

1 **FAEGRE BAKER DANIELS LLP**  
1700 Lincoln Street, Suite 3200  
2 Denver, Colorado 80203

3 **Joel A. Glover** (State Bar No. 034018)  
Direct Dial: 303.607.3648  
4 Direct Fax: 303.607.3600  
5 Email: [Joel.Glover@FaegreBD.com](mailto:Joel.Glover@FaegreBD.com)

6 Attorneys for Receiver

7  
8 SUPERIOR COURT OF ARIZONA  
9 COUNTY OF MARICOPA

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

12 Plaintiff,

13 vs.

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

17 Defendants.  
18

No. CV2016-011872

**PETITION NO. 30**

**RECEIVER'S PETITION TO  
ACCEPT LIQUIDATION BALANCE  
SHEET, ADMINISTRATIVE  
EXPENSES AND REPORT AS OF  
DECEMBER 31, 2018**

(Assigned to The Honorable  
Daniel Martin)

19 Keith Schraad, Interim Director of Insurance, as Receiver (hereinafter "Receiver")  
20 of Compass Cooperative Mutual Health Network, Inc. doing business as Meritus Mutual  
21 Health Partners ("Meritus Mutual") and Compass Cooperative Health Plan, Inc. dba  
22 Meritus Health Partners ("MHP") (collectively referred to as the "Meritus Companies"),  
23 appointed pursuant to A.R.S. § 20-611, *et seq.*, hereby petitions the Court for entry of the  
24 Order re Petition No. 30 Accepting Liquidation Balance Sheet, Administrative Expenses  
25 and Report as of December 31, 2018.

26 1. In an Order dated August 10, 2016, this Court placed Meritus Mutual and  
27 MHP into receivership under orders of liquidation.  
28

1           2.       Consistent with and subject to the Arizona Insurer Receivership Act, A.R.S.  
2 § 20-611 *et seq.* and Orders entered by this Court, the Receiver for MHP and Meritus  
3 Mutual continues to marshal and liquidate assets and to administer and adjudicate  
4 liabilities and claims. While the marshalling, liquidating, administration, adjudication and  
5 related analysis is continuing, at this time the Receiver is submitting this Liquidation  
6 Balance Sheet, Administrative Expenses and Report as of December 31, 2018.

7           3.       The information in this petition is based on the attached Declaration of  
8 Special Deputy Receiver Regarding Liquidation Balance Sheet, Administrative Expenses  
9 and Report as of December 31, 2018, including the Liquidation Balance Sheet,  
10 Administrative Expenses and the accompanying Notes attached as Declaration Exhibit 1  
11 (the “Declaration”). The Declaration and including in particular the accompanying Notes  
12 to the Liquidation Balance Sheet and Administrative Expenses are incorporated herein by  
13 reference.

14           4.       Dated December 11, 2018, the Receiver filed Petition No. 26, Request for  
15 Hearing, Claim Determination and Setoff Related to Claims of the United States (the  
16 “Setoff Petition”). The hearing for the Setoff Petition is scheduled for March 8, 2019 at  
17 10:30 a.m. The Liquidation Balance Sheet, Administrative Expenses and Report also  
18 address the Setoff Petition with additional columns headed “Offset” and “Proforma”.

19           5.       Estate Assets – Liquidation Basis. Cash and cash-equivalents for MHP total  
20 \$3,589,959 and for Meritus Mutual total \$619,250.

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.

27           b.       For example, negative balances and receivables related to providers total less  
28 than \$450,000 for MHP and less than \$300,000 for Meritus Mutual. The Receiver reserves

1 the right to seek collection of such amounts by offset or otherwise depending on the  
2 circumstances.

3 c. Additionally, claims against the United States government are addressed in  
4 the Setoff Petition. As identified in and subject to the Setoff Petition and related to claims  
5 under certain Affordable Care Act programs, MHP's claims against the United States total  
6 \$62,684,619 and Meritus Mutual's claims against the United States total \$16,221,332 (as  
7 reflected in "Due from CMS"). According to the relief requested in the Setoff Petition, the  
8 net claims that would be due to MHP from CMS total \$12,034,498 and would be  
9 comprised of Risk Corridor claims totaling \$4,863,178 and Reinsurance claims totaling  
10 \$7,171,320. Likewise, the net claims that would be due to Meritus Mutual from CMS total  
11 \$15,465,416 and would be comprised of Risk Corridor claims totaling \$12,182,141 and  
12 Reinsurance claims totaling \$3,283,275. The hearing for the Setoff Petition is scheduled  
13 for March 8, 2019 and any order by the Court could affect, modify or otherwise change  
14 these figures.

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

25 a. **Class 1** – Administrative expenses are incurred on an on-going basis subject  
26 to and in accordance with the Arizona Insurer Receivership Act and Orders entered by this  
27 Court. Payments to legal counsel, the Special Deputy Receiver and Regulatory Services  
28 Group continue to be reported on a quarterly basis in the Status Reports. Details

1 associated with the administrative expenses are set forth in the spreadsheets attached to the  
2 Declaration of Special Deputy Receiver. As of December 31, 2018, the combined amount  
3 of all administrative expenses incurred from the inception of the receiverships (since  
4 August of 2016) totals \$3,227,918, which on average totals approximately \$232,651 per  
5 month. However, the administrative expenses have been greatly reduced since the first  
6 five months of the receivership (from August to December of 2016). For example, the  
7 combined monthly administrative expenses were reduced from \$288,958 in 2016 to  
8 \$54,499 in 2018. Much of this can be attributed to reductions in combined monthly salary  
9 (reduced from \$116,420 in 2016 to \$17,997 in 2018), and in combined monthly rent  
10 (reduced from \$11,480 in 2016 to \$3,349 in 2018). The administrative expenses will  
11 continue in accordance with Arizona law depending on the circumstances and subject to  
12 the Arizona Insurer Receivership Act and Orders entered by this Court.

13           b. **Class 2** – Guaranty Association claims for Meritus Mutual currently total  
14 \$3,340,743, which number may be revised as the Guaranty Association continues to incur  
15 expenses, pay claims and provide coverage in accordance with its enabling act, A.R.S.  
16 § 20-681 *et seq.* Because the Guaranty Association was not legally authorized to provide  
17 coverage for MHP as a health care services organization, there are no Guaranty  
18 Association claims applicable to MHP.

19           c. **Class 3** – Policyholder, member and provider claims for MHP that are out of  
20 network currently, also referred to as “non-contracted” provider claims, total \$5,687,436.  
21 For Meritus Mutual, the Class 3 claims that are not covered by the Guaranty Association  
22 currently total \$1,153.

23           d. **Class 4** – Claims of the United States Government that would constitute  
24 Class 4 claims as submitted under the proof of claim process by the United States total  
25 \$50,650,121 as against MHP and \$755,916 as against Meritus Mutual. Those claims are  
26 subject to the Setoff Petition and, as noted above and addressed in the Setoff Petition,  
27 those claims are less than the amounts that the United States owes MHP and Meritus  
28

1 Mutual. As a result, if the relief sought in the Setoff Petition were granted, the net amount  
2 of Class 4 claims would be zero.

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

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

6 g. **Class 7** – The amount of claims against MHP for providers required by law  
7 or agreement to hold enrollees harmless from liability for services (referred to as in-  
8 network or contract providers) currently totals \$4,221,510. Because Meritus Mutual is not  
9 a health care services organization, there are no Class 7 claims applicable to Meritus  
10 Mutual.

11 h. **Class 8** – The amount of claims for other general creditors totals  
12 \$52,225,015 for MHP and totals \$14,808 for Meritus Mutual. Among other things, this  
13 figure includes intercompany payables as between MHP and Meritus Mutual totaling in  
14 excess of \$51 million. The amount of intercompany payables may be subject to further  
15 consideration depending on the circumstances.

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

18 j. **Class 10** – The United States has submitted a claim against Meritus Mutual  
19 associated with surplus notes totaling \$93,826,261. The claim, including its priority level,  
20 is subject to the pending Setoff Petition.

21 7. Magnitude of Insolvency – Comparing Assets to Liabilities on a Liquidation  
22 Basis. The magnitude of the insolvency for MHP and Meritus Mutual remains substantial  
23 when considered on a liquidation basis in accordance with the Arizona Insurer  
24 Receivership Act.

25 a. With respect to MHP, there are cash and/or cash equivalents of  
26 approximately \$3,589,959 in addition to potential claims, causes of action and setoff.  
27 Without any offset, the amount of the capital (calculated as the amount by which the assets  
28

1 exceed the liabilities) is (- \$109,946,774). If the setoff were granted, the capital position  
2 for MHP would be improved to (- \$59,296,653).

3 b. With respect to Meritus Mutual, there are cash and/or cash equivalents of  
4 approximately \$619,250 in addition to potential claims, causes of action and setoff.  
5 Without any offset, the amount of the capital (calculated as the amount by which the assets  
6 exceed the liabilities) is (- \$97,961,856). If the setoff were granted, the capital position for  
7 MHP would be improved to (- \$96,586,690).

8 WHEREFORE, the Receiver requests that the Court enter the Order re Petition  
9 No. 30 Accepting Liquidation Balance Sheet, Administrative Expenses and Report as of  
10 December 31, 2018.

11 Dated this 19<sup>th</sup> day of February, 2019.

12 FAEGRE BAKER DANIELS LLP

13 By: /s/ Joel Glover (#034018)  
14 Joel A. Glover

15 *Attorneys for Receiver*

16  
17  
18 COPY of the foregoing mailed this  
19 19<sup>th</sup> day of February, 2019 to the  
20 attached Master Service List

21 /s/ Brenda McHenry  
22 Brenda McHenry

1 SUPERIOR COURT OF ARIZONA

2 COUNTY OF MARICOPA

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

5 **MASTER SERVICE LIST**

6 Keith Schraad, Receiver  
7 Interim Director  
8 Arizona Department of Insurance  
9 100 North 15th Avenue, #102  
Phoenix, Arizona 85007

10 Liane Kido, Deputy Receiver  
11 Arizona Department of Insurance  
12 100 North 15th Avenue, #102  
Phoenix, Arizona 85007

13 Lynette Evans, Assistant Attorney General  
14 Office of the Attorney General  
15 1275 West Washington Street  
16 Phoenix, Arizona 85007  
*Attorneys for Arizona Department of Insurance*

17 Richard G. Erickson  
18 Robert F. Kethcart  
19 Snell & Wilmer L.L.P.  
20 One Arizona Center  
21 400 East Van Buren  
Phoenix, Arizona 85004  
*Attorneys for Defendants*

22 Larry Aldrich, Executive Chairman  
23 Employers Health Alliance of Arizona  
24 7520 East McLellan Lane  
Scottsdale, Arizona 85250

25 Christophe Burusco  
26 Sidley Austin LLP  
27 555 West 5th Street, 40th Floor  
28 Los Angeles, California 90013  
*Attorneys for Care1st Health Plan Administrative Services, Inc.*

1 Matthew A. Clemente  
2 Sidley Austin LLP  
3 One South Dearborn  
4 Chicago, Illinois 60603  
5 *Attorneys for Care1st Health Plan Administrative Services, Inc.*

6 Michael Surguine, Executive Director  
7 Arizona Life & Disability  
8 Insurance Guaranty Fund  
9 2910 North 44th Street, Suite 201 (2nd Floor)  
10 Phoenix, Arizona 85018

11 Darren Ellingson  
12 Special Deputy Receiver  
13 Raintree Corporate Center I  
14 15333 North Pima Road, Suite 305  
15 Scottsdale, Arizona 85260

16 Banner Health  
17 Patient Financial Services  
18 Attn: Anna Rosalez, Manager  
19 525 West Brown Road, Third Floor  
20 Mesa, Arizona 85201

21 S. David Childers  
22 Kutak Rock LLP  
23 8601 North Scottsdale Road, Suite 300  
24 Scottsdale, Arizona 85253

25 Debbie Bailey  
26 Cactus Children's Clinic, PC  
27 5940 West Union Hills Drive  
28 Suite D100  
Glendale, Arizona 85308

Monica Gaspari  
Billing Office Supervisor  
Pima Heart Physicians  
3709 North Campbell Avenue  
Suite 201  
Tucson, Arizona 85719

United States Department of Justice  
40 North Central Avenue, #1800  
Phoenix, Arizona 85004



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U.S. Department of Justice  
950 Pennsylvania Avenue, NW  
Washington, DC 20530

United States Attorney General  
U.S. Department of Justice  
950 Pennsylvania Avenue, NW  
Washington, DC 20530

U.S. Centers for Medicare & Medicaid Services  
7500 Security Boulevard  
Baltimore, Maryland 21244

Sinead Baldwin  
1200 Brickell Avenue  
PH 2000  
Miami, Florida 33131  
*Attorneys for HealthSouth Rehabilitation Hospital*

Jill Wright  
Parallon  
1100 Charlotte Avenue  
Suite 1600  
Nashville, Tennessee 37203

Susan Sweat  
Ambulance Billing Office Supervisor  
Bullhead City Fire Department  
1260 Hancock Road  
Bullhead City, Arizona 86442

# EXHIBIT 1

1 **FAEGRE BAKER DANIELS LLP**  
1700 Lincoln Street, Suite 3200  
2 Denver, Colorado 80203

3 **Joel A. Glover** (State Bar No. 034018)  
Direct Dial: 303.607.3648  
4 Direct Fax: 303.607.3600  
5 Email: Joel.Glover@FaegreBD.com

6 Attorneys for Receiver

7  
8 SUPERIOR COURT OF ARIZONA  
9 COUNTY OF MARICOPA

10 STATE OF ARIZONA, *ex rel.*  
11 KEITH SCHRAAD, Interim 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 Defendants.  
18

No. CV2016-011872

**PETITION NO. 30**

**DECLARATION OF SPECIAL  
DEPUTY RECEIVER REGARDING  
LIQUIDATION BALANCE SHEET,  
ADMINISTRATIVE EXPENSES AND  
REPORT AS OF DECEMBER 31,  
2018 WITH DECLARATION  
EXHIBIT 1.**

(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

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

2. Attached hereto as Declaration Exhibit 1 is the Liquidation Balance Sheet and Administrative Expenses as of December 31, 2018 for Meritus Mutual and MHP along with and subject to the accompanying Notes which are incorporated herein by reference. Based on my knowledge and belief and the determinations I have made in my capacity as Special Deputy Receiver, the Liquidation Balance Sheet and Administrative Expenses report on and present the financial information for Meritus Mutual and MHP as of December 31, 2018 based on the books and records of Meritus Mutual and MHP calculated on a liquidation basis and subject to the accompanying Notes.

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



Date: 2/15/2019

Darren Ellingson, Special Deputy Receiver

EXHIBIT 1  
TO DECLARATION OF SPECIAL  
DEPUTY RECEIVER

**Liquidation Balance Sheet as of December 31, 2018**  
**Meritus Mutual Health Partners (PPO) and Meritus Health Partners (HMO)**  
**In Liquidation - No. CV2016-011872**

	MMHP (PPO)			MHP (HMO)		
	12/31/2018	Offset	Proforma	12/31/2018	Offset	Proforma
Current Assets-Cash	\$ 619,250		\$ 619,250	\$ 3,589,959	\$ -	\$ 3,589,959
Due From CMS						
Accrued Risk Corridor	\$ 12,938,057	\$ (755,916)	\$ 12,182,141	\$ 55,513,299	\$ (50,650,121)	\$ 4,863,178
Accrued Federal Reinsurance Reserve	3,283,275	\$ -	\$ 3,283,275	\$ 7,171,320		\$ 7,171,320
Reserve	(16,221,332)	\$ (755,916)	\$ (15,465,416)	\$ (62,684,619)	\$ (50,650,121)	\$ (12,034,498)
Amount due after reserve	\$ -		\$ -	\$ -		\$ -
Solvency loan						
HMO solvency loan	\$ 51,652,071		\$ 51,652,071	\$ -		\$ -
Reserve	\$ (51,652,071)		\$ (51,652,071)	\$ -		\$ -
Net receivable	\$ -		\$ -	\$ -		\$ -
Other Assets						
Provider Receivables	\$ 299,382			\$ 446,305		
Reserve Provider	\$ (299,382)			\$ (446,305)		
Intercompany Receivable	\$ -			\$ 2,085		\$ 2,085
Total assets	\$ 619,250		\$ 619,250	\$ 3,592,044		\$ 3,592,044
Liabilities						
Premium refunds	\$ 7,895		\$ 7,895	\$ 24,231		\$ 24,231
Class 1	\$ 3,232		\$ 3,232	\$ -	\$ -	\$ -
Class 2	\$ 3,340,743		\$ 3,340,743	\$ -	\$ -	\$ -
Class 3	\$ 1,153		\$ 1,153	\$ 5,687,436		\$ 5,687,436
Class4						
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 Risk Adjustment 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	\$ -			\$ 4,221,510		\$ 4,221,510
Class8	\$ 14,808		\$ 14,808	\$ 52,225,015		\$ 52,225,015
Class 10	\$ 93,826,261		\$ 93,826,261	\$ -		\$ -
Total liabilities	\$ 97,961,856		\$ 97,205,940	\$ 113,538,818		\$ 62,888,697
Capital(Assets minus Liabilities)	(97,342,606)		\$ (96,586,690)	\$ (109,946,774)		\$ (59,296,653)

**MERITUS MUTUAL HEALTH PARTNERS IN RECEIVERSHIP (MMHP/PPO)****Administration Expenses from Date of Liquidation (08/10/2016) through 12/31/2018**

	PPO 2016 AUG-DEC	PPO 2017 JAN-DEC	PPO 2018 JAN-DEC	PPO TOTAL
<b>ADMINISTRATIVE EXPENSES</b>				
Salary Expense	58,210	25,355	21,596	105,161
Payroll Tax Expense	2,400	2,078	1,749	6,228
Payroll Benefits	1,922	7,131	2,110	11,163
Contract Labor	1,847	914	633	3,394
Bank charges	14,615	29,075	7,754	51,445
Employee Travel Expense	2,272	143	-	2,414
Insurance	14,451	1,777	2,280	18,509
IT Access, Software, Hardware Exp	5,757	9,262	1,709	16,728
Legal Expenses	70,049	-	-	70,049
Mileage	90	8	-	97
Miscellaneous Expenses	30	238	45	314
Office Cleaning	169	-	-	169
Outsourcing Services	-	514	18	532
Postage and Delivery	63	526	106	695
Printing Expense	185	-	-	185
Professional Services	7,517	9,149	4,715	21,381
Receivership Legal	48,976	94,903	105,441	249,319
Receivership Management	27,060	58,990	39,134	125,184
Rent	3,351	4,847	4,018	12,217
Security System	1,245	-	-	1,245
Supplies	111	(1,048)	96	(841)
Taxes & Fees	-	1,775	-	1,775
Telephone	703	820	731	2,253
TPA Services	15,498	26,264	-	41,762
Utilities	2,558	-	-	2,558
<b>Total Administrative Expenses</b>	<b>279,079</b>	<b>272,721</b>	<b>192,136</b>	<b>743,936</b>

**MERITUS HEALTH PARTNERS IN RECEIVERSHIP (MHP/HMO)****Administration Expenses from Date of Liquidation (08/10/2016) through 12/31/2018**

	HMO 2016 AUG-DEC	HMO 2017 JAN-DEC	HMO 2018 JAN-DEC	HMO TOTAL
<b>ADMINISTRATIVE EXPENSES</b>				
Salary Expense	523,888	203,416	194,367	921,671
Payroll Tax Expense	21,611	18,708	15,745	56,064
Payroll Benefits	17,745	62,278	18,129	98,151
Contract Labor	16,627	8,227	5,696	30,550
Bank charges	6,624	8,067	1,116	15,806
Employee Travel Expense	2,289	1,282	-	3,571
Insurance	52,080	13,926	20,520	86,527
IT Access, Software, Hardware Exp	40,771	83,359	15,382	139,513
Legal Expenses	118,762	-	-	118,762
Mileage	807	68	-	875
Miscellaneous Expenses	1,153	2,146	404	3,703
Office Cleaning	1,524	-	-	1,524
Outsourcing Services	-	721	166	887
Postage and Delivery	567	4,940	954	6,461
Printing Expense	1,664	-	-	1,664
Professional Services	67,025	13,170	4,265	84,460
Receivership Legal	45,755	98,540	105,536	249,831
Receivership Management	30,225	61,480	35,969	127,674
Rent	54,050	43,628	36,165	133,843
Security System	11,203	-	-	11,203
Supplies	1,085	576	860	2,521
Taxes & Fees	-	1,475	-	1,475
Telephone	6,323	7,379	6,579	20,281
TPA Services	140,309	223,028	-	363,337
Utilities	3,629	-	-	3,629
<b>Total Administrative Expenses</b>	<b>1,165,717</b>	<b>856,413</b>	<b>461,852</b>	<b>2,483,982</b>



**Notes Accompanying**  
**Liquidation Balance Sheet and Administrative Expenses as of December 31, 2018**  
**Meritus Mutual Health Partners (PPO) and Meritus Health Partners (HMO)**  
**In Liquidation – No CV2016-011872**

1. Receivership Generally. The Liquidation Balance Sheet and Administrative Expenses Report 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. § 20-611, *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 for MHP and Meritus Mutual continues to marshal and to liquidate assets and to administer and adjudicate liabilities and claims subject to and in accordance with the Receivership Act. 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 and Administrative Expenses Report.
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.) 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. Offset and Proforma Columns Related to Setoff Petition. The column headed 12/31/2018 includes the figures for MHP and Meritus Mutual as of that date. The other two columns, headed Offset and Proforma, are included to facilitate review and consideration of Petition No. 26, Request for Hearing, Claim Determination and Setoff Related to Claims of the United States (the “Setoff Petition”) in advance of the hearing for the Setoff Petition scheduled for March 8, 2019 at 10:30 a.m.
5. Receivables – CMS and Setoff Petition. All amounts identified as Assets under the heading “Due from CMS” and as Liabilities under Class 4 Claims involving Center for

Medicare and Medicaid Services (“CMS”) are as yet undetermined and are subject to the Setoff Petition. Subject to very minor rounding limited to the dollar level, the figures are identical to the figures from the Setoff Petition and the Declaration of Ray Minehan, Exhibit 4, to the Petition No. 26 (the “Minehan Declaration”). Likewise, the impact of the Setoff Petition as reflected in the Offset and Proforma columns is based on figures from the Setoff Petition and the Minehan Declaration, in particular, paragraphs 6, 7, 8 and 9. With respect to the claims CMS asserted against MHP and Meritus Mutual, the Offset column applies the setoff which results in \$0 being due to CMS at the Class 4 priority level. With respect to the Due from CMS figures, the Offset and Pro Forma columns reflect the net remaining claims that MHP and Meritus Mutual have against CMS with respect to the Risk Corridor and Reinsurance programs. The Reserve row is added in order to allow the amounts to net out at zero for purposes of reporting the potential claims against CMS on a liquidation basis. The Receiver reserves all rights related to the Risk Corridor and Reinsurance Claims including but not limited to seeking and recovering the maximum amount authorized by law under the circumstances. The Setoff Petition has been filed with the Receivership Court and is subject to hearing and may be contested and the relief requested may not be granted and/or may be modified. The Receiver reserves all rights to revise and modify these estimates and the Liquidation Balance Sheet based upon and subject to future orders of the Receivership Court.

6. Solvency Loan. The amount identified as the Solvency loan reflects a transaction between MHP and Meritus Mutual. The full amount of the loan is also reflected as a reserve in order to allow the amount to net out at zero for purposes of reporting it on a liquidation basis. The Receiver reserves all rights related to the Solvency Loan including but not limited to seeking and recovering the maximum amount authorized by law under the circumstances.
7. Provider Receivables. All amounts for Receivables related to providers are, as yet, undetermined. The amount identified as Provider Receivables is also reflected as a reserve in order to allow the amount to net out at zero for purposes of reporting it on a liquidation basis. The Receiver reserves all rights related to the Provider Receivables, including but not limited to seeking and recovering the maximum amount authorized by law under the circumstances.
8. 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.)
9. Class 1 Claims – Administrative Expenses. Administrative expenses are incurred on an on-going basis subject to and in accordance with the Receivership Act and Orders entered by this Court. Payments to legal counsel, the Special Deputy Receiver and Regulatory Services Group continue to be reported on a quarterly basis in the Status Reports. Details associated with the administrative expenses are set forth in the spreadsheets attached to the Declaration of Special Deputy Receiver. As of December 31, 2018, the combined amount of all administrative expenses incurred from the inception of the Receiverships

(since August of 2016) totals \$3,227,918, which on average totals approximately \$232,651 per month. However, the administrative expenses have been greatly reduced since the first five months of the receivership (from August to December of 2016). For example, the combined monthly administrative expenses were reduced from \$288,958 in 2016 to \$54,499 in 2018. Much of this can be attributed to reductions in combined monthly salary (reduced from \$116,420 in 2016 to \$17,997 in 2018), and in combined monthly rent (reduced from \$11,480 in 2016 to \$3,349 in 2018). The administrative expenses will continue in accordance with Arizona law depending on the circumstances and subject to the Receivership Act and Orders entered by this Court.

10. Statutory Proof of Claim Process. Amounts reported as “Net Liabilities” are generally based on the amount claimed on proofs of claims (POCs) filed with the Receiver subject to the Receivership Act and Orders of the Receivership Court. The estate liability, if any, has not been determined. The amounts owed and the priorities of the claims have not been determined. The Receiver has commenced 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 this Court.
11. Class 8 Claims. The amount of claims for other general creditors totals \$52,225,015 for MHP and totals \$14,808 for Meritus Mutual. Among other things, this figure includes intercompany payables as between MHP and Meritus Mutual totaling in excess of \$51 million. The amount of intercompany payables may be subject to further consideration depending on the circumstances.
12. Class 10 Claims – Surplus Notes. The amount and priority level for the surplus note claims are based on the figures included in the Setoff Petition. For administrative efficiency, the estimates included herein are provided in a manner consistent with the relief requested in the Setoff Petition. The Setoff Petition has been filed with the Receivership Court and is subject to hearing and may be contested and the relief requested may not be granted and/or may be modified. The Receiver reserves all rights to revise and modify these estimates based upon and subject to future orders of the Receivership Court.
13. Excess Premiums. MHP and Meritus Mutual are continuing to hold funds that appear to be payments made in excess of the amount of premiums that was due and owing (“Excess Premiums”). There currently appear to be payments from approximately 130 members with the total amount of Excess Premiums equal to approximately \$32,215. The Excess Premiums are subject to Petition 28, Petition to Approve Limited Return of Excess Premiums, filed with the Court on January 28, 2019.
14. Claim Adjudication Process. The figures identified as liabilities are based on the amounts claimed on proofs of claims (POCs) filed with the Receiver subject to the Receivership Act and Orders of the Receivership Court. The estate liability, if any, has not been determined. Specifically, the amounts owed and the priorities of the claims have not been determined. The Receiver has commenced 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 this Court.

15. 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.