

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

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

Years Ended September 30, 2017 and 2016

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

Years Ended September 30, 2017 and 2016

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

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

We have audited the accompanying financial statements of ***Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care***, which comprise the balance sheets as of September 30, 2017 and 2016, and the related statements of comprehensive (loss) income, 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, 2017 and 2016, 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.

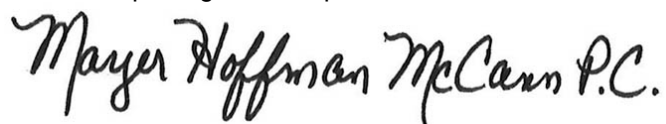
## **Other Matters**

### **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 January 26, 2018 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.



January 26, 2018

# CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE

## BALANCE SHEETS

September 30, 2017 and 2016

### ASSETS

	2017	2016
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 43,590,336	\$ 48,722,326
Due from AHCCCS	749,183	3,476,374
Provider receivables	5,551,796	6,675,696
Pharmacy rebates receivable	420,355	328,599
Short-term investments	3,909,506	16,214,464
Accrued interest income	540,826	185,984
Income tax receivable	5,544,610	-
Prepaid expenses	280,770	898,229
TOTAL CURRENT ASSETS	60,587,382	76,501,672
PROPERTY AND EQUIPMENT, net	2,647,305	3,509,090
LONG-TERM INVESTMENTS	67,325,442	32,784,257
DEFERRED INCOME TAX ASSET, net	-	189,537
DEPOSITS	115,093	115,093
TOTAL ASSETS	\$ 130,675,222	\$ 113,099,649

### LIABILITIES AND STOCKHOLDERS' EQUITY

<b>CURRENT LIABILITIES</b>		
Claims payable	\$ 35,438,300	\$ 32,225,297
Payable to AHCCCS	874,052	1,118,249
Payable to providers	6,285,308	3,847,090
Accounts payable and accrued expenses	8,644,664	1,953,021
Due to affiliated companies, net	12,354,714	686,531
Income tax payable	-	378,856
Deferred revenue	2,536,818	3,480,757
TOTAL CURRENT LIABILITIES	66,133,856	43,689,801
DEFERRED INCOME TAX LIABILITY, net	209,182	-
OTHER LONG-TERM LIABILITIES	265,428	35,044
TOTAL LIABILITIES	66,608,466	43,724,845
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$1.00, 1,000 shares authorized, issued, and outstanding at September 30, 2017 and 2016	1,000	1,000
Additional paid-in capital	64,405,309	64,405,309
Accumulated other comprehensive income	168,864	170,906
Retained (deficit) earnings	(508,417)	4,797,589
TOTAL STOCKHOLDERS' EQUITY	64,066,756	69,374,804
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 130,675,222	\$ 113,099,649

See Notes to Financial Statements

# CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE

## STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUES		
Arizona Health Care Cost Containment System contract revenues	\$ 685,842,292	\$ 641,285,524
Health insurer fee premium revenue	1,057,123	3,161,249
Investment income	1,576,692	512,196
Other	157,950	168,212
TOTAL REVENUES	<u>688,634,057</u>	<u>645,127,181</u>
EXPENSES		
Health care expenses	632,062,735	582,619,414
General and administrative	52,245,961	42,780,622
Health insurer fee	666,079	1,998,304
Premium tax expense	12,863,750	3,068,523
TOTAL EXPENSES	<u>697,838,525</u>	<u>630,466,863</u>
NET (LOSS) INCOME BEFORE INCOME TAXES	(9,204,468)	14,660,318
(BENEFIT) PROVISION FOR INCOME TAXES	<u>(3,898,462)</u>	<u>6,241,277</u>
NET (LOSS) INCOME	(5,306,006)	8,419,041
OTHER COMPREHENSIVE (LOSS) INCOME		
Unrealized (losses) gains on securities available for sale, net of tax	<u>(2,042)</u>	<u>170,671</u>
TOTAL COMPREHENSIVE (LOSS) INCOME	<u>\$ (5,308,048)</u>	<u>\$ 8,589,712</u>

See Notes to Financial Statements

**CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

Years Ended September 30, 2017 and 2016

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

See Notes to Financial Statements

# CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE

## STATEMENTS OF CASH FLOWS

Years Ended September 30, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (5,306,006)	\$ 8,419,041
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,029,531	584,222
Change in deferred income taxes	398,719	(189,670)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Due from AHCCCS	2,727,191	(3,476,374)
Provider receivable	1,123,900	(6,675,696)
Pharmacy rebates receivable	(91,756)	(328,599)
Accrued interest income	(354,842)	(184,745)
Income tax receivable	(5,544,610)	2,089,717
Prepaid expenses	617,459	(463,057)
Increase (decrease) in:		
Claims payable	3,213,003	32,225,297
Payable to providers	2,438,218	3,847,090
Payable to AHCCCS	(244,197)	1,118,249
Accounts payable and accrued expenses	6,691,643	1,545,056
Due to affiliated companies, net	11,668,183	(6,101,523)
Income tax payable	(378,856)	378,856
Deferred revenue	(943,939)	3,480,757
Other long-term liabilities	230,384	35,044
Deposits	-	(53,333)
Net cash provided by operating activities	17,274,025	36,250,332
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(167,746)	(3,107,531)
Proceeds from sales of investments	628,610,431	228,390,422
Purchases of investments	(650,848,700)	(276,692,159)
Net cash used in investing activities	(22,406,015)	(51,409,268)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital contributions	-	53,500,000
Net cash provided by financing activities	-	53,500,000
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(5,131,990)	38,341,064
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	48,722,326	10,381,262
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 43,590,336	\$ 48,722,326
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Income taxes paid (or refunds received)	\$ 1,625,269	\$ 4,065,110
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES</b>		
Transfer of property and equipment from a related party, settled through the due to affiliated companies	\$ -	\$ 143,253
Unrealized (loss) gain on available-for-sale investments, net of tax	\$ (2,042)	\$ 170,671

See Notes to Financial Statements



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

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

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

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

Cenpatico was initially funded through a capital contribution of \$8,725,047 from CBH. During the year ended September 30, 2016, CBH made additional capital contributions totaling \$42,800,000. No additional capital contributions were made during the year ended September 30, 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 year ended September 30, 2017.

Relative interests of the owners and the formula for distributions to owners as of September 30, 2017 and 2016 were as follows:

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

On December 18, 2014, ADHS awarded the Southern Arizona Integrated Regional Behavioral Health Authority (RBHA) contract to Cenpatico. Effective July 1, 2016, the contract with ADHS was transferred to the Arizona Health Care Cost Containment System (AHCCCS). The contract has an initial three year term with two two-year renewal options for a potential maximum length of 7 years. The allowable administrative overhead on the contract is 8% for Non-title XIX/XXI funding and 10% for Title XIX/XXI funding. The allowable services profit is 4%. The contract began on October 1, 2015 and is being operated by Cenpatico under an Agreement between Cenpatico and the University of Arizona Health Network. Prior to October 1, 2015, Cenpatico generated no revenue, other than investment income.

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

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

The significant account policies followed by Cenpatico are summarized below:

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

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

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

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

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

**Cash and cash equivalents** – Cash includes cash deposits in banks and cash equivalents. Cenpatico considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2017 and 2016, cash and cash equivalents consisted of cash and money market accounts.

**Due from AHCCCS** – At September 30, 2017 and 2016, due from AHCCCS consists primarily of capitation payments and other amounts due under Cenpatico's contract with AHCCCS. Amounts due from AHCCCS are stated at the amount management expects to collect. Cenpatico establishes an allowance for doubtful accounts, if necessary, based upon factors including credit risk, historical trends, and other information. As of September 30, 2017 and 2016, amounts due from AHCCCS are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

**Provider receivables** – Provider receivables represent amounts paid to providers prior to contract adjustments for various providers. Amounts due from providers are expected to be collected within one year. Provider receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to 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, 2017 and 2016, provider receivables are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

**Pharmacy rebates receivable** – Cenpatico receives rebates from pharmaceutical companies based on the volume of drugs purchased. Cenpatico records a receivable and a reduction of health care expenses for estimated rebates due based on purchase information. During the years ended September 30, 2017 and 2016, health care expenses were reduced by approximately \$470,000 and \$314,000, respectively, for rebates. At September 30, 2017 and 2016, management believes the pharmacy rebates receivable are fully collectible and accordingly, an allowance for doubtful accounts has not been established.

**Investments** – Investments at September 30, 2017 and 2016 are classified, and accounted for, as follows:

Available-for-Sale: Government, corporate and asset-backed bonds, notes, and certificates are classified as available-for-sale when Cenpatico anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments, and other market and economic factors. These securities are reported at fair value and any unrealized gains or losses are reported as a separate component of stockholders' equity, net of income tax effects. Unrealized gains and losses on securities available for sale are recognized as direct increases or decreases in other comprehensive (loss) income. For the year ended September 30, 2017, Cenpatico recognized approximately \$2,000 of unrealized losses on securities available for sale which has been recorded in the accompanying statement of changes in stockholders' equity within accumulated other comprehensive (loss) income. For the year ended September 30, 2016, Cenpatico recognized approximately \$171,000 of unrealized gains on securities available for sale which has been recorded in the accompanying statement of changes in stockholders' equity within accumulated other comprehensive (loss) income. Cost of securities sold is recognized using the specific identification method.

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

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

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

Held-to-Maturity: Investments classified as held to maturity are carried at amortized cost, and consist primarily of municipal bonds that Cenpatico has the positive intent and ability to hold to maturity. Premiums and discounts are amortized or accreted over the life of the related security using the effective interest method. Cenpatico monitors the difference between the cost and fair value of investments. There were \$1,251 in unrealized losses and \$81 in unrealized gains on securities held to maturity for the years ended September 30, 2017 and 2016, respectively. There were no realized gains or losses on securities held to maturity for the years ended September 2017 and 2016.

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

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

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

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

**Impairment of long-lived assets** – Cenpatico accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of cost or fair value less costs to sell. No impairment charges were recorded for the years ended September 30, 2017 and 2016.

**Revenue recognition** – Cenpatico receives substantially all of its revenue from its contract with AHCCCS. Operating revenue includes funding in the form of capitation revenue, which is recognized over the applicable coverage period on a per-member basis for covered members. Under this arrangement, Cenpatico is paid a per-member 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, 2017 and 2016 totaled \$2,311,818 and \$3,480,757, respectively, and related to funding received in advance for various programs with contract periods extending past September 30, 2017 and 2016, 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, 2016 through September 30, 2017 or for the contract year October 1, 2015 through September 30, 2016.

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

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

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

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

The annual fee equals net premiums written for health insurance during the applicable ‘fee year’ divided by aggregate net premiums written for all covered entities during the applicable ‘fee year’ multiplied by the annual applicable amount. Each health insurer’s fee is a proportionate share of the total for all health insurers.

As the designated entity of the controlled group, Centene passes the fee down to its subsidiaries based on an allocation of net premiums written. The health insurer fee is considered an excise tax and thus is nondeductible for income tax purposes. Cenpatico funded approximately \$2,700,000 for Centene in September 2016, to pay the fee for the calendar year ended December 31, 2016. As a result, at September 30, 2016, \$666,102 of health insurer fees are included in prepaid expenses in the accompanying balance sheets.

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, 2016, Cenpatico recorded a due from AHCCCS of approximately \$3,200,000 related to the health insurer fee. This receivable was collected in full from AHCCCS during the year ended September 30, 2017.

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.

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

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

The liability for payable to providers includes estimates of amounts due on reported claims and claims that have been incurred but were not reported as of September 30, 2017 and 2016. Such liabilities represent Cenpatico’s best estimate of amounts that are reasonable and adequate to discharge Cenpatico’s obligations for claims incurred but unpaid as of September 30, 2017 and 2016. Such estimates are, however, subject to a significant degree of inherent variability. The methods for making such estimates and for establishing the resulting liability are continually reviewed and adjustments are reflected in each period when necessary.

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

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

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

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.

**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, 2017 and 2016, Cenpatico incurred no penalties or interest.

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

Cenpatico's federal Income Tax Returns (Form 1120) for 2014, 2015 and 2016 are subject to examination by the IRS, generally for three years after they were filed. As of the date of this report, the 2017 income tax return had not yet been filed.

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, 2017 and 2016 was approximately \$12,864,000 and \$3,069,000, respectively. At September 30, 2017 and 2016, included within accounts payable and accrued expenses in the accompanying balance sheets is \$0 and \$82,110, respectively, of premium taxes payable.

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

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

### (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.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements—Going Concern* (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this ASU are effective for reporting periods ending after December 15, 2016, with early adoption permitted. Management adopted this ASU for the year ended September 30, 2017..

In November 2015, the FASB issued ASU 2015-17, *Income Taxes* (Topic 740): *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 eliminates the current requirement for organizations to present deferred income tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. Cenpatico elected to early adopt ASU 2015-17 beginning for the year ended September 30 2016.

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

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the balance sheet upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of comprehensive (loss) income and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. 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 January 26, 2018, 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, 2015, Cenpatico was required to maintain a performance bond in the amount of \$51,863,264, which was met through the purchase of a surety bond. Effective October 1, 2016, Cenpatico 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.

**(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, 2017:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
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, 2017 and 2016

### (3) Investments (continued)

The amortized cost of securities and their approximate fair values are as follows for the year ended September 30, 2016:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Investments held-to-maturity				
Municipal bonds	\$ 525,184	\$ 81	\$ -	\$ 525,265
Investments available-for-sale				
Asset-backed	1,460,925	6,766	(311)	1,467,380
Corporate bonds	24,014,269	171,792	(5,115)	24,180,946
Municipal bonds	20,389,524	104,708	(7,607)	20,486,625
Utility	2,335,260	4,518	(1,192)	2,338,586
Total	<u>\$ 48,199,978</u>	<u>\$ 287,784</u>	<u>\$ (14,225)</u>	<u>\$ 48,473,537</u>

The following is a summary of maturities of securities held-to-maturity and available-for-sale as of September 30, 2017:

	<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	\$ 525,511	\$ 524,260	\$ 3,383,312	\$ 3,383,995
After one year through five years	-	-	28,899,905	28,971,913
After five years through ten years	-	-	31,303,790	31,540,645
After ten years	-	-	6,819,945	6,812,884
Total	<u>\$ 525,511</u>	<u>\$ 524,260</u>	<u>\$ 70,406,952</u>	<u>\$ 70,709,437</u>

The Company regularly evaluates its investments for impairment. The Company considers factors affecting the issuer, factors affecting the industry the issuer operates within, and general debt and equity market trends. The Company 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 Company'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. For the years ended September 30, 2017 and 2016, there were no other than temporary impairments of investments.



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

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

### (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, 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>

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

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

### (5) Property and equipment

Property and equipment consists of the following at September 30:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 1,851,415	\$ 1,852,627
Leasehold improvements	2,534,133	2,521,298
Technology equipment	387,712	290,660
Computer hardware	743,994	705,137
Computer software	182,905	182,905
Total cost	<u>5,700,159</u>	<u>5,552,627</u>
Accumulated depreciation and amortization	<u>(3,052,854)</u>	<u>(2,043,537)</u>
Net property and equipment	<u>\$ 2,647,305</u>	<u>\$ 3,509,090</u>

Depreciation and amortization expense charged to operations for the years ended September 30, 2017 and 2016 was \$1,029,531 and \$584,222, respectively.

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

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

### (6) Income taxes

Federal income tax returns are filed on a consolidated basis with Centene, the parent corporation, and other subsidiaries. A provision for income taxes has been provided for under a separate return method. This results in each component company of the consolidated group showing tax provision solely on the results of its own operations and respective tax rate. The effective tax rate is different than the amount that would be computed by applying the United States corporate income tax rate to the income before income taxes. These differences are a result of multiple items, including permanent book/tax differences and state tax filings.

Current taxes which would have been due on a separate company basis have either been paid to or will be paid to the parent company. Deferred income tax assets and liabilities are computed based upon cumulative temporary differences in financial reporting and taxable income based on enacted tax law in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred income tax assets result from reserves established for financial reporting purposes that are not deductible for tax purposes.

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 a signed agreement between the companies.

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

	<u>2017</u>	<u>2016</u>
Current (benefit) provision:		
Federal	\$ (4,010,921)	\$ 6,139,013
State and local	<u>(287,276)</u>	<u>394,670</u>
Total current (benefit) provision	(4,298,197)	6,533,683
Deferred provision (benefit)	<u>399,735</u>	<u>(292,406)</u>
Total (benefit) provision for income taxes	<u>\$ (3,898,462)</u>	<u>\$ 6,241,277</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>2017</u>	<u>2016</u>
Deferred income tax assets (liabilities):		
Deferred revenue	\$ 206,928	\$ 612,155
Loss reserves	111,604	109,300
Accrued expenses	35,418	33,013
Depreciation	(456,145)	(462,195)
Prepaid insurance	(5,285)	-
Unrealized gain	<u>(101,702)</u>	<u>(102,736)</u>
Net deferred income tax asset (liability)	<u>\$ (209,182)</u>	<u>\$ 189,537</u>

### (7) Related party transactions

During contract years 2017 and 2016, Centene Management Company, LLC, (CMC) a wholly owned subsidiary of Centene Corporation, provided data, claims processing, case management, care coordination and general administrative services to Cenpatico. Cenpatico recorded approximately \$14,794,000 and \$4,770,000 in administrative expenses for the years ended September 30, 2017 and 2016, respectively. These amounts are included in general and administrative expenses in the accompanying statements of comprehensive (loss) income. As of September 30, 2017 and 2016, unpaid expenses and general administrative costs totaled approximately \$13,553,000 and \$706,000, respectively, which is included in due to affiliated companies in the accompanying balance sheets.

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

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

### (7) Related party transactions (continued)

Under the provisions of the Contract with AHCCCS, distributions to stockholders may be paid only to the extent of allowable profit in each of the funding sources as defined. There were no distributions paid during the years ended September 30, 2017 and 2016.

Envolve Dental, Inc., an affiliated company wholly-owned by CenCorp Health Solutions (CenCorp), which is wholly-owned subsidiary of Centene, provides dental services for eligible enrollees. Cenpatico paid Envolve Dental, Inc. approximately \$161,000 and \$481,000 for these services during the years ended September 30, 2017 and 2016, respectively. These amounts are included in health care expenses in the accompanying statements of comprehensive (loss) income. As of September 30, 2017, Cenpatico has approximately \$54,000 due to Envolve Dental, Inc. which is included in payable to providers in the accompanying balance sheet. As of September 30, 2016, Cenpatico had approximately \$194,000 due from Envolve Dental, Inc. which is included in provider receivables 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 \$394,000 and \$274,000 for these services during the years ended September 30, 2017 and 2016, respectively. These amounts are included in health care expenses in the accompanying statements of comprehensive (loss) income. As of September 30, 2017 and 2016, Cenpatico has approximately \$38,000 and \$32,000, 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 \$612,000 and \$607,000 in premiums for reinsurance coverage during the years ended September 30, 2017 and 2016, respectively. These amounts are included in general and administrative expenses in the accompanying statements of comprehensive (loss) income. As of September 30, 2017 and 2016, Cenpatico has approximately \$205,000 and \$199,000, 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 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 \$12,304,000 and \$12,792,000, net of rebates, for these services for the years ended September 30, 2017 and 2016, respectively. These amounts are included in health care expenses in the accompanying statements of comprehensive (loss) income. As of September 30, 2017 and 2016, Cenpatico has approximately \$1,039,000 and \$32,000, respectively, due to Envolve PeopleCare included in both payable to providers and accounts payable and accrued expenses in the accompanying balance sheets.

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 \$370,000 and \$206,000 for services performed during the years ended September 30, 2017 and 2016, respectively. These amounts are included in health care expenses in the accompanying statements of comprehensive (loss) income. As of September 30, 2017, Cenpatico has approximately \$178,000 due to Lifeshare Management Group which is included in payable to providers in the accompanying balance sheet. As of September 30, 2016, Cenpatico had approximately \$194,000 due from Lifeshare Management Group which is included in provider receivables in the accompanying balance sheet.

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

## NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2017 and 2016

### (7) Related party transactions (continued)

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 \$70,740,000 and \$67,597,000 for these services for the years ended September 30, 2017 and 2016, 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 (loss) income. As of September 30, 2017 and 2016, Cenpatico has approximately \$420,000 and \$329,000, respectively, due from Envolve Pharmacy Solutions, Inc. which is included in pharmacy rebates receivable in the accompanying balance sheets. As of September 30, 2017 and 2016, Cenpatico has approximately \$74,000 and \$767,000, 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 \$501,000 and \$387,000, respectively, for the years ended September 30, 2017 and 2016.

### (9) Commitments and contingencies

**Operating leases** – Cenpatico leases office space in Arizona for their headquarters, various satellite offices and certain equipment under operating lease agreements expiring at various dates through August 2021. Certain operating leases contain escalation provisions. The rental expense related to these leases is recorded on a straight-line basis over the lease term, including rent holidays. The difference between rent expense and rent paid due to recording expenses on the straight-line method is approximately \$66,000 and \$80,000 as of September 30, 2017 and 2016, respectively, and is included in accounts payable and accrued expenses in the accompanying balance sheets. In the normal course of business, operating leases are generally renewed or replaced by other leases. Minimum future payments under these non-cancelable operating leases as of September 30, 2017 are as follows:

#### Years Ending September 30

2018	\$ 997,080
2019	797,425
2020	177,058
2021	18,000
Total minimum lease payments	<u>\$ 1,989,563</u>

Operating lease expense for each of the years ended September 30, 2017 and 2016 was approximately \$1,279,000 and \$1,200,000, 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 \$15,000,000. 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. There is also an umbrella policy over the general liability insurance with a limit of \$25,000,000. 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, 2017 and 2016

### (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, 2017 and 2016, Cenpatico was not a Medicare certified facility and did not derive any of its revenue from the provision of services to Medicare beneficiaries. Management believes that Cenpatico is in compliance with fraud and abuse laws and regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

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

**Community reinvestment program** – Cenpatico approved a Community Reinvestment program, as described in their contract with AHCCCS. Under the program, Cenpatico will place a minimum of 6% of its after tax profits into the program. For the years ended September 30, 2017 and 2016, 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, 2017 and 2016, Cenpatico approved amounts that resulted in appropriations of approximately \$135,000 and \$643,000, respectively, to be spent on various behavioral health community projects. During the years ended September 30, 2017 and 2016, Cenpatico spent approximately \$214,000 and \$0, respectively, of the appropriated funds. At September 30, 2017 and 2016, Cenpatico has recorded a liability for unspent community reinvestment program funds of approximately \$564,000 and \$643,000, 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, 2017 and 2016, Cenpatico was in compliance with this requirement.

Cenpatico's contract with AHCCCS contains various quarterly financial performance requirements, including required minimum liquidity ratio, administrative cost percentages and service expense percentages. As of September 30, 2017 and 2016, 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, 2017 and 2016

### (10) Contract requirements (continued)

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

Cenpatico is required to meet quarterly and contract year end minimum encounter submission percentages, or be subject to sanction by AHCCCS. Typically, Cenpatico has up to eight months after fiscal year end to submit encounters related to the fiscal year. As of September 30, 2017, Cenpatico anticipates meeting the required encounter threshold for the year ended September 30, 2017. Accordingly, as of September 30, 2017, Cenpatico has not recorded a liability associated with an encounter sanction. For the year ended September 30, 2016, Cenpatico anticipated meeting the required encounter threshold for the year ended September 30, 2016. Accordingly, as of September 30, 2016, 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. Contract profit limitations are applied on an after-tax basis. Cenpatico is subject to a profit risk corridor calculation that calculates a return of premium to the extent certain financial ratios are not met by program types. For the year ended September 30, 2017 and 2016, 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 \$525,511 and \$525,184 in municipal bonds held to maturity as of September 30, 2017 and 2016, 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, 2017 and 2016 of approximately \$225,000 and \$0, respectively. The sanctions were not paid by Cenpatico as of September 30, 2017 and accordingly are included in deferred revenue in the accompanying balance sheet.

### (11) Concentration of credit risk

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

On November 2, 2017, AHCCCS released the AHCCCS Complete Care Request for Proposal (RFP) which will integrate physical and behavioral health care contracts under managed care plans for the majority of the 1.9 million AHCCCS members. The integrated delivery model will offer a more cohesive health care system for members incentivizing quality health care outcomes with value based purchasing, and leverage health information technology for improved care coordination. Additionally, integrating physical health and behavioral healthcare contracts will drive strategic, innovative health care initiatives forward. Health Net Access, Inc., an affiliate of Cenpatico, submitted a bid as an integrated plan in response to the RFP on January 24, 2018. Cenpatico's contract is not being rebid but after October 1, 2018, would be limited to specialty populations, with most covered lives moving to contractors successful in the bid for the RFP, one of which Health Net Access, Inc. seeks to become in its bid.

**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, 2017.

### ***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, 2017 , as defined in the contract referred to in the first paragraph.

This report is intended solely for the information and use of the Board of Directors, management of **Cenpatico of Arizona, Inc. d/b/a Cenpatico Integrated Care**, others within the entity 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.*

January 26, 2018





CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE  
 SCHEDULE 2 - SUPPLEMENTAL SCHEDULE OF ACTIVITIES - DISCLOSURES  
 YEAR ENDED SEPTEMBER 30, 2017

	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
<b>DISCLOSURE OF NTXIX/XXI OTHER and OTHER FEDERAL AHCCCS REVENUE</b>																					
Liquor Fees	-	-	-	-	-	-	-	-	-	52,150	-	-	-	-	-	-	-	-	52,150	-	52,150
One-time Housing	-	-	-	-	-	-	-	-	-	1,598,948	-	-	-	-	-	-	-	-	1,598,948	-	1,598,948
One-time Housing deferred funds	-	-	-	-	-	-	-	-	-	(885,435)	-	-	-	-	-	-	-	-	(885,435)	-	(885,435)
SYG	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	611,596	-	-	611,596	-	611,596
MAT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	191,560	-	-	191,560	-	191,560
<b>Total - NTXIX/XXI Other and OTHER FEDERAL Column</b>	-	-	-	-	-	-	-	-	-	765,663	-	-	-	-	-	803,156	-	-	1,568,819	-	1,568,819

**DISCLOSURE OF SPECIALTY AND OTHER GRANTS REPORTED ON LINE 315**

Bridge Subsidy Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	196,882	196,882	-	196,882
HIE	-	-	-	-	-	-	-	-	-	832,125	-	-	-	-	-	-	-	-	832,125	-	832,125
<b>Total Specialty and Other Grants Revenue</b>	-	-	-	-	-	-	-	-	-	832,125	-	-	-	-	-	-	-	196,882	1,029,007	-	1,029,007

**DISCLOSURE OF SUPPORTED HOUSING ON REPORTED ON LINE 504g**

Rent Subsidy	-	-	-	-	-	-	-	-	3,303,769	514,208	1,251,329	-	-	227,577	-	-	-	-	5,296,883	-	5,296,883
Utility Payments	-	-	-	-	-	-	-	-	161,313	23,399	-	-	-	5,569	-	-	-	-	190,281	-	190,281
Move-in/Start-up Kits	-	-	-	-	-	-	-	-	59,716	20,316	-	-	-	759	-	-	-	-	80,791	-	80,791
Eviction/Prevention	-	-	-	-	-	-	-	-	42,629	24,295	-	-	-	-	-	-	-	-	66,924	-	66,924
Damage to unit	-	-	-	-	-	-	-	-	71,163	2,532	-	-	-	-	-	-	-	-	73,695	-	73,695
Assistance with Deposits	-	-	-	-	-	-	-	-	148,743	73,813	-	-	-	19,240	-	-	-	-	241,796	-	241,796
SB1616 Housing - Construction/Improvements	-	-	-	-	-	-	-	-	-	-	-	374,724	-	-	-	-	-	-	374,724	-	374,724
<b>Total Supported Housing</b>	-	-	-	-	-	-	-	-	3,787,333	658,563	1,251,329	374,724	-	253,145	-	-	-	-	6,325,094	-	6,325,094

**DISCLOSURE OF OTHER SERVICES ON LINE 511**

Linkages	-	-	-	-	-	225,666	-	-	-	-	-	-	-	-	-	-	-	-	225,666	-	225,666
PASRR Screening Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,800	16,800	-	16,800
Value Based Purchasing Initiatives Provider incentives	-	-	-	838,048	-	643,832	-	-	-	-	-	-	-	-	-	-	-	-	1,481,880	-	1,481,880
MHBG SMI FEP	-	-	-	-	-	-	-	-	-	-	-	-	3,413	-	-	-	-	-	3,413	-	3,413
State Youth Grant	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	562,668	-	-	562,668	-	562,668
MAT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	176,236	-	-	176,236	-	176,236
Other	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	1	-	1
<b>Total Other Services</b>	-	-	-	838,048	-	869,499	-	-	-	-	-	-	-	3,413	-	738,904	-	16,800	2,466,664	-	2,466,664

**DISCLOSURE OF SPECIALTY AND OTHER GRANTS ON LINE 513**

Bridge Subsidy Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	196,882	196,882	-	196,882
HIE Grant	-	-	-	-	-	-	-	-	-	832,125	-	-	-	-	-	-	-	-	832,125	-	832,125
<b>Total Specialty and Other Grants Expenses</b>	-	-	-	-	-	-	-	-	-	832,125	-	-	-	-	-	-	-	196,882	1,029,007	-	1,029,007

CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE  
 SCHEDULE 2 - SUPPLEMENTAL SCHEDULE OF ACTIVITIES - DISCLOSURES  
 YEAR ENDED SEPTEMBER 30, 2017

**DISCLOSURE OF OTHER ADMIN EXPENSES ON LINE 458**

Temporary help	68,760	36,803	3,147	87,274	2,955	93,927	4,181	-	-	198	-	-	505	281	2,428	-	739	-	301,198	-	301,198
Moving & storage	449	241	21	570	19	614	27	-	-	1	-	-	3	2	16	-	5	-	1,968	-	1,968
Travel	63,446	33,958	2,904	80,528	2,726	86,667	3,858	29,028	113,311	183	8,201	2,456	466	259	10,638	4,843	681	-	444,153	-	444,153
Employee & courtesy meals	23,509	12,583	1,076	29,838	1,010	32,113	1,429	-	-	-	-	-	-	-	-	-	-	-	101,558	-	101,558
Meetings	3,964	2,122	181	5,032	170	5,415	241	-	-	11	-	-	29	16	140	-	43	-	17,364	-	17,364
Training/seminars	53,937	28,869	2,469	68,459	2,318	73,678	3,280	-	-	156	-	-	396	220	1,904	-	579	-	236,265	-	236,265
Postage and shipping	4,320	2,312	198	5,483	186	5,901	263	-	-	12	-	-	32	18	153	-	46	-	18,924	-	18,924
Messenger	712	381	33	903	31	972	43	-	-	2	-	-	5	3	25	-	8	-	3,118	-	3,118
Bank and credit card fees	(11,276)	(6,036)	(516)	(14,312)	(485)	(15,404)	(686)	-	-	(33)	-	-	(83)	(46)	(398)	-	(121)	-	(49,396)	-	(49,396)
EOP/EOB processing fees	95,173	50,940	4,356	120,798	4,090	130,006	5,787	-	-	274	-	-	700	389	3,360	-	1,022	-	416,895	-	416,895
Sanctions	51,355	27,487	2,351	65,291	2,207	70,151	3,123	-	-	148	-	-	377	210	1,813	-	552	-	225,065	-	225,065
Dues/subscrippts/publications	33,918	18,154	1,552	43,050	1,458	46,332	2,062	-	-	98	-	-	249	138	1,198	-	364	-	148,573	-	148,573
Printing	28,399	15,200	1,300	36,046	1,220	38,793	1,727	-	-	82	-	-	209	116	1,003	-	305	-	124,400	-	124,400
MDC printing allocation	94	50	4	119	4	128	6	-	-	-	-	-	1	-	3	-	1	-	410	-	410
Office supplies	14,709	7,873	673	18,669	632	20,092	894	-	-	42	-	-	108	60	519	-	158	-	64,429	-	64,429
Business gifts	263	141	12	334	11	360	16	-	-	1	-	-	2	1	9	-	3	-	1,153	-	1,153
Network access fees-int	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sponsorships	29,269	15,666	1,340	37,149	1,258	39,981	1,780	-	-	84	-	-	215	120	1,033	-	314	-	128,209	-	128,209
Insurance	66,243	35,456	3,032	84,078	2,847	90,488	4,028	-	-	191	-	-	487	270	2,339	-	712	-	290,171	-	290,171
Reinsurance expense-int	-	-	-	-	-	611,783	-	-	-	-	-	-	-	-	-	-	-	-	611,783	-	611,783
Other operating expense-ext	3,882	2,075	177	4,819	169	5,303	236	-	-	12	-	-	30	18	137	-	43	-	16,901	-	16,901
Corp allocations	3,376,741	1,807,352	154,555	4,285,916	145,106	4,612,634	205,318	-	-	9,737	-	-	24,820	13,788	119,222	-	36,270	-	14,791,459	-	14,791,459
Attorney fees	20,393	10,915	933	25,884	876	27,857	1,240	-	-	59	-	-	150	83	720	-	219	-	89,329	-	89,329
Audit & tax fees	17,624	9,433	807	22,369	757	24,075	1,072	-	-	51	-	-	130	72	622	-	189	-	77,201	-	77,201
Actuarial fees	11,204	5,997	513	14,220	481	15,305	681	-	-	32	-	-	82	46	396	-	120	-	49,077	-	49,077
Consulting fees-external	127,644	68,320	5,842	162,011	5,485	174,362	7,761	-	-	368	-	-	938	521	4,507	-	1,371	-	559,130	-	559,130
Outplacement fees	29,557	15,822	2,545	37,735	2,678	67,823	4,562	-	-	216	-	-	300	165	1,520	-	431	-	163,354	-	163,354
Professional recruiting	17,572	9,404	(200)	22,119	(431)	884	(1,261)	-	-	(59)	-	-	59	34	219	-	93	-	48,433	-	48,433
Third party administrator-int	121,970	65,283	5,583	154,810	5,241	166,611	7,416	-	-	352	-	-	897	498	4,306	-	1,310	-	534,277	-	534,277
IT Software/hardware	19,886	10,644	891	25,237	832	26,726	1,165	-	-	55	-	-	145	80	695	-	212	-	86,568	-	86,568
Gain/loss on sale of assets	(235)	(126)	(25)	(301)	(27)	(657)	(48)	-	-	(2)	-	-	(3)	(2)	(14)	-	(4)	-	(1,444)	-	(1,444)
Investment advisors fees	14,011	7,499	472	17,753	403	15,251	460	-	-	22	-	-	91	51	427	-	134	-	56,574	-	56,574
Gain/loss sale of investments	(3,001)	(1,606)	(123)	(3,806)	(112)	(3,764)	(149)	-	-	(7)	-	-	(21)	(12)	(100)	-	(31)	-	(12,732)	-	(12,732)
<b>Total Other Admin Expenses</b>	<b>4,284,492</b>	<b>2,293,212</b>	<b>196,103</b>	<b>5,438,075</b>	<b>184,115</b>	<b>6,464,407</b>	<b>260,512</b>	<b>29,028</b>	<b>113,311</b>	<b>12,286</b>	<b>8,201</b>	<b>2,456</b>	<b>31,319</b>	<b>17,399</b>	<b>158,840</b>	<b>4,843</b>	<b>45,768</b>	<b>-</b>	<b>19,544,367</b>	<b>-</b>	<b>19,544,367</b>

**DISCLOSURE OF ENCOUNTER EVALUTION SANCTIONS ON LINE 459**

Encounter Evaluation Sanctions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Encounter Evaluation Sanctions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**DISCLOSURE OF ADMINISTRATIVE EXPENSES FROM SPECIALTY AND OTHER GRANTS ON LINE 460**

Bridge Subsidy Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,162	9,162	-	9,162
<b>Total Adm Expenses from Specialty and Other Grants</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,162</b>	<b>9,162</b>	<b>-</b>	<b>9,162</b>

**DISCLOSURE OF OTHER, NON-AHCCCS and NON-OPERATING LINE 610**

Community Reinvestment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(135,000)	(135,000)	
Revenue from RBHA assessed Sanctions	52,990	-	-	53,514	-	51,446	-	-	-	-	-	-	-	-	-	-	-	-	-	-	157,950	157,950	
<b>Total Other, Non-AHCCCS and Non-Operating</b>	<b>52,990</b>	<b>-</b>	<b>-</b>	<b>53,514</b>	<b>-</b>	<b>51,446</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>157,950</b>	<b>(135,000)</b>	<b>22,950</b>

**CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE**

Supplemental Schedule  
 Schedule 3 - Sub-Capitated Expenses Report  
 Year Ended September 30, 2017

<u>Account</u>	<u>Account Description</u>	<u>YTD Amount</u>
501d	Total Treatment Services	\$ 34,784,731
502e	Total Rehabilitation Services	8,385,123
503e	Total Medical Services	12,995,741
504j	Total Support Services	28,648,839
505d	Total Crisis Intervention Services	-
506e	Total Inpatient Services	-
507d	Total Residential Services	8,941,500
508d	Total Behavioral Health Day Program	470,266
509c	Total Prevention Services	-
510d	Total Pharmacy Expense	-
511	Other Service Expenses Not Rpt'd Above	-
512	BH FQHC/RHC Services	-
	<i>Total Sub-Capitated Behavioral Health Expenses</i>	<u>\$ 94,226,200</u>

<u>Account</u>	<u>Account Description</u>	<u>YTD Amount</u>
	<i>Hospitalization Expenses:</i>	
402	Hospital Inpatient	\$ -
404	Hospital Inpatient, BH Principle Diagnosis	-
406	Hospital Inpatient, PPC	-
	<i>Total Hospitalization Expense:</i>	<u>-</u>
	<i>Medical Compensation Expenses:</i>	
408	Primary Care Physician Services	-
409	Physician Services, BH Principle Diagnosis	-
410	Referral Physician Services	-
411	PH FQHC/RHC Services	-
412	Other Professional Services	393,752
414	PPC-Physician Services	-
415	PCP Parity Enhanced Payment Expense	-
	<i>Total Medical Compensation Expenses:</i>	<u>393,752</u>
	<i>Other Medical Expenses:</i>	
416	Emergency Facility Services	-
417	Pharmacy	-
	less: Pharmacy Rebates	-
418	Lab, X-ray, & med image	-
419	Outpatient Facility	-
420	Durable Med Equip	-
421	Dental	160,804
422	Transportation	-
423	Nursing Facility, Home Health Care	-
424	Physical Therapy	-
434	Value Based Purchasing Provider Expenses	-
425	Miscellaneous Medical Expenses	-
438	Miscellaneous Medical Expenses, PPC	-
	<i>Total Other Medical Expenses:</i>	<u>160,804</u>
	<i>Total Sub-Capitated Physical Health Expenses</i>	<u>\$ 554,556</u>

See Independent Auditors' Report on Supplemental Schedules

**CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE**

Supplemental Schedule  
 Schedule 4 - Block Expenses Report  
 Year Ended September 30, 2017

<u>Account</u>	<u>Account Description</u>	<u>YTD Amount</u>
501d	Total Treatment Services	\$ 52,024,610
502e	Total Rehabilitation Services	15,616,486
503e	Total Medical Services	17,065,260
504j	Total Support Services	65,324,554
505d	Total Crisis Intervention Services	43,410,157
506e	Total Inpatient Services	2,432,314
507d	Total Residential Services	184,704
508d	Total Behavioral Health Day Program	382,005
509c	Total Prevention Services	1,230,153
510d	Total Pharmacy Expense	-
511	Other Service Expenses Not Rpt'd Above	2,013,790
512	BH FQHC/RHC Services	4,734
	<b>Total Behavioral Health Expense</b>	<b>\$ 199,688,767</b>

<u>Account</u>	<u>Account Description</u>	<u>YTD Amount</u>
	<i>Hospitalization Expenses:</i>	
402	Hospital Inpatient	\$ -
404	Hospital Inpatient, BH Principle Diagnosis	-
406	Hospital Inpatient, PPC	-
	<i>Total Hospitalization Expense:</i>	-
	<i>Medical Compensation Expenses:</i>	
408	Primary Care Physician Services	3,085,465
409	Physician Services, BH Principle Diagnosis	-
410	Referral Physician Services	-
411	PH FQHC/RHC Services	-
412	Other Professional	-
414	PPC-Physician Services	-
415	PCP Parity Enhanced Payment Expense	-
	<i>Total Medical Compensation Expenses:</i>	<b>3,085,465</b>
	<i>Other Medical Expenses:</i>	
416	Emergency Facility Services	-
417	Pharmacy	-
	less: Pharmacy Rebates	-
418	Lab, X-ray, & med image	-
419	Outpatient Facility	-
420	Durable Med Equip	-
421	Dental	-
422	Transportation	-
423	Nursing Facility, Home Health Care	-
424	Physical Therapy	-
434	Value Based Purchasing Provider Expenses	-
425	Miscellaneous Medical Expenses	-
438	Miscellaneous Medical Expenses, PPC	-
	<i>Total Other Medical Expenses:</i>	-
	<b>Total Expenses:</b>	<b>\$ 3,085,465</b>

See Independent Auditors' Report on Supplemental Schedules

**UNIFORM GUIDANCE  
SUPPLEMENTARY REPORTS**



**CENPATICO OF ARIZONA d/b/a CENPATICO INTEGRATED CARE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended September 30, 2017

<u>Federal Grantor / Pass-Through Grantor / Program Cluster or Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services</b>					
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	93.243	YH17-0003	11356415170214	\$ 176,235	\$ 191,560
Arizona Youth Substance Abuse	93.243	YH17-0003	11356415170214	<u>562,668</u>	<u>611,596</u>
Total Substance Abuse and Mental Health Services (93.243)				<u>738,903</u>	<u>803,156</u>
Block Grants for Community Mental Health Services (MHBG):					
SMI - Non Title XIX	93.958	YH17-0003	11356415170214	1,001,251	1,138,156
Children - Non Title XIX	93.958	YH17-0003	11356415170214	<u>1,802,319</u>	<u>2,040,727</u>
Total Mental Health Block Grant (93.958)				<u>2,803,570</u>	<u>3,178,883</u>
Block Grants for Prevention and Treatment of Substance Abuse (SABG):					
Substance Abuse/General Mental Health Prevention	93.959	YH17-0003	11356415170214	7,427,327	8,409,382
	93.959	YH17-0003	11356415170214	<u>1,230,154</u>	<u>1,392,767</u>
Total Block Grants for Prevention and Treatment of Substance Abuse (93.959)				<u>8,657,481</u>	<u>9,802,149</u>
<b>Total U.S. Department of Health and Human Services</b>				<u>12,199,954</u>	<u>13,784,188</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u>\$ 12,199,954</u>	<u>\$ 13,784,188</u>

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

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2017

(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, 2017. 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 2017 *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, 2017, and the related statements of comprehensive (loss) income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 26, 2018.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

January 26, 2018



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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, 2017. **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, 2017.

### 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.



January 26, 2018

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended September 30, 2017

**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 that are not considered to be material weaknesses?                            | 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 that are not considered to be material weaknesses?          | 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
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance - State Youth Grant

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

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended September 30, 2017

**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