BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Years Ended September 30, 2013 and 2012

MHM

An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

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, 2013 and 2012, 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Bridgeway Health Solutions of Arizona, LLC*** as of September 30, 2013 and 2012, 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 27, 2014

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

BALANCE SHEETS

September 30, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 46,001,275	$ 44,083,507
Receivables:		
Reinsurance receivables, net	2,958,154	4,552,735
Capitation and supplement receivables	3,848,973	2,748,471
Pharmacy receivable	280,950	250,453
Interest receivable	9,133	9,833
Due from affiliated companies	2,555,623	2,828,614
Income tax receivable	4,474,053	5,150,963
Other receivables	-	159,318
Provider advances, net	214,693	207,960
Prepaid expenses	244,017	257,725
Deferred income tax asset	2,034,275	1,840,053
TOTAL CURRENT ASSETS	62,621,146	62,089,632
PROPERTY AND EQUIPMENT, net	591,125	830,753
INVESTMENTS	1,500,000	1,500,000
DEPOSITS	1,840	1,840
TOTAL ASSETS	$ 64,714,111	$ 64,422,225

LIABILITIES AND MEMBER'S EQUITY

	2013	2012
CURRENT LIABILITIES		
Payable to providers	$ 35,535,126	$ 38,018,141
Payable to Arizona Health Care Cost Containment System	431,100	157,301
Accounts payable and accrued expenses	912,393	541,715
Due to affiliated companies	7,349,095	6,887,623
Other current liabilities	-	248,906
TOTAL CURRENT LIABILITIES	44,227,714	45,853,686
DEFERRED INCOME TAX LIABILITY	196,999	231,448
OTHER NON-CURRENT LIABILITIES	80,015	104,020
TOTAL LIABILITIES	44,504,728	46,189,154
MEMBER'S EQUITY	20,209,383	18,233,071
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 64,714,111	$ 64,422,225

See Notes to Financial Statements

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

STATEMENTS OF OPERATIONS

Years Ended September 30, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Capitation premiums	$ 295,833,980	$ 283,077,750
Delivery supplement	3,488,513	3,261,842
Reinsurance	5,264,262	7,087,478
Service	-	15,867
Other	176,073	194,040
TOTAL OPERATING REVENUES	304,762,828	293,636,977
HEALTH CARE EXPENSES		
Hospitalization	22,955,730	23,884,923
Medical compensation	18,224,051	22,418,514
Ancillary and other medical services	52,954,585	56,564,347
Third party liability	-	(138,406)
Institutional	182,579,566	167,330,403
TOTAL HEALTH CARE EXPENSES	276,713,932	270,059,781
GENERAL AND ADMINISTRATIVE EXPENSES	21,291,539	21,064,607
COSTS OF SERVICES	-	17,415
PREMIUM TAX EXPENSE	5,515,210	5,017,575
TOTAL EXPENSES	303,520,681	296,159,378
OPERATING INCOME (LOSS)	1,242,147	(2,522,401)
NONOPERATING INCOME		
Interest income	264,684	294,538
NET INCOME (LOSS) BEFORE TAXES	1,506,831	(2,227,863)
PROVISION (BENEFIT) FOR INCOME TAXES	530,519	(771,300)
NET INCOME (LOSS)	$ 976,312	$ (1,456,563)

See Notes to Financial Statements

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

STATEMENTS OF MEMBER'S EQUITY

Years Ended September 30, 2013 and 2012

	Investment by CenCorp Health Solutions	Retained Earnings (Deficit)	Total
Balance, September 30, 2011	$ 18,400,000	$ (5,110,366)	$ 13,289,634
Member contributions	6,400,000	-	6,400,000
Net loss	-	(1,456,563)	(1,456,563)
Balance, September 30, 2012	24,800,000	(6,566,929)	18,233,071
Member contributions	1,000,000	-	1,000,000
Net Income	-	976,312	976,312
Balance, September 30, 2013	$ 25,800,000	$ (5,590,617)	$ 20,209,383

See Notes to Financial Statements

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

STATEMENTS OF CASH FLOWS

Years Ended September 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 976,312	$ (1,456,563)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	251,053	263,204
Loss on disposition of fixed assets	402	1,541
Change in deferred income taxes	(228,671)	3,957,630
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Reinsurance receivables	1,594,581	(103,076)
Capitation and supplement receivables	(1,100,502)	57,220
Pharmacy receivable	(30,497)	(9,429)
Interest receivable	700	(300)
Income tax receivable	676,910	(4,802,104)
Other receivable	159,318	(140,460)
Provider advances	(6,733)	119,162
Prepaid expenses	13,708	(100,946)
Increase (decrease) in:		
Payable to providers	(2,483,015)	10,209,532
Payable to Arizona Health Care Cost Containment System	273,799	(1,158,528)
Accounts payable and accrued expenses	370,678	(2,365,794)
Deferred revenue	-	(3,779,406)
Due to/from affiliated companies	734,463	(714,739)
Other current liability	(248,906)	248,906
Other non-current liability	(24,005)	104,020
Net cash provided by operating activities	929,595	329,870
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(11,827)	(390,675)
Proceeds from sale of equipment	-	178,455
Change in deposits	-	7,660
Net cash used in investing activities	(11,827)	(204,560)
CASH FLOWS FROM FINANCING ACTIVITIES		
Member contributions	1,000,000	6,400,000
Net cash provided by financing activities	1,000,000	6,400,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,917,768	6,525,310
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	44,083,507	37,558,197
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 46,001,275	$ 44,083,507
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	$ -	$ -

(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, a subsidiary of Centene Corporation ("Centene"). Bridgeway was initially funded through a $5.0 million capital contribution from CenCorp Health Solutions 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 ALTCS contract was renewed through reprocurement 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 and expired September 30, 2011. In accordance with this contract, Bridgeway was designated as a Program Contractor for Yavapai County. The contract was renewed for the periods October 1, 2011 through September 30, 2013. The contract was not subsequently renewed and terminated September 30, 2013. For the year ended September 30, 2013, the total revenues and expenses related to the Acute Care contract were approximately $60.3 million and $59.9 million, respectively.

Bridgeway is responsible for managing and maintaining an organized, comprehensive managed care system for the benefit of enrolled, eligible members within its geographic service area under AHCCCS' ALTCS and Acute Care programs.

Effective January 1, 2008, Bridgeway entered into a Medicare Advantage Plan (Medicare Advantage) with the Centers for Medicare and Medicaid Services (CMS). 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 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 U.S. generally accepted accounting principles ("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 U.S. generally accepted accounting principles 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.

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

Capitation premiums - Bridgeway receives from AHCCCS and CMS fixed capitation payments, based on certain rates for each member enrolled with Bridgeway. As of September 30, 2013 and 2012, 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 capitation payments 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 Acute and ALTCS contracts include a risk band whereby Bridgeway and the AHCCCS programs share in the profits and losses of the contract, as defined in the respective contracts (reconciliation revenue). Bridgeway has recorded an estimate of the reconciliation revenue, within capitation premiums, based on the operational performance of the AHCCCS Acute and ALTCS lines 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 for the contract years ended September 30, 2013 and 2012. AHCCCS reconciles the actual PPC medical costs to the PPC capitation paid during the contract year. The Acute reconciliation limits the contractor's profits and losses to 2% for the contract years ended September 30, 2013 and 2012. The ALTCS reconciliation limits the contractor's profits and losses to 5% for the contract years ended September 30, 2013 and 2012. As of September 30, 2013 the Company has recorded an estimated receivable of approximately $499,000 due from AHCCCS for the PPC reconciliation for contract years 2013 and 2012 which is included in capitation and supplement receivables at September 30, 2013. Additionally, as of September 30, 2013 the Company has recorded an estimated payable of $235,000 due to AHCCCS for the PPC Acute reconciliation for the contract year 2012 which is included in accounts payable and accrued expenses at September 30, 2013. As of September 30, 2012 the Company recorded an estimated receivable of $235,000 due from AHCCCS for the PPC reconciliation for contract years 2012 and 2011 which is included in capitation and supplement receivables at September 30, 2012. 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") (MED and 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 3% for the MED and 2% for the non-MED population. As of September 30, 2013, the Company has recorded an estimated receivable of $1,622,000 due from AHCCCS for the TWG non-MED reconciliations for contract years 2013 and 2012, which is included in capitation and supplement receivables. As of September 30, 2012, the Company recorded an estimated receivable of approximately $1,459,000 due from AHCCCS for the TWG MED and non-Med reconciliation for contract years 2012 and 2011, 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.

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

Additionally, for contract year 2013, 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:

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

As of September 30, 2013, the Company has recorded an estimated receivable of approximately $617,000 for the HCBS reconciliation for contract year 2013, which is included in capitation and supplement receivables.

Effective with contract year ending September 30, 2012, AHCCCS will recoup/reimburse 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 will limit the contractors' profits and losses to the percent of prospective net capitation according to the following schedule:

Profit	Contractor Share	State Share	Max Contractor Profit	Cumulative Contractor Profit
<= 3%	100%	0%	3%	3%
> 3% and <= 5%	75%	25%	1.5%	4.5%
> 5% and <= 7%	50%	50%	1%	5.5%
> 7% and <= 9%	25%	75%	0.5%	6%
> 9%	0%	100%	0%	6%

Loss	Contractor Share	State Share	Max Contractor Loss	Cumulative Contractor Loss
<= 3%	100%	0%	3%	3%
> 3% and <= 6%	50%	50%	1.5%	4.5%
> 6%	0%	100%	0%	4.5%

Profits in excess of the percentages set forth above will be recouped by AHCCCS. Losses in excess of the percentages set forth above will be paid to the contractor. As of September 30, 2013, the Company has recorded an estimated receivable of approximately $205,000 due from AHCCCS for the tiered reconciliation for the contract year 2012 which is included in capitation and supplement receivables. Additionally, as of September 30, 2013, the Company has recorded an estimated payable of approximately $196,000 due to AHCCCS for the tiered reconciliation for the contract year 2013 which is included in accounts payable and accrued expenses.

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

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, 2013 and 2012 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Delivery supplement - As part of the AHCCCS Acute Care contract, AHCCCS supplements capitation premiums with lump-sum payments for births by women eligible under the Medicaid program. This delivery supplement represents childbirth delivery reimbursement which is recorded when the delivery occurs. Delivery revenue of approximately $3,489,000 and $3,262,000 was recognized for the years ended September 30, 2013 and 2012, respectively. As of September 30, 2013 and 2012, approximately $72,000 and $37,000 was due from AHCCCS related to delivery supplement, respectively.

Cost settlement for primary care payment parity - The Patient Protection and Affordable Care Act (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 will make quarterly cost-settlement payments to the Contractor based upon adjudicated/approved encounter data. The Contractor will be 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, 2013, approximately $183,000 was due from AHCCCS for these cost-settlement payments based upon adjudicated/approved encounter data, which is included in capitation and supplement receivables.

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, 2013 and 2012, Bridgeway had approximately $651,000 and $189,000, respectively, due from AHCCCS related to share of cost, which is included in the capitation and supplement receivables.

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

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 2013 and 2012 contract years may be less than or in excess of the amount estimated once AHCCCS completes the contract reconciliations. In May 2013, the 2012 share of cost receivable was settled for $103,548, 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 the Medicare contract. 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 AHCCCS Acute, ALTCS and Medicare Advantage Plan contracts. Below are the reinsurance thresholds by line of business:

Line of Business	Annual Deductible Effective October 1, 2013	Annual Deductible Effective Prior to October 1, 2013	Coinsurance
AHCCCS Acute – Prospective Only	$ 20,000	$ 20,000	75%
Title XIX Waiver Group – Prospective Only	20,000	20,000	75%
ALTCS with Medicare	20,000	20,000	75%
ALTCS without Medicare	30,000	30,000	75%
Medicare Advantage	700,000	700,000	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 adjusted for medical cost completion factors and Bridgeway's historical collection experience. 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.

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. As of September 30, 2013 and 2012, there was an allowance for doubtful accounts related to reinsurance receivables of $0 and $9,308, respectively.

Service revenue - Service revenue consisted of fees charged for administrative services (primarily case management and claims payment) provided under Bridgeway's service agreement with Pima County. In accordance with the agreement, Bridgeway received a set percentage of Pima County's premium revenue. Service revenue was recognized as administrative services were provided. The agreement was effective January 1, 2011 and ceased as of September 30, 2011.

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

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, 2013 and 2012, 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 $42 million and $35 million at September 30, 2013 and 2012, respectively.

Cash management - The Company utilizes a cash management system whereby all deposits and disbursements are reconciled daily. As a result, checks issued but not presented to banks are classified in accounts payable in the balance sheets. There was $0 and $695,636 related to checks issued but not presented as of September 30, 2013 and 2012.

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 $397,000 and $380,000 for the years ended September 30, 2013 and 2012, respectively. As of September 30, 2013 and 2012, management believes the pharmacy receivable balances are fully collectible and accordingly, an allowance has not been established.

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, 2013 and 2012, there was an allowance for doubtful accounts related to provider advances of $0 and $38,140, respectively.

Investments - Investments are classified as held to maturity and 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, 2013 and 2012 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, 2013 and 2012.

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

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:

	Estimated Useful Lives
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, 2013 and 2012.

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, 2013 and 2012. 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, 2013 and 2012. 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.

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

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, 2013 and 2012 was approximately $54,000 and $68,000, 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's policy is to classify income tax penalties and interest as income tax expense in its financial statements. During the years ended September 30, 2013 and 2012, 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, 2013 and 2012 was $5,515,210 and $5,017,575, respectively.

Subsequent events - Bridgeway has evaluated events through January 27, 2014, which is the date the financial statements were available to be issued. 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 contracts 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 contracts. 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 $19,979,568 for 2013 and 2012. To meet Medicare requirements, Bridgeway purchased and posted a performance bond in the amount of $1,600,000 for 2013 and 2012 for the CMS contract. In 2013 and 2012, 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:	2013	2012
Leasehold improvements	$ 546,193	$ 590,448
Furniture and equipment	482,414	483,765
Computer hardware	525,721	515,789
Computer software	88,161	58,845
Construction in progress	-	29,316
Total cost and donated value	1,642,489	1,678,163
Accumulated depreciation	(1,051,364)	(847,410)
Net property and equipment	$ 591,125	$ 830,753

Depreciation expense charged to operations was $251,053 and $263,204 for 2013 and 2012, respectively.

(4) Income taxes

Federal income tax returns are filed on a consolidated basis with Centene, the parent corporation, and other subsidiaries. A provision (benefit) 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 (benefit) solely on the results of its own operations. 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 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 (benefit) consists of the following for the years ended September 30:

	2013	2012
Current provision (benefit):		
Federal	$ 662,350	$ 4,695,712
State and local	14,560	106,391
Total current provision (benefit)	676,910	4,802,103
Deferred benefit	(146,391)	(4,030,803)
Total provision (benefit) for income taxes	$ 530,519	$ (771,300)

(4) Income taxes (continued)

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

	2013	2012
Current deferred income tax assets (liabilities):		
Loss reserves	$ 1,898,161	$ 1,344,847
Prepaid expenses	(54,555)	(43,937)
Allowance for doubtful accounts	-	16,842
Accrued liabilities	190,669	522,301
Net current deferred tax assets	$ 2,034,275	$ 1,840,053
Noncurrent deferred income tax assets (liabilities):		
Depreciation	(196,999)	(231,448)
Net non-current deferred income tax liabilities	$ (196,999)	$ (231,448)

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 (loss) before income taxes. The differences for 2013 and 2012 are due primarily to changes in the deferred tax assets associated with amounts payable to providers which are not currently deductible for tax purposes.

(5) Related-party transactions

Centene, CenCorp Health Solutions 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 $9.8 million and $9.0 million for the years ended September 30, 2013 and 2012, respectively.

Amounts due to affiliated companies at September 30, 2013 and 2012 primarily represent payroll and trade accounts payable, which are payable to Centene and subsidiaries.

Under the provisions of the contracts with AHCCCS, member distributions may be paid only with prior approval of AHCCCS. For the years ended September 30, 2013 and 2012, no distributions were declared or paid.

Bridgeway contracts with NurseWise, an affiliated company wholly owned by CenCorp Health Solutions, 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 $490,000 and $519,000 through a capitation payment for the years ended September 30, 2013 and 20112 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 Health Solutions, provides pharmacy benefit management services to eligible enrollees. Bridgeway paid US Script approximately $18.3 million and $23.8 million for these services for the years ended September 30, 2013 and 2012. Claims encounters are submitted to AHCCCS and CMS to substantiate these payments. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

(5) Related-party transactions (continued)

Cenpatico of Arizona, LLC (Cenpatico), an affiliated company wholly owned by CenCorp Health Solutions, provides a network and manages the behavioral health benefits for eligible enrollees utilizing behavioral health services. Bridgeway paid Cenpatico approximately $595,000 and $538,000 for these services during the years ended September 30, 2013 and 2012, 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 Health Solutions, provides a vision network and manages the vision benefits for eligible enrollees. Bridgeway paid OptiCare approximately $282,000 and $303,000 for these services during the years ended September 30, 2013 and 2012, 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 Health Solutions, provides disease management services for eligible enrollees. Under the Acute contract, Bridgeway paid Nurtur approximately $1.3 million for these services during both of the years ended September 30, 2013 and 2012. These amounts are included in ancillary and other medical services in the accompanying statements of operations.

(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 $117,284 and $198,566 during the years ended September 30, 2013 and 2012, respectively.

(7) Commitments and contingencies

Operating Leases - Bridgeway leases office space in Arizona for their headquarters and various satellite offices and leases certain equipment. These operating lease agreements expire at various dates through January 2018. 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 $209,000 and $232,000 at September 30, 2013 and 2012, 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, 2013 are as follows:

Years Ending September 30,	
2014	$ 529,201
2015	481,603
2016	492,903
2017	472,833
2018	156,921
Total minimum lease payments	$ 2,133,461

(7) Commitments and contingencies (continued)

Rent expense was approximately $523,000 and $535,000 for the years ended September 30, 2013 and 2012, respectively.

Liability insurance - Bridgeway, 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. Bridgeway 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. 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 is 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.

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, 2013 and 2012, Bridgeway was in compliance with this requirement.

Pursuant to its Acute Care contract with AHCCCS, Bridgeway must meet a minimum capitalization requirement based on the number of members enrolled. As of September 30, 2013 and 2012, Bridgeway was in compliance with this requirement.

(8) Contract requirements (continued)

Bridgeway's contract with AHCCCS contains various quarterly financial viability standards and performance guidelines, including required minimum liquidity ratio, equity per member ratio, medical expense ratio and administrative cost percentages. As of September 30, 2013 and 2012, 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.

(9) Concentration of credit risk

Future contract awards are contingent upon the continuation of the AHCCCS Acute and ALTCS programs by the State of Arizona and Bridgeway's ability and desire to retain its status as a contractor under these programs. 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. Through a bid process, Bridgeway was awarded an AHCCCS Acute contract effective October 1, 2008 through September 30, 2011 with two additional one year renewal options. The Acute contract was renewed previously to cover the October 1, 2011 through September 30, 2012 period, and was renewed again to cover the October 1, 2012 through September 30, 2013 period. The Acute contract was not subsequently renewed and terminated September 30, 2013. The Medicare Advantage contract is renewed annually by CMS. Bridgeway Management expects contracts with AHCCCS to be renewed through the respective renewal process. If each contract is not renewed, Bridgeway's operations would be materially impacted.

SUPPLEMENTAL INFORMATION

MHM
.C.
An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

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, 2013, and our report thereon dated January 27, 2014, which expressed an unmodified opinion on those financial statements, appears on page 1 Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial information on pages 21 through 43 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 and Medicare contracts. 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 27, 2014

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

SUPPLEMENTAL BALANCE SHEET

September 30, 2013

ASSETS

	ALTCS	Acute	Medicare	Total
CURRENT ASSETS				
Cash and cash equivalents	$ 40,916,941	$ 5,084,334	$ -	$ 46,001,275
Receivables:				
Reinsurance receivables, net	1,599,729	1,358,425	-	2,958,154
Capitation and supplement receivables	1,722,385	2,126,588	-	3,848,973
Pharmacy receivable	13,192	29,490	238,268	280,950
Interest receivable	8,864	269	-	9,133
Due from affiliated companies	530,389	-	2,025,234	2,555,623
Income tax receivable (payable)	(2,455,373)	3,564,799	3,364,627	4,474,053
Provider advances, net	182,016	17,520	15,157	214,693
Prepaid expenses	168,013	51,031	24,973	244,017
Deferred income tax asset	1,289,162	493,003	252,110	2,034,275
TOTAL CURRENT ASSETS	43,975,318	12,725,459	5,920,369	62,621,146
PROPERTY AND EQUIPMENT, net	553,718	23,428	13,979	591,125
INVESTMENTS	1,500,000	-	-	1,500,000
DEPOSITS	1,840	-	-	1,840
TOTAL ASSETS	$ 46,030,876	$ 12,748,887	$ 5,934,348	$ 64,714,111

LIABILITIES AND MEMBER'S EQUITY

	ALTCS	Acute	Medicare	Total
CURRENT LIABILITIES				
Payable to providers	$ 23,322,552	$ 7,784,295	$ 4,428,279	$ 35,535,126
Payable to Arizona Health Care Cost Containment System	-	431,100	-	431,100
Accounts payable and accrued expenses	476,849	116,319	319,225	912,393
Due to affiliated companies	6,531,116	817,979	-	7,349,095
TOTAL CURRENT LIABILITIES	30,330,517	9,149,693	4,747,504	44,227,714
DEFERRED INCOME TAX (ASSET) LIABILITY, net	194,105	(7,014)	9,908	196,999
OTHER NON-CURRENT LIABILITIES	36,007	28,005	16,003	80,015
TOTAL LIABILITIES	30,560,629	9,170,684	4,773,415	44,504,728
MEMBER'S EQUITY	$ 15,470,247	$ 3,578,203	$ 1,160,933	20,209,383
TOTAL LIABILITIES AND MEMBER'S EQUITY	$ 46,030,876	$ 12,748,887	$ 5,934,348	$ 64,714,111

BRIDGEWAY HEALTH SOLUTIONS OF ARIZONA, LLC

SUPPLEMENTAL STATEMENT OF OPERATIONS

Year Ended September 30, 2013

	ALTCS	Acute	Medicare	Total
OPERATING REVENUES				
Capitation premiums	$ 208,651,489	$ 55,447,527	$ 31,734,964	$ 295,833,980
Delivery supplement	-	3,488,513	-	3,488,513
Reinsurance	3,903,354	1,360,908	-	5,264,262
Other	176,073	-	-	176,073
TOTAL OPERATING REVENUES	212,730,916	60,296,948	31,734,964	304,762,828
HEALTH CARE EXPENSES				
Hospitalization	-	10,703,006	12,252,724	22,955,730
Medical compensation	-	13,703,375	4,520,676	18,224,051
Ancillary and other medical services	10,170,860	30,349,931	12,433,794	52,954,585
Institutional	182,579,566	-	-	182,579,566
TOTAL HEALTH CARE EXPENSES	192,750,426	54,756,312	29,207,194	276,713,932
GENERAL AND ADMINISTRATIVE EXPENSES	14,644,972	3,918,043	2,728,524	21,291,539
COST OF SERVICES	-	-	-	-
PREMIUM TAX EXPENSE	4,286,088	1,229,122	-	5,515,210
TOTAL EXPENSES	211,681,486	59,903,477	31,935,718	303,520,681
OPERATING INCOME (LOSS)	1,049,430	393,471	(200,754)	1,242,147
NONOPERATING INCOME				
Interest income	263,144	1,540	-	264,684
NET INCOME (LOSS) BEFORE TAXES	1,312,574	395,011	(200,754)	1,506,831
PROVISION (BENEFIT) FOR INCOME TAXES	521,807	132,521	(123,809)	530,519
NET INCOME (LOSS)	$ 790,767	$ 262,490	$ (76,945)	$ 976,312

See Independent Auditors' Report on Supplemental Information