Arizona Physicians IPA, Inc.

(Contract H0321)

Financial Statements as of and for the Years Ended December 31, 2010 and 2009, Supplemental Schedules as of and for the Year Ended December 31, 2010, and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Arizona Physicians IPA, Inc.

We have audited the accompanying balance sheets of Arizona Physicians IPA, Inc. (the "Company"), as of December 31, 2010 and 2009, and the related statements of operations, changes in shareholder's equity and accumulated other comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 of material misstatement. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental 2010 combining information in Exhibit I on Pages 31 and 32 and the supplemental schedules in Exhibits II through V required by Arizona Health Care Cost Containment System (AHCCCS) reporting guidelines on Pages 33 to 54 are presented for purposes of additional analysis of the financial statements, rather than to present the financial position and results of operations of the individual lines of business, and are not a required part of the 2010 basic financial statements. These supplemental schedules are the responsibility of the Company's management. This information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we express no opinion on it.

Deloitte & Touche LLP

March 31, 2011

ARIZONA PHYSICIANS IPA, INC.

BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009
(in thousands, except share data)

	2010	2009
ASSETS		
CASH AND INVESTED ASSETS:		
Cash and cash equivalents	$ 79,302	$ 82,284
Investments	162,547	153,913
Total cash and invested assets	241,849	236,197
RECEIVABLES:		
Receivables from contract programs	69,623	73,733
Investment income receivable	1,674	1,644
Other receivables — net of allowances of $473 and $813, respectively	3,515	2,561
Current federal income taxes receivable	400	
Current state income taxes receivable		145
Total receivables	75,212	78,083
TOTAL	$317,061	$314,280
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES:		
Medical services payable	$156,574	$139,121
Due to affiliate — net	1,812	23,673
Payables to contract programs	76,556	49,408
Accounts payable and accrued expenses	11,893	13,075
Current federal income taxes payable		2,377
Current state income taxes payable	21	
Deferred income taxes — net	770	892
Total liabilities	247,626	228,546
CONTINGENCIES (Note 8)		
SHAREHOLDER'S EQUITY:		
Common stock, no par value — authorized, 1,000,000 shares; issued and outstanding, two shares	52,266	52,266
Retained earnings	13,928	29,846
Accumulated other comprehensive income	3,241	3,622
Total shareholder's equity	69,435	85,734
TOTAL	$317,061	$314,280

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
REVENUES:		
Capitation and risk-sharing settlements	$1,244,719	$1,114,225
Delivery supplemental premiums	47,321	42,901
CRS grant revenue	500	500
Investment income — net	7,932	6,601
Total revenues	1,300,472	1,164,227
MEDICAL SERVICES EXPENSES:		
Hospital inpatient services	357,658	320,716
Medical compensation	307,010	276,046
Other medical services	541,114	487,417
Recoveries from AHCCCS	(76,633)	(64,177)
Total medical services expenses	1,129,149	1,020,002
ADMINISTRATIVE EXPENSES	138,194	110,518
CRS GRANT EXPENSE	500	500
PREMIUM TAXES	18,935	17,162
Total expenses	1,286,778	1,148,182
INCOME BEFORE INCOME TAXES	13,694	16,045
INCOME TAX EXPENSE	4,612	5,400
NET INCOME	$ 9,082	$ 10,645

See notes to financial statements.

ARIZONA PHYSICIANS IPA, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 9,082	$ 10,645
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premium — net	539	619
Deferred income taxes	128	(344)
Losses (gains) on sale of investments — net	(1,638)	12
Change in operating assets and liabilities:		
Receivables from contract programs	4,110	2,872
Investment income receivable	(30)	(129)
Other receivables	(954)	(2,536)
Federal and state income taxes	(2,611)	(2,334)
Medical services payable	17,453	5,786
Accounts payable and accrued expenses	(209)	(674)
Payables to contract programs	27,148	35,071
Due to affiliate — net	(21,890)	10,323
Net cash provided by operating activities	31,128	59,311
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments available-for-sale	(48,107)	(32,776)
Proceeds from maturities/sales of investments available-for-sale	39,970	27,901
Net cash used in investing activities	(8,137)	(4,875)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Dividends paid	(25,000)	(9,550)
Outstanding checks	(973)	(2,893)
Net cash used in financing activities	(25,973)	(12,443)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,982)	41,993
CASH AND CASH EQUIVALENTS — Beginning of the year	82,284	40,291
CASH AND CASH EQUIVALENTS — End of year	$ 79,302	$ 82,284
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for income taxes	$ 7,095	$ 8,078

See notes to financial statements.

1. ORGANIZATIONAL STRUCTURE AND OPERATION

Organization — Arizona Physicians IPA, Inc. (the "Company" or APIPA), is a wholly owned, for-profit subsidiary of United Healthcare of Arizona, Inc. ("UHC of AZ"). UHC of AZ is a wholly owned subsidiary of United HealthCare, Inc., which in turn is a wholly owned subsidiary of United HealthCare Services, Inc. (UHS), a Minnesota corporation. UHS provides management services to managed care companies and is a wholly owned subsidiary of UnitedHealth Group Incorporated ("UHG").

Operation — All of the Company's premium revenues result from its contract with the Arizona Health Care Cost Containment System (AHCCCS) to provide health care benefits to Medicaid enrollees. The contract and the capitation rates have been approved by AHCCCS and expire on September 30, 2011, with two one-year options to renew the contract. The Company's other operations are through contracts with the Arizona Department of Economic Security Division for Developmental Disabilities (DES/DDD), the Center for Medicare and Medicaid Services (CMS) for its Medicare Advantage health plan, and the Children's Rehabilitative Services (CRS) program, which provides family-centered medical treatment, rehabilitation, and related support services for children under age 21 with qualifying chronic and disabling conditions. CRS members receive care for their eligible conditions in multi-specialty interdisciplinary clinics, but do not receive general primary care services from the program. CRS members are also enrolled in an AHCCCS health plan, where they have a primary care physician who manages their care that is not related to their CRS eligible condition. Effective January 1, 2011, AHCCCS will be assuming responsibility for the CRS program from the CRS Agency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates — These financial statements include certain amounts based on the Company's estimates and judgments. These estimates require the Company to apply complex assumptions and judgments, often because the Company must make estimates about the effects of matters that are inherently uncertain and will change in subsequent periods. The most significant estimates relate to medical costs and medical costs payable. The Company adjusts these estimates as more current information becomes available, and any adjustment could have a significant impact on operating results. The impact of any changes in estimates is included in the determination of net income in the period in which the change in estimate is adjusted.

Cash and Cash Equivalents and Investments — Cash and cash equivalents are highly liquid investments that have 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 primarily represent the Company's share of an investment pool sponsored and administered by UHS for the benefit of the UHS-owned health plans. 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 pool is primarily invested in governmental obligations, commercial paper, certificates of deposit, and short-term agency notes, all of which are recorded at fair value. Interest income from the pool accrues daily to participating members based upon ownership percentage.

The Company had checks outstanding in excess of bank deposits of $11,371 and $12,344 at December 31, 2010 and 2009, respectively, which were classified in accounts payable and accrued expenses in the balance sheets and have been reflected as checks outstanding within the outstanding checks line item within financing activities in the statements of cash flows.

Investments with maturities of less than one year are classified as short-term. Because of regulatory requirements, certain investments are included in long-term investments regardless of their maturity date. The Company classifies these investments as held-to-maturity and reports them at amortized cost. Substantially, 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, net of income tax effects, as a separate component of shareholder's equity. The Company evaluates investments for impairment by considering the length of time and extent to which market 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 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 more likely than not be 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 earnings. If the Company does not intend to sell the debt security and it determines that it will not be more likely than not be 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. 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 debt obligations, substantially all of investment grade quality. Securities downgraded below policy minimums after purchase will be disposed of in accordance with the investment policy. To calculate realized gains and losses on the sale of investments, the Company uses the specific cost or amortized cost of each investment sold.

Revenues — Premiums are contractual and are generally paid in advance of the coverage period for 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 the premium income recorded is based on capitated rates, which are monthly premiums paid for each member enrolled.

The Company also has an arrangement with CMS for certain Medicare products whereby periodic changes in member risk factor adjustment scores, for certain diagnoses codes, result in changes to its Medicare revenues. The Company recognizes such changes when the amounts become determinable and supportable, and collectibility is reasonably assured. The estimated risk adjusted payments due to the Company as of December 31, 2010 and 2009, were approximately $5,353 and $3,738, respectively, and are recorded as receivable from contract programs in the balance sheets. The Company recognized approximately $500 and $479 for changes in prior-year Medicare risk factor estimates during the years ended December 31, 2010 and 2009, respectively, which are recorded in capitation and risk-sharing settlements in the statements of operations.

The Company records an HIV/AIDS supplemental premium for members with the DES/DDD product who receive approved HIV/AIDS drugs in the month in which enrollees receive the approved drugs, which is included in capitation and risk-sharing settlements in 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.

Medical Costs and Medical Costs Payables — Medical costs and medical costs payable include estimates of the Company's obligations for medical care services that have been rendered on behalf of insured consumers but for which the Company has either not yet received or processed claims, and for liabilities for physician, hospital and other medical cost disputes. The Company develops estimates for medical costs incurred but not reported 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 receipt, claim backlogs, care professional contract rate changes, medical care consumption and other medical cost trends. The Company estimates liabilities for physician, hospital and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. Each period, the Company reexamines previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimates recorded in prior periods become more exact, the Company adjusts the amount of the estimates, and includes the changes in estimates in medical costs in the period in which the change is identified. In every reporting period, the Company's operating results include the effects of more completely developed medical costs payable estimates associated with previously reported periods.

Recoveries from AHCCCS — Recoveries from AHCCCS are recorded at estimated amounts due the Company pursuant to the AHCCCS, DES/DDD, and Arizona Department of Health Services (ADHS)/CRS contracts. All three contracts require the respective agencies to reimburse the Company 75% (85% for catastrophic cases) of qualified health care costs in excess of a recovery deductible. For cases where qualified medical out-of-pocket expense exceeds $650, the Company is reimbursed for 100% of the expense. The DES/DDD deductible and ADHS/CRS deductible are $100 and $75, respectively, for all other cases.

Recoveries from AHCCCS of approximately $36,261 and $36,910 have been included in receivables from contract programs in the balance sheets as of December 31, 2010 and 2009, respectively. Recoveries from AHCCCS of approximately $76,633 for 2010 and $64,177 for 2009, respectively, have been offset against medical services expenses in the statements of operations.

Medicare Part D Pharmacy Benefits Contract — The Company serves as a plan sponsor offering Medicare Part D prescription drug insurance coverage under contracts with CMS. Under the Medicare Part D program, there are six separate elements of payment received by the Company during the plan year. These payment elements are as follows:

- *CMS Premium* — CMS pays a fixed monthly premium per member to the Company for the entire plan year.

- *Member Premium* — Additionally, certain members pay a fixed monthly premium to the Company for the entire plan year.
- *Low-Income Premium Subsidy* — For qualifying low-income members, CMS pays some or all of the member's monthly premiums to the Company on the member's behalf.
- *Catastrophic Reinsurance Subsidy* — CMS pays the Company a cost reimbursement estimate monthly to fund the CMS obligation to pay approximately 80% of the costs incurred by individual members in excess of the individual annual out-of-pocket maximum. A settlement is made with CMS based on actual cost experience, after the end of the plan year.
- *Low-Income Member Cost Sharing Subsidy* — For qualifying low-income members, CMS pays on the member's behalf some or all of a member's cost sharing amounts, such as deductibles and coinsurance. The cost sharing subsidy is funded by CMS through monthly payments to the Company. The Company administers and pays the subsidized portion of the claims on behalf of CMS, and a settlement payment is made between CMS and the Company based on actual claims and premium experience, after the end of the plan year.
- *CMS Risk-Share* — Premiums from CMS are subject to risk corridor provisions that compare costs targeted in the Company's annual bids to actual prescription drug costs, limited to actual costs that would have been incurred under the standard coverage as defined by CMS. Variances of more than 5% above or below the original bid submitted by the Company may result in CMS making additional payments to the Company or require the Company to refund to CMS a portion of the premiums it received. The Company estimates and recognizes an adjustment to premium revenues related to the risk corridor payment settlement based upon pharmacy claims experience. The estimate of the settlement associated with these risk corridor provisions requires the Company to consider factors that may not be certain, including member eligibility status differences with CMS. The Company records risk-share adjustments to premium revenues in the statements of operations and accounts payable and accrued liabilities or other current receivables in the balance sheets.

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

The Company's Medicare 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 amount of Part D premium subject to retrospective rating was approximately $24,447 and approximately $20,794 for the years ended December 31, 2010 and 2009, respectively, representing 2% and 2% of total revenues excluding investment income as of December 31, 2010 and 2009, respectively.

The Catastrophic Reinsurance Subsidy and the Low-Income Member Cost Sharing Subsidy 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. Amounts received for these subsidies are not reflected as capitation and risk-sharing settlements, but rather are accounted for as deposits, with related payables and receivables recorded in contract programs in the balance sheets. The Company recorded approximately $3,114 and $4,278 as of December 31, 2010 and 2009, respectively, for cost reimbursements under the Medicare Part D program for the catastrophic reinsurance and low-income member cost sharing subsidies.

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

The final 2010 risk-share amount is expected to be settled during the second half of 2011, and is subject to the reconciliation process with CMS.

The Company records risk-share adjustments to capitation and risk-sharing settlements in the statements of operations and payables and receivables to contract programs in the balance sheets. The Company recorded $3,593 and approximately none as of December 31, 2010 and 2009, respectively, for estimated risk-share adjustment on the CMS products.

Medicaid Risk Sharing — The Company has yearly risk-sharing agreements with AHCCCS to cover medical expenses in excess of certain limits established by the contract for Title XIX Waiver Group (TWG) and Prior Period Coverage (PPC) members. Receivables or payables and the corresponding revenues or contra-revenues are recorded depending on the surplus or deficit of revenues over medical and administrative expenses for the period. The TWG risk-sharing agreement applies to all prospective TWG members, except for the period from October 1, 2008 through June 30, 2009, during which time it applied only to prospective TWG Medical Expense Deduction (MED) members. Through September 30, 2010, the Company also had a yearly risk-sharing agreement with ADHS to cover medical expenses in excess of certain limits established by the contract for CRS. Additionally, effective October 1, 2009, the Company entered into a yearly risk-sharing agreement with DES/DDD to cover medical expenses in excess of certain limits established by the contract.

Income Taxes — The Company's operations are included in the consolidated U.S. federal income tax return of United Health Group. Federal and state income taxes are paid to or refunded by United Health Group pursuant to the terms of a tax-sharing agreement (TSA) under which taxes approximate the amount that would have been computed on a separate company basis. 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, excluding any deferred income tax assets and liabilities of acquired businesses, net unrealized gains or losses on investments, and share-based compensation cancellations. The current income tax provision reflects the tax consequences of revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

Concentration of Business and Credit Risk — Future contract awards are contingent upon the continuation of the AHCCCS, DES/DDD, and CRS programs by the state of Arizona and the continuation of the CMS Medicare Advantage program and the Company's ability and desire to retain its status as a contractor under the programs. For the years ended December 31, 2010 and 2009, substantially all of the Company's total revenues were from these programs.

Recently Adopted Accounting Standards — In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, "*Improving Disclosures about Fair Value Measurements*" (ASU 2010-06). This update amends the fair value guidance of the FASB Accounting Standards Codification (ASC) to require additional disclosures regarding (i) transfers in and out of Level 1 and Level 2 fair value measurements and (ii) activity in Level 3 fair value measurements. ASU No. 2010-06 also clarifies existing disclosure requirements regarding (i) the level of asset and liability disaggregation and (ii) fair value measurement inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for the Company's fiscal year 2010, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which will be effective for the Company's fiscal year 2011.

The Company's fair value disclosures, including the new disclosures effective in 2010, have been included in Note 10 of notes to the financial statements.

The Company has determined that all other recently issued accounting standards will not have a material impact on its financial statements, or do not apply to its operations.

3. OTHER AMOUNTS

There are no material other amounts included in the balance sheets as of December 31, 2010 and 2009, except as discussed in Note 2.

Other medical services expenses included in the statements of operations for the years ended December 31, 2010 and 2009, consist of the following:

	2010	2009
Pharmacy	$ 131,886	$ 128,297
Outpatient facility	85,905	73,042
Emergency	69,624	64,056
Laboratory, x-ray, and medical imaging	63,826	42,851
Nursing facility and home health care	47,204	43,105
Dental	37,589	39,983
Durable medical equipment	36,750	29,223
Transportation	31,382	28,729
Prior-period coverage — other	17,030	29,977
Other	13,127	3,521
Physical therapy	6,791	4,633
Total	$541,114	$487,417

4. 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, 2010 and 2009.

5. PERFORMANCE BONDS

Pursuant to its contracts with the state of Arizona 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 2010 and 2009 in the amounts of approximately $87,404 and $75,145, respectively. The bonds are unsecured and require no Company assets to secure the obligations.

6. MATERIAL ADJUSTMENTS

There were no material adjustments other than retroactivity related to claims incurred but not reported, see Note 7 for further discussion.

7. MEDICAL SERVICES PAYABLE ANALYSIS

Changes in estimates related to prior years' 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 the unpaid claim reserve for the years ended December 31, 2010 and 2009:

	2010		
	Current Year Incurred Claims	Prior Years Incurred Claims	Total
Beginning year claim reserve	$ -	$(139,121)	$ (139,121)
Paid claims	1,028,357	82,690	1,111,047
End of year claim reserve	154,616	1,958	156,574
Incurred claims	1,182,973	(54,473)	1,128,500
Beginning stop loss recoveries receivable		36,910	36,910
End of year stop loss recoveries receivable	(34,262)	(1,999)	(36,261)
Incurred claims	$ 1,148,711	$ (19,562)	$ 1,129,149

	2009		
	Current Year Incurred Claims	Prior Years Incurred Claims	Total
Beginning year claim reserve	$ -	$(133,335)	$ (133,335)
Paid claims	938,532	67,595	1,006,127
End of year claim reserve	137,966	1,154	139,120
Incurred claims	1,076,498	(64,586)	1,011,912
Beginning stop loss recoveries receivable		45,000	45,000
End of year stop loss recoveries receivable	(32,088)	(4,822)	(36,910)
Incurred claims	$ 1,044,410	$ (24,408)	$ 1,020,002

The Company recognized recoveries from AHCCCS, net of allowance, of $76,633 in 2010 and $64,177 in 2009 that are included in the table above. These recoveries represent those claims costs the Company was reimbursed for by AHCCCS and are presented as a reduction to medical services expense in the accompanying statements of operations.

The liability for medical services payable as of December 31, 2010 and 2009, exceeded the actual claims incurred in 2010 and 2009, respectively, related to prior years by approximately $19,562 and $24,409, respectively. The primary drivers for the favorable claim development as a result of ongoing analysis of loss development trends related to the release and, in 2010, the establishment of $5,000 in known environmental claims (KEFR) and $12,000 for higher than expected recoveries.

8. CONTINGENT LIABILITIES AND GOVERNMENT REGULATIONS

Legal Matters — Because of the nature of its businesses, the Company is frequently made party to a variety of legal actions and regulatory inquiries related to, among other things, the design and management of its service offerings. The Company records liabilities for its estimates of probable costs resulting from these matters where appropriate. These matters include, but are not limited to, claims relating to health care benefits coverage, medical malpractice actions, contract disputes and claims related to certain business practices. Litigation and any potential regulatory proceeding or action may be time consuming, expensive, and distracting from the conduct of the Company's business. The adverse resolution of any specific lawsuit or any potential regulatory proceeding or action could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company records liabilities for its estimates of probable costs resulting from these matters where appropriate. Estimates of probable 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, except as otherwise noted below, the Company is unable to estimate the losses or range of losses for those matters where there is a reasonable possibility or it is probable that a loss may be incurred.

Government Regulation — The Company's business is regulated at federal, state, and local levels, and the Company must obtain and maintain regulatory approvals to market and sell many of its products. 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. State legislatures and Congress continue to focus on health care issues.

The Company has been and is currently involved in various governmental investigations, audits, and reviews. These may include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments, state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, U.S. Congressional committees, the U.S. Department of Justice, U.S. Attorneys, the Securities Exchange Commission (SEC), the Internal Revenue Service (IRS), the U.S. Department of Labor (DOL) and other governmental authorities. Examples of audits include an operational and financial review performed by AHCCCS on a bi-annual basis, and risk adjustment data validation (RADV), audits of the Company's Medicare health plans to validate the coding practices of and supporting documentation maintained by its care providers.

Such government actions can result in assessment of damages, civil or criminal fines or penalties, or other sanctions, including loss of licensure or exclusion from participation in government programs and could have a material adverse effect on the Company's financial results. The coding audits may result in retrospective adjustments to payments made to health plans pursuant to CMS Medicare contracts.

During the first quarter of 2010, the Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (collectively known as Health Reform Legislation), were signed into law. The Health Reform Legislation expands access to coverage and modifies aspects of the commercial insurance market, as well as the Medicaid and Medicare programs, Children's Health Insurance Program (CHIP), and other aspects of the health care system. Certain provisions of the Health Reform Legislation have already taken effect, and other provisions become effective at various dates over the next several years. The Department of Health and Human Services (HHS), the DOL and the Treasury Department have issued regulations (or proposed regulations) on a number of aspects of Health Reform Legislation, but the Company awaits final rules and interim guidance on other key aspects of the legislation. Certain aspects of the Health Reform Legislation are also being challenged in federal court, with the proponents of such challenges seeking to limit the scope of or have all or portions of the Health Reform Legislation declared unconstitutional. Congress may also withhold the funding necessary to implement the Health Reform Legislation, or may attempt to replace the legislation with amended provisions or repeal it altogether.

The Health Reform Legislation and the related federal and state regulations will 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, including the ability to maintain the value of goodwill, 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.

9. INVESTMENTS

A summary of short-term and long-term investments is as follows:

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities — available-for-sale:				
U.S. government and agency obligations	$ 27,770	$ 664	$(122)	$ 28,312
State and municipal obligations	73,565	2,238	(463)	75,340
Corporate obligations	41,882	2,089	(34)	43,937
U.S. agency mortgage-backed securities	6,466	476		6,942
Non-U.S. agency mortgage-backed securities	7,504	512		8,016
Total debt securities — available-for-sale	157,187	5,979	(619)	162,547
Total investments	$157,187	$5,979	$(619)	$162,547
December 31, 2009				
Debt securities — available-for-sale:				
U.S. government and agency obligations	$ 9,842	$ 66	$ -	$ 9,908
State and municipal obligations	75,391	3,600	(177)	78,814
Corporate obligations	41,554	1,886	(38)	43,402
U.S. agency mortgage-backed securities	13,223	753		13,976
Non-U.S. agency mortgage-backed securities	7,913	38	(138)	7,813
Total debt securities — available-for-sale	147,923	6,343	(353)	153,913
Total investments	$147,923	$6,343	$(353)	$153,913

The amortized cost and fair value of available-for-sale debt securities as of December 31, 2010, by contractual maturity, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 12,353	$ 12,512
Due after one year through five years	67,437	70,423
Due after five years through ten years	43,348	44,691
Due after ten years	20,079	19,963
U.S. agency mortgage-backed securities	6,466	6,942
Non-U.S. agency mortgage-backed securities	7,504	8,016
Total debt securities — available-for-sale	$ 157,187	$ 162,547

The fair value of available-for-sale investments with gross unrealized losses by investment 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, 2010	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	$ 2,902	$(122)	$ -	$ -	$ 2,902	$(122)
State and municipal obligations	23,826	(463)			23,826	(463)
Corporate obligations	3,446	(34)			3,446	(34)
Total debt securities — available-for-sale	$30,174	$(619)	$ -	$ -	$30,174	$(619)
December 31, 2009						
Debt securities — available-for-sale						
State and municipal obligations	$ 6,353	$(148)	$ 375	$ (29)	$ 6,728	$(177)
Corporate obligations	5,286	(27)	1,089	(11)	6,375	(38)
Non-U.S. agency mortgage-backed securities	5,160	(67)	1,543	(71)	6,703	(138)
Total debt securities — available-for-sale	$16,799	$(242)	$3,007	$(111)	$19,806	$(353)

The unrealized losses from all securities as of December 31, 2010, were generated from approximately 33 positions out of a total of approximately 197 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 in state and municipal obligations, and corporate obligations as of December 31, 2010, 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 securities where the fair value of the investment is less than its amortized cost. The Company evaluated the underlying credit quality of the issuers and the credit ratings of the state and municipal obligations and the corporate obligations, noting neither a significant deterioration since purchase nor other factors leading to an other-than-temporary impairment (OTTI). As of December 31, 2010, the Company did not have the intent to sell any of the securities in an unrealized loss position.

Net realized gains (losses), before taxes, were from the following sources:

	Year Ended December 31,	
	2010	2009
Total OTTI	$ -	$ (351)
Net OTTI recognized in earnings	-	(351)
Gross realized gains from sales	1,638	339
Net realized gains (losses)	$ 1,638	$ (12)

10. FAIR VALUE

Fair values of available-for-sale debt 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, making 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, non-binding broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds. 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 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. Based on the Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services, the Company has not historically adjusted the prices obtained from the pricing service.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined 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.

The fair value hierarchy is as follows:

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

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

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets 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, volatilities, default rates); and

- Inputs that are derived principally from or corroborated by other observable market data.

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

The following table presents information about the Company's financial assets which are measured at fair value on a recurring basis, according to the valuation techniques the Company used to determine their fair values.

December 31, 2010	Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 79,302	$ -	$ -	$ 79,302
Debt securities — available-for-sale:				
U.S. government and agency obligations	21,675	6,637		28,312
State and municipal obligations		75,340		75,340
Corporate obligations		43,937		43,937
U.S. agency mortgage-backed securities		6,942		6,942
Non-U.S. agency mortgage-backed securities		8,016		8,016
Total debt securities — available-for-sale	21,675	140,872	-	162,547
Total cash, cash equivalents, and investments at fair value	$100,977	$140,872	$ -	$241,849
Percentage of total financial assets measured at fair value	42 %	58 %	- %	100 %
December 31, 2009				
Cash and cash equivalents	$ 82,284	$ -	$ -	$ 82,284
Debt securities — available-for-sale:				
U.S. government and agency obligations	3,277	6,631		9,908
State and municipal obligations		78,814		78,814
Corporate obligations		43,402		43,402
U.S. agency mortgage-backed securities		13,976		13,976
Non-U.S. agency mortgage-backed securities		7,813		7,813
Total debt securities — available-for-sale	3,277	150,636	-	153,913
Total cash, cash equivalents, and investments at fair value	$ 85,561	$150,636	$ -	$236,197
Percentage of total financial assets measured at fair value	36 %	64 %	- %	100 %

There were no transfers between Levels 1 and 2 during the year ended December 31, 2010.

The following methods and assumptions were used to estimate the fair value 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 — The estimated fair values of debt securities held as available-for-sale are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Fair values of debt securities that do not trade on a regular basis in active markets are classified as Level 2.

There were no significant fair value adjustments recorded during the years ended December 31, 2010 and 2009 for non-financial assets and liabilities or financial assets and liabilities that are measured at fair value on a nonrecurring basis. These assets and liabilities are subject to fair value adjustments only in certain circumstances, such as when the Company records impairments.

The table below includes fair values for certain financial instruments for which it is practicable to estimate fair value. The carrying values and fair values of these financial instruments were as follows:

	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Debt securities — available-for-sale	$ 162,547	$ 162,547	$ 153,913	$ 153,913

The carrying amounts reported in the balance sheets for accounts and other current receivables, unearned revenues, accounts payable, and accrued liabilities approximate fair value because of their short-term nature. These assets and liabilities are not listed in the table above.

11. RELATED-PARTY TRANSACTIONS

Pursuant to the terms of a management agreement, UHS will provide management services to the Company until terminated upon the written agreement of both parties, for a fee based primarily on a percentage of capitation revenue. Fees related to these arrangements totaled approximately $124,193 and $107,643 as of December 31, 2010 and 2009, respectively, and are included in administrative expenses in the statements of operations. In addition, UHS pays, on the Company's behalf, certain general and administrative expenses not covered within the scope of the management agreement. UHS is reimbursed for these expenses by the Company and these expenses are included in administrative expenses in the statements of operations. The Company recorded an increase of approximately $626 and $166 in 2010 and 2009, respectively, in loss adjustment expenses that are estimates of the amounts due to UHS in the event that the Company's operations are discontinued. The Company has recorded a loss adjustment accrual of approximately $3,717 and $3,091 as of December 31, 2010 and 2009, respectively, included in due to affiliate — net on the balance sheets.

The Company has entered into a tax-sharing agreement with UHG (see Note 19).

The Company contracts with RxSolutions to provide administrative services related to pharmacy management and pharmacy claims processing for its enrollees. Fees and other costs related to these agreements, which are calculated on a per-claim basis, of approximately $7,441 and none in 2010 and

2009, respectively, are included in administrative expenses and in the statements of operations. Additionally, UHS collects or RxSolutions collects rebates on certain pharmaceutical products based on member utilization. Rebates related to these agreements of approximately $13,749 and $6,820 in 2010 and 2009, respectively, are included as a reduction of other medical services in the statements of operations. Rebate receivables of approximately $5,242 and $74 as of December 31, 2010 and 2009, respectively, are included as an offset to due to affiliate — net on the balance sheets.

The Company contracts with RxSolutions to provide personal health products catalogues showing the healthcare products and benefit credits needed to redeem the respective products for its Medicare members. RxSolutions will mail the appropriate personal health products catalogues to the Company's members and manage the personal health products credit balance. RxSolutions also distributes personal health products to individual members based upon the terms of the agreement. Fees related to this agreement were approximately $4,962 and $1,581 for 2010 and 2009, respectively, and are included in other medical services expenses in the accompanying statements of operations.

The Company expenses as medical services expenses $3,310 and $1,624 in capitation fees to related parties during 2010 and 2009, respectively. UHS's subsidiaries and divisions provide various services to enrollees of the Company during the year. Spectera Inc. provides administrative services related to vision benefit management and claims processing and Dental Benefit Providers, Inc., provides dental care assistance. The capitation is calculated on a per member per month basis.

The Company has a $12 million subordinated revolving line of credit agreement with UnitedHealth Group at an interest rate of 30-day London InterBank Offered Rate, plus a margin of 0.50%. The credit agreement is for a one-year term and automatically renews annually, unless either party gives written notice to the other party at least 60 days prior to the termination date of its intent to terminate the agreement. The agreement was automatically renewed effective October 28, 2010. No amounts were outstanding under the line of credit as of December 31, 2010 and 2009. Interest paid on amounts borrowed during the year under the line of credit totaled none in 2010 and 2009.

All issued and outstanding shares of common stock are held by UHC of AZ. Operations of the Company may not be indicative of those that would have occurred if it had operated as an independent company.

12. RECEIVABLE AND PAYABLE TO CONTRACT PROGRAMS

Receivables from the contract programs and payables to contract programs as of December 31, 2010 and 2009, consist of the following:

	2010	2009
Medicaid risk sharing:		
TWG	$ -	$10,046
DES/DDD		86
CRS	9,277	6,119
Premiums	24,003	20,347
Recoveries	36,261	36,910
Other	82	225
Total receivables from contract programs	$69,623	$73,733
Medicaid risk sharing:		
TWG	$34,620	$ 2,842
TWG medical expense deduction	1,097	340
PPC	28,657	39,447
DES/DDD	694	
AHCCCS Revenue Risk Adjustment	2,632	
Medicare Part D:		
Catastrophic reinsurance/low-income member cost sharing	3,114	4,278
Recoveries	2,501	2,501
CMS Part D Risk Corridor	3,241	
Total payables to contract programs	$76,556	$49,408

13. STOCKHOLDER'S EQUITY

As a result of the change in net unrealized gains and losses on investments available-for-sale, the Company had accumulated other comprehensive income of $3,241 and $3,622 as of December 31, 2010 and December 31, 2009, respectively.

The Company paid a dividend of $25,000 on November 12, 2010 to UHC of AZ which was approved by AHCCCS and recorded as a reduction to retained earnings. The Company paid a dividend of $9,550 in 2009 to UHC of AZ which was approved by AHCCCS and recorded as a reduction to retained earnings.

14. DRUG REBATES/DISCOUNTS

APIPA received $13,749 and $6,820 in pharmacy rebates in 2010 and 2009, respectively. The pharmacy rebates are included in other medical services in the statements of operations.

15. INTEREST ON LATE CLAIMS

The company paid $182 and $115 in interest on late claims for all members in 2010 and 2009, respectively. The interest on late claims is included in hospital inpatient services in the statements of operations.

16. ACCRUED SANCTIONS

APIPA had accrued a liability of $268 and $422 for AHCCCS sanctions as of December 31, 2010 and 2009, respectively. The sanctions are included in accounts payable and accrued expenses.

17. PROVIDER INCENTIVES

APIPA does not currently offer any provider incentives.

18. NON-COVERED SERVICES

APIPA performed a review of claims with dates of service in 2010. Areas of focus included 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 approximately $3 of chiropractic services and $17 of rehabilitation services were paid for in 2010 for all members under contract.

19. INCOME TAXES

The components of the provision for income taxes for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Current provision:		
Federal	$3,550	$4,410
State and local	934	1,334
Total current provision	4,484	5,744
Deferred provision		
Federal	105	(121)
State and Local	23	(223)
Total deferred provision	128	(344)
Total provision for income taxes	$4,612	$5,400

The reconciliation of the tax provision at the U.S. federal statutory rate to the provision for income taxes for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Tax provision at the U.S. federal statutory rate	$4,803	$5,613
State income taxes — net of federal benefit	622	722
Tax-exempt investment income	(815)	(932)
Other — net	2	(3)
Provision for income taxes	$4,612	$5,400

The components of deferred income tax assets and liabilities as of December 31, 2010 and 2009, are as follows:

	2010	2009
Deferred income tax assets:		
Bad debt reserve	$ 187	$ 321
Unpaid losses and loss adjustment expense	1,139	1,072
Investments	97	149
Subtotal	1,423	1,542
Less valuation allowances		
Total deferred income tax assets	1,423	1,542
Deferred income tax liabilities:		
Investments	(74)	(66)
Unrealized gain	(2,119)	(2,368)
Total deferred income tax liabilities	(2,193)	(2,434)
Net deferred income tax liabilities	$ (770)	$ (892)

Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. The Company had no valuation allowances as of December 31, 2010 or 2009.

The Company's operations are included in the consolidated federal income tax return of UnitedHealth Group. Federal income taxes are paid to or refunded by UnitedHealth Group 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. Income taxes incurred in the current and prior years will be available for recoupment by the Company only in the event of future net losses of consolidated UnitedHealth Group. 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 UnitedHealth Group. UnitedHealth Group currently files income tax returns in the United States federal jurisdiction, various states, and foreign jurisdictions. The U.S. IRS has completed exams on UnitedHealth Group's consolidated income tax returns for fiscal years 2009 and prior. UnitedHealth Group's 2010 tax return is under advance review by the IRS under its Compliance Assurance Program (CAP). With the exception of a few states, UnitedHealth Group is no longer subject to income tax examinations prior to 2004 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.

Federal income taxes receivable (payable) of $400 and ($2,377) as of December 31, 2010 and 2009, respectively, are included in the current federal income taxes receivable and current federal income taxes payable accounts, respectively. State income taxes (payable) receivable of ($21) and $145 as of December 31, 2010 and 2009, respectively, are included in the current state income taxes payable and current state income taxes receivable accounts, respectively.

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, 2010 or 2009.

22. RECLASSIFICATION OF FINANCIAL STATEMENTS

Certain 2009 amounts in the accompanying financial statements have been reclassified to conform to the 2010 presentation. Specifically, the 2009 current federal and state income tax balances are now reported as separate line items in the accompanying financial statements as opposed to being included as a component of due to affiliate —net. In addition, outstanding checks are now being reported in accounts payable and accrued expenses instead of medical services payable. These reclassifications had no effect on net income or total retained earnings as previously reported.

Balance Sheet

	2009 As Previously Reported	Reclassifications	2009 As Reclassified
Assets			
Cash and invested assets:			
Cash and cash equivalents	$ 82,284	$ -	$ 82,284
Investments	153,913		153,913
Total cash and invested assets	236,197	-	236,197
Receivables:			
Receivables from contract programs — net of allowances of $0 and $0, respectively	73,733		73,733
Investment income receivable	1,644		1,644
Other receivables — net of allowances of $473 and $813, respectively	2,561		2,561
Current state income taxes receivable		145	145
Total receivables	77,938	145	78,083
Total	$314,135	$ 145	$314,280
Liabilities and shareholder's equity			
Liabilities:			
Medical services payable	$151,465	$(12,344)	$139,121
Due to affiliate — net	26,050	(2,377)	23,673
Payables to contract programs	49,408		49,408
Accounts payable and accrued expenses	586	12,489	13,075
Current federal income taxes payable		2,377	2,377
Deferred income taxes — net	892		892
Total liabilities	228,401	145	228,546
Contingencies (Note 8)			
Shareholder's equity:			
Common stock, no par value — authorized, 1,000,000 shares; issued and outstanding, two shares	52,266		52,266
Retained earnings	29,846		29,846
Accumulated other comprehensive income	3,622		3,622
Total shareholder's equity	85,734	-	85,734
Total	$314,135	$ 145	$314,280

Statement of Cash Flow

	2009 As Previously Reported	Reclassifications	2009 As Reclassified
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 10,645	$ -	$ 10,645
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of investment premium — net	619		619
Deferred income taxes	(344)		(344)
Losses on sale of investments — net	12		12
Changes in operating assets and liabilities:			
Receivables from contract programs	2,872		2,872
Investment income receivable	(129)		(129)
Other receivables	(2,536)		(2,536)
Federal and state income taxes		(2,334)	(2,334)
Medical services payable	2,893	2,893	5,786
Accounts payable and accrued expenses	(905)	231	(674)
Payables to contract programs	35,071		35,071
Due to affiliate — net	8,220	2,103	10,323
Net cash provided by operating activities	56,418		59,311
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investments available-for-sale	(32,776)		(32,776)
Proceeds from maturities/sales of investments available-for-sale	27,901		27,901
Net cash used in investing activities	(4,875)		(4,875)
CASH FLOWS USED IN FINANCING ACTIVITIES:			
Dividends paid	(9,550)		(9,550)
Outstanding checks		(2,893)	(2,893)
Net cash used in financing activities	(9,550)		(12,443)
NET INCREASE IN CASH AND CASH EQUIVALENTS	41,993		41,993
CASH AND CASH EQUIVALENTS — Beginning of the year	40,291		40,291
CASH AND CASH EQUIVALENTS — End of year	$ 82,284	$	$ 82,284
Cash paid for income taxes	$ 8,078	$	$ 8,078

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ARIZONA PHYSICIANS IPA, INC.

SUPPLEMENTAL COMBINING BALANCE SHEET
AS OF DECEMBER 31, 2010 (UNAUDITED)
(In thousands — except for shares)

	AHCCCS	DES/DDD	CRS	Medicare	Other	Total
ASSETS						
CASH AND INVESTED ASSETS:						
Cash and cash equivalents	$ 79,302	$ -	$ -	$ -	$ -	$ 79,302
Investments	162,547	-	-	-	-	162,547
Total cash and invested assets	241,849	-	-	-	-	241,849
RECEIVABLES:						
Receivables from contract programs	36,088	6,319	21,767	5,449	-	69,623
Investment income receivable	1,674	-	-	-	-	1,674
Other receivables — net of allowances	1,752	78	1,254	431		3,515
Current federal income taxes receivable	400	-	-	-	-	400
Total receivables	39,914	6,397	23,021	5,880	-	75,212
RECEIVABLE BETWEEN CONTRACTS	-	6,356	12,733	38,635	(57,724)	-
TOTAL	$ 281,763	$ 12,753	$ 35,754	$ 44,515	$ (57,724)	$ 317,061
LIABILITIES AND SHAREHOLDER'S EQUITY						
LIABILITIES:						
Medical services payable	$ 104,892	$ 4,039	$ 20,353	$ 27,290	$ -	$ 156,574
Due to affiliate — net	3,497	(129)	341	(1,897)	-	1,812
Payables to contract programs	67,546	3,195	0	5,815	-	76,556
Accounts payable and accrued expenses	7,191	1,176	1,536	1,990	-	11,893
State income taxes payable	21	-	-	-	-	21
Deferred income taxes — net	770	-	-	-	-	770
Total liabilities	183,917	8,281	22,230	33,198	-	247,626
PAYABLE BETWEEN CONTRACTS	57,724	-	-	-	(57,724)	-
SHAREHOLDER'S EQUITY:						
Common stock, no par value — authorized, 1,000,000 shares; issued and outstanding, two shares	44,411	9,105	20,000	(21,250)	-	52,266
Retained earnings	(7,530)	(4,633)	(6,476)	32,567	-	13,928
Accumulated other comprehensive income	3,241	-	-	-	-	3,241
Total shareholder's equity	40,122	4,472	13,524	11,317	-	69,435
TOTAL	$ 281,763	$ 12,753	$ 35,754	$ 44,515	$ (57,724)	$ 317,061

ARIZONA PHYSICIANS IPA, INC.

SUPPLEMENTAL COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)
(In thousands)

	AHCCCS	DES/DDD	CRS	Medicare	Other	Total
REVENUES:						
Capitation and risk-sharing settlements	$ 837,779	$ 54,165	$ 114,039	$ 238,736	$ -	$ 1,244,719
Delivery supplemental premiums	47,264	57	-	-	-	47,321
CRS grant revenue	-	-	500	-	-	500
Investment income — net	7,932	-	-	-	-	7,932
Total revenues	892,975	54,222	114,539	238,736	-	1,300,472
MEDICAL SERVICE EXPENSES:						
Hospital inpatient services	230,833	9,220	41,865	75,740		357,658
Medical compensation	236,433	9,240	22,788	38,549		307,010
Other medical services	371,124	38,923	48,730	82,337		541,114
Recoveries from AHCCCS	(62,600)	(7,303)	(6,730)	-	-	(76,633)
Total medical services expenses	775,790	50,080	106,653	196,626	-	1,129,149
ADMINISTRATIVE EXPENSES	93,448	6,105	12,705	25,936		138,194
CRS GRANT EXPENSES	-	-	500	-		500
PREMIUM TAXES	18,935	-	-	-	-	18,935
Total expenses	888,173	56,185	119,858	222,562	-	1,286,778
INCOME (LOSS) BEFORE INCOME TAXES	4,802	(1,963)	(5,319)	16,174	-	13,694
INCOME TAX EXPENSE (BENEFIT)	1,623	(660)	(1,787)	5,436		4,612
NET INCOME (LOSS)	3,179	(1,303)	(3,532)	10,738	-	9,082
SHAREHOLDER'S EQUITY — Beginning of year	47,324	5,775	17,056	15,579	-	85,734
Change in net unrealized gain on investments available-for-sale — net of tax effects and reclassification adjustments	(630)	-	-	-	-	(630)
Reclassification adjustments for net realized gain included in net income — net of tax effects	249	-	-	-	-	249
Dividends paid	(10,000)	-	-	(15,000)	-	(25,000)
SHAREHOLDER'S EQUITY — End of year	$ 40,122	$ 4,472	$ 13,524	$ 11,317	$ 0	$ 69,435