



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statement Audit

Department of Economic Security

Division of Developmental
Disabilities ALTCS Contract
Year Ended June 30, 2005



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
June 30, 2005

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

David A. Berns, 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 as of and for the year ended June 30, 2005, 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.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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.

As discussed in Note 1, the financial statements of the Department of Economic Security, Division of Developmental Disabilities, ALTCS Contract are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and major fund activity of the State of Arizona that is attributable to the transactions of the Department of Economic Security, Division of Developmental Disabilities, ALTCS Contract. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2005, and the changes in its financial position, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, 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, 2005, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the Department of Economic Security, Division of Developmental Disabilities, ALTCS Contract implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principle.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Department of Economic Security, Division of Developmental Disabilities, 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.

Debbie Davenport
Auditor General

October 7, 2005

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Balance Sheet—Special Revenue Fund
June 30, 2005

Assets	
Cash and investments held by the State Treasurer	\$80,267,755
Due from other state funds	<u>3,358,878</u>
 Total assets	 <u><u>\$83,626,633</u></u>
 Liabilities and Fund Balance	
Liabilities:	
Accrued administrative and payroll costs	\$ 3,413,261
Accrued medical and healthcare claims	54,932,759
Due to other state funds	<u>1,162,337</u>
 Total liabilities	 <u>59,508,357</u>
 Unreserved fund balance	 <u>24,118,276</u>
 Total liabilities and fund balance	 <u><u>\$83,626,633</u></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, 2005

Revenues:	
Capitation	\$574,285,920
Ventilator dependent	12,953,808
Fee for service	294,885
Interest	<u>1,833,765</u>
Total revenues	<u>589,368,378</u>
Expenditures:	
Health and welfare:	
Aid to individuals	499,371,140
Allocated administrative expenditures	26,936,750
Case management	27,269,975
Professional and outside services	8,025,224
Premium tax	<u>11,925,506</u>
Total expenditures	<u>573,528,595</u>
Excess of revenues over expenditures	15,839,783
Other financing uses:	
Transfers to other state funds	<u>(4,162,337)</u>
Net change in fund balance	11,677,446
Fund balance, July 1, 2004	<u>12,440,830</u>
Fund balance, June 30, 2005	<u>\$ 24,118,276</u>

See accompanying notes to financial statements.

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

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

During the year ended June 30, 2005, the Department of Economic Security, Division of Developmental Disabilities, ALTCS Contract implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the ALTCS Contract's deposits and investments. The implementation of GASB Statement No. 40 require only additional disclosures, and had no effect on reported amounts for deposits, investments, fund balance, or changes in fund balance.

A. Reporting Entity

For financial reporting purposes, the ALTCS Contract includes only that portion of the State of Arizona's general fund that is attributable to the transactions of the Department of Economic Security's Division of Developmental Disabilities ALTCS Contract. The Division of Developmental Disabilities is responsible for administering the ALTCS Contract. Fiscal responsibility for the Division remains with the Department of Economic Security and, ultimately, with the State of Arizona. The Division of Developmental Disabilities is a contractor with the Arizona Health Care Cost Containment System (AHCCCS) to provide medical and healthcare services to eligible enrollees of the AHCCCS 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.

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Notes to Financial Statements
June 30, 2005

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 of Arizona's General Fund at the combined state-wide level.

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 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. Expenditures are recognized when the related fund liability is incurred.

All ALTCS Contract revenues were susceptible to accrual and have been recognized as revenues of the current fiscal period.

D. Investment Income

Investment income is composed of interest, dividends, and net changes in fair value of investments on the ALTCS Contract's portion of monies deposited with the State Treasurer.

E. Incurred But Not Reported (IBNR) Methodology

IBNR medical claims are calculated for aid to individuals expenditures 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.

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Notes to Financial Statements
June 30, 2005

Note 2 - Cash and Investments Held by the State Treasurer

Arizona Revised Statutes (ARS) 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 Treasurer invests idle Contract monies in an internal investment pool (Pool 3) and distributes interest to the ALTCS Contract. 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. As a result, the ALTCS Contract'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, measured on a monthly basis, which approximates the Contract's value of participant pool shares.

The 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 ARS §35-311.

At June 30, 2005, the ALTCS Contract's deposits with the State Treasurer were as follows:

	Amount
Investment Pool 3	\$54,980,487
Cash deposits (projected liquidity needs)	<u>25,287,268</u>
	<u>\$80,267,755</u>

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Department of Economic Security does not have a formal investment policy with respect to credit risk. 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. The Department of Economic Security does not have a formal interest rate risk policy. As of June 30, 2005, the State Treasurer's weighted average to maturity of its Pool 3 investments is 1.88 years.

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Notes to Financial Statements
June 30, 2005

Note 3 - Due from Other State Funds

Amounts due from other state funds at June 30, 2005, include \$273,480 of interest earned, \$2,877,772 of capitation receivables due from AHCCCS, and \$207,626 in premium taxes receivables due from the Department of Insurance for overpayment of premium taxes.

Note 4 - Accrued Medical and Healthcare Claims

Accrued medical and healthcare claims totaling \$54,932,759 includes reported but unpaid claims (RBUC) of \$3,816,922 and estimated IBNR medical claims of \$51,115,837. 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 RBUC claims for these services have been reported as IBNR.

Note 5 - Acute Care Reinsurance

During the year ended June 30, 2005, the Division received reimbursements totaling \$1,998,973 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 to qualify for payment.

The Division disbursed a total of \$5,781,898 to the health plans during the year ended June 30, 2005, and had RBUCs of \$2,750,631 and IBNR claims of \$767,638 for total acute care reinsurance expenditures of \$9,300,167, which has been included in aid to individuals expenditures.

Note 6 - Aid to Individuals Expenditures

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

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Notes to Financial Statements
June 30, 2005

Institutional care:	
Skilled nursing	\$ 2,308,594
Intermediate (mentally retarded)	17,805,634
Institutional care IBNR	<u>1,317,220</u>
Total institutional care	<u>21,431,448</u>
Home- and community-based services (HCBS):	
State-operated group home	6,299,983
Vendor-operated group home	150,470,423
Adult developmental home	15,055,121
Home-based services	172,025,156
HCBS IBNR	<u>44,543,763</u>
Total HCBS	<u>388,394,446</u>
Acute care:	
Acute care	67,523,541
Acute care RBUC	204,115
Acute care IBNR	1,286,851
Reinsurance	5,781,898
Reinsurance RBUC	2,750,631
Reinsurance IBNR	767,638
Reinsurance reimbursement	<u>(1,998,973)</u>
Total acute care	<u>76,315,701</u>
Other:	
Ventilator dependent (including nonacute and acute care)	9,167,004
Other RBUC (ventilator dependent acute care)	862,176
Other IBNR (ventilator dependent nonacute and acute care)	<u>3,200,365</u>
Total other	<u>13,229,545</u>
Total aid to individuals expenditures	<u>\$499,371,140</u>

During the year ended June 30, 2005, the ALTCS Contract recorded allocated charges of \$19,552,370 as expenditures for direct care services provided to clients by the Division of Developmental Disabilities. The expenditures were charged to the ALTCS Contract as aid to individuals expenditures based on a federally approved cost allocation plan.

Note 7 - Allocated Administrative Expenditures

During the year ended June 30, 2005, the Division of Developmental Disabilities, ALTCS Contract recorded allocated administrative charges of \$26,936,750 as expenditures for its share of services provided by the Department.

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Notes to Financial Statements
June 30, 2005

Note 8 - Premium Tax

Arizona Revised Statutes (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 ALTCS. These premium taxes are included in capitation revenue when received from AHCCCS and are reported as expenditure when remitted to the Arizona Department of Insurance.

Note 9 - Transfers to Other State Funds

Transfers out during the year ended June 30, 2005, consisted of \$4,162,337 transferred to the state-funded Long-Term Care program as authorized by AHCCCS.

Note 10 - Commitments and Contingencies

The fiscal year 2006 appropriations (Senate Bill 1513), as provided in the General Appropriation Act (Laws 2005, Chapter 286 [S.B. 1513]) require that \$3,844,200 in interest revenue be transferred from Long-Term Care to the state-funded Long-Term Care program in the Division of Developmental Disabilities. As of June 30, 2005, this transfer has not been made or recorded as payable pending approval by AHCCCS.

The State of Arizona has the ultimate fiscal responsibility for the ALTCS Contract. Accordingly, any claims requiring additional resources require the Arizona State 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 that valid claims will be asserted and their amounts cannot reasonably be estimated.

Note 11 - 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 is a participant in the State's self-insurance program, and in the opinion of the Division's management, 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 unsettled claims and actions of the State are determined on an actuarial basis and are included in the *State of Arizona Comprehensive Annual Financial Report*.

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Notes to Financial Statements
June 30, 2005

Note 12 - Related Party Transactions

The ALTCS Contract reimbursed the Division of Developmental Disabilities for services provided to enrollees, as applicable, and other department divisions for administrative and fiscal services. In addition, the ALTCS Contract paid for premium tax payments to the Arizona Department of Insurance. See the accompanying supplementary schedule, Related Party Transactions, for details.

Note 13 - Retirement Plan

Plan Description—The ALTCS Contract contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes its financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the Division's contribution rate. For the year ended June 30, 2005, active plan members and the Division were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The ALTCS Contract's contributions to the System for the years ended June 30, 2005, 2004, and 2003, were \$2,517,889, \$2,173,879, and \$939,744, respectively, which were equal to the required contributions for the year.

Supplementary Schedules

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Medical Claims Payable (RBUCs and IBNRs)
June 30, 2005

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						\$ 1,317,220	\$ 1,317,220
HCBS						44,543,763	44,543,763
Acute care	\$1,245,848	\$770,455	\$930,477	\$ 7,966	\$2,954,746	2,054,489	5,009,235
Other medical (2)	<u>627,559</u>	<u>173,058</u>	<u>57,124</u>	<u>4,435</u>	<u>862,176</u>	<u>3,200,365</u>	<u>4,062,541</u>
Total claims payable	<u>\$1,873,407</u>	<u>\$943,513</u>	<u>\$987,601</u>	<u>\$12,401</u>	<u>\$3,816,922</u>	<u>\$51,115,837</u>	<u>\$54,932,759</u>

(1) The RBUCs amount represents claims received but not paid by the Division as of June 30, 2005. 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, 2005

Quarter in which Service Provided

<u>Quarter of Payment</u>	<u>Current</u>	<u>1st Prior</u>	<u>2nd Prior</u>	<u>3rd Prior</u>	<u>4th Prior</u>	<u>5th Prior</u>	<u>6th Prior</u>	<u>Total</u>
Current	\$4,453,895	\$ 817,758	\$ 29,604	\$ 20,607	\$ 3,111			\$ 5,324,975
1 st Prior		4,492,066	881,059	11,859	30,148			5,415,132
2 nd Prior			5,213,152	858,114	5,794	\$ 454	\$ 31	6,077,545
3 rd Prior				4,456,009	888,413	50,320	27,768	5,422,510
4 th Prior					4,486,162	924,785	57,392	5,468,339
5 th Prior						4,601,530	909,441	5,510,971
6 th Prior							<u>3,832,413</u>	<u>3,832,413</u>
Total	<u>4,453,895</u>	<u>5,309,824</u>	<u>6,123,815</u>	<u>5,346,589</u>	<u>5,413,628</u>	<u>5,577,089</u>	<u>4,827,045</u>	<u>37,051,885</u>
Expenses reported	5,427,295	5,156,165	6,070,213	4,777,775	4,926,271	5,441,961	4,275,914	36,075,594
Adjustment		<u>325,569</u>	<u>156,748</u>	<u>637,578</u>	<u>487,357</u>	<u>135,128</u>	<u>551,131</u>	<u>2,293,511</u>
Remaining liability	<u>\$ 973,400</u>	<u>\$ 171,910</u>	<u>\$ 103,146</u>	<u>\$ 68,764</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,317,220</u>

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Lag Report for Home- and Community-Based Services Payments
Year Ended June 30, 2005

Quarter in which Service Provided

<u>Quarter of Payment</u>	<u>Current</u>	<u>1st Prior</u>	<u>2nd Prior</u>	<u>3rd Prior</u>	<u>4th Prior</u>	<u>5th Prior</u>	<u>6th Prior</u>	<u>Total</u>
Current	\$63,036,739	\$38,257,951	\$ 1,827,323	\$ 561,916	\$ 418,150	\$ 203,630	\$ 61,918	\$104,367,627
1 st Prior		56,681,815	34,475,850	1,009,282	529,536	210,353	94,517	93,001,353
2 nd Prior			60,408,821	34,909,831	916,717	287,657	221,755	96,744,781
3 rd Prior				61,582,883	32,628,914	837,607	296,135	95,345,539
4 th Prior					57,600,913	31,963,979	1,400,371	90,965,263
5 th Prior						54,410,315	32,032,225	86,442,540
6 th Prior							<u>53,513,836</u>	<u>53,513,836</u>
Total	<u>63,036,739</u>	<u>94,939,766</u>	<u>96,711,994</u>	<u>98,063,912</u>	<u>92,094,230</u>	<u>87,913,541</u>	<u>87,620,757</u>	<u>620,380,939</u>
Expenses reported	93,908,310	96,115,272	99,129,594	99,241,270	89,605,075	92,360,876	86,445,806	656,806,203
Adjustment		<u>5,660,590</u>	<u>1,684,058</u>	<u>1,557,080</u>	<u>2,489,155</u>	<u>(4,447,335)</u>	<u>1,174,951</u>	<u>8,118,499</u>
Remaining liability	<u>\$30,871,571</u>	<u>\$ 6,836,096</u>	<u>\$ 4,101,658</u>	<u>\$ 2,734,438</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 44,543,763</u>

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Lag Report for Acute Care Payments
Year Ended June 30, 2005

Quarter in which Service Provided

<u>Quarter of Payment</u>	<u>Current</u>	<u>1st Prior</u>	<u>2nd Prior</u>	<u>3rd Prior</u>	<u>4th Prior</u>	<u>5th Prior</u>	<u>6th Prior</u>	<u>Total</u>
Current	\$17,644,592	\$ 2,572,791	\$ 114,154	\$ 662,296	\$ 519,550	\$ 28,852	\$ 795	\$ 21,543,030
1 st Prior		16,457,508	1,243,952	255,344	39,656	52,086	5,894	18,054,440
2 nd Prior			17,170,980	733,727	526,977	57,390	1,370	18,490,444
3 rd Prior				14,687,472	2,300,610	209,942	16,091	17,214,115
4 th Prior					14,278,720	790,039	94,312	15,163,071
5 th Prior						14,127,910	425,815	14,553,725
6 th Prior							<u>13,765,987</u>	<u>13,765,987</u>
Total	<u>17,644,592</u>	<u>19,030,299</u>	<u>18,529,086</u>	<u>16,338,839</u>	<u>17,665,513</u>	<u>15,266,219</u>	<u>14,310,264</u>	<u>118,784,812</u>
Expenses reported	22,038,623	18,037,150	18,129,617	20,109,283	17,495,597	14,760,812	16,531,017	127,102,099
Adjustment		<u>1,300,751</u>	<u>584,030</u>	<u>(3,647,403)</u>	<u>169,916</u>	<u>505,407</u>	<u>(2,220,753)</u>	<u>(3,308,052)</u>
Remaining liability	<u>\$ 4,394,031</u>	<u>\$ 307,602</u>	<u>\$ 184,561</u>	<u>\$ 123,041</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 5,009,235</u>

Department of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Lag Report for Other Medical Payments
Year Ended June 30, 2005

Quarter in which Service Provided

<u>Quarter of Payment</u>	<u>Current</u>	<u>1st Prior</u>	<u>2nd Prior</u>	<u>3rd Prior</u>	<u>4th Prior</u>	<u>5th Prior</u>	<u>6th Prior</u>	<u>Total</u>
Current	\$1,574,555	\$1,440,158	\$ 257,350	\$ 74,146	\$ 26,240	\$ 389	\$ 32,996	\$ 3,405,834
1 st Prior		1,067,571	1,236,776	81,162	81,636	5,403		2,472,548
2 nd Prior			1,214,193	1,048,758	154,215	3,222	1,169	2,421,557
3 rd Prior				1,172,334	414,415	114,703	110,258	1,811,710
4 th Prior					1,182,142	536,042	207,335	1,925,519
5 th Prior						1,220,086	579,238	1,799,324
6 th Prior							<u>1,375,837</u>	<u>1,375,837</u>
Total	<u>1,574,555</u>	<u>2,507,729</u>	<u>2,708,319</u>	<u>2,376,400</u>	<u>1,858,648</u>	<u>1,879,845</u>	<u>2,306,833</u>	<u>15,212,329</u>
Expenses reported	5,253,025	2,453,335	2,864,058	2,659,128	2,841,995	3,075,496	2,931,532	22,078,569
Adjustment		<u>246,430</u>	<u>(40,518)</u>	<u>(205,914)</u>	<u>(983,347)</u>	<u>(1,195,651)</u>	<u>(624,699)</u>	<u>(2,803,699)</u>
Remaining liability	<u>\$3,678,470</u>	<u>\$ 192,036</u>	<u>\$ 115,221</u>	<u>\$ 76,814</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,062,541</u>

Department Of Economic Security
Division of Developmental Disabilities
ALTCS Contract
Analysis of Profitability by Major Rate Code Classification
Year Ended June 30, 2005

	Medicare	Non-Medicare	Total
Revenues:			
Capitation	\$ 68,809,051	\$518,725,562	\$587,534,613
Interest	<u> </u>	<u>1,833,765</u>	<u>1,833,765</u>
Total revenues	<u>68,809,051</u>	<u>520,559,327</u>	<u>589,368,378</u>
Expenditures:			
Institutional care expenditures:			
Skilled nursing		2,663,640	2,663,640
Intermediate (mentally retarded)		<u>18,767,808</u>	<u>18,767,808</u>
Total institutional care expenditures		<u>21,431,448</u>	<u>21,431,448</u>
Home- and community-based services (HCBS) expenditures:			
Group homes – state-operated		6,349,831	6,349,831
Group homes – vendor-operated		169,823,552	169,823,552
Assisted living center		17,078,776	17,078,776
Other		<u>195,142,287</u>	<u>195,142,287</u>
Total HCBS expenditures		<u>388,394,446</u>	<u>388,394,446</u>
Acute care expenditures	<u>78,314,674</u>		<u>78,314,674</u>
Other medical expenditures:			
Ventilator dependent (including nonacute and acute care)	<u>764,207</u>	<u>12,465,338</u>	<u>13,229,545</u>
Reduction to medical expenditures:			
Reinsurance	<u>153,813</u>	<u>1,845,160</u>	<u>1,998,973</u>
Total aid to individuals (medical expenditures)	<u>78,925,068</u>	<u>420,446,072</u>	<u>499,371,140</u>

(Continued)

Department of Economic Security
 Division of Developmental Disabilities
 ALTCS Contract
 Analysis of Profitability by Major Rate Code Classification
 Year Ended June 30, 2005
 (Continued)

	Medicare	Non-Medicare	Total
Administrative expenditures:			
Allocated administrative expenditures	\$ 5,787,762	\$ 21,148,988	\$ 26,936,750
Case management	5,859,360	21,410,615	27,269,975
Professional and outside services	1,724,339	6,300,885	8,025,224
Premium tax	<u>2,562,791</u>	<u>9,362,715</u>	<u>11,925,506</u>
Total administrative expenditures	<u>15,934,252</u>	<u>58,223,203</u>	<u>74,157,455</u>
Total expenditures	<u>94,859,320</u>	<u>478,669,275</u>	<u>573,528,595</u>
Gain (loss) from operations	<u><u>\$(26,050,269)</u></u>	<u><u>\$ 41,890,052</u></u>	<u><u>\$ 15,839,783</u></u>

Department of Economic Security
 Division of Developmental Disabilities
 ALTCS Contract
 Utilization Data Report
 Year Ended June 30, 2005

	<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	3,558		13,375		16,933	
B. Member Months (Unduplicated)	10,605	42,054	39,384	153,669	49,989	195,723
Institutional total	395	1,704	260	1,067	655	2,771
1. Level 2	97	437	42	187	139	624
2. Level 3	298	1,267	218	880	516	2,147
Home- and community-based services total	10,210	40,350	39,124	152,602	49,334	192,952
1. Group Home (DD)	3,765	14,987	3,145	12,309	6,910	27,296
2. Individual Home	5,166	20,229	28,610	110,821	33,776	131,050
3. Assisted Living Centers						
4. Other Adult Development Homes	789	3,014	558	2,152	1,347	5,166
5. Other Case Management Only	490	2,120	6,811	27,320	7,301	29,440
C. Ventilator dependent	18	61	252	995	270	1,056
D. Acute patient day information						
1. Admissions	43	130	560	1,835	603	1,965
2. Patient days	268	782	3,147	9,381	3,415	10,163
3. Discharges	46	141	581	1,898	627	2,039
4. Discharge days	292	864	3,223	9,821	3,515	10,685
5. Average length of stay	6.35	6.13	5.55	5.17	5.61	5.24

Department of Economic Security
 Division of Developmental Disabilities
 ALTCS Contract
 Related Party Transactions
 Year Ended June 30, 2005

<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	\$12,154,299
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	7,398,071
Department of Economic Security, all other divisions	Administrative and fiscal services	Allocated departmental overhead costs	26,936,750
Department of Insurance	Compliance with Arizona Revised Statutes §§36-2905 and 36-2944.01	Premium tax payments	11,925,506