

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Banner University Family Care
Years Ended December 31, 2023 and 2022
With Reports of Independent Auditors

Ernst & Young LLP



Banner University Family Care
Financial Statements and Supplementary Information
Years Ended December 31, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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

June 18, 2024

Banner University Family Care

Balance Sheets

	December 31	
	2023	2022
Assets		
Current assets:		
Cash	\$ 616,920,569	\$ 848,384,174
Reinsurance receivable	15,873,110	22,307,492
Pharmacy receivable	2,588,212	4,341,873
Other current assets	21,876,874	13,358,975
Total current assets	<u>657,258,765</u>	<u>888,392,514</u>
Other non-current assets	1,674,915	–
Total assets	<u><u>\$ 658,933,680</u></u>	<u><u>\$ 888,392,514</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 14,131,505	\$ 21,435,842
Due to affiliates	25,013,852	185,652,842
Medical claims payable	176,722,250	187,523,436
Reconciliation payable	135,383,034	68,394,772
Alternative payment model	37,485,312	19,610,024
State directed program liabilities	45,442,905	2,068,191
Other current liabilities	3,391,013	20,931,491
Total current liabilities	<u>437,569,871</u>	<u>505,616,598</u>
Reconciliation payable	57,354,160	149,853,723
Other non-current liabilities	1,331,529	–
Total liabilities	<u>496,255,560</u>	<u>655,470,321</u>
Net assets	162,678,120	232,922,193
Total liabilities and net assets	<u><u>\$ 658,933,680</u></u>	<u><u>\$ 888,392,514</u></u>

See accompanying notes.

Banner University Family Care

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2023	2022
Revenue		
Capitation premiums	\$ 1,912,011,801	\$ 1,871,351,407
Delivery supplemental premiums	37,674,326	33,711,000
Reconciliation settlements, net	(36,199,442)	(144,599,696)
Alternative payment model	18,367,498	31,742,617
Investment income, net	38,734,839	10,522,753
Other revenue	997,798	—
Total revenues	<u>1,971,586,820</u>	<u>1,802,728,081</u>
Expenses		
Hospital and other medical services	1,453,876,885	1,338,722,804
Pharmacy, net of rebates	260,612,524	253,313,535
Less: reinsurance recoveries	(59,503,638)	(53,715,820)
Total health care expenses	<u>1,654,985,771</u>	<u>1,538,320,519</u>
General and administrative	153,664,595	137,467,403
Case management services	12,996,657	12,502,585
Premium tax	39,203,307	39,424,595
Total operating expenses	<u>1,860,850,330</u>	<u>1,727,715,102</u>
Operating income	110,736,490	75,012,979
Community reinvestment expense	5,980,563	5,509,463
Net income	<u>104,755,927</u>	<u>69,503,516</u>
Net assets, beginning of period	232,922,193	163,418,677
Capital distribution to parent	(175,000,000)	—
Net assets, end of period	<u>\$ 162,678,120</u>	<u>\$ 232,922,193</u>

See accompanying notes.

Banner University Family Care

Statements of Cash Flows

	Year Ended December 31	
	2023	2022
Operating activities		
Net income	\$ 104,755,927	\$ 69,503,516
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Reinsurance receivable	6,434,382	(2,234,202)
Pharmacy receivable	1,753,661	(2,546,519)
Reconciliation receivable	–	9,695,478
Other current assets	(10,192,814)	(9,138,650)
Other current and noncurrent liabilities	19,861,428	32,579,181
Medical claims payable	(10,801,186)	(29,900,818)
Reconciliation payable	(25,511,301)	131,071,280
Alternative payment model payable	17,875,288	(11,970,222)
Due to affiliates	(160,638,990)	135,132,430
Net cash (used in) provided by operating activities	(56,463,605)	322,191,474
Financing activities		
Capital distribution to parent	(175,000,000)	–
Net cash used in financing activities	(175,000,000)	–
Net (decrease) increase in cash	(231,463,605)	322,191,474
Cash at beginning of period	848,384,174	526,192,700
Cash at end of period	\$ 616,920,569	\$ 848,384,174

See accompanying notes.

Banner University Family Care

Notes to Financial Statements

December 31, 2023

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 AHCCCS limits the profit that the Company may recognize at 4% and losses are capped at 2% of capitation revenue (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>2023</u>	<u>2022</u>
Cash	\$ 616,920,569	\$ 848,384,174
Reinsurance receivable	15,873,110	22,307,492
Pharmacy receivable	2,588,212	4,341,873
Due from providers, within other current assets	7,337,378	9,773,642
State directed program receivables, within other current assets	11,833,462	–
Capitation premium receivable, within other current assets	1,468,611	843,896
	<u>\$ 656,021,342</u>	<u>\$ 885,651,077</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, reinsurance receivable, pharmacy receivable, other current assets, accounts payable and accrued expenses, due to affiliates, medical claims payable, reconciliation payable, alternative payment model, 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. 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, 2023 and 2022.

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 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, 2021. BUFC recorded a decrease to revenue of approximately \$6,608,000 and \$3,188,000 for the years ended December 31, 2023 and 2022, 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 \$18,367,498 and \$31,742,617 for the years ended December 31, 2023 and 2022, 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 \$5,426,666 and \$6,980,864 as of December 31, 2023 and 2022, 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 health care expenses in the accompanying statements of revenues, expenses, and changes in net assets. BUFC recorded APM liability associated with provider performance based payments of \$32,058,646 and \$12,629,160 as of December 31, 2023 and 2022, 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). Reinsurance recoveries are recorded as a reduction to health care expenditures.

Pharmacy Rebates

BUFC estimates the amounts that will be received in pharmacy rebates which are based on contractual arrangements with the drug manufacturers. Pharmacy rebates are recorded as a reduction to health care expenditures.

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, 2023 and 2022. 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, 2023 or 2022.

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 \$150,000 per member per policy year for the ACC and ALTCS contracts, effective October 1, 2023. Eligible claims in excess of the deductible are generally paid at 75%, 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, 2023 through June 18, 2024, 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:

	2023
September 30, 2022	\$ 42,890
September 30, 2023	8,250,168
September 30, 2024	7,580,052
	\$ 15,873,110
	2022
September 30, 2021	\$ 182,585
September 30, 2022	11,796,109
September 30, 2023	10,328,798
	\$ 22,307,492

5. Medical Claims Payable

Medical claims payable consists of the following at December 31:

	2023	2022
Claims payable	\$ 54,635,360	\$ 81,099,371
Provisions for claims incurred but not yet reported	122,086,890	106,424,065
	\$ 176,722,250	\$ 187,523,436

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:

	2023	2022
Beginning balance	\$ 187,523,436	\$ 217,424,254
Incurred:		
Current	1,726,928,351	1,610,193,277
Prior	(12,438,942)	(18,156,938)
Total	1,714,489,409	1,592,036,339
Paid:		
Current	1,550,206,101	1,422,669,841
Prior	175,084,494	199,267,316
Total	1,725,290,595	1,621,937,157
Ending balance	\$ 176,722,250	\$ 187,523,436

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, 2023 and 2022. 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 medical claims costs, including case management services. Banner allocates the health plan expenditures based on plan enrollment and revenues. 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	
	2023	2022
Expenses:		
Salaries and benefits	\$ 56,927,157	\$ 75,344,710
Supplies	25,150,000	22,155,207
Professional fees	39,901,030	2,869,646
Medical claims costs	1,667,982,428	1,550,823,104
Depreciation	540,018	674,942
Interest expense	2,251,276	4,677,912
Administration fees and other	28,895,114	31,744,986
Premium taxes	39,203,307	39,424,595
Total expenses	\$ 1,860,850,330	\$ 1,727,715,102

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, 2023 and 2022, BUFC paid claims for medical expenses to its affiliates totaling approximately \$222,516,000 and \$210,065,000, 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, 2023 and 2022, BUFC incurred approximately \$126,024,000 and \$118,320,000, 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. State Directed Payments

BUFC receives state directed funds from AHCCCS for which BUFC acts as an administrator and will pass-through funds to specific provider populations as directed by AHCCCS. This includes activities related to Rural Hospital Enhancement Payments, Nursing Facility Enhanced Payments, Access to Professional Services Initiatives (APSI), Pediatric Services Initiatives (PSI), Hospital Enhanced Access Leading to Health Improvements Initiative (HEALTHII), Home and Company Based Services Directed Payments, American Rescue Plan Act (ARPA) and Targeted Investment Program.

Beginning for the contract year starting October 1, 2023, quarterly reporting to AHCCCS requires that these state directed pass-through funds are presented on gross basis within total revenues and expenses. As BUFC does not have control over services related to these funds, related revenue and expense is recorded on a net basis in accordance with accounting principles generally accepted in the United States of America (US GAAP), and, therefore, not presented separately within the statements of revenues, expenses and changes in net assets. For the year ended December 31, 2023, BUFC recorded \$98,109,192 of state directed pass-through revenue and expense related to the contract year which began October 1, 2023.

9. 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 2020 through 2023 tax years remain subject to examination for federal income tax purposes, whereas the 2019 through 2023 tax years remain subject to examination for state taxing jurisdictions in which BUFC operates.

10. 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.

Banner University Family Care

Notes to Financial Statements (continued)

10. Commitments and Contingencies (continued)

Performance Bond

BUFC secured annual performance bonds in the amounts of \$132,000,000 and \$39,000,000 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, 2024.

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

June 18, 2024

Banner University Family Care

Balance Sheet – ACC and ALTCS Contracts

December 31, 2023

	ACC	ALTCS	Total
Assets			
Current assets:			
Cash	\$ 522,116,468	\$ 94,804,101	\$ 616,920,569
Reinsurance receivable	11,127,791	4,745,319	15,873,110
Pharmacy receivable	1,232,642	1,355,570	2,588,212
Other current assets	19,074,752	2,802,122	21,876,874
Total current assets	553,551,653	103,707,112	657,258,765
Other non-current assets	1,638,186	36,729	1,674,915
Total assets	\$ 555,189,839	\$ 103,743,841	\$ 658,933,680
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 11,953,770	\$ 2,177,735	\$ 14,131,505
Due to affiliates	17,425,959	7,587,893	25,013,852
Medical claims payable	123,584,550	53,137,700	176,722,250
Reconciliation payable	122,937,426	12,445,608	135,383,034
Alternative payment model	35,318,714	2,166,598	37,485,312
State directed program liabilities	44,745,836	697,069	45,442,905
Other current liabilities	3,273,454	117,559	3,391,013
Total current liabilities	359,239,709	78,330,162	437,569,871
Reconciliation payable	54,269,833	3,084,327	57,354,160
Other non-current liabilities	1,302,331	29,198	1,331,529
Total liabilities	414,811,873	81,443,687	496,255,560
Net assets	140,377,966	22,300,154	162,678,120
Total liabilities and net assets	\$ 555,189,839	\$ 103,743,841	\$ 658,933,680

Banner University Family Care

Statement of Revenues, Expenses, and Changes in Net Assets – ACC and ALTCS Contracts

Year Ended December 31, 2023

	<u>ACC</u>	<u>ALTCS</u>	<u>Total</u>
Revenue			
Capitation premiums	\$ 1,451,612,192	\$ 460,399,609	\$ 1,912,011,801
Delivery supplemental premiums	37,674,326	–	37,674,326
Reconciliation settlements, net	(34,948,529)	(1,250,913)	(36,199,442)
Alternative payment model	14,374,257	3,993,241	18,367,498
Investment income, net	32,612,265	6,122,574	38,734,839
Other revenue	991,201	6,597	997,798
Total revenues	<u>1,502,315,712</u>	<u>469,271,108</u>	<u>1,971,586,820</u>
Expenses			
Hospital and other medical services	1,049,270,449	404,606,436	1,453,876,885
Pharmacy, net of rebates	246,843,478	13,769,046	260,612,524
Less: reinsurance recoveries	(48,094,633)	(11,409,005)	(59,503,638)
Total health care expenses	<u>1,248,019,294</u>	<u>406,966,477</u>	<u>1,654,985,771</u>
General and administrative	126,979,257	26,685,338	153,664,595
Case management services	–	12,996,657	12,996,657
Premium tax	29,672,919	9,530,388	39,203,307
Total operating expenses	<u>1,404,671,470</u>	<u>456,178,860</u>	<u>1,860,850,330</u>
Operating income	97,644,242	13,092,248	110,736,490
Community reinvestment expense	4,954,936	1,025,627	5,980,563
Net income	<u>\$ 92,689,306</u>	<u>\$ 12,066,621</u>	<u>\$ 104,755,927</u>
Net assets, beginning of period	197,688,660	35,233,533	232,922,193
Capital distribution to parent	(150,000,000)	(25,000,000)	(175,000,000)
Net assets, end of period	<u>\$ 140,377,966</u>	<u>\$ 22,300,154</u>	<u>\$ 162,678,120</u>

Banner University Family Care

Statement of Cash Flows – ACC and ALTCS Contracts

Year Ended December 31, 2023

	ACC	ALTCS	Total
Operating activities			
Net income	\$ 92,689,306	\$ 12,066,621	\$ 104,755,927
Adjustments to reconcile net income to net cash used in operating activities:			
Changes in assets and liabilities:			
Reinsurance receivable	5,672,542	761,840	6,434,382
Pharmacy receivable	2,879,680	(1,126,019)	1,753,661
Other current assets	(8,965,953)	(1,226,861)	(10,192,814)
Other current and noncurrent liabilities	22,640,880	(2,779,452)	19,861,428
Medical claims payable	(18,243,277)	7,442,091	(10,801,186)
Reconciliation payable	(26,703,762)	1,192,461	(25,511,301)
Alternative payment model payable	16,905,677	969,611	17,875,288
Due to affiliates	(126,272,675)	(34,366,315)	(160,638,990)
Net cash used in operating activities	(39,397,582)	(17,066,023)	(56,463,605)
Financing activities			
Capital distribution to parent	(150,000,000)	(25,000,000)	(175,000,000)
Net cash used in financing activities	(150,000,000)	(25,000,000)	(175,000,000)
Net decrease in cash	(189,397,582)	(42,066,023)	(231,463,605)
Cash at beginning of period	711,514,050	136,870,124	848,384,174
Cash at end of period	\$ 522,116,468	\$ 94,804,101	\$ 616,920,569

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

Contract Year Ended September 30, 2023

Account #	Account Description	Dual Amount	Non Dual Amount	CYTD Amount
Sub-capitated expenses				
50205-01	Primary Care Physician Services	\$ 472,474	\$ 1,457,064	\$ 1,929,538
50330-01	Dental	480,324	116,976	597,300
50335-01	Transportation	992,350	2,413,695	3,406,045
Total sub-capitated expenses		<u>\$ 1,945,148</u>	<u>\$ 3,987,735</u>	<u>\$ 5,932,883</u>
Block purchases expenses				
Total block purchases expenses		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Contract Year Ended September 30, 2023

Account	Account Description	Age <1	Age 1-20	Age 21+	Duals	SSI w/o Med	Prop 204 Childless Adults	Expansion Adults	Grand Total
Sub-capitated medical compensation expenses									
50205-01	Primary Care Physician Services	\$ 21,560	\$ 1,198,864	\$ 796,170	\$ 254,930	\$ 447,588	\$ 319,664	\$ 884,441	\$ 3,923,217
Total sub-capitated medical compensation expenses		<u>21,560</u>	<u>1,198,864</u>	<u>796,170</u>	<u>254,930</u>	<u>447,588</u>	<u>319,664</u>	<u>884,441</u>	<u>3,923,217</u>
Sub-capitated other medical expenses									
50330-01	Dental	1,664,579	28,006,147	2,351,460	932,027	1,783,565	2,076,902	2,907,119	39,721,799
50335-01	Transportation	290,300	4,858,267	2,301,390	1,127,728	972,428	112,712	3,597,454	13,260,279
Total sub-capitated other medical expenses		<u>1,954,879</u>	<u>32,864,414</u>	<u>4,652,850</u>	<u>2,059,755</u>	<u>2,755,993</u>	<u>2,189,614</u>	<u>6,504,573</u>	<u>52,982,078</u>
Total sub-capitated expenses		<u>\$ 1,976,439</u>	<u>\$ 34,063,278</u>	<u>\$ 5,449,020</u>	<u>\$ 2,314,685</u>	<u>\$ 3,203,581</u>	<u>\$ 2,509,278</u>	<u>\$ 7,389,014</u>	<u>\$ 56,905,295</u>

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