

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

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

Years Ended September 30, 2018 and 2017

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

Years Ended September 30, 2018 and 2017

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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 sheets as of September 30, 2018 and 2017, and the related statements of comprehensive income (loss), changes in stockholders' 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 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 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 **Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care** as of September 30, 2018 and 2017, 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.

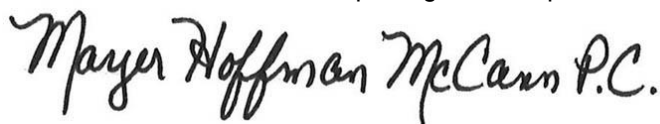
Other Matters

Supplementary Information

Our audits were 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 12, 2019 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 12, 2019

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

BALANCE SHEETS

September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 16,510,704	\$ 43,590,336
Due from AHCCCS	13,524,762	749,183
Provider receivables	1,631,694	5,551,796
Pharmacy receivables	1,258,108	420,355
Reinsurance receivable	2,024,937	-
Short-term investments	3,654,415	3,909,506
Accrued interest income	817,486	540,826
Income tax receivable	-	5,544,610
Due from affiliated companies, net	5,665,095	-
Prepaid expenses	-	280,770
TOTAL CURRENT ASSETS	<u>45,087,201</u>	<u>60,587,382</u>
PROPERTY AND EQUIPMENT, net	-	2,647,305
LONG-TERM INVESTMENTS	90,894,860	67,325,442
DEFERRED INCOME TAX ASSET, net	1,164,860	-
DEPOSITS	-	115,093
TOTAL ASSETS	<u>\$ 137,146,921</u>	<u>\$ 130,675,222</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Claims payable	\$ 34,537,874	\$ 35,438,300
Payable to AHCCCS	376,943	874,052
Payable to providers	10,172,767	6,285,308
Accounts payable and accrued expenses	11,050,424	8,644,664
Due to affiliated companies, net	-	12,354,714
Income tax payable	8,293,675	-
Deferred revenue	860,434	2,536,818
TOTAL CURRENT LIABILITIES	<u>65,292,117</u>	<u>66,133,856</u>
DEFERRED INCOME TAX LIABILITY, net	-	209,182
OTHER LONG-TERM LIABILITIES	-	265,428
TOTAL LIABILITIES	<u>65,292,117</u>	<u>66,608,466</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$1.00, 1,000 shares authorized, issued, and outstanding at September 30, 2018 and 2017	1,000	1,000
Additional paid-in capital	64,405,309	64,405,309
Retained earnings (deficit)	9,228,403	(508,417)
Accumulated other comprehensive income (loss)	(1,779,908)	168,864
TOTAL STOCKHOLDERS' EQUITY	<u>71,854,804</u>	<u>64,066,756</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 137,146,921</u>	<u>\$ 130,675,222</u>

See Notes to Financial Statements

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
Arizona Health Care Cost Containment System contract revenues	\$ 726,215,728	\$ 685,842,292
Health insurer fee premium revenue	12,227,921	1,057,123
Investment income	3,804,640	1,576,692
Other	62,150	157,950
TOTAL REVENUES	<u>742,310,439</u>	<u>688,634,057</u>
EXPENSES		
Health care expenses	632,672,343	632,062,735
General and administrative	19,821,153	52,245,961
Health insurer fee	9,660,058	666,079
Premium tax expense	13,863,376	12,863,750
Management fees	48,577,328	-
TOTAL EXPENSES	<u>724,594,258</u>	<u>697,838,525</u>
NET INCOME (LOSS) BEFORE INCOME TAXES	17,716,181	(9,204,468)
PROVISION FOR (BENEFIT FROM) INCOME TAXES	<u>7,979,361</u>	<u>(3,898,462)</u>
NET INCOME (LOSS)	9,736,820	(5,306,006)
OTHER COMPREHENSIVE LOSS		
Unrealized losses on securities available for sale, net of tax	<u>(1,948,772)</u>	<u>(2,042)</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ 7,788,048</u>	<u>\$ (5,308,048)</u>

See Notes to Financial Statements

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended September 30, 2018 and 2017

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings (Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balance, September 30, 2016	\$ 1,000	\$ 64,405,309	\$ 4,797,589	\$ 170,906	\$ 69,374,804
Unrealized losses on securities available-for-sale, net of tax	-	-	-	(2,042)	(2,042)
Net loss	-	-	(5,306,006)	-	(5,306,006)
Balance, September 30, 2017	<u>1,000</u>	<u>64,405,309</u>	<u>(508,417)</u>	<u>168,864</u>	<u>64,066,756</u>
Unrealized losses on securities available-for-sale, net of tax	-	-	-	(1,948,772)	(1,948,772)
Net income	-	-	9,736,820	-	9,736,820
Balance, September 30, 2018	<u>\$ 1,000</u>	<u>\$ 64,405,309</u>	<u>\$ 9,228,403</u>	<u>\$ (1,779,908)</u>	<u>\$ 71,854,804</u>

See Notes to Financial Statements

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

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 9,736,820	\$ (5,306,006)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	175,175	1,029,531
Change in deferred income taxes	(1,374,042)	398,719
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Due from AHCCCS	(12,775,579)	2,727,191
Provider receivables	3,920,102	1,123,900
Pharmacy receivables	(837,753)	(91,756)
Reinsurance receivable	(2,024,937)	-
Accrued interest income	(276,660)	(354,842)
Income tax receivable	5,544,610	(5,544,610)
Prepaid expenses	280,770	617,459
Increase (decrease) in:		
Claims payable	(900,426)	3,213,003
Payable to AHCCCS	(497,109)	(244,197)
Payable to providers	3,887,459	2,438,218
Accounts payable and accrued expenses	2,405,760	6,691,643
Due to affiliated companies, net	(15,547,679)	11,668,183
Income tax payable	8,293,675	(378,856)
Deferred revenue	(1,676,384)	(943,939)
Other long-term liabilities	(265,428)	230,384
Deposits	115,093	-
Net cash (used in) provided by operating activities	(1,816,533)	17,274,025
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(167,746)
Proceeds from sales of investments	11,939,265	628,610,431
Purchases of investments	(37,202,364)	(650,848,700)
Net cash used in investing activities	(25,263,099)	(22,406,015)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(27,079,632)	(5,131,990)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	43,590,336	48,722,326
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 16,510,704	\$ 43,590,336
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid (or refunds received)	\$ -	\$ 1,625,269
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES		
Transfer of property and equipment to a related party, settled through the due to affiliated companies	\$ 2,472,130	\$ -
Unrealized losses on available-for-sale investments, net of tax	\$ (1,948,772)	\$ (2,042)

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

(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 Health Care Cost Containment System (“AHCCCS”) for the delivery of health care services to eligible persons.

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. No additional capital contributions were made during the years ended September 30, 2018 and 2017.

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. No additional capital contributions were made during the years ended September 30, 2018 and 2017. The Agreement includes a repurchase option, pursuant to which Cenpatico has the right to repurchase the shares of common stock from the University of Arizona Health Network upon termination of the Agreement.

Relative interests of the owners and the formula for distributions to owners as of September 30, 2018 and 2017 were as follows:

Cenpatico Behavioral Health of Arizona, LLC	80%
University of Arizona Health Network	20%

Effective September 30, 2018, Cenpatico and the University of Arizona Health Network mutually agreed to terminate the Agreement. Upon termination of the Agreement, Cenpatico and the University of Arizona Health Network entered into a share repurchase agreement whereby Cenpatico agreed to repurchase all shares of Cenpatico from the University of Arizona Health Network for a total repurchase price equal to 20% of Cenpatico’s total stockholders’ equity value as of September 30, 2018, as recorded in the accompanying balance sheet. The repurchase price is payable in two installments. The first installment of \$12,895,759 was paid by Cenpatico to the University of Arizona Health Network in October 2018. The second installment, representing the remaining portion of the purchase price, will be paid subsequent to the issuance of the audited financial statements for the year ended September 30, 2018. Once the final payment of approximately \$1,500,000 is made, Cenpatico will be owned 100% by CBH.

On December 18, 2014, Cenpatico was awarded the Southern Arizona Integrated Regional Behavioral Health Authority (“RBHA”) contract by AHCCCS. The contract began on October 1, 2015 and 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 is 8% for Non-title XIX/XXI funding and 10% for Title XIX/XXI funding. The allowable services profit is 4%. 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.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

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

On November 2, 2017, AHCCCS released the AHCCCS Complete Care Request for Proposal (“RFP”) which was established to integrate physical and behavioral health care contracts under managed care plans for the majority of the 1.5 million AHCCCS members. The integrated delivery model was established to offer a more cohesive health care system for members incentivizing quality health care outcomes with value based purchasing, and leverage health information technology for improved care coordination. Additionally, integrating physical health and behavioral healthcare contracts drives strategic, innovative health care initiatives forward. Health Net Access, Inc. (“Health Net”), an affiliate of Cenpatico under common ownership, submitted a bid as an integrated plan in response to the RFP on January 24, 2018. In March 2018, Health Net was selected to provide physical and behavioral healthcare services through the AHCCCS Complete Care program in the Central and Southern regions. Health Net commenced operations under the AHCCCS Complete Care contract on October 1, 2018. Cenpatico’s contract with AHCCCS to provide physical and behavioral health services to the seriously mentally ill and other defined populations within the Southern region through September 30, 2020 will also be transferred to and operated by Health Net, as approved by AHCCCS. Effective October 1, 2018, Cenpatico exists for the runout of claims payments, but has no active operating agreement with AHCCCS. The runout of claims payments will be satisfied with the cash and investments of Cenpatico.

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 ASC 954-205, *Health Care Entities – Presentation of Financial Statements*.

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

Cash 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, 2018 and 2017, cash and cash equivalents consisted of cash and money market accounts.

Due from AHCCCS – At September 30, 2018 and 2017, 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, 2018 and 2017, amounts due from AHCCCS are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

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

Provider receivables – Provider receivables represent amounts paid to providers through advances or claims overpayments. 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 provider receivables 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 earnings and a credit to provider receivables. As of September 30, 2018 and 2017, provider receivables are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Pharmacy receivables – Pharmacy receivables consist primarily of rebates expected to be received 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 years ended September 30, 2018 and 2017, health care expenses were reduced by approximately \$608,000 and \$470,000, respectively, for rebates. At September 30, 2018 and 2017, management believes pharmacy receivables are fully collectible and accordingly, an allowance for doubtful accounts has not been established.

Reinsurance receivable - Reinsurance receivable represents the expected payment from Bankers Reserve Life Insurance Company of Wisconsin (see Note 7) to the Company for certain enrollees whose qualifying medical expenses paid by the Company were in excess of specified deductible limits. Reinsurance receivable is stated at the amount management expects to collect. Balances that are still outstanding after management has used reasonable collection efforts are written off. Management considers the reinsurance receivable to be fully collectible as of September 30, 2018 and, accordingly, an allowance for doubtful accounts is not considered necessary.

Investments – Investments at September 30, 2018 and 2017 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 (loss). For the years ended September 30, 2018 and 2017, respectively, Cenpatico recognized approximately \$1,949,000 and \$2,000 of unrealized losses on securities available for sale which has been recorded in the accompanying statements of changes in stockholders' equity within accumulated other comprehensive income (loss). Cost of securities sold is recognized using the specific identification method.

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 \$0 and \$1,251 in unrealized losses on securities held to maturity for the years ended September 30, 2018 and 2017, respectively. There were no realized gains or losses on securities held to maturity for the years ended September 30, 2018 and 2017.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

(1) Company 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 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.

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 years ended September 30, 2018 and 2017.

Revenue recognition – Cenpatico receives substantially all of its revenue from its contract with AHCCCS. As discussed above effective October 1, 2018, Cenpatico's contract with AHCCCS was transferred to and is operated by Health Net. Thus, Cenpatico exists for the runout of claims payments, but has no active operating agreement with AHCCCS and will not be generating contract revenues. The runout of claims payments will be satisfied with the cash and investments of Cenpatico. Prior to October 1, 2018, 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 premium for all enrolled members, and this premium is recorded as revenue in the month in which members are entitled to services. Any premiums received prior to the month of service are recorded as deferred revenue. Premiums received prior to the month of service included in deferred revenue as of September 30, 2018 and 2017 totaled approximately \$860,000 and \$2,537,000, respectively, and related to funding received in advance for various programs with contract periods extending past September 30, 2018 and 2017, respectively.

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, 2017 through September 30, 2018 or for the contract year October 1, 2016 through September 30, 2017.

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.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

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

The annual fee equals net premiums written for health insurance 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 insurers' 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. Effective January 1, 2017, the Internal Revenue Service (IRS) issued a moratorium on the health insurer fee whereby collection of the health insurer fee for calendar year 2017 was suspended. Effective January 1, 2018, the moratorium was lifted and the fee was reinstated for calendar year 2018.

Cenpatico accrued approximately \$9,660,000 for Centene in September 2018, to pay the fee for the calendar year ended December 31, 2018, which is included in accounts payable and accrued expenses in the accompanying balance sheet. Centene paid the health insurer fee for calendar year 2018 on October 1, 2018.

AHCCCS 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, 2018, Cenpatico recorded approximately \$12,477,000 to be collected from AHCCCS, including approximately \$250,000 to be collected to cover premium taxes incurred on the receipt of the health insurer fee revenue, which is included in due from AHCCCS in the accompanying balance sheet. This receivable is expected to be collected from AHCCCS in fiscal 2019 and management believes the receivable to be fully collectible.

Health care service cost recognition, claims payable, and payable to providers – 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.

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.

The liability for claims payable includes estimates of amounts due on reported claims and claims that have been incurred but were not reported as of September 30, 2018 and 2017. 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, 2018 and 2017. 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. 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

Years Ended September 30, 2018 and 2017

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

Amounts incurred related to prior periods represents the change in claims payable attributable to the difference between the original estimate of incurred claims for prior periods and the revised estimate. In developing the revised estimate, there have been no changes in the approach used to determine the key actuarial assumptions, which are the completion factor and medical cost trend. Medical claims payable are estimated under actuarial standards of practice and GAAP.

As of September 30, 2018 and 2017, amounts incurred related to prior periods were estimated to be lower than originally estimated by approximately \$8,154,000 and \$1,079,000, respectively. The majority of these amounts were due to adjustments to the claims payable that related to variables and uncertainties associated with Cenpatico's assumptions.

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.

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 income tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred income 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 income 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 income 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 income 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 years ended September 30, 2018 and 2017, 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 2015, 2016 and 2017 are subject to examination by the IRS, generally for three years after they were filed. As of the date of this report, the 2018 income tax return had not yet been filed.

Cenpatico is subject to a 2% premium tax on all Title XIX and Title XXI payments received from AHCCCS. Total premium tax expense for the years ended September 30, 2018 and 2017 was approximately \$13,863,000 and \$12,864,000, respectively. At September 30, 2018 and 2017, included within accounts payable and accrued expenses in the accompanying balance sheets is \$242,822 and \$0, respectively, of premium taxes payable.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

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

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.

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 ASU No. 2015-14, *Revenue from Contracts with Customers* (Topic 606), which changed the effective date of the provisions of 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 ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in 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. Management does not expect the adoption of this standard to have a material impact on the financial statements.

Subsequent events – Cenpatico has evaluated subsequent events through March 12, 2019, which is the date the financial statements were available to be issued.

(2) Contract performance bond

In accordance with the terms of its contract with AHCCCS, Cenpatico is required to post a performance bond with AHCCCS at least equal to 100% of the total Title XIX/XXI capitation payments and non-Title XIX/XXI payments expected to be paid to Cenpatico in the first month of the contract year. 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, 2016, Cenpatico was required to maintain a performance bond in the amount of \$55,120,081, which was met through the purchase of a surety bond. Effective October 1, 2017, Cenpatico was required to maintain a performance bond in the amount of \$55,120,081, which was met through the purchase of a surety bond. Effective October 1, 2018, performance bond coverage for Cenpatico was combined with the performance bond requirements of the AHCCCS Complete Care contract under the operating name of Health Net Access dba Arizona Complete Health (see Note 1).

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

(3) Investments

Investments have been classified in the accompanying balance sheets according to management's intent. The amortized cost of securities and their approximate fair values are as follows for the year ended September 30, 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments held-to-maturity				
Municipal bonds	\$ 525,815	\$ -	\$ -	\$ 525,815
Investments available-for-sale				
Asset-backed	3,104,761	-	(22,809)	3,081,952
Corporate bonds	2,418,614	596	(5)	2,419,205
Municipal bonds	46,046,397	10,114	(1,600,484)	44,456,027
Utility	44,799,534	23,596	(756,854)	44,066,276
Total	\$ 96,369,306	\$ 34,306	\$ (2,380,152)	\$ 94,023,460

The amortized cost of securities and their approximate fair values are as follows for the year ended September 30, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments held-to-maturity				
Municipal bonds	\$ 525,511	\$ -	\$ (1,251)	\$ 524,260
Investments available-for-sale				
Asset-backed	1,934,957	661	(179)	1,935,439
Corporate bonds	27,290,591	142,358	(51,168)	27,381,781
Municipal bonds	39,663,123	257,768	(48,288)	39,872,603
Utility	1,518,281	1,876	(543)	1,519,614
Total	\$ 70,406,952	\$ 402,663	\$ (100,178)	\$ 70,709,437

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

(3) Investments (continued)

The following is a summary of maturities of securities held-to-maturity and available-for-sale as of September 30, 2018:

	<u>Investments held-to-maturity</u>		<u>Investments available-for-sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Amounts maturing in:				
One year or less	\$ -	\$ -	\$ 3,666,004	\$ 3,654,415
After one year through five years	525,815	525,815	47,383,398	46,639,938
After five years through ten years	-	-	44,629,904	43,039,107
After ten years	-	-	690,000	690,000
Total	<u>\$ 525,815</u>	<u>\$ 525,815</u>	<u>\$ 96,369,306</u>	<u>\$ 94,023,460</u>

The Cenpatico regularly evaluates its investments for impairment. The Cenpatico considers factors affecting the issuer, factors affecting the industry the issuer operates within, and general debt and equity market trends. The Cenpatico considers the length of time an investment's fair value has been below carrying value, the severity of the decline, the near term prospects for recovery to cost, and the Cenpatico's intent and ability to hold the investment until maturity or market recovery is realized. If and when a determination is made that a decline in fair value below the cost basis is other than temporary, the related investment is written down to its estimated fair value through a charge to realized losses on investments. Of the gross unrealized losses as of September 30, 2018, approximately \$255,000 have been in a loss position for longer than 12 months. Management intends to hold these investments for an extended period such that the losses incurred have been classified as temporary. For the years ended September 30, 2018 and 2017, there were no other than temporary impairments of investments.

(4) Fair value measurements

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.

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, 2018:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Asset-backed	\$ 3,081,952	\$ -	\$ 3,081,952	\$ -
Corporate bonds	2,419,205	-	2,419,205	-
Municipal bonds	44,456,027	-	44,456,027	-
Utility	44,066,276	-	44,066,276	-
Total	<u>\$ 94,023,460</u>	<u>\$ -</u>	<u>\$ 94,023,460</u>	<u>\$ -</u>

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

(4) Fair value measurements (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, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Asset-backed	\$ 1,935,439	\$ -	\$ 1,935,439	\$ -
Corporate bonds	27,381,781	-	27,381,781	-
Municipal bonds	39,872,603	-	39,872,603	-
Utility	1,519,614	-	1,519,614	-
Total	<u>\$ 70,709,437</u>	<u>\$ -</u>	<u>\$ 70,709,437</u>	<u>\$ -</u>

(5) Property and equipment

Property and equipment consists of the following at September 30:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ -	\$ 1,851,415
Leasehold improvements	-	2,534,133
Technology equipment	-	387,712
Computer hardware	-	743,994
Computer software	-	182,905
Total cost	-	5,700,159
Accumulated depreciation and amortization	-	(3,052,854)
Net property and equipment	<u>\$ -</u>	<u>\$ 2,647,305</u>

In January 2018 the net book value of all property and equipment, totaling \$2,382,600, was transferred to Centene Management Company ("CMC") pursuant to the management agreement established between Cenpatico and CMC (See Note 7).

Depreciation and amortization expense charged to operations for the years ended September 30, 2018 and 2017 was approximately \$175,000 and \$1,030,000, respectively.

(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 income tax assets result from reserves established for financial reporting purposes that are not deductible for tax purposes.

Effective December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was enacted into law, which significantly changed pre-existing U.S. tax law and included certain provisions that affected Cenpatico's tax provision and deferred tax calculations. The primary impact was the reduction of the U.S. federal statutory tax rate from 35% to 21% effective January 1, 2018.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

(6) Income taxes (continued)

Income tax benefits provided by Cenpatico to the consolidated group as a result of utilizing operating losses will be reimbursed by the parent corporation pursuant to an agreement between the companies.

The income tax provision (benefit) consists of the following for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Current provision (benefit):		
Federal	\$ 8,192,320	\$ (4,010,921)
State and local	482,693	(287,276)
Total current provision (benefit)	8,675,013	(4,298,197)
Deferred (benefit) provision	(695,652)	399,735
Total provision (benefit) for income taxes	<u>\$ 7,979,361</u>	<u>\$ (3,898,462)</u>

The components of deferred income tax assets (liabilities) included in the accompanying balance sheets are as follows for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Deferred income tax assets (liabilities):		
Deferred revenue	\$ 47,242	\$ 206,928
Loss reserves	548,433	111,604
Accrued expenses	11,890	35,418
Depreciation	(3,084)	(456,145)
Prepaid insurance	-	(5,285)
Unrealized gain	560,379	(101,702)
Net deferred income tax asset (liability)	<u>\$ 1,164,860</u>	<u>\$ (209,182)</u>

(7) Related party transactions

CMC provides data, claims processing, case management, care coordination and general administrative services to Cenpatico and is compensated by Cenpatico on a monthly basis. Effective January 1, 2018, Cenpatico entered into a management agreement with CMC with a monthly management fee based on the variable degrees of management services required to support the differing categories of membership covered by Cenpatico and the size and health of Cenpatico's operations. The monthly fee is calculated based on percentages of net revenue earned from Title XIX/XXI members and Non-Title XIX/XXI members. The fee can be modified each month to account for net revenue earned in excess or below the specified percentages and to comply with the AHCCCS financial viability standards (see Note 10). The management agreement is in effect for one year with automatic one year extensions unless the agreement is terminated as elected by either party or for matters of default as defined in the management agreement.

Cenpatico incurred management fees per the management agreement of approximately \$48,577,000 for the year ended September 30, 2018. At September 30, 2018, as a result of the timing of payments and the estimation process, Cenpatico had overpaid management fees to CMC and was owed approximately \$5,665,000, which is included within the due from affiliated companies in the accompanying balance sheet. In addition to the monthly management fee outlined previously, Cenpatico shall reimburse CMC for case management expenses as incurred.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

(7) Related party transactions (continued)

Prior to January 1, 2018, certain administrative costs of Cenpatico were charged by CMC on a per service basis rather than a monthly calculated fee. The services provided by CMC were substantially equivalent to those described in the management agreement. Cenpatico recorded approximately \$14,794,000 in general and administrative expenses related to the arrangement with CMC for the year ended September 30, 2017. This amount is included in general and administrative expenses in the accompanying statement of comprehensive loss. As of September 30, 2017, unpaid expenses and general administrative costs totaled approximately \$13,553,000 which is included in due to affiliated companies in the accompanying balance sheet.

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 years ended September 30, 2018 and 2017.

Envolve Dental, Inc., an affiliated company wholly-owned by CenCorp Health Solutions (CenCorp), which is a wholly-owned subsidiary of Centene, provides dental services for eligible enrollees. Cenpatico paid Envolve Dental, Inc. approximately \$613,000 and \$161,000 for these services during the years ended September 30, 2018 and 2017, respectively. These amounts are included in health care expenses in the accompanying statements of comprehensive income (loss). As of September 30, 2018, Cenpatico has approximately \$21,000 due from Envolve Dental, Inc. which is included in provider receivables in the accompanying balance sheet. As of September 30, 2017, Cenpatico has approximately \$54,000 due to Envolve Dental, Inc. which is included in payable to providers as of September 30, 2017 in the accompanying balance sheet.

Envolve Vision, Inc., 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 \$354,000 and \$394,000 for these services during the years ended September 30, 2018 and 2017, respectively. These amounts are included in health care expenses in the accompanying statements of comprehensive income (loss). As of September 30, 2018 and 2017, Cenpatico has approximately \$1,000 and \$38,000, respectively, due to Envolve Vision, Inc. which is included in payable to providers in the accompanying balance sheets.

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 \$463,000 and \$612,000 in premiums for reinsurance coverage during the years ended September 30, 2018 and 2017, respectively. These amounts are included in general and administrative expenses in the accompanying statements of comprehensive income (loss). As of September 30, 2018 and 2017, Cenpatico has approximately \$34,000 and \$205,000, respectively, due to Bankers Reserve Life Insurance Company of Wisconsin which is included in accounts payable and accrued expenses in the accompanying balance sheets. Cenpatico recorded estimated reinsurance recoveries of approximately \$2,025,000 and \$0 to be received from Bankers Reserve Life Insurance Company of Wisconsin, which are included as a reduction of health care expenses in the accompanying statements of comprehensive income (loss) for the years ended September 30, 2018 and 2017, respectively.

Cenpatico contracted with Envolve PeopleCare, Inc., an affiliated company wholly-owned by CenCorp, to provide nurse triage and crisis services to eligible enrollees that are served under the AHCCCS contract. Cenpatico paid Envolve PeopleCare, Inc. approximately \$12,303,000, net of rebates, for these services for the years ended September 30, 2018 and 2017. These amounts are included in health care expenses in the accompanying statements of comprehensive income (loss). As of September 30, 2018 and 2017, Cenpatico has approximately \$0 and \$1,039,000, respectively, due to Envolve PeopleCare included in both payable to providers and accounts payable and accrued expenses in the accompanying balance sheets.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

(7) Related party transactions (continued)

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 \$170,000 and \$370,000 for services performed during the years ended September 30, 2018 and 2017, respectively. These amounts are included in health care expenses in the accompanying statements of comprehensive income (loss). As of September 30, 2018 and 2017, Cenpatico has approximately \$58,000 and \$178,000, respectively, due to Lifeshare Management Group which is included in payable to providers in the accompanying balance sheets.

Cenpatico operates under a management contract with Envolve Pharmacy Solutions, Inc., an affiliated company wholly-owned by CenCorp, to provide pharmacy benefit management services to eligible enrollees. Cenpatico paid Envolve Pharmacy Solutions, Inc. approximately \$67,242,000 and \$70,740,000 for these services for the years ended September 30, 2018 and 2017, respectively. Claim encounters are submitted to AHCCCS to substantiate these payments. These amounts are included in health care expenses in the accompanying statements of comprehensive income (loss). As of September 30, 2018 and 2017, Cenpatico has approximately \$1,258,000 and \$420,000, respectively, due from Envolve Pharmacy Solutions, Inc. which is included in pharmacy receivables in the accompanying balance sheets. As of September 30, 2018 and 2017, Cenpatico has approximately \$0 and \$74,000, respectively, due to Envolve Pharmacy Solutions, Inc. which is included in payable to providers in the accompanying balance sheets.

(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 \$350,000 and \$501,000, respectively, for the years ended September 30, 2018 and 2017.

(9) Commitments and contingencies

Operating leases – Cenpatico leased office space in Arizona for their headquarters, various satellite offices and certain equipment under operating lease agreements. Effective January 1, 2018, all lease obligations of Cenpatico were transferred to CMC pursuant to the management agreement (see Note 7). Operating lease expense for each of the years ended September 30, 2018 and 2017 was approximately \$304,000 and \$1,279,000, respectively.

Liability insurance – Cenpatico, through Centene, maintains professional and general liability insurance. The professional liability coverage is written on a claims made basis and insures losses up to \$15,000,000 with a self-insured retention of \$5,000,000. There is an umbrella policy over the professional liability coverage with a limit of \$25,000,000. The general liability insurance is written on an occurrence basis and insures losses up to \$1,000,000 per claim and \$2,000,000 in the aggregate. Claims reported endorsement (tail coverage) is available if the professional 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.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

(9) Commitments and contingencies (continued)

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.

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, 2018 and 2017, 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 years ended September 30, 2018 and 2017, Cenpatico had met or exceeded that amount. The program funds community projects that enhance the lives of people in the communities in Cenpatico's geographic service areas.

For the years ended September 30, 2018 and 2017, Cenpatico approved amounts that resulted in appropriations of approximately \$608,000 and \$135,000, respectively, to be spent on various behavioral health community projects. During the years ended September 30, 2018 and 2017, Cenpatico spent approximately \$419,000 and \$214,000, respectively, of the appropriated funds. At September 30, 2018 and 2017, Cenpatico has recorded a liability for unspent community reinvestment program funds of approximately \$753,000 and \$564,000, respectively, which is included in accounts payable and accrued expenses in the accompanying balance sheets.

(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, 2018 and 2017, 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, 2018 and 2017, Cenpatico was in compliance with these requirements.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2018 and 2017

(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. As of September 30, 2018, Cenpatico anticipates meeting the required encounter threshold for the year ended September 30, 2018. Accordingly, as of September 30, 2018, Cenpatico has not recorded a liability associated with an encounter sanction. For the year ended September 30, 2017, Cenpatico anticipated meeting the required encounter threshold for the year ended September 30, 2017. Accordingly, as of September 30, 2017, Cenpatico did not record 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. 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 years ended September 30, 2018 and 2017, Cenpatico did not exceed the profit limits as stipulated in the contract with AHCCCS.

Cenpatico is required by its license with the Arizona Department of Insurance to hold \$500,000 in cash or eligible securities with the State Treasurer. Cenpatico has met this requirement by investing \$525,815 and \$525,511 in municipal bonds held to maturity as of September 30, 2018 and 2017, respectively.

AHCCCS has a right to sanction Cenpatico for other matters of non-compliance of the contract, as determined by AHCCCS. Cenpatico received sanctions for the years ended September 30, 2018 and 2017 of approximately \$5,520 and \$225,000, respectively. The sanction assessed during the year ended September 30, 2017 was not paid by Cenpatico as of September 30, 2018 or 2017 and accordingly is included in payable to AHCCCS in the accompanying balance sheets.

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, supplemental schedule of activities – disclosures, sub-capitated expenses report, and block expenses report 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) for the year ended September 30, 2018.

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, supplemental schedule of activities – disclosures, sub-capitated expenses report, and block expenses report 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, 2018, as defined in the AHCCCS 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 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 12, 2019

CENPATICO OF ARIZONA, INC. d/b/a CENPATICO INTEGRATED CARE
 SCHEDULE 2 - SUPPLEMENTAL SCHEDULE OF ACTIVITIES - DISCLOSURES
 YEAR ENDED SEPTEMBER 30, 2018

	TXIX/XXI Non CMDP Child	TXIX CMDP Child	TXIX DD Child	TXIX/XXI GMH/SA Non Dual	TXIX DD Adult	TXIX SMI Integrated	TXIX SMI Non Integrated	NTXIX/XXI Crisis	NTXIX/XXI SMI	NTXIX/XXI Other	Supported Housing	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 AHCCCS REVENUE																					
Liquor Fees	-	-	-	-	-	-	-	-	-	75,400	-	-	-	-	-	-	-	-	75,400	-	75,400
Supported Housing	-	-	-	-	-	-	-	-	-	539,679	-	-	-	-	-	-	-	-	539,679	-	539,679
HIE (Health Information Exchange)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MAT - PDOA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	390,049	-	-	390,049	-	390,049
Opioid STR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,397,861	-	-	1,397,861	-	1,397,861
State Youth Treatment (SYT) 2018	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	895,015	-	-	895,015	-	895,015
One Time Housing	-	-	-	-	-	-	-	-	-	257,243	-	-	-	-	-	-	-	-	257,243	-	257,243
SUDS	-	-	-	-	-	-	-	-	-	318,757	-	-	-	-	-	-	-	-	318,757	-	318,757
SPF-PFS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	358,202	-	-	358,202	-	358,202
Total - NTXIX/XXI Other and OTHER FEDERAL Column	-	-	-	-	-	-	-	-	-	1,191,079	-	-	-	-	-	3,041,127	-	-	4,232,206	-	4,232,206
DISCLOSURE OF SPECIALTY AND OTHER GRANTS REPORTED ON LINE 40210																					
HIE (Health Information Exchange)	-	-	-	-	-	-	-	-	-	468,013	-	-	-	-	-	-	-	-	468,013	-	468,013
Bridge Subsidy Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,477	45,477	-	45,477
Total Specialty and Other Grants Revenue	-	-	-	-	-	-	-	-	-	468,013	-	-	-	-	-	-	-	45,477	513,490	-	513,490
DISCLOSURE OF SUPPORTED HOUSING ON REPORTED ON LINE 60405-30																					
Rent Subsidy	-	-	-	-	-	-	-	-	3,736,622	350,274	1,766,131	-	-	-	-	-	-	-	5,853,027	-	5,853,027
Utility Payments	-	-	-	-	-	-	-	-	42,479	53,510	35,770	-	-	-	-	-	-	-	131,759	-	131,759
Move-in/Start-up Kits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Damage to unit	-	-	-	-	-	-	-	-	(2,488)	172,058	-	-	-	-	-	-	-	-	169,570	-	169,570
Assistance with Deposits	-	-	-	-	-	-	-	-	32,778	9,716	121,511	-	-	-	-	-	-	-	164,005	-	164,005
Start Up	-	-	-	-	-	-	-	-	-	30,219	20,200	-	-	-	-	-	-	-	50,419	-	50,419
Eviction/Prevention	-	-	-	-	-	-	-	-	-	101,313	67,725	-	-	-	-	-	-	-	169,038	-	169,038
SB1616 Housing - Construction/Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Supported Housing	-	-	-	-	-	-	-	-	3,809,391	717,090	2,011,337	-	-	-	-	-	-	-	6,537,818	-	6,537,818
DISCLOSURE OF OTHER SERVICES ON LINE 61105																					
VBP	1,179,466	-	-	345,636	-	1,164,672	-	-	-	-	-	-	-	-	-	-	-	-	2,689,774	-	2,689,774
Linkages	-	-	-	-	-	226,166	-	-	-	-	-	-	-	-	-	-	-	-	226,166	-	226,166
FEP	-	-	-	-	-	-	-	-	-	-	-	-	-	156,537	-	-	-	-	156,537	-	156,537
MAT - PDOA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	358,840	-	-	358,840	-	358,840
Opioid STR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,943,026	-	-	1,943,026	-	1,943,026
State Youth Treatment (SYT) 2018	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	166,419	-	-	166,419	-	166,419
PASRR Screening Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,600	39,600	-	39,600
SPF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	329,546	-	-	329,546	-	329,546
Total Other Services	1,179,466	-	-	345,636	-	1,390,838	-	-	-	-	-	-	-	156,537	-	2,797,831	-	39,600	5,909,908	-	5,909,908
DISCLOSURE OF SPECIALTY AND OTHER GRANTS ON LINE 61305																					
HIE Grant	-	-	-	-	-	-	-	-	-	415,196	-	-	-	-	-	-	-	-	415,196	-	415,196
Bridge Subsidy Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,477	45,477	-	45,477
Total Specialty and Other Grants Expenses	-	-	-	-	-	-	-	-	-	415,196	-	-	-	-	-	-	-	45,477	460,673	-	460,673

CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE
 SCHEDULE 2 - SUPPLEMENTAL SCHEDULE OF ACTIVITIES - DISCLOSURES
 YEAR ENDED SEPTEMBER 30, 2018

DISCLOSURE OF OTHER ADMIN EXPENSES ON LINE 83005

Data processing	747,124	260,398	57,840	1,243,285	58,275	1,244,136	31,891	24,424	94,426	7,058	11,049	-	9,807	6,539	58,198	15,661	14,920	160	3,885,191	-	3,885,191
Third party administrator	303,704	105,852	23,512	505,392	23,688	502,571	12,964	9,928	38,725	2,869	4,491	-	3,986	2,658	23,657	6,366	6,065	65	1,576,493	-	1,576,493
Reinsurance expense - insurance	-	-	-	-	-	734,408	-	-	-	-	-	-	-	-	-	-	-	-	734,408	-	734,408
EE meetings, training, seminars	203,754	70,639	15,831	339,540	15,979	342,976	8,609	6,724	26,230	1,955	3,029	-	2,672	1,785	15,922	4,407	4,111	51	1,064,214	-	1,064,214
EOP / EOB processing fees	180,686	62,410	14,074	301,392	14,224	308,256	7,580	6,002	23,414	1,753	2,695	-	2,367	1,584	14,150	3,993	3,672	50	948,302	-	948,302
Printing	111,732	38,721	8,684	186,210	8,766	190,497	4,718	3,690	14,393	1,073	1,661	-	1,465	979	8,733	2,422	2,256	28	586,028	-	586,028
Physician credentialing	68,671	23,934	5,316	114,274	5,356	114,993	2,931	2,245	8,756	649	1,016	-	901	601	5,349	1,439	1,371	15	357,817	-	357,817
Admin on Targeted Investment	4,641	1,668	370	7,992	387	33,782	247	144	563	80	71	-	66	32	341	44	88	-	50,516	-	50,516
Other - less than \$5,500 individually	35,892	11,777	2,872	60,318	2,932	69,845	1,323	1,297	5,059	359	557	-	620	395	3,520	1,053	798	215	198,832	-	198,832
Sanction	225	65	10	2,950	115	2,150	5	-	-	-	-	-	-	-	-	-	-	-	5,520	-	5,520
Total Other Admin Expenses	1,656,429	575,464	128,509	2,761,353	129,722	3,543,614	70,268	54,454	211,566	15,796	24,569	-	21,884	14,573	129,870	35,385	33,281	584	9,407,321	-	9,407,321

DISCLOSURE OF ENCOUNTER EVALUATION SANCTIONS ON LINE 83105

Encounter Evaluation Sanctions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Encounter Evaluation Sanctions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

DISCLOSURE OF ADMINISTRATIVE EXPENSES FROM SPECIALTY AND OTHER GRANTS ON LINE 83205

Bridge Subsidy Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,210	3,210	-	3,210
HIE Grant	-	-	-	-	-	-	-	-	-	52,817	-	-	-	-	-	-	-	-	-	52,817	52,817
Total Adm Expenses from Specialty and Other Grants	-	-	-	-	-	-	-	-	-	52,817	-	-	-	-	-	-	-	3,210	56,027	-	56,027

DISCLOSURE OF NON-OPERATING LINE 88999

Revenue from RBHA assessed Sanctions	15,530	-	-	12,027	-	34,593	-	-	-	-	-	-	-	-	-	-	-	-	62,150	-	62,150
Community Reinvestment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(608,083)	(608,083)
Total Other, Non-AHCCCS and Non-Operating	15,530	-	-	12,027	-	34,593	-	-	-	-	-	-	-	-	-	-	-	-	62,150	(608,083)	(545,933)

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

Supplemental Schedule

Schedule 3 - Sub-Capitated Expenses Report

Year Ended September 30, 2018

<u>Account</u>	<u>Account Description</u>	<u>YTD Amount</u>
60199	Total Treatment Services	\$ 68,042,073
60299	Total Rehabilitation Services	13,592,867
60399	Total Medical Services	23,594,865
60499	Total Support Services	53,620,983
60599	Total Crisis Intervention Services	-
60699	Total Inpatient Services	-
60799	Total Residential Services	18,804,599
60899	Total Behavioral Health Day Program	919,451
60999	Total Prevention Services	-
61099	Total Pharmacy Expense	-
61105	Other Service Expenses Not Rpt'd Above	-
61205	BH FQHC/RHC Services	-
	<i>Total Sub-Capitated Behavioral Health Expenses</i>	<u>\$ 178,574,838</u>

<u>Account</u>	<u>Account Description</u>	<u>YTD Amount</u>
	<i>Hospitalization Expenses:</i>	
50105	Hospital Inpatient	\$ -
50110	Hospital Inpatient, BH Principle Diagnosis	-
50115	Hospital Inpatient, PPC	-
	<i>Total Hospitalization Expense:</i>	<u>-</u>
	<i>Medical Compensation Expenses:</i>	
50205	Primary Care Physician Services	-
50210	Physician Services, BH Principle Diagnosis	-
50215	Referral Physician Services	-
50220	PH FQHC/RHC Services	-
50225	Other Professional Services	354,164
50230	PPC-Physician Services	-
50235	PCP Parity Enhanced Payment Expense	-
	<i>Total Medical Compensation Expenses:</i>	<u>354,164</u>
	<i>Other Medical Expenses:</i>	
50305	Emergency Facility Services	-
50310-1	PH Pharmacy	-
50310-5	less: PH Pharmacy Rebates	-
50315	Laboratory, Radiology & Medical Imaging	-
50320	Outpatient Facility	-
50325	Durable Med Equipment	-
50330	Dental	612,546
50335	Transportation	-
50340-00	Nursing Facility, Home Health Care	-
50345	Therapies	-
50350	Alternative Payment Model Performance Based Payments to Providers	-
50360	PPC, Other Medical Expenses	-
50370	Other Medical Expenses	-
	<i>Total Other Medical Expenses:</i>	<u>612,546</u>
	<i>Total Sub-Capitated Physical Health Expenses</i>	<u>\$ 966,710</u>

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

Supplemental Schedule

Schedule 4 - Block Expenses Report

Year Ended September 30, 2018

<u>Account</u>	<u>Account Description</u>	<u>YTD Amount</u>
60199	Total Treatment Services	\$ 16,731,459
60299	Total Rehabilitation Services	12,472,922
60399	Total Medical Services	5,469,043
60499	Total Support Services	28,466,492
60599	Total Crisis Intervention Services	47,674,614
60699	Total Inpatient Services	2,245,070
60799	Total Residential Services	614,693
60899	Total Behavioral Health Day Program	221,955
60999	Total Prevention Services	-
61099	Total Pharmacy Expense	-
61105	Other Service Expenses Not Rpt'd Above	-
61205	BH FQHC/RHC Services	295,259
	Total Behavioral Health Expense	\$ 114,191,507
<u>Account</u>	<u>Account Description</u>	<u>YTD Amount</u>
	<i>Hospitalization Expenses:</i>	
50105	Hospital Inpatient	\$ -
50110	Hospital Inpatient, BH Principle Diagnosis	-
50115	Hospital Inpatient, PPC	-
	<i>Total Hospitalization Expense:</i>	-
	<i>Medical Compensation Expenses:</i>	
50205	Primary Care Physician Services	-
50210	Physician Services, BH Principle Diagnosis	-
50215	Referral Physician Services	-
50220	PH FQHC/RHC Services	-
50225	Other Professional	-
50230	PPC-Physician Services	-
50235	PCP Parity Enhanced Payment Expense	-
	<i>Total Medical Compensation Expenses:</i>	-
	<i>Other Medical Expenses:</i>	
50305	Emergency Facility Services	-
50310-1	PH Pharmacy	-
50310-5	less: PH Pharmacy Rebates	-
50315	Laboratory, Radiology & Medical Imaging	-
50320	Outpatient Facility	-
50325	Durable Med Equipment	-
50330	Dental	-
50335	Transportation	-
50340-00	Nursing Facility, Home Health Care	-
50345	Therapies	-
50350	Alternative Payment Model Performance Based Payments to Providers	-
50360	PPC, Other Medical Expenses	-
50370	Other Medical Expenses	-
	<i>Total Other Medical Expenses:</i>	-
	<i>Total Expenses:</i>	<u><u>\$ -</u></u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2018

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					
Passed through Arizona Health Care Cost Containment System Substance Abuse and Mental Health Services - Projects of Regional and National Significance					
Medication Assisted Treatment - Prescription Drug and Opioid Addiction (MAT-PDOA)	93.243	YH17-0003	11356415170214	\$ 383,373	\$ 416,715
Arizona Youth Substance Abuse Strategic Prevention Framework, Partnerships for Success Project (SPF-PFS)	93.243	YH17-0003	11356415170214	166,419	180,891
	93.243	YH17-0003	11356415170214	<u>329,546</u>	<u>358,202</u>
Total Substance Abuse and Mental Health Services (93.243)				<u>879,338</u>	<u>955,808</u>
State Targeted Response to the Opioid Crisis Grants (Opioid STR)	93.788	YH17-0003	11356415170214	<u>2,114,282</u>	<u>2,298,133</u>
Passed through Arizona Health Care Cost Containment System Block Grants for Community Mental Health Services (MHBG):					
SMI - Non Title XIX	93.958	YH17-0003	11356415170214	998,263	1,109,424
Children - Non Title XIX	93.958	YH17-0003	11356415170214	1,676,595	1,883,894
SMI FEP - Non Title XIX	93.958	YH17-0003	11356415170214	<u>176,683</u>	<u>192,046</u>
Total Mental Health Block Grant (93.958)				<u>2,851,541</u>	<u>3,185,364</u>
Passed through Arizona Health Care Cost Containment System Block Grants for Prevention and Treatment of Substance Abuse (SABG):					
Substance Abuse/General Mental Health Prevention	93.959	YH17-0003	11356415170214	9,250,736	10,082,226
	93.959	YH17-0003	11356415170214	<u>1,342,231</u>	<u>1,519,736</u>
Total Block Grants for Prevention and Treatment of Substance Abuse (93.959)				<u>10,592,967</u>	<u>11,601,962</u>
Total U.S. Department of Health and Human Services				<u>16,438,128</u>	<u>18,041,267</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 16,438,128</u>	<u>\$ 18,041,267</u>

**UNIFORM GUIDANCE
SUPPLEMENTARY REPORTS**

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2018

(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, 2018. The information in this Schedule is presented in accordance with 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). 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 stockholders' equity 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 2018 *Catalog of Federal Domestic Assistance*.



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**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, 2018, and the related statements of comprehensive income (loss), 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 12, 2019.

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, flowing script.

March 12, 2019



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**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, 2018. ***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 ***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, 2018.

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 the 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.

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

March 12, 2019

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2018

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 Auditors’ 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 (MHBG)
93.959	Block Grants for Prevention and Treatment of Substance Abuse (SABG)
93.788	State Targeted Response to the Opioid Crisis Grants (Opioid STR)

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2018

Section II – Financial Statement Findings

None noted

Section III – Federal Award Findings

None noted

Section IV – Corrective Action Plan and Summary Schedule of Prior Audit Findings

None noted