

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Banner University Family Care
Years Ended December 31, 2022 and 2021
With Reports of Independent Auditors

Ernst & Young LLP



Banner University Family Care
Financial Statements and Supplementary Information
Years Ended December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Banner University Family Care

Opinion

We have audited the financial statements of Banner University Family Care (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 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 of 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 for one year after the date that the financial statements are 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 of 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 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 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.

Ernst + Young LLP

May 15, 2023

Banner University Family Care

Balance Sheets

	December 31	
	2022	2021
Assets		
Current assets:		
Cash	\$ 848,384,174	\$ 526,192,700
Reinsurance receivable	22,307,492	20,073,290
Pharmacy rebate receivable	4,341,873	1,795,354
Other current assets	13,358,975	4,220,325
Total current assets	<u>888,392,514</u>	<u>552,281,669</u>
Reconciliation receivable	–	9,695,478
Total assets	<u><u>\$ 888,392,514</u></u>	<u><u>\$ 561,977,147</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 21,435,842	\$ 5,873,998
Due to affiliates	185,652,842	50,520,412
Medical claims payable	187,523,436	217,424,254
Reconciliation payable	68,394,772	9,681,411
Alternative payment model	19,610,024	31,580,246
Other current liabilities	22,999,682	5,982,345
Total current liabilities	<u>505,616,598</u>	<u>321,062,666</u>
Reconciliation payable	149,853,723	77,495,804
Total liabilities	<u>655,470,321</u>	<u>398,558,470</u>
Net assets	232,922,193	163,418,677
Total liabilities and net assets	<u><u>\$ 888,392,514</u></u>	<u><u>\$ 561,977,147</u></u>

See accompanying notes.

Banner University Family Care

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2022	2021
Revenue		
Capitation premiums	\$ 1,871,351,407	\$ 1,633,807,901
Delivery supplemental premiums	33,711,000	31,331,708
Reconciliation settlements, net	(144,599,696)	(71,181,892)
Alternative payment model	31,742,617	12,512,747
Investment income, net	10,522,753	128,220
Total revenues	<u>1,802,728,081</u>	<u>1,606,598,684</u>
Health care expenses		
Hospitalization	234,165,334	215,438,047
Medical compensation	372,086,221	416,230,389
Ancillary and other medical services	713,503,855	590,490,255
Institutional	156,123,907	136,148,681
Home and community-based services	116,157,022	106,904,203
Case management services	12,502,585	11,847,399
Less reinsurance recoveries	(53,715,820)	(57,766,160)
Total health care expenses	<u>1,550,823,104</u>	<u>1,419,292,814</u>
General and administrative expenses	137,467,403	83,848,214
Premium tax expense	39,424,595	35,148,894
Total operating expenses	<u>1,727,715,102</u>	<u>1,538,289,922</u>
Operating income	75,012,979	68,308,762
Community reinvestment expense	5,509,463	2,496,498
Net income	<u>69,503,516</u>	<u>65,812,264</u>
Net assets, beginning of period	163,418,677	97,606,413
Net assets, end of period	<u>\$ 232,922,193</u>	<u>\$ 163,418,677</u>

See accompanying notes.

Banner University Family Care

Statements of Cash Flows

	Year Ended December 31	
	2022	2021
Operating activities		
Net income	\$ 69,503,516	\$ 65,812,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Reinsurance receivable	(2,234,202)	1,110,243
Pharmacy rebate receivable	(2,546,519)	667,777
Reconciliation receivable	9,695,478	25,803,299
Other current assets	(9,138,650)	11,212,695
Other current and noncurrent liabilities	32,579,181	(4,035,486)
Medical claims payable	(29,900,818)	62,618,899
Reconciliation payable	131,071,280	57,147,781
Alternative payment model payable	(11,970,222)	7,767,767
Due to affiliates	135,132,430	(24,083,868)
Net cash provided by operating activities	322,191,474	204,021,371
Net increase in cash	322,191,474	204,021,371
Cash at beginning of period	526,192,700	322,171,329
Cash at end of period	\$ 848,384,174	\$ 526,192,700

See accompanying notes.

Banner University Family Care

Notes to Financial Statements

December 31, 2022

1. Organization and Operations

Organizational Structure

Banner University Family Care (BUFC) provides health-plan services to enrollees under contracts with the Arizona Health Care Cost Containment System (AHCCCS), Arizona's Medicaid program for individuals with lower income, in the following counties in southern Arizona: Cochise, Gila, Graham, Greenlee, La Paz, Maricopa, Pima, Pinal, Santa Cruz and Yuma. Banner Health (Banner) is the sole corporate member of BUFC.

All of BUFC's revenues, except for investment income, are earned under its AHCCCS contracts (the Plans), which are subject to periodic renewal. Members under the Plans receive coordination of care between providers within the same network. The BUFC financial statements include the financial activity associated with the following AHCCCS contracts:

- BUFC was awarded an AHCCCS Complete Care (ACC) contract effective October 1, 2018 through September 30, 2025. ACC is a health plan that provides integrated care, both physical and behavioral health services.
- BUFC was awarded an AHCCCS Arizona Long Term Care System (ALTCS) contract effective October 1, 2017 through September 30, 2024. ALTCS is a State of Arizona Medicaid program that provides long term care services, at little or no cost to financially and medically eligible Arizona residents who are aged, blind, disabled, or have a developmental disability. Services may be provided in a health institution or in a home or community-based setting.

Both contracts include defined risk reconciliations whereby BUFC and AHCCCS share in the contract gains and losses ranging from 6% and 2% of capitation revenues (see Note 3).

Continuation of the Plans is dependent upon governmental policies. The loss of these contracts would have an adverse effect on BUFC's future operations.

Banner University Family Care

Notes to Financial Statements (continued)

2. Liquidity

Financial assets available for general expenditure within one year of the balance sheet date consist of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Cash	\$ 848,384,174	\$ 526,192,700
Reinsurance receivable	22,307,492	20,073,290
Pharmacy rebate receivable	4,341,873	1,795,354
Due from providers, within other current assets	9,773,642	2,165,240
Capitation premium receivable, within other current assets	843,896	885,468
	<u>\$ 885,651,077</u>	<u>\$ 551,112,052</u>

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of cash, capitation and supplemental revenues receivable, reconciliation payable, other current assets, accounts payable, due to affiliate, medical claims payable, and other current liabilities approximate fair value due to the short-term nature of these accounts.

Cash

BUFC maintains cash in a bank account that frequently exceeds federally insured limits. To date, BUFC has not experienced any losses in this account due to banking failures.

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Revenue

BUFC records revenue from AHCCCS in the form of capitation premiums, delivery supplemental premiums, reconciliation settlements and alternative payment model settlements. Reinsurance recoveries and pharmacy rebates are recorded as a reduction to health care expenditures. Revenue is recorded at the estimated transaction price based on the terms outlined in the ACC and ALTCS contracts. BUFC evaluates whether an implicit price concession should be included in the estimate of the transaction price based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of the change. Revenue is recognized as performance obligations are satisfied, which primarily relate to the monthly period in which health care coverage is provided to the enrollees.

Capitation Premiums

Capitation premiums include amounts earned under contracts to members of the Plans. The monthly capitation premiums have been agreed upon by BUFC and AHCCCS. Capitation premiums are recognized as revenue in the period to which health care coverage relates. Capitation premium receivables are included within other current assets in the accompanying balance sheets.

BUFC received capitation payments for Prior Period Coverage (PPC) separately from its prospective capitation payments. PPC capitation payments are intended to cover health care costs incurred by individuals while waiting for enrollment in the Plan. PPC revenues are recognized in the month in which the member is eligible for coverage under the Plan.

Capitation rates are subject to periodic changes in member risk factor adjustment scores for certain diagnosis and procedural codes. BUFC recognizes such changes for the Plans when the amounts become determinable and supportable, and collectability is reasonably assured. There are no amounts accrued for risk adjustment as of December 31, 2022 and 2021.

Delivery Supplemental Premiums

Delivery supplemental premiums are recognized upon the delivery of a child by a member assigned to BUFC ACC contract during a prospective enrollment period. This supplemental payment does not include payment for deliveries of those members who deliver in a prior coverage period.

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Reconciliation Receivable (Payable) and Revenue (Contra-Revenue)

The Plans are subject to settlement with AHCCCS based on the Plans' net income or loss realized by BUFC and based on a formula defined by the AHCCCS contracts. This reconciliation settlement for each contract year represents 50% of the Plans' profit in excess of 2% to 6% of capitation revenue, 100% of the Plans' profit in excess of 6% of capitation revenue, and 100% of the Plans' loss in excess of 2% capitation revenue. The reconciliation settlement period is based on the AHCCCS contract year of October 1 through September 30 and is subject to review and final settlement with AHCCCS. The estimated reconciliation receivable (payable) for the open reconciliation contract years has been recorded as estimated reconciliation receivable (payable) on the accompanying balance sheets. The reconciliation receivable is settled with AHCCCS at the end of the contract year and once claim payment activity has been completed. AHCCCS finalizes the reconciliation settlement no sooner than 15 months subsequent to the contract year.

Through the report issuance date, AHCCCS has settled the reconciliation receivable (payable) with BUFC through the annual contract period ending September 30, 2020. BUFC recorded a decrease to revenue of approximately \$3,188,000 and \$10,100,000 for the years ended December 31, 2022 and 2021, respectively, relating to the settlement of prior reconciliation contract years. Because the reconciliation settlement is subject to change based on claims experience, there is a possibility that recorded reconciliation settlements will change by a material amount in the near term.

Alternative Payment Model

AHCCCS has developed an Alternative Payment Model (APM) policy with multiple initiatives designed to drive innovative arrangements that will further enhance cost control and result in quality improvements for contractors. BUFC is required to participate in AHCCCS' APM quality measure performance (QMP) incentive program. This arrangement, as delineated by AHCCCS, incorporates a withhold arrangement of 1% of the Plan's capitation revenue, excluding delivery supplemental premiums and PPC capitation premiums. A portion of, or all of, the withheld amount will be paid to BUFC for performance on select quality metrics per the APM policy after the completion of the contract year and AHCCCS computation of the performance measures.

BUFC records a reduction in capitation premium revenue and APM liability for the 1% withheld amount. Adjustments for expected settlement reduces APM liability and is recorded within APM revenue in the accompanying statements of revenues, expenses, and changes in net assets. BUFC recognizes such changes for the Plans when the amounts become estimable and probable.

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

BUFC recorded APM revenue of \$31,742,617 and \$12,512,747 for the years ended December 31, 2022 and 2021, respectively, related to the settlement of prior contract years or adjustment of open contract years. BUFC recorded APM liability associated with QMP and unsettled contract years of \$6,980,864 and \$20,065,631 as of December 31, 2022 and 2021, respectively.

BUFC has also established quality initiatives to reduce costs, improve health outcomes, and improve access to care with providers. BUFC records these performance based payments within APM liability in the accompanying balance sheets and associated costs within ancillary and other medical services expense in the accompanying statements of revenues, expenses, and changes in net assets. BUFC recorded APM liability associated with provider performance based payments of \$12,629,160 and \$11,514,615 as of December 31, 2022 and 2021, respectively.

Reinsurance Recoveries

Reinsurance is a stop loss program provided by AHCCCS for the partial reimbursement of certain covered medical service costs incurred by a member beyond an annual deductible. Reinsurance recoveries represents management's estimate of the medical claims cost recoverable under its reinsurance contract with AHCCCS. Reinsurance receivables are calculated based on the identification of qualifying incurred inpatient and pharmacy expenses and a percentage of estimated inpatient and other pharmaceutical costs incurred but not yet reported for each contract year (see Note 4).

Pharmacy Rebates

BUFC estimates the amounts that will be received in pharmacy rebates which are based on contractual arrangements with the drug manufacturers.

Medical Claims Payable

The costs of hospital and medical services provided to enrollees served under contract are recognized in the period that the services are rendered. An accrual has been made for unpaid claims and for claims incurred but not received as of December 31, 2022 and 2021. The amount of this liability is estimated using historical claims payment experience. Estimates are adjusted based upon changes in experience, and such adjustments are reflected in current operations. Because considerable variability is inherent in such estimates, there is a possibility that recorded estimates will change by a material amount in the near term (see Note 5).

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Premium Deficiency Reserves

BUFC performs periodic analysis of its expected future health care costs and maintenance costs to determine whether such costs will exceed anticipated future revenues under its contracts. Should expected costs exceed anticipated revenues, a premium deficiency reserve is recognized. Investment income is not included in the calculation of premium deficiency reserves. No premium deficiency reserve was recorded as of December 31, 2022 or 2021.

General and Administrative Expenses

General and administrative expenses are recognized as incurred for the management of the Plans. The costs charged represent costs that directly relate to the AHCCCS program and a corporate allocation from Banner for general and administrative expenses (see Note 7). Corporate allocation expenses are repaid by BUFC through intercompany settlements to Banner. These settlements are reflected as due to affiliates on the accompanying balance sheets.

Premium Tax Expense

The state of Arizona imposes a premium tax on capitation payments paid to BUFC by AHCCCS. BUFC receives the premium tax from AHCCCS and remits the entire amount to the appropriate taxing authority. BUFC includes the taxes collected as capitation revenues and taxes remitted as a premium tax expense on the accompanying statements of revenues, expenses, and changes in net assets.

Risk Management

BUFC is exposed to various risks of loss from torts, business interruption, errors and omissions, and natural disasters. Additional insurance coverage is purchased by Banner for claims arising from such matters. BUFC receives reinsurance coverage from AHCCCS to reduce the risk of catastrophic loss on services provided under the Plans. The gross capitation rates were reduced by the reinsurance cost. Under the AHCCCS program, risk of loss for inpatient claims is generally limited to an annual deductible of \$50,000 per member per policy year for the ACC contract and \$20,000 or \$30,000 for the ALTCS contract. Eligible claims in excess of the deductible are generally paid at either 75% or 85%, depending on the type of claim, with no maximum annual benefit. Eligible reinsurance claims are reported in the accompanying financial statements as a reduction of health care expenses at the amount expected to be collected from AHCCCS.

Banner University Family Care
Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Subsequent Events

BUFC has evaluated events and transactions occurring subsequent to December 31, 2022 through May 15, 2023, the date of issuance of the accompanying financial statements.

4. Reinsurance Receivable

BUFC recorded reinsurance receivable as of December 31 related to the following contract years:

	2022
September 30, 2021	\$ 182,585
September 30, 2022	11,796,109
September 30, 2023	10,328,798
	\$ 22,307,492
	2021
September 30, 2020	\$ 87,174
September 30, 2021	10,430,814
September 30, 2022	9,555,302
	\$ 20,073,290

5. Medical Claims Payable

Medical claims payable consists of the following at December 31:

	2022	2021
Claims payable	\$ 81,099,371	\$ 123,231,569
Provisions for claims incurred but not yet reported	106,424,065	94,192,685
	\$ 187,523,436	\$ 217,424,254

Banner University Family Care

Notes to Financial Statements (continued)

5. Medical Claims Payable (continued)

The cost of health care services is recognized in the period in which care is provided and includes an estimate of the cost of services that has been incurred but not yet reported (IBNR). BUFC estimates IBNR based on historical claims payments and other relevant information. Unpaid claims adjustment expenses are an estimate of the cost to process the incurred but not reported claims and are included in medical claims payable. Estimates are continually monitored and reviewed, and as medical claims are paid or estimates adjusted, differences are recorded on the statement of revenues, expenses, and changes in net assets. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts recorded. While the ultimate number of claims paid is dependent on future developments, management is of the opinion that the accrued medical claims payable is adequate.

The following is a reconciliation of the medical claims payable for the years ended December 31:

	2022	2021
Beginning balance	\$ 217,424,254	\$ 154,805,355
Incurred:		
Current	1,610,193,277	1,462,538,993
Prior	(18,156,938)	2,672,582
Total	1,592,036,339	1,465,211,575
Paid:		
Current	1,422,669,841	1,245,114,739
Prior	199,267,316	157,477,937
Total	1,621,937,157	1,402,592,676
Ending balance	\$ 187,523,436	\$ 217,424,254

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately adjudicated and paid. Liabilities at any year end are continually reviewed and re-estimated as information regarding actual claim payments becomes known. This information is compared with the originally established year end liability. Negative amounts reported for incurred, related to prior years, result from claims being adjudicated and paid for amounts less than originally estimated. Positive amounts reported for incurred, related to prior years, result from claims being adjudicated and paid for amounts greater than originally estimated.

Banner University Family Care

Notes to Financial Statements (continued)

6. Functional Expense

The following statement of functional expenses reports BUFC's operating expenses by natural classification for the years ended December 31, 2022 and 2021. BUFC operating expenditures include allocations of Banner corporate expenditures and Banner health plan expenditures. The Banner health plan expenditures relate to costs to operate Banner's insurance programs, primarily relating to claims management costs. Banner allocates the health plan expenditures based on plan enrollment. The Banner corporate expenditure allocation primarily relates to general and administrative functions and is provided by Banner for each of its operating units, including BUFC. Corporate allocations primarily relate to salary and benefit costs associated with information technology, patient financial services, accounting, human resources, and other overhead-type services (see Note 1).

	Year Ended December 31	
	2022	2021
Expenses:		
Salaries and benefits	\$ 75,344,710	\$ 44,878,197
Supplies	22,155,207	6,409,498
Professional fees	2,869,646	2,480,210
Medical claims costs	1,550,823,104	1,419,292,814
Depreciation	674,942	745,351
Interest expense	4,677,912	3,713,543
Administration fees and other	31,744,986	25,621,415
Premium taxes	39,424,595	35,148,894
Total expenses	<u>\$ 1,727,715,102</u>	<u>\$ 1,538,289,922</u>

7. Related-Party Transactions

BUFC purchases physician and hospital-based health care services for its members from its affiliates. During the years ended December 31, 2022 and 2021, BUFC paid claims for medical expenses to its affiliates totaling \$210,064,899 and \$205,687,357, respectively.

BUFC purchases administrative services from Banner, which are recognized as general and administrative expenses on the accompanying statements of revenues, expenses and changes in net assets. For the years ended December 31, 2022 and 2021, BUFC incurred \$118,320,119 and \$64,223,061, respectively, of corporate and health plan allocations from Banner and affiliated entities for administrative services and program activities (see Note 6).

Banner University Family Care

Notes to Financial Statements (continued)

8. Income Taxes

BUFC is a nonprofit corporation exempt from income taxes under Internal Revenue Code Section 501(c)(3). BUFC has not recorded any expense or accrued for any related expense for any uncertain tax positions. BUFC's 2016 through 2022 tax years remain subject to examination for federal income tax purposes, whereas the 2015 through 2022 tax years remain subject to examination for state taxing jurisdictions in which BUFC operates.

9. Commitments and Contingencies

Performance Measures

BUFC's contracts with AHCCCS require BUFC to be in compliance with certain financial and nonfinancial performance measures, as well as certain prerequisites to maintain BUFC's eligibility as a party to the Plans. Management believes that BUFC is in compliance with AHCCCS's performance measures. Compliance with these measures can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Performance Bond

BUFC secured annual performance bonds in the amounts of \$118,000,000 and \$34,000,000 with an unrelated third-party insurance company to satisfy the performance bond requirements of the ACC and ALTCS contracts, respectively. The bonds satisfy BUFC's contractual obligation as prescribed by AHCCCS. The current performance bonds expire September 30, 2023.

Health Care Regulatory Environment

The health care 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 health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties. Management believes that BUFC is in compliance with fraud and abuse, 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.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Board of Directors
Banner University Family Care

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying financial information of the AHCCCS Acute (collectively the Acute-Care and ACC Contracts) and ALTC Contracts, and the detail of sub-capitated expenses is presented for purposes of additional analysis and is 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 audits 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 of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

May 15, 2023

Banner University Family Care

Balance Sheet – ACC and ALTCS Contracts

December 31, 2022

	ACC	ALTCS	Total
Assets			
Current assets:			
Cash	\$ 711,514,050	\$ 136,870,124	\$ 848,384,174
Reinsurance receivable	16,800,333	5,507,159	22,307,492
Pharmacy rebate receivable	4,112,322	229,551	4,341,873
Other current assets	11,746,985	1,611,990	13,358,975
Total current assets	744,173,690	144,218,824	888,392,514
Total assets	\$ 744,173,690	\$ 144,218,824	\$ 888,392,514
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 16,867,718	\$ 4,568,124	\$ 21,435,842
Due to affiliates	143,698,634	41,954,208	185,652,842
Medical claims payable	141,827,827	45,695,609	187,523,436
Reconciliation payable	67,446,146	948,626	68,394,772
Alternative payment model	18,413,037	1,196,987	19,610,024
Other current liabilities	21,766,793	1,232,889	22,999,682
Total current liabilities	410,020,155	95,596,443	505,616,598
Reconciliation payable	136,464,875	13,388,848	149,853,723
Total liabilities	546,485,030	108,985,291	655,470,321
Net assets	197,688,660	35,233,533	232,922,193
Total liabilities and net assets	\$ 744,173,690	\$ 144,218,824	\$ 888,392,514

Banner University Family Care

Statement of Revenues and Expenses – ACC and ALTCS Contracts

Year Ended December 31, 2022

	ACC	ALTCS	Total
Revenue			
Capitation premiums	\$ 1,463,283,296	\$ 408,068,111	\$ 1,871,351,407
Delivery supplemental premiums	33,711,000	–	33,711,000
Reconciliation settlements, net	(131,497,674)	(13,102,022)	(144,599,696)
Alternative payment model	24,290,981	7,451,636	31,742,617
Investment income, net	8,944,005	1,578,748	10,522,753
Total revenues	1,398,731,608	403,996,473	1,802,728,081
Health care expenses			
Hospitalization	227,913,852	6,251,482	234,165,334
Medical compensation	337,463,005	34,623,216	372,086,221
Ancillary and other medical services	670,113,207	43,390,648	713,503,855
Institutional	–	156,123,907	156,123,907
Home and community-based services	–	116,157,022	116,157,022
Case management services	–	12,502,585	12,502,585
Less reinsurance recoveries	(44,138,734)	(9,577,086)	(53,715,820)
Total health care expenses	1,191,351,330	359,471,774	1,550,823,104
General and administrative expenses	115,472,340	21,995,063	137,467,403
Premium tax expense	30,731,702	8,692,893	39,424,595
Total operating expenses	1,337,555,372	390,159,730	1,727,715,102
Operating income	61,176,236	13,836,743	75,012,979
Community reinvestment expense	4,776,101	733,362	5,509,463
Net income	<u>\$ 56,400,135</u>	<u>\$ 13,103,381</u>	<u>\$ 69,503,516</u>

Banner University Family Care

Statement of Cash Flows – ACC and ALTCS Contracts

Year Ended December 31, 2022

	ACC	ALTCS	Total
Operating activities			
Net income	\$ 56,400,135	\$ 13,103,381	\$ 69,503,516
Adjustments to reconcile net income to net cash provided by operating activities:			
Changes in assets and liabilities:			
Reinsurance receivable	(442,624)	(1,791,578)	(2,234,202)
Pharmacy rebate receivable	(2,362,434)	(184,085)	(2,546,519)
Reconciliation receivable	–	9,695,478	9,695,478
Other current assets	(8,534,651)	(603,999)	(9,138,650)
Other current and noncurrent liabilities	28,046,368	4,532,813	32,579,181
Medical claims payable	(15,793,189)	(14,107,629)	(29,900,818)
Reconciliation payable	121,423,427	9,647,853	131,071,280
Alternative payment model payable	(8,667,792)	(3,302,430)	(11,970,222)
Due to affiliates	99,691,568	35,440,862	135,132,430
Net cash provided by operating activities	269,760,808	52,430,666	322,191,474
Net increase in cash	269,760,808	52,430,666	322,191,474
Cash at beginning of period	441,753,242	84,439,458	526,192,700
Cash at end of period	\$ 711,514,050	\$ 136,870,124	\$ 848,384,174

Banner University Family Care LTC
 AHCCCS Long Term Care Services
 Sub-Capitated / Block Purchases Expenses Report

Contract Year Ended September 30, 2022

Account #	Account Description	Dual Amount	Non Dual Amount	Amount	CYTD Amount
Sub-capitated expenses					
50105-01	Hospital Inpatient	\$ -	\$ -	\$ -	\$ -
50205-01	Primary Care Physician Services	210,596	1,454,357	1,664,953	1,664,953
50210-01	Behavioral Health Physician Services	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-
50220-01	FQHC/RHC Services	-	-	-	-
50305-01	Emergency Facility Services	-	-	-	-
50310-01	PH Pharmacy	-	-	-	-
50315-01	Laboratory, Radiology & Medical Imaging	-	-	-	-
50320-01	Outpatient Facility	-	-	-	-
50320-05	Outpatient Behavioral Health Facility	-	-	-	-
50325-01	Durable Medical Equipment	-	-	-	-
50330-01	Dental	515,650	122,359	638,009	638,009
50335-01	Transportation	2,363,516	1,072,496	3,436,012	3,436,012
50345-01	Therapies	-	-	-	-
50355-01	Behavioral Health Day Program	-	-	-	-
50355-05	Behavioral Health Case Management Services	-	-	-	-
50355-06	Peer/Family Support	-	-	-	-
50355-07	Support Services	-	-	-	-
50355-10	Behavioral Health Crisis Intervention Services	-	-	-	-
50355-11	Living Skills Training	-	-	-	-
50355-12	Supported Employment	-	-	-	-
50355-15	Behavioral Health Rehabilitation Services	-	-	-	-
50355-20	Behavioral Health Residential Services	-	-	-	-
50355-21	Counseling	-	-	-	-
50355-22	Assessment, Evaluation and Screening	-	-	-	-
50355-23	Treatment Services	-	-	-	-
50355-25	All Other Behavioral Health Services	-	-	-	-
50370-01	Other Medical Expenses	-	-	-	-
Total sub-capitated expenses		<u>\$ 3,089,762</u>	<u>\$ 2,649,212</u>	<u>\$ 5,738,974</u>	<u>\$ 5,738,974</u>

Banner University Family Care LTC
 AHCCCS Long Term Care Services
 Sub-Capitated / Block Purchases Expenses Report (continued)

Account #	Account Description	Dual Amount	Non Dual Amount	Amount	CYTD Amount
Block purchases expenses					
50105-01	Hospital Inpatient	\$ -	\$ -	\$ -	\$ -
50205-01	Primary Care Physician Services	-	-	-	-
50210-01	Behavioral Health Physician Services	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-
50220-01	FQHC/RHC Services	-	-	-	-
50305-01	Emergency Facility Services	-	-	-	-
50310-01	PH Pharmacy	-	-	-	-
50315-01	Laboratory, Radiology & Medical Imaging	-	-	-	-
50320-01	Outpatient Facility	-	-	-	-
50320-05	Outpatient Behavioral Health Facility	-	-	-	-
50325-01	Durable Medical Equipment	-	-	-	-
50330-01	Dental	-	-	-	-
50335-01	Transportation	-	-	-	-
50345-01	Therapies	-	-	-	-
50355-01	Behavioral Health Day Program	-	-	-	-
50355-05	Behavioral Health Case Management Services	-	-	-	-
50355-06	Peer/Family Support	-	-	-	-
50355-07	Support Services	-	-	-	-
50355-10	Behavioral Health Crisis Intervention Services	-	-	-	-
50355-11	Living Skills Training	-	-	-	-
50355-12	Supported Employment	-	-	-	-
50355-15	Behavioral Health Rehabilitation Services	-	-	-	-
50355-20	Behavioral Health Residential Services	-	-	-	-
50355-21	Counseling	-	-	-	-
50355-22	Assessment, Evaluation and Screening	-	-	-	-
50355-23	Treatment Services	-	-	-	-
50355-25	All Other Behavioral Health Services	-	-	-	-
50370-01	Other Medical Expenses	-	-	-	-
Total block purchases expenses		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Banner University Family Care
 AHCCCS Complete Care Program
 Sub-Capitated Expenses Detail

Contract Year Ended September 30, 2022

Account	Account Description	Age <1	Age 1-20	Age 21+	Duals	SSI w/o Med	Prop 204 Childless Adults	Expansion Adults	Title XIX Total	State Only Transplant	State Only Total	Grand Total
Sub-capitated hospitalization expense:												
50105-01	Hospital Inpatient	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50110-01	Hospital Inpatient -Behavioral Health Services	-	-	-	-	-	-	-	-	-	-	-
50115-01	RESERVED	-	-	-	-	-	-	-	-	-	-	-
Total sub-capitated hospitalization expenses:		-	-	-	-	-	-	-	-	-	-	-
Sub-capitated medical compensation expense:												
50205-01	Primary Care Physician Services	35,063	616,000	387,764	141,657	100,131	137,041	449,495	1,867,151	-	-	1,867,151
50210-01	Behavioral Health Physician Services	-	-	-	-	-	-	-	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-	-	-	-	-	-	-	-
50220-01	PH FQHC/RHC Services	-	-	-	-	-	-	-	-	-	-	-
50225-01	Other Professional Services	-	1,200	83,700	195,300	167,400	56,800	203,200	707,600	-	-	707,600
50230-01	RESERVED	-	-	-	-	-	-	-	-	-	-	-
Total sub-capitated medical compensation expenses		35,063	617,200	471,464	336,957	267,531	193,841	652,695	2,574,751	-	-	2,574,751
Sub-capitated other medical expenses												
50305-01	Emergency Facility Services	-	-	-	-	-	-	-	-	-	-	-
50310-01	PH Pharmacy	-	-	-	-	-	-	-	-	-	-	-
50315-01	Laboratory, Radiology and Medical Imaging	-	-	-	-	-	-	-	-	-	-	-
50320-01	Outpatient Facility	-	-	-	-	-	-	-	-	-	-	-
50325-01	Durable Medical Equipment	-	-	-	-	-	-	-	-	-	-	-
50330-01	Dental	1,725,680	29,787,192	2,671,992	1,094,391	891,581	1,703,058	4,817,892	42,691,786	-	-	42,691,786
50335-01	Transportation	274,482	4,888,402	2,249,142	908,037	381,046	1,146,596	2,946,407	12,794,111	-	-	12,794,111
50340-00	Nursing Facility, Home Health Care	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-
50355-06	Peer/Family Support	-	-	-	-	-	-	-	-	-	-	-
50355-07	Support Services	-	-	-	-	-	-	-	-	-	-	-
50355-10	Behavioral Health Crisis Intervention Services	-	-	-	-	-	-	-	-	-	-	-
50355-11	Living Skills Training	-	-	-	-	-	-	-	-	-	-	-
50355-12	Supported Employment	-	-	-	-	-	-	-	-	-	-	-
50355-15	Behavioral Health Rehabilitation Services	-	-	-	-	-	-	-	-	-	-	-
50355-20	Behavioral Health Residential Services	-	-	-	-	-	-	-	-	-	-	-
50355-21	Counseling	-	-	-	-	-	-	-	-	-	-	-
50355-22	Assessment, Evaluation and Screening	-	-	-	-	-	-	-	-	-	-	-
50355-23	Treatment Services	-	-	-	-	-	-	-	-	-	-	-
50355-25	All Other Behavioral Health Services	-	-	-	-	-	-	-	-	-	-	-
50360-01	RESERVED	-	-	-	-	-	-	-	-	-	-	-
50370-01	Other Medical Expenses	-	-	-	-	-	-	-	-	-	-	-
Total sub-capitated other medical expenses		2,000,162	34,675,594	4,921,134	2,002,428	1,272,627	2,849,654	7,764,299	55,485,897	-	-	55,485,897
Total sub-capitated expenses		\$ 2,035,225	\$ 35,292,794	\$ 5,392,598	\$ 2,339,385	\$ 1,540,158	\$ 3,043,495	\$ 8,416,994	\$ 58,060,648	\$ -	\$ -	\$ 58,060,648

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