

**BRIDGEWAY HEALTH SOLUTIONS
OF ARIZONA, LLC**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

Years Ended September 30, 2015 and 2014

**BRIDGEWAY HEALTH SOLUTIONS
OF ARIZONA, LLC**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of ***Bridgeway Health Solutions of Arizona, LLC***, which comprise the balance sheets as of September 30, 2015 and 2014, and the related statements of operations, member's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Bridgeway Health Solutions of Arizona, LLC** as of September 30, 2015 and 2014, 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.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
January 26, 2016

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

BALANCE SHEETS

September 30, 2015 and 2014

	<u>ASSETS</u>	
	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 46,512,527	\$ 41,569,679
Receivables:		
Reinsurance receivables	1,872,276	2,256,566
Capitation and supplement receivables	3,425,666	4,038,987
Pharmacy receivable	734,323	1,251,781
Interest receivable	9,754	8,712
Due from affiliated companies	3,425,223	4,673,878
Income tax receivable	-	1,015,773
Health insurer fee receivable	719,950	-
Provider advances	281,345	551,588
Prepaid expenses	483,663	389,942
Deferred income tax asset	2,802,974	2,733,287
TOTAL CURRENT ASSETS	60,267,701	58,490,193
PROPERTY AND EQUIPMENT, net	366,312	383,264
INVESTMENTS	1,500,000	1,500,000
DEPOSITS	1,840	1,840
TOTAL ASSETS	<u>\$ 62,135,853</u>	<u>\$ 60,375,297</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES		
Payable to providers	\$ 25,218,055	\$ 27,727,573
Payable to Arizona Health Care Cost Containment System	1,217,200	2,343,332
Accounts payable and accrued expenses	1,088,795	2,227,014
Income tax payable	2,390,614	-
Due to affiliated companies	5,270,564	6,586,099
TOTAL CURRENT LIABILITIES	35,185,228	38,884,018
DEFERRED INCOME TAX LIABILITY	79,237	86,538
OTHER NON-CURRENT LIABILITIES	761,155	56,011
TOTAL LIABILITIES	36,025,620	39,026,567
MEMBER'S EQUITY	26,110,233	21,348,730
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$ 62,135,853</u>	<u>\$ 60,375,297</u>

See Notes to Financial Statements

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

STATEMENTS OF OPERATIONS

Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Capitation premiums	\$ 243,001,370	\$ 244,998,680
Reinsurance	6,208,488	6,283,360
Health insurer fee premium revenue	1,770,760	-
Other	<u>283,811</u>	<u>251,806</u>
TOTAL OPERATING REVENUES	<u>251,264,429</u>	<u>251,533,846</u>
HEALTH CARE EXPENSES		
Hospitalization	22,590,159	11,060,450
Medical compensation	8,831,176	6,810,105
Ancillary and other medical services	29,419,939	23,331,062
Institutional	<u>155,559,444</u>	<u>177,967,240</u>
TOTAL HEALTH CARE EXPENSES	216,400,718	219,168,857
GENERAL AND ADMINISTRATIVE EXPENSES	21,412,897	20,518,200
HEALTH INSURER FEE	1,294,652	856,775
PREMIUM TAX EXPENSE	<u>4,286,517</u>	<u>4,420,190</u>
TOTAL EXPENSES	<u>243,394,784</u>	<u>244,964,022</u>
OPERATING INCOME	7,869,645	6,569,824
NONOPERATING INCOME		
Interest income	<u>221,257</u>	<u>218,437</u>
NET INCOME BEFORE TAXES	8,090,902	6,788,261
PROVISION FOR INCOME TAXES	<u>3,329,399</u>	<u>2,648,914</u>
NET INCOME	<u>\$ 4,761,503</u>	<u>\$ 4,139,347</u>

See Notes to Financial Statements

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

STATEMENTS OF MEMBER'S EQUITY

Years Ended September 30, 2015 and 2014

	Investment by CenCorp Health Solutions	Retained Earnings (Deficit)	Total
Balance, September 30, 2013	\$ 25,800,000	\$ (5,590,617)	\$ 20,209,383
Member distributions	(3,000,000)	-	(3,000,000)
Net income	<u>-</u>	<u>4,139,347</u>	<u>4,139,347</u>
Balance, September 30, 2014	22,800,000	(1,451,270)	21,348,730
Net income	<u>-</u>	<u>4,761,503</u>	<u>4,761,503</u>
Balance, September 30, 2015	<u>\$ 22,800,000</u>	<u>\$ 3,310,233</u>	<u>\$ 26,110,233</u>

See Notes to Financial Statements

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,761,503	\$ 4,139,347
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	143,083	229,872
Loss on disposition of property and equipment	31,039	791
Change in deferred income taxes	(76,988)	(809,473)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Reinsurance receivables	384,290	701,588
Capitation and supplement receivables	613,321	(190,014)
Pharmacy receivable	517,459	(970,831)
Interest receivable	(1,042)	421
Income tax receivable	1,015,773	3,458,280
Health insurer fee receivable	(719,950)	-
Provider advances	270,243	(336,895)
Prepaid expenses	(93,721)	(145,925)
Increase (decrease) in:		
Payable to providers	(2,509,519)	(7,807,553)
Payable to Arizona Health Care Cost Containment System	(1,126,132)	1,912,233
Accounts payable and accrued expenses	(1,138,219)	1,314,620
Income tax payable	2,390,614	-
Due to/from affiliated companies	(66,880)	(2,881,251)
Other non-current liability	705,144	(24,004)
Net cash provided by (used in) operating activities	<u>5,100,018</u>	<u>(1,408,794)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(157,170)</u>	<u>(22,802)</u>
Net cash used in investing activities	<u>(157,170)</u>	<u>(22,802)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Member distributions	<u>-</u>	<u>(3,000,000)</u>
Net cash used in financing activities	<u>-</u>	<u>(3,000,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,942,848	(4,431,596)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>41,569,679</u>	<u>46,001,275</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 46,512,527</u>	<u>\$ 41,569,679</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

Nature of operations - Effective May 16, 2006, ***Bridgeway Health Solutions of Arizona, LLC*** ("Bridgeway" or the "Company"), was incorporated in the State of Arizona. Located in Tempe, Arizona, Bridgeway is a managed care organization and is wholly owned by CenCorp Health Solutions, Inc. ("CenCorp"), a subsidiary of Centene Corporation ("Centene"). Bridgeway was initially funded through a \$5,000,000 capital contribution from CenCorp which was funded through a capital contribution from Centene.

In 2006, Bridgeway was awarded an Arizona Long-Term Care System ("ALTCS") contract with the Arizona Health Care Cost Containment System ("AHCCCS") which commenced October 1, 2006. The contract year for the ALTCS contract is the period from October 1 through September 30. The ALTCS contract was renewed through repurchase in August 2011. In accordance with the contract, Bridgeway was designated as a Program Contractor for Maricopa, Yuma, and LaPaz Counties. Effective October 1, 2011, Bridgeway began serving ALTCS members in Cochise, Gila, Graham, Greenlee and Pinal counties, as well as continuing as a Program Contractor in Maricopa County. Effective October 1, 2011, Bridgeway no longer served ALTCS members in Yuma and La Paz counties.

In 2008, Bridgeway was awarded an Acute Care contract with AHCCCS which commenced October 1, 2008. In accordance with this contract, Bridgeway was designated as a Program Contractor for Yavapai County. The contract was renewed through repurchase for the period October 1, 2011 through September 30, 2013. The contract was not subsequently renewed and expired September 30, 2013. Revenue and expenses continued to be earned and incurred as the contract continues to wind down in 2014 and 2015.

Effective January 1, 2008, Bridgeway began offering a Medicare Advantage Plan ("Medicare Advantage") through a contract with the Centers for Medicare and Medicaid Services ("CMS"). The contract year for the Medicare Advantage contract is January 1 through December 31. Medicare Advantage offers medical and prescription drug benefits to qualified members. Medicare Advantage operates as a special needs plan under CMS guidelines. The populations covered under Medicare Advantage are members who are eligible for both Medicare and Medicaid coverage. Virtually all of the members of Medicare Advantage receive their Medicaid benefits through an AHCCCS health plan.

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

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

The significant accounting policies followed by Bridgeway are as follows:

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

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

Capitation premiums - Bridgeway receives fixed capitation payments from AHCCCS and CMS, based on certain rates for each member enrolled with Bridgeway. As of September 30, 2015 and 2014, Bridgeway received no capitation payments in advance. When paid in advance, these amounts are recorded to deferred revenue. Bridgeway is required to provide all covered health care services to their members, regardless of the cost of care. If there are funds remaining, Bridgeway retains the funds as profit; if the costs are higher than the amount of revenue earned from AHCCCS and CMS, Bridgeway absorbs the loss. Capitation premiums are recognized in the month that enrollees are entitled to health care services. Certain provisions of the AHCCCS ALTCS contract include a risk band whereby Bridgeway and the AHCCCS program share in the profits and losses of the contract, as defined in the contract (reconciliation revenue). Bridgeway has recorded an estimate of the reconciliation revenue, within capitation premiums, based on the operational performance of the AHCCCS ALTCS line of business. Bridgeway may recover certain losses for those cases eligible for reinsurance payments. Capitation premiums are recognized in accordance with Bridgeway's contracts with AHCCCS and CMS.

Capitation is paid prospectively as well as for prior period coverage (PPC). The PPC period is generally from the effective date of eligibility to the day a member is enrolled with a contracted health plan. The risk under PPC is shared by both Bridgeway and AHCCCS. AHCCCS reconciles the actual PPC medical costs to the PPC capitation paid during the contract year. The ALTCS reconciliation limits the contractor's profits and losses on PPC to 5% for the contract years ended September 30, 2015 and 2014. As of September 30, 2015 the Company had no amounts due from AHCCCS for PPC coverage. Additionally, as of September 30, 2015 the Company has recorded payables to AHCCCS of approximately \$166,000 for the PPC ALTCS reconciliation for the 2015 contract year and approximately \$6,000 for the 2014 contract year, which are included in payable to AHCCCS. As of September 30, 2014, the Company recorded an estimated receivable of approximately \$411,000 due from AHCCCS for the PPC reconciliation for the 2013 contract year which is included in capitation and supplement receivables at September 30, 2014. As of September 30, 2014 the Company had recorded an estimated payable of \$129,000 due to AHCCCS for the PPC ALTCS reconciliation for the 2014 contract year which is included in payable to AHCCCS at September 30, 2014. Actual results may differ from this estimate and such differences will be recorded in the period in which they are identified.

Similar risk sharing is in place for medical costs incurred by contracted health plans for the Title XIX Waiver Group ("TWG non-MED") members. AHCCCS reconciles the contractors' medical costs net of reinsurance to the total net capitation payments and delivery supplemental payments paid for the contract year. The reconciliation limits the contractors' profits or losses to 2%. As of September 30, 2015, the Company had no amounts due from AHCCCS for the TWG non-MED reconciliation. As of September 30, 2014, the Company recorded an estimated receivable of \$309,000 due from AHCCCS for the TWG non-MED reconciliation for the 2013 contract year, which is included in capitation and supplement receivables. Actual results may differ from this estimate and such differences will be recorded in the period in which they are identified.

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

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

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

As of September 30, 2015, the Company recorded an estimated receivable of approximately \$60,000 for the HCBS reconciliation for contract year 2015 which is included in capitation and supplement receivables at September 30, 2015. As of September 30, 2014, the Company recorded an estimated payable of approximately \$876,000 for the HCBS reconciliation for contract year 2014, which is included in payable to AHCCCS at September 30, 2014.

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

Profits in excess of the percentages set forth in the contract will be recouped by AHCCCS. Losses in excess of the percentages set forth in the contract will be paid to the contractor. As of September 30, 2015, the Company had no amounts due to AHCCCS for the tiered reconciliation. As of September 30, 2014, the Company recorded an estimated payable of approximately \$1,338,000 due to AHCCCS for the tiered reconciliation for the contract year 2013 which is included in the payable to AHCCCS.

Capitation and supplement and reconciliation receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to capitation and supplement and reconciliation receivables. Capitation and supplement and reconciliation receivables at September 30, 2015 and 2014 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

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

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

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

As the designated entity of the controlled group, Centene passes the fee down to its subsidiaries based on an allocation of net premiums written. The health insurer fee is considered an excise tax and thus is nondeductible for income tax purposes. Centene has determined that ALTCS long-term care services are not subject to the health insurer fee. Centene paid approximately \$1,299,000 to the IRS on behalf of Bridgeway in September 2015 for the year ended December 31, 2015. Centene paid approximately \$1,142,000 to the IRS on behalf of Bridgeway in September 2014 for the year ended December 31, 2014. At September 30, 2015 and 2014, respectively, \$324,642 and \$285,592 of health insurer fees are included in prepaid expenses in the accompanying balance sheets.

AHCCCS has agreed to reimburse the health insurers for this fee and applicable taxes through adjustments to capitation rates. No such adjustments are made for the Medicare Advantage plan. In November 2014, Bridgeway was notified that AHCCCS would provide capitation rate adjustments for the fee paid in 2014. In December 2014, Bridgeway received approximately \$669,000 related to the health insurer fee capitation rate adjustments related to the 2014 fee reimbursement, which is included in health insurer fee premium revenue. For the year ended September 30, 2015, Bridgeway recognized approximately \$1,770,000 in health insurer fee premium revenue. As of September 30, 2015, Bridgeway has recorded a receivable of approximately \$720,000 for health insurer fee capitation rate adjustments related to the fee paid in 2015.

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

Medicare Advantage Risk Adjustments - Under the Company's Medicare Advantage Plan, CMS deploys a risk adjustment model that retroactively apportions Medicare premiums paid according to health severity and certain demographic factors. The model pays more for members whose medical history indicates they have certain medical conditions. Under this risk adjustment methodology, CMS calculates the risk adjusted premium payment using diagnosis data from hospital inpatient, hospital outpatient, physician treatment settings as well as prescription drug events. The Company estimates the amount of risk adjustment based upon the diagnosis and pharmacy data submitted and expected to be submitted to CMS and records revenues on a risk adjusted basis. At September 30, 2015, Bridgeway recorded an estimated receivable of approximately \$969,000 due from CMS for the risk adjustment for calendar year 2015 which is included in capitation and supplement receivables. As of September 30, 2014, the Company recorded an estimated receivable of approximately \$612,000 due from CMS for the risk adjustment for calendar year 2014 which was included in capitation and supplement receivables.

Medicare Part D risk share settlement - The risk share settlement includes expected payments to be paid to or received from CMS in connection with the pharmacy component of Medicare Advantage, Medicare Part D. This balance is reviewed and monitored by management and adjusted as necessary as experience develops or new information becomes available. Such adjustments are netted against the capitation premiums on the statements of operations. At September 30, 2015, Bridgeway recorded an estimated payable of approximately \$80,000 due to CMS for the Medicare Part D reconciliation for calendar year 2015 and approximately \$425,000 for calendar year 2014 which are included in capitation and supplement receivables. As of September 30, 2014, Bridgeway recorded an estimated payable of approximately \$1,297,000 due to CMS for the Medicare Part D reconciliation for calendar year 2014 which is included in accounts payable and accrued expenses.

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

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

AHCCCS makes cost-settlement payments to the Contractor based upon adjudicated/approved encounter data. The Contractor is required to refund payments to AHCCCS for any reduced claim payments in the event that a provider is subsequently "decertified" for enhanced payments due to audit or other reasons. As of September 30, 2015 and 2014, approximately \$1,417,000 and \$2,191,000, respectively, was due from AHCCCS for these cost-settlement payments based upon adjudicated/approved encounter data, which is included in capitation and supplement receivables.

**BRIDGEWAY HEALTH SOLUTIONS
OF ARIZONA, LLC**

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

Share of costs - Bridgeway's members covered under the ALTCS program who do not meet certain eligibility criteria are required to pay for a portion of the care they receive. AHCCCS reduces the contracted capitation rate with Bridgeway by the estimated amount of participant shared costs. After contract year end, AHCCCS analyzes the amount that Bridgeway should have received from members for share of costs. If Bridgeway receives less money from the participants in payment of their share of the costs than AHCCCS anticipated, AHCCCS reimburses Bridgeway for the difference. If Bridgeway receives more money from the participants in payment of their share of the costs than AHCCCS anticipated, Bridgeway reimburses AHCCCS for the difference. As of September 30, 2015 and 2014, Bridgeway had approximately \$1,472,000 and \$516,000, respectively, due from AHCCCS related to share of cost, which is included in the capitation and supplement receivables.

Share of cost receivables/payables are based on assumptions and estimates, and while management believes the receivables/payables are reasonable, the ultimate share of cost payment for the 2015 and 2014 contract years may be less than or in excess of the amount estimated once AHCCCS completes the contract reconciliations. In June 2015, the 2014 share of cost receivable was settled for \$512,426, net of premium taxes. In May 2014, the 2013 share of cost receivable was settled for \$644,259, net of premium taxes.

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

Below are the reinsurance thresholds by line of business:

<u>Line of Business</u>	<u>Annual Deductible Effective October 1, 2013</u>	<u>Coinsurance</u>
ALTCS with Medicare	20,000	75%
ALTCS without Medicare	30,000	75%
Medicare Advantage	1,250,000	various

To be eligible for reinsurance billing, qualified healthcare expenses must be incurred during the contract year. Reinsurance revenue is recorded based on actual billed reinsurance claims and expected reinsurance for claims not yet paid. Reinsurance revenue is subject to review by AHCCCS, and as a result, there is at least a reasonable possibility that recorded reinsurance revenue will change by a material amount in the near future.

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

Reinsurance receivables represent the expected payment from AHCCCS to Bridgeway for certain enrollees whose qualifying medical expenses paid by Bridgeway were in excess of specified deductible limits. Reinsurance receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to reinsurance receivables. Management considers reinsurance receivables to be fully collectible as of September 30, 2015 and 2014 and, accordingly, an allowance for doubtful accounts is not considered necessary.

Contractor performance incentives - Beginning October 1, 2014, AHCCCS subjects 1% of gross prospective capitation of ALTCS contractors in Arizona to measurements based on each contractor's performance on selected Quality Management Performance Measures as determined by AHCCCS. The program is an effort to encourage activity for AHCCCS contractors in the area of quality improvement, particularly those initiatives that are conducive to improved health outcomes and cost savings. For the year ended September 30, 2015, Bridgeway received approximately \$2,000,000 from AHCCCS which is subject to Bridgeway's performance in accordance with the measures described above. As of September 30, 2015, Bridgeway has recorded a liability, included in the payable to AHCCCS in the accompanying balance sheets, of approximately \$1,000,000 as a reserve for the potential that required measurements are not met.

Cash and cash equivalents - Cash includes cash deposits in banks and cash equivalents. Bridgeway considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2015 and 2014, cash and cash equivalents consisted of cash, commercial paper and certificates of deposit with original maturities of three months or less. Commercial paper and certificates of deposit totaled approximately \$36,000,000 and \$31,000,000 at September 30, 2015 and 2014, respectively.

Cash management - The Company utilizes a cash management system whereby all deposits and disbursements are reconciled monthly. As a result, checks issued but not presented to banks are classified in payable to providers in the balance sheets. There was approximately \$382,000 and \$574,000 related to checks issued but not presented as of September 30, 2015 and 2014, respectively.

Pharmacy receivable - Bridgeway receives rebates from its pharmacy benefit manager based on the volume of drugs purchased. Bridgeway records a receivable and a reduction of medical expenses for estimated rebates due based on purchase information. Pharmacy rebates totaled approximately \$696,000 and \$712,000 for the years ended September 30, 2015 and 2014, respectively, which are included as reductions in ancillary and other medical services in the accompanying financial statements. As of September 30, 2015 and 2014, management believes the pharmacy receivable balances are fully collectible and accordingly, an allowance has not been established.

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

Provider advances - Upon request, Bridgeway, in accordance with AHCCCS contract limitations, may advance monies to high-volume providers based on cash flow needs and timing of claims payments. Advances are stated at the amount management expects to collect or offset against future claims. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to provider advances receivable. As of September 30, 2015 and 2014, management believes the provider advances are fully collectible and accordingly, an allowance has not been established.

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

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

Realized gains and losses are recorded in investment income.

As of September 30, 2015 and 2014, investments consisted entirely of municipal bonds valued at the principal amount of the bonds. Accordingly, there were no realized or unrealized gains or losses on investments for the years ended September 30, 2015 and 2014.

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

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

Impairment of long-lived assets - Bridgeway accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant, and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of cost or fair value less costs to sell. No impairment charges were recorded for the years ended September 30, 2015 and 2014.

**BRIDGEWAY HEALTH SOLUTIONS
OF ARIZONA, LLC**

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

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

The liability for payable to providers includes estimates of amounts due on reported claims and claims that have been incurred but were not reported as of September 30, 2015 and 2014. Such liabilities represent Bridgeway's best estimate of amounts that are reasonable and adequate to discharge Bridgeway's obligations for claims incurred but unpaid as of September 30, 2015 and 2014. Such estimates are, however, subject to a significant degree of inherent variability. The methods for making such estimates and for establishing the resulting liability are continually reviewed and adjustments are reflected in each period when necessary.

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

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

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

Advertising costs - Bridgeway uses advertising, within AHCCCS and CMS guidelines, to promote its programs among the communities it serves. Advertising costs are expensed as incurred, and are included in general and administrative expenses on the statements of operations. Advertising expense for the years ended September 30, 2015 and 2014 was approximately \$155,000 and \$239,000, respectively.

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

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

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

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

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

Bridgeway's policy is to classify income tax penalties and interest as income tax expense in its financial statements. During the years ended September 30, 2015 and 2014, Bridgeway incurred no penalties or interest.

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

Bridgeway is subject to a 2% premium tax on all payments received from AHCCCS for premiums, reinsurance, and reconciliations. Total premium tax expense for the years ended September 30, 2015 and 2014 was \$4,286,517 and \$4,420,190, respectively.

Subsequent events - Bridgeway has evaluated events through January 26, 2016, which is the date the financial statements were available to be issued. Except as disclosed in Note 10, management is not aware of any events that have occurred subsequent to the date of the balance sheet that would require adjustment to, or disclosure in, the financial statements.

(2) Contract performance bond

In accordance with the terms of its contract with AHCCCS, Bridgeway is required to post performance bonds equal to 80% of the first monthly payment to Bridgeway each fiscal year based on gross capitation payments, as specified in the contract. The amount of the bonds is subject to adjustment as certain conditions change and its method of calculation is specified in the contract. The performance bonds must be maintained to guarantee payment of Bridgeway's obligations under the contract. The total AHCCCS performance bond requirement was \$16,000,000 for 2015 and \$17,835,280 for 2014. To meet AHCCCS requirements for Medicare plans, Bridgeway purchased and posted a performance bond in the amount of \$1,600,000 for 2015 and 2014 for the Medicare Advantage plan. In 2015 and 2014, the performance bond requirements were met through the annual purchase of a surety bond in the required amounts.

(3) Property and equipment

Property and equipment consists of:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 546,193	\$ 546,193
Furniture and equipment	454,146	482,414
Computer hardware	491,744	487,745
Computer software	73,972	88,161
Construction in progress	<u>80,679</u>	<u>21,423</u>
Total cost and donated value	1,646,734	1,625,936
Accumulated depreciation	<u>(1,280,422)</u>	<u>(1,242,672)</u>
Net property and equipment	<u>\$ 366,312</u>	<u>\$ 383,264</u>

Depreciation expense charged to operations was \$143,083 and \$229,872 for 2015 and 2014, respectively.

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(4) Income taxes

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

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

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

	<u>2015</u>	<u>2014</u>
Current provision:		
Federal	\$ 3,254,251	\$ 3,364,553
State and local	152,136	93,727
Total current provision	3,406,387	3,458,280
Deferred benefit	(76,988)	(809,366)
Total provision for income taxes	<u>\$ 3,329,399</u>	<u>\$ 2,648,914</u>

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

	<u>2015</u>	<u>2014</u>
Current deferred income tax assets (liabilities):		
Loss reserves	\$ 2,221,228	\$ 2,248,080
Prepaid expenses	(33,762)	(38,775)
Accrued liabilities	568,850	523,982
Deferred rent	46,658	-
Net current deferred tax assets	<u>\$ 2,802,974</u>	<u>\$ 2,733,287</u>
Noncurrent deferred income tax liabilities:		
Depreciation	(79,237)	(86,538)
Net non-current deferred income tax liabilities	<u>\$ (79,237)</u>	<u>\$ (86,538)</u>

(5) Related-party transactions

Centene, CenCorp and affiliated companies provide administrative and other services to Bridgeway, including systems functions, accounts payable and payroll processing. Included in general and administrative expenses is a management fee to cover the costs of the administrative services provided by these affiliated companies. Management fees included in general and administrative expenses were approximately \$9,000,000 and \$8,800,000 for the years ended September 30, 2015 and 2014, respectively.

**BRIDGEWAY HEALTH SOLUTIONS
OF ARIZONA, LLC**

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(5) Related-party transactions (continued)

Amounts due to affiliated companies at September 30, 2015 and 2014 primarily represent payroll and trade accounts payable, which are payable to Centene subsidiaries.

Under the provisions of the contract with AHCCCS, member distributions may be paid only with prior approval of AHCCCS. For the year ended September 30, 2015, there were no distributions declared and paid. For the year ended September 30, 2014, distributions totaling \$3,000,000 were declared and paid.

Bridgeway contracts with NurseWise, an affiliated company wholly owned by CenCorp, to provide after-hours nurse triage and call center services to eligible enrollees that are served under the AHCCCS contract. The Company paid NurseWise approximately \$175,000 and \$200,000 through a capitation payment for the years ended September 30, 2015 and 2014, respectively, for these services. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

US Script, an affiliated company wholly owned by CenCorp, provides pharmacy benefit management services to eligible enrollees. Bridgeway paid US Script approximately \$12,600,000 and \$10,700,000 for these services for the years ended September 30, 2015 and 2014, respectively. Claims encounters are submitted to AHCCCS and CMS to substantiate these payments. US Script also receives an administration fee from Bridgeway for administering the pharmacy claims processing. For the years ended September 30, 2015 and 2014, respectively, these administration fees approximated \$493,000 and \$479,000. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

Cenpatico, an affiliated company wholly owned by CenCorp, provides a network and manages the behavioral health benefits for eligible enrollees utilizing behavioral health services. Bridgeway paid Cenpatico approximately \$713,000 and \$671,000 for these services during the years ended September 30, 2015 and 2014, respectively. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

OptiCare, an affiliated company wholly owned by CenCorp, provides a vision network and manages the vision benefits for eligible enrollees. Bridgeway paid OptiCare approximately \$95,000 and \$92,000 for these services during the years ended September 30, 2015 and 2014, respectively. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

Nurtur, an affiliated company wholly owned by CenCorp, provides disease management services for eligible enrollees. Bridgeway paid Nurtur approximately \$421,000 and \$429,000 for these services during the years ended September 30, 2015 and 2014, respectively. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

Dental Health and Wellness, an affiliated company wholly owned by CenCorp, provides dental services for eligible enrollees. Bridgeway paid Dental Health and Wellness approximately \$26,000 for these services during the year ended September 30, 2015. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(6) Retirement plan

Bridgeway participates in the retirement plan of its parent company, Centene. Centene has a defined contribution plan which covers substantially all of its employees who work at least 1,000 hours in a twelve consecutive month period and are at least twenty-one years of age. Under the plan, eligible employees may contribute a percentage of their base salary, subject to certain limitations. Centene may elect to match a portion of the employees' contribution. Bridgeway's expense related to matching contributions to the plan was approximately \$138,000 and \$115,000 for the years ended September 30, 2015 and 2014, respectively.

(7) Commitments and contingencies

Operating Leases - Bridgeway leases office space in Arizona for its headquarters and various satellite offices and leases certain equipment. These operating lease agreements expire at various dates through May 2023. Certain operating leases contain escalation provisions. The rental expense related to these leases is recorded on a straight-line basis over the lease term, including rent holidays. The difference between rent expense and rent paid due to recording expenses on the straight-line method of approximately \$130,000 and \$176,000 at September 30, 2015 and 2014, respectively, 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, 2015 are as follows:

Years Ending September 30,

2016	\$ 685,925
2017	827,990
2018	415,572
2019	387,441
2020	397,739
Thereafter	980,395
Total minimum lease payments	<u>\$ 3,695,062</u>

Rent expense was approximately \$427,000 and \$444,000 for the years ended September 30, 2015 and 2014, respectively.

Liability insurance - Bridgeway, 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 \$2,000,000. 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. Bridgeway anticipates that renewal coverage will be available at the expiration of the current policy. Bridgeway participates in the above policy with its affiliates. Per claim and aggregate limits are applicable to all covered entities as a group.

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

**BRIDGEWAY HEALTH SOLUTIONS
OF ARIZONA, LLC**

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(7) Commitments and contingencies (continued)

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

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

(8) Contract requirements

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

Pursuant to its ALTCS contract with AHCCCS, Bridgeway must meet a minimum capitalization requirement based on the number of members enrolled. As of September 30, 2015 and 2014, Bridgeway was in compliance with this requirement.

In August 2015, Bridgeway reallocated \$1,000,000 of equity from the ALTCS to the Medicare Advantage business segment in order to maintain equity requirements as established by AHCCCS. This reallocation was preapproved by AHCCCS.

Bridgeway's contract with AHCCCS contains various quarterly financial viability standards and performance guidelines. As of September 30, 2015 and 2014, Bridgeway was in compliance with these requirements.

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

**BRIDGEWAY HEALTH SOLUTIONS
OF ARIZONA, LLC**

NOTES TO FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

(8) Contract requirements (continued)

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

During contract year 2015, Bridgeway was successful in a ruling from CMS to allow for the expansion of the Medicare services into four of the five remaining counties where it serves long-term care members.

(9) Concentration of credit risk

Future contract awards are contingent upon the continuation of the AHCCCS ALTCS program by the State of Arizona and Bridgeway's ability and desire to retain its status as a contractor under this program. The ALTCS contract expired on September 30, 2011 and was renewed for three years through a reprocurement process with two additional one year renewal options. The Medicare Advantage contract is renewed annually by CMS. Bridgeway management expects the contracts with AHCCCS and CMS to be renewed through the respective renewal processes. If either contract is not renewed, Bridgeway's operations would be materially impacted.

(10) Subsequent event

In October 2015, the corporate structure of Bridgeway was changed from a limited liability company to a corporation in accordance with the requirements of the contract with AHCCCS. The name was concurrently changed to Bridgeway Health Solutions of Arizona, Inc. The Board of Directors authorized the issuance of 100 shares of common stock with a par value of \$1. All shares are owned by CenCorp, the sole member of the former limited liability company.

SUPPLEMENTAL INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors of

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

We have audited the financial statements of ***Bridgeway Health Solutions of Arizona, LLC*** as of and for the year ended September 30, 2015, and our report thereon dated January 26, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial information on pages 23 through 35 is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are required in accordance with the AHCCCS contract. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
January 26, 2016

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

SUPPLEMENTAL BALANCE SHEET

September 30, 2015

ASSETS

	<u>ALTCS</u>	<u>Acute</u>	<u>Medicare</u>	<u>Total</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 45,655,724	\$ 856,803	\$ -	\$ 46,512,527
Receivables:				
Reinsurance receivables, net	1,872,276	-	-	1,872,276
Capitation and supplement receivables	2,961,931	-	463,735	3,425,666
Pharmacy receivable	46,148	7,900	680,275	734,323
Interest receivable	9,754	-	-	9,754
Due from affiliated companies	1,025,963	-	2,399,260	3,425,223
Health Insurer Fee Receivable	719,950	-	-	719,950
Provider advances, net	244,298	-	37,047	281,345
Prepaid expenses	298,238	-	185,425	483,663
Deferred income tax asset	1,378,072	551,014	873,888	2,802,974
TOTAL CURRENT ASSETS	54,212,354	1,415,717	4,639,630	60,267,701
PROPERTY AND EQUIPMENT, net	366,312	-	-	366,312
INVESTMENTS	1,500,000	-	-	1,500,000
DEPOSITS	1,840	-	-	1,840
TOTAL ASSETS	<u>\$ 56,080,506</u>	<u>\$ 1,415,717</u>	<u>\$ 4,639,630</u>	<u>\$ 62,135,853</u>

LIABILITIES AND MEMBER'S EQUITY

CURRENT LIABILITIES				
Payable to providers	\$ 19,161,295	\$ -	\$ 6,056,760	\$ 25,218,055
Payable to Arizona Health Care Cost Containment System	1,217,200	-	-	1,217,200
Accounts payable and accrued expenses	764,033	6,343	318,419	1,088,795
Income tax payable (receivable)	8,874,846	(3,226,310)	(3,257,922)	2,390,614
Due to affiliated companies	2,494,707	2,539,002	236,855	5,270,564
TOTAL CURRENT LIABILITIES	32,512,081	(680,965)	3,354,112	35,185,228
DEFERRED INCOME TAX LIABILITY (ASSET)	83,404	(5,941)	1,774	79,237
OTHER NON-CURRENT LIABILITIES	753,317	-	7,838	761,155
TOTAL LIABILITIES	33,348,802	(686,906)	3,363,724	36,025,620
MEMBER'S EQUITY	22,731,704	2,102,623	1,275,906	26,110,233
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$ 56,080,506</u>	<u>\$ 1,415,717</u>	<u>\$ 4,639,630</u>	<u>\$ 62,135,853</u>

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

SUPPLEMENTAL STATEMENT OF OPERATIONS

Year Ended September 30, 2015

	<u>ALTCS</u>	<u>Acute</u>	<u>Medicare</u>	<u>Total</u>
OPERATING REVENUES				
Capitation premiums	\$ 203,972,345	\$ 457,868	\$ 38,571,157	\$ 243,001,370
Reinsurance	6,213,778	(5,290)		6,208,488
Health insurer fee premium revenue	719,949	1,050,811		1,770,760
Other	<u>283,811</u>	<u>-</u>	<u>-</u>	<u>283,811</u>
TOTAL OPERATING REVENUES	<u>211,189,883</u>	<u>1,503,389</u>	<u>38,571,157</u>	<u>251,264,429</u>
HEALTH CARE EXPENSES				
Hospitalization	9,945,309	16,449	12,628,401	22,590,159
Medical compensation	1,463,044	(39,437)	7,407,569	8,831,176
Ancillary and other medical services	14,045,198	174,849	15,199,892	29,419,939
Institutional	<u>155,559,444</u>	<u>-</u>	<u>-</u>	<u>155,559,444</u>
TOTAL HEALTH CARE EXPENSES	181,012,995	151,861	35,235,862	216,400,718
GENERAL AND ADMINISTRATIVE EXPENSES	16,553,099	218,745	4,641,053	21,412,897
HEALTH INSURER FEE	472,908	188,947	632,797	1,294,652
PREMIUM TAX EXPENSE	<u>4,268,083</u>	<u>18,434</u>	<u>-</u>	<u>4,286,517</u>
TOTAL EXPENSES	<u>202,307,085</u>	<u>577,987</u>	<u>40,509,712</u>	<u>243,394,784</u>
OPERATING INCOME (LOSS)	<u>8,882,798</u>	<u>925,402</u>	<u>(1,938,555)</u>	<u>7,869,645</u>
NONOPERATING INCOME				
Interest income	<u>221,257</u>	<u>-</u>	<u>-</u>	<u>221,257</u>
NET INCOME (LOSS) BEFORE TAXES	9,104,055	925,402	(1,938,555)	8,090,902
PROVISION (BENEFIT) FOR INCOME TAXES	<u>3,661,643</u>	<u>145,234</u>	<u>(477,478)</u>	<u>3,329,399</u>
NET INCOME (LOSS)	<u>\$ 5,442,412</u>	<u>\$ 780,168</u>	<u>\$ (1,461,077)</u>	<u>\$ 4,761,503</u>

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC
SCHEDULE 1: STATEMENT OF ACTIVITIES - GSA 52

Financial Data should be reported based on the Contractor's Fiscal Year End
Program Contractor Bridgeway Health Solutions - ALTCS Plan #110088
Quarter Ending 09/30/15
Fiscal Year Ending 09/30/15

Appendix 6.1.2(A)
GSA #52

Account #	Account Description	Qtr Ending 12/31/14	Qtr Ending 3/31/15	Qtr Ending 6/30/15	Qtr Ending 9/30/15	Full Year
	Pros. Member Months	9,862	9,695	9,498	9,370	38,425
	PPC Member Months	74	150	136	159	518
	Total Member Months	9,936	9,845	9,634	9,529	38,944
	HCBS Member Months	7,783	7,697	7,583	7,385	30,448
	Acute Care Member Months	118	118	116	118	470
Revenues:						
300	Capitation	28,751,120	28,600,313	28,261,227	28,186,433	113,799,093
305	PPC Capitation	289,337	309,215	322,515	339,059	1,260,126
310	Reserved	-	-	-	-	-
312	Payment Reform Initiatives/Shared Savings Arrangement Settlements	(286,432)	(284,646)	94,362	(99,147)	(575,864)
315	PPC - Reconciliation	(38,300)	224,753	116,643	(79,646)	223,450
320	Share of Cost (SOC) Reconciliation *	292,676	289,788	282,771	288,704	1,153,939
325	HCBS Placement Reconciliation *	13,364	33,842	8,427	-	55,634
330	Reserved	-	-	-	-	-
332	PCP Parity Cost Settlement Revenue	176,709	121,592	2,580	-	300,881
333	Health Insurer Fee	-	-	-	705,833	705,833
335	Other AHCCCS Revenue (Report #4)	-	-	-	-	-
	Subtotal AHCCCS Revenue	29,198,474	29,294,857	29,088,524	29,341,236	116,923,091
						-
350	Investment Income *	30,233	31,218	32,129	32,983	126,563
360	Reserved	-	-	-	-	-
370	Patient Contributions (MSOC)	57,504	60,200	78,200	70,121	266,025
380	Other Non-AHCCCS Income (Report #4)	-	-	(916)	-	(916)
	Subtotal Non-AHCCCS Revenue	87,738	91,418	109,413	103,104	391,672
	TOTAL REVENUES	29,286,212	29,386,275	29,197,937	29,444,339	117,314,763
						-
Institutional Care Expenses:						
400	NF ICF & Bedholds	6,384	13,375	14,664	11,548	45,971
402	Level I	2,210,807	2,181,532	2,807,019	2,336,238	9,535,596
404	Level II	3,187,751	3,347,671	4,718,199	4,048,922	15,302,543
406	Level III	973,037	1,015,540	1,422,557	1,223,233	4,634,367
408	Institutional Care	2,273,158	2,217,824	3,359,137	3,032,847	10,882,966
410	PPC Institutional	88,343	124,191	133,317	36,005	381,857
412	Other Institutional Care (Report #4)	295,137	267,368	413,947	330,907	1,307,360
	TOTAL INSTITUTIONAL CARE	9,034,617	9,167,501	12,868,840	11,019,702	42,090,660
						-
Home & Community Bases Services (HCBS) Expenses:						
414	Home Health Nurse	115,180	111,012	125,805	194,857	546,854
416	Home Health Aide	465	61	36	-	562
418	Personal Care	4,193	4,400	4,559	12,766	25,918
420	Homemaker	21,922	22,989	18,227	25,617	88,755
422	Home Delivered Meals	49,858	51,418	40,625	54,041	195,942
424	Respite Care	209,278	247,226	176,257	285,911	918,672
426	Attendant Care	5,022,000	5,002,982	3,960,927	5,477,475	19,463,384
428	Assisted Living Home	2,517,739	2,241,672	1,869,546	3,729,118	10,358,075
429	Assisted Living Center	3,070,663	2,872,106	2,472,590	4,624,443	13,039,801
430	Adult Day Health	102,207	99,917	74,457	122,190	398,772
432	Adult Foster Care	59,465	58,884	44,346	70,465	233,161
434	Group Respite	-	-	-	-	-
436	Hospice	61,862	59,820	94,758	175,262	391,702
438	Environmental Modifications	18,486	29,414	3,143	19,228	70,271
443	PPC HCBS	108,361	143,330	169,847	42,690	464,229
444	Other HCBS Costs (Report #4)	31,374	29,296	63,180	80,381	204,231
	TOTAL HCBS	11,393,053	10,974,527	9,118,303	14,914,446	46,400,329
						-

See Independent Auditors' Report on Additional Information
Amounts expressed in whole dollars, differences due to rounding

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC
SCHEDULE 1: STATEMENT OF ACTIVITIES - GSA 52

Financial Data should be reported based on the Contractor's Fiscal Year End
Program Contractor Bridgeway Health Solutions - ALTCS Plan #110088
Quarter Ending 09/30/15
Fiscal Year Ending 09/30/15

Appendix 6.1.2(A)
GSA #52

Account #	Account Description	Qtr Ending 12/31/14	Qtr Ending 3/31/15	Qtr Ending 6/30/15	Qtr Ending 9/30/15	Full Year
Acute Care Expenses:						-
448	Inpatient Services (Hosp.)	1,038,773	1,417,801	869,171	871,595	4,197,340
450	Primary Care Physician Services	165,975	242,429	254,510	(2,466,475)	(1,803,561)
452	Referral Physician Services	591,599	541,171	463,470	443,432	2,039,672
453	PCP Parity Enhanced Payment Expense	176,709	121,592	2,580	-	300,881
454	Emergency Services	308,463	227,393	184,236	241,285	961,378
456	Out Patient Facility	81,656	84,489	46,246	102,966	315,357
458	Pharmacy	714,402	721,665	800,376	738,772	2,975,214
460	Lab/Diagnostic Imaging	141,132	129,106	69,678	78,290	418,206
462	Durable Medical Equipment	225,946	209,678	183,443	278,279	897,347
464	Dental	14,499	13,977	16,522	12,203	57,201
466	Transportation	497,427	509,792	388,339	579,004	1,974,563
468	Therapies	79,553	69,657	33,526	10,767	193,502
470	Outpatient Behavioral Health	214,741	90,223	82,961	80,612	468,537
471	PPC Acute Care	10,209	47,476	15,661	7,495	80,840
472	Other Acute Care Costs (Report #4)	370,574	286,746	349,382	347,938	1,354,641
TOTAL ACUTE CARE		4,631,659	4,713,193	3,760,103	1,326,164	14,431,119
Other Medical Expenses:						-
476	Payment Reform Initiatives/Shared Savings Settlements	-	-	150,000	50,000	200,000
477	PPC - Other	-	-	-	-	-
479	Other Medical (Report #4)	-	-	-	-	-
TOTAL OTHER MEDICAL		-	-	150,000	50,000	200,000
480	Case Management	1,014,301	972,986	974,358	1,013,182	3,974,828
TOTAL MEDICAL EXPENSE:		26,073,630	25,828,207	26,871,604	28,323,495	107,096,936
Less:						-
440	Reinsurance	(1,021,660)	(824,360)	(807,469)	(813,870)	(3,467,359)
442	Third Party Liability	-	-	-	-	-
TOTAL NET MEDICAL EXP		25,051,970	25,003,848	26,064,135	27,509,625	103,629,577
Administrative Expenses:*						-
484	Compensation	901,379	933,424	993,973	946,793	3,775,569
488	Data Processing	34,612	22,654	24,006	30,033	111,305
490	Management Fees	1,046,294	1,088,938	1,097,433	1,030,916	4,263,581
492	Interest Expense	-	-	-	-	-
493	Occupancy	48,687	47,886	48,527	50,660	195,760
494	Marketing	15,137	20,030	16,776	33,408	85,352
495	Depreciation	12,633	12,536	12,431	13,039	50,640
496	Other Administration (Report #4)	281,836	239,609	335,011	325,626	1,182,083
TOTAL ADMINISTRATION		2,340,580	2,365,077	2,528,158	2,430,475	9,664,290
TOTAL EXPENSE		27,392,549	27,368,925	28,592,293	29,940,100	113,293,867
INCOME FROM OPERATIONS		1,893,662	2,017,350	605,644	(495,761)	4,020,896
497	Non-Operating Income (Loss)	-	-	-	-	-
INCOME (LOSS) BEFORE TAXES		1,893,662	2,017,350	605,644	(495,761)	4,020,896
498	Provision for Premium Taxes	656,765	624,824	617,561	628,198	2,527,349
499	Provision for Income Taxes	550,545	450,299	(4,625)	(374,611)	621,607
500	Provision for Health Insurer Fee	-	88,621	89,062	89,401	267,084
NET INCOME (LOSS) AFTER TAXES		686,353	853,606	(96,354)	(838,749)	604,856

See Independent Auditors' Report on Additional Information
Amounts expressed in whole dollars, differences due to rounding

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC
SCHEDULE 2: STATEMENT OF ACTIVITIES - GSA 46

Financial Data should be reported based on the Contractor's Fiscal Year End
Program Contractor Bridgeway Health Solutions - ALTCS Plan #110088
Quarter Ending 09/30/15
Fiscal Year Ending 09/30/15

Appendix 6.1.2(A)
GSA #46

Account #	Account Description	Qtr Ending 12/31/14	Qtr Ending 3/31/15	Qtr Ending 6/30/15	Qtr Ending 9/30/15	Full Year
	Pros. Member Months	2,285	2,314	2,308	2,316	9,223
	PPC Member Months	17	51	41	40	148
	Total Member Months	2,302	2,365	2,348	2,356	9,371
	HCBS Member Months	1,370	1,368	1,396	1,408	5,542
	Acute Care Member Months	12	18	15	17	62
Revenues:						
300	Capitation	7,152,793	7,193,547	7,294,270	7,361,546	29,002,156
305	PPC Capitation	62,886	108,144	83,902	88,173	343,105
310	Reserved	-	-	-	-	-
312	Payment Reform Initiatives/Shared Savings Arrangement Settlements	(71,358)	(71,923)	22,037	(25,931)	(147,176)
315	PPC - Reconciliation	(3,623)	(70,122)	164,876	(22,551)	68,580
320	Share of Cost (SOC) Reconciliation *	(52,593)	(49,313)	(30,874)	(70,714)	(203,494)
325	HCBS Placement Reconciliation *	14,828	67,538	19,306	8,211	109,884
330	Reserved	-	-	-	-	-
332	PCP Parity Cost Settlement Revenue	40,103	28,290	624	-	69,017
333	Health Insurer Fee	-	-	-	-	-
335	Other AHCCCS Revenue (Report #4)	-	-	-	-	-
	Subtotal AHCCCS Revenue	7,143,036	7,206,162	7,554,140	7,338,733	29,242,071
						-
350	Investment Income *	7,396	7,680	8,338	8,450	31,864
360	Reserved	-	-	-	-	-
370	Patient Contributions (MSOC)	1,257	3,229	2,298	2,007	8,791
380	Other Non-AHCCCS Income (Report #4)	-	-	-	-	-
	Subtotal Non-AHCCCS Revenue	8,653	10,908	10,636	10,457	40,655
	TOTAL REVENUES	7,151,689	7,217,070	7,564,777	7,349,191	29,282,727
						-
Institutional Care Expenses:						
400	NF ICF & Bedholds	1,720	5,574	2,936	1,097	11,327
402	Level I	1,508,961	1,379,303	1,556,205	1,348,238	5,792,707
404	Level II	1,246,131	1,284,677	1,719,900	1,697,849	5,948,556
406	Level III	179,994	137,953	242,521	223,065	783,533
408	Institutional Care	614,610	658,040	826,479	816,792	2,915,922
410	PPC Institutional	25,228	65,596	64,496	58,993	214,312
412	Other Institutional Care (Report #4)	45,529	34,880	40,285	38,410	159,104
	TOTAL INSTITUTIONAL CARE	3,622,173	3,566,022	4,452,823	4,184,444	15,825,461
						-
Home & Community Based Services (HCBS) Expenses:						
414	Home Health Nurse	64,783	58,514	48,553	68,972	240,822
416	Home Health Aide	86	-	9,340	13,174	22,601
418	Personal Care	2,264	2,868	2,059	2,556	9,747
420	Homemaker	5,312	4,420	4,279	6,660	20,671
422	Home Delivered Meals	24,915	22,757	22,752	27,242	97,666
424	Respite Care	30,718	20,296	25,997	26,943	103,954
426	Attendant Care	956,621	947,300	879,030	743,635	3,526,587
428	Assisted Living Home	233,644	221,132	196,402	173,164	824,341
429	Assisted Living Center	205,173	236,460	231,049	251,935	924,616
430	Adult Day Health	-	-	-	-	-
432	Adult Foster Care	-	-	-	-	-
434	Group Respite	-	-	-	-	-
436	Hospice	9,664	-	401	10,422	20,487
438	Environmental Modifications	27,246	7,887	-	6,787	41,921
443	PPC HCBS	10,719	27,200	28,641	19,408	85,968
444	Other HCBS Costs (Report #4)	9,842	10,572	11,614	13,973	46,000
	TOTAL HCBS	1,580,986	1,559,407	1,460,117	1,364,871	5,965,381
						-

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC
SCHEDULE 2: STATEMENT OF ACTIVITIES - GSA 46

Financial Data should be reported based on the Contractor's Fiscal Year End
Program Contractor Bridgeway Health Solutions - ALTCS Plan #110088
Quarter Ending 09/30/15
Fiscal Year Ending 09/30/15

Appendix 6.1.2(A)
GSA #46

Account #	Account Description	Qtr Ending 12/31/14	Qtr Ending 3/31/15	Qtr Ending 6/30/15	Qtr Ending 9/30/15	Full Year
Acute Care Expenses:						-
448	Inpatient Services (Hosp.)	112,041	106,468	122,120	106,137	446,766
450	Primary Care Physician Services	22,431	17,861	30,891	(463,428)	(392,245)
452	Referral Physician Services	53,675	49,874	38,338	53,435	195,322
453	PCP Parity Enhanced Payment Expense	40,103	28,290	624	-	69,017
454	Emergency Services	117,128	69,370	67,059	89,219	342,776
456	Out Patient Facility	6,433	33,390	25,979	7,528	73,330
458	Pharmacy	136,016	113,757	135,621	130,824	516,218
460	Lab/Diagnostic Imaging	24,803	32,146	10,531	8,261	75,741
462	Durable Medical Equipment	54,459	60,030	65,182	34,044	213,715
464	Dental	3,439	2,961	3,847	3,939	14,186
466	Transportation	219,949	229,190	152,839	151,495	753,473
468	Therapies	33,407	28,001	4,152	4,589	70,149
470	Outpatient Behavioral Health	59,731	49,912	32,346	38,238	180,227
471	PPC Acute Care	2,219	4,862	2,808	1,662	11,551
472	Other Acute Care Costs (Report #4)	26,330	24,334	20,893	17,694	89,251
TOTAL ACUTE CARE		912,165	850,444	713,231	183,637	2,659,477
						-
Other Medical Expenses:						-
476	Payment Reform Initiatives/Shared Savings Settlements	-	-	-	-	-
477	PPC - Other	-	-	-	-	-
479	Other Medical (Report #4)	-	-	-	-	-
TOTAL OTHER MEDICAL		-	-	-	-	-
						-
480	Case Management	235,012	232,276	236,718	250,418	954,424
TOTAL MEDICAL EXPENSE:		6,350,336	6,208,148	6,862,889	5,983,370	25,404,743
						-
Less:						-
440	Reinsurance	(129,502)	(18,742)	(39,211)	(96,737)	(284,192)
442	Third Party Liability	-	-	-	-	-
TOTAL NET MEDICAL EXP		6,220,834	6,189,406	6,823,678	5,886,633	25,120,551
						-
Administrative Expenses:*						-
484	Compensation	208,848	222,831	241,484	234,009	907,172
488	Data Processing	8,020	5,408	5,832	7,423	26,683
490	Management Fees	242,425	259,956	266,619	254,801	1,023,801
492	Interest Expense	-	-	-	-	-
493	Occupancy	11,281	11,432	11,789	12,521	47,023
494	Marketing	3,507	4,782	4,076	8,257	20,622
495	Depreciation	2,927	2,993	3,020	3,223	12,163
496	Other Administration (Report #4)	65,301	57,201	81,390	80,482	284,374
TOTAL ADMINISTRATION		542,309	564,603	614,211	600,715	2,321,838
						-
TOTAL EXPENSE		6,763,143	6,754,009	7,437,889	6,487,348	27,442,389
INCOME FROM OPERATIONS		388,546	463,061	126,887	861,842	1,840,337
497	Non-Operating Income (Loss)	-	-	-	-	-
						-
INCOME (LOSS) BEFORE TAXES		388,546	463,061	126,887	861,842	1,840,337
498	Provision for Premium Taxes	143,842	146,170	143,204	155,775	588,990
499	Provision for Income Taxes	108,918	102,473	(6,333)	235,330	440,388
500	Provision for Health Insurer Fee	-	21,156	21,638	22,096	64,890
						-
NET INCOME (LOSS) AFTER TAXES		135,786	193,263	(31,621)	448,642	746,070

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC
SCHEDULE 3: STATEMENT OF ACTIVITIES - GSA 40

Financial Data should be reported based on the Contractor's Fiscal Year End
Program Contractor **Bridgeway Health Solutions - ALTCS Plan #110088**
Quarter Ending **09/30/15**
Fiscal Year Ending **09/30/15**

Appendix 6.1.2(A)
GSA #40

Account #	Account Description	Qtr Ending 12/31/14	Qtr Ending 3/31/15	Qtr Ending 6/30/15	Qtr Ending 9/30/15	Full Year
	Pros. Member Months	4,589	4,565	4,538	4,458	18,150
	PPC Member Months	39	62	82	62	245
	Total Member Months	4,628	4,627	4,620	4,520	18,395
	HCBS Member Months	3,551	3,546	3,518	3,430	14,045
	Acute Care Member Months	39	62	56	57	214
Revenues:						
300	Capitation	14,422,815	14,350,898	14,472,289	14,225,922	57,471,924
305	PPC Capitation	179,764	138,106	190,524	148,724	657,118
310	Reserved	-	-	-	-	-
312	Payment Reform Initiatives/Shared Savings Arrangement Settlements	(144,846)	(143,351)	46,142	(50,121)	(292,176)
315	PPC - Reconciliation	(41,926)	38,488	120,429	(41,845)	75,147
320	Share of Cost (SOC) Reconciliation *	141,522	126,528	109,404	140,676	518,130
325	HCBS Placement Reconciliation *	8,703	(68,587)	(15,345)	32,439	(42,790)
330	Reserved	-	-	-	-	-
332	PCP Parity Cost Settlement Revenue	81,395	57,180	1,204	-	139,779
333	Health Insurer Fee	-	-	-	-	-
335	Other AHCCCS Revenue (Report #4)	-	-	-	-	-
	Subtotal AHCCCS Revenue	14,647,427	14,499,262	14,924,648	14,455,796	58,527,132
						-
350	Investment Income *	15,161	15,451	16,489	16,645	63,746
360	Reserved	-	-	-	-	-
370	Patient Contributions (MSOC)	2,671	2,249	2,170	1,905	8,995
380	Other Non-AHCCCS Income (Report #4)	-	-	-	-	-
	Subtotal Non-AHCCCS Revenue	17,832	17,701	18,659	18,550	72,741
	TOTAL REVENUES	14,665,258	14,516,963	14,943,307	14,474,346	58,599,874
						-
Institutional Care Expenses:						
400	NF ICF & Bedholds	4,300	5,045	2,500	14,154	25,999
402	Level I	1,661,075	1,564,606	1,099,886	1,464,801	5,790,367
404	Level II	1,438,410	1,384,222	1,169,408	1,735,579	5,727,619
406	Level III	430,992	435,418	357,510	533,062	1,756,982
408	Institutional Care	1,067,203	1,049,453	954,721	1,335,297	4,406,674
410	PPC Institutional	49,722	72,826	53,069	52,743	228,361
412	Other Institutional Care (Report #4)	123,976	110,607	106,508	116,495	457,587
	TOTAL INSTITUTIONAL CARE	4,775,678	4,622,177	3,743,603	5,252,130	18,393,588
						-
Home & Community Bases Services (HCBS) Expenses:						
414	Home Health Nurse	141,863	123,620	80,260	143,802	489,545
416	Home Health Aide	-	-	-	-	-
418	Personal Care	7,076	8,568	3,774	6,340	25,758
420	Homemaker	22,424	20,448	18,039	21,762	82,674
422	Home Delivered Meals	27,312	36,356	33,352	40,031	137,052
424	Respite Care	150,241	157,549	153,336	193,563	654,689
426	Attendant Care	3,304,294	3,586,147	3,064,545	3,176,587	13,131,572
428	Assisted Living Home	496,163	458,549	413,197	554,199	1,922,109
429	Assisted Living Center	516,633	612,739	580,355	750,382	2,460,108
430	Adult Day Health	30,620	33,439	31,295	38,096	133,450
432	Adult Foster Care	-	-	-	-	-
434	Group Respite	1,104	-	-	-	1,104
436	Hospice	65,032	133,726	56,417	154,590	409,765
438	Environmental Modifications	42,163	42,984	13,108	12,082	110,336
443	PPC HCBS	54,108	81,092	61,522	62,436	259,157
444	Other HCBS Costs (Report #4)	13,201	15,752	15,638	15,186	59,777
	TOTAL HCBS	4,872,233	5,310,969	4,524,837	5,169,057	19,877,096
						-

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC
SCHEDULE 3: STATEMENT OF ACTIVITIES - GSA 40

Financial Data should be reported based on the Contractor's Fiscal Year End
Program Contractor Bridgeway Health Solutions - ALTCS Plan #110088
Quarter Ending 09/30/15
Fiscal Year Ending 09/30/15

Appendix 6.1.2(A)
GSA #40

Account #	Account Description	Qtr Ending 12/31/14	Qtr Ending 3/31/15	Qtr Ending 6/30/15	Qtr Ending 9/30/15	Full Year
Acute Care Expenses:						-
448	Inpatient Services (Hosp.)	326,836	713,042	629,353	637,447	2,306,678
450	Primary Care Physician Services	49,295	71,341	121,912	(2,132,572)	(1,890,024)
452	Referral Physician Services	190,508	267,810	307,255	369,596	1,135,169
453	PCP Parity Enhanced Payment Expense	81,395	57,180	1,204	-	139,779
454	Emergency Services	181,333	270,053	194,696	292,194	938,275
456	Out Patient Facility	63,527	144,663	87,771	67,448	363,409
458	Pharmacy	388,842	360,599	403,903	406,482	1,559,827
460	Lab/Diagnostic Imaging	65,993	103,961	37,949	46,455	254,358
462	Durable Medical Equipment	234,904	266,545	112,390	171,260	785,100
464	Dental	7,603	9,246	7,750	6,384	30,984
466	Transportation	463,847	744,207	338,634	434,230	1,980,918
468	Therapies	61,855	87,438	34,440	27,243	210,976
470	Outpatient Behavioral Health	66,742	61,800	52,340	72,758	253,640
471	PPC Acute Care	16,067	17,352	6,148	29,160	68,727
472	Other Acute Care Costs (Report #4)	59,187	52,717	53,300	59,937	225,141
TOTAL ACUTE CARE		2,257,933	3,227,957	2,389,044	488,022	8,362,956
Other Medical Expenses:						-
476	Payment Reform Initiatives/Shared Savings Settlements	-	-	-	-	-
477	PPC - Other	-	-	-	-	-
479	Other Medical (Report #4)	-	-	-	-	-
TOTAL OTHER MEDICAL		-	-	-	-	-
480	Case Management	471,926	458,119	465,559	482,073	1,877,676
TOTAL MEDICAL EXPENSE:		12,377,770	13,619,222	11,123,042	11,391,282	48,511,316
Less:						-
440	Reinsurance	(538,965)	(548,105)	(708,107)	(667,051)	(2,462,227)
442	Third Party Liability	-	-	-	-	-
TOTAL NET MEDICAL EXP		11,838,805	13,071,117	10,414,936	10,724,232	46,049,089
Administrative Expenses:*						-
484	Compensation	419,386	439,491	474,931	450,484	1,784,293
488	Data Processing	16,104	10,666	11,470	14,290	52,530
490	Management Fees	486,811	512,713	524,365	490,510	2,014,400
492	Interest Expense	-	-	-	-	-
493	Occupancy	22,653	22,547	23,187	24,104	92,490
494	Marketing	7,043	9,431	8,016	15,896	40,385
495	Depreciation	5,878	5,903	5,940	6,204	23,924
496	Other Administration (Report #4)	131,130	112,817	160,072	154,933	558,953
TOTAL ADMINISTRATION		1,089,005	1,113,568	1,207,981	1,156,421	4,566,975
TOTAL EXPENSE		12,927,810	14,184,685	11,622,917	11,880,653	50,616,064
INCOME FROM OPERATIONS		1,737,448	332,278	3,320,390	2,593,693	7,983,809
497	Non-Operating Income (Loss)	-	-	-	-	-
INCOME (LOSS) BEFORE TAXES		1,737,448	332,278	3,320,390	2,593,693	7,983,809
498	Provision for Premium Taxes	293,112	290,746	289,728	292,276	1,165,862
499	Provision for Income Taxes	642,876	13,430	1,176,288	767,054	2,599,648
500	Provision for Health Insurer Fee	-	41,726	42,555	42,537	126,818
NET INCOME (LOSS) AFTER TAXES		801,460	(13,624)	1,811,819	1,491,827	4,091,482

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC
SCHEDULE 4: BALANCE SHEET OTHER ACCOUNT DETAIL (ALTCS)

Appendix 6.1.3

Program Contractor Financial Reporting Systems - Balance Sheet "Other Account" Details
Program Contractor Bridgeway Health Solutions
Quarter Ending 09/30/15
Fiscal Year Ending 09/30/15

Other Assets

Account: #135 - Other Current Receivables	
Pharmacy Rebate Receivable	42,047
	-
Subtotal:	42,047
Account: #140 - Other Current Assets	
Short-term Deferred Taxes	1,378,071
Provider Credit Balances	244,298
Prepaid Expenses	145,307
Prepaid Health Insurer Fee	152,930
Other	4,101
	-
Subtotal:	1,924,707
Account: #165 - Other Non - Current Assets	
Security Deposit	1,840
	-
	-
Subtotal:	1,840
Account: #190 - Other Property and Equipment	
Work In Process (TI for the new office on Rio Salado)	80,679
	-
	-
Subtotal:	80,679
Total :	2,049,273

Other Liabilities

Account: #225 - Other Current Payables	
	-
	-
Subtotal:	-
Account: #240 - Other Current Liabilities	
Accrued Sanctions	30,000
Premium Tax Payable	18,673
	-
Subtotal:	48,673
Account: #255 - Other Non - Current Liabilities	
Income Tax Payables	8,958,246
TI Allowance Overage (Fountainhead Office)	23,515
TI Allowance Overage (Rio Salado Office)	729,803
Subtotal:	9,711,564
Total :	9,760,237

Long Term Debt

Account: #230 - Current Portion of Long Term Debt	
	-
	-
	-
Subtotal:	-
Account: #245 - Non-Current Portion of Long Term Debt	
	-
	-
	-
Subtotal:	-
Total :	-

See Independent Auditors' Report on Additional Information
Amounts expressed in whole dollars, differences due to rounding

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC
SCHEDULE 5: INCOME STATEMENT OTHER ACCOUNT DETAIL (ALTCs)

Appendix 6.1.4

Program Contractor Financial Reporting Systems - Income Statement "Other Account" Details
Program Contractor Bridgeway Health Solutions
Quarter Ending 09/30/15
Fiscal Year Ending 09/30/15

Other Revenue	
Account: #335 - Other AHCCCS Revenue	
	-
	-
	-
	-
Subtotal:	-
Account: #380 - Other Non-AHCCCS Revenue	
	-
	-
	-
Subtotal:	-
Total :	-
Other Expenses	
Account: #412 - Other Institutional Care Expense	
Dialysis	383,544
Rehabilitation	44,809
Medical equipment & supplies	36,296
Lab, x-ray, & imaging	21,164
	-
Subtotal:	485,813
Account: #444 - Other HCBS Costs	
Medical alert services	41,060
Home health care - self directed	34,430
Behavioral health homes	25,413
Home based behavioral health services	8,637
	-
Subtotal:	109,540
Account: #472 - Other Acute Care Costs	
Claim adjustments in process	211,675
Disease and health management support	72,065
Behavioral health network services	64,173
Nurse triage	33,281
Vision care network services	23,297
Third party review of paid claims	22,555
Other Expenses	(1,476)
	-
Subtotal:	425,570
Account: #479 - Other Medical Expense	
	-
	-
	-
	-
Subtotal:	-
Account: #496 - Other Administrative Expense	
Professional and consulting fees	170,184
Temporary help	95,445
Travel expenses	77,107
Meals, meetings and training	45,738
Printing	42,184
Postage & messenger	40,637
Tax, non-income	39,404
Physician credentialing	25,966
Insurance	20,337
Other	4,040
	-
Subtotal:	561,041
Total :	1,581,964

See independent Auditors' Report on Additional Information
Amounts expressed in whole dollars, differences due to rounding

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC
SCHEDULE 6: RECEIVABLES / PAYABLES REPORT DETAIL

Appendix 6.1.4

Program Contractor Financial Reporting Systems - Receivables/Payables Report Details

Paragraph 4.03

Quarter Ending 12/31/2014

Fiscal Year Ending 9/30/2015

Asset Description	Amount
Account 122 - Reconciliations Receivable (by contract year)	
ACA PCP Parity Payment Receivable	1,417,157
CY15 SOC Reconciliation	1,472,149
CY15 HCBS Reconciliation	59,983
	-
	-
<i>Subtotal</i>	\$ 2,949,289
Account 222 Reconciliation Payables (by contract year)	
CY15 PPC Reconciliation	165,829
CY14 PPC Reconciliation	6,156
	-
	-
<i>Subtotal</i>	\$ 171,985
<i>Total</i>	\$ 2,777,304

See Independent Auditors' Report on Additional Information
Amounts expressed in whole dollars, differences due to rounding

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC
SCHEDULE 7: CLAIMS LAG REPORT FOR PROSPECTIVE PERIOD ONLY - (IBNR) (ALTCS)

Program Contractor Financial Reporting Systems - Claims Lag Report *Prospective Period and Prior Period* - IBNR

Appendix 6.1.6

Program Contractor Bridgeway Health Solutions - ALTCS Plan #110088

Quarter Ending 09/30/15

Fiscal Year Ending 09/30/15

A - ALL SERVICES BOTH PROSPECTIVE AND PPC

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	<-----QUARTER IN WHICH SERVICE PROVIDED----->									
LINE	QUARTER OF PAYMENT	CURRENT	1ST PRIOR	2ND PRIOR	3RD PRIOR	4TH PRIOR	5TH PRIOR	6TH PRIOR*	TOTAL	
1	CURRENT	26,234,218	13,687,834	861,509	217,515	169,194	155,000	142,061	41,467,331	
2	1ST PRIOR		26,407,992	14,391,865	1,327,809	627,787	34,069	213,797	43,003,319	
3	2ND PRIOR			25,369,491	15,240,583	1,059,718	(46,612)	(251,933)	41,371,247	
4	3RD PRIOR				27,043,217	13,983,784	769,061	(123,180)	41,672,882	
5	4TH PRIOR					26,722,640	15,105,242	435,073	42,262,955	
6	5TH PRIOR						25,929,957	17,908,774	43,838,731	
7	6TH PRIOR							794,099,143	794,099,143	
8	TOTALS	26,234,218	40,095,826	40,622,865	43,829,124	42,563,122	41,946,717	812,423,735	1,047,715,609	
9	EXP. REPORTED	43,346,054	42,390,845	43,335,836	42,588,360	43,109,765	44,071,352	820,568,194	1,079,410,406	
10	ADJUSTMENT	(1,200,000)	(1,000,000)	(1,514,638)	1,500,000	(546,643)	(2,124,635)	(8,144,459)	(13,030,375)	
11	REMAINING LIABILITY	15,911,836	1,295,019	1,198,333	259,236	(0)	0	(0)	18,664,423	

*Amounts in the 6th prior column or row include the amounts for the 6th prior period, and any earlier periods.

See Independent Auditors' Report on Additional Information
Amounts expressed in whole dollars, differences due to rounding

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC
SCHEDULE 8: SUB-CAPITATED EXPENSES REPORT (ALTCS)

Sub-Capitated Expenses Report

Appendix 6.3

Health Plan Name Bridgeway Health Solutions - ALTCS Plan #110088

Quarter Ended: 9/30/2015

Contract Year To Date: 9/30/2015

Account Description	Amount	YTD Amount
Sub-Capitated Hospitalization Expenses:		
Hospital Inpatient	-	-
PPC-Hospital Inpatient	-	-
Total Sub-Capitated Hospitalization Expense:	\$ -	\$ -
Sub-Capitated Medical Compensation Expenses:		
Primary Care Physician Services	152,571	567,341
Referral Physician Services	-	-
Other Professional	-	-
PPC-Physician Services	-	-
Total Sub-Capitated Medical Compensation Expenses:	\$ 152,571	\$ 567,341
Sub-Capitated Other Medical Expenses:		
Emergency Facility Services	-	-
Pharmacy	-	-
Lab, X-ray, & med image	-	-
Outpatient Facility	-	-
Durable Med Equip	-	-
Dental	19,955	87,363
Transportation	206,877	921,476
NF, Home HC	-	-
Physical Therapy	-	-
Miscellaneous Med Exp	177,019	768,795
PPC-Other	-	-
Total Sub-Capitated Other Medical Expenses:	\$ 403,851	\$ 1,777,634
Total Sub-Capitated Expenses:	\$ 556,422	\$ 2,344,975

See Independent Auditors' Report on Additional Information
Amounts expressed in whole dollars, differences sue to rounding