Arizona Physicians IPA, Inc.

Financial Statements as of and for the
Years Ended December 31, 2018 and 2017,
Supplemental Schedules as of and for the
Year Ended December 31, 2018, 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, 2018 and 2017, and the related statements of statement of operations, comprehensive income, changes in stockholder's equity and accumulated other comprehensive (loss) 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, 2018 and 2017, 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 required basic financial statements, is required by the Arizona Healthcare Cost Containment system who considers it be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of the Company's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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 management's responses to out inquiries, the basic financial statements, and other knowledge we obtained during our audit of the 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, 2019

ARIZONA PHYSICIANS IPA, INC.

BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,415,145	$ 162,823,956
Short-term investments	13,036,346	12,876,923
Premiums receivable	114,818,963	47,664,024
AHCCCS reinsurance receivable	39,682,724	47,483,371
Other contract program receivables	15,704,298	6,269,838
Other receivables—net of allowances of $2,556,827 and $1,864,060 in 2018 and 2017, respectively	6,009,086	5,965,585
Related-party receivable—net	-	1,113,519
Investment receivables	3,885,623	3,301,758
Current state income taxes receivable	-	851,342
Other assets	958,163	1,635,443
Total current assets	205,510,348	289,985,759
LONG-TERM ASSETS:		
Long-term investments	489,021,509	405,624,576
Intangible assets—net	29,970,864	32,261,631
Other long-term assets	20,754,878	20,653,615
Long-term deferred income taxes—net	2,376,962	698,914
Total long-term assets	542,124,213	459,238,736
TOTAL	$ 747,634,561	$ 749,224,495
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Medical services payable	$ 267,889,839	$ 373,306,774
Medicaid risk sharing payable	86,817,899	140,623,061
Other payables to contract programs	16,053,205	5,867,272
Accounts payable and accrued expenses	5,819,661	6,954,451
Related-party payable—net	62,572,691	-
Current federal income taxes payable	8,567,856	5,696,630
Total current liabilities	447,721,151	532,448,188
LONG-TERM LIABILITIES—Other long-term liabilities	1,000,000	1,000,000
Total liabilities	448,721,151	533,448,188
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	224,251,591	136,473,413
Accumulated other comprehensive (loss) income	(2,854,575)	1,786,500
Total stockholder's equity	298,913,410	215,776,307
TOTAL	$ 747,634,561	$ 749,224,495

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
REVENUES:		
Capitation and risk-sharing settlements	$ 3,288,558,012	$ 3,189,466,307
Delivery supplemental premiums	63,797,213	66,096,001
Investment income—net	16,427,233	10,722,514
Total revenues	3,368,782,458	3,266,284,822
MEDICAL SERVICES EXPENSES:		
Hospital inpatient services	557,377,106	532,904,824
Medical compensation	678,033,943	686,389,431
Pharmacy	408,287,302	401,191,653
Outpatient facility	271,402,228	269,463,635
Emergency facility services	164,033,715	160,969,520
Nursing facility and home health care	116,067,249	117,371,924
Lab, x-ray, and medical imaging	68,656,158	79,992,928
Transportation	101,487,953	105,462,907
Dental	101,876,022	101,200,540
Other medical services	193,773,662	119,709,296
Durable medical equipment	64,227,988	68,588,937
Long-term care institutional	97,004,324	115,930,777
Long-term care home-based and community-based services	125,871,327	140,273,657
Recoveries from AHCCCS	(115,940,423)	(110,208,422)
Total medical services expenses	2,832,158,554	2,789,241,607
ADMINISTRATIVE EXPENSES	328,947,763	277,671,716
PREMIUM TAXES	49,361,526	50,349,291
Total expenses	3,210,467,843	3,117,262,614
INCOME BEFORE INCOME TAXES	158,314,615	149,022,208
PROVISION FOR INCOME TAXES	45,106,745	51,621,606
NET INCOME	$ 113,207,870	$ 97,400,602

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
NET INCOME	$ 113,207,870	$ 97,400,602
OTHER COMPREHENSIVE (LOSS) INCOME:		
Gross unrealized holding (losses) gains on investment securities during the period	(6,596,681)	3,726,224
Income tax effect	1,385,303	(1,304,178)
Total unrealized (losses) gains—net of tax	(5,211,378)	2,422,046
Gross reclassification adjustment for net realized losses included in net earnings	177,989	985,925
Income tax effect	(37,378)	(345,074)
Total reclassification adjustment—net of tax	140,611	640,851
OTHER COMPREHENSIVE (LOSS) INCOME	(5,070,767)	3,062,897
COMPREHENSIVE INCOME	$ 108,137,103	$ 100,463,499

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY AND ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholder's Equity
	Shares	Amount				
BALANCE—January 1, 2017	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
Comprehensive income:						
Net income	-	-	-	113,207,870	-	113,207,870
Change in net unrealized losses on investments available-for-sale—net of tax effects and reclassification adjustments	-	-	-	-	(5,211,378)	(5,211,378)
Reclassification adjustments for net realized losses included in net income—net of tax effects	-	-	-	-	140,611	140,611
Reclassification under ASU 2018-02	-	-	-	(429,692)	429,692	-
Total comprehensive income						108,137,103
Dividend	-	-	-	(25,000,000)	-	(25,000,000)
BALANCE—December 31, 2018	2	$ -	$77,516,394	$224,251,591	$(2,854,575)	$298,913,410

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 113,207,870	$ 97,400,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of other intangible assets—net	2,290,767	2,099,869
Amortization of investment premium—net	3,036,041	2,458,091
Deferred income taxes	(330,122)	(600,025)
Losses on sale of investments—net	177,981	985,942
Changes in operating assets and liabilities:		
Premiums receivable	(67,154,939)	51,861,157
AHCCCS reinsurance receivable	7,800,647	(9,707,958)
Other contract program receivables	(3,859,533)	(2,462,290)
Other receivables	(370,501)	189,007
Other assets	677,280	(1,170,956)
Investment receivables	(636,644)	(1,133,208)
Current income taxes	3,722,568	634,213
Medical services payable	(105,416,935)	73,940,702
Accounts payable and accrued expenses	(764,203)	(2,072,435)
Medicaid risk sharing payable	(53,805,162)	64,458,682
Other payables to contract programs	(1,971,127)	(10,989,604)
Related party increase (decrease)	63,686,210	(6,552,693)
Net cash (used) provided by operating activities	(39,709,802)	259,339,096
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments available-for-sale	(161,964,193)	(206,793,118)
Proceeds from maturities/sales of investments available-for-sale	68,775,121	89,474,596
Net cash used in investing activities	(93,189,072)	(117,318,522)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(25,000,000)	(60,000,000)
Mortgage loan financing activities	(48,484)	(727,073)
Checks outstanding	(37,253)	(264,314)
AHCCCS funds administered	12,157,060	1,528,192
Customer funds administered	(5,574,927)	8,882,130
Cash used in intangible assets—net	(333,333)	(33,028,167)
Other financing activities	327,000	(490,000)
Net cash used in financing activities	(18,509,937)	(84,099,232)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(151,408,811)	57,921,342
CASH AND CASH EQUIVALENTS—Beginning of the year	162,823,956	104,902,614
CASH AND CASH EQUIVALENTS—End of year	$ 11,415,145	$ 162,823,956
SUPPLEMENTAL CASH FLOW DISCLOSURE—Cash paid for income taxes	$ 41,714,299	$ 51,587,418

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"). UHC is a wholly owned subsidiary of United HealthCare Services, Inc. ("UHS"), a management corporation that provides services to the Company under the terms of a management agreement (the "Agreement"). UHS 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"). Prior to October 1, 2018, the Company provided health care benefits statewide, except for in Gila and Pinal counties, under three AHCCCS contracts to Medicaid and expansion enrollees ("Acute"), Arizona Long Term Care System ("ALTCS"), and Children's Rehabilitative Services ("CRS") members. Effective October 1, 2018, the Company was awarded continuation of the AHCCCS Medicaid contract under a new AHCCCS Complete Care ("ACC") integrated services contract. The ACC contract consolidates the previous Acute and CRS contracts, and added physical services and behavioral health services. Alongside this contractual change, AHCCCS remodeled the geographic service areas in Arizona from seven to three, and awarded the Company service in the Central region and Pima County in the South region. The Company continues to provide ALTCS benefits under the existing ALTCS contract which is subject to renewal in 2020. The ACC and ALTCS contracts are subject to annual capitation rates renewal.

The Company also contracts with the Arizona Department of Economic Security Division for Developmental Disabilities ("DES/DDD") to provide integrated medical care to developmentally disabled individuals. DES/DDD took over the management of former CRS members who are eligible for DES/DDD coverage effective with the ACC contract change.

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.

Used in conjunction with the AHCCCS and DDD/DES contracts, the Company also 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") after receiving approval from AHCCCS on January 13, 2017.

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

Basis of Presentation—The Company has prepared the financial statements in accordance with 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 relate to estimates and judgments for 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. Certain of 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 having an 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 $41,826 and $79,079 at December 31, 2018 and 2017, 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 (loss) 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.

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 Company's 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.

Intangible Assets—Net—The Company has a customer-related intangible asset resulting from a membership transfer agreement with MIHS which 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. There was no impairment of intangible assets during the year ended December 31, 2018.

The gross value of the intangible asset as of December 31, 2018 is $34,361,500, there has been accumulated amortization of $4,390,636, for a net value of $29,970,864.

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. Beginning April 1, 2017, interest payments are made in arrears at the end of each quarter.

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, 2018 or 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, 2018 there are two outstanding notes receivable, $14,303,219 originating on February 9, 2016 and $6,451,659 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, 2018 or December 31, 2017. The interest earned for these outstanding notes were $209,530 and $195,731 as of December 31, 2018 and December 31, 2017, respectively, and reflected as investment income-net within the statements of operations.

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 are 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 of its enrollees. The CMS risk adjustment model pays more for members whose medical history indicates they have certain medical conditions. 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. If diagnosis data submitted to CMS needs to be corrected or deleted, the revised diagnosis data can be re-submitted. The Company recognizes such changes when the amounts become determinable and supportable. The estimated risk adjusted payments due to the Company at December 31, 2018 and 2017, were $52,619,138 and $38,129,945 respectively, and are recorded as premiums receivable in the balance sheets. The Company recognized $577,245 and $268,705 for changes in prior year Medicare risk factor estimates during the years ended December 31, 2018 and 2017, 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 a payable of $1,483,837 and a receivable of $88,544 as Medicaid risk sharing payable and other contract program receivables in the balance sheets at December 31, 2018 and 2017, respectively, related to HCBS redetermination.

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 $6,503,713 and $3,367,693 related to member SOC redetermination as premiums receivable in the balance sheets at December 31, 2018 and 2017, 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 to cover medical expenses in excess of certain limits established by the contract.

Beginning October 1, 2018, the reconciliation for ACC and ALTCS members is tiered beginning at 2%, recouping different percentages of the excess in intervals up to profits of 6%. AHCCCS will repay all ACC losses greater than 2%. The reconciliation includes both prospective and prior period coverage.

Prior to October 1, 2018, the reconciliation was tiered beginning at 3%, and recouped different percentages of the excess in intervals up to profits of 6%. AHCCCS will repay all Acute losses greater than 3%. For the prior period coverage, capitated Acute groups were evaluated on a risk band of 2% and ALTCS groups were evaluated on a risk band of 5%. Within the Acute contract, the adult group over 106% of the federal poverty level was 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 $85,334,062 and $140,623,061 on the balance sheets as of December 31, 2018 and 2017, respectively. The change in estimated risk share of $25,362,659 and $(48,239,764) in 2018 and 2017, respectively, is recorded as an increase (decrease) to capitation and risk-sharing settlements 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. There are seven separate elements of payment received by the Company either during the year or at settlement in the subsequent year. These payment elements are CMS premium, member premium, CMS low-income premium subsidy, CMS catastrophic reinsurance subsidy, CMS low-income member cost-sharing subsidy, CMS risk share, and the CMS coverage gap discount program.

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 other payables to contract programs in the accompanying balance sheets.

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 accounted for as deposits in other contract program receivables in the balance sheets. The Company recorded $8,469,576 and $2,902,023 in other contract program receivables as of December 31, 2018 and 2017, 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 $2,177,175 and $374,433 as other contract program receivables in the balance sheets in 2018 and 2017, respectively and as an increase to capitation and risk-sharing settlements in the statements of operations. The final 2018 risk-share amount is expected to be settled during the second half of 2019 and is subject to the reconciliation process with CMS. The amount of Part D premiums subject to retrospective rating was $43,496,233 and $45,542,004 for the years ended December 31, 2018 and 2017, respectively, representing 1% and 1% of total revenues excluding investment income as of December 31, 2018 and 2017, respectively.

Total premium revenues from CMS related to the Medicare Part D program and all other Medicare-related programs were approximately 27% and 23% of capitation and risk-sharing settlements reported in the statements of operations for the years ended December 31, 2018 and 2017, respectively.

Administration of AHCCCS Funds—The Company administers funds from AHCCCS to specific provider populations and are accounted for as deposits.

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.

Differential Adjusted Payments—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.

Targeted Investment Program—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.

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.

The Company recorded $13,685,252 and $1,528,192 in other payables to contract programs on the balance sheets related to the Administration of AHCCCS Funds as of December 31, 2018 and 2017, respectively. The corresponding net impact of funds transferred are recorded as AHCCCS funds administered in the statements of cash flows.

Medical Services Expenses and Medical Services Payable—The Company's estimate of medical services payable represents management's best estimate of its liability for unpaid medical services as of December 31, 2018.

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 more complete claims information becomes available, 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.

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, processed, or paid. The Company develops estimates for medical services expenses incurred but not reported ("IBNR"), which includes estimates for claims that have not been received or fully processed, using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as time from date of service to claim processing, seasonal variances in medical care consumption, health care contract rate changes, medical care utilization and other medical cost trends, membership volume and demographics, the introduction of new technologies, benefit plan changes, and business mix changes related to products, customers, and geography.

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")—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. The Company accrued $7,491,426 and $5,315,873 which were net against other APM receivables included in other contract program receivables in the balance sheets as of December 31, 2018 and 2017, respectively.

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 $8,209,824 and $7,978,960 in medical services payable in the balance sheets for this program as of December 31, 2018 and 2017, respectively. Amounts incurred are reported in other medical services in the statements of operations. AHCCCS refunds the Company for performance-based payments to providers in subsequent period capitation payments. The Company accrues the estimated refund of $12,522,661 and $8,196,709 as other contract program receivables in the balance sheets as of December 31, 2018 and December 31, 2017, respectively. 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. Effective for October 1, 2018 dates of service, inpatient claims containing prior period coverage are eligible for reinsurance coverage. Prior to October 1, 2018, claims containing any prior period coverage were excluded from reinsurance coverage.

Effective October 1, 2018, the ACC, ALTCS, and DES/DDD contracts require the respective agencies to reimburse the Company 75% (85% for catastrophic cases for ACC and DES/DDD contracts) of qualified health care costs in excess of a recovery deductible. The deductibles applied are $50,000 for DES/DDD and $35,000 for ACC. 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 $1,000,000 the Company is reimbursed for 100% of the expense.

Prior to October 1, 2018, the Acute, CRS, ALTCS, and DES/DDD contracts also required 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 were $50,000 for DES/DDD, $25,000 for Acute and $75,000 for CRS. For cases where qualified medical out-of-pocket expense exceeded $650,000 the Company was reimbursed for 100% of the expense.

Recoveries from AHCCCS are recorded at estimated amounts due to the Company pursuant to contractual terms. The Company reports estimated recoveries from AHCCCS as AHCCCS reinsurance receivable in the balance sheets which are offset against medical services expenses in the statements of operations.

Claims Adjustment Expenses—Claims adjustment expenses are those costs expected to be incurred in connection with the adjustment and recording of health claims. Pursuant to the terms of the Agreement, the Company pays a management fee to its affiliate, UHS, in exchange for administrative and management services. It is the responsibility of UHS to pay loss adjustment expenses in the event the Company ceases operations. Management believes the amount of the liability for unpaid claims adjustment expenses and associated claims interest as of December 31, 2018 is adequate to cover the

Company's cost for the adjustment of unpaid claims; however, actual expenses may differ from those established estimates. Adjustments to the estimates for unpaid claims adjustment expenses are reflected in operating results in the period in which the change in estimate is identified. As of December 31, 2018 and 2017, the unpaid claims adjustment expenses included in the accompanying balance sheets in the accounts payable and accrued expenses line item is $3,812,286 and $4,936,683, respectively. Claims adjustment expenses are included in administrative expenses in the accompanying statements of operations.

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, 2018 and 2017.

Concentration of Business and Credit Risk—Future contract awards are contingent upon the continuation of the ACC, ALTCS, and DES/DDD programs by AHCCCS and the State of Arizona and the continuation of the CMS Medicare Advantage program along with the Company's ability and desire to retain its status as a contractor under the programs. For the years ended December 31, 2018 and 2017, all of the Company's total revenues and receivables were from these programs as well as the Acute and CRS contracts ending September 30, 2018 (see Note 1).

Premiums from the ACC and Acute, Medicare, and ALTCS contracts of $1,802,454,519, $881,183,130, and $328,007,576 respectively, represent 54%, 26%, and 10% of total revenues, excluding investment income, for the year ended December 31, 2018. 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. All other contracts represent less than 10% of total revenues, excluding investment income.

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

Health Insurance Industry Tax—The Affordable Care Act ("ACA") includes an annual, nondeductible insurance industry tax ("Health Insurance Industry Tax") to be levied proportionally across the insurance industry for risk-based health insurance products. A one year moratorium on the collection of the Health Insurance Industry Tax will occur in 2019.

The Company estimates its liability for the Health Insurance 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 Health Insurance 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. The Company paid the Health Insurance Industry Tax liability of $59,786,490 in September 2018.

AHCCCS has agreed to adjust the capitation payments to the Company in response to the Health Insurance Industry Tax, including the nondeductible tax effect, for up to the amounts paid for the year. The Company recorded $57,918,731 and ($56,576) as capitation and risk-sharing settlements in the statements of operations and a corresponding receivable in premiums receivable in the balance sheets for the years ended December 31, 2018 and 2017, respectively.

Recently Adopted Accounting Standards—In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). Most notably, the new guidance 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 on a prospective basis 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.

In February 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220)—Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). ASU 2018-02 allows for the reclassification of the stranded tax effects as a result of the Tax Cuts and Jobs Act ("Tax Reform") from accumulated other comprehensive (loss) income ("AOCI") to retained earnings and requires certain other disclosures. The Company adopted the provision of ASU 2018-02 in 2018 and recorded a one-time reclassification from AOCI to retained earnings and has included a new disclosure in Note 15. See Statements of Changes in Stockholder's Equity and Accumulated Other Comprehensive (Loss) Income and Note 15 for details of the reclassification.

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, 2018 and 2017.

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 2018 and 2017 in the amounts of $266,000,000 and $299,100,000, 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, 2018 and 2017. Claim payments are presented net of health care receivables, including stop-loss recoveries, claim overpayment receivables, and pharmacy rebate receivables.

	2018	2017
Medical services payable, beginning of year	$ 373,306,774	$ 299,366,072
Reported medical services:		
Current year	2,857,727,967	2,816,370,836
Prior years	(25,569,413)	(27,129,229)
Total reported medical services	2,832,158,554	2,789,241,607
Claim payments:		
Payments for current year	(2,596,265,043)	(2,447,867,947)
Payments for prior years	(341,310,446)	(267,432,958)
Total claim payments	(2,937,575,489)	(2,715,300,905)
Medical services payable, end of year	$ 267,889,839	$ 373,306,774

There has been $25,569,413 of favorable prior year development from December 31, 2017 to December 31, 2018. The primary drivers consist of favorable development of $18,411,162 as a result of a change in the provision for adverse deviations in experience, favorable development of $14,683,114 in AHCCCS reinsurance recoveries, and favorable development of $5,432,266 in retroactivity for inpatient, outpatient, physician, and pharmacy claims. This was partially offset by unfavorable development of $13,581,565 in retroactivity for audit recovery operations. At December 31, 2017, the Company recorded $27,129,229 of favorable development primarily driven by 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, offset by unfavorable development of $8,356,553 in retroactivity for audit recovery operations. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Medical costs payable included IBNR of $231,188,704 and $332,854,723 at December 31, 2018 and 2017, respectively. Substantially all of the IBNR balance as of December 31, 2018 relates to the current year. The following is information about incurred and paid medical cost development as of December 31, 2018:

	Net Incurred Medical Costs For the Year Ended December 31	
Year	**2017**	**2018**
2017	$ 2,816,370,836	$ 2,792,456,114
2018		2,857,727,967
Total		$ 5,650,184,081

Year	Net Cumulative Medical Payments For the Year Ended December 31 2017	2018
2017	$ (2,447,867,947)	$ (2,785,634,496)
2018		(2,596,265,043)
Total		(5,381,899,539)
Net remaining outstanding liabilities prior to 2017		(394,703)
Total medical costs payable		$ 267,889,839

6. CONTINGENT LIABILITIES AND GOVERNMENT REGULATIONS

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 ACA 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 the Company's 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 statements of operations, financial condition, and statements of cash flows could be materially adversely affected by such changes. The ACA may create new or expand existing opportunities for business growth, but due to its complexity, the long-term impact of the ACA remains difficult to predict and is not yet fully known.

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, for reasons including 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 made improper risk adjustment submissions and violated the False Claims Act. On February 12, 2018 the court granted in part and denied in part the Company's motion to dismiss. In May 2018, the DOJ moved to dismiss the Company's counterclaims, which were filed in March 2018, and moved for partial summary judgment. Those motions were argued in September 2018. The Company cannot reasonably estimate the outcome that may result from this matter given its procedural status.

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.

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 routinely evaluates the collectability of all receivable amounts included in the balance sheets. Impairment reserves are established for those amounts where collectability is uncertain. Based on the Company's past experience, exposure related to uncollectible balances and the potential of loss for those balances not currently reserved for is not material to the Company's financial condition.

There are no other assets that the Company considers to be impaired at December 31, 2018 and 2017, except as disclosed in Note 7.

7. INVESTMENTS

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

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities—available-for-sale:				
U.S. government and agency obligations	$ 27,366,564	$ 25,767	$ 233,523	$ 27,158,808
State and municipal obligations	184,557,291	1,491,439	1,442,126	184,606,604
Corporate obligations	206,222,649	220,294	2,362,340	204,080,603
U.S. agency mortgage-backed securities	55,627,520	286,010	968,957	54,944,573
Non-U.S. agency mortgage-backed securities	31,633,290	-	366,023	31,267,267
Total debt securities—available-for-sale	505,407,314	2,023,510	5,372,969	502,057,855
Total investments	$505,407,314	$2,023,510	$5,372,969	$502,057,855
December 31, 2017				
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

The amortized cost and fair value of available-for-sale debt securities as of December 31, 2018, by contractual maturity, were as follows:

	2018	
	Amortized Cost	Fair Value
Due in one year or less	$ 13,072,063	$ 13,036,346
Due after one year through five years	138,371,822	137,317,608
Due after five years through ten years	165,124,129	164,549,641
Due after ten years	101,578,490	100,942,420
U.S. agency mortgage-backed securities	55,627,520	54,944,573
Non-U.S. agency mortgage-backed securities	31,633,290	31,267,267
Total debt securities—available-for-sale	$ 505,407,314	$ 502,057,855

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, 2018	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Debt securities—available-for-sale:						
U.S. government and agency obligations	$ 19,033,170	$ 199,230	$ 3,924,404	$ 34,293	$ 22,957,574	$ 233,523
State and municipal obligations	59,582,728	573,141	40,531,814	868,985	100,114,542	1,442,126
Corporate obligations	118,598,892	1,689,810	33,797,904	672,530	152,396,796	2,362,340
U.S agency mortgage-backed securities	24,218,106	394,292	19,585,529	574,665	43,803,635	968,957
U.S. non-agency mortgage-backed securities	28,644,066	286,346	2,623,201	79,677	31,267,267	366,023
Total debt securities—available-for-sale	$ 250,076,962	$ 3,142,819	$ 100,462,852	$ 2,230,150	$ 350,539,814	$ 5,372,969
December 31, 2017						
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

The Company's unrealized losses from all securities as of December 31, 2018 were generated from approximately 269 positions out of a total of approximately 372 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. Additionally, the Company evaluated its intent and ability to retain loan-backed securities for a period of time sufficient to recover the amortized cost. As a result of these reviews, the Company recorded OTTIs of $24,011 and $0 as of December 31, 2018 and 2017, respectively, and are included in investment income-net in the statements of operations. As of December 31, 2018, 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,	
	2018	2017
Total OTTI	$ (24,011)	$ -
Net OTTI recognized in earnings	(24,011)	-
Gross realized losses from sales	207,543	1,135,176
Gross realized gains from sales	29,554	149,251
Net realized losses (included in investment income—net on the statements of operations)	(177,989)	(985,925)
Income tax effect (included in provision for income taxes on the statement of operations)	37,378	345,074
Realized losses, net of taxes	$ (140,611)	$ (640,851)

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);
- 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, 2018 and 2017.

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, 2018	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	$ 11,415,145	$ -	$ -	$ 11,415,145
Debt securities—available-for-sale:				
U.S. government and agency obligations	27,158,808	-	-	27,158,808
State and municipal obligations	-	184,606,604	-	184,606,604
Corporate obligations	-	204,080,603	-	204,080,603
U.S. agency mortgage-backed securities	-	54,944,573	-	54,944,573
Non-U.S. agency mortgage-backed securities	-	31,267,267	-	31,267,267
Total debt securities—available-for-sale	27,158,808	474,899,047	-	502,057,855
Total cash, cash equivalents, and investments at fair value	$ 38,573,953	$ 474,899,047	$ -	$ 513,473,000
December 31, 2017				
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

There were no transfers between Levels 1, 2 or 3 of any financial assets or liabilities during 2018 or 2017.

The Company does not have any financial assets with a fair value hierarchy of Level 3 that were measured and reported at fair value.

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 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

Management believes that its transactions with affiliates are fair and reasonable; however, operations of the Company may not be indicative of those that would have occurred if it had operated as an independent company.

Pursuant to the terms of 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, treatment decision support, and wellness services, 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 $263,694,949 and $265,861,391 in 2018 and 2017, respectively, and are included in 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.

In the ordinary course of business, the Company also directly contracts with related parties to provide services to its members that are routine in nature to its members. The administrative services, access fees, and cost of care services provided are calculated using a PMPM, per claim, or a combination thereof. These amounts are included in medical services expenses and administrative expenses in the accompanying statements of operations.

The following table identifies the amounts for the administrative services and cost of care services provided by related parties for the years ended December 31, 2018 and 2017.

	2018	2017
United HealthCare Services, Inc.	$ 263,694,949	$ 265,861,391
OptumRx, Inc.	193,475,070	153,432,980
Dental Benefit Providers, Inc.	92,842,829	89,642,359
United Behavioral Health	84,815,408	4,878,780

OptumRx, Inc. and its affiliates provide administrative services related to pharmacy management and pharmacy claims processing for its enrollees, specialty drug pharmacy services, durable medical equipment services including orthotics and prosthetics and personal health products catalogues showing the healthcare products and benefit credits enrollees needed to redeem the respective products. Dental Benefit Providers, Inc. provides dental care assistance. Effective April 1, 2018 United Behavioral Health, Inc. provides mental health and substance abuse treatment services under revised agreements (see Note 17).

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%. This credit agreement is subordinate to the extent it does not conflict with any credit facility held by either party. 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, 2018 and 2017.

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, 2018 and 2017, the Company's portion was $6,915,859 and $151,343,396, respectively, and is included in cash and cash equivalents in the balance sheets.

The Company has a Tax Sharing Agreement with UHG (see Note 15).

The Company paid dividends of $25,000,000 and $60,000,000 in 2018 and 2017, respectively, to its parent (see Note 10).

At December 31, 2018 and 2017, the Company reported $62,572,691 and $1,113,519, respectively, as related party payable-net and related party receivable-net, which are included in the accompanying balance sheets.

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 holds notes receivable of $20,754,878 and $20,653,615, in other long-term assets in the accompanying balance sheets as of December 31, 2018 and 2017, respectively.

10. STOCKHOLDER'S EQUITY

As a result of the change in net unrealized gains and losses on investments available-for-sale and reclassification under ASU 2018-02, the Company had accumulated other comprehensive (loss) income of $(2,854,575) and $1,786,500 as of December 31, 2018 and 2017, respectively.

The Company paid a dividend of $25,000,000 on June 8, 2018. This was recorded as a decrease to retained earnings. The dividend was distributed from Medicare earnings prior to October 1, 2018, and therefore did not require pre-approval. Effective October 1, 2018, all dividends will require AHCCCS or DES/DDD approval prior to payment.

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/DDD for $10,000,000 of the December 11, 2017 dividend. The remaining $50,000,000 of dividends was distributed from Medicare earnings and therefore did not require pre-approval.

11. COMPLIANCE WITH FINANCIAL VIABILITY STANDARDS AND PERFORMANCE GUIDELINES

For the contract year ended September 30, 2018, the Company was not in compliance with the medical expense ratio requirement on the DES/DDD contract and the current ratio requirement on the CRS contract. The Company 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, 2018, one quarter into the 2019 contract year, the Company was in compliance with all Financial Viability Standards and Performance Guidelines. Performance against these standards and guidelines for the contract year ending September 30, 2019 is being monitored by the Company on a quarterly basis.

12. ACCRUED SANCTIONS

The Company had accrued a liability of $1,575,000 and $1,275,000 for AHCCCS sanctions related to encounter and quality measures not met as of December 31, 2018 and 2017, 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 2018. 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 $19,127 of chiropractic services and $84,968 of physical therapy services were paid for in 2018 for all members under contract.

15. INCOME TAXES

The Company is included in the consolidated federal income tax return with its ultimate parent, 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, with the exception of net operating losses and capital losses. For these losses, the Company receives a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent losses can be utilized in the consolidated federal income tax return of UHG. UHG currently files income tax returns in the U.S. federal jurisdiction, various states, and foreign jurisdictions. The Internal Revenue Service ("IRS") has completed exams on UHG's consolidated income tax returns for fiscal years 2016 and prior. UHG's 2018 and 2017 tax returns are 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 2012 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.

Tax Reform enacted by the U.S. federal government in December 2017 changed the existing United States tax law including reducing the U.S. corporate income tax rate from 35% in 2017 to 21% beginning in 2018. The Company accounted for the impacts of Tax Reform and as of December 31, 2017, and remeasured its deferred tax assets at the 21% enacted tax rate.

Deferred taxes related to available-for-sale securities that were remeasured due to Tax Reform, resulted in a stranded tax effect within accumulated other comprehensive (loss) income as of December 31, 2017. This was due to the effect of the tax rate change being reflected through income from continuing operations as required under Accounting Standards Codification 740, Accounting for Income Taxes. ASU 2018-02 allows for the reclassification of the stranded tax effects as a result of Tax Reform from accumulated other comprehensive (loss) income to retained earnings. The Company adopted the provision of ASU 2018-02 in 2018 and recorded a one-time reclassification of $429,692 from accumulated other comprehensive (loss) income to retained earnings for the stranded tax effects resulting from the enacted corporate tax rate on December 22, 2017. The amount of the reclassification was the difference between the historical corporate tax rate and the enacted 21 percent corporate tax rate.

The components of the provision for income taxes for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Current provision:		
Federal	$ 45,436,867	$ 52,221,631
Total current provision	45,436,867	52,221,631
Deferred provision:		
Federal	(330,122)	(600,025)
Total deferred provision	(330,122)	(600,025)
Total provision for income taxes	$ 45,106,745	$ 51,621,606

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, 2018 and 2017 is as follows:

	2018		2017	
Tax provision at the U.S. federal statutory rate	$33,246,068	21.0 %	$52,157,774	35.0 %
Tax-exempt investment income	(917,372)	(0.6)	(996,601)	(0.7)
Health insurer fee	12,555,163	7.9	-	-
Change in tax law	-	-	465,944	0.3
Other—net	222,886	0.1	(5,511)	-
Provision for income taxes	$45,106,745	28.4 %	$51,621,606	34.6 %

Current federal income taxes payable, net of current state income taxes receivable, is $8,567,856 and $4,845,288 as of December 31, 2018 and 2017, 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 components of deferred income tax assets and liabilities as of December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred income tax assets:		
Bad debt reserve	$ 536,933	$ 391,452
Unpaid losses and loss adjustment expense	309,585	572,337
Unearned premium	8	-
Intangibles	922,034	440,972
Unrealized loss	703,386	-
Total deferred income tax assets	2,471,946	1,404,761
Deferred income tax liabilities:		
Prepaid expenses	21,369	17,395
Investments	73,615	43,913
Unrealized gain	-	644,539
Total deferred income tax liabilities	94,984	705,847
Net deferred income tax assets	$ 2,376,962	$ 698,914

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 were awaiting a determination. In February 2018, the Arizona Department of Revenue approved the refund claim and we received the refund check.

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, 2018 or 2017.

Federal and state income taxes paid, net of refunds, were $41,714,299 and $51,587,418 in 2018 and 2017, respectively.

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

The Company has no defined benefit plans, defined contribution plans, multiemployer plans, consolidated/holding company plans, postemployment benefits, or compensated absences plans and is not impacted by the Medicare Modernization Act on postretirement benefits, since all personnel are employees of UHS, which provides services to the Company under the terms of the 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, 2019, the date that the draft financial statements were available to be issued.

The Company entered into revised behavioral health services agreements with United Behavioral Health, Inc. on February 15, 2019. The agreements were approved by AHCCCS and DES/DDD as of January 30, 2019 and are effective retrospectively back to April 1, 2018. The revised behavioral health agreements include a material change in the contracts as the agreements change from an administrative services only arrangement to a full-risk intersegment arrangement. The accompanying balance sheets and statements of operations include the impact of the approved full-risk agreements (see Note 9).

The Company was awarded participation in the DES/DDD contract for service periods beginning October 1, 2019. This DES/DDD contract award is an integrated contract for medical, physical and behavioral health.

There are no other events subsequent to December 31, 2018 that require disclosure.

* * * * * *

EXHIBIT I:
SUPPLEMENTAL COMBINING STATEMENTS

ARIZONA PHYSICIANS IPA, INC.

SUPPLEMENTAL COMBINING BALANCE SHEETS
AS OF DECEMBER 31, 2018

	ACC (Formerly Acute)	CRS (Contract Year 2018 and Prior)	DES/DDD (Including DES/DDD CRS Membership)	Medicare	ALTCS	Eliminations	Total
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	$ 11,415,145	$ -	$ -	$ -	$ -	$ -	$ 11,415,145
Short-term investments	13,036,346	-	-	-	-	-	13,036,346
Premiums receivable	52,831,370	72,286	3,244,936	52,130,168	6,540,203	-	114,818,963
AHCCCS reinsurance receivable	17,849,693	9,572,391	6,165,629	-	6,095,011	-	39,682,724
Other contract programs receivables	6,638,791	1,697,125	86,658	10,673,064	(3,391,340)	-	15,704,298
Other receivables—net of allowances of $2,556,827	3,546,230	511,679	587,149	631,383	732,645	-	6,009,086
Investment receivables	3,885,623	-	-	-	-	-	3,885,623
Other assets	856,405	-	-	101,758	-	-	958,163
Due from other lines of business	-	11,832,189	24,393,465	106,498,734	64,998,649	(207,723,037)	-
Total current assets	110,059,603	23,685,670	34,477,837	170,035,107	74,975,168	(207,723,037)	205,510,348
LONG-TERM ASSETS:							
Long-term investments	489,021,509	-	-	-	-	-	489,021,509
Intangible assets—net	29,970,864	-	-	-	-	-	29,970,864
Other long-term assets	20,754,878	-	-	-	-	-	20,754,878
Long-term deferred income taxes—net	2,376,962	-	-	-	-	-	2,376,962
Total long-term assets	542,124,213	-	-	-	-	-	542,124,213
TOTAL	$ 652,183,816	$ 23,685,670	$ 34,477,837	$ 170,035,107	$ 74,975,168	$ (207,723,037)	$ 747,634,561
LIABILITIES AND STOCKHOLDER'S EQUITY							
CURRENT LIABILITIES:							
Medical services payable	$ 116,973,091	$ 10,963,832	$ 12,080,616	$ 87,766,950	$ 40,105,350	$ -	$ 267,889,839
Medicaid risk sharing payable	82,693,585	(1,230,558)	1,058,621	-	4,296,251	-	86,817,899
Other payables to contract programs	6,511,431	7,173,821	-	2,367,953	-	-	16,053,205
Accounts payable and accrued expenses	3,661,464	245,882	64,030	1,281,196	567,089	-	5,819,661
Related-party payable—net	62,572,691	-	-	-	-	-	62,572,691
Current federal income taxes payable	8,567,856	-	-	-	-	-	8,567,856
Due to other lines of business	207,723,037	-	-	-	-	(207,723,037)	-
Total current liabilities	488,703,155	17,152,977	13,203,267	91,416,099	44,968,690	(207,723,037)	447,721,151
LONG-TERM LIABILITIES:							
Other long-term liabilities	1,000,000	-	-	-	-	-	1,000,000
Total liabilities	489,703,155	17,152,977	13,203,267	91,416,099	44,968,690	(207,723,037)	448,721,151
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	108,924,189	6,532,693	14,169,223	78,619,008	16,006,478	-	224,251,591
Accumulated other comprehensive income	(2,854,575)	-	-	-	-	-	(2,854,575)
Total stockholder's equity	162,480,661	6,532,693	21,274,570	78,619,008	30,006,478	-	298,913,410
TOTAL	$ 652,183,816	$ 23,685,670	$ 34,477,837	$ 170,035,107	$ 74,975,168	$ (207,723,037)	$ 747,634,561

ARIZONA PHYSICIANS IPA, INC.

SUPPLEMENTAL COMBINING STATEMENTS OF OPERATIONS
AS OF DECEMBER 31, 2018

	ACC (Formerly Acute)	CRS (Contract Year 2018 and Prior)	DES/DDD (Including DES/DDD CRS Membership)	Medicare	ALTCS	Total
REVENUES:						
Capitation and risk-sharing settlements	$ 1,738,657,307	$ 212,170,723	$ 128,539,276	$ 881,183,130	$ 328,007,576	$ 3,288,558,012
Delivery supplemental premium	63,797,213	-	-	-	-	63,797,213
Investment income—net	16,427,233	-	-	-	-	16,427,233
Total revenues	1,818,881,753	212,170,723	128,539,276	881,183,130	328,007,576	3,368,782,458
MEDICAL SERVICES EXPENSES:						
Hospital inpatient services	263,329,557	59,304,079	17,499,189	205,553,107	11,691,174	557,377,106
Medical compensation	401,196,221	73,096,068	20,567,527	172,510,929	10,663,198	678,033,943
Pharmacy	297,859,769	41,868,982	25,771,648	32,871,193	9,915,710	408,287,302
Outpatient facility	190,489,451	10,455,007	8,169,838	57,781,883	4,506,049	271,402,228
Emergency facility services	112,250,980	5,348,405	2,355,987	43,472,153	606,190	164,033,715
Nursing facility and home health care	39,762,558	6,791,719	14,462,048	35,663,064	19,387,860	116,067,249
Lab, x-ray, and medical imaging	42,724,780	1,756,693	1,286,244	22,533,850	354,591	68,656,158
Transportation	66,804,466	4,149,162	1,975,071	19,201,153	9,358,101	101,487,953
Dental	65,185,873	6,002,953	2,992,907	26,003,945	1,690,344	101,876,022
Other medical services	98,499,884	16,809,465	3,179,152	65,392,520	9,892,641	193,773,662
Durable medical equipment	21,617,979	12,180,900	13,890,472	13,570,555	2,968,082	64,227,988
Long-term care institutional	-	-	-	-	97,004,324	97,004,324
Long-term care home-based and community-based services	-	-	-	-	125,871,327	125,871,327
Recoveries from AHCCCS	(57,310,648)	(38,152,857)	(8,938,374)	-	(11,538,544)	(115,940,423)
Total medical services expenses	1,542,410,870	199,610,576	103,211,709	694,554,352	292,371,047	2,832,158,554
ADMINISTRATIVE EXPENSES	172,477,325	18,802,398	12,631,871	92,709,431	32,326,738	328,947,763
PREMIUM TAXES	37,615,774	4,953,758	-	-	6,791,994	49,361,526
Total expenses	1,752,503,969	223,366,732	115,843,580	787,263,783	331,489,779	3,210,467,843
INCOME BEFORE INCOME TAXES	66,377,784	(11,196,009)	12,695,696	93,919,347	(3,482,203)	158,314,615
PROVISION FOR INCOME TAXES	21,334,858	(1,510,067)	3,302,210	22,514,881	(535,137)	45,106,745
NET INCOME	$ 45,042,926	$ (9,685,942)	$ 9,393,486	$ 71,404,466	$ (2,947,066)	$ 113,207,870