

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Banner University Family Care
Years Ended December 31, 2020 and 2019
With Reports of Independent Auditors

Ernst & Young LLP



Banner University Family Care
Financial Statements and Supplementary Information
Years Ended December 31, 2020 and 2019

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Report of Independent Auditors

The Board of Directors
Banner University Family Care

We have audited the accompanying financial statements of Banner University Family Care, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years 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 of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

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 Banner University Family Care at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

May 26, 2021

Banner University Family Care

Balance Sheets

	December 31	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 322,171,329	\$ 332,805,876
Reinsurance receivable	21,183,533	23,549,727
Capitation and supplemental revenues receivable	12,118,041	933,001
Reconciliation receivable	26,072,731	21,941,625
Other current assets	5,778,110	7,256,904
Total current assets	<u>387,323,744</u>	386,487,133
Reconciliation receivable	9,426,046	32,474,926
Other assets	-	163,749
Total assets	<u><u>\$ 396,749,790</u></u>	<u><u>\$ 419,125,808</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 12,479,402	\$ 15,483,811
Due to affiliate	74,604,280	151,883,822
Medical claims payable	154,805,355	167,251,471
Alternative payment model	23,812,479	25,740,436
Other current liabilities	3,412,427	2,275,635
Total current liabilities	<u>269,113,943</u>	362,635,175
Reconciliation and alternative payment model payable	<u>30,029,434</u>	491,440
Total liabilities	<u>299,143,377</u>	363,126,615
Commitments and contingencies		
Net assets	<u>97,606,413</u>	55,999,193
Total liabilities and net assets	<u><u>\$ 396,749,790</u></u>	<u><u>\$ 419,125,808</u></u>

See accompanying notes.

Banner University Family Care

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2020	2019
Revenue		
Capitation premiums	\$ 1,402,231,496	\$ 1,139,237,190
Delivery premiums	31,175,089	26,086,022
Reconciliation settlement, net	(32,408,113)	32,218,515
Alternative payment model	20,933,744	6,566,929
Investment income, net	902,860	5,720,034
Total revenues	<u>1,422,835,076</u>	<u>1,209,828,690</u>
Health care expenses		
Hospitalization	216,858,628	190,123,063
Medical compensation	340,270,994	294,561,250
Ancillary and other medical services	508,625,127	462,449,705
Institutional	130,346,013	134,961,015
Home and community-based services	106,884,719	86,201,399
Case management services	12,627,500	12,030,985
Less reinsurance recoveries	(42,612,153)	(50,400,100)
Total health care expenses	<u>1,273,000,828</u>	<u>1,129,927,317</u>
General and administrative expenses	76,110,412	59,366,033
Premium tax expense	29,508,705	24,331,594
Total operating expenses	<u>1,378,619,945</u>	<u>1,213,624,944</u>
Operating income (loss)	44,215,131	(3,796,254)
Community reinvestment expense	2,607,911	110,508
Net income (loss)	<u>41,607,220</u>	<u>(3,906,762)</u>
Net assets, beginning of period	55,999,193	57,105,955
Contribution from affiliate	–	2,800,000
Net assets, end of period	<u>\$ 97,606,413</u>	<u>\$ 55,999,193</u>

See accompanying notes.

Banner University Family Care

Statements of Cash Flows

	Year Ended December 31	
	2020	2019
Operating activities		
Net income (loss)	\$ 41,607,220	\$ (3,906,762)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Changes in assets and liabilities:		
Reinsurance receivable	2,366,194	(12,031,747)
Capitation and supplemental revenues receivable	(11,185,040)	(438,687)
Reconciliation receivable	18,917,774	(24,488,513)
Other current assets	1,478,794	(1,458,236)
Accounts payable and other liabilities	(1,867,617)	8,976,128
Medical claims payable	(12,446,116)	31,259,540
Reconciliation and alternative payment model payable	27,610,037	3,414,294
Due to affiliates	(77,279,542)	68,972,890
Net cash (used in) provided by operating activities	<u>(10,798,296)</u>	<u>70,298,907</u>
Investing activities		
Decrease in other assets	163,749	575,007
Net cash provided by investing activities	<u>163,749</u>	<u>575,007</u>
Net (decrease) increase in cash and cash equivalents	(10,634,547)	70,873,914
Cash and cash equivalents at beginning of period	332,805,876	261,931,962
Cash and cash equivalents at end of period	<u>\$ 322,171,329</u>	<u>\$ 332,805,876</u>

See accompanying notes.

Banner University Family Care

Notes to Financial Statements

December 31, 2020

1. Organization and Operations

Organizational Structure

Banner University Family Care (BUFC or the Plan) provides health-plan services to enrollees under contracts with the Arizona Health Care Cost Containment System (AHCCCS) in various counties in southern Arizona. Banner Health (Banner) is the sole corporate member of BUFC.

All of the Plan's revenues, except for investment income, were earned under its AHCCCS contracts, which are subject to periodic renewal. The BUFC financial statements include the financial activity associated with the following AHCCCS contracts:

- In March 2013, BUFC was awarded a new five-year Acute-Care (Acute-Care) Contract with AHCCCS through September 30, 2018.
- In March 2018, BUFC was awarded an AHCCCS Complete Care Contract (ACC) effective October 1, 2018 through September 30, 2025. The ACC contract includes the existing membership and geographic service areas of the Acute-Care contract, which ended September 30, 2018, and increased membership in additional geographic service areas. The ACC contract provides additional member service coverage beyond those services covered under the Acute-Care contract to include behavioral health services, physical health services, and coverage for children's rehabilitation services. The ACC contract includes a risk reconciliation whereby BUFC and AHCCCS share in the contract gains and losses (see Note 3).
- On October 1, 2017 BUFC began operations for the AHCCCS Arizona Long Term Care System (ALTCS) contract, which is a seven-year contract awarded in March 2017. For the 2017 contract year ended September 30, 2018, the ALTCS contract incurred a loss of approximately \$28,000,000 as the premium revenues received were not sufficient to cover claim costs. A contract amendment was entered into in September 2018, retroactive to October 1, 2017, which provides for a risk reconciliation whereby BUFC and AHCCCS share in the contract gains and losses in excess of 7% of capitation revenues as defined in the contract. A contract amendment was also entered into in September 2018 relating to the contract period from October 1, 2018 through September 30, 2019. The contract also included a risk reconciliation whereby BUFC and AHCCCS share in the contract gains and losses as defined in the contract amendment, ranging from 2% to 6% of capitation revenues. Reconciliation expense of approximately \$32,408,113 has been recorded on the statement of revenues, expenses, and changes in net assets for the year ended December 31, 2020, relating to these contract amendments.

Banner University Family Care

Notes to Financial Statements (continued)

1. Organization and Operations (continued)

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

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 322,171,329	\$ 332,805,876
Reinsurance receivable	21,183,533	23,549,727
Capitation and supplemental revenues receivable	12,118,041	933,001
Pharmacy rebate and due from providers	4,132,962	6,421,463
	<u>\$ 359,605,865</u>	<u>\$ 363,710,067</u>

BUFC also has a net reconciliation receivable of \$5,469,343 as of December 31, 2020, which is subject to settlement with AHCCCS. The reconciliation receivable is settled with AHCCCS at the end of the contract year and once claim payment activity has been completed. Historically, AHCCCS has finalized the reconciliation receivable approximately two to three years subsequent to the contract year. As of December 31, 2019, the net reconciliation receivable was \$54,416,551.

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.

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, reinsurance receivable, capitation and supplemental revenues receivables, reconciliation receivables and payables, 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 and Cash Equivalents

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

At December 31, 2020 and 2019, cash and cash equivalents include a money market account of \$78,991,174 and \$78,717,873, respectively, that is recorded at fair value.

Reinsurance Receivable

Reinsurance receivable represents management's estimate of the medical claims cost it has earned that will be recoverable under its reinsurance contract with AHCCCS and is 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. BUFC recorded reinsurance receivable of \$21,183,533 as of December 31, 2020, of which \$7,786,158 is related to the 2020-2021 contract year, \$13,271,496 is related to the 2019-2020 contract year, and \$125,879 is related to the 2018-2019 contract year. As of December 31, 2019, BUFC recorded reinsurance receivable of \$23,549,727, of which \$13,192,893 was related to the 2019-2020 contract year and \$10,356,935 was related to the 2018-2019 contract year. There is a possibility that recorded estimates will change by a material amount in the near term.

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 in process of review and for claims incurred but not received as of December 31, 2020 and 2019. The amount of this liability is estimated by independent actuaries using historical claims payment experience coupled with a review of experience for similar plans. Estimates are adjusted based

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

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).

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, 2020 or 2019.

Revenue

BUFC records revenue from AHCCCS in the form of capitation premium, delivery supplemental premium, reconciliation settlement, and reinsurance recoveries, which 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 that require BUFC to provide health care coverage to enrollees of AHCCCS. The monthly capitation revenues have been agreed upon by BUFC and AHCCCS. Capitation premiums are recognized as revenue in the period to which health care coverage relates.

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.

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Amounts receivable under these contracts are recorded as capitation and supplemental revenues receivable. Capitation rates are subject to adjustment based on national episodic/diagnostic risk. There is a possibility that recorded amounts will change by a material amount in the near term. There are no amounts accrued for risk adjustment as of December 31, 2020 and 2019.

Delivery Supplemental Premiums

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

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

Certain AHCCCS programs are subject to settlement with AHCCCS based on the programs' net income or loss realized by BUFC and based on a formula defined by the AHCCCS contracts (reconciliation receivable (payable)). The reconciliation settlement period is based on the AHCCCS contract period of October 1 through September 30 and is subject to review and final settlement with AHCCCS. Through the report issuance date, AHCCCS has settled the reconciliation receivable (payable) with BUFC through the September 30, 2018, contract period. Management has recorded a decrease to revenue of approximately \$4,700,000 and \$1,500,000 for the years ended December 31, 2020 and 2019, respectively, relating to the settlement of prior reconciliation contract years. The estimated reconciliation receivable (payable) for the open reconciliation contract years has been recorded as estimated reconciliation receivable (payable) on the accompanying balance sheets.

As part of the ACC contract that ended September 30, 2019 and 2020, amounts due to (from) AHCCCS for PPC reconciliation settlement represent BUFC's profit or loss in excess of 2% of capitation revenue for the PPC members as defined in AHCCCS's policy. Because the reconciliation settlement is subject to change based on claims experience, there is a possibility that the recorded reconciliation settlement will change by a material amount in the near term.

As part of the ACC contract that ended September 30, 2018, amounts due to (from) AHCCCS for the Prospective Tiered reconciliation settlement represent BUFC's profit or loss for the prospective members. This reconciliation settlement represents 50% of BUFC's profit in excess of 3% to 6% of capitation revenue, 100% of BUFC's profit in excess of 6% of capitation revenue, and 100% of BUFC's loss in excess of 3% of capitation revenue. Because the reconciliation settlement is subject to change based on claims experience, there is a possibility that the recorded reconciliation settlement will change by a material amount in the near term.

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

As part of the ACC contract that ended September 30, 2017, and prior, amounts due to (from) AHCCCS for the Adults > 106% of the Federal Poverty Level, Adults > 106, formerly known as Newly Eligible Adults (NEAD), reconciliation settlement represent BUFC profit or loss for these members. The Adults > 106 reconciliation settlement represents BUFC's profit or loss for these members in excess of 1% of capitation revenue. Because the Adults > 106 reconciliation settlement is subject to change based on claims experience, there is a possibility that the recorded reconciliation settlement will change by a material amount in the near term. The policy pertaining to the NEAD reconciliation was closed as of September 30, 2017, and starting October 1, 2017, the NEAD population reconciliation is included in the PPC and Prospective Tiered as applicable.

As part of the ACC contract that was entered into on October 1, 2018, amounts due to (from) AHCCCS for the reconciliation settlement represent BUFC's profit or loss for all members enrolled in the ACC plan. This reconciliation settlement represents 50% of BUFC's profit in excess of 2% to 6% of capitation revenue, 100% of BUFC's profit in excess of 6% of capitation revenue, and 100% of BUFC's loss in excess of 2% capitation revenue. 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 policy with the intent to drive innovative arrangements that will further enhance cost control and result in quality improvements, while also offering providers an incentive to participate in these arrangements. BUFC is required to participate in these payment reform efforts as delineated by AHCCCS. As of December 31, 2020 and 2019, BUFC has a payable to AHCCCS related to this policy of approximately \$14,255,745 and \$20,590,000, respectively, which is primarily included in reconciliation and alternative payment model payable on the accompanying balance sheets. In 2020, AHCCCS closed and finalized the alternative payment model for contract year 2018 and 2020. Due to the COVID-19 public health emergency and the impact on the performance results during this period, AHCCCS has suspended the withhold and quality measure performance incentive for the Medicaid plans for CYE 2020. BUFC recorded approximately \$20,934,000 as an increase to revenue associated with the finalization of these contract years.

Banner University Family Care

Notes to Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

General and Administrative Expenses

General and administrative expenses are recognized as incurred and consist of administrative expenses that directly relate to the AHCCCS program and a corporate allocation from Banner for general and administrative expenses (see Note 7). These expenses are repaid by BUFC through intercompany settlements to Banner. These settlements are reflected as due to affiliate 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. Commercial 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 AHCCCS program. 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 \$25,000 per member per policy year for the Acute-Care and ACC Contracts 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, 2020 through May 26, 2021, the date of issuance of the accompanying financial statements.

4. Other Current Assets

Other current assets as of December 31 consist of the following:

	<u>2020</u>	<u>2019</u>
Pharmacy rebate receivable	\$ 2,463,131	\$ 1,735,281
Due from providers	1,669,831	4,682,872
Prepaid expenses and other	1,645,148	838,751
	<u>\$ 5,778,110</u>	<u>\$ 7,256,904</u>

BUFC estimates the amount that will be received in pharmacy rebates based on contractual arrangements with the drug manufacturers. Changes to the pharmacy rebate contracts and membership growth have resulted in an increase to the pharmacy rebate receivable in 2020.

Overpayments to health care providers are reported as due from vendors. The provider is required to reimburse the Plan for the overpayment or have future claims offset the overpayment. Due from providers decreased in 2020 due to decreased claims activity in the ALTCS population.

Banner University Family Care

Notes to Financial Statements (continued)

5. Medical Claims Payable

Medical claims payable consists of the following at December 31:

	2020	2019
Claims payable or pending approval	\$ 65,843,046	\$ 116,006,429
Provisions for claims incurred but not yet reported	88,962,309	51,245,042
	\$ 154,805,355	\$ 167,251,471

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. BUFC estimates accrued claims payable 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 accrued medical claims payable for the years ended December 31:

	2020	2019
Beginning balance	\$ 167,251,471	\$ 135,991,931
Incurred:		
Current	1,305,142,506	1,167,723,476
Prior	2,358,924	(617,903)
Total	1,307,501,430	1,167,105,573
Paid:		
Current	1,150,337,151	1,000,472,005
Prior	169,610,395	135,374,028
Total	1,319,947,546	1,135,846,033
Ending balance	\$ 154,805,355	\$ 167,251,471

Banner University Family Care

Notes to Financial Statements (continued)

5. Medical Claims Payable (continued)

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 to the originally established year-end liability. Positive amounts reported for incurred, related to prior years, result from claims being adjudicated and paid for amounts greater than originally estimated. The negative amounts reported for incurred, related to prior years, results from amounts paid less than originally estimated.

6. Related-Party Transactions

BUFC purchases physician and hospital-based health care services for its members from Banner. During the years ended December 31, 2020 and 2019, BUFC paid claims for medical expenses to Banner totaling \$173,638,304 and \$177,888,324, respectively.

BUFC purchases administrative services from Banner, which are recognized as administrative expenses on the accompanying statements of revenues, expenses and changes in net assets. For the years ended December 31, 2020 and 2019, BUFC incurred \$65,108,853 and \$40,700,356, respectively, of corporate and health plan allocations from Banner and affiliated entities for administrative services and program activities (see Note 7).

At December 31, 2020 and 2019, BUFC had a payable to Banner recorded as due to affiliate of \$74,604,280 and \$151,883,822, respectively.

7. Functional Expense

The following statement of functional expenses reports BUFC's operating expenses by natural classification for the years ended December 31, 2020 and 2019. BUFC operating expenditures include Banner health plan expenditures of \$52,483,089 and \$28,267,297 for the years ended December 31, 2020 and 2019, respectively. 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. Banner corporate allocations primarily relate to salary

Banner University Family Care

Notes to Financial Statements (continued)

7. Functional Expense (continued)

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	
	2020	2019
Expenses:		
Salaries and benefits	\$ 35,495,501	\$ 18,563,897
Supplies	7,347,368	7,603,875
Professional fees	2,599,690	3,065,445
Medical claims costs	1,273,000,828	1,129,927,317
Depreciation	885,360	733,017
Interest expense	3,043,579	2,408,960
Corporate allocations and other	26,738,913	26,990,839
Premium taxes	29,508,706	24,331,594
Total operating expenses	<u>\$ 1,378,619,945</u>	<u>\$ 1,213,624,944</u>

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 2015 through 2019 tax years remain subject to examination for federal income tax purposes, whereas the 2014 through 2019 tax years remain subject to examination for state taxing jurisdictions in which BUFC operates.

9. Commitments and Contingencies

Litigation

BUFC is party to various legal actions and is subject to various claims arising in the ordinary course of business. Management believes that the disposition of these matters will not have a material adverse effect on BUFC's financial position or results of operations.

Banner University Family Care

Notes to Financial Statements (continued)

9. Commitments and Contingencies (continued)

AHCCCS Performance Measures

BUFC's contract with AHCCCS requires 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 contract with AHCCCS. For the contract years ended September 30, 2012 through 2015, management determined that BUFC did not meet certain AHCCCS nonfinancial performance measures. In response to these violations, AHCCCS may require BUFC to submit a corrective action plan to cure the violations and may subject BUFC to sanctions. At December 31, 2020, BUFC had not accrued any amounts related to this potential liability. Due to the uncertainty of the outcome of AHCCCS's review, it is reasonably possible that recorded estimates will change by a material amount in the near term. Management believes that BUFC is in compliance with these nonfinancial performance measures for contract periods ended after September 30, 2016 and through December 31, 2020. Compliance with these nonfinancial performance measures can be subject to future review by AHCCCS and may result in sanctions unknown or unasserted at this time.

During 2020, BUFC did not receive capital contributions from Banner and affiliated entities. In 2019, BUFC received \$2,800,000 in capital contributions from Banner and affiliated entities, which resulted in BUFC being in compliance with the required equity per member AHCCCS ratio. As of December 31, 2020, BUFC's equity per member was in compliance with the AHCCCS requirement.

Performance Bond

BUFC secured annual performance bonds in the amounts of \$27 million and \$90 million with an unrelated third-party insurance company to satisfy the performance bond requirement of BUFC's AHCCCS contracts. The bonds satisfy BUFC's contractual obligation as prescribed by AHCCCS. The current performance bonds expire September 30, 2021.

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

Banner University Family Care
Notes to Financial Statements (continued)

9. Commitments and Contingencies (continued)

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 audit was 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 ALTCS 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 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 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 26, 2021

Banner University Family Care

Balance Sheet – ACC and ALTCS Contracts

December 31, 2020

	ACC	ALTCS	Total
Assets			
Current assets:			
Cash and cash equivalent	\$ 256,270,089	\$ 65,901,240	\$ 322,171,329
Reinsurance receivable	18,445,269	2,738,264	21,183,533
Capitation and supplemental revenues receivable	10,864,178	1,253,863	12,118,041
Reconciliation receivable	14,785,303	11,287,428	26,072,731
Other current assets	4,859,346	918,764	5,778,110
Total current assets	305,224,185	82,099,559	387,323,744
Reconciliation receivable	–	9,426,046	9,426,046
Total assets	\$ 305,224,185	\$ 91,525,605	\$ 396,749,790
Liabilities and net assets			
Current liabilities:			
Accounts payable	\$ 10,554,972	\$ 1,924,430	\$ 12,479,402
Due to affiliate	50,054,161	24,550,119	74,604,280
Medical claims payable	115,464,949	39,340,406	154,805,355
Alternative payment model	19,919,325	3,893,154	23,812,479
Other current liabilities	3,071,111	341,316	3,412,427
Total current liabilities	199,064,518	70,049,425	269,113,943
Reconciliation and alternative payment model payable	28,623,219	1,406,215	30,029,434
Total liabilities	227,687,737	71,455,640	299,143,377
Net assets	77,536,448	20,069,965	97,606,413
Total liabilities and net assets	\$ 305,224,185	\$ 91,525,605	\$ 396,749,790

Banner University Family Care

Statement of Revenues and Expenses – ACC and ALTCS Contracts

Year Ended December 31, 2020

	<u>ACC</u>	<u>ALTCS</u>	<u>Total</u>
Revenue			
Capitation premiums	\$ 1,061,947,211	\$ 340,284,285	\$ 1,402,231,496
Delivery supplemental	31,175,089	–	31,175,089
Reconciliation settlement, net	(32,375,343)	(32,770)	(32,408,113)
Alternative payment model	14,886,420	6,047,324	20,933,744
Investment income, net	648,487	254,373	902,860
Total revenues	<u>1,076,281,864</u>	<u>346,553,212</u>	<u>1,422,835,076</u>
Health care expenses			
Hospitalization	213,628,606	3,230,022	216,858,628
Medical compensation	309,498,989	30,772,005	340,270,994
Ancillary and other medical services	470,459,627	38,165,500	508,625,127
Institutional	–	130,346,013	130,346,013
Home and community-based services	–	106,884,719	106,884,719
Case management services	–	12,627,500	12,627,500
Less reinsurance recoveries	(39,141,061)	(3,471,092)	(42,612,153)
Total health care expenses	<u>954,446,161</u>	<u>318,554,667</u>	<u>1,273,000,828</u>
General and administrative expenses	61,834,415	14,275,997	76,110,412
Premium tax expense	22,493,336	7,015,369	29,508,705
Total operating expenses	<u>1,038,773,912</u>	<u>339,846,033</u>	<u>1,378,619,945</u>
Operating income (loss)	37,507,952	6,707,179	44,215,131
Community reinvestment	2,184,309	423,602	2,607,911
Net income (loss)	<u>\$ 35,323,643</u>	<u>\$ 6,283,577</u>	<u>\$ 41,607,220</u>

Banner University Family Care

Statement of Cash Flows – ACC and ALTCS Contracts

Year Ended December 31, 2020

	ACC	ALTCS	Total
Operating activities			
Net income (loss)	\$ 35,323,643	\$ 6,283,577	\$ 41,607,220
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Changes in assets and liabilities:			
Reinsurance receivable	669,994	1,696,200	2,366,194
Capitation and supplemental revenues receivable	(9,931,177)	(1,253,863)	(11,185,040)
Reconciliation receivable	15,922,892	2,994,882	18,917,774
Other current assets	831,671	647,123	1,478,794
Accounts payable and other liabilities	(1,717,069)	(150,548)	(1,867,617)
Medical claims payable	(1,032,443)	(11,413,673)	(12,446,116)
Reconciliation and alternative payment model payables	28,777,853	(1,167,816)	27,610,037
Due to affiliates	(66,536,451)	(10,743,091)	(77,279,542)
Net cash provided by (used in) operating activities	2,308,913	(13,107,209)	(10,798,296)
Investing activities			
Decrease in other assets	–	163,749	163,749
Net cash provided by investing activities	–	163,749	163,749
Net increase (decrease) in cash and cash equivalent	2,308,913	(12,943,460)	(10,634,547)
Cash and cash equivalent at beginning of period	253,961,176	78,844,700	332,805,876
Cash and cash equivalent at end of period	\$ 256,270,089	\$ 65,901,240	\$ 322,171,329

Banner University Family Care

AHCCCS Long Term Care Services Sub-Capitated/Block Purchases Expenses Report

Contract Year Ended September 30, 2020

Account #	Account Description	Dual Amount	Non Dual Amount	Amount	CYTD Amount
Sub-capitated expenses					
50105-01	Hospital Inpatient	\$ -	\$ -	\$ -	\$ -
50205-01	Primary Care Physician Services	6,500	993,607	1,000,107	1,000,107
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	487,038	96,456	583,494	583,494
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 sub-capitated expenses	\$ 493,538	\$ 1,090,063	\$ 1,583,601	\$ 1,583,601

Banner University Family Care

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 sub-capitated expenses	\$ -	\$ -	\$ -	\$ -

Banner University Family Care
 AHCCCS Complete Care Program
 Sub-Capitated Expenses Detail
 Contract Year Ended September 30, 2020

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	CYTD Grand Total
Sub-capitated hospitalization expenses												
50105-01	Hospital Inpatient	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50110-01	Hospital Inpatient -Behavioral Health Services	-	-	-	-	-	-	-	-	-	-	-
50115-01	RESERVED	-	-	-	-	-	-	-	-	-	-	-
	Total sub-capitated hospitalization expense	-	-	-	-	-	-	-	-	-	-	-
Sub-capitated medical compensation expenses												
50205-01	Primary Care Physician Services	-	-	-	-	-	-	-	-	-	-	-
50210-01	Behavioral Health Physician Services	-	-	-	-	-	-	-	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-	-	-	-	-	-	-	-
50220-01	PH FQHC/RHC Services	-	-	-	-	-	-	-	-	-	-	-
50225-01	Other Professional Services	-	3,200	11,900	3,700	65,500	18,300	36,700	139,300	-	-	139,300
50230-01	RESERVED	-	-	-	-	-	-	-	-	-	-	-
	Total sub-capitated medical compensation expenses:	-	3,200	11,900	3,700	65,500	18,300	36,700	139,300	-	-	139,300
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	1,649,936	22,379,754	1,641,578	708,943	712,668	737,553	2,964,815	30,795,247	-	-	30,795,247
50335-01	Transportation	-	-	-	-	-	-	-	-	-	-	-
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:	1,649,936	22,379,754	1,641,578	708,943	712,668	737,553	2,964,815	30,795,247	-	-	30,795,247
	Total sub-capitated expenses:	\$ 1,649,936	\$ 22,382,954	\$ 1,653,478	\$ 712,643	\$ 778,168	\$ 755,853	\$ 3,001,515	\$ 30,934,547	\$ -	\$ -	\$ 30,934,547

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