



OFFICE OF
INSURANCE COMMISSIONER

November 9, 2012

MEREDITH VAUGHAN
DIRECTOR, STRATEGY AND PLANNING
PEACEHEALTH
14432 SE EASTGATE WAY, SUITE 300
BELLEVUE, WA 98007-6412

Re: Form A Filing dated September 28, 2012 – Proposed Acquisition of Control of
Columbia United Providers Inc. ("CUP")

Dear Ms. Vaughan:

We are continuing our review of the response to our letter dated October 9, 2012. The
OIC review is on hold until we receive your response to this letter. Please respond in the
order as presented in this letter.

The Form A filing does not include the following items as required by RCW 48.31C.030.
Please submit these items as referenced below.

1. Item 4 – Please provide the board resolution from Southwest Washington Health
System regarding this proposed transaction. Please explain why there is to be
"no consideration" for this transaction. Is there a proposed agreement between
Southwest Washington Health System and PeaceHealth that formally addresses
the proposed transaction?

We also request the following items for discussion to be submitted in the order to obtain
a better understanding about CUP, PeaceHealth, its affiliates and its business. Please
submit these items as referenced below:

2. Please provide any agreement that supports the proposed transaction between
PeaceHealth and Southwest Washington Health System, if not already
submitted in Item #1 above.
3. Please provide a listing of the current directors and officers of Southwest
Washington Health System that are also have a trustee or officer capacity with
PeaceHealth.
4. Please provide the latest internal financial statements of Southwest Washington
Health System as of September 30, 2012, if any.

Meredith Vaughan
November 9, 2012
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As to this filing, please be advised the filing is incomplete and therefore the filing is tolled. Our review will commence when we receive the response to this letter.

If you have any questions, please feel free to contact me at (360) 725-7211.

Yours truly,



RONALD J. PASTUCH, CPA
Holding Company Manager
Company Supervision Division
E-Mail: RonP@oic.wa.gov

Cc: James T. Odiorne, CPA, JD, Company Supervision Division

Pastuch, Ron (OIC)

From: Vaughan, Meredith [MVaughan2@peacehealth.org]
Sent: Monday, November 19, 2012 2:19 PM
To: OIC Company Supervision Filings
Cc: Pastuch, Ron (OIC)
Subject: PeaceHealth: 9/28 Form A Filing: Response to 2nd Request for Additional Information
Attachments: OIC PeaceHealth Cover Letter Form A 2nd Response-FINAL-Nov_19_2012.pdf; OIC Form A 2nd Response FINAL 11_19_2012.pdf; Attachment A Copy of SWHS Consol 0912 for Ins Com.pdf

Importance: High

To Whom It May Concern:

Attached is PeaceHealth's response to the OIC's 2nd request for further information from the 9/28 Form A filing.

Please let me know if any questions

Thank you
Meredith Vaughan

Meredith Vaughan
System Director, Planning and Strategy
PeaceHealth
(425) 649-3885
Mvaughan2@peacehealth.org

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PeaceHealth

November 19, 2012

Ronald Pastuch, Holding Company Manager
Office of the Insurance Commissioner
State of Washington
5000 Capitol Blvd.,
Tumwater, WA 98501

RE: Form A Filing Dated September 28, 2012 – Proposed Acquisition of Control of Columbia United Providers

Dear Mr. Pastuch:

In response to your second request for further information regarding PeaceHealth's Form A filing on September 28, 2012, attached you will find our response for each question and the documents necessary to complete this request.

As I have discussed with you, we are quickly approaching our proposed Closing date of December 31, 2012 and are hopeful that your office will be able to complete the review, schedule a hearing, and issue a ruling by or before that date.

Please feel free to contact me at (425) 649-3885 at any time with questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Meredith Vaughan".

Meredith Vaughan
System Director, Planning and Strategy

CC: Peter Adler, Senior Vice President, Strategy, Innovation and Development

November 19, 2012

**PeaceHealth Response to OIC 2nd Request for Supplemental Information to Form A Filing of
9/28/2012**

1. Item 4 -Please provide the Board Resolution from Southwest Washington Health System regarding this proposed transaction. Please explain why there is to be 'no consideration' for this transaction. Is there a proposed agreement between Southwest Washington Health System and PeaceHealth that formally addresses the proposed transaction?

As addressed in the previous response, dated 10/16/12:

The Southwest Health System Board passed a motion recommending that it merge with PeaceHealth. At the April 18, 2012 Southwest Washington Health System/PeaceHealth Southwest Medical Center Board of Directors meeting, the following motion was approved and documented:

Motion: A motion was made, seconded and passed unanimously to communicate to the PH System Board that the SWHS Board is prepared to complete the affiliation and terminate the separate 501(c)(3).

PeaceHealth has not yet passed any resolutions. We anticipate that PeaceHealth and the Southwest Health System will both pass all resolutions necessary to accomplish statutory mergers in the next 6-8 weeks. Those resolutions would be premature now, though, because we do not intend to merge Southwest Health System into PeaceHealth until such time as the change of control over Columbia United Providers has been approved by the Washington State Office of the Insurance Commissioner.

Both PeaceHealth and Southwest Health System are 501(c)3, tax exempt, Washington corporations. Typical for not-for-profit corporation mergers, the merging of SWHS into PeaceHealth does not involve any consideration being paid, as all assets and liabilities of SWHS will be merged into PeaceHealth.

2. Please provide any agreement that supports the proposed transaction between PeaceHealth and Southwest Washington Health System, if not already submitted in #1 above.

Not Applicable

3. Please provide a listing of the current directors and officers of Southwest Washington Health System that also have a trustee or officer capacity with PeaceHealth.

The current directors and officers of Southwest Washington Health System (SWHS) are listed below. There are two officers that are employees of PeaceHealth, Joseph M. Kortum and Thomas Haywood. Their PeaceHealth titles are indicated in the table below. No SWHS Officer or Director have trustee or officer roles with PeaceHealth.

November 19, 2012

SWHS Officer Information:		
Name	Address	Officer
Joseph M. Kortum	PO Box 1600 Vancouver, WA 98668	President and CEO <i>*PeaceHealth: Network CEO, Columbia Network</i>
Thomas Haywood	PO Box 1600 Vancouver, WA 98668	CFO <i>*PeaceHealth : CFO, St. John's Medical Center</i>
Sally Williams, M.D.	PO Box 1600 Vancouver, WA 98668	Secretary
Richard Seekins	PO Box 1600 Vancouver, WA 98668	Treasurer

SWHS Director Information:	
Name	Address
Ruth Bennett	PO Box 1600 Vancouver, WA 98668
Richard Boyd	PO Box 1600 Vancouver, WA 98668
Judi Brenes	PO Box 1600 Vancouver, WA 98668
Brett Bryant	PO Box 1600 Vancouver, WA 98668
Tom Burkholder	PO Box 1600 Vancouver, WA 98668

November 19, 2012

Nicholas Carulli, M.D.	PO Box 1600 Vancouver, WA 98668
Jay Miller, M.D.	PO Box 1600 Vancouver, WA 98668
Ron Prill <i>*also a PeaceHealth Board member</i>	PO Box 1600 Vancouver, WA 98668
George Shanno, M.D.	PO Box 1600 Vancouver, WA 98668
Sally E. Williams, M.D.	PO Box 1600 Vancouver, WA 98668

4. Please provide the latest internal financial statements of Southwest Washington Health System as of September 30, 2012, if any.

The consolidated SWHS financial statement was sent to Ron Pastuch on 11/14/12 from Anita Williams, Controller, Southwest Medical Center. However, it is also attached to this response (See Attachment A).

The entities in the consolidated financial statement include:

SWHS – Southwest Washington Health System – the parent holding company

CUP – Columbia United Providers – the insurance plan

SMG – Southwest Medical Group

PABCO – Property & Buildings, LLC – a real estate holding company

PHSW – PeaceHealth Southwest Medical Center – the hospital

SOUTHWEST WASHINGTON HEALTH SYSTEM
CONSOLIDATING BALANCE SHEET - SEPTEMBER 30, 2012
(unaudited)
ASSETS

	SWHS	CUP	SMG	PARCO	PHSW	Elimination	9/30/2012 Consolidated	6/30/2012 Consolidated	% Inc.
	(Unaudited)	89.5% (Unaudited)	100% (Unaudited)	100% (Unaudited)	100% (Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Dec)
Current Assets									
Cash and Short-Term Investments	\$ 472,804	\$ 8,234,135	\$ 238,675	\$ 1,442,281	\$ 28,527,271	\$ -	\$ 39,915,166	\$ 59,657,360	-33.1%
Accounts Receivable	-	2,925,686	6,001,555	-	230,799,865	(10,669,591)	229,057,516	204,865,778	11.8%
Less-Allowances and Adjustments	-	-	(3,020,068)	-	(170,025,302)	8,507,888	(164,537,500)	(141,355,000)	-16.4%
Other Accounts Receivable	15,500	1,000,001	-	-	2,205,690	(141,820)	3,079,371	5,410,007	43.1%
Inventories	-	-	-	-	7,431,545	-	7,431,545	7,451,230	-0.3%
Prepaid Expenses	-	83,046	6,120	892,409	5,247,150	-	6,228,725	6,675,020	-6.7%
Bond Funds Held for Debt Service	-	-	-	-	135,105	-	135,105	135,105	0.0%
Due from Affiliates	983,010	-	827,362	(765,789)	6,650,403	-	7,694,986	4,144,378	85.7%
Total Current Assets	<u>1,471,314</u>	<u>12,242,868</u>	<u>4,053,627</u>	<u>1,568,901</u>	<u>111,971,727</u>	<u>(2,303,623)</u>	<u>129,004,914</u>	<u>147,003,878</u>	<u>-12.2%</u>
Property, Plant and Equipment									
Land	-	-	-	31,519,040	11,289,664	-	42,808,704	42,791,078	0.0%
Buildings and Improvements	-	-	7,248	382,875	289,836,322	-	290,226,445	291,052,522	-0.3%
Equipment	-	950,028	3,982,134	-	108,525,020	-	113,457,182	111,181,086	2.0%
Installations in Progress	-	-	-	2,623,289	15,948,643	-	18,571,932	15,727,495	18.1%
Medical Office Buildings	-	-	-	-	-	-	-	-	-
Total Property, Plant and Equipment	-	950,028	3,989,382	34,525,204	425,599,649	-	465,064,263	460,752,181	0.9%
Less-Accumulated Depreciation	-	(341,673)	(1,630,256)	(38,835)	(66,847,334)	-	(68,858,298)	(60,111,544)	-14.6%
Net Property, Plant and Equipment	-	<u>608,355</u>	<u>2,359,126</u>	<u>34,486,369</u>	<u>358,752,315</u>	-	<u>396,205,965</u>	<u>400,640,637</u>	<u>-1.1%</u>
Other Assets									
Investment in Subsidiaries	445,714,528	-	-	-	19,379,612	(442,276,315)	22,817,825	22,835,912	-0.1%
Board-Designated Investments	-	23,170,147	-	-	243,827,401	-	266,997,548	243,293,323	9.7%
Investment Interest Receivable	-	69,171	-	-	-	-	69,171	52,708	31.2%
Other Assets	-	100,000	420,715	-	24,110,837	-	24,631,553	24,728,596	-0.4%
Total Other Assets	<u>445,714,528</u>	<u>23,339,318</u>	<u>420,715</u>	<u>-</u>	<u>287,317,850</u>	<u>(442,276,315)</u>	<u>314,516,097</u>	<u>290,910,539</u>	<u>8.1%</u>
Total Assets	<u>\$ 1,471,314</u>	<u>\$ 12,242,868</u>	<u>\$ 4,053,627</u>	<u>\$ 1,568,901</u>	<u>\$ 111,971,727</u>	<u>\$ (2,303,623)</u>	<u>\$ 129,004,914</u>	<u>\$ 147,003,878</u>	<u>0.1%</u>

SOUTHWEST WASHINGTON HEALTH SYSTEM
CONSOLIDATING BALANCE SHEET - SEPTEMBER 30, 2012
(unaudited)
LIABILITIES AND FUND BALANCE

	SWHS	CUP	SMC	PABCO	PHSW	Elimination	9/30/2012	6/30/2012	%
	(Unaudited)	89.5%	100%	100%	100%	(Unaudited)	Consolidated	Consolidated	Inc.
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Dec)
Current Liabilities									
Accounts Payable	\$ -	\$ 980,974	\$ 564,769	\$ -	\$ 18,183,930	-\$ 141,820	\$ 19,567,853	\$ 18,996,582	3.0%
Accrued Payroll and Related Liabilities	-	448,432	1,277,552	-	34,507,453	-	36,234,437	35,578,412	1.8%
Third Party Payor Reserves	-	8,869,221	-	-	-	(2,161,703)	6,707,518	5,142,377	30.4%
Payable to Contractual Agencies	-	-	-	-	7,179,649	-	7,179,649	9,840,413	-27.0%
Other Current Liabilities	-	720,990	5,305,264	526,659	8,131,473	-	12,684,386	19,773,235	-35.9%
Due to Affiliates	-	-	-	-	-	-	-	-	-
Current Portion of Long-Term Debt	-	-	-	502,031	3,000,000	-	3,502,031	3,262,031	7.4%
Total Current Liabilities	<u>-</u>	<u>11,000,617</u>	<u>7,147,585</u>	<u>1,028,690</u>	<u>69,002,505</u>	<u>(2,303,523)</u>	<u>85,875,874</u>	<u>92,591,050</u>	<u>-7.3%</u>
Estimated Medical Malpractice	-	-	-	-	2,567,716	-	2,567,716	3,714,555	-30.9%
Deferred Lease Revenue	-	-	-	695,326	-	-	695,326	748,670	-6.9%
Long-Term Pension Payable	-	-	-	-	85,263,302	-	85,263,302	86,714,880	-1.7%
Long-Term Debt, Less Current Portion									
Long-term Debt Payable	-	-	-	11,183,231	155,514,357	-	166,697,588	164,769,775	1.2%
Fair Market Value of Interest Rate Swap	-	-	-	-	23,905,796	-	23,905,796	22,359,474	6.9%
Unamortized Fair Value Debt Adjustment	-	-	-	-	2,345,808	-	2,345,808	2,422,720	3.2%
	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,183,231</u>	<u>181,765,961</u>	<u>-</u>	<u>192,949,192</u>	<u>189,551,969</u>	<u>1.8%</u>
Fund Balance									
Unrealized Investment Gains (Losses)	-	-	-	-	22,374,659	-	22,374,659	13,619,664	64.3%
Unrestricted	447,185,842	25,189,724	(314,116)	23,148,023	397,067,749	(442,276,315)	450,000,907	451,618,266	-0.4%
Total	<u>447,185,842</u>	<u>25,189,724</u>	<u>(314,116)</u>	<u>23,148,023</u>	<u>419,442,408</u>	<u>(442,276,315)</u>	<u>472,375,566</u>	<u>465,235,930</u>	<u>1.5%</u>
Total Liabilities and Fund Balance	<u>\$ 447,185,842</u>	<u>\$36,190,341</u>	<u>\$ 6,833,469</u>	<u>\$36,055,270</u>	<u>\$ 758,041,892</u>	<u>\$ (444,579,838)</u>	<u>\$ 839,726,978</u>	<u>\$838,555,054</u>	<u>0.1%</u>