Restricted Investments

At December 31, 2019 and 2018, the accompanying consolidated balance sheets reflect restricted investments classified as non-current assets approximating $18.4 million and $2.8 million, respectively. At December 31, 2019, approximately $15.6 million of restricted investments is used to collateralize Company indebtedness (See Note 12) and $2.8 million is used to satisfy various state solvency requirements. At December 31, 2018, approximately $2.8 million is used to satisfy various state solvency requirements.

Investments

The Company classifies unrestricted 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. 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 consist of 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 receivable from health plans, primarily as surety for performance, for services provided by the Company (See Note 4). Retroactive premiums receivable due from health plans reflect both changes in capitation rates and membership true-ups.

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, 2019, management estimated an allowance for doubtful accounts of $117 thousand; an allowance for doubtful accounts at December 31, 2018 was unnecessary.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (See Note 6).

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 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, 2019 and 2018.

Premiums and Risk Revenues

MCNA adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* effective January 1, 2018, using the modified retrospective approach. The contracts of our Dental Plans are excluded from the scope of Topic 606. There was no impact to the Company's financial statements from initial application of the guidance to these agreements.

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. Retroactive premium adjustments are recognized as revenue in the month membership is trued-up by the state and the Company notified of the change.

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 (See Note 7). 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 and changes in members' capital in

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unpaid Service Provider Cost (continued)

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, 2019 and 2018. 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, 2019 and 2018, the Company accrued $46.1 million and $39.4 million, respectively, for unpaid service provider cost. During the year ended December 31, 2019, the Company recognized approximately $9 million in earnings due to activity related to previous years. This fluctuation is due to the favorable development of accrued claims recorded in 2019, which was primarily driven by recoupment of excess amounts paid to providers in prior years, due to inconsistencies in claims rules and billing procedures for certain CDT codes; and also by differences in expected utilization (See Note 7).

During the year ended December 31, 2018, the Company incurred additional amounts of claim costs approximating $1.1 million, 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, 2019 and 2018 approximated $817.1 million and $806.6 million, respectively.

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, 2019 and 2018 approximately $34 thousand and $14 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 $881 thousand and $1.7 million for the years ended December 31, 2019 and 2018, 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, Systems and Sierra, 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.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued)

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 2016.

Comprehensive Income

Comprehensive income consists of net income from operations and other comprehensive income, which primarily includes changes in unrealized gains or losses on debt 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, 2019 and 2018) 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 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 $1.5 million and $1.6 million for the years ended December 31, 2019 and 2018, 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 in conformity with Generally Accepted Accounting Principles (GAAP) 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, 2019 and 2018. Such estimates are based on historical experience and other assumptions that are

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management Estimates (continued)

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 Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 supersedes 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 requires 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.

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 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 elected to early adopt ASU 2016-01 which was effective for the Company beginning January 1, 2018. The adoption of ASU 2016-01 did not have a material effect on the Company's consolidated financial statements.

The Company adopted ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash,* effective January 1, 2019. The amendments in the standard require that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts of restricted cash. 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.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements – Adopted (continued)

As a result the Company's beginning-of-period and end-of-period cash balances presented in the statements of cash flows were retrospectively adjusted to include restricted cash with cash and cash equivalents. The adoption of this guidance did not have a material impact on its consolidated statements of cash flows.

Recent Accounting Pronouncements – Not Yet Adopted

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, 2023 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, 2021 and must be adopted using a modified retrospective approach for annual and interim periods. The Company is evaluating any effects this update will have on its consolidated financial statements, but expects upon adoption the update may have a material effect on the Company's financial condition due to the recognition of a right of use asset and related lease liability. The Company does not anticipate this update having a material effect on the Company's results of operations or cash flows, though such an effect is possible.

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.

Prior Period Correction

During 2019 management discovered dental benefit payments made in certain states were below mandated minimum loss ratio thresholds requiring reimbursement for any shortfall, as further described in Note 9. As a result, management concluded that Company reserves at December 31, 2018 were understated. Accordingly, an adjustment has been recorded to correct the impact this misstatement had on the Company's prior year financial statements. Retained earnings has been reduced at January 1, 2018 by $4.5 million, along with a decrease in net income of $2 million for the year ended December 31, 2018 with corresponding increase in aggregate health policy reserves of $6.5 million at December 31, 2018.

Subsequent Events

The Company has evaluated subsequent events through April 29, 2020, the date on which these consolidated financial statements were available to be issued.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events (continued)

During March 2020, the World Health Organization declared a global pandemic related to the rapidly growing outbreak of a novel strain of Coronavirus (“COVID-19”). Acceleration of pandemic conditions during March and April has significantly impacted global and U.S. economic conditions, as federal, state and local governments react to a growing public health crisis, creating significant economic uncertainties in the U.S.

A number of states, counties and municipalities issued orders requiring persons who were not engaged in essential activities and businesses to remain at home; this impact on dental practices has been significant, with most dentists limiting patient visits to emergencies only, while many others have closed their practices completely. On March 27, 2020, the US enacted the Coronavirus Aid, Relief and Economic Security Aid (“CARES Act”) to help stimulate an economic recovery; however, there are no reliable estimates of how long the pandemic will last or how many people are likely to be affected by it. No one knows what over-all effects the COVID-19 pandemic will have on economic conditions during the remainder of 2020.

Our senior management team is monitoring its impact on a daily basis and will continue to adjust our operations as necessary; however, the impact of this event on the Company’s results of operation, financial position, and liquidity or capital resources cannot be reasonably estimated at this time.

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, 2019 and 2018, 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, 2019 and 2018; 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, 2019 and 2018, 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 of identical securities on one or more active markets (e.g. securities exchanges) at the measurement date.

3. FAIR VALUE MEASUREMENTS (CONTINUED)

- 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 at the measurement date.

- 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, 2019.

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, 2019, includes approximately $18.392 million classified as restricted investments; and $2.560 million of investments and money market funds classified as cash equivalents on the accompanying consolidated balance sheets. The Company's financial instruments are measured at fair value on a recurring basis at the closing price reported on the active market on which the individual securities are traded. At December 31, 2019, these investments are shown in the table below ($ in thousands):

Description	Fair Value 12/31/2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
US Treasury Notes	$ 100	$ 100	$ -	$ -
US Treasury Bonds	2,700	2,700	-	-
Certificates of Deposit	100	100	-	-
Money Market Funds	1,082	1,082	-	-
Corporate Bonds	64,727	64,727	-	-
Municipal Bonds	73,126	73,126	-	-
Yankee Bonds	792	792	-	-
Federal Agencies	1,196	1,196	-	-
Mortgage Backed Securities	8,480	8,480	-	-
Equities	19,177	19,177	-	-
Mutual Funds	4,142	4,142	-	-
Collateralized Mortgage Obligations	1,770	1,770	-	-
Preferred Stock	3,427	3,427	-	-
Limited Partnerships	810	-	-	810
Private Equities	425	-	-	425
Talh S&P GIVI Intl	4,126	4,126		
Total assets	**$ 186,180**	**$ 184,945**	**$ -**	**$ 1,235**

3. FAIR VALUE MEASUREMENTS (CONTINUED)

The Company's financial instruments at December 31, 2018, includes $2.790 million classified as restricted investments; and $1.412 million of short term investments and $4.405 million of money market funds classified as cash equivalents on the accompanying consolidated balance sheets. The Company's financial instruments are measured at fair value on a recurring basis at the closing price reported on the active market on which the individual securities are traded. At December 31, 2018, these investments are shown in the table below ($ 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**

4. 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.

Retroactive accounts receivable represent amounts due from state agencies for capitation rate adjustments and/or membership true-up related to prior periods. At December 31, 2019 and 2018, these amounts approximated $12.7 million and $3 million, respectively. The Company recorded additional amounts receivable from certain state agencies which recently became known and relate to the last half of 2019. The Company expects these amounts to be fully collectible within the next year. Also included at December 31, 2019 are provider recoupments of $5.5 million which represent unrecovered amounts paid to providers during both the current and prior years related to certain Current Dental Terminology ("CDT") codes that were not in accordance with Company guidelines. The Company fully expects to collect these amounts within the next year.

Additional amounts are included which relate to state contracts requiring retainage on contractual billings to be secured as surety for performance. Retainage rates required by the respective states are: Louisiana Department

4. CONTRACTUAL RETAINAGE AND RECEIVABLES (CONTINUED)

of Health (2%), Iowa Department of Human Services (2%), Idaho Department of Health and Welfare (3%) and Florida Agency for Health Care Administration (2%). The retainage amounts are released periodically by the various state agencies, provided the Company successfully completes its contract deliverables. As of December 31, 2019 and 2018, amounts retained approximated $5.6 million and $3.8 million, respectively.

Other receivables totaled $5 million and $7.4 million, respectively, and investment interest/dividends receivable totaled $1.3 million for each year. Receivables on unsettled trades totaled $1.6 million as of December 31, 2018.

5. 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):*

	2019	2018
Furniture and equipment	$ 398	$ 995
Computer equipment and software	1,903	2,671
Leasehold improvements	738	1,075
	3,039	4,741
Less: accumulated depreciation and amortization	(1,600)	(3,723)
Total property and equipment, net	1,439	1,018
Advances – related party (see Note 6)	5,417	6,296
Other assets	136	135
	$ 6,992	**$ 7,449**

For the years ended December 31, 2019 and 2018, depreciation and amortization expense totaled approximately $586 thousand and $454 thousand, 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, 2019 and 2018, $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, 2019 and 2018, 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, 2019, $2 million is due to the Company from the related party.

6. DUE FROM RELATED PARTIES (CONTINUED)

During 2018, the Company advanced approximately $4.3 million to related parties. As of December 31, 2019, approximately $4.3 million is due to the Company from these related parties, repayment of this amount is expected to occur over several years.

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 certain IT services and software development projects. 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, 2019 and 2018 approximated $5.4 million and $6.3 million, respectively (See Note 5).

The projects have been completed and this affiliate is phasing out its operations. The Company is in the process of valuing the affiliate's assets, and upon determination will consider an exchange of these assets for amounts owed to the Company. To the extent the amounts owed to Holdings exceed the affiliate's asset value this shortage will be guaranteed and covered by related party shareholders.

7. UNPAID SERVICE PROVIDER COST

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

Balance at December 31, 2017	**$ 39,318**
Incurred related to:	
2018	805,498
2017	1,080
	806,578
Paid related to:	
2018	765,753
2017	40,707
	806,460
Balance at December 31, 2018	$ 39,436
Incurred related to:	
2019	826,114
2018	(8,967)
	817,147
Paid related to:	
2019	776,247
2018	34,264
	810,511
Balance at December 31, 2019	**$ 46,071**

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2019	2018
Premium tax payable	$ 1,413	$ 1,732
Accounts payable	8,394	5,065
Accrued salaries and other expenses	4,409	4,349
	$ 14,216	**$ 11,146**

9. AGGREGATE HEALTH POLICY RESERVE

Experience Rebate

The Company's contract with the state Medicaid agency, Texas Health and Human Services Commission ("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, 2019 and 2018, the Company has calculated and accrued approximately $500 thousand and $600 thousand, respectively. These amounts are included on the accompanying consolidated balance sheets in the caption aggregate health policy reserves.

Minimum Dental Loss Ratio

Certain state contracts require member dental benefit payments to be at least 85% of earned program revenues (85% dental loss ratio ("DLR")). To the extent a related program's DLR is less than 85%, the shortfall will be reimbursed to the state. During 2019, the Company paid $3.7 million and accrued an additional $20.1 million for certain contracts where dental benefit payments did not exceed the required 85% dental loss ratio threshold.

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 2017 calendar year. This moratorium did not affect the filing requirement and payment of these fees for 2018.

H.R. 195, Division D – Suspension of Certain Health-Related Taxes, § 4003, suspends collection of the fee for the 2019 calendar year only. This does not affect the filing requirement and payment of these fees for 2020.

During the year ended December 31, 2018, the Company incurred non-deductible expenses for the ACA annual HIF of $15.8 million. This amount is included within the general and administrative caption on the statements of

10. HEALTH INSURER FEE (CONTINUED)

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, 2019 approximately $1.7 million receivable from various states is included in the caption health insurer fee receivable on the consolidated balance sheets, this amount has been approved, but 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, 2019 and 2018, the Company accrued $1 million and $2.25 million under this program, which is included in the caption "unpaid service provider costs" on the accompanying consolidated balance sheets.

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 (3.26% and 4.08% at December 31, 2019 and 2018, respectively); and is collateralized by segregated pledged bond and equity portfolios totaling approximately $11.2 million and $4.4 million, respectively. The term loan provides for a collateralized 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. Amounts outstanding under this facility totaled approximately $10.7 million and $12.5 million at December 31, 2019 and 2018, respectively. This 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 (4.25% and 4.52% at December 31, 2019 and 2018, respectively). During the second quarter of 2019, the Company borrowed approximately $14.7 million, representing the remaining available funds under this revolving credit facility. At December 31, 2019 and 2018, approximately $15 million and $268 thousand, respectively was owed on the revolving credit facility. Unused funds are subject to a .5% rate charge, at December 31, 2019, there are no unused funds under this facility.

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% at December 31, 2018).

12. NOTES PAYABLE (CONTINUED)

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% at December 31, 2018). 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. 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 $404 thousand and $333 thousand of expense associated with the anticipated matching portion of the Plan for years ending December 31, 2019 and 2018, 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 $715 thousand and $900 thousand at December 31, 2019 and 2018, respectively.

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 $2.9 million for years 2020 through 2021, and $1.6 million for year 2022.

As of December 31, 2019, total future minimum lease payments under operating leases approximately as follows ($ in thousands):

Years Ended December 31,	Amount
2020	$ 2,868
2021	2,928
2022	1,553
Total	**$7,349**

14. COMMITMENTS AND CONTINGENCIES

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.