

**HEALTH CHOICE INTEGRATED CARE, LLC**

**FINANCIAL STATEMENTS,  
SUPPLEMENTAL SCHEDULES AND  
UNIFORM GUIDANCE SUPPLEMENTARY REPORTS**

Year Ended September 30, 2016

# HEALTH CHOICE INTEGRATED CARE, LLC

## FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES AND UNIFORM GUIDANCE SUPPLEMENTARY REPORTS

Year Ended September 30, 2016

### CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Activities and Change in Members' Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 12
SUPPLEMENTAL SCHEDULES	
Independent Auditors' Report on Supplemental Schedules	13 - 14
Schedule 1 – Supplemental Schedule of Activities	15 - 16
Schedule 2 – Supplemental Schedule of Activities – Disclosures	17
UNIFORM GUIDANCE SUPPLEMENTARY REPORTS	
Schedule of Expenditures of Federal Awards	18
Notes to the Schedule of Expenditures of Federal Awards	19
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 <i>Government Auditing Standards</i>	20 - 21
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by the Uniform Guidance	22 - 23
Schedule of Findings and Questioned Costs	24 - 25



3101 N. Central Ave., Suite 300 ■ Phoenix, AZ 85012  
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

### **HEALTH CHOICE INTEGRATED CARE, LLC**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of ***Health Choice Integrated Care, LLC*** (the "Organization"), which comprise the balance sheet as of September 30, 2016, and the related statements of activities and change in members' equity and cash flows for the year ended September 30, 2016, and the related notes to the financial statements.

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

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

#### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Health Choice Integrated Care, LLC** as of September 30, 2016, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements of **Health Choice Integrated Care, LLC** as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2017, on our consideration of **Health Choice Integrated Care, LLC's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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* in considering **Health Choice Integrated Care, LLC's** internal control over financial reporting and compliance.



February 8, 2017

# HEALTH CHOICE INTEGRATED CARE, LLC

## BALANCE SHEET

September 30, 2016

### ASSETS

#### CURRENT ASSETS

Cash	\$ 39,980,829
Due from AHCCCS	379,731
Other grants and contracts receivable	358,266
Health insurer fee receivable	987,146
TOTAL CURRENT ASSETS	<u>41,705,972</u>
 TOTAL ASSETS	 <u>\$ 41,705,972</u>

### LIABILITIES AND MEMBERS' EQUITY

#### CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 6,205,225
Claims payable	11,848,978
Payable to providers	5,039,584
Payable to AHCCCS	612,293
Deferred revenue	1,454,883
TOTAL CURRENT LIABILITIES	<u>25,160,963</u>

#### MEMBERS' EQUITY

MEMBERS' EQUITY	<u>16,545,009</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 <u>\$ 41,705,972</u>

**HEALTH CHOICE INTEGRATED CARE, LLC**  
**STATEMENT OF ACTIVITIES AND CHANGE IN MEMBERS' EQUITY**

Year Ended September 30, 2016

OPERATING REVENUES	
Arizona Health Care Cost Containment System contract revenues	\$ 247,797,491
Health insurer fee premium revenue	987,146
Other grants and contract revenue	<u>2,675,821</u>
TOTAL OPERATING REVENUES	<u>251,460,458</u>
HEALTH CARE EXPENSES	220,666,089
GENERAL AND ADMINISTRATIVE EXPENSES	16,341,279
HEALTH INSURER FEE	987,146
PREMIUM TAX EXPENSE	<u>1,184,019</u>
TOTAL EXPENSES	<u>239,178,533</u>
OPERATING INCOME	12,281,925
NONOPERATING INCOME (EXPENSE)	
Community reinvestment expense	<u>(736,916)</u>
NET INCOME	11,545,009
CONTRIBUTIONS FROM MEMBERS	-
DISTRIBUTIONS TO MEMBERS	-
MEMBERS' EQUITY, BEGINNING OF YEAR	<u>5,000,000</u>
MEMBERS' EQUITY, END OF YEAR	<u>\$ 16,545,009</u>

See Notes to Financial Statements

# HEALTH CHOICE INTEGRATED CARE, LLC

## STATEMENT OF CASH FLOWS

Year Ended September 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 11,545,009
Adjustments to reconcile net income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Due from AHCCCS	(379,731)
Other grants and contracts receivable	(358,266)
Health insurer fee receivable	(987,146)
Increase (decrease) in:	
Accounts payable and accrued expenses	6,205,225
Claims payable	11,848,978
Payable to providers	5,039,584
Payable to AHCCCS	612,293
Deferred revenue	<u>1,454,883</u>
Net cash provided by operating activities	<u>34,980,829</u>
NET CHANGE IN CASH	34,980,829
CASH, BEGINNING OF YEAR	<u>5,000,000</u>
CASH, END OF YEAR	<u>\$ 39,980,829</u>

See Notes to Financial Statements

# HEALTH CHOICE INTEGRATED CARE, LLC

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

### (1) Organization operations and summary of significant accounting policies

**Nature of operations** - On September 19, 2014, Health Choice Integrated Care, LLC ("HCIC" or the "Organization"), located in Flagstaff, Arizona as an Arizona limited liability company, was incorporated. HCIC was formed to provide high quality physical and behavioral health care services on an integrated basis to Medicaid eligible adults with serious mental illness and to operate as the Regional Behavioral Health Authority ("RBHA") to coordinate the delivery of health care services to eligible persons in Northern Arizona, and to perform all obligations under the RBHA contract entered into by the Organization and the Arizona Department of Health Services ("ADHS"). On December 18, 2014, HCIC was awarded a contract with ADHS to serve as the designated RBHA for Northern Arizona. The contract is effective October 1, 2015 and has an initial three year term with two-two year renewal options for a potential maximum length of 7 years. Effective July 1, 2016 the contract with ADHS was transferred to the Arizona Health Care Cost Containment System ("AHCCCS").

The initial members of HCIC are Health Choice of Northern Arizona (a division of IASIS Healthcare) and The NARBHA Institute. IASIS Healthcare LLC (IASIS or the Parent) is a healthcare services company that operates 17 acute care hospital facilities as part of continuing operations and one behavioral health hospital facility. The Organization's by-laws provide that HCIC shall have one class of members initially; however, the current members may decide to create additional classes of membership or to add new members with unanimous consent of existing members. Additionally, the members have entered into an Operating Agreement under which a Board of Managers is appointed to govern the operations of the Organization.

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

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

HCIC was initially funded through a \$2.6 million contribution from Health Choice and a \$2.4 million contribution from The NARBHA Institute. No additional contributions occurred during the year ended September 30, 2016.

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

Effective October 1, 2015, the Organization entered into a five year management agreement with Health Choice Management Company ("HCMC"), a wholly-owned subsidiary of IASIS Healthcare, LLC. The agreement terminates automatically upon (1) expiration or earlier termination of the AHCCCS RBHA contract, or (2) consummation of a purchase of the HCIC Operating Agreement, after which neither HCMC nor any affiliate of HCMC is a member of HCIC. For the first year under the management agreement, HCIC will pay fees in an amount equal to 6.5% of HCIC revenue. For the second year of the management agreement, HCIC will pay fees in an amount equal to 6.5% of HCIC revenue, as approved by the Board of Directors. The fee thereafter will be 6.0% of HCIC revenue. The monthly management fee covers the employee salary and benefit costs and general and administrative expenses incurred to operate HCIC. HCIC incurred management fees per the management agreement of \$16,289,339 for the year ended September 30, 2016. These amounts are included in general and administrative expenses in the accompanying statement of activities and change in members' equity. At September 30, 2016, unpaid management fees totaled \$1,388,099 which is included in accounts payable and accrued expenses in the accompanying balance sheet.



# HEALTH CHOICE INTEGRATED CARE, LLC

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

### (1) Organization operations and summary of significant accounting policies (continued)

The significant accounting policies followed by HCIC are as follows:

**Basis of presentation** - The accompanying financial statements have been prepared in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 954-205, *Health Care Entities – Presentation of Financial Statements*.

**Management's use of estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Cash** - Cash includes cash deposits in banks. Amounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC").

**Revenue recognition** - HCIC receives substantially all of its revenue from its contract with AHCCCS. Operating revenue includes funding in the form of capitation revenue, which is recognized over the applicable coverage period on a per member basis for covered members. Under this arrangement, HCIC is paid a per-member fee for all enrolled members, and this fee is recorded as revenue in the month in which members are entitled to services. Any fees received prior to the month of service are recorded as deferred revenue. Deferred revenue as of September 30, 2016 totaled \$1,454,883 and related to funding received in advance for various programs with contract periods extending past September 30, 2016. Capitation revenues from AHCCCS totaled \$232,016,429 for the year ended September 30, 2016. The AHCCCS contract is partially funded by federal, state, county and block grants (non-title revenue), which represent annual appropriations. HCIC recognizes revenue from this funding ratably over the period to which the funding applies. Non-Title revenues, including block grants, totaled \$19,444,029 for the year ended September 30, 2016.

AHCCCS contract revenue is also limited by the terms of the RBHA contract to a maximum profit percentage of four percent. There was no contract revenue that could not be recognized due to the profit limits for the contract year October 1, 2015 through September 30, 2016.

**Due from AHCCCS** - At September 30, 2016, due from AHCCCS consists primarily of capitation payments due under the Organization's contract. Amounts due from AHCCCS are stated at the amount management expects to collect. The Organization establishes an allowance for doubtful accounts, if necessary, based upon factors including credit risk, historical trends, and other information. As of September 30, 2016, amounts due from AHCCCS are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

**Other grants and contracts receivable** - At September 30, 2016, other grants and contracts receivable consists primarily of amounts due from other federal agencies for the provision of integrated health services. Other grants and contracts receivable are stated at the amount management expects to collect. The Organization establishes an allowance for doubtful accounts, if necessary, based upon factors including credit risk, historical trends, and other information. As of September 30, 2016, other grants and contracts receivable are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

# HEALTH CHOICE INTEGRATED CARE, LLC

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

(1) **Organization operations and summary of significant accounting policies (continued)**

**Health insurer fee** - Under the Patient Protection and Affordable Care Act ("ACA"), HCIC qualifies as a covered entity of a controlled group engaged in providing health insurance for U.S. health risks. IASIS Healthcare is the designated entity of the controlled group and must pool the premiums of all its subsidiaries to calculate its premium for purposes of determining its share of the health insurer fee under ACA provision 9010. This fee is effective for entities providing health insurance on or after January 1, 2014.

The annual fee equals net premiums written for health insurance U.S. health risks during the applicable 'fee year' divided by aggregate net premiums written for health insurance of U.S. health risks of all covered entities during the applicable "fee year" multiplied by the annual applicable amount.

As the designated entity of the controlled group, IASIS Healthcare passes the fee down to its subsidiaries based on an allocation of net premiums written. The health insurer fee is considered an excise tax and thus is nondeductible for income tax purposes. As of September 30, 2016, HCIC has a payable to IASIS Healthcare of \$987,146, as IASIS Healthcare paid the fee on HCIC's behalf for the year ended September 30, 2016. This amount is included in accounts payable and accrued expenses in the accompanying balance sheet. The State of Arizona has agreed to assist the health insurers with this fee by adjusting the contract premiums by an amount that approximates the Title XIX/XXI annual fee grossed up by the Organization's effective tax rate. Accordingly, at September 30, 2016, HCIC has recorded receivables from AHCCCS of \$987,146 related to the health insurer fee.

**Healthcare service cost recognition** - HCIC contracts with various providers for the provision of a full range of integrated healthcare services to eligible adults and children for Title XIX, Title XXI, and Non-Title programs, and physical healthcare services to Seriously Mentally Ill Title XIX eligible adults. Healthcare services are purchased under fee-for-service or block purchase arrangements. Fee-for-service contract expenses are accrued as incurred. Healthcare services provided under block purchase arrangements are accrued based upon contract terms. From time to time, HCIC amends the provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

The estimate for claims payable is developed using actuarial methods based on enrollment data, utilization statistics, and authorized health care services. The estimate for claims payable is continually reviewed by management and adjusted as necessary based on current claims data, and medical cost completion factors. Such adjustments are included in health care expenses in the statement of activities and change in members' equity in each period when necessary. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. There is at least a reasonable possibility that the recorded estimates will change by a material amount, in the near future.

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

# HEALTH CHOICE INTEGRATED CARE, LLC

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

(1) **Organization operations and summary of significant accounting policies (continued)**

**Payable to providers** - HCIC compensates providers for authorized healthcare and substance abuse services to covered beneficiaries. HCIC used a variety of methods to estimate the amount payable to providers including authorizations for services to be provided, payments to be made under contract arrangements currently in force, and correspondence with significant providers to ascertain the level of care being provided to beneficiaries for which a claim has not yet been submitted.

**Income taxes** - The Organization's operating income or loss, as applicable, is allocated based on the ownership interests of its members. Accordingly, no provision for income taxes is included in the accompanying financial statements. In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), which was subsequently incorporated into FASB ASC 740, Income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes. The Organization evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts. At September 30, 2016 management of the Organization does not believe it has any uncertain tax positions.

HCIC is subject to a 2% premium tax on all payments received from AHCCCS for premiums, reinsurance, and reconciliations. Total premium tax expense for the year ended September 30, 2016 was approximately \$1,184,000.

**Performance indicator** - The statement of activities and change in members' equity includes the performance indicator operating income. The performance indicator excludes nonoperating income (expenses), which is consistent with industry practice and AHCCCS reporting guidelines.

**Recent accounting pronouncements** - In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized.

In August 2015, the FASB issued FASB ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which changed the effective date of the provisions of FASB ASU No. 2014-09. As a result, the new effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. The Organization is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

# HEALTH CHOICE INTEGRATED CARE, LLC

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

### (1) Organization operations and summary of significant accounting policies (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the balance sheet upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and change in members' equity and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the adoption of this standard will have on the financial statements.

**Subsequent events** - HCIC has evaluated subsequent events through February 8, 2017, which is the date the financial statements were available to be issued.

### (2) Claims payable

At September 30, 2016, claims outstanding to third parties for health care services provided to members, including estimates for incurred but not reported claims, totaled approximately \$11.8 million. The balances at September 30, 2016 were certified by an actuary. Activity in the liability for claims payable and health care expense for the year ended September 30, 2016 is as follows:

Balance at September 30, 2015	\$ -
Incurred related to:	
Current year	<u>34,307,989</u>
Total incurred	<u>34,307,989</u>
Paid related to:	
Current year	<u>22,459,011</u>
Total paid	<u>22,459,011</u>
Balance at September 30, 2016	<u>\$ 11,848,978</u>

Estimates for incurred claims are based on historical enrollment, cost trends, and consider operational changes. Future actual results will typically differ from the estimates. Differences could be due to factors such as an overall change in medical expenses per member or a change in client mix affecting medical costs due to the addition of new members.

### (3) Related party transactions

HCIC is a party to a management agreement with Health Choice Management Company, a wholly-owned subsidiary of IASIS, which manages the general and administrative function related to HCIC inclusive of payroll, advertising and administrative expenses. The fee is charged based on a percentage of contact revenue. During the year ended September 30, 2016, HCIC recorded management fees per the management agreement of \$16,289,339 for the year ended September 30, 2016. These amounts are included in general and administrative expenses in the accompanying statement of activities and change in members' equity. At September 30, 2016, unpaid management fees totaled \$1,388,099 which is included in accounts payable and accrued expenses in the accompanying balance sheet.

HCIC paid \$203,320 to IASIS Healthcare and its affiliates for the year ended September 30, 2016 for the provision of integrated health services.

# HEALTH CHOICE INTEGRATED CARE, LLC

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

### (4) Commitments and contingencies

**Performance bond** - In accordance with the terms of its contract with AHCCCS, HCIC is required to post a performance bond with AHCCCS equal to 100% of the first monthly Title capitation and Non-Title payments, as specified in the contract. The amount of the bond is subject to adjustment as certain conditions change and its method of calculation is specified in the contract. The performance bond must be maintained to guarantee payment of HCIC's obligations under the contract. The performance bond requirement was \$20,755,395 for the year ended September 30, 2016. The performance bond requirement was met through the purchase of a surety bond totaling \$20,755,395 for the year ended September 30, 2016.

**Litigation** - Periodically, the Organization is involved in litigation and claims arising in the normal course of operations. In the opinion of management based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial. Management believes that the resulting liability, if any, will not materially affect the Organization's financial position.

**Liability insurance** - HCIC maintains directors and officers, errors and omissions, and cyber liability insurance coverage under claims-made policies. HCIC is insured for losses up to \$10 million per claim and in the aggregate under its directors and officers liability policy. HCIC is insured for losses up to \$10 million per claim and in the aggregate under each of its errors and omissions and cyber liability policies. Claims reported endorsement (tail) coverage is available if the policy is not renewed to cover claims incurred but not reported. HCIC anticipates that renewal coverage will be available at expiration of the current policy.

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

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

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

At September 30, 2016, HCIC had not yet spent the funds appropriated for the year ended September 30, 2016. Accordingly, at September 30, 2016, HCIC has recorded a liability for unspent community reinvestment program funds of \$736,916, which is included in accounts payable and accrued expenses in the accompanying balance sheet.

# HEALTH CHOICE INTEGRATED CARE, LLC

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

### (5) Contract requirements

In accordance with the AHCCCS contract, the Organization is required to maintain certain minimum financial reporting and viability measures.

The Organization must maintain unrestricted minimum capitalization of at least 90% of the monthly capitation and block payments received under the Contract. As of September 30, 2016, the Organization was in compliance with this requirement.

The Contract contains various quarterly financial performance requirements, including a required minimum liquidity ratio, an administrative cost percentage, and service expense percentages. As of September 30, 2016, HCIC was in compliance with these requirements.

As discussed in Note 1, HCIC is limited by the terms of its contract with AHCCCS to profit that can be earned under the various programs.

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

HCIC is required to meet quarterly and contract year end minimum encounter submission percentages, or be subject to sanction by AHCCCS. Typically, HCIC has up to eight months after the contract period end to meet the minimum number of encounters. HCIC anticipates meeting required encounter threshold for the twelve month contract period from October 1, 2015 through September 30, 2016 for Title XIX funding and Non-Title XIX funding. Accordingly, as of September 30, 2016, HCIC has not recorded a liability associated with an encounter sanction.

AHCCCS has a right to sanction HCIC for other matters of non-compliance of the Contract. HCIC received no such sanctions from AHCCCS for the year ended September 30, 2016.

At September 30, 2016 HCIC has a recorded payable to AHCCCS for \$612,293. This balance is comprised of overpayments to HCIC from AHCCCS.

### (6) Concentration of credit risk

HCIC currently holds a contract with AHCCCS to provide services through September 30, 2018, with two additional two-year renewal options. Failure to renew this contract could have a significant impact on HCIC's operations.

**SUPPLEMENTAL SCHEDULES**



3101 N. Central Ave., Suite 300 ■ Phoenix, AZ 85012  
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ [www.mhmcpa.com](http://www.mhmcpa.com)

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

To the Board of Directors of

**HEALTH CHOICE INTEGRATED CARE, LLC**

### ***Report on the Supplemental Schedules***

We have audited the accompanying supplemental schedule of activities and supplemental schedule of activities - disclosures on pages 15 to 17 (as defined in the contract dated July 1, 2016 between **Health Choice Integrated Care, LLC** and the Arizona Health Care Cost Containment System ("AHCCCS")) of **Health Choice Integrated Care, LLC** for the year ended September 30, 2016.

### ***Management's Responsibility for the Supplemental Schedules***

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the supplemental schedules. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the supplemental schedules.

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



**Opinion**

In our opinion, the supplemental schedule of activities and supplemental schedule of activities - disclosures referred to above present fairly, in all material respects, the activities of **Health Choice Integrated Care, LLC** for the year ended September 30, 2016, as defined in the contract referred to in the first paragraph.

This report is intended solely for the information and use of the Board of Directors, management of **Health Choice Integrated Care, LLC**, others within the entity, the state of Arizona and AHCCCS, and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

February 8, 2017

HEALTH CHOICE INTEGRATED CARE, LLC  
STATEMENT OF ACTIVITIES  
CONTRACT YEAR TO DATE AS OF:

September 30, 2016

\*DISCLOSE ON SCHEDULE A

	TXIX/XXI Non CMDP Child	TXIX/XXI CMDP Child	TXIX/XXI DD Child	TXIX/XXI GMH/SA Non Dual	TXIX/XXI DD Adult	TXIX/XXI SMI Integrated	TXIX/XXI SMI Non Integrated	NTXIX/XXI Crisis	NTXIX/XXI SMI	NTXIX/XXI Other	Supported Housing for TXIX SMI	SB1616 Housing	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR/ ADOH	Sub-Total	Mgmt & Gen	Total
<b>REVENUE</b>																					
401	<b>Revenue Under AHCCCS Contract</b>																				
a	AHCCCS Revenue																				
b	42,286,394	20,068,967	4,306,606	60,233,166	3,320,194	97,339,445	4,461,657	2,375,066	6,703,245	187,500	567,242	395,157	791,844	427,236	4,364,991	14,087	969,072	3,600	248,815,469	-	248,815,469
	-	-	-	-	-	-	-	-	-	-	(16,363)	-	(125,000)	125,000	-	-	(14,469)	-	(30,832)	-	(30,832)
402	179,913	85,386	18,323	256,270	14,126	414,144	18,984	-	-	138,970	-	-	-	-	33,750	292,521	-	278,850	1,731,237	944,584	2,675,821
403	Interest/Investment Income																				
404	Reserved for Future Use																				
490	<b>TOTAL REVENUE</b>																				
	42,466,307	20,154,353	4,324,929	60,489,436	3,334,320	97,753,589	4,480,641	2,375,066	6,703,245	326,470	550,879	395,157	666,844	552,236	4,398,741	306,608	954,603	282,450	250,515,874	944,584	251,460,458
<b>EXPENSES</b>																					
<b>Service Expenses:</b>																					
501	<b>Treatment Services</b>																				
a	Counseling																				
1	2,588,228	974,337	80,309	4,911,172	102,535	2,697,544	100,535	7,124	-	-	-	-	107,883	-	360,177	-	-	-	11,929,844	-	11,929,844
2	833,645	326,649	41,549	141,839	7,381	36,240	6,254	124	-	-	-	-	22,481	-	30,089	-	-	-	1,446,251	-	1,446,251
3	190,447	48,236	1,065	2,617,400	19,353	801,700	23,069	7,767	-	-	-	-	10,498	-	408,660	-	-	-	4,128,195	-	4,128,195
b	1,967,259	637,830	146,011	3,851,870	193,972	1,308,685	73,776	69,775	285,754	-	-	-	29,388	16,669	278,074	-	125,234	-	8,984,297	-	8,984,297
c	195	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	195	-	195
d	<b>Total Treatment Services</b>																				
	5,579,774	1,987,052	268,934	11,522,281	323,241	4,844,169	203,634	84,790	285,754	-	-	-	170,250	16,669	1,077,000	-	125,234	-	26,488,782	-	26,488,782
502	<b>Rehabilitation Services</b>																				
a	Living Skills Training																				
b	Cognitive Rehabilitation																				
c	94,472	33,475	1,937	523,450	4,197	259,762	16,080	-	67,841	-	-	-	283	3,957	220,843	-	-	-	1,226,297	-	1,226,297
d	69,361	8,019	108	847,504	104,572	2,233,814	94,751	-	379,846	-	-	-	-	22,157	17,896	-	-	-	3,778,028	-	3,778,028
e	<b>Total Rehabilitation Services</b>																				
	8,618,649	1,908,249	1,200,231	3,338,600	434,021	6,110,293	298,399	4,874	1,062,268	-	-	-	97,534	61,963	496,016	-	-	-	23,631,097	-	23,631,097
503	<b>Medical Services</b>																				
a	Medication Services																				
b	806,591	107,959	74,516	2,171,511	150,811	1,708,112	59,250	7,930	378,114	-	-	-	32,887	22,056	51,482	-	-	-	5,571,219	-	5,571,219
c	12,691	1,612	703	31,730	763	19,584	453	208	84	-	-	-	237	5	1,738	-	-	-	69,808	-	69,808
d	-	-	-	216	-	21,171	5,646	-	-	-	-	-	-	-	-	-	-	-	27,033	-	27,033
e	<b>Total Medical Services</b>																				
	819,282	109,571	75,219	3,134,972	151,691	1,812,448	66,153	8,138	388,341	-	-	-	33,124	22,652	112,948	-	-	-	6,734,539	-	6,734,539
504	<b>Support Services</b>																				
a	Case Management																				
b	Personal Care Services																				
c	Family Support																				
d	Peer Support																				
e	Home Care Training to Home Care Client																				
f	Unskilled Respite Care																				
g	Supported Housing*																				
h	Flex Fund Services																				
i	Transportation																				
j	<b>Total Support Services</b>																				
	12,570,965	7,855,099	1,182,561	13,523,600	844,200	14,351,303	645,065	404,066	2,561,756	172,500	475,849	363,788	194,491	375,006	654,830	-	6,230	-	56,181,309	-	56,181,309
505	<b>Crisis Intervention Services</b>																				
a	Crisis Intervention - Mobile																				
b	Crisis Intervention - Stabilization																				
c	Crisis Intervention - Telephone																				
d	<b>Total Crisis Intervention Services</b>																				
	287,125	45,480	9,413	1,754,024	70,338	1,297,061	64,344	1,173,156	21,708	-	-	-	12,252	1,266	79,164	-	212,790	-	5,028,121	-	5,028,121
506	<b>Inpatient Services</b>																				
a	Hospital																				
1	Psychiatric (Provider Types 02 & 71)																				
2	Detoxification (Provider Types 02 & 71)																				
b	Sub acute Facility																				
1	Psychiatric (Provider Types B5 & B6)																				
2	Detoxification (Provider Types B5 & B6)																				
c	Residential Treatment Center (RTC)																				
1	Psychiatric - Secure & Non-Secure Provider Types 78,B1,B2,B3)																				
2	Detoxification - Secure & Non-Secure (Provider Types (78,B1,B2,B3)																				
d	Inpatient Services, Professional																				
e	<b>Total Inpatient Services</b>																				
	5,132,043	3,628,847	414,640	9,729,166	324,533	5,688,340	791,112	510,037	92,880	-	30,960	-	-	-	30,560	-	533,981	-	26,907,099	-	26,907,099

NOTE: The Supplemental Schedule of Activities and Supplemental Schedule of Activities – Disclosures were prepared using an AHCCCS approved allocation plan, as submitted to AHCCCS by Health Choice Integrated Care

HEALTH CHOICE INTEGRATED CARE, LLC  
STATEMENT OF ACTIVITIES  
CONTRACT YEAR TO DATE AS OF:

September 30, 2016

\*DISCLOSE ON SCHEDULE A

		TXIX/XXI Non CMDP Child	TXIX/XXI CMDP Child	TXIX/XXI DD Child	TXIX/XXI GMH/SA Non Dual	TXIX/XXI DD Adult	TXIX/XXI SMI Integrated	TXIX/XXI SMI Non Integrated	NTXIX/XXI Crisis	NTXIX/XXI SMI	NTXIX/XXI Other	Supported Housing for TXIX SMI	SB1616 Housing	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR/ ADOH	Sub-Total	Mgmt & Gen	Total
507	<b>Residential Services</b>																					
a	Behavioral Health Residential Facilities	1,117,495	1,150,343	91,093	4,576,939	169,294	8,297,299	1,324,705	-	-	-	-	-	-	-	818,942	-	-	-	17,546,110	-	17,546,110
b	Reserved for Future Use	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c	Room and Board	-	-	-	-	-	-	-	-	-	-	-	-	81,154	-	45,522	-	-	-	126,676	-	126,676
d	<b>Total Residential Services</b>	1,117,495	1,150,343	91,093	4,576,939	169,294	8,297,299	1,324,705	-	-	-	-	-	81,154	-	864,464	-	-	-	17,672,786	-	17,672,786
508	<b>Behavioral Health Day Program</b>																					
a	Supervised Day Program	-	23	-	3,917	-	19,237	1,629	-	1,837	-	-	-	-	109	35	-	-	-	26,787	-	26,787
b	Therapeutic Day Program	49	1,967	-	10,650	-	12,487	98	-	-	-	-	-	-	-	6,523	-	-	-	31,774	-	31,774
c	Medical Day Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
d	<b>Total Behavioral Health Day Program</b>	49	1,990	-	14,567	-	31,724	1,727	-	1,837	-	-	-	-	109	6,558	-	-	-	58,561	-	58,561
509	<b>Prevention Services</b>																					
a	Prevention	-	-	-	-	-	-	-	-	-	-	-	-	-	-	453,297	-	-	-	453,297	-	453,297
b	HIV	-	-	-	-	-	-	-	-	-	-	-	-	-	-	73,956	-	-	-	73,956	-	73,956
c	<b>Total Prevention Services</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	527,253	-	-	-	527,253	-	527,253
510	<b>Pharmacy Expenses</b>																					
a	Pharmacy Expense	3,575,033	354,297	541,155	5,078,311	599,739	8,008,791	526,506	-	1,750,178	-	-	-	158	10,069	4,885	-	-	-	20,449,122	-	20,449,122
b	Less Pharmacy Rebate Received	(15,973)	(1,549)	(2,474)	(22,387)	(2,619)	(37,468)	(2,339)	-	(8,192)	-	-	-	-	-	(25)	-	-	-	(93,026)	-	(93,026)
c	Pharmacy Rebate Related Expense	19,980	2,024	2,876	24,131	3,349	49,080	1,510	-	10,125	-	-	-	22	-	49	-	-	-	113,146	-	113,146
d	<b>Total Pharmacy Expense</b>	3,579,040	354,772	541,557	5,080,055	600,469	8,020,403	525,677	-	1,752,111	-	-	-	180	10,069	4,909	-	-	-	20,469,242	-	20,469,242
511	Other ADHS Service Expenses Not Rpt'd Above*	20,335	7,524	-	200,531	-	769,063	672	-	-	-	-	-	-	-	-	12,960	-	3,600	1,014,685	-	1,014,685
512	BH FQHC/RHC Services	10,494	1,272	-	48,744	-	9,245	-	-	-	-	-	-	-	-	-	-	-	-	69,755	-	69,755
513	<b>Subtotal Behavioral Health Service Expenses</b>	37,735,251	17,050,199	3,783,648	52,923,479	2,917,787	51,231,348	3,921,488	2,185,061	6,166,655	172,500	506,809	363,788	588,985	487,734	3,853,702	12,960	878,235	3,600	184,783,229	-	184,783,229
520	Specialty and Other Grant Expenses*	-	-	-	-	-	-	-	-	138,970	-	-	-	-	-	-	273,119	-	278,850	690,939	878,683	1,569,622
540	<b>Total Behavioral Health Services Expense</b>	37,735,251	17,050,199	3,783,648	52,923,479	2,917,787	51,231,348	3,921,488	2,185,061	6,166,655	311,470	506,809	363,788	588,985	487,734	3,853,702	286,079	878,235	282,450	185,474,168	878,683	186,352,851
580	<b>Total Physical Health Services Expense</b>	-	-	-	-	-	34,307,988	-	-	-	-	-	-	-	-	-	-	-	-	34,307,988	-	34,307,988
585	<b>Total BH and PH Service Expense</b>	37,735,251	17,050,199	3,783,648	52,923,479	2,917,787	85,539,336	3,921,488	2,185,061	6,166,655	311,470	506,809	363,788	588,985	487,734	3,853,702	286,079	878,235	282,450	219,782,156	878,683	220,660,839
588	Less: Reinsurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
589	Less: Third Party Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
590	<b>Net Total Service Expense</b>	37,735,251	17,050,199	3,783,648	52,923,479	2,917,787	85,539,336	3,921,488	2,185,061	6,166,655	311,470	506,809	363,788	588,985	487,734	3,853,702	286,079	878,235	282,450	219,782,156	878,683	220,660,839
599	<b>Gross Profit/(Loss) from Operations</b>	4,731,056	3,104,154	541,281	7,565,957	416,533	12,214,253	559,153	190,005	536,590	15,000	44,070	31,369	77,859	64,502	545,039	20,529	76,368	-	30,733,718	65,901	30,799,619
<b>Administrative Expenses:</b>																						
601	Compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
602	Management Fee	2,762,874	1,248,051	277,185	3,874,185	213,577	6,104,105	286,993	190,005	536,345	15,000	45,379	31,613	43,116	35,700	282,182	24,529	76,368	20,674	16,067,881	64,316	16,132,197
603	Professional & Outside Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
604	Interpreter/Translation Services	11,083	825	3,639	5,536	92	1,676	153	-	245	-	-	-	69	-	122	-	-	-	23,440	-	23,440
605	Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
606	Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
607	Care Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
608	All Other Operating Expenses not reported above*	-	-	-	-	-	157,142	-	-	-	-	-	-	-	-	-	-	-	-	157,142	-	157,142
610	<b>Subtotal Administrative Expenses</b>	2,773,957	1,248,876	280,824	3,879,721	213,669	6,262,923	287,146	190,005	536,590	15,000	45,379	31,613	43,185	35,700	282,304	24,529	76,368	20,674	16,248,463	64,316	16,312,779
650	Encounter Evaluation Sanctions*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
651	Administrative Expenses from Specialty and Other Gr	398,072	191,383	40,465	565,078	31,109	903,196	41,862	-	-	-	-	-	-	-	33,750	-	-	-	2,204,915	-	2,204,915
690	<b>Total Administrative Expense</b>	3,172,029	1,440,259	321,289	4,444,799	244,778	7,166,119	329,008	190,005	536,590	15,000	45,379	31,613	43,185	35,700	316,054	24,529	76,368	20,674	18,453,378	64,316	18,517,694
700	<b>Profit (Loss) from Operations</b>	1,559,027	1,663,895	219,992	3,121,158	171,755	5,048,134	230,145	-	-	-	(1,309)	(244)	34,674	28,802	228,985	(4,000)	-	(20,674)	12,280,340	1,585	12,281,925
710	Profit (Loss) from Other, Non-ADHS, Non-Operating & Unrelated Business*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(736,916)	(736,916)
720	<b>Net Pre-Tax Profit/(Loss)</b>	1,559,027	1,663,895	219,992	3,121,158	171,755	5,048,134	230,145	-	-	-	(1,309)	(244)	34,674	28,802	228,985	(4,000)	-	(20,674)	12,280,340	(735,331)	11,545,009
750	<b>Income Tax</b>																					
a	ADHS Income Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b	Non ADHS Income Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
799	<b>Total Income Taxes</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
800	<b>Net After-Tax Profit/(Loss)</b>	1,559,027	1,663,895	219,992	3,121,158	171,755	5,048,134	230,145	-	-	-	(1,309)	(244)	34,674	28,802	228,985	(4,000)	-	(20,674)	12,280,340	(735,331)	11,545,009

NOTE: The Supplemental Schedule of Activities and Supplemental Schedule of Activities – Disclosures were prepared using an AHCCCS approved allocation plan, as submitted to AHCCCS by Health Choice Integrated Care

HEALTH CHOICE INTEGRATED CARE, LLC  
 STATEMENT OF ACTIVITIES  
 CONTRACT YEAR TO DATE AS OF:  
 Schedule A Disclosure

September 30, 2016

	TXIX/XXI Non CMDP Child	TXIX/XXI CMDP Child	TXIX/XXI DD Child	TXIX/XXI GMH/SA Non Dual	TXIX/XXI DD Adult	TXIX/XXI SMI Integrated	TXIX/XXI SMI Non Integrated	NTXIX/XXI Crisis	NTXIX/XXI SMI	NTXIX/XXI Other	Supported Housing for TXIX SMI	SB1616 Housing	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR/ ADOH	Sub-Total	Mgmt & Gen	Total	
<b>DISCLOSURE OF NTXIX/XXI OTHER and OTHER FEDERAL ADHS REVENUE</b>																						
<b>Total - NTXIX/XXI Other and OTHER FEDERAL Column</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>DISCLOSURE OF SPECIALTY AND OTHER GRANTS REPORTED ON LINE 402</b>																						
SABG Prevention Administrator	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,750	-	-	33,750	-	33,750	
Health Insurers Fee	179,913	85,386	18,323	256,270	14,126	414,144	18,984	-	-	-	-	-	-	-	-	-	-	-	987,146	-	987,146	
SBIRT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	944,584	944,584	
CABHI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	292,521	-	-	292,521	-	292,521	
Bridge Subsidy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	278,850	278,850	-	278,850	
HIE	-	-	-	-	-	-	-	-	-	138,970	-	-	-	-	-	-	-	-	138,970	-	138,970	
<b>Total Other Grants</b>	<b>179,913</b>	<b>85,386</b>	<b>18,323</b>	<b>256,270</b>	<b>14,126</b>	<b>414,144</b>	<b>18,984</b>	<b>-</b>	<b>-</b>	<b>138,970</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,750</b>	<b>292,521</b>	<b>-</b>	<b>278,850</b>	<b>1,731,237</b>	<b>944,584</b>	<b>2,675,821</b>
<b>DISCLOSURE OF SUPPORTED HOUSING ON REPORTED ON LINE 504g</b>																						
Rent Subsidy	-	-	-	-	-	-	-	-	291,868	-	328,875	-	5,910	251,837	-	-	-	-	878,490	-	878,490	
Eviction/Prevention Efforts	-	-	-	-	-	-	-	-	43,108	-	146,974	-	-	-	-	-	-	-	190,082	-	190,082	
Property Acquisition	-	-	-	-	-	-	-	-	-	-	-	327,420	-	-	-	-	-	-	327,420	-	327,420	
Rehab	-	-	-	-	-	-	-	-	84,262	-	-	36,368	-	-	-	-	-	-	120,630	-	120,630	
One Time Housing	-	-	-	-	-	-	-	-	-	172,500.00	-	-	-	-	-	-	-	-	172,500	-	172,500	
<b>Total Supported Housing</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>419,238</b>	<b>172,500</b>	<b>475,849</b>	<b>363,788</b>	<b>5,910</b>	<b>251,837</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,689,122</b>	<b>-</b>	<b>1,689,122</b>	
<b>DISCLOSURE OF OTHER SERVICES ON LINE 511</b>																						
PASRR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,600	3,600	-	3,600	
State Youth Treatment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,960	-	-	12,960	-	12,960	
PH Expenses resulting from BH Principal Diagnosis	4,759	-	-	139,121	-	-	672	-	-	-	-	-	-	-	-	-	-	-	144,552	-	144,552	
Value Based Purchasing Incentives	15,576	7,524	-	61,410	-	769,063	-	-	-	-	-	-	-	-	-	-	-	-	853,573	-	853,573	
<b>Total Other Services</b>	<b>20,335</b>	<b>7,524</b>	<b>-</b>	<b>200,531</b>	<b>-</b>	<b>769,063</b>	<b>672</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,960</b>	<b>-</b>	<b>3,600</b>	<b>1,014,685</b>	<b>-</b>	<b>1,014,685</b>	
<b>DISCLOSURE OF SERVICES EXPENSES FROM NON ADHS SOURCES ON LINE 520</b>																						
SBIRT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	878,683	878,683	
Bridge Subsidy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	278,850	278,850	-	278,850	
CABHI CSAT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	223,119	-	-	223,119	-	223,119	
CABHI CMHS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	50,000	-	-	50,000	-	50,000	
HIE	-	-	-	-	-	-	-	-	-	138,970	-	-	-	-	-	-	-	-	138,970	-	138,970	
<b>Total Service Expenses Non ADHS Sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>138,970</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>273,119</b>	<b>-</b>	<b>278,850</b>	<b>690,939</b>	<b>878,683</b>	<b>1,569,622</b>	
<b>DISCLOSURE OF ALL OTHER OPERATING ON LINE 608</b>																						
Reinsurance Premiums	-	-	-	-	-	157,142	-	-	-	-	-	-	-	-	-	-	-	-	157,142	-	157,142	
<b>Total All Other Operating</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>157,142</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>157,142</b>	<b>-</b>	<b>157,142</b>	
<b>DISCLOSURE OF ENCOUNTER EVALUATION SANCTIONS ON LINE 650</b>																						
<b>Total Encounter Evaluation Sanctions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>DISCLOSURE OF ADMINISTRATIVE EXPENSES FROM SPECIALTY AND OTHER GRANTS ON LINE 651</b>																						
SABG Prevention Administrator	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,750	-	-	33,750	-	33,750	
Health Insurer Fee	179,913	85,386	18,323	256,270	14,126	414,144	18,984	-	-	-	-	-	-	-	-	-	-	-	987,146	-	987,146	
Premium Taxes	218,159	105,997	22,142	308,808	16,983	489,052	22,878	-	-	-	-	-	-	-	-	-	-	-	1,184,019	-	1,184,019	
<b>Total Adm Expenses from Specialty and Other Grants</b>	<b>398,072</b>	<b>191,383</b>	<b>40,465</b>	<b>565,078</b>	<b>31,109</b>	<b>903,196</b>	<b>41,862</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,750</b>	<b>-</b>	<b>-</b>	<b>2,204,915</b>	<b>-</b>	<b>2,204,915</b>	
<b>DISCLOSURE OF OTHER, NON-ADHS, NON-OPERATING AND UNRELATED BUSINESS EXPENSES LINE 710</b>																						
Community Reinvestment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(736,916)	(736,916)	
<b>Total Other, Non-ADHS, Non-Operating and Unrelated Business Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(736,916)</b>	<b>(736,916)</b>	

**Disclosures:**

The amount of \$92,880 reported on line #506c1 in the NTXIX/XXI SMI column is for the NTXIX adolescent in residential treatment with an IEP at Innercept.

**UNIFORM GUIDANCE  
SUPPLEMENTARY REPORTS**

**HEALTH CHOICE INTEGRATED CARE, LLC**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended September 30, 2016

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services Pass-through Programs From:</b>					
Arizona Health Care Cost Containment System:					
Block Grants for Community Mental Health Services (MHBG):					
Children - Non Title XIX	93.958	ADHS15-00004276	11356415170214	\$ 588,987	\$ 632,173
SMI - Non Title XIX	93.958	ADHS15-00004276	11356415170214	<u>487,733</u>	<u>523,433</u>
Total Mental Health Block Grant				<u>1,076,720</u>	<u>1,155,606</u>
Block Grants for Prevention and Treatment of Substance Abuse (SABG):					
Substance Abuse	93.959	ADHS15-00004276	11356415170214	3,326,904	3,570,335
Prevention	93.959	ADHS15-00004276	11356415170214	<u>527,253</u>	<u>599,877</u>
Total Substance Abuse Block Grant				<u>3,854,157</u>	<u>4,170,212</u>
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – SBIRT	93.243	SBIRT-GR-15-100115-01	11356415170214	878,683	942,999
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – CABHI CSAT	93.243	None	11356415170214	223,119	242,521
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – CABHI	93.243	None	11356415170214	50,000	50,000
Substance Abuse and Mental Health Services – Projects of Regional and National Significance – AZ Youth SA	93.243	None	11356415170214	<u>14,087</u>	<u>14,087</u>
Total Substance Abuse and Mental Health Services				<u>1,165,889</u>	<u>1,249,607</u>
<b>Total U.S. Department of Health and Human Services</b>				<u>6,096,766</u>	<u>6,575,425</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u>\$ 6,096,766</u>	<u>\$ 6,575,425</u>

See Independent Auditors' Report  
See Notes to Schedule of Expenditures of Federal Awards

# HEALTH CHOICE INTEGRATED CARE, LLC

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2016

(1) **Basis of presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of **Health Choice Integrated Care, LLC** under programs of the federal government for the year ended September 30, 2016. The information in the Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of **Health Choice Integrated Care, LLC**, it is not intended to and does not present the financial position, changes in net assets or cash flows of **Health Choice Integrated Care, LLC**.

(2) **Summary of significant accounting policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. **Health Choice Integrated Care, LLC** has not elected to use the ten percent de minimus indirect cost rate allowable under the Uniform Guidance.

(3) **Catalog of federal domestic assistance (CFDA) numbers**

The program titles and CFDA numbers were obtained from the 2016 *Catalog of Federal Domestic Assistance*.



3101 N. Central Ave., Suite 300 ■ Phoenix, AZ 85012  
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

**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**

To the Board of Directors of

**HEALTH CHOICE INTEGRATED CARE, LLC**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Health Choice Integrated Care, LLC** (the "Organization"), which comprise the balance sheet as of September 30, 2016, and the related statements of activities and change in members' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 8, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered **Health Choice Integrated Care, LLC's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Health Choice Integrated Care, LLC's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Health Choice Integrated Care, LLC's** internal control.

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

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



### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive, professional style.

February 8, 2017



3101 N. Central Ave., Suite 300 ■ Phoenix, AZ 85012  
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of

**HEALTH CHOICE INTEGRATED CARE, LLC**

**Report on Compliance for Each Major Federal Program**

We have audited **Health Choice Integrated Care, LLC's** compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Compliance Supplement that could have a direct and material effect on each of **Health Choice Integrated Care, LLC's** major federal programs for the year ended September 30, 2016. **Health Choice Integrated Care, LLC's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of **Health Choice Integrated Care, LLC's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Health Choice Integrated Care, LLC's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Health Choice Integrated Care, LLC's** compliance.

### Opinion on Each Major Federal Program

In our opinion, **Health Choice Integrated Care, LLC** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

### Report on Internal Control Over Compliance

Management of **Health Choice Integrated Care, LLC** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Health Choice Integrated Care, LLC's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Health Choice Integrated Care, LLC's** internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



February 8, 2017

**HEALTH CHOICE INTEGRATED CARE, LLC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended September 30, 2016

**Section I – Summary of Auditors’ Results**

***Financial Statements***

- |   |               |
|---|---------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified    |
| 2. Internal control over financial reporting:   |               |
| a. Material weakness(es) identified?  | No            |
| b. Significant deficiency(ies) identified?  | None reported |
| 3. Noncompliance material to financial statements noted?  | No            |

***Federal Awards***

- |   |               |
|---|---------------|
| 1. Internal control over major federal programs:  |               |
| a. Material weakness(es) identified?  | No            |
| b. Significant deficiency(ies) identified?  | None reported |
| 2. Type of Auditor’s report issued on compliance for major federal programs:                          | Unmodified    |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No            |

4. Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance – SBIRT/CABHI CSAT/CABHI/AZ Youth SA

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee?                                 | No        |

**HEALTH CHOICE INTEGRATED CARE, LLC**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended September 30, 2016

**Section II – Financial Statement Findings**

None noted

**Section III – Federal Award Findings**

None noted

**Section IV – Prior Year Findings and Questioned Costs Relating to Federal Awards**

None noted