

**HEALTH CHOICE ARIZONA, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

Year Ended September 30, 2017

# HEALTH CHOICE ARIZONA, INC.

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended September 30, 2017

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

**HEALTH CHOICE ARIZONA, INC.**

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

We have audited the accompanying financial statements of **Health Choice Arizona, Inc.**, which comprise the balance sheet as of September 30, 2017, and the related statements of operations, stockholder's equity and cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Health Choice Arizona, Inc.** as of September 30, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

May 23, 2018

# HEALTH CHOICE ARIZONA, INC.

## BALANCE SHEET

September 30, 2017

### ASSETS

#### CURRENT ASSETS

Capitation and supplement receivables	\$ 241,862
Pharmacy rebates receivables	3,256,619
Reinsurance receivables	365,207
Note receivable from affiliate	12,000,000
Due from affiliates, net	155,770,571
Other current assets	<u>870,369</u>
TOTAL CURRENT ASSETS	172,504,628

DUE FROM AFFILIATES, net of current portion 20,150,000

GOODWILL 5,756,914

INTANGIBLE ASSET, net 6,000,000

TOTAL ASSETS \$ 204,411,542

### LIABILITIES AND STOCKHOLDER'S EQUITY

#### CURRENT LIABILITIES

Medical claims payable	\$ 129,957,033
Accounts payable and accrued expenses	4,403,316
Due to Arizona Health Care Cost Containment System (AHCCCS), net	15,840,467
Deferred revenue	13,912,918
Other current liabilities, net	<u>7,096,745</u>
TOTAL CURRENT LIABILITIES	<u>171,210,479</u>

#### STOCKHOLDER'S EQUITY

Common stock - \$0.01 par value; 1,000 shares authorized; 100 shares issued and outstanding at September 30, 2017	1
Additional paid-in capital	-
Retained earnings	<u>33,201,062</u>
TOTAL STOCKHOLDER'S EQUITY	<u>33,201,063</u>

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY \$ 204,411,542

# HEALTH CHOICE ARIZONA, INC.

## STATEMENT OF OPERATIONS

Year Ended September 30, 2017

### REVENUES

Capitation premiums	\$ 954,985,478
Delivery supplemental premiums	35,601,414
Health insurer fee revenue	4,775,378
Other revenue	<u>469,227</u>
TOTAL REVENUES	<u>995,831,497</u>

### MEDICAL EXPENSES

Hospitalization, net	156,594,140
Medical compensation	177,331,517
Other medical, net	337,754,416
Pharmacy, net	<u>160,114,707</u>
TOTAL MEDICAL EXPENSES	831,794,780

### ADMINISTRATIVE EXPENSES

83,080,006

### PREMIUM TAX EXPENSE

18,404,510

### TOTAL EXPENSES

933,279,296

### NET INCOME BEFORE INCOME TAXES

62,552,201

### INCOME TAX EXPENSE

23,155,999

### NET INCOME

\$ 39,396,202

**HEALTH CHOICE ARIZONA, INC.**

**STATEMENT OF STOCKHOLDER'S EQUITY**

Year Ended September 30, 2017

	<u>Common Stock</u>				
	<u>Shares</u>	<u>Amount</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, October 1, 2016	100	\$ 1	\$ 56,303,103	\$ 244,554,018	\$ 300,857,122
Adjustment to stockholder's equity as a result of the recapitalization of IASIS (see Note 1)			(56,303,103)	(250,749,158)	(307,052,261)
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,396,202</u>	<u>39,396,202</u>
Balance, September 30, 2017	<u>100</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 33,201,062</u>	<u>\$ 33,201,063</u>

# HEALTH CHOICE ARIZONA, INC.

## STATEMENT OF CASH FLOWS

Year Ended September 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 39,396,202	
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	3,000,000	
Changes in operating assets and liabilities:		
Capitation and supplement receivables	1,758,305	
Health insurer fee receivable	14,326,133	
Pharmacy rebates receivable	(2,487,580)	
Reinsurance receivables	31,559	
Other current assets	5,189,186	
Medical claims payable	12,364,651	
Accounts payable and accrued expenses	(566,813)	
Health insurer fee payable	(14,431,189)	
Due to AHCCCS, net	12,189,335	
Deferred revenue	1,427,395	
Other current liabilities, net	<u>3,819,827</u>	
Net cash provided by operating activities	<u>76,017,011</u>	
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in due from affiliates	<u>(76,017,011)</u>	
Net cash used in financing activities	<u>(76,017,011)</u>	
CHANGE IN CASH AND CASH EQUIVALENTS		-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		<u>-</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		<u>\$ -</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	<u>\$ -</u>	
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Adjustment to stockholder's equity as a result of the recapitalization of IASIS (see Note 1)	<u>\$ 307,052,261</u>	

See Notes to Financial Statements

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

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

**Nature of operations** - Health Choice Arizona, Inc. (the Company), a wholly-owned subsidiary of IASIS Healthcare LLC (IASIS), is a managed care organization and insurer that delivers healthcare services to members through multiple health plans, accountable care networks and managed care solutions. The Company subcontracts with hospitals, physicians and other medical providers, including affiliates of IASIS, within Arizona and surrounding states to provide services to its members in the service area counties. These services are provided regardless of the actual costs incurred to provide these services.

The Company was incorporated in Arizona in November 1999 and operates under two distinct divisions, Health Choice Arizona (HCA) and Health Choice Generations (HCG). IASIS owns all outstanding common stock of the Company. Effective September 29, 2017, Steward Health Care System LLC (Steward) acquired IASIS. The acquisition of IASIS by Steward resulted in recapitalization of subsidiary balance sheets, which included an adjustment to the Company's stockholder's equity. As a result, the Company reclassified approximately \$307,052,000 from amounts due from affiliates to stockholder's equity. Steward's acquisition of IASIS had no impact on the Company's statement of operations or cash flows for the year ended September 30, 2017.

HCA is a prepaid Medicaid managed health plan that derives all of its revenue through a contract with the Arizona Health Care Cost Containment System (AHCCCS) to provide specified healthcare services to qualified Medicaid enrollees through contracts with providers, including affiliates of IASIS. AHCCCS is the state agency that administers Arizona's Medicaid program. The contract requires HCA to arrange for healthcare services for enrolled Medicaid patients in exchange for fixed monthly premiums, based on negotiated per capita member rates, and supplemental payments from AHCCCS. These services are provided regardless of the actual costs incurred to provide these services. HCA receives reinsurance and other supplemental payments from AHCCCS to cover certain costs of healthcare services that exceed certain defined thresholds.

On March 25, 2013, HCA was awarded a contract by AHCCCS. The contract commenced on October 1, 2013, which covers enrollees in Apache, Coconino, Gila, Maricopa, Mohave, Navajo, Pima and Pinal counties, and has an initial term of three years, and includes two one-year renewal options at the discretion of AHCCCS. The contract has been renewed through fiscal year 2018. The contract is terminable without cause on 90 days written notice, or for cause upon written notice if HCA fails to comply with any term or condition of the contract or fails to take corrective action as required to comply with the terms of the contract. Additionally, AHCCCS can terminate the contract in the event of the unavailability of state or federal funding.

HCG is a prepaid Medicare Advantage Prescription Drug (MAPD) Special Needs Plan (SNP) that derives substantially all of its revenue through a contract with the Centers for Medicare and Medicaid Services (CMS). Effective January 1, 2006, HCG began providing coverage as a MAPD SNP provider pursuant to its contract with CMS. The contract allows HCG to offer Medicare and Part D drug benefit coverage for new and existing dual-eligible members. Dual-eligible members are those who are eligible for Medicare and Medicaid. The contract requires HCG to arrange for healthcare services for its enrollees in exchange for fixed monthly premiums, based on risk adjusted per capita rates from CMS. AHCCCS is the state agency that oversees MAPD SNPs operating in Arizona.

HCG's contract with CMS, which covers enrollees in Apache, Coconino, Gila, Maricopa, Mohave, Navajo, Pima and Pinal counties, has been renewed for calendar year 2018 and includes successive one-year renewal options at the discretion of CMS. The contract is terminable by CMS without cause on 90 days' written notice, or for cause upon written notice if HCG fails to comply with any term or condition of the contract or fails to take corrective action as required to comply with the terms of the contract.



# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

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

The Financial Accounting Standards Board (FASB) sets accounting principles generally accepted in the United States of America (GAAP) to ensure consistent reporting. References to GAAP are to the FASB Accounting Standards Codification (FASB ASC).

The significant account policies followed by the Company are summarized below:

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

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

**Due from affiliates** - Due from affiliates, net of amounts due to affiliates with an established right of offset, primarily represents the net excess of funds transferred to IASIS over funds transferred to or paid on behalf of the Company. Interest income is not earned on outstanding balances due from affiliates.

As of September 30, 2017, the Company has approximately \$175,921,000 due from affiliates, net of amounts due to affiliates. The amounts transferred to IASIS are not maintained in a separate cash or investment account at IASIS. Rather, the underlying amount due from IASIS is supported to the extent IASIS has available cash and investments as well as the ability to draw upon available lines of credit or other funding sources. Management deems the amount due from affiliates to be fully collectible at September 30, 2017, and accordingly, an allowance has not been provided. As of September 30, 2017, the Company has presented approximately \$20,150,000 as noncurrent in the accompanying balance sheet which represents the portion of the balance due from affiliates that would require certain actions by IASIS and Steward to secure the necessary funding were the balance to be called by the Company. HCA has provided a performance guarantee in the form of surety bonds totaling approximately \$75,000,000 (see Note 7). Additionally, IASIS and Steward have represented that they will provide sufficient funds necessary to comply with any contract requirements or if the balance were to be called by the Company.

**Pharmacy rebate receivable** - The Company receives rebates from pharmaceutical companies based on the volume of drugs purchased. The Company records a receivable and a reduction of medical expenses for estimated rebates due based on purchase information. During the year ended September 30, 2017, medical expenses were reduced by approximately \$9,227,000 for rebates. At September 30, 2017, the Company recorded a pharmacy rebate receivable of approximately \$3,257,000. Management believes the pharmacy rebate receivable is fully collectible and accordingly, an allowance has not been established.

**Goodwill** - The Company recognized goodwill in 2004 resulting from a change in ownership of the Company. Under FASB ASC 350, *Intangibles – Goodwill and Other*, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill is tested for impairment by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined through assessment of qualitative factors that it is more likely than not that the fair value of the reporting entity is less than its carrying amount, goodwill is tested for impairment by a measurement based on the present value of estimated future cash flows expected to be generated by the Company. If the carrying value exceeds the estimated fair value, an impairment loss is recognized equal to the amount that the carrying value of goodwill exceeds its implied fair value; the implied fair value of goodwill would equal the amount that would be recognized in the same manner as a business combination. No impairment charges related to goodwill were recorded during the year ended September 30, 2017.

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

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

**Intangible asset** - The intangible asset represents HCA's contract with AHCCCS, which is amortized over the contract's estimated useful life including assumed renewal periods, a period of 15 years. Amortization of the intangible asset totaled \$3,000,000 for the year ended September 30, 2017, and is included in administrative expenses in the accompanying statement of operations. Finite lived intangible assets are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Accordingly, an impairment loss is recognized if the carrying amount of a finite-lived intangible asset is not recoverable and its carrying amount exceeds its fair value. There were no impairment charges recorded during the year ended September 30, 2017.

**Impairment of long-lived assets** - The primary component of the Company's long-lived assets is the intangible asset. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, 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. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded during the year ended September 30, 2017.

**Revenue recognition** - Capitation premiums are recognized as revenue in the month that members are entitled to healthcare services. Capitation premiums are subject to an episodic/diagnostic risk factor adjustment. The Company is required to provide all covered health care services to their members, regardless of the cost of care. If there are funds remaining, the Company retains the funds as profit; if the costs are higher than the amount of capitation payments, the Company absorbs the loss.

Certain provisions of the AHCCCS acute contract include a risk band whereby HCA and AHCCCS share in the profits and losses of the contract, as defined in the contract (reconciliation revenue). The Company has recorded an estimate of the reconciliation revenue, within capitation premiums, based on the operational performance of the AHCCCS acute line of business. HCA may recover certain losses for those cases eligible for reinsurance payments.

HCA receives capitation payments for Prior Period Coverage (PPC) separately from its prospective capitation payments. PPC capitation payments are intended to cover those healthcare costs incurred by individuals while they are awaiting enrollment in the Plan. PPC revenues are recognized in the month in which the member is eligible for coverage under the Plan. AHCCCS limits the profit and loss that health plans may recognize for all risk groups using limits ranging from 1.0% to 4.5%.

HCA shares risk with AHCCCS for specific populations as follows:

- Acute Prospective
- Acute Prior Period Coverage
- Adult Group above 106% Federal Poverty Level (formerly known as the Newly Eligible Adults Prospective and Prior Period Coverage)

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

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

As of September 30, 2017, HCA has recorded the following approximate amounts due to (from) AHCCCS as reconciliation settlements by risk populations, included in Due to AHCCCS, net, in the accompanying balance sheet (see Note 4):

Prospective	\$ 23,067,000
Prior Period Coverage	(7,568,000)
Adult Group above 106% Federal Poverty Level	<u>19,251,000</u>
Net reconciliation settlements payable	<u>\$ 34,750,000</u>

Delivery supplemental premiums are payments received per newborn delivery and are intended by AHCCCS to cover the cost of maternity care for qualified pregnant women. Such premiums are billed and recognized in the month that delivery occurs.

HCG receives capitation payments from CMS on or before the first of each month for an entire month of enrollment. Subsequent adjustments made by CMS to enrollment are recognized by HCG as adjustments to revenue in the period of identification. On certain months, CMS will send the funds on the last day of the month before the covered dates of service. HCG received the October 2017 payment during fiscal 2017 totaling approximately \$13,913,000, which is recorded as deferred revenue in the accompanying balance sheet.

HCG Medicare premium revenue is subject to adjustment based on the health risk of its members. Risk adjustment uses health status indicators to correlate the payments to the health acuity of the member and consequently establish incentives for plans to enroll and treat less healthy Medicare beneficiaries. This process for adjusting premiums is referred to as the CMS risk adjustment payment methodology. Under the risk adjustment payment methodology, managed care plans must capture, collect, and report diagnosis code information to CMS. After reviewing the respective submissions, CMS establishes the prospective payments to Medicare plans at the beginning of the calendar year and then adjusts premium levels on two separate occasions retroactively. The first retroactive risk premium adjustment for a given calendar year generally occurs during the third quarter of such calendar year. This initial settlement represents the risk score update for the current year based on the prior year's dates of service. CMS then issues a final retroactive risk premium adjustment settlement for the initial year in the third quarter of the following year. HCG estimates and records CMS settlement amounts and adjusts to actual amounts when the adjustment settlements are either received from CMS or HCG receives notification from CMS of such settlement amounts. As a result of the variability of factors, including plan risk scores, that determine such estimations, the actual amount of the CMS retroactive risk premium settlement adjustments could be materially more or less than HCG's estimates. HCG's risk adjustment payments are subject to review and audit by CMS, which can take several years to resolve completely. Any adjustment to premium revenue as a result of such review and audit is recorded when estimable. There can be no assurance that any retroactive adjustment to previously recorded revenue will not have a material effect on future results of operations.

**Premium deficiency reserve** - The Company evaluates possible losses on its contracts through the end of each contract year. If necessary, a premium deficiency reserve is recorded within medical claims payable on the balance sheet. The Company had no estimated amounts recorded for premium deficiency reserves as of September 30, 2017.

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

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

**Medical expenses** - Monthly capitation payments to primary care physicians and other healthcare providers are expensed in the month services are contracted to be performed. Claims expense for non-capitated arrangements is accrued as services are rendered by hospitals, physicians and other healthcare providers during the year. Medical compensation includes primary care and specialty physician services. Other medical, net expense includes hospital outpatient services and other ancillary services such as radiology and lab and is presented net of Third Party Liability (TPL) recoveries received. TPL recoveries are payments received from a third party such as an individual, entity, or program that is, or may be, liable to pay for any medical services provided to an AHCCCS member. AHCCCS is the payor of last resort when there is another liable party. During the year ended September 30, 2017, the Company recognized approximately \$6,800,000 of TPL recoveries.

Medical claims payable includes claims received but not paid and an estimate of claims incurred but not reported. Incurred but not reported claims are estimated using a combination of historical claims experience (including severity and payment lag time) and other actuarial analysis including number of enrollees, age of enrollees and certain enrollee health indicators to predict the cost of healthcare services provided to enrollees during any given period. While management believes that its estimation methodology effectively captures trends in medical claims costs, actual payments could differ significantly from estimates given changes in the healthcare cost structure or adverse experience. During the year ended September 30, 2017, the Company recognized a favorable development in medical claims expense for prior periods of approximately \$20,000,000. The change in medical claims expense is the result of ongoing analysis of loss development trends. Original estimates increased or decreased as additional information became known regarding individual claims. Such adjustments are included in medical expenses in the accompany statement of operations. In order to assist management in evaluating the appropriateness of medical claims payable at September 30, 2017, the Company engaged an actuary to provide an independent estimate of its medical claims payable.

Certain direct, indirect and administrative expenses are incurred which benefit more than one member type or county. Such common expenses are allocated based upon an AHCCCS approved cost allocation plan as submitted by the Company, which is primarily based upon enrollment, claims and costs by lines of business.

**Reinsurance and subsidies** - HCA recognizes reinsurance recoveries under the contract with AHCCCS when healthcare costs exceed stated amounts as provided under the contract, including estimates of such costs at the end of each accounting period. Contractually, HCA is reimbursed by AHCCCS at a rate ranging from 75% to 100% for qualified healthcare costs for those members that exceed stated amounts of up to \$25,000, depending on the case type of the member. Qualified costs must be incurred during the contract year and are the lesser of the amount paid by HCA or the AHCCCS fee schedule. In the event that AHCCCS is unable to honor its reinsurance commitment, HCA may be responsible for excess costs incurred. Reinsurance recoveries totaling approximately \$26,421,000 were recognized during the year ended September 30, 2017, and are included as a reduction of hospitalization medical expenses in the accompanying statement of operations.

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

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

HCG subcontracts with a third party reinsurance provider to cover non-drug healthcare costs that exceed stated amounts at a rate of 90% of qualified costs. Qualified costs must be incurred during the contract year, but costs incurred during the last month of the year may be carried forward to meet the following year's deductible if those costs were not already applied to a reinsurance case. Reinsurance is recognized under the contract with the reinsurer when healthcare costs exceed stated amounts as provided under the contract, including estimates of such costs at the end of each accounting period. In the event that the reinsurer is unable to honor its reinsurance commitment, HCG may be responsible for excess costs incurred. Third party reinsurance recoveries totaling approximately \$394,000 were recognized during the year ended September 30, 2017, and are included as a reduction of hospitalization medical expenses in the accompanying statement of operations.

Reinsurance receivables represent the expected payment from AHCCCS and the Medicare Advantage Plan's commercial insurer to the Company for certain enrollees whose qualifying medical expenses paid by the Company were in excess of specified deductible limits. Reinsurance receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to reinsurance receivables. As of September 30, 2017, gross reinsurance receivables totaled approximately \$18,606,000 for HCA with an associated allowance for doubtful accounts of approximately \$1,130,000, which are included in Due to AHCCCS, net (see Note 4) in the accompanying balance sheet. As of September 30, 2017, reinsurance receivables totaled approximately \$365,000 for HCG which are recorded in reinsurance receivables in the accompanying balance sheet.

Part D Low Income Premium Subsidy payments are received per member per month from CMS to cover beneficiary premiums that are not paid to HCG by qualifying low-income enrollees. Such payments are recognized in the month that members are entitled to prescription drug coverage, and are reported in capitation premiums in the accompanying statement of operations.

Part D Low Income Cost-Sharing (LICS) Subsidy payments are received per member per month from CMS to cover beneficiary cost sharing and deductible amounts that are not paid by low-income enrollees. HCG administers and pays the subsidized portion of the claims on behalf of CMS, and a settlement payment is made between CMS and HCG based on actual claims experience, subsequent to the end of the plan year. HCG is fully reimbursed by CMS for this contract element and accordingly, there is no insurance risk to HCG. Amounts received for these subsidies are not reflected as premium revenue, but rather accounted for as deposits, with the related liability recorded in the accompanying balance sheet. As of September 30, 2017, a payable in the amount of approximately \$2,222,000 was recorded in other current liabilities, net in the accompanying balance sheet. Part D LICS subsidies from CMS totaling approximately \$14,654,000 were recognized during the year ended September 30, 2017, and are included as a reduction of pharmacy expenses in the accompanying statement of operations.

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

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

Part D Reinsurance payments are received per member per month to cover CMS' obligation to pay approximately 80% of the costs incurred by individual members in excess of the individual annual out-of-pocket maximum. A settlement is made between CMS and HCG based on actual claims experience, subsequent to the end of the plan year. HCG is fully reimbursed by CMS for this contract element and accordingly, there is no risk to HCG. Amounts received for these subsidies are not reflected as premium revenue, but rather accounted for as deposits, with the related liability in the accompanying balance sheet. As of September 30, 2017, a payable in the amount of approximately \$4,890,000 was recorded in other current liabilities, net in the accompanying balance sheet. Part D reinsurance recoveries from CMS totaling approximately \$15,428,000 were recognized during the year ended September 30, 2017, and are included as a reduction of pharmacy expenses, net in the accompanying statement of operations.

**Part D risk reconciliation** - After the conclusion of the contract year and the finalization of capitation and subsidy payment amounts, CMS will complete a final risk corridor reconciliation that limits HCG's profit or loss on Part D revenue. The risk corridor is designed to limit exposure to unexpected expenses not already included in the reinsurance subsidy or taken into account through risk adjusted rates. Profits or losses that differ by more than 5% from HCG's targeted amount will be repaid or recouped according to stated percentages. Accordingly, as of September 30, 2017, a settlement balance is recorded in the accompanying balance sheet to reflect the estimated amount of the Part D Risk settlement due to CMS. As of September 30, 2017, a receivable in the amount of approximately \$15,000 was recorded in other current liabilities, net in the accompanying balance sheet. The accompanying statement of operations includes a decrease to capitation premiums of approximately \$945,000 for the year ended September 30, 2017.

**Health insurer fee** - Under the Patient Protection and Affordable Care Act (ACA), the Company qualifies as a covered entity of a controlled group engaged in providing health insurance for U.S. health risks. IASIS is the designated entity of the controlled group and is required to pool the premiums of all its subsidiaries to calculate its premium for purposes of determining its share of the health insurer fee under ACA provision 9010. This fee is effective for entities providing health insurance on or after January 1, 2014. Each covered entity is required to report its net premiums written for health insurance of U.S. health risks during the previous year to the IRS by April 15<sup>th</sup> of the year the fee was due.

The annual fee equaled net premiums written for health insurance U.S. health risks during the applicable "fee year" divided by aggregate net premiums written for all covered entities during the applicable "fee year" multiplied by the annual applicable amount. Each health insurer's fee is a proportionate share of the total for all health insurers.

As the designated entity of the controlled group, IASIS passes the fee down to its subsidiaries based on an allocation of net premiums written. The health insurer fee is considered an excise tax and is nondeductible for income tax purposes. IASIS paid approximately \$14,431,000 to the IRS on behalf of the Company in September 2016 for the calendar year ended December 31, 2016. For the period from October 1, 2016 through December 31, 2016, the Company recognized approximately \$3,608,000 in health insurer fee expenses which are included in administrative expenses in the accompanying statement of operations.

AHCCCS has agreed to reimburse the health insurers for this fee and applicable taxes through adjustments to capitation rates. No such adjustments were made for the Medicare Advantage plan. For the period from October 1, 2016 through December 31, 2016, the Company recognized approximately \$4,775,000 in health insurer fee premium revenue from AHCCCS.

Effective January 1, 2017, the IRS issued a moratorium on the health insurer fee whereby collection of the health insurer fee for calendar year 2017 was suspended.

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

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

**Medicaid risk adjustment** - AHCCCS at times performs a review of the Medicaid program rates for its enrollees and assesses the appropriateness of rates applied to services for those enrollees. In May 2017, AHCCCS performed an analysis to risk adjust the capitation payments made to managed care organizations during contract years 2017 and 2016. The risk adjustment of capitation payments modified revenue to contractors based on the health status of their covered population relative to the average health status of the population. To estimate the impact to its capitation rates for contract years 2017 and 2016, the Company performed an analysis of the impact of the published rate change for its enrolled populations based on member months during those years. In August 2017, the Company received the \$16,176,000 related to contract year 2016 from AHCCCS, which is included in capitation premiums in the accompanying statement of operations. The Company estimated amounts receivable from AHCCCS for the risk adjustment of approximately \$13,149,000 for contract year 2017. The recognition of the amount to be received from AHCCCS for contract year 2017 serves to further the Company's payable position to AHCCCS in the reconciliation of the profit corridor for the year ended September 30, 2017. Thus, the estimated risk adjustment for contract year 2017 had no impact on the September 30, 2017 financial statements.

**Income taxes** - The Company accounts for income taxes using FASB ASC 740, *Accounting for Income Taxes*. Under FASB ASC 740, deferred federal and state income taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Valuation allowances are established when necessary to reduce deferred tax assets to the extent they are not realizable based on the Company's deductible temporary difference reversals, taxable income in its carryback period, its equity, and the existence of taxable temporary differences. Deferred tax assets and liabilities, if any, are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. In determining if a deductible temporary difference or net operating loss can be realized, The Company considers future reversals of existing taxable temporary differences, future taxable income, taxable income in prior year carryback periods and tax planning strategies.

The Company's policy is to classify income tax penalties and interest as income tax expense in its financial statements. During the year ended September 30, 2017, the Company incurred no penalties or interest.

The Company evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts.

The Company's federal Income Tax Returns for 2014, 2015 and 2016 are subject to examination by the IRS, generally for three years after they were filed. As of the date of this report, the 2017 income tax return had not yet been filed.

The Company is subject to a 2% premium tax on all payments received from AHCCCS for premiums, reinsurance, and reconciliations. At September 30, 2017 premium taxes receivable totaled approximately \$34,000 due to an overpayment and is included as a reduction of accounts payable and accrued expenses in the accompanying balance sheet.

**Fair value of financial instruments** - Capitation and supplement receivable, pharmacy rebate receivable, reinsurance receivables, net, due from affiliates, other current assets, due to AHCCCS, net, accounts payable and accrued expenses, other current liabilities, net and medical claims payable represent financial instruments. The carrying value of these financial instruments approximates their fair market value due to the short-term nature of these instruments.

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

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

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

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

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements—Going Concern* (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this ASU are effective for reporting periods ending after December 15, 2016. The Company adopted ASU No. 2014-15 in fiscal year 2017.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes* (Topic 740): *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The ASU is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

**Subsequent events** - The Company has evaluated events through May 23, 2018, which is the date the financial statements were available to be issued.

### (2) Related party transactions

The Company is party to a management agreement with Health Choice Management Company (HCMC), a wholly owned subsidiary of IASIS, which manages the general and administrative functions related to the Company inclusive of payroll and benefits, advertising, leasing and related expenses. HCA is charged management fees based on 7.5% of capitation revenue less premium taxes. HCG is charged management fees based on 10% of capitation revenue. During the year ended September 30, 2017, the Company recorded expenses of approximately \$76,472,000 for services provided by HCMC, which are included in administrative expenses in the accompanying statement of operations. The Company remitted fee-for-service payments totaling approximately \$17,252,000 during the year ended September 30, 2017, to facilities which are owned and operated by IASIS.



# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

### (3) Medical claims payable

Medical claims payable includes claims received but not paid and an estimate of claims incurred but not reported. Incurred but not reported claims are estimated using a combination of historical claims experience (including severity and payment lag time) and other actuarial analysis including number of enrollees, age of enrollees and certain enrollee health indicators to predict the cost of healthcare services provided to enrollees during any given period. While management believes that its estimation methodology effectively captures trends in medical claims costs, actual payments could differ significantly from estimates given changes in the healthcare cost structure or adverse experience. Activity in the liability for medical claims payable for the year ended September 30, 2017 is as follows:

Balance at October 1, 2016	\$ 117,592,382
Incurred related to:	
Current year	700,615,304
Prior years	<u>(19,870,880)</u>
Total incurred	<u>680,744,424</u>
Paid related to:	
Current year	(574,589,763)
Prior years	<u>(93,790,010)</u>
Total paid	<u>(668,379,773)</u>
Balance at September 30, 2017	<u>\$ 129,957,033</u>

The change in medical claims expense is the result of ongoing analysis of loss development trends. Original estimates increased or decreased as additional information became known regarding individual claims. Such adjustments are included in medical expenses in the accompany statement of operations. In order to assist management in evaluating the appropriateness of medical claims payable at September 30, 2017, the Company engaged an actuary to provide an independent estimate of its medical claims payable.

The liability for medical claims payable at October 1, 2016 was more than the actual claims incurred related to fiscal year 2016 and prior by approximately \$20 million or 17% of medical claims unpaid. The primary drivers for the claim development variations include member mix changes, active cost and encounter management, changes in anticipated member utilization, a shift in inpatient costs and re-admittance utilization to physician office visits, inpatient unit cost variations related to state-mandated outlier reform, speed of claims processing, and initiative levels to recoup provider overpayments.

### (4) Due to AHCCCS, net

HCA's contract with AHCCCS requires recurring settlements between HCA and AHCCCS which result in amounts due to (from) AHCCCS. The amounts due to (from) AHCCCS as of September 30, 2017 are as follows:

Reconciliation settlements	\$ 34,750,347
Reinsurance, net of allowance of approximately \$1,130,000	(17,475,989)
Capitation receivable	(802,516)
Delivery supplement receivable	<u>(631,375)</u>
Total	<u>\$ 15,840,467</u>

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

### (5) Income taxes

IASIS files consolidated federal and state income tax returns, which include the operating results of the Company. IASIS allocates taxes to the Company pursuant to the asset and liability method, as if the Company were a separate taxpayer. For balance sheet purposes, such allocations are included in due from affiliates in the accompanying balance sheet. The terms of settlement require that these amounts be settled within 30 days after the end of the calendar quarter. At September 30, 2017, there were no amounts due to IASIS. This results in each component company of the consolidated group showing tax provision solely on the results of its own operations and respective tax rate. The effective tax rate is different than the amount that would be computed by applying the United States corporate income tax rate to the income before income taxes due only to state and local income taxes.

Current taxes which would have been due on a separate company basis have either been paid to or will be paid to the parent company. Deferred income tax assets and liabilities are computed based upon cumulative temporary differences in financial reporting and taxable income based on enacted tax law in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets result from reserves established for financial reporting purposes that are not deductible for tax purposes. The Company recognized a net deferred tax liability net of approximately \$1,815,000 primarily resulting from temporary differences related to amortization expense and loss reserves. The net deferred tax liability has been recorded within the due from affiliates, net in the accompanying balance sheet.

The income tax expense consists of federal provisions of approximately \$23,156,000 for the year ended September 30, 2017.

### (6) Leases

As a result of the Company's management agreement with HCMC, HCMC assumed the remaining facility and equipment leases. The related rent expenses are included within the management fee charged by HCMC, which is included in administrative expenses in the accompanying statement of operations.

### (7) Commitments and contingencies

**Professional, general, and other liability insurance** - Periodically, the Company may be involved in litigation and claims arising in the normal course of operations. In the opinion of management based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial.

The Company maintains professional liability insurance, comprehensive general insurance, and automobile liability insurance coverage of at least \$1,000,000 for each occurrence. During the year ended September 30, 2017, the Company was covered under IASIS' umbrella policy. IASIS, on behalf of the Company, carries professional and general liability insurance in excess of self-insured retentions through an unrelated commercial insurance carrier in amounts that IASIS believes to be sufficient for the Company, although some claims may exceed the scope of coverage in effect. IASIS maintains reserves for professional and general liability claims. Accordingly, no reserves for liability risks are recorded in the accompanying balance sheet. Professional and general liability insurance expense is included in the management fee charged by HCMC for the year ended September 30, 2017, which is included in administrative expenses in the accompanying statement of operations.

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

### (7) Commitments and contingencies (continued)

**Performance guarantee** - If the Company fails to effectively manage healthcare costs, these costs may exceed the premiums received. The Company believes the capitated premiums, together with reinsurance and other supplemental premiums, are sufficient to pay for the services the Company is obligated to deliver. Pursuant to its contract with AHCCCS, the Company is required annually to provide a performance bond or letter of credit, in an acceptable form, to guarantee performance of the HCA's obligations under its contract to provide and pay for the healthcare services. The amount of the performance guaranty that AHCCCS requires is generally based upon the membership in HCA and the related capitation paid to HCA. For the year ended September 30, 2017, HCA provided a performance guarantee in the form of surety bonds totaling approximately \$75,000,000. The performance guarantee in the form of surety bonds has remained at \$75,000,000 for the year ended September 30, 2018. For the contract year ended December 31, 2017, HCG provided a performance guarantee in the form of a \$12,000,000 noninterest-bearing demand note receivable from IASIS. Management believes the note receivable is fully collectible and accordingly, an allowance has not been established. This demand note receivable also satisfies the performance guarantee requirements for the contract year ending December 31, 2018.

**State and federal laws and regulations** - The Company is subject to state and federal laws and regulations. CMS and AHCCCS have the right to audit the Company to determine the Company's compliance with such standards. HCA is required to file periodic reports with AHCCCS and to meet certain financial viability standards (see Note 8). HCG must also provide its enrollees with certain mandated benefits and must meet certain quality assurance and improvement requirements. The Company believes it is in compliance with these CMS and AHCCCS requirements. The Company must also comply with the electronic transactions regulations and privacy standards of the Health Insurance Portability and Accountability Act (HIPAA). The Company believes it is in compliance with the HIPAA security standards as set forth in 45 CFR Part 164. The Company has also complied with the requirements for health plans defined in 45 CFR Part 162.

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

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

# HEALTH CHOICE ARIZONA, INC.

## NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2017

### (8) Contract requirements

In accordance with its contracts with AHCCCS and CMS, the Company is required to maintain certain minimum financial reporting and viability measures.

Pursuant to its contract with AHCCCS, HCA must meet a minimum capitalization requirement based on the number of members enrolled. As of September 30, 2017, HCA was in compliance with this requirement.

HCA's contract with AHCCCS contains various quarterly financial viability standards and performance guidelines. As of September 30, 2017, HCA was in compliance with these requirements.

Should HCA be in default of any material obligations under its contracts with AHCCCS, AHCCCS may, at its discretion, in addition to other remedies, either adjust the amount of future payments or withhold future payment until satisfactory resolution of the default or exception. Further, if monies are not appropriated by the State or are not otherwise available, the Contract may be cancelled upon written notice until such monies are so appropriated or available. Additionally, IASIS and Steward have represented that they will provide sufficient funds necessary to comply with any contract requirements.

The Medicare Advantage contract with CMS, certified by AHCCCS, contains various quarterly financial viability standards and performance guidelines. As of September 30, 2017, HCG was in compliance with these requirements.

### (9) Concentration of credit risk

The Medicare Advantage contract is renewed annually by CMS and has been renewed through December 31, 2018. Management expects the contract with CMS to be renewed through the respective renewal process. If the CMS contract is not renewed, HCG's operations would be materially impacted.

HCA currently holds a contract with AHCCCS to provide services through September 30, 2018.

On November 2, 2017, AHCCCS released the AHCCCS Complete Care Request for Proposal (RFP) which will integrate physical and behavioral health care contacts under managed care plans for the majority of the 1.9 million AHCCCS members. The integrated delivery model will offer a more cohesive health care system for members incentivizing quality health care outcomes with value based purchasing, and leverage health information technology for improved care coordination. Additionally, integrating physical health and behavioral healthcare contracts will drive strategic, innovative health care initiatives forward. HCA submitted a bid as an integrated plan in response to the RFP in January 2018. In March 2018, HCA was selected to provide physical and behavioral healthcare services through the AHCCCS Complete Care program in the Central region and South region. Pending regulatory approval and successful completion of readiness review, the three year agreement, with the possibility of two two-year extensions, is expected to commence on October 1, 2018.

## **SUPPLEMENTARY INFORMATION**



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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of

### **HEALTH CHOICE ARIZONA, INC.**

We have audited the financial statements of *Health Choice Arizona, Inc.* as of and for the year ended September 30, 2017, and our report thereon dated May 23, 2018, which contained an unmodified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 19 through 31 is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are required in accordance with the AHCCCS and CMS contracts. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

*Mayer Hoffman McCann P.C.*

May 23, 2018

# HEALTH CHOICE ARIZONA, INC.

## SUPPLEMENTARY INFORMATION COMBINING BALANCE SHEET

September 30, 2017

### ASSETS

	<u>Health Choice</u> <u>Arizona</u>	<u>Health Choice</u> <u>Generations</u>	<u>Total</u>
CURRENT ASSETS			
Capitation and supplement receivables	\$ -	\$ 241,862	\$ 241,862
Pharmacy rebates receivables	2,791,775	464,844	3,256,619
Reinsurance receivables	-	365,207	365,207
Note receivable from affiliate	-	12,000,000	12,000,000
Due from affiliates, net	122,984,463	32,786,108	155,770,571
Other current assets	<u>718,964</u>	<u>151,405</u>	<u>870,369</u>
TOTAL CURRENT ASSETS	126,495,202	46,009,426	172,504,628
DUE FROM AFFILIATES, net of current portion	16,750,000	3,400,000	20,150,000
GOODWILL	5,756,914	-	5,756,914
INTANGIBLE ASSET, net	<u>6,000,000</u>	<u>-</u>	<u>6,000,000</u>
TOTAL ASSETS	<u>\$ 155,002,116</u>	<u>\$ 49,409,426</u>	<u>\$ 204,411,542</u>

### LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES			
Medical claims payable	\$ 105,719,992	\$ 24,237,041	\$ 129,957,033
Accounts payable and accrued expenses	3,651,046	752,270	4,403,316
Due to AHCCCS, net	15,840,467	-	15,840,467
Deferred revenue	-	13,912,918	13,912,918
Other current liabilities, net	<u>-</u>	<u>7,096,745</u>	<u>7,096,745</u>
TOTAL CURRENT LIABILITIES	125,211,505	45,998,974	171,210,479
STOCKHOLDER'S EQUITY	<u>29,790,611</u>	<u>3,410,452</u>	<u>33,201,063</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 155,002,116</u>	<u>\$ 49,409,426</u>	<u>\$ 204,411,542</u>

**HEALTH CHOICE ARIZONA, INC.**  
**SUPPLEMENTARY INFORMATION**  
**COMBINING STATEMENT OF OPERATIONS**

Year Ended September 30, 2017

	<u>Health Choice Arizona</u>	<u>Health Choice Generations</u>	<u>Total</u>
<b>REVENUES</b>			
Capitation premiums	\$ 821,987,406	\$ 132,998,072	\$ 954,985,478
Delivery supplement premiums	35,601,414	-	35,601,414
Health insurer fee revenue	4,775,378	-	4,775,378
Other revenue	469,227	-	469,227
<b>TOTAL REVENUES</b>	<u>862,833,425</u>	<u>132,998,072</u>	<u>995,831,497</u>
<b>MEDICAL EXPENSES</b>			
Hospitalization, net	123,543,584	33,050,556	156,594,140
Medical compensation	156,775,132	20,556,385	177,331,517
Other medical, net	292,512,906	45,241,510	337,754,416
Pharmacy, net	146,356,283	13,758,424	160,114,707
<b>TOTAL MEDICAL EXPENSES</b>	<u>719,187,905</u>	<u>112,606,875</u>	<u>831,794,780</u>
<b>ADMINISTRATIVE EXPENSES</b>	69,616,482	13,463,524	83,080,006
<b>PREMIUM TAX EXPENSE</b>	<u>18,404,510</u>	-	<u>18,404,510</u>
<b>TOTAL EXPENSES</b>	<u>807,208,897</u>	<u>126,070,399</u>	<u>933,279,296</u>
<b>NET INCOME BEFORE INCOME TAXES</b>	55,624,528	6,927,673	62,552,201
<b>INCOME TAX EXPENSE</b>	<u>20,554,983</u>	<u>2,601,016</u>	<u>23,155,999</u>
<b>NET INCOME</b>	<u>\$ 35,069,545</u>	<u>\$ 4,326,657</u>	<u>\$ 39,396,202</u>



**HEALTH CHOICE ARIZONA, INC.**  
HEALTH CHOICE ARIZONA - CLAIMS LAG REPORT

**Paragraph 4.07**

Health Choice Arizona

Year Ended: 09/30/2017

Claims Lag Report

Expense Type: Hospital, Medical and Other (PPC and Prospective)

Payment Qtr	Current	1st Prior	2nd Prior	3rd Prior	4th Prior	5th Prior	6th Prior*	Total
<b>Current</b>	114,501,869	52,852,774	9,647,153	3,833,579	2,904,536	388,342	496,513	184,624,764
<b>1st Prior</b>		117,542,777	62,524,777	12,106,990	3,602,098	1,322,654	500,723	197,600,019
<b>2nd Prior</b>			104,141,474	47,317,058	7,087,740	2,971,464	966,726	162,484,461
<b>3rd Prior</b>				105,440,835	47,201,909	5,485,034	2,148,200	160,275,978
<b>4th Prior</b>					117,081,690	57,797,019	8,500,006	183,378,714
<b>5th Prior</b>						106,676,029	56,628,007	163,304,036
<b>6th Prior*</b>							111,372,609	111,372,609
<b>Totals</b>	114,501,869	170,395,550	176,313,404	168,698,461	177,877,972	174,640,540	180,612,784	1,163,040,581
<b>Expense</b>	174,131,649	190,897,151	175,442,622	176,357,628	183,186,321	193,464,600	170,253,757	1,263,733,727
<b>Adjustment</b>	13,195,873	(15,712)	8,555,131	(4,619,903)	(4,521,245)	(18,626,987)	10,364,425	4,331,582
<b>Remaining</b>	72,825,653	20,485,889	7,684,349	3,039,263	787,104	197,073	5,398	105,024,729

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

Claims Lag Report	\$ 105,024,729
Subcapitation and Gain Share Payable	695,263
Total Medical Claims Payable	<u>\$ 105,719,992</u>

See Independent Auditors' Report on Supplementary Information  
Differences due to rounding

**HEALTH CHOICE ARIZONA, INC.**  
HEALTH CHOICE ARIZONA - TOTAL PROFITABILITY

Paragraph 4.09  
Health Choice Arizona  
Year Ended: 09/30/2017

Account Description	TANF < 1 MF	TANF 1-13 MF	TANF 14-44 F	TANF 14-44 M	TANF 45+	TANF Total	SSI w/Med	SSI w/o Med	Adults > 106%	Adults <= 106%	SOBRA FP	SOBRA MOMS	Title XIX Total	State Only Transplant	State Only Total	Grand Total
<b>REVENUE &amp; EXPENSES</b>																
<b>Member Months</b>																
PPC Member Months	2,731	16,667	8,200	5,576	1,772	34,946	1,741	2,011	4,082	15,944	0	2,110	60,834	0	0	60,834
Pros. Member Months	96,341	1,034,453	496,388	294,272	100,240	2,021,694	157,002	99,564	151,478	586,394	0	45,717	3,061,849	0	0	3,061,849
Total Member Months	99,072	1,051,120	504,588	299,848	102,012	2,056,640	158,743	101,575	155,560	602,338	0	47,827	3,122,683	0	0	3,122,683
<b>REVENUES</b>																
305 Prospective Capitation	45,643,657	112,066,523	123,615,626	44,722,903	42,825,233	368,873,942	23,898,305	89,450,592	59,398,961	267,245,642	0	11,313,519	820,180,961	0	0	820,180,961
310 PPC Capitation	3,667,249	1,062,977	1,876,981	969,773	724,270	8,301,250	148,483	1,471,354	1,701,623	13,146,687	0	475,364	25,244,762	0	0	25,244,762
312 Value Based Purchasing Initiatives Reconciliation/Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
315 Delivery Supplement	0	0	6,038,460	0	0	6,038,460	24,289	397,391	0	1,848,770	0	27,292,504	35,601,414	0	0	35,601,414
319 Adults > 106% Reconciliation Settlement	0	0	0	0	0	0	0	0	(10,552,223)	0	0	(109,092)	(10,661,314)	0	0	(10,661,314)
320 Prospective Tiered Reconciliation Settlement	(777,640)	(8,101,557)	(4,035,872)	(2,138,211)	(750,860)	(15,804,140)	(1,457,354)	(1,080,047)	(470,894)	(4,006,774)	0	(247,772)	(23,066,980)	0	0	(23,066,980)
321 TWG Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
322 PPC Settlement	1,401,220	1,232,506	1,616,196	2,792,932	766,427	7,809,282	67,238	1,140,628	0	(52,863)	0	1,325,692	10,289,977	0	0	10,289,977
323 PCP Parity Cost Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
324 Health Insurers Fee Revenue	154,876	1,610,641	768,748	456,757	156,290	3,147,312	239,175	157,122	237,357	918,742	0	75,670	4,775,378	0	0	4,775,378
325 Investment Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
330 Other Income (specify)	14,967	157,586	75,725	45,161	15,406	308,844	23,813	15,348	23,398	90,652	0	7,170	469,227	0	0	469,227
<b>TOTAL REVENUES</b>	<b>50,104,330</b>	<b>108,028,676</b>	<b>129,955,864</b>	<b>46,849,314</b>	<b>43,736,766</b>	<b>378,674,951</b>	<b>22,943,950</b>	<b>91,552,388</b>	<b>50,338,222</b>	<b>279,190,857</b>	<b>0</b>	<b>40,133,056</b>	<b>862,833,424</b>	<b>0</b>	<b>0</b>	<b>862,833,424</b>
<b>EXPENSES</b>																
<b>Hospitalization</b>																
402 Hospital Inpatient	18,864,514	6,517,972	11,206,889	5,142,235	3,990,231	45,721,842	2,689,394	17,440,681	5,578,929	43,164,381	0	14,466,535	129,061,763	0	0	129,061,763
404 Hospital Inpatient -Behavioral Health Services	2,393	0	11,592	27,666	3,892	45,543	174,866	82,112	0	157,739	0	5,005	465,265	0	0	465,265
406 PPC-Hospital Inpatient	4,374,982	616,668	902,488	1,015,461	360,411	7,270,010	134,580	951,784	1,748,035	13,839,959	0	588,145	24,532,514	0	0	24,532,514
<b>Total Hospitalization</b>	<b>23,241,888</b>	<b>7,134,640</b>	<b>12,120,970</b>	<b>6,185,362</b>	<b>4,354,534</b>	<b>53,037,395</b>	<b>2,998,841</b>	<b>18,474,577</b>	<b>7,326,964</b>	<b>57,162,080</b>	<b>0</b>	<b>15,059,685</b>	<b>154,059,541</b>	<b>0</b>	<b>0</b>	<b>154,059,541</b>
<b>Medical Compensation</b>																
408 Primary Care Physician Services	8,242,605	11,624,843	7,958,914	2,995,751	2,786,059	33,608,172	1,703,669	5,883,328	3,422,897	18,312,136	0	1,150,108	64,080,309	0	0	64,080,309
409 Behavioral Health Physician Services	328	31,752	62,325	30,748	51,919	177,073	695,357	18,822	8,484	31,997	0	1,894	933,626	0	0	933,626
410 Referral Physician Services	471,324	2,357,669	7,790,545	2,064,461	2,758,471	15,442,469	1,674,041	5,936,524	3,793,984	15,317,667	0	8,879,802	51,044,487	0	0	51,044,487
411 FQHC/RHC Services	3,603,459	9,353,001	6,425,214	1,767,302	1,531,086	22,680,063	2,521,671	9,932,025	7,009,165	32,467,771	0	1,733,722	36,979,117	0	0	36,979,117
412 Other Professional Services	1,378,561	4,807,991	4,442,294	1,291,302	1,111,513	13,031,661	809,780	1,759,300	1,440,510	6,354,712	0	1,131,870	24,527,834	0	0	24,527,834
414 PPC - Physician Services	283,487	183,376	202,769	190,782	111,840	972,254	36,601	167,716	301,087	2,357,784	0	274,377	4,109,819	0	0	4,109,819
415 PCP Parity Enhanced Payment Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Medical Comp</b>	<b>13,979,764</b>	<b>28,358,633</b>	<b>26,882,061</b>	<b>8,340,347</b>	<b>8,350,887</b>	<b>85,911,692</b>	<b>5,191,322</b>	<b>15,744,862</b>	<b>10,905,532</b>	<b>50,750,013</b>	<b>0</b>	<b>13,171,772</b>	<b>181,675,192</b>	<b>0</b>	<b>0</b>	<b>181,675,192</b>
<b>Other Medical Expenses</b>																
416 Emergency Facility Services	1,841,929	7,758,791	8,155,855	2,936,578	1,269,193	21,962,346	450,867	2,394,696	1,947,892	11,885,893	0	928,732	39,570,426	0	0	39,570,426
417 Pharmacy	1,509,916	12,325,916	18,220,281	9,259,343	9,606,585	50,922,040	553,323	29,959,319	11,648,534	51,455,830	0	1,534,088	146,073,134	0	0	146,073,134
418 Lab, X-ray, & Medical Imaging	513,012	4,917,412	4,347,568	1,825,037	1,186,009	12,789,037	670,352	2,298,943	1,675,308	9,200,642	0	1,424,037	28,058,318	0	0	28,058,318
419 Outpatient Facility	1,452,655	10,256,857	17,020,200	5,894,199	4,838,918	39,462,829	2,521,671	9,932,025	7,009,165	32,467,771	0	3,332,694	94,726,155	0	0	94,726,155
420 Durable Medical Equipment	414,018	1,729,067	1,026,043	609,908	428,817	4,207,853	301,979	675,176	492,386	2,323,009	0	98,035	8,098,439	0	0	8,098,439
421 Dental	110,538	18,747,515	2,511,252	2,072,133	47,076	23,488,513	20,625	359,904	167,083	868,541	0	79,071	24,983,737	0	0	24,983,737
422 Transportation	1,045,998	3,922,547	3,689,629	2,043,746	937,151	11,639,072	1,013,684	2,828,078	1,193,852	10,351,463	0	829,568	27,855,716	0	0	27,855,716
423 Nursing Facility, Home Health Care	33,308	299,729	395,210	197,930	377,142	1,303,318	1,070,892	1,956,049	472,159	5,081,439	0	64,597	9,948,454	0	0	9,948,454
424 Physical Therapy	25,578	207,036	425,030	225,347	214,520	1,097,510	166,408	235,565	252,548	1,097,338	0	24,747	2,874,116	0	0	2,874,116
434 Value Based Purchasing Initiatives Provider Expenses	632,035	1,081,865	1,371	443	416	1,716,129	201	1,268	583	2,752	0	740	1,721,673	0	0	1,721,673
425 Miscellaneous Medical Expenses	25,469	2,085,147	746,849	475,913	225,523	3,558,899	978,250	1,801,078	288,049	1,279,346	0	22,956	7,928,578	0	0	7,928,578
426 Behavioral Health Day Program	0	0	0	0	0	0	3,633	0	0	0	0	0	3,633	0	0	3,633
427 Behavioral Health Case Management Services	0	315	21,559	16,930	30,928	69,731	372,106	1,211	1,274	4,315	0	708	449,345	0	0	449,345
428 Behavioral Health Crisis Intervention Services	559,255	2,159,545	2,867,775	975,556	479,103	7,041,235	99,728	958,577	745,141	4,733,196	0	369,186	13,947,063	0	0	13,947,063
429 Behavioral Health Rehabilitation Services	0	46	854	1,851	2,003	4,755	194,168	248	0	36	0	0	199,206	0	0	199,206
430 Behavioral Health Residential Services	0	0	0	0	0	0	19,655	0	0	0	0	0	19,655	0	0	19,655
431 All Other Behavioral Health Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
438 PPC-Other Medical Expenses	128,926	578,668	823,371	481,544	156,866	2,169,375	109,730	216,798	858,237	5,021,486	0	491,077	8,866,702	0	0	8,866,702
<b>Total Other Medical</b>	<b>8,292,637</b>	<b>66,070,453</b>	<b>60,252,846</b>	<b>27,016,456</b>	<b>19,800,249</b>	<b>181,432,641</b>	<b>8,547,271</b>	<b>53,618,935</b>	<b>26,752,211</b>	<b>135,773,056</b>	<b>0</b>	<b>9,200,237</b>	<b>415,324,351</b>	<b>0</b>	<b>0</b>	<b>415,324,351</b>
<b>TOTAL MEDICAL EXP</b>	<b>45,514,289</b>	<b>101,563,726</b>	<b>99,255,877</b>	<b>41,542,165</b>	<b>32,505,671</b>	<b>320,381,728</b>	<b>16,737,434</b>	<b>87,838,373</b>	<b>44,984,707</b>	<b>243,685,149</b>	<b>0</b>	<b>37,431,694</b>	<b>751,059,084</b>	<b>0</b>	<b>0</b>	<b>751,059,084</b>
<b>Less:</b>																
440 Reinsurance	(3,353,871)	(1,948,659)	(1,389,280)	(1,698,848)	(363,760)	(8,754,418)	(163,268)	(8,215,791)	(676,234)	(8,020,840)	0	(588,770)	(26,419,322)	0	0	(26,419,322)
442 Third Party Liability	(175,851)	(869,391)	(1,334,460)	(380,834)	(356,254)	(3,116,790)	(271,175)	(341,012)	(467,437)	(2,381,403)	0	(221,508)	(6,799,324)	0	0	(6,799,324)
<b>TOTAL NET MEDICAL EXP</b>	<b>41,984,567</b>	<b>98,745,676</b>	<b>96,532,137</b>	<b>39,462,483</b>	<b>31,785,657</b>	<b>308,510,520</b>	<b>16,302,991</b>	<b>79,281,570</b>	<b>43,841,036</b>	<b>233,282,906</b>	<b>0</b>	<b>36,621,415</b>	<b>717,840,438</b>	<b>0</b>	<b>0</b>	<b>717,840,438</b>
<b>TOTAL ADMIN EXP</b>	<b>3,637,455</b>	<b>8,684,170</b>	<b>10,143,119</b>	<b>3,571,484</b>	<b>3,323,264</b>	<b>29,359,493</b>	<b>1,841,344</b>	<b>7,118,689</b>	<b>4,679,821</b>	<b>21,825,656</b>	<b>0</b>	<b>3,034,950</b>	<b>67,859,953</b>	<b>0</b>	<b>0</b>	<b>67,859,953</b>
<b>TOTAL EXPENSES</b>	<b>45,622,022</b>	<b>107,429,846</b>	<b>106,675,256</b>	<b>43,033,967</b>	<b>35,108,921</b>	<b>337,870,013</b>	<b>18,144,335</b>	<b>86,400,259</b>	<b>48,520,857</b>	<b>255,108,562</b>	<b>0</b>	<b>39,656,365</b>	<b>785,700,391</b>	<b>0</b>	<b>0</b>	<b>785,700,391</b>
Inc (loss) from operations	4,482,308	598,830	23,280,608	3,815,348	8,627,845	40,804,938	4,799,615									

**HEALTH CHOICE ARIZONA, INC.**  
HEALTH CHOICE ARIZONA - OPERATIONS BY COUNTY

**Paragraph 4.09**

Health Choice Arizona  
Year Ended: 09/30/2017

GSA 2 Yuma/La Paz	TANF < 1 MF	TANF 1-13 MF	TANF 14-44 F	TANF 14-44 M	TANF 45+	TANF Total	SSI w/Med	SSI w/o Med	Adults > 106%	Adults <= 106%	SOBRA FP	SOBRA MOMS	Title XIX Total	State Only Transplant	State Only Total	Grand Total
<b>REVENUE &amp; EXPENSES</b>																
<b>Member Months</b>																
PPC Member Months	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pros. Member Months	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Member Months	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>REVENUES</b>																
305 Prospective Capitation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
310 PPC Capitation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
312 Value Based Purchasing Initiatives Reconciliation/Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
315 Delivery Supplement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
319 Adults > 106% Reconciliation Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
320 Prospective Tiered Reconciliation Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
321 TWG Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
322 PPC Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
323 PCP Parity Cost Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
324 Health Insurers Fee Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
325 Investment Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
330 Other Income (specify)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL REVENUES</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>EXPENSES</b>																
Hospitalization																
402 Hospital Inpatient	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
404 Hospital Inpatient -Behavioral Health Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
406 PPC-Hospital Inpatient	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Hospitalization</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Medical Compensation																
408 Primary Care Physician Services	159	0	0	0	0	159	0	0	0	0	0	0	159	0	0	159
409 Behavioral Health Physician Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
410 Referral Physician Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
411 FQHC/RHC Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
412 Other Professional Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
414 PPC - Physician Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
415 PCP Parity Enhanced Payment Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Medical Comp</b>	159	0	0	0	0	159	0	0	0	0	0	0	159	0	0	159
Other Medical Expenses																
416 Emergency Facility Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
417 Pharmacy	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
418 Lab, X-ray, & Medical Imaging	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
419 Outpatient Facility	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
420 Durable Medical Equipment	0	0	0	0	0	0	738	0	0	0	0	387	1,125	0	0	1,125
421 Dental	0	1,938	132	152	0	2,222	0	118	0	0	0	0	2,339	0	0	2,339
422 Transportation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
423 Nursing Facility, Home Health Care	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
424 Physical Therapy	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
434 Value Based Purchasing Initiatives Provider Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
425 Miscellaneous Medical Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
426 Behavioral Health Day Program	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
427 Behavioral Health Case Management Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
428 Behavioral Health Crisis Intervention Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
429 Behavioral Health Rehabilitation Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
430 Behavioral Health Residential Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
431 All Other Behavioral Health Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
438 PPC-Other Medical Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Other Medical</b>	0	1,938	132	152	0	2,222	738	118	0	0	0	387	3,465	0	0	3,465
<b>TOTAL MEDICAL EXP</b>	159	1,938	132	152	0	2,381	738	118	0	0	0	387	3,623	0	0	3,623
<b>Less:</b>																
440 Reinsurance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
442 Third Party Liability	0	0	(3,327)	0	(7,281)	(10,608)	(9,647)	(3,369)	0	(5,071)	0	(2,127)	(30,822)	0	0	(30,822)
<b>TOTAL NET MEDICAL EXP</b>	159	1,938	(3,194)	152	(7,281)	(8,227)	(8,909)	(3,251)	0	(5,071)	0	(1,740)	(27,199)	0	0	(27,199)
<b>TOTAL ADMIN EXP</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL EXPENSES</b>	159	1,938	(3,194)	152	(7,281)	(8,227)	(8,909)	(3,251)	0	(5,071)	0	(1,740)	(27,199)	0	0	(27,199)
Inc (loss) from operations	(159)	(1,938)	3,194	(152)	7,281	8,227	8,909	3,251	0	5,071	0	1,740	27,198	0	0	27,198
Non-operating inc (loss)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inc (loss) before taxes	(159)	(1,938)	3,194	(152)	7,281	8,227	8,909	3,251	0	5,071	0	1,740	27,198	0	0	27,198
Income taxes	(16)	(216)	554	(18)	990	1,294	1,564	562	0	592	0	205	4,217	0	0	4,217
Premium taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Health Insurers Fee	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>NET INCOME (LOSS)</b>	(143)	(1,721)	2,641	(134)	6,291	6,933	7,345	2,689	0	4,479	0	1,535	22,981	0	0	22,981

See Independent Auditors' Report on Supplementary Information  
Differences due to rounding

**HEALTH CHOICE ARIZONA, INC.**  
HEALTH CHOICE ARIZONA - OPERATIONS BY COUNTY

**Paragraph 4.09**

**Health Choice Arizona**

**Year Ended: 09/30/2017**

<b>GSA 4 Apache/Coconino/Mohave/Navajc</b>	<b>TANF &lt; 1 MF</b>	<b>TANF 1-13 MF</b>	<b>TANF 14-44 F</b>	<b>TANF 14-44 M</b>	<b>TANF 45+</b>	<b>TANF Total</b>	<b>SSI w/Med</b>	<b>SSI w/o Med</b>	<b>Adults &gt; 106%</b>	<b>Adults &lt;= 106%</b>	<b>SOBRA FP</b>	<b>SOBRA MOMS</b>	<b>Title XIX Total</b>	<b>State Only Transplant</b>	<b>State Only Total</b>	<b>Grand Total</b>
<b>REVENUE &amp; EXPENSES</b>																
<b>Member Months</b>																
PPC Member Months	570	3,310	1,856	1,327	374	<b>7,437</b>	488	536	1,087	3,691	0	445	<b>13,684</b>	0	0	<b>13,684</b>
Pros. Member Months	21,181	242,871	126,056	81,006	28,891	<b>500,005</b>	41,262	27,945	41,148	159,901	0	11,036	<b>781,297</b>	0	0	<b>781,297</b>
Total Member Months	21,751	246,181	127,912	82,333	29,265	<b>507,442</b>	41,750	28,481	42,235	163,592	0	11,481	<b>794,981</b>	0	0	<b>794,981</b>
<b>REVENUES</b>																
305 Prospective Capitation	8,976,752	25,666,302	32,481,217	13,268,084	11,688,702	<b>92,081,057</b>	6,016,337	26,675,482	16,628,157	70,861,599	0	2,823,956	<b>215,086,588</b>	0	0	<b>215,086,588</b>
310 PPC Capitation	730,541	216,147	464,567	259,396	174,268	<b>1,844,918</b>	37,488	373,642	515,437	3,730,962	0	113,487	<b>6,615,934</b>	0	0	<b>6,615,934</b>
312 Value Based Purchasing Initiatives Reconciliation/Settlement	0	0	0	0	0	<b>0</b>	0	0	0	0	0	0	<b>0</b>	0	0	<b>0</b>
315 Delivery Supplement	0	0	1,154,088	0	0	<b>1,154,088</b>	5,770	126,950	0	323,145	0	6,433,301	<b>8,043,254</b>	0	0	<b>8,043,254</b>
319 Adults > 106% Reconciliation Settlement	0	0	0	0	0	<b>0</b>	0	0	(2,803,386)	0	0	(34,841)	<b>(2,838,227)</b>	0	0	<b>(2,838,227)</b>
320 Prospective Tiered Reconciliation Settlement	(175,328)	(2,023,297)	(1,092,351)	(635,482)	(232,070)	<b>(4,158,529)</b>	(390,173)	(342,837)	(119,475)	(1,035,256)	0	(60,204)	<b>(6,106,474)</b>	0	0	<b>(6,106,474)</b>
321 TWG Settlement	0	0	0	0	0	<b>0</b>	0	0	0	0	0	0	<b>0</b>	0	0	<b>0</b>
322 PPC Settlement	191,196	411,381	589,622	1,773,022	311,984	<b>3,277,205</b>	15,676	84,359	(40,122)	(40,122)	0	313,385	<b>3,650,503</b>	0	0	<b>3,650,503</b>
323 PCP Parity Cost Settlement	0	0	0	0	0	<b>0</b>	0	0	0	0	0	0	<b>0</b>	0	0	<b>0</b>
324 Health Insurers Fee Revenue	34,650	378,934	197,131	127,912	46,218	<b>784,845</b>	62,346	44,519	64,480	249,639	0	18,051	<b>1,223,879</b>	0	0	<b>1,223,879</b>
325 Investment Income	0	0	0	0	0	<b>0</b>	0	0	0	0	0	0	<b>0</b>	0	0	<b>0</b>
330 Other Income (specify)	3,266	36,957	19,238	12,464	4,448	<b>76,373</b>	6,232	4,325	6,363	24,755	0	1,725	<b>119,772</b>	0	0	<b>119,772</b>
<b>TOTAL REVENUES</b>	<b>9,761,077</b>	<b>24,686,423</b>	<b>33,813,511</b>	<b>14,805,396</b>	<b>11,993,550</b>	<b>95,059,956</b>	<b>5,753,678</b>	<b>28,966,439</b>	<b>14,291,575</b>	<b>74,114,722</b>	<b>0</b>	<b>9,608,859</b>	<b>225,795,229</b>	<b>0</b>	<b>0</b>	<b>225,795,229</b>
<b>EXPENSES</b>																
<b>Hospitalization</b>																
402 Hospital Inpatient	3,720,516	1,611,156	2,416,241	1,250,996	1,145,219	<b>10,144,128</b>	643,627	4,986,341	1,603,479	11,793,446	0	3,199,732	<b>32,370,754</b>	0	0	<b>32,370,754</b>
404 Hospital Inpatient - Behavioral Health Services	0	0	0	2,666	0	<b>2,666</b>	25,375	30,000	0	44,724	0	5,005	<b>107,770</b>	0	0	<b>107,770</b>
406 PPC-Hospital Inpatient	475,419	68,635	152,109	211,882	45,264	<b>953,310</b>	18,112	155,616	440,554	2,657,574	0	82,561	<b>4,307,727</b>	0	0	<b>4,307,727</b>
<b>Total Hospitalization</b>	<b>4,195,935</b>	<b>1,679,792</b>	<b>2,568,350</b>	<b>1,465,545</b>	<b>1,190,483</b>	<b>11,100,104</b>	<b>687,115</b>	<b>5,171,965</b>	<b>2,044,033</b>	<b>14,495,745</b>	<b>0</b>	<b>3,287,297</b>	<b>36,786,251</b>	<b>0</b>	<b>0</b>	<b>36,786,251</b>
<b>Medical Compensation</b>																
408 Primary Care Physician Services	1,464,770	2,444,743	1,671,688	740,449	664,949	<b>6,986,599</b>	309,959	1,512,067	869,839	4,317,142	0	213,521	<b>14,209,127</b>	0	0	<b>14,209,127</b>
409 Behavioral Health Physician Services	0	6,550	7,410	10,489	17,747	<b>42,197</b>	238,409	1,156	3,136	4,768	0	689	<b>290,355</b>	0	0	<b>290,355</b>
410 Referral Physician Services	110,948	497,909	1,729,184	725,430	641,005	<b>3,704,477</b>	348,150	1,410,578	807,441	3,159,777	0	2,176,603	<b>11,607,025</b>	0	0	<b>11,607,025</b>
411 FQHC/RHC Services	336,992	1,064,160	1,207,880	308,788	310,950	<b>3,228,770</b>	81,877	374,069	399,853	1,564,252	0	259,043	<b>5,907,864</b>	0	0	<b>5,907,864</b>
412 Other Professional Services	277,545	892,580	899,787	281,700	248,093	<b>2,599,705</b>	156,667	425,005	325,652	1,350,052	0	225,675	<b>5,082,756</b>	0	0	<b>5,082,756</b>
414 PPC - Physician Services	48,762	30,397	41,279	26,315	13,745	<b>160,497</b>	8,485	24,773	75,624	507,890	0	44,775	<b>822,044</b>	0	0	<b>822,044</b>
415 PCP Parity Enhanced Payment Expense	0	0	0	0	0	<b>0</b>	0	0	0	0	0	0	<b>0</b>	0	0	<b>0</b>
<b>Total Medical Comp</b>	<b>2,239,018</b>	<b>4,936,338</b>	<b>5,557,228</b>	<b>2,093,171</b>	<b>1,896,489</b>	<b>16,722,245</b>	<b>1,143,547</b>	<b>3,747,647</b>	<b>2,481,546</b>	<b>10,903,881</b>	<b>0</b>	<b>2,920,306</b>	<b>37,919,171</b>	<b>0</b>	<b>0</b>	<b>37,919,171</b>
<b>Other Medical Expenses</b>																
416 Emergency Facility Services	360,212	1,778,808	2,109,055	927,522	408,302	<b>5,583,899</b>	148,479	751,473	556,872	3,237,777	0	256,779	<b>10,535,278</b>	0	0	<b>10,535,278</b>
417 Pharmacy	105,889	2,649,448	4,195,540	2,513,780	2,894,922	<b>12,359,579</b>	136,653	9,569,209	2,865,559	13,159,868	0	235,332	<b>38,326,201</b>	0	0	<b>38,326,201</b>
418 Lab, X-ray, & Medical Imaging	115,499	1,164,060	1,122,625	495,755	320,859	<b>3,218,798</b>	172,236	587,412	435,376	2,302,460	0	283,692	<b>6,999,974</b>	0	0	<b>6,999,974</b>
419 Outpatient Facility	350,128	2,554,893	4,999,403	1,787,917	1,610,893	<b>11,303,233</b>	785,698	3,294,246	2,339,135	10,832,052	0	976,953	<b>29,531,317</b>	0	0	<b>29,531,317</b>
420 Durable Medical Equipment	34,759	391,180	284,674	159,510	99,077	<b>969,199</b>	88,010	159,498	109,444	534,859	0	19,962	<b>1,880,972</b>	0	0	<b>1,880,972</b>
421 Dental	13,619	5,875,528	738,082	618,406	6,888	<b>7,252,522</b>	6,715	121,824	47,172	237,648	0	21,766	<b>7,687,647</b>	0	0	<b>7,687,647</b>
422 Transportation	476,252	1,411,141	1,312,095	875,058	431,009	<b>4,512,555</b>	403,624	1,231,129	485,352	4,027,293	0	323,493	<b>10,983,447</b>	0	0	<b>10,983,447</b>
423 Nursing Facility, Home Health Care	5,320	70,443	89,234	61,915	56,777	<b>283,689</b>	261,911	477,776	156,551	925,904	0	2,169	<b>2,107,999</b>	0	0	<b>2,107,999</b>
424 Physical Therapy	2,572	45,955	90,662	55,981	47,502	<b>242,672</b>	30,529	61,922	58,055	255,975	0	1,853	<b>651,006</b>	0	0	<b>651,006</b>
434 Value Based Purchasing Initiatives Provider Expenses	0	0	0	0	0	<b>0</b>	0	0	0	0	0	0	<b>0</b>	0	0	<b>0</b>
425 Miscellaneous Medical Expenses	3,109	626,311	203,655	142,418	43,319	<b>1,018,813</b>	108,655	339,087	39,638	271,245	0	3,841	<b>1,781,279</b>	0	0	<b>1,781,279</b>
426 Behavioral Health Day Program	0	0	0	0	0	<b>0</b>	(10)	0	0	0	0	0	<b>(10)</b>	0	0	<b>(10)</b>
427 Behavioral Health Case Management Services	0	11	3,812	8,652	11,469	<b>23,943</b>	140,415	305	621	504	0	534	<b>166,322</b>	0	0	<b>166,322</b>
428 Behavioral Health Crisis Intervention Services	123,272	508,657	702,062	292,219	137,125	<b>1,763,335</b>	27,062	276,175	198,444	1,166,717	0	86,772	<b>3,518,504</b>	0	0	<b>3,518,504</b>
429 Behavioral Health Rehabilitation Services	0	0	179	606	956	<b>1,741</b>	29,726	119	0	9	0	0	<b>31,595</b>	0	0	<b>31,595</b>
430 Behavioral Health Residential Services	0	0	0	0	0	<b>0</b>	8,179	0	0	0	0	0	<b>8,179</b>	0	0	<b>8,179</b>
431 All Other Behavioral Health Services	0	0	0	0	0	<b>0</b>	0	0	0	0	0	0	<b>0</b>	0	0	<b>0</b>
438 PPC-Other Medical Expenses	41,910	153,086	194,322	153,082	47,141	<b>589,541</b>	26,565	60,148	242,479	1,434,396	0	101,308	<b>2,454,437</b>	0	0	<b>2,454,437</b>
<b>Total Other Medical</b>	<b>1,632,541</b>	<b>17,236,520</b>	<b>16,045,399</b>	<b>8,092,820</b>	<b>6,116,239</b>	<b>49,123,518</b>	<b>2,374,447</b>	<b>16,930,323</b>	<b>7,534,698</b>	<b>38,386,707</b>	<b>0</b>	<b>2,314,454</b>	<b>116,664,147</b>	<b>0</b>	<b>0</b>	<b>116,664,147</b>
<b>TOTAL MEDICAL EXP</b>	<b>8,067,493</b>	<b>23,852,649</b>	<b>24,170,977</b>	<b>11,651,536</b>	<b>9,203,211</b>	<b>76,945,867</b>	<b>4,205,109</b>	<b>25,849,926</b>	<b>12,060,277</b>	<b>63,786,333</b>	<b>0</b>	<b>8,522,058</b>	<b>191,369,569</b>	<b>0</b>	<b>0</b>	<b>191,369,569</b>
<b>Less:</b>																
440 Reinsurance	(580,848)	(683,009)	(157,565)	(205,229)	(83,463)	<b>(1,710,113)</b>	(132,589)	(2,630,465)	(130,904)	(2,055,077)	0	(2,723)	<b>(6,661,871)</b>	0	0	<b>(6,661,871)</b>
442 Third Party Liability	(29,132)	(166,229)	(297,822)	(108,632)	(54,701)	<b>(656,515)</b>	(82,717)	(56,993)	(89,566)	(379,083)	0	(14,625)	<b>(1,279,500)</b>	0	0	<b>(1,279,500)</b>
<b>TOTAL NET MEDICAL EXP</b>	<b>7,457,514</b>	<b>23,003,411</b>	<b>23,715,590</b>	<b>11,337,676</b>	<b>9,065,048</b>	<b>74,579,239</b>	<b>3,989,802</b>	<b>23,162,468</b>	<b>11,839,807</b>	<b>61,352,173</b>	<b>0</b>	<b>8,504,709</b>	<b>183,428,199</b>	<b>0</b>	<b>0</b>	<b>183,428,199</b>
<b>TOTAL ADMIN EXP</b>																
<b>TOTAL ADMIN EXP</b>	<b>754,380</b>	<b>1,977,196</b>	<b>2,603,331</b>	<b>1,037,081</b>	<b>904,259</b>	<b>7,276,246</b>	<b>462,826</b>	<b>2,116,967</b>	<b>1,318,048</b>	<b>5,784,148</b>	<b>0</b>	<b>718,334</b>	<b>17,676,570</b>	<b>0</b>	<b>0</b>	<b>17,676,570</b>
<b>TOTAL EXPENSES</b>																
<b>TOTAL EXPENSES</b>	<b>8,211,894</b>	<b>24,980,607</b>	<b>26,318,921</b>	<b>12,374,757</b>	<b>9,969,307</b>	<b>81,855,485</b>	<b>4,452,629</b>	<b>25,279,435</b>	<b>13,157,855</b>	<b>67,136,321</b>						

**HEALTH CHOICE ARIZONA, INC.**  
HEALTH CHOICE ARIZONA - OPERATIONS BY COUNTY

**Paragraph 4.09**

Health Choice Arizona  
Year Ended: 09/30/2017

GSA 8 Glia/Final	TANF < 1 MF	TANF 1-13 MF	TANF 14-44 F	TANF 14-44 M	TANF 45+	TANF Total	SSI w/Med	SSI w/o Med	Adults > 106%	Adults <= 106%	SOBRA FF	SOBRA MOMS	Title XIX Total	State Only Transplant	State Only Total	Grand Total
<b>REVENUE &amp; EXPENSES</b>																
<b>Member Months</b>																
PPC Member Months	402	2,657	1,428	977	262	5,726	268	299	586	2,384	0	328	9,591	0	0	9,591
Pros. Member Months	14,016	149,494	77,797	44,411	16,542	302,260	30,756	16,398	23,099	90,774	0	6,977	470,264	0	0	470,264
<b>Total Member Months</b>	14,418	152,151	79,225	45,388	16,804	307,986	31,024	16,697	23,685	93,158	0	7,305	479,855	0	0	479,855
<b>REVENUES</b>																
305 Prospective Capitation	6,666,355	16,575,463	19,317,321	6,505,583	7,508,440	56,573,163	5,106,040	13,295,481	9,384,029	41,676,615	0	1,761,961	127,797,289	0	0	127,797,289
310 PPC Capitation	393,615	181,480	303,311	167,424	108,738	1,154,568	21,528	192,392	246,441	2,000,472	0	70,445	3,685,846	0	0	3,685,846
312 Value Based Purchasing Initiatives Reconciliation/Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
315 Delivery Supplement	0	0	884,964	0	0	884,964	0	69,735	0	343,180	0	3,760,175	5,058,053	0	0	5,058,053
319 Adults > 106% Reconciliation Settlement	0	0	0	0	0	0	0	0	(2,677,901)	0	0	0	(2,677,901)	0	0	(2,677,901)
320 Prospective Tiered Reconciliation Settlement	(122,296)	(1,167,767)	(639,337)	(326,064)	(124,738)	(2,380,202)	(304,274)	(182,819)	(98,266)	(693,036)	0	(43,408)	(3,702,003)	0	0	(3,702,003)
321 TWG Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
322 PPC Settlement	1,400	2,392	4,583	2,316	2,181	12,871	290	2,643	0	67,718	0	653	84,174	0	0	84,174
323 PCP Parity Cost Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
324 Health Insurers Fee Revenue	22,777	231,179	119,817	68,617	25,562	467,953	47,118	26,195	36,281	141,229	0	11,203	729,979	0	0	729,979
325 Investment Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
330 Other Income (specify)	2,155	22,757	11,866	6,793	2,534	46,105	4,650	2,519	3,597	14,008	0	1,088	71,966	0	0	71,966
<b>TOTAL REVENUES</b>	6,964,006	15,845,505	20,002,525	6,424,669	7,522,718	56,759,423	4,875,352	13,406,145	6,894,182	43,550,186	0	5,562,116	131,047,404	0	0	131,047,404
<b>EXPENSES</b>																
Hospitalization																
402 Hospital Inpatient	2,625,413	1,277,147	1,712,254	1,162,849	674,531	7,452,193	462,956	2,106,648	1,101,289	6,553,038	0	2,193,128	19,869,253	0	0	19,869,253
404 Hospital Inpatient -Behavioral Health Services	0	0	4,079	0	0	4,079	28,394	0	0	38,234	0	0	70,706	0	0	70,706
406 PPC-Hospital Inpatient	442,402	214,964	67,475	91,993	27,075	843,909	10,028	174,350	228,785	1,645,052	0	63,754	2,965,878	0	0	2,965,878
<b>Total Hospitalization</b>	3,067,815	1,492,111	1,783,808	1,254,842	701,605	8,300,181	501,378	2,280,998	1,330,074	8,236,324	0	2,256,882	22,905,837	0	0	22,905,837
Medical Compensation																
408 Primary Care Physician Services	1,093,759	1,340,177	1,326,596	400,955	528,647	4,690,133	386,826	916,175	624,193	2,938,237	0	185,299	9,740,863	0	0	9,740,863
409 Behavioral Health Physician Services	0	7,761	19,990	6,428	20,619	54,798	204,198	6,078	1,711	7,259	0	1,076	275,120	0	0	275,120
410 Referral Physician Services	59,045	380,764	1,171,464	323,627	628,135	2,563,037	359,359	761,997	639,292	2,514,019	0	1,147,331	7,985,034	0	0	7,985,034
411 FQHC/RHC Services	576,880	1,713,180	1,332,365	400,249	316,629	4,339,302	41,463	474,248	445,504	1,818,626	0	316,646	7,435,790	0	0	7,435,790
412 Other Professional Services	203,837	894,964	930,753	239,274	209,501	2,388,330	167,217	310,735	247,294	1,201,058	0	217,111	4,531,745	0	0	4,531,745
414 PPC - Physician Services	40,534	40,890	26,000	19,565	27,850	154,839	9,708	29,820	55,765	235,223	0	29,831	514,985	0	0	514,985
415 PCP Parity Enhanced Payment Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Medical Comp</b>	1,974,056	4,287,737	4,807,168	1,390,098	1,731,179	14,190,238	1,168,771	2,499,054	2,013,759	8,714,422	0	1,897,294	30,483,538	0	0	30,483,538
Other Medical Expenses																
416 Emergency Facility Services	297,408	1,248,830	1,573,893	504,088	237,823	3,862,041	123,968	462,037	342,435	1,985,950	0	168,735	6,945,166	0	0	6,945,166
417 Pharmacy	117,487	1,908,276	3,227,490	1,345,823	2,263,022	8,862,098	158,601	4,255,642	2,422,370	9,177,290	0	257,017	25,133,019	0	0	25,133,019
418 Lab, X-ray, & Medical Imaging	89,616	895,975	962,614	371,144	234,291	2,553,640	133,602	481,806	363,103	1,926,987	0	267,787	5,726,924	0	0	5,726,924
419 Outpatient Facility	215,591	2,034,972	3,276,792	946,198	917,195	7,390,749	513,014	1,765,981	1,282,572	5,792,202	0	680,019	17,424,536	0	0	17,424,536
420 Durable Medical Equipment	56,488	271,590	156,819	75,896	65,960	626,744	35,601	117,695	94,141	446,510	0	9,905	1,330,596	0	0	1,330,596
421 Dental	12,245	2,142,114	353,599	239,823	12,802	2,760,582	3,381	57,609	28,589	157,002	0	13,064	3,020,227	0	0	3,020,227
422 Transportation	214,838	778,281	862,035	380,139	183,130	2,418,423	214,304	589,041	230,194	1,884,834	0	159,271	5,496,067	0	0	5,496,067
423 Nursing Facility, Home Health Care	4,770	43,729	32,318	27,317	118,425	226,559	192,599	367,506	96,163	684,242	0	3,101	1,570,171	0	0	1,570,171
424 Physical Therapy	4,290	22,083	96,170	53,082	41,477	217,102	42,447	48,139	61,119	265,728	0	4,464	638,999	0	0	638,999
434 Value Based Purchasing Initiatives Provider Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
425 Miscellaneous Medical Expenses	4,057	324,676	100,299	107,453	34,718	571,203	171,759	307,582	48,112	142,203	0	3,271	1,244,128	0	0	1,244,128
426 Behavioral Health Day Program	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
427 Behavioral Health Case Management Services	0	137	5,885	4,948	9,791	20,761	104,029	377	74	539	0	247	126,028	0	0	126,028
428 Behavioral Health Crisis Intervention Services	88,490	327,985	498,099	156,386	85,280	1,156,240	15,873	163,923	120,462	713,615	0	61,035	2,231,148	0	0	2,231,148
429 Behavioral Health Rehabilitation Services	0	0	474	1,301	255	2,030	25,491	0	0	0	0	0	27,520	0	0	27,520
430 Behavioral Health Residential Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
431 All Other Behavioral Health Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
438 PPC-Other Medical Expenses	21,836	97,121	120,874	65,220	16,435	321,487	30,277	43,642	106,193	692,656	0	62,266	1,256,521	0	0	1,256,521
<b>Total Other Medical</b>	1,127,115	10,095,771	11,267,362	4,278,808	4,220,603	30,989,659	1,764,948	8,660,979	5,195,525	23,869,758	0	1,690,181	72,171,050	0	0	72,171,050
<b>TOTAL MEDICAL EXP</b>	6,168,986	15,875,619	17,858,338	6,923,748	6,653,388	53,480,079	3,435,096	13,441,031	8,539,358	40,820,504	0	5,844,357	125,560,425	0	0	125,560,425
Less:																
440 Reinsurance	(545,568)	(591,106)	(75,731)	(171,495)	(80,685)	(1,464,584)	15,534	(654,053)	(123,904)	(1,321,590)	0	(21,585)	(3,570,182)	0	0	(3,570,182)
442 Third Party Liability	(39,069)	(146,985)	(219,433)	(71,629)	(82,666)	(559,781)	(60,138)	(61,126)	(139,144)	(317,859)	0	(36,054)	(1,174,101)	0	0	(1,174,101)
<b>TOTAL NET MEDICAL EXP</b>	5,584,349	15,137,528	17,563,175	6,680,624	6,490,037	51,455,713	3,390,493	12,725,853	8,276,310	39,181,055	0	5,786,718	120,816,142	0	0	120,816,142
<b>TOTAL ADMIN EXP</b>	567,330	1,288,130	1,575,792	565,671	582,096	4,569,018	391,444	1,094,503	734,020	3,395,740	0	467,142	10,651,867	0	0	10,651,867
<b>TOTAL EXPENSES</b>	6,141,679	16,425,658	19,138,967	7,246,295	7,072,132	56,024,731	3,781,937	13,820,356	9,010,330	42,576,795	0	6,253,860	131,468,009	0	0	131,468,009
Inc (loss) from operations	822,327	(580,152)	863,558	(821,626)	450,585	734,692	1,093,414	(414,211)	(2,116,148)	973,391	0	(691,744)	(420,605)	0	0	(420,605)
Non-operating inc (loss)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inc (loss) before taxes	822,327	(580,152)	863,558	(821,626)	450,585	734,692	1,093,414	(414,211)	(2,116,148)	973,391	0	(691,744)	(420,605)	0	0	(420,605)
Income taxes	201,344	95,461	340,673	(46,679)	154,998	745,798	196,030	72,157	(176,334)	585,089	0</					

**HEALTH CHOICE ARIZONA, INC.**  
HEALTH CHOICE ARIZONA - OPERATIONS BY COUNTY

Paragraph 4.09

Health Choice Arizona

Year Ended: 09/30/2017

GSA 10 Pima/Santa Cruz

REVENUE & EXPENSES	TANF < 1 MF	TANF 1-13 MF	TANF 14-44 F	TANF 14-44 M	TANF 45+	TANF Total	SSI w/Med	SSI w/o Med	Adults > 106%	Adults <= 106%	SOBRA FP	SOBRA MOMS	Title XIX Total	State Only Transplant	State Only Total	Grand Total
<b>Member Months</b>																
PPC Member Months	466	2,585	1,269	865	265	<b>5,450</b>	236	296	705	2,651	0	308	<b>9,646</b>	0	0	<b>9,646</b>
Pros. Member Months	16,361	183,530	92,515	51,664	17,419	<b>361,489</b>	28,357	15,670	27,604	100,876	0	7,800	<b>541,796</b>	0	0	<b>541,796</b>
Total Member Months	16,827	186,115	93,784	52,529	17,684	<b>366,939</b>	28,593	15,966	28,309	103,527	0	8,108	<b>551,442</b>	0	0	<b>551,442</b>
<b>REVENUES</b>																
305 Prospective Capitation	8,605,526	19,273,186	22,330,944	7,472,996	6,893,623	<b>64,576,275</b>	4,051,266	13,640,276	9,572,426	42,402,140	0	1,874,627	<b>136,117,011</b>	0	0	<b>136,117,011</b>
310 PPC Capitation	730,905	135,245	281,280	130,600	83,151	<b>1,361,180</b>	19,178	182,466	240,118	1,859,270	0	61,173	<b>3,723,386</b>	0	0	<b>3,723,386</b>
312 Value Based Purchasing Initiatives Reconciliation/Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
315 Delivery Supplement	0	0	1,053,824	0	0	<b>1,053,824</b>	12,164	48,737	0	371,618	0	4,873,571	<b>6,359,934</b>	0	0	<b>6,359,934</b>
319 Adults > 106% Reconciliation Settlement	0	0	0	0	0	0	0	0	(1,666,898)	0	0	0	<b>(1,666,898)</b>	0	0	<b>(1,666,898)</b>
320 Prospective Tiered Reconciliation Settlement	(148,254)	(1,581,329)	(832,112)	(414,489)	(136,963)	<b>(3,113,149)</b>	(315,584)	(220,104)	(89,217)	(803,587)	0	0	<b>(4,528,502)</b>	0	0	<b>(4,528,502)</b>
321 TWG Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
322 PPC Settlement	310,065	171,771	200,239	269,608	146,825	<b>1,098,507</b>	8,363	496,311	0	(24,037)	0	326,663	<b>1,905,807</b>	0	0	<b>1,905,807</b>
323 PCP Parity Cost Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
324 Health Insurers Fee Revenue	25,966	290,399	144,467	80,775	27,250	<b>568,857</b>	43,849	24,489	43,297	159,510	0	13,107	<b>853,108</b>	0	0	<b>853,108</b>
325 Investment Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
330 Other Revenue (specify)	2,577	27,886	14,072	7,922	2,691	<b>55,148</b>	4,303	2,424	4,235	15,556	0	1,221	<b>82,888</b>	0	0	<b>82,888</b>
<b>TOTAL REVENUES</b>	<b>9,526,783</b>	<b>18,317,157</b>	<b>23,192,714</b>	<b>7,547,412</b>	<b>7,016,576</b>	<b>65,600,643</b>	<b>3,823,560</b>	<b>14,174,600</b>	<b>8,103,961</b>	<b>43,980,471</b>	<b>0</b>	<b>7,068,934</b>	<b>142,752,169</b>	<b>0</b>	<b>0</b>	<b>142,752,169</b>
<b>EXPENSES</b>																
<b>Hospitalization</b>																
402 Hospital Inpatient	3,279,763	1,210,569	2,016,526	826,430	669,968	<b>8,003,256</b>	399,522	1,854,515	877,733	5,857,672	0	2,404,363	<b>19,397,061</b>	0	0	<b>19,397,061</b>
404 Hospital Inpatient -Behavioral Health Services	0	0	0	25,000	0	<b>25,000</b>	16,441	50,837	0	0	0	0	<b>92,278</b>	0	0	<b>92,278</b>
406 PPC-Hospital Inpatient	1,031,301	83,507	75,046	85,005	21,684	<b>1,296,543</b>	17,060	142,863	219,121	1,810,151	0	84,377	<b>3,570,115</b>	0	0	<b>3,570,115</b>
<b>Total Hospitalization</b>	<b>4,311,064</b>	<b>1,294,076</b>	<b>2,091,572</b>	<b>936,435</b>	<b>691,652</b>	<b>9,324,799</b>	<b>433,023</b>	<b>2,048,214</b>	<b>1,096,855</b>	<b>7,667,823</b>	<b>0</b>	<b>2,488,739</b>	<b>23,059,453</b>	<b>0</b>	<b>0</b>	<b>23,059,453</b>
<b>Medical Compensation</b>																
408 Primary Care Physician Services	1,589,109	1,457,835	1,070,602	377,485	356,171	<b>4,851,202</b>	319,026	786,327	435,170	2,240,619	0	147,039	<b>8,779,383</b>	0	0	<b>8,779,383</b>
409 Behavioral Health Physician Services	0	10,813	8,315	3,166	0	<b>8,315</b>	71,489	1,246	1,246	4,869	0	0	<b>114,189</b>	0	0	<b>114,189</b>
410 Referral Physician Services	70,805	404,368	1,318,887	250,541	492,772	<b>2,537,373</b>	232,059	1,147,387	649,726	2,160,421	0	1,750,671	<b>8,477,636</b>	0	0	<b>8,477,636</b>
411 FQHC/RHC Services	1,042,276	3,073,633	1,859,193	523,002	419,045	<b>6,917,149</b>	84,970	515,588	445,473	2,141,197	0	528,933	<b>10,633,210</b>	0	0	<b>10,633,210</b>
412 Other Professional Services	212,928	815,885	737,235	220,044	162,184	<b>2,148,272</b>	148,781	232,414	229,635	850,679	0	99,758	<b>3,709,540</b>	0	0	<b>3,709,540</b>
414 PPC - Physician Services	63,674	43,582	40,577	47,746	10,017	<b>205,607</b>	7,262	38,438	43,545	267,605	0	50,448	<b>612,905</b>	0	0	<b>612,905</b>
415 PCP Parity Enhanced Payment Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Medical Comp</b>	<b>2,978,792</b>	<b>5,806,127</b>	<b>5,034,809</b>	<b>1,425,688</b>	<b>1,443,354</b>	<b>16,688,770</b>	<b>863,588</b>	<b>2,657,458</b>	<b>1,874,909</b>	<b>7,665,389</b>	<b>0</b>	<b>2,576,748</b>	<b>32,326,863</b>	<b>0</b>	<b>0</b>	<b>32,326,863</b>
<b>Other Medical Expenses</b>																
416 Emergency Facility Services	213,075	1,142,164	1,307,529	418,597	179,154	<b>3,260,520</b>	48,846	278,997	302,150	1,727,865	0	101,186	<b>5,719,563</b>	0	0	<b>5,719,563</b>
417 Pharmacy	127,830	2,380,078	3,554,522	1,265,284	1,246,088	<b>8,573,803</b>	91,565	5,477,703	2,223,451	8,153,151	0	0	<b>24,752,601</b>	0	0	<b>24,752,601</b>
418 Lab, X-ray, & Medical Imaging	76,264	717,277	615,967	261,822	164,312	<b>1,837,642</b>	120,144	337,773	231,376	1,276,562	0	248,824	<b>4,052,321</b>	0	0	<b>4,052,321</b>
419 Outpatient Facility	179,315	1,490,442	3,066,958	1,054,452	670,532	<b>6,461,740</b>	465,099	1,419,353	1,054,217	4,379,725	0	516,819	<b>14,296,512</b>	0	0	<b>14,296,512</b>
420 Durable Medical Equipment	41,909	294,812	182,452	109,901	70,529	<b>689,603</b>	67,927	129,092	87,537	338,524	0	27,060	<b>1,339,142</b>	0	0	<b>1,339,142</b>
421 Dental	23,146	3,253,872	449,461	351,836	20,188	<b>4,098,504</b>	10,895	57,955	36,673	213,890	0	12,213	<b>4,430,130</b>	0	0	<b>4,430,130</b>
422 Transportation	71,765	484,473	504,842	239,118	93,574	<b>1,393,771</b>	110,092	333,596	142,261	1,322,165	0	91,396	<b>3,393,281</b>	0	0	<b>3,393,281</b>
423 Nursing Facility, Home Health Care	4,822	52,102	33,626	22,778	38,321	<b>151,650</b>	169,694	342,554	73,759	640,220	0	4,978	<b>1,382,854</b>	0	0	<b>1,382,854</b>
424 Physical Therapy	2,573	31,369	70,910	20,422	29,184	<b>154,458</b>	25,451	32,820	25,143	32,820	0	118,983	<b>363,430</b>	0	0	<b>363,430</b>
434 Value Based Purchasing Initiatives Provider Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
425 Miscellaneous Medical Expenses	6,376	390,694	115,209	70,811	52,327	<b>635,416</b>	221,888	422,869	30,310	174,486	0	3,297	<b>1,488,267</b>	0	0	<b>1,488,267</b>
426 Behavioral Health Day Program	0	0	0	0	0	0	98	0	0	0	0	0	<b>98</b>	0	0	<b>98</b>
427 Behavioral Health Case Management Services	0	0	2,593	1,332	3,264	<b>7,190</b>	41,361	100	(257)	(359)	0	(33)	<b>48,002</b>	0	0	<b>48,002</b>
428 Behavioral Health Crisis Intervention Services	82,008	343,738	466,904	143,583	71,734	<b>1,107,967</b>	26,290	123,712	112,905	687,483	0	46,554	<b>2,104,911</b>	0	0	<b>2,104,911</b>
429 Behavioral Health Rehabilitation Services	0	46	13	(57)	430	<b>433</b>	13,162	8	0	(36)	0	0	<b>13,587</b>	0	0	<b>13,587</b>
430 Behavioral Health Residential Services	0	0	0	0	0	0	6,445	0	0	0	0	0	<b>6,445</b>	0	0	<b>6,445</b>
431 All Other Behavioral Health Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
438 PPC-Other Medical Expenses	12,228	83,391	103,047	60,980	14,434	<b>274,080</b>	8,868	20,314	81,814	697,174	0	70,612	<b>1,152,863</b>	0	0	<b>1,152,863</b>
<b>Total Other Medical</b>	<b>843,311</b>	<b>10,654,458</b>	<b>10,474,034</b>	<b>4,020,859</b>	<b>2,654,075</b>	<b>28,646,736</b>	<b>1,427,845</b>	<b>8,968,168</b>	<b>4,409,017</b>	<b>19,730,232</b>	<b>0</b>	<b>1,362,098</b>	<b>64,544,007</b>	<b>0</b>	<b>0</b>	<b>64,544,007</b>
<b>TOTAL MEDICAL EXP</b>	<b>8,133,167</b>	<b>17,754,660</b>	<b>17,600,414</b>	<b>6,382,982</b>	<b>4,789,081</b>	<b>54,660,305</b>	<b>2,724,456</b>	<b>13,673,841</b>	<b>7,380,781</b>	<b>35,063,444</b>	<b>0</b>	<b>6,427,496</b>	<b>119,930,323</b>	<b>0</b>	<b>0</b>	<b>119,930,323</b>
<b>Less:</b>																
440 Reinsurance	(308,636)	(231,461)	(142,681)	(400,254)	(33,665)	<b>(1,116,698)</b>	9,414	(1,042,644)	(169,737)	(909,567)	0	(6,235)	<b>(3,235,467)</b>	0	0	<b>(3,235,467)</b>
442 Third Party Liability	(17,724)	(147,324)	(208,403)	(50,351)	(33,607)	<b>(457,410)</b>	(49,456)	(38,937)	(65,359)	(283,056)	0	(25,295)	<b>(919,513)</b>	0	0	<b>(919,513)</b>
<b>TOTAL NET MEDICAL EXP</b>	<b>7,806,807</b>	<b>17,375,875</b>	<b>17,249,330</b>	<b>5,932,377</b>	<b>4,721,809</b>	<b>53,086,198</b>	<b>2,684,413</b>	<b>12,592,260</b>	<b>7,145,685</b>	<b>33,870,821</b>	<b>0</b>	<b>6,396,967</b>	<b>115,775,343</b>	<b>0</b>	<b>0</b>	<b>115,775,343</b>
<b>TOTAL ADMIN EXP</b>	<b>725,826</b>	<b>1,496,981</b>	<b>1,808,150</b>	<b>585,902</b>	<b>534,229</b>	<b>5,151,089</b>	<b>309,675</b>	<b>1,074,467</b>	<b>752,930</b>	<b>3,426,234</b>	<b>0</b>	<b>523,587</b>	<b>11,237,982</b>	<b>0</b>	<b>0</b>	<b>11,237,982</b>
<b>TOTAL EXPENSES</b>	<b>8,532,633</b>	<b>18,872,856</b>	<b>19,</b>													

**HEALTH CHOICE ARIZONA, INC.**  
HEALTH CHOICE ARIZONA - OPERATIONS BY COUNTY

Paragraph 4.09  
Health Choice Arizona  
Year Ended: 09/30/2017

GSA Maricopa	TANF < 1 MF	TANF 1-13 MF	TANF 14-44 F	TANF 14-44 M	TANF 45+	TANF Total	SSI w/Med	SSI w/o Med	Adults > 106%	Adults <= 106%	SOBRA FP	SOBRA MOMS	Title XIX Total	State Only Transplant	State Only Total	Grand Total
<b>REVENUE &amp; EXPENSES</b>																
<b>Member Months</b>																
PPC Member Months	1,293	8,115	3,647	2,407	871	16,333	749	880	1,704	7,218	0	1,029	27,913	0	0	27,913
Pros. Member Months	44,783	458,558	200,020	117,191	37,388	857,940	56,627	39,551	59,627	234,843	0	19,904	1,268,492	0	0	1,268,492
<b>Total Member Months</b>	46,076	466,673	203,667	119,598	38,259	874,273	57,376	40,431	61,331	242,061	0	20,933	1,296,405	0	0	1,296,405
<b>REVENUES</b>																
305 Prospective Capitation	21,395,024	50,551,571	49,486,144	17,476,239	16,734,468	155,643,447	8,724,662	35,839,353	23,814,349	112,305,288	0	4,852,975	341,180,073	0	0	341,180,073
310 PPC Capitation	1,812,189	530,104	827,824	412,354	358,113	3,940,584	70,289	722,855	699,627	5,555,983	0	230,259	11,219,596	0	0	11,219,596
312 Value Based Purchasing Initiatives Reconciliation/Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
315 Delivery Supplement	0	0	2,945,584	0	0	2,945,584	6,335	151,970	0	810,828	0	12,225,457	16,140,173	0	0	16,140,173
319 Adults > 106% Reconciliation Settlement	0	0	0	0	0	0	0	0	(3,404,038)	0	0	(37,845)	(3,441,883)	0	0	(3,441,883)
320 Prospective Tiered Reconciliation Settlement	(331,762)	(3,329,163)	(1,472,072)	(762,176)	(257,088)	(6,152,261)	(447,324)	(334,287)	(163,936)	(1,474,895)	0	(99,138)	(8,671,841)	0	0	(8,671,841)
321 TWG Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
322 PPC Settlement	898,560	646,963	821,752	747,986	305,438	3,420,699	42,909	557,315	0	(56,422)	0	684,992	4,649,493	0	0	4,649,493
323 PCP Parity Cost Settlement	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
324 Health Insurers Fee Revenue	71,483	710,130	307,333	179,452	57,260	1,325,658	85,862	61,918	93,299	368,364	0	33,310	1,968,411	0	0	1,968,411
325 Investment Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
330 Other Income (specify)	6,970	69,986	30,549	17,982	5,733	131,218	8,628	6,080	9,204	36,334	0	3,136	194,601	0	0	194,601
<b>TOTAL REVENUES</b>	23,852,464	49,179,591	52,947,114	18,071,837	17,203,923	161,254,930	8,491,360	37,005,204	21,048,504	117,545,478	0	17,893,146	363,238,622	0	0	363,238,622
<b>EXPENSES</b>																
<b>Hospitalization</b>																
402 Hospital Inpatient	9,238,822	2,419,101	5,061,869	1,901,960	1,500,513	20,122,264	1,183,289	8,493,178	1,996,428	18,960,225	0	6,669,312	57,424,695	0	0	57,424,695
404 Hospital Inpatient -Behavioral Health Services	2,393	0	13,798	7,513	0	13,798	104,656	1,275	3,892	74,781	0	0	194,510	0	0	194,510
406 PPC-Hospital Inpatient	2,425,860	249,561	607,858	626,581	266,389	4,176,248	89,380	478,955	859,575	7,727,182	0	357,454	13,688,794	0	0	13,688,794
<b>Total Hospitalization</b>	11,667,074	2,668,662	5,677,724	2,528,540	1,770,794	24,312,310	1,377,326	2,867,408	2,856,003	26,762,187	0	7,026,766	71,307,999	0	0	71,307,999
<b>Medical Compensation</b>																
408 Primary Care Physician Services	4,094,808	6,382,088	3,890,027	1,476,862	1,236,292	17,080,078	687,858	2,668,759	1,493,695	8,816,138	0	604,249	31,350,777	0	0	31,350,777
409 Behavioral Health Physician Services	328	6,627	26,611	6,958	10,388	50,912	181,261	4,167	2,392	15,101	0	129	253,961	0	0	253,961
410 Referral Physician Services	230,525	1,074,627	3,571,010	764,862	996,559	6,637,584	734,474	2,616,562	1,697,524	7,483,451	0	3,805,198	22,974,791	0	0	22,974,791
411 FQHC/RHC Services	1,647,311	3,502,028	2,025,776	535,263	484,463	8,194,842	63,563	685,382	577,626	2,851,641	0	629,200	13,002,254	0	0	13,002,254
412 Other Professional Services	684,250	2,294,563	1,874,519	550,287	491,735	5,895,355	337,115	791,146	693,928	2,952,923	0	589,326	11,203,794	0	0	11,203,794
414 PPC - Physician Services	130,517	68,497	94,913	97,157	60,428	451,512	11,145	74,686	126,153	1,347,066	0	149,323	2,159,884	0	0	2,159,884
415 PCP Parity Enhanced Payment Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Medical Comp</b>	6,787,739	13,328,431	11,482,856	3,431,389	3,279,865	38,310,280	2,015,417	6,840,703	4,535,317	23,466,321	0	5,777,423	80,945,461	0	0	80,945,461
<b>Other Medical Expenses</b>																
416 Emergency Facility Services	971,233	3,588,989	3,165,379	1,086,370	443,915	9,255,886	129,573	902,190	746,436	4,934,302	0	402,032	16,370,419	0	0	16,370,419
417 Pharmacy	1,158,710	5,388,114	7,242,728	4,134,455	3,202,552	21,126,560	166,503	10,656,765	4,137,153	20,965,520	0	808,812	57,861,313	0	0	57,861,313
418 Lab, X-ray, & Medical Imaging	229,634	2,140,099	1,646,361	696,317	696,317	5,178,957	244,370	891,953	645,453	3,694,632	0	623,734	11,279,099	0	0	11,279,099
419 Outpatient Facility	707,622	4,176,550	5,677,047	2,105,632	1,640,298	14,307,147	757,860	3,452,445	2,333,242	11,463,793	0	1,159,303	33,473,790	0	0	33,473,790
420 Durable Medical Equipment	280,862	781,485	402,098	264,611	193,251	1,922,308	109,703	269,892	201,264	1,002,716	0	40,722	3,546,604	0	0	3,546,604
421 Dental	61,528	7,474,063	969,977	861,916	7,198	9,374,682	(367)	122,399	54,650	260,002	0	32,028	9,843,394	0	0	9,843,394
422 Transportation	283,144	1,241,652	1,010,657	549,431	229,437	3,314,322	285,663	674,312	336,045	3,117,170	0	255,409	7,982,921	0	0	7,982,921
423 Nursing Facility, Home Health Care	18,396	133,454	240,031	85,920	163,619	641,419	446,688	768,214	145,686	2,831,074	0	54,348	4,887,429	0	0	4,887,429
424 Physical Therapy	16,142	107,629	167,288	95,862	96,357	483,278	67,981	100,361	100,554	456,652	0	11,855	1,220,682	0	0	1,220,682
434 Value Based Purchasing Initiatives Provider Expenses	632,035	1,081,865	1,371	443	416	1,716,129	201	1,268	583	2,752	0	740	1,721,673	0	0	1,721,673
425 Miscellaneous Medical Expenses	11,926	743,466	327,685	155,232	95,159	1,333,468	475,948	731,539	169,990	691,412	0	12,547	3,414,904	0	0	3,414,904
426 Behavioral Health Day Program	0	0	0	0	0	0	3,544	0	0	0	0	0	3,544	0	0	3,544
427 Behavioral Health Case Management Services	0	166	9,269	1,997	6,405	17,838	86,301	428	836	3,631	0	(40)	108,994	0	0	108,994
428 Behavioral Health Crisis Intervention Services	265,485	979,165	1,200,711	383,369	184,963	3,013,693	30,504	394,766	313,330	2,165,381	0	174,825	6,092,499	0	0	6,092,499
429 Behavioral Health Rehabilitation Services	0	0	189	0	362	551	125,769	121	0	63	0	0	126,504	0	0	126,504
430 Behavioral Health Residential Services	0	0	0	0	0	0	5,031	0	0	0	0	0	5,031	0	0	5,031
431 All Other Behavioral Health Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
438 PPC-Other Medical Expenses	52,952	245,070	405,128	202,262	78,856	984,267	44,019	92,694	427,751	2,197,260	0	256,891	4,002,882	0	0	4,002,882
<b>Total Other Medical</b>	4,689,670	28,081,788	22,465,920	10,623,817	8,809,332	72,670,505	2,979,293	19,069,347	9,612,971	53,786,360	0	3,833,206	161,941,683	0	0	161,941,683
<b>TOTAL MEDICAL EXP</b>	23,144,483	44,078,860	39,626,015	16,583,746	11,859,990	135,293,095	6,372,036	34,873,458	17,004,291	104,014,868	0	16,637,396	314,195,144	0	0	314,195,144
<b>Less:</b>																
440 Reinsurance	(1,918,819)	(443,083)	(1,013,303)	(921,870)	(165,947)	(4,463,023)	(55,628)	(3,888,630)	(251,689)	(3,734,606)	0	(558,228)	(12,951,803)	0	0	(12,951,803)
442 Third Party Liability	(89,925)	(408,853)	(605,476)	(150,223)	(177,999)	(1,432,476)	(69,216)	(180,587)	(173,368)	(1,396,334)	0	(143,407)	(3,395,388)	0	0	(3,395,388)
<b>TOTAL NET MEDICAL EXP</b>	21,135,739	43,226,924	38,007,236	15,511,653	11,516,045	129,397,597	6,247,192	30,804,241	16,579,234	98,883,928	0	15,935,761	297,847,952	0	0	297,847,952
<b>TOTAL ADMIN EXP</b>	1,599,919	3,921,863	4,155,846	1,382,830	1,302,680	12,363,139	677,398	2,832,752	1,874,824	9,219,534	0	1,325,888	28,293,534	0	0	28,293,534
<b>TOTAL EXPENSES</b>	22,735,658	47,148,787	42,163,083	16,894,484	12,818,725	141,760,736	6,924,590	33,636,992	18,454,058	108,103,462	0	17,261,649	326,141,487	0	0	326,141,487
Inc (loss) from operations	1,116,806	2,030,804	10,784,031	1,177,354	4,385,198	19,494,193	1,566,770	3,368,212	2,594,447	9,442,016	0	631,497	37,097,136	0	0	37,097,136
Non-operating inc (loss)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inc (loss) before taxes	1,116,806	2,030,804	10,784,031	1,177,354	4,385,198	19,494,193	1,566,770	3,368,212	2,594,447	9,442,016	0	631,497	37,097,136	0	0	37,097,136
Income taxes	422,961	877,016	2,100,108	381,657	807,062	4,588,804	354,459	895,104	609,965	2,622,646	0	279,913	9,350,887	0	0	9,350,887
Premium taxes	484,507	1,068,358	1,112,505	371,680	355,756	3,392,806	181,472									

**HEALTH CHOICE ARIZONA, INC.**  
HEALTH CHOICE GENERATIONS - CLAIMS LAG REPORT

**Paragraph 4.07**

Health Choice Generations

Quarter Ended: 09/30/2017

Claims Lag Report

Expense Type: Hospital, Medical and Other (PPC and Prospective)

Payment Qtr	Current	1st Prior	2nd Prior	3rd Prior	4th Prior	5th Prior	6th Prior*	Total
<b>Current</b>	22,728,256.42	9,787,946.66	2,795,208.84	1,118,140.14	357,418.84	256,977.35	85,991.77	37,129,940.02
<b>1st Prior</b>		22,472,368.18	11,508,718.40	4,467,365.41	712,433.24	273,917.11	250,175.15	39,684,977.49
<b>2nd Prior</b>			19,692,935.65	7,486,119.43	1,342,391.17	760,875.07	332,622.45	29,614,943.77
<b>3rd Prior</b>				19,644,307.06	8,377,708.00	1,089,439.67	589,475.67	29,700,930.40
<b>4th Prior</b>					22,594,331.46	9,066,371.17	1,776,067.83	33,436,770.46
<b>5th Prior</b>						22,225,518.17	9,886,291.95	32,111,810.12
<b>6th Prior*</b>							21,920,462.26	21,920,462.26
<b>Totals</b>	22,728,256.42	32,260,314.84	33,996,862.89	32,715,932.04	33,384,282.71	33,673,098.54	34,841,087.08	223,599,834.52
<b>Expense</b>	37,243,448.39	39,617,608.77	29,243,389.02	32,528,495.52	37,226,412.70	42,954,826.92	32,104,982.58	250,919,163.91
<b>Adjustment</b>	1,331,344.77	(2,419,043.89)	6,656,439.41	1,040,957.97	(3,320,169.06)	(9,147,549.10)	2,776,392.19	(3,081,627.71)
<b>Remaining</b>	15,846,536.74	4,938,250.04	1,902,965.54	853,521.45	521,960.93	134,179.28	40,287.69	24,237,701.68

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

Claims Lag Report	\$ 24,237,702
Subcapitation Payable	(660)
<b>Total Medical Claims Payable</b>	<u>\$ 24,237,042</u>

See Independent Auditors' Report on Supplementary Information  
Differences due to rounding



**HEALTH CHOICE ARIZONA, INC.**  
HEALTH CHOICE GENERATIONS - OPERATIONS BY COUNTY

HEALTH CHOICE GENERATIONS Quarter Ended: 09/30/2017		01 Apache	05 Coconino	07 Gila	13 Maricopa	15 Mohave	17 Navajo	19 Pima	21 Pinal	23 Santa Cruz	25 Yavapai	27 Yuma	29 La Paz	TOTAL
<b>REVENUE &amp; EXPENSES</b>	<b>Member Months Enrollment</b>	1,452	2,909	4,409	37,846	16,703	5,114	24,535	23,042	-	-	-	-	116,010
<b>REVENUES</b>														
305	Capitation	1,602,881	2,704,387	4,042,461	40,181,572	16,761,695	5,115,992	24,864,322	23,797,938	(77)	-	-	-	119,071,169
310	PPC Capitation	-	-	-	-	-	-	-	-	-	-	-	-	-
312	Reserved	-	-	-	-	-	-	-	-	-	-	-	-	-
315	Delivery Supplement	77,857	179,453	260,887	2,422,729	1,035,561	304,875	1,534,165	1,451,295	(0)	-	-	-	7,266,822
319	Newly Eligible Adults Reconciliation Settlement	-	-	-	-	-	-	-	-	-	-	-	-	-
320	Prospective Tiered Reconciliation Settlement	-	-	-	-	-	-	-	-	-	-	-	-	-
321	TWG Settlement	-	-	-	-	-	-	-	-	-	-	-	-	-
322	PPC Settlement	-	-	-	-	-	-	-	-	-	-	-	-	-
323	PCP Parity Cost Settlement	-	-	-	-	-	-	-	-	-	-	-	-	-
324	Health Insurers Fee Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
325	Investment Income	-	-	-	-	-	-	-	-	-	-	-	-	-
330	Other Income	83,686	167,417	253,584	2,175,186	961,912	294,252	1,399,857	1,324,187	-	-	-	-	6,660,081
<b>TOTAL REVENUES</b>		<b>1,764,423</b>	<b>3,051,257</b>	<b>4,556,932</b>	<b>44,779,486</b>	<b>18,759,168</b>	<b>5,715,119</b>	<b>27,798,344</b>	<b>26,573,420</b>	<b>(77)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>132,998,072</b>
<b>EXPENSES</b>														
<b>Hospitalization</b>														
402	Hospital Inpatient	492,726	895,533	1,422,012	11,548,254	5,002,500	1,935,684	6,235,049	6,026,393	6,405	-	4,242	(0)	33,568,798
404	Hospital Inpatient -Behavioral Health Services	-	7,193	25,457	1,502,077	197,586	38,418	644,840	496,331	-	-	-	-	2,911,901.41
406	PPC-Hospital Inpatient	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Hospitalization</b>		<b>492,726</b>	<b>902,726</b>	<b>1,447,469</b>	<b>13,050,331</b>	<b>5,200,086</b>	<b>1,974,103</b>	<b>6,879,889</b>	<b>6,522,723</b>	<b>6,405</b>	<b>-</b>	<b>4,242</b>	<b>(0)</b>	<b>36,480,700</b>
<b>Medical Compensation</b>														
408	Primary Care Physician Services	166,995	220,880	492,046	6,122,975	1,644,068	486,365	1,767,626	2,465,495	947	-	1,338	49	13,368,783
409	Behavioral Health Physician Services	358	2,205	219	8,649	28	1,600	4,545	8,387	-	-	-	-	25,993
410	Referral Physician	85,839	318,221	390,114	2,902,416	826,945	336,858	1,263,299	1,540,992	8,964	-	(27)	(1)	7,673,618
411	FQHC/RHC Services	11,953	46,537	19,877	32,377	45,772	22,827	11,436	16,446	-	-	-	-	207,225
412	Other Professional	60,052	50,519	195,509	1,917,526	590,039	247,696	647,609	957,410	909	-	164	-	4,667,432
414	PPC - Physician Services	-	-	-	-	-	-	-	-	-	-	-	-	-
415	PCP Parity Enhanced Payment Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Medical Comp</b>		<b>325,196</b>	<b>638,363</b>	<b>1,097,765</b>	<b>10,983,942</b>	<b>3,106,853</b>	<b>1,095,346</b>	<b>3,694,515</b>	<b>4,988,730</b>	<b>10,819</b>	<b>-</b>	<b>1,474</b>	<b>48</b>	<b>25,943,050</b>
<b>Other Medical Expenses</b>														
416	Emergency Services	53,637	124,634	196,061	2,166,899	765,454	226,688	825,620	997,842	276	-	79	-	5,357,191
417	Pharmacy	454,026	1,246,757	1,532,497	14,113,515	6,220,831	1,737,665	10,563,889	8,036,358	(708)	-	-	-	43,904,831
418	Lab, X-ray, & med image	37,628	112,128	148,280	1,617,216	472,214	124,368	875,146	798,383	1,259	-	50	-	4,186,671
419	Outpatient Facility	174,547	158,154	552,801	3,178,913	1,555,861	404,974	1,797,375	1,987,421	331	-	21	-	9,810,398
420	Durable Med Equip	175	1,195	2,935	91,052	20,105	5,492	17,798	31,469	28	-	(6)	-	170,244
421	Dental	12,753	33,540	45,203	520,815	168,073	76,697	196,054	317,812	6	-	(287)	-	1,370,666
422	Transportation	69,367	34,118	164,900	500,314	425,139	277,648	282,608	454,405	32	-	0	-	2,208,531
423	NF, Home HC	58,428	63,865	104,268	1,316,278	390,994	95,729	571,816	764,413	128	-	-	28	3,365,948
424	Physical Therapy	3,919	15,858	13,920	161,752	31,611	27,235	48,768	117,230	-	-	-	-	420,294
434	Value Based Purchasing Initiatives Provider Expenses	-	-	-	12,919	-	-	-	-	-	-	-	-	12,919
425	Miscellaneous Med Exp	125,430	90,666	180,134	3,019,117	853,515	280,505	1,699,236	1,620,892	64	-	0	0	7,869,559
426	Behavioral Health Day Program	-	-	-	-	-	-	-	-	-	-	-	-	-
427	Behavioral Health Case Management Services	-	-	-	31	-	24	-	-	-	-	-	-	55.16
428	Behavioral Health Crisis Intervention Services	6,949	24,493	54,814	428,416	180,722	32,927	189,075	239,602	-	-	-	-	1,156,998.55
429	Behavioral Health Rehabilitation Services	-	-	-	-	-	-	64	-	-	-	-	-	64.11
430	Behavioral Health Residential Services	-	-	-	-	-	-	-	-	-	-	-	-	-
431	All Other Behavioral Health Services	-	-	-	-	-	-	-	-	-	-	-	-	-
438	PPC-Other	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Other Medical</b>		<b>996,859</b>	<b>1,905,408</b>	<b>2,995,814</b>	<b>27,127,237</b>	<b>11,084,519</b>	<b>3,289,954</b>	<b>17,067,450</b>	<b>15,365,826</b>	<b>1,416</b>	<b>-</b>	<b>(143)</b>	<b>29</b>	<b>79,834,369</b>
<b>TOTAL MEDICAL EXP</b>		<b>1,814,781</b>	<b>3,446,497</b>	<b>5,541,048</b>	<b>51,161,509</b>	<b>19,391,458</b>	<b>6,359,402</b>	<b>27,641,855</b>	<b>26,877,279</b>	<b>18,641</b>	<b>-</b>	<b>5,573</b>	<b>76</b>	<b>142,258,119</b>
<b>Less:</b>														
440	Reinsurance	(354,600)	(726,905)	(1,111,897)	(9,471,558)	(4,334,811)	(1,323,429)	(6,137,973)	(6,070,039)	0	-	-	-	(29,531,213)
441	Reserved	-	-	-	-	-	-	-	-	-	-	-	-	-
442	Third Party Liability	(26,785)	(2,379)	(1,306)	(69,259)	(6,120)	(18,828)	(31,300)	(21,961)	-	-	-	-	(177,936)
<b>TOTAL NET MEDICAL EXP</b>		<b>1,433,396</b>	<b>2,717,214</b>	<b>4,427,845</b>	<b>41,620,692</b>	<b>15,050,526</b>	<b>5,017,145</b>	<b>21,472,582</b>	<b>20,785,279</b>	<b>18,641</b>	<b>-</b>	<b>5,573</b>	<b>76</b>	<b>112,548,970</b>
<b>TOTAL ADMIN EXP</b>														
<b>TOTAL ADMIN EXP</b>		<b>172,362</b>	<b>297,967</b>	<b>445,277</b>	<b>4,388,442</b>	<b>1,834,223</b>	<b>559,257</b>	<b>2,719,783</b>	<b>2,600,326</b>	<b>(8)</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>13,017,628</b>
<b>TOTAL EXPENSES</b>														
<b>TOTAL EXPENSES</b>		<b>1,605,758</b>	<b>3,015,181</b>	<b>4,873,122</b>	<b>46,009,134</b>	<b>16,884,749</b>	<b>5,576,402</b>	<b>24,192,364</b>	<b>23,385,605</b>	<b>18,633</b>	<b>-</b>	<b>5,573</b>	<b>76</b>	<b>125,566,598</b>
<b>Inc (loss) from operations</b>														
<b>Inc (loss) from operations</b>		<b>158,665</b>	<b>36,076</b>	<b>(316,191)</b>	<b>(1,229,648)</b>	<b>1,874,419</b>	<b>138,717</b>	<b>3,605,979</b>	<b>3,187,815</b>	<b>(18,710)</b>	<b>-</b>	<b>(5,573)</b>	<b>(76)</b>	<b>7,431,474</b>
<b>Non-operating inc (loss)</b>														
<b>Inc (loss) before taxes</b>		<b>158,665</b>	<b>36,076</b>	<b>(316,191)</b>	<b>(1,229,648)</b>	<b>1,874,419</b>	<b>138,717</b>	<b>3,605,979</b>	<b>3,187,815</b>	<b>(18,710)</b>	<b>-</b>	<b>(5,573)</b>	<b>(76)</b>	<b>7,431,474</b>
<b>Income taxes</b>		<b>298,836</b>	<b>65,175</b>	<b>152,852</b>	<b>2,849,751</b>	<b>(276,412)</b>	<b>26,803</b>	<b>(121,629)</b>	<b>(394,761)</b>	<b>(5,825)</b>	<b>-</b>	<b>7,542</b>	<b>(1,316)</b>	<b>2,601,016</b>
<b>Premium Tax</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Health Insurer's Fee</b>		<b>6,174</b>	<b>12,137</b>	<b>19,141</b>	<b>164,223</b>	<b>71,024</b>	<b>21,664</b>	<b>109,376</b>	<b>100,062</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>503,802</b>
<b>NET INCOME (LOSS)</b>		<b>(146,345)</b>	<b>(41,236)</b>	<b>(488,183)</b>	<b>(4,243,622)</b>	<b>2,079,807</b>	<b>90,251</b>	<b>3,618,232</b>	<b>3,482,515</b>	<b>(12,885)</b>	<b>-</b>	<b>(13,115)</b>	<b>1,240</b>	<b>4,326,656</b>

See Independent Auditors' Report on Supplementary Information  
Differences due to rounding

**HEALTH CHOICE ARIZONA, INC.**  
Sub-Capitated Expenses Report

**Paragraph 4.10**

Health Choice Arizona

Quarter Ended: 09/30/2017

Sub-Capitated Expenses Report

**EXCLUDE PCP ENHANCED PARITY PAYMENTS**

Account	Account Description	Amount	YTD Amount
<i>Sub-Capitated Hospitalization Expenses:</i>			
402	Hospital Inpatient	\$ -	\$ -
404	Hospital Inpatient -Behavioral Health Services	\$ -	\$ -
406	PPC-Hospital Inpatient	\$ -	\$ -
<i>Total Sub-Capitated Hospitalization Expense:</i>		\$ -	\$ -
<i>Sub-Capitated Medical Compensation Expenses:</i>			
408	Primary Care Physician Services	\$ 590,564.92	\$ 2,862,602.36
409	Behavioral Health Physician Services	\$ -	\$ -
410	Referral Physician Services	\$ -	\$ -
411	FQHC/RHC Services	\$ -	\$ -
412	Other Professional Services	\$ -	\$ -
414	PPC - Physician Services	\$ -	\$ -
<i>Total Sub-Capitated Medical Compensation Expenses:</i>		\$ 590,564.92	\$ 2,862,602.36
<i>Sub-Capitated Other Medical Expenses:</i>			
416	Emergency Facility Services	\$ -	\$ -
417	Pharmacy	\$ -	\$ -
418	Lab, X-ray, & Medical Imaging	\$ 3,839,902.01	\$ 14,256,803.89
419	Outpatient Facility	\$ 1,507,431.66	\$ 6,202,593.07
420	Durable Medical Equipment	\$ 954,646.84	\$ 3,707,023.40
421	Dental	\$ -	\$ -
422	Transportation	\$ 1,504,568.51	\$ 6,369,654.64
423	Nursing Facility, Home Health Care	\$ 203,836.40	\$ 831,356.59
424	Physical Therapy	\$ -	\$ -
434	Value Based Purchasing Initiatives Provider Expenses	\$ -	\$ -
425	Miscellaneous Medical Expenses	\$ -	\$ -
426	Behavioral Health Day Program	\$ -	\$ -
427	Behavioral Health Case Management Services	\$ -	\$ -
428	Behavioral Health Crisis Intervention Services	\$ -	\$ -
429	Behavioral Health Rehabilitation Services	\$ -	\$ -
430	Behavioral Health Residential Services	\$ -	\$ -
431	All Other Behavioral Health Services	\$ -	\$ -
438	PPC-Other Medical Expenses	\$ -	\$ -
<i>Total Sub-Capitated Other Medical Expenses:</i>		\$ 8,010,385.42	\$ 31,367,431.59
<i>Total Sub-Capitated Expenses:</i>		\$ 8,600,950.34	\$ 34,230,033.95

See Independent Auditors' Report on Supplementary Information  
Differences due to rounding