

*Pima County, Arizona*

*Pima Health System and Services  
Enterprise fund*

*2011*



*For the First Quarter Ended September 30, 2011 of Fiscal Year 2011-12*

PIMA COUNTY, ARIZONA  
PIMA HEALTH SYSTEM AND SERVICES - ENTERPRISE FUND  
REPORT ON AUDIT OF FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

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

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**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 quarter ended September 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 September 30, 2011, and the changes in its financial position and, where applicable, its cash flows thereof for the quarter 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 September 30, 2011, and the changes in its financial position and its cash flows thereof for the quarter 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.

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  
September 30, 2011

**Assets**

Current assets:		
Cash and cash equivalents	\$	41,227,417
Receivables:		
Accounts, net		642,225
Reinsurance claims		2,881,180
Grants		1,650,766
Interest		101,115
Due from:		
Medicare		145,728
Other Pima County funds		210,736
Other governments		13,876
Inventory of supplies		91,192
Prepaid expenses		24,763
Total current assets		<u>46,988,998</u>

Noncurrent assets:

Capital assets:		
Leasehold improvements		906,575
Machinery and equipment		949,025
Intangible		381,100
Accumulated depreciation:		
Leasehold improvements		(687,317)
Machinery and equipment		(868,386)
Intangible		(190,550)
Capital assets, net		<u>490,447</u>
Total assets		<u>47,479,445</u>

**Liabilities**

Current liabilities:		
Accounts payable and accrued liabilities		354,948
Accrued medical and health care claims		17,445,782
Accrued employee compensation		875,146
Interest payable		19,999
Due to:		
Other Pima County funds		1,972,283
Other governments		39,449
Total liabilities		<u>20,707,607</u>

**Net Assets**

Invested in capital assets		490,447
Restricted for health care		26,415,475
Unrestricted (deficit)		(134,084)
Total net assets	\$	<u><u>26,771,838</u></u>

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  
For the Quarter Ended September 30, 2011

<b>Operating revenues:</b>	
Capitation	\$ 47,394,506
Reinsurance claims	2,980,379
Charges for services	1,000,434
Other	<u>100,525</u>
Total operating revenues	<u>51,475,844</u>
<b>Operating expenses:</b>	
Medical and health care claims	43,168,718
Case management (contracted and salaried)	1,904,975
General, fiscal, and administrative services	1,057,062
Depreciation	39,163
Other	<u>2,746,692</u>
Total operating expenses	<u>48,916,610</u>
Operating income	<u>2,559,234</u>
<b>Nonoperating revenues (expenses):</b>	
Grant revenue	1,065,871
Interest income	78,354
Interest expense	(12,526)
Premium tax	<u>(97,953)</u>
Total nonoperating revenues	<u>133,746</u>
Increase in net assets	2,692,980
Net assets, July 1, 2011	<u>24,078,858</u>
Net assets, September 30, 2011	<u>\$ 26,771,838</u>

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Statement of Cash Flows  
For the Quarter Ended September 30, 2011

**Cash flows from operating activities:**

Cash receipts from:	
Contractors, patients and other payors	\$ 50,883,601
Miscellaneous operations	100,525
Cash payments to:	
Providers for health care services	(42,008,945)
Third party claims processor	(3,536,571)
Employees for services	(4,222,945)
Other Pima County funds for goods and services	(1,312,563)
Net cash used for operating activities	<u>(96,898)</u>

**Cash flows from noncapital financing activities:**

Loans with other Pima County funds	1,212,412
Interest paid on short-term credit	7,473
Grant receipts	486,955
Premium tax payments	(997,953)
Net cash provided by noncapital financing activities	<u>708,887</u>

**Cash flows from investing activities:**

Interest on cash and investments	(7,427)
Net cash used for investing activities	<u>(7,427)</u>

**Net increase in cash and cash equivalents** 604,562

**Cash and cash equivalents, July 1, 2011** 40,622,855

**Cash and cash equivalents, September 30, 2011** \$ 41,227,417

(continued)

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Statement of Cash Flows  
For the Quarter Ended September 30, 2011

(continued)

**Reconciliation of operating income to net cash  
used for operating activities:**

Operating income	\$	2,559,234
Adjustments to reconcile operating income to net cash used for operating activities:		
Depreciation		39,163
Changes in assets and liabilities:		
Decrease (increase) in assets		
Accounts receivable		(432,580)
Reinsurance claims receivable		(115,427)
Due from Medicare		(13,624)
Due from other governments		69,601
Prepaid expenses		53,497
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities		45,366
Accrued medical and health care claims		(2,098,688)
Accrued employee compensation		(203,752)
Due to other governments		312
		(96,898)
Net cash used for operating activities	\$	(96,898)

Noncash investing, capital, and noncapital financing activities during the 3 months ended September 30, 2011:

During the quarter Pima Health System and Services reassigned a capital asset to an Internal Service Fund with a net book value of \$5,847.

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Notes to Financial Statements  
September 30, 2011

**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.

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Notes to Financial Statements  
September 30, 2011

**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 period. 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 period. 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 period. 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 contract 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 September 30, 2011, the Fund has \$245,462 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 September 30, 2011, the Fund has \$888,272 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.

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Notes to Financial Statements  
September 30, 2011

**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 prior to September 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 September 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 September 30, 2011, the Fund had approximately \$1,139,775 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 September 30, 2011 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Notes to Financial Statements  
September 30, 2011

**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 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 September 30, 2011, accounts receivable was net of an allowance for doubtful accounts of \$224,756. Grants receivable at September 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

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Notes to Financial Statements  
September 30, 2011

**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 \$8,552 to these sub-capitated providers during the three months period ended September 30, 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 September 30, 2011, medical and health care claims payable consists of estimates of \$14,021,474 in the ALTCS program, \$2,730,033 in the Ambulatory program, \$658,260 in the Grants and Community Services System and \$36,015 in other Pima County programs.

**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 three months period ended September 30, 2011 was \$997,953 which is included in the non-operating expenses portion of the accompanying Statement of Revenues, Expenses and Changes in Net Assets. The Fund has \$1,614 due to the Arizona Department of Insurance at September 30, 2011. The Long-Term Care Contracts amount of \$2,898 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 \$4,512 is included in the Due to other governments in the accompanying Statement of Net Assets.

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Notes to Financial Statements  
September 30, 2011

**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 September 30, 2011, and the reported amounts of revenues and expenses during the fiscal period then ended. Actual results may differ from these estimates.

**Note 2 - Cash and Investments**

**Deposits** – At September 30, 2011, the County's total cash on hand was \$1,700. The carrying amount of the deposits was \$2,705,978, and the bank balance was \$5,917,749. The County does not have a formal policy with respect to custodial credit risk of deposits. As of September 30, 2011, the cash in bank balance was fully insured by FDIC.

At September 30, 2011, the County's cash and investments in the Pima County Treasurer's Investment pool was \$38,519,739. 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 72 days at September 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.

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Notes to Financial Statements  
September 30, 2011

**Note 2 - Cash and Investments (continued)**

*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 three month period ended September 30, 2011 was as follows:

	<u>July 1, 2011</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Sept 30, 2011</u> <u>Balance</u>
Leasehold improvements	\$ 906,575			\$ 906,575
Accumulated depreciation	<u>(681,452)</u>	\$ <u>(5,865)</u>		<u>(687,317)</u>
Net leasehold improvements	<u>225,123</u>	<u>(5,865)</u>		<u>219,258</u>
Machinery and equipment	973,328		\$ (24,303)	949,025
Accumulated depreciation	<u>(872,599)</u>	<u>(14,243)</u>	<u>18,456</u>	<u>(868,386)</u>
Net machinery and equipment	<u>100,729</u>	<u>(14,243)</u>	<u>(5,847)</u>	<u>80,639</u>
Intangibles	381,100			381,100
Accumulated depreciation	<u>(171,495)</u>	<u>(19,055)</u>		<u>(190,550)</u>
Net intangibles	<u>209,605</u>	<u>(19,055)</u>		<u>190,550</u>
Capital assets, net	<u>\$ 535,457</u>	<u>\$ (39,163)</u>	<u>\$ (5,847)</u>	<u>\$ 490,447</u>

**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 a final notice from AHCCCS of possible sanctions for the quarter ended September 30, 2011. The sanctions are a result of pended encounters. As of September 30, 2011, there were 30,134 pended encounters with associated sanction amounts of \$551,480. 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 September 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 September 30, 2011, the Fund incurred \$170,611 in self-insurance

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Notes to Financial Statements  
September 30, 2011

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

expense, of which \$85,331 is included in other operating expenses and \$85,280 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. During the three month period ended September 30, 2011, the Fund incurred expenses totaling \$1,444,362 for the allocation of overhead, insurance premiums, and other charges for miscellaneous supplies and services from Pima County.

Of the \$1,972,283 balance in due to other Pima County funds, \$1,379,122 represents advances received from other County funds to eliminate cash overdrafts in the Fund's Grants/Community Services System program, \$313,651 for salaries, \$115,536 for legal and audit fees, and \$160,483 for the net asset deficit at June 30, 2011 in the Fund's Grants/Community Services System program. The remaining \$3,491 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 Central Avenue  
P.O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2000 or 1-800-621-3778

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Notes to Financial Statements  
September 30, 2011

**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 three month period ended September 30, 2011 active ASRS members were required by statute to contribute at the actuarially determined rate of 11.39 percent (11.13 percent for retirement and 0.26 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 10.10 percent (9.24 percent for retirement, 0.63 percent for health insurance premium, and 0.23 percent for long-term disability) of the members’ annual covered payroll.

The County’s contributions for the current period were equal to the required contributions.

3 Months Ended	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
September 30, 2011	\$ 185,764	\$ 12,665	\$ 4,623

The three 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 three month period ended September 30, 2011, capitation revenues consist of the following amounts:

ALTCS long-term care	\$ 46,750,424
AHCCCS ambulatory/acute care	644,082
Total	<u>\$ 47,394,506</u>

**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**  
**September 30, 2011**

	<u>AHCCCS</u>			<b>Other Pima County Programs</b>	<b>Total</b>
	<b>Ambulatory Contracts</b>	<b>Long-Term Care Contracts (1)</b>	<b>Grants/ Community Services System</b>		
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 2,978,874	\$ 37,751,037	\$	\$ 497,506	\$ 41,227,417
Receivables:					
Accounts, net	28,692	593,468		20,065	642,225
Reinsurance claims	244,305	2,636,875			2,881,180
Grants			1,650,766		1,650,766
Interest	6,473	94,491	151		101,115
Due from:					
Medicare		145,728			145,728
Other Pima County funds		4,817	160,483	45,436	210,736
Other governments		13,876			13,876
Inventory of supplies		91,192			91,192
Prepaid expenses				24,763	24,763
Total current assets	<u>3,258,344</u>	<u>41,331,484</u>	<u>1,811,400</u>	<u>587,770</u>	<u>46,988,998</u>
Noncurrent assets:					
Capital assets:					
Leasehold improvements				906,575	906,575
Machinery and equipment				949,025	949,025
Intangible				381,100	381,100
Accumulated depreciation:					
Leasehold improvements				(687,317)	(687,317)
Machinery and equipment				(868,386)	(868,386)
Intangible				(190,550)	(190,550)
Capital assets, net				<u>490,447</u>	<u>490,447</u>
Total assets	<u>3,258,344</u>	<u>41,331,484</u>	<u>1,811,400</u>	<u>1,078,217</u>	<u>47,479,445</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and accrued liabilities	21,222	323,055	2,139	8,532	354,948
Accrued medical and health care claims	2,730,033	14,021,474	658,260	36,015	17,445,782
Accrued employee compensation		875,146		-	875,146
Interest payable			297	19,702	19,999
Due to:					
Other Pima County funds		163,974	1,379,122	429,187	1,972,283
Other governments	39,449				39,449
Total current liabilities					
Total liabilities	<u>2,790,704</u>	<u>15,383,649</u>	<u>2,039,818</u>	<u>493,436</u>	<u>20,707,607</u>
<b>Net Assets</b>					
Invested in capital assets				490,447	490,447
Restricted for health care	467,640	25,947,835			26,415,475
Unrestricted (deficit)			(228,418)	94,334	(134,084)
Total net assets (deficit)	<u>\$ 467,640</u>	<u>\$ 25,947,835</u>	<u>\$ (228,418)</u>	<u>\$ 584,781</u>	<u>\$ 26,771,838</u>

(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  
For the Quarter Ended September 30, 2011

	AHCCCS					Total
	Ambulatory Contracts	Long-Term Care Contracts (1)	Grants/ Community Services System	Other Pima County Programs	Intrafund Eliminations	
<b>Operating revenues:</b>						
Capitation	\$ 644,082	\$ 46,750,424				\$ 47,394,506
Reinsurance claims	(86,746)	3,067,125				2,980,379
Charges for services		1,000,434				1,000,434
Other	11,143	89,286		\$ 37,814	\$ (37,718)	100,525
Total operating revenues	<u>568,479</u>	<u>50,907,269</u>		<u>37,814</u>	<u>(37,718)</u>	<u>51,475,844</u>
<b>Operating expenses:</b>						
Medical and health care claims	1,425,664	40,673,437	\$ 976,894	92,723		43,168,718
Case management (contracted and salaried)		1,601,243	303,732			1,904,975
General, fiscal, and administrative services	22,689	1,021,007	13,366			1,057,062
Depreciation				39,163		39,163
Other	58,297	2,739,691		(13,578)	(37,718)	2,746,692
Total operating expenses	<u>1,506,650</u>	<u>46,035,378</u>	<u>1,293,992</u>	<u>118,308</u>	<u>(37,718)</u>	<u>48,916,610</u>
Operating income (loss)	<u>(938,171)</u>	<u>4,871,891</u>	<u>(1,293,992)</u>	<u>(80,494)</u>		<u>2,559,234</u>
<b>Nonoperating revenues (expenses):</b>						
Grant revenue			1,065,871			1,065,871
Interest income	5,056	73,298				78,354
Interest expense			(297)	(12,229)		(12,526)
Premium tax	(13,354)	(984,599)				(997,953)
Total nonoperating revenues (expenses), net	<u>(8,298)</u>	<u>(911,301)</u>	<u>1,065,574</u>	<u>(12,229)</u>		<u>133,746</u>
Income (loss) before transfers	(946,469)	3,960,590	(228,418)	(92,723)		2,692,980
Transfers in			160,483		(160,483)	
Transfers out		(160,483)			160,483	
Increase (decrease) in net assets	(946,469)	3,800,107	(67,935)	(92,723)		2,692,980
Net assets, July 1, 2011	1,414,109	22,147,728	(160,483)	677,504		24,078,858
<b>Net assets, September 30, 2011</b>	<u>\$ 467,640</u>	<u>\$ 25,947,835</u>	<u>\$ (228,418)</u>	<u>\$ 584,781</u>		<u>\$ 26,771,838</u>

(1) The financial positions 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  
For the Quarter Ended September 30, 2011

	<u>AHCCCS</u>				<u>Total</u>
	<u>Ambulatory Contracts</u>	<u>Long-Term Care Contracts (1)</u>	<u>Grants/ Community Services System</u>	<u>Other Pima County Programs (2)</u>	
<b>Cash flows from operating activities:</b>					
Cash receipts from:					
Contractors, patients and other payors	\$ 668,157	\$ 50,077,666		\$ 137,778	\$50,883,601
Miscellaneous operations	11,143	89,286		96	100,525
Cash payments to:					
Providers for health care services	(499,925)	(41,379,251)	\$ (1,413,669)	1,283,900	(42,008,945)
Third party claims processor		(3,536,571)			(3,536,571)
Employees for services	(22,782)	(4,186,797)	(13,366)		(4,222,945)
Other Pima County funds for goods and services		(85,280)		(1,227,283)	(1,312,563)
Net cash provided by (used for) operating activities	<u>156,593</u>	<u>979,053</u>	<u>(1,427,035)</u>	<u>194,491</u>	<u>(96,898)</u>
<b>Cash flows from noncapital financing activities:</b>					
Cash transfer out to other Pima County funds		(160,483)	160,483		
Loans with other Pima County funds		137,273	779,597	295,542	1,212,412
Interest paid on short-term credit				7,473	7,473
Grant receipts			486,955		486,955
Premium tax payments	(13,354)	(984,599)			(997,953)
Net cash provided by (used for) noncapital financing activities	<u>(13,354)</u>	<u>(1,007,809)</u>	<u>1,427,035</u>	<u>303,015</u>	<u>708,887</u>
<b>Cash flows from investing activities:</b>					
Interest on cash and investments	(108)	(7,319)			(7,427)
Net cash used for investing activities	<u>(108)</u>	<u>(7,319)</u>			<u>(7,427)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>143,131</b>	<b>(36,075)</b>		<b>497,506</b>	<b>604,562</b>
<b>Cash and cash equivalents, July 1, 2011</b>	<b>2,835,743</b>	<b>37,787,112</b>			<b>40,622,855</b>
<b>Cash and cash equivalents, September 30, 2011</b>	<u><b>\$ 2,978,874</b></u>	<u><b>\$ 37,751,037</b></u>		<u><b>\$ 497,506</b></u>	<u><b>\$41,227,417</b></u>

(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 pages 22 and 23.

(2) Includes intrafund eliminations and Pima County overhead allocation adjustments.

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
Combining Statement of Cash Flows by Program  
For the Quarter Ended September 30, 2011

(continued)

**Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:**

	<u>AHCCCS</u>				<u>Total</u>
	<u>Ambulatory Contracts</u>	<u>Long-Term Care Contracts (1)</u>	<u>Grants/ Community Services System</u>	<u>Other Pima County Programs</u>	
Operating income (loss)	\$ (938,171)	\$ 4,871,891	\$ (1,293,992)	\$ (80,494)	\$ 2,559,234
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation				39,163	39,163
Changes in assets and liabilities					
Decrease/(increase) in assets					
Accounts receivable	592	(570,950)		137,778	(432,580)
Reinsurance claims receivable	109,917	(225,344)			(115,427)
Due from Medicare		(13,624)			(13,624)
Due from other governments		69,601			69,601
Prepaid expenses				53,497	53,497
Increase/(decrease) in liabilities					
Accounts payable and accrued liabilities	(2,271)	39,105		8,532	45,366
Accrued medical and health care claims	986,307	(2,987,967)	(133,043)	36,015	(2,098,688)
Accrued employee compensation	(93)	(203,659)			(203,752)
Due to other governments	312				312
Net cash provided by (used for) operating activities	<u>\$ 156,593</u>	<u>\$ 979,053</u>	<u>\$ (1,427,035)</u>	<u>\$ 194,491</u>	<u>\$ (96,898)</u>

Noncash investing, capital, and noncapital financing activities during the 3 months ended September 30, 2011:

During the quarter Pima Health System and Services reassigned a capital asset to a Internal Services Fund for a net book value of \$5,847.

(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  
September 30, 2011

<b>Assets</b>	<b>ALTCS Contracts</b>	<b>Posada Del Sol</b>	<b>Long-Term Care Contracts Total</b>
	<hr/>	<hr/>	<hr/>
Current assets:			
Cash and cash equivalents	\$ 37,340,755	\$ 410,282	\$ 37,751,037
Receivables:			
Accounts, net	44,648	548,820	593,468
Reinsurance claims	2,636,875		2,636,875
Interest	93,760	731	94,491
Due from:			
Medicare		145,728	145,728
Other Pima County funds	4,817		4,817
Other governments	13,876		13,876
Inventory of supplies		91,192	91,192
Total assets	<hr/> <b>\$ 40,134,731</b>	<hr/> <b>\$ 1,196,753</b>	<hr/> <b>\$ 41,331,484</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities		323,055	323,055
Accrued medical and health care claims	14,021,474		14,021,474
Accrued employee compensation	797,841	77,305	875,146
Due to other Pima County funds	163,974		163,974
Total liabilities	<hr/> <b>14,983,289</b>	<hr/> <b>400,360</b>	<hr/> <b>15,383,649</b>
<b>Net Assets</b>			
Restricted for health care	<hr/> 25,151,442	<hr/> 796,393	<hr/> 25,947,835
Total net assets	<hr/> <b>\$ 25,151,442</b>	<hr/> <b>\$ 796,393</b>	<hr/> <b>\$ 25,947,835</b>

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

	<u>ALTCS Contracts</u>	<u>Posada Del Sol</u>	<u>Intraprogram Eliminations</u>	<u>Long-Term Care Contracts Total</u>
<b>Operating revenues:</b>				
Capitation	\$ 46,750,424			\$ 46,750,424
Reinsurance claims	3,067,125			3,067,125
Charges for services		\$ 4,183,508	\$ (3,183,074)	1,000,434
Other	31,538	57,748		89,286
Total operating revenues	<u>49,849,087</u>	<u>4,241,256</u>	<u>(3,183,074)</u>	<u>50,907,269</u>
<b>Operating expenses:</b>				
Medical and health care	39,624,847	4,231,664	(3,183,074)	40,673,437
Case management (contracted and salaried)	1,601,243			1,601,243
General, fiscal, and administrative services	1,011,632	9,375		1,021,007
Other	2,739,474	217		2,739,691
Total operating expenses	<u>44,977,196</u>	<u>4,241,256</u>	<u>(3,183,074)</u>	<u>46,035,378</u>
Operating income	<u>4,871,891</u>			<u>4,871,891</u>
<b>Nonoperating revenues (expenses):</b>				
Interest income	73,298			73,298
Premium tax	(984,599)			(984,599)
Total nonoperating expenses, net	<u>(911,301)</u>			<u>(911,301)</u>
Income before transfer	3,960,590			3,960,590
Transfer out	(160,483)			(160,483)
Increase in net assets	3,800,107			3,800,107
Net assets, July 1, 2011	<u>21,351,335</u>	<u>796,393</u>		<u>22,147,728</u>
<b>Net assets, September 30, 2011</b>	<u>\$ 25,151,442</u>	<u>\$ 796,393</u>	<u>\$</u>	<u>\$ 25,947,835</u>

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

	<u>ALTCS Contracts</u>	<u>Posada Del Sol</u>	<u>Intraprogram Eliminations</u>	<u>Long-Term Care Contracts Total</u>
<b>Cash flows from operating activities:</b>				
Cash receipts from:				
Contractors, patients and other payors	\$ 49,622,430	\$ 3,638,310	\$ (3,183,074)	\$ 50,077,666
Miscellaneous operations	31,538	57,748		89,286
Cash payments to:				
Providers for health care services	(43,809,470)	(752,855)	3,183,074	(41,379,251)
Third party claims processor	(3,536,571)			(3,536,571)
Employees for services	(927,659)	(3,259,138)		(4,186,797)
Other Pima County funds for goods and services		(85,280)		(85,280)
Net cash provided by (used for) operating activities	<u>1,380,268</u>	<u>(401,215)</u>		<u>979,053</u>
<b>Cash flows from noncapital financing activities:</b>				
Cash transfer out to other Pima County funds	(160,483)			(160,483)
Loans with other Pima County funds	137,273			137,273
Premium tax payments	(984,599)			(984,599)
Net cash (used for) noncapital financing activities	<u>(1,007,809)</u>			<u>(1,007,809)</u>
<b>Cash flows from investing activities:</b>				
Interest on cash and investments	(6,934)	(385)		(7,319)
Net cash (used for) investing activities	<u>(6,934)</u>	<u>(385)</u>		<u>(7,319)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	365,525	(401,600)		(36,075)
Cash and cash equivalents, July 1, 2011	36,975,230	811,882		37,787,112
<b>Cash and cash equivalents, September 30, 2011</b>	<u>\$ 37,340,755</u>	<u>\$ 410,282</u>		<u>\$ 37,751,037</u>

(continued)

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

(continued)

**Reconciliation of operating income to net cash provided by  
(used for) operating activities:**

	<b>ALTCS Contracts</b>	<b>Posada Del Sol</b>	<b>Long-Term Care Contracts Total</b>
Operating income	\$ 4,871,891		\$ 4,871,891
Adjustments to reconcile operating income to net cash provided by (used for) operating activities			
Changes in assets and liabilities:			
Decrease (increase) in assets			
Accounts receivable	(39,376)	\$ (531,574)	(570,950)
Reinsurance claims receivable	(225,344)		(225,344)
Due from Medicare		(13,624)	(13,624)
Due from other governments	69,601		69,601
Increase (decrease) in liabilities			
Accounts payable and accrued liabilities	(102,179)	141,284	39,105
Accrued medical and health care claims	(2,987,967)		(2,987,967)
Accrued employee compensation	(206,358)	2,699	(203,659)
	<u>\$ 1,380,268</u>	<u>\$ (401,215)</u>	<u>\$ 979,053</u>
Net cash provided by (used for) operating activities	<u>\$ 1,380,268</u>	<u>\$ (401,215)</u>	<u>\$ 979,053</u>

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM CONTRACTS

PIMA COUNTY, ARIZONA  
Pima Heath System and Services - Enterprise Fund  
Ambulatory Contract - Claims Lag Report  
Hospital, Medical and Other - PPC and Prospective  
For the Quarter Ended September 30, 2011

Payment Qtr	Current	1st Prior	2nd Prior	3rd Prior	4th Prior	5th Prior	6th Prior*	Total
<b>Current</b>	160,113	232,320	34,599	5,474	1,314	(2,238)	(969)	430,613
<b>1st Prior</b>		183,363	351,881	20,781	5,096	589	(286,294)	275,416
<b>2nd Prior</b>			228,240	275,580	154,997	3,673	(36,957)	625,533
<b>3rd Prior</b>				176,797	300,010	16,127	(403)	492,531
<b>4th Prior</b>					292,146	335,985	41,422	669,553
<b>5th Prior</b>						241,600	247,721	489,321
<b>6th Prior*</b>							622,500,470	622,500,470
<b>Totals</b>	160,113	415,683	614,720	478,632	753,563	595,736	622,464,990	625,483,437
<b>Expense</b>	1,423,485	536,949	601,840	1,110,406	666,605	766,192	625,140,933	630,246,410
<b>Adjustment</b>	(996,301)	(55,238)	115,167	(477,923)	371,097	948,508	(1,938,250)	(2,032,940)
<b>Remaining</b>	267,071	66,028	102,287	153,851	284,139	1,118,964	737,693	2,730,033

\* 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**  
**For the Quarter Ended September 30, 2011**

PIMA HEALTH PLAN Quarter Ended: 9/30/2011 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 Planning	SOBRA Moms	State Only Transplants	Grand Total
	<b>REVENUE &amp; EXPENSES</b>												
Member Months													
SOBRA FPS Mmbr. Mths	0	0	0	0	0	0	0	0	0	0	0	0	0
PPC Member Months	0	1	1	0	0	2	0	0	0	0	0	0	7
Pros. Member Months	10	182	130	77	71	4,071	49	1,338	14	0	14	0	4,742
Total Member Months	10	183	131	77	71	4,073	49	1,338	14	0	14	0	4,749
Pros. & FPS Mbr. Mths	10	182	130	77	71	4,071	49	1,338	14	0	14	0	4,742
Pros. & PPC Mbr. Mths	10	183	131	77	71	4,073	49	1,341	14	0	14	0	4,749
<b>REVENUES</b>													
305 Capitalation	4,829	18,511	31,482	15,247	26,518	448,398	36,048	0	54,035	0	3,390	0	639,458
310 PPC Capitalation	0	124	423	0	0	542	0	0	4,049	0	0	0	5,138
315 Delivery Supplement	0	0	0	0	0	0	0	0	0	0	0	0	0
321 TWG Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0
322 PPC Settlement	0	(73)	(73)	0	0	(148)	0	0	(220)	0	0	0	(514)
325 Investment Income	11	194	139	82	76	4,340	52	0	147	0	15	0	5,056
330 Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL REVENUES</b>	<b>4,840</b>	<b>18,756</b>	<b>31,971</b>	<b>15,329</b>	<b>26,594</b>	<b>454,132</b>	<b>36,100</b>	<b>0</b>	<b>58,011</b>	<b>0</b>	<b>3,405</b>	<b>0</b>	<b>649,138</b>
<b>EXPENSES</b>													
Hospitalization	0	0	0	0	0	1,042,373	41,800	0	62,724	0	0	0	1,146,897
402 Hospital Inpatient	0	0	0	0	0	0	0	0	0	0	0	0	0
404 Reserved	0	0	0	0	0	1,064	0	0	0	0	0	0	1,064
406 PPC-Hospital Inpatient	0	0	0	0	0	1,043,437	41,800	0	62,724	0	0	0	1,147,961
<b>Total Hospitalization</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,043,437</b>	<b>41,800</b>	<b>0</b>	<b>62,724</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,147,961</b>
Medical Compensation	572	4,051	3,821	1,161	1,024	37,296	4,832	0	3,278	0	192	0	56,327
408 Primary Care Physician	0	895	1,104	225	146	15,897	0	0	1,399	0	3,702	0	23,968
410 Referral Physician	0	161	820	101	0	5,011	324	0	739	0	3	0	7,159
412 Other Professional	0	0	0	0	0	17	0	0	0	0	0	0	17
414 PPC - Physician Services	572	5,107	5,745	1,487	1,170	58,221	5,256	0	5,416	0	3,897	0	86,871
<b>Total Medical Comp</b>	<b>572</b>	<b>5,107</b>	<b>5,745</b>	<b>1,487</b>	<b>1,170</b>	<b>58,221</b>	<b>5,256</b>	<b>0</b>	<b>5,416</b>	<b>0</b>	<b>3,897</b>	<b>0</b>	<b>86,871</b>
Other Medical Expenses	402	1,429	3,251	402	564	10,893	1,942	0	440	0	0	0	19,323
416 Emergency Facility Services	102	1,097	3,641	281	242	10,171	3,434	0	9,558	0	262	0	28,788
418 Pharmacy	8	429	3,430	304	668	15,495	716	0	1,394	0	1,093	0	23,537
420 Lab, X-ray, & Medical Imaging	311	3,354	4,149	2,757	390	26,325	3,840	0	5,779	0	539	0	47,444
422 Outpatient Facility	0	0	155	0	352	7,966	2,466	0	61	0	0	0	11,000
424 Durable Medical Equipment	0	3,002	292	65	0	39	0	0	0	0	0	0	3,398
426 Dental	0	493	3,581	991	728	44,944	0	0	1,788	0	0	0	52,525
428 Transportation	0	0	0	0	0	3,893	0	0	0	0	0	0	3,893
430 Nursing Facility, Home Health Care	0	0	0	0	0	797	0	0	0	0	0	0	797
432 Physical Therapy	0	0	0	0	0	0	0	0	0	0	0	0	0
436 Miscellaneous Medical Expenses	0	68	0	0	0	10	0	0	49	0	0	0	127
438 PPC-Other	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Other Medical</b>	<b>823</b>	<b>9,872</b>	<b>18,499</b>	<b>4,800</b>	<b>2,944</b>	<b>120,533</b>	<b>12,398</b>	<b>0</b>	<b>19,069</b>	<b>0</b>	<b>1,884</b>	<b>0</b>	<b>190,832</b>
<b>TOTAL MEDICAL EXP</b>	<b>1,395</b>	<b>14,979</b>	<b>24,244</b>	<b>6,287</b>	<b>4,114</b>	<b>1,222,191</b>	<b>59,454</b>	<b>0</b>	<b>87,209</b>	<b>0</b>	<b>5,791</b>	<b>0</b>	<b>1,425,664</b>
Less:													
440 Reinsurance	(33)	(9,985)	(1,125)	0	0	89,348	(15,614)	0	13,012	0	0	0	86,746
442 Third Party Liability	1,362	4,994	23,119	6,287	4,114	1,311,539	43,840	0	100,221	0	5,791	0	1,501,267
<b>TOTAL NET MEDICAL EXP</b>	<b>167</b>	<b>3,039</b>	<b>2,171</b>	<b>1,286</b>	<b>1,186</b>	<b>67,987</b>	<b>818</b>	<b>0</b>	<b>4,098</b>	<b>0</b>	<b>234</b>	<b>0</b>	<b>80,986</b>
<b>TOTAL ADMIN EXP</b>	<b>1,529</b>	<b>8,033</b>	<b>25,290</b>	<b>7,573</b>	<b>5,300</b>	<b>1,379,526</b>	<b>44,658</b>	<b>0</b>	<b>104,319</b>	<b>0</b>	<b>6,025</b>	<b>0</b>	<b>1,582,253</b>
Inc (loss) from operations	3,311	10,723	6,681	7,756	21,294	(925,394)	(8,556)	0	(46,308)	0	(2,620)	0	(933,115)
Non-operating inc (loss)	0	0	0	0	0	0	0	0	0	0	0	0	0
Inc (loss) before taxes	3,311	10,723	6,681	7,756	21,294	(925,394)	(8,556)	0	(46,308)	0	(2,620)	0	(933,115)
Income taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Premium taxes	116	445	760	367	638	8,679	1,242	0	1,025	0	82	0	13,354
<b>NET INCOME (LOSS)</b>	<b>3,195</b>	<b>10,278</b>	<b>5,921</b>	<b>7,389</b>	<b>20,656</b>	<b>(934,073)</b>	<b>(9,800)</b>	<b>0</b>	<b>(47,333)</b>	<b>0</b>	<b>(2,702)</b>	<b>0</b>	<b>(946,469)</b>

PIMA COUNTY, ARIZONA  
Pima Health System and Services  
Ambulatory Contract - Officers and Directors  
For the Quarter Ended September 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
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  
For the Quarter Ended September 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	13,376,585	5,600,529	167,299	15,697	(1,119)	638	(2,044)	19,157,585
2	1ST PRIOR		13,821,574	5,792,582	80,510	35,874	29,221	24,109	19,783,870
3	2ND PRIOR			13,676,861	6,054,789	74,185	(15,933)	(19,512)	19,770,390
4	3RD PRIOR				14,010,984	5,664,183	11,204	(3,774)	19,682,597
5	4TH PRIOR					14,662,750	5,568,806	82,740	20,314,296
6	5TH PRIOR						14,587,775	5,813,207	20,400,982
7	6TH PRIOR							305,226,409	305,226,409
8	TOTALS	13,376,585	19,422,103	19,636,742	20,161,980	20,435,873	20,181,711	311,121,135	424,336,129
9	EXP. REPORTED	18,780,401	19,233,228	20,215,623	20,062,108	19,944,815	20,012,874	310,138,023	428,387,072
10	ADJUSTMENT	(150,000)	(329,512)	560,297	(99,872)	(491,058)	(168,837)	(983,112)	(1,662,094)
11	REMAINING LIABILITY	5,553,816	140,637	18,584					5,713,037

**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	9,937,129	5,662,846	171,097	12,834				15,783,906
2	1ST PRIOR		8,312,846	6,063,228	205,797	1,067	(501)	1,945	14,584,382
3	2ND PRIOR			8,302,983	6,100,880	95,658	16,934	5,980	14,522,435
4	3RD PRIOR				8,638,201	4,549,316	40,726	(2,419)	13,225,824
5	4TH PRIOR					10,430,762	6,082,188	56,387	16,569,337
6	5TH PRIOR						8,812,716	5,707,508	14,520,224
7	6TH PRIOR							196,346,773	196,346,773
8	TOTALS	9,937,129	13,975,692	14,537,308	14,957,712	15,076,803	14,952,063	202,116,174	285,552,881
9	EXP. REPORTED	13,881,550	15,268,345	14,055,899	14,485,085	15,195,988	15,751,136	208,831,845	297,469,848
10	ADJUSTMENT	(470,000)	1,015,034	(502,754)	(475,239)	119,185	799,073	6,715,671	7,200,970
11	REMAINING LIABILITY	4,414,421	277,619	21,345	2,612				4,715,997

**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	3,809,338	2,673,956	423,483	51,539	(1,589)	1,904	2,114	6,960,745
2	1ST PRIOR		3,365,902	3,249,796	225,431	54,404	3,622	(28,107)	6,871,048
3	2ND PRIOR			3,814,630	3,174,883	142,361	105,768	115,184	7,352,826
4	3RD PRIOR				3,295,809	2,770,530	250,797	36,491	6,353,627
5	4TH PRIOR					3,992,627	3,476,227	425,611	7,894,465
6	5TH PRIOR						3,646,718	3,025,124	6,671,842
7	6TH PRIOR							98,846,067	98,846,067
8	TOTALS	3,809,338	6,039,858	7,487,909	6,747,662	6,958,333	7,485,036	102,422,484	140,950,620
9	EXP. REPORTED	6,361,696	7,261,417	6,443,989	6,729,086	7,540,160	7,481,803	101,700,012	143,518,163
10	ADJUSTMENT	(330,000)	790,240	(1,133,092)	(43,394)	576,103	(3,233)	(722,472)	(865,848)
11	REMAINING LIABILITY	2,882,358	431,319	89,172	24,818	5,724			3,433,391

**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								
6	5TH PRIOR							(12,576)	(12,576)
7	6TH PRIOR							20,032,304	20,032,304
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  
ALTS - Claims Lag Report for Prior Period Only  
For the Quarter Ended September 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	7,486	39,870	46,295	1,894				95,545
2	1ST PRIOR		17,310	109,591	21,854	3,246	2,509	5	154,515
3	2ND PRIOR			40,212	37,839	17,308	2,986	(154)	98,191
4	3RD PRIOR				31,951	55,838	7,812	950	96,551
5	4TH PRIOR					84,589	118,856	36,890	240,335
6	5TH PRIOR						64,680	131,895	196,575
7	6TH PRIOR							2,032,909	2,032,909
8	TOTALS	7,486	57,180	196,098	93,538	160,981	196,843	2,202,495	2,914,621
9	EXP.REPORTED	86,101	143,793	122,190	11,162	277,866	164,210	2,181,454	2,986,776
10	ADJUSTMENT	-	(56,603)	76,164	82,376	(116,885)	32,633	21,041	38,726
11	REMAINING LIABILITY	78,615	30,010	2,256					110,881

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	1,760	24,250	1,300					27,310
2	1ST PRIOR		9,999	24,815	1,271			(344)	35,741
3	2ND PRIOR			4,716	10,796	3,788			19,300
4	3RD PRIOR				6,431	11,733	5,218	1,810	25,192
5	4TH PRIOR					8,132	12,858	1,415	22,405
6	5TH PRIOR						3,152	15,788	18,940
7	6TH PRIOR							628,683	628,683
8	TOTALS	1,760	34,249	30,831	18,498	23,653	21,228	647,352	777,571
9	EXP.REPORTED	22,812	32,276	22,402	27,150	23,445	16,264	739,413	883,762
10	ADJUSTMENT		9,456	9,345	(8,652)	208	4,964	(92,061)	(76,740)
11	REMAINING LIABILITY	21,052	7,483	916					29,451

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	9,582	6,094	6,604	335	49			22,664
2	1ST PRIOR		1,534	15,132	7,209	159		642	24,676
3	2ND PRIOR			1,269	8,456	9,075	(246)	181	18,735
4	3RD PRIOR				2,114	41,642	8,300	1,238	53,294
5	4TH PRIOR					2,025	12,111	14,909	29,045
6	5TH PRIOR						1,313	25,530	26,843
7	6TH PRIOR							676,567	676,567
8	TOTALS	9,582	7,628	23,005	18,114	52,950	21,478	719,067	851,824
9	EXP.REPORTED	24,150	19,237	19,701	48,190	24,289	29,677	619,841	785,085
10	ADJUSTMENT		(7,958)	3,802	(30,076)	28,661	(8,199)	99,226	85,456
11	REMAINING LIABILITY	14,568	3,651	498					18,717

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							14,856	14,856
10	ADJUSTMENT								
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  
For the Quarter Ended September 30, 2011

ITEM DESCRIPTION	MEDICARE		NON-MEDICARE		TOTAL	
	Current Period	Fiscal YTD	Current Period	Fiscal YTD	Current Period	Fiscal YTD
A. Enrollees (At End of Period)	3,557	3,557	789	789	4,346	4,346
B. Member Months (Unduplicated) Prospective Only	10,603	42,518	2,327	9,281	12,930	51,799
Institutional Member Months Total	3,400	14,470	485	2,127	3,885	16,597
1. Level 1	677	3,812	88	504	765	4,316
2. Level 2	973	5,202	127	703	1,100	5,905
3. Level 3	308	1,573	40	267	348	1,840
4. Specialty: Wandering Dementia	695	2,091	91	290	786	2,381
5. Specialty: SubAcute Medical						
6. Specialty: Behavioral Health	660	1,580	127	32	787	1,901
7. Specialty: Respite Care	72	174			72	174
8. Specialty: Ventilator	15	38	12	42	27	80
9. Home and Community Based Services (HCBS) Total	7,170	27,889	1,758	6,827	8,928	34,716
a. Adult Foster Care	148	536	18	55	166	591
b. Assisted Living Home	1,121	4,525	87	393	1,208	4,918
c. Group Home (DD)						
d. Individual Home	5,377	20,777	1,551	5,981	6,928	26,758
e. Assisted Living Center	521	2,032	102	379	623	2,411
f. Other (Specify) Group Home	3	19		19	3	38
10. Acute Care	33	159	84	327	117	486
11. Ventilator						
12. PPC	77	817	6	59	83	876
13. Other (Specify)						
Admissions	68	469	79	391	147	860
Patient Days	329	2,490	846	2,936	1,175	5,426
Discharges	68	469	79	378	147	847
Discharge Days	329	2,490	846	2,771	1,175	5,261
Average Length of Stay	4.84	5.31	10.71	7.51	7.99	6.31
Emergency Room Visits	314	1,132	148	723	462	1,855

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
ALTCS - Sub-Capitated Expenses Report  
For the Quarter Ended September 30, 2011

Account	Account Description	YTD Amount
<i>Sub-Capitated Hospitalization Expenses:</i>		
402	Hospital Inpatient	
406	PPC-Hospital Inpatient	
	<i>Total Sub-Capitated Hospitalization Expense:</i>	
<i>Sub-Capitated Medical Compensation Expenses:</i>		
408	Primary Care Physician Services	\$ 6,374.68
410	Referral Physician Services	
412	Other Professional	
416	PPC-Physician Services	
	<i>Total Sub-Capitated Medical Compensation Expenses:</i>	\$ 6,374.68
<i>Sub-Capitated Other Medical Expenses:</i>		
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	
	<i>Total Sub-Capitated Other Medical Expenses:</i>	
	<i>Total Sub-Capitated Expenses:</i>	\$ 6,374.68

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
ALTCS Statement of Activities/Income Statement by Contractor  
For the Quarter Ended September 30, 2011

Account #	Account Description	Total Amount	Total PMPM
Revenues:			
300	Capitation	46,143,367	3,568.71
305	PPC Capitation	244,779	18.93
310	Reinsurance	3,067,125	237.21
315	PPC - Reconciliation	(24,478)	(1.89)
320	Share of Cost (SOC) Reconciliation	386,756	29.91
325	HCBS Placement Reconciliation	(452,435)	(34.99)
330	HIV-AIDS /Supplement		
335	Other AHCCCS Revenue (Report #4)		
	Subtotal AHCCCS Revenue	49,365,114	3,817.88
350	Investment Income	73,298	5.67
360	Third Party Liability Recoveries	453	0.04
370	Patient Contributions (MSOC)	23,943	1.85
380	Other Non-AHCCCS Income (Report #4)	8,890	0.69
	Subtotal Non-AHCCCS Revenue	106,584	8.25
	TOTAL REVENUES	49,471,698	3,826.13
Institutional Care Expenses:			
400	NF ICF & Bedholds	47,731	3.69
402	Level I	4,257,612	329.28
404	Level II	5,623,537	434.92
406	Level III	2,226,679	172.21
408	Institutional Care	6,624,842	512.36
410	PPC Institutional	95,950	7.42
412	Other Institutional Care (Report #4)		
	TOTAL INSTITUTIONAL CARE	18,876,351	1,459.88
Home & Community Bases Services (HCBS)Expenses:			
414	Home Health Nurse	703,445	54.40
416	Home Health Aide		
418	Personal Care	246,296	19.05
420	Homemaker	95,558	7.39
422	Home Delivered Meals	54,067	4.18
424	Respite Care	147,731	11.43
426	Attendant Care	9,647,437	746.13
428	Assisted Living Home	1,405,949	108.74
429	Assisted Living Center	804,847	62.25
430	Adult Day Health	33,103	2.56
432	Adult Foster Care	235,619	18.22
434	Group Respite		
436	Hospice	74,537	5.76
438	Environmental Modifications	20,594	1.59
443	PPC HCBS	24,988	1.93
444	Other HCBS Costs (Report #4)	412,367	31.89
	TOTAL HCBS	13,906,538	1,075.52
Acute Care Expenses:			
448	Inpatient Services (Hosp.)	2,176,093	168.30
450	Primary Care Physician Services	403,492	31.21
452	Referral Physician Services	274,753	21.25
454	Emergency Services	90,181	6.97
456	Out Patient Facility	496,783	38.42
458	Prescription Drug	1,200,303	92.83
460	Lab/Radiology	172,738	13.36
462	Durable Medical Equipment	500,762	38.73
464	Dental	2,111	0.16
466	Transportation	748,016	57.85
468	Therapies	59,599	4.61
470	Outpatient Behavioral Health	243,240	18.81
471	PPC Acute Care	23,200	1.79
472	Other Accute Care Costs (Report #4)		
	TOTAL ACUTE CARE	6,391,271	494.29

(continued)

PIMA COUNTY, ARIZONA  
Pima Health System and Services - Enterprise Fund  
ALTCS Statement of Activities/Income Statement by Contractor  
For the Quarter Ended September 30, 2011

(continued)

Other Medical Expenses:			
477	PPC - Other		
479	Other Medical (Report #4)		
	TOTAL OTHER MEDICAL		
480	Case Management	1,601,243	123.84
	<b>TOTAL MEDICAL EXPENSE:</b>	<b>40,775,403</b>	<b>3,153.53</b>
Administrative Expenses:			
484	Compensation	1,021,007	78.96
488	Data Processing	35,305	2.73
490	Management Fees		
492	Interest Expense		
493	Occupancy	134,878	10.43
494	Marketing		
495	Depreciation		
496	Other Administration (Report #4)	2,559,916	197.98
	TOTAL ADMINISTRATION	3,751,106	290.10
	<b>TOTAL EXPENSE</b>	<b>44,526,509</b>	<b>3,443.63</b>
	INCOME FROM OPERATIONS	4,945,189	382.46
497	Non-Operating Income (Loss)		
	INCOME(LOSS) BEFORE TAXES	4,945,189	382.46
498	Provision for Premium Taxes	984,599	76.15
499	Provision for Income Taxes		
	NET INCOME(LOSS) AFTER TAXES	3,960,590	306.31
<b>CHANGES TO EQUITY/NET ASSETS:</b>			
530	Equity/Net Assets at Beginning of Period	22,147,728	
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)	3,960,590	
	B. Dividends to Stockholders		
	C. Other: Transfer of equity to Pima County	(160,483)	
530	Equity/Net Assets at End of Period:	25,947,835	

Pima County, Arizona  
Pima Health System and Services  
ALTCS – Officers and Directors  
For the Quarter Ended September 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.

<b>Name</b>	<b>Title</b>	<b>Other Relationship to Plan</b>	<b>Type of Compensation</b>
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
Tom Burke	Chief Financial Officer	None	Salary
Sue Benedetti	Quality Management Manager (VP MM)	None	Contracted
Sue Benedetti	Utilization Management Manager (VP MM) None	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



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
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 quarter ended September 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 12-01, 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.

## 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 12-01.

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

Pima Health System and Services—Enterprise Fund  
Schedule of Findings and Recommendations  
Quarter Ended September 30, 2011

12-01

**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 the quarter ended September 30, 2011, the Fund, with the assistance of a third-party administrator, processed approximately 51,000 medical claims each month averaging approximately \$13 million. Based on data provided by AHCCCS, at September 30, 2011, the Fund had 30,134 medical claim transactions in pended status with AHCCCS for more than 4 months, including 22,974 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.

Pima Health System and Services—Enterprise Fund  
Schedule of Findings and Recommendations  
Quarter Ended September 30, 2011

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. 44<sup>th</sup> 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,

A handwritten signature in blue ink that reads "Tom Burke".

Thomas E. Burke  
Director

**12-01**

**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.