ARIZONA HEALTH CARE
COST CONTAINMENT SYSTEM

FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2022

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INDEPENDENT AUDITORS' REPORT

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To the Director of the

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
(AHCCCS, an agency of the state of Arizona)

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of AHCCCS as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise AHCCCS' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund, and the aggregate remaining fund information of AHCCCS, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the U.S. Comptroller General. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AHCCCS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter

As discussed in Note 1, the financial statements of AHCCCS are intended to present the financial position, the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the general fund and the aggregate remaining fund information of the State of Arizona that is attributable to the transactions of AHCCCS. They do not purport to, and do not, present fairly the financial position of the State of Arizona at June 30, 2022, the changes in the financial position, or, where applicable, the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AHCCCS' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 AHCCCS' internal control. Accordingly, we express no such opinion.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AHCCCS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the audit's planned scope and timing, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 21, budgetary comparison schedule – general fund on page 62, schedule of the agency's proportionate share of the net pension liability – cost sharing plan on page 63, and schedule of the agency's pension contributions on page 64 be presented to supplement the basic financial statements. Such information is management's responsibility and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of AHCCCS' 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 at a future date. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of AHCCCS' 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 AHCCCS' internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

September 6, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management’s Discussion and Analysis

For the Fiscal Year Ended June 30, 2022

Management of the Arizona Health Care Cost Containment System ("AHCCCS" or the "Agency") provides this Management's Discussion and Analysis for the benefit of the readers of the AHCCCS financial statements. This narrative overview and analysis of the financial activities of AHCCCS is for the fiscal year ended June 30, 2022. The intent of this discussion and analysis is to look at AHCCCS' performance as a whole. We encourage readers to consider this information in conjunction with the basic financial statements and related footnotes that follow this section.

Financial Highlights

Government-Wide

The assets and deferred outflow of resources of AHCCCS exceeded its liabilities and deferred inflow of resources at fiscal year ended June 30, 2022 by $642.6 million. AHCCCS' net position at June 30, 2022 is comprised of an unrestricted net position of $595.3 million and net investment in capital assets of $47.3 million.

AHCCCS' net position increased by $395.5 million during fiscal year 2022. The increase is primarily attributable to increases in the funding received for the designated state health programs, access to professional services initiative, hospital assessment collections as well as collections for the new health care investment assessment. These funds will be available to fund future program expenditures for each individual program and as appropriated by legislative action.

Fund Level

As of the close of fiscal year 2022, AHCCCS' total governmental funds reported an ending fund balance of $691.9 million, an increase of $409.9 million from fiscal year 2021.

AHCCCS is a $20.938 billion cash or near cash basis program providing comprehensive physical and behavioral health, substance abuse and related services for eligible Arizona citizens. The $409.9 million ending fund balance increase is primarily due to increases in the Federal Medical Assistance Percentage ("FMAP") of 6.2% from the Families First Coronavirus Response Act signed into law March18, 2020 and effective January 1, 2020, the funding received for the designated state health programs and hospital assessment collections as well as the new health care investment assessment collections in excess over the specific expenditures that the funding sources are designated to provide for. Additionally, the American Rescue Plan Act (“ARPA”) signed into law March 11, 2021, provided additional funds with a temporary 10 percentage point increase to the federal medical assistance percentage (“FMAP”) for certain Medicaid expenditures for home and community-based services (“HCBS”). The additional increase is from the result of normal operations due to the variances that can occur in how covered members utilize health care service expenditures as well as the impact of year end accrual transactions for such items as the multiple open contract year-end risk sharing reconciliations AHCCCS has with the contracted managed care organizations along with earned differential adjustment payments to certain qualifying providers.

More detailed information regarding the government-wide financial statements and fund level financial statements can be found below.

<u>Overview of the Financial Statements</u>

AHCCCS' basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-Wide Financial Statements (Reporting AHCCCS as a Whole)

The Government-Wide Financial Statements are designed to provide readers with a broad overview of AHCCCS' finances that are comparable to a private-sector business. The Statement of Net Position and the Statement of Activities are two financial statements that report information about AHCCCS as a whole and its activities. The presentation in these statements is intended to help answer the question: is AHCCCS, as a whole, better off or worse off financially as a result of this year's activities? These financial statements are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid out.

The Statement of Net Position (page 22) presents information on all of AHCCCS' assets and deferred outflow of resources and liabilities and deferred inflow of resources, with the difference between the two reported as "net position". Over time, increases or decreases in net position, along with other financial information, serve as indicators of AHCCCS' financial position and whether it is improving or deteriorating.

The Statement of Activities (page 23) presents information showing how AHCCCS' net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. incurred but not paid or reported fee-for-service and reinsurance claims, managed care organization risk sharing medical loss reconciliation, revenue from future Tobacco Master Settlement Agreement payments, prescription drug rebate receipts, earned but unused vacation leave, and unfunded pension benefit). Governmental Activities include state appropriations along with federal, county and other local government intergovernmental revenues and member premium collections that primarily support the activities in this category.

The governmental activities of AHCCCS consist of programs authorized by the Social Security Act Titles XIX ("Medicaid") and XXI (Children's Health Insurance Program ("CHIP")) and behavioral health services funded from Federal Block Grants and state appropriations targeted to specific needs of individuals with serious mental illness ("SMI"). All of these services are concentrated on the health and related needs of the citizens of Arizona primarily through direct health care service payments, supplemental payments to qualifying hospital facilities and prevention services provided throughout the State. The majority of the activities are reported in these categories.

The government-wide financial statements can be found on pages 22 and 23.

Fund Financial Statements (Reporting AHCCCS' Major Funds)

A fund is a legislatively authorized fiscal and accounting entity with a self-balancing set of accounts that AHCCCS uses to keep track of specific sources of funding and spending for specific activities or objectives. AHCCCS, like other State agencies, uses fund accounting to ensure and demonstrate compliance with legislative appropriation funding requirements.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near- term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial position and requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These financial statements provide a short-term view of AHCCCS' finances that assists management in determining whether there will be adequate financial resources available to meet current needs. When an asset is recorded in governmental fund financial statements, but the revenue is not available, AHCCCS reports a deferred inflow of resources until such time as the revenue becomes available. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The basic governmental funds financial statements and related reconciliation can be found on pages 24 through 26 of this report.

AHCCCS reports two fund categories: General Fund and Other Governmental Funds. Information on these funds is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances.

Annually, the Legislature adopts an appropriated budget for AHCCCS that funds fully integrated acute care and long-term care services categorized as Traditional Medicaid services, Proposition 204 (includes childless adults up to 105% of the federal poverty level FPL) services, Patient Protection and Affordable Care Act ("ACA") Adult Expansion (childless adults between 106% and 136% of the FPL), KidsCare, and Comprehensive Medical and Dental Services (("CMDP") (now known as the Department of Child Safety Comprehensive Health Plan ("CHP")). Additionally, supplemental payments are made to the Disproportionate Share Hospital ("DSH"), Rural Hospital; Graduate Medical Education ("GME"), nursing facility programs, non-Title XIX SMI, substance abuse and supported housing services, targeted investments program for incentive payments to certain providers who develop clinical processes that integrate physical and behavioral health care delivery and for AHCCCS administration costs. The annual appropriation is made separately for both the State share of the required matching funds and federal financial participation funds from Title XIX and Medicaid and Title XXI CHIP. In addition to the appropriations and expenditure authority approved by the Legislature, AHCCCS also expends continuously appropriated funds for medical service payments from third party liability recovery program activities, electronic health records infrastructure development, certain payments to hospitals for unfunded emergency department readiness costs and level 1 trauma center costs, and behavioral health block and discretionary grants. A budgetary comparison statement has been provided for the General Fund only to demonstrate compliance with the legislative budget on page 62.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 to 61.

Government-Wide Financial Analysis

As noted earlier, the net position may serve over time as a useful indicator of a government agency's financial position.

AHCCCS Net Position
(in thousands of dollars)

	Governmental Activities 2022	Governmental Activities 2021
Current assets	$ 4,121,793	$ 3,207,359
Capital assets	49,081	61,966
Total assets	4,170,874	3,269,325
Deferred outflow of resources	26,072	25,835
Current liabilities	3,430,306	2,925,457
Long-term liabilities	89,361	116,932
Total liabilities	3,519,667	3,042,389
Deferred inflow of resources	34,659	5,609
Net position		
Net investment in capital assets	47,276	61,966
Unrestricted	595,344	185,196
Total net position	$ 642,620	$ 247,162

For AHCCCS, assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by $642.6 million at June 30, 2022 as compared to assets and deferred outflow of resources in excess of liabilities and deferred inflow of resources in the amount of $247.2 million at June 30, 2021.

The total government-wide net position increased by $395.5 million. This increase is primarily due to an increase in the FMAP rate of 6.2% from the Families First Coronavirus Response Act effective January 1, 2020, a temporary increase of 10% FMAP for HCBS Services from the American Rescue Plan Act signed into law March 11, 2021, and increases in the funding received for certain health programs where the final determination of costs are dependent on future reconciliations that are not estimable at the present and are dependent on provider performance to meet certain criteria and or thresholds. Additionally, excess hospital assessment collections will be available to fund future eligible costs but are dependent on legislative appropriations.

AHCCCS Changes in Net Position
(in thousands of dollars)

	Governmental Activities 2022	Governmental Activities 2021
Revenues		
Program revenues		
Charges for services	$ 7	$ 106
Other operating grants and contributions	1,717,572	1,454,153
Federal operating grants	17,337,468	14,021,127
General revenues		
State appropriations	2,276,130	2,199,765
Tobacco tax	119,029	123,025
Total revenue	21,450,206	17,798,176
Expenses		
Health care	20,937,874	17,595,371
Excess before transfers	512,332	202,805
Transfers, net	(116,874)	(120,530)
Change in net position	395,458	82,275
Net position – beginning of year	247,162	164,887
Net position – end of year	$ 642,620	$ 247,162

At June 30, 2022, the governmental activity reported an unrestricted net position of $595.3 million, which is a $410.1 million increase (221.4 percent) from the prior fiscal year's $185.2 million unrestricted net position. The increase drivers are an increase in the FMAP rate of 6.2% from The Families First Coronavirus Response Act, effective January 1, 2020, temporary increase of 10 percent FMAP for HCBS Services from the American Rescue Plan Act signed into law March 11, 2021, and increases in the funding received for the designated state health programs for the targeted investment program, access to professional services initiative and hospital assessment collections. These balances are available to fund certain qualifying payments dependent on provider performance and meeting certain measurement criteria, future reconciliations that are not estimable at the present and legislative appropriations.

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries implemented measures to combat the outbreak which have impacted global business operations.

In response to the growing COVID-19 pandemic, on March 18, 2020, President Trump signed into law H.R. 6021, the Families First Coronavirus Response Act ("FFCRA") (Pub. L. 116-127). Section 6008 of the FFCRA provides a temporary 6.2 percent increase to the FMAP extending through the last day of the calendar quarter in which the public health emergency terminates. One of the conditions of receipt of the enhanced federal match was a maintenance of effort ("MOE") requirement, prohibiting AHCCCS from terminating the enrollment of any individual that was enrolled in the program as of the date of the beginning of the public health emergency period, as well as individuals enrolled during the public health emergency period. This condition has had a significant impact on AHCCCS' enrollment. It requires that the state continue coverage for members who may have had a change in income that would otherwise result in discontinuance. On December 29, 2022, the Consolidated Appropriations Act, 2023 (P.L. 117-328) (CAA, 2023) was enacted, which further clarified that states could begin redeterminations in February 2023 with the disenrollments beginning April 2023 and prescribed that the 6.2 percentage point increase to the FMAP will be phased out over the course of Calendar Year 2023. The enhanced FMAP was 6.2 percentage points through the quarter ending March 31, 2023, 5.0 percentage points in the quarter ending June 30, 2023, 2.5 percentage points in the quarter ending September 30, 2023, and will be 1.5 percentage points in the quarter ending December 31, 2023. Although the FMAP increase is no longer directly tied to the end of the PHE, the Department of Health and Human Services expired the PHE as of May 11, 2023. Effective April, 2023, AHCCCS began processing eligibility redeterminations. In April 2023 AHCCCS enrollment was 2,492,034 by June 30, 2023, AHCCCS enrollment was 2,306,212, a decrease of 185,822.

Following the national and state emergency declarations in March 2020, AHCCCS received authority from CMS to implement numerous program flexibilities in response to the COVID-19 outbreak. Some of these flexibilities are: expanded coverage of telehealth and telephonic codes reimbursed at the same level of reimbursement offered for in-person services; initiatives to support use of influenza vaccinations during the COVID outbreak; increase in annual hours of respite care; reimbursement of Home and Community Based Services provided by parents; elimination of the 40-hour limit on family caregiver services provided by a member's spouse; expand the provision of home delivered meals to members enrolled in Department of Economic Security/Developmental Disabilities (“DES/DD"); and allowance for students to receive medically necessary services from managed care organizations ("MCOs") rather than the Medicaid School Based Claiming program as children attend school virtually from home. The CMS approvals were granted in late March to early April 2020.

In addition to the program flexibilities, COVID-19 impacted some of the agency's collection activities. CMS approved AHCCCS' request for emergency authorities to support Arizona's response to COVID-19. For the duration of the public health emergency, AHCCCS waived payment of the provider enrollment application fee as well as suspended the application of premiums for children enrolled in Arizona's CHIP program (KidsCare) and adults in the Freedom-to-Work program.

Finally, the Substance Abuse and Mental Health Services Administration ("SAMHSA") awarded AHCCCS new grants to address the behavioral health impacts due to the pandemic. These grants include the following:

- Arizona COVID-19 Emergency Response for Suicide Prevention
- Emergency Grant to Address Mental and Substance Use Disorders During COVID-1 (ECOVID)
- Substance Abuse Block Grant COVID-19 Emergency Funding
- Mental Health Block Grant COVID-19 Emergency Funding

American Rescue Plan Act (“ARPA”)

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 ("ARPA") (Pub.L. 117-2) into law. Some of the provisions of the ARPA include:

- Section 9811 of the ARPA establishes a temporary Medicaid FMAP of 100 percent for amounts expended by a state for medical assistance for the administration of COVID-19 vaccines. It also provides a temporary 100 percent CHIP EFMAP for state expenditures for the administration of COVID-19 vaccines. In May 2022, AHCCCS claimed $7.8 million of federal dollars for this provision.
- Section 9815 of the ARPA provides 100 percent FMAP for expenditures for services received by all Medicaid beneficiaries through Urban Indian Organizations.

- Section 9817 of the ARPA provides qualifying states with a temporary 10 percentage point increase to the federal medical assistance percentage (“FMAP”) for certain Medicaid expenditures for home and community-based services (“HCBS”) incurred from April 1, 2021 through March 31, 2022. Originally, the funding is to be used as State Match for future HCBS related directed payments or initiatives through March 31, 2024. On June 3, 2022 CMS extended the deadline to expend the funds to March 31, 2025. Any unexpended funding is required to be returned to CMS. In March 2022, AHCCCS drew $430.2 million as the additional 10 percent. In addition, AHCCCS paid $480.6 million in Managed Care Organization direct payments which required $371.5 million in additional federal funds. Although the ARPA Spending Plan was approved by CMS, as of June 30, 2022, AHCCCS was still developing implementation details for future HCBS expenditures.

Health Care Investment Fund

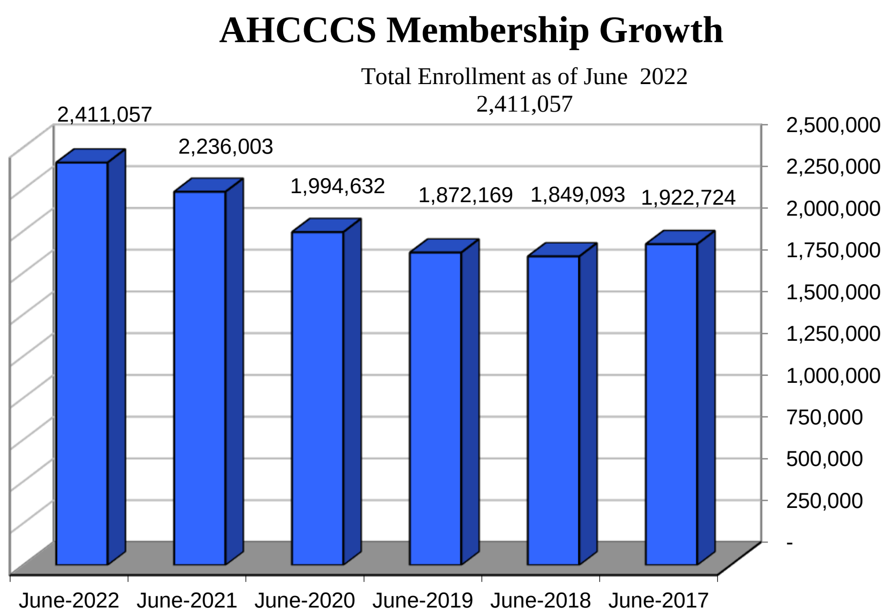
Laws 2020, Chapter 46 established a new hospital assessment and new fund, the Health Care Investment Fund, effective October 1, 2020. This fund supports hospitals and provider reimbursement through directed payments and fee schedule increases. The assessment provides the non-federal share of the payments. This initiative is known as the “Hospital Enhanced Access Leading to Health Improvements Initiative” (“HEALTHII”) program. The amount of the Directed HEALTHII payments for the period from July 1, 2021 through June 30, 2022 was $1.368 billion, which includes $1.118 billion federal share and $250 million non-federal share covered by the hospital assessments collected in the Health Care Investment Fund.

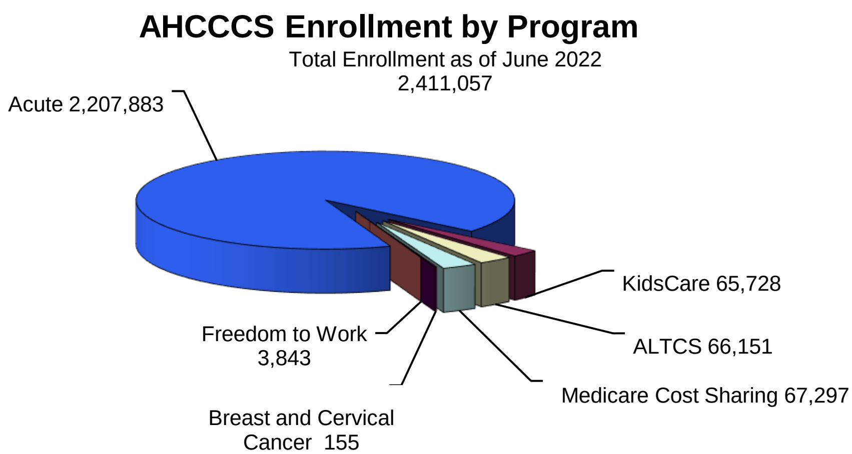
Governmental Activities

The primary driver of agency expenditures is enrollment in AHCCCS programs. In fiscal year 2022, total enrollment for all of AHCCCS' programs at June 1, 2022 was 2,411,057, an increase of 175,054 members (7.83 percent) from June 1, 2021. The fiscal year 2022 increase comes after a 241,371 increase from fiscal year 2022 to 2021. In March 2020, AHCCCS began to realize the impact of the COVID-19 pandemic on the program's caseload growth. AHCCCS' Medicaid program in Arizona covers approximately one-third of the Arizona population, three in five nursing home residents, and more than fifty percent of all births in the state.

AHCCCS' actual enrollment increased in fiscal year 2022 as it did in fiscal years 2021, 2020 and 2019 after the decline experienced in fiscal year 2018. Overall, the enrollment of full-service members increased by 162,187 members from 2,044,605 to 2,206,792 for the current fiscal year and by 966,007 full service members from the December 1, 2013 (the period from implementation of the ACA restoration and expansion) through June 2022.

The following charts depict AHCCCS membership growth and enrollment by program for the reporting periods:





The cost of health care programs, including Medicaid, CHIP and non-Medicaid behavioral health, totaled $20.938 billion in fiscal year 2022, a $3.343 billion or 19.0 percent increase from the $17.595 billion reported in fiscal year 2021. The increase in current fiscal year program expenditures is attributable to utilization, capitation rate increases, the COVID-19 behavioral health grants, HEALTHII initiative, ARPA directed payments and enrollment growth. As shown in the statement of activities, the proportionate amount of expenditures funded from federal grants through CMS and SAMHSA continues to increase year over year and was $17.338 billion (82.8 percent of total) in fiscal year 2022 as compared to $14.021 billion (79.7 percent of total) in fiscal year 2021.

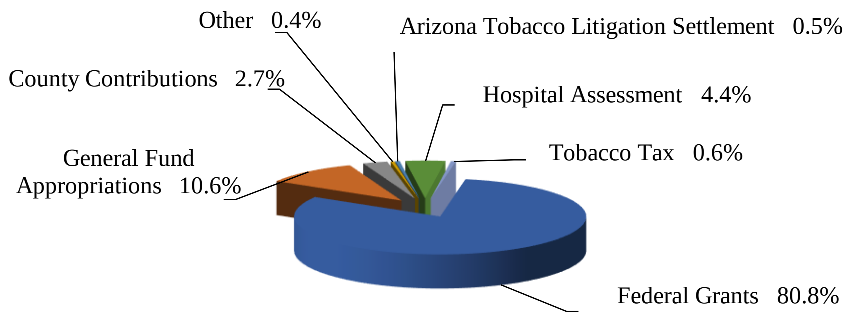
In June 2021, the Supreme Court ruled that the challengers to the Affordable Care Act lacked standing, effectively throwing out the lawsuit argued by 18 Republican state attorney generals and the Trump administration. There were no meaningful discussions at a national level regarding the construct of the Medicaid program as the federal level was consumed with the COVID-19 pandemic public health emergency. However, with the 2022 mid-term elections giving the Democratic party control of both the Presidency and Senate and the Republican party control of the House of Representatives, there is a strong possibility that healthcare and Medicaid will once again garner a considerable amount of debate at the Federal level due the significant share of total tax receipts the program consumes at both the Federal and State level.

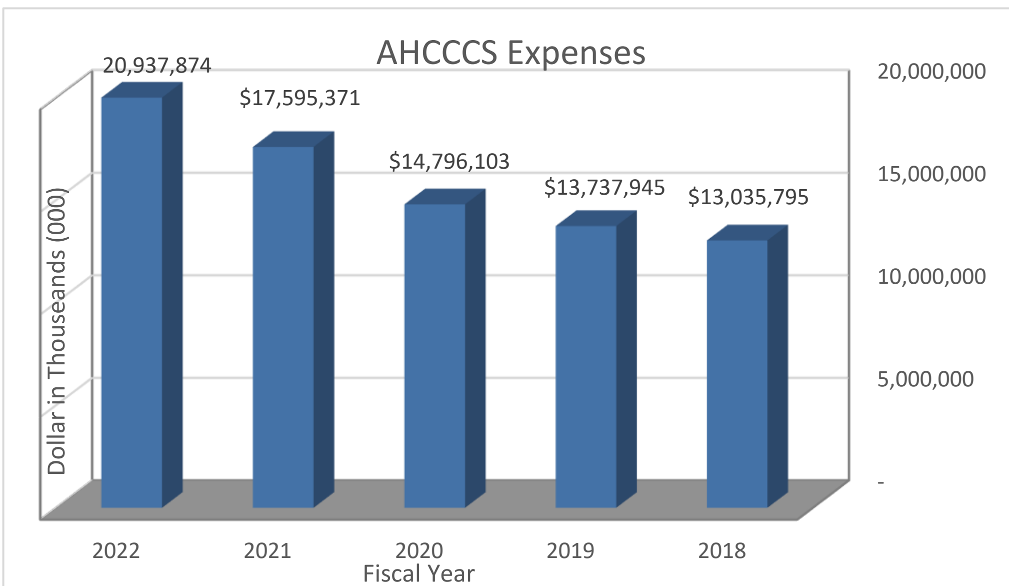
Current program funding remains significantly financed from federal financial participation primarily determined through the FMAP rate used to provide the amount of federal matching funds for qualifying State medical assistance expenditures. The FMAP is based on the relationship between Arizona's per capita personal income and the national average per capita personal income over three calendar years. The FMAP is recalculated each federal fiscal year and remained unchanged at 70.01 percent from the prior year's rate of 70.01 percent during the second quarter of state fiscal year 2022. Effective January 1, 2020 the Federal government enacted the Families First Coronavirus Response Act which provided an increase in the FMAP rate of 6.2%. In addition to the FMAP, the ACA introduced multiple new rates for the various new eligibility categories covered under the expansion. In Arizona, additional rates are applied to ACA expansion (adults and children) and Proposition 204 restoration (adult) covered populations. These new rates were all in excess of the "regular" 70.01 FMAP with the rates for both the expansion state (childless adults - 0% to 105% FPL) and the newly eligible adults (adults - 106% to 135% FPL) remaining the same for both federal fiscal year 2021 and federal fiscal year 2022. Overall, program expenditures increased by 19.0 percent over the prior fiscal year.

State, county and miscellaneous funding sources combined to provide $4.113 billion in State funding sources and appropriations in fiscal year 2022, a $336 million increase over the $3.777 billion reported in fiscal year 2021. This increase is related to the public health emergency, utilization, capitation rate increases, increases in hospital assessments, opioid substance use disorders and a 7.83 percent enrollment increase. The following are the components of the State match funding sources utilized in fiscal year 2022. State General Fund revenues raised primarily in the form of income and sales taxes directed to AHCCCS amounted to $1.676 billion, and an additional $599.6 million was passed through from other State agencies in order to provide the State's share for Medicaid eligible medical assistance expenditures. Arizona counties contributed $584.5 million as determined by statutory funding formulas, session law and other intergovernmental agreements. Tax collections on tobacco products provided $119.0 million in State match funding. An additional $108.4 million in State revenue funding was provided by Arizona's share of tobacco litigation settlement funds. The master settlement agreement ("MSA") revenues are recorded in accordance with the Governmental Accounting Standards Board ("GASB") Technical Bulletin No. 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues, which clarifies how payments made to AHCCCS pursuant to the MSA with major tobacco companies, are recorded. The MSA payment increased in fiscal year 2022. AHCCCS has accrued $51.0 million for the period January 1, 2022 through June 30, 2022 based on Arizona's Joint Legislative Budget Committee 2022 estimated payment. The amounts of the payments are dependent upon several adjustments, the magnitude of which will not be fully known until an independent auditor provides its calculations in February or March of each year. Other factors that could also affect the MSA payment amount AHCCCS ultimately receives include default or bankruptcy by one or more tobacco companies and other unforeseen withheld payment amounts. Finally, Tribal gaming receipts determined by statutory formula distributed to AHCCCS provided $31.0 million in additional funding.

The following charts depict revenues by source of the governmental activities for the fiscal year and expenses for the reporting period:

Revenues by Source - Governmental Activities





Financial Analysis of AHCCCS' Governmental Funds

Governmental Funds

AHCCCS' governmental funds reported combined ending fund balances totaling $691.9 million, a $409.9 million net increase from the prior year's $282.0 million ending fund balances. The increase was partially due to an increase in the AHCCCS Fund for the ARPA additional 10 percent FMAP for HCBS services in the amount of $430.2 million that was drawn in March 2022. This funding is to be used as State Match for future HCBS related direct payments or initiatives. In the same month, AHCCCS utilized $109.1 million of this funding for Managed Care Organization direct payments, leaving $321.1 million. As of June 30, 2022, AHCCCS was still developing implementation details for future HCBS expenditures. In addition, the General Fund benefitted from the ongoing continuation of the Families First Coronavirus Response Act increased FMAP of 6.2% which reduced state match expenditures, but did not impact revenues.

The General Fund is the chief operating fund of the AHCCCS Traditional Medicaid, KidsCare, Comprehensive Medical and Dental, ALTCS for both physical and behavioral health services, DSH, Rural Hospital, and services for non-Medicaid eligible members with SMI programs. The Other Governmental Fund, which includes the Hospital Assessment Fund, is the chief operating fund of the Proposition 204 services and ACA Adult Expansion programs. These programs primarily utilize a State general fund appropriation and or revenue sources from the hospital assessments, annual tobacco litigation settlement proceeds, taxes on tobacco products, contributions from Arizona counties, certified public expenditure methodologies, prescription drug rebate collections, voluntary contributions of the required state match from political subdivisions and certain provider type assessed taxes to provide the required state matching funds for federal Medicaid revenue. AHCCCS also has authority to make supplemental distributions to hospitals for the GME and DSH programs funded by voluntary contributions of the required state match from political subdivisions.

The Other Governmental Funds consist of twelve individual funds comprising the $126.4 million of the total $691.9 million governmental fund balance available for qualifying activities. The Other Governmental Funds' fiscal year 2022 fund balances consist of assigned fund balances in the amount of $114.6 million and committed funds of $11.7 million. Revenue from taxes on cigarettes and other related tobacco products generated $82.2 million for the current year compared to $85.7 million in fiscal year 2021. However, since the passage of Proposition 203 in November 2006, tobacco tax collections remain significantly lower than the $148.1 million collection high point in fiscal year 2006. Revenues from the Proposition 204 hospital assessment generated $533.1 million in fiscal year 2022 in available state matching monies for program services that increased from the $506.8 million collected in fiscal year 2021.

There are no current Congressional efforts to repeal and/or replace the ACA and Federal Medicaid funding. In addition, as stated earlier, the Supreme Court ruled that the challengers to the Affordable Care Act lacked standing. However, the potential exists that certain funding changes passed into law could trigger either the session law and or statutory requirement that AHCCCS stop collection of the hospital assessment if the ACA is repealed or the FMAP for the expansion and restoration populations, as authorized by the ACA, falls to less than 80.0 percent. This would also most likely lead to insufficient funding and an adjustment to the eligibility standards necessary to match available funds.

Budgetary Highlights

Differences totaling $1.229 billion occurred between the original and the final amended administrative and programmatic expenditure budgets. Legislation was passed during the 2022 session requiring a $1.078 billion expenditure authority and $30.1 million CHIP Fund supplemental appropriation increases. Additionally, the appropriated amounts for the voluntary payments from political subdivisions related to DSH and GME supplemental hospital payments are eligible to be increased for any political subdivision funds including the federal matching monies in excess of the original appropriation. For fiscal year 2022, the voluntary line items for GME were increased by $57.7 million. For fiscal year 2022, there was no increase for the voluntary line items for DSH. Other differences relate to special line item adjustments that utilized surpluses from one line item to offset shortfalls in another line item. These appropriation transfers are approved by the General Accounting Office and the Governor's Office of Strategic Planning and Budgeting and are in accordance with legislative authority. Laws 2022, Chapter 2 provided supplemental appropriations to cover the extension of the increased FMAP and to meet the funding requirements for the ARPA HCBS program. The major special line item supplemental increases are briefly summarized as follows:

- $418.1 million increase to the Traditional Services program as passed by the Legislature based on anticipated federal expenditure authority for the extension of the public health emergency and to implement the ARPA home and community-based services spending plan.
- $324.8 million increase to the Proposition 204 Services program as passed by the Legislature based on anticipated federal expenditure authority for the extension of the public health emergency and to implement the ARPA home and community-based services spending plan.
- $16.0 million increase to the Rural Hospital program as passed by the Legislature based on anticipated federal expenditure authority for the extension of the public health emergency.
- $50.0 million increase to the CMDP program as passed by the Legislature based on anticipated federal expenditure authority for the extension of the public health emergency and to implement the ARPA home and community-based services spending plan.
- $8.9 million increase to the ACA Adult Expansion Services program as passed by the Legislature based on anticipated federal expenditure authority to implement the ARPA home and community-based services spending plan.
- $30.1 million increase to the KidsCare Services program as passed by the Legislature based on anticipated federal CHIP Fund for the extension of the public health emergency.
- $256.5 million increase to the ALTCS program as passed by the Legislature based on anticipated federal expenditure authority for the extension of the public health emergency and to implement the ARPA home and community-based services spending plan.
- $3.7 million increase to the Administration program as passed by the Legislature based on anticipated federal expenditure authority for the extension of the public health emergency and to implement the ARPA home and community-based services spending plan.

At June 30, 2022, actual cash basis appropriated program expenditures for the General Fund were $898.9 million less than budgetary estimates.

Capital Asset Administration

AHCCCS' investment in capital assets for its governmental activities as of June 30, 2022 is $49.1 million, net of accumulated depreciation and amortization. This investment in capital assets includes furniture, vehicles, equipment and internally generated software (intangible assets) for projects started after June 30, 2009. Land, buildings and improvements are under the management of the State and are separately accounted for on the State's comprehensive annual financial report. Total net capital assets decreased $15.1 million or 23.5 percent over the prior fiscal year balance, as restated for the adoption of GASB 87. The largest component of AHCCCS' investment in capital assets continues to relate to internally developed software.

AHCCCS adopted GASB Statement No. 87 *Leases*, as of July 1, 2021. AHCCCS is the lessee of a leased building (office space). The lease agreement expires on October 31, 2026. Upon adoption of GASB 87, *Leases*, on July 1, 2021, AHCCCS recognized a right to use asset – building and a lease liability of $2.2 million based on the estimated future cash flows over the lease term and an estimated discount rate of 0.0980%.

The remaining capital asset changes are for disposals in excess of additions including depreciation of vehicles, furniture and equipment and amortization of the right to use asset - building.

	Governmental Activities	
	2022	2021 (as restated)
Vehicles, furniture & equipment	$ 287	$ 472
Software	47,025	61,494
Software under development	-	-
Right-to-use asset - building	1,769	2,176
Total investment in capital assets	$ 49,081	$ 64,142

Additional information on AHCCCS' capital assets can be found in Note 2 to the accompanying financial statements.

Contingent Liabilities

In January 2001, AHCCCS obtained a Waiver from CMS to receive federal funding for certain non-categorically linked populations including those made eligible by the November 2000 passage of Proposition 204. The Waiver requires that over the term of the original agreement (April 1, 2001 through September 30, 2011) and the new agreement (October 1, 2011 through September 30, 2021), that the population covered by the Waiver be budget neutral for CMS. It should be noted that on September 30, 2021, the waiver was extended for one additional federal fiscal year ending September 30, 2022. On September 27, 2022, CMS approved a temporary extension of the Waiver to October 28, 2022 in order to allow Arizona and CMS to continue negotiations over the extension application. On October 14, 2022, CMS extended the Waiver through September 30, 2027. Effective with the January 1, 2014 implementation of the eligibility expansion under the ACA to include the new adult group, members with income between 100% and 133% of the FPL, the budget neutrality measurement is performed separately for the new adult population. Budget neutral means that CMS will not pay more for medical services with the Waiver than it would without the Waiver. The Waiver Special Terms and Conditions include a monitoring arrangement that requires AHCCCS to report the financial results of the Waiver on a quarterly basis. For the demonstration period beginning on October 1, 2016, the net variance is phased down by an applicable percent. The percentages are determined based on how long the Medicaid population has been enrolled in managed care subject to the demonstration. Under the terms, AHCCCS is limited to only retaining 25 percent of the total variance as future savings. The budget neutrality calculation is dependent on a number of variables including the number of members and the eligibility category of members. Other factors that impact the variance are the general economy and its impact on unemployment, medical inflation and policy decisions made by the Legislature that may impact program costs. Through June 30, 2022, AHCCCS remains under the cumulative reporting limit threshold for the current waiver. Accordingly, management is projecting zero liability as of June 30, 2022 to CMS related to the budget neutrality agreement and the accompanying financial statements have not been adjusted for the impact of any liability AHCCCS may have related to the Waiver budget neutrality agreement.

AHCCCS continues to disagree with several audit findings related to audits conducted by the Inspector General, Office of Audit Services ("OIG") related to the Direct Services Claiming ("DSC") and School Based Medicaid Administrative Claim ("MAC") programs. AHCCCS disagrees with the findings in part and has returned the federal funds for non-disputed claims and final disallowances issued by CMS on October 20, 2016 relating to the MAC audit for $11.7 million and June 26, 2018 relating to the DSC audit for $19.9 million. On July 8, 2021 AHCCCS reached a settlement agreement with CMS in which CMS agreed to reimburse $4.450 million from the previously disallowed $11.7 million on October 20, 2016 for the MAC program. Since AHCCCS has already returned the entire amount of $11.7 million to CMS, the $4.450 million was claimed as an expenditure increase on the CMS-64 for the quarter ended March, 31, 2022. AHCCCS drew the federal funds reimbursement of $4.450 million in the quarter ended June 30, 2022 in connection with this settlement. Relative to the disallowance of School based Medicaid Administrative Claim, in October 2022, AHCCCS filed a lawsuit against Maximus for breach of contract and the matter was settled in December 2022 for $3.9 million.

Since the Direct Service Claiming ("DSC") disallowance of $19.9 million from June 26, 2018 was already returned to CMS in the quarter ended December 2018, no liability is recorded in the accompanying financial statements.

The DHHS OIG issued a report in February 2018 for their review of managed care drug rebates in Arizona from April 2010 through March 2013. The OIG's report noted instances in which physician-administered drugs were not properly submitted to the drug manufacturers for rebate. Based on their findings, the OIG recommended that AHCCCS:

- Bill for and collect from manufacturers rebates for single-source and top-20 multiple-source physician-administered drugs totaling $26.4 million and refund to the Federal Government an estimated $18.3 million (Federal share); and

- Work with CMS to determine whether the other physician-administered drugs were eligible for rebates and, if so, upon receipt of the rebates, refund up to an estimated $10.3 million ($7.3 million Federal share) of rebates collected for other physician-administered drugs that may have been eligible for rebates.

AHCCCS plans to bill and collect the appropriate amount of rebates for single-source and top-20 multiple-source physician-administered drugs during the audit period after thoroughly reviewing the disputed utilization records with the contracted rebate vendor. However, AHCCCS disagrees with the OIG finding that Arizona was required to obtain rebates for other physician-administered drugs during the audit period and is communicating with CMS to determine whether these drugs were eligible for rebates. AHCCCS views any recoveries as a gain contingency and will not record any amounts until received. Further, as the repayments to CMS are predicated on the receipt of the drug rebates, AHCCCS did not record any liability to CMS at June 30, 2022.

AHCCCS became aware of a breach of personal information on May 11, 2023 affecting 2,632 individuals in Arizona who are enrolled Medicaid members. Upon becoming aware of the breach, AHCCCS conducted an extensive internal investigation and determined that, due to a systems error, some household accounts in Health-e-Arizona Plus (HEAPlus, the AHCCCS eligibility system) were viewable to individuals not included in their household. The viewable details included first and last name, address, and the last 4 digits of social security numbers.

At the point of discovery, AHCCCS disabled the HEAPlus system toolbar that allowed members to view this information. Additional internal procedures have been implemented to ensure that this type of error cannot occur again. On July 3, 2023, AHCCCS began to notify, in writing, those members whose personal information was compromised. AHCCCS has notified HHS/Office of Civil Rights ("OCR") of the breach and has provided preliminary information. By early September 2023, AHCCCS will be furnishing additional information and records that have been requested by HHS/OCR. Although this matter is in the early stages of review and investigation by the federal government, financial penalties are not anticipated.

AHCCCS continues to closely monitor the situation but does not anticipate that this data breach will have a material impact on AHCCCS' financial statements. Additionally, AHCCCS expects any costs to be fully recoverable from Arizona Risk Management.

AHCCCS Office of the Inspector General and the Arizona Attorney General's Office became aware of potential fraudulent billing practices including significant increases in outpatient behavioral health services. AHCCCS connected the irregular billing with alleged criminal activity targeting tribal communities and other Arizonans.

Under 42 C.F.R. 455.23, when the State Medicaid Agency has conducted a preliminary investigation and a reliable indicium of fraud has been identified, the agency must suspend payments to a provider if a law enforcement agency accepts the State's referral. In AHCCCS' case, a Memorandum of Understanding governs the referral relationship between AHCCCS Office of the Inspector General and the Arizona Attorney General's Office, Health Care Fraud & Abuse Section. At the point a referral is made and payment is suspended, only a preliminary investigation has been conducted and no total overpayment or amount of improper payments made to the provider has been identified. At the conclusion of the investigation, AHCCCS will terminate a provider's enrollment and require repayment of the identified overpayment.

On May 16, 2023, AHCCCS suspended payments to 102 providers and additional Credible Allegation of Fraud payment suspensions will be placed as AHCCCS determines there are additional fraudulent providers through their investigations. Despite the scale of potential Behavioral Health services fraud, AHCCCS has taken rapid steps to limit potentially liability through holistic, system-wide strategies to find and eliminate fraudulent billing, including recommendations from the Arizona Attorney General's Office. These include, but are not limited to the following:

- Moving three behavioral health provider types to the high-risk category for new applicants and revalidating providers, which requires on-site visits, fingerprinting, background checks, a registration fee, and additional disclosures,
- Reviewing all existing claims edits which differ from national standards and setting specific rates for current "by report" billing that pay a percentage of the total billed amount instead of a standard rate,
- Creating a trend report of all providers registering for the at-risk provider types and closely monitoring any billing anomalies,
- Creating system reporting to flag concerning claims (volume, services per day, services for minors) for review prior to payment, and
- Setting billing thresholds to deny claims for multiple services that should not be billed on the same day, and more.

AHCCCS OIG continues to investigate and identify areas of concern and implement necessary system improvements until it is determined that the integrity of the AHCCCS provider network is restored. A determination of any potential liability cannot be made because the investigations are in the early stages. Accordingly, the accompanying financial statements do not include any adjustments relating to amounts due to CMS for the improper billings or recovery of such funds from providers.

Economic Factors and Next Year's Budgets and Rates

AHCCCS enrollment has steadily increased throughout fiscal year 2022. This is largely due to the impact of the COVID-19 pandemic on the program's caseload growth. Overall, for the period June 2021 to June 2022, the program experienced an enrollment increase from 2,236,003 to 2,411,057 adding 175,054 members for a 7.83 percent increase. The increase is primarily attributable to growth in the 1931 Families/Children and SOBRA Children/Pregnant Women increase of 63,906, Proposition 204 restoration adults increase of 79,421, Adult Expansion decrease of 3,154 and KidsCare increase of 11,320 totaling 151,493. On March 18, 2020, President Trump signed into law H.R. 6021, the Families First Coronavirus Response Act ("FFCRA") (Pub. L. 116-127). Section 6008 of the FFCRA provided a temporary 6.2 percent increase to the FMAP extending through the last day of the calendar quarter in which the public health emergency terminated. One of the conditions of receipt of the enhanced federal match was a maintenance of effort ("MOE") requirement, prohibiting the agency from terminating the enrollment of any individual that was enrolled in the program as of the date of the beginning of the emergency period, as well as individuals enrolled during the emergency period. This condition had a significant impact on AHCCCS' enrollment. It required that the state continue coverage for members who may have had a change in income that would otherwise result in discontinuance. On December 29, 2022, the Consolidated Appropriations Act, 2023 (P.L. 117-328) (CAA, 2023) was enacted, which further clarified that states could begin redeterminations in February 2023 with the disenrollments beginning April 2023 and prescribed that the 6.2 percentage point increase to the FMAP will be phased out over the course of 2023. The enhanced FMAP was 6.2 percentage points through the quarter ending March 31, 2023, 5.0 percentage points in the quarter ending June 30, 2023, 2.5 percentage points in the quarter ending September 30, 2023, and will be 1.5 percentage points in the quarter ending in the quarter ending December 31, 2023. Although the FMAP increase is no longer directly tied to the end of the PHE, the Department of Health and Human Services expired the PHE as of May 11, 2023. Effective April, 2023, AHCCCS began processing eligibility redeterminations. In April 2023, AHCCCS enrollment was 2,492,034 by June 30, 2023, AHCCCS enrollment was 2,306,212, a decrease of 185,822.

The decrease in the unemployment rate did not lead to a decrease in enrollment during fiscal year 2022 as the MOE was still in effect. According to the Office of Economic Opportunity, the Arizona unemployment rate for June 2021 was 5.2%. In June 2022, the unemployment rate was 3.8% and in June 2023, it was 3.5%. This indicated a potential decrease in enrollment once the MOE expired. However, AHCCCS does not anticipate that all members who have retained eligibility through the MOE will be immediately dropped from the program. AHCCCS is estimating that it may take through December 31, 2023 to process the backlog of redeterminations that developed during the MOE.

The total fiscal year 2023 appropriation for AHCCCS is $23.573 billion compared to the final $19.440 billion appropriation for fiscal year 2022. This increase reflects the impact of COVID-19 on enrollment and actual capitation rate increases. As a result of the increased FMAP and ongoing growth in enrollment from the MOE, AHCCCS required a supplemental appropriation in fiscal year 2023. On March 30, 2023, Governor Hobbs signed a supplemental bill that granted AHCCCS a portion of its request in the amounts of $29.2 million for CHIP Fund and $1.654 billion in expenditure authority. On May 4, 2023, Governor Hobbs signed an additional supplemental bill in the amounts of $58.5 million for CHIP Fund and $3.308 billion in expenditure authority.

For the contract year ending 2023, AHCCCS' overall weighted capitation rate increased by 0.6 percent across all lines of business except the Department of Economic Security/Developmental Disabilities program. This increase includes a small baseline COVID-19 capitation rate increase that reflected an expectation of the continuation of the COVID-19 public health emergency into January 2023, and the related end of the temporary COVID-19 provisions and services. The contract year 2023, Acute Care capitation rates decreased by 0.5 percent as compared to the 3.3 percent increase for contract year 2022. The contract year 2023 Arizona Long Term Care System ("ALTCS" Elderly and Physically Disabled ("EPD")) capitation rates increased by 9.0 percent as compared to the 11.6 percent for contract year 2022. The 2023 increase is primarily based on baseline utilization and unit trends, Health Care Investment Fund capitation rate growth attributable to the restoration of provider rates for practitioners and dental providers under Laws 2020, Chapter 46, Section 2, and rate increases for home and community-based services and nursing facility stays per Laws 2021, Chapter 408. It is important to note that federal law requires rates to be actuarially sound and the AHCCCS actuaries develop rates based on expected cost and utilization trends. In addition, AHCCCS must conduct an access to care analysis of its rates to assure that sufficient numbers of providers are willing to serve AHCCCS members. Therefore, depending on the results of this analysis and of AHCCCS' actuarial determination of the expected costs of the managed care organizations, the actual capitation rates could differ from projections.

Federal funding for Children's Health Insurance Program ("CHIP") was reauthorized at the Federal level in late 2017 with an additional extension in early 2018 and AHCCCS expects that sufficient CHIP Allotment funding will be available to continue both the M-CHIP and KidsCare programs through Federal fiscal year 2027. Laws 2019, Chapter 270, Section 10 amended A.R.S. § 36-2985 to remove the language requiring AHCCCS to stop processing all new applications for KidsCare if the effective FMAP is less than one hundred percent. AHCCCS required supplemental appropriations for fiscal year 2023 that included an additional $29.2 million and $58.5 million in expenditure authority for the CHIP program due to the increased enrollment related to the COVID-19 public health emergency. The supplemental appropriations were signed into law on March 30, 2023 and May 4, 2023, respectively.

AHCCCS continues to aid in the development of a robust healthcare information technology ("HIT") by offering financial assistance to providers and other entities in adopting and using health HIT. Additionally, AHCCCS has continued the Targeted Investment Program that will make funds available over the next year to Arizona providers who assist the State in promoting the integration of physical and behavioral health care, increasing efficiencies in care delivery, and improving health outcomes.

Per Laws 2020, Chapter 46, AHCCCS implemented a new Health Care Investment Assessment that was effective October 1, 2020. The funding, $407.2 million for fiscal year 2022, supports hospitals and provider reimbursement through directed payments and capitation rate increases for certain services.

AHCCCS continued to operate under an approved extension of the Section 1115 Waiver through September 31, 2021. On September 30, 2021, the waiver was extended for one additional federal fiscal year through September 30, 2022. On September 27, 2022, CMS approved a temporary extension of the Waiver to October 28, 2022, in order to allow Arizona and CMS to continue negotiations over the extension application. On October 14, 2022, CMS approved Arizona's request for a five-year extension through September 30, 2027. In addition, CMS approved a Targeted Investment 2.0 program to additional providers and continued provider incentive funding to further integration efforts, including a range of initiatives aimed at addressing social drivers of health. CMS also approved the new Housing and Opportunities ("H2O") project to further address health-related social needs for vulnerable populations and ensure their access to health care. Finally, CMS approved reimbursement to Indian Health Services and Tribal 638 facilities for dental services provided to American Indian/American Native adults beyond the existing $1,000 limit. The approval included Arizona's request to modernize its Medicaid program and continue many of the existing authorities allowing AHCCCS to maintain its unique and successful managed care model, use home and community-based services for members with long-term care needs and other innovations that make AHCCCS one of the most cost-effective Medicaid programs in the nation. The Waiver allows Arizona to run its managed care model and exempts Arizona from certain provisions of the Social Security Act and includes expenditure authority for costs not otherwise matched by the federal government. Waiver programs are required to be budget neutral for the federal government - not cost more federal dollars than without a waiver.

AHCCCS' budget request for fiscal year 2025, will be submitted to the Governor in September 2023. Factors such as Federal law changes, CMS decisions, COVID-19 public health emergency, other global health emergencies, legal decisions, economic conditions impacting case load changes compared to projections and the eligibility system shifts in population categories may influence any final fiscal year need of a supplemental appropriation for fiscal year 2024. AHCCCS management will closely monitor all these factors in relation to the adequacy of the fiscal year 2024 budget request.

Request for Information

This financial report is designed to provide a general overview of AHCCCS' finances for the State's citizens and taxpayers, and its members, providers and creditors. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Arizona Health Care Cost Containment System, Division of Business and Finance, Attention: Finance Administrator, MD 5400, 801 East Jefferson, Phoenix, Arizona 85034.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

STATEMENT OF NET POSITION

June 30, 2022
(amounts expressed in thousands)

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash	$ 933,233
Designated cash	29,941
Restricted cash	76,570
Due from state and local governments	148,793
Pension and OPEB	1,176,573
Tobacco settlement receivable	51,000
Receivables and other	1,705,683
TOTAL CURRENT ASSETS	4,121,793
NONCURRENT ASSETS	
Capital assets:	
Furniture, vehicles, equipment and software, net of accumulated depreciation	47,312
Right to use asset - building, net of accumuated amortization	1,769
TOTAL NONCURRENT ASSETS	49,081
TOTAL ASSETS	4,170,874
DEFFERRED OUTFLOW OF RESOURCES	
Pension and OPEB	26,072
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	21,167
Other accrued liabilities	1,489
Unearned revenue	34,493
Due to federal, state and county governments	1,667,793
Accrued programmatic claims	1,700,325
Compensated absences	4,651
Lease liability, current portion	388
TOTAL CURRENT LIABILITIES	3,430,306
NON-CURRENT LIABILITIES	
Lease liability, net of current portion	1,417
Net Pension liability	67,380
Net OPEB liability	20,564
TOTAL LIABILITIES	3,519,667
DEFFERRED INFLOW OF RESOURCES	
Pension and OPEB	34,659
COMMITMENTS AND CONTINGENCIES	
NET POSITION	
NET INVESTMENT IN CAPITAL ASSETS	47,276
UNRESTRICTED	595,344
TOTAL NET POSITION	$ 642,620

See Notes to Financial Statements

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

STATEMENT OF ACTIVITIES

Year Ended June 30, 2022
(amounts expressed in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Program Expenses	**Charges for Services**	**Federal Operating Grants**	**Other Operating Grants and Contributions**	**Governmental Activities**
PROGRAMS					
Government activities:					
Health care programs	$ 20,937,874	$ 7	$ 17,337,468	$ 1,717,572	$ (1,882,827)
TOTAL PROGRAMS	$ 20,937,874	$ 7	$ 17,337,468	$ 1,717,572	$ (1,882,827)
General revenues:					
State appropriations					2,276,130
Tobacco tax					119,029
Unrestricted investment earnings					-
Total general revenues					2,395,159
Transfers:					
Transfers out					(116,874)
Total general revenues and transfers					2,278,285
CHANGE IN NET POSITION					395,458
NET POSITION, BEGINNING OF YEAR					247,162
NET POSITION, END OF YEAR					$ 642,620

See Notes to Financial Statements

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2022
(amounts expressed in thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	$ 784,494	$ 148,739	$ 933,233
Designated cash	29,941	-	29,941
Restricted cash	74,598	1,972	76,570
Due from state and local governments	125,601	23,192	148,793
Due from the federal government	1,154,321	22,252	1,176,573
Due from other funds	21,415	-	21,415
Tobacco settlement receivable	51,000	-	51,000
Receivables and other	774,662	7,056	781,718
TOTAL ASSETS	$ 3,016,032	$ 203,211	$ 3,219,243
LIABILITIES			
Accounts payable	$ 16,179	$ 4,988	$ 21,167
Other accrued liabilities	1,353	136	1,489
Unearned revenue	33,286	1,207	34,493
Due to federal, state and county governments	743,541	287	743,828
Due to general fund	-	21,415	21,415
Accrued programmatic claims	1,123,487	48,790	1,172,277
TOTAL LIABILITIES	1,917,846	76,823	1,994,669
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	532,699	-	532,699
COMMITMENTS AND CONTINGENCIES			
FUND BALANCES			
Committed	-	11,747	11,747
Assigned	-	114,641	114,641
Unassigned	565,487	-	565,487
TOTAL FUND BALANCES	565,487	126,388	691,875
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 3,016,032	$ 203,211	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	49,081
Lease liability related to the right-to-use asset - building amount not reported in the funds.	(1,805)
Some liabilities, including net pension and other postemployment benefits liabilities, are not due and payable in the curent period and, therefore, are not reported in the funds.	(87,944)
Deferred outflows and inflows of of resources related to pensions and OPEBs are applicable to future reporting periods and, therefore, are not reported in the funds.	(8,587)
A portion of liabilities for accrued paid time off of this amount is not due and payable from current financial resources and, therefore is not reported in the funds.	4,651
Receivables, offsetting the above accrued paid time off liability, will not be collected in 31 days or shortly thereafter, therefore are not reported in the funds.	(4,651)
A portion of accrued programmatic claims is not due and payable from current financial resources and, therefore is not reported in the funds.	(537,350)
A portion of receivables will not be collected in 31 days or shortly thereafter, therefore is not reported in the funds.	537,350
	$ 642,620

See Notes to Financial Statements

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2022
(amounts expressed in thousands)

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
State government:			
Appropriations	$ 1,705,474	$ -	$ 1,705,474
State pass through funds	599,561	-	599,561
State pass through - COVID-19	94	-	94
Federal government:			
Acute care	12,672,315	105,809	12,778,124
Long-term care	1,975,974	83,024	2,058,998
ISA/IGA pass through funds	2,613,980	136	2,614,116
Federal COVID-19	-	3,763	3,763
County and other local government:			
Acute care	122,586	-	122,586
Long-term care	302,889	-	302,889
IGA pass through funds	159,042	-	159,042
Tobacco litigation settlement revenue	108,433	-	108,433
Tobacco tax revenue	36,855	82,174	119,029
Gaming revenue	-	31,038	31,038
Nursing facility tax assessment	-	26,256	26,256
Hospital assessment	407,178	533,076	940,254
HAPA intergovernmental agreement revenue	-	10,966	10,966
Premium revenue	7	-	7
Other	11,940	4,168	16,108
TOTAL REVENUES	20,716,328	880,410	21,596,738
PROGRAMMATIC EXPENDITURES			
Medical Services:			
Traditional services	5,815,445	94,527	5,909,972
Proposition 204 services	7,072,877	427,875	7,500,752
Newly eligible adults	779,486	84,754	864,240
CHP	253,051	-	253,051
KidsCare services	160,239	16	160,255
Long-term care services	4,871,637	119,731	4,991,368
School-based services	115,640	-	115,640
Hospital Payments:			
Disproportionate share	45,202	-	45,202
Rural and critical access hospital	36,069	-	36,069
Graduate medical education	399,488	-	399,488
Trauma center services	-	31,038	31,038
State pass through funds	7,820	-	7,820
Other:			
Medicare Part D clawback	116,951	-	116,951
Behavioral support services	169,319	85,281	254,600
Health information technology	4,415	-	4,415
Targeted investments	47,959	-	47,959
TOTAL PROGRAMMATIC EXPENDITURES	19,895,598	843,222	20,738,820
ADMINISTRATIVE EXPENDITURES	281,114	27,348	308,462
ADMINISTRATIVE EXPENDITURES PASSED THROUGH	22,608	-	22,608
TOTAL EXPENDITURES	20,199,320	870,570	21,069,890
EXCESS OF REVENUES OVER EXPENDITURES	517,008	9,840	526,848
OTHER FINANCING SOURCES (USES)			
Transfers from (to) other State agencies:			
To State General Fund	(87,833)	-	(87,833)
To Arizona Department of Economic Security	(3,867)	-	(3,867)
To Arizona Department of Health Services	(5,278)	(6,441)	(11,719)
To Arizona Department of Veterans Services	(133)	(1,046)	(1,179)
To Arizona Department of Revenue	(836)	-	(836)
To Arizona Attorney General	(1,200)	-	(1,200)
To Governor's Office	(155)	(7,611)	(7,766)
To Arizona Department of Administration	(4)	-	(4)
To Arizona Department of Child Safety	-	(2,084)	(2,084)
To Arizona Department of Juvenile Correction	-	(146)	(146)
To Arizona Department of Environmental Quality	-	(89)	(89)
To Arizona Department of Early Childhood Development	-	(151)	(151)
Transfers between funds:			
Working Capital	(419)	419	-
TOTAL OTHER FINANCING SOURCES (USES)	(99,725)	(17,149)	(116,874)
NET CHANGE IN FUND BALANCES	417,283	(7,309)	409,974
FUND BALANCES, BEGINNING OF YEAR	148,204	133,697	281,901
FUND BALANCES, END OF YEAR	$ 565,487	$ 126,388	$ 691,875

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2022
(amounts expressed in thousands)

Amounts reported for governmental activities in the Statement of Activities (page 23) are different because:

Change in fund balances - total governmental funds (page 25)	$	409,974
AHCCCS pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net position liability is measured a year before AHCCCS' report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.		1,930
Certain expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(1,756)
With the adoption of GASB Statement No. 87, amortization of the right-to-use asset - building in the Statement of Activities exceeds the lease expense reported in the governmental funds.		(36)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		(14,654)
Change in net position of governmental activities (page 23)	$	395,458

(1) Description of reporting entity and summary of significant accounting policies

The accounting policies of the **Arizona Health Care Cost Containment System** ("AHCCCS" or the "Agency") conform to the accounting principles generally accepted in the United States of America applicable to governmental units. The financial statements of AHCCCS, as an agency of the State of Arizona ("State"), are not intended to represent the related financial statement information of the primary government.

A. Reporting entity

The Arizona Legislature ("Legislature") established AHCCCS in November 1981 to administer health care for the State's indigent population. AHCCCS is a state agency managed by an independent cabinet level administration created by the Legislature and is funded by a combination of federal, State, county and local funds. The federal portion is funded through the Centers for Medicare and Medicaid Services ("CMS") of the U.S. Department of Health and Human Services ("DHHS") under a Section 1115 Waiver ("Waiver") approved by CMS, which exempts the AHCCCS program from certain requirements of conventional Medicaid programs. On October 14, 2022, CMS approved Arizona's request for a five-year extension of the demonstration project titled "Arizona Health Care Cost Containment System" in accordance with Section 1115 (a) of the Social Security Act. The Waiver extension is for the period from October 14, 2022, through September 30, 2027. The extension of the AHCCCS demonstration includes the continuation of longstanding authorities and programs, which make up a crucial part of Arizona's Medicaid system.

AHCCCS provides acute and long-term health care coverage to eligible residents of Arizona. Eligible residents include those who qualify under Section 1931(b) of the Social Security Act, individuals who are aged, blind or disabled, children who meet certain age requirements from families receiving supplemental nutrition assistance, children and pregnant women whose household income meets eligibility requirements, certain single adults, childless couples, uninsured women needing active treatment for breast and/or cervical cancer and individuals with disabilities who want to work and who meet certain Supplemental Security Income ("SSI") eligibility criteria. Beginning on January 1, 2014, AHCCCS implemented the Patient Protection and Affordable Care Act ("ACA") of 2010. The ACA implementation included (a) the restoration of the childless adults (expansion state adults) who were previously eligible for AHCCCS under the voter mandated Proposition 204, (b) expanded coverage for adults from 100% to 133% of the federal poverty limit ("FPL") and (c) the mandatory child expansion for children ages 6-19 from 100% to 133% of the FPL. These three distinct populations all have enhanced federal financial participation matching rates effective January 1, 2014.

The extension Waiver includes the following new Medicaid eligibility categories: (a) Indian Health Services, providing broader range of Medicaid services to the American Indian population, (b) Housing Initiative for the Housing and Health Opportunities ("H2O") services for health-related social needs ("HRSN"), including housing supports to targeted population, and (c) Targeted Investment ("TI") 2.0 which provides incentive payments to participating providers to improve health quality for targeted populations through addressing social determinants of health ("SDOH"). Through Housing and H2O CMS is authorizing increased coverage of certain services that address health-related social needs, as evidence indicates that these HRSN services are a critical driver of an individual's access to health services that help to keep them well.

In Arizona, health-related social needs services will be provided for individuals experiencing life transitions, including individuals who are experiencing homelessness and meet specific clinical and social risk criteria, such as beneficiaries with a health need as documented in their medical record, including but not limited to a Serious Mental Illness ("SMI"), high-cost high-needs chronic health conditions or co-morbidities, or enrolled in the Arizona Long Term Care System ("ALTCS").

(1) Description of reporting entity and summary of significant accounting policies (continued)

AHCCCS receives quarterly federal grants for the Title XIX Medicaid program and annual grant awards for the Title XXI Children's Health Insurance Program ("CHIP") from CMS (as matching funds) to cover a portion of the health care costs of the eligible residents of the State. State appropriations and county funding levels are based on annual budgets as dictated by the Legislature and as specified by Arizona Statutory funding formula and Session Law. For fiscal year 2022, funding also includes behavioral health services funded from Federal Block Grants received from the DHHS Substance Abuse and Mental Health Services Administration ("SAMHSA") and state appropriations targeted to specific needs of individuals with serious mental illness ("SMI"). In addition, AHCCCS receives several other grants from SAMHSA for behavioral health services which include the provision of services to Title XIX and Title XXI members as well as non-Title XIX individuals with SMI and include specific funding for crisis, substance abuse, housing, supported housing services as well as emergency use grants to address mental, substance use disorders and suicide prevention during COVID-19.

Under AHCCCS, health care coverage is provided substantially through a competitive bidding process with private and county-sponsored health plans bidding for the enrollment of AHCCCS eligibles by geographical service area. In addition, AHCCCS purchases health care services directly from providers. During fiscal year 2019, AHCCCS moved forward with the largest integration effort in the history of the program. On October 1, 2018, AHCCCS' managed care organizations began to provide services that are designed to coordinate the provision of physical and behavioral health care services. Integrated health care delivery benefits by aligning all physical and behavioral health services under a single plan. With one provider network and one payer, health care providers are better able to coordinate care across the continuum of services and supports and members are able to more easily navigate the system, resulting in improved health outcomes.

B. Basis of presentation

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements report information on the entire Agency while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years to enhance the usefulness of the information.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on the entire Agency. The effect of all significant interfund activity has been removed from these financial statements.

The statement of activities demonstrates the degree to which the governmental activities' direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include appropriations, contributions and grants that are restricted for the operational or capital requirements of a particular function or segment.

Fund financial statements provide information about the Agency's funds. The General Fund is the Agency's primary operating fund, and it accounts for all financial resources except those required to be accounted for in another fund. AHCCCS did not have any major funds for fiscal year 2022; accordingly, all governmental funds other than the General Fund are aggregated and reported as other governmental funds.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

(1) Description of reporting entity and summary of significant accounting policies (continued)

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized only to the extent that they are susceptible to accrual, meaning that they are both measurable and available to finance expenditures of the fiscal period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. When an asset is recorded in the governmental fund financial statements, but the revenue is not available, AHCCCS reports a deferred inflow of resources until such time as the revenue becomes available. The governmental funds' unearned revenue consists of revenue received in advance for services not yet provided. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Accrued programmatic costs include received but unpaid claims and estimates for incurred but not reported claims paid in the 31-day period following the end of the fiscal year or shortly thereafter. Actual results for accrued programmatic costs may differ from such estimates. These differences are recorded in the period in which they are identified. However, expenditures related to compensated absences are recorded only when payment is due.

In fiscal year 2022, AHCCCS reports the following significant funds:

a. The General Fund is the primary operating fund for the Title XIX Medicaid program and the Title XXI State Children's Health Insurance Program.

b. Special Revenue Funds, reported as other governmental funds, account for various health and administrative programs.

The General Fund is the only major governmental fund of AHCCCS.

D. Cash and investments

Substantially all of the cash and investments maintained by AHCCCS are held by the State of Arizona Office of the Treasurer ("Treasurer") with other State monies in an internal cash and investment pool. Investment income is allocated to AHCCCS on a pro rata basis. Amounts held by the Treasurer are recorded at fair value and totaled $ 1,039,744, at June 30, 2022, including designated and restricted funds of $106,511.

The State is statutorily limited (by ARS §35-312 and §35-313) to certain investment types. Additionally, State statutes require investments made to be in accordance with the "Prudent Person" rule. This rule imposes the responsibility of making investments with the judgment and care that persons of ordinary prudence would exercise in the management of their own affairs when considering both the probable safety of their capital and the probable income from that capital. The Treasurer issues a separately published Annual Financial Report that provides additional information relative to the Treasurer's total investment activities.

Cash in the General Fund has been internally designated by AHCCCS in the amount of $ 29,941 for the Interagency Service Agreement ("ISA") Fund. The ISA Fund is used to properly account for, control, and report receipts and disbursements associated with ISAs which are not required to be reported in other funds. Fund receipts consist of monies received from other entities and are utilized to match federal funding under the Medicaid and CHIP programs under the terms stated in the ISAs. Cash in the Other Governmental Funds is legally restricted in the amount of $1,972 for the Hawaii Arizona PMMIS Alliance ("HAPA") Fund, as described in Note 4.

(1) Description of reporting entity and summary of significant accounting policies (continued)

In accordance with the Federal Cash Management Improvement Act of 1990 guidelines, AHCCCS may only request federal funds under specified funding techniques. The application of required funding techniques is automated within the Arizona Financial Information System and controls the timing of federal funding draw downs. Any interest penalty accrued through the automated process is paid by the State from interest earned on the cash investments.

E. Capital assets

Capital assets, which consist of furniture, vehicles and equipment, and internally generated computer software, are reported in the government-wide Statement of Net Position. Tangible capital assets are defined as assets with an initial, individual cost of more than $5 and an estimated useful life in excess of one year. Such assets are recorded at historical cost and are depreciated over their estimated useful lives ranging from three to five years. Intangible capital assets consist of internally generated computer software with an initial cost greater than $1,000. Software is amortized over an estimated useful life of five to ten years. Expenditures for incomplete projects are reported as software under development. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

AHCCCS accounts for internally generated computer software in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. In accordance with Statement No. 51, outlays associated with activities in the preliminary project stage should be expensed as incurred. Outlays related to activities in the application development stage are capitalized. Capitalization of such outlays will cease no later than the point at which the computer software is substantially complete and operational.

AHCCCS accounts for capital assets in accordance with the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 requires that capital assets be reviewed for impairment whenever events or changes in circumstances indicate a significant, unexpected decline in the service utility of a capital asset. If such assets are considered to be impaired and are still in use, the impairment can be recognized using the following methods: restoration cost approach, service unit approach, and a deflated depreciated replacement cost approach. If such assets are considered to be impaired and are no longer used, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. At June 30, 2022, management did not believe impairment indicators were present, and there were no idle capital assets.

Capital assets also include the right-to-use asset – building recognized in accordance with AHCCCS' adoption of GASB Statement No. 87 as of July 1, 2021. See further information at Note T below.

F. Deferred outflows and inflows of resources

The statement of net position and balance sheet – governmental fund include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as revenue in future periods.

(1) Description of reporting entity and summary of significant accounting policies (continued)

G. Pensions

For purposes of measuring the net pension (asset and) liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Arizona State Retirement System ("ASRS") pension plan's fiduciary net position and additions to/deductions from the ASRS plan's fiduciary net position have been determined on the same basis as they are reported by the ASRS plan. For this purpose, ASRS benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

H. Net position / fund balance

The difference between fund assets and liabilities is "Net Position" on the government-wide statements. Net position is reported in three categories:

- Net position, invested in capital assets, consists of capital assets net of depreciation and the right to use asset – building net of amortization and the related lease liability.
- Restricted net position is restricted due to legal restrictions from laws and regulations of other governments, or legally enforceable through enabling legislation of the State.
- Unrestricted net position consists of net position which does not meet the definition of the two preceding categories.

These categories are based primarily on the extent to which AHCCCS is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. In the governmental fund financial statements, fund balances are classified as nonspendable and spendable and are defined as follows:

Nonspendable fund balance

Nonspendable fund balance - this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments). At June 30, 2022, AHCCCS had no nonspendable fund balance.

Spendable fund balance

Restricted fund balance - this includes amounts that can be spent only for specific purposes stipulated by legal requirements imposed by other governments, external resource providers, or creditors. AHCCCS imposed restrictions do not create a restricted fund balance unless the legal document that initially authorized the revenue (associated with that portion of the fund balance) also included language that specified the limited use for which the authorized revenues were to be expended. At June 30, 2022, AHCCCS had no restricted fund balance.

Committed fund balance - this includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature. Those committed amounts cannot be used for any other purpose unless the Legislature removes or changes the specified use by taking the same type of action (for example, statute, session law, etc.) that it employed to previously commit those amounts. If the Legislative action that limits the use of the funds was separate from the action that initially created the revenues that form the basis for the fund balance, then the resultant fund balance is considered to be committed, not restricted. AHCCCS considers a resolution, a statute, or a session law action to constitute a formal action of the Legislature for the purposes of establishing committed fund balance. At June 30, 2022, AHCCCS' committed fund balance totaled $11,747.

(1) Description of reporting entity and summary of significant accounting policies (continued)

Assigned fund balance - this includes amounts constrained by the Legislature for specific purposes. Assigned fund balances include all remaining amounts (except negative amounts) that are reported in the governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and amounts in the general fund that are intended to be used for a specific purpose. By reporting particular amounts that are not restricted or committed in a special revenue fund, AHCCCS has assigned those amounts to the purpose of the respective funds. At June 30, 2022, AHCCCS' assigned fund balance totaled $114,641.

Unassigned fund balance - this includes the remaining spendable amounts which are not included in one of the other classifications. At June 30, 2022, AHCCCS had unassigned fund balance of $565,487.

AHCCCS has neither adopted a minimum fund balance policy nor any agency specific policy for the order of spending fund balances; rather, AHCCCS follows the policies of the State and adheres to the purpose of legislative appropriations or federal grant regulations. AHCCCS' fund balances classified as committed include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Arizona Legislature. AHCCCS fund balances classified as assigned include balances that are constrained for specific purposes, and are not committed.

I. Capitation payments

Contracted health plans ("Contractors") receive fixed capitation payments, generally in advance, based on actuarially determined rates for each AHCCCS member enrolled with the plan. The plans are required to provide all covered health care services to their members, regardless of the cost of care.

For each contract year for the contracted health plans, reconciliations are performed to recoup the excess funds from each plan above a certain profit corridor or if the costs exceed the amount of the capitation and reinsurance payments to make a payment to cover the loss below a certain corridor. Therefore, profits in excess of the percentages set forth in the AHCCCS policy shall be recouped by AHCCCS and losses in excess of the percentages set forth in the AHCCCS policy shall be paid to the Contractor. This methodology ensures that profit and loss are subject to certain risk mitigation limitations.

AHCCCS pays prospective capitation as well as prior period coverage ("PPC"). The PPC period generally is from the effective date of eligibility to the day a member is enrolled with a contracted health plan. There are several risk mitigation strategies where AHCCCS offers the Contractors a risk corridor for both PPC and prospective expenses which protects the Contractors from excessive losses, while at the same time placing an upper limit on profits.

J. Reinsurance payments

AHCCCS provides a stop-loss reinsurance program for its contracted health plans for partial reimbursement, after a deductible is met, of qualifying covered medical services incurred for members. AHCCCS is self-insured for the reinsurance program which is characterized by an initial deductible level and a subsequent coinsurance percentage. The coinsurance percentage is the rate at which AHCCCS will reimburse the Contractor for covered services incurred above the deductible level. The deductible is the responsibility of the Contractor. This reinsurance provides partial reimbursement of reinsurance eligible covered services and will reimburse 75% of eligible costs above the deductible of covered expenses. The deductible effective October 1, 2020, for AHCCCS Complete Care ("ACC") and Regional Behavioral Health Authorities ("RBHA") contractors is $35,000. Annual deductible levels apply to all members except for State Only Transplant members.

(1) Description of reporting entity and summary of significant accounting policies (continued)

The reinsurance program also provides reimbursement for covered organ transplantation. Annual deductible levels do not apply to State Only Transplant members. The reinsurance for catastrophic disorders covers certain high-cost behavioral health, blood related disorders and biologic/high cost specialty drug. For catastrophic reinsurance cases, there is no deductible level with the coinsurance of 85% of the eligible expenses.

Transplant reinsurance coverage is available to partially reimburse Contractors for the cost of care for an enrolled member who meets transplant reinsurance criteria. Individuals who qualify for transplant services, but who are later determined ineligible, due to excess income, may qualify for extended eligibility (refer to State Only Transplants Option 1 and Option 2).

Reinsurance coverage for State Only Option 1 and Option 2 members for transplants received at an AHCCCS contracted facility is paid at the lesser of 1) 100% of the AHCCCS contract amount for the transplantation services rendered, less the transplant share of cost; or 2) 100% of the Contractor paid amount, less the transplant share of cost. For transplants received at a facility not contracted with AHCCCS, payment is made at the lesser of 100% of the lowest AHCCCS contracted amount for the transplant services rendered less the transplant share of cost, or the Contractor paid amount, less the transplant share of cost.

K. Fee-for-service payments

The AHCCCS program is responsible for the cost of providing medical and behavioral health services on a fee-for-service basis to four populations: persons enrolled in the Emergency Services Program (“ESP”), prior quarter coverage for members enrolled in a health plan, persons enrolled in a health plan for less than 30 days, and American Indian members enrolled with the American Indian Health Program, Tribal Regional Behavioral Health Authorities or Arizona Long Term Care Tribal Case Management Program.

The ESP provides for emergency medical care to persons who are not eligible for full AHCCCS coverage due to their lack of United States citizenship or lawful alien status. Outpatient medical services for the ESP, prior quarter coverage, members enrolled in a health plan for less than 30 days and American Indian program enrolled members that receive services at a non-Indian Health Services (“IHS”)/638 facility are reimbursed using the AHCCCS Outpatient Hospital Fee Schedule. Inpatient medical services for these populations are reimbursed based on the category of service provided and an inpatient per-diem reimbursement rate system or at the outlier reimbursement rate. Professional and non-hospital services for these populations are reimbursed at the AHCCCS fee for service rates.

Inpatient and outpatient medical services provided at an IHS facility are reimbursed at rates determined by the U.S. Department of Health and Human Services, Indian Health Services. Tribal-owned facilities contracted with IHS are reimbursed at rates determined by the U.S. Department of Health and Human Services, Indian Health Services or at the AHCCCS fee-for-service rates. Off-reservation services provided by non-IHS/638 providers are reimbursed based on the AHCCCS fee-for-service rates, AHCCCS inpatient per-diem reimbursement rate system or at the outlier reimbursement rate and the AHCCCS Outpatient Hospital Fee Schedule.

L. Incurred but not reported programmatic expenditures

In the accompanying financial statements, health care services expenditures include paid claims, received but unpaid programmatic claims, and an estimate made by management for incurred but not reported (“IBNR”) programmatic claims. These IBNR programmatic claims include charges by physicians, hospitals and other health care providers for services rendered to eligible members during the period for which claims have not yet been submitted as well as prior period capitation payments for members enrolled retrospectively.

(dollar amounts expressed in thousands)

(1) Description of reporting entity and summary of significant accounting policies (continued)

The estimates for IBNR programmatic claims are developed using historical data for payment patterns and other relevant factors. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, by management, and adjustments are reflected in the period determined. Activity included in the liability for accrued programmatic claims and medical services expenditures for the year ended June 30, 2022 is as follows:

Claims unpaid as of June 30, 2021	$ 553,267
Incurred related to:	
Current year	2,894,392
Prior years	(27,235)
Total incurred	2,867,157
Paid related to:	
Current year	(2,123,015)
Prior years	(526,031)
Total paid	(2,649,046)
Claims unpaid as of June 30, 2022	$ 771,378

M. Hospital Assessment Fund

The hospital assessment fund, established pursuant to ARS §36-2901.09 on January 1, 2014, consists of monies collected from an assessment on hospitals for the purpose of funding a portion of the non-federal share of costs for the Proposition 204 eligible population. AHCCCS recorded assessment revenues in the amount of $533,078 and expenditures in the amount of $540,075 during fiscal year 2022 ending with a net fund balance of $113,055 at June 30, 2022.

N. Hospital and nursing facility payments

CMS and the Legislature authorized AHCCCS to make Disproportionate Share, Graduate Medical Education, Rural Hospital, Critical Access Hospital, Trauma Center and Nursing Facility supplemental expenditures in fiscal year 2022. Disproportionate share expenditures to Arizona hospitals that provided care to a disproportionate share (as defined) of the State's indigent population totaled $45,202. Graduate Medical Education expenditures to reimburse hospitals with GME programs for the additional costs of treating AHCCCS members utilizing graduate medical students totaled $399,488 Critical Access Hospital expenditures to provide increased reimbursement to small rural hospitals that are federally designated as critical access hospitals and Rural Hospital expenditures to increase inpatient reimbursement rates for qualifying rural hospitals totaled $36,069. Trauma center services to reimburse hospitals in Arizona for unrecovered trauma center readiness costs and unrecovered emergency services costs totaled $31,038. Nursing Facility supplemental expenditures utilize a quality assessment on health care items and services provided by nursing facilities to qualify for federal matching funds for supplemental payments for covered Medicaid expenditures, not to exceed the Medicare upper payment limit. The expenditures are included with long-term care health care services and totaled $109,280.

(1) Description of reporting entity and summary of significant accounting policies (continued)

O. Health Care Investment Fund

Arizona House Bill 2668 Chapter 46 from March 25, 2020 establishes the Health Care Investment Fund and a second hospital assessment on hospitals' revenue for the purpose of funding the non-federal share of the Directed Payments made to the hospitals pursuant to 42 Code of Federal Regulations ("CFR") 438.6(c). These Directed Payments supplement the base reimbursement level for hospital services for AHCCCS recipients and increase base reimbursement rates for the dental and physician fee schedules to rates in effect before fiscal year 2008-2009. This initiative is known as the "Hospital Enhanced Access Leading to Health Improvements Initiative" ("HEALTHII") program.

The HEALTHII program uniform percentage increases are based on a fixed payment pool that is allocated to each hospital class based on the additional funding needed to achieve each class aggregate targeted pay-to-cost ratio for Medicaid managed care services. The quarterly payments started in the quarter ending December 2020.The amount of the Directed HEALTHII payments for the period July 1, 2021 to June 30, 2022 was $1,367,728 which includes $1,117,527 federal share and $250,201 non-federal share covered by the hospital assessments collected in Health Care Investment Fund.

For fiscal year 2022, the revenue collected in Health Care Investment Fund, which is part of the General Fund, totaled $407,178 and the expenditures totaled $302,803 with the fund balance of $164,309 as of June 30, 2022.

P. Taxes

AHCCCS is an agency of the State of Arizona and is not subject to income taxes.

Q. 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, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenditures at June 30, 2022. Actual results may differ from these estimates. Material estimates potentially susceptible to change in the near term relate to the accrued programmatic claims liability, the accrued Tobacco Settlement revenue and receivable, and certain risk sharing reconciliation accruals.

R. 100% Federal poverty level expansion and CMS Waiver

On November 7, 2000, the Arizona voters approved ballot Proposition 204. One of its primary components directed AHCCCS to increase the minimum qualifying income eligibility level up to 100% of the Federal Poverty Level. Proposition 204 also designated AHCCCS as the administrator of the tobacco litigation settlement funds awarded to the State for compensation of costs incurred in providing its citizens with health care and other services necessitated by the use of tobacco products.

(1) Description of reporting entity and summary of significant accounting policies (continued)

In January 2001, AHCCCS obtained a Waiver from CMS to receive federal funding for certain non-categorically linked populations including those made eligible by the passage of Proposition 204. The Waiver requires that over the term of the agreement the populations covered by the Waiver be budget neutral for CMS. The Waiver period for budget neutrality began April 1, 2001 and extended through federal fiscal year 2011, at which time any federal funds received by the State that exceed the negotiated budget neutrality limit were to be returned to CMS. AHCCCS was granted a new Waiver from CMS in October 2011. The second Waiver period for budget neutrality began October 1, 2011 and originally was approved by CMS through the end of federal fiscal year 2021. CMS has extended AHCCCS' 1115 Waiver for a one-year period through September 30, 2022. On October 14, 2022, CMS approved another extension Waiver for the period through September 30, 2027, which covers another five Demonstration Years for the Budget Neutrality computation. Management believes that as of June 30, 2022, AHCCCS does not have any liability to CMS related to either budget neutrality agreement and, accordingly, no liability is recorded in the accompanying financial statements. See Note 8.

AHCCCS has classified the Arizona Tobacco Litigation Settlement Fund, created by ballot Proposition 204, as part of its General Fund. These funds are restricted for use as specified in the litigation settlement and/or legislation. Annual settlement payments, based on cigarette sales from the preceding calendar year are made in April. In addition, supplemental payments may be received as tobacco companies enter into the tobacco master settlement agreement. AHCCCS received annual and strategic contribution fund payments of $108,443 in fiscal year 2022 for the period from January 1, 2021 to December 31, 2021 (received in April 2022). Revenue for the period from July 1, 2021 to December 31, 2021 totaled approximately $54,216. Additionally, revenue and a related receivable of $51,000 were accrued for the period of January 1, 2022 through June 30, 2022 and are included in Tobacco Settlement Receivable and Other Operating Grants and Contributions in the accompanying Statement of Net Position and Statement of Activities.

S. Prescription drug rebate program

The ACA included a provision to extend drug rebates to managed care programs and to increase the rebate amount drug manufacturers are required to pay under the Medicaid drug rebate program. AHCCCS received CMS approval on January 26, 2011 to participate in the drug rebate program, both managed care and fee-for-service, for drugs dispensed on or after March 23, 2010. AHCCCS received rebate reimbursements and delinquent account interest in the amount of $1,071,018 in fiscal year 2022. Of this amount, $751,994 was returned to the Federal government in fiscal 2022 and $137,948 was returned subsequent to June 30, 2022. This amount is netted against the due from the Federal government in the accompanying financial statements. The remaining $ 181,076 is available to offset a portion of General Fund current and future fiscal year expenditures. Additionally, AHCCCS has accrued the unpaid invoice balance of $434,720 as of June 30, 2022 which is included in receivables and other in the accompanying Statement of Net Position. Of this accrued receivable, $361,702 will be returned to the Federal government and is netted against the due from the Federal government in the accompanying financial statements and $73,018 is available to offset future fiscal year expenditures, which is netted against the due from state and local governments in the accompanying financial statements.

(dollar amounts expressed in thousands)

(1) Description of reporting entity and summary of significant accounting policies (continued)

T. New accounting pronouncements

GASB Statement No. 87 (GASB 87), *Leases*, establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government's leasing activities. GASB Implementation Guide No. 2019-3, Leases, clarifies, explains and elaborates on the requirements of GAS Statement No. 87. GASB 87 and GASB Implementation Guide No. 2019-3 are effective for fiscal years beginning after June 15, 2021, as amended by GASB Statement No. 95 (GASB 95), *Postponement of the Effective Dates of Certain Authoritative Guidance*. GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* provided temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The objective was accomplished by postponing the effective dates of certain provision of GASB Statements and Implementation Guides that first become effective or are scheduled to be effective for the periods beginning June 15, 2018 and later.

AHCCCS adopted GASB 87 as of July 1, 2021. AHCCCS is the lessee of a leased building (office space). The lease agreement expires on October 31, 2026. The lease is not subject to a sublease, sale-leaseback or lease-leaseback. The base rent is inclusive of any and all applicable local government rental taxes. This is a full-service lease. Upon adoption of GASB 87, *Leases*, on July 1, 2021, AHCCCS recognized a right to use asset – building and a lease liability of $2,176 based on the estimated future cash flows over the remaining lease term of 64 months and an estimated discount rate of 0.0980%. Implementation of GASB 87 resulted in a restatement of the beginning right to use capital assets and associated accumulated amortization and lease liability. As the lease right to use asset equaled the lease liability upon adoption as of July 1, 2021, there was no net impact to net position. There were no new leases entered into in fiscal 2022 nor any remeasurements.

Lease liability activity for the year ended June 30, 2022 is as follows:

Balance, July 1, 2021 (as restated)	$	2,176
Increases		-
Remeasurements		-
Decreases		(371)
Balance, June 30, 2022		1,805
Current portion		(388)
Long-term portion	$	1,417

(dollar amounts expressed in thousands)

(1) Description of reporting entity and summary of significant accounting policies (continued)

The following schedule details the minimum lease payments to maturity for AHCCCS' lease liability at June 30, 2022:

Years Ending June 30	Principal	Interest	Total
2023	$ 388	$ 19	$ 407
2024	405	14	419
2025	423	10	433
2026	440	5	445
2027	149	1	150
Total	$ 1,805	$ 49	$ 1,854

(2) Capital assets

Net asset balances and current fiscal year activity are as follows:

Governmental Activities:	Balance June 30, 2021	Increases	Decreases	Balance June 30, 2022
Capital assets, being depreciated:				
Vehicles, Furniture & Equipment	4,959	-	-	4,959
Software	153,089	-	-	153,089
Total capital assets, being depreciated	158,048	-	-	158,048
Less accumulated depreciation for:				
Vehicles, Furniture & Equipment	(4,487)	(185)	-	(4,672)
Software	(91,595)	(14,469)	-	(106,064)
Total accumulated depreciation	(96,082)	(14,654)	-	(110,736)
Total capital assets being depreciated, net	$ 61,966	$ (14,654)	$ -	$ 47,312
Total governmental activities capital assets, net	$ 61,966	$ (14,654)	$ -	$ 47,312

For the year ended June 30, 2022, depreciation expense on capital assets totaled approximately $14,654.

(dollar amounts expressed in thousands)

(2) Capital assets (continued)

Software includes the costs of developing and implementing the new ACA compliant eligibility system. The automated eligibility system qualified AHCCCS for 75 percent enhanced FFP for certain eligibility determination administrative functions that previously were eligible for the 50 percent FFP rate.

Right-to-use asset activity for the year ended June 30, 2022 is as follows:

	Balance July 1,2021 (as restated)	Increases	Remeasure-ments	Decreases	Balance June 30, 2022
Right-to-use assets:					
Buildings	2,176	-	-	-	2,176
Total right-to-use assets	2,176	-	-	-	2,176
Less accumulated amortization for:					
Buildings	-	(407)	-	-	(407)
Total accumulated amortization	-	(407)	-	-	(407)
Total right-to-use assets, net	$ 2,176	$ (407)	$ -	$ -	$ 1,769

(3) Compensated absences

It is the State's policy to permit employees to accumulate earned but unused vacation, compensatory and sick pay benefits. Employees may accumulate up to 240 or 320 hours of vacation depending upon their position classification. Vacation hours in excess of the maximum amount that are unused at the calendar year end are forfeited. There is no liability recorded on AHCCCS' financial statements for sick leave as any amounts eligible for payment when employees separate from State service are the responsibility of the Arizona Department of Administration. The amount recorded in the government-wide financial statements consists of employees' vested accrued vacation and accrued compensatory time benefits. All compensated absences are due within one year. Balances and current fiscal year activity are as follows:

Balance, June 30, 2021	$ 4,863
Additions	6,835
Reductions	(7,047)
Balance, June 30, 2022	$ 4,651

(4) Other governmental funds

At June 30, 2022, the other governmental fund balance included activity within the following funds:

- Tobacco Tax and Health Care Fund, Medically Needy Account ("MNA") - The Arizona Department of Revenue allocates funding to the MNA which provides funding for services provided through the Title XIX Medicaid and other legislatively authorized health related services or programs. Revenue sources for the MNA include tobacco tax proceeds and investment income.

(4) <u>Other governmental funds (continued)</u>

- Tobacco Products Tax Fund, Emergency Health Services Account ("EHSA") - The Arizona Department of Revenue allocates the tobacco tax revenue to the EHSA which is used solely for the reimbursement of uncompensated care, primary care services and trauma center readiness costs. Monies remaining unexpended and unencumbered in the account on June 30th of each year revert to the Proposition 204 Protection Account, a general fund. Revenue sources for the EHSA include tobacco tax proceeds and investment income.

- Trauma and Emergency Services Fund - This fund is comprised of gaming revenues to be used to reimburse hospitals in Arizona for unrecovered trauma center readiness costs and unrecovered emergency services costs.

- Nursing Facility Assessment Fund - This fund consists of monies received from the nursing facility assessment, federal monies received as a result of expenditures made attributable to monies deposited in the fund, interest, legislative appropriations, grants, gifts, contributions and devices. The monies in this fund shall be used to qualify for federal matching funds for supplemental payments for nursing facility services and administrative cost to administer the fund.

- Hospital Assessment Fund - This fund consists of monies collected from an assessment on hospitals for the purposes of funding a portion of the non-federal share of the Medicaid expansion and the entire Proposition 204 population on and after January 1, 2014.

- Third Party Liability and Recovery Audit Fund - This fund is comprised of monies recovered from first and third party payers under various AHCCCS recovery programs prior to disbursement to the appropriate parties, contractors and programs. These programs primarily include casualty, special treatment trusts, estate, health insurance recoveries, and recovery audit collections.

- Substance Abuse Services Fund - This fund consists of monies received from a surcharge in the amount of thirteen percent on every fine, penalty and forfeiture imposed and collected by the courts for criminal offenses and civil penalties pursuant to ARS § 12-116.02. AHCCCS may expend monies in the fund for administration of the fund and for drug screening, education or treatment for persons who have been ordered by the court to attend and who do not have sufficient financial ability to pay.

- Substance Abuse Services Fund - Alcohol - This fund consists of monies received from a surcharge in an amount of thirteen percent on every fine, penalty and forfeiture imposed and collected by the courts for criminal offenses and civil penalties pursuant to ARS § 12-116.02. AHCCCS may expend monies in the fund for administration of the fund and for alcohol screening, education or treatment for persons who have been ordered by the court to attend and who do not have sufficient financial ability to pay.

- Seriously Mentally Ill Housing Trust Fund - This fund consists of monies received from the sale of abandoned property and investment earnings. AHCCCS may expend monies for housing projects and rental assistance for seriously mentally ill persons.

- Miscellaneous Funds - These funds account for various grants and other money received for specific purposes including the Hawaii Arizona PMMIS Alliance ("HAPA"). HAPA represents AHCCCS' project with Hawaii whereby AHCCCS provides data processing services for Hawaii's Medicaid program. The Federal Grants Fund includes the behavioral health grants awarded to the agency by the SAMHSA.

(dollar amounts expressed in thousands)

(4) Other governmental funds (continued)

Other governmental funds earned, expended and transferred during the fiscal year ended June 30, 2022 were as follows:

	Fund Balance June 30, 2021	Revenues	Interest Earned	Expenditures	Transfers In/(Out)	Fund Balance June 30, 2022
Tobacco Tax and Health Care Fund, Medically Needy Account	$ -	$ 64,623	$ -	$ (63,923)	$ (700)	$ -
Tobacco Products Tax Fund, Emergency Health Services Account	-	17,550	-	(17,550)	-	-
Trauma and Emergency Services Fund	-	31,038	-	(31,038)	-	-
Nursing Facility Assessment Fund	-	109,280	-	(109,280)	-	-
Hospital Assessment Fund	120,052	533,078	-	(540,075)	-	113,055
Third Party Liability and Recovery Audit Fund	-	3,289	-	(3,289)	-	-
Substance Abuse Services Fund	854	1,066	-	(1,350)	-	570
Substance Abuse Services Fund - Alcohol	1,018	706	-	(900)	-	824
Seriously Mentally Ill Housing Trust Fund	9,651	2,047	-	(1,346)	-	10,352
Miscellaneous Funds	2,122	117,721	12	(101,819)	(16,449)	1,587
	$ 133,697	$ 880,398	$ 12	$ (870,570)	$ (17,149)	$ 126,388

(dollar amounts expressed in thousands)

(5) Retirement plan

AHCCCS contributes to the Arizona State Retirement System ("ASRS" or the "Plan") described below. The Plan is a component unit of the State of Arizona.

Statement of Net Position and Statement of Activities	Governmental Activities
Net pension assets	$ -
Net pension liabilities	67,380
Deferred outflows of resources	17,805
Deferred inflows of resources	22,205
Pension expenses	4,991

AHCCCS's accrued payroll and employee benefits includes no amounts of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2022. In addition, AHCCCS reported $7,151 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

Plan description - AHCCCS employees participate in the ASRS. The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit ("OPEB") plan, and a cost-sharing multiple-employer defined benefit long-term disability ("OPEB") plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

Benefits provided - The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

ASRS	Retirement Initial membership date: Before July 1, 2011	 On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

(5) Retirement plan (continued)

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Permanent Benefit Increase ("PBI") - Pursuant to A.R.S. § 38-767, retired members who have been retired for at least one year, and members receiving LTD benefits, are eligible for a benefit increase adjustment annually up to a maximum of 4%, if funds are available. The PBI is paid when the average investment return is in excess of 8% over a rolling 10-year period from a reserve of excess actuarial investment earnings. Enhanced Permanent Benefit Increase ("EPBI") – Pursuant to A.R.S. § 38-767, retired members with at least 10 years of service who have been retired five or more years are eligible for an enhanced permanent benefit increase. Due to legislation enacted in the 2013 legislative session, PBIs and EPBI will not be awarded to members hired after September 13, 2013.

Contributions - In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2022, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.41 percent (12.22 percent for retirement and 0.19 percent for long-term disability) of the members' annual covered payroll, and AHCCCS was required by statute to contribute at the actuarially determined rate of 12.41 percent (12.01 percent for retirement, 0.21 percent for health insurance premium benefit, and 0.19 percent for long-term disability) of the active members' annual covered payroll. In addition, AHCCCS was required by statute to contribute at the actuarially determined rate of 10.22 percent (10.13 percent for retirement, 0.00 percent for health insurance premium benefit, and 0.09 percent for long-term disability) of annual covered payroll of retired members who worked for AHCCCS in positions that would typically be filled by an employee who contributes to the ASRS.

During fiscal year 2022, AHCCCS paid for ASRS pension contributions as follows: 96.03 percent from the General Fund and 3.97 percent from other governmental funds.

Pension liability - At June 30, 2022, AHCCCS reported a liability of $67,380 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward using generally accepted actuarial procedure to June 30, 2021. AHCCCS's proportion of the net pension liability was based on AHCCCS's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2021. AHCCCS's proportion measured as of June 30, 2021, was 0.51280 percent, which was an increase of 0.00850 percent from its proportion measured as of June 30, 2020 of 0.50430.

(dollar amounts expressed in thousands)

(5) Retirement plan (continued)

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2022, AHCCCS recognized pension expense for ASRS of $4,991. At June 30, 2022, AHCCCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,027	$ -
Change in assumptions	8,770	-
Net difference between projected and actual earnings on pension plan investments	-	21,328
Changes in proportion and differences between AHCCCS contributions and proportionate share of contributions	857	877
AHCCCS contributions subsequent to the measurement date	7,151	-
Total	$ 17,805	$ 22,205

The $7,151, reported as deferred outflows of resources related to ASRS pensions resulting from AHCCCS contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pension will be recognized as an increase (decrease) in pension expense as follows:

Years Ending June 30	
2023	$ 648
2024	(4,706)
2025	(7,357)

Actuarial assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

ASRS	
Actuarial valuation date	June 30, 2020
Actuarial roll forward date	June 30, 2021
Actuarial cost method	Entry age normal
Asset valuation Method	Fair Value
Discount rate of return	7.0%
Projected salary increases	2.9 – 8.4%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The actuarial assumptions pertain to assumptions utilized for financial reporting purposes. They differ from the assumptions utilized for funding purposes. The principal difference between the actuarial assumptions for financial reporting purposes and those utilized for funding purposes are the amortization methodology and the valuation of assets.

(dollar amounts expressed in thousands)

(5) Retirement plan (continued)

The actuarial assumptions related to funding were selected on the basis of an experience study which was performed for the five-year period ending June 30, 2016. The ASRS Board adopted the experience study which recommended changes, and those changes were effective as of the June 30, 2017 actuarial valuation.

The long-term expected rate of return on ASRS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

ASRS	Target Asset Allocation	Real Return Geometric Basis	Long-term Contribution to Expected Real Return
Equity	50%	4.90%	2.45%
Fixed income - Credit	20%	5.20%	1.04%
Fixed income - Interest rate sensitive	10%	0.70%	0.07%
Real estate	20%	5.70%	1.14%
Total	100%		4.70%

Discount rate - The discount rate used to measure the ASRS total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of AHCCCS's proportionate share of the ASRS net pension liability to changes in the discount rate - The following table presents AHCCCS's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what AHCCCS's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	(6.0%)	(7.0%)	(8.0%)
AHCCCS's proportionate share of the net pension liability	$ 105,982	$ 67,380	$ 35,196

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

Other post-employment benefits ("OPEB") provided as part of state employment include the ASRS sponsored cost-sharing plan for the Long-Term Disability Fund and the Health Benefit Supplement Fund, as well as the Arizona Department of Administration sponsored single employer defined benefit post-employment plan.

(dollar amounts expressed in thousands)

(5) Retirement plan (continued)

Cost-sharing plan - The ASRS provides health insurance premium supplemental benefits and disability benefits to retired members, disabled members, and eligible dependents through the Health Benefit Supplement Fund ("HBS") and the Long-Term Disability Fund ("LTD"), which are cost-sharing, multiple-employer defined benefit postemployment plans. Title 38, Chapter 5 of the A.R.S. assigns the authority to establish and amend the benefit provisions of the HBS plan and the LTD plan to the Arizona State Legislature.

(6) Other postemployment benefits (OPEB)

The ASRS issues a publicly available financial report that includes the financial information and disclosure requirements for the HBS plan and the LTD plan. That report may be obtained by visiting www.azasrs.gov.

Contributions - For the ASRS HBS and LTD plans, contributions are recognized as revenues when due, pursuant to statutory and contractual requirements. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payments are made.

Funding policy - The contribution requirements of plan members and AHCCCS are established by Title 38, Chapter 5 of the Arizona Revised Statutes ("ARS"). These contribution requirements are established and may be amended by the Arizona State Legislature. For the year ended June 30, 2022, active ASRS members and AHCCCS were each required by statute to contribute at the actuarially determined rate of 0.19 percent of the members' annual covered payroll for LTD. AHCCCS also contributed 0.21 percent for the HBS. In addition, AHCCCS was required to contribute 0.19 percent for long-term disability based on annual covered payroll for retired members who worked for AHCCCS in positions that an employee who contributes to ASRS would typically fill. However, in 2022 AHCCCS was not required to contribute to the health benefits supplemental fund (HBS) for these employees. AHCCCS' contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

Fiscal Year	Health Benefit Supplemental Fund	Long-term Disability Fund
2022	$ 125	$ 113
2021	233	107
2020	268	93

Changes in AHCCCS' OPEB liability (asset) for the HBS and LTD plans during fiscal year 2022 were as follows:

	HBS	LTD	TOTAL
Beginning balances	$ (365)	$ 387	$ 22
Increases	846	90	936
Decreases	(3,034)	(370)	(3,404)
Ending balances	$ (2,553)	$ 107	$ (2,446)

(dollar amounts expressed in thousands)

(6) Other postemployment benefits (OPEB) (continued)

Actuarial assumptions - The actuarial assumptions used to determine the OPEB liability for the HBS and LTD plans are presented in the following table:

ASRS	
Actuarial valuation date	June 30, 2020
Measurement date	June 30, 2021
Actuarial cost method	Entry age normal
Asset valuation method	Fair value
Investment rate of return	7.0%
Inflation	2.3%
Mortality rates (HBS)	2017SRA Scale U-MP
Recovery rates (LTD)	2012 GLDT

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The actuarial assumptions pertain to assumptions utilized for financial reporting requirements and differ from the assumptions utilized for funding purposes. The principal differences between the actuarial assumptions for financial reporting purposes and those utilized for funding purposes are the amortization methodology and valuation of assets.

The long-term expected rate of return on HBS and LTD plan investments is the same as that for ASRS pension plan investments. The method used to derive this rate is described in Note 5.

Discount rate - The discount rate used to measure the total HBS and LTD liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the fiduciary net position of the HBS and LTD Funds was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total HBS and LTD liability.

Sensitivity of AHCCCS's proportionate share of the net ASRS OPEB liability to changes in the discount rate - The following table presents AHCCCS's proportionate share of the net ASRS OPEB liability calculated using the discount rate of 7.0 percent, as well as what AHCCCS's proportionate share of the net ASRS OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	(6.0%)	(7.0%)	(8.0%)
AHCCCS's proportionate share of the net HBS liability	$ (1,691)	$ (2,553)	$ (3,287)
AHCCCS's proportionate share of the net LTD liability	$ 139	$ 107	$ 76

(dollar amounts expressed in thousands)

(6) Other postemployment benefits (OPEB) (continued)

Single-employer plan

The Arizona Department of Administration ("ADOA") administers a single-employer defined benefit post-employment plan (ADOA Plan) that provides medical and accidental benefits to retired State employees and their dependents. Title 38, Chapter 4 of the ARS assigns the authority to establish and amend the benefit provisions of the ADOA Plan to the Arizona State Legislature. The ADOA pays the medical costs incurred by retired employees, net of related premiums, which are paid entirely by the retiree or on behalf of the retiree. These premium rates are based on a blend of active employee and retiree experience, resulting in a contribution basis that is lower than the expected claim costs for retirees, creating an implicit subsidization of retirees by the ADOA Plan. ADOA does not issue a separate, publicly available financial report for the ADOA Plan; however, the State of Arizona Annual Comprehensive Financial Report presents state-wide prior year information, which can be obtained by visiting gao.az.gov. A portion of the ADOA Plan's implicit rate subsidy, if not fully funded, represents an obligation of AHCCCS for its proportionate share of the net OPEB obligation.

Since the plan does not have a formal trust, GASB Statement No. 75 requires state and local government employers to recognize the total OPEB liability and the OPEB expense on their financial statements, along with the related deferred outflows and inflows of resources.

In addition to the deferred outflows/inflows related to plan experience and assumption changes, GASB Statement No. 75 states the benefit payments and administrative costs incurred subsequent to the measurement date and before the end of the employer's reporting period should be reported as a deferred outflow of resources.

Funding policy - The ADOA's current funding policy is pay-as-you-go for OPEB benefits. There are no dedicated assets at this time to offset the actuarial accrued liability.

OPEB expense and total OPEB liability - AHCCCS' proportionate share of OPEB expense and changes in the OPEB liability of the ADOA Plan for year ended June 30, 2022, are as follows:

Statement of OPEB Expenses		
Service Cost	$	2,376
Interest on total OPEB liability		774
Expensed portion of current-period changes of assumptions		-
Recognition of beginning of the year deferred inflows as OPEB expense		(1,198)
Amortization of current year outflows (inflows) due to liabilities		729
OPEB expense	$	2,681
Schedule of Change of Total OPEB Liability and Related Ratios		
Service Cost	$	2,376
Interest on total OPEB liability		774
Changes of benefit terms		-
Difference between expected and actual experience of the total OPEB liability		(9,360)
Different between expected and actual experience from the change in Proportionate Share		809
Changes of assumptions		(520)
Expected benefit payments		(601)
Net change in total OPEB liability		(6,522)
Total OPEB liability at 6/30/2021		29,532
Total OPEB liability at 6/30/2022	$	23,010

(dollar amounts expressed in thousands)

(6) Other postemployment benefits (OPEB) (continued)

Actuarial methods and assumptions - The actuarial assumptions used to value the liabilities include assumptions of the health care trend assumptions, the aging factors as well as the cost method used to develop the OPEB expenses. The demographic assumptions are based on the assumptions that were developed based on the defined benefits plans in which the Plan participates. Since the prior measurement date, the discount rate changed from 2.45% as of June 30, 2020 to 1.92% as of June 30, 2021.

The ADOA Plan's actuarial methods and significant assumptions for a measurement date as of June 30, 2021 are as follows:

Actuarial valuation date		June 30, 2021
Measurement date		June 30, 2021
Reporting date		June 30, 2022
Actuarial cost method		Individual entry age normal
Discount rate		1.92% as of June 30, 2021
Inflation		2.30%
Salary increases		0.00% to 5.50%, not including wage inflation of 2.90%
Health care cost trend rates		Initial rate of 7.20% declining to an ultimate rate of 4.15% after 13 years
	Healthy Employee	Pub-2010 General Employee Mortality table Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2017.
Mortality rates	Healthy Retirees and Spouses	2017 State Retirees of Arizona mortality table. Generational mortality improvements in accordance with the Ultimate MP scales (through 2020) and projected from the year 2017.
.	Disabled Retirees	Pub-2010 Disabled Retiree Mortality. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2017.

Discount rate – The discount rate for ADOA OPEB funded entirely on a pay-as-you-go basis is the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA or higher (or equivalent quality on another rating scale). For the measurement date of June 30, 2020, the index value of Bond Buyer 20-Bond General Obligation Municipal Bond was used.

The discount rate equals the tax-exempt municipal bond rates based on the index of 20-year general obligation bonds with an average AA credit rating as of the measurement date, For the purposes of this valuation the municipal bond rate is 1.92%. The discount rate was 2.45% as of the prior measurement date.

(dollar amounts expressed in thousands)

(6) Other postemployment benefits (OPEB) (continued)

Sensitivity of AHCCCS's proportionate share of the ADOA OPEB liability to changes in the discount rate and health care cost trend rates - The following table presents AHCCCS's proportionate share of the ADOA OPEB liability calculated using the discount rate of 1.92% percent, as well as what AHCCCS's proportionate share of the ADOA OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (0.92% percent) or 1 percentage point higher (2.92% percent) than the current rate.

Also shown is the OPEB liability computed with the current health care cost trend rates and with the trend rates that are 1 percentage point lower or 1 percentage point higher than the current rates:

	1% Decrease	Current Discount Rate	1% Increase
	(0.92%)	(1.92%)	(2.92%)
Sensitivity of Total OPEN Liability to the Discount Rate Assumption	$ 27,710	$ 23,010	$ 19,371

(7) Budgetary basis of accounting

The financial statements of AHCCCS are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). AHCCCS, like other State agencies, prepares its annual operating budget on a basis that differs from the GAAP basis. Encumbrances as of June 30th can be liquidated during a four-week administrative period known as the 13th month. The budget basis expenditures reported in the financial statements include both the fiscal year paid and the 13th month activity. The State does not have a legally adopted budget for revenues. AHCCCS' controlling statute for programmatic payments administrative adjustment procedures varies from the statutory requirement of other State agencies. AHCCCS is permitted to pay for approved system covered medical services presented after the close of the fiscal year in which they were incurred with either remaining prior year or current year available appropriations.

The following is a reconciliation of the GAAP Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the budgetary comparison schedules for the year ended June 30, 2022:

	General Fund Actual
Budgetary Basis Fund Balance, June 30, 2022	$ 898,869
Budgetary Basis of Accounting	
Increases to fund balance:	
Cash	960
Due from state, county and local governments	125,601
Due from the federal government (net)	796,288
Due from other fund	21,415
Tobacco settlement receivable	51,000
Receivables and other	769,287
Total increases	1,764,551

(dollar amounts expressed in thousands)

(7) Budgetary basis of accounting (continued)

Decrease to fund balance:	
Unearned revenue	(33,286)
Due to state, county and local governments	(385,508)
Accrued programmatic costs	(1,123,487)
Payables and other	(22,953)
Unavailable revenue, net	(532,699)
Total decreases	(2,097,933)
Total GAAP basis fund balance	$ 565,487

Non-appropriated expenditures of $3,197,356 in the General Fund consist primarily of federal and state matching pass-through payments to other agencies.

(8) Contingencies, risks and uncertainties

COVID-19 - On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease cause by a new coronavirus as a “pandemic”. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations.

In response to the growing COVID-19 pandemic, on March 18, 2020, President Trump signed into law H.R. 6021, the Families First Coronavirus Response Act ("FFCRA") (Pub. L. 116-127). Section 6008 of the FFCRA provides a temporary 6.2 percent increase to the FMAP extending through the last day of the calendar quarter in which the public health emergency terminates. One of the conditions of receipt of the enhanced federal match was a maintenance of effort ("MOE") requirement, prohibiting AHCCCS from terminating the enrollment of any individual that was enrolled in the program as of the date of the beginning of the public health emergency period, as well as individuals enrolled during the public health emergency period. This condition has had a significant impact on AHCCCS' enrollment. It requires that the state continue coverage for members who may have had a change in income that would otherwise result in discontinuance. On December 29, 2022, the Consolidated Appropriations Act, 2023 (P.L. 117-328) (CAA, 2023) was enacted, which further clarified that states could begin redeterminations in February 2023 with the disenrollments beginning April 2023 and prescribed that the 6.2 percentage point increase to the FMAP will be phased out over the course of Calendar Year 2023. The enhanced FMAP was 6.2 percentage points through the quarter ending March 31, 2023, 5.0 percentage points in the quarter ending June 30, 2023, 2.5 percentage points in the quarter ending September 30, 2023, and will be 1.5 percentage points in the quarter ending in the quarter ending December 31, 2023. Although the FMAP increase is no longer directly tied to the end of the PHE, the Department of Health and Human Services expired the PHE as of May 11, 2023. Effective April, 2023, AHCCCS began processing eligibility redeterminations. In April 2023 AHCCCS enrollment was 2,492,034 by June 30, 2023, AHCCCS enrollment was 2,306,212, a decrease of 185,822.

Following the national and state emergency declarations in March 2020, AHCCCS received authority from CMS to implement numerous program flexibilities in response to the COVID-19 outbreak. Some of these flexibilities are: expanded coverage of telehealth and telephonic codes reimbursed at the same level of reimbursement offered for in-person services; initiatives to support use of influenza vaccinations during the COVID outbreak; increase in annual hours of respite care; reimbursement of Home and Community Based Services provided by parents; elimination of the 40 hour limit on family caregiver services provided by a member's spouse; expand the provision of home delivered meals to members enrolled in Department of Economic Security/Developmental Disabilities (“DES/DD"); and allowance for students to receive medically necessary services from managed care organizations ("MCOs") rather than the Medicaid School Based Claiming program as children attend school virtually from home. The CMS approvals were granted in late March to early April 2020.

(8) Contingencies, risks and uncertainties (continued)

In addition to the program flexibilities, COVID-19 impacted some of the agency's collection activities. CMS approved AHCCCS' request for emergency authorities to support Arizona's response to COVID-19. For the duration of the public health emergency, AHCCCS waived payment of the provider enrollment application fee as well as suspended the application of premiums for children enrolled in Arizona's CHIP program (KidsCare) and adults in the Freedom-to-Work program.

Finally, the Substance Abuse and Mental Health Services Administration ("SAMHSA") awarded AHCCCS new grants to address the behavioral health impacts due to the pandemic. These grants include the following:

- Arizona COVID-19 Emergency Response for Suicide Prevention
- Emergency Grant to Address Mental and Substance Use Disorders During COVID-1 (ECOVID)
- Substance Abuse Block Grant COVID-19 Emergency Funding
- Mental Health Block Grant COVID-19 Emergency Funding

In addition to the FFCRA, on March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (“ARPA”) (Pub.L. 117-2) into law. Section 9817 of the ARPA provides qualifying states with a temporary 10 percentage point increase to the federal medical assistance percentage (“FMAP”) for certain Medicaid expenditures for home and community-based services (“HCBS”). On May 13, 2021, CMS published State Medicaid Director Letter (“SMDL”) #21-003, which further clarified the qualifying services, improvement activities, and reporting requirements expected of states under Section 9817 of the ARPA. The increased FMAP was available for qualifying expenditures between April 1, 2021, and March 31, 2022.

In accordance with Section 9817(b) of the ARPA, states must comply with two program requirements to receive the increased FMAP rate for the Home and Community Based Services (“HCBS”) expenditures: (1) federal fund attributable to the increased FMAP must be used to supplement existing state funds, (2) states must use the state funds equivalent to the amount of federal funds attributable to the increased FMAP rate, to implement or supplement the implementation of one or more activities to strengthen HCBS under the Medicaid program.

On January 19, 2022, CMS granted conditional approval to AHCCCS’ spending plan. Arizona has identified four key populations at the center of the efforts outlined in its spending plan. They include: (a) Arizona’s seniors, (b) individuals with disabilities, (c) individuals living with a Serious Mental Illness (“SMI”), and (d) children with behavioral health needs. Additionally, this spending plan will allow for transformational change of the delivery system, which will enhance care delivery to individuals who are accessing general mental health and substance use services.

As of March 31, 2022, AHCCCS drew federal funds in the amount of $430,184 equivalent to the 10% FMAP increase. From that amount $10,727 were federal funds equivalent to the 10% increased FMAP rate on the first ARPA payment to the MCOs made in the quarter ended March 2022. The total amount of the payment was $480,644. The remaining amount of $419,457 was the federal funds equivalent to 10% FMAP increase on the HCBS portion of the capitation and eligible HCBS fee-for-services expenditures paid in the period April 1, 2021 through March 31, 2022.

(8) Contingencies, risks and uncertainties (continued)

States will be permitted to use the state funds equivalent to the amount of the federal funds attributable to the increase FMAP rate through March 31, 2025 on activities aligned with the goals of ARPA.

As of the date the financial statements were available to be issued, AHCCCS' operations have not been significantly negatively impacted. However, AHCCCS continues to closely monitor the situation. Depending on the severity and duration of the pandemic, AHCCCS could experience a material negative impact to operations, cash flows and financial condition. However, the extent of the impact cannot be reasonably estimated at this time.

Budget neutrality agreement – In January 2001, AHCCCS obtained a Waiver from CMS to receive federal funding for certain non- categorically linked populations including those made eligible by the November 2000 passage of Proposition 204. The Waiver requires that over the term of the original agreement (April 1, 2001 through September 30, 2011) and the new agreement (October 1, 2011 through September 30, 2021), that the population covered by the Waiver be budget neutral for CMS. It should be noted that on September 30, 2021, the waiver was extended for one additional federal fiscal year ending September 30, 2022. On September 27, 2022, CMS approved a temporary extension of the Waiver to October 28, 2022 in order to allow Arizona and CMS to continue negotiations over the extension application. On October 14, 2022, CMS extended the Waiver through September 30, 2027. Effective with the January 1, 2014 implementation of the eligibility expansion under the ACA to include the new adult group, members with income between 100% and 133% of the FPL, the budget neutrality measurement is performed separately for the new adult population. Budget neutral means that CMS will not pay more for medical services with the Waiver than it would without the Waiver. The Waiver Special Terms and Conditions include a monitoring arrangement that requires AHCCCS to report the financial results of the Waiver on a quarterly basis. For the demonstration period beginning on October 1, 2016, the net variance is phased down by an applicable percent. The percentages are determined based on how long the Medicaid population has been enrolled in managed care subject to the demonstration. Under the terms, AHCCCS is limited to only retaining 25 percent of the total variance as future savings. The budget neutrality calculation is dependent on a number of variables including the number of members and the eligibility category of members. Other factors that impact the variance are the general economy and its impact on unemployment, medical inflation and policy decisions made by the Legislature that may impact program costs. Through June 30, 2022, AHCCCS remains under the cumulative reporting limit threshold for the current waiver. Accordingly, management is projecting zero liability as of June 30, 2022 to CMS related to the budget neutrality agreement and the accompanying financial statements have not been adjusted for the impact of any liability AHCCCS may have related to the Waiver budget neutrality agreement.

With the new extension waiver flexibilities, the budget neutrality limit on Title XIX funding still needs to be monitored per the Special Terms and Conditions, "XVI. MONITORING BUDGET NEUTRALITY"3. The budget neutrality expenditure limit is determined either by using a per capita cost method or aggregate basis, and budget neutrality expenditure caps are set on a yearly basis with a cumulative budget neutrality expenditure limit for the length of the entire demonstration. If a per capita method is used, the state is at risk for the per capita cost of state plan and hypothetical populations, but not for the number of participants in the demonstration population. By providing Federal Financial Participation without regard to enrollment in the demonstration for all demonstration populations, CMS will not place the state at risk for changing economic conditions; however, by placing the state at risk for the per capita costs of the demonstration populations, CMS assures that the demonstration expenditures do not exceed the levels that would have been realized had there been no demonstration. The Agency stayed within the cumulative budget neutrality limits during the demonstration period ending September 30, 2022. Therefore, AHCCCS does not currently anticipate the need for federal funding to be returned to CMS due to exceeding the budget neutrality limitations. However, there can be no assurance that AHCCCS will not exceed the budget neutrality limitations and that federal funding will be returned to CMS.

(8) Contingencies, risks and uncertainties (continued)

Litigation and investigations - AHCCCS has been named as a defendant in a variety of litigation, all of which are being defended by in-house and external legal counsel. It is the opinion of AHCCCS upon consultation with legal counsel, that none of the claims are likely to have a material adverse effect on AHCCCS' financial statements. In addition, AHCCCS believes that the funding of any material adverse judgment, sanction or repayment obligation in excess of its appropriation would require a special appropriation by the State or would qualify for coverage by the Arizona Department of Administration, Risk Management Division which is tasked with the management and mitigation of liability, property and workers' compensation claims.

Compliance with laws and regulations - AHCCCS is subject to numerous laws, regulations and oversight by the federal government. These laws and regulations include, but are not necessarily limited to, matters such as government health care program participation requirements, reimbursement for member services and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant financial sanctions.

School based claims audits - AHCCCS continues to disagree with several audit findings related to audits conducted by the Inspector General, Office of Audit Services ("OIG") related to the Direct Services Claiming ("DSC") and School Based Medicaid Administrative Claim ("MAC") programs. AHCCCS disagrees with the findings in part and has returned the federal funds for non-disputed claims and final disallowances issued by CMS on October 20, 2016 relating to the MAC audit for $11.7 million and June 26, 2018 relating to the DSC audit for $19.9 million. On July 8, 2021 AHCCCS reached a settlement agreement with CMS in which CMS agreed to reimburse $4.450 million from the previously disallowed $11.7 million on October 20, 2016 for the MAC program. Since AHCCCS has already returned the entire amount of $11.7 million to CMS, the $4.450 million was claimed as an expenditure increase on the CMS-64 for the quarter ended March, 31, 2022. AHCCCS drew the federal funds reimbursement of $4.450 million in the quarter ended June 30, 2022 in connection with this settlement. Relative to the disallowance of School based Medicaid Administrative Claim, in October 2022, AHCCCS filed a lawsuit against Maximus for breach of contract and the matter was settled in December 2022 for $3.9 million.

Since the Direct Service Claiming ("DSC") disallowance of $19.9 million from June 26, 2018 was already returned to CMS in the quarter ended December 2018, no liability is recorded in the accompanying financial statements.

Managed care drug rebates - The DHHS OIG issued a report in February 2018 on their review of managed care drug rebates in Arizona from April 2010 through March 2013. The OIG's report noted instances in which physician-administered drugs were not properly submitted to the drug manufacturers for rebate. Based on their findings, the OIG recommended that AHCCCS:

- Bill for and collect from manufacturers rebates for single-source and top-20 multiple-source physician-administered drugs totaling $26.4 million and refund to the Federal Government an estimated $18.3 million (Federal share); and

- Work with CMS to determine whether the other physician-administered drugs were eligible for rebates and, if so, upon receipt of the rebates, refund up to an estimated $10.3 million ($7.3 million Federal share) of rebates collected for other physician-administered drugs that may have been eligible for rebates.

(8) Contingencies, risks and uncertainties (continued)

AHCCCS plans to bill and collect the appropriate amount of rebates for single-source and top-20 multiple-source physician-administered drugs during the audit period after thoroughly reviewing the disputed utilization records with the contracted rebate vendor. However, AHCCCS disagrees with the OIG finding that Arizona was required to obtain rebates for other physician-administered drugs during the audit period and is communicating with CMS to determine whether these drugs were eligible for rebates. AHCCCS views any recoveries as a gain contingency and will not record any amounts until received. Further, as the repayments to CMS are predicated on the receipt of the drug rebates, AHCCCS did not record any liability to CMS at June 30, 2022.

Provider billing matter - AHCCCS Office of the Inspector General and the Arizona Attorney General's Office became aware of potential fraudulent billing practices including significant increases in outpatient behavioral health services. AHCCCS connected the irregular billing with alleged criminal activity targeting tribal communities and other Arizonans.

Under 42 C.F.R. 455.23, when the State Medicaid Agency has conducted a preliminary investigation and a reliable indicium of fraud has been identified, the agency must suspend payments to a provider if a law enforcement agency accepts the State's referral. In AHCCCS' case, a Memorandum of Understanding governs the referral relationship between AHCCCS Office of the Inspector General and the Arizona Attorney General's Office, Health Care Fraud & Abuse Section. At the point a referral is made and payment is suspended, only a preliminary investigation has been conducted and no total overpayment or amount of improper payments made to the provider has been identified. At the conclusion of the investigation, AHCCCS will terminate a provider's enrollment and require repayment of the identified overpayment.

On May 16, 2023, AHCCCS suspended payments to 102 providers and additional Credible Allegation of Fraud payment suspensions will be placed as AHCCCS determines there are additional fraudulent providers through their investigations. Despite the scale of potential Behavioral Health services fraud, AHCCCS has taken rapid steps to limit potentially liability through holistic, system-wide strategies to find and eliminate fraudulent billing, including recommendations from the Arizona Attorney General's Office. These include, but are not limited to the following:

- Moving three behavioral health provider types to the high-risk category for new applicants and revalidating providers, which requires on-site visits, fingerprinting, background checks, a registration fee, and additional disclosures,
- Reviewing all existing claims edits which differ from national standards and setting specific rates for current "by report" billing that pay a percentage of the total billed amount instead of a standard rate,
- Creating a trend report of all providers registering for the at-risk provider types and closely monitoring any billing anomalies,
- Creating system reporting to flag concerning claims (volume, services per day, services for minors) for review prior to payment, and
- Setting billing thresholds to deny claims for multiple services that should not be billed on the same day, and more.

AHCCCS OIG continues to investigate and identify areas of concern and implement necessary system improvements until it is determined that the integrity of the AHCCCS provider network is restored. Additionally, AHCCCS had hired a forensic auditor to review claims going back to 2019 and assist the Agency in determining the timing and occurrence of events. That audit is currently ongoing.

(dollar amounts expressed in thousands)

(8) Contingencies, risks and uncertainties (continued)

A determination of any potential liability cannot be made because the investigations are in the early stages. Accordingly, the accompanying financial statements do not include any adjustments relating to amounts due to CMS for the improper billings or recovery of such funds from providers.

(9) Interfund receivables, payables and transfers

Interfund activity is defined as transactions between funds administered by AHCCCS. The interfund balances as of June 30, 2022, consist of transfers from the Other Funds to the General Fund in the amount of $21,415.

In the government-wide statement of activities, the interfund activity has been eliminated. The total net transfers out of $116,874 reported on the statement of activities represents transfer activities to other State agencies.

(10) Transactions with other State agencies and counties

Transactions with other State agencies and counties - AHCCCS contracts for administrative and programmatic services from other State agencies. Charges for administrative services are based on the performing agencies' actual cost. Charges for programmatic services are generally based on actuarially determined capitation rates. The following is a summary of contracted services provided:

Administrative services - The Arizona Department of Economic Security ("ADES") charges AHCCCS to determine eligibility for certain AHCCCS members. The Arizona Department of Administration charges AHCCCS for data center services, communication lines, risk management and training. The Arizona Department of Health Services ("ADHS") charges AHCCCS for licensure and screening services and administrative costs associated with the CHIP Vaccine for Children program and the Arizona State Immunization Information System. The Arizona Board of Nursing charges AHCCCS for the cost of administering the nurse aid training program for nurse assistants. The Arizona Office of Administrative Hearings charges AHCCCS for administrative hearing services. These expenditures are included in administrative expenditures or other sources (uses) in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

The following is a summary of transactions with these State agencies for the administrative services described above for the year ended June 30, 2022:

	Expenditures
Arizona Department of Economic Security	$ 111,333
Arizona Department of Administration	19,883
Arizona Department of Health Services	91
Arizona Board of Nursing	210
Arizona Office of Administrative Hearings	261
	$ 131,778

Programmatic services - Certain health care related programmatic services are provided by ADES. AHCCCS receives the State and federal funds for these services and transfers them to ADES pursuant to the terms of an intergovernmental agreement.

The amount of $2,814,148 passed through to ADES for the year ended June 30, 2022 is classified as long-term care services expenditures in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

(dollar amounts expressed in thousands)

(10) Transactions with other State agencies and counties (continued)

The amount of $3,928 paid to the Department of Health Services in fiscal 2022 is for the vaccine costs based on the CDC Federal Contract Price sheet.

Long-term care revenues include $283,194 from Arizona counties during fiscal year 2022. AHCCCS refunded to the counties $40,613 for fiscal year 2022 representing excess of revenue over expenditures.

(11) Other pass-through funds

Arizona school districts are eligible for federal matching funds for the administrative functions related to Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") outreach services at the school level. Arizona school districts also are eligible for federal matching funds on a fee-for-service basis for the provision of certain AHCCCS program services provided to eligible students. These amounts are included within federal pass-through funds in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

Arizona county and local governments contributed $104,750 to qualify for matching federal funds for the Graduate Medical Education, Disproportionate Share Hospital program payments and for the provision of qualifying services to hospitalized inmates. These amounts are included within county IGA pass through funds in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

Arizona counties contributed $4,076 as determined by statutory calculation for administrative costs incurred by ADES for eligibility determinations and other operating costs associated with Proposition 204.

At June 30, 2022, AHCCCS recorded the following pass through revenue in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds:

	Funds Passed Through
Arizona School Districts	
Administrative Services Federal Funds	$ 13,851
Program Services Federal Funds	114,947
Arizona Department of Economic Security	
County Contribution for Administrative Costs	4,076
	$ 132,874

(12) Subsequent events

AHCCCS has evaluated subsequent events through September 6, 2023, which is the date the financial statements were available to be issued.

Section 1115 Waiver - On October 14, 2022 CMS approved request for five year extension of the state's section 1115 demonstration project entitled "Arizona Health Care Cost Containment System (AHCCCS)" (Project Number 11-W-00275/9), in accordance with sections 1115 (a) of the Social Security Act. The approval includes the extension of 1) AHCCCS Complete Care (ACC), the statewide managed care system, which provides physical and behavioral health services to the majority of Arizona's Medicaid population; 2) the Arizona Long Term Care System (ALTCS), which provides physical, behavioral, long-term care services and supports, including home-and-community based services, to targeted populations; 3) the Comprehensive Health Plan (CHP) for children in foster care; and 4) the AHCCCS Complete Care - Regional Behavioral Health Agreement (ACCRBHA), which provides integrated care for individuals with a serious mental illness (SMI). The extension approval will also continue the existing waiver of retroactive eligibility.

(12) Subsequent events (continued)

With this extension, CMS is updating expenditure authority language that authorizes payment to participating IHS facilities and participating facilities operated by tribes under the Indian Self Determination and Education Assistance Act ("ISDEAA") for services that were previously covered under Arizona's state plan.

CMS is also approving a new Targeted Investments (TI) 2.0 program with the approval of this extension. TI 2.0 will direct managed care organizations to make specific incentive payments to providers that meet the criteria for receiving these payments with the goal of improving health equity for targeted populations through addressing health-related social needs ("HRSN").

In this demonstration extension, CMS also is authorizing the state to provide coverage of certain services that address certain HRSN through the Housing and Health Opportunities ("H2O") amendment. These services include pre-tenancy and tenancy supports, community and transitional housing supports for individuals with a clinical need or transitioning out of institutional care, congregate settings, a homeless shelter or out of homelessness, or the child welfare system.

Under Section 1115(a) demonstrations, states can test innovative approaches to operating their Medicaid programs if CMS determines that such demonstrations are likely to assist in promoting the objectives of the Medicaid statute. CMS has long required, as a condition of demonstration approval, that demonstrations be "budget neutral," meaning the federal costs of the state's Medicaid program with the demonstration cannot exceed what the federal government's Medicaid costs in that state likely would have been without the demonstration.

AHCCCS data breach - AHCCCS became aware of a breach of personal information on May 11, 2023 affecting 2,632 individuals in Arizona who are enrolled Medicaid members. Upon becoming aware of the breach, AHCCCS conducted an extensive internal investigation and determined that, due to a systems error, some household accounts in Health-e-Arizona Plus (HEAPlus, the AHCCCS eligibility system) were viewable to individuals not included in their household. The viewable details included first and last name, address, and the last 4 digits of social security numbers.

At the point of discovery, AHCCCS disabled the HEAPlus system toolbar that allowed members to view this information. Additional internal procedures have been implemented to ensure that this type of error cannot occur again. On July 3, 2023, AHCCCS began to notify, in writing, those members whose personal information was compromised. AHCCCS has notified HHS/Office of Civil Rights ("OCR") of the breach and has provided preliminary information. By early September 2023, AHCCCS will be furnishing additional information and records that have been requested by HHS/OCR. Although this matter is in the early stages of review and investigation by the federal government, financial penalties are not anticipated.

AHCCCS continues to closely monitor the situation but does not anticipate that this data breach will have a material impact on AHCCCS' financial statements. Additionally, AHCCCS expects any costs to be fully recoverable from Arizona Risk Management.

(12) Subsequent events (continued)

AHCCCS enrollment has steadily increased throughout fiscal year 2022. This is largely due to the impact of the COVID-19 pandemic on the program's caseload growth. Overall, for the period June 2021 to June 2022, the program experienced an enrollment increase from 2,236,003 to 2,411,057 adding 175,054 members for a 7.83 percent increase. The increase is primarily attributable to growth in the 1931 Families/Children and SOBRA Children/Pregnant Women increase of 63,906, Proposition 204 restoration adults increase of 79,421, Adult Expansion decrease of 3,154 and KidsCare increase of 11,320 totaling 151,493. On March 18, 2020, President Trump signed into law H.R. 6021, the Families First Coronavirus Response Act ("FFCRA") (Pub. L. 116-127). Section 6008 of the FFCRA provided a temporary 6.2 percent increase to the FMAP extending through the last day of the calendar quarter in which the public health emergency terminated. One of the conditions of receipt of the enhanced federal match was a maintenance of effort ("MOE") requirement, prohibiting the agency from terminating the enrollment of any individual that was enrolled in the program as of the date of the beginning of the emergency period, as well as individuals enrolled during the emergency period. This condition had a significant impact on AHCCCS' enrollment. It required that the state continue coverage for members who may have had a change in income that would otherwise result in discontinuance. On December 29, 2022, the Consolidated Appropriations Act, 2023 (P.L. 117-328) (CAA, 2023) was enacted, which further clarified that states could begin redeterminations in February 2023 with the disenrollments beginning April 2023 and prescribed that the 6.2 percentage point increase to the FMAP will be phased out over the course of 2023. The enhanced FMAP was 6.2 percentage points through the quarter ending March 31, 2023, 5.0 percentage points in the quarter ending June 30, 2023, 2.5 percentage points in the quarter ending September 30, 2023, and will be 1.5 percentage points in the quarter ending in the quarter ending December 31, 2023. Although the FMAP increase is no longer directly tied to the end of the PHE, the Department of Health and Human Services expired the PHE as of May 11, 2023. Effective April, 2023, AHCCCS began processing eligibility redeterminations. In April 2023, AHCCCS enrollment was 2,492,034 by June 30, 2023, AHCCCS enrollment was 2,306,212, a decrease of 185,822.

The decrease in the unemployment rate did not lead to a decrease in enrollment during fiscal year 2022 as the MOE was still in effect. According to the Office of Economic Opportunity, the Arizona unemployment rate for June 2021 was 5.2%. In June 2022, the unemployment rate was 3.8% and in June 2023, it was 3.5%. This indicated a potential decrease in enrollment once the MOE expired. However, AHCCCS does not anticipate that all members who have retained eligibility through the MOE will be immediately dropped from the program. AHCCCS is estimating that it may take through December 31, 2023 to process the backlog of redeterminations that has developed during the MOE.

The total fiscal year 2023 appropriation for AHCCCS is $23,572.7 million compared to the final $19,439.9 million appropriation for fiscal year 2022. This increase reflects the impact of COVID-19 on enrollment and actual capitation rate increases. As a result of the increased FMAP and ongoing growth in enrollment from the MOE, AHCCCS required a supplemental appropriation in fiscal year 2023. On March 30, 2023, Governor Hobbs signed a supplemental bill that granted AHCCCS a portion of its request in the amounts of $29.2 million for CHIP Fund and $1,654.0 million in expenditure authority. On May 4, 2023, Governor Hobbs signed an additional supplemental bill in the amounts of $58.5 million for CHIP Fund and $3,307.9 million in expenditure authority.

(12) Subsequent events (continued)

For the contract year ending 2023, AHCCCS' overall weighted capitation rate increased by 0.6 percent across all lines of business except the Department of Economic Security/Developmental Disabilities program. This increase includes a small baseline COVID-19 capitation rate increase that reflected an expectation of the continuation of the COVID-19 public health emergency into January 2023, and the related end of the temporary COVID-19 provisions and services. The contract year 2023, Acute Care capitation rates decreased by 0.5 percent as compared to the 3.3 percent increase for contract year 2022. The contract year 2023 Arizona Long Term Care System ("ALTCS" Elderly and Physically Disabled ("EPD")) capitation rates increased by 9.0 percent as compared to the 11.6 percent for contract year 2022. The 2023 increase is primarily based on baseline utilization and unit trends, Health Care Investment Fund capitation rate growth attributable to the restoration of provider rates for practitioners and dental providers under Laws 2020, Chapter 46, Section 2, and rate increases for home and community-based services and nursing facility stays per Laws 2021, Chapter 408. It is important to note that federal law requires rates to be actuarially sound and the AHCCCS actuaries develop rates based on expected cost and utilization trends. In addition, AHCCCS must conduct an access to care analysis of its rates to assure that sufficient numbers of providers are willing to serve AHCCCS members. Therefore, depending on the results of this analysis and of AHCCCS' actuarial determination of the expected costs of the managed care organizations, the actual capitation rates could differ from projections.

Federal funding for Children's Health Insurance Program ("CHIP") was reauthorized at the Federal level in late 2017 with an additional extension in early 2018 and AHCCCS expects that sufficient CHIP Allotment funding will be available to continue both the M-CHIP and KidsCare programs through Federal fiscal year 2027. Laws 2019, Chapter 270, Section 10 amended A.R.S. § 36-2985 to remove the language requiring AHCCCS to stop processing all new applications for KidsCare if the effective FMAP is less than one hundred percent. AHCCCS required supplemental appropriations for fiscal year 2023 that included an additional $29.2 million and $58.5 million in expenditure authority for the CHIP program due to the increased enrollment related to the COVID-19 public health emergency. The supplemental appropriations were signed into law on March 30, 2023 and May 4, 2023, respectively.

AHCCCS continues to aid in the development of a robust healthcare information technology ("HIT") by offering financial assistance to providers and other entities in adopting and using health HIT. Additionally, AHCCCS has continued the Targeted Investment Program that will make funds available over the next year to Arizona providers who assist the State in promoting the integration of physical and behavioral health care, increasing efficiencies in care delivery and improving health outcomes.

Per Laws 2020, Chapter 46, AHCCCS implemented a new Health Care Investment Assessment that was effective October 1, 2020. The funding, $407.2 million for fiscal year 2022, supports hospitals and provider reimbursement through directed payments and capitation rate increases for certain services.

(12) Subsequent events (continued)

AHCCCS continued to operate under an approved extension of the Section 1115 Waiver through September 31, 2021. On September 30, 2021, the waiver was extended for one additional federal fiscal year through September 30, 2022. On September 27, 2022, CMS approved a temporary extension of the Waiver to October 28, 2022 in order to allow Arizona and CMS to continue negotiations over the extension application. October 14, 2022, CMS approved Arizona's request for a five-year extension through September 30, 2027. In addition, CMS approved a Targeted Investment 2.0 program to additional providers and continued provider incentive funding to further integration efforts, including a range of initiatives aimed at addressing social drivers of health. CMS also approved the new Housing and Opportunities ("H2O") project to further address health-related social needs for vulnerable populations and ensure their access to health care. Finally, CMS approved reimbursement to Indian Health Services and Tribal 638 facilities for dental services provided to American Indian/American Native adults beyond the existing $1,000 limit. The approval included Arizona's request to modernize its Medicaid program and continue many of the existing authorities allowing AHCCCS to maintain its unique and successful managed care model, use home and community-based services for members with long-term care needs and other innovations that make AHCCCS one of the most cost-effective Medicaid programs in the nation. The Waiver allows Arizona to run its managed care model and exempts Arizona from certain provisions of the Social Security Act and includes expenditure authority for costs not otherwise matched by the federal government. Waiver programs are required to be budget neutral for the federal government - not cost more federal dollars than without a waiver.

AHCCCS' budget request for fiscal year 2025, will be submitted to the Governor in September 2023. Factors such as Federal law changes, CMS decisions, COVID-19 public health emergency, other global health emergencies, legal decisions, economic conditions impacting case load changes compared to projections and the eligibility system shifts in population categories may influence any final fiscal year need of a supplemental appropriation for fiscal year 2024. AHCCCS management will closely monitor all these factors in relation to the adequacy of the fiscal year 2024 budget request.

REQUIRED SUPPLEMENTARY INFORMATION

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended June 30, 2022
(Unaudited)
(amounts expressed in thousands)

	Original Appropriation (Budget)	Final Appropriation (Budget)	Actual	Variance with Final Budget
REVENUES				
State appropriations	$ -	$ -	$ 1,727,839	$ -
State ISA pass through funds	-	-	607,309	-
Federal government	-	-	14,843,184	-
Federal ISA/IGA pass through funds	-	-	2,556,069	-
County and other local government	-	-	414,599	-
County IGA pass through funds	-	-	169,369	-
Tobacco tax revenue	-	-	36,505	-
Tobacco litigation settlement	-	-	108,433	-
Other	-	-	419,787	-
Total revenues	-	-	20,883,094	-
OTHER FINANCING SOURCES				
Operating transfers in	-	-	-	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	-	-	20,883,094	-
PROGRAMMATIC EXPENDITURES				
Traditional services	6,562,656	6,992,764	6,624,453	368,311
Proposition 204 services	5,881,780	6,455,499	6,223,093	232,406
Newly eligible adults	1,432,847	1,325,763	1,115,070	210,693
CHP	139,459	171,812	169,174	2,638
KidsCare services	224,489	277,123	225,900	51,223
Targeted investment	50,000	50,000	8,381	41,619
Disproportionate share	5,087	5,087	4,743	344
Rural and critical access hospitals	28,612	44,650	36,069	8,581
Voluntary Political Subdivision Programs	399,989	457,699	408,874	48,825
Voluntary Political Subdivision - Coverage Expansion	-	-	-	-
Long-term care services	1,974,274	2,141,086	1,970,685	170,401
Behavioral health services	93,650	93,650	90,347	3,303
Behavioral support services	81,716	81,716	18,619	63,097
TOTAL PROGRAMMATIC EXPENDITURES	16,874,559	18,096,849	16,895,408	1,201,441
ADMINISTRATIVE EXPENDITURES	275,540	281,974	249,346	32,628
TOTAL APPROPRIATED EXPENDITURES	17,150,099	18,378,823	17,144,754	1,234,069
PRIOR YEAR APPROPRIATED EXPENDITURES	-	-	227,671	-
NON-APPROPRIATED EXPENDITURES	-	-	3,197,356	-
REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-	-	313,313	-
FUND BALANCES, BEGINNING OF YEAR	-	-	585,556	-
FUND BALANCES, END OF YEAR	$ -	$ -	$ 898,869	$ -

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - COST SHARING PLAN

(Unaudited)

(amounts expressed in thousands)

	Reporting Fiscal Year (Measurement Date)								
	2022 (2021)	**2021 (2020)**	**2020 (2019)**	**2019 (2018)**	**2018 (2017)**	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2006**
Agency's proportion of the net pension liability	0.512800%	0.504300%	0.522860%	0.537230%	0.529910%	0.470770%	0.455146%	0.470599%	Information
Agency's proportionate share of the net pension liability	$ 67,380	$ 87,378	$ 76,082	$ 74,925	$ 82,550	$ 75,987	$ 70,896	$ 69,633	not available
Agency's covered-employee payroll	$ 59,622	$ 54,760	$ 54,785	$ 53,128	$ 49,620	$ 42,430	$ 42,770	$ 43,181	
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	113.01%	159.57%	138.87%	141.03%	166.36%	179.09%	165.76%	161.26%	
Plan fiduciary net position as a percentage of the total pension liability	78.58%	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%	

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

SCHEDULE OF THE AGENCY'S PENSION CONTRIBUTIONS
(Unaudited)
(amounts expressed in thousands)

	Reporting Fiscal Year													
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009 through 2006
Statutorily required contribution	$ 7,151	$ 6,946	$ 6,270	$ 6,125	$ 5,792	$ 5,349	$ 4,604	4,548	4,779	4,466	4,238	3,600	4,140	Information not available
Agency's contributions in relation to the statutorily required contribution	7,151	6,946	6,270	6,125	5,792	5,349	4,604	4,548	4,779	4,466	4,238	3,600	4,140	
Agency's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Agency's covered-employee payroll	$ 59,542	$ 59,622	$ 54,760	$ 54,785	$ 53,128	$ 49,620	$ 42,430	$ 42,770	$ 43,181	$ 40,970	$ 40,364	$ 37,494	$ 45,999	
Agency's contributions as a percentage of its covered-employee payroll	12.01%	11.65%	11.45%	11.18%	10.90%	10.78%	10.85%	10.63%	11.07%	10.90%	10.50%	9.60%	9.00%	