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6 Attorneys for Receiver

7
8 SUPERIOR COURT OF ARIZONA
9 COUNTY OF MARICOPA

10 STATE OF ARIZONA, *ex rel.*
11 KEITH SCHRAAD, Director
of Insurance,

12 Plaintiff,

13 vs.

14 COMPASS COOPERATIVE MUTUAL
HEALTH NETWORK, INC., dba MERITUS
15 MUTUAL HEALTH PARTNERS, an
Arizona corporation; and
16 COMPASS COOPERATIVE HEALTH
PLAN, INC., dba MERITUS HEALTH
PARTNERS, an Arizona corporation,
17

18 Defendants.

No. CV2016-011872

PETITION NO. 45

**RECEIVER'S PETITION TO
ACCEPT LIQUIDATION BALANCE
SHEET AS OF DECEMBER 31, 2020**

(Assigned to The Honorable
Daniel Martin)

19 Darren Ellingson, in his capacity as the Special Deputy Receiver of Compass
20 Cooperative Mutual Health Network, Inc. doing business as Meritus Mutual Health
21 Partners ("Meritus Mutual") and Compass Cooperative Health Plan, Inc. dba Meritus
22 Health Partners ("MHP") (collectively referred to as the "Meritus Companies"), appointed
23 pursuant to A.R.S. § 20-611, *et seq.*, hereby petitions the Court for entry of the Order re
24 Petition No. 45 Accepting Liquidation Balance Sheet as of December 31, 2020.

25 1. In an Order dated August 10, 2016, this Court placed Meritus Mutual and
26 MHP into receivership under orders of liquidation.

27 2. Consistent with and subject to the Arizona Insurer Receivership Act, A.R.S.
28 § 20-611 *et seq.* and Orders entered by this Court, the Receiver for MHP and Meritus

1 Mutual continues to marshal and liquidate assets and to administer and adjudicate
2 liabilities and claims. While the marshalling, liquidating, administration, adjudication and
3 related analysis is continuing, at this time the Receiver is submitting this Liquidation
4 Balance Sheet as of December 31, 2020.

5 3. The information in this petition is based on the attached Declaration of
6 Special Deputy Receiver Regarding Liquidation Balance Sheet as of December 31, 2020,
7 including: Declaration Exhibit 1 comprised of the Liquidation Balance Sheet and the
8 accompanying Notes; and Declaration Exhibit 2 comprised of the Unaudited Statements of
9 Net Assets as of December 31, 2020, the Unaudited Statements of Change in Net Assets in
10 Liquidation as of December 31, 2020 and the accompanying Notes (collectively, the
11 “Declaration”). The Declaration is incorporated herein by reference.

12 4. The Liquidation Balance Sheet is prepared in reliance on, among other
13 things, this Court’s March 8, 2019 Order Re Petition No. 26 Granting Claim Determination
14 and Setoff Related to Claims of the United States (the “Setoff Order”). Paragraphs 10, 12
15 and 13 of the Setoff Order include the following findings:

16 CMS’s claims for payment from Meritus Mutual under the converted start-up note
17 and the solvency note, referred to as the CMS Surplus Notes, are Class 10 priority
18 level claims under A.R.S. § 20-629 and are not subject to setoff.

19
20 In accordance with A.R.S. § 20-638, the setoff of all claims as between MHP and
21 CMS under the ACA Risk-Sharing Programs, including, but not limited to CSR,
22 Reinsurance, Risk Adjustment, and Risk Corridor, is approved so that the net effect
23 is that the remaining amount that CMS owes MHP under the ACA Risk-Sharing
24 Programs (with all related mutual debts and credits setoff and otherwise deemed
25 satisfied) is as follows:

26 Net Risk Corridor Claims due and owing from CMS to MHP: \$4,863,178

27 Net Reinsurance Claims due and owing from CMS to MHP: \$7,171,320
28

1 In accordance with A.R.S. § 20-638, the setoff of all claims as between Meritus
2 Mutual and CMS under the ACA Risk-Sharing Programs, including, but not limited
3 to CSR, Reinsurance, Risk Adjustment, and Risk Corridor, is approved so that the
4 net effect is that the remaining amount that CMS owes Meritus Mutual under the
5 ACA Risk-Sharing Programs (with all related mutual debts and credits setoff and
6 otherwise deemed satisfied) is as follows:

7 Net Risk Corridor Claims due and owing from CMS to Meritus Mutual:

8 \$12,182,141

9 Net Reinsurance Claims due and owing from CMS to Meritus Mutual:

10 \$3,283,275

11 5. The Receiver is continuing to seek recovery for amounts due under the Risk
12 Corridor Program and under the Reinsurance Program via actions pending in the Court of
13 Federal Claims. On April 27, 2020, the United States Supreme Court entered its Order in
14 *Maine Community Health Options v. U.S.*, Case Nos. 18-1023, 18-1028 and 18-1038) and
15 held, among other things: (1) the Affordable Care Act created a government obligation to
16 pay insurers the full amount set out in the Risk Corridors Program; and (2) under the
17 Tucker Act, the Court of Federal Claims is an appropriate forum for insurers to sue the
18 government for damages for failure to pay.

19 6. Estate Assets – Liquidation Basis. Cash and cash-equivalents for MHP total
20 \$3,132,469 and for Meritus Mutual total \$371,316.

21 a. The other non-cash assets primarily are comprised of receivables, claims,
22 causes of action and setoffs. Those assets are not readily liquidated or otherwise reduced
23 to cash and their liquidation remains subject to a number of factors beyond the Receiver's
24 control. While the Receiver reserves all rights to marshal and liquidate all assets of the
25 estates, the Receiver included a figure as a "reserve" in order to allow the amounts to net
26 out to zero for purposes of reporting the asset on a liquidation basis.

1 b. For example, negative balances and receivables related to providers total
2 \$444,071 for MHP and \$298,646 for Meritus Mutual. The Receiver reserves the right to
3 seek collection of such amounts by offset or otherwise depending on the circumstances.

4 c. Additionally, claims against the United States government are addressed in
5 the Setoff Order. As determined by the Setoff Order, the net claims due to MHP from
6 CMS total \$12,034,498, comprised of Risk Corridor claims totaling \$4,863,178 and
7 Reinsurance claims totaling \$7,171,320. Likewise, the net claims due to Meritus Mutual
8 from CMS total \$15,465,416, comprised of Risk Corridor claims totaling \$12,182,141 and
9 Reinsurance claims totaling \$3,283,275.¹

10 7. Liabilities – Statutory Priority System. Liabilities to be adjudicated for the
11 receivership estates are organized according to the statutory priority system (A.R.S. § 20-
12 629) based on claims made with the Receiver in accordance with the Liquidation Plan
13 previously approved by the Court. Claims in each class must be paid in full before estate
14 assets may be used to pay creditors at the next level. A.R.S. § 20-629(A). Among other
15 things, proofs of claim remain subject to an adjudication process which includes the
16 opportunity for notice, objection and Court determination. The figures are subject to
17 change and the Receiver may adopt a different recommendation from that provided herein
18 depending on the circumstances. However, initial figures at this time include the
19 following.

20 a. **Class 1** – Administrative expenses are incurred on an on-going basis subject
21 to and in accordance with the Arizona Insurer Receivership Act and Orders entered by this
22 Court. Payments to legal counsel, the Special Deputy Receiver and Regulatory Services
23 Group continue to be reported on a quarterly basis in the Status Reports. Details
24 associated with the administrative expenses are set forth in Declaration Exhibit 2 attached
25 to the Declaration of Special Deputy Receiver. As of December 31, 2020, the combined
26 amount of administrative expenses for 2020 total \$256,217. The administrative expenses

27 _____
28 ¹ This Petition and the related Notes rely on the specific figures provided for in the Setoff Order re Petition 26. The
figures in the Liquidation Balance Sheet vary slightly (between \$1 and \$2) due to calculations and automatic rounding
in the spreadsheet used to generate the balance sheet.

1 will continue in accordance with Arizona law depending on the circumstances and subject
2 to the Arizona Insurer Receivership Act and Orders entered by this Court.

3 b. **Class 2** – Guaranty Association claims for Meritus Mutual currently total
4 \$3,340,743, which number may be revised as the Guaranty Association continues to incur
5 expenses, pay claims and provide coverage in accordance with its enabling act, A.R.S.
6 § 20-681 *et seq.* Because the Guaranty Association was not legally authorized to provide
7 coverage for MHP as a health care services organization, there are no Guaranty
8 Association claims applicable to MHP.

9 c. **Class 3** – Policyholder, member and provider claims for MHP that are out of
10 network currently, also referred to as “non-contracted” provider claims, total \$5,691,491.
11 For Meritus Mutual, the Class 3 claims that are not covered by the Guaranty Association
12 currently total \$1,243.

13 d. **Class 4** – Claims of the United States Government that would constitute
14 Class 4 claims as submitted under the proof of claim process by the United States total
15 \$50,650,121 as against MHP and \$755,916 as against Meritus Mutual. Those claims are
16 subject to the Setoff Order and, as noted above and addressed in the Setoff Order, the net
17 amount of Class 4 claims is zero.

18 e. **Class 5** – There are no claims for compensation to employees.

19 f. **Class 6** – The amount of state taxes and fees that would be Class 6 claims
20 total \$730,505 for MHP and total \$11,848 for Meritus Mutual.

21 g. **Class 7** – The amount of claims against MHP for providers required by law
22 or agreement to hold enrollees harmless from liability for services (referred to as in-
23 network or contract providers) currently totals \$4,221,511. Because Meritus Mutual is not
24 a health care services organization, there are no Class 7 claims applicable to Meritus
25 Mutual.

26 h. **Class 8** – The amount of claims for other general creditors totals
27 \$52,223,506 for MHP and totals \$14,808 for Meritus Mutual. Among other things, this
28 figure includes intercompany payables as between MHP and Meritus Mutual totaling in

1 excess of \$52 million. The amount of intercompany payables may be subject to further
2 consideration depending on the circumstances.

3 i. **Class 9** – At this time, the Receiver has not identified untimely proofs of
4 claim but may do so in the future.

5 j. **Class 10** – The United States has submitted a claim against Meritus Mutual
6 associated with surplus notes totaling \$93,826,261. The claim is not subject to setoff per
7 the Setoff Order.

8 8. Magnitude of Insolvency – Comparing Assets to Liabilities on a Liquidation
9 Basis. The magnitude of the insolvency for MHP and Meritus Mutual remains substantial
10 when considered on a liquidation basis in accordance with the Arizona Insurer
11 Receivership Act.

12 a. With respect to MHP, as of year-end 2020, there are cash and/or cash
13 equivalents of approximately \$3,132,469, total assets of \$3,136,153 and total liabilities of
14 \$113,517,134.

15 b. With respect to Meritus Mutual, as of year-end 2020, there are cash and/or
16 cash equivalents of approximately \$371,316, total assets of the same amount, \$371,316,
17 and total liabilities of \$97,954,503.

18 WHEREFORE, the Receiver requests that the Court enter the Order re Petition
19 No. 45 Accepting Liquidation Balance Sheet as of December 31, 2020.

20 Dated this 25th day of June, 2021

21 **FAEGRE DRINKER BIDDLE & REATH LLP**

22
23 By: /s/ Joel Glover (#034018)
24 Joel A. Glover
Attorneys for Receiver

25 COPY of the foregoing mailed this
26 25th day of June, 2021 to the
attached Master Service List

27 /s/ Tari Rader
28 Tari Rader

1 SUPERIOR COURT OF ARIZONA

2 COUNTY OF MARICOPA

3
4 No. CV2016-011872 (Assigned to The Honorable Daniel Martin)

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8 SUPERIOR COURT OF ARIZONA
9 COUNTY OF MARICOPA

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11 KEITH SCHRAAD, Director
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14 COMPASS COOPERATIVE MUTUAL
HEALTH NETWORK, INC., dba MERITUS
15 MUTUAL HEALTH PARTNERS, an
Arizona corporation; and
16 COMPASS COOPERATIVE HEALTH
PLAN, INC., dba MERITUS HEALTH
17 PARTNERS, an Arizona corporation,

18 Defendants.

No. CV2016-011872

PETITION NO. 45

**DECLARATION OF SPECIAL
DEPUTY RECEIVER REGARDING
LIQUIDATION BALANCE SHEET
AS OF DECEMBER 31, 2020 WITH
DECLARATION EXHIBITS 1 AND 2**

(Assigned to The Honorable
Daniel Martin)


19 By signing below, I, Darren Ellingson, state to the Court under penalty of law, that
20 the information stated on these pages is true and correct to the best of my knowledge and
21 belief.

22 1. I am over eighteen years of age, and I have personal knowledge of the facts
23 herein. I acquired my personal knowledge in my capacity as Special Deputy Receiver of
24 Meritus Mutual Health Partners, in liquidation (“Meritus Mutual”) and of Meritus Health
25 Partners, in liquidation (“MHP”). I have served as Special Deputy Receiver since the
26 commencement of the Meritus Mutual and MHP receiverships and, in that capacity, I am
27 familiar with and have personal knowledge of the books and records of Meritus Mutual
28 and MHP. In acquiring my personal knowledge, I relied upon work performed by one or

1 more persons that worked under my direction with respect to the Meritus Mutual and MHP
2 receiverships.

3 2. Attached as Declaration Exhibit 1 is the Liquidation Balance Sheet as of
4 December 31, 2020 and the accompanying Notes for Meritus Mutual and MHP. Attached
5 as Declaration Exhibit 2 is the Unaudited Statements of Net Assets as of December 31,
6 2020, the Unaudited Statements of Change in Net Assets in Liquidation as of December
7 31, 2020 and the accompanying Notes for Meritus Mutual and MHP. Declaration Exhibits
8 1 and 2 are incorporated herein by reference. Based on my knowledge and belief and the
9 determinations I have made in my capacity as Special Deputy Receiver, the Exhibits report
10 on and present the financial information for Meritus Mutual and MHP as of December 31,
11 2020 based on the books and records of Meritus Mutual and MHP calculated on a
12 liquidation basis and subject to the accompanying Notes.

13
14 By signing below, I state to the Court, under penalty of law, that the information stated on
15 these pages is true and correct to the best of my knowledge and belief.

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20 Darren Ellingson, Special Deputy Receiver

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Date: 6/24/2021

Liquidation Balance Sheet - As of December 31, 2020
Meritus Health Partners (HCSO) and Meritus Mutual Health Partners (PPO)
In Receivership – No. CV2016-011872

| | Meritus Mutual Health Partners (PPO) | | | Meritus Health Partners (HCSO) | | |
|-----------------------------------|--------------------------------------|--------------|-----------------|--------------------------------|-----------------|-----------------|
| | 12/31/2020 | Offset | Net/Actual | 12/31/2020 | Offset | Net/Actual |
| Current Assets - Cash | \$ 371,316 | | \$ 371,316 | \$ 3,132,469 | | \$ 3,132,469 |
| NET DUE FROM CMS POST OFFSET | | | | | | |
| Accrued Risk Corridor | \$ 12,938,057 | \$ (755,916) | \$ 12,182,141 | \$ 55,513,299 | \$ (50,650,121) | \$ 4,863,178 |
| Accrued Reinsurance | \$ 3,283,275 | | \$ 3,283,275 | \$ 7,171,320 | | \$ 7,171,320 |
| Reserved | \$ (15,465,416) | | \$ (15,465,416) | \$ (12,034,498) | | \$ (12,034,498) |
| Total Due from CMS Post Offset | \$ 755,916 | \$ (755,916) | \$ - | \$ 50,650,121 | \$ (50,650,121) | \$ - |
| Solvency Loan | | | | | | |
| HMO-Solvency Loan | \$ 51,652,071 | | \$ 51,652,071 | \$ - | | \$ - |
| Reserve | \$ (51,652,071) | | \$ (51,652,071) | \$ - | | \$ - |
| Net receivable | \$ - | | \$ - | \$ - | | \$ - |
| Other Assets | | | | | | |
| Provider Receivables | \$ 298,646 | | | \$ 444,071 | | \$ 444,071 |
| Reserve Provider | \$ (298,646) | | | \$ (444,071) | | \$ (444,071) |
| Intercompany Receivables | \$ - | | | \$ 3,684 | | \$ 3,684 |
| Total Assets | \$ 1,127,232 | | \$ 371,316 | \$ 53,786,274 | | \$ 3,136,153 |
| LIABILITIES | | | | | | |
| Member Premium Refunds | \$ - | | \$ - | \$ - | | \$ - |
| Class 1 | \$ 3,684 | | \$ 3,684 | \$ - | | \$ - |
| Class 2 | \$ 3,340,743 | | \$ 3,340,743 | \$ - | | \$ - |
| Class 3 | \$ 1,243 | | \$ 1,243 | \$ 5,691,491 | | \$ 5,691,491 |
| Class 4 As Offset | | | | | | |
| CSR claims on paid claims | \$ 115,649 | \$ (115,649) | \$ - | \$ 3,899,178 | \$ (3,899,178) | \$ - |
| Reinsurance Fees | \$ 46,092 | \$ (46,092) | \$ - | \$ 510,975 | \$ (510,975) | \$ - |
| Risk Adjustment | \$ 594,167 | \$ (594,167) | \$ - | \$ 46,195,827 | \$ (46,195,827) | \$ - |
| PPACA User Fee | \$ 8 | \$ (8) | \$ - | \$ 44,141 | \$ (44,141) | \$ - |
| Total Class 4 | \$ 755,916 | \$ (755,916) | \$ - | \$ 50,650,121 | \$ (50,650,121) | \$ - |
| Class 6 | \$ 11,848 | | \$ 11,848 | \$ 730,505 | | \$ 730,505 |
| Class 7 | \$ - | | \$ - | \$ 4,221,511 | | \$ 4,221,511 |
| Class 8 | \$ 14,808 | | \$ 14,808 | \$ 52,223,506 | | \$ 52,223,506 |
| Class 10 | \$ 93,826,261 | | \$ 93,826,261 | \$ - | | \$ - |
| Total Liabilities | \$ 97,954,503 | | \$ 97,198,587 | \$ 113,517,134 | | \$ 62,867,013 |
| Capital(Assets minus Liabilities) | \$ (96,827,271) | | \$ (96,827,271) | \$ (59,730,860) | | \$ (59,730,860) |

Notes Accompanying Liquidation Balance Sheet as of December 31, 2020
Meritus Health Partners (HCSO) and Meritus Mutual Health Partners (PPO)
In Receivership – No. CV2016-011872

1. Receivership Generally. The Liquidation Balance Sheet (including the Statement of Net Assets and the Statement of Net Liabilities) is presented with respect to Meritus Health Partners, in Receivership (“MHP) and Meritus Mutual Health Partners, in Receivership (“Meritus Mutual”) subject to and in accordance with the Arizona Insurance Receivership Act, A.R.S. § 20-601, *et seq.*, (the “Receivership Act”) the Order for Appointment of Receiver and Injunction entered on August 10, 2016 with respect to MHP and Meritus Mutual (the “Receivership Order”) in CV2016-011872 pending in the Superior Court of Arizona, County of Maricopa (the “Receivership Court”) and subsequent orders entered by the Receivership Court. The statements rely upon pre-receivership company books and records as updated based on a statutory liquidation basis of accounting in accordance with the Receivership Act that differs from generally accepted accounting principles and that differs from statutory accounting principles that would otherwise be applicable to ongoing licensed insurance entities that are not in liquidation. Estimates and assumptions are utilized to report values and amounts. The Receiver makes no representations or warranties regarding the accuracy of the information or the opinions, estimates, assumptions or evaluations contained and/or reflected in this Liquidation Balance Sheet.
2. Application to MHP and Meritus Mutual. The Receivership Order established one proceeding for MHP and Meritus Mutual for administrative efficiencies while recognizing that MHP and Meritus Mutual would each be liquidated separately subject to and in accordance with the Receivership Act. (Receivership Order, Par. 5, page 4; Par. 8, page 5.) Consistent with that Order, this Liquidation Balance Sheet reports on MHP and Meritus Mutual separately. Unless otherwise provided herein, these Notes are applicable to MHP and to Meritus Mutual.
3. Receivership Act. References to the Receivership Act are to the version of the Receivership Act in force at the time of the commencement of the Receivership proceedings. Subsequent amendments and/or modifications of the Receivership Act are not applicable unless retroactivity is expressly declared therein. A.R.S. § 1-244.
4. Special Deposits. Special deposits have been released subject to and in accordance with prior orders of the Receivership Court. (See Order re Petition No. 6 for Release of Special Deposits.)
5. Receivables - CMS. All amounts for Receivables related to the United States and the Center for Medicare and Medicaid Services (“CMS”) are determined based on Order re Petition No. 26 Granting Claim Determination and Setoff Related to Claims of the United States (the “Setoff Order”). The Receiver is continuing to seek recovery for net amounts due under the Risk Corridor Program and under the Reinsurance Program, after implementation of the Offset, via actions pending in the Court of Federal Claims, including the Risk Corridor Action (pending as a class action in the United States Court of Federal Claims, No. 1:16-cv-00259-MMS) and the Reinsurance Action (pending in the United States Court of Federal Claims, No. 19-1499C-MEW). On April 27, 2020, the United States Supreme Court entered its Order in *Maine Community Health Options v.*

Notes Accompanying Liquidation Balance Sheet as of December 31, 2020
Meritus Health Partners (HCSO) and Meritus Mutual Health Partners (PPO)
In Receivership – No. CV2016-011872

U.S., Case Nos. 18-1023, 18-1028 and 18-1038) and held, among other things: (1) the Affordable Care Act created a government obligation to pay insurers the full amount set out in the Risk Corridors Program; and (2) under the Tucker Act, the Court of Federal Claims is an appropriate forum for insurers to sue the government for damages for failure to pay. The column headed “Net/Actual” reflects the implementation of the Offset on the Liquidation Balance Sheet. Because these claims are subject to litigation and the related recovery risks in any litigation, the total amount of the claims are “Reserved” pending final resolution of the litigation.

6. Receivables – Providers. All amounts for Receivables related to providers are, as yet, undetermined. The Receiver reserves all rights related to the Receivables, including but not limited to seeking to apply such amounts as offsets, commencing actions to recover such amounts and/or abandoning the claims in the Receiver’s discretion.
7. Class I Claims – Administrative Expenses. Administrative expenses of the Receiver continue to be incurred subject to and in accordance with the Receivership Act and orders of the Receivership Court. Payments to consultants are subject to the reporting process as previously ordered by this Court, with compensation rates subject to Court approval.
8. Statutory Proof of Claim Process. All amounts reported as “Net Liabilities” are based solely on the amount claimed on proofs of claims (POCs) filed with the Receiver subject to the Receivership Act and Orders of the Receivership Court, including but not limited to the Setoff Order. Except as provided in the Setoff Order, the estate liability, if any, the amounts owed, and the priorities of the claims have not been determined. The Receiver is continuing the process of adjudicating POCs. The Receiver reserves all rights to adjust these amounts and priority levels based on the adjudication of claims process under the Receivership Act and Orders of the Receivership Court. No claims accrue interest since all rights are fixed as of the Liquidation Order Date.
9. Class 10 Claims – Surplus Notes. The amount and priority level for the surplus note claims are based on the figures included in the Setoff Order. Per the Setoff Order, the Surplus Notes are Class 10 priority level claims under A.R.S. § 20-629 and are not subject to setoff.
10. Receivership Liquidation Fund. Pursuant to A.R.S. § 20-648, the Receiver previously made payments to the Receivership Liquidation Fund in accordance with the Receivership Court’s Order Regarding Petition No. 4, Regarding Receivership Liquidation Fund Per A.R.S. § 20-648. To the extent additional payments to the Receivership Liquidation Fund are anticipated, the Receiver reserves all rights to update and/or modify the Liquidation Balance Sheet as necessary or appropriate under the circumstances.

Meritus Mutual Health Partners and Meritus Health Partners in Liquidation
Unaudited Statements of Net Assets
As of December 31, 2020

| | PPO | HMO | CONSOLIDATED |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| CURRENT ASSETS | | | |
| Comerica accounts | 55,216 | 186,411 | 241,627 |
| Funds held on Deposit with Receiver | 113,210 | 113,210 | 226,421 |
| Comerica Brokerage Account | 202,889 | 2,832,848 | 3,035,737 |
| Total Current Assets | <u>371,316</u> | <u>3,132,469</u> | <u>3,503,784</u> |
| NET DUE FROM CMS POST OFFSET | | | |
| Accrued Risk Corridor (ACA Offset) | 12,938,057 (755,916) | 55,513,299 (50,650,121) | 68,451,356 (51,406,037) |
| Net Risk Corridor Due from CMS | <u>12,182,141</u> | <u>4,863,178</u> | <u>17,045,319</u> |
| Accrued Reinsurance (ACA Offset) | 3,283,275 - | 7,171,320 - | 10,454,594 - |
| Net Reinsurance Due from CMS | <u>3,283,275</u> | <u>7,171,320</u> | <u>10,454,594</u> |
| Total Due from CMS Post Offset (Reserved – Litigation Risk) | <u>15,465,416</u> (15,465,416) | <u>12,034,498</u> (12,034,498) | <u>27,499,913</u> (27,499,913) |
| INTERCOMPANY-SOLVENCY LOAN | | | |
| Intercompany-Solvency Loan | 51,652,071 | - | 51,652,071 |
| Reserve for Intercompany-Solvency Loan | (51,652,071) | - | (51,652,071) |
| Net Intercompany-Solvency Loan | <u>-</u> | <u>-</u> | <u>-</u> |
| OTHER ASSETS | | | |
| PPO Negative Balance Claims | 297,940 | - | 297,940 |
| HMO Negative Balance Claims | - | 153,025 | 153,025 |
| Receivables - Banner Health | - | 242,229 | 242,229 |
| Receivables - Dignity Health | 706 | 48,817 | 49,523 |
| Receivables - CVS Pharmacy Rebate | - | - | - |
| Reserve Provider Receivables | (298,646) | (444,071) | (742,718) |
| Intercompany Receivables | - | 3,684 | 3,684 |
| Total Other Assets | <u>0</u> | <u>3,684</u> | <u>3,684</u> |
| TOTAL ASSETS | <u>\$ 371,316</u> | <u>\$ 3,136,153</u> | <u>\$ 3,507,468</u> |
| LIABILITIES | | | |
| Member Premium Refunds | - | - | - |
| CLASS 1 CLAIMS | | | |
| Receivership Expenses | - | - | - |
| Intercompany Payables | 3,684 | - | 3,684 |
| Total Class 1 Claims | <u>3,684</u> | <u>-</u> | <u>3,684</u> |
| CLASS 2 CLAIMS | | | |
| PPO Claims - POC Received | - | - | - |
| PPO Claims - No POC Response | 384,356 | - | 384,356 |
| PPO Claims - Paid by Guaranty Fund | 2,956,387 | - | 2,956,387 |
| Total Class 2 Claims | <u>3,340,743</u> | <u>-</u> | <u>3,340,743</u> |
| CLASS 3 CLAIMS | | | |
| Member Medical Reimbursements | 90 | 17,176 | 17,266 |
| HMO Claims not contracted- POC Received | - | 5,067,436 | 5,067,436 |

See notes to the unaudited Financial Statements

Meritus Mutual Health Partners and Meritus Health Partners in Liquidation
Unaudited Statements of Net Assets
As of December 31, 2020

| | PPO | HMO | CONSOLIDATED |
|---|----------------------------|-----------------------------|-----------------------------|
| HMO Claims not contracted - No POC Response | - | 606,878 | 606,878 |
| PPO - Delta Dental | 1,153 | - | 1,153 |
| Total Class 3 Claims | <u>1,243</u> | <u>5,691,491</u> | <u>5,692,733</u> |
| CLASS 4 CLAIMS AS OFFSET | | | |
| CSR claims on paid claims | 115,649 | 3,899,178 | 4,014,827 |
| Reinsurance Fees | 46,092 | 510,975 | 557,067 |
| Risk Adjustment | 594,167 | 46,195,827 | 46,789,994 |
| PPACA User Fee | 8 | 44,141 | 44,149 |
| Total Class 4 Claims Offset | <u>755,916</u> | <u>50,650,121</u> | <u>51,406,037</u> |
| CLASS 6 CLAIMS | | | |
| AZ State Premium Tax-2015 | - | 628,565 | 628,565 |
| AZ State Assessment Fees | 1,775 | 1,475 | 3,250 |
| AZ State PICORRO Tax | 10,073 | 100,464 | 110,538 |
| Total Class 6 Claims | <u>11,848</u> | <u>730,505</u> | <u>742,353</u> |
| CLASS 7 CLAIMS | | | |
| HMO Claims contracted - POC Received | - | 4,046,817 | 4,046,817 |
| HMO Claims contracted - No POC Response | - | 39,665 | 39,665 |
| HMO - Delta Dental - No POC Response | - | 69,698 | 69,698 |
| HMO - CVS/Caremark - POC Received | - | 65,331 | 65,331 |
| Total Class 7 Claims | <u>-</u> | <u>4,221,511</u> | <u>4,221,511</u> |
| CLASS 8 CLAIMS | | | |
| Vendors - POC Received | 14,808 | 306,733 | 321,541 |
| Vendors - No POC Response | - | 264,702 | 264,702 |
| Payable to MMHP-Solvency Loan | - | 51,652,071 | 51,652,071 |
| Total Class 8 Claims | <u>14,808</u> | <u>52,223,506</u> | <u>52,238,313</u> |
| CLASS 9 CLAIMS | | | |
| Proof of Claims, Untimely | - | - | - |
| CLASS 10 CLAIMS | | | |
| Series B Solvency Loan Principal | 93,826,261 | - | 93,826,261 |
| TOTAL LIABILITIES | <u>97,954,502</u> | <u>113,517,133</u> | <u>211,471,635</u> |
| CAPITAL | | | |
| Net capital December 31, 2019 | (97,491,150) | (110,230,673) | (207,721,823) |
| Adjustment to opening net assets | (1) | 1,536 | 1,535 |
| YTD Net Income (Loss) | (92,036) | (151,842) | (243,878) |
| TOTAL CAPITAL ACCOUNTS | <u>(97,583,187)</u> | <u>(110,380,980)</u> | <u>(207,964,167)</u> |
| TOTAL LIABILITIES + CAPITAL | <u>\$ 371,316</u> | <u>\$ 3,136,153</u> | <u>\$ 3,507,468</u> |

See notes to the unaudited Financial Statements

Meritus Mutual Health Partners and Meritus Health Partners in Liquidation
Unaudited Statements of Change in Net Assets and Liabilities in Liquidation
As of December 31, 2020

| | PPO | HMO | CONSOLIDATED |
|--|-----------------|------------------|------------------|
| REVENUE | | | |
| Premium Refunds | - | - | - |
| Change in risk corridor | - | - | - |
| Risk adjustment transfers | - | - | - |
| Bad Debt Expense for Risk Corridor | - | - | - |
| Bad Debt Expense for Solvency Loan | - | - | - |
| Total Revenue | - | - | - |
| MEDICAL EXPENSES | | | |
| Medical | - | - | - |
| Pharmacy | - | - | - |
| Less Pharmacy Rebates | - | - | - |
| Network Access Fees | - | - | - |
| Total Medical | - | - | - |
| PAYROLL EXPENSE | | | |
| Salary Expense | - | - | - |
| Payroll Tax Expense | - | - | - |
| Payroll Benefits | - | - | - |
| Contract Labor | 4,158 | 37,421 | 41,578 |
| Total Payroll Expense | 4,158 | 37,421 | 41,578 |
| GENERAL & ADMINISTRATIVE EXPENSES | | | |
| Bank charges | 346 | 308 | 654 |
| Employee Travel Expense | - | - | - |
| Insurance | 1,539 | 13,726 | 15,265 |
| IT Software/Hardware Expense | 742 | 6,681 | 7,423 |
| Mileage | - | - | - |
| Miscellaneous Expenses | - | - | - |
| Outsourcing Services | - | - | - |
| Postage and Delivery | 0 | 3 | 3 |
| Professional Services | 8,423 | 3,823 | 12,246 |
| Receivership Legal | 52,300 | 52,256 | 104,557 |
| Receivership Management | 27,780 | 26,560 | 54,340 |
| Rent | 1,828 | 16,455 | 18,283 |
| Supplies | 8 | 72 | 80 |
| Taxes & Fees | 187 | 293 | 480 |
| Telephone | 131 | 1,177 | 1,307 |
| TPA Services | - | - | - |
| Total General & Administrative Expenses | 93,285 | 121,354 | 214,639 |
| NET OPERATING GAIN (LOSS) | (97,443) | (158,774) | (256,217) |
| NON-OPERATING INCOME (EXPENSES) | | | |
| Arizona Guaranty Fund | 4,800 | - | 4,800 |
| Interest Income | 546 | 6,208 | 6,753 |
| Dividend Income | 61 | 725 | 786 |
| Gains (losses) on sale of Fixed Assets | - | - | - |
| Gains (losses) on Investments | - | - | - |
| Total Non-Operating Income (Expenses) | 5,407 | 6,932 | 12,339 |
| NET PROFIT (LOSS) | (92,036) | (151,842) | (243,878) |

See notes to the unaudited Financial Statements

Notes Accompanying the Unaudited Statements as of December 31, 2020
Meritus Mutual Health Partners (PPO) and Meritus Health Partners (HMO)
In Receivership – No. CV2016-011872

Organization

Compass Cooperative Mutual Health Network, Inc. doing business as Meritus Mutual Health Partners (“Meritus Mutual” or “PPO”) is an Arizona nonprofit corporation that was issued an Arizona certificate of authority to transact disability insurance business on May 28, 2013. Compass Cooperative Health Plan, Inc. doing business as Meritus Health Partners (“MHP” or “HMO”) is an Arizona nonprofit corporation which was issued an Arizona certificate of authority to transact business as a health care services organization effective May 28, 2013. Meritus Mutual was approved to operate as a consumer operated and oriented health plan (“Co-Op”) in the State of Arizona by the Center for Medicare & Medicaid Services (“CMS”). Meritus Mutual received start-up and solvency loans from CMS under the Affordable Care Act (“ACA”) in the aggregate of approximately \$93.8 million. Meritus Mutual and MHP were under common control, had the same officers and directors, shared the same home office, and shared services for adjudication and payment of claims.

Meritus Mutual and MHP were placed under an Order of Supervision on October 30, 2015 and were placed into Receivership with an Order of Liquidation on August 10, 2016 by Maricopa County Superior Court (“Receivership Court”). As part of the Receivership Order, Interim Director of Insurance Leslie R. Hess was appointed as Receiver of Meritus Mutual and MHP (“Receiver”).

Dated March 8, 2017, the Receivership Court entered an Order Approving Liquidation Plan that, among other things, established a claims bar deadline, established a separate claims adjudication process for PPO and HMO providers; and imposed a Temporary Restraining Order enjoining Balance Billing and Enrollee Collections and prohibiting Providers with unpaid claims for services provided under insurance policies issued by Meritus Mutual and/or MHP from seeking to recover balances due directly from enrollees and/or insureds, pending completion of the claim adjudication process and issuance of an Explanation of Benefits Form.

Basis of Presentation

The accompanying financial statements of the Meritus companies in liquidation have been prepared on the liquidation basis of accounting in conformity with generally accepted accounting principles. These financial statements reflect the financial position and activity of the Meritus companies.

Under the liquidation basis of accounting, assets are stated at their estimated net realizable values. Liabilities are stated at their ultimate amounts and are subsequently adjusted to settlement amounts upon final distribution. A new cost basis is established as of the date of liquidation. Liabilities are fixed as of that date.

The valuation of assets and liabilities requires many estimates and assumptions, as there are substantial uncertainties in carrying out the provisions of the liquidation proceedings. The actual value of future liquidating distributions will depend upon a variety of factors including, among others, the future recovery of the estate’s assets and the actual timing of distributions.

Notes Accompanying the Unaudited Statements as of December 31, 2020
Meritus Mutual Health Partners (PPO) and Meritus Health Partners (HMO)
In Receivership – No. CV2016-011872

The Meritus entities have not accrued liquidation administrative expense because of the uncertainty as to the ultimate costs of liquidation. Liquidation administrative expense will be accrued as the entities are in a position to provide reasonable estimates when the liquidation process is nearing completion.

Amounts due from and to the Center for Medicare & Medicaid Services (“CMS”)

The Unaudited Statements (including in particular the section headed “Net Due from CMS Post Offset”) are prepared in reliance on, among other things, this Court’s March 8, 2019 Order Re Petition No. 26 Granting Claim Determination and Setoff Related to Claims of the United States (the “Setoff Order”). Because these claims are subject to litigation and the related recovery risks in any litigation, the total amount of the claims are marked “Reserved – Litigation Risk” pending final resolution of the litigation. Paragraphs 10, 12 and 13 of the Setoff Order include the following findings:

CMS’s claims for payment from Meritus Mutual under the converted start-up note and the solvency note, referred to as the CMS Surplus Notes, are Class 10 priority level claims under A.R.S. § 20-629 and are not subject to setoff.

In accordance with A.R.S. § 20-638, the setoff of all claims as between MHP and CMS under the ACA Risk-Sharing Programs, including, but not limited to CSR, Reinsurance, Risk Adjustment, and Risk Corridor, is approved so that the net effect is that the remaining amount that CMS owes MHP under the ACA Risk-Sharing Programs (with all related mutual debts and credits setoff and otherwise deemed satisfied) is as follows:

Net Risk Corridor Claims due and owing from CMS to MHP: \$4,863,178
Net Reinsurance Claims due and owing from CMS to MHP: \$7,171,320

In accordance with A.R.S. § 20-638, the setoff of all claims as between Meritus Mutual and CMS under the ACA Risk-Sharing Programs, including, but not limited to CSR, Reinsurance, Risk Adjustment, and Risk Corridor, is approved so that the net effect is that the remaining amount that CMS owes Meritus Mutual under the ACA Risk-Sharing Programs (with all related mutual debts and credits setoff and otherwise deemed satisfied) is as follows:

Net Risk Corridor Claims due and owing from CMS to Meritus Mutual:
\$12,182,141
Net Reinsurance Claims due and owing from CMS to Meritus Mutual:
\$3,283,275

The Receiver is continuing to seek recovery for net amounts due under the Risk Corridor Program and under the Reinsurance Program, after implementation of the Offset, via actions pending in the Court of Federal Claims, including the Risk Corridor Action (pending as a class action in the United States Court of Federal Claims, No. 1:16-cv-00259-MMS) and the Reinsurance Action (pending in the United States Court of Federal Claims, No. 19-1499C-MEW). On April 27, 2020, the United States Supreme Court entered its Order in *Maine*

Notes Accompanying the Unaudited Statements as of December 31, 2020
Meritus Mutual Health Partners (PPO) and Meritus Health Partners (HMO)
In Receivership – No. CV2016-011872

Community Health Options v. U.S., Case Nos. 18-1023, 18-1028 and 18-1038) and held, among other things: (1) the Affordable Care Act created a government obligation to pay insurers the full amount set out in the Risk Corridors Program; and (2) under the Tucker Act, the Court of Federal Claims is an appropriate forum for insurers to sue the government for damages for failure to pay.

Assets

For Meritus Mutual Health Partners (PPO), total available cash and/or cash equivalent is \$371,316.

For Meritus Health Partners (HMO), total available cash and/or cash equivalent is \$3,132,469 .

Liabilities

Payables due by the PPO and HMO are organized by Arizona's Priority of Distribution classifications for liquidations and subject to Orders of the Receivership Court, including but not limited to the proof of claim process. See A.R.S. §20-629

Except as provided for in the Setoff Order (specifically addressing Class 4 Claims and Class 10 Claims), the claims that make up the liabilities are estimates, have not been fully adjudicated and remain subject to the proof of claim process, Arizona law, and Orders of the Receivership Court. The possibility of a valid claim being paid is dependent on the valuation of the claim, the order of preference of the claim, and the amount of funds remaining after other claims having higher preference have been discharged. Each priority class of claims must be fully paid before any distribution may be made to the next priority class. All members of a class receiving partial payment must receive the same pro-rata amount. No claims accrue interest since all rights are fixed as of the Liquidation Order Date.

Due to the shared administrative expenses an intercompany balance is due the HMO from the PPO.

PPO Provider claims that have been covered by the Arizona Guaranty Fund total approximately \$2,956,387 which amounts are being paid by the Arizona Guaranty Fund subject to the Arizona Guaranty Fund enabling act and administered under a Service Agreement between the Arizona Guaranty Fund and the Receiver. Under its subrogation and assignment rights, the Guaranty Fund will have Class 2 claims for such amounts.

Subject to the Receiver's rights to offset, other creditors with priority level claims at or below the Class 2 claims will only be paid with estate distributions, if any, remaining after payment of Class 1 and Class 2 claims.

HMO Provider claims are classified at two levels, including: Class 3 priority for out of network, non-contracted, timely claims; Class 7 priority for in network, contracted, timely claims.

Notes Accompanying the Unaudited Statements as of December 31, 2020
Meritus Mutual Health Partners (PPO) and Meritus Health Partners (HMO)
In Receivership – No. CV2016-011872

Subject to the Receiver's rights to offset, other creditors with priority level claims at or below the Class 3 and Class 7 claims will only be paid with estate distributions, if any, remaining after payment of creditors with a superior priority class.

Meritus Mutual Health Partners (PPO) – Revenue

Arizona Guaranty Fund Administrative Payments: These amounts are payments made by the Arizona Guaranty Fund to the Receiver for administrative services provided under the Service Agreement.

Medical Expense

The amounts referred to as "MEDICAL EXPENSES" are amounts that have been identified as part of the POC process. While they are not amounts that have been paid by either MHP or Meritus Mutual, depending on the ultimate POC Process, some or all of these amounts may qualify as claims.

Gains (losses) on sale of Fixed Assets

These amounts are based on proceeds from the sale of certain office equipment as part of the receivership process.

