Pima County, Arizona

Pima Health System and Services

Enterprise fund

2011

For the Fiscal Year Ended June 30, 2011

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Report on Audit of Financial Statements
For the Year Ended June 30, 2011

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Report on Audit of Financial Statements
and Additional Information
June 30, 2011

Table of Contents

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Net Assets	4
Statement of Cash Flows	5 - 6
Notes to Financial Statements	7 - 15
ADDITIONAL INFORMATION	
Combining Statement of Net Assets by Program	16
Combining Statement of Revenues, Expenses and Changes in Net Assets by Program	17
Combining Statement of Cash Flows by Program	18 - 19
Combining Statement of Net Assets – Long-Term Care Contracts	20
Combining Statement of Revenues, Expenses and Changes in Net Assets – Long-Term Care Contracts	21
Combining Statement of Cash Flows – Long-Term Care Contracts	22 - 23
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM CONTRACTS	
Ambulatory Care Contract	
Claims Lag Report - Hospital, Medical and Other – PPC and Prospective	24
Profitability by Risk Group	25
Officers and Directors	26
Arizona Long-Term Care System (ALTCS) Contract	
Claims Lag Report for Propsective Period Only	27
Claims Lag Report for Prior Period Only	28
Utilization Data Report – Contractor Level	29
Sub-capitated Expenses Report	30
Statement of Activities/Income Statement by Contractor	31 - 32
Officers and Directors	33

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Report on Audit of Financial Statements
and Additional Information
June 30, 2011

Table of Contents (Continued)

	Page
GOVERNMENT AUDITING STANDARDS REPORT	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*	34 - 35
Schedule of Findings and Recommendations	36 - 37
County Response	38 - 39

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of Pima County, Arizona

We have audited the accompanying financial statements of the Pima Health System and Services Enterprise Fund of Pima County as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Pima Health System and Services Enterprise Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the Pima Health System and Services Enterprise Fund's financial statements are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities and major fund of Pima County that is attributable to the Pima Health System and Services Enterprise Fund. They do not purport to, and do not, present fairly the financial position of Pima County as of June 30, 2011, and the changes in its financial position and, where applicable, its cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pima Health System and Services Enterprise Fund as of June 30, 2011, and the changes in its financial position and its cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 8, Pima County's contracts with the Arizona Health Care Cost Containment System expired on October 1, 2011. As such, Pima County's management discontinued certain operations of the Fund that include Pima Health System, which stopped providing services as of October 1, 2011. In addition, Pima County sold its Posada del Sol Nursing Home in January 2012.

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Pima Health System and Services Enterprise Fund. The accompanying financial information listed as additional information and Arizona Health Care Cost Containment System contracts in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2012, on our consideration of the Pima Health System and Services Enterprise Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

January 26, 2012

FINANCIAL STATEMENTS

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Statement of Net Assets
June 30, 2011

Assets		
Current assets:		
Cash and cash equivalents	$	40,622,855
Receivables:		
Accounts, net		209,645
Reinsurance claims		2,765,753
Grants		1,071,850
Interest		15,334
Due from:		
Medicare		132,104
Other Pima County funds		44,407
Other governments		83,477
Inventory of supplies		91,192
Prepaid expenses		78,260
Total current assets		45,114,877
Noncurrent assets:		
Capital assets:		
Leasehold improvements		906,575
Machinery and equipment		973,328
Intangible		381,100
Accumulated depreciation:		
Leasehold improvements		(681,452)
Machinery and equipment		(872,599)
Intangible		(171,495)
Capital assets, net		535,457
Total assets		45,650,334
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities		309,582
Accrued medical and health care claims		19,544,470
Accrued employee compensation		1,078,898
Due to:		
Other Pima County funds		599,389
Other governments		39,137
Total liabilities		21,571,476
Net Assets		
Invested in capital assets		535,457
Restricted for health care		23,561,837
Unrestricted (deficit)		(18,436)
Total net assets	$	24,078,858

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011

Operating revenues:		
Capitation	$	192,790,228
Reinsurance claims		13,024,266
Charges for services		1,837,774
Other		561,349
Total operating revenues		208,213,617
Operating expenses:		
Medical and health care claims		175,586,596
Case management (contracted and salaried)		7,464,603
General, fiscal, and administrative services		4,793,537
Depreciation		214,745
Other		8,468,896
Total operating expenses		196,528,377
Operating income		11,685,240
Nonoperating revenues (expenses):		
Grant revenue		4,690,940
Interest income		296,607
Interest expense		(49,715)
Premium tax		(4,098,646)
Gain on sale of capital assets		4,876
Total nonoperating revenues		844,062
Income before transfer		12,529,302
Transfer out to Pima County General Fund		(4,596,685)
Increase in net assets		7,932,617
Net assets, July 1, 2010		16,146,241
Net assets, June 30, 2011	$	24,078,858

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Statement of Cash Flows
Year Ended June 30, 2011

Cash flows from operating activities:	
Cash receipts from:	
Contractors, patients and other payors	$ 205,348,417
Other Pima County funds for goods and services	29,316
Miscellaneous operations	2,399,124
Cash payments to:	
Providers for health care services	(162,729,131)
Third party claims processor	(7,172,812)
Employees for services	(22,795,631)
Other Pima County funds for goods and services	(5,393,688)
Net cash provided by operating activities	9,685,595
Cash flows from noncapital financing activities:	
Cash transfer out to Pima County General Fund	(4,596,685)
Loans with other Pima County funds	(277,966)
Interest paid on short-term credit	(51,666)
Grant receipts	4,341,329
Premium tax payments	(4,098,646)
Net cash used for noncapital financing activities	(4,683,634)
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	4,876
Purchase of capital assets	(32,445)
Net cash used for capital and related financing activities	(27,569)
Cash flows from investing activities:	
Interest on cash and investments	322,865
Net cash provided by investing activities	322,865
Net increase in cash and cash equivalents	5,297,257
Cash and cash equivalents, July 1, 2010	35,325,598
Cash and cash equivalents, June 30, 2011	$ 40,622,855

(continued)

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Statement of Cash Flows
Year Ended June 30, 2011

(continued)

Reconciliation of operating income to net cash provided by operating activities:

Operating income	$	11,685,240
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		214,745
Changes in assets and liabilities:		
Decrease (increase) in assets		
Accounts receivable		216,814
Reinsurance claims receivable		959,631
Due from Medicare		7,578
Due from other governments		(83,477)
Inventory of supplies		(10,060)
Prepaid expenses		158,068
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities		(104,814)
Accrued medical and health care claims		(628,805)
Accrued employee compensation		(1,192,019)
Due to other governments		(1,526,252)
Deferred revenue		(11,054)
Net cash provided by operating activities	$	9,685,595

See accompanying notes to financial statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Pima County (County) and its Pima Health System and Services Enterprise Fund (Fund) conform to U.S. generally accepted accounting principles (GAAP) applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB) and the regulatory requirements of the State of Arizona. A summary of the County's significant accounting policies affecting the Fund follows.

A. Reporting Entity

The Fund is accounted for as an enterprise fund of Pima County, Arizona and the ultimate financial accountability for the Fund remains with Pima County. The Fund's management is responsible for overseeing the operations of Pima Health System (the AHCCCS contracts), Posada del Sol Nursing Home, the Grants and Community Services System, and other Pima County programs, whose activities are included in the accompanying financial statements.

The financial statements present only the Pima Health System and Services Enterprise Fund and are not intended to present the balances and activity of Pima County or its business-type activities and enterprise funds. The County and Pima Health System and Services is a contractor with the Arizona Health Care Cost Containment System (AHCCCS) to provide health care services to eligible enrollees of the AHCCCS Ambulatory and Arizona Long-Term Care System (ALTCS) programs. The Ambulatory program provides both inpatient and outpatient medical and nursing services to eligible enrollees of the Ambulatory program. The ALTCS program provides inpatient and outpatient medical and nursing services in addition to managed institutional and home- and community-based long-term care services to eligible enrollees of the ALTCS program. The Fund also provides long-term care services to Posada del Sol Nursing Home residents who are primarily ALTCS enrollees. The Fund receives monthly premiums from AHCCCS for all eligible enrollees under the respective Ambulatory and ALTCS programs.

B. Fund Accounting

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

The Fund's financial transactions are recorded and reported as an enterprise fund because its operations are financed and operated in a manner similar to private business enterprises. It is the intent of the Pima County Board of Supervisors that the costs (expenses including depreciation) of goods or services provided by the Fund on a continuing basis be financed or recovered primarily through contractual agreements and user charges.

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Fund are reported using the economic resources measurement focus and are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. When both restricted and unrestricted net assets are available to finance Fund expenses, restricted resources are used before unrestricted resources. Inter-fund transactions that would be treated as revenues or expenses if they involved parties external to the County are recorded in the appropriate revenue or expense accounts. Intra-fund transactions within the Fund are eliminated for the financial statement presentation.

Unless in conflict with GASB pronouncements, the Fund follows Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions, and Accounting Research Bulletins. The County has chosen the option not to follow FASB statements and interpretations issued after November 30, 1989.

Note 1 - Summary of Significant Accounting Policies (continued)

D. Basis of Presentation

The financial statements include a statement of net assets; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. A statement of net assets provides information about the assets, liabilities, and net assets of the Fund at the end of the year. Assets and liabilities are classified as either current or non-current. Net assets are classified according to external restrictions or availability of assets to satisfy the Fund's obligations. Invested in capital assets, represents the cost of capital assets, net of accumulated depreciation. Restricted net assets represent grants, contracts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses and changes in net assets provides information about the Fund's financial activities during the year. Revenues and expenses are classified as either operating or non-operating, and all changes in net assets are reported, including capital contributions and transfers. Generally, capitation and other charges generated by the Fund for providing health care services are considered to be operating revenues. Other revenues used for health care, such as grants and interest earnings, are not generated from operations and are considered to be non-operating revenues. Operating expenses include the costs of providing health care services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense and AHCCCS premium taxes are considered to be non-operating expenses.

A statement of cash flows provides information about the Fund's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, non-capital financing, capital and related financing, or investing.

E. Capitation Receipts

The Fund receives from AHCCCS fixed capitation payments, generally in advance, based on certain rates for each AHCCCS member enrolled with the Fund. The Fund is required to provide all covered health care services to their members, regardless of the cost of care. If there are funds remaining, the Fund retains the funds as profit; if the costs are higher than the amount of capitation payments from AHCCCS, the Fund absorbs the loss. The Fund may recover certain losses for those cases eligible for reinsurance payments. Capitation premiums are recognized in accordance with the Fund's contract with AHCCCS.

Capitation is paid prospectively as well as for prior period coverage (PPC). The PPC period is from the first day of the month of application to the time of enrollment with a contracted health plan. The risk under PPC is shared by both the Fund and AHCCCS for the contract year ended September 30, 2011. AHCCCS reconciles the actual PPC medical costs to the PPC capitation paid during the year. The reconciliation limits the contractor's profits and losses to 2%. Except for Title XIX waiver members, effective October 1, 2002, the PPC rates were adjusted and the reconciliation of PPC costs was not performed for the contract year ended September 30, 2003. The PPC reconciliation was reinstated for the contract year ended September 30, 2004 and thereafter. At June 30, 2011, the Fund has $220,470 of estimated settlement payments due to AHCCCS for the PPC reconciliation for contract years 2010 and 2011. This amount is netted with other amounts due to and from other governments in the accompanying Statement of Net Assets.

Additional capitation payments from AHCCCS include the Home and Community-Based Services (HCBS) Mix reconciliation. The HCBS Mix reconciliation is designed to limit the risk for both the Fund and AHCCCS of placement assumptions utilized in creating capitation rates. When computing capitation rates, AHCCCS assumes a certain percentage of members will be living in an HCBS setting as compared to a nursing facility. The accuracy of this assumption can materially affect the Fund's profitability. At June 30, 2011, the Fund has $435,837 of estimated settlement payments due to AHCCCS for the HCBS Mix reconciliation for contract year 2011. This amount is netted with other amounts due to and from other governments in the accompanying Statement of Net Assets.

Note 1 - Summary of Significant Accounting Policies (continued)

F. Reinsurance Receipts

AHCCCS provides a stop-loss reinsurance program for the Fund for partial reimbursement of re-insurable covered medical services incurred for members with an acute medical condition. The program includes a deductible, which varies based on the Fund's enrollment and the eligibility category of the members. AHCCCS reimburses the Fund based on a coinsurance amount for re-insurable covered services incurred above the deductible.

The reinsurance program includes reinsurance reimbursement for covered organ transplantation. The reinsurance program also includes a special catastrophic reinsurance program which covers conditions such as certain traumatic brain injuries and certain blood related disorders. There is no deductible for catastrophic reinsurance cases and AHCCCS reimburses the Fund at a percentage of the Fund's paid amount, less the coinsurance amount, unless the costs are paid under a sub-capitated arrangement. AHCCCS pays 85% (75% for traumatic brain injuries) of the Fund's paid amount up to $650,000 and 100% thereafter for catastrophic reinsurance. Regular reinsurance provides partial reimbursement of reinsurance eligible covered services and AHCCCS will reimburse 75% of eligible costs above a certain deductible level. The deductible is the responsibility of the program contractor. For transplants, payment is limited to 85% of the AHCCCS contract amount for the transplant services rendered or 85% of the Fund's paid amount, whichever is lower.

Reinsurance claims receivable result from additional payments from the AHCCCS Administration to the Fund for certain enrollees whose qualifying medical expenses paid by the Fund during the year ended June 30, 2011, were in excess of specified deductible limits. Reinsurance claims receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to reinsurance claims receivable based on its assessment of the current status of individual balances. Balances which are still outstanding after management has used reasonable collection efforts are also written off through a charge to earnings and a credit to reinsurance claims receivable. Reinsurance claims receivable at June 30, 2011 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

G. Share of Costs

The Fund's members covered under the ALTCS program that do not meet certain eligibility criteria are required to pay for a portion of the care they receive. AHCCCS reduces the contracted capitation rate with the Fund by the estimated amount of participant shared costs. After contract year end, AHCCCS analyzes the amount that the Fund should have received from members for share of costs. If the Fund receives less money from the participants in payment of their share of the costs than AHCCCS anticipated, AHCCCS reimburses the Fund for the difference. The share of costs receivables are based on contract year which runs from October 1 to September 30. At June 30, 2011, the Fund had approximately $753,019 due from AHCCCS related to share of costs for contract year 2011. This amount is netted with other accounts due to and from other governments, and is included in the overall amount due from other governments in the accompanying Statement of Net Assets.

Share of cost receivables are based on assumptions and estimates, and while management believes the receivable is reasonable, the ultimate share of cost payment for the 2011 contract year may be less than or in excess of the amount estimated once AHCCCS completes the contract year reconciliation. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the share of cost receivables based on its assessment of the current status of individual balances. Balances which are still outstanding after management has used reasonable collection efforts are also written off through a charge to earnings and a credit to share of costs receivable. Share of costs receivable at June 30, 2011 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Note 1 - Summary of Significant Accounting Policies (continued)

H. Grant Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as grants receivable and revenues when entitlement occurs. Reimbursement grants are recorded as grants receivable and revenues as soon as all eligibility requirements have been met. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, if the Fund does not comply with the terms of the contract.

I. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash in bank, and cash and investments held by the Pima County Treasurer in an investment pool. All investments are stated at fair value.

J. Accounts and Grants Receivable

Accounts receivable consist primarily of amounts due from third-party payers, providers for health care services and recoupment of overpayments to providers. Grants receivable consist primarily of amounts due directly from government agencies or passed through the Pima Council on Aging. These balances are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

At June 30, 2011, accounts receivable was net of an allowance for doubtful accounts of $233,908. Grants receivable at June 30, 2011 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

K. Due To/Due From Other Governments

These amounts consist of amounts due to or from AHCCCS based on contractual agreement provisions of the Ambulatory and ALTCS programs.

L. Inventory of Supplies

Inventories consist of medical supplies and are recorded as assets when purchased and expensed when consumed. These inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

M. Capital Assets

Purchased capital assets are capitalized at cost. Donated assets are capitalized at their estimated fair market value on the date received. The Fund capitalizes leasehold improvements and intangibles valued at $100,000 and above and all machinery and equipment valued at $5,000 and above. Depreciation of assets is charged as an expense against operations. Assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Leasehold improvements	7-10 years
Machinery and equipment	5-15 years
Intangibles	5 years

Note 1 - Summary of Significant Accounting Policies (continued)

N. Medical and Health Care Claims Payable

The Fund is responsible for the cost of providing medical services on a fee-for-service basis to a majority of the health care service providers through which it contracts with the exception of two providers that have negotiated sub-capitation agreements. The Fund paid $32,308 to these sub-capitated providers during fiscal year 2011.

In the accompanying financial statements, medical and health care claims expense includes claims paid, claims in process and pending, and the estimate made by management for incurred but not reported (IBNR) programmatic claims. These IBNR programmatic claims include charges by physicians, hospitals and other health care providers for services rendered to eligible members during the period for which claims have not yet been submitted.

The estimates for IBNR programmatic claims are developed using methods based upon historical data for payment patterns and other relevant factors. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and adjustments are reflected in the period determined.

At June 30, 2011, medical and health care claims payable consists of estimates of $17,009,441 in the ALTCS program, $1,743,726 in the Ambulatory program and $791,303 in the Grants and Community Services System.

O. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 240 hours of vacation depending upon years of service, but any vacation hours in excess of the maximum amount that are unused at fiscal year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 1,920 of sick hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Sick leave benefits do not vest with employees; however, employees who are eligible to retire from County service into the Arizona State Retirement System, Public Safety Personnel Retirement Plan, or Corrections Officer Retirement Plan may request sick leave be converted to annual leave, on a predetermined conversion basis. An estimate of those retirement payouts is accrued as a liability.

P. Taxes

The Fund is an enterprise fund of Pima County and is not subject to income taxes. However, payments from AHCCCS for acute care, ventilator dependent care, and ALTCS care are subject to a premium tax of 2%. Total premium tax expense for the year ended June 30, 2011 was $4,098,646 which is included in the non-operating expenses portion of the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The Fund has $22,373 due to the Arizona Department of Insurance at June 30, 2011. The Long-Term Care Contracts amount of $17,659 is netted with other accounts due to and from other governments, and is included in the overall amount due from other governments in the accompanying Statement of Net Assets. The Ambulatory Contracts amount of $4,714 is included in the Due to other governments in the accompanying Statement of Net Assets.

Note 1 - Summary of Significant Accounting Policies (continued)

Q. Management's Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at June 30, 2011, and the reported amounts of revenues and expenses during the fiscal year then ended. Actual results may differ from these estimates.

Note 2 - Cash and Investments

Deposits – At June 30, 2011, the County's total cash on hand was $1,700. The carrying amount of the deposits was $3,421,041, and the bank balance was $6,573,706. The County does not have a formal policy with respect to custodial credit risk of deposits. As of June 30, 2011, the cash in bank balance was fully insured by FDIC.

At June 30, 2011, the County's cash and investments in the Pima County Treasurer's Investment pool was $37,200,114. The cash and investments in the investment pool represent a portion of the County Treasurer's pool portfolio. The pool's structure does not provide for shares. The Fund's portion in the pool is not identified with specific investments. Investment income is allocated to the Fund on a pro-rata basis.

Credit risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal investment policy with respect to credit risk. The Pima County Treasurer's investment pool is unrated.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The County does not have a formal investment policy with respect to interest rate risk. The Pima County Treasurer's investment pool had a weighted average maturity of 198 days at June 30, 2011.

Legal provisions – Arizona Revised Statutes authorize the County to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk – Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and rated within the top two ratings by a nationally recognized rating agency.
2. Corporate bonds, debentures, and notes must be rated within the top three ratings by a nationally recognized rating agency.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk – Statutes require collateral for deposits and certificates of deposit at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk – Statutes do not include any requirements for concentration of credit risk.

Interest rate risk – Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk – Arizona Revised Statutes do not allow foreign investments.

Note 3 - Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	July 1, 2010 Balance	Increases	Decreases	June 30, 2011 Balance
Leasehold improvements	$ 900,824	$ 5,751		$ 906,575
Accumulated depreciation	(657,989)	(23,463)		(681,452)
Net leasehold improvements	242,835	(17,712)		225,123
Machinery and equipment	1,041,019	26,693	$ (94,384)	973,328
Accumulated depreciation	(851,922)	(115,061)	94,384	(872,599)
Net machinery and equipment	189,097	(88,368)		100,729
Intangibles	381,100			381,100
Accumulated depreciation	(95,275)	(76,220)		(171,495)
Net intangibles	285,825	(76,220)		209,605
Capital assets, net	$ 717,757	$ (182,300)	$	$ 535,457

Note 4 - Claims, Judgments and Risk Management

Compliance with Laws and Regulations – The Fund is subject to numerous laws, regulations and oversight by the state and federal governments. These laws and regulations include, but are not necessarily limited to, matters such as government health care program participation requirements, reimbursement for member services and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant financial sanctions. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown at this time.

The Fund has received final notices from AHCCCS of possible sanctions for each quarter, in fiscal year 2011. The sanctions are a result of pended encounters. As of June 30, 2011, there were 58,889 pended encounters with associated sanction amounts of $975,320. It is unknown whether pended encounters were due to the Fund's or AHCCCS' system issues and AHCCCS has preliminarily waived the monetary sanctions as of June 30, 2011. The sanctions could be re-imposed if the Fund is unable to adjudicate all pended encounters once AHCCCS system issues are corrected. Fund management does not believe these sanctions will be re-imposed.

Self-insurance - The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; and natural disasters. The Fund is a participant in Pima County's self-insurance program, and in the opinion of the Fund's management, that self-insurance program would cover any unfavorable outcomes from these risks. Accordingly, the Fund has no risk of loss beyond adjustments to future years' premium payments to Pima County's self-insurance program. All estimated losses for unsettled claims and actions of the Fund are determined on an actuarial basis and are included in the *Pima County Comprehensive Annual Financial Report.* As of June 30, 2011, the Fund incurred $790,374 in self-insurance expense,

Note 4 - Claims, Judgments and Risk Management (continued)

of which $244,214 is included in other operating expenses and $546,160 in medical and health care claims, in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

Medical Malpractice - The Fund has obtained modified claims-made insurance policies to cover medical malpractice claims. Deductibles are the responsibility of Pima County through Risk Management and are $1,000,000 per occurrence with an annual aggregate self insurance retention of $5,000,000. The Fund's primary medical malpractice policy has a retroactive date of June 26, 1993. Settled claims have not exceeded insurance coverage in any of the prior three fiscal years.

Note 5 - Related Party Transactions

During the course of its operations, the Fund had numerous transactions with other Pima County funds to finance operations and provide services. During the year ended June 30, 2011, the Fund received capitation revenues totaling $98,317 from Pima County departments for services provided to Pima County patients and other income totaling $29,316 for claims processing services. The Fund incurred expenses totaling $5,737,889 for the allocation of overhead, insurance premiums, and other charges for miscellaneous supplies and services from Pima County.

Of the $599,389 balance in due to other Pima County funds, $572,688 represents advances received from other County funds to eliminate cash overdrafts in the Fund's following programs:

Grants/Community Services System	$	439,042
Other Pima County Programs		133,646
Total	$	572,688

The remaining $26,701 was for miscellaneous services.

Note 6 – Pension and Other Postemployment Benefits

Plan Descriptions—The County contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan administered by the *Arizona State Retirement System* (ASRS) that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. Benefits are established by state statute and generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retiree's average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are paid as a flat dollar amount per month towards the retiree's health care insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her spouse. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. The ASRS issues a publicly available financial report that may be obtained by writing or calling:

Arizona State Retirement System
3300 North Centeral Avenue
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or 1-800-621-3778

Note 6 – Pension and Other Postemployment Benefits (continued)

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates. For the year ended June 30, 2011, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.6 percent for retirement and 0.25 percent for long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premium, and 0.25 percent for long-term disability) of the members' annual covered payroll.

The County's contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows:

Years ended June 30	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2011	$ 1,210,113	$ 79,242	$ 33,577
2010	$ 1,779,021	$ 140,786	$ 85,325
2009	$ 1,960,018	$ 235,496	$ 122,654

Note 7 – Capitation

For the year ended June 30, 2011, capitation revenues consist of the following amounts:

ALTCS long-term care	$ 189,690369
AHCCCS ambulatory/acute care	3,099,859
Total	$ 192,790,228

Note 8 – Subsequent Event

Pima County's contracts with the Arizona Health Care Cost Containment System expired on October 1, 2011. As such, Pima County's management discontinued certain operations of the Fund that included the sale of the county-owned Posada Del Sol Nursing Home effective January 1, 2012.

At June 30, 2012, the County intends to close Pima Health System and Services Enterprise Fund. Assets and liabilities will be liquidated and any remaining financial activity will be reported in the General Fund in Fiscal Year 2012-13. With the appropriate approvals from AHCCCS, any remaining equity will also be transferred to the General Fund.

During this process, the County intends to fully comply with all laws, rules and regulations applicable to the closing of the Fund, specifically including AHCCCS contracts. While completing all required closing activities, an assessment of residual activity will be conducted to assess the costs and benefits of continuing certain residual activities after June 30, 2012. The County will pursue continued and ongoing communication with AHCCCS to facilitate a mutually agreed upon closing process.

ADDITIONAL INFORMATION

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Combining Statement of Net Assets by Program
June 30, 2011

	AHCCCS					
	Ambulatory Contracts	Long-Term Care Contracts (1)	Grants/ Community Services System	Other Pima County Programs	Intrafund Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 2,835,743	$ 37,787,112	$	$		$ 40,622,855
Receivables:						
Accounts, net	29,284	22,518		157,843		209,645
Reinsurance claims	354,222	2,411,531				2,765,753
Grants			1,071,850			1,071,850
Interest	1,309	13,874	151			15,334
Due from:						
Medicare		132,104				132,104
Other Pima County funds		4,817		39,590		44,407
Other governments		83,477				83,477
Inventory of supplies		91,192				91,192
Prepaid expenses				78,260		78,260
Total current assets	$ 3,220,558	$ 40,546,625	$ 1,072,001	$ 275,693		$ 45,114,877
Noncurrent assets:						
Capital assets:						
Leasehold improvements				906,575		906,575
Machinery and equipment				973,328		973,328
Intangible				381,100		381,100
Accumulated depreciation:						
Leasehold improvements				(681,452)		(681,452)
Machinery and equipment				(872,599)		(872,599)
Intangible				(171,495)		(171,495)
Capital assets, net				535,457		535,457
Total assets	$ 3,220,558	$ 40,546,625	$ 1,072,001	$ 811,150	$	$ 45,650,334
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	$ 23,493	$ 283,950	$ 2,139	$		$ 309,582
Accrued medical and health care claims	1,743,726	17,009,441	791,303			19,544,470
Accrued employee compensation	93	1,078,805				1,078,898
Due to:						
Other Pima County funds		26,701	439,042	133,646		599,389
Other governments	39,137					39,137
Total liabilities	1,806,449	18,398,897	1,232,484	133,646		21,571,476
Net Assets						
Invested in capital assets				535,457		535,457
Restricted for health care	1,414,109	22,147,728				23,561,837
Unrestricted (deficit)			(160,483)	142,047		(18,436)
Total net assets	$ 1,414,109	$ 22,147,728	$ (160,483)	$ 677,504	$	$ 24,078,858

(1) The financial position of the Posada Del Sol Nursing Home and the ALTCS Contracts have been combined and are reported as the Long-Term Care Contracts program. The combination is presented on page 20.

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Combining Statement of Revenues, Expenses and Changes in Net Assets by Program
Year Ended June 30, 2011

	AHCCCS					
	Ambulatory Contracts	**Long-Term Care Contracts (1)**	**Grants/ Community Services System**	**Other Pima County Programs**	**Intrafund Eliminations**	**Total**
Operating revenues:						
Capitation	$ 3,099,859	$ 189,690,369				$ 192,790,228
Reinsurance claims	228,875	12,795,391				13,024,266
Charges for services		1,840,433			(2,659)	1,837,774
Other	205,603	224,361		$ 346,130	(214,745)	561,349
Total operating revenues	3,534,337	204,550,554		346,130	(217,404)	208,213,617
Operating expenses:						
Medical and health care claims	2,923,402	169,121,482	$ 3,544,371		(2,659)	175,586,596
Case management (contracted and salaried)		6,344,721	1,119,882			7,464,603
General, fiscal, and administrative services	104,075	4,489,107	183,605	16,750		4,793,537
Depreciation				214,745		214,745
Other	175,941	8,505,173	2,527		(214,745)	8,468,896
Total operating expenses	3,203,418	188,460,483	4,850,385	231,495	(217,404)	196,528,377
Operating income (loss)	330,919	16,090,071	(4,850,385)	114,635		11,685,240
Nonoperating revenues (expenses):						
Grant revenue			4,690,940			4,690,940
Interest income	20,222	276,385				296,607
Interest expense			(1,038)	(48,677)		(49,715)
Premium tax	(62,516)	(4,036,130)				(4,098,646)
Gain on sale of capital assets				4,876		4,876
Total nonoperating revenues (expenses), net	(42,294)	(3,759,745)	4,689,902	(43,801)		844,062
Income (loss) before transfers	288,625	12,330,326	(160,483)	70,834		12,529,302
Transfers in			403,315		(403,315)	
Transfers out	(3,000,000)	(2,000,000)			403,315	(4,596,685)
Increase (decrease) in net assets	(2,711,375)	10,330,326	242,832	70,834		7,932,617
Net assets (deficit), July 1, 2010	4,125,484	11,817,402	(403,315)	606,670		16,146,241
Net assets (deficit), June 30, 2011	$ 1,414,109	$ 22,147,728	$ (160,483)	$ 677,504	$ -	$ 24,078,858

(1) The changes in financial position of the Posada Del Sol Nursing Home and the ALTCS Contracts have been combined and are reported as the Long-Term Care Contracts program. The combination is presented on page 21.

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Combining Statement of Cash Flows by Program
Year Yended June 30, 2011

	AHCCCS				
	Ambulatory Contracts	**Long-Term Care Contracts (1)**	**Grants/ Community Services System**	**Other Pima County Programs(2)**	**Total**
Cash flows from operating activities:					
Cash receipts from:					
Contractors, patients and other payors	3,171,405	202,261,151	(554)	(83,585)	205,348,417
Other Pima County funds for goods and services				29,316	29,316
Miscellaneous operations	205,603	1,847,391		346,130	2,399,124
Cash payments to:					
Providers for health care services	(2,645,568)	(160,449,605)	(4,622,805)	4,988,847	(162,729,131)
Third party claims processor		(7,172,812)			(7,172,812)
Employees for services	(107,928)	(22,491,616)	(196,087)		(22,795,631)
Other Pima County funds for goods and services		(546,159)		(4,847,529)	(5,393,688)
Net cash provided by (used for) operating activities	623,512	13,448,350	(4,819,446)	433,179	9,685,595
Cash flows from noncapital financing activities:					
Cash transfer out to Pima County General Fund	(3,000,000)	(2,000,000)	403,315		(4,596,685)
Loans with other Pima County funds		3,685	76,282	(357,933)	(277,966)
Interest paid on short-term credit		(1,660)	(1,329)	(48,677)	(51,666)
Grant receipts			4,341,329		4,341,329
Premium tax payments	(62,516)	(4,036,130)			(4,098,646)
Net cash provided by (used for) noncapital financing activities	(3,062,516)	(6,034,105)	4,819,597	(406,610)	(4,683,634)
Cash flows from capital and related financing activities:					
Proceeds from sale of capital assets				4,876	4,876
Purchase of capital assets				(32,445)	(32,445)
Net cash used for capital and related financing activities				(27,569)	(27,569)
Cash flow from investing activities:					
Interest on cash and investments	24,695	298,321	(151)		322,865
Net cash provided by (used for) investing activities	24,695	298,321	(151)		322,865
Net increase (decrease) in cash and cash equivalents	(2,414,309)	7,712,566		(1,000)	5,297,257
Cash and cash equivalents, July 1, 2010	5,250,052	30,074,546		1,000	35,325,598
Cash and cash equivalents, June 30, 2011	2,835,743	37,787,112		(0)	40,622,855

(continued)

(1) The cash flows of the Posada Del Sol Nursing Home and the ALTCS contract have been combined and are reported as the Long-Term Care Contracts program. The combination is on Page 22 and 23.
(2) Includes intrafund eliminations and Pima County overhead allocation adjustments.

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Funds
Combining Statement of Cash Flows by Program
Year Ended June 30, 2011

Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	AHCCCS Ambulatory Contracts	AHCCCS Long-Term Care Contracts (1)	Grants/ Community Services System	Other Pima County Programs	Total
Operating income (loss)	$ 330,919	$ 16,090,071	$ (4,850,385)	$ 114,635	$ 11,685,240
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation				214,745	214,745
Changes in assets and liabilities:					
Decrease/(increase) in assets					
Accounts receivable	216,205	44,378		(43,769)	216,814
Reinsurance claims receivable	(128,216)	1,087,847			959,631
Due from Medicare		7,578			7,578
Due from other governments		(83,477)			(83,477)
Inventory of supplies		(10,060)			(10,060)
Prepaid expenses				158,068	158,068
Increase/(decrease) in liabilities					
Accounts payable and accrued liabilities	(1,473)	(102,906)	(435)		(104,814)
Accrued medical and health care claims	455,248	(1,128,464)	44,411		(628,805)
Accrued employee compensation	(3,853)	(1,175,683)	(12,483)		(1,192,019)
Due to other governments	(245,318)	(1,280,934)			(1,526,252)
Deferred revenue			(554)	(10,500)	(11,054)
Net cash provided by (used for) operating activities	$ 623,512	$ 13,448,350	$ (4,819,446)	$ 433,179	$ 9,685,595

(1) The cash flows of the Posada Del Sol Nursing Home and the ALTCS contract have been combined and are reported as the Long-Term Care Contracts program. The combination is on Page 22 and 23.

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Combining Statement of Net Assets
Long-Term Care Contracts
Year Ended June 30, 2011

Assets	**ALTCS Contracts**	**Posada Del Sol**	**Long-Term Care Contracts Total**
Current assets:			
Cash and cash equivalents	$ 36,975,230	$ 811,882	$ 37,787,112
Receivables:			
Accounts	5,272	17,246	22,518
Reinsurance claims	2,411,531		2,411,531
Interest	13,528	346	13,874
Due from:			
Medicare		132,104	132,104
Other Pima County funds	4,817		4,817
Other governments	83,477		83,477
Inventory of supplies		91,192	91,192
Total assets	$ 39,493,855	$ 1,052,770	$ 40,546,625
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities	102,179	181,771	283,950
Accrued medical and health care claims	17,009,441		17,009,441
Accrued employee compensation	1,004,199	74,606	1,078,805
Due to other Pima County Funds	26,701		26,701
Total liabilities	18,142,520	256,377	18,398,897
Net Assets			
Restricted for health care	21,351,335	796,393	22,147,728
Total net assets	$ 21,351,335	$ 796,393	$ 22,147,728

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Combining Statement of Revenues, Expenses and Changes in Net Assets
Long-Term Care Contracts
Year Ended June 30, 2011

	ALTCS Contracts	Posada Del Sol	Intraprogram Eliminations	Long-Term Care Contracts Total
Operating revenues:				
Capitation	$ 189,690,369			$ 189,690,369
Reinsurance claims	12,795,391			12,795,391
Charges for Services		$ 17,395,733	$ (15,555,300)	1,840,433
Other	223,197	1,164		224,361
Total operating revenues	202,708,957	17,396,897	(15,555,300)	204,550,554
Operating expenses:				
Medical and health care	167,471,996	17,204,786	(15,555,300)	169,121,482
Case management (contracted and salaried)	6,344,721			6,344,721
General, fiscal, and administrative services	4,414,107	75,000		4,489,107
Other	8,404,871	100,302		8,505,173
Total operating expenses	186,635,695	17,380,088	(15,555,300)	188,460,483
Operating income	16,073,262	16,809		16,090,071
Nonoperating revenues (expenses):				
Interest	293,194	(16,809)		276,385
Premium tax	(4,036,130)			(4,036,130)
Total nonoperating (expenses), net	(3,742,936)	(16,809)		(3,759,745)
Income before transfer	12,330,326			12,330,326
Transfer out	(2,000,000)			(2,000,000)
Increase in net assets	10,330,326			10,330,326
Net assets, July 1, 2010	11,021,009	796,393		11,817,402
Net assets, June 30, 2011	$ 21,351,335	$ 796,393	$	$ 22,147,728

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Combining Statement of Cash Flows
Long-Term Care Contracts
Year Ended June 30, 2011

	ALTCS Contracts	Posada Del Sol	Intraprogram Eliminations	Long-Term Care Contracts Total
Cash flows from operating activities:				
Cash receipts from:				
Contractors, patients and other payors	$ 200,605,353	$ 17,428,502	$ (15,772,704)	$ 202,261,151
Miscellaneous operations	1,846,227	1,164		1,847,391
Cash payments to:				
Providers for health care services	(172,482,723)	(3,739,586)	15,772,704	(160,449,605)
Third party claims processor	(7,172,812)			(7,172,812)
Employees for services	(9,539,814)	(12,951,802)		(22,491,616)
Other Pima County funds for goods and services		(546,159)		(546,159)
Net cash provided by operating activities	13,256,231	192,119		13,448,350
Cash flows from noncapital financing activities:				
Cash transfer out to Pima County General Fund	(2,000,000)			(2,000,000)
Loans with other Pima County funds	3,685			3,685
Interest paid on short-term credit		(1,660)		(1,660)
Premium tax payments	(4,036,130)			(4,036,130)
Net cash (used for) noncapital financing activities	(6,032,445)	(1,660)		(6,034,105)
Cash flows from investing activities:				
Interest on cash and investments	315,476	(17,155)		298,321
Net cash provided by (used for) investing activities	315,476	(17,155)		298,321
Net increase in cash and cash equivalents	7,539,262	173,304		7,712,566
Cash and cash equivalents, July 1, 2010	29,435,968	638,578		30,074,546
Cash and cash equivalents, June 30, 2011	$ 36,975,230	$ 811,882		$ 37,787,112

(continued)

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Combining Statement of Cash Flows
Long-Term Care Contracts
Year Ended June 30, 2011

(continued)

Reconciliation of operating income to net cash provided by operating activities:	**ALTCS Contracts**	**Posada Del Sol**	**Long-Term Care Contracts Total**
Operating income	$ 16,073,262	$ 16,809	$ 16,090,071
Adjustments to reconcile operating income to net cash provided by operating activities			
Changes in assets and liabilities:			
Decrease (increase) in assets			
Accounts receivable	19,187	25,191	44,378
Reinsurance claims receivable	1,087,847		1,087,847
Due from Medicare		7,578	7,578
Due from other governments	(83,477)		(83,477)
Inventory of supplies		(10,060)	(10,060)
Increase (decrease) in liabilities			
Accounts payable and accrued liabilities	(235,829)	132,923	(102,906)
Accrued medical and health care claims	(1,128,464)		(1,128,464)
Accrued employee compensation	(1,195,361)	19,678	(1,175,683)
Due to other governments	(1,280,934)		(1,280,934)
Net cash provided by operating activities	$ 13,256,231	$ 192,119	$ 13,448,350

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM CONTRACTS

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Ambulatory Contract - Claims Lag Report
Hospital, Medical and Other - PPC and Prospective
Year Ended June 30, 2011

Payment Qtr	Current	1st Prior	2nd Prior	3rd Prior	4th Prior	5th Prior	6th Prior*	Total
Current	183,363	351,881	20,781	5,096	589	368	(286,662)	275,416
1st Prior		228,240	275,580	154,997	3,673	2,817	(39,774)	625,533
2nd Prior			176,797	300,010	16,127	6,182	(6,585)	492,531
3rd Prior				292,146	335,985	47,209	(5,787)	669,553
4th Prior					241,600	348,272	(100,551)	489,321
5th Prior						367,705	175,058	542,763
6th Prior*							621,957,707	621,957,707
Totals	183,363	580,121	473,158	752,249	597,974	772,553	621,693,406	625,052,824
Expense	536,949	601,840	1,110,406	666,605	766,192	719,666	624,421,267	628,822,925
Adjustment	-	144,326	(491,737)	229,902	72,512	188,737	(2,170,115)	(2,026,375)
Remaining	353,586	166,045	145,511	144,258	240,730	135,850	557,746	1,743,726

* Amounts in this column or row include the amounts for the 6th prior period, and any earlier periods where the expenses reported exceed the payments made to date.

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Ambulatory Contract - Profitability by Risk Group
Year Ended June 30, 2011

PIMA HEALTH PLAN Quarter Ended: 6/30/2011 GSA 10 Pima Only	TANF < 1 MF	TANF 1-13 MF	TANF 14-44 F	TANF 14-44 M	TANF 45+	SSI with Med	SSI with out Med	MED	Non - MED	SOBRA Family Planing	SOBRA Moms	State Only Transplants	Grand Total
REVENUE & EXPENSES													
Member Months													
SOBRA FPS Mmbr Mths	0	0	0	0	0	0	0	0	0	4	0	0	**4**
PPC Member Months	1	10	10	3	0	26	1	5	6	0	1	0	**63**
Pros. Member Months	64	818	590	406	367	17,780	236	5	699	0	24	0	**20,989**
Total Member Months	65	828	600	409	367	17,806	237	10	705	4	25	0	**21,056**
Pros. & FPS Mbr. Mths	64	818	590	406	367	17,780	236	5	699	4	24	0	**20,993**
Pros. & PPC Mbr. Mths	65	828	600	409	367	17,806	237	10	705	0	25	0	**21,052**
REVENUES													
305 Capitation	29,870	76,419	134,138	58,871	138,744	2,206,879	168,065	6,730	307,174	97	5,485	0	**3,132,472**
310 PPC Capitation	614	513	2,019	531	0	3,598	308	23,413	2,824	0	156	0	**33,976**
315 Delivery Supplement	0	0	9,849	0	0	6,508	0	0	6,191	0	16,040	0	**38,588**
321 TWG Settlement	0	0	0	0	0	0	0	(2,393)	(63,743)	0	0	0	**(66,136)**
322 PPC Settlement	(706)	(3,634)	(7,137)	(1,957)	0	(17,484)	0	(4,193)	(3,091)	0	(839)	0	**(39,041)**
325 Investment Income	60	780	551	386	353	17,167	223	2	672	2	26	0	**20,222**
330 Other Income	544	7,246	5,046	3,256	3,235	160,321	1,966	12	6,371	12	315	0	**188,324**
TOTAL REVENUES	**30,382**	**81,324**	**144,466**	**61,087**	**142,332**	**2,376,989**	**170,562**	**23,571**	**256,398**	**111**	**21,183**	**0**	**3,308,405**
EXPENSES													
Hospitalization	0	0	0	0	0	0	0	0	0	0	0	0	**0**
402 Hospital Inpatient	30,094	1,249	13,417	0	10,064	881,279	119,163	0	150,857	0	16,774	0	**1,222,897**
404 Reserved	0	0	0	0	0	0	0	0	0	0	0	0	**0**
406 PPC-Hospital Inpatient	0	0	(83)	0	0	(257)	0	0	0	0	0	0	**(340)**
Total Hospitalization	**30,094**	**1,249**	**13,334**	**0**	**10,064**	**881,022**	**119,163**	**0**	**150,857**	**0**	**16,774**	**0**	**1,222,557**
Medical Compensation													
408 Primary Care Physician	7,022	17,605	17,469	5,431	9,095	236,491	32,370	361	52,497	0	938	0	**379,279**
410 Referral Physician	0	5,595	14,219	1,351	2,658	79,234	5,098	0	21,705	0	3,025	0	**132,885**
412 Other Professional	1,700	2,723	3,746	1,465	304	42,806	8,659	18,474	5,672	0	108	0	**85,657**
414 PPC - Physician Services	0	374	63	598	0	338	0	4,015	0	0	0	0	**5,388**
Total Medical Comp	**8,722**	**26,297**	**35,497**	**8,845**	**12,057**	**358,869**	**46,127**	**22,850**	**79,874**	**0**	**4,071**	**0**	**603,209**
Other Medical Expenses													
416 Emergency Facility Services	1,091	5,036	11,663	2,859	178	32,870	4,295	0	10,383	0	0	0	**68,375**
418 Pharmacy	68	5,779	8,256	1,967	17,818	63,123	20,495	3	48,474	0	251	0	**166,234**
420 Lab, X-ray, & Medical Imaging	346	3,547	8,134	2,430	3,319	72,123	7,697	18	15,890	0	1,116	0	**114,620**
422 Outpatient Facility	2,308	17,695	20,973	6,381	8,060	180,308	26,475	0	54,910	0	3,394	0	**320,504**
424 Durable Medical Equipment	1,491	87	285	653	1,473	21,140	4,871	0	3,146	0	0	0	**33,146**
426 Dental	92	17,366	2,555	1,794	787	11,206	723	0	457	0	0	0	**34,980**
428 Transportation	2,241	3,642	14,013	1,428	1,773	214,710	7,733	151	15,657	0	0	0	**261,348**
430 Nursing Facility, Home Health Care	0	0	0	0	0	83,529	0	0	3,504	0	0	0	**87,033**
432 Physical Therapy	0	0	0	0	0	854	0	0	0	0	0	0	**854**
436 Miscellaneous Medical Expenses	0	0	0	0	0	0	0	0	0	0	0	0	**0**
438 PPC-Other	0	(6)	1,443	7,689	0	294	0	0	0	0	1,121	0	**10,541**
Total Other Medical	**7,637**	**53,146**	**67,322**	**25,201**	**33,408**	**680,157**	**72,289**	**172**	**152,421**	**0**	**5,882**	**0**	**1,097,635**
TOTAL MEDICAL EXP	**46,453**	**80,692**	**116,153**	**34,046**	**55,529**	**1,920,048**	**237,579**	**23,022**	**383,152**	**0**	**26,727**	**0**	**2,923,401**
Less:													
440 Reinsurance	0	0	0	0	(3,528)	(178,356)	(19,681)	0	(25,432)	0	0	(1,878)	**(228,875)**
442 Third Party Liability	(58,877)	51,682	(6,303)	(3,361)	1,681	420	0	(8,404)	5,883	0	0	0	**(17,279)**
TOTAL NET MEDICAL EXP	**(12,424)**	**132,374**	**109,850**	**30,685**	**53,682**	**1,742,112**	**217,898**	**14,618**	**363,603**	**0**	**26,727**	**(1,878)**	**2,677,247**
TOTAL ADMIN EXP	**765**	**9,876**	**7,055**	**4,870**	**4,439**	**216,037**	**2,833**	**2,740**	**31,056**	**37**	**309**	**0**	**280,017**
TOTAL EXPENSES	**(11,659)**	**142,250**	**116,905**	**35,555**	**58,121**	**1,958,149**	**220,731**	**17,358**	**394,659**	**37**	**27,036**	**(1,878)**	**2,957,264**
Inc (loss) from operations	42,041	(60,926)	27,561	25,532	84,211	418,840	(50,169)	6,213	(138,261)	74	(5,853)	1,878	**351,141**
Non-operating inc (loss)	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Inc (loss) before taxes	42,041	(60,926)	27,561	25,532	84,211	418,840	(50,169)	6,213	(138,261)	74	(5,853)	1,878	**351,141**
Income taxes	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Premium taxes	592	1,469	2,769	1,164	2,817	41,862	3,904	743	6,634	1	537	24	**62,516**
NET INCOME (LOSS)	**41,449**	**(62,395)**	**24,792**	**24,368**	**81,394**	**376,978**	**(54,073)**	**5,470**	**(144,895)**	**73**	**(6,390)**	**1,854**	**288,625**

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Ambulatory Contract - Officers and Directors
Year Ended June 30, 2011

Name	Title	Other Relationship to Plan	Type of Compensation
Honey Pivirotto	Plan Administrator	None	Salary
Mary Reiss	Behavioral Health Manager*	None	Contracted
Nicole Larson	Operations Program Manager	None	Contracted
Kathy Eyde	Preventive & Maternal Child Health Manager	None	Contracted
Mary Fellows/ Tom Burke	Chief Financial Officer	None	Salary
Sue Benedetti	Quality Management Manager (VP MM)	None	Contracted
Sue Benedetti	Utilization Management Manager (VP MM)	None	Contracted
Fred Miller, M.D.	Medical Director	None	Contracted
Laura Piccirilli	Claims Manager	None	Salary
Elaine Teune	Member Services Manager	None	Contracted
Nicole Larson	Corporate Compliance & Privacy Officer	None	Contracted
United Drug – Elizabeth Schrader until 02/28/11 and US Script – Leon Luttschwager effective 03/01/11	Pharmacy Services Manager	None	Contracted
Brigid Gray	MIS Manager	None	Salary
KitleyAnn West	Grievance Coordinator	None	Contracted
Hannah Clark	Interim Utilization Management Manager	None	Contracted

* Pima County terminated its Behavioral Health Clinic license effective April 1, 2011

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
ALTCS - Claims Lag Report for Prospective Period Only
Year Ended June 30, 2011

A - INSTITUTIONAL PAYMENTS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	<----------QUARTER IN WHICH SERVICE PROVIDED---------->								
LINE	QUARTER OF PAYMENT	CURRENT	1ST PRIOR	2ND PRIOR	3RD PRIOR	4TH PRIOR	5TH PRIOR	6TH PRIOR*	TOTAL
1	CURRENT	13,865,019	5,792,582	80,510	35,874	29,221	16,365	7,744	19,827,315
2	1ST PRIOR		13,676,861	6,054,789	74,185	(15,933)	(15,318)	(4,194)	19,770,390
3	2ND PRIOR			14,010,984	5,664,183	11,204	(6,779)	3,005	19,682,597
4	3RD PRIOR				14,662,750	5,568,806	70,129	12,611	20,314,296
5	4TH PRIOR					14,587,775	5,762,265	50,942	20,400,982
6	5TH PRIOR						13,480,553	5,895,822	19,376,375
7	6TH PRIOR							285,850,034	285,850,034
8	TOTALS	13,865,019	19,469,443	20,146,283	20,436,992	20,181,073	19,307,215	291,815,964	405,221,989
9	EXP.REPORTED	19,276,673	20,215,623	20,062,108	19,944,815	20,012,874	19,324,618	290,813,405	409,650,116
10	ADJUSTMENT	(550,000)	632,618	(89,342)	(492,177)	(168,199)	17,403	(1,002,559)	(1,652,256)
11	REMAINING LIABILITY	5,961,654	113,562	5,167	-	-	-	-	6,080,383

B - HCBS PAYMENTS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	<----------QUARTER IN WHICH SERVICE PROVIDED---------->								
LINE	QUARTER OF PAYMENT	CURRENT	1ST PRIOR	2ND PRIOR	3RD PRIOR	4TH PRIOR	5TH PRIOR	6TH PRIOR*	TOTAL
1	CURRENT	8,312,657	6,063,228	205,797	1,067	(501)	355	1,590	14,584,193
2	1ST PRIOR		8,302,983	6,100,880	95,658	16,934	4,886	1,094	14,522,435
3	2ND PRIOR			8,638,201	4,549,316	40,726	(2,042)	(377)	13,225,824
4	3RD PRIOR				10,430,762	6,082,188	46,396	9,991	16,569,337
5	4TH PRIOR					8,812,716	5,652,039	55,469	14,520,224
6	5TH PRIOR						9,037,136	7,434,026	16,471,162
7	6TH PRIOR							179,875,611	179,875,611
8	TOTALS	8,312,657	14,366,211	14,944,878	15,076,803	14,952,063	14,738,770	187,377,404	269,768,786
9	EXP.REPORTED	15,268,156	14,055,899	14,485,085	15,195,988	15,751,136	14,999,883	193,831,962	283,588,109
10	ADJUSTMENT	500,000	(465,562)	(483,238)	116,397	799,073	261,113	6,454,558	7,182,341
11	REMAINING LIABILITY	6,455,499	155,250	23,445	2,788	-	-	-	6,636,982

C - ACUTE PAYMENTS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	<----------QUARTER IN WHICH SERVICE PROVIDED---------->								
LINE	QUARTER OF PAYMENT	CURRENT	1ST PRIOR	2ND PRIOR	3RD PRIOR	4TH PRIOR	5TH PRIOR	6TH PRIOR*	TOTAL
1	CURRENT	3,402,181	3,249,796	225,431	54,404	3,622	(4,473)	(23,634)	6,907,327
2	1ST PRIOR		3,814,630	3,174,883	142,361	105,768	69,988	45,196	7,352,826
3	2ND PRIOR			3,295,809	2,770,530	250,797	28,310	8,181	6,353,627
4	3RD PRIOR				3,992,627	3,476,227	443,526	(17,915)	7,894,465
5	4TH PRIOR					3,646,718	2,726,033	299,091	6,671,842
6	5TH PRIOR						3,681,140	3,707,138	7,388,278
7	6TH PRIOR							91,457,789	91,457,789
8	TOTALS	3,402,181	7,064,426	6,696,123	6,959,922	7,483,132	6,944,524	95,475,846	134,026,154
9	EXP.REPORTED	7,294,225	6,443,989	6,729,086	7,540,160	7,481,803	7,613,880	94,086,132	137,189,275
10	ADJUSTMENT	300,000	(1,052,391)	(29,983)	558,230	(3,562)	669,356	(1,389,714)	(948,064)
11	REMAINING LIABILITY	3,592,044	431,954	62,946	22,008	2,233	-	-	4,111,185

D - OTHER MEDICAL PAYMENTS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	<----------QUARTER IN WHICH SERVICE PROVIDED---------->								
LINE	QUARTER OF PAYMENT	CURRENT	1ST PRIOR	2ND PRIOR	3RD PRIOR	4TH PRIOR	5TH PRIOR	6TH PRIOR*	TOTAL
1	CURRENT	-	-	-	-	-	-	-	-
2	1ST PRIOR		-	-	-	-	-	-	-
3	2ND PRIOR			-	-	-	-	-	-
4	3RD PRIOR				-	-	-	-	-
5	4TH PRIOR					-	-	(12,576)	(12,576)
6	5TH PRIOR						-	18,921	18,921
7	6TH PRIOR							20,013,383	20,013,383
8	TOTALS	-	-	-	-	-	-	20,019,728	20,019,728
9	EXP. REPORTED	-	-	-	-	-	-	18,660,873	18,660,873
10	ADJUSTMENT		-	-	-	-	-	(1,358,855)	(1,358,855)
11	REMAINING LIABILITY	-	-	-	-	-	-	-	-

***Amounts in the 6th prior column or row include the amounts for the 6th prior period, and any earlier periods.**

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
ALTCS - Claims Lag Report for Prior Period Only
Year Ended June 30, 2011

INSTITUTIONAL PAYMENTS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		<----------QUARTER IN WHICH SERVICE PROVIDED---------->							
LINE	QUARTER OF PAYMENT	CURRENT	1ST PRIOR	2ND PRIOR	3RD PRIOR	4TH PRIOR	5TH PRIOR	6TH PRIOR*	TOTAL
1	CURRENT	17,310	109,591	21,854	3,246	2,509	5	-	154,515
2	1ST PRIOR		40,212	37,839	17,308	2,986	(154)	-	98,191
3	2ND PRIOR			31,951	55,838	7,812	950	-	96,551
4	3RD PRIOR				84,589	118,856	33,444	3,446	240,335
5	4TH PRIOR					64,680	114,905	16,990	196,575
6	5TH PRIOR						48,238	111,774	160,012
7	6TH PRIOR							1,872,897	1,872,897
8	TOTALS	17,310	149,803	91,644	160,981	196,843	197,388	2,005,107	2,819,076
9	EXP.REPORTED	143,793	122,190	11,162	277,866	164,210	176,221	2,005,233	2,900,675
10	ADJUSTMENT	(20,000)	45,920	81,239	(116,885)	32,633	21,167	(126)	43,948
11	REMAINING LIABILITY	106,483	18,307	757	-	-	-	-	125,547

HCBS PAYMENTS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		<----------QUARTER IN WHICH SERVICE PROVIDED---------->							
LINE	QUARTER OF PAYMENT	CURRENT	1ST PRIOR	2ND PRIOR	3RD PRIOR	4TH PRIOR	5TH PRIOR	6TH PRIOR*	TOTAL
1	CURRENT	9,999	24,815	1,271	-	-	-	(344)	35,741
2	1ST PRIOR		4,716	10,796	3,788	-	-	-	19,300
3	2ND PRIOR			6,431	11,733	5,218	-	1,810	25,192
4	3RD PRIOR				8,132	12,858	1,415	-	22,405
5	4TH PRIOR					3,152	11,718	4,070	18,940
6	5TH PRIOR						8,546	14,317	22,863
7	6TH PRIOR							605,820	605,820
8	TOTALS	9,999	29,531	18,498	23,653	21,228	21,679	625,673	750,261
9	EXP.REPORTED	32,276	22,402	27,150	23,445	16,264	27,414	711,999	860,950
10	ADJUSTMENT	4,000	12,742	(7,945)	208	4,964	(5,735)	(86,326)	(78,092)
11	REMAINING LIABILITY	26,277	5,613	707	-	-	-	-	32,597

ACUTE PAYMENTS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		<----------QUARTER IN WHICH SERVICE PROVIDED---------->							
LINE	QUARTER OF PAYMENT	CURRENT	1ST PRIOR	2ND PRIOR	3RD PRIOR	4TH PRIOR	5TH PRIOR	6TH PRIOR*	TOTAL
1	CURRENT	1,534	15,132	7,209	159	-	316	326	24,676
2	1ST PRIOR		1,269	8,456	9,075	(246)	263	(82)	18,735
3	2ND PRIOR			2,114	41,642	8,300	90	1,148	53,294
4	3RD PRIOR				2,025	12,111	11,252	3,657	29,045
5	4TH PRIOR					1,313	24,175	1,355	26,843
6	5TH PRIOR						13,369	41,102	54,471
7	6TH PRIOR							622,096	622,096
8	TOTALS	1,534	16,401	17,779	52,901	21,478	49,465	669,602	829,160
9	EXP.REPORTED	19,237	19,701	48,190	24,289	29,677	43,312	576,529	760,935
10	ADJUSTMENT		510	(29,177)	28,612	(8,199)	6,153	93,073	90,972
11	REMAINING LIABILITY	17,703	3,810	1,234	-	-	-	-	22,747

OTHER MEDICAL PAYMENTS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		<----------QUARTER IN WHICH SERVICE PROVIDED---------->							
LINE	QUARTER OF PAYMENT	CURRENT	1ST PRIOR	2ND PRIOR	3RD PRIOR	4TH PRIOR	5TH PRIOR	6TH PRIOR*	TOTAL
1	CURRENT								-
2	1ST PRIOR								-
3	2ND PRIOR			-	-	-	-	-	-
4	3RD PRIOR				-	-	-	-	-
5	4TH PRIOR					-	-	-	-
6	5TH PRIOR						-	-	-
7	6TH PRIOR							14,856	14,856
8	TOTALS	-	-	-	-	-	-	14,856	14,856
9	EXP. REPORTED	-	-	-	-	-	-	-	-
10	ADJUSTMENT		-	-	-	-	-	14,856	14,856
11	REMAINING LIABILITY	-	-	-	-	-	-	-	-

***Amounts in the 6th prior column or row include the amounts for the 6th prior period, and any earlier periods.**

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
ALTCS - Utilization Data Report - Contractor Level
Year Ended June 30, 2011

	MEDICARE		NON-MEDICARE		TOTAL	
ITEM DESCRIPTION	Current Period	Fiscal YTD	Current Period	Fiscal YTD	Current Period	Fiscal YTD
A. Enrollees (At End of Period)	3,521	3,521	781	781	4,302	4,302
B. Member Months (Unduplicated) Prospective Only	10,631	31,915	2,292	6,953	12,923	38,868
Institutional Member Months Total	3,409	11,070	477	1,642	3,886	12,712
1. Level 1	679	3,135	87	415	766	3,550
2. Level 2	975	4,229	125	576	1,100	4,805
3. Level 3	308	1,265	39	227	347	1,492
4. Specialty: Wandering Dementia	697	1,396	89	199	786	1,595
5. Specialty: SubAcute Medical		-		-	-	-
6. Specialty: Behavioral Health	662	920	125	194	787	1,114
7. Specialty: Respite Care	73	102	-	-	73	102
8. Specialty: Ventilator	15	23	12	31	27	54
9. Home and Community Based Services (HCBS) Total	7,189	20,719	1,732	5,069	8,921	25,788
a. Adult Foster Care	136	389	15	37	151	426
b. Assisted Living Home	1,203	3,403	122	306	1,325	3,709
c. Group Home (DD)		-		-	-	-
d. Individual Home	5,391	15,400	1,527	4,431	6,918	19,831
e. Assisted Living Center	456	1,511	68	276	524	1,787
f. Other (Specify) Group Home	3	16		19	3	35
10. Acute Care	33	126	83	242	116	368
11. Ventilator	-	-	-	-	-	-
12. PPC	251	740	15	53	266	793
13. Other (Specify)	-	-	-	-	-	-
Admissions	77	401	57	312	134	713
Patient Days	352	2,161	460	2,090	812	4,251
Discharges	77	401	57	299	134	700
Discharge Days	352	2,161	460	1,925	812	4,086
Average Length of Stay	4.57	5.39	8.07	6.70	6.06	5.96
Emergency Room Visits	254	818	149	575	403	1,393

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
ALTCS - Sub-Capitated Expenses Report
Year Ended June 30, 2011

Account	Account Description	YTD Amount
Sub-Capitated Hospitalization Expenses:		
402	Hospital Inpatient	$ -
406	PPC-Hospital Inpatient	$ -
	Total Sub-Capitated Hospitalization Expense:	$ -
Sub-Capitated Medical Compensation Expenses:		$ -
408	Primary Care Physician Services	$ 23,017.03
410	Referral Physician Services	$ -
412	Other Professional	$ -
416	PPC-Physician Services	$ -
	Total Sub-Capitated Medical Compensation Expenses:	$ 23,017.03
Sub-Capitated Other Medical Expenses:		$ -
416	Emergency Facility Services	$ -
418	Pharmacy	$ -
420	Lab, X-ray, & med image	$ -
422	Outpatient Facility	$ -
424	Durable Med Equip	$ -
426	Dental	$ -
428	Transportation	$ -
430	NF, Home HC	$ -
432	Physical Therapy	$ -
436	Miscellaneous Med Exp	$ -
438	PPC-Other	$ -
	Total Sub-Capitated Other Medical Expenses:	$ -
	Total Sub-Capitated Expenses:	$ 23,017.03

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
ALTCS Statement of Activities/Income Statement by Contractor
Year Ended June 30, 2011

Account #	Account Description	Total Amount	Total PMPM
Revenues:			
300	Capitation	187,664,281	3,621.25
305	PPC Capitation	1,161,094	22.40
310	Reinsurance	12,795,391	246.91
315	PPC - Reconciliation	(93,801)	(1.81)
320	Share of Cost (SOC) Reconciliation	954,519	18.42
325	HCBS Placement Reconciliation	(285,310)	(5.51)
330	HIV-AIDS /Supplement	-	-
335	Other AHCCCS Revenue (Report #4)	-	-
	Subtotal AHCCCS Revenue	202,196,174	3,901.66
350	Investment Income	293,193	5.66
360	Third Party Liability Recoveries	36,981	0.71
370	Patient Contributions (MSOC)	85,834	1.66
380	Other Non-AHCCCS Income (Report #4)	166,803	3.22
	Subtotal Non-AHCCCS Revenue	582,811	11.25
	TOTAL REVENUES	202,778,985	3,912.91
Institutional Care Expenses:			
400	NF ICF & Bedholds	238,324	4.60
402	Level I	24,391,206	470.66
404	Level II	30,865,204	595.59
406	Level III	12,250,485	236.39
408	Institutional Care	11,766,062	227.05
410	PPC Institutional	555,011	10.71
412	Other Institutional Care (Report #4)	-	-
	TOTAL INSTITUTIONAL CARE	80,066,292	1,545.00
Home & Community Bases Services (HCBS)Expenses:			
414	Home Health Nurse	4,131,819	79.73
416	Home Health Aide	-	-
418	Personal Care	1,642,463	31.69
420	Homemaker	597,167	11.52
422	Home Delivered Meals	202,132	3.90
424	Respite Care	423,272	8.17
426	Attendant Care	39,654,297	765.19
428	Assisted Living Home	6,503,854	125.50
429	Assisted Living Center	2,524,177	48.71
430	Adult Day Health	135,526	2.62
432	Adult Foster Care	1,191,926	23.00
434	Group Respite	-	-
436	Hospice	375,993	7.26
438	Environmental Modifications	85,504	1.65
443	PPC HCBS	105,273	2.03
444	Other HCBS Costs (Report #4)	1,537,388	29.67
	TOTAL HCBS	59,110,791	1,140.64
Acute Care Expenses:			
448	Inpatient Services (Hosp.)	7,639,139	147.41
450	Primary Care Physician Services	2,090,106	40.33
452	Referral Physician Services	2,992,529	57.75
454	Emergency Services	241,937	4.67
456	Out Patient Facility	1,709,405	32.99
458	Prescription Drug	4,607,111	88.90
460	Lab/Radiology	921,970	17.79
462	Durable Medical Equipment	2,785,008	53.74
464	Dental	49,871	0.96
466	Transportation	2,905,655	56.07
468	Therapies	291,705	5.63
470	Outpatient Behavioral Health	1,730,395	33.39
471	PPC Acute Care	111,417	2.15
472	Other Accute Care Costs (Report #4)	-	-
	TOTAL ACUTE CARE	28,076,248	541.78

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
ALTCS - Statement of Activities/Income Statement by Contractor
Year Ended June 30, 2011

Account #	Account Description	Total Amount	Total PMPM
Other Medical Expenses:			
477	PPC - Other	-	-
479	Other Medical (Report #4)	-	-
	TOTAL OTHER MEDICAL	-	-
480	Case Management	6,344,721	122.43
	TOTAL MEDICAL EXPENSE:	173,598,052	3,349.85
Administrative Expenses:			
484	Compensation	4,490,606	86.65
488	Data Processing	141,219	2.73
490	Management Fees	-	-
492	Interest Expense	-	-
493	Occupancy	701,139	13.53
494	Marketing	-	-
495	Depreciation	-	-
496	Other Administration (Report #4)	7,481,513	144.37
	TOTAL ADMINISTRATION	12,814,477	247.28
	TOTAL EXPENSE	186,412,529	3,597.13
	INCOME FROM OPERATIONS	16,366,456	315.78
497	Non-Operating Income (Loss)	-	-
	INCOME(LOSS) BEFORE TAXES	16,366,456	315.78
498	Provision for Premium Taxes	4,036,130	77.88
499	Provision for Income Taxes	-	-
	NET INCOME(LOSS) AFTER TAXES	12,330,326	237.90
CHANGES TO EQUITY/NET ASSETS:			
530	Equity/Net Assets at Beginning of Period	11,817,402	
505	Preferred Stock		
510	Common Stock		
515	Treasury Stock		
520	Unrestricted Net Assets		
525	Restricted Net Assets		
527	Increase(Decrease) in Add'l Paid-in Capital		
528	Increase(Decrease) in Contributed Capital		
530	Increase(Decrease) in R/E Fund Balance		
	A. Net Income (Loss)	12,330,326	
	B. Dividends to Stockholders		
	C. Other: Transfer of equity to Pima County	(2,000,000)	
530	Equity/Net Assets at End of Period:	22,147,728	

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
ALTCS - Officers and Directors
Year Ended June 30, 2011

On January 1, 2011 Pima County entered into a Master Service Agreement with Bridgeway Health Solutions of Arizona for the management of the AHCCCS Health Plans, CSS Program, Behavioral Health Clinic, and Claims Administration. AHCCCS reviewed and approved the Master Service Agreement between the parties.

Name	Title	Other Relationship to Plan	Type of Compensation
Honey Pivirotto	Plan Administrator	None	Salary
Gail Farmer	Long Term Care Manager*	None	Contracted
Constance Darovec	Home Care Support Services Manager	None	Contracted
Nicole Larson	Operations Program Manager	None	Contracted
Marry Fellows/ Tom Burke	Chief Financial Officer	None	Salary
Sue Benedetti	Quality Management Manager (VP MM)	None	Contracted
Sue Benedetti	Utilization Management Manager (VP MM)	None	Contracted
Fred Miller, M.D.	Medical Director	None	Contracted
Laura Piccirilli	Claims Manager	None	Salary
Elaine Teune	Member Services Manager	None	Contracted
Nicole Larson	Corporate Compliance & Privacy Officer	None	Contracted
United Drug – Elizabeth Schrader until 02/28/11 and US Script – Leon Luttschwager effective 03/01/11	Pharmacy Services Manager	None	Contracted
Mary Reiss	Behavioral Health Manager**	None	Contracted
Brigid Gray	MIS Manager	None	Salary
Elaine Teune	Provider Services Manager	None	Contracted
KitleyAnn West	Grievance Coordinator	None	Contracted
Hannah Clark	Interim Utilization Management Manager	None	Contracted

* Position title was listed as Chief Deputy Director in previous years
** Pima County terminated its Behavioral Health Clinic license effective April 1, 2011

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Board of Supervisors of Pima County, Arizona

We have audited the financial statements of the Pima Health System and Services Enterprise Fund as of and for the year ended June 30, 2011, and have issued our report thereon dated January 26, 2012. Our report was modified to explain that Pima County's management discontinued certain operations of the Fund as of October 2011 and January 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

The County's management is responsible for establishing and maintaining effective internal control over financial reporting for the Fund. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 11-01, that we consider to be a significant deficiency in internal control over financial reporting. 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.

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Recommendations as item 11-01.

The Pima Health System and Services Enterprise Fund's response to the finding identified in our audit is presented on pages 38 and 39. We did not audit the Fund's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors of Pima County, management, and others within the County and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

January 26, 2012

11-01

Pima Health System and Services Enterprise Fund should improve its internal controls over claims processing

Criteria: Pima County's management over the Fund is responsible for ensuring that medical claims are timely and accurately processed, paid, and submitted to the Arizona Health Care Cost Containment System (AHCCCS). Also, medical claims submitted to AHCCCS must include the appropriate pay rates, medical service and procedure codes, and other information AHCCCS requires, or AHCCCS will pend rather than accept those claims as valid.

Condition and context: During fiscal year 2011, the Fund, with the assistance of a third-party administrator, processed approximately 49,000 medical claims each month averaging approximately $13 million. While testing a sample of the Fund's medical and healthcare claims, auditors noted claims that had not been submitted to AHCCCS and claims that were submitted with missing information or other errors that the Fund had not corrected. Based on data provided by AHCCCS, at June 30, 2011, the Fund had 58,889 medical claim transactions in pended status with AHCCCS for more than 4 months, including 34,584 for more than a year.

Effect: Because of these deficiencies, AHCCCS has assessed the Fund potential sanctions. As of September 30, 2011, AHCCCS assessed the Fund a potential sanction of $551,480. However, AHCCCS acknowledges it may waive these sanctions if the Fund shows continued improvement in submitting complete and accurate claims within the contractual timelines. Based on the most recent correspondence from AHCCCS, the number of pended transactions had decreased for the quarter ended December 31, 2011, resulting in a reduced potential sanction of $326,265. In addition, until complete and accurate claims information is submitted to AHCCCS, it is difficult for the Fund to accurately estimate the amount of reinsurance revenues to report in its financial statements. Further, AHCCCS evaluates the Fund's profit margins by comparing capitation revenues to medical claims expenses submitted to AHCCCS. If the profit margins exceed specified contractual thresholds, AHCCCS requires the Fund to pay back the excess profits. This analysis is based on the total dollar value of only those claims accurately submitted to AHCCCS. A high number of pended claims could result in larger perceived profits and thus, larger amounts to be paid back to AHCCCS.

This finding is a significant deficiency in the Fund's internal controls over claims processing and noncompliance with AHCCCS contractual requirements.

Cause: The County stated that it did not have sufficient resources to fully implement procedures over the Fund's claims-processing systems to ensure that all medical and healthcare claims were submitted to AHCCCS in a timely manner and that the claims information submitted was accurate and complete. Software purchased and implemented to help correct deficiencies did not always properly interface with AHCCCS' system resulting in discrepancies. Also, the third party administrator hired to process medical claims during the fiscal year in an effort to help alleviate pended transactions experienced similar difficulties.

Recommendation: To help ensure that the Fund submits accurate and complete medical and healthcare claims to AHCCCS in a timely manner and thereby minimizes sanctions and repayments, the Fund should continue to assign experienced employees to identify all pended claims initially processed by the Fund, as well as claims never submitted, and to also work with the third party administrator currently processing claims on behalf of the Fund to analyze pended claims and determine the causes so that software or procedural changes can be made to help ensure that those claims are successfully submitted to AHCCCS as soon as possible. This will also help the County successfully close out its contractual obligations.

This finding is similar to a prior-year finding.

PIMA COUNTY
DEPARTMENT OF FINANCE & RISK MANAGEMENT
130 WEST CONGRESS STREET
TUCSON, ARIZONA 85701-1317
(520) 740-8041 FAX (520) 243-2329

Thomas E. Burke, Director

January 26, 2012

Ms. Debbie Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The following corrective action plan has been prepared as recommended by Government Auditing Standards. Specifically, we are providing you with the name of the contact person responsive for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Thomas E. Burke
Director

11-01
Pima Health System and Services Enterprise Fund should improve its internal controls over claims processing.

Contact Person – Paul Guerrero, Finance & Risk Management Department

Anticipated Completion Date – June 30, 2012

The County agrees that there were deficiencies in the processing of claims, however, all of the recommended actions are currently in place. Staff is actively working the pended encounters on a daily basis and is working to correct issues that have prevented successful encountering of some claims. While AHCCCS has assessed a potential sanction, similar to prior years, the County does not believe the sanction will result in an actual payout.