Arizona Physicians IPA, Inc.

Financial Statements as of and for the
Years Ended December 31, 2017 and 2016,
Supplemental Schedules as of and for the
Year Ended December 31, 2017, and
Independent Auditors' Report

ARIZONA PHYSICIANS IPA, INC.

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
Arizona Physicians IPA, Inc.
1 East Washington Street, Suite 900
Phoenix, AZ 85004

We have audited the accompanying financial statements of Arizona Physicians IPA, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statement of operations, comprehensive income (loss), changes in stockholder's equity and accumulated other comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Company'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 Company'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 Arizona Physicians IPA, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information in Exhibit I and Exhibit II, although not a part of the basic financial statements, is required by the Arizona Health Care Cost Containment System who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with managements responses to our inquiries, the basic financial statement, and other knowledge we obtained during the audit of our basic financial statements. In our opinion, such schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

April 30, 2018

ARIZONA PHYSICIANS IPA, INC.

BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 162,823,956	$ 104,902,614
Short-term investments	12,876,923	3,762,437
Premiums receivable	47,664,024	99,525,181
AHCCCS reinsurance receivable	47,483,371	37,775,413
Other contract program receivables	6,269,838	12,690,023
Other receivables—net of allowances of $1,864,060 and $1,327,968 in 2017 and 2016, respectively	5,965,585	5,664,590
Related-party receivable—net	1,113,519	-
Investment receivables	3,301,758	2,115,195
Current state income taxes receivable	851,342	851,342
Other assets	1,635,443	464,487
Total current assets	289,985,759	267,751,282
LONG-TERM ASSETS:		
Long-term investments	405,624,576	296,152,425
Intangible assets—net	32,261,631	-
Other long-term assets	20,653,615	19,979,898
Long-term deferred income taxes—net	698,914	1,748,141
Total long-term assets	459,238,736	317,880,464
TOTAL	$ 749,224,495	$ 585,631,746
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Medical services payable	$ 373,306,774	$ 299,366,072
Medicaid risk sharing payable	140,623,061	76,164,379
Other payables to contract programs	5,867,272	15,329,030
Accounts payable and accrued expenses	6,954,451	8,957,866
Related-party payable—net	-	5,439,174
Current federal income taxes payable	5,696,630	5,062,417
Total current liabilities	532,448,188	410,318,938
LONG-TERM LIABILITIES:		
Other long-term liabilities	1,000,000	-
Total liabilities	533,448,188	410,318,938
CONTINGENCIES (Note 6)		
STOCKHOLDER'S EQUITY:		
Common stock, $0.01 par value—1,000,000 shares authorized; two shares issued and outstanding	-	-
Additional paid-in capital	77,516,394	77,516,394
Retained earnings	136,473,413	99,072,811
Accumulated other comprehensive income (loss)	1,786,500	(1,276,397)
Total stockholder's equity	215,776,307	175,312,808
TOTAL	$ 749,224,495	$ 585,631,746

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
REVENUES:		
Capitation and risk-sharing settlements	$ 3,189,466,307	$ 2,697,778,702
Delivery supplemental premiums	66,096,001	59,283,451
Investment income—net	10,722,514	10,125,469
Total revenues	3,266,284,822	2,767,187,622
MEDICAL SERVICES EXPENSES:		
Hospital inpatient services	532,904,824	464,015,939
Medical compensation	686,389,431	579,616,215
Pharmacy	401,191,653	320,047,921
Outpatient facility	269,463,635	227,525,903
Emergency facility services	160,969,520	130,574,155
Nursing facility and home health care	117,371,924	109,606,023
Lab, x-ray, and medical imaging	79,992,928	71,375,152
Transportation	105,462,907	81,262,281
Dental	101,200,540	83,143,473
Other medical services	119,709,296	76,918,369
Durable medical equipment	68,588,937	60,364,605
Long-term care institutional	115,930,777	121,371,277
Long-term care home-based and community-based services	140,273,657	125,467,843
Recoveries from AHCCCS	(110,208,422)	(67,253,484)
Total medical services expenses	2,789,241,607	2,384,035,672
ADMINISTRATIVE EXPENSES	277,671,716	278,148,840
PREMIUM TAXES	50,349,291	43,178,868
Total expenses	3,117,262,614	2,705,363,380
INCOME BEFORE INCOME TAXES	149,022,208	61,824,242
PROVISION FOR INCOME TAXES	51,621,606	34,575,870
NET INCOME	$ 97,400,602	$ 27,248,372

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
NET INCOME	$ 97,400,602	$ 27,248,372
OTHER COMPREHENSIVE INCOME (LOSS):		
Gross unrealized holding gains (losses) on investment securities during the period	3,726,224	(1,521,077)
Income tax effect	(1,304,178)	532,377
Total unrealized gains (losses)—net of tax	2,422,046	(988,700)
Gross reclassification adjustment for net realized losses (gains) included in net earnings	985,925	(2,492,353)
Income tax effect	(345,074)	872,324
Total reclassification adjustment—net of tax	640,851	(1,620,029)
OTHER COMPREHENSIVE INCOME (LOSS)	3,062,897	(2,608,729)
COMPREHENSIVE INCOME	$ 100,463,499	$ 24,639,643

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
BALANCE—January 1, 2016	2	$ -	$ 77,516,394	$ 71,824,439	$ 1,332,332	$ 150,673,165
Comprehensive income:						
Net income	-	-	-	27,248,372	-	27,248,372
Change in net unrealized losses on investments available-for-sale—net of tax effects and reclassification adjustments	-	-	-	-	(988,700)	(988,700)
Reclassification adjustments for net realized gains included in net income—net of tax effects	-	-	-	-	(1,620,029)	(1,620,029)
Total comprehensive income						24,639,643
BALANCE—December 31, 2016	2	-	77,516,394	99,072,811	(1,276,397)	175,312,808
Comprehensive income:						
Net income	-	-	-	97,400,602	-	97,400,602
Change in net unrealized gains on investments available-for-sale—net of tax effects and reclassification adjustments	-	-	-	-	2,422,046	2,422,046
Reclassification adjustments for net realized losses included in net income—net of tax effects	-	-	-	-	640,851	640,851
Total comprehensive income						100,463,499
Dividends	-	-	-	(60,000,000)	-	(60,000,000)
BALANCE—December 31, 2017	2	$ -	$ 77,516,394	$ 136,473,413	$ 1,786,500	$ 215,776,307

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 97,400,602	$ 27,248,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of other intangible assets—net	2,099,869	-
Amortization of investment premium—net	2,458,091	1,887,158
Deferred income taxes	(600,025)	23,452
Losses (gains) on sale of investments—net	985,942	(2,493,105)
Changes in operating assets and liabilities:		
Premiums receivable	51,861,157	(64,117,713)
AHCCCS reinsurance receivable	(9,707,958)	(3,150,087)
Other contract program receivables	(2,462,290)	(878,752)
Other receivables	189,007	(598,558)
Other assets	(1,170,956)	(387,656)
Investment receivables	(1,133,208)	(500,182)
Current income taxes	634,213	(19,216,794)
Medical services payable	73,940,702	60,335,803
Accounts payable and accrued expenses	(2,072,435)	1,201,338
Medicaid risk sharing payable	64,458,682	24,883,994
Other payables to contract programs	(10,989,604)	10,655,416
Related party (decrease) increase	(6,552,693)	5,636,834
Net cash provided by operating activities	259,339,096	40,529,520
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments available-for-sale	(206,793,118)	(197,205,338)
Proceeds from maturities/sales of investments available-for-sale	89,474,596	121,882,646
Net cash used in investing activities	(117,318,522)	(75,322,692)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(60,000,000)	-
Mortgage loan financing activities	(727,073)	(19,789,784)
Checks outstanding	(264,314)	(433,936)
AHCCCS funds administered	1,528,192	(4,903,969)
Customer funds administered	8,882,130	(3,427,573)
Maricopa Integrated Health Systems membership acquisition	(33,028,167)	-
Other financing activities	(490,000)	(80,000)
Net cash used in financing activities	(84,099,232)	(28,635,262)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	57,921,342	(63,428,434)
CASH AND CASH EQUIVALENTS—Beginning of the year	104,902,614	168,331,048
CASH AND CASH EQUIVALENTS—End of year	$ 162,823,956	$ 104,902,614
SUPPLEMENTAL CASH FLOW DISCLOSURE—Cash paid for income taxes	$ 51,587,418	$ 53,769,212

See notes to financial statements.

1. ORGANIZATIONAL STRUCTURE AND OPERATION

Organization—Arizona Physicians IPA, Inc. (the "Company" or "APIPA") was incorporated on September 19, 1995. The Company is a wholly owned, for-profit subsidiary of UnitedHealthcare, Inc. ("UHC"), which is a wholly owned subsidiary of United HealthCare Services, Inc. ("UHS"). UHS provides management services to managed care companies and is a wholly owned subsidiary of UnitedHealth Group Incorporated ("UHG"). UHG is a publicly held company trading on the New York Stock Exchange.

Operation—The majority of the Company's premium revenues result from its contracts with the Arizona Health Care Cost Containment System ("AHCCCS"). Under these contracts the Company provides health care benefits to Medicaid and expansion enrollees ("Acute"), Arizona Long Term Care System ("ALTCS"), and Children's Rehabilitative Services ("CRS") members. AHCCCS also provides prior period coverage for the period of time prior to the member's enrollment with the Company during which time the member is eligible for covered services. The contracts have been approved by AHCCCS. The Acute and CRS contracts expire on September 30, 2018. The Acute and CRS contracts will be combined into a new Complete Care Integrated Services contract that covers both physical and behavioral health care services effective October 1, 2018. The ALTCS contract is under the initial term of its contract, which is subject to renewal in 2020. The Company also contracts with the Arizona Department of Economic Security Division for Developmental Disabilities ("DES/DDD").

The Company has a contract with the Centers for Medicare and Medicaid Services ("CMS") to also serve as a plan sponsor offering a Dual Special Needs Plan ("DSNP") and a Fully Integrated Dual Eligible Special Needs Plan ("FIDE-SNP") product. These products are solely funded by CMS. A DSNP is a specialized type of Medicare Advantage Prescription Drug Plan ("MAPD") that is limited to dually eligible members and provides additional Medicaid coordination and clinical programs. The FIDE-SNP is a DSNP which coordinates the delivery of covered Medicare and Medicaid health and long-term care services, using aligned care management and specialty care network methods for high-risk beneficiaries and employs policies and procedures approved by CMS and the State to coordinate or integrate enrollment, member materials, communications, grievance and appeals, and quality improvement.

In February 2017, the Company acquired 64,723 members from Maricopa Integrated Health System ("MIHS") under the terms of the Membership Transfer Agreement dated August 24, 2016, after receiving approval from AHCCCS on January 13, 2017 (see Note 2).

2. BASIS OF PRESENTATION, USE OF ESTIMATES AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The Company has prepared the financial statements according to accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates—These financial statements include certain amounts based on the Company's best estimates and judgments. The Company's most significant estimates are related to medical services expenses, AHCCCS reinsurance receivable, medical services payable, Medicaid risk sharing payable, valuation of certain investments, and estimates and judgments related to income taxes. These estimates require the application of complex assumptions and judgments, often because they involve matters that are inherently uncertain, and will likely change in subsequent periods. The impact of any changes in estimates is included in earnings in the period in which the estimate is adjusted.

Cash, Cash Equivalents, and Investments—Cash and cash equivalents are highly liquid investments with original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments.

Cash and cash equivalents include the Company's share of an investment pool sponsored and administered by UHS. The investment pool consists principally of investments with original maturities of less than one year, with the average life of the individual investments being less than 60 days. The Company's share of the pool represents an undivided ownership interest in the pool and is immediately convertible to cash at no cost or penalty. The participants within the pool have an individual fund number to track those investments owned by the Company. In addition, the Company is listed as a participant in the executed custodial agreement between UHS and the custodian whereby the Company's share in the investment pool is segregated and separately maintained. The pool is primarily invested in government obligations, commercial paper, certificates of deposit, and short-term agency notes and is recorded at cost or amortized cost. Interest income from the pool accrues daily to participating members based upon ownership percentage.

The Company had checks outstanding of $79,079 and $343,393 at December 31, 2017 and 2016, respectively, which were classified in accounts payable and accrued expenses in the balance sheets. The change in this balance has been reflected as checks outstanding within financing activities in the statements of cash flows. The outstanding checks are related to zero balance accounts. The Company does not net checks outstanding with deposits in other accounts.

Investments with maturities of less than one year are classified as short-term. All other investments are classified as available-for-sale and reported at fair value based on quoted market prices, where available.

The Company excludes unrealized gains and losses on investments in available-for-sale securities from earnings, and reports them as accumulated other comprehensive income (loss) net of income tax effects, as a separate component of stockholder's equity. To calculate realized gains and losses on the sale of investments, the Company specifically identifies the cost of each investment sold.

The Company evaluates an investment for impairment by considering the length of time and extent to which market value has been less than cost or amortized cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and the Company's intent to sell the security or the likelihood that it will be required to sell the security before recovery of the entire amortized cost.

New information and the passage of time can change these judgments. The Company manages its investment portfolio to limit its exposure to any one issuer or market sector, and largely limits its investments to U.S. government and agency securities; state and municipal securities; mortgage-backed securities; and corporate obligations, substantially all of which are investment grade quality. Securities downgraded below policy minimums after purchase will be disposed of in accordance with the investment policy.

Investment income earned and due as of the reporting date, in addition to investment income earned but not paid or collected until subsequent periods, is reported as investment receivables in the balance sheets. The Company evaluates the collectability of the amounts due and amounts determined to be uncollectible are written off in the period in which the determination is made.

Investment income—net includes investment income collected during the period, as well as the change in investment income due and accrued on the Company's holdings. Amortization of premium or discount on bonds and certain external investment management costs are also included in investment income—net.

MIHS Membership Acquisition—In August 2016, the Company executed a membership transfer agreement with MIHS. The agreement was to transfer all of the enrollees under the MIHS Medicaid contract to the Company and the transaction was accounted for as an asset acquisition. The customer-related intangible asset is recorded in intangible assets—net in the accompanying balance sheets. This definite-lived intangible asset is being amortized using the straight line method over the useful life of fifteen years. The amortization amount is recorded to administrative expenses in the accompanying statements of operations.

The Company's intangible asset is subject to impairment tests when events or circumstances indicate that an intangible asset may be impaired. The Company's definite-lived intangible asset is assessed for impairment annually. There was no impairment of intangible assets during the year ended December 31, 2017.

On February 2, 2017, the Company paid $30,274,650, or 90%, of the projected final settlement to MIHS. On March 3, 2017, the Company paid an additional $2,086,850 which is the final settlement amount based on actual membership. As part of the MIHS membership transfer agreement, the Company must provide $1,000,000 of consulting and analytical services within three years of the contract. The $1,000,000 has not been used and is recorded as an other long-term liability in the accompanying balance sheets. Additionally, the Company was required to pay $1,000,000 for residency, academic, or training programs, of which $333,333 was paid on February 2, 2017 and $333,333 was paid on November 16, 2017. The remaining $333,334 is to be paid on September 30, 2018, which is included in accounts payable and accrued expenses in the accompanying balance sheets.

The gross value of the intangible asset as of December 31, 2017 is $34,361,500, there has been accumulated amortization of $2,099,869, for a net value of $32,261,631.

Notes Receivable—The Company has a Receivable Purchase and Servicing Agreement with OptumBank, Inc., an affiliate. The Company agrees to purchase, without recourse, up to $21,150,000 of notes receivable associated with a real-estate term loan facility ("RETLF") issued to a subsidiary of Chicanos Por la Causa, Inc. ("CPLC"), a non-profit organization. The commercial loans are part of a community development partnership with CPLC. The loans are fixed low-interest notes and mature in full on the first day of the seventh year after the date of the loan. The loans are collateralized by the properties invested in by CPLC. Interest payments must be made in arrears at the end of each quarter beginning April 1, 2017.

The loans are stated at outstanding principle. There are no origination costs incurred by the Company or allowance recorded on the receivable as of December 31, 2017. The Company has the ability and the intent to hold the loans for the foreseeable future, until maturity, or payoff.

As of December 31, 2017 there are two outstanding notes receivable, $14,303,219 originating on February 9, 2016 and $6,350,396 originating on March 31, 2016. The receivables are reported as other long-term assets in the balance sheets. Generally, a loan is identified as impaired when it is probable that the Company will be unable to collect all amounts due (including both interest and principle) according to the contractual terms of the loan agreement. No impairments were identified as of December 31, 2017 or December 31, 2016. The interest paid and accrued for these outstanding notes were $195,731 and $16 as of December 31, 2017 and December 31, 2016, respectively.

Premium Revenues—Capitation and risk-sharing settlements and delivery supplemental premiums are contractual. Capitation revenues are generally paid in advance of the coverage period in which benefits are to be provided and are earned and recognized during the applicable coverage period regardless of whether services are incurred. The majority of premium revenues recorded is based on capitated rates, which are monthly premiums paid for each member enrolled.

CMS utilizes a risk adjustment model that apportions premiums paid to all health plans according to health severity and certain demographic factors. The CMS risk adjustment model provides higher per member payments for enrollees diagnosed with certain conditions, and lower payments for enrollees

who are healthier. Under this risk adjustment methodology, CMS calculates the risk-adjusted premium payment using diagnosis data from hospital inpatient, hospital outpatient, and physician treatment settings. The Company and health care providers collect, capture, and submit the necessary and available diagnosis data to CMS within prescribed deadlines. The Company estimates risk adjustment revenues based upon the diagnosis data submitted and expected to be submitted to CMS. The estimated risk adjusted payments due to the Company at December 31, 2017 and 2016, were $38,129,945 and $43,161,584 respectively, and are recorded as premiums receivable in the balance sheets. The Company recognized $268,705 and $4,917,910 for changes in prior year Medicare risk factor estimates during the years ended December 31, 2017 and 2016, respectively, which is recorded as capitation and risk-sharing settlements within the statements of operations.

Delivery supplemental premium payments are per delivery and intended by AHCCCS to cover the cost of maternity care. Such premiums are recognized in the month that the delivery occurs, and are recorded as delivery supplemental premiums in the statements of operations and premiums receivable in the accompanying balance sheets.

Prospective capitation from the ALTCS contract is paid for those members who are receiving long-term care services and reside in a nursing facility, a certified home and community based setting or in their own home. The prospective capitation rate is a blended rate that uses an institutional rate and a Home and Community Based Services ("HCBS") rate based on an assumed placement ratio of HCBS member months to total member months for each geographic service area. Additionally, the prospective capitation incorporates an assumed deduction for the Share of Cost ("SOC"), which members contribute to the cost of care based on their income and type of placement. The Company and its contracted providers collect members' SOC directly from members.

At the end of the contract year, AHCCCS compares the actual HCBS member months to the assumed HCBS percentage that was used to determine the full long-term care capitation rate for that year. If the Company's actual HCBS percentage is different than the assumed percentage, AHCCCS will recoup the difference between the institutional capitation rate and the HCBS capitation rate for the number of member months, which exceeded the assumed percentage. The Company recorded receivables of $88,544 and $449,025 as other contract program receivables related to HCBS redetermination in the balance sheets at December 31, 2017 and 2016, respectively.

After the end of the contract year, AHCCCS compares actual SOC assignment to the SOC assignment assumed in the calculation of the prospective capitation rate. Assumed SOC will be fully reconciled to actual SOC assignment, and AHCCCS will either recoup or refund the total difference, as applicable. The Company recorded $3,367,693 and $2,678,403 related to member SOC redetermination as premiums receivable in the balance sheets at December 31, 2017 and 2016, respectively.

Medical Services Expenses and Medical Services Payable—Medical services expenses and medical services payable include estimates of the Company's obligations for medical care services that have been rendered on behalf of insured consumers, but for which claims have either not yet been received or processed, and for liabilities for physician, hospital and other medical cost disputes. The Company develops estimates for medical services expenses incurred but not reported using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as historical submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates, and other relevant factors. The Company estimates liabilities for physician, hospital and other medical services payable disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. Each period, the Company re-examines previously established medical services payable estimates based on actual claim submissions and other changes in facts and circumstances. As the medical services payable estimates recorded in prior periods develop, the Company adjusts the amount of the estimates and includes the changes in estimates in medical services expenses in the period in which the change is identified.

The Company contracts with hospitals, physicians, and other providers of health care under capitated or discounted fee for service arrangements, including a hospital and nursing home negotiated per diem to provide medical care services to enrollees. Some of these contracts are with related parties (see Note 9). Capitated providers are at risk for the cost of medical care services provided to the Company's enrollees; however, the Company is ultimately responsible for the provision of services to its enrollees should the capitated provider be unable to provide the contracted services.

Alternative Payment Model ("APM") (formerly Value-Based Purchasing)—AHCCCS administers the APM, which aligns payment more directly to the quality and efficiency of care provided by rewarding providers and contractors for their measured performance across the dimensions of quality.

As part of the APM, 1% of gross prospective capitation, excluding CRS, from all contractors in Arizona is at-risk to be redistributed based upon each contractor's performance on selected Quality Management Performance Measures as determined by AHCCCS. AHCCCS will recoup the amounts due from contractors to be redistributed once reconciliation for the contract period is complete. The Company accrued a payable for revenues it expects to be recouped. As of December 31, 2017 the Company accrued $5,315,873 which was net against other APM receivables included in other contract program receivables, and $19,876,901 as of December 31, 2016 which was recorded as other payables to contract programs in the balance sheets and capitation and risk-sharing settlements within the statements of operations. Due to prior year program results, the Company recorded a favorable change in estimate to capitation and risk-sharing settlements of $15,251,880 during 2017 related to all unsettled contract years due to a change in the settlement on a closed contract period.

The APM initiative also requires the Company to have a certain percentage of payments governed by APM strategies and performance-based incentives linked to quality and value. The Company manages APMs in which providers are rewarded for performing well on quality metrics and where providers share in a proportion of the savings they generate against cost and utilization targets. The Company accrued $7,978,960 and $6,475,659 in medical services payable in the balance sheets for this program as of December 31, 2017 and 2016, respectively. Amounts incurred are reported in other medical services in the statements of operations as of December 31, 2017. AHCCCS refunds the Company for performance-based payments to providers in subsequent period capitation payments. The Company accrues the estimated refund of $8,196,709 as other contract program receivables in the balance sheet as of December 31, 2017. The Company accrued the estimated refund of $4,548,217 as of December 31, 2016 and reported it net of other APM payables in other payables to contract programs in the balance sheet as of December 31, 2016. These refunds are recorded as capitation and risk-sharing settlements in the statements of operations.

AHCCCS Reinsurance—AHCCCS Reinsurance is a stop-loss program provided by AHCCCS for the partial reimbursement of covered medical services and those costs incurred beyond an annual deductible per member. AHCCCS provides regular reinsurance so long as the member incurred an inpatient stay, catastrophic reinsurance for those members receiving certain drugs or diagnosed with specific disorders, transplant reinsurance and other reinsurance. Claims containing any prior period coverage are excluded from reinsurance coverage. Recoveries from AHCCCS are recorded at estimated amounts due to the Company pursuant to the Acute, CRS, ALTCS and DES/DDD contracts. All contracts require the respective agencies to reimburse the Company 75% (85% for catastrophic cases for Acute, CRS and DES/DDD contracts) of qualified health care costs in excess of a recovery deductible. The deductibles applied are $50,000 for DES/DDD, $25,000 for Acute, and $75,000 for CRS. The deductible for members covered under the ALTCS contract is dependent upon the Company's enrollment. For cases where qualified medical out-of-pocket expense exceeds $650,000, the Company is reimbursed for 100% of the expense.

The Company reports estimated recoveries from AHCCCS as AHCCCS reinsurance receivable in the balance sheets. Recoveries from AHCCCS have been offset against medical services expenses in the statements of operations.

Medicare Part D Pharmacy Benefits—The Company serves as a plan sponsor offering Medicare Part D prescription drug insurance coverage under contracts with CMS. The CMS Premium, Member Premium, and Low-Income Premium Subsidy represent payments for the Company's insurance risk coverage under the Medicare Part D program, and are therefore recorded as capitation and risk-sharing settlements in the accompanying statements of operations. Premium revenues are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. The Company records premium payments received in advance of the applicable service period in accounts payable and accrued expenses in the accompanying balance sheets.

The CMS Premium, the Member Premium, and the Low-Income Premium Subsidy represent payments for the Company's insurance risk coverage under the Medicare Part D program and are therefore recorded as capitation and risk-sharing settlements in the statements of operations. Premium revenues are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits.

The Catastrophic Reinsurance Subsidy and the Low-Income Member Cost Sharing Subsidy ("Subsidies") represent cost reimbursements under the Medicare Part D program. The Company is fully reimbursed by CMS for costs incurred for these contract elements and, accordingly, there is no insurance risk to the Company. Subsidies for individual members are not reflected as capitation and risk-sharing settlements but rather are accounted for as deposits, with related amounts recorded in other contract program receivables in the balance sheets. The Company recorded $2,902,023 and $11,787,147 in other contract program receivables as of December 31, 2017 and 2016, respectively, for cost reimbursements under the Medicare Part D program for the catastrophic reinsurance and low-income member cost sharing subsidies. Related cash flows are presented as customer funds administered within financing activities in the statements of cash flows.

Pharmacy benefit costs and administrative costs under the contract are expensed as incurred, and are recognized in medical services expenses and administrative expenses, respectively, in the statements of operations.

The Company's Medicare Part D program business is subject to a retrospective rating feature related to Part D premiums. The Company has estimated accrued retrospective premiums related to certain Part D premiums based on guidelines determined by CMS. The formula is tiered and based on bid medical loss ratio.

The Company recorded an estimated CMS Part D risk share adjustment receivable of $374,433 and $432,200 as other contract program receivables in 2017 and 2016, respectively and as an increase to capitation and risk-sharing settlements in the statements of operations. The final 2017 risk-share amount is expected to be settled during the second half of 2018 and is subject to the reconciliation process with CMS. The amount of Part D premiums subject to retrospective rating was $45,542,004 and $38,333,606 for the years ended December 31, 2017 and 2016, respectively, representing 1% and 1% of total revenues excluding investment income as of December 31, 2017 and 2016, respectively.

Total premium revenues from CMS related to the Medicare Part D program and all other Medicare-related programs were approximately 23% and 22% of capitation and risk-sharing settlements reported in the statements of operations for the years ended December 31, 2017 and 2016, respectively.

Medicaid Risk Sharing—Due to the uncertainty regarding actual utilization and medical cost experience, AHCCCS limits the financial risk of the Company through risk share reconciliations. The Company has yearly risk-sharing agreements with AHCCCS for the Acute, CRS, and ALTCS members to cover medical expenses in excess of certain limits established by the contract. The reconciliation is tiered beginning at 3%, recouping different percentages of the excess in intervals up to profits of 6%. AHCCCS will repay all losses above 3%. For the prior period coverage, capitated Acute groups are evaluated on a risk band of 2% and ALTCS groups are evaluated on a risk band of 5%. Within the Acute contract, the adult group over 106% of the federal poverty level is evaluated on a risk band of 1%.

Receivables or payables and the corresponding revenues or contra-revenues are recorded depending on the surplus or deficit of revenues over medical and certain administrative expenses for the period and are calculated in accordance with the contract.

The Company estimated Medicaid risk sharing payables of $140,623,061 and $76,164,379 on the balance sheets as of December 31, 2017 and 2016, respectively. The change in estimated risk share of $(48,239,764) and $(55,501,353) in 2017 and 2016, respectively, is recorded as a decrease to capitation and risk-sharing settlements in the statements of operations. For the year ended December 31, 2017 there was $3,247,408 in changes in estimate as a result of favorable retroactivity.

Loss Adjustment Expenses—Loss adjustment expenses are costs that are expected to be incurred in connection with the adjustment and recording of health claims. Management believes the amount of the liability for unpaid claims adjustment expenses and associated claims interest as of December 31, 2017 is adequate to cover the Company's cost for the adjustment of unpaid claims; however, actual expenses may differ from those established estimates. It is the responsibility of UHS to pay loss adjustment expenses in the event the Company ceases operations. As of December 31, 2017 and 2016, the unpaid loss adjustment expenses included in the accompanying balance sheets in the accounts payable and accrued expenses line item is $4,936,683 and $4,400,034, respectively.

Administration of AHCCCS Funds—The Company has three agreements with AHCCCS to administer funds from AHCCCS to specific provider populations and are accounted for as deposits. The net impact of funds transferred are reported as AHCCCS funds administered under cash flows from financing on the statements of cash flows.

Rural Hospital Enhancement Payments—The Company entered into an agreement with AHCCCS in which it will pass-through supplemental inpatient reimbursement payments to qualifying rural hospitals as determined by AHCCCS. AHCCCS remits payment and informs the Company of the amount to be paid to each provider. The Company then makes the prescribed payments to the providers specified within 15 days of the receipt of funds. There is no risk to the Company as a result of this program. At December 31, 2017 and 2016, the Company has nothing recorded on the balance sheets related to this program.

Nursing Facilities—The Company is required to make quarterly enhancement payments to qualifying nursing facilities once paid by AHCCCS. AHCCCS retroactively adjusts its capitation rates paid to the Company on a quarterly basis to fund these enhancement payments. Reconciliation is performed at the end of the contract year to true up the enhancement payments. The Company does not make payments for this program until funding has been received from AHCCCS. At December 31, 2017 and 2016, the Company has nothing recorded on the balance sheets related to this program.

Targeted Investment Program ("TI")—Effective July 20, 2017, the Company has an agreement with AHCCCS to provide pass-through financial incentives to participating AHCCCS providers to develop systems for integrated care. These payments are intended to incentivize providers to improve performance and increase physical and behavioral health care integration and coordination for individuals with behavioral health needs. There is no risk to the Company as a result of this program. As of December 31, 2017 the Company accrued $1,528,192 in other payables to contract programs on the balance sheets related to this program.

Access to Professional Services Initiative ("APSI")—Effective October 1, 2017, the Company has an agreement with AHCCCS to provide pass through professional services to certain professionals in order to preserve and enhance access to these professionals who deliver essential services to AHCCCS members. These professional services will also support professionals who are critical to professional training and education efforts. The APSI is a program to preserve and promote access to medical services through a uniform percentage increase to the Contractor's rates for professional services provided by Qualified Practitioners affiliated with designated hospitals. There is no risk to the Company as a result of this program. At December 31, 2017 and 2016, the Company has nothing recorded on the balance sheets related to this program.

Premium Deficiency Reserve—The Company assesses the profitability of each contract for providing health care services to its members by comparing anticipated premiums to health care related costs, including estimated payments for physicians and hospitals, commissions, and costs of collecting premiums and processing claims. If the anticipated future costs exceed the premiums, a loss contract accrual is recognized. The Company has no amounts recorded for premium deficiency reserves as of December 31, 2017 and 2016.

Concentration of Business and Credit Risk—Future contract awards are contingent upon the continuation of the Acute, ALTCS, DES/DDD, and CRS programs by AHCCCS and the State of Arizona and the continuation of the CMS Medicare Advantage program and the Company's ability and desire to retain its status as a contractor under the programs. For the years ended December 31, 2017 and 2016, all of the Company's total revenues and receivables were from these programs.

Premiums from the Acute, Medicare, and ALTCS contracts of $1,781,434,241, $744,988,063, and $376,084,004, respectively, represent 55%, 23%, and 12% of total revenues excluding investment income for the year ended December 31, 2017. Premiums from the Acute, Medicare, and ALTCS contracts of $1,464,586,579, $582,792,764, and $363,060,721, respectively, represent 53%, 21% and 13% of total revenues excluding investment income for the year ended December 31, 2016. All other contracts represent less than 10% of total revenues excluding investment income.

The Acute and CRS contracts began procurement in 2017 for service periods beginning on October 1, 2018 under a new AHCCCS Complete Care contract which combines the contracts across all service areas and integrates behavioral health.

Concentration of credit risk with respect to receivables is limited due to the fact that AHCCCS, DES/DDD, and CMS are governmental agencies.

Industry Tax—The Affordable Care Act ("ACA") includes an annual, nondeductible insurance industry tax ("Industry Tax") to be levied proportionally across the insurance industry for risk-based health insurance products.

The Company estimates its liability for the Industry Tax based on a ratio of the Company's applicable net premiums written compared to the U.S. health insurance industry total applicable net premiums, both for the previous calendar year. The Company records in full the estimated liability for the Industry Tax at the beginning of the calendar year, with a corresponding deferred cost that is amortized to administrative expenses in the statements of operations using a straight-line method of allocation over the calendar year. A provision in the 2016 Federal Budget imposed a one year moratorium for 2017 on the collection of the Industry Tax. The Company paid the Industry Tax liability of $39,187,725 in September 2016.

AHCCCS has agreed to adjust the capitation payments to the Company in response to the Industry Tax, including the nondeductible tax effect, for up to the amounts paid for the year. The Company recorded $(56,576) and $47,276,260 as capitation and risk-sharing settlements in the statements of operations for the years ended December 31, 2017 and 2016, respectively.

Recently Issued Accounting Standards—In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01). The new guidance changes the current accounting related to (i) the classification and measurement of certain equity investments, (ii) the presentation of changes in the fair value of financial liabilities measured under the fair value option that are due to instrument-specific credit risk, and (iii) certain disclosures associated with the fair value of financial instruments. Most notably, ASU 2016-01 requires that equity investments, with certain exemptions, be measured at fair value with changes in fair value recognized in net income as opposed to other comprehensive income. The Company adopted ASU 2016-01 effective January 1, 2018 as required. ASU 2016-01 did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows.

Recently Adopted Accounting Standards—In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", as modified by subsequently issued ASUs 2015-14, 2016-08, 2016-10, 2016-12, and 2016-20 (collectively ASU 2014-09). ASU 2014-09 superseded existing revenue recognition standards with a single model unless those contracts are within the scope of other standards (e.g., an insurance entity's insurance contracts). The revenue recognition principle in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company early adopted the new standard effective January 1, 2017, as allowed, using the modified retrospective approach. The adoption of ASU 2014-09 did not have any impact on the Company's financial position, results of operations, equity or cash flows as of the adoption date or for the year ended December 31, 2017.

In May 2015, the FASB issued ASU No. 2015-09, "Financial Services—Insurance (Topic 944): Disclosure about Short-Term Duration Contracts" (ASU 2015-09). ASU 2015-09 requires insurance entities to provide additional disclosures about short-duration insurance liabilities, including incurred and paid medical costs information by year. The Company adopted the disclosure requirements of ASU 2015-09 and has included the new disclosures within Note 5.

The Company has determined that there have been no other recently adopted or issued accounting standards that had or will have a material impact on its financial statements.

3. PLEDGES/ASSIGNMENTS AND GUARANTEES

The Company has no pledges, assignments, collateralized assets, or guaranteed liabilities not disclosed in the balance sheets as of December 31, 2017 and 2016.

4. PERFORMANCE BONDS

Pursuant to its contracts with AHCCCS, DES/DDD, and CMS, the Company is required annually to provide performance bonds, in an acceptable form, to guarantee performance of the Company's obligations under certain contracts. To satisfy this requirement, the Company maintained surety bonds in 2017 and 2016 in the amounts of $299,100,000 and $234,300,000, respectively. The bonds are unsecured and require no Company assets to secure the obligations.

5. MEDICAL SERVICES PAYABLE ANALYSIS

The following table shows the components of the change in medical services payable for the years ended December 31, 2017 and 2016. Claim payments are presented net of health care receivables, including stop-loss recoveries, claim overpayment receivables, and pharmacy rebate receivables.

	2017	2016
Medical services payable, beginning of year	$ 299,366,072	$ 239,030,269
Reported medical services:		
Current year	2,816,370,836	2,385,265,725
Prior years	(27,129,229)	(1,230,053)
Total reported medical services	2,789,241,607	2,384,035,672
Claim payments:		
Payments for current year	(2,447,867,947)	(2,091,968,212)
Payments for prior years	(267,432,958)	(231,731,657)
Total claim payments	(2,715,300,905)	(2,323,699,869)
Medical services payable, end of year	$ 373,306,774	$ 299,366,072

There has been $27,129,229 of favorable prior year development from December 31, 2016 to December 31, 2017. The primary drivers consist of favorable development of $18,271,712 in AHCCCS reinsurance recoveries and favorable development of $15,353,467 as a result of a change in the provision for adverse deviations in experience. This was partially offset by unfavorable development of $8,356,553 in retroactivity for audit recovery operations. At December 31, 2016, the Company recorded $1,230,053 of favorable development primarily driven by favorable development of $9,324,384 as a result of a change in the provision for adverse deviations in experience and favorable development of $2,021,734, $552,798, and $215,302 in retroactivity for provider gain share and bonus amounts, pharmacy rebates, and provider settlement claims, respectively. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Medical costs payable included IBNR of $332,854,723 and $260,866,436 at December 31, 2017 and 2016, respectively. Substantially all of the IBNR balance as of December 31, 2017 relates to the current year. The following is information about incurred and paid medical cost development as of December 31, 2017:

	Net Incurred Medical Costs For the Year Ended December 31	
Year	2016	2017
2016	$ 2,385,265,725	$ 2,363,950,523
2017		2,816,370,836
Total		$ 5,180,321,359

Year	Net Cumulative Medical Payments For the Year Ended December 31 2016	2017
2016	$ (2,091,968,212)	$ (2,359,013,933)
2017		(2,447,867,947)
Total		(4,806,881,880)
Net remaining outstanding liabilities prior to 2016		(132,705)
Total medical costs payable		$ 373,306,774

6. CONTINGENT LIABILITIES AND GOVERNMENT REGULATIONS

Because of the nature of its businesses, the Company is frequently made party to a variety of legal actions and regulatory inquiries, including class actions and suits brought by members, care providers, consumer advocacy organizations, customers and regulators, relating to the Company's businesses, including management and administration of health benefit plans and other services.

The Company records liabilities for its estimates of probable costs resulting from these matters where appropriate. Estimates of costs resulting from legal and regulatory matters involving the Company are inherently difficult to predict, particularly where the matters: involve indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present novel legal theories or represent a shift in regulatory policy; involve a large number of claimants or regulatory bodies; are in the early stages of the proceedings; or could result in a change in business practices. Accordingly, the Company is often unable to estimate the losses or ranges of losses for those matters where there is a reasonable possibility or it is probable that a loss may be incurred. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions will not have a material adverse effect on the accompanying balance sheets or statements of operations of the Company.

The Company's business is regulated at the federal, state, and local levels. The laws and rules governing the Company's business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. Further, the Company must obtain and maintain regulatory approvals to market and sell many of its products.

The Company has been, or is currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments and other governmental authorities. Certain of the Company's businesses have been reviewed or are currently under review, including for, among other things, compliance with coding and other requirements under the Medicare risk-adjustment model.

On February 14, 2017, the Department of Justice ("DOJ") announced its decision to pursue certain claims within a lawsuit initially asserted against the Company and filed under seal by a whistleblower in 2011. The whistleblower's complaint, which was unsealed on February 15, 2017, alleges that the Company, along with a number of other Medicare Advantage plans, made improper risk adjustment submissions and violated the False Claims Act. On March 24, 2017, the DOJ intervened in a separate lawsuit initially asserted against the Company and filed by a whistleblower in 2009 concerning risk adjustment submissions by Medicare Advantage plans. On October 5, 2017, in one of the cases, the district court dismissed certain of the DOJ's claims with prejudice, and dismissed all of the DOJ's remaining claims with leave to file a further amended complaint. On October 12, 2017, the DOJ filed a notice of dismissal without prejudice of the case. The other case is now pending in the U.S. District Court for the Central District of California. The Company cannot reasonably estimate the outcome that may result from these matters given their current posture.

Risk Adjustment Data Validation ("RADV") Audit—CMS adjusts capitation payments to Medicare Advantage plans and Medicare Part D plans according to the predicted health status of each beneficiary as supported by data from health care providers. The Company collects claim and encounter data from providers, who the Company generally relies on to appropriately code their claim submissions and document their medical records. CMS then determines the risk score and payment amount for each enrolled member based on the health care data submitted and member demographic information.

CMS and the Office of Inspector General for Health and Human Services periodically perform RADV audits of selected Medicare health plans to validate the coding practices of and supporting documentation maintained by health care providers. Such audits have in the past resulted and could in the future result in retrospective adjustments to payments made to the Company, fines, corrective action plans or other adverse action by CMS.

In February 2012, CMS announced a final RADV audit and payment adjustment methodology and is conducting the RADV audits beginning with the 2011 payment year. These audits involve a review of medical records maintained by care providers and may result in retrospective adjustments to payments made to health plans. CMS has not communicated how the final payment adjustment under its methodology will be implemented.

To date, the Company has not been selected by CMS to participate in a RADV audit.

Health Reform Legislation and the related federal and state regulations will continue to impact how the Company does business and could restrict revenue and enrollment growth in certain products and market segments, restrict premium growth rates for certain products and market segments, increase the Company's medical and administrative costs, expose the Company to an increased risk of liability (including increasing our liability in federal and state courts for coverage determinations and contract interpretation), or put the Company at risk for loss of business. In addition, the Company's results of operations, financial condition and cash flows could be materially adversely affected by such changes. The Health Reform Legislation may create new or expand existing opportunities for business growth, but due to its complexity, the impact of the Health Reform Legislation remains difficult to predict and is not yet fully known.

There are no assets that the Company considers to be impaired at December 31, 2017 and 2016, except as disclosed in Notes 2, 7, and 8.

7. INVESTMENTS

A summary of investments by major security type is as follows:

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities—available-for-sale:				
U.S. government and agency obligations	$ 23,161,228	$ 53,568	$ 29,603	$ 23,185,193
State and municipal obligations	178,033,702	2,653,751	510,644	180,176,809
Corporate obligations	153,164,837	1,107,045	277,100	153,994,782
U.S. agency mortgage-backed securities	48,676,280	246,864	175,749	48,747,395
Non-U.S. agency mortgage-backed securities	12,396,219	52,692	51,591	12,397,320
Total debt securities—available-for-sale	415,432,266	4,113,920	1,044,687	418,501,499
Total investments	$ 415,432,266	$ 4,113,920	$ 1,044,687	$ 418,501,499
December 31, 2016				
Debt securities—available-for-sale:				
U.S. government and agency obligations	$ 19,574,385	$ 7,203	$ 547,689	$ 19,033,899
State and municipal obligations	103,888,557	633,555	1,657,428	102,864,684
Corporate obligations	127,031,644	604,976	352,366	127,284,254
U.S. agency mortgage-backed securities	33,623,308	119,903	387,861	33,355,350
Non-U.S. agency mortgage-backed securities	17,439,883	60,990	124,198	17,376,675
Total debt securities—available-for-sale	301,557,777	1,426,627	3,069,542	299,914,862
Total investments	$ 301,557,777	$ 1,426,627	$ 3,069,542	$ 299,914,862

The amortized cost and fair value of available-for-sale debt securities as of December 31, 2017, by contractual maturity, were as follows:

	2017	
	Amortized Cost	Fair Value
Due in one year or less	$ 12,872,662	$ 12,876,923
Due after one year through five years	95,486,026	95,658,242
Due after five years through ten years	138,808,761	140,458,552
Due after ten years	107,192,318	108,363,067
U.S. agency mortgage-backed securities	48,676,280	48,747,395
Non-U.S. agency mortgage-backed securities	12,396,219	12,397,320
Total debt securities—available-for-sale	$ 415,432,266	$ 418,501,499

The fair value of available-for-sale investments with gross unrealized losses by major security type and length of time that individual securities have been in a continuous unrealized loss position were as follows:

	Less than 12 Months		12 Months or Greater		Total	
December 31, 2017	Fair Value	Gross Unrealized Losses	12 Months or Greater Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Debt securities—available-for-sale:						
U.S. government and agency obligations	$ 3,941,034	$ 29,603	$ -	$ -	$ 3,941,034	$ 29,603
State and municipal obligations	39,702,458	311,785	12,236,928	198,859	51,939,386	510,644
Corporate obligations	31,810,684	138,989	8,965,540	138,111	40,776,224	277,100
U.S agency mortgage-backed securities	21,819,119	168,176	769,630	7,573	22,588,749	175,749
U.S. non-agency mortgage-backed securities	2,853,906	33,647	664,992	17,944	3,518,898	51,591
Total debt securities—available-for-sale	$ 100,127,201	$ 682,200	$ 22,637,090	$ 362,487	$ 122,764,291	$ 1,044,687
December 31, 2016						
Debt securities—available-for-sale:						
U.S. government and agency obligations	$ 15,045,030	$ 547,689	$ -	$ -	$ 15,045,030	$ 547,689
State and municipal obligations	62,458,152	1,641,449	1,345,355	15,979	63,803,507	1,657,428
Corporate obligations	33,674,398	349,933	1,591,890	2,433	35,266,288	352,366
U.S agency mortgage-backed securities	22,050,997	387,861	-	-	22,050,997	387,861
U.S. non-agency mortgage-backed securities	8,442,630	71,916	2,128,072	52,282	10,570,702	124,198
Total debt securities—available-for-sale	$ 141,671,207	$ 2,998,848	$ 5,065,317	$ 70,694	$ 146,736,524	$ 3,069,542

The unrealized losses from all securities as of December 31, 2017 were generated from approximately 118 positions out of a total of approximately 388 positions. The Company believes that it will collect all principal and interest due on its investments that have an amortized cost in excess of fair value. The unrealized losses on investments were primarily caused by interest rate increases and not by unfavorable changes in the credit ratings associated with these securities. The Company evaluates impairment at each reporting period for each of the securities whereby the fair value of the investment is less than its amortized cost. The contractual cash flows of the U.S. government and agency obligations are either guaranteed by the U.S. government or an agency of the U.S. government. It is expected that the securities would not be settled at a price less than the cost of the investment, and the Company does not intend to sell the investment until the unrealized loss is fully recovered. The Company evaluated the underlying credit quality and credit ratings of the issuers, noting whether a significant deterioration since purchase or other factors that may indicate an other-than-temporary impairment ("OTTI"), such as the length of time and extent to which fair value has been less than cost, the financial condition, and near term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer and the Company's intent to sell the investment. As of December 31, 2017, the Company did not have the intent to sell any of the securities in an unrealized loss position.

Net realized gains included in investment income—net on the statements of operations were from the following sources:

	Years Ended December 31,	
	2017	2016
Total OTTI	$ -	$ -
Net OTTI recognized in earnings	-	-
Gross realized losses from sales	1,135,176	356,019
Gross realized gains from sales	149,251	2,848,372
Net realized (losses) gains (included in investment income—net on the statements of operations)	(985,925)	2,492,353
Income tax effect (included in provision for income taxes on the statement of operations)	345,074	(872,324)
Realized (losses) gains, net of taxes	$ (640,851)	$ 1,620,029

8. FAIR VALUE

Certain assets and liabilities are measured at fair value in the consolidated financial statements, or have fair values disclosed in the notes to financial statements. These assets and liabilities are classified into one of three levels of a hierarchy defined by GAAP. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The fair value hierarchy is summarized as follows:

Level 1—Quoted prices (unadjusted) for identical assets/liabilities in active markets.

Level 2—Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets/liabilities in non active markets (e.g., few transactions, limited information, non current prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the asset/liability (e.g., interest rates, yield curves, implied volatilities, credit spreads); and
- Inputs that are corroborated by other observable market data.

Level 3—Unobservable inputs that cannot be corroborated by observable market data.

Non-financial assets and liabilities, or financial assets and liabilities that are measured at fair value on a nonrecurring basis, are subject to fair value adjustments only in certain circumstances, such as when the Company records an impairment. There were no significant fair value adjustments for these assets and liabilities recorded during the years ended December 31, 2017 and 2016.

The following table presents a summary of the fair value measurements by level for assets and liabilities measured at fair value on a recurring basis:

December 31, 2017	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair and Carrying Value
Cash and cash equivalents	$ 162,823,956	$ -	$ -	$ 162,823,956
Debt securities—available-for-sale:				
U.S. government and agency obligations	23,185,193	-	-	23,185,193
State and municipal obligations	-	180,176,809	-	180,176,809
Corporate obligations	-	153,994,782	-	153,994,782
U.S. agency mortgage-backed securities	-	48,747,395	-	48,747,395
Non-U.S. agency mortgage-backed securities	-	12,397,320	-	12,397,320
Total debt securities—available-for-sale	23,185,193	395,316,306	-	418,501,499
Total cash, cash equivalents, and investments at fair value	$ 186,009,149	$ 395,316,306	$ -	$ 581,325,455
December 31, 2016				
Cash and cash equivalents	$ 104,902,614	$ -	$ -	$ 104,902,614
Debt securities—available-for-sale:				
U.S. government and agency obligations	19,033,899	-	-	19,033,899
State and municipal obligations	-	102,864,684	-	102,864,684
Corporate obligations	-	127,284,254	-	127,284,254
U.S. agency mortgage-backed securities	-	33,355,350	-	33,355,350
Non-U.S. agency mortgage-backed securities	-	17,376,675	-	17,376,675
Total debt securities—available-for-sale	19,033,899	280,880,963	-	299,914,862
Total cash, cash equivalents, and investments at fair value	$ 123,936,513	$ 280,880,963	$ -	$ 404,817,476

Transfers between levels, if any, are recorded as of the beginning of the reporting period in which the transfer occurs. There were no transfers between Levels 1, 2 or 3 of any financial assets or liabilities during 2017 or 2016.

The Company does not have financial assets with a fair value hierarchy of Level 3.

The following methods and assumptions were used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument:

Cash and Cash Equivalents—The carrying value of cash and cash equivalents approximates fair value, as maturities are less than three months. Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2.

Debt Securities—Fair values of debt and equity securities are based on quoted market prices, where available. The Company obtains one price for each security, primarily from a third-party pricing service (pricing service), which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities and, if necessary, makes adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark yields, credit spreads, default rates, prepayment speeds and non-binding broker quotes.

As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to prices reported by a secondary pricing source such as its custodian, its investment consultant, and third-party investment advisors. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures, and review of fair value methodology documentation provided by independent pricing services, have not historically resulted in adjustment to the prices obtained from the pricing service.

Fair values of debt securities that do not trade on a regular basis in active markets, but are priced using other observable inputs, are classified as Level 2.

Throughout the procedures discussed above in relation to the Company's processes for validating third-party pricing information, the Company validates the understanding of assumptions and inputs used in security pricing, and determines the proper classification in the hierarchy based on that understanding.

The carrying amounts reported in the balance sheets for other current financial assets and liabilities approximate fair value because of their short-term nature. These assets and liabilities are not listed in the table above.

9. RELATED-PARTY TRANSACTIONS

Pursuant to the terms of a Management Agreement (the "Agreement"), UHS will provide management services to the Company under a fee structure, which is based on a percentage of premium charge representing UHS' expenses for services or use of assets provided to the Company. In addition, UHS provides or arranges for services on behalf of the Company using a pass-through of charges incurred by UHS on a per member per month ("PMPM") basis (where the charge incurred by UHS is on a PMPM basis) or using another allocation methodology consistent with the Agreement. These services may include, but are not limited to, integrated personal health management solutions, such as disease management and treatment decision support, including a 24-hour call-in service, access to a network of transplant providers, and discount program services. The amount and types of services provided pursuant to the pass-through provision of the Agreement can change year over year as UHS becomes the contracting entity for services provided to the Company's members. Total administrative services, capitation, and access fees under this arrangement totaled $265,861,391 and $226,603,632 in 2017 and 2016, respectively, and are included in medical services expenses and administrative expenses in the statements of operations. Direct expenses not covered under the Agreement, such as broker commissions, ACA assessments, and premium taxes, are paid by UHS on behalf of the Company. UHS is reimbursed by the Company for these direct expenses.

The Company also directly contracts with related parties to provide services to its members. The Company expensed as administrative expenses $95,991,851 and $72,442,790 in capitation fees and administrative services to related parties during 2017 and 2016, respectively. Dental Benefit Providers, Inc. provides dental care assistance. United Behavioral Health provides mental health and substance abuse services. OptumHealth Care Solutions, Inc. provides chiropractic, speech therapy, physical therapy and occupational therapy services.

The capitation expenses, administrative services, and access fees paid to related parties, that are included as administrative expenses in the accompanying statements of operations for the years ended December 31, 2017 and 2016, are shown below:

	2017	2016
Dental Benefit Providers, Inc.	$ 89,642,359	$ 67,588,400
United Behavioral Health	4,878,780	4,175,233
OptumHealth Care Solutions, Inc.	1,470,712	679,157
Total	$ 95,991,851	$ 72,442,790

The Company contracts with OptumRx, Inc. to provide administrative services related to pharmacy management and pharmacy claims processing for its enrollees. Fees related to these agreements, which are calculated on a per-claim basis, of $14,749,682 and $11,444,354 in 2017 and 2016, respectively, are included in administrative expenses in the accompanying statements of operations. Additionally, OptumRx collects rebates on certain pharmaceutical products based on member utilization. Rebate receivables of $31,659,524 and $24,257,919 as of December 31, 2017 and 2016, are included as related-party receivable—net and related-party payable—net, respectively, on the balance sheets.

The Company contracts with OptumRx, Inc. to provide personal health products catalogues showing the health care products and benefit credits needed to redeem the respective products. OptumRx, Inc. will mail the appropriate personal health products catalogues to the Company's members and manage the personal health products credit balance. OptumRx, Inc. also distributes personal health products to individual members based upon the terms of the agreement. Fees related to this agreement in 2017 and 2016, which are calculated on a PMPM basis, of $15,494,899 and $8,050,017 respectively, are included in the other medical services expenses in the accompanying statements of operations.

Effective January 1, 2017, The Company has an agreement with OptumInsight, Inc. ("OptumInsight") for claim analytics, recovery of medical expense overpayments, retroactive fraud, waste and abuse, subrogation and premium audit services. All recoveries are returned to the Company by OptumInsight on a monthly basis and a capitated service fee is charged to the Company as a PMPM. Service fees of $11,302,616 are included in administrative expenses in the accompanying statements of operations for the year ended December 31, 2017.

The Company holds a $50,000,000 subordinated revolving credit agreement with UHG, at an interest rate of London InterBank Offered Rate, plus a margin of 0.50%. The credit agreement is for a one-year term and automatically renews annually, unless terminated by either party. No amounts were outstanding under the line of credit as of December 31, 2017 and 2016.

In addition to the agreements above, UHS maintains a private short-term investment pool in which affiliated companies may participate (see Note 2). At December 31, 2017 and 2016, the Company's portion was $151,343,396 and $95,384,223, respectively, and is included in cash and cash equivalents in the balance sheets.

The remaining related-party receivable (payable)—net, as reflected in the accompanying balance sheets, represents costs incurred in the ordinary course of business by, or on behalf of, the Company.

The Company has a Receivable Purchase and Servicing Agreement with OptumBank, Inc., an affiliate. Under the terms of the agreement, the Company will purchase all receivables arising from a RETLF (see Note 2). The Company has purchased $20,653,615 and $19,979,898, in exchange for cash which is reported in other long-term assets as of December 31, 2017 and 2016, respectively.

10. STOCKHOLDER'S EQUITY

As a result of the change in net unrealized gains and losses on investments available-for-sale, the Company had accumulated other comprehensive income (loss) of $1,786,500 and $(1,276,397) as of December 31, 2017 and 2016, respectively.

The Company paid dividends of $30,000,000 and $30,000,000 on September 18, 2017 and December 11, 2017, respectively. These were recorded as a decrease to retained earnings. Approval was required from the DES for $10,000,000 of the December 11, 2017 dividend. The remaining $50,000,000 of dividends was distributed from earnings not designated under an AHCCCS contract and therefore did not require pre-approval.

The Company did not pay any dividends in 2016.

11. COMPLIANCE WITH FINANCIAL VIABILITY STANDARDS AND PERFORMANCE GUIDELINES

For the contract year ended September 30, 2017, the Company was not in compliance with the medical expense ratio requirement on the DES/DDD contract, but was in compliance with all other Financial Viability Standards and Performance Guidelines. There has been no impact to the Company to date as a result of the non-compliance, financial or otherwise. As of December 31, 2017, one quarter into the 2017 contract year, the Company was not in compliance with the medical expense ratio requirement on the DES/DDD contract. Performance against these standards and guidelines for the contract year ending September 30, 2018 is being monitored by the Company on a quarterly basis.

12. ACCRUED SANCTIONS

The Company had accrued a liability of $1,275,000 and $2,210,105 for AHCCCS sanctions related to encounter and quality measures not met as of December 31, 2017 and 2016, respectively. The sanctions are included in accounts payable and accrued expenses in the accompanying balance sheets.

13. PROVIDER INCENTIVES

The Company does not currently offer any provider incentives.

14. NON-COVERED SERVICES

The Company performed a review of claims with dates of service in 2017. Areas of focus included non-covered outpatient rehabilitation services, chiropractic services and dental services for adults. Small amounts of services were identified as having been provided to adults for outpatient rehabilitation services and chiropractic services. The results showed that $15,668 of chiropractic services and $11,617 of physical therapy services were paid for in 2017 for all members under contract.

15. INCOME TAXES

The Company's operations are included in the consolidated federal income tax return of UHG. Federal and state income taxes are paid to or refunded by UHG pursuant to the terms of a tax sharing agreement, approved by the Board of Directors, under which taxes approximate the amount that would have been computed on a separate company basis. The Company receives a benefit at the federal rate in the current year for net losses incurred in that year to the extent losses can be utilized in the consolidated federal income tax return of UHG. There were no net operating losses or other tax carry forwards as of December 31, 2017 or 2016.

The components of the provision for income taxes for the years ended December 31, are as follows:

	2017	2016
Current provision:		
Federal	$ 52,221,631	$ 34,552,418
Total current provision	52,221,631	34,552,418
Deferred provision:		
Federal	(600,025)	23,452
Total deferred provision	(600,025)	23,452
Total provision for income taxes	$ 51,621,606	$ 34,575,870

The reconciliation of the tax provision at the U.S. Federal Statutory Rate to the provision for income taxes and the effective tax rate for the years ended December 31, 2017 and 2016 is as follows:

	2017		2016	
Tax provision at the U.S. federal statutory rate	$ 52,157,774	35.0 %	$ 21,638,485	35.0 %
Industry tax	-	-	13,715,704	22.2
Tax-exempt investment income	(996,601)	(0.7)	(778,319)	(1.3)
Change in tax law	465,944	0.3	-	-
Other—net	(5,511)	-	-	-
Provision for income taxes	$ 51,621,606	34.6 %	$ 34,575,870	55.9 %

On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 ("Tax Reform"). Tax Reform changed existing United States tax law including a reduction of the U.S. corporate tax rate. The Company re-measured deferred taxes as of the date of enactment. The Company's measurement of the income tax effects of Tax Reform for the year ended December 31, 2017 is reasonably estimated and, therefore, included in these financial statements.

Current net federal and state income taxes payable is $4,845,288 and $4,211,075 as of December 31, 2017 and 2016, respectively.

Deferred income tax assets and liabilities are recognized for the differences between the financial and income tax reporting bases of assets and liabilities, based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year. The current income tax provision reflects the tax consequence of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

The components of deferred income tax assets and liabilities as of December 31, 2017 and 2016 are as follows:

	2017	2016
Deferred income tax assets:		
Bad debt reserve	$ 391,452	$ 464,784
Unpaid losses and loss adjustment expense	572,337	817,917
Intangibles	440,972	-
Unrealized loss	-	576,822
Total deferred income tax assets	1,404,761	1,859,523
Deferred income tax liabilities:		
Prepaid expenses	17,395	35,617
Investments	43,913	73,964
Unrealized gain	644,539	1,801
Total deferred income tax liabilities	705,847	111,382
Net deferred income tax assets	$ 698,914	$ 1,748,141

As part of the contracts with AHCCCS the Company pays a premium tax imposed by Arizona Revised Statutes ("A.R.S.") Section 36-2905. A.R.S. Section 20-226 exempts from state income tax, companies paying premium tax imposed by A.R.S. Section 20-224 (but not Section 36-2905). Therefore, an issue was raised regarding whether companies paying tax under A.R.S. Section 36-2905 are exempt from Arizona income tax. As of December 31, 2017, the issue was still under review and we are awaiting a determination. However, in February 2018, the Arizona Department of Revenue approved the refund claim and we received the refund check.

UHG currently files income tax returns in the United States federal jurisdiction, various states, and foreign jurisdictions. The U.S. Internal Revenue Service ("IRS") has completed exams on UHG's consolidated income tax returns for fiscal years 2016 and prior. UHG's 2017 tax return is under advance review by the IRS under its Compliance Assurance Program. With the exception of a few states, the Company is no longer subject to income tax examinations prior to the 2011 tax year. The Company does not believe any adjustments that may result from these examinations will be material to the Company.

The Company has not included a reconciliation of the beginning and ending amount of unrecognized tax benefits as it does not have any uncertain tax positions as of December 31, 2017 or 2016.

Federal and state income taxes paid, net of refunds, was $51,587,418 and $53,769,212 in 2017 and 2016, respectively.

16. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES, AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company has no retirement plan, deferred compensation, and other benefit plans, since all personnel are employees of UHS, which provides services to the Company under the terms of a management agreement (see Note 9).

17. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated and disclosed all material subsequent events up to April 30, 2018, the date that the draft financial statements were available to be issued.

The Company was awarded continuation of the Medicaid contract for service periods beginning October 1, 2018. This award combined the Acute and CRS into a new Complete Care Integrated Services contract that covers both physical and behavioral health care services. The contract remodeled geographic service areas in Arizona from seven service areas to three and no longer allows for state-wide programs. As a result, the Company will service members in the Central region, and Pima County in the South region. The Company will not service members within this contract in the North region, and all counties except for Pima in the South. Due to AHCCCS assignment of members, and member-elected service changes not occurring until July 2018, the full extent of the change in population is not available as of the date of the issuance.

There are no other events subsequent to December 31, 2017 that require disclosure.

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SUPPLEMENTAL SCHEDULES

EXHIBIT I:
SUPPLEMENTAL COMBINING STATEMENTS

ARIZONA PHYSICIANS IPA, INC.

SUPPLEMENTAL COMBINING BALANCE SHEETS
AS OF DECEMBER 31, 2017

ASSETS	Acute	DES/DDD	CRS	Medicare	ALTCS	Eliminations	Total
CURRENT ASSETS:							
Cash and cash equivalents	$ 162,823,956	$ -	$ -	$ -	$ -	$ -	$ 162,823,956
Short-term investments	12,876,923	-	-	-	-	-	12,876,923
Premiums receivable	6,199,922	-	-	38,096,409	3,367,693	-	47,664,024
AHCCCS reinsurance receivable	24,284,184	4,316,201	13,243,045	-	5,639,941	-	47,483,371
Other contract programs receivables	2,954,727	-	-	2,926,024	389,087	-	6,269,838
Other receivables—net of allowances of $1,864,060	2,755,350	152,685	444,932	809,726	1,802,892	-	5,965,585
Related-party receivable—net	1,113,519	-	-	-	-	-	1,113,519
Investment receivables	3,301,758	-	-	-	-	-	3,301,758
Current state income taxes receivable	851,342	-	-	-	-	-	851,342
Other assets	1,552,612	-	-	82,831	-	-	1,635,443
Due from other lines of business	-	14,966,515	33,958,319	84,714,410	72,321,491	(205,960,735)	-
Total current assets	218,714,293	19,435,401	47,646,296	126,629,400	83,521,104	(205,960,735)	289,985,759
LONG-TERM ASSETS:							
Long-term investments	405,624,576	-	-	-	-	-	405,624,576
Intangible assets—net	32,261,631	-	-	-	-	-	32,261,631
Other long-term assets	20,653,615	-	-	-	-	-	20,653,615
Long-term deferred income taxes—net	698,914	-	-	-	-	-	698,914
Total long-term assets	459,238,736	-	-	-	-	-	459,238,736
TOTAL	$ 677,953,029	$ 19,435,401	$ 47,646,296	$ 126,629,400	$ 83,521,104	$ (205,960,735)	$ 749,224,495
LIABILITIES AND STOCKHOLDER'S EQUITY							
CURRENT LIABILITIES:							
Medical services payable	$ 198,021,523	$ 7,537,381	$ 37,235,576	$ 84,421,916	$ 46,090,378	$ -	$ 373,306,774
Medicaid risk sharing payable	138,656,365	-	(1,836,698)	-	3,803,394	-	140,623,061
Other payables to contract programs	1,324,243	-	203,949	4,339,080	-	-	5,867,272
Accounts payable and accrued expenses	4,785,031	16,936	324,834	1,153,862	673,788	-	6,954,451
Current federal income taxes payable	5,696,630	-	-	-	-	-	5,696,630
Due to other lines of business	205,960,735	-	-	-	-	(205,960,735)	-
Total current liabilities	554,444,527	7,554,317	35,927,661	89,914,858	50,567,560	(205,960,735)	532,448,188
LONG-TERM LIABILITIES:							
Other long-term liabilities	1,000,000	-	-	-	-	-	1,000,000
Total liabilities	555,444,527	7,554,317	35,927,661	89,914,858	50,567,560	(205,960,735)	533,448,188
STOCKHOLDER'S EQUITY:							
Common stock, $0.01 par value—1,000,000 shares authorized; two shares issued and outstanding	-	-	-	-	-	-	-
Additional paid-in capital	56,411,047	7,105,347	-	-	14,000,000	-	77,516,394
Retained earnings	64,310,955	4,775,737	11,718,635	36,714,542	18,953,544	-	136,473,413
Accumulated other comprehensive income	1,786,500	-	-	-	-	-	1,786,500
Total stockholder's equity	122,508,502	11,881,084	11,718,635	36,714,542	32,953,544	-	215,776,307
TOTAL	$ 677,953,029	$ 19,435,401	$ 47,646,296	$ 126,629,400	$ 83,521,104	$ (205,960,735)	$ 749,224,495

ARIZONA PHYSICIANS IPA, INC.

SUPPLEMENTAL COMBINING STATEMENTS OF OPERATIONS
AS OF DECEMBER 31, 2017

	Acute	DES/DDD	CRS	Medicare	ALTCS	Total
REVENUES:						
Capitation and risk-sharing settlements	$ 1,715,338,240	$ 98,400,098	$ 254,655,902	$ 744,988,063	$ 376,084,004	$ 3,189,466,307
Delivery supplemental premium	66,096,001	-	-	-	-	66,096,001
Investment income—net	10,722,514	-	-	-	-	10,722,514
Total revenues	1,792,156,755	98,400,098	254,655,902	744,988,063	376,084,004	3,266,284,822
MEDICAL SERVICES EXPENSES:						
Hospital inpatient services	263,792,235	13,466,079	55,543,377	185,651,782	14,451,351	532,904,824
Medical compensation	413,892,583	13,435,754	89,330,632	155,284,089	14,446,373	686,389,431
Pharmacy	282,390,938	24,592,474	54,259,518	28,640,525	11,308,198	401,191,653
Outpatient facility	199,265,569	5,559,576	13,573,419	45,077,021	5,988,050	269,463,635
Emergency facility services	119,212,896	2,513,008	5,893,583	32,687,222	662,811	160,969,520
Nursing facility and home health care	46,921,313	9,459,919	3,770,523	33,722,510	23,497,659	117,371,924
Lab, x-ray, and medical imaging	55,431,873	1,056,450	1,940,597	20,881,746	682,262	79,992,928
Transportation	71,103,468	2,715,431	4,643,894	17,528,092	9,472,022	105,462,907
Dental	64,331,026	2,017,799	7,377,729	25,723,397	1,750,589	101,200,540
Other medical services	72,742,987	807,351	12,492,797	26,114,504	7,551,657	119,709,296
Durable medical equipment	25,953,993	12,578,568	16,409,408	12,206,877	1,440,091	68,588,937
Long-term care institutional	-	-	-	-	115,930,777	115,930,777
Long-term care home-based and community-based services	-	-	-	-	140,273,657	140,273,657
Recoveries from AHCCCS	(56,880,068)	(10,100,832)	(29,054,524)	-	(14,172,998)	(110,208,422)
Total medical services expenses	1,558,158,813	78,101,577	236,180,953	583,517,765	333,282,499	2,789,241,607
ADMINISTRATIVE EXPENSES	148,728,358	7,674,424	20,662,859	73,068,021	27,538,054	277,671,716
PREMIUM TAXES	36,845,919	-	5,698,232	-	7,805,140	50,349,291
Total expenses	1,743,733,090	85,776,001	262,542,044	656,585,786	368,625,693	3,117,262,614
INCOME (LOSS) BEFORE INCOME TAXES	48,423,665	12,624,097	(7,886,142)	88,402,277	7,458,311	149,022,208
PROVISION FOR INCOME TAXES	16,774,059	4,373,014	(2,731,776)	30,622,734	2,583,575	51,621,606
NET INCOME (LOSS)	$ 31,649,606	$ 8,251,083	$ (5,154,366)	$ 57,779,543	$ 4,874,736	$ 97,400,602