

**Yavapai County
Long Term Care**

Report on Audit of Financial Statements

June 30, 2010

Yavapai County
Long Term Care

June 30, 2010

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Independent Auditor's Report

The Board of Supervisors of
Yavapai County, Arizona

We have audited the accompanying financial statements of Yavapai County Long Term Care (a proprietary fund of Yavapai County, Arizona) as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Yavapai County Long Term Care's management. 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 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 financial statements present only Yavapai County Long Term Care and do not purport to, and do not present fairly the financial position of Yavapai County, Arizona, as of June 30, 2010, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yavapai County Long Term Care (a proprietary fund of Yavapai County, Arizona) as of June 30, 2010, and the changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2010, on our consideration of the Yavapai County Long Term Care'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 the 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information contained in Schedules 1 - 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements of Yavapai County Long Term Care. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The listing of plan officers and directors contained in schedule 6 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Miller, Albert Co., P.C.

October 1, 2010

Yavapai County
 Long Term Care
 Statement of Net Assets
 June 30, 2010

ASSETS

Current assets:

Cash	\$ 6,490,161
Due from Arizona Health Care Cost Containment System	1,176,998
	7,667,159

Noncurrent assets:

Capital assets	866,509
Less accumulated depreciation	(698,928)
	167,581

Total capital assets (net of accumulated depreciation)	167,581
	7,834,740

Total Assets

LIABILITIES

Current liabilities:

Accounts payable	72,426
Accrued wages and benefits	332,334
Medical claims payable	3,786,225
Due to Arizona Health Care Cost Containment System	458,849
	4,649,834

Total current liabilities

Total Liabilities

NET ASSETS

Invested in capital assets, net of related debt	167,581
Restricted - health and welfare	3,017,325
	3,184,906
	\$ 3,184,906

The accompanying notes to financial statements are an integral part of this statement.

Yavapai County
Long Term Care
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2010

Operating revenues:	
Capitation	\$ 45,216,942
Miscellaneous	57,333
	<hr/>
Total operating revenues	45,274,275
	<hr/>
Operating expenses:	
Institutional care	
Institutional care facilities	5,993,339
Skilled nursing facilities - Level I	7,749,125
Skilled nursing facilities - Level II	1,443,854
Specialty care	4,697,634
PPC institutional	427,976
Share of cost reconciliation	159,508
	<hr/>
Total institutional care	20,471,436
	<hr/>
Home and community based services	
HCBS placement reconciliation	83,722
Home health nurse	496,161
Home health aide	2,357
Personal care	467,945
Homemaker	783,577
Home delivered meals	216,305
Respite care	196,319
Attendant care	7,842,798
Assisted living homes	796,115
Adult day health	156,645
Adult foster care	19,332
Assisted living centers	1,215,512
Hospice	(4,169)
Environmental modifications	45,436
Other HCBS	148,918
	<hr/>
Total home and community based services	12,466,973
	<hr/>
Acute care	
Inpatient services (Hospitalization)	1,606,921
Primary care physician services	346,097
Referral physician services	738,256
Emergency services	202,200
Out patient facility	450,282
Prescription drug	677,377
Laboratory/radiology	242,826
Durable medical equipment	474,957
Dental	118,191
Transportation	1,126,674
Therapies	537,914

The accompanying notes to financial statements are an integral part of this statement.

Yavapai County
Long Term Care
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2010
(Continued)

Outpatient behavioral health	\$ 94,957
PPC - acute	35,250
Other	118,909
	6,770,811
Total acute care	
Other medical expenses	
Ventilator dependent	123,039
AHCCCS recoupment	64,802
	187,841
Total other medical expenses	
Case management expenses	
Case management	1,205,014
	41,102,075
Total medical expense	
Administrative expenses	
Compensation and benefits	1,958,062
Occupancy	103,771
Depreciation	23,394
Professional services	626,973
Insurance tax	897,915
Utilities	25,378
Insurance	13,932
Office expenses	32,273
Repairs and maintenance	173,976
Small equipment	15,837
Vehicle charge	53,200
	3,924,711
Total administrative expenses	
Total operating expense	45,026,786
Operating income	247,489
Nonoperating revenues:	
Investment earnings	39,650
	287,139
Change in net assets	
Total net assets-beginning	2,897,767
Total net assets-ending	\$ 3,184,906

The accompanying notes to financial statements are an integral part of this statement.

Yavapai County
 Long Term Care
 Statement of Cash Flows
 For the Year Ended June 30, 2010

Cash Flows From Operating Activities	
Cash received from AHCCCS	\$ 45,029,670
Cash payments for medical services	(39,518,398)
Cash payments for personnel services	(1,939,838)
Cash payments for quasi-external transactions with County	(862,099)
Cash payments for administration	(1,910,225)
Net cash provided by operating activities	<u>799,110</u>
Cash Flows From Capital And Related Financing Activities	
Acquisition of capital assets	(31,595)
Cash Flows From Investing Activities	
Interest on investments	<u>39,650</u>
Net increase in cash and cash equivalents	807,165
Cash and cash equivalents at beginning of year	<u>5,682,996</u>
Cash and cash equivalents at end of year	<u>\$ 6,490,161</u>
Reconciliation Of Net Income To Net Cash Provided By Operating Activities	
Operating income	\$ 247,489
Adjustments to reconcile net loss to net cash provided (used) by operating activities	
Depreciation	64,218
Changes in assets and liabilities:	
Increase in receivables from AHCCCS	(154,403)
Increase in claims payable	680,754
Decrease in due to AHCCCS	(90,202)
Increase in accounts payable	33,030
Increase in wages, benefits, and other payables	<u>18,224</u>
Net cash provided by operating activities	<u>\$ 799,110</u>

The accompanying notes to financial statements are an integral part of this statement.

Yavapai County
Long Term Care
Notes to Financial Statements
June 30, 2010

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Yavapai County Long Term Care conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

Yavapai County Long Term Care was formed in May 1993 and began providing services on October 1, 1993. The Division's purpose is to operate a prepaid health program for qualified persons of Yavapai County within the State of Arizona. The program provides hospitalization, medical care, managed institutional care, and home and community based long term care for physically disabled and elderly persons. The funds used to carry out the Division's program are provided by the State of Arizona under its Arizona Long Term Care System ("ALTCS") administered by the Arizona Health Care Cost Containment System ("AHCCCS"). AHCCCS funds include federal, state and county monies.

For financial reporting purposes, Yavapai County Long Term Care is accounted for as an enterprise fund of Yavapai County, Arizona, under the direction of administrators appointed by the Yavapai County Board of Supervisors. Ultimate fiscal responsibility for the Division remains with the County. The Division accounts for funds received from AHCCCS under its Arizona Long-Term Care System ("ALTCS"). ALTCS provides hospitalization and medical care services, as well as managed institutional and home and community based long term care services to eligible enrollees of the program. No other County operations are included in these financial statements.

B. Basis of Presentation

The financial statements of Yavapai County Long Term Care conform to generally accepted accounting principles as applicable to governmental units. Yavapai County Long Term Care's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements. The Proprietary Fund also applies Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Yavapai County Long Term Care has chosen the option not to follow FASB Statements and Interpretations issued after November 31, 1989.

C. Basis of Accounting

The accounts of the County are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are

Yavapai County
Long Term Care
Notes to Financial Statements
June 30, 2010

accounted for by providing a separate set of self balancing accounts that are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. This ensures observance of limitations and restrictions on the resources available.

The financial transactions of Yavapai County Long Term Care are recorded and reported as an Enterprise fund since its operations are financed and operated in a manner similar to private business enterprises, in which the intent of the Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Yavapai County Long Term Care is accounted for using the economic resources measurement focus. With this measurement focus; all assets and all liabilities associated with the operation of Yavapai County Long Term Care are included on the balance sheet. Net total assets consist of retained earnings. Yavapai County Long Term Care's operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The financial statements of Yavapai County Long Term Care are presented on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Interfund transfers that would be treated as revenues or expenses if they involved parties external to the County are recorded in the appropriate revenue or expense account. All outside provider medical expenses are reported net of Medicare reimbursements.

Proprietary fund revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund's principal activity. Accordingly, revenues, such as capitation from AHCCCS, in which each party receives and gives up essentially equal values, are operating revenues. Other revenues, such as investment earnings, result from transactions in which the parties do not exchange equal values and are considered to be nonoperating revenues. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, Yavapai County Long Term Care considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

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Notes to Financial Statements
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Generally, State statutes allow investments in certain certificates of deposit, interest bearing savings accounts in qualified banks and savings and loan institutions, repurchase agreements with maximum maturity of thirty days, and pooled investment funds established by the State Treasurer. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance. All of Yavapai County Long Term Care monies are under the direct supervision of the Yavapai County Treasurer's Office, which has the fiduciary responsibility to administer all monies held in the County Treasury. The Treasurer invests, on a pooled cash basis, all cash not specifically invested for a fund or program. Interest earned from investments purchased with such pooled monies is allocated quarterly to each of the funds based on the average month-end cash balances. See the Yavapai County Financial Statements for the year ended June 30, 2010, for additional information on cash and investments.

E. Capital Assets

Equipment consists of office equipment, software, and durable medical equipment that are capitalized at cost. The capitalization threshold for office furniture and equipment is \$5,000. Depreciation of such assets is charged as an expense against operations. Depreciation has been provided using the straight-line method over an estimated useful life of five years.

Note 2 - Plan Description

AHCCCS was established by the Arizona Legislature in 1981 for the purpose of developing and testing "an alternative payment and delivery system for providing health care services which facilitates cost containment and improves patient access while, at the same time, encourages quality care and efficient treatment patterns". Under the present system, AHCCCS contracts with provider groups to provide certain medical services in return for monthly capitation payments and certain reimbursement provisions.

Yavapai County Long Term Care is such a provider group providing health services to individuals qualifying for care under AHCCCS, mainly in Yavapai County, Arizona. AHCCCS pays Yavapai County Long Term Care monthly, based on a contracted capitated rate and on the number of AHCCCS members enrolled in Yavapai County Long Term Care. In turn, Yavapai County Long Term Care subcontracts with medical service providers to provide the medical and medically related services required by AHCCCS. Yavapai County Long Term Care contracts with primary care physicians and other acute care providers to render acute care services. The primary care physicians are capitated monthly to provide certain medical services. Other providers are compensated at negotiated rates or AHCCCS fee-for-service rates. Yavapai County Long Term Care is currently under contract with AHCCCS through September 30, 2011.

Yavapai County
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Notes to Financial Statements
June 30, 2010

Note 3 - Receivables from/Due to AHCCCS

In addition to the monthly capitation payments from AHCCCS, Yavapai County Long Term Care receives reimbursements of medical and medically related expenses for certain types of cases (reinsurance and ventilator dependent). AHCCCS partially reimburses Yavapai County Long Term Care for patients whose acute care service claim exceeds \$10,000 for Medicare patients and \$20,000 for Non-Medicare patients claim limit, as well as behavioral health reimbursement for patients who meet a medical criteria and are approved by AHCCCS in advance.

The contracted capitation rate from AHCCCS includes estimates for HCBS and share of costs components, thus after year-end, these components are adjusted to an assigned HCBS percentage and share of costs, based on actual experience during the year. The adjustments are made to capitation received during the year. At June 30, 2010, these adjustments resulted in amounts due from/to AHCCCS of the following:

	<u>Due From</u>	<u>Due To</u>
Reinsurance	\$ 1,155,887	
Prior period cost reconciliation 2008-2009	21,111	
HCBS reconciliation 2008-2009		\$ 111,791
HCBS reconciliation 2009-2010		81,239
Share of costs reconciliation 2008-2009		171,717
Share of costs reconciliation 2009-2010		94,102
Total	<u>\$ 1,176,998</u>	<u>\$ 458,849</u>

There is no allowance for doubtful accounts, as all receivables are deemed collectible.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Ending Balance
Capital assets:			
Office furniture and equipment	\$ 834,914	\$ 31,595	\$ 866,509
Less accumulated depreciation for:			
Office furniture and equipment	<u>(634,710)</u>	<u>(64,218)</u>	<u>(698,928)</u>
Total, furniture and equipment net	<u>\$ 200,204</u>	<u>\$ (32,623)</u>	<u>\$ 167,581</u>

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Notes to Financial Statements
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Note 5 - Claims payable

Yavapai County Long Term Care utilizes an analysis of a minimum of 9 months historical paid claim data to determine IBNR liabilities, with the exception of Non-Medicare Inpatient Hospitalization claims and Institutional claims. Non-Medicare Inpatient Hospitalization IBNR liabilities are determined through a quarterly review with Yavapai County Long Term Care's Utilization Management staff. Institutional IBNRs are determined by using actual claim data as well as any outstanding nursing facilities not yet reported but paid within the following month. By including the amount of claims received but not paid, the total claims payable can be determined. Claims payable at June 30, 2010, consists of the following:

Claims reported but not paid	\$ 1,421,909
Claims incurred but not reported	<u>2,364,316</u>
Total claims payable	<u>\$ 3,786,225</u>

The following is a recap of the change in claims payable for the last two fiscal years:

	<u>2010</u>	<u>2009</u>
Balance beginning of year	\$ 3,105,471	\$ 3,495,726
Claims incurred	39,086,486	36,580,956
Claims paid	(38,869,282)	(36,983,677)
Adjustments	<u>463,550</u>	<u>12,466</u>
Balance end of year	<u>\$ 3,786,225</u>	<u>\$ 3,105,471</u>

Note 6 - AHCCCS Revenues

Categories of capitation from AHCCCS for the year ended June 30, 2010, were as follows:

Regular	\$42,133,461
Reinsurance income	2,627,085
Prior period coverage (PPC)	434,975
Prior period coverage reconciliation	21,110
HIV/AIDS supplement	<u>311</u>
Total AHCCCS revenues	<u>\$ 45,216,942</u>

Yavapai County
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Notes to Financial Statements
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Note 7 - Related Party Transactions

Yavapai County Long Term Care contracts for services with other County operations for medically-related services. For the year ended June 30, 2010, Yavapai County Long Term Care had expenses for Yavapai County Personal Care and Yavapai County Attendant Care, Divisions of the Yavapai County Health Department, totaling \$ 862,099.

In addition, Yavapai County Long Term Care incurred administration fees to the County of \$ 473,459 for the year ended June 30, 2010. Yavapai County Long Term Care's employees are employees of the County and are subject to all rules and regulations of Yavapai County. Yavapai County Long Term Care's liability insurance is provided as part of the County's coverage.

Note 8 - Retirement Plan

Plan Description. Yavapai County Long Term Care contributes through Yavapai County to the Arizona State Retirement System ("ASRS"), a cost-sharing multiple-employer defined benefit retirement plan that covers employees of participating political subdivisions and school districts. 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. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor and health insurance premium benefits.

ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona, 85012, 1-800-621-3778.

Funding Policy. The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates.

For the year ended June 30, 2010, active ASRS members and Yavapai County Long Term Care were each required to contribute at the actuarially determined rate of 9.40 percent (9.0 percent retirement and .4 percent long-term disability) of the members' annual covered payroll. Yavapai County Long Term Care's contributions to ASRS for the years ended June 30, 2010, 2009, and 2008 were \$222,789, \$227,765, and \$238,072, respectively, which were equal to the required contributions for each year.

Note 9 - Bonding

The Yavapai County Board of Supervisors adopted a resolution in 1993 pledging to provide financial backing as an Arizona Long Term Care System program contractor.

Yavapai County
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Notes to Financial Statements
June 30, 2010

Note 10 - Other Disclosures

AHCCCS requires that each plan providing AHCCCS services maintain a member to equity ratio of at least \$2,000 per member for long-term care plans. As of June 30, 2010, Yavapai County Long Term Care had a member to equity ratio of \$ 2,887.

The insurance tax shown in the administrative expenses section of the statement of revenues, expenses, and changes in fund net assets represents the premium tax charged by Yavapai County Long Term Care that is remitted to the Arizona Department of Insurance.

Note 11 - Insurance Claims

The County provides health benefits to its employees and their dependents through the Yavapai Combined Trust, currently composed of four members. The Trust provides benefits up to \$175,000 per individual per plan year through a self-funding agreement with its participants and purchases commercial insurance to cover claims in excess of this limit. An independent administrator provides the trust with claim and recordkeeping services. The County is responsible for paying the premiums and requires its employees to contribute for dependent coverage. The County is not liable for claims in excess of coverage limits and cannot be assessed retroactive premium adjustments. If it withdraws from the Trust, the County would be responsible for its proportional share of any claims run-out costs, which exceed Trust Fund reserves established for the incurred but not reported claims liability. If the Trust were to terminate, the County would be responsible for its proportional share of any Trust deficit.

Note 12 - Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters; but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the County joined and is covered by three public entity risk pools: the Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool which are described below, and the Yavapai Combined Trust, which is described above.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of \$10,000 per occurrence for property claims and \$50,000 per occurrence for liability

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claims. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties with workers' compensation coverage, as required by law, and risk management services. The County is responsible for paying a premium, based on an experience rating formula that allocates pool expenditures and liabilities among the members.

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance every 5 years. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.