Financial Statements and Supplementary Information

Steward Health Choice Arizona
(A Division of Steward Health Choice Arizona, Inc.)
AHCCCS Complete Care Program
Year Ended September 30, 2019
With Report of Independent Auditors

Ernst & Young LLP

Steward Health Choice Arizona
(A Division of Steward Health Choice Arizona, Inc.)
AHCCCS Complete Care Program

Financial Statements and Supplementary Information

Year Ended September 30, 2019

Contents

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Report of Independent Auditors

The Board of Directors
Steward Health Choice Arizona
(A Division of Steward Health Choice Arizona, Inc.)
AHCCCS Complete Care Program

We have audited the accompanying financial statements of Steward Health Choice Arizona AHCCCS Complete Care Program, a plan of Steward Health Choice Arizona, Inc., which comprise the balance sheet as of September 30, 2019, and the related statements of operations, changes in equity of the plan, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

Building a better working world

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 financial statements referred to above present fairly, in all material respects, the financial position of Steward Health Choice Arizona AHCCCS Complete Care Program as of September 30, 2019, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Sub-Capitated Expense Report and Block Purchases Report are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

February 14, 2020

Steward Health Choice Arizona
(A Division of Steward Health Choice Arizona, Inc.)
AHCCCS Complete Care Program

Balance Sheet

September 30, 2019

Assets	
Current assets:	
Pharmacy rebate receivables	$ 1,375,935
Due from AHCCCS	34,945,447
Due from affiliates, net	211,430,458
Other current assets	5,003,416
Total current assets	252,755,256
Goodwill	5,756,914
Deferred tax assets	319,799
Total assets	$ 258,831,969
Liabilities and equity of the Plan	
Current liabilities:	
Accounts payable and accrued expenses	$ 3,937,372
Medical claims payable	105,120,980
Due to AHCCCS	75,303,702
Total liabilities	184,362,054
Equity of the Plan:	
Retained earnings	74,469,915
Total equity of the Plan	74,469,915
Total liabilities and equity of the Plan	$ 258,831,969

See accompanying notes.

Steward Health Choice Arizona
(A Division of Steward Health Choice Arizona, Inc.)
AHCCCS Complete Care Program

Statement of Operations

Year Ended September 30, 2019

Revenue:	
Capitation premiums	$ 849,123,577
Delivery supplemental premiums	27,193,980
Health insurance provider fee revenue	5,240,787
Other revenue	4,044,603
Total revenue	885,602,947
Expenses:	
Medical expenses	767,956,622
Health insurance provider fee expense	4,140,221
Administrative expenses	68,277,810
Premium tax expense	18,868,212
Total expenses	859,242,865
Income before income taxes	26,360,082
Income tax expense	6,537,091
Net income	$ 19,822,991

See accompanying notes.

Steward Health Choice Arizona
(A Division of Steward Health Choice Arizona, Inc.)
AHCCCS Complete Care Program

Statement of Changes in Equity of the Plan

Year Ended September 30, 2019

	Retained Earnings	Total
Balance, beginning of year	$ 54,646,924	$ 54,646,924
Net income	19,822,991	19,822,991
Balance, end of year	$ 74,469,915	$ 74,469,915

See accompanying notes.

Steward Health Choice Arizona
(A Division of Steward Health Choice Arizona, Inc.)
AHCCCS Complete Care Program

Statement of Cash Flows

Year Ended September 30, 2019

Operating activities	
Net income	$ 19,822,991
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of intangible asset	3,000,000
Deferred tax, net	(786,449)
Changes in operating assets and liabilities:	
Health insurance provider fee receivable	20,963,146
Pharmacy rebate receivables	426,696
Due from AHCCCS	(5,230,598)
Due from affiliates, net	(7,424,048)
Other current assets	451,775
Accounts payable and accrued expenses	1,788,849
Medical claims payable	(8,862,647)
Due to AHCCCS	(2,348,043)
Health insurance provider fee payable	(16,560,885)
Deferred revenue	(5,240,787)
Net cash provided by operating activities	–
Change in cash and cash equivalents	–
Cash and cash equivalents, beginning of year	–
Cash and cash equivalents, end of year	$ –

See accompanying notes.

Steward Health Choice Arizona
(A Division of Steward Health Choice Arizona, Inc.)
AHCCCS Complete Care Program

Notes to Financial Statements

September 30, 2019

1. Organization

Steward Health Choice Arizona (the Division or Health Choice) is a division of Steward Health Choice Arizona, Inc. (Parent), which is a wholly owned subsidiary of IASIS Healthcare LLC (IASIS). Effective September 29, 2017, Steward Health Care System LLC (Steward) acquired IASIS and its subsidiaries. As a result of the acquisition, Steward Health Choice Arizona, Inc. and IASIS are wholly owned subsidiaries of Steward. The Parent is a provider-owned, managed care organization and insurer that delivers healthcare services to members through multiple health plans, accountable care networks and managed care solutions. The Parent subcontracts with hospitals, physicians and other medical providers, including affiliates of Steward, within Arizona and surrounding states to provide services to its members in the service area counties. The Parent operates a prepaid Medicaid managed health plan that derives all of its revenue through an AHCCCS Complete Care contract (the Contract or the Plan) with the Arizona Health Care Cost Containment System (AHCCCS) to provide specified healthcare services to qualified Medicaid enrollees through contracts with providers, including affiliates of Steward. AHCCCS is the state agency that administers Arizona's Medicaid program, including the AHCCCS Complete Care program. The contract requires the Plan to arrange for healthcare services for enrolled Medicaid patients in exchange for fixed monthly premiums, based on negotiated per capita member rates, and supplemental payments from AHCCCS. These services are provided regardless of the actual costs incurred to provide these services. The Plan receives reinsurance and other supplemental payments from AHCCCS to cover certain costs of healthcare services that exceed certain defined thresholds.

On March 25, 2013, the Parent was awarded a contract by AHCCCS. The contract commenced on October 1, 2013, and covered enrollees in Apache, Coconino, Gila, Maricopa, Mohave, Navajo, Pima and Pinal counties. The contract expired on September 30, 2018. On March 5, 2018, the Parent was awarded an AHCCCS Complete Care (ACC) contract to provide integrated physical and behavioral health services to AHCCCS members in Apache, Coconino, Gila, Maricopa, Mohave, Navajo, Pinal, and Yavapai counties beginning October 1, 2018. The ACC contract replaced the legacy AHCCCS contract with an initial term of three years and two two-year options to extend the contract at the discretion of AHCCCS. The contract is terminable without cause on 90 days' written notice or for cause upon written notice if the Plan fails to comply with any term or condition of the contract or fails to take corrective action as required to comply with the terms of the contract. Additionally, AHCCCS can terminate the contract in the event of the unavailability of state or federal funding.

1. Organization (continued)

On October 31, 2019, Steward and Blue Cross Blue Shield of Arizona (Blue Cross) reached a definitive agreement for Blue Cross to acquire the Plan from Steward. On December 20, 2019, Blue Cross assigned their rights under the purchase agreement with Steward to their wholly owned subsidiary, Veritage LLC (Veritage). On December 30, 2019, AHCCCS approved the proposed change in ownership and Veritage completed the acquisition of the Plan.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and are accounted for in the period identified.

Cash

The Plan's cash receipts and cash disbursements are managed under the centralized cash management program of Steward. The Plan did not hold any cash as of September 30, 2019.

Pharmacy Rebate Receivables

The Plan receives rebates from pharmaceutical companies based on the volume of drugs purchased. The Plan records a receivable and a reduction of pharmacy expense for estimated rebates due based on purchase information. Pharmacy rebate receivables were $1.4 million as of September 30, 2019.

Due from Affiliates

Due from affiliates, net of amounts due to affiliates, primarily represents the net excess of funds transferred to Steward over funds transferred to or paid on behalf of the Plan. Due from affiliates balances are available to the Plan for settlement of the Plan's current liabilities as they become due. Generally, this balance is decreased by automatic cash transfers from Steward's bank accounts

2. Summary of Significant Accounting Policies (continued)

to the Plan's bank accounts to pay certain expenses, and it is increased through transfers of daily cash deposits from the Plan's bank accounts to the centralized cash management account of Steward. Due from affiliates was $213.3 million as of September 30, 2019.

Goodwill

Pursuant to accounting guidance related to goodwill and other intangible assets, goodwill is not amortized but is subject to annual impairment reviews or more often if events or circumstances indicate it may be impaired. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Plan has completed its annual impairment test for the 2019 fiscal year, which resulted in no impairment.

Intangible Assets

Intangible assets consist solely of the Plan's contract with AHCCCS, which is amortized over the contract's estimated useful life including assumed renewal periods, an initial period of 15 years. Amortization of intangible assets totaled $3.0 million for the year ended September 30, 2019, and is included in administrative expenses in the accompanying statement of operations. Intangible assets with a book value of $45.0 million were fully amortized as of September 30, 2019.

Revenue Recognition

Capitation premiums are recognized as revenue in the month that members of the Plan are entitled to healthcare services. The Plan is required to provide all covered healthcare services to members, regardless of the cost of care. If there are funds remaining, the Plan retains the funds as profit; if the costs are higher than the amount of capitation payments, the Plan absorbs the loss. Capitation premiums are subject to an episodic/diagnostic risk factor adjustment. The Plan estimates and records premium settlement amounts and adjusts to actual amounts when the adjustment settlements are either received or the Plan receives notification of such settlement amounts.

As a result of the variability of factors that determine such estimations, the actual amount of the retroactive premium settlement adjustments could be materially more or less than the Plan's estimates. The Plan's adjustment payments are subject to review and audit and any adjustment to

2. Summary of Significant Accounting Policies (continued)

premium revenue as a result of such review and audit is recorded when estimable. There can be no assurance that any retroactive adjustment to previously recorded revenue will not have a material effect on future results of operations.

Certain provisions of the ACC contract include a risk band, whereby Health Choice and AHCCCS share in the profits and losses of the contract, as defined in the contract (reconciliation revenue). The Plan has recorded an estimate of the reconciliation revenue, within capitation premiums in the accompanying statement of operations, based on the operational performance of the AHCCCS ACC product. The Plan may recover certain losses for those cases eligible for reinsurance payments. PPC capitation payments are intended to cover those healthcare costs incurred by individuals while they are awaiting enrollment in the Plan. PPC revenues are recognized in the month in which the member is eligible for coverage under the Plan. Under the ACC product, AHCCCS limits the profit that health plans may recognize for all risk groups at 4.0%.

Delivery supplemental premiums are payments received per newborn delivery and are intended by AHCCCS to cover the cost of maternity care for qualified pregnant women. Such premiums are billed and recognized in the month that delivery occurs.

Medical Expenses

Monthly capitation payments to primary care physicians and other healthcare providers are expensed in the month services are contracted to be performed. Medical expenses for non-capitated arrangements is accrued as services are rendered by hospitals, physicians and other healthcare providers during the year. Medical expense includes primary care and specialty physician services, as well as hospital inpatient, outpatient, and other ancillary services, such as radiology and lab. Medical expense is presented net of Third Party Liability (TPL) recoveries received.

TPL recoveries are payments received from a third party, such as an individual, entity, or program that is, or may be, liable to pay for any medical services provided to an AHCCCS member. AHCCCS is the payor of last resort when there is another liable party. Third party reinsurance recoveries totaling approximately $6.3 million were recognized during the year ended September 30, 2019, and are included as a reduction of medical expenses in the accompanying statement of operations.

2. Summary of Significant Accounting Policies (continued)

Medical claims payable includes claims received but not paid and an estimate of claims incurred but not reported. Incurred but not reported claims are estimated using a combination of historical claims experience (including severity and payment lag time) and other actuarial analysis, including number of enrollees, age of enrollees, and certain enrollee health indicators to predict the cost of healthcare services provided to enrollees during any given period. While management believes that its estimation methodology effectively captures trends in medical claims costs, actual payments could differ significantly from estimates given changes in the healthcare cost structure or adverse experience.

Activity in the liability for medical claims payable for the year ended September 30, 2019 is as follows:

Balance, beginning of year	$ 113,983,627
Incurred related to:	
Current year	749,863,789
Prior years	4,960,709
Total incurred	754,824,498
Paid related to:	
Current year	(655,713,155)
Prior years	(107,973,991)
Total paid	(763,687,146)
Balance, end of year	$ 105,120,980

During the year ended September 30, 2019, the Plan recognized an unfavorable development in medical claims expense for prior periods of approximately $5.0 million. The change in medical claims expense is the result of ongoing analysis of loss development trends. Such adjustments are included in medical expenses in the accompanying statement of operations. Original estimates increased or decreased as additional information became known regarding individual claims. In order to assist management in evaluating the appropriateness of medical claims payable at September 30, 2019, the Plan engaged an actuary to provide an independent estimate of medical claims payable.

2. Summary of Significant Accounting Policies (continued)

Reinsurance

Reinsurance recoveries are recognized under the ACC contract when healthcare costs exceed stated amounts as provided under the contract, including estimates of such costs at the end of each accounting period. Contractually, the Plan is reimbursed by AHCCCS at a rate ranging from 75% to 100% for qualified healthcare costs for those members that exceed stated amounts of up to $35,000, depending on the case type of the member. Qualified costs must be incurred during the contract year and are the lesser of the amount paid by the Plan or the AHCCCS fee schedule.

In the event that the reinsurer is unable to honor its reinsurance commitment, the Plan may be responsible for excess costs incurred. Reinsurance recoveries totaling approximately $36.7 million were recognized during the year ended September 30, 2019, and are included as a reduction of hospitalization expense in the accompanying statement of operations.

Health Insurance Provider Fee (HIPF)

Effective January 1, 2014, the Plan began accounting for the mandated HIPF to be paid to the federal government by health insurers, as part of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, which is imposed for calendar years beginning after December 31, 2013. The HIPF is based on a company's share of the industry's net premiums written during the preceding calendar year and is payable on September 30 of each year. Effective January 1, 2019, the IRS issued a moratorium on the health insurer fee, whereby collection of the health insurer fee for calendar year 2019 was suspended. The Plan's portion of the HIPF for the 2018 calendar year was approximately $16.6 million. The HIPF is non-deductible for federal income tax purposes. The Plan recorded the estimated liability for the HIPF in full, with a corresponding deferred asset that is being amortized to expense on a straight-line basis during the 2018 calendar year. During the year ended September 30, 2019, the Plan recognized approximately $4.1 million related to amortization of the HIPF which is recorded as health insurer fee expense in the accompanying statement of operations. Because the Plan primarily serves individuals in government-sponsored programs, the Plan must secure additional reimbursement from state partners for this added cost. The Plan recognizes HIPF revenue when there is a contractual commitment from the state to reimburse Health Choice for the full economic impact of the health insurer fee, including tax, as there is here from AHCCCS. HIPF revenue is recognized ratably throughout the calendar year. The Plan's portion of the HIPF revenue for the 2018 calendar year was approximately $20.9 million.

2. Summary of Significant Accounting Policies (continued)

The Plan recognized HIPF revenue totaling $5.2 million during the year ended September 30, 2019, as a result of the contractual commitment from AHCCCS.

Administrative Expenses

The primary components of administrative expenses are management fees, amortization of intangible assets and other miscellaneous expense.

Income Taxes

Taxes are allocated to the Plan from the Parent pursuant to the asset and liability method, based on the amount for which the Plan would have been liable if it were a separate taxpayer. The effect on deferred taxes of a change in tax rates is recognized in the statement of operations during the period in which the tax rate change becomes law.

Fair Value of Financial Instruments

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Plan does not have any fair value measurements using significant unobservable inputs (Level 3) and does not have any assets or liabilities that are measured at fair value on a non-recurring basis as of September 30, 2019.

The carrying value of financial assets and liabilities approximates their fair market value due to the short-term nature of these instruments.

The Plan's nonfinancial assets are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur or if an annual impairment test is required and the Plan is required to evaluate the nonfinancial instrument for impairment, a resulting asset impairment would require that the nonfinancial asset be recorded at the fair value.

2. Summary of Significant Accounting Policies (continued)

During the year ended September 30, 2019, no remeasurements of the nonfinancial assets or liabilities were deemed necessary by management. The due from affiliates amount approximates fair value. Accordingly, no amounts were recognized in earnings on the statement of operations relating to changes in fair value for nonfinancial assets or liabilities during the year ended September 30, 2019.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to 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 these goods and services. An entity also should disclose sufficient quantitative and qualitative information to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The new standard is effective for the Plan for annual periods beginning after December 15, 2018 (as amended in August 2015 by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date).* The Plan is evaluating the effects the adoption of this standard will have on its financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB Accounting Standards Codification (ASC) *Topic 840, Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Plan for annual periods beginning after December 15, 2019. The Plan is evaluating the effects the adoption of this standard will have on its financial statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which will change how entities account for credit losses for most financial assets, trade receivables, and reinsurance receivables. The standard will replace the existing incurred loss impairment model with a new "current expected credit loss model" that generally will result in earlier recognition of credit losses. The standard

2. Summary of Significant Accounting Policies (continued)

will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables, and certain off-balance sheet credit exposures. ASU 2016-13 is effective for the Plan for annual periods beginning after December 15, 2020, with early adoption permitted for annual periods beginning after December 15, 2018. The Plan is evaluating the effects the adoption of this standard will have on its financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* ASU 2016-15 amends the guidance in ASC Topic 230, which often requires judgment to determine the appropriate classification of cash flows as operating, investing, or financing activities, and has resulted in diversity in practice in how certain cash receipts and cash payments are classified. ASU 2016-15 is effective for the Plan for annual reporting periods beginning after December 15, 2018, and should be applied on a retrospective basis. The Plan is evaluating the effects the adoption of this standard will have on its statement of cash flows and disclosures.

In January 2017, the FASB issued ASU 2017-04, *Intangible Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which removes the second step of the goodwill impairment test that requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for the Plan for annual periods beginning after December 15, 2021, and will be applied prospectively. The Plan does not expect the adoption of ASU 2017-04 to have any impact on its financial statements or disclosures.

Subsequent Events Consideration

The Plan evaluated events and transactions occurring subsequent to September 30, 2019 through February 14, 2020, the date these financial statements were available for issuance. During this period, there were no subsequent events that required recognition in the financial statements, except as disclosed in Note 1.

3. Transactions with Affiliates

The Plan is party to a management agreement with Health Choice Management Company (the Management Company), an indirect wholly owned subsidiary of Steward, which manages the general and administrative functions related to the Plan inclusive of payroll and related expenses. The fee is charged based on 7.5% of capitation revenue less premium taxes. During the year ended September 30, 2019, the Plan recorded expenses of approximately $64.0 million for services provided by the Management Company, which are included in administrative expenses in the accompanying statement of operations.

The Plan remitted fee-for-service medical expense payments totaling approximately $9.6 million during the year ended September 30, 2019, to facilities which are owned and operated by Steward.

4. Due from AHCCCS

The Plan's contract with AHCCCS requires recurring settlements between the Plan and AHCCCS. The amounts due from AHCCCS, as of September 30, 2019 are as follows:

Reinsurance	$ 19,578,272
Risk corridor receivable	10,808,435
Value based payment receivable	2,635,372
Delivery supplement receivable	844,672
Admin Reconciliation receivable	591,994
Capitation receivable	486,702
	$ 34,945,447

5. Leases

As a result of the Plan's management agreement with the Management Company, the Management Company assumes all facility and equipment leases. The related rent expenses are included within the management fee charged by the Management Company, which is included in administrative expenses in the accompanying statement of operations.

6. Income Taxes

The provision for income taxes for the year ended September 30, 2019 consists of the following:

Current:	
Federal	$ 7,323,540
State and local	–
Deferred:	
Federal	(786,449)
State and local	–
Total income tax expenses	$ 6,537,091

The difference between the tax provision computed at the statutory rate and the tax provision recorded by the Plan for the year ended September 30, 2019 primarily relates to the nondeductible HIF.

The Plan's deferred tax assets and liabilities as of September 30, 2019 are as follows:

Deferred tax assets	$ 319,799
Deferred tax liabilities	–
Net deferred tax liabilities	$ 319,799

For the year ended September 30, 2019, deferred tax assets were related to discounted medical claims payables. There were no deferred tax liabilities as of September 30, 2019.

The statute of limitations for assessment by the Internal Revenue Service and state tax authorities is open for the tax years ended September 30, 2016 and subsequent years. The Plan records interest and penalties as a component of income tax expense. No interest or penalties were recorded for the year ended September 30, 2019.

7. Commitments and Contingencies

Professional, General and Other Liability Insurance

The Plan is subject to claims, lawsuits, regulatory audits, and other legal matters arising, for the most part, in the ordinary course of managing a health services business.

The Plan's contract with AHCCCS requires the Plan to maintain professional liability insurance, comprehensive general insurance, and automobile liability insurance coverage of at least $1.0 million for each occurrence. During the year ended September 30, 2019, the Plan was covered under Steward's umbrella policy.

Steward, on behalf of the Plan, carries professional and general liability insurance in excess of self-insured retentions through an unrelated commercial insurance carrier in amounts that Steward believes to be sufficient for the Plan, although some claims may exceed the scope of coverage in effect. Steward maintains reserves for professional and general liability claims.

Accordingly, no reserves for liability risks are recorded in the accompanying balance sheet. Professional and general liability insurance expense is included in the management fee charged by the Management Company for the year ended September 30, 2019, which is included in administrative expenses in the accompanying statement of operations.

The Plan is currently not a party to any such proceedings that, in the Plan's opinion, would have a material adverse effect on the Plan's business, financial condition or results of operations.

Performance Guarantee

If the Plan fails to effectively manage healthcare costs, these costs may exceed the premiums received by the Plan. The Plan believes the capitated premiums, together with reinsurance and other supplemental premiums, are sufficient to pay for the services the Plan is obligated to deliver. Pursuant to its contract with AHCCCS, the Plan is required annually to provide a performance bond, in an acceptable form, to guarantee performance of the Plan's obligations under its contract to provide and pay for the healthcare services. The amount of the performance guarantee that AHCCCS requires is generally based upon the membership in the Plan and the related capitation paid to the Plan. As of September 30, 2019, the Plan provided a performance bond in the form of surety bonds for the benefit of AHCCCS totaling approximately $75.0 million.

7. Commitments and Contingencies (continued)

State and Federal Laws and Regulations

The Plan is subject to state and federal laws and regulations. The Centers for Medicare and Medicaid Services (CMS) and AHCCCS have the right to audit the Plan to determine the Plan's compliance with such standards. The Plan is required to file periodic reports with AHCCCS and to meet certain financial viability standards. The Plan must also provide its enrollees with certain mandated benefits and must meet certain quality assurance and improvement requirements. The Plan believes it is in compliance with these CMS and AHCCCS requirements. The Plan must also comply with the electronic transactions regulations and privacy standards of the Health Insurance Portability and Accountability Act (HIPAA). The Plan believes it is in compliance with the HIPAA security standards as set forth in 45 CFR Part 164. The Plan has also complied with the requirements for health plans defined in 45 CFR Part 162.

8. Concentration of Credit Risk

The Parent currently holds a contract with AHCCCS to provide services through September 30, 2021, with the possibility of two two-year extensions.

Supplementary Information

Steward Health Choice Arizona
(A Division of Steward Health Choice Arizona, Inc.)
AHCCCS Complete Care Program

Sub-Capitated Expenses Report

Year Ended September 30, 2019

Account	Account Description	Amount	YTD Amount
	Sub-capitated hospitalization expenses		
50105-01	Hospital inpatient	$ –	$ –
50110-01	Hospital inpatient-behavioral health services	–	–
50115-01	Reserved	–	–
	Total sub-capitated hospitalization expenses	–	–
	Sub-capitated medical compensation expenses		
50205-01	Primary care physician services	422,491	1,592,882
50210-01	Behavioral health physician services	–	–
50215-01	Referral physician services	–	–
50220-01	PH FQHC/RHC services	–	–
50225-01	Other professional services	–	–
50230-01	Reserved	–	–
	Total sub-capitated medical compensation expenses	422,491	1,592,882
	Sub-capitated other medical expenses		
50305-01	Emergency facility services	–	–
50310-01	PH pharmacy	–	–
50315-01	Laboratory, radiology and medical imaging	3,041,440	11,973,589
50320-01	Outpatient facility	1,506,188	5,002,364
50325-01	Durable medical equipment	794,754	3,396,699
50330-01	Dental	–	–
50335-01	Transportation	3,577,849	10,660,446
50340-00	Nursing facility, home health care	704,442	3,193,454
50345-01	Therapies	–	–
50350-01	Alternative payment model performance based payments to providers	–	–
50355-01	Behavioral health day program	–	–
50355-05	Behavioral health case management services	–	–
50355-10	Behavioral health crisis intervention services	–	–
50355-15	Behavioral health rehabilitation services	–	–
50355-20	Behavioral health residential services	–	–
50355-25	All other behavioral health services	–	–
50360-01	Reserved	–	–
50370-01	Other medical expenses	–	–
	Total sub-capitated other medical expenses	9,624,673	34,226,552
	Total sub-capitated expenses	$ 10,047,164	$ 35,819,434

Steward Health Choice Arizona
(A Division of Steward Health Choice Arizona, Inc.)
AHCCCS Complete Care Program

Block Purchases Report

Year Ended September 30, 2019

Account	Account Description	Amount	YTD Amount
	Hospitalization block Purchases		
50105-01	Hospital inpatient	$ 527,706	$ 1,690,136
50110-01	Hospital inpatient-behavioral health services	176,371	938,867
50115-01	Reserved	–	–
	Total sub-capitated hospitalization expenses	704,077	2,629,003
	Sub-capitated medical compensation expenses		
50205-01	Primary care physician services	(95,732)	589,826
50210-01	Behavioral health physician services	(11,082,412)	2,396,049
50215-01	Referral physician services	–	–
50220-01	PH FQHC/RHC services	–	–
50225-01	Other professional services	(327,861)	4,543
50230-01	Reserved	–	–
	Total sub-capitated medical compensation expenses:	(11,506,005)	2,990,418
	Sub-capitated other medical expenses		
50305-01	Emergency facility services	–	–
50310-01	PH pharmacy	–	–
50315-01	Laboratory, radiology and medical imaging	4,303	8,367
50320-01	Outpatient facility	–	–
50325-01	Durable medical equipment	–	–
50330-01	Dental	–	–
50335-01	Transportation	659,795	2,198,226
50340-00	Nursing facility, home health care	337,348	735,196
50345-01	Therapies	–	–
50350-01	Alternative payment model performance based payments to providers	–	–
50355-01	Behavioral health day program	(1,144,102)	114
50355-05	Behavioral health case management services	2,576,140	5,157,659
50355-06	Peer/family support	1,755,269	1,685,222
50355-07	Support services	–	–
50355-10	Behavioral health crisis intervention services	(71,359)	–
50355-11	Living skills training	4,798,557	4,798,558
50355-12	Supported employment	–	–
50355-15	Behavioral health rehabilitation services	(391,946)	117,868
50355-20	Behavioral health residential services	1,541,743	2,997,829
50355-21	Counseling	6,559,022	6,559,022
50355-22	Assessment, evaluation and screening	3,421,681	3,432,384
50355-23	Treatment services	12,596	18,200

Steward Health Choice Arizona
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Block Purchases Report (continued)

Account	Account Description	Amount	YTD Amount
	Sub-capitated other medical expenses (continued)		
50355-25	All other behavioral health services	$ –	$ –
50360-01	Reserved	–	–
50370-01	Other medical expenses	–	–
	Total other medical block purchases	20,059,047	27,708,645
	Total block purchases	$ 9,257,119	$ 33,328,066

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