Prospect Health Plan, Inc.

Financial Statements

As of and for the Years Ended
September 30, 2022 and 2021

Prospect Health Plan, Inc.

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Contents

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Independent Auditor's Report

The Board of Directors
Prospect Health Plan, Inc.
Los Angeles, California

Opinion

We have audited the financial statements of Prospect Health Plan, Inc. (the Company), which comprise the balance sheets as of September 30, 2022 and 2021, and the related statements of income, changes in stockholder's equity, and cash flows for the years ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Company as of September 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

BDO USA, LLP

January 27, 2023

Financial Statements

Prospect Health Plan, Inc.

Balance Sheets
(In thousands, except share amounts)

September 30,		**2022**		2021
Assets				
Current assets:				
Cash	**$**	**26,857**	$	29,504
Accounts receivable		**2,056**		2,214
Due from related parties, net		**439**		-
Prepaid expenses and other current assets		**56**		105
Total current assets		**29,408**		31,823
Deferred income taxes, net		**35**		16
Restricted cash		**1,300**		1,300
Total assets	**$**	**30,743**	$	33,139
Liabilities and stockholder's equity				
Current liabilities:				
Accrued medical claims and other healthcare costs payable	**$**	**14,791**	$	10,342
Accounts payable – risk pool		**-**		3,464
Accounts payable and other accrued liabilities		**1,744**		1,286
Due to related parties, net		**-**		5,755
Total current liabilities		**16,535**		20,847
Total liabilities		**16,535**		20,847
Commitments and contingencies				
Stockholder's equity:				
Common stock, $0.01 par value; 1,000 shares authorized; 100 shares issued and outstanding		**-**		-
Additional paid-in capital		**2,750**		2,750
Retained earnings		**11,458**		9,542
Total stockholder's equity		**14,208**		12,292
Total liabilities and stockholder's equity	**$**	**30,743**	$	33,139

See accompanying notes to the financial statements.

Prospect Health Plan, Inc.

Statements of Income
(In thousands)

For the Years Ended September 30,	**2022**	2021
Revenue		
Managed care revenues, net (Note 2)	**$ 327,363**	$ 291,051
Expenses		
Healthcare services, net (Note 2)	**318,435**	283,158
Management fees to related party (Note 3)	**5,945**	5,136
General and administrative	**268**	237
Total expenses	**324,648**	288,531
Operating income	**2,715**	2,520
Interest income	**1**	1
Income before income taxes	**2,716**	2,521
Income tax expense	**800**	895
Net income	**$ 1,916**	$ 1,626

See accompanying notes to the financial statements.

Prospect Health Plan, Inc.

Statements of Stockholder's Equity
(In thousands, except share amounts)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Stockholder's Equity
Balance at October 1, 2020	100	$ -	$ 2,750	$ 7,916	$ 10,666
Net income	-	-	-	1,626	1,626
Balance at September 30, 2021	100	-	2,750	9,542	12,292
Net income	-	-	-	1,916	1,916
Balance at September 30, 2022	100	$ -	$ 2,750	$ 11,458	$ 14,208

See accompanying notes to the financial statements.

Prospect Health Plan, Inc.

Statements of Cash Flows
(In thousands)

For the Years Ended September 30,	**2022**	2021
Operating activities		
Net income	**$ 1,916**	$ 1,626
Adjustments to reconcile net income to net cash and restricted cash provided by operating activities:		
Deferred income tax expense/(benefit), net	**(19)**	164
Changes in operating assets and liabilities:		
Accounts receivable	**158**	864
Prepaid expenses and other current assets	**49**	(72)
Accrued medical claims and other healthcare costs payable	**4,449**	3,145
Accounts payable – risk pool	**(3,464)**	(2,139)
Accounts payable and other accrued liabilities	**458**	1,284
Net cash and restricted cash provided by operating activities	**3,547**	4,872
Investing activities		
Increase in due from related parties, net	**(439)**	-
Net cash and restricted cash used in investing activities	**(439)**	-
Financing activities		
Decrease in due to related parties, net	**(5,755)**	(4,056)
Net cash and restricted cash used in financing activities	**(5,755)**	(4,056)
(Decrease) Increase in cash and restricted cash	**(2,647)**	816
Cash and restricted cash at beginning of year	**30,804**	29,988
Cash and restricted cash at end of year	**$ 28,157**	$ 30,804

See accompanying notes to the financial statements.

1. Organization

Prospect Health Plan, Inc. ("PHP" or the "Company") is a Delaware corporation and a wholly-owned subsidiary of PHP Holdings, Inc., which is a wholly-owned subsidiary of Prospect Medical Holdings, Inc. ("PMH").

PHP is licensed by the California Department of Managed Health Care ("DMHC") under the provisions of the Knox-Keene Health Care Service Plan Act of 1975 (the "Act") to operate as a health care service plan in California. PHP was initially restricted to providing and arranging for health care services to Medicare Advantage members through plan-to-plan contracts with fully-licensed health care service plans licensed under the Act. Later, PHP began providing services to Medicare Advantage ("MA") enrollees. PHP has entered into global capitation arrangements with certain third-party health plans (the "Global Capitation Agreements") and manages the provision of care for MA enrollees of those plans ("Capitated MA Enrollees") in coordination with certain subsidiaries and affiliates of PMH. PHP also received notice from the DMHC approving a material modification of its Knox-Keene application to expand the scope of its license to serve Medi-Cal and Cal MediConnect members. DMHC further granted additional modification to the Knox-Keene application to include Commercial enrollees effective November 30, 2020. PHP began accepting Commercial enrollees effective January 1, 2021.

Under the terms of the Global Capitation Agreements, the Company furnishes global risk services to the third-party health plans, including the assumption of responsibility for arranging medically necessary covered services by hospitals, physicians and other providers to capitated enrollees in a specific geographic area and the payment for such services. PHP receives global capitation payments from each health plan as payment for all such medically necessary covered services. PHP enters into agreements with healthcare providers to arrange for such services. The global capitation payments received by PHP are utilized to pay such providers in accordance with their respective agreements.

COVID-19 Pandemic

In response to the COVID-19 pandemic, federal, state and local authorities have taken several administrative actions intended to assist healthcare providers in providing care during the outbreak of the novel coronavirus ("COVID-19") public health emergency. Sources of relief include the Coronavirus Aid, Relief and Economic Security Act, the Paycheck Protection Program and Health Care Enhancement Act (the "PPPHCE Act"), the Continuing Appropriations Act, 2021 and Other Extensions Act, and the Consolidated Appropriations Act, 2021 (collectively, (the "COVID Acts"). With the COVID Acts, the federal government authorized funding to be distributed through the Public Health and Social Services Emergency Fund ("Provider Relief Fund" or "PRF"). U.S. Department of Health and Human Services ("HHS") will recoup PRF grant funds not utilized by the established deadlines. The COVID Acts also revised the Medicare accelerated payment program in an attempt to disburse payments to hospitals and other care providers more quickly and permitted employers to defer payment of the 6.2% employer Social Security tax beginning March 27, 2020 through December 31, 2020. In June 2021, the HHS established new deadlines for when recipients of PRF grants must use the funding received, generally 12 to 18 months after receipt of the grant funds. The Company did not receive funding during the years ended September 30, 2022 and 2021.

2. Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Revenues

On October 1, 2020, the Company adopted the new revenue recognition standard, Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)", using a modified retrospective method of application to all contracts existing on October 1, 2020. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised 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. The largely principles-based guidance in this update will provide a framework for addressing revenue recognition issues comprehensively for entities that apply accounting principles generally accepted in the Unites States (U.S. GAAP) in addition to those entities that apply International Financial Reporting Standards. The guidance in this update also improves U.S. GAAP by reducing the number of requirements to which an entity must consider in recognizing revenue as well as requires improved disclosures to help users of the financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. The adoption of ASU 2014-09 did not have an impact on the timing or period of revenue recognition.

The Company has revised its accounting policies related to revenues effective October 1, 2020 and these are discussed below.

The Company recognizes net operating revenues in the period in which performance obligations under contracts are satisfied by transferring our services to customers. Net operating revenues are recognized in the amounts to which the Company expects to be entitled, which are the transaction prices allocated to the distinct services.

Managed Care Revenues

Managed care revenues consist primarily of payments for medical services procured by the Company under capitated contracts with health plans. Capitation revenue is paid monthly to the Company based on the number of enrollees under the capitated contracts on a per member per month ("PMPM") basis.

Capitation revenue is recognized in the month in which the Company is obligated to provide services (stand ready obligation). Minor ongoing adjustments to prior months' capitation, primarily arising from contracted health plans finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment" model, which compensates managed care organizations and providers based on the health status (acuity) of each enrollee. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods when the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes

in capitation amounts earned as a result of Risk Adjustment are recognized generally in the fourth quarter when those changes are communicated by the health plans to the Company.

PMPM managed care contracts generally have a term of one year or longer. All managed care contracts have a single performance obligation that constitutes a series for the provision of managed healthcare services for a population of enrolled members for the duration of the contract. The transaction price for PMPM contracts is variable as it primarily includes PMPM fees associated with unspecified membership that fluctuates throughout the contract. The majority of the Company's net PMPM transaction price relates specifically to the Company's efforts to transfer the service for a distinct increment of the series (e.g. month) and is recognized as revenue in the month in which members are entitled to service. Contract assets include capitation receivables or capitation withholds that were unpaid as of year end and are included in receivables for the years ended September 30, 2022 and 2021.

Healthcare Services Expense

Healthcare services expense consists primarily of sub-capitation and claims payments, pharmacy costs and incentive payments to contracted providers. These costs are recognized in the period incurred, or when the services are provided. Claims costs also include an estimate of the cost of services which have been incurred but not yet reported ("IBNR") to the Company. The estimate for accrued medical costs is based on projections of costs using historical studies of claims paid and adjusted for seasonality, utilization, and cost trends. These estimates are subject to trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management records its best estimate of the amount of medical claims incurred at each reporting period. Estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations.

The Company also provides sub-capitation payments to certain subsidiaries and affiliates of PMH to manage the provision of care for members (see Note 3). Capitation contracts may also include provisions to share in the risk for enrollee hospitalization, whereby the Company awards additional incentive to the shared risk parties based upon the utilization of hospital services. Typically, any shared risk incentive is not payable until and unless the Company generates risk sharing surpluses. At the termination of the contract, any accumulated risk share deficit is typically extinguished. There were $14,248,000 and $13,488,000 of surplus related to shared risk arrangements during the years ended September 30, 2022 and 2021, respectively. Based on the terms of the shared risk agreements, $13,000,000 and $12,158,000 of the surplus was charged to Healthcare Services, net and expensed in the accompanying statements of income for the years ended September 30, 2022 and 2021, respectively. Related party amounts are settled via the intercompany accounts due to or due from related parties, net.

The Company periodically evaluates the need to establish premium deficiency reserves for the probability that anticipated future health care costs could exceed future capitation payments from health plans under capitated contracts and, where appropriate, records a premium deficiency reserve. No such reserves were required at September 30, 2022 and 2021.

Cash and Restricted Cash

Cash

Cash is primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Restricted Cash

The Company is required by a certain health plan to maintain a restricted cash balance in the form of a letter of credit. Restricted cash was $1,000,000 as of September 30, 2022 and 2021. The Company is also required to keep $300,000 restricted deposits by the DMHC for the payment of claims. Such restricted deposits, consisting of certificates of deposits with maturity dates of more than 90 days when purchased, are classified as a non-current asset in the accompanying balance sheets as they are required by the DMHC in order to continue to operate under the Act. Restricted cash totaled $1,300,000 as of September 30, 2022 and 2021.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same amount shown in the statements of cash flows (in thousands):

September 30,	**2022**	2021
Cash	**$ 26,857**	$ 29,504
Restricted cash	**1,300**	1,300
	$ 28,157	$ 30,804

Accounts Receivable

Accounts receivable consist of capitation revenue due from non-related parties. The Company continuously monitors its collections of receivables, and its policy is to write off receivables when they are determined to be uncollectible.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more-likely-than-not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more-likely-than-not test.

GAAP requires that the consolidated amount of current and deferred tax expense for a group, that files a consolidated tax return, be allocated among the group members when those members issue separate financial statements. The Company is a member of a consolidated and combined returns for federal and state, respectively, of its ultimate parent company. The Company adopts the separate return method modified for benefits-for-loss in provisioning for current and deferred income taxes. Under this method, the subsidiary is assumed to file a separate return with the taxing authority, thereby reporting its taxable income or loss and paying the applicable tax to or receiving the appropriate refund from the parent.

However, when the benefit of the net operating loss and other tax attribute is recognized in the consolidated financial statements, the subsidiary would generally reflect a benefit in its financial statements.

Under the separate return method, the carve-out entity calculates its tax provision as if it were filing its own separate tax return based on the pre-tax accounts included in the carve-out entity. This can result in perceived inconsistencies between the tax provision of the carve-out entity and the tax provision of the consolidated group. This is an acceptable method because if the separate return method is used, the sum of the amounts allocated to individual members of the group may not equal the consolidated amount.

Fair Value Measurement

Relevant accounting guidance establishes a framework for measuring fair value and clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The guidance requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows: Level 1 quoted prices in active markets for identical assets or liabilities; Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or Level 3 unobservable inputs for the asset or liability, such as discounted cash flow models or valuations. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Financial Items Measured at Fair Value on a Recurring Basis

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis and where they are classified within the hierarchy (in thousands):

	Total	Level 1	Level 2	Level 3
As of September 30, 2022				
Certificates of deposit	**$ 300**	**$ 300**	**$ -**	$ -
As of September 30, 2021				
Certificates of deposit	$ 300	$ 300	$ -	$ -

The Company's restricted investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

Concentrations of Credit Risk

Cash and restricted cash are maintained at financial institutions, and at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances. Management reviews the financial condition of these institutions on a periodic basis and does not believe the concentration of cash or receivables results in a high level of risk.

At September 30, 2022 and 2021, one and two health plans accounted for $2,056,000 and $2,214,000, respectively, of accounts receivable carrying amount.

For the years ended September 30, 2022 and 2021, the Company received a total of 88% of their capitation revenues from its five largest health plans, as follows (in thousands):

Years Ended September 30,	**2022**	**% of Total Revenue**	2021	% of Total Revenue
Health Plan A	**$ 128,874**	**40%**	$ 124,692	43%
Health Plan B	**50,423**	**16%**	37,817	13%
Health Plan C	**35,796**	**11%**	35,218	12%
Health Plan D	**28,173**	**9%**	30,258	10%
Health Plan E	**38,997**	**12%**	28,273	10%
Total	**$ 282,263**	**88%**	$ 256,258	88%

The Company received all of its revenue from nine unrelated health plans during the years ended September 30, 2022 and 2021. The loss of any of these contracts could have a significant impact on the Company's revenues.

Liability Insurance Coverage

The Company carries error and omissions and director and officers' coverage for managed care companies. Error and omissions are subject to an individual limit of $7,000,000 and aggregate of $7,000,000 with a retention of $250,000 per claim. Director's and officer's claims are covered at an aggregate of $50,000,000.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include accruals for medical claims.

New Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The amendments in this standard require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. In addition, this standard amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment is effective for nonpublic entities for annual reporting periods beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

3. Related Party Transactions

The Company and Prospect Medical Systems, Inc. ("PMS"), a fellow subsidiary of PMH, are parties to a Management Services Agreement ("MSA"), under which PMS provides administrative services to the Company, including network management and contracting, medical management, customer service, eligibility, information technology, and financial and risk management. The MSA has an initial five-year term which automatically renews for additional five-year terms unless notice is given by either party subject to the terms of the MSA. The MSA management fee is 1.5% of PHP's monthly revenues. PHP incurred $5,945,000 and $5,136,000 of management fee expense during the years ended September 30, 2022 and 2021, respectively.

The Company also entered into a Participating Physician Group Services Agreement ("PPGSA") with Prospect Medical Group, Inc. and Subsidiaries ("PMG"). PMG is consolidated with PMH as a variable interest entity under GAAP. Pursuant to the PPGSA, PMG arranges for the provision of professional healthcare services to capitated enrollees assigned to PMG. Under the terms of the PPGSA, PHP retains 2% of gross capitation received from health plans and transfers 46% of remaining gross capitation to PMG for all professional and outpatient ancillary services, subject to the terms of the PPGSA. The Company incurred $142,342,000 and $129,737,000 of such expenses during the years ended September 30, 2022 and 2021, which is included in healthcare services expense, net in the accompanying statements of income, respectively.

The Company also entered into Hospital Services Agreements ("HSAs") separately with Alta Los Angeles Hospitals, Inc. ("Alta"), Southern California Healthcare System, Inc. ("SCH"), and Alta Newport dba Foothill Regional Medical Center ("Alta Newport"), which are all subsidiaries of PMH. Pursuant to the HSAs, Alta, SCH, and Alta Newport are responsible for providing all inpatient and outpatient hospital services to Capitated MA Enrollees assigned them. PHP retains 2% of gross capitation received from health plans for capitated enrollees assigned to each of Alta, Alta Newport, SCH and transfers the remaining 54% of remaining gross capitation (see the preceding paragraph regarding the payment of 46% of capitation for professional services) to Alta, SCH, and/or Alta Newport as applicable, to cover such inpatient and outpatient services. The Company incurred $109,470,000 and $104,275,000 of such expenses during the years ended September 30, 2022 and 2021. These amounts are included in healthcare services expense, net in the accompanying statements of income.

The Company is also party to a Hospital Control Agreement ("HCA") with PMG effective March 1, 2015. Under the HCA, PHP and PMG agreed to share in the risk of providing medical services to enrollees. The profit or loss associated with providing such services to enrollees, including the management fee due PMS, is allocated 90% to PMG and 10% to PHP. There were $14,363,000 and $13,488,000 of risk pool surplus from the shared risk agreements during the years ended September 30, 2022 and 2021, respectively. Based on the terms of the agreements, $12,926,000 and $12,180,000 of the surplus was due to PMG, which is included in health care services expense for the years ended September 30, 2022 and 2021, respectively. These related party amounts are settled via intercompany due to or due from related party.

The amount due from PMH and fellow subsidiaries, net was $439,000 as of September 30, 2022, and the amount due to PMH and fellow subsidiaries, net was $5,755,000 as of September 30, 2021.

4. Income Taxes

The components of the income tax expense are as follows (in thousands):

Years Ended September 30,	**2022**	2021
Current:		
Federal	**$ 575**	$ 514
State	**244**	217
	819	731
Deferred:		
Federal	**(15)**	158
State	**(4)**	6
	(19)	164
Total:		
Federal	**560**	672
State	**240**	223
Total income tax expense	**$ 800**	$ 895

Temporary differences and carry-forwards that result in deferred income tax balances are as follows (in thousands):

September 30,	**2022**	2021
Deferred income tax assets (liabilities):		
State taxes	**$ 52**	$ 47
Prepaid expenses	**(17)**	(31)
Total deferred income taxes, net	**$ 35**	$ 16

Deferred income taxes are based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities under the provisions of the enacted tax laws. The differences between statutory and effective tax rates is primarily a result of state taxes.

The Company is a wholly-owned indirect subsidiary of Chamber, Inc. ("Chamber"). Chamber files consolidated federal and combined state tax returns, which includes PHP. Income tax payable of $819,000 and $731,000 are included in due to related parties, net within the balance sheets, as of September 30, 2022 and 2021, respectively.

The Company concluded it's examination by the California Franchise Tax Board for tax year ended September 30, 2017 with no adjustment. Tax years for fiscal years ending September 30, 2018 to September 30, 2022, remain subject to future examination by taxing authorities in jurisdictions in which we are subject to tax.

5. Commitments and Contingencies

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, California has also developed strict standards for the privacy and security of health information as well as for reporting certain violations and breaches. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

Tangible Net Equity ("TNE") Requirement

The Company's affiliated California physician organizations and PHP must comply with a minimum working capital requirement, Tangible Net Equity ("TNE") requirement and claims payment requirements prescribed by the DMHC. TNE is defined as net assets, less intangibles and amounts due from affiliates, plus subordinated obligations. As of September 30, 2022, the Company's affiliated California physician organizations and PHP were in compliance with these regulatory requirements.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

Accrued Medical Claims and Other Healthcare Costs Payable

The following table presents the roll-forward of IBNR claims reserves for the years ended September 30, 2022 and 2021 (in thousands):

September 30,	**2022**	2021
IBNR as of beginning of year	**$ 10,342**	$ 7,197
Claim expenses incurred during the year:		
Related to current year	**47,889**	34,502
Related to prior year	**(456)**	130
Claims paid during the year:		
Related to current year	**(33,482)**	(24,275)
Relate to prior year	**(9,502)**	(7,212)
IBNR as of end of year	**$ 14,791**	$ 10,342

Following is a table showing the details of the Company's healthcare services expenses, net per the statements of income (in thousands):

September 30,	**2022**	2021
Capitation expense	**$ 254,942**	$ 234,013
Claims expense, net	**47,433**	34,632
Risk sharing surplus	**13,000**	12,158
Other	**3,060**	2,356
Total healthcare services, net	**$ 318,435**	$ 283,158

6. Subsequent Event

The Company has evaluated subsequent events through January 27, 2023, the date the Company's financial statements were available for issuance. There were no subsequent events requiring adjustment to the financial statements or disclosures as stated herein.