

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)
Regional Behavioral Health Authority Program
Year Ended September 30, 2020
With Report of Independent Auditors

Ernst & Young LLP



Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)
Regional Behavioral Health Authority Program

Financial Statements and
Supplementary Information

Year Ended September 30, 2020

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Report of Independent Auditors

The Board of Directors
Health Choice Arizona, Inc.

We have audited the accompanying financial statements of Health Choice Arizona Regional Behavioral Health Authority Program, a plan of Health Choice Arizona, Inc., which comprise the balance sheet as of September 30, 2020, and the related statements of operations, changes in equity of the plan, 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 Arizona Regional Behavioral Health Authority Program as of September 30, 2020, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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 of America. 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 April 1, 2021 on our consideration of Health Choice Arizona Regional Behavioral Health Authority Program'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 Arizona Regional Behavioral Health Authority Program'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 Arizona Regional Behavioral Health Authority Program's internal control over financial reporting and compliance.

Ernst + Young LLP

April 1, 2021

Health Choice Arizona
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Balance Sheet

September 30, 2020

Assets

Current assets:

Health insurance provider fee receivable	\$ 2,546,351
Due from affiliates, net	289,506
Due from AHCCCS	2,597,354
Note receivable from BCBSAZ	15,239,462
Other current assets	961,994
Total current assets	<u>21,634,667</u>
Deferred tax assets	16,884
Total assets	<u>\$ 21,651,551</u>

Liabilities and stockholder's equity of the Plan

Current liabilities:

Accounts payable and accrued expenses	\$ 998,264
Medical claims payable	3,802,145
Payable to providers	5,360,514
Deferred revenue	357,121
Federal taxes payable	880,230
Total liabilities	<u>11,398,274</u>

Equity of the Plan:

Retained earnings	<u>10,253,277</u>
Total equity of the Plan	<u>10,253,277</u>
Total liabilities and equity of the Plan	<u>\$ 21,651,551</u>

See accompanying notes.

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Statement of Operations

Year Ended September 30, 2020

Revenue:	
Capitation premiums	\$ 140,390,720
Health insurance provider fee revenue	2,546,351
Other grants and contracts revenue	26,959,246
Total revenue	<u>169,896,317</u>
Expenses:	
Medical expense	147,332,833
Health insurance provider fee	2,011,617
Administrative expenses	11,868,368
Premium tax expense	2,836,043
Total expenses	<u>164,048,861</u>
Operating income	5,847,456
Interest income	291,455
Community reinvestment expense	156,494
Income before income taxes	<u>5,982,417</u>
Non-operating expense	2,667,333
Income tax expense	863,346
Net income	<u><u>\$ 2,451,738</u></u>

See accompanying notes.

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Statement of Changes in Equity of the Plan

Year Ended September 30, 2020

	Retained Earnings	Total
Balance, beginning of year	\$ 5,372,982	\$ 5,372,982
Settlement of prior owner equity	(21,810,905)	(21,810,907)
Note receivable from BCBSAZ	15,239,462	15,239,464
Capital contribution	9,000,000	9,000,000
Net income	2,451,738	2,451,738
Balance, end of year	\$ 10,253,277	\$ 10,253,277

See accompanying notes.

Health Choice Arizona
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Statement of Cash Flows

Year Ended September 30, 2020

Operating activities

Net income	\$ 2,451,738
Adjustments to reconcile net income to net cash used in operating activities:	
Changes in operating assets and liabilities:	
Health insurance provider fee receivable	(2,546,351)
Due from affiliates, net	(3,770,313)
Due from AHCCCS	(2,296,998)
Other grants and contracts receivable	728,358
Other current assets, net	(961,994)
Accounts payable and accrued expense	392,385
Medical claims payable	(660,352)
Payable to providers	(3,306,940)
Federal tax payable	880,230
Deferred tax, net	(16,884)
Deferred revenue	107,121
Net cash used in operating activities	(9,000,000)

Financing activities

Capital contribution	9,000,000
Net cash provided by financing activities	9,000,000

Net increase in cash and cash equivalents	–
Cash and cash equivalents, beginning of year	–
Cash and cash equivalents, end of year	\$ –

Supplemental disclosure of cash flow information

Noncash item:	
Settlement of prior owner equity	(21,810,905)
Note receivable from BCBSAZ	15,239,462
	–

See accompanying notes.

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Notes to Financial Statements

September 30, 2020

1. Organization

Health Choice Arizona (the Plan or Health Choice) is a division of Health Choice Arizona, Inc. (the Company), which is a wholly owned subsidiary of Veritage LLC (Veritage) effective December 30, 2019. Previously, the Company was a wholly owned subsidiary of Steward Health Care System, LLC. Veritage acquired the Company from Steward Health Care System, LLC on December 30, 2019. Veritage is an Arizona limited liability company owned solely by Blue Cross Blue Shield of Arizona (BCBSAZ).

Upon closing the transaction, Veritage acquired 100% of equity interest in the Company. As part of the acquisition, the Company and Steward settled prior intercompany balances. Veritage contributed \$52.0 million capital in cash and \$200.0 million in the form of a note receivable with BCBSAZ (see further discussion below) to the Company to meet Arizona's administrative rules, certain capital requirements and standards established by Arizona Health Care Cost Containment System (AHCCCS). The Company allocated \$9.0 million of the cash and \$15.2 million of the note receivable to Health Choice to meet equity per member requirement established under AHCCCS Contractor Operational Manual 305 (Section IV, B).

The Company is a managed care organization and insurer that delivers healthcare services to members through multiple health plans, accountable care networks and managed care solutions. Health Choice provides high-quality physical and behavioral healthcare services to Medicaid eligible adults with serious mental illness in Northern Arizona under the Regional Behavioral Health Authority (RBHA) (the Contract or the Plan). The Contract was originally awarded to Health Choice Integrated Care, LLC (HCIC) on December 18, 2014. The Contract between HCIC and the Arizona Department of Health Services (ADHS) was effective October 1, 2015, and had 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 AHCCCS. Effective October 1, 2018, HCIC's contract with AHCCCS was extended and assigned to Health Choice. Health Choice and Northern Arizona Regional Behavioral Health Authority (NARBHA) provide governance of the AHCCCS RBHA contract. NARBHA provides assistance with community and government relations, community reinvestment, Serious Mental Illness (SMI), foster children, crisis management and other services delivered by Health Choice in accordance with AHCCCS rules and regulations. NARBHA receives 48% of the RBHA's pre-tax profit pursuant to agreement between Health Choice and NARBHA. In addition to the Contract, the Company has Complete Care contract with AHCCCS and a Medicare Advantage contract for dual-eligible members with CMS that are not included in these financial statements.

Health Choice Arizona
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Notes to Financial Statements (continued)

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 Plan's cash receipts and cash disbursements are managed under the centralized cash management program of Health Choice. The Plan does not hold any bank accounts separately. The Plan's cash receipts and disbursements are managed by Health Choice's AHCCCS Complete Care (ACC) plan.

Due from Affiliates, Net

Due from affiliates, net of amounts due to affiliates, primarily represents transactions with other Health Choice plans as the Plan does not have separate bank accounts. Due from affiliates was \$0.3 million as of September 30, 2020.

Note Receivable

BCBSAZ executed and delivered a Promissory Note of \$200 million to Health Choice plans as a contribution to capital and to meet Arizona administrative rules and certain capital requirements and standards established by AHCCCS pursuant to AHCCCS COM 305. This note was allocated among the Health Choice plans and Health Choice Management Company (the Management Company). For the year ended September 30, 2020, the Plan has a note receivable balance of \$15.2 million recorded on the accompanying balance sheet as note receivable from parent. Interest was accrued at the rate of 2.55% and will be reviewed annually. Payments of principal and accrued interest will be due and payable after the occurrence of a payment event defined in the promissory note, which includes a provision that the Company can draw upon the note receivable to meet its reasonable actual or expected financial needs. Health Choice and the Management Company drew \$11.3 million in cash from the note during the year.

Health Choice Arizona
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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Capitation premiums are recognized as revenue in the month that members of the Plan are entitled to healthcare services. The Plan is required to provide all covered healthcare services to their members, regardless of the cost of care. If there are funds remaining, the Plan retains the funds as profit; if the costs are higher than the amount of capitation payments, the Plan absorbs the loss. Capitation premiums are subject to an episodic/diagnostic risk factor adjustment.

AHCCCS contract revenue is also limited by the terms of the RBHA contract to a maximum profit percentage of 4%. Capitation revenue of \$140.4 million was recognized during the year ended September 30, 2020.

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 the Plan with the terms of the contracts. Other grants and contracts revenue was \$26.9 million during the year ended September 30, 2020.

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 Plan establishes an allowance for doubtful accounts, if necessary, based upon factors, including credit risk, historical trends, and other information. As of September 30, 2020, other grants and contracts receivable are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Health Choice Arizona
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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Medical Expenses

Monthly capitation payments to primary care physicians and other healthcare providers are expensed in the month services are contracted to be performed. Amounts payable under these arrangements are included in the payable to provider liability. Claims expense for non-capitated arrangements is accrued as services are rendered by hospitals, physicians, and other healthcare providers during the year. 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 healthcare 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 healthcare cost structure or adverse experience.

Activity in the liability for claims payable for the year ended September 30, 2020, is as follows:

Balance, beginning of year	\$ 4,462,497
Incurred related to:	
Current year	23,867,457
Prior year	<u>(158,739)</u>
Total incurred	<u>23,708,718</u>
 Paid related to:	
Current year	(20,169,682)
Prior year	<u>(4,199,388)</u>
Total paid	<u>(24,369,070)</u>
Balance, end of year	<u>\$ 3,802,145</u>

During the year ended September 30, 2020, the Plan recognized a favorable development in medical claims expense for prior periods of approximately \$0.2 million. The change in medical expense is the result of ongoing analysis of loss development trends. Such adjustments are included in medical expenses in the accompanying statement of operations. Original estimates increased or decreased as additional information became known regarding individual claims.

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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In March 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus, or COVID-19, a global health pandemic. The COVID-19 pandemic continues to evolve, and the virus and efforts to prevent its spread have continued to impact the global economy, cause market instability and increased unemployment in the United States, and it has impacted and will continue to impact membership and benefit expense. Overall, this resulted in a significant decline in medical claims utilization rates. While the deferral of nonemergent or elective health services by the plan's members decreased its claim costs in the third quarter of 2020, utilization of such services began to rebound and claim costs began to normalize in the fourth quarter of 2020 as the shelter-in-place, stay-at-home orders, and other restrictions on the conduct of businesses were lifted.

Health Insurance Provider Fee (HIPF)

Effective January 1, 2014, the Plan 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, 2019, the IRS issued a moratorium on the health insurer fee, whereby collection of the health insurer fee for calendar year 2019 was suspended.

The Plan's portion of the HIPF for the 2020 calendar year was approximately \$2.7 million. The HIPF is non-deductible for federal income tax purposes. The Plan 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 during the 2020 calendar year. During the year ended September 30, 2020, the Plan recognized approximately \$2.0 million related to amortization of the HIPF which is recorded as health insurer fee expense in the accompanying statement of operations. Because the Plan primarily serves individuals in government-sponsored programs, the Plan must secure additional reimbursement from state partners for this added cost. The Plan recognizes HIPF revenue when there is a contractual commitment from the state to reimburse Health Choice for the full economic impact of the health insurer fee, including tax, as there is from AHCCCS. HIPF revenue is recognized ratably throughout the calendar year. The Plan's portion of the HIPF revenue for the 2020 calendar year was approximately \$3.4 million.

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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The Plan recognized HIPF revenue totaling \$2.5 million during the year ended September 30, 2020, as a result of the contractual commitment from AHCCCS.

Administrative Expenses

The primary components of administrative expenses are management fees, pharmacy benefit manager administrative fees, and interest on late paid claims.

Non-Operating Expenses

NARBHA receives 48% of the RBHA's pre-tax profit pursuant to agreement between Health Choice and NARBHA and is recorded as non-operating expense in the accompanying statement of operations.

Income and Premium Taxes

Income Taxes are allocated to the Plan from the Company pursuant to the asset and liability method, based on the amount for which the Plan would have been liable if it were a separate taxpayer. The effect on deferred taxes of a change in tax rates is recognized in the accompanying statement of operations during the period in which the tax rate change becomes law.

The Plan 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, 2020, was approximately \$2.8 million.

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

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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

assumptions about market participant assumptions (Level 3). The Plan 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, 2020.

The carrying value of financial assets and liabilities approximates their fair market value due to the short-term nature of these instruments. The Plan'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 Plan 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 year ended September 30, 2020, no remeasurements of the nonfinancial assets or liabilities were deemed necessary by management. Accordingly, no amounts were recognized in earnings on the accompanying statement of operations relating to changes in fair value for nonfinancial assets or liabilities during the year ended September 30, 2020.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (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 Plan for 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 plan adopted this standard and determined the impact on its financial statement is immaterial.

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 standard

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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 Plan for annual periods beginning after December 15, 2020, with early adoption permitted for annual periods beginning after December 15, 2018. The plan adopted this standard and determined the impact on its financial statement is immaterial.

Subsequent Events

The Plan evaluated events and transactions occurring subsequent to September 30, 2020, through April 1, 2021, 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. Transactions with Affiliates

The Plan is party to a management agreement with Health Choice Management Company (the Management Company), a wholly owned subsidiary of Veritage, which manages the general and administrative functions related to the Plan, inclusive of payroll, facility and equipment leases, advertising and related expenses. The fee is charged based on 7.08% of capitation revenue and grant revenue less premium taxes. During the year ended September 30, 2020, the Plan recorded expenses of approximately \$11.6 million for services provided by the Management Company, which are included in administrative expense in the accompanying statement of operations.

4. Income Taxes

The provision for income taxes for the year ended September 30, 2020, consists of the following:

Current:	
Federal	\$ 880,230
State and local	—
Deferred:	
Federal	(16,884)
State and local	—
Total income tax expenses	<u>\$ 863,346</u>

Health Choice Arizona
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Notes to Financial Statements (continued)

4. Income Taxes (continued)

The Plan's deferred tax assets and liabilities as of September 30, 2020, are as follows:

Deferred tax assets	\$ 16,884
Deferred tax liabilities	—
Net deferred tax liabilities	<u>\$ 16,884</u>

For the year ended September 30, 2020, deferred tax assets were related to discounted medical claims payable. There were no deferred tax liabilities as of September 30, 2020.

The difference between the tax provision computed at the statutory rate and the tax provision recorded by the Plan for the year ended September 30, 2020, relates to an IRC Section 338 (h)(10) intangible amortization deduction, partially offset by the nondeductible Health Insurer Fee.

The statute of limitations for assessment by the Internal Revenue Service and state tax authorities is open for the tax years ended September 30, 2017, and subsequent years. The Plan records interest and penalties as a component of income tax expense. No interest or penalties were recorded for the year ended September 30, 2020.

5. Commitments and Contingencies

Professional, General and Other Liability Insurance

The Plan 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 Plan's contract with AHCCCS requires the Plan 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, 2020, the Plan was covered under BCBSAZ's umbrella policy. BCBSAZ, on behalf of the Plan, carries professional and general liability insurance in excess of self-insured retentions through an unrelated commercial insurance carrier in amounts that BCBSAZ believes to be sufficient for the Plan, although some claims may exceed the scope of coverage in effect. BCBSAZ maintains reserves for professional

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Notes to Financial Statements (continued)

5. Commitments and Contingencies (continued)

and general liability claims. Accordingly, no reserves for liability risks are recorded in the accompanying balance sheet of the Plan. Professional and general liability insurance expense is included in the management fee charged by the Management Company for the year ended September 30, 2020, which is included in administrative expenses in the accompanying statement of operations.

The Plan is currently not a party to any such proceedings that, in the Plan's opinion, would have a material adverse effect on the Plan's financial condition, business or result of operations.

Performance Guarantee

If the Plan fails to effectively manage healthcare costs, these costs may exceed the premiums received by the Plan. The Plan believes the capitated premiums are sufficient to pay for the services the Plan is obligated to deliver. Pursuant to its certification with AHCCCS, the Plan is required annually to provide a performance bond, in an acceptable form, to guarantee performance of the Plan's obligations under its contract to provide and pay for the healthcare services. The amount of the performance guarantee that AHCCCS requires is generally based upon the membership in the Plan and the related capitation paid to the Plan. As of September 30, 2020, the Plan provided a performance guarantee in the form of a \$21.3 million surety bond.

Community Reinvestment Program

The Plan has approved a Community Reinvestment program as described in its contract with AHCCCS. Under the program, the Plan 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 the Plan.

For the year ended September 30, 2020, the Plan has a liability for unspent Community Reinvestment program funds of \$0.2 million, which is included in accounts payable and accrued expenses in the accompanying balance sheet.

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Notes to Financial Statements (continued)

5. Commitments and Contingencies (continued)

State and Federal Laws and Regulations

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

6. Concentration of Credit Risk

The Plan currently holds a contract with AHCCCS to provide services through September 30, 2021.

Supplementary Information

Health Choice Arizona
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Sub-Capitated Expense Report

Quarter and Year Ended September 30, 2020

Account	Account Description	QTD Amount	YTD Amount
Behavioral health			
60199-01	Total treatment services	\$ -	\$ -
60299-01	Total rehabilitation services	-	-
60399-01	Total medical services	-	-
60499-01	Total support services	-	-
60599-01	Total crisis intervention services	-	-
60699-01	Total inpatient services	-	-
60799-01	Total residential services	-	-
60899-01	Total behavioral health day program	-	-
60999-01	Total prevention services	-	-
61099-01	Total pharmacy expense	-	-
61100-01	PPC BH title XIX	-	-
61105-01	Other service expenses not reported above	-	-
61205-01	BH FQHC/RHC services	-	-
	Total sub-capitated behavioral health expenses	<u>\$ -</u>	<u>\$ -</u>

Account	Account Description	QTD Amount	YTD Amount
Physical health			
Hospitalization expenses			
50105-01	Hospital inpatient	\$ -	\$ -
50110-01	Behavioral health hospital inpatient	-	-
	Total hospitalization expenses	<u>-</u>	<u>-</u>
Medical compensation expenses			
50205-01	Primary care physician services	-	-
50210-01	Behavioral health physician services	-	-
50215-01	Referral physician services	-	-
50220-01	PH FQHC/RHC services	-	-
50225-01	Other professional services	-	-
	Total medical compensation expenses	<u>-</u>	<u>-</u>
Other medical expenses			
50305-01	Emergency facility services	-	-
50310-01	PH pharmacy	18,174	72,721
50310-05	Less: PH pharmacy rebates	-	-
50315-01	Laboratory, radiology and medical imaging	-	-
50320-01	Outpatient facility	-	-
50325-01	Durable medical equipment	22,523	218,102
50330-01	Dental	-	-
50335-01	Transportation	79,748	281,766
50340-00	Nursing facility, home health care	-	-
50345-01	Therapies	-	-
50350-01	Alternative payment model performance based payments to providers	-	-
50370-01	Other medical expenses	-	-
	Total other medical expenses	<u>120,445</u>	<u>572,589</u>
	Total sub-capitated physical health expenses	<u>\$ 120,445</u>	<u>\$ 572,589</u>

Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)
Regional Behavioral Health Authority Program

Block Expense Report

Quarter and Year Ended September 30, 2020

Account	Account Description	QTD Amount	YTD Amount
Behavioral health			
60199-01	Total treatment services	\$ 1,865,419	\$ 7,053,349
60299-01	Total rehabilitation services	1,930,321	7,145,684
60399-01	Total medical services	326,254	1,500,128
60499-01	Total support services	4,062,963	14,900,615
60599-01	Total crisis intervention services	3,178,505	9,430,413
60699-01	Total inpatient services	830,281	5,227,532
60799-01	Total residential services	1,407,571	5,298,397
60899-01	Total behavioral health day program	(4)	43
60999-01	Total prevention services	-	-
61099-01	Total pharmacy expense	-	-
61100-01	PPC BH title XIX	-	-
61105-01	Other service expenses not reported above	-	-
61205-01	BH FQHC/RHC services	-	-
	Total sub-capitated behavioral health expenses	<u>\$ 13,601,310</u>	<u>\$ 50,556,161</u>

Account	Account Description	QTD Amount	YTD Amount
Physical health			
Hospitalization expenses			
50105-01	Hospital inpatient	\$ -	\$ -
50110-01	Behavioral health hospital inpatient	-	-
	Total hospitalization expenses	<u>-</u>	<u>-</u>
Medical compensation expenses			
50205-01	Primary care physician services	-	-
50210-01	Behavioral health physician services	-	-
50215-01	Referral physician services	-	-
50220-01	PH FQHC/RHC services	-	-
50225-01	Other professional services	-	-
	Total medical compensation expenses	<u>-</u>	<u>-</u>
Other medical expenses			
50305-01	Emergency facility services	-	-
50310-01	PH pharmacy	-	-
50310-05	Less: PH pharmacy rebates	-	-
50315-01	Laboratory, radiology and medical imaging	-	-
50320-01	Outpatient facility	-	-
50325-01	Durable medical equipment	-	-
50330-01	Dental	-	-
50335-01	Transportation	-	-
50340-00	Nursing facility, home health care	-	-
50345-01	Therapies	-	-
50350-01	Alternative payment model performance based payments to providers	-	-
50370-01	Other medical expenses	-	-
	Total other medical expenses	<u>-</u>	<u>-</u>
	Total sub-capitated physical health expenses	<u>\$ -</u>	<u>\$ -</u>

Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)
Regional Behavioral Health Authority Program

Sub-Capitated and Block Expense Report

Year Ended September 30, 2019

Account	Account Description	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	Total
		CMDP	DD Child	DD Adult	SMI	Other Child (Crisis)	Other Adult (Crisis)	
Sub-capitated behavioral health expenses:								
60199-01	Total treatment services	\$ 1,775,237	\$ 253,538	\$ 450,960	\$ 5,497,532	\$ -	\$ -	\$ 7,977,267
60299-01	Total rehabilitation services	1,582,911	841,115	694,166	6,662,968	-	-	9,781,160
60399-01	Total medical services	92,001	75,973	118,482	1,800,993	-	-	2,087,449
60499-01	Total support services	4,455,293	853,676	645,070	14,493,344	-	-	20,447,383
60599-01	Total crisis intervention services	36,886	9,782	43,789	1,536,900	458,263	4,207,091	6,292,711
60699-01	Total inpatient services	-	-	119,398	5,677,736	-	-	5,797,134
60799-01	Total residential services	95,716	-	2,329	4,467,571	-	-	4,565,616
60899-01	Total behavioral health day program	-	-	-	380	-	-	380
60999-01	Total prevention services	-	-	-	-	-	-	-
61099-01	Total pharmacy expense	-	-	-	-	-	-	-
61100-01	PPC BH title XIX	-	-	-	-	-	-	-
61105-01	Other service expenses not reported above	-	-	-	-	-	-	-
61205-01	BH FQHC/RHC Services	-	-	-	-	-	-	-
	Total sub-capitated behavioral health expenses	8,038,044	2,034,084	2,074,194	40,137,424	458,263	4,207,091	56,949,100
Sub-capitated hospitalization expenses:								
50105-01	Hospital inpatient	-	-	-	-	-	-	-
50110-01	Behavioral health hospital inpatient	-	-	-	-	-	-	-
	Total sub-capitated hospitalization expenses	-	-	-	-	-	-	-
Sub-capitated medical compensation expenses:								
50205-01	Primary care physician services	-	-	-	-	-	-	-
50210-01	Behavioral health physician services	-	-	-	-	-	-	-
50215-01	Referral physician services	-	-	-	-	-	-	-
50220-01	PH FQHC/RHC services	-	-	-	-	-	-	-
50225-01	Other professional services	-	-	-	-	-	-	-
	Total sub-capitated medical compensation expenses	-	-	-	-	-	-	-
Sub-capitated other medical expenses:								
50305-01	Emergency facility services	-	-	-	-	-	-	-
50310-01	PH pharmacy	-	-	-	73,726	-	-	73,726
50315-01	Laboratory, radiology and medical imaging	-	-	-	-	-	-	-
50320-01	Outpatient facility	-	-	-	-	-	-	-
50325-01	Durable medical equipment	-	-	-	407,696	-	-	407,696
50330-01	Dental	-	-	-	-	-	-	-
50335-01	Transportation	-	-	-	210,431	-	-	210,431
50340-01	Nursing facility, home health care	-	-	-	-	-	-	-
50345-01	Therapies	-	-	-	-	-	-	-
50350-01	Alternative payment model performance based payments to providers	-	-	-	-	-	-	-
50370-10	Other medical expenses	-	-	-	-	-	-	-
	Total sub-capitated other medical expenses	-	-	-	691,853	-	-	691,853
	Total sub-capitated expenses	\$ 8,038,044	\$ 2,034,084	\$ 2,074,194	\$ 40,829,277	\$ 458,263	\$ 4,207,091	\$ 57,640,953

Health Choice Arizona
(A Division of Health Choice Arizona, Inc.)
Regional Behavioral Health Authority Program

Schedule 1 – Supplemental Schedule of Activities (continued)

*Disclosed on Schedule A

	TXIX/XXI CMBP Child	TXIX/XXI SMI	TXIX/XXI Other Child (Crisis)	TXIX/XXI Other Adult (Crisis)	NTXIX/ XXI Total	NTXIX/ XXI Crisis	NTXIX/ XXI SMI Services	NTXIX/ XXI Other	NTXIX/ XXI SMI Housing	Supported Housing	Housing Trust Fund	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR	Total NTXIX/ XXI	Total TXIX/ XXI and NTXIX/XXI	Mgmt & Gen	Total	
Expenses (Continued)																						
Pharmacy Expenses																						
61005-01	\$ 367,870	\$ 12,168,371	\$ -	\$ -	\$ 12,536,241	\$ -	\$ 1,840,720	\$ -	\$ -	\$ -	\$ -	\$ 12,467	\$ 112,299	\$ 199,418	\$ -	\$ -	\$ -	\$ 2,164,904	\$ 14,701,145	\$ -	\$ 14,701,145	
61005-05	(2,668)	(148,518)	-	-	(151,186)	-	-	-	-	-	-	(26)	(790)	(939)	-	-	-	(14,710)	(165,896)	-	(165,896)	
61005-10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
61099	365,202	12,019,853	-	-	12,385,055	-	1,827,765	-	-	-	-	12,441	111,509	198,479	-	-	-	2,150,194	14,535,249	-	14,535,249	
61100-01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
61105-01	48,050	408,020	-	-	456,070	-	-	-	-	-	-	-	560,359	200,828	4,665,922	-	17,700	5,444,809	5,900,879	-	5,900,879	
61205-01	5,238	73,923	-	-	79,161	-	-	-	-	-	-	-	-	-	-	-	-	-	79,161	-	79,161	
61299	18,657,544	63,240,266	1,406,555	7,488,066	90,792,431	2,142,810	6,007,560	401,737	518,331	864,555	204,975	1,547,957	1,172,334	3,862,045	4,665,922	1,119,000	17,700	22,524,926	113,317,357	1,243,274	114,560,631	
61305-01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
69998	18,657,544	63,240,266	1,406,555	7,488,066	90,792,431	2,142,810	6,007,560	401,737	518,331	864,555	204,975	1,547,957	1,172,334	3,862,045	4,665,922	1,119,000	17,700	22,524,926	113,317,357	1,243,274	114,560,631	
59999	-	32,772,201	-	-	32,772,201	-	-	-	-	-	-	-	-	-	-	-	-	-	32,772,201	-	32,772,201	
69999	18,657,544	96,012,467	1,406,555	7,488,066	123,564,632	2,142,810	6,007,560	401,737	518,331	864,555	204,975	1,547,957	1,172,334	3,862,045	4,665,922	1,119,000	17,700	22,524,926	146,089,558	1,243,274	147,332,832	
70105-01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
70205-01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
70305-01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
85999	18,657,544	96,012,467	1,406,555	7,488,066	123,564,632	2,142,810	6,007,560	401,737	518,331	864,555	204,975	1,547,957	1,172,334	3,862,045	4,665,922	1,119,000	17,700	22,524,926	146,089,558	1,243,274	147,332,832	
Physical Health (PH) Medical Expenses																						
Hospitalization																						
50105-01	-	4,585,608	-	-	4,585,608	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,585,608	-	4,585,608
50110-01	-	79,957	-	-	79,957	-	-	-	-	-	-	-	-	-	-	-	-	-	-	79,957	-	79,957
50199	-	4,665,565	-	-	4,665,565	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,665,565	-	4,665,565
Medical Compensation																						
50205-01	-	2,090,733	-	-	2,090,733	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,090,733	-	2,090,733
50210-01	-	30,404	-	-	30,404	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,404	-	30,404
50215-01	-	918,854	-	-	918,854	-	-	-	-	-	-	-	-	-	-	-	-	-	-	918,854	-	918,854
50220-01	-	1,021,570	-	-	1,021,570	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,021,570	-	1,021,570
50225-01	-	2,512,301	-	-	2,512,301	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,512,301	-	2,512,301
50299	-	6,573,862	-	-	6,573,862	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,573,862	-	6,573,862
Other Medical Expenses																						
50305-01	-	3,588,801	-	-	3,588,801	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,588,801	-	3,588,801
50310-01	-	9,286,918	-	-	9,286,918	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,286,918	-	9,286,918
50310-05	-	(66,479)	-	-	(66,479)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(66,479)	-	(66,479)
50315-01	-	469,126	-	-	469,126	-	-	-	-	-	-	-	-	-	-	-	-	-	-	469,126	-	469,126
50320-01	-	3,272,831	-	-	3,272,831	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,272,831	-	3,272,831
50325-01	-	236,596	-	-	236,596	-	-	-	-	-	-	-	-	-	-	-	-	-	-	236,596	-	236,596
50330-01	-	158,169	-	-	158,169	-	-	-	-	-	-	-	-	-	-	-	-	-	-	158,169	-	158,169
50335-01	-	3,648,086	-	-	3,648,086	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,648,086	-	3,648,086
50340-00	-	558,207	-	-	558,207	-	-	-	-	-	-	-	-	-	-	-	-	-	-	558,207	-	558,207
50345-01	-	158	-	-	158	-	-	-	-	-	-	-	-	-	-	-	-	-	-	158	-	158
50350-01	-	380,361	-	-	380,361	-	-	-	-	-	-	-	-	-	-	-	-	-	-	380,361	-	380,361
50370-01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50399	-	21,532,774	-	-	21,532,774	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,532,774	-	21,532,774
59999	-	32,772,201	-	-	32,772,201	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32,772,201	-	32,772,201
Administrative Expenses																						
80105-01	719,585	3,683,749	54,406	289,555	4,747,295	92,864	245,132	17,293	28,762	38,080	8,880	69,858	52,908	172,493	202,056	47,829	706	976,861	5,724,156	53,214	5,777,370	
80205-01	95,659	489,467	7,233	38,493	630,852	12,345	32,587	2,299	3,824	5,062	1,181	9,287	7,033	23,170	26,861	6,358	94	130,101	760,953	7,074	768,027	
80305-01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
80405-01	314,295	1,608,171	23,763	126,469	2,072,698	40,560	107,067	7,553	12,563	16,633	3,879	30,512	23,108	76,126	88,253	20,891	308	427,453	2,500,151	23,242	2,523,393	
80505-01	135,428	692,954	10,240	54,495	893,117	17,477	46,135	3,255	5,413	7,167	1,671	13,148	9,957	32,802	38,028	9,002	133	184,188	1,077,305	10,015	1,087,320	
80605-01	23,728	121,410	1,794	9,548	156,480	3,062	8,083	570	948	1,256	293	2,304	1,745	5,747	6,663	1,577	23	32,271	188,751	1,755	190,506	
80705-01	9,972	51,025	754	4,013	65,764	1,287	3,397	240	399	528	123	968	733	2,415	2,800	663	10	13,563	79,327	737	80,064	
80805-01	3,470	17,753	263	1,396	22,882	448	1,182	83	139	184	43	337	255	840	974	231	3	4,719	27,601	257	27,858	
80905-01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
81005-01	8,480	43,392	641	3,412	55,925	1,094	2,889	204	339	449	105	823	624	2,054	2,381	564	8	11,534	67,459	627	68,086	
81105-01	863	4,418	65	347	5,693	111	294	21	35	46	11	84	63	209	242	57	1	1,174	6,867	64	6,931	
81205-01	-	70,905	-	-	70,905	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,905	-	70,905
81305-01	2,959	177,503	-	-	180,462	-	16,229	-	-	-	-	-	-	45	-	1,330	-	17,604	198,066	-	198,066	
81405-01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
81505-01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
81605-01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
81705-01	100,884	516,199	7,628	40,594	665,305	13,019	34,367	2,425	4,033	5,339	1,245	9,794	7,417	24,435	28,328	6,706	99	137,207	802,512	7,460	809,972	
83005-01	32,659	163,422	2,964	13,366	212,411	4,762	11,121	767	1,276	1,690	393	3,098	2,347	8,527	8,964	2,122	31	45,098	257,509	2,361	259,870	
83999	1,447,982	7,640,368	109,751	581,688	9,779,789	187,029	508,483	34,710														

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 Arizona
(A Division of Health Choice Arizona, Inc.)
Regional Behavioral Health Authority Program

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 Arizona Regional Behavioral Health Authority Program (the Plan), which comprise the balance sheet as of September 30, 2020, and the related statements of operations, changes in equity of the plan, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 1, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan'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 Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 Plan’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

April 1, 2021

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