HEALTH NET ACCESS, INC.

Financial Statements

Years Ended December 31, 2016 and 2015

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FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015

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MHM

3101 N. Central Ave., Suite 300 ■ Phoenix, AZ 85012
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholder of:

Health Net Access, Inc.

We have audited the accompanying financial statements of ***Health Net Access, Inc.*** (the Company), which comprise the balance sheet as of December 31, 2016, and the related statements of operations, stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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 ***Health Net Access, Inc.*** as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of ***Health Net Access, Inc.*** as of and for the year ended December 31, 2015, were audited by other auditors whose report dated April 27, 2016, expressed an unmodified opinion on those statements.

Mayer Hoffman McCann P.C.

April 28, 2017

HEALTH NET ACCESS, INC.

BALANCE SHEETS

December 31, 2016 and 2015

ASSETS

		2016		2015
CURRENT ASSETS:				
Cash and cash equivalents	$	68,592,911	$	93,738,050
Capitation/supplement/risk adjustment receivables		6,429,498		64,490
Reinsurance receivable		1,980,390		2,269,657
Reconciliation receivables		647,055		624,543
Provider receivables, net of allowance of $174,618 and $82,486		1,618,685		944,520
Pharmaceutical rebates receivable		539,775		633,549
Income taxes receivable from affiliate		20,648,245		7,062,416
Deferred taxes		219,170		8,199,868
Prepaid and other assets		1,402,568		1,175,429
Current due from affiliates		3,307,114		4,630,482
TOTAL CURRENT ASSETS		105,385,411		119,343,004
PROVIDER RECEIVABLES		285,554		52,164
TOTAL ASSETS	$	105,670,965	$	119,395,168

LIABILITIES AND STOCKHOLDER'S EQUITY

		2016		2015
CURRENT LIABILITIES:				
Medical claims payable	$	21,426,718	$	23,418,684
Premium deficiency reserve		-		22,824,020
Reconciliation payables		31,680,213		49,717,932
Current due to affiliates		1,440,274		1,273,588
Other liabilities		347,421		270,208
TOTAL CURRENT LIABILITIES		54,894,626		97,504,432
PROSPECTIVE RECONCILIATION PAYABLE		297,928		2,057,231
PRIOR PERIOD COVERAGE RECONCILIATION PAYABLE		-		389,101
UNRECOGNIZED TAX BENEFIT LIABILITY		100,604		118,007
VALUE-BASED PURCHASING OR PAYMENT REFORM INITIATIVE LIABILITY		3,506,848		2,254,890
TOTAL LIABILITIES		58,800,006		102,323,661
STOCKHOLDER'S EQUITY:				
Common stock (no par value, 100 shares authorized, issued and outstanding)		-		-
Additional paid-in capital		69,500,000		54,500,000
Accumulated deficit		(22,629,041)		(37,428,493)
TOTAL STOCKHOLDER'S EQUITY		46,870,959		17,071,507
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$	105,670,965	$	119,395,168

HEALTH NET ACCESS, INC.

STATEMENTS OF OPERATIONS

Years Ended December 31, 2016 and 2015

	2016	2015
REVENUES:		
Health services premiums:		
Prospective capitation	$ 204,718,677	$ 257,082,773
Prior period coverage capitation	8,012,833	9,226,585
Delivery supplement	8,128,011	11,137,096
Adults reconciliation settlement	(2,686,820)	(3,540,673)
Prospective tiered reconciliation settlement	6,296,094	(41,990,582)
Prior period coverage settlement	(514,937)	(18,173,328)
Health insurer fee revenue	6,174,135	7,013,502
Total health services premiums	230,127,993	220,755,373
Investment and other income	1,320	2,139
TOTAL REVENUES	230,129,313	220,757,512
EXPENSES:		
Health care services:		
Hospitalization	33,684,778	26,684,065
Medical compensation	52,325,956	66,267,228
Other medical	117,518,445	121,871,219
Increase (decrease) in premium deficiency reserve	(22,824,020)	15,713,861
Less reinsurance	(5,890,803)	(4,746,900)
Less third party liability	(625,911)	(588,331)
Total health care services, net of reinsurance	174,188,445	225,201,142
Premium tax	4,694,736	4,534,060
Health insurer fee	3,932,924	6,507,044
Administrative	22,153,271	24,758,034
Interest	121,341	335,962
TOTAL EXPENSES	205,090,717	261,336,242
INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)	25,038,596	(40,578,730)
INCOME TAX EXPENSE (BENEFIT)	10,239,144	(12,470,456)
NET INCOME (LOSS)	$ 14,799,452	$ (28,108,274)

See Notes to Financial Statements

HEALTH NET ACCESS, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY

Years Ended December 31, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholder's Equity
Balance – December 31, 2014	$ -	$ 21,500,000	$ (9,320,219)	$ 12,179,781
Net loss	-	-	(28,108,274)	(28,108,274)
Paid-in capital contributions from Parent Company	-	33,000,000	-	33,000,000
Balance – December 31, 2015	-	54,500,000	(37,428,493)	17,071,507
Net income	-	-	14,799,452	14,799,452
Paid-in capital contributions from Parent Company	-	15,000,000	-	15,000,000
Balance – December 31, 2016	$ -	$ 69,500,000	$ (22,629,041)	$ 46,870,959

HEALTH NET ACCESS, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Net income (loss)	$ 14,799,452	$ (28,108,274)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Deferred federal income taxes	7,980,698	(5,110,120)
Change in assets and liabilities:		
Capitation/supplement/risk adjustment receivables	(6,365,008)	797,876
Reinsurance receivable	289,267	(268,885)
Reconciliation receivables and payables	(18,060,231)	28,417,143
Provider receivables	(907,555)	(714,164)
Pharmaceutical rebates receivable	93,774	(61,592)
Income taxes receivable from affiliate	(13,585,829)	(3,214,270)
Prepaid and other assets	(227,139)	(463,003)
Current due from or to affiliates	1,490,054	(5,119,177)
Medical claims payable	(1,991,966)	(46,388,460)
Premium deficiency reserve	(22,824,020)	15,713,861
Prospective reconciliation payable	(1,759,303)	2,057,231
Prior period coverage reconciliation payable	(389,101)	(2,367,696)
Unrecognized tax benefit liability	(17,403)	(246,935)
Performance bond payable	-	(45,000)
Other liabilities	77,213	270,208
Value based purchasing or payment reform initiative liability	1,251,958	1,787,836
Net cash used in operating activities	(40,145,139)	(43,063,421)
Cash flows from financing activities:		
Paid-in capital contributions from Parent Company	15,000,000	33,000,000
Net cash provided by financing activities	15,000,000	33,000,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,145,139)	(10,063,421)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	93,738,050	103,801,471
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 68,592,911	$ 93,738,050

(1) Description of Business and Significant Accounting Policies

(a) *Organization*

Health Net Access, Inc. (the Company or the Plan) was incorporated in Arizona on April 23, 2013, and commenced operations on October 31, 2013. The Company is a wholly owned subsidiary of Health Net, Inc. (HNI).

On March 24, 2016, HNI was acquired by Centene Corporation (Centene) pursuant to the terms of the previously announced Merger Agreement, dated as of July 2, 2015. The Company became an indirect wholly owned subsidiary of Centene effective March 24, 2016. There were no changes to the capitalization structure of the Company as a result of the acquisition.

The Company is regulated by the Arizona Health Care Cost Containment System (AHCCCS), Arizona's Medicaid program. AHCCCS is approved by the Secretary of Health and Human Services and the Centers for Medicare and Medicaid Services, as a Section 1115 of the Social Security Act, Waiver Demonstration Program, which gives Arizona additional flexibility to design and improve its program, while still receiving Federal Medicaid expenditures.

Effective October 1, 2013, the Company became a contractor for AHCCCS, by entering into a prepaid capitated contract, pursuant to Arizona Revised Statutes Title 36 Chapter 29, and thereby started to administer acute health care services to qualified Medicaid members in Maricopa County, Arizona, in accordance with AHCCCS statute and rules, and federal law and regulations. The Plan's contract with AHCCCS expires September 30, 2017, but may be extended for one additional year through September 30, 2018 at AHCCCS' discretion. Failure to renew this contract would have a significant impact on operations.

Significant Accounting Policies

(b) *Basis of Presentation*

The accompanying financial statements are prepared on the basis of accounting principles generally accepted in the United States of America (GAAP).

The accompanying financial statements, which present the balance sheets, statements of operations, changes in stockholder's equity, and cash flows for the Company, may not necessarily be indicative of the conditions that would have existed or the results of operations if the Company had been operated as an unaffiliated company. Portions of certain income and expenses represent allocations made from affiliated companies applicable to shared items of the affiliated companies (See Note 5).

(c) *Use of Estimates*

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities through the date of the issuance of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates require the Company to apply complex assumptions and judgments, and often the Company must make estimates about effects of matters that are inherently uncertain and will likely change in subsequent periods. Actual results could differ from those estimates. Principal areas requiring the use of estimates include revenue recognition (including the reconciliation settlements, described below), health care services costs, including incurred but not yet reported amounts and the premium deficiency reserve, and income taxes.

(1) Description of Business and Significant Accounting Policies (continued)

(d) *Cash and Cash Equivalents*

Cash equivalents include all highly liquid investments with maturity of three months or less when purchased. Cash and cash equivalents are carried at cost, which approximates fair value. Accounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

(e) *Health Services Premiums*

Health services premiums include the following amounts:

(i) Prospective Capitation

Prospective capitation premiums are based on multi-year contracts with AHCCCS to provide care to Medicaid recipients.

(ii) Prior Period Coverage (PPC) Capitation

PPC capitation premiums cover eligible health care costs of members related to the period prior to their enrollment in the Plan. Such premiums are recognized upon receipt.

(iii) Delivery Supplement

Delivery supplement premiums are intended to cover the costs of maternity care for deliveries during the prospective enrollment period. Such premiums are recognized in the period the delivery occurs.

(iv) Reconciliation Settlements

AHCCCS has risk sharing programs which include reconciliation settlements, which impact health services premiums, and are due to, or from, AHCCCS, based on predetermined profit/(loss) thresholds before income tax. If the profit or loss is less than or equal to 3% of the prospective capitation revenues, then the Company's share is 100%. If the profit is between 3% and 6%, then the Company's share is 50% of the amount over 3%, for a maximum of 4.5% of total profits. If the profit is over 6%, then the Company's share of the profits over 6% is 0%, for a maximum share of 4.5% of total profits. If the losses are in excess of 3%, then the Company's share over 3% of the losses is 0%, for a maximum share of 3% of total losses. Separate reconciliations are performed for regular prospective members, PPC members, and for newly eligible adult members. PPC and newly eligible adult members are subject to different profit and loss corridors than described above (2% and 1% risk corridors, respectively, instead of 3%, and other differences). In addition, AHCCCS risk-adjusts future prospective capitation revenue to reflect the acuity of the Company's membership population.

Revenue is recognized in the month in which the related enrollees are entitled to health care services. All of the Company's revenue is earned in Arizona from its Medicaid contract with AHCCCS.

(1) Description of Business and Significant Accounting Policies (continued)

(f) *Health Care Services*

The cost of health care services is recognized in the period in which services are provided and includes an estimate of the cost of services that have been incurred but not yet reported. Such costs include payments to primary care physicians, specialists, hospitals, outpatient care facilities, pharmaceuticals, and other medical services and the costs associated with managing the extent of such care. The Company's health care costs can also include, from time to time, remediation of certain claims as a result of periodic reviews by various regulatory agencies. The Company estimates the amount of the provision for health care service costs incurred but not reported and the unpaid loss adjustment expenses using standard actuarial methodologies based upon historical data, including the period between the date services are rendered and the date claims are received and paid, denied claim activity, expected medical cost inflation, seasonality patterns, and changes in membership. The estimates for service costs incurred but not reported are made on an accrual basis and adjusted in future periods as required. Any adjustments to the prior period estimates are included in the current period. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amounts of claims and losses paid are dependent on future developments, management is of the opinion that the recorded medical claims payable is adequate to cover such costs.

The Company contracts with various providers, including medical groups, to provide professional care to certain of its enrollees on a capitated or fixed fee per member per month basis. Additionally, the Company also contracts with hospitals, physicians, and other providers of health care, pursuant to discounted fee-for-service arrangements, hospital per diem arrangements, and case rate arrangements, under which providers bill the Company for each individual service provided to enrollees.

(g) *Premium Deficiency Reserve*

The Company assesses the profitability of contracts for providing health care services when operating results or forecasts indicate probable future losses. Contracts are grouped in a manner consistent with the method of determining premium rates. Losses are determined by comparing anticipated premiums to the total of estimated health care related costs, less reinsurance recoveries, if any, and the cost of maintaining the contracts. Losses, if any, would be recognized in the period the loss is determined and classified as health care services expenses. As of December 31, 2016 and 2015, the Company reported premium deficiency reserves of $0 and $22,824,020, respectively.

(h) *Reinsurance*

AHCCCS provides a stop-loss reinsurance program for the Company for partial reimbursement of reinsurable covered medical services incurred for members. The program includes a deductible, which varies based on the Company's enrollment and the eligibility category of the members. AHCCCS reimburses the Company based on a coinsurance amount for reinsurable covered services incurred above the deductible. Coinsurance percentages vary by nature of the claim for Medicare claims. Reinsurance is stated at the actual and estimated amounts due to the Company pursuant to the AHCCCS Acute contract. Reinsurance under the AHCCCS Acute contract is subject to a $25,000 deductible and 75% coinsurance for the years ended December 31, 2016 and 2015.

(1) Description of Business and Significant Accounting Policies (continued)

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

Reinsurance receivables represent the expected payment from AHCCCS to the Company for certain enrollees whose qualifying medical expenses paid by the Company were in excess of specified deductible limits. Reinsurance receivables are stated at the amount management expects to collect. Balances that are still outstanding after management has used reasonable collection efforts are written off. Management considers reinsurance receivables to be fully collectible as of December 31, 2016 and 2015 and, accordingly, an allowance for doubtful accounts is not considered necessary.

(i) *Pharmaceutical rebates receivable*

The Company receives rebates from its pharmacy benefit manager based on the volume of drugs purchased. The Company records a receivable and a reduction of other medical expenses for estimated rebates due based on purchase information. Pharmaceutical rebates totaled $923,326 and $1,201,256 for the years ended December 31, 2016 and 2015, respectively, which are included as reductions in other medical expenses in the accompanying financial statements. As of December 31, 2016 and 2015, management believes the pharmaceutical rebate receivable balances are fully collectible and accordingly, an allowance has not been established.

(j) *Provider receivables*

In the course of normal business, provider receivables are created through claims overpayments. Management reviews the collectability of provider receivables and has recorded an allowance as of December 31, 2016 and 2015, of $174,618 and $82,486, respectively.

(k) *Taxes Based on Premiums*

The Company pays premium taxes based on premiums collected, in lieu of state income taxes. Premium tax expense totaled $4,694,736 and $4,534,060 for the years ended December 31, 2016 and 2015, respectively.

(l) Premium-Based Fee on Health Insurers

Under the Patient Protection and Affordable Care Act (ACA), the Company qualifies as a covered entity of a controlled group engaged in providing health insurance for U.S. health risks. Prior to the Acquisition, HNI was the designated entity of the controlled group and pooled 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. Subsequent to the Acquisition, Centene is now the designated entity of the controlled group.

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.

(1) Description of Business and Significant Accounting Policies (continued)

The designated entity of the controlled group 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. The Company funded $3,932,924 and $6,507,044 to the designated entity of the controlled group to pay the fees for the calendar years ended December 31, 2016 and 2015, respectively.

AHCCCS has agreed to reimburse the health insurers for this fee and applicable taxes by adjusting the contract premiums. Accordingly, at December 31, 2016 and 2015, respectively, the Company recorded a receivable from AHCCCS of $6,174,134 and $0, related to the health insurer fees, which is included in capitation/supplemental/risk adjustment receivables in the accompanying balance sheets.

(m) *Policy Acquisition Costs*

Policy acquisition costs are those variable costs that relate to the acquisition of new and renewal health insurance business. For the years ended December 31, 2016 and 2015, the Company recorded marketing costs of $71,757 and $84,885, respectively. The Company expenses these costs as incurred and reports policy acquisition costs as administrative expenses in the statements of operations.

(n) *Reserves for Contingent Liabilities*

In the course of the Company's operations, the Company is involved on a routine basis in various disputes with members, health care providers, and other entities, as well as audits by government agencies and elected officials that relate to the Company's services and/or business practices that expose the Company to potential losses.

The Company recognizes an estimated loss, which may represent damages, assessment of regulatory fines or penalties, settlement costs, future legal expenses, or a combination of the foregoing, as appropriate, from such loss contingencies when it is both probable that a loss will be incurred and that the amount of the loss can be reasonably estimated. The Company's loss estimates are based in part on an analysis of potential results, the stage of the proceedings, consultation with outside counsel, and any other relevant information available.

(o) Value Based Purchasing or Payment Reform Initiative Liability/Shared Savings

AHCCCS subjects 1% of gross prospective capitation of Acute 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. As of December 31, 2016 and 2015, the Company accrued $3,506,848 and $2,254,890, respectively, for the value based purchasing or payment reform initiative liability. The change in the accrual is recorded as a reduction of prospective capitation premium revenue for the years ended December 31, 2016 and 2015.

(1) Description of Business and Significant Accounting Policies (continued)

(p) *Income Taxes*

Prior to the Acquisition, the Company was included in the consolidated federal tax returns of HNI. Subsequent to the Acquisition, the Company is included in the consolidated federal tax returns of Centene. Under a written agreement, HNI and Centene collect from, or refund to, their subsidiaries, the amount of taxes or benefits determined as if the subsidiaries filed separate returns. Intercompany tax balances are settled quarterly.

The Company records deferred tax assets and liabilities, based on differences between the book and tax bases of assets and liabilities. The deferred tax assets and liabilities are calculated by applying enacted tax rates and laws to taxable years in which such differences are expected to reverse. The Company establishes a valuation allowance in accordance with the provisions of the Income Taxes Topic of Financial Accounting Standards Board ("FASB") codification. The Company continually reviews the adequacy of the valuation allowance and recognizes the benefits from the Company's deferred tax assets only when an analysis of both positive and negative factors indicate that it is more likely than not that the benefits will be realized.

The Company files tax returns in many tax jurisdictions. Often, application of tax rules within the various jurisdictions is subject to differing interpretation. Despite the Company's belief that its tax return positions are fully supportable, the Company believes that it is probable certain positions will be challenged by taxing authorities, and the Company may not prevail on the positions as filed. Accordingly, the Company maintains a liability for the estimated amount of contingent tax challenges by taxing authorities upon examination. An analysis is performed of the amount at which each tax position meets a "more likely than not" standard for sustainability upon examination by taxing authorities. Only tax benefit amounts meeting or exceeding this standard will be reflected in the tax expense and deferred tax asset balances. If necessary, any differences between the amounts of tax benefits reported on tax returns and tax benefits reported in the financial statements will be recorded as a liability for unrecognized tax benefits. The liability for unrecognized tax benefits is reported separately from deferred tax assets and liabilities and is classified as current or noncurrent based upon the expected period of payment.

(q) *Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, and capitation receivable. All cash equivalents are managed within established guidelines, which provide diversity among issuers. Concentration of credit risk with respect to capitation receivable is high due to the single payer comprising the Company's customer base. However, since the single payer is the state government, the risk is mitigated.

All of the Company's revenue is earned in Arizona from its contract with AHCCCS. Failure to renew this contract would have a significant impact on the Company's operations.

(1) Description of Business and Significant Accounting Policies (continued)

(r) *Recently Issued Accounting Pronouncements*

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.* ASU 2015-17 eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The ASU is effective for fiscal years beginning after December 15, 2017. The Company does not expect the adoption of this standard to have a material impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the balance sheet upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of comprehensive income and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on the financial statements.

(s) *Subsequent events*

The Company has evaluated subsequent events through April 28, 2017, which is the date the financial statements were available to be issued.

(2) Medical Claims Payable and Unpaid Claims Adjustment Expenses

The activity in the medical claims payable and unpaid claims adjustment expenses is summarized as follows for the years ended December 31:

	2016	2015
Medical claims payable – beginning balance	$ 23,418,684	$ 69,807,144
Amount incurred related to:		
Current year	204,804,133	238,470,567
Prior periods	(7,791,668)	(28,983,286)
Total incurred	197,012,465	209,487,281
Amount paid related to:		
Current year	184,935,430	216,246,252
Prior periods	14,069,001	39,629,489
Total paid	199,004,431	255,875,741
Medical claims payable – December 31	$ 21,426,718	$ 23,418,684

(2) Medical Claims Payable and Unpaid Claims Adjustment Expenses (continued)

Amounts incurred related to prior periods represents the change in medical claims payable attributable to the difference between the original estimate of incurred claims for prior periods and the revised estimate. In developing the revised estimate, there have been no changes in the approach used to determine the key actuarial assumptions, which are the completion factor and medical cost trend. Medical claims payable are estimated under actuarial standards of practice and GAAP. The majority of the medical claims payable balance held at each year-end is associated with the most recent months' incurred services because these are the services for which the fewest claims have been paid. The degree of uncertainty in the estimates of incurred claims is greater for the most recent months' incurred services. Revised estimates for prior periods are determined in each quarter based on the most recent updates of paid claims for prior periods.

As of December 31, 2016 and 2015, amounts incurred related to prior periods were estimated to be (lower) higher than originally estimated by $(7,791,668) and $(28,983,286), respectively. The majority of these amounts were due to adjustments to the medical claims payable that related to variables and uncertainties associated with the Company's assumptions.

(3) Income Taxes

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

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

Income tax benefits provided by the 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.

(3) Income Taxes (continued)

Significant components for the income tax provision (benefit) are as follows for the years ended December 31:

		2016		2015
Current federal	$	2,258,446	$	(7,360,336)
Deferred federal		7,980,698		(5,110,120)
Total income tax provision (benefit)	$	10,239,144	$	(12,470,456)

A reconciliation of the federal income tax rate and the effective income tax rate is as follows for the years ended December 31:

		2016		2015
Income taxes at the federal rate	$	8,763,343	$	(14,202,556)
Health insurer fee		1,376,523		1,577,465
Other – net		99,278		154,635
Income taxes at the effective rate	$	10,239,144	$	(12,470,456)

Significant components of the Company's deferred tax assets and liabilities are as follows as of December 31:

		2016		2015
Deferred tax assets:				
Accrued liabilities	$	158,054	$	8,170,998
Allowance for provider receivable		61,116		28,870
Total deferred tax assets	$	219,170	$	8,199,868

As of December 31, 2016 and 2015, the Company had no federal net operating loss carryforwards. Accordingly, no valuation allowances have been provided to account for the potential limitations on utilization of tax benefits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, exclusive of related interest, is as follows for the years ended December 31:

		2016		2015
Gross unrecognized tax benefits beginning of year	$	118,007	$	—
Increases (decreases) in unrecognized tax benefits related to current year		(17,403)		118,007
Gross unrecognized tax benefits end of year	$	100,604	$	118,007

(3) Income Taxes (continued)

The current and long-term portions of the unrecognized tax benefit liability are as follows as of December 31, 2016:

	Current	Long-term	Total
Gross unrecognized tax benefits	$ —	$ 100,604	$ 100,604
Interest	—	—	—
Total unrecognized tax benefits including interest	$ —	$ 100,604	$ 100,604

The current and long-term portions of the unrecognized tax benefit liability are as follows as of December 31, 2015:

	Current	Long-term	Total
Gross unrecognized tax benefits	$ —	$ 118,007	$ 118,007
Interest	—	—	—
Total unrecognized tax benefits including interest	$ —	$ 118,007	$ 118,007

Of the $100,604 total liability for unrecognized tax benefits as of December 31, 2016, none would, if recognized, affect the Company's effective tax rate. The entire $100,604 would result in adjustments to deferred tax assets. Of the $118,007 total liability for unrecognized tax benefits as of December 31, 2015, none would, if recognized, affect the Company's effective tax rate. The entire $118,007 would result in adjustments to deferred tax assets. The Company recognized interest and applicable penalties, which could be assessed related to unrecognized tax benefits, in the income tax provision. Accrued interest and penalties are included within the related tax liability in the balance sheets. During 2016 and 2015, there were no interest and penalties assessed against the Company.

The Company files tax returns in the federal as well as several state tax jurisdictions as part of a consolidated group. The income tax provision (benefit) disclosed above is settled through intercompany transactions in the normal course of business. As of December 31, 2016, tax years subject to examination in the federal jurisdiction are 2013 and forward. The most significant state tax jurisdiction for the consolidated group is California, and tax years subject to examination by that jurisdiction are 2012 and forward. Presently, the consolidated group is undergoing examination by various state taxing authorities. The Company does not believe that any ongoing examination will have a material impact on its balance sheets and statements of operations. In the next twelve months, the Company does not believe that its unrecognized tax benefits will change significantly due to the potential resolution of tax matters.

(4) Employee Benefit Plans

The Company does not have any employees. The Company has no direct 401(k), retirement plan, or postretirement plan expenses. However, employees of affiliates provide services to the Company. Compensation expense, including 401(k) plan, retirement plan, or postretirement plan expenses of $222,707 and $194,180 were allocated to the Company from affiliates, and reported as part of administrative expenses for the years ended December 31, 2016 and 2015, respectively.

Affiliates of the Company participate in a defined contribution retirement plan sponsored by HNI, that is intended to qualify under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended (the Code). Participation in the plan is available to substantially all affiliate employees who meet certain eligibility requirements and elect to participate. Affiliate employees may contribute up to the maximum limits allowed under the Code, with the affiliate Company's contributions based on matching or other formulas.

(5) Related Party Transactions

The Company relies on affiliate services to conduct its business in order to achieve cost savings. The Company does nevertheless exercise ultimate control over its assets and operations and retains the ultimate authority and responsibility regarding its powers, duties, and responsibilities. The Company relies on affiliate services to conduct its business in order to achieve cost savings. The Company does nevertheless exercise ultimate control over its assets and operations and retains the ultimate authority and responsibility regarding its powers, duties, and responsibilities.

On April 1, 2016, the Company and Centene Management Company (CMC) entered into a management agreement whereby CMC agrees to manage the general and administrative function of the Company inclusive of payroll, facilities, and other administrative expenses. The management agreement renews annually unless amended or terminated by either party. In exchange for the management services, the Company pays CMC a fee based on specified percentages of the contract revenue earned by the Company. The Company recorded management fees per the management agreement of $19,393,039 for the year ended December 31, 2016. This amount is included in administrative expenses in the accompanying statement of operations.

Prior to its agreement with CMC, the Company was a party to an administrative service agreement with HNI and its affiliates, which authorized certain services to be performed on behalf of the Company and vice versa. The entities performing the services were compensated according to the terms set forth in the agreements. For the years ended December 31, 2016 and 2015, expenses incurred by the Company under these agreements totaled $2,374,420 and $26,111,777, respectively, and are included in administrative expenses.

Balances associated with these services agreements are settled within 30 days in the normal course of business.

Pursuant to Claims Administration Services Agreements with Health Net Pharmaceutical Services (HNPS), the Company receives prescription drug claims administration, formulary management, and pharmaceutical rebate processing services in exchange for an administrative fee. The administrative fee is settled within 30 days in the normal course of business. Prior to the issuance of checks for pharmaceutical claim payments, the Company remits cash to HNPS to fund the claim payments. Pharmaceutical rebates are remitted by HNPS to the Company, as they are collected from the drug manufacturers.

(5) Related Party Transactions (continued)

The Company's significant transactions related to its agreements with HNPS are as follows:

	2016	2015
HNPS claims administrative expenses	$ 967,029	$ 743,616
Funds transferred for claim payments	45,363,309	44,112,281
Pharmaceutical rebates recognized	923,326	1,201,256

In 2016, Centene, through Health Net, Inc., contributed capital in the amount of $15,000,000. In 2015, HNI contributed capital in the amount of $33,000,000.

(6) Regulatory Requirements

Regulatory Requirements

In accordance with its contract with AHCCCS, the Company is required to maintain certain minimum financial reporting and viability measures. The Company must meet a minimum capitalization requirement based on the number of members enrolled as well as various quarterly financial viability standards and performance guidelines. As of December 31, 2016, the Company was in compliance with these requirements.

Should the Company 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 they have received satisfactory resolution of the default or exception.

Performance Bond

In accordance with the terms of its contract with AHCCCS, the Company is required to post a performance bond with AHCCCS equal to 100% of the first monthly AHCCCS payment to the Company each fiscal year based on gross capitation payments, as specified in the contract. The amount of the bond is subject to adjustment as certain conditions change and its method of calculation is specified in the contract. The actual amount is reset each year upon expiration. The performance bond must be maintained to guarantee payment of the Company's obligations under the contract. As of December 31, 2016 and 2015, the Company had a performance bond for the benefit of AHCCCS totaling $22,000,000 and $28,000,000, respectively. The performance bond was overfunded by $4,161,516 and $8,353,530 as of December 31, 2016 and 2015, respectively.

Insurance Requirement

Pursuant to the AHCCCS contract, the Company is required to maintain, and did maintain, certain minimum commercial general liability, business automobile, worker's compensation and employer's liability, and professional liability insurance coverage.

(7) Commitments and Contingencies

(a) *AHCCCS Monetary Sanctions*

On February 4, 2015, the Company received a notice from AHCCCS, Division of Health Care Management (DHCM) that stated that the Company was in violation of its contract for Acute Care Medicaid services in Maricopa County. These violations for failure to meet contractual requirements included, among other things, deficiencies related to staffing and support services, website accessibility, provider credentialing, claims processing and grievance and appeals. As a result, DHCM imposed a monetary sanction and imposed a cap on auto assignment effective February 13, 2015. On June 29, 2016 the Company received a notice from DHCM that stated that the Company had complied with the requirements of the Sanction including submission and implementation of a corrective action plan. As a result, the Company was released from its cap on membership for auto-assignment which was made effective July 1, 2016. In accordance with this notice, the Company expects to continue to demonstrate sustained operational performance and compliance with contract requirements.

For the years ended December 31, 2016 and 2015, the Company recorded sanction expenses of $282,310 and $441,810, respectively which are included in administrative expenses in the statements of operations.

If the Company were to be subject to additional sanctions or its contract with AHCCCS was terminated or not renewed, this could have a material adverse impact on the Company's business, its reputation, results of operations, cash flows or financial condition.

(b) *Liability insurance*

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

(c) *Litigation*

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

(7) Commitments and Contingencies (continued)

(d) *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, 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. Management believes that the Company 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 eligibility categories, restrict premium growth rates for certain eligibility categories, increase medical, administrative 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.