

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION

of

**Columbia United Providers, Inc.
Vancouver, Washington**

**NAIC CODE 47047
December 31, 2007**

Order No. 09-38
Columbia United Providers, Inc.
Exhibit A

SALUTATION

Seattle, Washington
March 31, 2009

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building – Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, Washington 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.44.145 and RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Columbia United Providers, Inc.

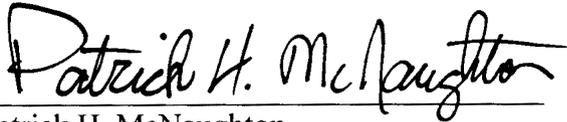
of

Vancouver, Washington

hereinafter referred to as “CUP” or the “Company,” at the location of its home office, 19120 SE 34th Street, # 201, Vancouver, Washington 98683. This report is respectfully submitted showing the condition of the Company as of December 31, 2007.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Columbia United Providers, Inc., of Vancouver, Washington. This report shows the financial condition and related corporate matters as of December 31, 2007.



Patrick H. McNaughton
Chief Examiner

3-31-2009

Date

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SCOPE OF THE EXAMINATION

This examination covers the period beginning January 1, 2003 through December 31, 2007 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed NAIC Annual Statements as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statements in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

1. NAIC Annual Statement Errors and Misclassifications

The results of the examination disclosed several instances in which the Company's filing of the NAIC Annual Statements did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions.

a. Uncovered Claims Unpaid

The Company reported additional liability items on Page 3, Line 1, Column 2, of the 2006 and 2007 NAIC Annual Statements that did not meet the definition for "Uncovered expenditures" as required by the NAIC Annual Statement Instructions, and as defined by RCW 48.44.010(7).

b. Unpaid Claims Adjustment Expenses

The Company's estimate of "Unpaid claims adjustment expenses" was not within a reasonable range. The Company did not include cost containment expenses and pharmacy drug expenses in developing the estimated unpaid claims adjustment expenses as required by SSAP No. 55, paragraph 5c. The amount was immaterial; therefore, no examination adjustment is necessary.

c. Claims Adjustment Expense Misclassification

Payments made to the Company's pharmacy benefits services provider consisted of two parts, actual "Prescription drugs" expense and "Claims adjustment expenses" categorized as cost containment expense. The Company reported in error the combined total as "Prescription drugs" expense. Due to immateriality, no examination reclassification was necessary.

The Company is instructed to file an accurate statement of its financial condition, transactions, and affairs pursuant to RCW 48.43.097 which requires the filing of its financial statements in accordance with the AP&P; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

COMMENTS AND RECOMMENDATIONS

1. Business Continuity Plan

The Company has a formal, written business continuity plan; however, that plan has never been tested.

It is recommended that the Company test the business continuity plan at least annually as recommended by the NAIC.

COMPANY PROFILE

Company History

The Company was incorporated in the state of Washington on July 23, 1993, as a registered Health Care Service Contractor. The Company commenced business on January 1, 1994 under the name Clark United Providers. On January 1, 2001, the name was changed to Columbia United Providers, Inc.

Capitalization

The Company has 1,000,000 shares authorized and 29,709 shares issued and outstanding of \$1 par value common capital stock as of December 31, 2007.

Territory and Plan of Operation

CUP only conducts business in the state of Washington and has no plans for expansion into other states. The majority of premiums are received from the Washington State Healthy Options program pursuant to a contract with the Washington State Department of Social and Health Services (DSHS) that was established to provide managed health care benefits to certain Medicaid recipients. The remaining business is generated by the Washington State Basic Health Plan pursuant to a contract with the Washington State Health Care Authority (HCA) which provides managed health care benefits for qualified Washington State residents. The HCA and DSHS administer these plans and are responsible for enrolling members in the respective plans.

Additionally, these agencies are responsible for checking and verifying eligibility requirements, collecting any premium share from enrollees, and assigning enrollees to a health plan in the enrollee’s county of residence. The HCA and DSHS are responsible for the payment of premiums to CUP on a monthly basis based upon the number of member enrollees. The Company contracts directly with various providers within its service area for the provision of medical and hospital services, pharmaceuticals, and other related services. Providers are reimbursed according to established fee schedules on a capitated or fee-for-service basis.

Acquisitions, Mergers, Disposals, Dissolutions, Purchases, and Sales

There are no plans for acquisitions, mergers, disposals, dissolutions, purchases or sales.

Growth of Company

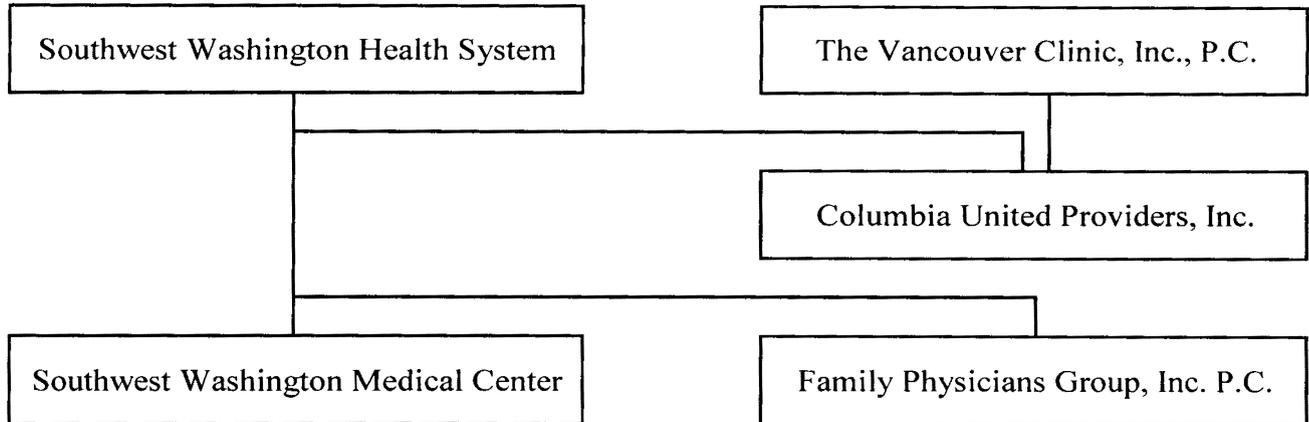
The following reflects the growth of the Company based on information filed in the Company’s NAIC Annual Statements for the five years ended December 31:

<u>Year</u>	Admitted Assets	Liabilities	Capital and Surplus	
2007	\$16,354,972	\$8,760,222	\$7,594,750	
2006	16,433,216	6,731,099	9,702,117	
2005	15,515,084	5,094,263	10,420,821	
2004	14,574,169	4,564,547	10,009,622	
2003	15,701,923	6,403,797	9,298,126	

<u>Year</u>	Premiums Earned	Net Underwriting Gain (Loss)	Net Investment Gain (Loss)	Net Income
2007	\$74,167,552	(\$3,479,349)	\$944,389	(\$2,281,141)
2006	70,782,814	(1,783,818)	717,309	(771,637)
2005	69,144,627	244,668	491,147	450,332
2004	62,894,481	537,521	246,276	477,734
2003	73,905,514	1,553,158	369,949	1,268,009

AFFILIATED COMPANIES

Organizational Chart



Southwest Washington Health System (SWHS) was organized as a non-profit corporation in 1998, and the Board of Directors (BOD) of Southwest Washington Medical Center (SWMC) transferred 100% of its ownership, and its 89.5% ownership of CUP to SWHS. SWHS and SWMC share the same BOD. SWMC is a non-profit hospital located in Vancouver, Washington. SWHS also owns 100% of Family Physicians Group, Inc., P.C (Physicians Group). Vancouver Clinic, Inc., P.C. (Vancouver Clinic) owns 6% of CUP, and other physician practitioners own the remaining shares of CUP.

Intercompany Agreements

Administrative Service Agreements

CUP is a participant in administrative agreements with Physicians Group, and Vancouver Clinic. Activities are limited to administrative and operational support services to these two facilities. These services include, but are not limited to: claim payments, contracting support, customer service assistance, financial services support and encounter reporting, medical management (referral, utilization management and case management), information systems support, and managed care consulting services. The fees to administer these contracts are based upon a per-member/per-month (PMPM) rate negotiated by the contracting parties.

Capitation Agreement

CUP processes claims for both contracted and non-contracted providers to the Vancouver Clinic as part of their capitation agreement. The Vancouver Clinic is capitated for both primary care and specialty services. When the Vancouver Clinic cannot provide services for a member and that member is referred to a specialist outside of the provider network, CUP processes the claim and withholds the payment from the following month capitation payment to the Vancouver Clinic.

MANAGEMENT AND CONTROL

Ownership

SWHS owns 89.5% of CUP common capital stock, and the remaining shares are owned by various physician practitioners in the Vancouver, Washington vicinity. The shares are not actively traded, and management does not own any shares.

Board of Directors (BOD)

Management of the Company is vested in a BOD of twelve persons elected at each annual meeting by the shareholders. The following were directors as of December 31, 2007:

Charles Brian Bishop
George John Dechet, MD
Colleen Lynn Fox, MD
Olivia Lauren Jones, DO
Joseph Marion Kortum
James Russell Little, MD
Lisa Jo Morrison, MD, Chairman
Gilbert Rodriguez, MD
David Rene Ruiz, MD
Thomas Clarence VanSweringen
John David White, Vice Chairman
David Garth Willie

Officers

The officers of the Company are elected annually by the BOD. Officers of the Company as of December 31, 2007 were:

Ann Kristin Wheelock	Chief Executive Officer & President
Victoria Mae Inglis	Controller
Lisa Jo Morrison, MD	Chairman of the BOD
John David White	Vice Chairman
Colleen Lynn Fox, MD	Secretary
David Garth Willie	Treasurer

Conflict of Interest

All conflict of interest statements are reviewed annually and significant transactions and potential conflicts are presented to the BOD. No potential conflicts of interest were disclosed.

Fidelity Bond and other Insurance

CUP has fidelity insurance that meets the NAIC recommended minimum coverage levels. Additionally, CUP has property general liability, commercial general liability, and umbrella liability. Officers are covered for errors and omissions.

Officers', Employees', and Agents' Welfare and Pension Plans

CUP employees are covered by a qualified defined contribution pension plan sponsored by CUP, which was adopted on July 1, 2001.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws, Certificate of Registration and minutes of the BOD were reviewed for the period under examination. No exceptions were noted and all BOD meetings were conducted with a quorum present.

ACTUARIAL REVIEW

The OIC health actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2007. The review included examining the Company's reserving philosophy and methods to determine the reasonableness of the claim liabilities; verifying that claim liabilities included provisions for all components noted in SSAP No. 55, Paragraphs 7 and 8; reviewing historical paid claims and loss ratios; and estimating claims unpaid as of December 31, 2007. It was determined reserves were within a reasonable range. Except as noted, the methodologies used to determine reserves were appropriate. (See Instruction No. 1b.)

REINSURANCE

CUP cedes risk for all of its insured products to HCC Life Insurance Company. HCC Life Insurance Company is an authorized reinsurance company in the state of Washington. The agreement is based on a calendar year and includes coverage for acute care, sub-acute care, outpatient care, home health care including pharmaceuticals, and professional care including pharmaceuticals administered by a physician.

The reinsurance agreement was found to be in compliance with the state of Washington reinsurance statutes, and properly classified in Schedule S of the 2007 NAIC Annual Statement. The Company has controls in place to adequately monitor its reinsurance program including the financial condition of the reinsurer. CUP does not assume any reinsurance risk.

SPECIAL DEPOSITS

CUP, as a Registered Health Care Service Contractor, is subject to the indemnity requirements of RCW 48.44.030, where estimated unpaid claims for uncovered expenditures to providers outside of the network, and not covered by contract, need to be guaranteed by an approved method. Pursuant to this statute, CUP has on deposit with the state of Washington, \$565,000 in short term, class one, money market mutual funds.

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

Accounting records are maintained on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusted to Statutory Accounting Practices (SAP) basis for NAIC

Annual Statement reporting. The Company is audited annually by the certified public accounting firm of KPMG, LLP. The Company received unqualified opinions for all years under review. Accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination. No exceptions were noted.

Company management is sufficiently knowledgeable of Information Systems (IS) operational issues and provides direction and oversight through its management team. The Company has documentation for standard operating procedures and a security awareness program that defines the responsibilities of users, management and IS personnel.

Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the internal controls exercised to maintain data security. The Company has sufficient internal controls in place to monitor system activity and processes.

CUP has a formal, written business continuity plan and disaster recovery plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC guidelines. These plans, however, have not been tested. It is recommended that the business continuity plan be tested annually. (See Comment and Recommendation No. 1.)

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of Columbia United Providers, Inc., as of December 31, 2007:

Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Five Year Surplus Reconciliation

COLUMBIA UNITED PROVIDERS, INC.
ASSETS, LIABILITIES, CAPITAL AND SURPLUS
December 31, 2007

	<u>BALANCE PER COMPANY</u>	<u>ref.</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Assets				
Bonds	\$9,074,736		\$0	\$9,074,736
Common stocks	403,635			403,635
Cash and short-term investments	4,662,199			4,662,199
Investment income due and accrued	158,120			158,120
Premiums and considerations:				
Uncollected premiums and agents' balances	1,175,761			1,175,761
Amounts recoverable from reinsurers	397,363			397,363
Current federal and foreign income tax recoverable	222,000			222,000
Receivables from parent, subsidiaries and affiliates	191,158			191,158
Health care and other amounts receivable	70,000			70,000
Total Assets	<u>\$16,354,972</u>		<u>\$0</u>	<u>\$16,354,972</u>
 Liabilities, Capital, and Surplus				
Claims unpaid	\$7,221,500		\$0	\$7,221,500
Unpaid claims adjustment expenses	170,005			170,005
General expenses due or accrued	1,368,717			1,368,717
Total Liabilities	<u>8,760,222</u>		<u>0</u>	<u>8,760,222</u>
Common capital stock	29,709			29,709
Statutory Reserve	3,000,000			3,000,000
Unassigned funds (surplus)	4,565,041			4,565,041
Total Capital and Surplus	<u>7,594,750</u>		<u>0</u>	<u>7,594,750</u>
Total Liabilities, Capital and Surplus	<u>\$16,354,972</u>		<u>\$0</u>	<u>\$16,354,972</u>

COLUMBIA UNITED PROVIDERS, INC.
STATEMENT OF REVENUE AND EXPENSES
December 31, 2007

	<u>BALANCE PER COMPANY</u>	ref.	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Member months	427,553			427,553
Net premium income	\$74,167,552		\$0	\$74,167,552
Aggregate write-ins for other non-health revenues	55,013			55,013
Total revenues	<u>74,222,565</u>		<u>0</u>	<u>74,222,565</u>
<u>Hospital and Medical:</u>				
Hospital/medical benefits	55,364,621			55,364,621
Emergency room and out-of-area	6,606,408			6,606,408
Prescription drugs	7,204,344			7,204,344
Incentive pool, withhold adjustments and bonus amounts	(127,806)			(127,806)
Subtotal	<u>69,047,567</u>		<u>0</u>	<u>69,047,567</u>
<u>Less:</u>				
Net reinsurance recoveries	295,185			295,185
Total hospital and medical	68,752,382			68,752,382
Claims adjustment expenses	2,384,615			2,384,615
General administrative expenses	6,564,917			6,564,917
Total underwriting deductions	<u>77,701,914</u>		<u>0</u>	<u>77,701,914</u>
Net underwriting gain or (loss)	<u>(3,479,349)</u>		<u>0</u>	<u>(3,479,349)</u>
Net investment income earned	827,757			827,757
Net realized capital gains or (losses)	116,632			116,632
Net investment gains or (losses)	944,389		0	944,389
Net income or (loss) before FIT	(2,534,960)		0	(2,534,960)
Federal and foreign income taxes incurred	(253,819)			(253,819)
Net Income (Loss)	<u>(\$2,281,141)</u>		<u>\$0</u>	<u>(\$2,281,141)</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>				
Capital and surplus prior reporting period	\$9,702,117		\$0	\$9,702,117
Net Income (Loss) from above	(2,281,141)		0	(2,281,141)
Change in net unrealized capital gains and losses	(176,639)			(176,639)
Change in net deferred income tax	755,000			755,000
Change in nonadmitted assets	(404,587)			(404,587)
Net change in capital and surplus	<u>(2,107,367)</u>		<u>0</u>	<u>(2,107,367)</u>
Capital and surplus end of reporting period	<u>\$7,594,750</u>		<u>\$0</u>	<u>\$7,594,750</u>

**COLUMBIA UNITED PROVIDERS, INC.
SURPLUS RECONCILIATION
FOR THE PERIODS ENDING**

	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>12/31/2003</u>
Capital and surplus, prior reporting year	<u>\$9,702,117</u>	<u>\$10,420,821</u>	<u>\$10,009,623</u>	<u>\$9,298,127</u>	<u>\$7,750,836</u>
Net income or (loss)	(2,281,141)	(771,637)	450,332	477,734	1,268,009
Change in net unrealized capital gains and losses	(176,639)	62,175	10,806	135,128	165,230
Change in net deferred income tax	755,000	13,000			
Change in nonadmitted assets	<u>(404,587)</u>	<u>(22,242)</u>	<u>(49,940)</u>	<u>98,634</u>	<u>114,052</u>
Net change in capital and surplus	<u>(2,107,367)</u>	<u>(718,704)</u>	<u>411,198</u>	<u>711,496</u>	<u>1,547,291</u>
Capital and surplus, end of reporting period	<u><u>\$7,594,750</u></u>	<u><u>\$9,702,117</u></u>	<u><u>\$10,420,821</u></u>	<u><u>\$10,009,623</u></u>	<u><u>\$9,298,127</u></u>

NOTES TO THE FINANCIAL STATEMENTS

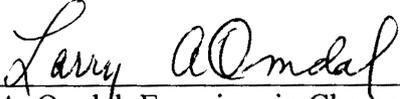
The Company has no special consents, permitted practices or orders from the state of Washington. There were no examination report adjustments.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and staff of Columbia United Providers, Inc., during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Carl M. Baker, CPA, CFE, CISA, Health Field Supervisor; John R. Jacobson, AFE, CISA, AES, Automated Examination Specialist; Timothy F. Hays, CPA, JD, Investment Specialist; Shiraz Jetha, FSA, FCIA, MAAA, Health Actuary; and Friday P. Enoye, Financial Examiner; all from the Washington State Office of the Insurance Commissioner participated in the examination and the preparation of this report.

Respectfully submitted,



Larry A. Omdal, Examiner in Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
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COUNTY OF KING } **ss**
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Larry A. Omdal, being duly sworn, deposes and says that the foregoing report subscribed is true to the best of his knowledge and belief.

He attests that the examination of Columbia United Providers, Inc. was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

 Larry A. Omdal
Larry A. Omdal, Examiner in Charge
State of Washington

Subscribed and sworn to before me this 31st day of March, 2009.

 Golleen Jansen
Notary Public in and for the
State of Washington

