

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

Years Ended September 30, 2014 and 2013

**BRIDGEWAY HEALTH SOLUTIONS  
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Mayer Hoffman McCann P.C.

An Independent CPA Firm

3101 North Central Avenue, Suite 300  
Phoenix, Arizona 85012  
602-264-6835 ph  
602-265-7631 fx  
www.mhm-pc.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

**BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC**

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

We have audited the accompanying financial statements of ***Bridgeway Health Solutions of Arizona, LLC***, which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of operations, member's equity and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 ***Bridgeway Health Solutions of Arizona, LLC*** as of September 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Phoenix, Arizona  
January 26, 2015

*Mayer Hoffman McCann P.C.*

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**BALANCE SHEETS**

September 30, 2014 and 2013

	<u><b>ASSETS</b></u>	
	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 41,569,679	\$ 46,001,275
Receivables:		
Reinsurance receivables, net	2,256,566	2,958,154
Capitation and supplement receivables	4,038,987	3,848,973
Pharmacy receivable	1,251,781	280,950
Interest receivable	8,712	9,133
Due from affiliated companies	4,673,878	2,555,623
Income tax receivable	1,015,773	4,474,053
Provider advances, net	551,588	214,693
Prepaid expenses	389,942	244,017
Deferred income tax asset	<u>2,733,287</u>	<u>2,034,275</u>
<b>TOTAL CURRENT ASSETS</b>	<b>58,490,193</b>	<b>62,621,146</b>
 PROPERTY AND EQUIPMENT, net	 383,264	 591,125
 INVESTMENTS	 1,500,000	 1,500,000
 DEPOSITS	 <u>1,840</u>	 <u>1,840</u>
 <b>TOTAL ASSETS</b>	 <b><u>\$ 60,375,297</u></b>	 <b><u>\$ 64,714,111</u></b>

**LIABILITIES AND MEMBER'S EQUITY**

<b>CURRENT LIABILITIES</b>		
Payable to providers	\$ 27,727,573	\$ 35,535,126
Payable to Arizona Health Care Cost Containment System	2,343,333	431,100
Accounts payable and accrued expenses	2,227,013	912,393
Due to affiliated companies	<u>6,586,099</u>	<u>7,349,095</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>38,884,018</b>	<b>44,227,714</b>
 DEFERRED INCOME TAX LIABILITY	 86,538	 196,999
 OTHER NON-CURRENT LIABILITIES	 <u>56,011</u>	 <u>80,015</u>
<b>TOTAL LIABILITIES</b>	<b><u>39,026,567</u></b>	<b><u>44,504,728</u></b>
 MEMBER'S EQUITY	 <u>21,348,730</u>	 <u>20,209,383</u>
 <b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	 <b><u>\$ 60,375,297</u></b>	 <b><u>\$ 64,714,111</u></b>

See Notes to Financial Statements

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**STATEMENTS OF OPERATIONS**

Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Capitation premiums	\$ 244,998,680	\$ 295,833,980
Delivery supplement	-	3,488,513
Reinsurance	6,283,360	5,264,262
Other	251,806	176,073
	<u>251,533,846</u>	<u>304,762,828</u>
<b>HEALTH CARE EXPENSES</b>		
Hospitalization	11,060,450	22,955,730
Medical compensation	6,810,105	18,224,051
Ancillary and other medical services	23,331,062	52,954,585
Institutional	177,967,240	182,579,566
	<u>219,168,857</u>	<u>276,713,932</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	20,518,200	21,291,539
<b>HEALTH INSURER FEE</b>	856,775	-
<b>PREMIUM TAX EXPENSE</b>	<u>4,420,190</u>	<u>5,515,210</u>
<b>TOTAL EXPENSES</b>	<u>244,964,022</u>	<u>303,520,681</u>
<b>OPERATING INCOME</b>	6,569,824	1,242,147
<b>NONOPERATING INCOME</b>		
Interest income	<u>218,437</u>	<u>264,684</u>
<b>NET INCOME BEFORE TAXES</b>	6,788,261	1,506,831
<b>PROVISION FOR INCOME TAXES</b>	<u>2,648,914</u>	<u>530,519</u>
<b>NET INCOME</b>	<u>\$ 4,139,347</u>	<u>\$ 976,312</u>

See Notes to Financial Statements

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**STATEMENTS OF MEMBER'S EQUITY**

Years Ended September 30, 2014 and 2013

	<b>Investment by CenCorp Health Solutions</b>	<b>Retained Earnings (Deficit)</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance, September 30, 2012	\$ 24,800,000	\$ (6,566,929)	\$ 18,233,071
Member contributions	1,000,000	-	1,000,000
Net income	<u>-</u>	<u>976,312</u>	<u>976,312</u>
Balance, September 30, 2013	25,800,000	(5,590,617)	20,209,383
Member distributions	(3,000,000)	-	(3,000,000)
Net income	<u>-</u>	<u>4,139,347</u>	<u>4,139,347</u>
Balance, September 30, 2014	<u>\$ 22,800,000</u>	<u>\$ (1,451,270)</u>	<u>\$ 21,348,730</u>

See Notes to Financial Statements

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**STATEMENTS OF CASH FLOWS**

Years Ended September 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 4,139,347	\$ 976,312
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	229,872	251,053
Loss on disposition of fixed assets	791	402
Change in deferred income taxes	(809,473)	(228,671)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Reinsurance receivables	701,588	1,594,581
Capitation and supplement receivables	(190,014)	(1,100,502)
Pharmacy receivable	(970,831)	(30,497)
Interest receivable	421	700
Income tax receivable	3,458,280	676,910
Other receivable	-	159,318
Provider advances	(336,895)	(6,733)
Prepaid expenses	(145,925)	13,708
Increase (decrease) in:		
Payable to providers	(7,807,553)	(2,483,015)
Payable to Arizona Health Care Cost Containment System	1,912,233	273,799
Accounts payable and accrued expenses	1,314,620	370,678
Due to/from affiliated companies	(2,881,251)	734,463
Other current liability	-	(248,906)
Other non-current liability	(24,004)	(24,005)
Net cash provided by (used in) operating activities	(1,408,794)	929,595
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(22,802)	(11,827)
Net cash used in investing activities	(22,802)	(11,827)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Member contributions	-	1,000,000
Member distributions	(3,000,000)	-
Net cash provided by (used in) financing activities	(3,000,000)	1,000,000
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 (4,431,596)	 1,917,768
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	46,001,275	44,083,507
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 41,569,679	\$ 46,001,275
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Income taxes paid	\$ -	\$ -

See Notes to Financial Statements



# BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2014 and 2013

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

**Nature of operations** - Effective May 16, 2006, *Bridgeway Health Solutions of Arizona, LLC* ("Bridgeway" or the "Company"), was incorporated in the State of Arizona. Located in Tempe, Arizona, Bridgeway is a managed care organization and is wholly owned by CenCorp Health Solutions, a subsidiary of Centene Corporation ("Centene"). Bridgeway was initially funded through a \$5.0 million capital contribution from CenCorp Health Solutions which was funded through a capital contribution from Centene.

In 2006, Bridgeway was awarded an Arizona Long-Term Care System ("ALTCS") contract with the Arizona Health Care Cost Containment System ("AHCCCS") which commenced October 1, 2006. The ALTCS contract was renewed through repurchase in August 2011. In accordance with the contract, Bridgeway was designated as a Program Contractor for Maricopa, Yuma, and LaPaz Counties. Effective October 1, 2011, Bridgeway began serving ALTCS members in Cochise, Gila, Graham, Greenlee and Pinal counties, as well as continuing as a Program Contractor in Maricopa County. Effective October 1, 2011, Bridgeway no longer served ALTCS members in Yuma and La Paz counties.

In 2008, Bridgeway was awarded an Acute Care contract with AHCCCS which commenced October 1, 2008 and expired September 30, 2011. In accordance with this contract, Bridgeway was designated as a Program Contractor for Yavapai County. The contract was renewed for the periods October 1, 2011 through September 30, 2013. The contract was not subsequently renewed and terminated September 30, 2013. For the year ended September 30, 2013, the total revenues and expenses related to the Acute Care contract were approximately \$60.3 million and \$59.9 million, respectively.

Bridgeway functions as a health management organization and, except for member services functions and limited utilization management functions, does not provide direct healthcare services to eligible members. Direct healthcare services are provided to eligible members by a network of subcontracted providers. Substantially all of Bridgeway's revenues are from its contracts with AHCCCS and CMS.

Effective January 1, 2008, Bridgeway entered into a Medicare Advantage Plan ("Medicare Advantage") with the Centers for Medicare and Medicaid Services ("CMS"). Medicare Advantage offers medical and prescription drug benefits to qualified members. Medicare Advantage operates as a special needs plan under CMS guidelines. The populations covered under Medicare Advantage are members who are eligible for both Medicare and Medicaid coverage. Virtually all of the members of Medicare Advantage receive their Medicaid benefits through an AHCCCS plan.

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 accounting policies followed by Bridgeway are as follows:

**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.

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2014 and 2013

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

**Capitation premiums** - Bridgeway receives from AHCCCS and CMS fixed capitation payments, based on certain rates for each member enrolled with Bridgeway. As of September 30, 2014 and 2013, Bridgeway received no capitation payments in advance. When paid in advance, these amounts are recorded to deferred revenue. Bridgeway is required to provide all covered health care services to their members, regardless of the cost of care. If there are funds remaining, Bridgeway retains the funds as profit; if the costs are higher than the amount of capitation payments from AHCCCS and CMS, Bridgeway absorbs the loss. Capitation premiums are recognized in the month that enrollees are entitled to health care services. Certain provisions of the AHCCCS Acute and ALTCS contracts include a risk band whereby Bridgeway and the AHCCCS programs share in the profits and losses of the contract, as defined in the respective contracts (reconciliation revenue). Bridgeway has recorded an estimate of the reconciliation revenue, within capitation premiums, based on the operational performance of the AHCCCS Acute and ALTCS lines of business. Bridgeway may recover certain losses for those cases eligible for reinsurance payments. Capitation premiums are recognized in accordance with Bridgeway's contracts with AHCCCS and CMS.

Capitation is paid prospectively as well as for prior period coverage (PPC). The PPC period is generally from the effective date of eligibility to the day a member is enrolled with a contracted health plan. The risk under PPC is shared by both Bridgeway and AHCCCS for the contract years ended September 30, 2014 and 2013. AHCCCS reconciles the actual PPC medical costs to the PPC capitation paid during the contract year. The Acute reconciliation limited the contractor's profits and losses to 2% for the contract year ended September 30, 2013. The ALTCS reconciliation limits the contractor's profits and losses to 5% for the contract years ended September 30, 2014 and 2013. As of September 30, 2014 the Company has recorded an estimated receivable of approximately \$411,000 due from AHCCCS for the PPC reconciliation for the 2013 contract year which is included in capitation and supplement receivables at September 30, 2014. Additionally, as of September 30, 2014 the Company has recorded an estimated payable of \$129,000 due to AHCCCS for the PPC ALTCS reconciliation for the 2014 contract year which is included in payable to AHCCCS at September 30, 2014. As of September 30, 2013 the Company recorded an estimated receivable of \$499,000 due from AHCCCS for the PPC reconciliation for contract years 2013 and 2012 which is included in capitation and supplement receivables at September 30, 2013. Additionally, as of September 30, 2013 the Company recorded an estimated payable of \$235,000 due to AHCCCS for the PPC Acute reconciliation for the contract year 2012 which is included in payable to AHCCCS at September 30, 2013. Actual results may differ from this estimate and such differences will be recorded in the period in which they are identified.

Similar risk sharing is in place for medical costs incurred by contracted health plans for the Title XIX Waiver Group ("TWG") members. AHCCCS reconciles the contractors' medical costs net of reinsurance to the total net capitation payments and delivery supplemental payments paid for the contract year. The reconciliation limits the contractors' profits or losses to 2%. As of September 30, 2014, the Company has recorded an estimated receivable of \$309,000 due from AHCCCS for the TWG non-MED reconciliation for the 2013 contract year, which is included in capitation and supplement receivables. As of September 30, 2013, the Company recorded an estimated receivable of approximately \$1,662,000 due from AHCCCS for the TWG non-Med reconciliations for contract years 2013 and 2012, which is included in capitation and supplement receivables at September 30, 2013. Actual results may differ from this estimate and such differences will be recorded in the period in which they are identified.

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2014 and 2013

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

The contractor's ALTCS capitation rate is based in part on the assumed ratio ("mix") of HCBS member months to the total number of member months (i.e. HCBS + institutional). At the end of the contract year, AHCCCS will compare the *actual percent* of HCBS member months to the *assumed* HCBS percentage that was used to calculate the full long term care capitation rate for that year. If the contractor's actual HCBS percentage is different than the assumed percentage, AHCCCS may recoup (or reimburse) the difference between the institutional capitation rate and the HCBS capitation rate for the number of member months which exceeded (or was less than) the assumed percentage. This reconciliation will be made in accordance with the following schedule:

<u>Percent Over/Under Assumed Percentage</u>	<u>Amount to be Recouped Reimbursed</u>
0 – 1%	0% of capitation over/under payment
> 1%	50% of capitation

As of September 30, 2014, the Company recorded an estimated payable of approximately \$876,000 for the HCBS reconciliation for contract year 2014, which is included in payable to AHCCCS at September 30, 2014. As of September 30, 2013, the Company recorded an estimated receivable of approximately \$617,000 for the HCBS reconciliation for contract year 2013, which is included in capitation and supplement receivables at September 30, 2013.

Effective with contract year ending September 30, 2012, AHCCCS recoups/reimburses a percentage of the contractors' profit or loss for certain prospective risk groups using a tiered approach. Populations subject to this tiered reconciliation are limited to Temporary Assistance to Needy Families ("TANF"), Sixth Omnibus Budget Reconciliation Act ("SOBRA"), SSI with Medicare, SSI without Medicare, and SOBRA Family Planning. Expenses incurred and revenues received for covered services with dates of service during PPC are excluded from this reconciliation. The reconciliation limits the contractors' profits and losses to a percent of prospective net capitation as specified in the contract.

Profits in excess of the percentages set forth in the contract will be recouped by AHCCCS. Losses in excess of the percentages set forth in the contract will be paid to the contractor. As of September 30, 2014, the Company has recorded an estimated payable of approximately \$1,338,000 due to AHCCCS for the tiered reconciliation for the contract year 2013 which is included in payable to AHCCCS.

As of September 30, 2013, the Company recorded an estimated receivable of approximately \$205,000 due from AHCCCS for the tiered reconciliation for the contract year 2012 which is included in capitation and supplement receivables. Additionally, as of September 30, 2013, the Company recorded an estimated payable of approximately \$196,000 due to AHCCCS for the tiered reconciliation for the contract year 2013 which is included in accounts payable and accrued expenses.

Capitation and supplement and reconciliation 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 capitation and supplement and reconciliation receivables. Capitation and supplement and reconciliation receivables at September 30, 2014 and 2013 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2014 and 2013

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

**Delivery supplement** - As part of the AHCCCS Acute Care contract, AHCCCS supplements capitation premiums with lump sum payments for births by women eligible under the Medicaid program. This delivery supplement represents childbirth delivery reimbursement which is recorded when the delivery occurs. Delivery revenue of approximately \$3,489,000 was recognized for the year ended September 30, 2013. As of September 30, 2013, approximately \$72,000 was due from AHCCCS related to delivery supplement. The delivery supplement ended with contract year 2013.

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

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

<u>Fee Year</u>	<u>Applicable Amount</u>
2014	\$ 8,000,000,000
2015	\$ 11,300,000,000
2016	\$ 11,300,000,000
2017	\$ 13,900,000,000
2018	\$ 14,300,000,000
2019 and thereafter	The applicable amount in the preceding fee year increased by the rate of premium growth.

As the designated entity of the controlled group, Centene passes the fee down to its subsidiaries based on an allocation of net premiums written. The health insurer fee is considered an excise tax and thus is nondeductible for income tax purposes. Centene has determined that ALTCS services are not subject to the health insurer fee. As such, only the Company's Acute Care and Medicare Advantage premiums are subject to the fee. Centene paid \$1,142,000 to the IRS on behalf of Bridgeway in September 2014 for the year ended December 31, 2014. As a result, at September 30, 2014, \$285,592 of health insurer fees are included in prepaid expenses in the accompanying balance sheet.

The State of Arizona has agreed to assist the health insurers with this fee through adjustments to capitation rates. No such adjustments are made for the Medicare Advantage plan. Subsequent to fiscal year end, in November 2014, Bridgeway was notified that the State of Arizona will provide capitation rate adjustments for the Acute Care contract in place for the year ended September 30, 2013. In December 2014, Bridgeway received approximately \$669,000 related to the health insurer fee capitation rate adjustments related to contract year 2013.

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2014 and 2013

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

**Medicare Advantage Risk Adjustments** - Under the Company's Medicare Advantage Plan, CMS deploys a risk adjustment model that retroactively apportions Medicare premiums paid according to health severity and certain demographic factors. The model pays more for members whose medical history indicates they have certain medical conditions. Under this risk adjustment methodology, CMS calculates the risk adjusted premium payment using diagnosis data from hospital inpatient, hospital outpatient, physician treatment settings as well as prescription drug events. The Company estimates the amount of risk adjustment based upon the diagnosis and pharmacy data submitted and expected to be submitted to CMS and records revenues on a risk adjusted basis. At September 30, 2014, Bridgeway recorded an estimated receivable of approximately \$612,000 due from CMS for the risk adjustment for contract year 2014 which is included in capitation and supplement receivables.

**Medicare Part D risk share settlement** - The risk share settlement includes expected payments to be paid to or received from CMS in connection with the pharmacy component of Medicare Advantage, Medicare Part D. This balance is reviewed and monitored by management and adjusted as necessary as experience develops or new information becomes available. Such adjustments are netted against the capitation premiums on the statements of operations. At September 30, 2014, Bridgeway recorded an estimated payable of approximately \$1,297,000 due to CMS for the Medicare Part D reconciliation for calendar year 2013 which is included in accounts payable and accrued expenses.

**Cost settlement for primary care payment parity** - The ACA requires that Contractors pay qualified primary care providers (and other providers specified in ACA) fees that are no less than the Medicare fee schedule in effect for 2014 and 2015, or the fee schedule rate that would result from applying the 2009 Medicare conversion factor, whichever is greater, for certain services designated by specific Current Procedural Terminology (CPT) codes. AHCCCS has developed an enhanced fee schedule containing the qualifying codes using the 2009 Medicare conversion factor in compliance with the greater-of requirement. The enhanced payments apply only to services provided on and after January 1, 2013 by qualified providers, who self-attest to AHCCCS as defined in the federal regulations.

The Company was required to reprocess all qualifying claims for qualifying providers back to January 1, 2013 dates of service with no requirements that providers re-submit claims or initiate any action. In the event that a provider retroactively loses his/her qualification for enhanced payments, the Contractor is required to identify impacted claims and automatically reprocess for the recoupment of enhanced payments. This reprocessing will be conducted by the Contractor without requirement of further action by the provider.

AHCCCS will make quarterly cost-settlement payments to the Contractor based upon adjudicated/approved encounter data. The Contractor will be required to refund payments to AHCCCS for any reduced claim payments in the event that a provider is subsequently "decertified" for enhanced payments due to audit or other reasons. As of September 30, 2014 and 2013, approximately \$2,191,000 and \$183,000 was due from AHCCCS for these cost-settlement payments based upon adjudicated/approved encounter data, which is included in capitation and supplement receivables.

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2014 and 2013

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

**Share of costs** - Bridgeway's members covered under the ALTCS program who do not meet certain eligibility criteria are required to pay for a portion of the care they receive. AHCCCS reduces the contracted capitation rate with Bridgeway by the estimated amount of participant shared costs. After contract year end, AHCCCS analyzes the amount that Bridgeway should have received from members for share of costs. If Bridgeway receives less money from the participants in payment of their share of the costs than AHCCCS anticipated, AHCCCS reimburses Bridgeway for the difference. If Bridgeway receives more money from the participants in payment of their share of the costs than AHCCCS anticipated, Bridgeway reimburses AHCCCS for the difference. As of September 30, 2014 and 2013, Bridgeway had approximately \$516,000 and \$651,000, respectively, due from AHCCCS related to share of cost, which is included in the capitation and supplement receivables.

Share of cost receivables/payables are based on assumptions and estimates, and while management believes the receivables/payables are reasonable, the ultimate share of cost payment for the 2014 and 2013 contract years may be less than or in excess of the amount estimated once AHCCCS completes the contract reconciliations. In May 2014, the 2013 share of cost receivable was settled for \$644,259, net of premium taxes. In May 2013, the 2012 share of cost receivable was settled for \$103,548, net of premium taxes.

**Reinsurance revenue** - AHCCCS provides a stop-loss reinsurance program for Bridgeway for partial reimbursement of reinsurable covered medical services incurred for members. The program includes a deductible, which varies based on Bridgeway's enrollment and the eligibility category of the members. AHCCCS reimburses Bridgeway based on a coinsurance amount for reinsurable covered services incurred above the deductible. Coinsurance percentages vary by nature of the claim for the Medicare contract. Bridgeway contracts with a commercial reinsurer to provide reinsurance for the Medicare Advantage Plan. Reinsurance revenue is stated at the actual and estimated amounts due to Bridgeway pursuant to the AHCCCS Acute, ALTCS and Medicare Advantage Plan contracts.

Below are the reinsurance thresholds by line of business:

<u>Line of Business</u>	<u>Annual Deductible Effective October 1, 2013</u>	<u>Annual Deductible Effective Prior to October 1, 2013</u>	<u>Coinsurance</u>
AHCCCS Acute – Prospective Only	\$ N/A	\$ 20,000	75%
Title XIX Waiver Group – Prospective Only	N/A	20,000	75%
ALTCS with Medicare	20,000	20,000	75%
ALTCS without Medicare	30,000	30,000	75%
Medicare Advantage	1,250,000	1,250,000	various

To be eligible for reinsurance billing, qualified healthcare expenses must be incurred during the contract year. Reinsurance revenue is recorded based on actual billed reinsurance claims adjusted for medical cost completion factors and Bridgeway's historical collection experience. Reinsurance revenue is subject to review by AHCCCS, and as a result, there is at least a reasonable possibility that recorded reinsurance revenue will change by a material amount in the near future.

# BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2014 and 2013

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

Reinsurance receivables represent the expected payment from AHCCCS to Bridgeway for certain enrollees whose qualifying medical expenses paid by Bridgeway 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. Management considers reinsurance receivables to be fully collectible as of September 30, 2014 and 2013 and, accordingly, an allowance for doubtful accounts is not considered necessary.

**Cash and cash equivalents** - Cash includes cash deposits in banks and cash equivalents. Bridgeway considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2014 and 2013, cash and cash equivalents consisted of cash, commercial paper and certificates of deposit with original maturities of three months or less. Commercial paper and certificates of deposit totaled approximately \$31 million and \$42 million at September 30, 2014 and 2013, respectively.

**Cash management** - The Company utilizes a cash management system whereby all deposits and disbursements are reconciled daily. As a result, checks issued but not presented to banks are classified in accounts payable in the balance sheets. There was \$574,084 and \$0 related to checks issued but not presented as of September 30, 2014 and 2013, respectively.

**Pharmacy receivable** - Bridgeway receives rebates from its pharmacy benefit manager based on the volume of drugs purchased. Bridgeway records a receivable and a reduction of medical expenses for estimated rebates due based on purchase information. Pharmacy rebates totaled approximately \$712,000 and \$397,000 for the years ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and 2013, management believes the pharmacy receivable balances are fully collectible and accordingly, an allowance has not been established.

**Provider advances** - Upon request, Bridgeway, in accordance with AHCCCS contract limitations, may advance monies to high-volume providers based on cash flow needs and timing of claims payments. Advances are stated at the amount management expects to collect or offset against future claims. 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 provider advances receivable. As of September 30, 2014 and 2013, management believes the provider advances are fully collectible and accordingly, an allowance has not been established.

**Investments** - Investments are classified as held to maturity and are carried at amortized cost. Unrealized gains and losses on investments available for sale, if any, are excluded from earnings and reported as a separate component of member's equity, net of income tax effects. Premiums and discounts are amortized or accreted over the life of the related security using the effective interest method. Bridgeway monitors the difference between the cost and fair value of investments.

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2014 and 2013

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

Investments that experience a decline in value that is judged to be other than temporary are written down to fair value and a realized loss is recorded in investment and other income. To calculate realized gains and losses on the sale of investments, Bridgeway uses the specific amortized cost of each investment sold.

Realized gains and losses are recorded in investment income.

As of September 30, 2014 and 2013 investments consisted entirely of municipal bonds valued at the principal amount of the bonds. Accordingly, there were no realized or unrealized gains or losses on investments for the years ended September 30, 2014 and 2013.

**Property and equipment** - Property and equipment is recorded at cost. Maintenance and repairs are charged to operations when incurred. Individual additions and improvements in excess of \$5,000 and group purchases in excess of \$30,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved and any gain or loss is included in operations. Depreciation is computed using the straight-line method over the following general range of estimated useful lives:

	<u>Estimated Useful Lives</u>
Leasehold improvements	1 - 20 years
Furniture and equipment	5 - 10 years
Computer hardware and software	3 - 7 years

**Impairment of long-lived assets** - Bridgeway accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment*. FASB ASC 360 requires that long-lived assets be 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 cost or fair value less costs to sell. No impairment charges were recorded for the years ended September 30, 2014 and 2013.

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

The liability for payable to providers includes estimates of amounts due on reported claims and claims that have been incurred but were not reported as of September 30, 2014 and 2013. Such liabilities represent Bridgeway's best estimate of amounts that are reasonable and adequate to discharge Bridgeway's obligations for claims incurred but unpaid as of September 30, 2014 and 2013. Such estimates are, however, subject to a significant degree of inherent variability. The methods for making such estimates and for establishing the resulting liability are continually reviewed and adjustments are reflected in each period when necessary.

The estimate for unreported services payable is developed using methods based on historical experience. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and adjustments are reflected in each period when necessary.



**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2014 and 2013

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

**Healthcare service cost recognition** - Bridgeway contracts with various at-risk providers for the provision of a full range of healthcare services to eligible members under fee-for-service agreements. Fee for service expenses are accrued as incurred.

**Expense allocation** - 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 Bridgeway, which is primarily based upon enrollment, claims and costs by lines of business.

**Advertising costs** - Bridgeway uses advertising, within AHCCCS and CMS guidelines, to promote its programs among the communities it serves. Advertising costs are expensed as incurred, and are included in general and administrative expenses on the statements of operations. Advertising expense for the years ended September 30, 2014 and 2013 was approximately \$239,000 and \$54,000, respectively.

**Income taxes** - Deferred tax assets and liabilities are recorded for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date of the tax rate change.

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, Bridgeway considers future reversals of existing taxable temporary differences, future taxable income, taxable income in prior year carryback periods and tax planning strategies.

Bridgeway's policy is to classify income tax penalties and interest as income tax expense in its financial statements. During the years ended September 30, 2014 and 2013, Bridgeway incurred no penalties or interest.

Bridgeway 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.

Bridgeway is subject to a 2% premium tax on all payments received from AHCCCS for premiums, reinsurance, and reconciliations. Total premium tax expense for the years ended September 30, 2014 and 2013 was \$4,420,190 and \$5,515,210, respectively.

**Subsequent events** - Bridgeway has evaluated events through January 26, 2015, which is the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to the date of the balance sheet that would require adjustment to, or disclosure in, the financial statements.

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2014 and 2013

**(2) Contract performance bond**

In accordance with the terms of its contracts with AHCCCS, Bridgeway is required to post performance bonds equal to 80% of the first monthly payment to Bridgeway each fiscal year based on gross capitation payments, as specified in the contracts. The amount of the bonds is subject to adjustment as certain conditions change and its method of calculation is specified in the contract. The performance bonds must be maintained to guarantee payment of Bridgeway's obligations under the contract. The total AHCCCS performance bond requirement was \$17,835,280 for 2014 and \$19,979,568 for 2013. To meet Medicare requirements, Bridgeway purchased and posted a performance bond in the amount of \$1,600,000 for 2014 and 2013 for the CMS contract. In 2014 and 2013, the performance bond requirements were met through the annual purchase of a surety bond in the required amounts.

**(3) Property and equipment**

Property and equipment consists of:

	2014	2013
Leasehold improvements	\$ 546,193	\$ 546,193
Furniture and equipment	482,414	482,414
Computer hardware	487,745	525,721
Computer software	88,161	88,161
Construction in progress	21,423	-
Total cost and donated value	1,625,936	1,642,489
Accumulated depreciation	(1,242,672)	(1,051,364)
Net property and equipment	\$ 383,264	\$ 591,125

Depreciation expense charged to operations was \$229,872 and \$251,053 for 2014 and 2013, respectively.

**(4) Income taxes**

Federal income tax returns are filed on a consolidated basis with Centene, the parent corporation, and other subsidiaries. A provision for income taxes has been provided for under a separate return method. This results in each component company of the consolidated group showing tax provision solely on the results of its own operations and respective effective 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. These differences are a result of multiple items, including permanent book/tax differences and state tax filings.

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 primarily from reserves established for financial reporting purposes but not deductible for tax purposes.

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2014 and 2013

**(4) Income taxes (continued)**

Income tax benefits provided by the Company to the consolidated group as a result of utilizing operating losses will be reimbursed by the parent corporation pursuant to a signed agreement between the companies. The income tax provision consists of the following for the years ended September 30:

	<u>2014</u>	<u>2013</u>
Current provision:		
Federal	\$ 3,364,553	\$ 662,350
State and local	93,727	14,560
Total current provision	3,458,280	676,910
Deferred benefit	(809,366)	(146,391)
Total provision for income taxes	<u>\$ 2,648,914</u>	<u>\$ 530,519</u>

The components of deferred income tax assets (liabilities) included in the accompanying balance sheets are as follows:

	<u>2014</u>	<u>2013</u>
Current deferred income tax assets (liabilities):		
Loss reserves	\$ 2,248,080	\$ 1,898,161
Prepaid expenses	(38,775)	(54,555)
Accrued liabilities	523,982	190,669
Net current deferred tax assets	<u>\$ 2,733,287</u>	<u>\$ 2,034,275</u>
Noncurrent deferred income tax liabilities:		
Depreciation	(86,538)	(196,999)
Net non-current deferred income tax liabilities	<u>\$ (86,538)</u>	<u>\$ (196,999)</u>

**(5) Related-party transactions**

Centene, CenCorp Health Solutions and affiliated companies provide administrative and other services to Bridgeway, including systems functions, accounts payable and payroll processing. Included in general and administrative expenses is a management fee to cover the costs of the administrative services provided by these affiliated companies. Management fees included in general and administrative expenses were approximately \$8.8 million and \$9.8 million for the years ended September 30, 2014 and 2013, respectively.

Amounts due to affiliated companies at September 30, 2014 and 2013 primarily represent payroll and trade accounts payable, which are payable to Centene and subsidiaries.

Under the provisions of the contracts with AHCCCS, member distributions may be paid only with prior approval of AHCCCS. For the years ended September 30, 2014 and 2013, distributions totaling \$3.0 million and \$0 were declared and paid.

Bridgeway contracts with NurseWise, an affiliated company wholly owned by CenCorp Health Solutions, to provide after-hours nurse triage and call center services to eligible enrollees that are served under the AHCCCS contract. The Company paid NurseWise approximately \$200,000 and \$490,000 through a capitation payment for the years ended September 30, 2014 and 2013, respectively, for these services. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2014 and 2013

**(5) Related-party transactions (continued)**

US Script, an affiliated company wholly owned by CenCorp Health Solutions, provides pharmacy benefit management services to eligible enrollees. Bridgeway paid US Script approximately \$10.7 million and \$18.3 million for these services for the years ended September 30, 2014 and 2013, respectively. Claims encounters are submitted to AHCCCS and CMS to substantiate these payments. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

Cenpatico of Arizona, LLC (Cenpatico), an affiliated company wholly owned by CenCorp Health Solutions, provides a network and manages the behavioral health benefits for eligible enrollees utilizing behavioral health services. Bridgeway paid Cenpatico approximately \$671,000 and \$595,000 for these services during the years ended September 30, 2014 and 2013, respectively. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

OptiCare, an affiliated company wholly owned by CenCorp Health Solutions, provides a vision network and manages the vision benefits for eligible enrollees. Bridgeway paid OptiCare approximately \$92,000 and \$282,000 for these services during the years ended September 30, 2014 and 2013, respectively. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

Nurtur, an affiliated company wholly owned by CenCorp Health Solutions, provides disease management services for eligible enrollees. Bridgeway paid Nurtur approximately \$429,000 and \$1,300,000 for these services during the years ended September 30, 2014 and 2013, respectively. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

**(6) Retirement plan**

Bridgeway participates in the retirement plan of its parent company, Centene. Centene has a defined contribution plan which covers substantially all of its employees who work at least 1,000 hours in a twelve consecutive month period and are at least twenty-one years of age. Under the plan, eligible employees may contribute a percentage of their base salary, subject to certain limitations. Centene may elect to match a portion of the employees' contribution. Bridgeway's expense related to matching contributions to the plan was \$114,726 and \$117,284 for the years ended September 30, 2014 and 2013, respectively.

**(7) Commitments and contingencies**

**Operating Leases** - Bridgeway leases office space in Arizona for their headquarters and various satellite offices and leases certain equipment. These operating lease agreements expire at various dates through January 2018. Certain operating leases contain escalation provisions. The rental expense related to these leases is recorded on a straight-line basis over the lease term, including rent holidays. The difference between rent expense and rent paid due to recording expenses on the straight-line method of approximately \$176,000 and \$209,000 at September 30, 2014 and 2013, respectively, is included in accounts payable and accrued expenses in the accompanying balance sheets.

**BRIDGEWAY HEALTH SOLUTIONS  
OF ARIZONA, LLC**

**NOTES TO FINANCIAL STATEMENTS**

Years Ended September 30, 2014 and 2013

**(7) Commitments and contingencies (continued)**

In the normal course of business, operating leases are generally renewed or replaced by other leases. Minimum future payments under these non-cancelable operating leases as of September 30, 2014 are as follows:

<b><u>Years Ending September 30,</u></b>	
2015	\$ 506,706
2016	514,138
2017	474,671
2018	<u>156,921</u>
Total minimum lease payments	<u>\$ 1,652,436</u>

Rent expense was approximately \$444,000 and \$523,000 for the years ended September 30, 2014 and 2013, respectively.

**Liability insurance** - Bridgeway, through Centene, maintains professional and general liability insurance coverage under claims-made policies. Centene is insured for losses up to \$10 million per claim and in the aggregate, with a self-insured retention of \$1 million under its professional liability policy. Centene is insured for losses up to \$1 million per claim and \$2 million in the aggregate under its general liability policy. Bridgeway is also covered under an umbrella policy providing for professional and general liability coverage up to \$15 million per claim and in the aggregate. Claims reported endorsement (tail coverage) is available if the policy is not renewed to cover claims incurred but not reported. Bridgeway anticipates that renewal coverage will be available at the expiration of the current policy. Bridgeway participates in the above policy with its affiliates. Per claim and aggregate limits are applicable to all covered entities as a group.

**Litigation** - Periodically, Bridgeway is involved in litigation and claims arising in the normal course of operations. In the opinion of management based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial.

**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 Bridgeway 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.

# BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2014 and 2013

### (8) Contract requirements

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

Pursuant to its ALTCS contract with AHCCCS, Bridgeway must meet a minimum capitalization requirement based on the number of members enrolled. As of September 30, 2014 and 2013, Bridgeway was in compliance with this requirement.

Pursuant to its Acute Care contract with AHCCCS, Bridgeway was required to meet a minimum capitalization requirement based on the number of members enrolled. As of September 30, 2013, Bridgeway was in compliance with this requirement.

Bridgeway's contract with AHCCCS contains various quarterly financial viability standards and performance administrative cost percentages. As of September 30, 2014 and 2013, Bridgeway was in compliance with these requirements.

Should Bridgeway 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 payment or withhold future payment until they have received satisfactory resolution of the default or exception. In addition, although it has not expressed an intention to do so, AHCCCS has the right to terminate the contracts in whole or in part without cause by giving Bridgeway 90 days written notice. Further, if monies are not appropriated by the state or are not otherwise available, the contracts with AHCCCS may be cancelled upon written notice until such monies are so appropriated or available.

During fiscal year 2014, Bridgeway was sanctioned by AHCCCS under the ALTCS contract for failing to comply with service area expansion requirements. For the year ended September 30, 2014, these sanctions totaled approximately \$450,000 and were withheld from Bridgeway's capitation payments. These amounts are included in general and administrative expenses in the accompanying statement of operations. Additionally, during fiscal year 2014, Bridgeway was notified of certain matters of noncompliance related to the Acute Care contract and the ALTCS contract for the year ended September 30, 2013. As a result, AHCCCS sanctioned Bridgeway approximately \$146,000 and \$88,000 for the matters of noncompliance noted for the Acute Care and ALTCS contracts, respectively. These amounts are included in general and administrative expenses in the accompanying statement of operations. As of September 30, 2014, Bridgeway has reserved for potential sanctions totaling approximately \$143,000 which is included in accounts payable and accrued expenses in the accompanying balance sheet.

### (9) Concentration of credit risk

Future contract awards are contingent upon the continuation of the AHCCCS ALTCS program by the State of Arizona and Bridgeway's ability and desire to retain its status as a contractor under this program. The ALTCS contract expired on September 30, 2011 and was renewed for three years through a reprourement process with two additional one year renewal options. Through a bid process, Bridgeway was awarded an AHCCCS Acute contract effective October 1, 2008 through September 30, 2011 with two additional one year renewal options. The Acute contract was renewed previously to cover the October 1, 2011 through September 30, 2012 period, and was renewed again to cover the October 1, 2012 through September 30, 2013 period. The Acute contract was not subsequently renewed and terminated September 30, 2013. The Medicare Advantage contract is renewed annually by CMS. Bridgeway Management expects contracts with AHCCCS and CMS to be renewed through the respective renewal process. If each contract is not renewed, Bridgeway's operations would be materially impacted.

**SUPPLEMENTAL INFORMATION**



Mayer Hoffman McCann P.C.

An Independent CPA Firm

3101 North Central Avenue, Suite 300  
Phoenix, Arizona 85012  
602-264-6835 ph  
602-265-7631 fx  
www.mhm-pc.com

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors of

**BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC**

We have audited the financial statements of *Bridgeway Health Solutions of Arizona, LLC* as of and for the year ended September 30, 2014, and our report thereon dated January 26, 2015, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial information on pages 22 through 33 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 Medicare 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

*Mayer Hoffman McCann P.C.*

Phoenix, Arizona  
January 26, 2015



**BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC**

**SUPPLEMENTAL BALANCE SHEET**

September 30, 2014

**ASSETS**

	<u>ALTCS</u>	<u>Acute</u>	<u>Medicare</u>	<u>Total</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 41,500,224	\$ 69,455	\$ -	\$ 41,569,679
Receivables:				
Reinsurance receivables, net	2,248,573	7,993	-	2,256,566
Capitation and supplement receivables	2,217,859	1,209,042	612,086	4,038,987
Pharmacy receivable	499,794	27,923	724,064	1,251,781
Interest receivable	8,712	-	-	8,712
Due from affiliated companies	711,682	-	3,962,196	4,673,878
Income tax receivable (payable)	(5,183,565)	3,495,143	2,704,195	1,015,773
Provider advances, net	424,689	67,694	59,205	551,588
Prepaid expenses	86,831	168,452	134,659	389,942
Deferred income tax asset	1,354,279	428,452	950,556	2,733,287
TOTAL CURRENT ASSETS	<u>43,869,078</u>	<u>5,474,154</u>	<u>9,146,961</u>	<u>58,490,193</u>
PROPERTY AND EQUIPMENT, net	366,301	11,176	5,787	383,264
INVESTMENTS	1,500,000	-	-	1,500,000
DEPOSITS	<u>1,840</u>	<u>-</u>	<u>-</u>	<u>1,840</u>
TOTAL ASSETS	<u>\$ 45,737,219</u>	<u>\$ 5,485,330</u>	<u>\$ 9,152,748</u>	<u>\$ 60,375,297</u>

**LIABILITIES AND MEMBER'S EQUITY**

CURRENT LIABILITIES				
Payable to providers	\$ 21,886,180	\$ 3,145	\$ 5,838,248	\$ 27,727,573
Payable to Arizona Health Care Cost Containment System	1,005,228	1,338,105	-	2,343,333
Accounts payable and accrued expenses	607,862	150,299	1,468,852	2,227,013
Due to affiliated companies	3,819,497	2,676,232	90,370	6,586,099
TOTAL CURRENT LIABILITIES	<u>27,318,767</u>	<u>4,167,781</u>	<u>7,397,470</u>	<u>38,884,018</u>
DEFERRED INCOME TAX (ASSET) LIABILITY	89,249	(4,904)	2,193	86,538
OTHER NON-CURRENT LIABILITIES	<u>39,908</u>	<u>-</u>	<u>16,103</u>	<u>56,011</u>
TOTAL LIABILITIES	<u>27,447,924</u>	<u>4,162,877</u>	<u>7,415,766</u>	<u>39,026,567</u>
MEMBER'S EQUITY	<u>18,289,295</u>	<u>1,322,453</u>	<u>1,736,982</u>	<u>21,348,730</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$ 45,737,219</u>	<u>\$ 5,485,330</u>	<u>\$ 9,152,748</u>	<u>\$ 60,375,297</u>

See Independent Auditors' Report on Supplemental Information

**BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC**

**SUPPLEMENTAL STATEMENT OF OPERATIONS**

Year Ended September 30, 2014

	<u>ALTCS</u>	<u>Acute</u>	<u>Medicare</u>	<u>Total</u>
OPERATING REVENUES				
Capitation premiums	\$ 210,268,399	\$ (846,687)	\$ 35,576,968	\$ 244,998,680
Reinsurance	6,398,796	(115,436)		6,283,360
Other	251,806	-	-	251,806
TOTAL OPERATING REVENUES	<u>216,919,001</u>	<u>(962,123)</u>	<u>35,576,968</u>	<u>251,533,846</u>
HEALTH CARE EXPENSES				
Hospitalization	-	(1,980,984)	13,041,434	11,060,450
Medical compensation	-	(173,951)	6,984,056	6,810,105
Ancillary and other medical services	10,970,652	106,032	12,254,378	23,331,062
Institutional	177,967,240	-	-	177,967,240
TOTAL HEALTH CARE EXPENSES	188,937,892	(2,048,903)	32,279,868	219,168,857
GENERAL AND ADMINISTRATIVE EXPENSES	16,421,161	683,210	3,413,829	20,518,200
HEALTH INSURER FEE	-	503,791	352,984	856,775
PREMIUM TAX EXPENSE	4,400,639	19,551	-	4,420,190
TOTAL EXPENSES	<u>209,759,692</u>	<u>(842,351)</u>	<u>36,046,681</u>	<u>244,964,022</u>
OPERATING INCOME (LOSS)	<u>7,159,309</u>	<u>(119,772)</u>	<u>(469,713)</u>	<u>6,569,824</u>
NONOPERATING INCOME				
Interest income	218,289	148	-	218,437
NET INCOME (LOSS) BEFORE TAXES	7,377,598	(119,624)	(469,713)	6,788,261
PROVISION (BENEFIT) FOR INCOME TAXES	2,558,553	136,123	(45,762)	2,648,914
NET INCOME (LOSS)	<u>\$ 4,819,045</u>	<u>\$ (255,747)</u>	<u>\$ (423,951)</u>	<u>\$ 4,139,347</u>

See Independent Auditors' Report on Supplemental Information