

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Health Choice Integrated Care, LLC  
Year Ended September 30, 2018  
With Report of Independent Auditors

Ernst & Young LLP



Health Choice Integrated Care, LLC

Financial Statements and  
Supplementary Information

Year Ended September 30, 2018

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## Report of Independent Auditors

The Board of Directors  
Health Choice Integrated Care, LLC

We have audited the accompanying financial statements of Health Choice Integrated Care, LLC, which comprise the balance sheet as of September 30, 2018, and the related statements of activities, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Health Choice Integrated Care, LLC as of September 30, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Supplemental Schedule of Activities, Supplemental Schedule of Activities – Disclosures, Sub-Capitated Expense and Block Expense Reports are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2019 on our consideration of Health Choice Integrated Care, LLC'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 Health Choice Integrated Care, LLC'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 Health Choice Integrated Care, LLC's internal control over financial reporting and compliance.

*Ernst + Young LLP*

August 29, 2019

# Health Choice Integrated Care, LLC

## Balance Sheet

September 30, 2018

### Assets

#### Current assets:

Cash	\$ 21,355,286
Health insurance provider fee receivable	5,825,128
Due from AHCCCS	1,280,946
Other grants and contracts receivable	293,827
Due from Parent, net	30,413,088
Other current assets	<u>1,279,429</u>
Total current assets	<u>\$ 60,447,704</u>

### Liabilities and members' equity

#### Current liabilities:

Accounts payable and accrued expenses	\$ 2,118,813
Medical claims payable	5,655,280
Payable to providers	10,599,507
Due to AHCCCS	9,070,203
Health insurance provider fee payable	5,117,717
Deferred revenue	<u>1,279,429</u>
Total liabilities	33,840,949

#### Members' equity:

Contributed capital	5,000,000
Retained earnings	<u>21,606,755</u>
Total members' equity	<u>26,606,755</u>
Total liabilities and members' equity	<u>\$ 60,447,704</u>

*See accompanying notes.*

Health Choice Integrated Care, LLC

Statement of Activities

Year Ended September 30, 2018

Revenue:	
Capitation premiums	\$ 251,790,261
Other grants and contracts revenue	21,265,994
Health insurance provider fee revenue	<u>3,838,288</u>
Total revenue	<u>276,894,543</u>
Expenses:	
Medical expense	241,752,523
Administrative expenses	16,949,143
Premium tax expense	5,100,144
Health insurance provider fee expense	<u>3,838,288</u>
Total expenses	<u>267,640,098</u>
Operating income	9,254,445
Interest income	221,749
Community reinvestment expense	<u>(568,571)</u>
Net income	<u><u>\$ 8,907,623</u></u>

*See accompanying notes.*

Health Choice Integrated Care, LLC

Statement of Changes in Members' Equity

Year Ended September 30, 2018

	<b>Contributed Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance, beginning of year	\$ 5,000,000	\$ 23,949,132	\$ 28,949,132
Distributions to members	–	(11,250,000)	(11,250,000)
Net income	–	8,907,623	8,907,623
Balance, end of year	<u>\$ 5,000,000</u>	<u>\$ 21,606,755</u>	<u>\$ 26,606,755</u>

*See accompanying notes.*

Health Choice Integrated Care, LLC

Statement of Cash Flows

Year Ended September 30, 2018

**Operating activities**

Net income	\$ 8,907,623
Adjustments to reconcile net income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Health insurance provider fee receivable	(5,825,128)
Due from AHCCCS	(6,416)
Other grants and contracts receivable	(148,858)
Due from Parent, net	(1,249,752)
Other current assets	(1,243,276)
Accounts payable and accrued expenses	1,056,860
Medical claims payable	(264,697)
Payable to providers	3,949,829
Due to AHCCCS	1,173,845
Health insurance provider fee payable	5,117,717
Deferred revenue	982,395
Net cash provided by operating activities	<u>12,450,142</u>

**Financing activities**

Distribution to members	<u>(11,250,000)</u>
Net cash used in financing activities	<u>(11,250,000)</u>
Change in cash and cash equivalents	1,200,142
Cash and cash equivalents, beginning of year	<u>20,155,144</u>
Cash and cash equivalents, end of year	<u><u>\$ 21,355,286</u></u>

*See accompanying notes.*



# Health Choice Integrated Care, LLC

## Notes to Financial Statements

September 30, 2018

### 1. Organization

Health Choice Integrated Care, LLC (HCIC or the Organization) is an Arizona Limited Liability Company located in Flagstaff, Arizona. HCIC was formed to provide high-quality physical and behavioral healthcare services on an integrated basis to Medicaid eligible adults with serious mental illness and to operate as the Regional Behavioral Health Authority (RBHA) to coordinate the delivery of healthcare services to eligible persons in Northern Arizona and to perform all obligations under the RBHA contract entered into by the Organization and the Arizona Department of Health Services (ADHS). On December 18, 2014, HCIC was awarded a contract with ADHS to serve as the designated RBHA for Northern Arizona. The contract was effective October 1, 2015 and has an initial three-year term with two two-year renewal options for the potential maximum length of seven years. Effective July 1, 2016, the contract with ADHS was transferred to the Arizona Health Care Cost Containment System (AHCCCS).

The members of HCIC are Health Choice of Northern Arizona (Health Choice) and The Northern Arizona Regional Behavioral Health (NARBHA) Institute. Health Choice is a wholly owned subsidiary of IASIS Healthcare LLC (IASIS). Effective September 29, 2017, Steward Health Care System LLC (Steward) acquired IASIS and its subsidiaries. As a result of the acquisition, Health Choice and IASIS are wholly owned subsidiaries of Steward. HCIC's by-laws provide that HCIC shall have one class of members initially; however, the current members may decide to create additional classes of membership or to add new members with unanimous consent of existing members. Additionally, the members have entered into an Operating Agreement under which a Board of Managers is appointed to govern the operations of the Organization.

The Organization shall continue in existence on a perpetual basis unless and until terminated and liquidated in accordance with the terms of the Operating Agreement. Relative interests of the members and the formula for distributions to members are as follows:

Health Choice of Northern Arizona	52%
The NARBHA Institute	48%

HCIC was initially funded through a \$2.6 million contribution from Health Choice and a \$2.4 million contribution from The NARBHA Institute. During the year ended September 30, 2018, HCIC distributed \$11.3 million to its members.

# Health Choice Integrated Care, LLC

## Notes to Financial Statements (continued)

### **1. Organization (continued)**

Under the contract with AHCCCS, HCIC is responsible for managing and maintaining an organized, comprehensive, integrated healthcare delivery system for the benefit of eligible members within Northern Arizona. HCIC functions as an integrated health management organization and does not provide direct healthcare services to eligible members. Direct healthcare services are provided to eligible members by a network of subcontract service providers.

Effective October 1, 2018, HCIC's contract with AHCCCS was extended and assigned to Steward Health Choice Arizona, Inc. (SHCA).

### **2. Summary of Significant Accounting Policies**

#### **Basis of Presentation and Use of Estimates**

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and are accounted for in the period identified.

#### **Cash**

The Organization's cash receipts and cash disbursements are managed under the centralized cash management program of Steward. IASIS and HCIC have a promissory note whereby IASIS covenants that it will maintain cash in HCIC's bank account of at least 90% of the previous month's aggregate capitation payment, and any net deposit in the bank account of Steward will accrue interest at a per annum rate equal to the four-week U.S. treasury bill in effect on the first business day of each calendar month. Cash was \$21.4 million as of September 30, 2018.

#### **Due From Parent**

Due from Parent, net of amounts due to affiliates, primarily represents the net excess of funds transferred to Steward over funds transferred to or paid on behalf of the Organization. Due from Parent balances are available to the Organization for settlement of the Organization's current liabilities as they become due. Generally, this balance is decreased by automatic cash transfers from Steward bank accounts to the Organization's bank accounts to pay certain expenses, and it is

## Health Choice Integrated Care, LLC

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

increased through transfers of daily cash deposits from the Organization's bank accounts to the centralized cash management account of Steward. Interest income is earned on outstanding balances due from Parent, at a per annum rate equal to the 4-week U.S. treasury bill in effect on the first Business Day of each calendar month.

#### **Revenue Recognition**

Capitation premiums are recognized as revenue in the month that members of the Organization are entitled to healthcare services. The Organization is required to provide all covered healthcare services to their members, regardless of the cost of care. If there are funds remaining, the Organization retains the funds as profit; if the costs are higher than the amount of capitation payments, the Organization absorbs the loss. Capitation premiums are subject to an episodic/diagnostic risk factor adjustment. The Organization estimates and records premium settlement amounts and adjusts to actual amounts when the adjustment settlements are either received or the Organization receives notification of such settlement amounts.

As a result of the variability of factors, including plan risk scores, that determine such estimations, the actual amount of the retroactive premium settlement adjustments could be materially more or less than the Organization's estimates. The Organization's adjustment payments are subject to review and audit and any adjustment to premium revenue as a result of such review and audit is recorded when estimable. There can be no assurance that any retroactive adjustment to previously recorded revenue will not have a material effect on future results of operations.

AHCCCS contract revenue is also limited by the terms of the RBHA contract to a maximum profit percentage of 4%. Capitation and non-title revenue of \$251.7 million and \$21.3 million, respectively, was recognized during the year ended September 30, 2018.

#### **Other Grants and Contracts Revenue**

Revenue from grants and contracts with funding agencies other than AHCCCS is recognized as revenue when contracted services are provided or when eligible costs are incurred. A receivable is recognized to the extent that grant and contract revenue earned exceeds cash advances. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by HCIC with the terms of the contracts.

## Health Choice Integrated Care, LLC

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

Other grants and contracts receivable consist primarily of amounts due from other state and federal agencies for the provision of integrated health services. Other grants and contracts receivable are stated at the amount management expects to collect. The Organization establishes an allowance for doubtful accounts, if necessary, based upon factors including credit risk, historical trends, and other information. As of September 30, 2018, other grants and contracts receivable are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

#### **Medical Expenses**

Monthly capitation payments to primary care physicians and other healthcare providers are expensed in the month services are contracted to be performed. Claims expense for non-capitated arrangements is accrued as services are rendered by hospitals, physicians, and other health care providers during the year. Medical claims payable includes claims received but not paid and an estimate of claims incurred but not reported. Incurred but not reported claims are estimated using a combination of historical claims experience (including severity and payment lag time) and other actuarial analysis, including number of enrollees and certain enrollee health indicators to predict the cost of health care services provided to enrollees during any given period. While management believes that its estimation methodology effectively captures trends in medical claims costs, actual payments could differ significantly from estimates given changes in the health care cost structure or adverse experience. In order to assist management in evaluating the appropriateness of medical claims payable at September 30, 2018, the Organization engaged an actuary to provide an independent estimate of medical claims payable.

## Health Choice Integrated Care, LLC

### Notes to Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

Activity in the liability for medical claims payable for the year ended September 30, 2018 is as follows:

Balance, beginning of year	\$ 5,919,977
Incurred related to:	
Prior years	(215,849)
Current year	<u>29,497,020</u>
Total incurred	<u>29,281,171</u>
Paid related to:	
Prior years	(4,377,438)
Current year	<u>(25,168,430)</u>
Total paid	<u>(29,545,868)</u>
Balance, end of year	<u>\$ 5,655,280</u>

During the year ended September 30, 2018, the Organization recognized a favorable development in medical claims expense for prior years of approximately \$0.2 million. The change in medical claims expense is the result of ongoing analysis of loss development trends. Such adjustments are included in medical expenses in the accompanying statement of activities. Original estimates increased or decreased as additional information became known regarding individual claims.

#### Health Insurance Provider Fee (HIPF)

Effective January 1, 2014, the Organization began accounting for the mandated HIPF to be paid to the federal government by health insurers, as part of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 which is imposed for calendar years beginning after December 31, 2013. The HIPF is based on a company's share of the industry's net premiums written during the preceding calendar year and is payable on September 30 of each year. Effective January 1, 2017, the Internal Revenue Service (IRS) issued a moratorium on the HIPF whereby collection of the HIPF for calendar year 2017 was suspended. Collection for the HIPF was reinstated for the 2018 calendar year and will be suspended for the 2019 calendar year. The Organization's portion of the HIPF for the 2018 calendar year is approximately \$5.1 million. The Organization recorded the estimated liability for the HIPF in full with a corresponding deferred asset that is being amortized to expense on a straight-line basis

## Health Choice Integrated Care, LLC

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

during the 2018 calendar year. The Organization's liability for the HIPF is recorded as health insurance provider fee payable in the accompanying balance sheet. The corresponding deferred asset of \$1.3 million is recorded within other current assets in the accompanying balance sheet. During the year ended September 30, 2018, the Organization recognized \$3.8 million in health insurance provider fees related to amortization of the HIPF and is recorded as health insurance provider fee expense in the accompanying statement of activities. HIPF revenue is recognized ratably throughout the calendar year. HIPF revenue totaling \$3.8 million was recognized during the year ended September 30, 2018 and \$1.3 million was deferred as of September 30, 2018, as a result of the contractual commitment from AHCCCS.

#### **Administrative Expense**

The primary components of administrative expenses are management fees. Certain direct and indirect administrative expenses are incurred which benefit more than one program. Such common expenses are allocated based upon an AHCCCS approved cost allocation plan as submitted by HCIC, which is primarily based upon enrollment, claims and costs by lines of business.

#### **Income and Premium Taxes**

The Organization's operating income or loss, as applicable, is allocated based on the ownership interests of its members. Accordingly, no provision for income taxes is included in the accompanying financial statements. In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which was subsequently incorporated into FASB Accounting Standards Codification (ASC) 740, *Income Taxes*. ASC 740 clarifies the accounting for uncertainty in income taxes. The Organization evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts. At September 30, 2018, management of the Organization does not believe it has any uncertain tax positions.

HCIC is subject to a 2% premium tax on Title XIX and Title XXI payments received from AHCCCS. Total premium tax expense for the year ended September 30, 2018, was approximately \$5.1 million.

## Health Choice Integrated Care, LLC

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Fair Value of Financial Instruments**

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Organization does not have any fair value measurements using significant unobservable inputs (Level 3) and does not have any assets or liabilities that are measured at fair value on a non-recurring basis as of September 30, 2018.

The carrying value of financial assets and liabilities approximates their fair market value due to the short-term nature of these instruments.

The Organization's nonfinancial assets are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur or if an annual impairment test is required and the Organization is required to evaluate the nonfinancial instrument for impairment, a resulting asset impairment would require that the nonfinancial asset be recorded at the fair value. During the period ended September 30, 2018, no remeasurements of the nonfinancial assets or liabilities were deemed necessary by management. The due from Parent amount approximates fair value. Accordingly, no amounts were recognized in earnings on the statement of activities relating to changes in fair value for nonfinancial assets or liabilities during the year ended September 30, 2018.

##### **New Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. An entity also should disclose sufficient quantitative and qualitative information to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the Organization for

## Health Choice Integrated Care, LLC

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

annual periods beginning after December 15, 2018, (as amended in August 2015 by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*). The Organization is evaluating the effects the adoption of the ASU will have on its financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB *ASC Topic 840, Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Organization for annual periods beginning after December 15, 2019. The Organization is evaluating the effects the adoption of the ASU will have on its financial statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which will change how entities account for credit losses for most financial assets, trade receivables, and reinsurance receivables. The standard will replace the existing incurred loss impairment model with a new “current expected credit loss model” that generally will result in earlier recognition of credit losses. The ASU will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables, and certain off-balance sheet credit exposures. ASU 2016-13 is effective for the Organization for annual periods beginning after December 15, 2020, with early adoption permitted for annual periods beginning after December 15, 2018. The Organization is evaluating the effects the adoption of the ASU will have on its financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 amends the guidance in ASC Topic 230, which often requires judgment to determine the appropriate classification of cash flows as operating, investing, or financing activities, and has resulted in diversity in practice in how certain cash receipts and cash payments are classified. ASU 2016-15 is effective for the Organization for annual reporting periods beginning after December 15, 2018 and should be applied on a retrospective basis. The Organization is evaluating the effects the adoption of the ASU will have on its statement of cash flows and disclosures.



## Health Choice Integrated Care, LLC

### Notes to Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Subsequent Events Consideration**

The Organization evaluated events and transactions occurring subsequent to September 30, 2018, through August 29, 2019, the date these financial statements were available for issuance. During this period, there were no subsequent events that required recognition in the financial statements.

##### **3. Related-Party Transactions**

The Organization is party to a management agreement with Health Choice Management Company (the Management Company or HCMC), an indirect wholly owned subsidiary of Steward, which manages the general and administrative functions related to the Organization inclusive of payroll, advertising and related expenses. The fee is charged based on 6.0% of capitation and grant revenue. During the year ended September 30, 2018, the Organization recorded expenses of approximately \$16.4 million for services provided by the Management Company, which are included in administrative expense in the accompanying statement of activities.

The Organization remitted fee-for-service payments totaling approximately \$0.2 million during the year ended September 30, 2018, to facilities which are owned and operated by Steward.

HCMC has entered into a leasing agreement with the NARBHA institute on behalf of HCIC, in which HCIC conducts its operations from the leased facility. The original term of the lease commenced on October 1, 2015 and terminated on September 30, 2018 and included two additional two-year terms if the State Contract and ASA are concurrently renewed. The first renewal period was exercised and commenced on October 1, 2018. The related rent expense is included within the administrative expense in the accompanying statement of activities.

##### **4. Leases**

As a result of the Organization's management agreement with the Management Company, the Management Company assumes all facility and equipment leases. The related rent expenses are included within the management fee charged by the Management Company, which is included in administrative expense in the accompanying statement of activities.

## Health Choice Integrated Care, LLC

### Notes to Financial Statements (continued)

#### **5. Commitments and Contingencies**

##### **Professional, General, and Other Liability Insurance**

The Organization is subject to claims, lawsuits, regulatory audits, and other legal matters arising, for the most part, in the ordinary course of managing a health services business.

The Organization's contract with AHCCCS requires the Organization to maintain professional liability insurance, comprehensive general insurance, and automobile liability insurance coverage of at least \$1.0 million for each occurrence. During the year ended September 30, 2018, the Organization was covered under Steward's umbrella policy. Steward, on behalf of the Organization, carries professional and general liability insurance in excess of self-insured retentions through an unrelated commercial insurance carrier in amounts that Steward believes to be sufficient for the Organization, although some claims may exceed the scope of coverage in effect. Steward maintains reserves for professional and general liability claims. Accordingly, no reserves for liability risks are recorded in the accompanying balance sheet of the Organization. Professional and general liability insurance expense is included in the management fee charged by the Management Company for the year ended September 30, 2018, which is included in administrative expense in the accompanying statement of activities. The Organization is currently not a party to any such proceedings that, in the Organization's opinion, would have a material adverse effect on the Organization's business, financial condition or results of operations.

##### **Performance Guarantee**

If the Organization fails to effectively manage health care costs, these costs may exceed the premiums received by the Organization. The Organization believes the capitated premiums, are sufficient to pay for the services the Organization is obligated to deliver. Pursuant to its certification with AHCCCS, the Organization is required annually to provide a performance bond or letter of credit, in an acceptable form, to guarantee performance of the Organization's obligations under its contract to provide and pay for the health care services. The amount of the performance guarantee that AHCCCS requires is generally based upon the membership in the Organization and the related capitation paid to the Organization. As of September 30, 2018, the Organization provided a performance guarantee in the form of a \$21.3 million surety bond.

## Health Choice Integrated Care, LLC

### Notes to Financial Statements (continued)

#### **5. Commitments and Contingencies (continued)**

##### **Community Reinvestment Program**

HCIC has approved a Community Reinvestment program as described in their contract with AHCCCS. Under the program, HCIC will place 6% of its total net income for the purposes of community reinvestment. The program funds community projects that enhance the lives of people in the communities in Northern Arizona. These funds are for projects and services not eligible for service or prevention dollars from HCIC.

For the year ended September 30, 2018, HCIC spent \$0.8 million of the funds appropriated under the community reinvestment program. At September 30, 2018, HCIC has a liability for unspent community reinvestment program funds of \$0.8 million, which is included in accounts payable and accrued expenses in the accompanying balance sheet.

##### **State and Federal Laws and Regulations**

The Organization is subject to state and federal laws and regulations. AHCCCS has the right to audit the Organization to determine the Organization's compliance with such standards. The Organization is required to file periodic reports with AHCCCS and to meet certain financial viability standards. The Organization must also provide its enrollees with certain mandated benefits and must meet certain quality assurance and improvement requirements. The Organization believes it is in compliance with these AHCCCS requirements. The Organization must also comply with the electronic transactions regulations and privacy standards of the Health Insurance Portability and Accountability Act (HIPAA). The Organization believes it is in compliance with the HIPAA security standards as set forth in 45 CFR Part 164, And the requirements for health plans defined in 45 CFR Part 162.

#### **6. Concentrations of Credit Risk**

As of October 1, 2018, HCIC's contract with AHCCCS was reassigned to SHCA, and is limited to specialty populations, significantly impacting HCIC's operations. Governance over this RBHA contract assigned to SHCA was subcontracted to HCIC as of October 1, 2018. Thus, all permissible profile attributed to lives covered under the assigned RBHA contract will be allocated amongst the members of HCIC along their relative ownership interests. SHCA currently holds a contract with AHCCCS to provide services through September 30, 2021, with two two-year renewal options.

# Supplementary Information

# Health Choice Integrated Care, LLC

## Sub-Capitated Expense Report (Exclude PCP Enhanced Party Payments)

September 30, 2018

Account	Account Description	TXIX and NTXIX Amount	YTD Amount
<b>Behavioral health</b>			
60199	Total treatment services	\$ -	\$ -
60299	Total rehabilitation services	-	-
60399	Total medical services	-	-
60499	Total support services	-	-
60599	Total crisis intervention services	-	-
60699	Total inpatient services	-	-
60799	Total residential services	-	-
60899	Total behavioral health day program	-	-
60999	Total prevention services	-	-
61099	Total pharmacy expense	-	-
61105	Other service expenses not rpt'd above	-	-
61205	BH FQHC/RHC services	-	-
	Total sub-capitated behavioral health expenses	\$ -	\$ -

Account	Account Description	TXIX Amount	YTD Amount
<b>Physical health</b>			
<b>Hospitalization expenses</b>			
50105	Hospital inpatient	\$ -	\$ -
50110	Hospital inpatient, behavioral health services	-	-
50115	PPC, hospital inpatient	-	-
	Total hospitalization expense	-	-
<b>Medical compensation expenses</b>			
50205	Primary care physician services	-	-
50210	Behavioral health physician services	-	-
50215	Referral physician services	-	-
50220	PH FQHC/RHC services	-	-
50225	Other professional services	-	-
50230	PPC-physician services	-	-
50235	PCP parity enhanced payment expense	-	-
	Total medical compensation expenses	-	-
<b>Other medical expenses</b>			
50305	Emergency facility services	-	-
50310-1	PH pharmacy	20,852	48,591
50310-5	Less: PH pharmacy rebates	-	-
50315	Laboratory, radiology & medical imaging	-	-
50320	Outpatient facility	-	-
50325	Durable med equipment	115,313	463,498
50330	Dental	-	-
50335	Transportation	59,511	242,174
50340-00	Nursing facility, home health care	-	-
50345	Therapies	-	-
50350	Alternative payment model performance based payments to providers	-	-
50360	PPC, other medical expenses	-	-
50370	Other medical expenses	-	-
	Total other medical expenses:	195,676	754,263
	Total sub-capitated physical health expenses	\$ 195,676	\$ 754,263

# Health Choice Integrated Care, LLC

## Block Expense Report (Exclude PCP Enhanced Party Payments)

September 30, 2018

Account	Account Description	TXIX and NTXIX Amount	YTD Amount
<b>Behavioral health</b>			
60199	Total treatment services	\$ 7,904,197	\$ 27,521,630
60299	Total rehabilitation services	6,659,032	23,152,887
60399	Total medical services	2,201,131	7,453,148
60499	Total support services	13,677,167	50,159,156
60599	Total crisis intervention services	1,898,512	6,253,227
60699	Total inpatient services	4,033,382	13,878,262
60799	Total residential services	3,149,580	11,074,534
60899	Total behavioral health day program	60	461
60999	Total prevention services	180,976	562,103
61099	Total pharmacy expense	-	-
61105	Other service expenses not rpt'd above	-	-
61205	BH FQHC/RHC services	-	-
	Total behavioral health expense	<u>\$ 39,704,037</u>	<u>\$ 140,055,408</u>

Account	Account Description	TXIX Amount	YTD Amount
<b>Physical health</b>			
<b>Hospitalization expenses</b>			
50105	Hospital inpatient	\$ -	\$ -
50110	Hospital inpatient, behavioral health services	-	-
50115	PPC, hospital inpatient	-	-
	Total hospitalization expense:	<u>-</u>	<u>-</u>
<b>Medical compensation expenses</b>			
50205	Primary care physician services	-	-
50210	Behavioral health physician services	-	-
50215	Referral physician services	-	-
50220	PH FQHC/RHC services	-	-
50225	Other professional services	-	-
50230	PPC-physician services	-	-
50235	PCP parity enhanced payment expense	-	-
	Total medical compensation expenses	<u>-</u>	<u>-</u>
<b>Other medical expenses</b>			
50305	Emergency facility services	-	-
50310-1	PH pharmacy	-	-
50310-5	Less: PH pharmacy rebates	-	-
50315	Laboratory, radiology & medical imaging	-	-
50320	Outpatient facility	-	-
50325	Durable med equipment	-	-
50330	Dental	-	-
50335	Transportation	-	-
50340-00	Nursing facility, home health care	-	-
50345	Therapies	-	-
50350	Alternative payment model performance based payments to providers	-	-
50360	PPC, other medical expenses	-	-
50370	Other medical expenses	-	-
	Total other medical expenses	<u>-</u>	<u>-</u>
	Total sub-capitated physical health expenses	<u>\$ -</u>	<u>\$ -</u>

Health Choice Integrated Care, LLC

Schedule 1 – Supplemental Schedule of Activities

September 30, 2018

\*Disclosed on Schedule A

	TXIX/XXI Non CMDP Child	TXIX CMDP Child	TXIX DD Child	TXIX/XXI GMH/SA Non Dual	TXIX DD Adult	TXIX SMI Integrated	TXIX SMI Non Integrated	Total TXIX/XXI	NTXIX/ XXI Crisis	NTXIX/ XXI SMI	NTXIX/ XXI Other	Supported Housing	Housing Trust Fund (Formerly Known as SB1616 Housing)	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR/ ADOH	Total NTXIX/ XXI	Total TXIX/XXI and NTXIX/XXI	Mgmt & Gen	Total	
<b>Revenue</b>																								
40105 Prospective capitation	\$ 47,788,607	\$ 17,814,969	\$ 4,348,871	\$ 72,834,422	\$ 4,215,060	\$ 100,741,487	\$ 4,946,845	\$ 252,690,261	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 252,690,261	\$ -	\$ 252,690,261
40110 PPC capitation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
40135 Title XIX/XXI reconciliation settlement	-	-	-	-	-	(900,000)	-	(900,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	(900,000)	-	(900,000)
40145 PCP parity cost settlement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
40160 Suppl	718,629	278,849	65,412	1,045,308	60,164	1,584,875	85,051	3,838,288	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
40205 Non-Title XIX/XXI revenue	-	-	-	-	-	-	-	-	2,388,511	7,616,978	220,280	601,830	366,057	1,107,741	926,781	4,748,523	1,060,826	1,197,299	2,700	20,237,526	3,838,288	-	3,838,288	
40210 Specialty and other grants*	-	-	-	-	-	-	-	-	-	261,645	-	-	-	-	-	-	-	-	195,121	456,766	456,766	571,702	20,237,526	
40215 Non-Title XIX/XXI profit limi	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
40305 Investment income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
40310 Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	221,749	
49999 Total revenue	48,507,236	18,093,818	4,414,283	73,879,730	4,275,224	101,426,362	5,031,896	255,628,549	2,388,511	7,616,978	481,925	601,830	366,057	1,107,741	926,781	4,748,523	1,060,826	1,197,299	197,821	20,694,292	276,322,841	793,451	277,116,292	
<b>Expenses</b>																								
<b>Behavioral health medical expense</b>																								
<b>Treatment services</b>																								
60105-1 Counseling																								
a Counseling, individual	3,338,244	1,015,357	109,428	5,693,037	170,742	2,655,392	92,228	13,074,428	9,145	572,644	3,767	-	-	125,940	-	348,251	-	-	-	1,059,747	14,134,175	-	14,134,175	
b Counseling, family	673,351	207,925	31,715	139,270	10,924	24,876	2,493	1,090,554	302	9,002	-	-	-	15,070	-	23,932	-	-	-	48,306	1,138,860	-	1,138,860	
c Counseling, group	202,315	49,502	10,289	2,716,776	10,156	826,883	57,062	3,872,983	11,705	85,415	8,821	-	-	5,783	-	391,055	-	-	-	502,779	4,375,762	-	4,375,762	
60105-5 Assessment, evaluation and screening	2,179,233	584,607	160,546	4,880,389	258,908	1,488,436	90,992	9,643,111	54,923	338,664	8,230	-	-	53,945	10,793	324,850	-	80,953	-	872,358	10,515,469	-	10,515,469	
60105-10 Other professional	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
60199 Total treatment services	6,393,143	1,857,391	311,978	13,429,472	450,730	4,995,587	242,775	27,681,076	76,075	1,005,725	20,818	-	-	200,738	10,793	1,088,088	-	80,953	-	2,483,190	30,164,266	-	30,164,266	
<b>Rehabilitation services</b>																								
60205-1 Living Skills Training	8,035,848	1,751,609	1,326,195	2,669,816	768,427	4,292,914	155,154	18,999,963	3,848	568,656	2,950	-	-	153,394	18,566	424,240	-	-	-	1,171,654	20,171,617	-	20,171,617	
60205-5 Cognitive Rehabilitation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
60205-10 Health Promotion	17,040	9,534	116	321,429	3,528	71,829	2,417	425,893	667	17,178	-	-	-	36	536	139,222	-	-	-	157,639	583,532	-	583,532	
60205-15 Supported Employment Service	32,648	4,707	359	654,403	173,916	1,863,909	70,717	2,800,659	-	261,747	95	-	-	1,501	7,963	17,305	-	-	-	288,611	3,089,270	-	3,089,270	
60299 Total rehabilitation services	8,085,536	1,765,850	1,326,670	3,645,648	945,871	6,228,652	228,288	22,226,515	4,515	847,581	3,045	-	-	154,931	27,065	580,767	-	-	-	1,617,904	23,844,419	-	23,844,419	
<b>Medical services</b>																								
60305-1 Medication services	-	-	-	1,150,854	387	88,328	4,481	1,244,050	-	4,172	3,188	-	-	-	120	114,712	-	-	-	122,192	1,366,242	-	1,366,242	
60305-5 Medical management	959,196	119,898	103,810	2,847,335	131,797	1,723,735	70,639	5,956,410	13,148	353,456	4,354	-	-	26,778	11,293	84,156	-	-	-	493,185	6,449,595	-	6,449,595	
60305-10 Laboratory, radiology & medical imaging	2,789	543	556	15,224	823	77,516	92	97,543	1	97,543	-	-	-	-	-	888	-	-	-	889	98,432	-	98,432	
60305-15 Electro-convulsive therapy	-	-	-	4,732	-	13,710	59	18,501	-	-	-	-	-	-	-	-	-	-	-	-	18,501	-	18,501	
60399 Total medical services	961,985	120,441	104,366	4,018,145	133,007	1,903,289	75,271	7,316,504	13,149	357,628	7,542	-	-	26,778	11,413	199,756	-	-	-	616,266	7,932,770	-	7,932,770	
<b>Support services</b>																								
60405-1 Case management	6,065,812	3,025,266	664,579	6,896,822	620,560	7,817,592	492,288	25,582,919	249,639	1,318,877	30,333	-	-	150,570	42,082	381,301	-	-	-	2,172,802	27,755,721	-	27,755,721	
60405-5 Personal care services	25,018	6,002	7,684	1,085,394	34	324,024	29,965	1,478,121	82,910	32,928	12,351	-	-	138	1,077	55,941	-	-	-	185,345	1,663,466	-	1,663,466	
60405-10 Family support	1,590,102	930,236	163,719	7,119	7,009	1,434	403	2,700,022	108	138	-	-	-	20,689	5	-	-	-	-	20,940	2,720,962	-	2,720,962	
60405-15 Peer support	31,129	3,365	6,671	2,986,836	80,792	3,701,910	121,038	6,931,741	88,814	480,591	30,039	-	-	-	15,018	38,425	-	-	-	652,887	7,584,628	-	7,584,628	
60405-20 Home care training to home care client	1,229,168	2,411,724	20,532	9,592	-	7,488	-	3,678,504	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
60405-25 Unskilled respite care	3,451,127	942,425	437,010	57,470	37,912	49,192	6,421	4,981,557	-	1,499	-	-	-	16,584	43	4,193	-	-	-	22,319	5,003,876	-	5,003,876	
60405-30 Supported housing*	-	-	-	-	-	-	-	-	-	695,884	-	553,682	336,772	1,700	236,531	48,389	-	-	-	1,872,958	1,872,958	-	1,872,958	
60405-35 Reserved for future use	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
60405-40 Transportation	2,459,799	589,095	169,772	4,382,952	152,653	3,818,032	199,700	11,772,003	24,699	363,506	3,211	-	-	18,685	11,463	90,080	-	-	-	511,644	12,283,647	-	12,283,647	
60499 Total support services	14,852,155	7,908,113	1,469,967	15,426,185	898,960	15,712,184	857,303	57,124,867	446,170	2,893,423	75,934	553,682	336,772	208,366	306,219	618,329	-	-	-	5,438,895	62,563,762	-	62,563,762	
<b>Crisis intervention services</b>																								
60505-1 Crisis intervention - mobile	383,227	109,822	20,229	1,085,359	74,015	557,457	38,717	2,268,826	489,425	4,774	5,610	-	-	(1,274)	155	1,605	-	44,153	-	544,448	2,813,274	-	2,813,274	
60505-5 Crisis intervention - stabilizator	5,756	55	3,263	1,740,574	58,629	767,984	73,050	2,649,311	283,559	7,253	32,666	-	-	-	227	7,491	-	-	10,474	341,670	2,990,981	-	2,990,981	
60505-10 Crisis intervention - telephone	125,320	28,377	11,990	314,462	11,632	479,653	5,754	977,188	-	-	-	-	-	-	-	-	-	-	-	501,006	1,478,194	-	1,478,194	
60599 Total crisis intervention services	514,303	138,254	35,482	3,140,395	144,276	1,805,094	117,521	5,895,325	1,273,990	12,027	38,276	-	-	(1,274)	382	9,096	-	54,627	-	1,387,124	7,282,449	-	7,282,449	
<b>Inpatient services</b>																								
60605-1 Hospital																								
a Psychiatric (provider types 02 & 71)	3,967,310	603,034	108,179	7,306,087	226,020	4,065,205	409,937	16,685,772	98,544	-	22,148	-	-	-	-	-	-	808,255	-	928,947	17,614,719	-	17,614,719	
b Detoxification (provider types 02																								

Health Choice Integrated Care, LLC

Schedule 1 – Supplemental Schedule of Activities (continued)

		TXIX/XXI Non CMDP Child	TXIX CMDP Child	TXIX DD Child	TXIX/XXI GMH/SA Non Dual	TXIX DD Adult	TXIX SMI Integrated	TXIX SMI Non Integrated	Total TXIX/XXI	NTXIX/ XXI Crisis	NTXIX/ XXI SMI	NTXIX/ XXI Other	Supported Housing	Housing Trust Fund (Formerly Known as SB1616 Housing)	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR/ ADOH	Total NTXIX/ XXI	Total TXIX/XXI and NTXIX/XXI	Mgmt & Gen	Total
<i>*Disclosed on Schedule A</i>																								
<b>Expenses (continued)</b>																								
<b>Pharmacy expense</b>																								
61005-1	Bh pharmacy expense	\$ 2,652,189	\$ 324,852	\$ 256,412	\$ 5,188,668	\$ 421,319	\$ 9,845,988	\$ 533,967	\$ 19,223,395	\$ -	\$ 1,931,035	\$ -	\$ -	\$ -	\$ 4	\$ 1,897	\$ 57,569	\$ -	\$ -	\$ -	\$ 1,990,505	\$ 21,213,900	\$ -	\$ 21,213,900
61005-5	Bh pharmacy rebates	(66,398)	(8,135)	(7,309)	(118,149)	(12,740)	(198,609)	(18,094)	(429,434)	-	(39,798)	-	-	-	(38)	(2,429)	(106)	-	-	-	(42,371)	(471,805)	-	(471,805)
61099	Total pharmacy expense	2,585,791	316,717	249,103	5,070,519	408,579	9,647,379	515,873	18,793,961	-	1,891,237	-	-	-	(34)	(532)	57,463	-	-	-	1,948,134	20,742,095	-	20,742,095
61105	Other service expenses not reported above	122,955	9,213	-	150,583	-	327,552	-	610,303	-	-	-	-	-	182,306	463,192	-	975,960	-	2,700	1,624,158	2,234,461	-	2,234,461
61205	BH FQHC/RHC services	43,530	294	1,568	260,890	1,085	82,949	1,221	391,537	-	-	-	-	-	-	-	-	-	-	-	391,537	-	-	391,537
61299	Subtotal BH medical expense:	42,064,182	15,684,309	3,827,639	63,908,827	3,710,454	58,772,123	4,354,577	192,322,111	2,197,827	7,007,621	203,963	553,682	336,772	978,342	818,532	4,193,884	975,960	1,101,515	2,700	18,370,798	210,692,909	529,354	210,692,909
61305	Specialty and other grant expenses*	-	-	-	-	-	-	-	-	-	253,071	-	-	-	-	-	-	-	-	195,121	448,192	-	-	977,546
69998	Total BH medical expense:	42,064,182	15,684,309	3,827,639	63,908,827	3,710,454	58,772,123	4,354,577	192,322,111	2,197,827	7,007,621	457,034	553,682	336,772	978,342	818,532	4,193,884	975,960	1,101,515	197,821	18,818,990	211,141,101	529,354	211,670,455
59999	Total PH medical expenses (details below)	8,939	-	1,110	214,610	487	29,856,295	627	30,082,068	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,082,068
69999	Total BH and PH medical expense:	42,073,121	15,684,309	3,828,749	64,123,437	3,710,941	88,628,418	4,355,204	222,404,179	2,197,827	7,007,621	457,034	553,682	336,772	978,342	818,532	4,193,884	975,960	1,101,515	197,821	18,818,990	241,223,169	529,354	241,752,523
70105	Less: reinsurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
70205	Less: third party liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
85999	Total net medical expense	42,073,121	15,684,309	3,828,749	64,123,437	3,710,941	88,628,418	4,355,204	222,404,179	2,197,827	7,007,621	457,034	553,682	336,772	978,342	818,532	4,193,884	975,960	1,101,515	197,821	18,818,990	241,223,169	529,354	241,752,523
<b>Physical Health (PH) medical expense</b>																								
<b>Hospitalization</b>																								
50105	Hospital inpatient	-	-	-	-	-	3,889,814	-	3,889,814	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,889,814
50110	Hospital inpatient - behavioral health service	8,939	-	1,110	214,610	487	64,398	627	290,171	-	-	-	-	-	-	-	-	-	-	-	-	-	-	290,171
50115	PPC - hospital inpatient	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50199	Total hospitalization	8,939	-	1,110	214,610	487	3,954,212	627	4,179,985	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,179,985
<b>Medical compensation</b>																								
50205	Primary care physician	-	-	-	-	-	2,105,521	-	2,105,521	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,105,521
50210	Behavioral health physician service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50215	Referral physician	-	-	-	-	-	843,050	-	843,050	-	-	-	-	-	-	-	-	-	-	-	-	-	-	843,050
50220	PH FQHC/RHC Services	-	-	-	-	-	898,311	-	898,311	-	-	-	-	-	-	-	-	-	-	-	-	-	-	898,311
50225	Other professional	-	-	-	-	-	897,911	-	897,911	-	-	-	-	-	-	-	-	-	-	-	-	-	-	897,911
50230	PPC - Physician Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50235	PCP parity enhanced payment expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50299	Total medical compensation	-	-	-	-	-	4,744,793	-	4,744,793	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,744,793
<b>Other medical expense</b>																								
50305	Emergency facility service	-	-	-	-	-	1,875,114	-	1,875,114	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,875,114
50310-1	PH Pharmacy	-	-	-	-	-	8,932,314	-	8,932,314	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,932,314
50310-5	PH Pharmacy Rebates	-	-	-	-	-	(168,818)	-	(168,818)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(168,818)
50315	Laboratory, radiology & medical imaging	-	-	-	-	-	696,572	-	696,572	-	-	-	-	-	-	-	-	-	-	-	-	-	-	696,572
50320	Outpatient facility	-	-	-	-	-	4,620,215	-	4,620,215	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,620,215
50325	Durable medical equipmen	-	-	-	-	-	1,171,483	-	1,171,483	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,171,483
50330	Dental	-	-	-	-	-	90,996	-	90,996	-	-	-	-	-	-	-	-	-	-	-	-	-	-	90,996
50335	Transportation	-	-	-	-	-	3,275,630	-	3,275,630	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,275,630
50340-00	Nursing facility, home health care	-	-	-	-	-	296,482	-	296,482	-	-	-	-	-	-	-	-	-	-	-	-	-	-	296,482
50345	Therapies	-	-	-	-	-	8,027	-	8,027	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,027
50350	Alternative payment model performance based payments	-	-	-	-	-	359,275	-	359,275	-	-	-	-	-	-	-	-	-	-	-	-	-	-	359,275
50360	Ppc, other medical expense:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50370	Other medical expense:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50399	Total other medical expense:	-	-	-	-	-	21,157,290	-	21,157,290	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,157,290
59999	Total physical health expense	8,939	-	1,110	214,610	487	29,856,295	627	30,082,068	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,082,068
<b>Administrative expense:</b>																								
80105	Compensation	2,094,535	781,499	190,416	3,191,476	184,379	4,397,964	219,327	11,059,596	142,114	451,656	12,484	36,137	23,995	47,253	40,791	209,328	63,120	74,086	146	1,101,110	12,160,706	-	12,160,706
80205	Occupancy	180,992	67,458	16,441	275,811	15,925	379,944	19,103	955,674	12,298	39,233	1,070	3,052	1,726	4,160	3,527	18,126	5,357	6,038	10	94,597	1,050,271	-	1,050,271
80305	Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
80405	Care management/care coordination	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
80505	Professional and outside service:	196,080	73,157	17,931	298,695	17,374	405,297	17,951	1,026,485	13,026	40,568	1,851	3,087	398	5,745	3,830	19,409	6,021	4,324	8	98,267	1,124,752	-	1,124,752
80605	Office supplies and equipmen	146,988	54,711	13,271	223,988	12,874	307,073	15,572	774,477	9,903	31,285	787	2,405	1,135	3,341	2,862	14,777	3,795	4,673	7	74,970	849,447	-	849,447
80705	Travel	58,240	21,760	5,346	88,743	5,167	123,117	5,863	308,236	3,990	12,791	451	1,010	595	1,464	1,136	5,780	2,055	1,905	4	31,181	339,417	-	339,417
80805	Repair and maintenance	29,640	11,072	2,724	45,173	2,630	62,801	3,097	157,137	2,048	6,652	212	523	354	710	579	2,947	1,089	1,041	2	16,157	173,294	-	173,294
80905	Bank service charge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81005	Insurance	11,102	4,098	961	16,916	942	22,478	1,264	57,761	711	2,117	4	154	7	201	214	1,147	20	308	-	4,883	62,644	-	62,644
81105	Marketing	6,409	2,400	597	9,762	575	13,654	566	33,963	440	1,405	74	109	36	199	126	627	243	159	-	3,418	37,381	-	37,381
81205	Interest	-	-	-	-	-	68,575	-	68,575	-	-	-	-	-	-	-	-	-	-	-	-	-	-	68,575
81305	Pharmacy benefit manager expense:	4,256	548	363	7,670	619	25,605	850	39,911	-	2,847	-	-	-	1	-	18							



Health Choice Integrated Care, LLC

Schedule 2 – Supplemental Schedule of Activities-Disclosures

September 30, 2018

	TXIX/XXI Non CMDP Child	TXIX CMDP Child	TXIX DD Child	TXIX/XXI GMH/SA Non Dual	TXIX DD Adult	TXIX SMI Integrated	TXIX SMI Non Integrated	NTXIX/ XXI Crisis	NTXIX/ XXI SMI	NTXIX/ XXI Other	Supported Housing	Housing Trust Fund (Formerly Known as SB1616 Housing)	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR/ ADOH	Sub-Total	Mgmt & Gen	Total	
<b>Disclosure of NTXIX/XXI other and other federal AHCCCS revenue</b>																						
SUDS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 220,280	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 220,280	\$ -	\$ 220,280	
STR opioid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,057,699	-	1,057,699	
Health Information Exchange (HIE)	-	-	-	-	-	-	-	-	-	261,646	-	-	-	-	-	-	-	-	261,646	-	261,646	
State youth treatment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,127	-	-	-	-	3,127	
Total - NTXIX/XXI other and other federal column	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 481,926	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,060,826	\$ -	\$ 1,542,752	
<b>Disclosure of specialty and other grants reported on line 40210</b>																						
Health Information Exchange (HIE)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 261,646	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 261,646	\$ -	\$ 261,646
Bridge Subsidy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	195,121	195,121	-	195,121	
STR Opioid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	571,702	571,702	
Total specialty and other grants revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 261,646	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 195,121	\$ 456,767	\$ 571,702	\$ 1,028,469
<b>Disclosure of supported housing on reported on line 60405-30</b>																						
Rent subsidy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 593,634	\$ -	\$ 396,932	\$ -	\$ 1,700	\$ 236,531	\$ 48,389	\$ -	\$ -	\$ -	\$ -	\$ 1,277,186	\$ -	\$ 1,277,186
Management fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Utility payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other/repairs & maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Damages	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Property acquisition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Eviction prevention	-	-	-	-	-	-	-	-	102,250	-	81,750	-	-	-	-	-	-	-	-	184,000	184,000	
SB1616 housing - construction/improvements	-	-	-	-	-	-	-	-	-	-	75,000	336,772	-	-	-	-	-	-	-	411,772	411,772	
Total supported housing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 695,884	\$ -	\$ 553,682	\$ 336,772	\$ 1,700	\$ 236,531	\$ 48,389	\$ -	\$ -	\$ -	\$ -	\$ 1,872,958	\$ -	\$ 1,872,958
<b>Disclosure of other services on line 61105</b>																						
Alternative payment model	\$ 122,955	\$ 9,213	\$ -	\$ 150,583	\$ -	\$ 327,552	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 610,303	\$ -	\$ 610,303
PASRR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,700	2,700	-	2,700	
First Episode of Psychosis (FEP)	-	-	-	-	-	-	-	-	-	-	-	-	-	463,192	-	-	-	-	-	463,192	-	463,192
State youth treatment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,877	-	-	-	2,877	-	2,877
MHBG SED One-Time	-	-	-	-	-	-	-	-	-	-	-	-	182,307	-	-	-	-	-	-	182,307	-	182,307
STR Opioid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	973,083	-	-	-	973,083	-	973,083
Total other services	\$ 122,955	\$ 9,213	\$ -	\$ 150,583	\$ -	\$ 327,552	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 182,307	\$ 463,192	\$ -	\$ 975,960	\$ -	\$ 2,700	\$ 2,234,462	\$ -	\$ 2,234,462	
<b>Disclosure of specialty and other grants on line 61305</b>																						
Health Information Exchange (HIE)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 253,071	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 253,071	\$ -	\$ 253,071
Bridge subsidy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	195,121	195,121	-	195,121	
STR Opioid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	529,354	529,354	
Total specialty and other grants expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 253,071	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 195,121	\$ 448,192	\$ 529,354	\$ 977,546
<b>Disclosure of other admin expenses on line 83005</b>																						
Reinsurance premiums	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 278,405	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 278,405	\$ -	\$ 278,405
Sanctions	-	-	-	25,095	-	58,490	-	-	-	-	-	-	-	-	-	-	-	-	-	83,585	-	83,585
Interpreter/translation services	42,060	851	3,616	9,560	2,476	1,427	428	123	-	36	108	-	13	-	13	-	-	-	-	60,567	-	60,567
Operating expenses-storage	6,329	2,358	575	9,646	557	13,325	682	434	1,401	36	206	67	143	124	633	199	220	-	-	36,837	-	36,837
Operating expenses-dues & subscriptions	11,970	4,468	1,094	18,239	1,059	25,229	1,223	817	2,610	85	206	118	292	234	1,191	393	393	1	-	69,622	-	69,622
Operating expenses-training	4,392	1,631	392	6,690	383	9,108	471	292	909	19	71	30	95	86	444	90	139	-	-	25,242	-	25,242
Operating expenses-licenses & fees	73,660	27,532	6,742	112,222	6,520	155,267	7,352	5,008	15,883	549	1,286	824	1,807	1,436	7,310	2,461	2,498	4	-	428,361	-	428,361
Total other admin expenses	\$ 138,411	\$ 36,840	\$ 12,419	\$ 181,452	\$ 10,995	\$ 541,251	\$ 10,156	\$ 6,674	\$ 20,803	\$ 689	\$ 1,671	\$ 1,039	\$ 2,350	\$ 1,880	\$ 9,591	\$ 3,143	\$ 3,250	\$ 5	\$ 982,619	\$ -	\$ 982,619	
<b>Disclosure of encounter evaluation sanctions</b>																						
Total encounter evaluation sanctions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Disclosure of administrative expenses from specialty and other grants on line 83205</b>																						
Health Information Exchange (HIE)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,575	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,575	\$ -	\$ 8,575
Bridge subsidy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,137	13,137	-	13,137	
STR Opioid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35,525	35,525	
Total adm expenses from specialty and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,575	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,137	\$ 21,712	\$ 35,525	\$ 57,237
<b>Disclosure of non-operating line 88999</b>																						
Community reinvestment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (568,571)	\$ (568,571)
Total non-operating	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (568,571)	\$ (568,571)



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## Report of Independent Auditors 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*

The Board of Directors  
Health Choice Integrated Care, LLC

We have audited, in accordance with auditing standards generally accepted in the United States 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 Health Choice Integrated Care, LLC (the Organization), which comprise the balance sheet as of September 30, 2018, and the related statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 29, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Organization's internal control over financial reporting (internal control) to determine the 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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 may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 determination of financial statement amounts. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst & Young LLP*

August 29, 2019

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