



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Financial Statement Audit

## **Department of Economic Security**

Division of Developmental  
Disabilities ALTCS Contract  
Year Ended June 30, 2007

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**Debra K. Davenport**  
Auditor General

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Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Report on Audit of Financial Statements  
Year Ended June 30, 2007

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

## Independent Auditors' Report

Members of the Arizona State Legislature

Tracy Wareing, Director  
Department of Economic Security

We have audited the accompanying financial statements of the State of Arizona, Department of Economic Security, Division of Developmental Disabilities, Arizona Long-Term Care System ALTCS Contract (ALTCS Contract), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Department and its Division of Developmental Disabilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The ALTCS Contract had inadequate internal controls over processing, recording, and reporting certain medical and long-term care service claims for payments made to providers. As a result, the Division's records did not permit us to apply auditing procedures sufficient to determine whether claims paid during fiscal year 2006 and 2007 totaling \$11.5 million were accurately reported in the financial statements. Of the total amount of \$11.5 million, \$5.5 million is reported as aid to individuals expenditures, \$2.7 million of these claims is reported as a reduction to beginning fund balance, and \$3.3 million is reported as due from other providers.

As discussed in Note 1, the ALTCS Contract's financial statements are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and major fund of the State of Arizona that is attributable to the transactions of the ALTCS Contract. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2007, and the changes in its financial position, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding expenditures for certain medical and long-term care service claims payments, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Economic Security, Division of Developmental Disabilities, ALTCS Contract as of June 30, 2007, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the ALTCS Contract. The accompanying supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2008, on our consideration of the ALTCS Contract's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Dennis L. Mattheisen, CPA  
Financial Audit Director

May 19, 2008

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Balance Sheet—Special Revenue Fund  
 June 30, 2007

Assets	
Cash and investments held by the State Treasurer	\$45,957,658
Due from other state funds	5,159,592
Due from providers (net of allowance for uncollectibles)	<u>4,890,494</u>
Total assets	<u>\$56,007,744</u>
Liabilities and Fund Balance	
Liabilities:	
Accrued administrative and payroll costs	\$ 3,608,982
Accrued medical and healthcare claims	53,044,301
Due to other state funds	<u>133,041</u>
Total liabilities	<u>56,786,324</u>
Fund balance:	
Fund deficit	<u>(778,580)</u>
Total liabilities and fund balance	<u>\$56,007,744</u>

See accompanying notes to financial statements.

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Statement of Revenues, Expenditures, and Changes in  
 Fund Balance—Special Revenue Fund  
 Year Ended June 30, 2007

Revenues:	
Capitation	\$689,614,363
Ventilator dependent	16,255,267
Fee for service	790,563
Investment earnings	<u>4,067,800</u>
Total revenues	<u>710,727,993</u>
Expenditures:	
Health and welfare:	
Aid to individuals	636,091,561
Allocated administrative expenditures	30,013,184
Case management	36,156,683
Professional and outside services	7,766,810
Premium tax	<u>14,581,005</u>
Total expenditures	<u>724,609,243</u>
Deficiency of revenues under expenditures	(13,881,250)
Other financing uses:	
Transfers to other state funds	<u>(3,844,200)</u>
Net change in fund balance	(17,725,450)
Fund balance, July 1, 2006	<u>16,946,870</u>
Fund deficit, June 30, 2007	<u>\$ (778,580)</u>

See accompanying notes to financial statements.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Department of Economic Security, Division of Developmental Disabilities (Division), Arizona Long-Term Care System ALTCS Contract (ALTCS Contract), conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board. A summary of the Division's more significant accounting policies follows.

A. Reporting Entity

For financial reporting purposes, the ALTCS Contract includes only that portion of the State's general fund that is attributable to the ALTCS Contract's transactions. The Division is responsible for administering the ALTCS Contract. Fiscal responsibility for the Division remains with the Department of Economic Security and, ultimately, with the State. The Division is a contractor with the Arizona Health Care Cost Containment System (AHCCCS) to provide medical and healthcare services to eligible enrollees of the AHCCCS Arizona Long-Term Care System (ALTCS) program for the developmentally disabled. This program provides inpatient and outpatient medical and nursing services in addition to managed institutional and home- and community-based long-term care services to eligible enrollees of the AHCCCS ALTCS program. The Division receives monthly premiums from AHCCCS for all eligible enrollees under the AHCCCS ALTCS program for the developmentally disabled.

B. Fund Accounting

The Division's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Division's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

The ALTCS Contract's financial transactions are reported as a special revenue fund since the proceeds are from specific revenue sources that are legally restricted to expenditures for specified purposes.

Although the ALTCS Contract is considered a special revenue fund when reported on individually, it becomes a part of the State's General Fund at the combined state-wide level.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2007

### C. Basis of Accounting

The ALTCS Contract financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers capitation revenues to be available if they are received within 90 days of the end of the current fiscal period, and considers all other revenues to be available if they are collected within 30 days of the end of the current fiscal period. All ALTCS Contract revenue sources are susceptible to accrual. Expenditures are recognized when the related fund liability is incurred.

### D. Investment Earnings

Investment earnings is composed of interest earned on the ALTCS Contract's portion of monies deposited with the State Treasurer.

### E. Incurred But Not Recorded (IBNR) Methodology

The liability and expenditures reported for IBNR medical claims are estimated using lag data provided by the Division's information systems, with adjustments as necessary for events that are outside the lag patterns. Amounts are based on historical expenditure patterns.

## Note 2 - Cash and Investments Held by the State Treasurer

Arizona Revised Statutes (A.R.S.) requires state agencies' monies to be deposited with the State Treasurer, and further requires those deposits to be invested in various pooled funds. Cash and investments held by the State Treasurer represent the ALTCS Contract's portion of those monies. The State Treasurer invests idle monies of the state agencies in an internal investment pool (Pool 3) and distributes interest to the participants. Interest earned from these invested monies is allocated monthly based on the average daily balance. Participant shares in the pool are purchased and sold based on the net asset value of the shares, and a participant's portion of the pool is not identified with specific investments. Accordingly, the ALTCS Contract's portion of these deposits and investments is reported at fair value, which approximates the value of the ALTCS Contract's pool shares.

The State Treasurer's internal investment pool 3 is not required to be registered and is not registered with the Securities and Exchange Commission under the Investment Company Act of 1940. The activities and performance of the pool is reviewed monthly by the State Board of Investments in accordance with A.R.S. §35-311.

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Notes to Financial Statements  
 June 30, 2007

At June 30, 2007, the ALTCS Contract's deposits with the State Treasurer were as follows:

	Amount
State Treasurer's investment pool 3	\$19,435,077
Cash deposits (projected liquidity needs)	<u>26,522,581</u>
	<u>\$45,957,658</u>

**Credit Risk**—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The State Treasurer's investment pool 3 is unrated.

**Interest Rate Risk**—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2007, the State Treasurer's weighted average to maturity of its pool 3 investments is 3.99 years.

Note 3 - Due from Other State Funds

Amounts due from other state funds at June 30, 2007, include \$356,641 of interest earned, \$4,452,840 of capitation receivables due from AHCCCS, \$247,810 in premium tax receivables due from the Department of Insurance for overpayment of premium taxes, and \$102,301 due from clients for their share of costs.

Note 4 - Due from Providers

Amounts due from providers resulted from overpayments made by a new medical and long-term care service claims processing system implemented in February 2006. The amount due from providers of \$4,890,494 consists of \$5,585,494 in duplicate payments and claims paid manually and subsequently denied by the new system for reasons other than duplicate payments, and an allowance for uncollectible accounts of \$695,000.

Note 5 - Accrued Medical and Healthcare Claims

Accrued medical and healthcare claims totaling \$53,044,301 include reported but unpaid claims (RBUC) of \$1,500,000 and estimated incurred but not reported (IBNR) medical claims of \$51,544,301. The RBUCs are identified for medical services only. The automated claims payment system for the other types of services does not have the capability to identify RBUCs. Therefore, the RBUCs for these services have been reported as IBNR medical claims.

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Notes to Financial Statements  
 June 30, 2007

Note 6 - Fund Deficit

The fund balance deficit of \$778,580 at June 30, 2007, resulted from an under-appropriation of capitation revenues. The Division estimated a shortfall of \$13.3 million in total funds, and the entitlement nature of this program prevents the Division from arbitrarily reducing services to individuals with developmental disabilities. In order to resolve this and rather than seeking a General Fund supplemental appropriation, the Division requested authority to spend other sources, including the use of the fund balance. The deficit is expected to be corrected in future years as a result of legislative appropriations.

Note 7 - Acute Care Reinsurance

During the year ended June 30, 2007, the Division received reimbursements totaling \$3,696,211 from AHCCCS for acute care reinsurance expenditures incurred for enrollees for claims incurred in prior fiscal years. These revenues are recorded as a reduction of aid to individuals expenditures.

The Division subcontracts with various health plans to provide acute care services to ALTCS enrollees. These health plans must submit clean reinsurance claims to the Division within 12 months from the date of service.

The Division disbursed a total of \$5,935,783 to the health plans during the year ended June 30, 2007, and had RBUCs of \$1,300,000 and IBNR claims of \$35,418 for total acute care reinsurance expenditures of \$7,271,201, which has been included in aid to individuals expenditures.

Note 8 - Aid to Individuals Expenditures

Aid to individuals expenditures consists of the following expenditures summarized by type of service setting or service provided, as applicable:

Institutional care:	
Skilled nursing	\$ 2,158,636
Institutional care class 4	6,666,963
Intermediate (mentally retarded)	14,261,558
Institutional care IBNR	<u>872,592</u>
Total institutional care	<u>23,959,749</u>

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Notes to Financial Statements  
 June 30, 2007

Home- and community-based services (HCBS):	
State-operated group home	\$ 6,891,492
Vendor-operated group home	189,419,028
Adult developmental home	21,176,003
Home-based services	249,086,183
HCBS IBNR	<u>45,539,163</u>
Total HCBS	<u>512,111,869</u>
Acute care:	
Acute care	77,909,646
Acute care IBNR	3,608,525
Reinsurance	5,935,783
Reinsurance RBUC	1,300,000
Reinsurance IBNR	35,418
Reinsurance reimbursement	<u>(3,696,211)</u>
Total acute care	<u>85,093,161</u>
Other:	
Ventilator dependent (including nonacute and acute care)	13,238,179
Other RBUC (ventilator dependent acute care)	200,000
Other IBNR (ventilator dependent nonacute and acute care)	<u>1,488,603</u>
Total other	<u>14,926,782</u>
Total aid to individuals expenditures	<u>\$636,091,561</u>

During the year ended June 30, 2007, the ALTCS Contract recorded allocated charges of \$25,923,834 as expenditures for direct care services provided to clients by the Division. The expenditures were charged to the ALTCS Contract as aid to individuals expenditures based on a federally approved cost allocation plan.

#### Note 9 - Allocated Administrative Expenditures

During the year ended June 30, 2007, the ALTCS Contract recorded allocated administrative charges of \$30,013,184 as expenditures for its share of services provided by the Department.

#### Note 10 - Premium Tax

A.R.S. §§36-2905 and 36-2944.01 require AHCCCS to pay a 2 percent premium tax on all capitation and other reimbursements paid to the ALTCS Contract. These premium taxes are included in capitation revenue when received from AHCCCS and are reported as expenditures when remitted to the Arizona Department of Insurance.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Notes to Financial Statements  
June 30, 2007

Note 11 - Transfers to Other State Funds

Transfers out during the year ended June 30, 2007, included \$3,844,200 to the state-funded Long-Term Care program as authorized by AHCCCS.

Note 12 - Commitments and Contingencies

The State has the ultimate fiscal responsibility for the ALTCS Contract. Accordingly, any claims requiring additional resources require the Legislature's approval. While there is a possibility that claims could be asserted that would require additional resources to become available to the ALTCS Contract, in management's opinion, the possibility is low that valid claims will be asserted and claim amounts cannot reasonably be estimated.

Note 13 - Risk Management

The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; and natural disasters. The Department of Economic Security (Department) is a participant in the State's self-insurance program, and in the division management's opinion, any unfavorable outcomes from these risks would be covered by that self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for the State's unsettled claims and actions are determined on an actuarial basis and are included in the *State of Arizona Comprehensive Annual Financial Report*.

Note 14 - Related Party Transactions

During the year ended June 30, 2007, the ALTCS Contract reimbursed the Division for \$25,923,834 of health and rehabilitative services provided to enrollees, other department divisions for \$30,013,184 of administrative and fiscal services, and the Arizona Department of Insurance for \$14,581,005 of premium taxes due.

## Supplementary Schedules

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Medical Claims Payable (RBUCs and IBNRs)  
June 30, 2007

Account	Reported But Unpaid Claims (RBUCs)				Total RBUCs (1)	IBNR (1)	Total RBUCs and IBNRs
	1-30 days	31-60 days	61-90 days	Over 90 days			
Institutional care						\$ 872,592	\$ 872,592
HCBS						45,539,163	45,539,163
Acute care	\$402,520	\$248,926	\$300,627	\$347,927	\$1,300,000	3,643,943	4,943,943
Other medical (2)	<u>(64,205)</u>	<u>(17,706)</u>	<u>(5,844)</u>	<u>287,755</u>	<u>200,000</u>	<u>1,488,603</u>	<u>1,688,603</u>
Total claims payable	<u>\$338,315</u>	<u>\$231,220</u>	<u>\$294,783</u>	<u>\$635,682</u>	<u>\$1,500,000</u>	<u>\$51,544,301</u>	<u>\$53,044,301</u>

(1) The RBUCs amount represents claims received but not paid by the Division as of June 30, 2007. The remaining estimated medical claims payable are considered incurred but not reported (IBNR) claims.

(2) Other medical represents ventilator dependent payables.

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Lag Report for Institutional Care Payments  
Year Ended June 30, 2007

Quarter in Which Service Provided

<u>Quarter of Payment</u>	<u>Current</u>	<u>1<sup>st</sup> Prior</u>	<u>2<sup>nd</sup> Prior</u>	<u>3<sup>rd</sup> Prior</u>	<u>4<sup>th</sup> Prior</u>	<u>5<sup>th</sup> Prior</u>	<u>6<sup>th</sup> Prior</u>	<u>Total</u>
Current	\$4,943,063	\$1,074,403	\$ 76,098	\$ 20,464	\$ 16,329	\$ 4,789		\$ 6,135,146
1 <sup>st</sup> Prior		5,389,787	1,294,549	66,960	9,236		\$ 4,638	6,765,170
2 <sup>nd</sup> Prior			4,981,063	1,083,894	55,351	23,566	7,376	6,151,250
3 <sup>rd</sup> Prior				5,476,370	1,044,879	86,757	5,478	6,613,484
4 <sup>th</sup> Prior					4,859,134	1,143,803	11,342	6,014,279
5 <sup>th</sup> Prior						4,407,302	958,771	5,366,073
6 <sup>th</sup> Prior							<u>4,779,904</u>	<u>4,779,904</u>
Total	<u>4,943,063</u>	<u>6,464,190</u>	<u>6,351,710</u>	<u>6,647,688</u>	<u>5,984,929</u>	<u>5,666,217</u>	<u>5,767,509</u>	<u>41,825,306</u>
Expenses reported	5,804,396	6,784,523	5,563,867	6,339,792	5,467,655	5,156,165	6,070,213	41,186,611
Adjustment	<u>(187,004)</u>	<u>(212,950)</u>	<u>850,046</u>	<u>336,573</u>	<u>517,274</u>	<u>510,052</u>	<u>(302,704)</u>	<u>1,511,287</u>
Remaining liability	<u>\$ 674,329</u>	<u>\$ 107,383</u>	<u>\$ 62,203</u>	<u>\$ 28,677</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 872,592</u>

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Lag Report for Home- and Community-Based Services Payments  
Year Ended June 30, 2007

Quarter in Which Service Provided

<u>Quarter of Payment</u>	<u>Current</u>	<u>1<sup>st</sup> Prior</u>	<u>2<sup>nd</sup> Prior</u>	<u>3<sup>d</sup> Prior</u>	<u>4<sup>th</sup> Prior</u>	<u>5<sup>th</sup> Prior</u>	<u>6<sup>th</sup> Prior</u>	<u>Total</u>
Current	\$ 88,696,448	\$ 49,753,757	\$ 2,660,559	\$ 878,093	\$ 595,056	\$ 374,910	\$ 170,056	\$143,128,879
1 <sup>st</sup> Prior		81,659,082	46,949,752	2,393,357	716,260	244,025	140,074	132,102,550
2 <sup>nd</sup> Prior			81,464,777	46,625,373	2,256,410	839,971	187,674	131,374,205
3 <sup>d</sup> Prior				77,020,608	36,034,408	895,142	250,498	114,200,656
4 <sup>th</sup> Prior					78,744,411	45,191,707	718,232	124,654,350
5 <sup>th</sup> Prior						63,797,363	39,618,100	103,415,463
6 <sup>th</sup> Prior							72,704,896	72,704,896
Total	<u>88,696,448</u>	<u>131,412,839</u>	<u>131,075,088</u>	<u>126,917,431</u>	<u>118,346,545</u>	<u>111,343,118</u>	<u>113,789,530</u>	<u>821,580,999</u>
Expenses reported	126,558,009	129,628,318	128,156,673	126,251,519	108,085,771	111,846,159	\$108,738,000	839,264,449
Adjustment	<u>4,615,020</u>	<u>3,753,645</u>	<u>3,541,443</u>	<u>1,136,342</u>	<u>10,260,774</u>	<u>(503,041)</u>	<u>5,051,530</u>	<u>27,855,713</u>
Remaining liability	<u>\$ 42,476,581</u>	<u>\$ 1,969,124</u>	<u>\$ 623,028</u>	<u>\$ 470,430</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 45,539,163</u>

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Lag Report for Acute Care Payments  
Year Ended June 30, 2007

Quarter in Which Service Provided

Quarter of Payment	<u>Current</u>	<u>1<sup>st</sup> Prior</u>	<u>2<sup>nd</sup> Prior</u>	<u>3<sup>rd</sup> Prior</u>	<u>4<sup>th</sup> Prior</u>	<u>5<sup>th</sup> Prior</u>	<u>6<sup>th</sup> Prior</u>	<u>Total</u>
Current	\$23,160,499	\$ 571,777	\$ 297,523	\$ 34,230	\$ 121,939	\$ 806		\$ 24,186,774
1 <sup>st</sup> Prior		22,223,155	417,922	47,602	493,155	4,229	\$ 2,757	23,188,820
2 <sup>nd</sup> Prior			19,251,082	358,907	504,497	35,216	19,423	20,169,125
3 <sup>rd</sup> Prior				18,271,407	2,285,424	250,191	66,260	20,873,282
4 <sup>th</sup> Prior					18,269,529	1,898,675	412,726	20,580,930
5 <sup>th</sup> Prior						18,038,189	395,851	18,434,040
6 <sup>th</sup> Prior							19,223,730	19,223,730
Total	<u>23,160,499</u>	<u>22,794,932</u>	<u>19,966,527</u>	<u>18,712,146</u>	<u>21,674,544</u>	<u>20,227,306</u>	<u>20,120,747</u>	<u>146,656,701</u>
Expenses reported	24,729,913	23,400,969	20,625,536	20,032,954	18,746,944	22,687,844	21,499,401	151,723,561
Adjustment	<u>2,051,353</u>	<u>(606,037)</u>	<u>(298,444)</u>	<u>(358,197)</u>	<u>2,927,600</u>	<u>(2,460,538)</u>	<u>(1,378,654)</u>	<u>(122,917)</u>
Remaining liability	<u>\$ 3,620,767</u>	<u>\$ -0-</u>	<u>\$ 360,565</u>	<u>\$ 962,611</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,943,943</u>

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Lag Report for Other Medical Payments  
Year Ended June 30, 2007

Quarter in Which Service Provided

<u>Quarter of Payment</u>	<u>Current</u>	<u>1<sup>st</sup> Prior</u>	<u>2<sup>nd</sup> Prior</u>	<u>3<sup>rd</sup> Prior</u>	<u>4<sup>th</sup> Prior</u>	<u>5<sup>th</sup> Prior</u>	<u>6<sup>th</sup> Prior</u>	<u>Total</u>
Current	\$3,338,640	\$ 984,439	\$ 91,991	\$ 4,975	\$ 869			\$ 4,420,914
1 <sup>st</sup> Prior		1,648,107	2,258,876	13,723	460			3,921,166
2 <sup>nd</sup> Prior			3,003,558	267,635	12,370	\$ 16,260	\$ 4,687	3,304,510
3 <sup>rd</sup> Prior				1,830,158	260,345	68,796	55,887	2,215,186
4 <sup>th</sup> Prior					2,095,198	738,280	587,115	3,420,593
5 <sup>th</sup> Prior						1,046,455	358,037	1,404,492
6 <sup>th</sup> Prior							1,801,360	1,801,360
Total	<u>3,338,640</u>	<u>2,632,546</u>	<u>5,354,425</u>	<u>2,116,491</u>	<u>2,369,242</u>	<u>1,869,791</u>	<u>2,807,086</u>	<u>20,488,221</u>
Expenses reported	3,475,204	3,989,121	5,184,219	2,278,238	5,407,763	2,566,298	3,500,773	26,401,616
Adjustment	<u>(877,483)</u>	<u>(1,288,161)</u>	<u>2,083,233</u>	<u>286,334</u>	<u>(3,038,521)</u>	<u>(696,507)</u>	<u>(693,687)</u>	<u>(4,224,792)</u>
Remaining liability	<u>\$ (740,919)</u>	<u>\$ 68,414</u>	<u>\$1,913,027</u>	<u>\$ 448,081</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,688,603</u>

Department Of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Analysis of Profitability by Major Rate Code Classification  
Year Ended June 30, 2007

	Medicare	Non-Medicare	Total
Revenues:			
Capitation	\$ 77,970,001	\$628,690,192	\$706,660,193
Interest	<u>                    </u>	<u>4,067,800</u>	<u>4,067,800</u>
Total revenues	<u>77,970,001</u>	<u>632,757,992</u>	<u>710,727,993</u>
Expenditures:			
Institutional care expenditures:			
Skilled nursing		2,309,358	2,309,358
Intermediate (mentally retarded)		<u>21,650,391</u>	<u>21,650,391</u>
Total institutional care expenditures		<u>23,959,749</u>	<u>23,959,749</u>
Home- and community-based services (HCBS) expenditures:			
Group homes—state-operated		6,913,267	6,913,267
Group homes—vendor-operated		208,891,108	208,891,108
Assisted living center		22,584,651	22,584,651
Other		<u>273,722,843</u>	<u>273,722,843</u>
Total HCBS expenditures		<u>512,111,869</u>	<u>512,111,869</u>
Acute care expenditures	<u>88,789,372</u>		<u>88,789,372</u>
Other medical expenditures:			
Ventilator dependent (including nonacute and acute care)	<u>79,157</u>	<u>14,847,625</u>	<u>14,926,782</u>
Reduction to medical expenditures:			
Reinsurance	<u>286,034</u>	<u>3,410,177</u>	<u>3,696,211</u>
Total aid to individuals (medical expenditures)	<u>88,582,495</u>	<u>547,509,066</u>	<u>636,091,561</u>

(Continued)

Department of Economic Security  
 Division of Developmental Disabilities  
 ALTCS Contract  
 Analysis of Profitability by Major Rate Code Classification  
 Year Ended June 30, 2007  
 (Continued)

	Medicare	Non-Medicare	Total
Administrative expenditures:			
Allocated administrative expenditures	\$ 2,467,222	\$ 27,545,962	\$ 30,013,184
Case management	2,972,246	33,184,437	36,156,683
Professional and outside services	638,468	7,128,342	7,766,810
Premium tax	<u>1,514,637</u>	<u>16,910,568</u>	<u>18,425,205</u>
Total administrative expenditures	<u>7,592,573</u>	<u>84,769,309</u>	<u>92,361,882</u>
Total expenditures	<u>96,175,068</u>	<u>632,278,375</u>	<u>728,453,443</u>
Gain (loss) from operations	<u>\$(18,205,067)</u>	<u>\$ 479,617</u>	<u>\$(17,725,450)</u>

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Utilization Data Report  
Year Ended June 30, 2007

	<u>Medicare</u>		<u>Non-Medicare</u>		<u>Total</u>	
	<u>Current</u>	<u>YTD</u>	<u>Current</u>	<u>YTD</u>	<u>Current</u>	<u>YTD</u>
A. Enrollees	1,523		17,750		19,273	
B. Member Months (Unduplicated)	4,540	18,305	52,350	204,371	56,890	222,676
Institutional total	105	534	653	2,635	758	3,169
1. Level 2	69	268	132	490	201	758
2. Level 3	36	266	521	2,145	557	2,411
Home- and community-based services total	4,435	17,771	51,697	201,736	56,132	219,507
1. Group Home (DD)	1,351	5,496	6,047	24,228	7,398	29,724
2. Individual Home	2,398	9,545	37,858	148,145	40,256	157,690
3. Assisted Living Centers						
4. Other Adult Development Homes	344	1,318	1,079	4,172	1,423	5,490
5. Other Case Management Only	342	1,412	6,713	25,191	7,055	26,603
C. Ventilator dependent	3	7	338	1,313	341	1,320
D. Acute patient day information						
1. Admissions	21	45	360	595	381	640
2. Patient days	77	193	1,282	2,301	1,359	2,494
3. Discharges	21	45	360	595	381	640
4. Discharge days	77	193	1,282	2,301	1,359	2,494
5. Average length of stay	3.67	4.29	3.56	3.87	3.57	3.90

Department of Economic Security  
Division of Developmental Disabilities  
ALTCS Contract  
Related Party Transactions  
Year Ended June 30, 2007

<u>Related Party and Relationship</u>	<u>Service Provided</u>	<u>Description of Transactions or Payment Terms Agreement</u>	<u>Amount</u>
Department of Economic Security, Division of Developmental Disabilities, Intermediate Care Facility/Mentally Retarded, State Facilities	Health and rehabilitative services and administrative costs	Allocated by Title XIX case management time reporting and member days count	\$14,111,065
Department of Economic Security, Division of Developmental Disabilities, State-Operated Group Homes, State Facilities	Health and rehabilitative services and administrative costs	Allocated by Title XIX case management time reporting and member days count	11,812,769
Department of Economic Security, all other divisions	Administrative and fiscal services	Allocated departmental overhead costs	30,013,184
Department of Insurance	Compliance with Arizona Revised Statutes §§36-2905 and 36-2944.01	Premium tax payments	14,581,005