

# UnitedHealthcare Integrated Services, Inc.

Financial Statements as of and for the  
Years Ended December 31, 2014 and 2013,  
Independent Auditors' Report

# UNITEDHEALTHCARE INTEGRATED SERVICES, INC.

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
UnitedHealthcare Integrated Services, Inc.  
9701 Data Park Drive  
Minnetonka, MN 55343

We have audited the accompanying financial statements of UnitedHealthcare Integrated Services, Inc. (formerly Evercare of Arizona, Inc.) (the "Company"), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, comprehensive income, changes in stockholders' 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 UnitedHealthcare Integrated Services, Inc. as of December 31, 2014 and 2013, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis-of-Matter**

As discussed in Note 1 to the financial statements, effective October 1, 2014, the Company ceased servicing the Arizona Long Term Care System contract. All responsibilities of the contract were assumed by Arizona Physicians IPA, Inc., an affiliate. As of October 1, 2014, the Company did not have any remaining membership as a result of the transfer of the contract.

*Deloitte & Touche LLP*

April 29, 2015

# UNITEDHEALTHCARE INTEGRATED SERVICES, INC.

## BALANCE SHEETS

AS OF DECEMBER 31, 2014 AND 2013

(In thousands, except share and per share data)

	2014	2013
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,397	\$ 12,450
Short-term investments	899	2,594
AHCCCS capitated premiums and reconciliations	4,175	4,957
AHCCCS reinsurance receivable	1,685	4,409
Other receivables—net	1,009	7,567
Investment receivables	227	362
Deferred income taxes—net	392	219
Total current assets	24,784	32,558
LONG-TERM INVESTMENTS	21,847	38,753
TOTAL	<u>\$ 46,631</u>	<u>\$ 71,311</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
CURRENT LIABILITIES:		
Medical services payable	\$ 4,209	\$ 42,446
Reconciliation payable	2,134	643
Administration of AHCCCS funds—nursing facilities	3,285	-
Related-party payable—net	110	1,524
Current income taxes payable	29	813
Other current liabilities	685	1,035
Total current liabilities	10,452	46,461
LONG-TERM DEFERRED INCOME TAXES—Net	250	41
Total liabilities	10,702	46,502
CONTINGENCIES (Note 6)		
STOCKHOLDER'S EQUITY:		
Common stock, no par value—2,000,000 shares authorized; 2 shares issued and outstanding	-	-
Additional paid-in capital	10,999	10,999
Retained earnings	24,534	13,733
Accumulated other comprehensive income	396	77
Total stockholder's equity	35,929	24,809
TOTAL	<u>\$ 46,631</u>	<u>\$ 71,311</u>

See notes to financial statements.

# UNITEDHEALTHCARE INTEGRATED SERVICES, INC.

## STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

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	2014	2013
REVENUES:		
Capitation revenue	\$ 238,937	\$ 295,118
Investment income—net	<u>1,543</u>	<u>1,528</u>
Total revenues	<u>240,480</u>	<u>296,646</u>
MEDICAL SERVICES EXPENSES:		
Institutional care	93,138	125,477
Home-based and community-based services	72,367	92,032
Acute care	35,932	41,238
Recoveries from AHCCCS	(8,774)	(3,684)
Other medical services	<u>247</u>	<u>-</u>
Total medical services expenses	<u>192,910</u>	<u>255,063</u>
MANAGEMENT FEES	<u>24,052</u>	<u>26,261</u>
OPERATING EXPENSES	<u>5,692</u>	<u>6,653</u>
INCOME BEFORE INCOME TAXES	17,826	8,669
PROVISION FOR INCOME TAXES	<u>7,025</u>	<u>3,259</u>
NET INCOME	<u>\$ 10,801</u>	<u>\$ 5,410</u>

See notes to financial statements.

# UNITEDHEALTHCARE INTEGRATED SERVICES, INC.

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

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	<b>2014</b>	<b>2013</b>
NET INCOME	<u>\$ 10,801</u>	<u>\$ 5,410</u>
OTHER COMPREHENSIVE INCOME (LOSS):		
Gross unrealized holding gains (losses) on investment securities during the period	821	(1,473)
Income tax effect	<u>(202)</u>	<u>701</u>
Total unrealized gains (losses)—net of tax	<u>619</u>	<u>(772)</u>
Gross reclassification adjustment for net realized gains included in net earnings	(489)	(495)
Income tax effect	<u>189</u>	<u>196</u>
Total reclassification adjustment—net of tax	<u>(300)</u>	<u>(299)</u>
Other comprehensive income (loss)	<u>319</u>	<u>(1,071)</u>
COMPREHENSIVE INCOME	<u>\$ 11,120</u>	<u>\$ 4,339</u>

See notes to the financial statements.

## UNITEDHEALTHCARE INTEGRATED SERVICES, INC.

### STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
BALANCE—January 1, 2013	2	\$ -	\$ 10,999	\$ 8,323	\$ 1,148	<u>\$ 20,470</u>
Comprehensive income:						
Net income	-	-	-	5,410	-	5,410
Change in net unrealized losses on investments available-for-sale—net of tax effects and reclassification adjustments	-	-	-	-	(772)	(772)
Reclassification adjustments for net realized gains included in net income—net of tax effects	-	-	-	-	(299)	(299)
Total comprehensive income						<u>4,339</u>
BALANCE—December 31, 2013	2	-	10,999	13,733	77	<u>24,809</u>
Comprehensive income:						
Net income	-	-	-	10,801	-	10,801
Change in net unrealized gains on investments available-for-sale—net of tax effects and reclassification adjustments	-	-	-	-	619	619
Reclassification adjustments for net realized gains included in net income—net of tax effects	-	-	-	-	(300)	(300)
Total comprehensive income						<u>11,120</u>
BALANCE—December 31, 2014	<u>2</u>	<u>\$ -</u>	<u>\$ 10,999</u>	<u>\$ 24,534</u>	<u>\$ 396</u>	<u>\$ 35,929</u>

See notes to financial statements.



# UNITEDHEALTHCARE INTEGRATED SERVICES, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 10,801	\$ 5,410
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premium—net	462	442
Gain on short-term investments	(19)	(2)
Gain on long-term investments	(470)	(493)
Deferred income taxes	(165)	(1)
Changes in operating assets and liabilities:		
AHCCCS capitated premiums and reconciliations	782	(3,170)
AHCCCS reinsurance receivables	2,724	7,103
Other receivables—net	1,531	(1,041)
Investment receivables	135	9
Other current assets	-	21
Current income taxes	(784)	2,209
Medical services payable	(30,420)	(2,985)
Reconciliation payable	1,491	(1,913)
Other current liabilities	(247)	(388)
Related-party payable—net	<u>(1,414)</u>	<u>1,670</u>
Net cash (used in) provided by operating activities	<u>(15,593)</u>	<u>6,871</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments available-for-sale	(18,866)	(15,067)
Proceeds from maturities/sales of investments available-for-sale	<u>38,015</u>	<u>13,329</u>
Net cash provided by (used in) investing activities	<u>19,149</u>	<u>(1,738)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
AHCCCS funds administered	391	3,199
Checks outstanding	<u>-</u>	<u>(65)</u>
Net cash provided by financing activities	<u>391</u>	<u>3,134</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,947	8,267
CASH AND CASH EQUIVALENTS—Beginning of year	<u>12,450</u>	<u>4,183</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 16,397</u>	<u>\$ 12,450</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE—Cash paid for income taxes	<u>\$ 7,976</u>	<u>\$ 1,052</u>

See notes to financial statements.

# UNITEDHEALTHCARE INTEGRATED SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

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### 1. ORGANIZATIONAL STRUCTURE

**Organization**—UnitedHealthcare Integrated Services, Inc. (formerly Evercare of Arizona, Inc.) (the “Company”) was incorporated on September 15, 1988. The Company is a wholly owned subsidiary of Ovations, Inc. (“Ovations”), which is a wholly owned subsidiary of United HealthCare Services, Inc. (“UHS”), which is a wholly owned subsidiary of UnitedHealth Group Incorporated (“UHG”). UHS provides management services to managed care companies. UHG is a publicly held company trading on the New York Stock Exchange. The headquarters of the Company is located in Phoenix, Arizona.

**Operation**—The Company is a prepaid health plan that derives all of its revenue through an Arizona Long Term Care System (“ALTCS”) contract with the Arizona Health Care Cost Containment System (“AHCCCS”) to provide specified long-term health care services to qualified members. A prepaid health plan is a plan that assumes the financial risk associated with providing medical services in return for a fixed prepaid fee. The Company contracts for fixed monthly premiums based on negotiated per-capita enrollee rates. The Company subcontracts with hospitals, physicians, and other medical providers within Arizona and surrounding states to care for AHCCCS members in various counties.

Effective October 1, 2014, at the start of contract year 2015, the Company ceased servicing the ALTCS contract. All responsibilities of the ALTCS contract were assumed by Arizona Physicians IPA, Inc. (“APIPA”), an affiliate. The eligible membership, which was previously enrolled in the Company, was enrolled in APIPA as of the effective date. This transaction was approved by AHCCCS on September 5, 2014. There was no consideration paid by APIPA in the transaction, the ALTCS contract was transferred at the Company’s (transferor) basis of zero, and no extraordinary gain or loss was recognized by the Company as a result of the transaction, as this was a transfer among subsidiaries under common control. This transaction resulted in a complete exit from servicing state-sponsored plans by the Company in Arizona as of the date of this report, but it has not precluded the Company’s ability to contract with AHCCCS or obtain other contracts as a managed care organization in the future. The Company and its ultimate parent, UHG, are committed to and have the resources for maintaining adequate operating cash and required stockholder’s equity levels to fund the run-out of claims related to the ALTCS contract.

All assets and liabilities on the balance sheets, net income excluding investment income—net on the statements of operations, and cash flows from operating activities on the statements of cash flows are a result of the ALTCS contract and, as of December 31, 2014, represent the discontinued operations.

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

**Basis of Presentation**—The Company has prepared the financial statements according to United States of America (U.S.) Generally Accepted Accounting Principles (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 relate to medical services expenses, estimates of receivables (including AHCCCS reinsurance receivable), medical services payable, payables to AHCCCS, 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 consist of 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 no checks outstanding at December 31, 2014 and 2013, respectively. The change in this balance has been reflected as checks outstanding within financing activities in the statements of cash flows. 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. These 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 other comprehensive income, 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.

- For debt securities, if the Company intends to either sell, or determines that it will be more likely than not required to sell a security before recovery of the entire amortized cost basis or maturity of the security, the Company recognizes the entire impairment in investment income. If the Company does not intend to sell the debt security, and it determines that it will not be more likely than not required to sell the security, but it does not expect to recover the entire amortized cost basis, the impairment is bifurcated into the amount attributed to the credit loss, which is recognized in earnings, and all other causes, which are recognized in other comprehensive income.

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.

**Minimum Net Worth**—As the Company no longer has a contract with AHCCCS, it is not obligated to meet any minimum net worth requirements, above maintaining sufficient capital balances to satisfy its liabilities.

Under the laws of the state of Arizona, AHCCCS required ALTCS contractors to maintain a minimum net worth of \$2 per member. As of the end of the ALTCS contract on October 1, 2014 and as of December 31, 2013, the Company had \$4 and \$3 of equity per member, respectively, meeting this requirement.

**Revenues**—The Company receives its revenues from AHCCCS on a monthly basis for the ALTCS population as prospective capitation, prior period coverage (“PPC”) capitation, and acute only capitation. The Company recognized \$238,937 and \$295,118 in revenues for the periods ended December 31, 2014 and 2013, respectively.

Prospective capitation 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-based 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 (or reimburse) the difference between the institutional capitation rate and the HCBS capitation rate for the number of member months, which exceeded (or was less than) the assumed percentage. The Company recorded \$2,134 and \$643 related to HCBS redetermination as reconciliation payable in the balance sheets at December 31, 2014 and 2013, respectively. The Company paid \$485 and \$2,990 to AHCCCS for this reconciliation in 2014 and 2013, respectively, which are recorded in capitation revenue in the statements of operations.

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 \$1,548 and \$4,570 related to member SOC redetermination as AHCCCS capitated premiums and reconciliations in the balance sheets at December 31, 2014 and 2013, respectively. The Company recouped \$4,160 and \$0 from AHCCCS for this reconciliation in 2014 and 2013, respectively, which are recorded in capitation revenue in the statements of operations.

PPC capitation premiums pertain to service dates prior to notification of enrollment. Due to the uncertainty regarding actual utilization and medical cost experience during the PPC period, AHCCCS limits the financial risk to the Company through risk share. AHCCCS reconciles ALTCS PPC capitation and refunds to or recovers from the Company all costs or profits in excess of a 5% risk corridor band. The Company recorded \$2,627 and \$387 for the estimated risk share receivable as of December 31, 2014 and 2013 respectively, which was recorded in AHCCCS capitated premiums and reconciliations. The Company recouped \$485 and \$159 from AHCCCS related to this reconciliation in 2014 and 2013, respectively, which are recorded in capitation revenue in the statements of operations.

Acute care only capitation is paid for those members who are residing in an uncertified facility, refusing long-term care services, awaiting disenrollment from the program, or have not received long-term care services for more than 30 days.

**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. At December 31, 2014 medical services payable estimates include only those claims for which the service was provided before October 1, 2014. All estimates for services provided after October 1, 2014 are included in the medical services payable of AIPA.

The Company contracted for nursing home services at negotiated per diem rates. Hospital services were generally contracted at per-diem rates or adjusted total charges, as defined by AHCCCS, less any applicable discounts. Home-based and community-based services, physicians' services, and other medical services were contracted on a capitated or fee-for-service basis.

**AHCCCS Reinsurance**—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 determined based upon the Company's enrollment. 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. The Company recorded recoveries from AHCCCS related to the above reinsurance types, as a reduction to medical services expenses in the accompanying statements of operations. Recoveries from AHCCCS

have been included in AHCCCS reinsurance receivable in the balance sheets as of December 31, 2014 and 2013, respectively. Recoveries from AHCCCS are stated at actual and estimated amounts due to the Company pursuant to the AHCCCS contract. These recoveries are recognized as a percentage of eligible expenses in which medical costs exceed the stated deductible per member for the contract year.

**Loss Adjustment Expenses**—Loss adjustment expenses are those costs expected to be incurred in connection with the adjustment and recording of health claims. Management believes the amount of the liability for unpaid loss adjustment expenses as of December 31, 2014, 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, 2014 and 2013, the unpaid loss adjustment expenses included in the accompanying balance sheets in the other current liabilities are \$63 and \$363, respectively.

**Administration of AHCCCS Funds**—The Company had two contracts with AHCCCS which became effective during 2013 to administer funds from AHCCCS to specific provider populations and are accounted for as deposits on the balance sheets, with no impact to net income. The funds transferred are reported as AHCCCS funds administered under cash flows from financing on the statements of cash flows.

**Primary Care Physician Enhancement Payments**—Effective for calendar years 2013 and 2014 the ACA has mandated that certain practicing primary care physicians ("PCPs") are eligible to receive increased payments for specified primary care services provided to Medicaid eligible individuals. This is to encourage PCPs to serve the Medicaid population in advance of the Medicaid expansion in 2014.

The state has elected to administer the additional PCP funds through non-risk reconciled payments for enhanced rates model. Under this model, the state's capitation rate is not inclusive of the enhanced rate. The Company is reimbursed at agreed upon intervals for all of the enhanced payment amounts in the determined period. There is no risk to the Company because any excess or shortfall is 100% remitted to or reimbursed from the state. As a result, the Company recorded a receivable in other receivables—net of \$1,192 and payable to providers in medical services payable of \$866 in the balance sheets as of December 31, 2013 for cost reimbursements and payments to providers under this program. As of December 31, 2014, the Company had no balances outstanding under this program.

**Nursing Facilities**—Beginning in 2013, the Company is required to include quarterly enhancement payments to qualifying nursing facilities. 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. The Company recorded a payable in administration of AHCCCS funds – nursing facilities of \$3,285 and a payable in medical services payable of \$6,951 as of December 31, 2014 and 2013 respectively, and a receivable of \$0 and \$3,830 as other receivables—net as of December 31, 2014 and 2013, respectively, in the balance sheets for cost reimbursements and payments to providers under this program.

**Premium Deficiency Reserve**—The Company assesses the profitability of its contract for providing health care services to its members when current operating results or forecasts indicate possible future losses. The Company compares 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, 2014 and 2013.

**Concentration of Business and Credit Risks**—The Company’s operations were discontinued as of December 31, 2014.

Concentration of credit risk with respect to receivables is limited due to the fact that AHCCCS, the Company’s sole customer, is a governmental agency. As of December 31, 2014 and 2013, the Company had cash and cash equivalents on deposit with a major financial institution that were in excess of Federal Deposit Insurance Corporation insured limits.

### **Recently Adopted Accounting Standards**

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (ASU 2014-15). ASU 2014-15 describes how entities should assess their ability to meet obligations within a look-forward period of one year from the financial statement issuance date, or date available to be issued, and provides disclosure requirements about how this information should be communicated. ASU 2014-15 does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. ASU 2014-15 will become effective for the first annual period ending after December 15, 2016 but the Company elected early adoption during fiscal year 2014 and the new disclosures have been included in operation disclosures in Note 1 of notes to financial statements.

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.

**Reclassifications**—Certain 2013 amounts in the financial statements have been reclassified to conform to the 2014 presentation. The change in presentation is to provide additional information on the composition of the Company’s receivables. There have been no changes to total assets, liabilities, total stockholders’ equity, total revenues, total medical services expenses or net income as a result of the change in presentation.

### **3. PLEDGES/ASSIGNMENTS AND GUARANTEES**

The Company has no pledges, assignments, collateralized assets, or guaranteed liabilities not disclosed on the balance sheet as of December 31, 2014 and 2013.

### **4. PERFORMANCE BOND**

Pursuant to the contracts with the AHCCCS, the Company is required to provide either a performance bond or a designated substitute security to guarantee performance of the Company’s obligations under the contracts. To satisfy this requirement, the Company maintained a surety bond in 2013 in the amount of \$20,000. The bond was unsecured and required no Company assets to secure this obligation. As of December 31, 2014, the Company no longer holds this bond. The bond has transferred principal to APIPA upon transition of the ALTCS contract in 2014.

## 5. MEDICAL SERVICES PAYABLE ANALYSIS

Changes in estimates related to the prior year incurred claims are included in medical services expenses in the current year in the statements of operations. The following tables disclose paid claims, incurred claims, and the balance in medical services payable and claim overpayments less allowances and stop-loss recoveries within receivables, and pharmacy rebates receivables within related party—net on the balance sheets for 2014 and 2013:

	<b>2014</b>		
	<b>Current Year Incurred Claims</b>	<b>Prior Years Incurred Claims</b>	<b>Total</b>
Beginning of year medical services payable	\$ -	\$ (42,446)	\$ (42,446)
Paid claims, net of stop loss recoveries, pharmacy rebates and claim overpayments collected	193,906	32,743	226,649
End of year medical services payable	<u>4,046</u>	<u>163</u>	<u>4,209</u>
Incurred claims excluding the change in stop loss recoveries pharmacy rebates and claim overpayment receivables as presented below	197,952	(9,540)	188,412
Beginning of year stop loss recoveries, pharmacy rebates and claim overpayment receivables	-	7,089	7,089
End of year stop loss recoveries, pharmacy rebates and claim overpayment receivables	<u>(1,957)</u>	<u>(634)</u>	<u>(2,591)</u>
Total medical services expenses	<u>\$ 195,995</u>	<u>\$ (3,085)</u>	<u>\$ 192,910</u>
	<b>2013</b>		
	<b>Current Year Incurred Claims</b>	<b>Prior Years Incurred Claims</b>	<b>Total</b>
Beginning of year medical services payable	\$ -	\$ (37,615)	\$ (37,615)
Paid claims, net of stop loss recoveries, pharmacy rebates and claim overpayments collected	216,608	27,523	244,131
End of year medical services payable	<u>42,270</u>	<u>176</u>	<u>42,446</u>
Incurred claims excluding the change in stop loss recoveries, pharmacy rebates and claim overpayment receivables as presented below	258,878	(9,916)	248,962
Beginning of year stop loss recoveries, pharmacy rebates and claim overpayment receivables	-	13,190	13,190
End of year stop loss recoveries, pharmacy rebates and claim overpayment receivables	<u>(6,249)</u>	<u>(840)</u>	<u>(7,089)</u>
Total medical services expenses	<u>\$ 252,629</u>	<u>\$ 2,434</u>	<u>\$ 255,063</u>



The liability for medical services payable net of stop loss recoveries, claims overpayment receivables and pharmacy rebates as of December 31, 2013 were \$35,357. As of December 31, 2014, \$32,743 has been paid for incurred claims attributable to insured events of prior years. Reserves remaining for prior years, net of stop loss recoveries, pharmacy rebates receivable and claim overpayment receivables are now (\$471) as a result of re-estimation of unpaid claims. Therefore, there has been \$3,085 favorable prior year development since December 31, 2013 to December 31, 2014. The primary drivers consist of favorable development as a result of a change in the provision for adverse deviations in experience of \$1,857, \$1,102 in stop loss, and \$324 in retroactivity for inpatient, outpatient, physician, and pharmacy claims. At December 31, 2013, the Company recorded \$2,434 of unfavorable development as a result of unfavorable development of \$5,297 in stop loss, offset by a favorable change in the provision for adverse deviations in experience of \$2,558.

## **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.

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.

## 7. INVESTMENTS

A summary of short-term and long-term investments by major security type is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2014</b>				
Debt securities—available-for-sale:				
U.S. government and agency obligations	\$ 1,039	\$ -	\$ (8)	\$ 1,031
State and municipal obligations	12,475	604	(1)	13,078
Corporate obligations	5,198	61	(11)	5,248
U.S. agency mortgage-backed securities	1,671	18	(11)	1,678
Non-U.S. agency mortgage-backed securities	<u>1,714</u>	<u>8</u>	<u>(11)</u>	<u>1,711</u>
Total debt securities—available-for-sale	<u>22,097</u>	<u>691</u>	<u>(42)</u>	<u>22,746</u>
Total investments	<u>\$ 22,097</u>	<u>\$ 691</u>	<u>\$ (42)</u>	<u>\$ 22,746</u>
<b>December 31, 2013</b>				
Debt securities—available-for-sale:				
U.S. government and agency obligations	\$ 2,856	\$ -	\$ (81)	\$ 2,775
State and municipal obligations	23,288	511	(166)	23,633
Corporate obligations	8,133	99	(68)	8,164
U.S. agency mortgage-backed securities	4,933	20	(203)	4,750
Non-U.S. agency mortgage-backed securities	<u>2,010</u>	<u>40</u>	<u>(25)</u>	<u>2,025</u>
Total debt securities—available-for-sale	<u>41,220</u>	<u>670</u>	<u>(543)</u>	<u>41,347</u>
Total investments	<u>\$ 41,220</u>	<u>\$ 670</u>	<u>\$ (543)</u>	<u>\$ 41,347</u>

The fair value of the Company's mortgage-backed securities by credit rating (when multiple credit ratings are available for an individual security, the average of the available ratings is used) and origination as of December 31, 2014, were as follows:

	AAA	Non-Investment Grade	Total Fair Value
2014	\$ 293	\$ -	\$ 293
2012	476	-	476
Pre—2009	942	-	942
U.S. agency mortgage-backed securities	<u>1,678</u>	<u>-</u>	<u>1,678</u>
Total	<u>\$ 3,389</u>	<u>\$ -</u>	<u>\$ 3,389</u>

The amortized cost and fair value of available-for-sale debt securities as of December 31, 2014 and 2013, by contractual maturity, were as follows:

	<b>2014</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 894	\$ 899
Due after one year through five years	6,934	7,056
Due after five years through ten years	8,382	8,831
Due after ten years	2,502	2,571
U.S. agency mortgage-backed securities	1,671	1,678
Non-U.S. agency mortgage-backed securities	<u>1,714</u>	<u>1,711</u>
Total debt securities—available-for-sale	<u>\$ 22,097</u>	<u>\$ 22,746</u>

  

	<b>2013</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 2,570	\$ 2,594
Due after one year through five years	12,921	13,156
Due after five years through ten years	13,753	13,824
Due after ten years	5,033	4,998
U.S. agency mortgage-backed securities	4,933	4,750
Non-U.S. agency mortgage-backed securities	<u>2,010</u>	<u>2,025</u>
Total debt securities—available-for-sale	<u>\$ 41,220</u>	<u>\$ 41,347</u>

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:

	<b>Less than 12 Months</b>		<b>12 Months or Greater</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>
<b>December 31, 2014</b>						
Debt securities—available-for-sale:						
U.S government and agency obligations	\$ 1,031	\$ (8)	\$ -	\$ -	\$ 1,031	\$ (8)
State and municipal obligations	423	(1)	-	-	423	(1)
Corporate obligations	1,372	(3)	217	(8)	1,589	(11)
U.S. agency mortgage-backed securities	-	-	915	(11)	915	(11)
U.S. non-agency mortgage-backed securities	<u>1,080</u>	<u>(8)</u>	<u>230</u>	<u>(3)</u>	<u>1,310</u>	<u>(11)</u>
Total debt securities—available-for-sale	<u>\$ 3,906</u>	<u>\$ (20)</u>	<u>\$ 1,362</u>	<u>\$ (22)</u>	<u>\$ 5,268</u>	<u>\$ (42)</u>
<b>December 31, 2013</b>						
Debt securities—available-for-sale:						
U.S government and agency obligations	\$ 2,774	\$ (81)	\$ -	\$ -	\$ 2,774	\$ (81)
State and municipal obligations	6,547	(166)	-	-	6,547	(166)
Corporate obligations	2,833	(68)	-	-	2,833	(68)
U.S. agency mortgage-backed securities	3,794	(203)	-	-	3,794	(203)
U.S. non-agency mortgage-backed securities	<u>599</u>	<u>(13)</u>	<u>376</u>	<u>(12)</u>	<u>975</u>	<u>(25)</u>
Total debt securities—available-for-sale	<u>\$ 16,547</u>	<u>\$ (531)</u>	<u>\$ 376</u>	<u>\$ (12)</u>	<u>\$ 16,923</u>	<u>\$ (543)</u>

The unrealized losses from all securities as of December 31, 2014, were generated from 44 positions out of a total of 159 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, 2014, the Company did not have the intent to sell any of the securities in an unrealized loss position.

Net realized gains reclassified out of accumulated other comprehensive income were from the following sources:

	<b>Years Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Total OTTI	\$ -	\$ -
Net OTTI recognized in earnings	-	-
Gross realized losses from sales	(95)	(3)
Gross realized gains from sales	<u>584</u>	<u>498</u>
Net realized gains (included in investment income—net on the statements of operations)	489	495
Income tax effect (included in provision for income taxes on the statement of operations)	<u>(189)</u>	<u>(196)</u>
Realized gains—net of taxes	<u>\$ 300</u>	<u>\$ 299</u>

## **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, 2014 and 2013.

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.

The following table presents a summary of fair value measurements by level, and carrying values for items measured at fair value on a recurring basis in the balance sheets:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair and Carrying Value
<b>December 31, 2014</b>				
Cash and cash equivalents	\$ 16,397	\$ -	\$ -	\$ 16,397
Debt securities—available-for-sale:				
U.S. government and agency obligations	1,031	-	-	1,031
State and municipal obligations	-	13,078	-	13,078
Corporate obligations	-	5,248	-	5,248
U.S. agency mortgage-backed securities	-	1,678	-	1,678
Non-U.S. agency mortgage-backed securities	-	1,711	-	1,711
Total debt securities—available-for-sale	<u>1,031</u>	<u>21,715</u>	<u>-</u>	<u>22,746</u>
Total cash, cash equivalents, and investments at fair value	<u>\$ 17,428</u>	<u>\$ 21,715</u>	<u>\$ -</u>	<u>\$ 39,143</u>
<b>December 31, 2013</b>				
Cash and cash equivalents	\$ 12,450	\$ -	\$ -	\$ 12,450
Debt securities—available-for-sale:				
U.S. government and agency obligations	2,775	-	-	2,775
State and municipal obligations	-	23,633	-	23,633
Corporate obligations	-	8,164	-	8,164
U.S. agency mortgage-backed securities	-	4,750	-	4,750
Non-U.S. agency mortgage-backed securities	-	2,025	-	2,025
Total debt securities—available-for-sale	<u>2,775</u>	<u>38,572</u>	<u>-</u>	<u>41,347</u>
Total cash, cash equivalents, and investments at fair value	<u>\$ 15,225</u>	<u>\$ 38,572</u>	<u>\$ -</u>	<u>\$ 53,797</u>

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 2014 or 2013.

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

The carrying amounts reported in the balance sheets for receivables and other assets and liabilities approximate fair value because of their short-term nature.

## 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 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 \$24,136 and \$26,487 in 2014 and 2013, respectively, and are included in management fees and operating expenses in the statements of operations. Direct expenses not covered under the Agreement, such as 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 medical services expenses and administrative expenses \$39 and \$93 in capitation fees and administrative services to related parties during 2014 and 2013, respectively. Dental Benefit Providers, Inc. provides dental care assistance. 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 operating expenses in the accompanying statements of operations for the years ended December 31, 2014 and 2013, are shown below:

	<b>2014</b>	<b>2013</b>
Dental Benefit Providers, Inc.	\$ 31	\$ 83
OptumHealth Care Solutions, Inc.	<u>8</u>	<u>10</u>
Total	<u>\$ 39</u>	<u>\$ 93</u>

The Company has an agreement with OptumRx 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 \$170 and \$208 in 2014 and 2013, respectively, are included in operating expenses in the accompanying statements of operations. Additionally, OptumRx collects rebates on certain pharmaceutical products based on member utilization. Rebate receivables of \$107 and \$134 as of December 31, 2014 and 2013, respectively, are included as an offset to related-party payable—net on the balance sheets.

The Company holds a \$10,000 subordinated revolving credit agreement with UHG, at an interest rate of London InterBank Offered Rate, plus a margin of 0.50%. The credit agreement continues until termination by either party, giving at least 60 days' notice without penalty. No amounts were outstanding under the line of credit as of December 31, 2014 and 2013.

The remaining related-party 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.

## **10. STOCKHOLDER'S EQUITY**

As a result of the change in net unrealized gains and losses on investments available-for-sale, the Company had other comprehensive income (loss) of \$319 and \$(1,071) for the years ended December 31, 2014 and 2013, respectively.

The Company paid no dividends and no infusions were received during 2014 or 2013.

**11. COMPLIANCE WITH FINANCIAL VIABILITY STANDARDS AND PERFORMANCE GUIDELINES**

The Company does not have a contract with AHCCCS as of December 31, 2014. At the end of its ALTCS contract on September 30, 2014, the Company was in compliance with the Financial Viability Standards and Performance Guidelines.

**12. PRIOR PERIOD ADJUSTMENTS**

Except for the reclassifications described in Note 2, there were no adjustments made to previously submitted or current financial statements as of and for the years ended December 31, 2014 and 2013.

**13. DRUG REBATES/DISCOUNTS**

The Company recorded \$146 and \$167 in pharmacy rebates in 2014 and 2013, respectively. The pharmacy rebates are recorded as a reduction to medical services expenses in the statements of operations (see Note 10).

**14. INTEREST ON LATE CLAIMS**

The Company paid \$97 and \$280 in interest on late claims for all members in 2014 and 2013, respectively. The interest on late claims is included in operating expenses in statements of operations.

**15. ACCRUED SANCTIONS**

As of December 31, 2014 and 2013, the Company accrued sanctions of \$394 and \$50, respectively, for not meeting AHCCCS standards for the timely resolution of pending encounters.

**16. PROVIDER INCENTIVES AND SHARED SAVINGS ARRANGEMENTS**

Effective October 1, 2013, for the contract year ended 2014, the Company has gain sharing arrangements with various providers. Payments under these arrangements were \$123 in 2014 and were recorded to other medical services in the statements of operations.

**17. NON-COVERED SERVICES**

The Company does not have any non-covered services.

**18. 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, 2014 or 2013.



The components of the provision for income taxes for the years ended December 31, 2014 and 2013, are as follows:

	<b>2014</b>	<b>2013</b>
Current provision:		
Federal	\$ 5,976	\$ 2,665
State	<u>1,214</u>	<u>595</u>
Total current provision	<u>7,190</u>	<u>3,260</u>
Deferred benefit:		
Federal	(145)	(1)
State	<u>(20)</u>	<u>-</u>
Total deferred benefit	<u>(165)</u>	<u>(1)</u>
Provision for income taxes	<u>\$ 7,025</u>	<u>\$ 3,259</u>

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, 2014 and 2013 is as follows:

	<u>2014</u>		<u>2013</u>	
Tax provision at the U.S. federal statutory rate	\$ 6,239	35.0 %	\$ 3,034	35.0 %
State income taxes—net of federal benefit	776	4.4	387	4.5
Tax-exempt investment income	(171)	(1.0)	(162)	(1.9)
Industry tax	137	0.8	-	-
Other—net	<u>44</u>	<u>0.3</u>	<u>-</u>	<u>-</u>
Provision for income taxes	<u>\$ 7,025</u>	<u>39.5 %</u>	<u>\$ 3,259</u>	<u>37.6 %</u>

The Company had federal income taxes payable of \$255 and \$607 included in current income taxes payable in the balance sheets as of December 31, 2014 and 2013, 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.

As of December 31, 2014 and 2013, the components of deferred income tax assets and liabilities are as follows:

	<b>2014</b>	<b>2013</b>
Deferred income tax assets:		
Accrued expenses	\$ 95	\$ -
Bad debt reserve	287	55
Medical services payable and loss adjustment expense	15	179
Total deferred tax assets	<u>397</u>	<u>234</u>
Deferred income tax liabilities:		
Investments	(3)	(6)
Unrealized gain on investments	<u>(252)</u>	<u>(50)</u>
Total deferred tax liabilities	<u>(255)</u>	<u>(56)</u>
Net deferred income tax assets	<u>\$ 142</u>	<u>\$ 178</u>

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. There were no valuation allowances as of December 31, 2014 or 2013.

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 2013 and prior. UHG’s 2014 tax return is under advance review by the IRS under its Compliance Assurance Program. With the exception of a few states, UHG is no longer subject to income tax examinations prior to 2007 in major state and foreign jurisdictions. 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, 2014 and 2013.

Federal and state income taxes paid, net of refunds, in 2014 and 2013 was \$7,976 and \$1,052, respectively.

#### **19. 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 10).

#### **20. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through April 29, 2015, which is the date these financial statements were issued.

There are no events subsequent to December 31, 2014, that require disclosure.

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