

**CENPATICO OF ARIZONA, INC. d/b/a
CENPATICO INTEGRATED CARE**

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

Year Ended September 30, 2016

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE
FINANCIAL STATEMENTS, SUPPLEMENTAL SCHEDULES, AND UNIFORM GUIDANCE
SUPPLEMENTARY REPORTS

Year Ended September 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

We have audited the accompanying financial statements of ***Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care***, which comprise the balance sheet as of September 30, 2016, and the related statements of comprehensive income, changes in stockholders' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care** as of September 30, 2016, 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.

Other Matters

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2017 on our consideration of **Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care's** internal control over financial reporting and compliance.



March 13, 2017

CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE

BALANCE SHEET

September 30, 2016

ASSETS

| | |
|-----------------------------|-----------------------|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 48,722,326 |
| Due from AHCCCS | 3,476,374 |
| Provider receivables | 6,675,696 |
| Pharmacy rebates receivable | 328,599 |
| Short-term investments | 16,214,464 |
| Accrued interest income | 185,984 |
| Prepaid expenses | 898,229 |
| TOTAL CURRENT ASSETS | 76,501,672 |
| PROPERTY AND EQUIPMENT, net | 3,509,090 |
| LONG-TERM INVESTMENTS | 32,784,257 |
| DEFERRED TAX ASSET, net | 189,537 |
| DEPOSITS | 115,093 |
| TOTAL ASSETS | <u>\$ 113,099,649</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|--|-----------------------|
| CURRENT LIABILITIES | |
| Claims payable | \$ 32,225,297 |
| Payable to AHCCCS | 1,118,249 |
| Payable to providers | 3,847,090 |
| Accounts payable and accrued expenses | 1,953,021 |
| Due to affiliated companies, net | 686,531 |
| Income tax payable | 378,856 |
| Deferred revenue | 3,480,757 |
| TOTAL CURRENT LIABILITIES | 43,689,801 |
| OTHER LONG-TERM LIABILITIES | 35,044 |
| TOTAL LIABILITIES | <u>43,724,845</u> |
| STOCKHOLDERS' EQUITY | |
| Common stock, par value \$1.00, 1,000 shares authorized, issued, and outstanding | 1,000 |
| Additional paid-in capital | 64,405,309 |
| Accumulated other comprehensive income | 170,906 |
| Retained earnings | 4,797,589 |
| TOTAL STOCKHOLDERS' EQUITY | <u>69,374,804</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 113,099,649</u> |

See Notes to Financial Statements

CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE

STATEMENT OF COMPREHENSIVE INCOME

Year Ended September 30, 2016

REVENUES

| | |
|---|--------------------|
| Arizona Health Care Cost Containment System contract revenues | \$ 641,285,524 |
| Health insurer fee premium revenue | 3,161,249 |
| Interest income | 512,196 |
| Other | 168,212 |
| TOTAL REVENUES | <u>645,127,181</u> |

EXPENSES

| | |
|----------------------------|--------------------|
| Health care expenses | 582,619,414 |
| General and administrative | 42,780,622 |
| Health insurer fee | 1,998,304 |
| Premium tax expense | 3,068,523 |
| TOTAL EXPENSES | <u>630,466,863</u> |

NET INCOME BEFORE INCOME TAXES 14,660,318

INCOME TAX PROVISION 6,241,277

NET INCOME 8,419,041

OTHER COMPREHENSIVE INCOME

Unrealized gains on available-for-sale investments, net of tax of \$102,736 170,671

TOTAL COMPREHENSIVE INCOME \$ 8,589,712

CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Year Ended September 30, 2016

| | <u>Common Stock</u> | <u>Additional paid-in capital</u> | <u>Retained Earnings (Deficit)</u> | <u>Accumulated Other Comprehensive Income</u> | <u>Total</u> |
|---|-------------------------|---------------------------------------|--|---|----------------------|
| Balance, September 30, 2015 | \$ 1,000 | \$ 10,905,309 | \$ (3,621,452) | \$ 235 | \$ 7,285,092 |
| Capital contributions | - | 53,500,000 | - | - | 53,500,000 |
| Unrealized gains on available-for-sale investments, net of tax | - | - | - | 170,671 | 170,671 |
| Net income | - | - | 8,419,041 | - | 8,419,041 |
| Balance, September 30, 2016 | <u>\$ 1,000</u> | <u>\$ 64,405,309</u> | <u>\$ 4,797,589</u> | <u>\$ 170,906</u> | <u>\$ 69,374,804</u> |

See Notes to Financial Statements

CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE

STATEMENT OF CASH FLOWS

Year Ended September 30, 2016

| | |
|--|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net income | \$ 8,419,041 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization | 584,222 |
| Change in deferred income taxes | (189,670) |
| Changes in operating assets and liabilities: | |
| Decrease (increase) in: | |
| Due from AHCCCS | (3,476,374) |
| Provider receivable | (6,675,696) |
| Pharmacy rebates receivable | (328,599) |
| Accrued interest income | (184,745) |
| Income tax receivable | 2,089,717 |
| Prepaid expenses | (463,057) |
| Increase (decrease) in: | |
| Claims payable | 32,225,297 |
| Payable to providers | 3,847,090 |
| Payable to AHCCCS | 1,118,249 |
| Accounts payable and accrued expenses | 1,545,056 |
| Due to affiliated companies | (6,101,523) |
| Income tax payable | 378,856 |
| Deferred revenue | 3,480,757 |
| Other non-current liabilities | 35,044 |
| Deposits | (53,333) |
| Net cash provided by operating activities | <u>36,250,332</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of property and equipment | (3,107,531) |
| Purchases of investments | <u>(48,301,737)</u> |
| Net cash used in investing activities | <u>(51,409,268)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Capital contributions | <u>53,500,000</u> |
| Net cash provided by financing activities | <u>53,500,000</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 38,341,064 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>10,381,262</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 48,722,326</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | |
| Income taxes paid (or refunds received) | \$ <u>-</u> |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES | |
| Transfer of property and equipment from a related party, settled through the due to affiliated companies | <u>\$ 143,253</u> |
| Unrealized gain on available-for-sale investments, net of tax | <u>\$ 170,671</u> |

See Notes to Financial Statements

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

(1) Company operations and summary of significant accounting policies

Nature of operations – In December 2012, Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care (Cenpatico) was incorporated in the State of Arizona as a wholly-owned subsidiary of Cenpatico Behavioral Health of Arizona, LLC (CBH), a subsidiary of Centene Corporation (Centene). Cenpatico was organized to coordinate the delivery of health care services to persons eligible to receive medically necessary services. Through October 2014, Cenpatico did not perform services. In October 2014, Cenpatico and CBH entered into a Plan Collaboration Agreement (the Agreement) with the University of Arizona Health Plans – Family Care, Inc. and the University of Arizona Health Plans – University Care Advantage, Inc. (collectively, the University of Arizona Health Network) to create an equity based joint venture in order to service a contract between Cenpatico and the Arizona Department of Health Services (ADHS) for the delivery of health care services to eligible persons pursuant to the Greater Arizona Request for Proposal (RFP) issued by ADHS in July 2014.

Cenpatico was initially funded through a capital contribution of \$8,725,047 from CBH. During the year ended September 30, 2016, CBH made additional capital contributions totaling \$42,800,000.

Pursuant to the Agreement, Cenpatico issued to the University of Arizona Health Network shares of common stock of Cenpatico in an amount equal to 20% of the total issued and outstanding shares in exchange for \$2,181,262. CBH retained 80% ownership in Cenpatico. During the year ended September 30, 2016, The University of Arizona Health Network made additional capital contributions totaling \$10,700,000.

Relative interests of the owners and the formula for distributions to members as of September 30, 2016 are as follows:

| | |
|--------------------------------------|-----|
| Cenpatico Behavioral Health | 80% |
| University of Arizona Health Network | 20% |

On December 18, 2014, ADHS awarded the Southern Arizona Integrated RBHA contract to Cenpatico. Effective July 1, 2016, the contract with ADHS was transferred to the Arizona Health Care Cost Containment System (AHCCCS). The contract has an initial three year term with two-two year renewal options for a potential maximum length of 7 years. The allowable administrative overhead on the contract and the allowable services profit are 8% and 4%, respectively. The contract began on October 1, 2015 and is being operated by Cenpatico under an Agreement between Cenpatico and the University of Arizona Health Network. Prior to October 1, 2015, Cenpatico generated no revenue, other than investment income.

Under its contract with AHCCCS, Cenpatico is responsible for managing and maintaining an organized, comprehensive integrated healthcare delivery system for the benefit of eligible members within its geographic service area. Substantially all of Cenpatico's revenues are from its contract with AHCCCS.

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 Cenpatico are summarized below:

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

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

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

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

Cash and cash equivalents – Cash includes cash deposits in banks and cash equivalents. Cenpatico 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, 2016, cash and cash equivalents consisted of cash and money market accounts.

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

Provider receivables – Provider receivables represent amounts paid to providers prior to contract adjustments for various block providers. Amounts due from providers are expected to be collected within one year. Provider 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 accounts receivable. As of September 30, 2016 provider receivables are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Pharmacy rebates receivable – Cenpatico receives rebates from pharmaceutical companies based on the volume of drugs purchased. Cenpatico records a receivable and a reduction of health care expenses for estimated rebates due based on purchase information. During the year ended September 30, 2016, health care expenses were reduced by \$313,972 for rebates. At September 30, 2016, management believes the pharmacy rebates receivable are fully collectible and accordingly, an allowance has not been established.

Investments – Investments at September 30, 2016 are classified, and accounted for, as follows:

Available-for-Sale: Government, corporate and asset-backed bonds, notes, and certificates are classified as available-for-sale when Cenpatico anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments, and other market and economic factors. These securities are reported at fair value and any unrealized gains or losses are reported as a separate component of stockholders' equity, net of income tax effects. Unrealized gains and losses on securities available for sale are recognized as direct increases or decreases in other comprehensive income. For the year ended September 30, 2016, Cenpatico recognized approximately \$171,000 of unrealized gains, net of tax effect of approximately \$103,000, on securities available for sale which has been recorded in the accompanying statement of changes in stockholders' equity within accumulated other comprehensive income. Cost of securities sold is recognized using the specific identification method.

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

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

Held-to-Maturity: Investments classified as held to maturity are carried at amortized cost, and consist primarily of municipal bonds that Cenpatico has the positive intent and ability to hold to maturity. Premiums and discounts are amortized or accreted over the life of the related security using the effective interest method. Cenpatico monitors the difference between the cost and fair value of investments. There were no realized or unrealized gains or losses on securities held to maturity for the year ended September 30, 2016.

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, Cenpatico uses the specific amortized cost of each investment sold.

Investment securities in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near term could materially affect account balances and the amounts reported in the accompanying financial statements.

Property and equipment – Property and equipment is recorded at cost. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$5,000 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> |
|--------------------------------|-------------------------------|
| Furniture and equipment | 5 - 7 years |
| Leasehold improvements | 1 - 10 years |
| Computer hardware and software | 3 - 5 years |

Impairment of long-lived assets – Cenpatico 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 year ended September 30, 2016.

Revenue recognition – Cenpatico receives substantially all of its revenue from its contract with AHCCCS. Operating revenue includes funding in the form of capitation revenue, which is recognized over the applicable coverage period on a per member basis for covered members. Under this arrangement, Cenpatico is paid a per-member fee for all enrolled members, and this fee is recorded as revenue in the month in which members are entitled to services. Any fees received prior to the month of service are recorded as deferred revenue. Deferred revenue as of September 30, 2016 totaled \$3,480,757 and related to funding received in advance for various programs with contract periods extending past September 30, 2016.

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

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

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

Health insurer fee – Under the Patient Protection and Affordable Care Act (ACA), Cenpatico 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.

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 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, 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. Cenpatico funded approximately \$2,700,000 to Centene in September 2016, to pay the fee for the calendar year ended December 31, 2016. As a result, at September 30, 2016, \$666,102 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 by adjusting the contract premiums by an amount that approximates the Title XIX/XXI annual fee grossed up by Cenpatico’s effective tax rate. Accordingly, at September 30, 2016, Cenpatico has recorded a due from AHCCCS of approximately \$3,200,000 related to the health insurer fee.

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

The estimate for claims 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, 2016. Such liabilities represent Cenpatico’s best estimate of amounts that are reasonable and adequate to discharge Cenpatico’s obligations for claims incurred but unpaid as of September 30, 2016. 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. There is at least a reasonable possibility that the recorded estimates will change by a material amount, in the near future.

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

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

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

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

Income taxes – Cenpatico 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 Cenpatico's deductible temporary difference reversals, taxable income in its carryback period, its surplus, and the existence of taxable temporary differences. Deferred tax assets and liabilities 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, Cenpatico considers future reversals of existing taxable temporary differences, future taxable income, taxable income in prior year carryback periods and tax planning strategies.

Cenpatico's policy is to classify income tax penalties and interest as income tax expense in its financial statements. During the year ended September 30, 2016, Cenpatico incurred no penalties or interest.

Cenpatico 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.

Cenpatico's federal Income Tax Returns (Form 1120) for 2013, 2014 and 2015 are subject to examination by the IRS, generally for three years after they were filed. As of the date of this report, the 2016 income tax return had not yet been filed.

Cenpatico is subject to a 2% premium tax on all payments received from AHCCCS for premiums, reinsurance, and reconciliations. Total premium tax expense for the year ended September 30, 2016 was approximately \$3,068,523. At September 30, 2016, included within accounts payable and accrued expenses in the accompanying balance sheet is \$82,110 of premium taxes payable.

Fair value measurements – FASB ASC 820, *Fair Value Measurements*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. FASB ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

(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. Cenpatico is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

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. Early adoption is permitted. Cenpatico has elected to early adopt ASU 2015-17 for 2016.

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

Subsequent events – Cenpatico has evaluated subsequent events through March 13, 2017, which is the date the financial statements were available to be issued.

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

(2) Contract performance bond

In accordance with the terms of its contract with AHCCCS, Cenpatico is required to post a performance bond with AHCCCS equal to 110% of the first monthly AHCCCS payment to Cenpatico each fiscal year based on gross capitation payments, as specified in the contract. The amount of the bond is subject to adjustment as certain conditions change and its method of calculation is specified in the contract. The actual amount is reset each year upon expiration. The performance bond must be maintained to guarantee payment of Cenpatico's obligations under the contract. Effective October 1, 2015, Cenpatico is required to maintain a performance bond in the amount of \$51,863,264, which was met through the purchase of a surety bond. Effective October 1, 2016, Cenpatico is required to maintain a performance bond in the amount of \$55,120,081, which was met through the purchase of a surety bond.

(3) Investments

Investments have been classified in the accompanying balance sheet according to management's intent. The amortized cost of securities and their approximate fair values are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------------------|---------------------------|---------------------------------------|--|-----------------------|
| Investments held-to-maturity | | | | |
| Municipal bonds | \$ 525,184 | \$ 81 | \$ - | \$ 525,265 |
| Investments available-for-sale | | | | |
| Asset-backed | 1,460,925 | 6,766 | (311) | 1,467,380 |
| Corporate bonds | 24,014,269 | 171,792 | (5,113) | 24,180,946 |
| Municipal bonds | 20,389,524 | 104,708 | (7,607) | 20,486,625 |
| Utility | 2,335,260 | 4,518 | (1,192) | 2,338,586 |
| Total | \$ 48,199,978 | \$ 287,784 | \$ (14,223) | \$ 48,473,537 |

The following is a summary of maturities of securities held-to-maturity and available-for-sale as of September 30, 2016:

| | Investments held-to-maturity | | Investments available-for-sale | |
|------------------------------------|-------------------------------------|-----------------------|---------------------------------------|-----------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Amounts maturing in: | | | | |
| One year or less | \$ - | \$ - | \$ 16,214,509 | \$ 16,214,464 |
| After one year through five years | 525,184 | 525,265 | 15,419,671 | 15,521,335 |
| After five years through ten years | - | - | 9,615,860 | 9,781,830 |
| After ten years | - | - | 6,949,938 | 6,955,908 |
| Total | \$ 525,184 | \$ 525,265 | \$ 48,199,978 | \$ 48,473,537 |

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

(3) Investments (continued)

The following table summarizes the valuation of Cenpatico's assets subject to recurring fair value measurement by the above FASB ASC 820 categories as of September 30, 2016:

| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|-----------------|---------------|----------------|----------------|----------------|
| Asset-backed | \$ 1,467,380 | \$ - | \$ 1,467,380 | \$ - |
| Corporate bonds | 24,180,946 | - | 24,180,946 | - |
| Municipal bonds | 20,486,625 | - | 20,486,625 | - |
| Utility | 2,338,586 | - | 2,338,586 | - |
| Total | \$ 48,473,537 | \$ - | \$ 48,473,537 | \$ - |

(4) Property and equipment

Property and equipment consists of the following at September 30, 2016:

| | |
|---|--------------|
| Furniture and equipment | \$ 2,143,287 |
| Leasehold improvements | 2,521,298 |
| Computer hardware | 705,137 |
| Computer software | 182,905 |
| Total cost | 5,552,627 |
| Accumulated depreciation and amortization | (2,043,537) |
| Net property and equipment | \$ 3,509,090 |

Depreciation expense charged to operations for the year ended September 30, 2016 was \$584,222.

(5) Claims payable

At September 30, 2016, claims outstanding to third parties for health care services provided to members, including estimates for incurred but not reported claims, totaled approximately \$32.2 million. The balances at September 30, 2016 were certified by an actuary. Activity in the liability for claims payable and health care expense for the year ended September 30, 2016 is as follows:

| | |
|-------------------------------|---------------|
| Balance at September 30, 2015 | \$ - |
| Incurred related to: | |
| Current year | 183,869,236 |
| Total incurred | 183,869,236 |
| Paid related to: | |
| Current year | 151,643,939 |
| Total paid | 151,643,939 |
| Balance at September 30, 2016 | \$ 32,225,297 |

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

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

(6) 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 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 from reserves established for financial reporting purposes that are not deductible for tax purposes.

Income tax benefits provided by the Cenpatico 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 year ended September 30, 2016:

| | |
|----------------------------------|---------------------|
| Current provision: | |
| Federal | \$ 6,139,013 |
| State and local | <u>394,670</u> |
| Total current provision | 6,533,683 |
| Deferred provision | <u>(292,406)</u> |
| Total provision for income taxes | <u>\$ 6,241,277</u> |

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

| | |
|---|-------------------|
| Deferred income tax assets (liabilities): | |
| Deferred revenue | \$ 612,155 |
| Loss reserves | 109,300 |
| Accrued expenses | 33,013 |
| Depreciation | (462,195) |
| Unrealized gain | <u>(102,736)</u> |
| Net deferred tax asset | <u>\$ 189,537</u> |

(7) Related party transactions

During contract year 2016, Centene Management Company, LLC, (CMC) a wholly owned subsidiary of Centene Corporation, provided data, claims processing, case management, care coordination and general administrative services to Cenpatico. In exchange for the services, Cenpatico pays CMC a fee based on specified percentages of the contract revenue earned by Cenpatico. Cenpatico recorded \$4,770,000 fees for the year ended September 30, 2016. This amount is included in general and administrative expenses in the accompanying statement of comprehensive income. As of September 30, 2016, unpaid fees and general administrative costs totaled approximately \$706,000 which is included in due to affiliated companies in the accompanying balance sheet.

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

(7) Related party transactions (continued)

Under the provisions of the Contract with AHCCCS, distributions to stockholders may be paid only to the extent of allowable profit in each of the funding sources as defined. There were no distributions paid during the year ended September 30, 2016.

Envolve Dental, Inc. (formerly known as Dental Health and Wellness), an affiliated company wholly-owned by CenCorp Health Solutions (CenCorp), which is wholly-owned subsidiary of Centene, provides dental services for eligible enrollees. Cenpatico paid Envolve Dental, Inc. approximately \$481,000 for these services during the year ended September 30, 2016. This amount is included in health care expenses in the accompanying statement of comprehensive income. As of September 30, 2016, Cenpatico has approximately \$194,000 due from Envolve Dental, Inc. which is included in provider receivables in the accompanying balance sheet.

Envolve Vision, Inc. (formerly known as OptiCare), an affiliated company wholly-owned by CenCorp, provides a vision network and manages the vision benefits for eligible enrollees. Cenpatico paid Envolve Vision, Inc. approximately \$274,000 for these services during the year ended September 30, 2016. This amount is included in health care expenses in the accompanying statement of comprehensive income. As of September 30, 2016, Cenpatico has approximately \$32,000 due to Envolve Vision, Inc. which is included in provider payables in the accompanying balance sheet.

Cenpatico contracted with Bankers Reserve Life Insurance Company of Wisconsin, an affiliated company wholly-owned by Centene, to provide reinsurance at specified percentages of Cenpatico's covered expenses pursuant to the agreement. Cenpatico paid Bankers Reserve Life Insurance Company of Wisconsin approximately \$607,000 in premiums for reinsurance coverage during the year ended September 30, 2016. These amounts are included in health care expenses in the accompanying statement of comprehensive income. As of September 30, 2016, Cenpatico has approximately \$199,000 due to Bankers Reserve Life Insurance Company of Wisconsin which is included in accounts payable and accrued expenses in the accompanying balance sheet.

Cenpatico contracted with Envolve PeopleCare, Inc. (formerly providing services as Nurtur and Nursewise), an affiliated company wholly owned by CenCorp, to provide nurse triage and crisis services to eligible enrollees that are served under AHCCCS contract. Cenpatico paid Envolve PeopleCare, Inc. approximately \$12,792,000 for these services for the year ended September 30, 2016. These are included in the health care and administrative expenses in the accompanying statement of comprehensive income. As of September 30, 2016, Cenpatico has approximately \$17,000 due from Envolve PeopleCare (Nursewise) included in provider receivables and approximately \$49,000 due to Envolve PeopleCare (Nurtur) included in the accounts payable and accrued expenses in the accompanying balance sheet.

Cenpatico contracted with Lifeshare Management Group, an affiliated company wholly owned by Centene, to provide certain behavioral and physical health services to members in accordance with Cenpatico's contract with AHCCCS. Cenpatico paid Lifeshare Management Group approximately \$206,000 for services performed during the year ended September 30, 2016. These amounts are included in health care expenses in the accompanying statement of comprehensive income. As of September 30, 2016, Cenpatico has approximately \$194,000 due from Lifeshare Management Group which is included in provider receivables in the accompanying balance sheet.

Cenpatico operates under a management contract with US Script, an affiliated company wholly owned by CenCorp, to provide pharmacy benefit management services to eligible enrollees. Cenpatico paid US Script approximately \$67,597,000 for these services for the year ended September 30, 2016. Claim encounters are submitted to AHCCCS to substantiate these payments. These amounts are included in health care expenses in the accompanying statement of comprehensive income.

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

(8) Retirement plan

Cenpatico 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. Cenpatico's expense related to matching contributions to the plan was approximately \$387,000 for the year ended September 30, 2016.

(9) Commitments and contingencies

Operating leases - Cenpatico leases office space in Arizona for their headquarters, various satellite offices and certain equipment under operating lease agreements expiring at various dates through August 2021. 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 \$80,000 as of September 30, 2016 and is included in accounts payable and accrued expenses and other long-term liabilities in the accompanying balance sheet. 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, 2016 are as follows:

Years Ending September 30,

| | |
|------------------------------|---------------------|
| 2017 | \$ 1,149,776 |
| 2018 | 1,055,105 |
| 2019 | 797,425 |
| 2020 | 177,058 |
| 2021 | 18,000 |
| Total minimum lease payments | <u>\$ 3,197,364</u> |

Operating lease expense for the year ended September 30, 2016 was approximately \$1,200,000.

Liability insurance - Cenpatico, 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. Cenpatico 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. Cenpatico anticipates that renewal coverage will be available at expiration of the current policy. Cenpatico participates in the above policy with its affiliates. Per claim and aggregate limits are applicable to all covered entities as a group.

Litigation - Cenpatico is routinely subject to legal proceedings in the normal course of business. While the ultimate resolution of such matters is uncertain, Cenpatico does not expect the results of these matters to have a material effect on its financial position or results of operations.

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

(9) Commitments and contingencies (continued)

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, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud, waste 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. As of September 30, 2016, Cenpatico was not a Medicare certified facility and did not derive any of its revenue from the provision of services to Medicare beneficiaries. Management believes that Cenpatico 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 Cenpatico does business, restrict revenue and enrollment growth in certain eligibility categories, restrict premium growth rates for certain eligibility categories, increase medical, administrative and capital costs, and expose Cenpatico to increased risk of loss or further liabilities. Cenpatico's operating results, financial position and cash flows could be adversely impacted by such changes.

Community reinvestment program – Cenpatico approved a Community Reinvestment program, as described in their contract with AHCCCS. Under the program, Cenpatico will place a minimum of 6% of its after tax profits into the program. For the year ended September 30, 2016, Cenpatico had met or exceeded that amount. Proposals are requested annually and three Advisory Boards composed of people who receive services and their family members, community stakeholders and providers review all proposals and make recommendations for awards to the leadership of Cenpatico. The program funds community projects that enhance the lives of people in the communities in Cenpatico's geographic service areas. These funds are for projects and services not eligible for service or prevention dollars from Cenpatico.

For the year ended September 30, 2016, Cenpatico approved amounts that resulted in appropriations of approximately \$643,000, to be spent on various behavioral health community projects. At September 30, 2016, Cenpatico had not yet spent the funds appropriated. Accordingly, at September 30, 2016 Cenpatico has recorded a liability for unspent community reinvestment program funds of approximately \$643,000 which is included in accounts payable and accrued expenses.

(10) Contract requirements

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

Pursuant to its contract with AHCCCS, Cenpatico must maintain unrestricted, minimum capitalization of at least 90% of the monthly capitation and Non-Title XIX/XXI payments received under the contract. As of September 30, 2016, Cenpatico was in compliance with this requirement.

Cenpatico's contract with AHCCCS contains various quarterly financial performance requirements, including required minimum liquidity ratio, administrative cost percentages and service expense percentages. As of September 30, 2016, Cenpatico was in compliance with these requirements.

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2016

(10) Contract requirements (continued)

Should Cenpatico be in default of any material obligations under its contract with AHCCCS, AHCCCS may, at its discretion, in addition to other remedies, either adjust the amount of future payment or withhold future payment until 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 contract in whole or in part without cause by giving Cenpatico 90 days written notice. Further, if monies are not appropriated by the state or are not otherwise available, the contract with AHCCCS may be cancelled upon written notice until such monies are so appropriated or available.

Cenpatico is required to meet quarterly and contract year end minimum encounter submission percentages, or be subject to sanction by AHCCCS. Typically, Cenpatico has up to eight months after fiscal year end to submit encounters related to the fiscal year. For the year ended September 30, 2016, Cenpatico anticipates meeting the required encounter threshold for the year ended September 30, 2016. Accordingly, as of September 30, 2016, Cenpatico has not recorded a liability associated with an encounter sanction.

As discussed in Note 1, Cenpatico is limited by the terms of its contract with AHCCCS to profit that can be earned under the various programs. Contract profit limitations are applied on an after-tax basis. Cenpatico is subject to a profit risk corridor calculation that calculates a return of premium to the extent certain financial ratios are not met by program types. For the year ended September 30, 2016, Cenpatico did not exceed the profit limits as stipulated in the contract with AHCCCS.

Cenpatico is required by the AHCCCS contract to hold \$500,000 in cash or eligible securities with the State Treasurer. Cenpatico has met this requirements by investing \$525,184 in municipal bonds held to maturity as of September 30, 2016.

AHCCCS has a right to sanction Cenpatico for other matters of non-compliance of the Contract, as determined by AHCCCS. Cenpatico received no sanctions for the year ended September 30, 2016.

(11) Concentration of credit risk

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

SUPPLEMENTAL SCHEDULES



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

To the Board of Directors of

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

Report on Supplemental Schedules

We have audited the accompanying supplemental schedule of activities and supplemental schedule of activities - disclosures (as defined in the contract dated July 1, 2016, between **Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care** and the Arizona Health Care Cost Containment System (AHCCCS) of **Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care** for the year ended September 30, 2016.

Management's Responsibility for the Supplemental Schedules

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

Auditors' Responsibility

Our responsibility is to express an opinion on these supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the supplemental schedules are free from material misstatement.

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

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

Opinion

In our opinion, the supplemental schedule of activities and supplemental schedule of activities - disclosures referred to above present fairly, in all material respects, the activities of **Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care** for the year ended September 30, 2016, as defined in the contract referred to in the first paragraph.

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

Mayer Hoffman McCann P.C.

March 13, 2017

CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE
 SCHEDULE 2 - SUPPLEMENTAL SCHEDULE OF ACTIVITIES - DISCLOSURES
 YEAR ENDED SEPTEMBER 30, 2016

| | TXIX/XXI Non CMDP Child | TXIX/XXI CMDP Child | TXIX/XXI DD Child | TXIX/XXI GMH/SA Non Dual | TXIX/XXI DD Adult | TXIX/XXI SMI Integrated | TXIX/XXI SMI Non Integrated | NTXIX/XXI Crisis | NTXIX/XXI SMI | NTXIX/XXI Other | Supported Housing for TXIX SMI | SB1616 Housing | MHBG SED | MHBG SMI | SABG | Other Federal | County | PASRR/ ADOH | Sub-Total | Mgmt & Gen | Total | |
|--|----------------------------|------------------------|----------------------|--------------------------------|----------------------|----------------------------|--------------------------------|------------------|---------------|-----------------|--------------------------------------|----------------|----------|----------|---------|---------------|--------|----------------|-----------|------------|-----------|---------|
| DISCLOSURE OF NTXIX/XXI OTHER AND OTHER FEDERAL ADHS REVENUE | | | | | | | | | | | | | | | | | | | | | | |
| Liquor Fees | - | - | - | - | - | - | - | - | - | 77,950 | - | - | - | - | - | - | - | - | - | - | - | |
| One-time Housing Payment | - | - | - | - | - | - | - | - | - | 139,565 | - | - | - | - | - | - | - | - | - | - | - | |
| SYG | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 435,978 | - | - | - | - | - | - | |
| CMHS Coaching & Training | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Arizona and/or Trauma Informed Care Dialogues | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Total - NTXIX/XXI OTHER AND OTHER FEDERAL Column | | | | | | | | | | 217,515 | | | | | 435,978 | | | | 575,543 | | 653,493 | |
| DISCLOSURE OF OTHER GRANTS REPORTED ON LINE 402 | | | | | | | | | | | | | | | | | | | | | | |
| SAPT Prevention - assistant | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 67,500 | - | - | - | 67,500 | - | 67,500 | |
| Bridge Subsidy Program | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 610,502 | 610,502 | - | 610,502 | |
| Health insurer fee | 631,595 | 296,672 | 33,421 | 846,936 | 38,250 | 1,283,326 | 31,048 | - | - | - | - | - | - | - | - | - | - | - | 3,161,248 | - | 3,161,248 | |
| HIE | - | - | - | - | - | - | - | - | - | 416,929 | - | - | - | - | - | - | - | - | - | 416,929 | - | 416,929 |
| Total Other Grants | 631,595 | 296,672 | 33,421 | 846,936 | 38,250 | 1,283,326 | 31,048 | - | - | 416,929 | - | - | - | - | 67,500 | - | - | 610,502 | 4,256,179 | - | 4,256,179 | |
| DISCLOSURE OF SUPPORTED HOUSING ON LINE 504g (Choose a category) | | | | | | | | | | | | | | | | | | | | | | |
| Rent Subsidy | - | - | - | - | - | - | - | - | 1,986,531 | 128,400 | 1,448,530 | - | - | 531,609 | - | - | - | - | 4,095,070 | - | 4,095,070 | |
| Utility Payments | - | - | - | - | - | - | - | - | 36,400 | - | 40,914 | - | - | - | - | - | - | - | 77,314 | - | 77,314 | |
| Move-in/Start-up Kits | - | - | - | - | - | - | - | - | 1,255 | - | 5,193 | - | - | - | - | - | - | - | 6,448 | - | 6,448 | |
| Eviction/Prevention Efforts | - | - | - | - | - | - | - | - | 26,568 | - | 29,112 | - | - | - | - | - | - | - | 55,680 | - | 55,680 | |
| Damage to unit | - | - | - | - | - | - | - | - | - | - | 1,416 | - | - | - | - | - | - | - | 1,416 | - | 1,416 | |
| Assistance with Deposits | - | - | - | - | - | - | - | - | 41,213 | - | 48,469 | - | - | - | - | - | - | - | 89,682 | - | 89,682 | |
| Property Improvements | - | - | - | - | - | - | - | - | - | - | - | 502,929 | - | - | - | - | - | - | 502,929 | - | 502,929 | |
| Purchased Property | - | - | - | - | - | - | - | - | 112,466 | - | - | - | - | - | - | - | - | - | 112,466 | - | 112,466 | |
| Total Supported Housing | | | | | | | | | 2,204,433 | 128,400 | 1,573,634 | 502,929 | - | 531,609 | - | - | - | - | 4,941,005 | - | 4,941,005 | |
| DISCLOSURE OF ALL OTHER SERVICES ON LINE 511 | | | | | | | | | | | | | | | | | | | | | | |
| Itemization of Items Reported on Line 511 | | | | | | | | | | | | | | | | | | | | | | |
| Passport Fees | 9,967 | 2,820 | 547 | 15,610 | 968 | 8,189 | 227 | - | - | - | - | - | 928 | - | 2,094 | - | - | - | 41,350 | - | 41,350 | |
| Linkages | - | - | - | - | - | 225,000 | - | - | - | - | - | - | - | - | - | - | - | - | 225,000 | - | 225,000 | |
| PASRR Screening Services | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 7,800 | 7,800 | - | 7,800 | |
| Value Based Purchasing Initiatives Provider Expenses | - | - | - | 598,125 | - | 219,656 | - | - | - | - | - | - | - | - | - | - | - | - | 817,781 | - | 817,781 | |
| PH expenses resulting from BH Principal Diagnosis | 23,397 | 4,054 | 8,132 | 357,469 | 8,110 | - | 10,934 | - | - | - | - | - | - | - | - | - | - | - | 412,096 | - | 412,096 | |
| MHBG Evidence Based Practice | - | - | - | - | - | - | - | - | - | - | - | - | 285,000 | - | - | - | - | - | 285,000 | - | 285,000 | |
| State Youth Grant | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 401,101 | - | - | 401,101 | - | 401,101 | |
| Total All Other Services | 33,364 | 6,874 | 8,679 | 971,204 | 9,078 | 452,845 | 11,161 | - | - | - | - | - | 928 | 285,000 | 2,094 | 401,101 | - | 7,800 | 2,190,128 | - | 2,190,128 | |
| DISCLOSURE OF SERVICES EXPENSES FROM NON ADHS SOURCES ON LINE 520 | | | | | | | | | | | | | | | | | | | | | | |
| Bridge Subsidy Program | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 610,502 | 610,502 | - | 610,502 | |
| HIE Grant | - | - | - | - | - | - | - | - | - | 416,929 | - | - | - | - | - | - | - | - | 416,929 | - | 416,929 | |
| Total Service Expenses Non-ADHS Sources | | | | | | | | | | 416,929 | | | | | | | | 610,502 | 1,027,431 | | 1,027,431 | |

Note: The Supplemental Schedule of Activities and Supplemental Schedule of Activities - Disclosures were prepared using an AHCCCS approved allocation plan, as submitted to AHCCCS by Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care.

CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE
SCHEDULE 2 - SUPPLEMENTAL SCHEDULE OF ACTIVITIES - DISCLOSURES
YEAR ENDED SEPTEMBER 30, 2016

| | TXIX/XXI Non CMDP Child | TXIX/XXI CMDP Child | TXIX/XXI DD Child | TXIX/XXI GMH/SA Non Dual | TXIX/XXI DD Adult | TXIX/XXI SMI Integrated | TXIX/XXI SMI Non Integrated | NTXIX/XXI Crisis | NTXIX/XXI SMI | NTXIX/XXI Other | Supported Housing for TXIX SMI | SB1616 Housing | MHBG SED | MHBG SMI | SABG | Other Federal | County | PASRR/ ADOH | Sub-Total | Mgmt & Gen | Total |
|--|----------------------------|------------------------|----------------------|--------------------------------|----------------------|----------------------------|--------------------------------|------------------|----------------|-----------------|--------------------------------------|----------------|---------------|---------------|----------------|---------------|---------------|----------------|------------------|------------------|------------------|
| DISCLOSURE OF ALL OTHER OPERATING ON LINE 607 | | | | | | | | | | | | | | | | | | | | | |
| Itemization of Items Reported on Line 607 | | | | | | | | | | | | | | | | | | | | | |
| Moving & Storage | 18,536 | 10,131 | 2,043 | 23,319 | 2,052 | 55,039 | 4,084 | - | - | 25 | - | - | 212 | 162 | 1,132 | - | 337 | - | 117,072 | - | 117,072 |
| Meeting Expense | 10,630 | 5,810 | 1,172 | 13,373 | 1,177 | 31,563 | 2,342 | - | - | 14 | - | - | 122 | 93 | 649 | - | 193 | - | 67,138 | - | 67,138 |
| Seminars | 49,516 | 27,063 | 5,458 | 62,293 | 5,481 | 147,030 | 10,909 | - | - | 68 | - | - | 566 | 433 | 3,025 | - | 899 | - | 312,741 | - | 312,741 |
| Postage | 7,491 | 4,094 | 826 | 9,424 | 829 | 22,243 | 1,650 | - | - | 10 | - | - | 86 | 65 | 458 | - | 136 | - | 47,312 | - | 47,312 |
| Messenger | 993 | 543 | 109 | 1,250 | 110 | 2,949 | 219 | - | - | 1 | - | - | 11 | 9 | 61 | - | 18 | - | 6,273 | - | 6,273 |
| Bank Charges | (4,678) | (2,557) | (516) | (5,885) | (518) | (13,890) | (1,031) | - | - | (6) | - | - | (54) | (41) | (286) | - | (85) | - | (29,547) | - | (29,547) |
| EOP/EOB Processing Fees | 71,639 | 39,155 | 7,897 | 90,125 | 7,930 | 212,722 | 15,783 | - | - | 98 | - | - | 819 | 626 | 4,376 | - | 1,301 | - | 452,471 | - | 452,471 |
| Penalties | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Taxes | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Dues/subscripions/publications | 26,804 | 14,650 | 2,955 | 33,721 | 2,967 | 79,591 | 5,905 | - | - | 37 | - | - | 307 | 234 | 1,637 | - | 487 | - | 169,295 | - | 169,295 |
| Printing | 31,197 | 17,051 | 3,439 | 39,248 | 3,454 | 92,636 | 6,873 | - | - | 43 | - | - | 357 | 273 | 1,906 | - | 566 | - | 197,043 | - | 197,043 |
| MDC Printing/Postage Allocation | 460 | 251 | 51 | 578 | 51 | 1,364 | 101 | - | - | 1 | - | - | 5 | 4 | 28 | - | 8 | - | 2,902 | - | 2,902 |
| Office Supplies | 20,242 | 11,063 | 2,231 | 25,465 | 2,241 | 60,105 | 4,459 | - | - | 28 | - | - | 232 | 177 | 1,236 | - | 367 | - | 127,846 | - | 127,846 |
| Business Gifts | 327 | 179 | 36 | 412 | 36 | 971 | 72 | - | - | - | - | - | 4 | 3 | 20 | - | 6 | - | 2,066 | - | 2,066 |
| Member Service Fees | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Translation Services | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| CPT Books/Med Dict/Phys Cred | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Outreach Expense | 6,724 | 3,675 | 741 | 8,459 | 744 | 19,965 | 1,481 | - | - | 9 | - | - | 77 | 59 | 411 | - | 122 | - | 42,467 | - | 42,467 |
| Marketing give aways | 15,590 | 8,521 | 1,719 | 19,613 | 1,726 | 46,293 | 3,435 | - | - | 21 | - | - | 178 | 136 | 952 | - | 283 | - | 98,467 | - | 98,467 |
| Sponsorships | 75,041 | 41,014 | 8,272 | 94,405 | 8,307 | 222,823 | 16,532 | - | - | 102 | - | - | 858 | 656 | 4,584 | - | 1,362 | - | 473,956 | - | 473,956 |
| Equipment Maintenance | 6,392 | 3,494 | 705 | 8,042 | 708 | 18,981 | 1,408 | - | - | 9 | - | - | 73 | 56 | 390 | - | 116 | - | 40,374 | - | 40,374 |
| Equipment Lease | 5,075 | 2,774 | 559 | 6,385 | 562 | 15,071 | 1,118 | - | - | 7 | - | - | 58 | 44 | 310 | - | 92 | - | 32,055 | - | 32,055 |
| Misc Equipment Expense | 1,049 | 574 | 116 | 1,320 | 116 | 3,116 | 231 | - | - | 1 | - | - | 12 | 9 | 64 | - | 19 | - | 6,627 | - | 6,627 |
| Insurance Expense | 141,411 | 77,290 | 15,589 | 177,902 | 15,654 | 419,900 | 31,154 | - | - | 193 | - | - | 1,617 | 1,236 | 8,638 | - | 2,567 | - | 893,151 | - | 893,151 |
| Other Operating Expense | 16,014 | 8,753 | 1,765 | 20,147 | 1,773 | 47,552 | 3,528 | - | - | 22 | - | - | 183 | 140 | 978 | - | 291 | - | 101,146 | - | 101,146 |
| Interest on Late Claims | 7,170 | 7,433 | 675 | 7,516 | 182 | 21,465 | 1,723 | - | - | - | - | - | 1 | 66 | 36 | - | - | - | 46,267 | - | 46,267 |
| Information System Expense | 28,868 | 15,778 | 3,182 | 36,318 | 3,196 | 85,720 | 6,360 | - | - | 39 | - | - | 330 | 252 | 1,763 | - | 524 | - | 182,330 | - | 182,330 |
| Corporate allocations | 754,715 | 412,497 | 83,197 | 949,467 | 83,547 | 2,241,018 | 166,272 | - | - | 1,029 | - | - | 8,632 | 6,599 | 46,102 | - | 13,702 | - | 4,766,777 | - | 4,766,777 |
| Travel expenses | 109,040 | 59,597 | 12,020 | 137,178 | 12,071 | 323,779 | 24,023 | 38,404 | 130,969 | 148 | 13,774 | 4,402 | 1,247 | 953 | 25,980 | 3,511 | 1,980 | - | 899,076 | - | 899,076 |
| Total All Other Operating | 1,400,246 | 768,833 | 154,241 | 1,760,075 | 154,396 | 4,158,006 | 308,631 | 38,404 | 130,969 | 1,899 | 13,774 | 4,402 | 15,933 | 12,244 | 104,450 | 3,511 | 25,291 | - | 9,055,305 | - | 9,055,305 |
| DISCLOSURE OF ENCOUNTER EVALUATION SANCTIONS ON LINE 650 | | | | | | | | | | | | | | | | | | | | | |
| Itemization of Items Reported on Line 650 | | | | | | | | | | | | | | | | | | | | | |
| Total Encounter Evaluation Sanctions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| DISCLOSURE OF ADMINISTRATIVE EXPENSES FROM SPECIALTY AND OTHER GRANTS ON LINE 651 | | | | | | | | | | | | | | | | | | | | | |
| Health insurer fee expenses | 399,247 | 187,534 | 21,126 | 535,369 | 24,179 | 811,223 | 19,626 | - | - | - | - | - | - | - | - | - | - | - | 1,998,304 | - | 1,998,304 |
| Premium Tax Expenses | 623,215 | 309,995 | 36,182 | 837,105 | 41,094 | 1,187,221 | 33,710 | - | - | - | - | - | - | - | - | - | - | - | 3,068,522 | - | 3,068,522 |
| SAPT Prevention - assistant | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 67,500 | - | - | - | 67,500 | - | 67,500 |
| Bridge Subsidy Program | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 25,390 | - | 25,390 | - | 25,390 |
| Total Adm Expenses from Specialty and Other Grants | 1,022,462 | 497,529 | 57,308 | 1,372,474 | 65,273 | 1,998,444 | 53,336 | - | - | - | - | - | - | - | 67,500 | - | - | 25,390 | 5,159,716 | - | 5,159,716 |
| DISCLOSURE OF OTHER, NON-ADHS, NON-OPERATING AND UNRELATED BUSINESS EXPENSES LINE 710 | | | | | | | | | | | | | | | | | | | | | |
| Community Reinvestment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (642,900) | (642,900) |
| Revenue from RBHA assessed Sanctions | 48,938 | - | - | 59,095 | - | - | 60,178 | - | - | - | - | - | - | - | - | - | - | - | 168,211 | - | 168,211 |
| Total Other, Non-ADHS, Non-Operating and Unrelated Business Expi | 48,938 | - | - | 59,095 | - | - | 60,178 | - | - | - | - | - | - | - | - | - | - | - | 168,211 | (642,900) | (474,689) |

Note: The Supplemental Schedule of Activities and Supplemental Schedule of Activities - Disclosures were prepared using an ADHS approved allocation plan, as submitted to ADHS by Cenpatico.

See Independent Auditors' Report on Supplemental Schedules
Amounts expressed in whole dollars, differences are due to rounding

**UNIFORM GUIDANCE
SUPPLEMENTARY REPORTS**

CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2016

| Federal Grantor / Pass-Through Grantor / Program Cluster or Title | Federal CFDA Number | Contract Number | Pass-through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|---|------------------------------------|-----------------------------|---|--|---------------------------------|
| U.S. Department of Health and Human Services | | | | | |
| Arizona Health Care Cost Containment System Substance Abuse and Mental Health Services - Projects of Regional and National Significance - State Youth Grant | 93.243 | ADHS15-085891 and YH17-0003 | 11356415170214 | \$ 401,101 | \$ 435,978 |
| Block Grants for Community Mental Health Services (MHBG): | | | | | |
| SMI - Non Title XIX | 93.958 | ADHS15-085891 and YH17-0003 | 11356415170214 | 1,265,406 | 1,419,862 |
| Children - Non Title XIX | 93.958 | ADHS15-085891 and YH17-0003 | 11356415170214 | <u>1,655,186</u> | <u>1,874,128</u> |
| Total Mental Health Block Grant (93.958) | | | | <u>2,920,592</u> | <u>3,293,990</u> |
| Block Grants for Prevention and Treatment of Substance Abuse (SABG): | | | | | |
| Substance Abuse/General Mental Health | 93.959 | ADHS15-085891 and YH17-0003 | 11356415170214 | 5,962,052 | 6,749,734 |
| Substance Abuse | 93.959 | ADHS15-085891 and YH17-0003 | 11356415170214 | 422,312 | 478,161 |
| Crisis | 93.959 | ADHS15-085891 and YH17-0003 | 11356415170214 | 461,637 | 522,687 |
| Prevention/HIV | 93.959 | ADHS15-085891 and YH17-0003 | 11356415170214 | <u>1,994,676</u> | <u>2,325,941</u> |
| Total Block Grants for Prevention and Treatment of Substance Abuse (93.959) | | | | <u>8,840,677</u> | <u>10,076,523</u> |
| Total U.S. Department of Health and Human Services | | | | <u>12,162,370</u> | <u>13,806,491</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | | <u>\$ 12,162,370</u> | <u>\$ 13,806,491</u> |

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2016

(1) **Basis of presentation**

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

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

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. ***Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care*** has not elected to use the ten percent de minimus indirect cost rate allowable under the Uniform Guidance.

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

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



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care**, which comprise the balance sheet as of September 30, 2016, and the related statements of comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

March 13, 2017



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

To the Board of Directors of

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care's** compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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



March 13, 2017

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2016

Section I – Summary of Auditors’ Results

Financial Statements

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

Federal Awards

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

4. Identification of major federal programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|--|
| 93.958 | Block Grants for Community Mental Health Services |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse |

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

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2016

Section II – Financial Statement Findings

None noted

Section III – Federal Award Findings

None noted

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

None noted