

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY**

**FINANCIAL STATEMENTS
AND OTHER INFORMATION**

YEAR ENDED SEPTEMBER 30, 2024



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**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
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INDEPENDENT AUDITORS' REPORT

Director
State of Arizona Department of Child Safety
Comprehensive Health Plan Fund
Phoenix, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Comprehensive Health Plan (CHP) Fund, a proprietary fund of the State of Arizona Department of Child Safety (DCS), as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the Comprehensive Health Plan's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Comprehensive Health Plan Fund, a proprietary fund of the State of Arizona Department of Child Safety, as of September 30, 2024, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Comprehensive Health Plan Fund, a proprietary fund of the State of Arizona Department of Child Safety and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Comprehensive Health Plan Fund, a proprietary fund of the State of Arizona Department of Child Safety, and do not purport to, and do not, present fairly the financial position of the State of Arizona Department of Child Safety as of September 30, 2024, the change in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Comprehensive Health Plan (CHP) Fund, a proprietary fund of the State of Arizona Department of Child Safety's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis and certain pension required supplementary information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Listing of Plan Officers and Directors and the Claims Lag report but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2025, on our consideration of the Comprehensive Health Plan (CHP) Fund, a proprietary fund of the State of Arizona Department of Child Safety'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 solely 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 the effectiveness of the CHP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CHP's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
April 17, 2025

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
STATEMENT OF NET POSITION – PROPRIETARY FUND
SEPTEMBER 30, 2024**

ASSETS

ASSETS

Reconciliations Receivable	\$ 18,212,899
Reinsurance Receivable	3,141,776
Capitation Receivable	63,386
Other Contract Receivables	<u>151,283</u>
Total Assets	<u><u>\$ 21,569,344</u></u>

LIABILITIES AND NET POSITION

LIABILITIES

Due to Mercy Care	\$ 20,874,461
Payables to Providers	274,358
Payables to Others	1,460,796
Accrued Administrative Expenses	<u>1,338,896</u>
Total Liabilities	23,948,511

NET POSITION

Unrestricted (Deficit)	<u>(2,379,167)</u>
Total Liabilities and Net Position	<u><u>\$ 21,569,344</u></u>

See accompanying Notes to Financial Statements.

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2024**

REVENUES

Capitation	\$ 176,184,355
Reconciliation Settlements	<u>15,675,854</u>
Total Revenues	191,860,209

EXPENSES

Sub-Capitated Health Care Expenses	163,131,067
Administrative Expenses	27,234,652
Premium Tax	<u>2,787,452</u>
Total Expenses	<u>193,153,171</u>

CHANGE IN NET POSITION	(1,292,962)
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OTHER NONCAPITAL FINANCING SOURCES

Transfer Out to Arizona Department of Child Safety General Fund	(2,080,556)
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Net Position - Beginning of Year	<u>994,350</u>
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NET POSITION - END OF YEAR	<u><u>\$ (2,379,167)</u></u>
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See accompanying Notes to Financial Statements.

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2024**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from AHCCCS	\$ 174,775,451
Payments of Health Care Expenses	(147,514,308)
Payments of Administrative Expenses	(25,593,776)
Premium Taxes Paid	<u>(2,787,452)</u>
Net Cash Used by Operating Activities	(1,120,085)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfer Out to Arizona Department of Child Safety General Fund	<u>(2,080,556)</u>
Net Cash Used by Noncapital Financing Activities	<u>(2,080,556)</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS

(3,200,641)

Cash and Cash Equivalents - Beginning of Year

3,200,641

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ -

**RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH
USED BY OPERATING ACTIVITIES**

Change in Net Position	\$ (1,292,962)
Adjustments to Reconcile Change in Net Position to Net Cash Used by Operating Activities:	
Changes in Operating Assets and Liabilities:	
Reconciliations Receivable	22,747,034
Reinsurance Receivables	(378,294)
Capitation Receivable	(44,413)
Other Contract Receivables	202,955
Due to AHCCCS	(39,402,137)
Due to Mercy Care	16,215,477
Accrued Administrative Expenses	1,640,876
Payable to Providers	<u>(808,621)</u>
Net Cash Used by Operating Activities	<u><u>\$ (1,120,085)</u></u>

See accompanying Notes to Financial Statements.

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Reporting Entity

The accounting policies of the Comprehensive Health Plan (CHP) Fund, a proprietary fund of the State of Arizona Department of Child Safety (DCS) conform to the accounting principles generally accepted in the United States of America applicable to governmental units. The financial statements of CHP, as a proprietary fund of DCS, are not intended to represent the related financial statement information of the primary government.

In January 2014, the Governor of Arizona signed Executive Order 2014-01 establishing a separate Child Safety and Family Services Division as a standalone, independent department which reports directly to the Governor. This event shifted control and financial responsibility of CHP Fund, a proprietary fund of DCS to DCS.

CHP is a health plan established by Arizona Revised Statutes (ARS) §8-512 to provide comprehensive medical and dental care for children who are (a) placed in a foster home, (b) in the custody of DCS and placed with a relative, in a certified adoptive home prior to the final order of adoption, or in an independent living program as provided in ARS §8-512; and (c) in the custody of the Arizona Department of Juvenile Correction or the Administrative Office of the Courts/Juvenile Probation Office and placed in foster care. These services are provided to eligible children in all 15 Arizona counties through an intergovernmental agreement between DCS and the Arizona Health Care Cost Containment System (AHCCCS). CHP has operated as an acute care health plan since 1972. CHP has contracted with AHCCCS to provide health care services to children determined to be eligible enrollees of CHP. These health care services include inpatient, outpatient, dental and other medical services, including pharmacy, laboratory, and physical therapy.

In July 2020, DCS entered into an agreement with Mercy Care, a local, nonprofit company that has been serving AHCCCS members in Arizona since 1985 to provide physical and behavioral health services for children enrolled with CHP. The agreement has an initial term of three years with the possibility of extensions for two additional two-year periods and three additional single year periods, for a total contract length not to exceed 10 years. This collaboration creates innovation in child welfare that draws upon CHP's knowledge and experience around the unique needs of children and families involved in foster care and Mercy Care's knowledge and experience in physical and behavioral health care and service delivery. Under the new partnership, the provider network is comprehensive and designed to meet the physical and behavioral health needs of the children in child welfare throughout the state.

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of the Reporting Entity (Continued)

Effective April 1, 2021, Mercy Care is responsible for the administration and provision of integrated physical health and behavioral health services. Mercy Care, in close collaboration with CHP, provides for the delivery of these integrated services as required by the contract, including but not limited to, Network Development and Management, Claims/Encounter processing, Utilization Management, Care Management, Care Coordination, Member Services, and Grievance and Appeals (both member and provider). In fulfilling its responsibilities, Mercy Care collaborates closely with CHP to create a health care delivery system that provides the highest quality of services for Arizona's children and youth in foster care. Pursuant to the agreement with Mercy Care, CHP pays Mercy Care a per member per month capitation rate as set by AHCCCS, representing a portion of the per member per month funding received from AHCCCS by CHP. Payables to providers recorded by CHP subsequent to the effective date of the Mercy Care agreement typically relate to nonrevenue cash inflows from AHCCCS that are entirely directed by AHCCCS on use that were not remitted to the providers chosen by AHCCCS prior to fiscal year-end.

For financial reporting purposes, CHP is considered a proprietary fund of DCS. Control and fiscal accountability of CHP rests with DCS and, ultimately, with the State of Arizona (State). CHP becomes part of DCS' activity which is reported in the State's general fund and government-wide financial statements within the State's Annual Comprehensive Financial Report. DCS will continue to fund the operations and cash flows of CHP, as necessary.

Fund Accounting

CHP's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on CHP's available resources are observed. The principles of fund accounting require that the 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 comprises its assets, liabilities, net position, revenues, and expenses, as appropriate.

Measurement Focus and Basis of Accounting

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues of CHP include capitation revenues net of risk share settlements. Operating expenses for CHP include the sub-capitated expenses paid to Mercy Care, other medical expenses, administrative expenses and premium taxes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. CHP has no nonoperating revenues and expenses for the year ended September 30, 2024.

**COMPREHENSIVE HEALTH PLAN FUND
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STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. CHP's financial transactions are recorded and reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund revenues are recognized when they are earned, and expenses are recognized when they are incurred.

CHP has neither adopted a minimum fund balance policy nor any agency specific policy for the order of spending fund balances; rather, CHP follows the policies of DCS and adheres to the purpose of legislative appropriations or Federal grant regulations.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates potentially susceptible to change in the near term relate to the prospective tiered reconciliation settlement with AHCCCS and the reconciliation settlement with Mercy Care.

Cash and Cash Equivalents

All of the cash and cash equivalents maintained by CHP are held by the State of Arizona Office of the Treasurer (Treasurer) with other State monies in an internal cash and investment pool. Amounts held by the Treasurer are recorded at fair value and totaled \$-0- at September 30, 2024.

The State of Arizona is statutorily limited (by ARS §35-312 and §35-313) to certain investment types. Additionally, State statutes require investments made to be in accordance with the "Prudent Person" rule. This rule imposes the responsibility of making investments with the judgment and care that persons of ordinary prudence would exercise in the management of their own affairs when considering both the probable safety of their capital and the probable income from that capital. The Treasurer issues a separately published Annual Financial Report that provides additional information relative to the Treasurer's total investment activities.

Capitation Premiums

CHP receives from AHCCCS fixed capitation payments based on certain rates for each member enrolled with CHP. CHP is required to provide all covered health care services to their members, regardless of the cost of care and does so through its contract with Mercy Care. Capitation premiums are recognized over the applicable coverage period on a per member basis for covered members in the month that enrollees are entitled to health care services.

**COMPREHENSIVE HEALTH PLAN FUND
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STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitation Premiums (Continued)

Capitation is paid prospectively as well as for prior period coverage (PPC) under the AHCCCS contract. The PPC period is the period of time prior to the member's enrollment, during which a member is eligible for covered services. The timeframe is from the effective date of eligibility to the day a member is enrolled with a contractor.

Capitation receivables, if any, are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to capitation receivables. Management expects to collect the capitation receivable balance in full and accordingly, no provision for uncollectible accounts is recorded.

Reconciliation Settlements

AHCCCS has a risk sharing program which includes reconciliation settlements, which impact revenue and are due to, or from, AHCCCS based on predetermined profit/loss thresholds. Prior to the contract year ended September 30, 2022, CHP and AHCCCS reconciled the results of the risk sharing program for all contract years. If the profit or loss was less than or equal to 2% of the prospective capitation revenues, then CHP's share was 100%. If the profit was less than or equal to 6%, then CHP's share was 100% of the amount less than or equal to 6%. If the profit was over 6%, then CHP's share of the profits over 6% was 0%, for a maximum share of 6% of total profits. If the losses were in excess of 2%, then CHP's share over 2% of the losses was 0%, for a maximum share of 2% of total losses. Profits in excess of the percentages set forth by the contract were subject to recoupment by AHCCCS. Losses in excess of the percentages set forth by the contract were subject to payment to CHP. Effective for the period from April 1, 2021 through September 30, 2021 and thereafter, CHP no longer reconciles with AHCCCS for risk sharing related to its contract with AHCCCS. Rather, CHP reconciles with Mercy Care pursuant to the contract between CHP and Mercy Care.

Effective with the commencement of the CHP contract with Mercy Care, the sharing of risk commenced between CHP and Mercy Care based on Mercy Care's contract performance. CHP and Mercy Care will reconcile Mercy Care's prospective and prior period coverage service cost expenses to prospective and prior period coverage net capitation paid to Mercy Care for each contract year. If the profit under the Mercy Care contract is over 4%, then CHP's share of the profits over 4% is 100%. If the losses are in excess of 1%, then CHP's share of the loss over 1% is 100%.

**COMPREHENSIVE HEALTH PLAN FUND
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STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reconciliation Settlements (Continued)

The total of risk share settlement payable due to Mercy Care for contracts years ended September 30, 2024 and 2023 totals \$15,616,759 and is reflected within reconciliations receivable in the accompanying statement of net position – proprietary fund as of September 30, 2024. That balance at September 30, 2024 is comprised of the following:

As of September 30, 2023, CHP recorded an estimated receivable from Mercy Care for the contract year 2022 risk share reconciliation of \$30,349,780. In May 2024, CHP and Mercy Care agreed to settle the risk share reconciliation for the contract year 2022 in the amount of \$30,714,734.

The risk share reconciliation between CHP and Mercy Care for the contract year ended September 30, 2023 has not yet been settled. As of September 30, 2023, CHP recorded an estimated receivable from Mercy Care for the contract year 2023 risk share reconciliation of \$1,274,429 resulting from Mercy Care exceeding the maximum profit for the contract year ended September 30, 2023. As of September 30, 2024, CHP revised its estimated risk share settlement payable to Mercy Care to be \$173,396. The net decrease of \$1,101,033 was recorded by CHP as an increase of health care expenses in the accompanying statement of revenues, expenses and changes in net position – proprietary fund for the year ended September 30, 2024. This change in estimate which resulted in a decrease in the risk share settlement receivable from Mercy Care from September 30, 2023 to September 30, 2024 was due to further claims runout and performance by Mercy Care.

The risk share reconciliation between CHP and Mercy Care for the contract year ended September 30, 2024 has not yet been settled. As of September 30, 2024, CHP has estimated a risk share settlement payable to Mercy Care of \$15,443,364 resulting from Mercy Care exceeding the maximum profit for the contract year ended September 30, 2024.

The risk share reconciliation between CHP and Mercy Care is subject to approval by AHCCCS. Upon settlement of the risk share settlement between CHP and Mercy Care and approval by AHCCCS, any amounts due to Mercy Care will be funded by AHCCCS through CHP and any amounts due from Mercy Care will be recouped by CHP and remitted to AHCCCS. Accordingly, as of September 30, 2024, CHP has recorded an amount due to Mercy Care totaling \$15,616,759 representing the expected amount due to Mercy Care from CHP, plus premium tax amounts, to reconcile risk sharing for the contract years ended September 30, 2024 and 2023 which is ultimately required to be remitted from AHCCCS. The remaining \$5,257,702 payable to Mercy Care for other medical claim liabilities. The estimated risk share reconciliation amount for contract year 2024, and the changes in the estimates during the year ended September 30, 2024 for contract year 2023 are recorded as a net reduction of reconciliation settlement revenue in the accompanying statement of revenues, expenses and changes in net position – proprietary fund for the year ended September 30, 2024. Management expects to fully collect on the receivable from AHCCCS and as such, no allowance for uncollectible accounts has been recorded as of September 30, 2024.

**COMPREHENSIVE HEALTH PLAN FUND
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premium Deficiency Reserve

CHP assesses the profitability of contracts for providing health care services when operating results or forecasts indicate probable future losses. Losses are determined by comparing anticipated premiums to the total of estimated health care related costs, less reinsurance recoveries, if any, and the cost of maintaining the contract. Losses, if any, would be recognized in the period the loss is determined and classified as health care services expenses. At September 30, 2024, CHP did not report a premium deficiency reserve for its AHCCCS contract.

Health Care Expenses

Pursuant to the agreement with Mercy Care, CHP pays Mercy Care a per member per month sub-capitation rate as set by AHCCCS, representing a portion of the per member per month funding received from AHCCCS by CHP. Under its agreement with Mercy Care, Mercy Care provides for the delivery of these integrated services as required by the contract, including but not limited to, Network Development and Management, Claims/Encounter processing, Utilization Management, Care Management, Care Coordination, Member Services, and Grievance and Appeals (both member and provider), regardless of the cost of care. Sub-capitation health care expenses are recorded in accordance with the terms of the Mercy Care agreement. As of September 30, 2024, CHP recorded approximately \$5,257,702 due to Mercy Care for sub-capitation payments. Included in the \$5,257,702 due to Mercy Care at September 30, 2024 is approximately \$2,232,027 of certain value based purchasing risk share reconciliations with Mercy Care for contract years 2023 and 2024.

Reinsurance

Reinsurance and other reductions of the costs of providing care are managed by Mercy Care and are recorded by Mercy Care. Reinsurance payments due to Mercy Care are funded by CHP through CHP's AHCCCS funding. The receipt and payment of the reinsurance payments are all recorded within sub-capitation expenses in the accompanying statement of revenues, expenses and changes in net position-proprietary fund. As of September 30, 2024, CHP recorded a reinsurance receivable from AHCCCS totaling approximately \$3,141,776 in the accompanying statement of net position-proprietary fund, for reinsurance recoveries approved by AHCCCS to be paid to Mercy Care. A corresponding due to Mercy Care of approximately \$3,141,776 was recorded at September 30, 2024.

Premium Taxes

CHP is subject to a 2% tax on all payments received from AHCCCS for premiums, reinsurance and reconciliations which are remitted directly to the Arizona Department of Insurance and Finance Institutions (AZDIFI).

**COMPREHENSIVE HEALTH PLAN FUND
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STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Classifications

Fund balances for proprietary funds require the difference between the proprietary fund's assets and deferred outflows of resources and its liabilities and deferred inflows of resources be reported in the statement of net position to be labeled net position and to be displayed in three components: net investment in capital assets, restricted, and unrestricted. Restricted assets are those assets with restrictions on their use that are externally imposed (by creditors, grantors, contributors, or the laws or regulations of other governments) or that are imposed by the government's own constitutional provisions or enabling legislation. CHP's net position each year is restricted by the grantor (AHCCCS) for the provision of health care services. Accordingly, CHP has reported its net position as unrestricted (deficit) at September 30, 2024. The fund balance is in its own sub-fund classification and is considered proprietary as funds cannot be used for any other purpose other than cost related to Medicaid services as outlined in the contract between CHP and AHCCCS. For the funds to be used for any other purpose, approval by AHCCCS or the State of Arizona Legislature is required. The net position is restricted at 100% of the balance. In May and June of 2024, DCS approved a transfer of fund balance to the General Fund from the Comprehensive Health Plan Fund totaling \$2,080,556.

Subsequent Events

CHP has evaluated subsequent events through April 17, 2025, which is the date the financial statements were available to be issued. On January 1, 2025, CHP had obtained the updated Risk Share Settlement Reconciliations with Mercy Care for contract year ended September 30, 2023 and 2024. For the 2023 risk share settlement, which includes the fully adjudicated encounters from October 1, 2022 through to September 30, 2023 and the 15 months ended December 31, 2024. The update in reconciliation resulted a \$-0- amount due to Mercy Care. This resulted from the correction in classification for non-2023 risk share settlement activities, which were inaccurately recorded as Alternative Payment Methods (APM) and Subcontractor Payments. For the 2024 risk share settlement, which includes the fully adjudicated encounters from October 1, 2023 through to September 30, 2024 and the subsequent months to December 31, 2024. The update in reconciliation resulted in an adjusted increase of \$5,552,359 payable due to Mercy Care, an increase of 26%. CHP prepares a preliminary reconciliation using the fully adjudicated encounter report as prepared by AHCCCS, which include up to 15 months following the end of the contract year.

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024**

NOTE 2 ADMINISTRATIVE SERVICES

Certain direct, indirect and administrative expenses are incurred at DCS, which benefit CHP. Such common expenses are allocated based upon a DCS approved cost allocation plan, which is primarily based on enrollment, claims and costs by fund. Administrative expenses for the year ended September 30, 2024 includes direct CHP costs as well as certain allocated costs which are paid to DCS for shared expenses such as information technology, support services, legislative affairs, general counsel, quality improvement, field operations and office administration. CHP recorded administrative expenses totaling \$27,234,652 for the year ended September 30, 2024. Of this amount, \$6,258,495 represents Sub Capitation Block Administration Fees paid to Mercy Care. The remaining \$20,976,157 represents Care Management/Care Coordination fees as well as CHP's allocated share of services provided by DCS.

NOTE 3 RETIREMENT PLAN

Plan Description

CHP contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. CHP is a proprietary fund and thus their net pension liability is not reported in these financial statements but is reported within the financial statements of the State of Arizona.

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

Funding Policy

The State of Arizona Legislature establishes and may amend active plan members' and CHP's contribution rates. For the nine months ended June 30, 2024, active plan members and CHP were each required by statute to contribute at the actuarially determined rate of 12.29% (12.14% retirement and 0.15% long-term disability) of the member's annual covered payroll. As of July 1, 2024, the total contribution rate of the ASRS Retirement Pension & Health Insurance Benefit for both the employer and the employee decreased slightly from 12.14% to 12.12% for fiscal year 2025. The Long-Term Disability Income Plan remained the same at 0.15% for both the employer and the employee for fiscal year 2025. The combined contribution rates total 12.27% for fiscal year 2024. CHP's contributions to ASRS for the year ended September 30, 2024 totaled \$585,259 which was equal to the required contributions for the period. These expenses are included in administrative expenses in the accompanying statement of revenues, expenses and changes in net position – proprietary fund.

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024**

NOTE 4 COMMITMENTS AND CONTINGENCIES

Risk Management

CHP 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. DCS is a participant in the State of Arizona self-insurance program, and in the opinion of CHP's management, any unfavorable outcomes from these risks would be covered by that self-insurance program. Accordingly, DCS 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 Annual Comprehensive Financial Report.

Healthcare Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that CHP is in compliance with fraud and abuse laws and regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future reviews and interpretation as well as regulatory actions unknown or unasserted at this time.

Health reform legislation at both the federal and state levels continues to evolve. Changes continue to impact existing and future laws and rules. Such changes may impact the way CHP does business, restrict revenue and enrollment growth, restrict revenue growth rates, increase medical, administrative and capital costs, and expose CHP to increase risk of loss or further liabilities. CHP's operating results, financial position and cash flows could be adversely impacted by such changes.

NOTE 5 CONTRACT REQUIREMENTS

In accordance with its contract with AHCCCS, CHP is required to maintain certain minimum financial reporting and viability measures. Financial measures include the maintenance of a current ratio of at least 1.0, a medical expense ratio of at least 85% and an administrative cost percentage of no more than 15%. CHP must also meet various quarterly financial viability standards and performance guidelines. As of September 30, 2024, CHP was not in compliance with the current ratio requirement. As of September 30, 2024, CHP was in compliance with the administrative cost percentage and medical expense ratio.

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2024**

NOTE 5 CONTRACT REQUIREMENTS (CONTINUED)

Should CHP be in default of any material obligations under the AHCCCS contract, AHCCCS may, at its discretion, in addition to other remedies, either adjust the amount of future payments or withhold future payment until satisfactory resolution of the default or exception. Further, if monies are not appropriated by the State or are not otherwise available, the AHCCCS contract may be cancelled upon written notice until such monies are so appropriated or available.

AHCCCS has a right to sanction CHP for matters of noncompliance of the AHCCCS contract, as determined by AHCCCS. CHP had not received notification of sanctions levied by AHCCCS during fiscal year ended September 30, 2024.

NOTE 6 CONCENTRATION OF CREDIT RISK

CHP's future contract awards are contingent upon the continuation of the AHCCCS program by the State and CHP's ability and desire to retain its status as a Contractor under the AHCCCS program. Effective October 1, 2023, CHP has extended the contract through to September 30, 2024. The contract is not to exceed a total contracting period of seven years. Failure to renew this contract could have a significant impact on operations. Effective October 1, 2024, CHP has extended the contract through to September 30, 2025.

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
LISTING OF PLAN OFFICERS AND DIRECTORS
YEAR ENDED SEPTEMBER 30, 2024
(SEE INDEPENDENT AUDITORS' REPORT)**

<u>Name</u>	<u>Title</u>	<u>Other Relationship to Program</u>	<u>Type of Compensation</u>
Mouw, Karla	Comprehensive Health Plan - Chief Executive Officer	None	Salary
Park, Sara, M.D.	Comprehensive Health Plan - Chief Medical Officer	None	Salary
LaCorte, Michael, D.D.S.	Comprehensive Health Plan - Chief Quality Officer	None	Salary
Winfrey, Jason	Comprehensive Health Plan - Chief Operations Officer	None	Salary
Harri, Theresa	Comprehensive Health Plan - Chief Financial Officer	None	Salary
Dong, Ivy	Comprehensive Health Plan - Pharmacy Director	None	Salary
Perry, Sara	Comprehensive Health Plan - Chief Health Services Officer	None	Salary
Piper Audra	Comprehensive Health Plan - Health Plan Operations Administrator	None	Salary
Seeger, Sean	Comprehensive Health Plan - Network Administrator	None	Salary
Cearlock, Amelio	Comprehensive Health Plan - System of Care Coordinator	None	Salary
Urbina, Marta	Comprehensive Health Plan - Resource Coordination Administrator	None	Salary
Kiersecker, Rachel	Comprehensive Health Plan - Health Plan Project Coordinator	None	Salary

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
CLAIMS LAG REPORT
SEPTEMBER 30, 2024
(SEE INDEPENDENT AUDITORS' REPORT)**

Paragraph 4.07: Claims Lag Report

Contractor Name: Department of Child Safety Comprehensive Health Plan
as of: 9/30/2024

Expense Type: Hospital, Medical and Other (PPC and Prospective)

	Claim Quarter									
	Current	1st Prior	2nd Prior	3rd Prior	4th Prior	5th Prior	6th Prior	7th Prior	Before 7th Prior*	Total
Current	35,759,877									35,759,877
1st Prior		45,236,945								45,236,945
2nd Prior			33,638,087							33,638,087
3rd Prior				25,542,415						25,542,415
4th Prior					26,568,224					26,568,224
5th Prior						34,497,776				34,497,776
6th Prior							36,432,535	40,359,505		76,792,040
7th Prior								393,241,133		393,241,133
Actual Paid Adj.	8,713,301	5,618,336	(7,444,121)	16,141,475	30,066,794	(6,438,957)	(14,574,043)	91,809,379		123,892,165
Total Paid	44,473,178	50,855,281	26,193,965	41,683,890	56,635,018	28,058,819	21,858,492	525,410,017	-	795,168,661
Ultimate Adj.		(4,937,452)	(6,546,501)	(86,581)	(4,658,984)	(4,313,682)	148,665	(1,540,935)		
IBNR	5,257,702	4,937,452	6,546,501	86,581	4,658,984	4,313,682	(148,665)	1,540,935		27,193,171
RBUC Payable										
Claims Ultimate	49,730,880	50,855,281	26,193,965	41,683,890	56,635,018	28,058,819	21,858,492	525,410,017	-	800,426,362
Claims Payable	5,257,702	-	-	-	-	-	-	0	-	5,257,702

* Amounts in this column or row include include all previous quarters with remaining claims reserved/estimated claims payable



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Director
State of Arizona Department of Child Safety
Comprehensive Health Plan Fund
Phoenix, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Comprehensive Health Plan (CHP) Fund, a proprietary fund of the State of Arizona Department of Child Safety, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the CHP's financial statements, and have issued our report thereon dated April 17, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CHP's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CHP's internal control. Accordingly, we do not express an opinion on the effectiveness of the CHP's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CHP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CHP's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CHP's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Phoenix, Arizona
April 17, 2025

**COMPREHENSIVE HEALTH PLAN FUND
A PROPRIETARY FUND OF THE
STATE OF ARIZONA DEPARTMENT OF CHILD SAFETY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2024**

Section I – Summary of Auditors’ Results

1. An unmodified opinion has been expressed on the financial statements of CHP, as of and for the year ended September 30, 2024, and the related notes to the financial statements.
2. Noted no deficiencies in internal control over financial reporting that we consider to be material weaknesses.
3. Noted no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Section II – Financial Statement Findings

No findings noted in the current fiscal year under audit.

