FINANCIAL STATEMENTS AND SINGLE AUDIT

Magellan Health Services of Arizona, Inc.
Period From October 1, 2013 Through March 31, 2014
With Report of Independent Auditors
Magellan Health Services of Arizona, Inc.

Financial Statements and Single Audit

For the Period From October 1, 2013 Through March 31, 2014

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Report of Independent Auditors

Magellan Health Services of Arizona, Inc.

We have audited the accompanying financial statements of Magellan Health Services of Arizona, Inc., which comprise the balance sheet as of March 31, 2014, and the related statement of comprehensive income, changes in stockholder’s equity and cash flows for the period from October 1, 2013 through March 31, 2014, 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor’s 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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 Magellan Health Services of Arizona, Inc. at March 31, 2014, and the results of its operations and its cash flows for the period from October 1, 2013 through March 31, 2014, in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards as required by US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we also have issued our report dated November 21, 2014 on our consideration of the Magellan Health Services of Arizona, Inc. internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Magellan Health Services of Arizona, Inc. internal control over financial reporting and compliance.

Ernst & Young LLP

November 21, 2014
CERTIFICATION STATEMENT
Entity Name - MAGELLAN HEALTH SERVICES OF ARIZONA
FOR THE PERIOD ENDED: MARCH 31, 2014 FINAL

Name of Preparer: William Grimm
Title: CFO Magellan of Arizona
Telephone Number: 410-953-1662

I hereby attest that the information submitted in the reports herein is current, complete and accurate to the best of my knowledge. I understand that whoever knowing and willfully makes or causes to be made a false statement or representation with this report may be prosecuted under applicable federal and/or state laws. In addition, knowing and willfully failing to fully and accurately disclose the information requested might result in denial of a request to participate, or where the entity already participates, a termination of a T/RBHA's agreement or contract with Arizona Department of Health Services/Division of Behavioral Health (ADHS/DBHS). Failure to sign a Certification Statement will result in ADHS/DBHS' non acceptance of the attached reports.

November 18, 2014
Date Signed

Chief Financial Officer
Magellan Health Services of Arizona, Inc.

Balance Sheet

March 31, 2014

Assets
Cash and cash equivalents $ 111,996,072
Short-term investments 6,024,926
Accounts receivable 9,814,729
Other accounts receivable 1,046,271
Deferred income taxes 2,070,552
Prepaid ACA fees 6,270,000
Other prepaid expenses 227,036
Total current assets 137,449,586
Property and equipment, net 1,578,133
Other noncurrent assets 57,113
Total assets $ 139,084,832

Liabilities and stockholder’s equity
Current liabilities:
Medical claims payable $ 26,539,587
Payable to ADHS 449,945
Accounts payable 450,317
Other medical liabilities 629,865
Due to affiliates, net 24,578,913
Accrued ACA fees 8,360,000
Other current liabilities 1,878,245
Total current liabilities 62,886,872
Deferred income taxes 532,042
Total liabilities 63,418,914

Stockholder’s equity:
Common stock, $0.10 par value; 1,000 shares authorized, issued, and outstanding 100
Additional paid-in capital 29,000,000
Retained earnings 46,666,885
Accumulated other comprehensive loss, net (1,067)
Total stockholder’s equity 75,665,918
Total liabilities and stockholder’s equity $ 139,084,832

See accompanying notes to financial statements.
Magellan Health Services of Arizona, Inc.

Statement of Comprehensive Income

Period From October 1, 2013 Through March 31, 2014

<table>
<thead>
<tr>
<th>Revenues:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract revenues</td>
<td>$ 391,357,102</td>
</tr>
<tr>
<td>Other revenues</td>
<td>5,200,508</td>
</tr>
<tr>
<td>Interest income</td>
<td>307,658</td>
</tr>
<tr>
<td>Total revenues</td>
<td>396,865,268</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of care</td>
<td>340,923,619</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>27,740,468</td>
</tr>
<tr>
<td>Total expenses</td>
<td>368,664,087</td>
</tr>
</tbody>
</table>

| Net income before income taxes    | 28,201,181 |
| Allocated corporate income tax provision | 11,928,336 |
| Net income                        | 16,272,845 |
| Other comprehensive income –      |       |
| Unrealized gains on available-for-sale securities (1) | 2,386 |
| Comprehensive income              | $ 16,275,231 |

(1) Net of income tax provision of $1,547 for the period from October 1, 2013 through March 31, 2014

See accompanying notes to financial statements.
Magellan Health Services of Arizona, Inc.

Statement of Changes in Stockholder’s Equity

<table>
<thead>
<tr>
<th></th>
<th>Common Stock</th>
<th>Additional Paid-In Capital</th>
<th>Retained Earnings</th>
<th>Accumulated Other Comprehensive Income (Loss)</th>
<th>Total Stockholder’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, October 1, 2013</td>
<td>$ 100</td>
<td>$ 29,000,000</td>
<td>$ 37,394,040</td>
<td>$(3,453)</td>
<td>$ 66,390,687</td>
</tr>
<tr>
<td>Net income</td>
<td>—</td>
<td>—</td>
<td>$ 16,272,845</td>
<td>—</td>
<td>$ 16,272,845</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>—</td>
<td>—</td>
<td>$(7,000,000)</td>
<td>—</td>
<td>$(7,000,000)</td>
</tr>
<tr>
<td>Other comprehensive income, net</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2,386</td>
<td>2,386</td>
</tr>
<tr>
<td>Balance, March 31, 2014</td>
<td>$ 100</td>
<td>$ 29,000,000</td>
<td>$ 46,666,885</td>
<td>$(1,067)</td>
<td>$ 75,665,918</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
Magellan Health Services of Arizona, Inc.

Statement of Cash Flows

Period From October 1, 2013 Through March 31, 2014

Operating activities
Net income $ 16,272,845
Adjustments to reconcile net income to net cash provided by operating activities:
  Depreciation 654,246
  Non-cash amortization of investments 277,646
  Deferred income tax provision 99,670
Changes in assets and liabilities:
  Accounts receivable 6,759,489
  Other accounts receivable 7,206,039
  Prepaid ACA fees and other prepaid expenses (6,299,819)
  Medical claims payable 2,460,522
  Payable to ADHS 448,585
  Accounts payable 297,368
  Accrued ACA fees and other current liabilities 6,111,139
  Other medical liabilities (4,311,065)
  Due to affiliates, net 5,204,947
Net cash provided by operating activities 35,181,612

Investing activities
Proceeds from sale of fixed assets 549
Maturity of investments 12,215,139
Net cash provided by investing activities 12,215,688

Financing activities
Dividends paid (7,000,000)
Net cash used in financing activities (7,000,000)

Net change in cash and cash equivalents 40,397,300
Cash and cash equivalents, beginning of year 71,598,772
Cash and cash equivalents, end of year $111,996,072

Supplemental disclosure of cash flow information
Cash paid to Magellan for allocated corporate income tax provision $ –

See accompanying notes to financial statements.
Magellan Health Services of Arizona, Inc.

Notes to Financial Statements

Period From October 1, 2013 Through March 31, 2014

1. Organization

Magellan Health Services of Arizona, Inc. (the “Company”) is a wholly owned subsidiary of Magellan Behavioral Health, Inc. (the “Parent”), which is a wholly owned subsidiary of Magellan Health, Inc. (“Magellan”). Magellan is engaged in the healthcare management business, and is focused on meeting needs in areas of healthcare that are fast growing, highly complex and high cost, with an emphasis on special population management.

Magellan provides services to health plans, managed care organizations, insurance companies, employers, labor unions, various military and governmental agencies, third-party administrators, consultants and brokers. With respect to its behavioral healthcare services, Magellan coordinates and manages the delivery of behavioral healthcare treatment providers, which includes psychiatrists, psychologists, other behavioral health professionals, psychiatric hospitals, general medical facilities with psychiatric beds, residential treatment centers, and other treatment facilities.

The Company was incorporated and organized in 2004 as a behavioral health organization. In 2007, the Company was awarded a contract with the Arizona Department of Health Services ("ADHS"), which commenced September 1, 2007 and which expired March 31, 2014 (the “Contract”). The Contract represents all of the Company’s Contract Revenues and Other Revenues for the period from October 1, 2013 through March 31, 2014. In accordance with the Contract, the Company was designated as the Regional Behavioral Health Authority (“RBHA”) for the geographic service area of Maricopa County. The Company was responsible for managing and maintaining an organized, comprehensive behavioral health-care delivery system for the benefit of eligible members within its geographic service area.

2. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

The Company evaluated all events or transactions that occurred after March 31, 2014 and through November 21, 2014, the date the Company issued these financial statements. Other than as described in Note 8 “Subsequent Events”, the Company did not have any material recognizable subsequent events, during this period.
2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-06, “Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force)” (“ASU 2011-06”), which addresses how fees mandated by the Patient Protection and the Affordable Care Act (“ACA”), as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the “Health Reform Law”), should be recognized and classified in the income statements of health insurers. The Health Reform Law imposes a mandatory annual fee on health insurers for each calendar year beginning on or after January 1, 2014. The annual fee incurred for each calendar year is based upon the prior calendar year’s covered revenues. ASU 2011-06 stipulates that the liability incurred for that fee be amortized to expense over the calendar year in which it is payable. This ASU is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. For calendar 2014, the projected ACA fee is estimated to be $8.4 million and is recorded as a current liability on the balance sheet as of March 31, 2014. Of this amount, $2.1 million was expensed in the three months ended March 31, 2014, with such amounts included in general and administrative expenses in the statement of comprehensive income for the period from October 1, 2013 through March 31, 2014. The unamortized balance of $6.3 million is recorded as a current asset on the balance sheet as of March 31, 2014, and will be amortized ratably over the calendar year ending December 31, 2014. As described in Note 8 “Subsequent Events”, the Company executed a contract amendment with ADHS providing for a rate adjustment to cover the direct costs of these fees and the impact from non-deductibility of such fees for federal income tax purposes. As the Company did not have a signed contract amendment as of March 31, 2014, no revenues were recorded related to the ACA fee during the period from October 1, 2013 through March 31, 2014, associated with the accrual for the reimbursement of the economic impact of the ACA fees from ADHS.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant estimates of the Company include, among other things, accounts receivable realization, medical claims payable, accrued liabilities, and legal liabilities. Actual results could differ from those estimates.
2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Company considers all liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Fair Value Measurements

The Company currently does not have non-financial assets and non-financial liabilities that are required to be measured at fair value on a recurring basis. Financial assets and liabilities are to be measured using inputs from the three levels of the fair value hierarchy, which are as follows:

- Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

- Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

- Level 3 – Unobservable inputs that reflect the Company’s assumptions about the assumptions that market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available, including the Company’s data.
2. Summary of Significant Accounting Policies (continued)

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company’s financial assets and liabilities that are required to be measured at fair value as of March 31, 2014:

<table>
<thead>
<tr>
<th>Fair Value Measurements at March 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>---------------------------</td>
</tr>
<tr>
<td>Cash and cash equivalents(1)</td>
</tr>
<tr>
<td>Investments:</td>
</tr>
<tr>
<td>Corporate debt securities</td>
</tr>
<tr>
<td>March 31, 2014</td>
</tr>
</tbody>
</table>

(1) Excludes $92.0 million of cash held in bank accounts by the Company.

The carrying value for the Company’s financial instruments classified as current assets (other than short-term investments) and current liabilities approximate their fair value due to their short maturities. There were no transfers in or out of Level One, Two or Three during the six months ended March 31, 2014.

All of the Company’s investments are classified as “available-for-sale” and are carried at fair value, based on quoted market prices for similar assets or quoted prices for identical assets in markets that are not active. The Company’s policy is to classify all investments with contractual maturities within one year as current. Investment income is recognized when earned and reported gross of investment expenses which are included in administrative expenses. Net unrealized holding gains or losses are excluded from earnings and are reported, net of tax, as “accumulated other comprehensive gain (loss), net” in the accompanying balance sheet until realized, unless the losses are deemed to be other than temporary.

Realized gains or losses, including any provision for other-than-temporary declines in value, are included in interest income in the statement of comprehensive income.
2. Summary of Significant Accounting Policies (continued)

If a debt security is in an unrealized loss position and the Company has the intent to sell the debt security, or it is more likely than not that the Company will have to sell the debt security before recovery of its amortized cost basis, the decline in value is deemed to be other than temporary and is recorded to other-than-temporary impairment losses recognized in income in the statement of comprehensive income. For impaired debt securities that the Company does not intend to sell or it is more likely than not that the Company will not have to sell such securities, but the Company expects that it will not fully recover the amortized cost basis, the credit component of the other-than-temporary impairment is recognized in other-than-temporary impairment losses recognized in income in the statement of comprehensive income and the noncredit component of the other-than-temporary impairment is recognized in accumulated other comprehensive income (loss).

The credit component of other-than-temporary impairment is determined by comparing the net present value of projected future cash flows with the amortized cost basis of the debt security. The net present value is calculated by discounting the best estimate of projected future cash flows at the effective interest rate implicit in the debt security at the date of acquisition. Cash flow estimates are driven by assumptions regarding probability of default, including changes in credit ratings, and estimates regarding timing and amount of recoveries associated with a default. Furthermore, unrealized losses entirely caused by non-credit related factors related to debt securities for which the Company expects to fully recover the amortized cost basis continue to be recognized in accumulated other comprehensive income.

As of March 31, 2014, there were no unrealized losses that the Company believed to be other-than-temporary. The Company recorded no realized gains or loss for the period from October 1, 2013 through March 31, 2014. The following is a summary of investments at March 31, 2014:

<table>
<thead>
<tr>
<th>Corporate debt securities</th>
<th>March 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortized Cost</td>
<td>Gross Unrealized Gains</td>
</tr>
<tr>
<td>$ 6,026,704</td>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total investments at March 31, 2014</th>
<th>March 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortized Cost</td>
<td>Gross Unrealized Gains</td>
</tr>
<tr>
<td>$ 6,026,704</td>
<td>$</td>
</tr>
</tbody>
</table>
2. Summary of Significant Accounting Policies (continued)

The Company’s investments as of March 31, 2014, are all scheduled to mature in one year or less.

Revenue Recognition

With the exception of interest income, all of the Company’s revenues are generated from the Contract. The Company receives a portion of its Contract funding in the form of capitation revenue, which is recognized over the applicable coverage period on a per member basis for covered members. Under this arrangement, the Company is paid a per member fee for all enrolled members, and this fee is recorded as revenue in the month in which members are entitled to service. The Company adjusts its revenue for retroactive membership terminations, additions, and other changes, when such adjustments are identified, with the exception of retroactivity that can be reasonably estimated. Any fees received prior to the month of service are recorded as deferred revenue. Capitation revenues were approximately $325.8 million for the period from October 1, 2013 through March 31, 2014. The Contract is partially funded by federal, state, county and block grant money, which represent annual appropriations. The Company recognizes revenue from block grant activity ratably over the period to which the block grant funding applies. Non-title revenues, including block grants, were approximately $65.6 million from October 1, 2013 through March 31, 2014.

Contract revenue is also limited by the terms of the Contract to a maximum profit percentage of three percent. Contract revenue that cannot be recognized due to the profit limits of approximately $0.5 million for the period from October 1, 2013 through March 31, 2014, and is included in “Payable to ADHS” on the accompanying balance sheet and represents a reduction to Contract revenue in the statement of comprehensive income.

Accounts Receivable

All of the Company’s accounts receivable consists of amounts due from services rendered for the Contract. The Company establishes an allowance for doubtful accounts, if necessary, based upon factors surrounding the credit risk of specific customers, historical trends, and other information. As of March 31, 2014, the Company believes all accounts receivable are collectible and therefore has established no allowance.
2. Summary of Significant Accounting Policies (continued)

Other Accounts Receivable

Other accounts receivable consists primarily of amounts due from providers and Magellan Medicaid Administration ("MMA"), a subsidiary of Magellan.

Cost of Care, Medical Claims Payable, and Other Medical Liabilities

Cost of care provided by third parties is recognized in the period in which members receive managed health-care services. In addition to actual benefits paid, cost of care includes the impact of accruals for estimates of medical claims payable. Medical claims payable represents the liability for health-care claims reported but not yet paid and claims incurred but not yet reported ("IBNR") related to the Company’s managed health-care business. Such liabilities are determined by employing actuarial methods that are commonly used by health insurance actuaries and that meet actuarial standards of practice.

The IBNR portion of medical claims payable is estimated based on past claims payment experience for member groups, enrollment data, utilization statistics, authorized health-care services, and other factors. This data is incorporated into contract-specific actuarial reserve models and is further analyzed to create “completion factors” that represent the average percentage of total incurred claims that have been paid through a given date after being incurred. Factors that affect estimated completion factors include benefit changes, enrollment changes, shifts in product mix, seasonality influences, provider reimbursement changes, changes in claims inventory levels, the speed of claims processing, and changes in paid claim levels. Completion factors are applied to claims paid through the financial statement date to estimate the ultimate claim expense incurred for the current period. Actuarial estimates of claim liabilities are then determined by subtracting the actual paid claims from the estimate of the ultimate incurred claims. For the most recent incurred months (generally the most recent two months), the percentage of claims paid for claims incurred in those months is generally low. This makes the completion factor methodology less reliable for such months. Therefore, incurred claims for any month with a completion factor that is less than 70% are generally not projected from historical completion and payment patterns; rather they are projected by estimating claims expense based on recent monthly estimated cost incurred per member per month times membership, taking into account seasonality influences, benefit changes, and health-care trend levels, collectively considered to be “trend factors.”
2. Summary of Significant Accounting Policies (continued)

Other Medical Liabilities largely consists of nonclaim balances due to providers.

Other Current Liabilities

As of March 31, 2014, other current liabilities consists primarily of community reinvestment of $0.7 million and accruals for housing services of $0.9 million.

Expense Allocation

Certain direct, indirect, and administrative expenses are incurred, which benefit more than one program. Such common expenses are allocated based upon an ADHS approved cost allocation plan as submitted by the Company.

Long-Lived Assets

Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed. Impairment is determined by comparing the carrying value of these long-lived assets to management’s best estimate of the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The cash flow projections used to make this assessment are consistent with the cash flow projections that management uses internally in making key decisions. In the event an impairment exists, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset, which is generally determined by using quoted market prices or the discounted present value of expected future cash flows. No impairment of long-lived assets was identified during the period from October 1, 2013 through March 31, 2014, as assets will be used by Magellan and there were no events or changes in circumstances that indicate that the respective carrying amounts may not be recoverable.

Property and Equipment

Property and equipment is stated at cost, except for assets that have been impaired, for which the carrying amount has been reduced to estimated fair value. Expenditures for renewals and improvements are capitalized to the property accounts. Replacements and maintenance and repairs that do not improve or extend the life of the respective assets are expensed as incurred. Depreciation expense was $0.7 million for the period from October 1, 2013 through March 31, 2014.
2. Summary of Significant Accounting Policies (continued)

The Company provides for depreciation using the straight-line method over the following general range of estimated useful lives:

- Computer hardware and software: 3–5 years
- Furniture: 9–15 years
- Equipment: 5 years
- Leasehold improvements: 5 years

Property and equipment consisted of the following as of March 31, 2014:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and equipment</td>
<td>$ 5,170,394</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>333,558</td>
</tr>
<tr>
<td></td>
<td>5,503,952</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(3,925,819)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>$ 1,578,133</td>
</tr>
</tbody>
</table>

3. Contract Requirements

In accordance with the Contract, the Company is required to maintain certain minimum financial reporting and viability measures.

The Company must maintain unrestricted, minimum capitalization of at least 90% of the monthly capitation and block payments received under the Contract. At March 31, 2014, the Company was in compliance with this requirement.

The Contract contains various quarterly financial performance requirements, including a required minimum liquidity ratio, an administrative cost percentage, and service expense percentages. The Company was in compliance with the liquidity ratio and administrative expense and service expense percentages at March 31, 2014.
3. Contract Requirements (continued)

Per ADHS reporting requirements, interpretive services are included within general and administrative expenses. For the period from October 1, 2013 through March 31, 2014, interpretive service expenses were $3.9 million.

4. Allocated Corporate Income Tax Provision

For federal and state income tax reporting purposes, the Company’s operations are included in Magellan’s consolidated federal income tax and Arizona state tax returns, respectively. The Company files its federal and state returns on a calendar year basis.

The Company has a tax allocation agreement with Magellan. Under the terms of this agreement, the Company effectively computes its tax provision as if it were a separate taxpayer with consideration of the benefits derived from Magellan as common parent of its consolidated group. The Company’s federal tax provision is $11.9 million for the period from October 1, 2013 through March 31, 2014. In accordance with the tax allocation agreement, allocated corporate federal and state income taxes payable or recoverable are required to be settled within 30 days after the filing by Magellan of any annual federal and state income tax return that includes the activities of the Company. During the period from October 1, 2013 through March 31, 2014, the Company did not make any payments to the parent Company for settlement of previous tax liabilities. The income taxes payable amounts listed below have been accrued within the “Due to affiliates, net” account on the accompanying balance sheet. The Company’s effective income tax rate for the period October 1, 2013 through March 31, 2014, is higher than the statutory income tax rate primarily due to ACA fees which are not deductible for income tax purposes.
4. Allocated Corporate Income Tax Provision (continued)

The provision for income taxes for the period from October 1, 2013 through March 31, 2014, consisted of the following:

Income taxes currently payable:

<table>
<thead>
<tr>
<th>Income Tax Payable</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>$10,513,809</td>
</tr>
<tr>
<td>State</td>
<td>1,314,857</td>
</tr>
<tr>
<td>Total</td>
<td>$11,828,666</td>
</tr>
</tbody>
</table>

Deferred income taxes:

<table>
<thead>
<tr>
<th>Income Tax Payable</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>82,974</td>
</tr>
<tr>
<td>State</td>
<td>16,696</td>
</tr>
<tr>
<td>Total</td>
<td>99,670</td>
</tr>
</tbody>
</table>

Under the tax allocation agreement, any federal deferred tax assets not utilized at the Company level can be utilized at the consolidated level and therefore no valuation allowance has been established for any federal deferred tax assets. As of March 31, 2014, the Company had no valuation allowances recorded for deferred tax assets.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at March 31, 2014, are as follows:

Current deferred tax assets:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other contract liabilities</td>
<td>$769,596</td>
</tr>
<tr>
<td>Severance</td>
<td>1,300,956</td>
</tr>
<tr>
<td>Total current deferred tax assets</td>
<td>$2,070,552</td>
</tr>
</tbody>
</table>

Noncurrent deferred tax liabilities of $0.5 million relates to fixed assets.
5. Related-Party Balances and Transactions

Magellan and affiliated companies provide administrative and other services to the Company, including systems functions, accounts payable, and payroll processing. Included in general and administrative expenses in the accompanying statement of comprehensive income is an allocation of the costs of the administrative services provided by affiliated companies. The Company’s allocation was $7.8 million for the period from October 1, 2013 through March 31, 2014. Amounts due to affiliated companies are due on demand and are non-interest bearing.

The Company declared and paid dividends of $7.0 million for the period from October 1, 2013 through March 31, 2014.

Effective September 1, 2010, the Company entered into an agreement with MMA to provide pharmacy benefit management services to eligible enrollees on a risk basis. The Company incurred expense with MMA of $35.7 million for the period from October 1, 2013 through March 31, 2014, which was recorded as cost of care in the accompanying statement of comprehensive income. The intercompany agreement contains a cost share provision which limits the profit that can be earned by MMA. As a result of this provision, the Company has recorded a $0.5 million receivable in other accounts receivable on the accompanying balance sheet as of March 31, 2014.

6. Claims Unpaid

Claims unpaid balances are continually monitored and reviewed. If it is determined that the Company’s assumptions in estimating such liabilities are significantly different than actual results, the Company’s results of operations and financial position could be impacted in future periods. Adjustments of prior period estimates may result in additional claims costs or a reduction of claims costs in the period an adjustment is made. Further, due to the considerable variability of health-care costs, adjustments to claims unpaid occur each period and are sometimes significant as compared to net income recorded in that period. Prior period development is recognized immediately upon the actuary’s judgment that a portion of the prior period liability is no longer needed or that additional liability should have been accrued.
6. Claims Unpaid (continued)

The following table presents the components of the change in claims unpaid for the period from October 1, 2013 through March 31, 2014:

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical claims payable, beginning of period</td>
<td>$ 24,079,065</td>
</tr>
<tr>
<td>Cost of care:</td>
<td></td>
</tr>
<tr>
<td>Current year</td>
<td>$342,316,338</td>
</tr>
<tr>
<td>Prior years</td>
<td>$(1,392,719)</td>
</tr>
<tr>
<td>Total cost of care</td>
<td>$340,923,619</td>
</tr>
<tr>
<td>Payments related to cost of care:</td>
<td></td>
</tr>
<tr>
<td>Current year</td>
<td>$320,136,850</td>
</tr>
<tr>
<td>Prior years</td>
<td>$18,326,247</td>
</tr>
<tr>
<td>Total payments related to cost of care</td>
<td>$338,463,097</td>
</tr>
<tr>
<td>Medical claims payable, end of period</td>
<td>$26,539,587</td>
</tr>
</tbody>
</table>

Actuarial standards of practice require that claims unpaid be adequate under moderately adverse circumstances. Adverse circumstances are situations in which the actual claims experience could be higher than the otherwise estimated value of such claims. In many situations, the claims paid amount experienced will be less than the estimate that satisfies the actuarial standards of practice. Due to the existence of risk-sharing provisions in the contract, a change in the estimate of claims unpaid does not necessarily result in an equivalent impact on claims costs.

In addition to the absence of moderately adverse conditions, actual claims incurred for periods prior to October 1, 2013 were lower than the liability for claims unpaid at September 30, 2013 by approximately $1.4 million or 5.8%. Such difference relates to the contact period ended September 30, 2013 and is mainly due to claims being paid faster than expected.

The Company believes that the amount of claims unpaid is adequate to cover its ultimate liability for unpaid claims as of March 31, 2014; however, actual claims payments may differ from established estimates.
7. Commitments and Contingencies

Operating Leases

Operating leases have been executed for various operating facilities and equipment, which are used to support the Company’s business. Certain of these leases have been executed by the Parent on behalf of the Company, and other leases have been executed by the Company itself. The leases generally require the payment of all maintenance, property taxes, and insurance costs. For leases that have been executed by the Parent, actual lease costs incurred are charged directly to the Company. Total rent expense, inclusive of costs related to leases executed by the Parent, was $0.6 million for the period from October 1, 2013 through March 31, 2014. Leases executed by the Company expire at various dates through October 31, 2016. Reimbursements for subleases totaled $0.3 million for the period from October 1, 2013 through March 31, 2014.

At March 31, 2014, aggregate amounts of future minimum payments under operating leases, which have been executed by the Company, were as follows:

<table>
<thead>
<tr>
<th>12 month year ending March 31:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$1,507,517</td>
</tr>
<tr>
<td>2016</td>
<td>1,282,458</td>
</tr>
<tr>
<td>2017</td>
<td>509,055</td>
</tr>
<tr>
<td>Total</td>
<td>$3,299,030</td>
</tr>
</tbody>
</table>

The future minimum lease schedule above has not been adjusted for the impact of the April 2014 lease termination discussed in Note 8 “Subsequent Events.” The total minimum rentals to be received in the future under non-cancellable subleases are $0.6 million.
7. Commitments and Contingencies (continued)

Restructuring Activities

As a result of restructuring activities initiated in 2013 in response to termination of the Contract, the Company incurred expenses for employee termination costs. Such costs were primarily severance and retention bonuses. The following summarizes the activity related to the restructuring costs for the period from October 1, 2013 through March 31, 2014:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability for employee termination costs at October 1, 2013</td>
<td>$3,209,432</td>
</tr>
<tr>
<td>Additions</td>
<td>$477,774</td>
</tr>
<tr>
<td>Liability released</td>
<td>$(361,218)</td>
</tr>
<tr>
<td>Payments</td>
<td>$(3,325,988)</td>
</tr>
<tr>
<td>Liability for employee termination costs at March 31, 2014 (1)</td>
<td>$ –</td>
</tr>
</tbody>
</table>

(1) As of October 1, 2013, the Company accrued the $3.2 million liability within amounts due to affiliates, net. During the period from October 1, 2013 through March 31, 2014, the balance was periodically settled with Magellan who disburses funds to employees as part of the administrative services agreement; therefore, as of March 31, 2014, the Company has settled the liability previously recorded. The ultimate expense for employee termination costs rests solely with the Company. For the period from October 1, 2013 through March 31, 2014, the Company incurred additional charges of $0.5 million offset by the reversal of prior year accruals of $0.4 million as a result of a change in estimate, which were incurred as general and administrative expenses in the accompanying statement of comprehensive income and payments made reduced amounts due to affiliates, net.

As discussed in Note 8, Subsequent events, in April 2014 the Company incurred additional restructuring charges of $0.5 million which relate solely to lease termination charges.

Regulatory Issues

The specialty managed health-care industry is subject to numerous laws and regulations. The subjects of such laws and regulations cover, but are not limited to, matters such as licensure, accreditation, government health-care program participation requirements, information privacy and security, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.
7. Commitments and Contingencies (continued)

Over the past several years, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by health-care organizations and insurers. Entities that are found to have violated these laws and regulations may be excluded from participating in government health-care programs, subjected to fines or penalties or required to repay amounts received from the government for previously billed patient services. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Legal

From time to time, the Company is involved in certain legal actions arising in the ordinary course of business. After taking into consideration legal counsel’s evaluation of such actions, management is of the opinion that their outcome will not have a material adverse effect on the Company’s financial condition or results of operations; however, there can be no assurance in this regard.

Insurance

The Company is covered under Magellan’s general and managed care liability insurance policies with unaffiliated insurers for a one year period, with the current policy extending from June 17, 2014 through June 17, 2015. The general liability policies are written on an “occurrence” basis and the managed care errors and omissions liability policies are written on a “claims-made” basis.

8. Subsequent Events

Subsequent to March 31, 2014, the Company has declared and paid dividends to the parent totaling $67 million. Subsequent to the March 31, 2014, termination of the Contract, the Company has no minimum equity requirements.

In April 2014, the Company incurred additional shutdown costs of $0.5 million related to lease termination charges. In accordance with FASB Accounting Standards Codification 420, Exit and Disposal Cost Obligations, such costs will be recognized in April 2014 as that is when notice was given to the landlord.
8. Subsequent Events (continued)

In April 2014, the Company executed a contract amendment with ADHS providing for a rate adjustment to cover the direct costs of ACA fees and the impact from non-deductibility of such fees for federal income tax purposes. Had the agreement been executed as of March 31, 2014, the Company would have recorded $3.7 million in additional revenues for the period from October 1, 2013 through March 31, 2014.
Single Audit
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Magellan Health Services of Arizona, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Magellan Health Services of Arizona, Inc., which comprise the balance sheet as of March 31, 2014, and the related statement of comprehensive income and changes in capital and surplus and cash flows for the period from October 1, 2013 through March 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Magellan Health Services of Arizona, Inc.’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Magellan Health Services of Arizona, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of Magellan Health Services of Arizona, Inc.’s internal control.

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

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

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

November 21, 2014

Magellan Health Services of Arizona Inc.

Report on Compliance for Each Major Federal Program

We have audited Magellan Health Services of Arizona Inc.’s compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Magellan Health Services of Arizona Inc.’s major federal programs for the period from October 1, 2013 through March 31, 2014. Magellan Health Services of Arizona Inc.’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of Magellan Health Services of Arizona Inc.’s major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Magellan Health Services of Arizona Inc.’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Magellan Health Services of Arizona Inc.’s compliance.
Opinion on Each Major Federal Program

In our opinion, Magellan Health Services of Arizona Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period from October 1, 2013 through March 31, 2014.

Report on Internal Control Over Compliance

Management of Magellan Health Services of Arizona Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Magellan Health Services of Arizona Inc.’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Magellan Health Services of Arizona Inc.’s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

November 21, 2014
Magellan Health Services of Arizona, Inc.

Schedule of Expenditures of Federal Awards

Period From October 1, 2013 Through March 31, 2014

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor/Program Title</th>
<th>Pass-Through Entity Identifying Number</th>
<th>Federal CFDA Number</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>US. Department of Health and Human Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed through the Arizona Department of Economic Security:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Assistance Program</td>
<td>68660047917631</td>
<td>93.778</td>
<td>$ 7,582,965</td>
</tr>
<tr>
<td>Passed through the Arizona Department of Health Services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Assistance Program</td>
<td>68660047910029</td>
<td>93.778</td>
<td>197,155,172</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>204,738,137</td>
</tr>
<tr>
<td>Passed through the Arizona Department of Health Services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Block Grant for Community Mental Health Services</td>
<td>11356415170214</td>
<td>93.958</td>
<td>1,490,807</td>
</tr>
<tr>
<td>State Children’s Insurance Program</td>
<td>68660047910029</td>
<td>93.767</td>
<td>1,119,155</td>
</tr>
<tr>
<td>Block Grant for Prevention and Treatment of Substance Abuse</td>
<td>11356415170214</td>
<td>93.959</td>
<td>8,166,671</td>
</tr>
<tr>
<td>Total U.S. Department of Health and Human Services</td>
<td></td>
<td></td>
<td>$ 215,514,770</td>
</tr>
</tbody>
</table>

See accompanying notes.
Magellan Health Services of Arizona, Inc.

Notes to Schedule of Expenditures of Federal Awards

Period From October 1, 2013 Through March 31, 2014

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes all federal grants administered by Magellan Health Services of Arizona, Inc. (the Company) for the period from October 1, 2013 through March 31, 2014. These federal grants are subject to the accounting policies and procedures used by the Company. Expenditures are recognized under the cash basis of accounting in accordance with the contractual terms of the purchase of service agreements with governmental agencies.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards for the period from October 1, 2013 through March 31, 2014, the Company provided federal awards to subrecipients as follows:

<table>
<thead>
<tr>
<th>Program Title</th>
<th>Federal CFDA Number</th>
<th>Amount Provided to Subrecipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block Grant for Community Mental Health Services</td>
<td>93.958</td>
<td>$ 1,294,416</td>
</tr>
<tr>
<td>Block Grant for Prevention and Treatment of Substance Abuse</td>
<td>93.959</td>
<td>7,616,294</td>
</tr>
</tbody>
</table>
Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs

Period From October 1, 2013 Through March 31, 2014

Section I—Summary of Auditor’s Results

Financial Statements Section

Type of auditor’s report issued (unmodified, qualified, adverse or disclaimer):

<table>
<thead>
<tr>
<th>Type of Auditor’s Report Issued</th>
<th>Unmodified</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Internal control over financial reporting:

<table>
<thead>
<tr>
<th>Material weakness(es) identified?</th>
<th>yes</th>
<th>no</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant deficiency(ies) identified?</td>
<td>yes</td>
<td>none reported</td>
</tr>
<tr>
<td>Noncompliance material to financial statements noted?</td>
<td>yes</td>
<td>no</td>
</tr>
</tbody>
</table>

Federal Awards Section

Internal control over major federal programs:

<table>
<thead>
<tr>
<th>Material weakness(es) identified?</th>
<th>yes</th>
<th>no</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant deficiency(ies) identified?</td>
<td>yes</td>
<td>none reported</td>
</tr>
</tbody>
</table>

Type of auditor’s report issued on compliance for major federal programs (unmodified, qualified, adverse or disclaimer):

<table>
<thead>
<tr>
<th>Type of Auditor’s Report Issued</th>
<th>Unmodified</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>x</td>
</tr>
</tbody>
</table>
Magellan Health Services of Arizona, Inc.

Schedule of Findings and Questioned Costs (continued)

Identification of major programs:

<table>
<thead>
<tr>
<th>CFDA number(s)</th>
<th>Name of federal program or cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>93.778</td>
<td>Medical Assistance Program</td>
</tr>
<tr>
<td>93.958</td>
<td>Block Grants for Community Mental Health Services</td>
</tr>
<tr>
<td>93.959</td>
<td>Block Grants for Prevention and Treatment of Substance Abuse</td>
</tr>
<tr>
<td>93.767</td>
<td>State Children’s Insurance Program</td>
</tr>
</tbody>
</table>

Dollar threshold used to distinguish between Type A and Type B programs:

$ 3,000,000

Auditee qualified as low-risk auditee?  

_____ yes  

X  no
Section II—Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which Government Auditing Standards require reporting in a Circular A-133 audit.

There were no significant deficiencies, material weaknesses, fraud, or instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

Section III—Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program. Where practical, findings should be organized by federal agency or pass-through entity.

There were no audit findings in the current year to be reported by Circular A-133 section .510(a).
Magellan Health Services of Arizona, Inc.

Summary Schedule of Prior Audit Findings

Period From October 1, 2013 Through March 31, 2014

**Single Audit Findings for the Period July 1, 2012 through September 30, 2013**

There were no audit findings in the prior year to be reported by Circular A-133 section 510(a).

**Single Audit Findings for the Period July 1, 2011 through June 30, 2012**

There were no audit findings in the prior year to be reported by Circular A-133 section 510(a).