KPMG

COLUMBIA UNITED PROVIDERS, INC.

Statutory Financial Statements and Schedules

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Columbia United Providers, Inc.:

We have audited the accompanying statutory financial statements of Columbia United Providers, Inc. (the Company), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2012 and 2011, and the related statutory statements of revenues and expenses, changes in capital and surplus, and cash flow for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices prescribed or permitted by the Washington State Office of the Insurance Commissioner. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in note 2 to the statutory financial statutory statements, the statutory financial statements are prepared by the Company using statutory accounting practices prescribed or permitted by the Washington State Office of the Insurance Commissioner, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices and U.S. generally accepted accounting principles are also described in note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting principles and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of Columbia United Providers, Inc. as of December 31, 2012 and 2011, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of Columbia United Providers, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Washington State Office of the Insurance Commissioner described in note 2.

Investment Risks Interrogatories and Summary Investment Schedule

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the supplemental schedule of investment risk interrogatories and the supplemental schedule of summary investment schedule is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Washington State Office of the Insurance Commissioner. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Portland, Oregon
May 29, 2013

COLUMBIA UNITED PROVIDERS, INC.

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus

December 31, 2012 and 2011

Admitted Assets		**2012**	**2011**
Bonds and stocks:			
Bonds	$	9,798,833	10,714,725
Common stock		339,646	283,974
Cash, cash equivalents, and short-term investments		8,463,734	19,559,094
Surplus note		12,400,000	—
Uncollected premiums		87,550	2,545,257
Amounts receivable from uninsured health plans		19,625	20,676
Federal income tax refund receivable		—	157,669
Net deferred tax assets		450,218	185,014
Interest and other investment income due and accrued		53,663	58,627
Healthcare receivables		2,066,456	232,224
Receivables from reinsurers		215,460	148,000
Receivables from affiliate		234,616	284,427
Receivables from regulatory authorities		1,981,144	—
Total admitted assets	$	36,110,945	34,189,687
Liabilities and Capital and Surplus			
Claims unpaid	$	9,757,334	7,583,936
Unpaid claims adjustment expense		381,439	279,968
Federal income tax payable		116,847	—
Other expenses due or accrued		1,301,855	3,534,760
Total liabilities		11,557,475	11,398,664
Common stock, $1 par value. Authorized, 1,000,000 shares; issued and outstanding, 28,985 shares and 29,290 shares at December 31, 2012 and 2011, respectively		28,985	29,290
Statutory surplus		3,000,000	3,000,000
Unassigned surplus		21,524,485	19,761,733
Total capital and surplus		24,553,470	22,791,023
Total liabilities and capital and surplus	$	36,110,945	34,189,687

See accompanying notes to statutory financial statements.

COLUMBIA UNITED PROVIDERS, INC.

Statutory Statements of Revenues and Expenses

Years ended December 31, 2012 and 2011

		2012	2011
Underwriting income:			
Premium income, net	$	64,161,505	135,671,177
Risk revenue		44,330,689	—
Total underwriting income		108,492,194	135,671,177
Underwriting deductions:			
Hospital and medical expenses		93,362,599	117,077,210
Claims adjustment expenses		2,459,035	2,541,031
General administrative expense		9,465,906	10,143,071
Total underwriting deductions		105,287,540	129,761,312
Underwriting gain		3,204,654	5,909,865
Net investment income		78,010	124,142
Other income		217,010	176,852
Net income before federal income taxes		3,499,674	6,210,859
Federal income tax expense		1,224,868	2,074,107
Net income	$	2,274,806	4,136,752

See accompanying notes to statutory financial statements.

COLUMBIA UNITED PROVIDERS, INC.

Statutory Statements of Changes in Capital and Surplus

Years ended December 31, 2012 and 2011

Capital and surplus as of December 31, 2010	$	18,867,490
Net income		4,136,752
Change in net unrealized gains and losses on investments		(34,298)
Change in net deferred tax asset		(17,540)
Change in nonadmitted assets		(149,581)
Change in paid-in capital and surplus		(11,800)
Capital and surplus as of December 31, 2011		22,791,023
Net income		2,274,806
Change in net unrealized gains and losses on investments		33,269
Change in net deferred tax asset		293,301
Change in nonadmitted assets		(720,263)
Change in paid-in capital and surplus		(118,666)
Capital and surplus as of December 31, 2012	$	24,553,470

See accompanying notes to statutory financial statements.

COLUMBIA UNITED PROVIDERS, INC.

Statutory Statements of Cash Flow

Years ended December 31, 2012 and 2011

		2012	2011
Cash flows from operations:			
Premiums collected	$	66,619,212	136,001,359
Benefit and loss-related payments		(91,256,661)	(116,710,690)
Commissions, expenses paid, and aggregate write-ins for deductions		(14,057,408)	(10,498,295)
Investment income, net of investment expenses		247,512	238,223
Federal income taxes paid		(950,351)	(2,489,500)
Other income		44,549,780	176,852
Net cash provided by operations		5,152,084	6,717,949
Cash flows from investments:			
Proceeds from investments		12,260,000	8,351,132
Purchases of investments		(23,916,570)	(8,612,207)
Net cash used in investments		(11,656,570)	(261,075)
Cash flows from financing and miscellaneous sources:			
Other applications		(4,590,874)	(280,895)
Net cash used in financing and miscellaneous sources		(4,590,874)	(280,895)
Net (decrease) increase in cash, cash equivalents, and short-term investments		(11,095,360)	6,175,979
Cash, cash equivalents, and short-term investments, beginning of year		19,559,094	13,383,115
Cash, cash equivalents, and short-term investments, end of year	$	8,463,734	19,559,094

See accompanying notes to statutory financial statements.

(1) Nature of Operations

Columbia United Providers, Inc. (CUP) was incorporated on July 23, 1993 pursuant to Chapter 23.86, Revised Code of Washington State, as a nonprofit cooperative association. During 1997, the Board of Directors of CUP adopted a conversion plan, which resulted in the conversion of CUP into a for-profit corporation. The Washington State Office of the Insurance Commissioner (OIC) approved this conversion on February 25, 1997, and amended articles of incorporation and articles of conversion were filed with the Office of the Secretary of State of Washington. CUP is a taxable entity subject to federal taxation applicable to C corporations. In connection with this purpose, CUP applied for and received registration to operate as a healthcare service contractor pursuant to Chapter 48.44, Revised Code of Washington State. CUP began operations effective October 1, 1993.

As of January 1, 2013, the OIC approved a requested change in CUP's license from Health Care Service Contractor to a Disability Contractor. This change does not impact CUP's ability to write health business in the State of Washington. This change allowed CUP to enter into a reinsurance contract with the Community Health Plan of Washington (CHPW), assuming all risk for covered members.

Southwest Washington Health System (SWHS) owns 91.7% of the CUP common stock currently outstanding. The remaining common shares are owned by various physician practitioners in the Vancouver, Washington area. As of December 31, 2012 and 2011, there were 1,000,000 common shares authorized and 28,985 and 29,290 common shares outstanding, respectively.

The Board of SWHS approved an affiliation effective January 1, 2011 with PeaceHealth. PeaceHealth is a Washington-based not-for-profit healthcare system with medical centers, critical access hospitals, medical group clinics and laboratories located in Alaska, Washington and Oregon. CUP will not be affected by the affiliation until such time as a change in control of CUP has been approved by the OIC.

CUP contracts directly with various providers within its service area for the provision of medical and hospital services, pharmaceuticals, and other related services. CUP reimburses these providers on a capitated or fee-for-service basis, depending on the negotiated contract. Some providers may be minority owners of CUP stock or affiliates of CUP. Certain providers may be eligible for increased or decreased reimbursement rates based on actual medical expense ratios compared to predetermined criteria. As a result of these criteria, CUP disbursed $0 and $799,531 in increased reimbursement during 2012 and 2011, respectively, which is included in hospital and medical expenses in the statutory statements of revenues and expenses.

All of CUP's premium and risk revenues are ultimately sourced from the State of Washington (the State). Management believes CUP's ability to operate profitably is subject to the State's ability to adequately fund the Healthy Options Program and the Basic Health Plan. These State contracts provide for changes to previously agreed-upon premium rates and other contractual provisions due to extenuating circumstances, as defined by the State. These circumstances include lack of sufficient resources available to the State to continue to reimburse contracting health plans at the previously agreed-upon rates. The State is currently projecting significant budget constraints. The State has notified health plans participating in their programs, that reductions in premiums or level of health plan enrollment may occur in future periods due to these constraints. The extent of these possible reductions is unknown at this time, but could be significant to CUP's premiums, operating results, and financial position in 2012 and future periods. Even though CUP no longer contracts directly with the State (see following paragraph for details), CUP manages the care of members in the Healthy Options and Basic Health Plan programs, which represent 96% and 4% of premiums earned in 2012 and 95% and 5% of premiums earned in 2011, respectively. These programs are administered by departments of the State. As of December 31, 2012 and 2011, CUP had approximately 39,737 and 59,102 enrolled members for the Healthy Options Program, and 1,556 and 2,309 enrolled members for the Basic Health Plan, respectively. In November 2012, the State introduced the Healthy Options Blind and Disabled program into managed care. CUP's enrollment for this population as of December 31, 2012 is 1,625.

During 2011, the State undertook a process whereby health plans competitively bid for a Healthy Options and Basic Health contract for the period July 1, 2012 through December 31, 2013. Several health plans bid premium rates below CUP, and CUP was not awarded a contract by the State for this time period, resulting in the expiration of CUP's contract with the State on July 1, 2012. CUP has entered into an agreement with CHPW that was awarded the contract from the State for the period July 1, 2012 through December 31, 2013. Under this contract, in return for receiving a defined premium amount from CHPW, CUP will be responsible for providing medical, hospital, pharmaceutical, and related medical services to Healthy Options and Basic Health members assigned to CUP from CHPW. CUP will provide these services through its currently contracted provider network. Under the terms of its contract with CHPW, CUP will continue to perform most of the administrative services for its assigned members, such as claims payment and utilization management, that it performed under its contract with the State. The State has not specified what its health plan contracting intentions are for periods after December 31, 2013.

In conjunction with the above agreement, CHPW issued a surplus note to CUP effective July 24, 2012 for $12,400,000, which is due and payable no later than March 31, 2015. The surplus note earns interest at a variable rate based on actual returns of the underlying investment. This agreement has been registered with the Washington Office of Insurance Commissioner. Approval of the OIC must be obtained prior to the redemption of this note or payment of interest by CHPW. Subsequent to year end CUP received authorization from the OIC to redeem the full value of the note.

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying statutory financial statements of CUP are prepared in conformity with accounting practices prescribed or permitted by the National Association of Insurance Commissioners (NAIC) and the OIC, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

The OIC had previously adopted certain prescribed accounting practices regarding investments in mutual funds that differed from those found in NAIC Statutory Accounting Principles (SAP). CUP received permission from the OIC for a permitted accounting practice that differs from the Washington State prescribed practice. The effective date of the permitted accounting practice was January 1, 2010, but expired on June 30, 2012 with the implementation of revised Chapter 48.13 RCW on July 1, 2012. The permitted practice deviated from the state-prescribed practice regarding investments as set forth in the Revised Code of Washington State 48.13.240. This statute restricts investments in miscellaneous investments to the lesser of: (1) 10% of prior year-end admitted assets, in the aggregate, with no more than 1% in any single entity; or (2) 50% of prior year-end capital and surplus. The permitted accounting practice allowed CUP to acquire and hold a single entity's NAIC nonexempt listed mutual funds not to exceed 4% of CUP's admitted assets. The permitted practice also allowed CUP to hold as admitted assets an unlimited amount of a single entity's mutual funds as listed on the NAIC Securities Valuation Office US Direct Obligations/Full Faith and Credit Exempt List of Bond Funds. In NAIC SAP, mutual funds are admitted assets. This permitted practice had no effect on net income or the risk-based capital (RBC) action level.

The principal differences between financial statements prepared in accordance with NAIC SAP and those prepared under GAAP are as follows:

(i) Certain assets designated as "nonadmitted," principally certain nongovernmental accounts receivable, furniture and equipment, prepaids, and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual* are excluded from the accompanying statutory statements of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet.

(ii) Changes in deferred income taxes are recorded directly to unassigned surplus as opposed to being an item of income tax benefit or expense for GAAP financial reporting purposes. Admittance testing may result in a charge to capital and surplus for nonadmitted portions of deferred tax assets. Under GAAP reporting, a valuation allowance may be reflected as an expense for financial reporting purposes.

(iii) Investments, other than investments in subsidiaries, are carried at values prescribed by the NAIC (note 2(d)). GAAP requires investments, other than investments in subsidiaries, to be classified as held-to-maturity, trading, or available-for-sale. Held-to-maturity securities are carried at amortized cost, trading securities are carried at fair value with the changes in fair value included in the statement of revenues and expenses, and available-for-sale securities are carried at fair value with the changes in fair value reflected as a separate component of surplus.

(iv) Negative cash is reported as a negative asset under NAIC SAP, while under GAAP, it is recorded as a liability.

(v) The statement of cash flows differs in certain respects from the presentation required by GAAP, including the presentation of the changes in cash and short-term investments instead of cash and cash equivalents. Short-term investments include securities with maturities, at the time of acquisition, of 12 months or less. There is no reconciliation between net income and cash from operations for statutory purposes.

(Continued)

(vi) Comprehensive income is not presented.

The following table sets forth the reconciliation of equity at December 31, 2012 and 2011 under GAAP and capital and surplus reported for statutory insurance requirements:

		2012	2011
Equity – GAAP	$	25,683,676	23,208,363
Adjustments for statutory reporting purposes:			
Net unrealized losses on investments		13,239	5,841
Furniture and equipment, net of accumulated depreciation		(501,348)	(232,534)
Prepaids		(301,803)	(139,861)
Deferred tax assets		(28,097)	—
Other assets		(312,197)	(50,786)
Capital and surplus – statutory basis	$	24,553,470	22,791,023

The difference in net income under GAAP and net income reported for statutory insurance requirements is not material.

(b) *Use of Estimates*

The preparation of the statutory financial statements on the basis of accounting practices prescribed by the NAIC requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates include claims unpaid, unpaid claims adjustment expense, uncollected premiums, receivables from reinsurers, and other-than-temporary impairment of investments.

(c) *Cash, Cash Equivalents, and Short-Term Investments*

Cash, cash equivalents, and short-term investments consist of liquid investments with maturities of 12 months or less from the date of acquisition. Cash was $8,463,734 and $19,059,244 at December 31, 2012 and 2011, respectively. Cash equivalents, which include investments with remaining maturities of three months or less at the time of acquisition, are recorded at amortized cost and were $0 and $499,850 at December 31, 2012 and 2011, respectively. The carrying balance of cash, cash equivalents, and short-term investments approximates fair value.

At December 31, 2012 and 2011, $399,930 and $377,566, respectively, of CUP's cash is pledged as collateral to the OIC as a surety deposit pursuant to Title 48 of the Revised Code of Washington State.

CUP maintains its cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits.

(d) Investments

Bonds and common stocks are stated at values prescribed by the NAIC as follows:

- Bonds not backed by other loans are principally stated at amortized cost using the effective-interest method, unless they are rated NAIC designation 3 or lower, and thus are valued at the lower of cost or market.
- Common stocks are reported at market value as determined by the NAIC Securities Valuation Office, and the related net unrealized capital gains (losses) are reported in unassigned surplus unless the loss is determined to be other than temporary. For stocks with no NAIC-assigned value, estimated market value is based on quoted market prices.
- Realized capital gains and losses are determined using the specific-identification method. Changes in admitted asset carrying amounts of bonds and common stocks are credited or charged directly to unassigned surplus unless the loss is determined to be other than temporary.
- A decline in fair value of a security below cost that is deemed to be other-than-temporary is recorded as an impairment loss and is included in net income in the accompanying statutory statements of revenues and expenses. A new cost basis is then established for the security.

(e) Furniture and Equipment

Furniture and equipment, which are nonadmitted assets, are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets as follows:

Asset type	Depreciable life (years)
Furniture and equipment	7
Data processing equipment	3–5

The cost of furniture and equipment sold or retired and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is recorded. Maintenance and repairs are expensed as incurred. Depreciation expense recorded for the years ended December 31, 2012 and 2011 was $112,712 and $120,835, respectively.

(f) Claims Unpaid and Unpaid Claims Adjustment Expense

The liability for claims unpaid includes claims in process and an estimated liability for incurred but not reported claims by physicians, hospitals, and other healthcare providers for services rendered to CUP's members. The claims unpaid liability is determined using actuarial estimates.

CUP has accrued an estimate for the amount needed to process its unpaid claims liability of $381,439 and $279,968 at December 31, 2012 and 2011, respectively, which is included in unpaid claims adjustment expense on the accompanying statutory statements of admitted assets, liabilities, and capital and surplus.

Management believes that the estimated liabilities for claims unpaid and the related claims adjustment expense at December 31, 2012 and 2011 are adequate to cover the ultimate liabilities; however, due to uncertainties inherent in the estimation process, there is at least a reasonable possibility that such estimates may be more or less than the amount ultimately paid when the claims are settled.

(g) Premium Income, Risk Revenue and Uncollected Premiums

Premium income consists of premiums paid by the State for healthcare services. Premium income is received on a prepaid basis and is recognized as revenue during the month for which the premium is associated. Risk revenue consists of capitation revenue received from CHPW and is recognized in the same manner as premium income.

Uncollected premiums consist of amounts due from a department of the State or CHPW for maternity case rates and newborn premiums due under the Healthy Options and Basic Health Plan contracts. The balance of uncollected premiums is periodically evaluated for collectibility in accordance with Statement of Statutory Accounting Principles (SSAP) No. 84, *Certain Health Care Receivables and Receivables under Government Insured Plans*. If it is determined that a balance is uncollectible, the balance is written off and charged to income in the period the determination is made.

(h) Healthcare Receivables

CUP has established a receivable for pharmaceutical rebates in accordance with SSAP No. 84 as of December 31, 2012 and 2011 in the amounts of $101,375 and $110,048, respectively. Such amounts are included in healthcare receivables in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus. Recorded balances are estimates based on experience of actual rebates received within 90 days of billing. Balances not collected within 90 days of billing are not admitted. A summary of pharmacy rebates estimated, invoiced, and collected at December 31, 2012 is as follows:

Pharmaceutical rebates		Estimated	Invoiced	Collected
Fourth quarter 2012	$	57,000	—	—
Third quarter 2012		57,000	57,000	—
Second quarter 2012		58,000	50,000	48,000
First quarter 2012		61,000	55,000	52,000
Fourth quarter 2011	$	59,000	53,000	47,000
Third quarter 2011		51,000	50,000	51,000
Second quarter 2011		45,000	45,000	53,000
First quarter 2011		45,000	65,000	54,000
Fourth quarter 2010	$	50,000	64,000	81,000
Third quarter 2010		68,000	64,000	75,000
Second quarter 2010		56,000	70,000	82,000
First quarter 2010		85,000	90,000	88,000

(i) ***Reinsurance (Stop-Loss Insurance)***

CUP has stop-loss reinsurance indemnifying it against the cost of providing services to individual enrolled participants at 90% in excess of $125,000 for hospital charges up to a maximum of $1,000,000 per contract year for each enrolled member.

Stop-loss premium expense of $698,280 and $716,334 is included in net premium income for 2012 and 2011, respectively. Receivable from reinsurers was $215,460 and $148,000 as of December 31, 2012 and 2011, respectively, in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus. Recoveries were $215,460 and $148,000 in 2012 and 2011, respectively, and were recorded as a reduction to hospital and medical expenses.

CUP cedes insurance to reinsurers in the ordinary course of business for the purpose of limiting exposure to large losses. Amounts recoverable from reinsurers are estimated in a manner consistent with the related claim liability. CUP evaluates the financial condition of its reinsurer to minimize its exposure to losses from reinsurer insolvencies. If the reinsurers and monitors risks arising from activities or economic characteristics of the reinsurer to minimize its exposure to losses from reinsurer insolvencies. If the reinsurers are unable to meet their obligation under such agreements, CUP would be liable for such default amounts. At December 31, 2012, substantially all reinsurance receivables were due from a single reinsurer.

(j) ***Income Taxes***

CUP is subject to federal income taxes. Income taxes are provided for the tax effects of transactions reported in the statutory financial statements.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in unassigned surplus in the period that includes the enactment date.

The admissibility of CUP's deferred tax assets is determined according to SSAP 101. The amount calculated will be subjected to further reduction if it exceeds 10% of capital and surplus or it exceeds the amount of gross deferred tax liabilities. CUP had net admitted deferred tax assets of $450,218 and $185,014 as of December 31, 2012 and 2011, respectively.

(k) ***Capital and Surplus***

In accordance with the Revised Code of Washington State, CUP is required to maintain a minimum statutory net worth of the greater of $3,000,000 or 2% of premium revenue.

Washington, CUP's state of domicile, imposes minimum risk-based capital requirements that were developed by the NAIC. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of CUP's regulatory total adjusted capital, as defined by the NAIC, to its authorized control level risk-based capital, also as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. Management believes CUP is in compliance with its capital and surplus requirements.

CUP must obtain approval from the OIC prior to the payment of any dividends to its shareholders.

(l) *New Accounting Pronouncements*

In 2011, the NAIC adopted revisions to SSAP No. 100, *Fair Value Measurements* (SSAP No. 100). The revisions require new disclosures of the fair value hierarchy, as well as the method used to obtain fair value measurements. The revisions also require gross presentation of purchases, sales, issues and settlement within the reconciliation of fair value measurements categorized within Level 3 of the fair value hierarchy the SSAP No. 100 revisions, adopted by CUP in 2012, did not have a material effect on CUP's statutory financial statements.

Effective January 1, 2012, CUP adopted the requirements under Statement of Statutory Accounting Principles No. 101, *Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10* (SSAP 101). SSAP 101 established the statutory accounting principles for current and deferred federal income taxes. The adoption of SSAP 101 did not have a significant impact on the financial statements of CUP.

(3) Investments

The cost or amortized cost, gross unrealized gains and losses, and estimated fair value of investments held are as follows:

	December 31, 2012			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Bonds:				
U.S. government-sponsored agencies	$ 5,619,019	2,767	(7,122)	5,614,664
States, territories, and possessions	515,447	1,334	(1,323)	515,458
Political subdivision of states, territories, and possessions	2,163,244	2,883	(4,282)	2,161,845
Unaffiliated industrial and miscellaneous	1,501,123	1,039	(512)	1,501,650
Total bonds	9,798,833	8,023	(13,239)	9,793,617
Common stock – mutual funds	243,471	96,175	—	339,646
Total	$ 10,042,304	104,198	(13,239)	10,133,263

	December 31, 2011			
	Cost or amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Bonds:				
U.S. government-sponsored agencies	$ 7,637,966	17,611	(14)	7,655,563
States, territories, and possessions	485,969	3,419	(2,992)	486,396
Political subdivision of states, territories, and possessions	1,571,750	7,650	(500)	1,578,900
Unaffiliated industrial and miscellaneous	1,019,040	294	(2,335)	1,016,999
Total bonds	10,714,725	28,974	(5,841)	10,737,858
Common stock – mutual funds	237,310	46,664	—	283,974
Total	$ 10,952,035	75,638	(5,841)	11,021,832

The gross unrealized losses comprise five securities in a loss position at December 31, 2012.

The cost or amortized cost and estimated fair value of fixed income investments at December 31, 2012 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment obligations.

	2012	
	Cost or amortized cost	**Estimated fair value**
Due in less than one year	$ 2,761,531	2,761,644
Due after one year through five years	7,037,302	6,562,623
Total	$ 9,798,833	9,324,267

Proceeds from sales or maturities of investments in bonds and common stock during 2012 and 2011 were $12,260,000 and $8,351,132, respectively. Gross gains of $0 and $23,672 were realized on those sales or maturities in 2012 and 2011, respectively.

Net investment income, including amortization and accretion, is summarized as follows:

		2012	2011
Interest income – bonds	$	79,046	113,833
Interest and dividend income – short-term investments		234	1,029
Interest expense		(9,191)	(18,116)
Interest and dividend income – common stock		7,921	3,724
Realized gains – common stock		—	23,672
	$	78,010	124,142

The following table summarizes the investments with unrealized losses as of December 31, 2012:

		Less than 12 months		12 months or longer		Total	
		Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
Bonds:							
U.S. government-sponsored agencies	$	—	—	2,536,195	7,122	2,536,195	7,122
U.S. states, territories and possessions		—	—	174,046	1,323	174,046	1,323
Political subdivision of states, territories, and possessions		698,413	2,341	469,350	1,941	1,167,763	4,282
Unaffiliated industrial and miscellaneous		998,284	512	500,150	246	1,498,434	758
Temporarily impaired securities	$	1,696,697	2,853	3,679,741	10,632	5,376,438	13,485

The following table summarizes the investments with unrealized losses as of December 31, 2011:

		Less than 12 months		12 months or longer		Total	
		Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
Bonds:							
U.S. government-sponsored agencies	$	395,967	14	—	—	395,967	14
U.S. states, territories and possessions		160,016	154	181,917	2,838	341,933	2,992
Political subdivision of states, territories, and possessions		—	—	191,975	500	191,975	500
Unaffiliated industrial and miscellaneous		—	—	509,050	2,335	509,050	2,335
Temporarily impaired securities	$	555,983	168	882,942	5,673	1,438,925	5,841

These temporarily impaired securities are the result of market value and interest rate changes and are expected to regain their lost value with market shifts. Management does not plan to dispose of these investments until their lost value is regained and does not believe them to be other-than-temporarily impaired at December 31, 2012 or 2011.

An investment is impaired if the fair value of the investment is less than its book or amortized cost, resulting in an unrealized loss position. Impaired securities are assessed to determine if the impairment is other-than-temporary. CUP evaluates investment securities for other-than-temporary impairment based on qualitative and quantitative factors. If CUP has the intent to sell, or it is more likely than not that it will be sold before recovery, other-than-temporary impairment is recorded in income equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. For impaired fixed income securities that CUP does not intend to sell or it is more likely than not it would not be sold and will not fully recover the amortized cost basis, the decline in value is deemed to be other-than-temporary impairment and the credit component of the other-than-temporary impairment is recognized in income. No other-than-temporary impairment losses were recognized in 2012 or 2011.

(4) Reserve for Claims Unpaid and Unpaid Claims Adjustment Expense

Claims unpaid include both reported and unreported medical claims. Unreported medical claims represent an actuarial estimate of claims incurred on behalf of CUP's members that had not yet been reported to CUP at December 31 based on a number of factors, including prior claims experience. Adjustments, if necessary, are made to hospital and medical expenses in the periods the actual claims costs are ultimately determined.

Claims adjustment expense represents costs incurred related to the claim settlement process such as costs to record, process, and adjust claims. These expenses are calculated using a percentage of current medical costs, based on historical experience.

The following table summarizes activities in the reserve for claims unpaid and claims adjustment expense for the years ended December 31:

	2012	2011
Claims unpaid at beginning of year	$ 7,863,904	6,463,874
Add incurred claims related to:		
Current year	96,870,318	120,106,583
Prior years	(1,048,684)	(488,342)
Total incurred	95,821,634	119,618,241
Deduct paid claims related to:		
Current year	87,316,989	112,754,353
Prior years	6,229,776	5,463,858
Total paid	93,546,765	118,218,211
Claims unpaid at end of year	$ 10,138,773	7,863,904

Reserves for claims unpaid and claims adjustment expense attributable to insured events of prior years decreased $1,048,684 and $488,342 in 2012 and 2011, respectively, as a result of reestimation of claims unpaid and claim adjustment expense. This decrease is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

(5) Related-Party Transactions

(a) PeaceHealth Southwest Medical Center (PHSW)

A significant portion of hospital healthcare services provided to CUP enrollees is provided by PHSW. PHSW is controlled by Southwest Washington Health System, and approved its affiliation with PeaceHealth effective January 1, 2011. Fee-for-service reimbursement paid to PHSW was \$17,440,037 and \$19,419,445 in 2012 and 2011, respectively. Additionally, PHSW received \$0 and \$250,923 in risk-share reimbursement from CUP in 2012 and 2011, respectively. Certain professional medical services are provided to CUP enrollees by clinics owned by PHSW or its parent. CUP reimburses these clinics through capitation and fee-for-service arrangements. Total amounts paid to these clinics were \$3,768,726 and \$4,887,479 in 2012 and 2011, respectively.

CUP performs certain medical management and claims payment functions for PeaceHealth Medical Group P.S., a clinic owned by SWHS. Total fees received in 2012 and 2011 related to this agreement were \$173,201 and \$180,560, respectively. These fees are recorded as a reduction to general administrative expense.

Beginning January 1, 2011, CUP expanded its contract with PHSW to act as a third-party administrator for its employee's self-insured health plan to include claims payment in addition to medical management services. Total fees received for these services were \$621,768 and \$626,802 in 2012 and 2011, respectively. These fees are recorded as a deduction to general administrative expense.

Beginning January 1, 2012, CUP contracted with PeaceHealth Medical Group (PHMG) to act as a third party administrator for its employee's self-insured health plan to include claims payments and medical management services. Total fees received for these services were \$54,095. The contract terminated effective December 31, 2012. These fees are recorded as a deduction to general administrative expense.

Due to the related nature of these entities, the amounts received and paid may not have been the same if similar activities had been undertaken with unrelated parties.

(b) Physicians

CUP contracts with physicians and other healthcare professionals to provide care for its enrollees. These contracts are negotiated on a year-to-year basis and include capitation and fee-for-service arrangements. Some of these providers may be minority owners of CUP common stock and may be members of CUP's Board of Directors. Management believes that the loss of certain members of its provider network would have a significant detrimental effect on its ability to provide healthcare services to its enrollees.

CUP performs certain medical management and claims payment functions for a clinic, which is owned by minority shareholders of CUP, and which is represented on CUP's Board of Directors.

Total fees received in 2012 and 2011 related to this agreement were $294,910 and $294,055, respectively. These fees are recorded as a reduction to general administrative expense.

(6) Commitments

Pursuant to Title 48 of the Revised Code of Washington State, the Washington State Health Insurance Pool (WSHIP) may assess state health plans to cover the net cost of insuring eligible Washington residents who are denied health coverage elsewhere. Plans are assessed annually on a per-member per-month basis. CUP's WSHIP assessments for 2012 and 2011 are $816,375 and $1,387,624, respectively, and are included in general administrative expense in the year of assessment.

CUP has contracted with a healthcare information systems vendor to provide software licensing, data processing, and support to CUP for its claims and managed care administration. This agreement terminates in 2013 and is cancelable by CUP with 60 days notice. CUP pays a monthly fee based on the number of CUP users. Total data processing support expense for 2012 and 2011 was $368,821 and $298,350, respectively, and is included in general administrative expense.

In January 2002, CUP executed a noncancelable operating lease for office space. The commencement date of the lease was January 1, 2002, expired on January 31, 2012. In August 2011, the lease was renewed for a sixty-month period commenced on February 1, 2012. The lease agreement calls for escalating rent payments over the life of the lease, which CUP records in its statutory statements of revenues and expenses on a straight-line basis. CUP recorded lease expense related to the office space of $375,716 and $372,153 for the years ended December 31, 2012 and 2011, respectively.

In December 2011, CUP entered into a contract with a healthcare information system vendor to provide software licensing, data processing, and support to CUP for its claims and managed care administration, with implementation commencing January 2012. Total software licensing, data processing and support expense for 2012 was $378,199. Lease costs for years commencing January 1, 2013 and future years represent the annual lease obligations for office space and the new data processing system.

The following is a schedule of future minimum payments required under CUP's operating lease and the software licensing and data processing arrangement at December 31, 2012:

2013	$	910,338
2014		959,768
2015		971,069
2016		977,756
2017 and thereafter		2,358,720
Total future minimum payments	$	6,177,651

(7) Retirement Plan

CUP maintains a 401(k) plan covering substantially all employees. Matching contributions of up to 4% of an employee's compensation are made by CUP in addition to a profit sharing contribution, as established by CUP. CUP contributed $233,213 and $228,740 for 2012 and 2011, respectively.

(8) Uninsured Plans

CUP performs certain administrative functions for uninsured plans of related entities (note 5(a)). Net reimbursement received for administrative services only (ASO) plans was $173,201 and $180,560 in 2012 and 2011, respectively. The net reimbursement approximates the cost of providing such services and is included in general administrative expense. The claims paid volume for 2012 and 2011 was approximately $1,631,889 and $1,524,776, respectively.

CUP performs certain administrative functions for self-funded employee health plans of related entities (note 5(a)). Net reimbursement for ASO plans was $675,862 and $626,802 in 2012 and 2011, respectively. The reimbursement from this ASO plan resulted in a net loss of $43,662 and $374 in 2012 and 2011, respectively. Such reimbursement is included as an offset to general administrative expense. The claims paid volume for 2012 and 2011 was approximately $24,561,232 and $19,217,548, respectively.

CUP performs certain administrative functions for the uninsured plan of a related entity (note 5(b)). Gross reimbursement for medical cost incurred under this administrative services contract for 2012 and 2011 was $3,173,670 and $3,707,207, respectively. Net reimbursement for administrative services provided by CUP was $294,910 and $294,055 for 2012 and 2011, respectively, which approximates the cost of providing such services. Such reimbursement is included as an offset to general and administrative expense.

(9) Income Taxes

CUP adopted SSAP 101, *Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10,* effective December 31, 2012. The December 31, 2012 and 2011 balances and related disclosures are calculated and presented pursuant to SSAP 101. CUP has not elected to admit additional deferred tax assets pursuant to paragraph 10.e. for the years ended December 31, 2012 and 2011.

The net deferred tax asset (liability) at December 31 and the change from prior year comprise the following components:

	December 31, 2012			December 31, 2011			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Total gross deferred tax assets	$ 491,320	19,232	510,552	246,512	—	246,512	244,808	19,232	264,040
Valuation allowance adjustment	—	—	—	—	—	—	—	—	—
Adjusted gross deferred tax assets	491,320	19,232	510,552	246,512	—	246,512	244,808	19,232	264,040
Total gross deferred tax liabilities	—	(32,237)	(32,237)	(45,496)	(16,002)	(61,498)	45,496	(16,235)	29,261
Net deferred tax assets	491,320	(13,005)	478,315	201,016	(16,002)	185,014	290,304	2,997	293,301
Total deferred tax assets nonadmitted	(28,097)	—	(28,097)	—	—	—	(28,097)	—	(28,097)
Net admitted deferred tax assets	$ 463,223	(13,005)	450,218	201,016	(16,002)	185,014	262,207	2,997	265,204

Admission calculation components comprise:

	December 31, 2012			December 31, 2011			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
(a) Federal income taxes paid in prior years recoverable through through loss carry backs	$ 441,053	—	441,053	201,015	3,230	204,245	240,038	(3,230)	236,808
(b) Adjusted gross DTAs expected to be realized after application of the threshold limitations									
1 Adjusted gross DTAs expected to be realized following balance sheet date	9,166	N/A	9,166	N/A	N/A	—	N/A	N/A	9,166
2 Adjusted gross DTAs allowed per limitation threshold	N/A	N/A	2,279,102	N/A	N/A	—	N/A	N/A	2,279,102
Lesser of (b)1 or (b)2	9,166	—	9,166	—	—	—	9,166	—	9,166
(c) Adjusted gross DTAs offset by gross DTLs	13,005	19,232	32,237	45,496	16,002	61,498	(32,491)	3,230	(29,261)
(d) Deferred tax assets admitted as the result of application of SSAP No. 101	$ 463,224	19,232	482,456	246,511	19,232	265,743	216,713	—	216,713

The change in deferred income taxes reported in surplus before consideration of nonadmitted assets comprises the following components:

		December 31		
		2012	2011	Change
Net adjusted deferred tax asset	$	478,315	185,014	293,301
Tax effect of unrealized gains and losses		32,237	16,002	16,235
Net tax effect without unrealized gains and losses	$	510,552	201,016	309,536

Unrecognized Deferred Tax Liabilities

There are no temporary differences for which deferred tax liabilities are not recognized.

Components of current tax expense are as follows:

		2012	2011
Current year tax expense	$	1,225,358	2,097,710
Prior year adjustments		(490)	(23,603)
	$	1,224,868	2,074,107

(Continued)

Operating Loss Carryforward

As of December 31, 2012, there are no operating loss or tax credit carryforwards available for tax purposes. The amounts of federal income taxes incurred that are available for recoupment in the event of future net losses are as follows:

		Ordinary	Capital	Total
2012	$	1,124,458	—	1,124,458
2011		1,974,315	—	1,974,315

CUP files tax returns in the U.S. federal jurisdiction. As of December 31, 2012, the tax years that remain subject to examination began with 2009. CUP does not believe it is more likely than not that a significant change will occur within the coming year to its unrecognized tax benefits.

CUP's income tax incurred and change in deferred income tax differs from the amount obtained by applying the federal statutory rate of 34% to income before income taxes as follows:

		December 31	
		2012	2011
Current income taxes incurred	$	1,224,868	2,074,107
Change in deferred income tax (without tax on unrealized gains and losses)		(293,301)	17,540
Total income tax reported	$	931,567	2,091,647
Income before taxes	$	3,499,674	6,210,859
Currently enacted tax rate		34%	34%
Expected income tax expense at 34% statutory rate	$	1,189,889	2,111,692
Increase (decrease) in actual tax reported resulting from:			
Nondeductible expenses for meals, penalties, and lobbying		30,171	7,993
Tax-exempt income		(4,454)	(21,520)
Change in deferred taxes on nonadmitted assets		(252,604)	3,652
Other		(31,435)	(10,170)
Total income tax reported	$	931,567	2,091,647

Deferred income tax assets and liabilities consist of the following major components:

		December 31, 2012			December 31, 2011	
		Ordinary	**Capital**	**Total**		**Change**
Deferred tax assets:						
Deferred rent	$	10,867	—	10,867	3,381	7,486
Claims expense		48,757	—	48,757	45,090	3,667
Vacation accrual		109,201	—	109,201	93,516	15,685
~~Fixed assets~~		~~79,565~~	—	~~79,565~~		~~79,565~~
Other		242,930	19,232	262,162	104,525	157,637
Total gross deferred tax assets		491,320	19,232	510,552	246,512	264,040
Valuation allowance adjustment		—	—	—	—	—
Total adjusted gross deferred tax assets		491,320	19,232	510,552	246,512	264,040
Nonadmitted deferred tax assets		(28,097)	—	(28,097)	—	(28,097)
Admitted deferred tax assets		463,223	19,232	482,455	246,512	235,943
Deferred tax liabilities:						
Unrealized gains		—	(32,237)	(32,237)	(16,002)	(16,235)
Fixed assets		—	—	—	(45,496)	45,496
Total deferred tax liabilities		—	(32,237)	(32,237)	(61,498)	29,261
Net admitted deferred tax asset	$	463,223	(13,005)	450,218	185,014	265,204

(10) Fair Value of Financial Instruments

The carrying amount reported in the statutory statements of admitted assets, liabilities, capital and surplus for uncollected premiums, amounts receivable from uninsured health plans, net deferred tax assets, interest and other investment income due and accrued, healthcare receivables, receivables from reinsurers, receivables from affiliate, claims unpaid, unpaid claims adjustment expense, federal income tax payable, and other expenses due or accrued approximates fair value because of the short maturity of these instruments.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value and establishes a framework for measuring fair value and expands disclosures about fair value measurements. In accordance with FASB ASC Topic 820, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are as follows:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 1 includes CUP's mutual funds.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Level 2 valuations are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. CUP has no Level 2 financial assets or financial liabilities that are measured at fair value in the statutory statements of admitted assets, liabilities, and capital and surplus. CUP discloses fair value of bonds that are measured at using Level 2 inputs.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. CUP has no Level 3 financial assets or financial liabilities.

The following table presents the balances of assets and liabilities measured or disclosed at fair value on a recurring basis at December 31, 2012:

	Fair value	Admitted value	Level 1	Level 2	Level 3
Assets:					
Bonds					
U.S. government-sponsored agencies	$ 5,614,664	5,619,019	—	5,614,664	—
States, territories, and possessions	515,458	515,447	—	515,458	—
Political subdivision of states, territories, and possessions	2,161,845	2,163,244	—	2,161,845	—
Unaffiliated industrial and miscellaneous	1,501,650	1,501,123	—	1,501,650	—
Total bonds	9,793,617	9,798,833	—	9,793,617	—
Mutual funds	339,646	339,646	339,646	—	—
Total	$ 10,133,263	10,138,479	339,646	9,793,617	—

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2011:

		Fair value	Level 1	Level 2	Level 3
Assets:					
Mutual funds	$	283,974	283,974	—	—
	$	283,974	283,974	—	—

(11) Reconciliation between the Audited Statutory Financial Statements and the Annual Statement Filed with the OIC

Certain adjustments were made to the December 31, 2011 statutory financial statements that were not reflected in CUP's annual filings with the OIC. The table below reflects these adjustments as shown on the current year statutory financial statements and in CUP's annual filings as of and for the year ended:

			As reported on the annual filing	Reclassifications and adjnstments	As reported on the statutory financial statements
December 31, 2011:					
Statutory statement of revenues and expenses:					
Premium income, net	1	$	136,609,282	(938,105)	135,671,177
Hospital and medical expenses	1		117,996,553	(919,343)	117,077,210
General administrative expense	1		10,161,833	(18,762)	10,143,071

1 Remove impact of pass-through payments received and remitted to providers via Washington Safety Net program.

(12) Subsequent Events

CUP evaluated subsequent events after the balance sheet date of December 31, 2012 through May 29, 2013, which was the date the statutory financial statements were available to be issued.

Schedule 1

COLUMBIA UNITED PROVIDERS, INC.

Investment Risks Interrogatories

December 31, 2012

CUP's total admitted assets as reported on page two CUP's annual statement for the year ended December 31, 2012 is: $ 36,110,945

The following are CUP's 10 largest exposures to a single issuer, borrower, and/or investment, excluding U.S. government, U.S. government agency securities, and exempt money market funds, at December 31, 2012:

Investment category		Amount	Percentage of admitted assets
Bonds:			
Snohomish County, WA General Obligation Bond	$	517,227	1.4%
King County, WA School District 10 General Obligation Bond		471,291	1.3
King County, WA General Obligation Bond		389,226	1.1
Lane County, OR General Obligation Bond		333,453	0.9
Washington State General Obligation Bond Refunding		202,910	0.6
King County, WA General Obligation Bond		183,527	0.5
Washington State General Obligation Bond Refunding		175,369	0.5
Washington County, OR General Obligation Bond		152,938	0.4
Washington State General Obligation Bond		137,169	0.4
Dallas, OR General Obligation Bond		115,582	0.3

The following are the amounts and percentages of CUP's total admitted assets held in bonds, government money markets, and preferred stock by NAIC rating:

		Amount	Percentage of total admitted assets
Bonds:			
NAIC – 1	$	9,798,833	27%

At December 31, 2012, $399,930 of CUP's cash balances were pledged as collateral and were, therefore, restricted from sale.

CUP's admitted assets held in equity interests, excluding exempt or class one money market funds, at December 31, 2012 are as follows:

Issuer		Amount	Percentage of admitted assets
Artisan MidCap Funds	$	44,721	0.1%
Columbia Acorn Fund		28,785	0.1
CRM MidCap Value Investor Class		38,983	0.1
Dodge & Cox Stock Funds		63,881	0.2
Growth Fund of America CL F		59,984	0.2
Oppenheimer Developing Markets		19,667	0.1
Royce Opportunity Funds		26,844	0.1
Victory Diversified Stock A		56,781	0.2

See accompanying independent auditors' report.

Schedule 2

COLUMBIA UNITED PROVIDERS, INC.

Summary Investment Schedule

December 31, 2012

Investment categories	Gross investment holdings* Amount	Gross investment holdings* Percentage	Admitted assets as reported in the annual statement Amount	Admitted assets as reported in the annual statement Percentage
Bonds:				
U.S. government-sponsored agencies	$ 5,619,019	18.1%	$ 5,619,019	18.1%
Other debt securities (excluding short term):				
States, territories, and possessions general obligations	515,447	1.7	515,447	1.7
Political subdivisions of states, territories, and possessions	2,163,244	7.0	2,163,244	7.0
Industrial development and similar obligations	1,501,123	4.8	1,501,123	4.8
Equity interests:				
Investments in mutual funds	339,646	1.1	339,646	1.1
Cash, cash equivalents, and short-term investments	8,463,734	27.3	8,463,734	27.3
Other invested assets	12,400,000	40.0	12,400,000	40.0
Total invested assets	$ 31,002,213	100.0%	$ 31,002,213	100.0%

* Gross investment holdings as valued in compliance with *NAIC Accounting Practices and Procedures Manual*

See accompanying independent auditors' report.

KPMG

COLUMBIA UNITED PROVIDERS, INC.

Statutory Financial Statements and Schedules

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

KPMG

KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Columbia United Providers, Inc.:

We have audited the accompanying statutory statements of admitted assets, liabilities, and capital and surplus of Columbia United Providers, Inc. (the Company) as of December 31, 2011 and 2010, and the related statutory statements of revenues and expenses, changes in capital and surplus, and cash flows for the years then ended. These statutory 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. An audit includes 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.

As described more fully in note 2 to the statutory financial statements, the Company prepared these statutory financial statements using accounting practices prescribed or permitted by the Washington State Office of the Insurance Commissioner, which practices differ from U.S. generally accepted accounting principles. The effects on the statutory financial statements of the variances between the statutory basis of accounting and U.S. generally accepted accounting principles also are described in note 2.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of Columbia United Providers, Inc. as of December 31, 2011 and 2010, or the results of its operations or its cash flows for the years then ended.

Also, in our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Columbia United Providers, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flow for the years then ended, on the basis of accounting described in note 2.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on the investment risks interrogatories and the summary investment schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is information required to be presented. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements taken as a whole.

KPMG LLP

June 21, 2012

COLUMBIA UNITED PROVIDERS, INC.

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus

December 31, 2011 and 2010

Admitted Assets		**2011**	**2010**
Bonds and stocks:			
Bonds	$	10,714,725	10,555,439
Common stock		283,974	358,471
Cash, cash equivalents, and short-term investments		19,559,094	13,383,115
Uncollected premiums		2,545,257	1,937,334
Amounts receivable from uninsured health plans		20,676	30,469
Federal income tax refund receivable		157,669	—
Net deferred tax assets		185,014	198,902
Interest and other investment income due and accrued		58,627	48,982
Healthcare receivables		232,224	50,837
Receivables from reinsurers		148,000	40,500
Receivables from affiliate		284,427	357,191
Total admitted assets	$	34,189,687	26,961,240
Liabilities and Capital and Surplus			
Claims unpaid	$	7,583,936	6,190,573
Unpaid claims adjustment expense		279,968	273,301
Federal income tax payable		—	283,224
Other expenses due or accrued		3,534,760	1,346,652
Total liabilities		11,398,664	8,093,750
Common stock, $1 par value. Authorized, 1,000,000 shares; issued and outstanding, 29,290 shares and 29,408 shares at December 31, 2011 and 2010, respectively		29,290	29,408
Statutory surplus		3,000,000	3,000,000
Unassigned surplus		19,761,733	15,838,082
Total capital and surplus		22,791,023	18,867,490
Total liabilities and capital and surplus	$	34,189,687	26,961,240

See accompanying notes to statutory financial statements.

COLUMBIA UNITED PROVIDERS, INC.

Statutory Statements of Revenues and Expenses

Years ended December 31, 2011 and 2010

		2011	2010
Underwriting income:			
Premium income, net	$	135,671,177	103,022,761
Underwriting deductions:			
Hospital and medical expenses		117,077,210	86,134,583
Claims adjustment expenses		2,541,031	2,630,675
General administrative expense		10,143,071	8,337,799
Total underwriting deductions		129,761,312	97,103,057
Underwriting gain		5,909,865	5,919,704
Net investment income		124,142	208,485
Other income		176,852	310,813
Net income before federal income taxes		6,210,859	6,439,002
Federal income tax expense		2,074,107	2,215,411
Net income	$	4,136,752	4,223,591

See accompanying notes to statutory financial statements.

COLUMBIA UNITED PROVIDERS, INC.

Statutory Statements of Changes in Capital and Surplus

Years ended December 31, 2011 and 2010

Capital and surplus as of December 31, 2009	$	14,571,644
Net income		4,223,591
Change in net unrealized gains and losses on investments		903
Change in net deferred tax asset		(67,356)
Change in nonadmitted assets		139,401
Change in paid-in capital and surplus		(693)
Capital and surplus as of December 31, 2010		18,867,490
Net income		4,136,752
Change in net unrealized gains and losses on investments		(34,298)
Change in net deferred tax asset		(17,540)
Change in nonadmitted assets		(149,581)
Change in paid-in capital and surplus		(11,800)
Capital and surplus as of December 31, 2011	$	22,791,023

See accompanying notes to statutory financial statements.

COLUMBIA UNITED PROVIDERS, INC.

Statutory Statements of Cash Flow

Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operations:		
Premiums collected	$ 136,001,359	102,880,599
Benefit and loss-related payments	(116,710,690)	(86,286,385)
Commissions, expenses paid, and aggregate write-ins for deductions	(10,498,295)	(10,769,839)
Investment income, net of investment expenses	238,223	212,287
Federal income taxes paid	(2,489,500)	(887,000)
Other income	176,852	310,813
Net cash provided by operations	6,717,949	5,460,475
Cash flows from investments:		
Proceeds from investments	8,351,132	9,949,045
Purchases of investments	(8,612,207)	(11,421,685)
Net cash used in investments	(261,075)	(1,472,640)
Cash flows from financing and miscellaneous sources:		
Other (applications) sources	(280,895)	179,815
Net cash (used in) provided by financing and miscellaneous sources	(280,895)	179,815
Net increase in cash, cash equivalents, and short-term investments	6,175,979	4,167,650
Cash, cash equivalents, and short-term investments, beginning of year	13,383,115	9,215,465
Cash, cash equivalents, and short-term investments, end of year	$ 19,559,094	13,383,115

See accompanying notes to statutory financial statements.

(1) Nature of Operations

Columbia United Providers, Inc. (CUP) was incorporated on July 23, 1993 pursuant to Chapter 23.86, Revised Code of Washington State, as a nonprofit cooperative association. During 1997, the board of directors of CUP adopted a conversion plan, which resulted in the conversion of CUP into a for-profit corporation. The Washington State Office of the Insurance Commissioner (OIC) approved this conversion on February 25, 1997, and amended articles of incorporation and articles of conversion were filed with the Office of the Secretary of State of Washington. CUP is a taxable entity subject to federal taxation applicable to C corporations. In connection with this purpose, CUP applied for and received registration to operate as a healthcare service contractor pursuant to Chapter 48.44, Revised Code of Washington State. CUP began operations effective October 1, 1993.

Southwest Washington Health System (SWHS) owns 90.8% of the CUP common stock currently outstanding. The remaining common shares are owned by various physician practitioners in the Vancouver, Washington area. As of December 31, 2011 and 2010, there were 1,000,000 common shares authorized and 29,290 and 29,408 common shares outstanding, respectively.

The Board of SWHS approved an affiliation effective January 1, 2011 with PeaceHealth. PeaceHealth is a Washington-based not-for-profit healthcare system with medical centers, critical access hospitals, medical group clinics and laboratories located in Alaska, Washington and Oregon. CUP will not be affected by the affiliation until such time as a change in control of CUP has been approved by the OIC.

CUP contracts directly with various providers within its service area for the provision of medical and hospital services, pharmaceuticals, and other related services. CUP reimburses these providers on a capitated or fee-for-service basis, depending on the negotiated contract. Some providers may be minority owners of CUP stock or affiliates of CUP. Certain providers may be eligible for increased or decreased reimbursement rates based on actual medical expense ratios compared to predetermined criteria. As a result of these criteria, CUP disbursed $799,531 and $1,961,459 in increased reimbursement during 2011 and 2010, respectively, which is included in hospital and medical expenses in the statutory statements of revenues and expenses.

All of CUP's revenues are sourced from the State of Washington (the State). Management believes CUP's ability to operate profitably is subject to the State's ability to adequately fund the Healthy Options Program and the Basic Health Plan. These State contracts provide for changes to previously agreed-upon premium rates and other contractual provisions due to extenuating circumstances, as defined by the State. These circumstances include lack of sufficient resources available to the State to continue to reimburse contracting health plans at the previously agreed-upon rates. The State is currently projecting significant budget deficits through at least June 30, 2013. The State has notified health plans participating in their programs, including CUP, that reductions in premiums or level of health plan enrollment may occur in future periods due to the projected deficits. The extent of these possible reductions is unknown at this time, but could be significant to CUP's premiums, operating results, and financial position in 2011 and future periods. CUP participates in the Healthy Options and Basic Health Plan programs, which represent 95% and 5% of premiums earned in 2011 and 93% and 7% of premiums earned in 2010, respectively. These programs are administered by departments of the State. As of December 31, 2011 and 2010, CUP had approximately 59,102 and 44,018 enrolled members for the Healthy Options Program, and 2,309 and 2,255 enrolled members for the Basic Health Plan, respectively.

During 2011, the State undertook a competitive bidding process whereby health plans competitively bid for a Healthy Options and Basic Health contract for the period July 1, 2012 through December 31, 2013. Several health plans bid premium rates below CUP, and CUP was not awarded a contract by the State for this time period. CUP's current contract with the State expires on July 1, 2012. While CUP has filed a lawsuit to challenge the award of contracts through the bidding process, the potential outcome of such litigation is unknown at this time and may take many months to resolve. CUP has entered into an agreement with another health plan that has been awarded a contract from the State for the period July 1, 2012 through December 31, 2013. Under this contract, in return for receiving a defined premium amount from the other health plan, CUP will be responsible for providing medical, hospital, pharmaceutical and related medical services to Healthy Options and Basic Health members assigned to CUP from the other plan. CUP will provide these services through its currently contracted provider network. Under the terms of its contract with the other health plan, CUP will continue to perform most of the administrative services for assigned members, such as claims payment and utilization management, that it currently performs under its contract with the State. The State has not specified what its health plan contracting intentions are for periods after December 31, 2013.

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying statutory financial statements of CUP are prepared in conformity with accounting practices prescribed or permitted by the National Association of Insurance Commissioners (NAIC) and the OIC, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

The OIC has adopted certain prescribed accounting practices regarding investments in mutual funds that differ from those found in NAIC Statutory Accounting Principles (SAP). CUP received permission from the OIC for a permitted accounting practice that differs from the Washington State prescribed practice. The effective date of the permitted accounting practice is January 1, 2010. The permitted practice deviates from the state-prescribed practice regarding investments as set forth in the Revised Code of Washington State 48.13.240. This statute restricts investments in miscellaneous investments to the lesser of: (1) 10% of prior year-end admitted assets, in the aggregate, with no more than 1% in any single entity; or (2) 50% of prior year-end capital and surplus. The permitted accounting practice allows CUP to acquire and hold a single entity's NAIC nonexempt listed mutual funds not to exceed 4% of CUP's admitted assets. The permitted practice also allows CUP to hold as admitted assets an unlimited amount of a single entity's mutual funds as listed on the NAIC Securities Valuation Office US Direct Obligations/Full Faith and Credit Exempt List of Bond Funds. In NAIC SAP, mutual funds are admitted assets. This permitted practice has no effect on net income or the risk-based capital (RBC) action level.

The principal differences between financial statements prepared in accordance with NAIC SAP and those prepared under GAAP are as follows:

(i) Certain assets designated as "nonadmitted," principally certain nongovernmental accounts receivable, furniture and equipment, prepaids, and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual* are excluded from the accompanying statutory statements of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet.

(ii) Changes in deferred income taxes are recorded directly to unassigned surplus as opposed to being an item of income tax benefit or expense for GAAP financial reporting purposes. Admittance testing may result in a charge to capital and surplus for nonadmitted portions of deferred tax assets. Under GAAP reporting, a valuation allowance may be reflected as an expense for financial reporting purposes.

(iii) Investments, other than investments in subsidiaries, are carried at values prescribed by the NAIC (note 2(d)). GAAP requires investments, other than investments in subsidiaries, to be classified as held-to-maturity, trading, or available-for-sale. Held-to-maturity securities are carried at amortized cost, trading securities are carried at fair value with the changes in fair value included in the statement of revenues and expenses, and available-for-sale securities are carried at fair value with the changes in fair value reflected as a separate component of surplus.

(iv) Negative cash is reported as a negative asset under NAIC SAP, while under GAAP, it is recorded as a liability.

(v) The statement of cash flows differs in certain respects from the presentation required by GAAP, including the presentation of the changes in cash and short-term investments instead of cash and cash equivalents. Short-term investments include securities with maturities, at the time of acquisition, of 12 months or less. There is no reconciliation between net income and cash from operations for statutory purposes.

(vi) Comprehensive income is not presented.

The following table sets forth the reconciliation of equity at December 31, 2011 and 2010 under GAAP and capital and surplus reported for statutory insurance requirements:

		2011	2010
Equity – GAAP	$	23,208,363	19,125,967
Adjustments for statutory reporting purposes:			
Net unrealized losses on investments		5,841	33,385
Furniture and equipment, net of accumulated depreciation		(232,534)	(223,388)
Prepaids		(139,861)	(64,822)
Deferred tax assets		—	(3,652)
Other assets		(50,786)	—
Capital and surplus – statutory basis	$	22,791,023	18,867,490

The difference in net income under GAAP and net income reported for statutory insurance requirements is not material.

(b) *Use of Estimates*

The preparation of the statutory financial statements on the basis of accounting practices prescribed by the NAIC requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates include claims unpaid, unpaid claims adjustment expense, uncollected premiums, receivables from reinsurers, and other-than-temporary impairment of investments.

(c) *Cash, Cash Equivalents, and Short-Term Investments*

Cash, cash equivalents, and short-term investments consist of liquid investments with maturities of 12 months or less from the date of acquisition. Cash was $19,059,244 and $12,883,184 at December 31, 2011 and 2010, respectively. Cash equivalents, which include investments with remaining maturities of three months or less at the time of acquisition, are recorded at amortized cost and were $499,850 and $499,931 at December 31, 2011 and 2010, respectively. The carrying balance of cash, cash equivalents, and short-term investments approximates fair value.

At December 31, 2011 and 2010, $377,566 and $377,699, respectively, of CUP's cash is pledged as collateral to the OIC as a surety deposit pursuant to Title 48 of the Revised Code of Washington State.

CUP maintains its cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits.

(d) Investments

Bonds and common stocks are stated at values prescribed by the NAIC as follows:

- Bonds not backed by other loans are principally stated at amortized cost using the effective-interest method, unless they are rated NAIC designation 3 or lower, and thus are valued at the lower of cost or market.
- Common stocks are reported at market value as determined by the NAIC Securities Valuation Office, and the related net unrealized capital gains (losses) are reported in unassigned surplus unless the loss is determined to be other than temporary. For stocks with no NAIC-assigned value, estimated market value is based on quoted market prices.
- Realized capital gains and losses are determined using the specific-identification method. Changes in admitted asset carrying amounts of bonds and common stocks are credited or charged directly to unassigned surplus unless the loss is determined to be other than temporary.
- A decline in fair value of a security below cost that is deemed to be other-than-temporary is recorded as an impairment loss and is included in net income in the accompanying statutory statements of revenues and expenses. A new cost basis is then established for the security.

(e) Furniture and Equipment

Furniture and equipment, which are nonadmitted assets, are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets as follows:

Asset type	Depreciable life (years)
Furniture and equipment	7
Data processing equipment	3 – 5

The cost of furniture and equipment sold or retired and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is recorded. Maintenance and repairs are expensed as incurred. Depreciation expense recorded for the years ended December 31, 2011 and 2010 was $120,835 and $119,956, respectively.

(f) Claims Unpaid and Unpaid Claims Adjustment Expense

The liability for claims unpaid includes claims in process and an estimated liability for incurred but not reported claims by physicians, hospitals, and other healthcare providers for services rendered to CUP's members. The claims unpaid liability is determined using actuarial estimates.

CUP has accrued an estimate for the amount needed to process its unpaid claims liability of $279,968 and $273,301 at December 31, 2011 and 2010, respectively, which is included in unpaid claims adjustment expense on the accompanying statutory statements of admitted assets, liabilities, and capital and surplus.

Management believes that the estimated liabilities for claims unpaid and the related claims adjustment expense at December 31, 2011 and 2010 are adequate to cover the ultimate liabilities; however, due to uncertainties inherent in the estimation process, there is at least a reasonable possibility that such estimates may be more or less than the amount ultimately paid when the claims are settled.

(g) Premium Income and Uncollected Premiums

Premium income consists of premiums paid by the State for healthcare services. Premium income is received on a prepaid basis and is recognized as revenue during the month for which the premium is associated.

Uncollected premiums consist of amounts due from a department of the State for maternity case rates and newborn premiums due under the Healthy Options and Basic Health Plan contracts. The balance of uncollected premiums is periodically evaluated for collectibility in accordance with Statement of Statutory Accounting Principles (SSAP) No. 84, *Certain Health Care Receivables and Receivables under Government Insured Plans*. If it is determined that a balance is uncollectible, the balance is written off and charged to income in the period the determination is made.

(h) Healthcare Receivables

CUP has established a receivable for pharmaceutical rebates in accordance with SSAP No. 84 as of December 31, 2011 and 2010 in the amounts of $110,048 and $50,837, respectively. Such amounts are included in healthcare receivables on the accompanying statutory statements of admitted assets, liabilities, and capital and surplus. Recorded balances are estimates based on experience of actual rebates received within 90 days of billing. Balances not collected within 90 days of billing are not admitted. A summary of pharmacy rebates estimated, invoiced, and collected at December 31, 2011 is as follows:

Pharmaceutical Rebates		Estimated	Invoiced	Collected
Fourth Quarter 2011	$	52,000	53,000	—
Third Quarter 2011		51,000	46,000	46,000
Second Quarter 2011		45,000	45,000	55,000
First Quarter 2011		45,000	65,000	58,000
Fourth Quarter 2010	$	50,000	64,000	81,000
Third Quarter 2010		68,000	64,000	75,000
Second Quarter 2010		56,000	70,000	82,000
First Quarter 2010		85,000	90,000	88,000
Fourth Quarter 2009	$	63,000	70,000	64,000
Third Quarter 2009		52,000	66,000	66,000
Second Quarter 2009		37,000	72,000	71,000
First Quarter 2009		52,000	73,000	72,000

(i) ***Reinsurance (Stop-Loss Insurance)***

CUP has stop-loss reinsurance indemnifying it against the cost of providing services to individual enrolled participants at 90% in excess of $125,000 for hospital charges up to a maximum of $1,000,000 per contract year for each enrolled member.

Stop-loss premium expense of $716,334 and $620,502 is included in net premium income for 2011 and 2010 respectively. Receivable from reinsurers was $148,000 and $40,500 as of December 31, 2011 and 2010, respectively, in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus. Recoveries were $148,000 and $73,372 in 2011 and 2010, respectively, and were recorded as a reduction to hospital and medical expenses.

CUP cedes insurance to reinsurers in the ordinary course of business for the purpose of limiting exposure to large losses. Amounts recoverable from reinsurers are estimated in a manner consistent with the related claim liability. CUP evaluates the financial condition of its reinsurer to minimize its exposure to losses from reinsurer insolvencies. If the reinsurers and monitors risks arising from activities or economic characteristics of the reinsurer to minimize its exposure to losses from reinsurer insolvencies. If the reinsurers are unable to meet their obligation under such agreements, CUP would be liable for such default amounts. At December 31, 2011, substantially all reinsurance receivables were due from a single reinsurer.

(j) ***Income Taxes***

CUP is subject to federal income taxes. Income taxes are provided for the tax effects of transactions reported in the statutory financial statements.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in unassigned surplus in the period that includes the enactment date.

The admissibility of CUP's deferred tax assets is determined according to NAIC SAP. The amount calculated will be subjected to further reduction if it exceeds 10% of capital and surplus or it exceeds the amount of gross deferred tax liabilities. CUP had net admitted deferred tax assets of $185,014 and $198,902 as of December 31, 2011 and 2010 respectively.

(k) ***Capital and Surplus***

In accordance with the Revised Code of Washington State, CUP is required to maintain a minimum statutory net worth of the greater of $3,000,000 or 2% of premium revenue.

Washington, CUP's state of domicile, imposes minimum risk-based capital requirements that were developed by the NAIC. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of CUP's regulatory total adjusted capital, as defined by the NAIC, to its authorized control level risk-based capital, also

(Continued)

as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. Management believes CUP is in compliance with its capital and surplus requirements.

CUP must obtain approval from the OIC prior to the payment of any dividends to its shareholders.

(3) Investments

The cost or amortized cost, gross unrealized gains and losses, and estimated fair value of investments held are as follows:

	December 31, 2011			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Bonds:				
U.S. government-sponsored agencies	$ 7,637,966	17,611	(14)	7,655,563
States, territories, and possessions	485,969	3,419	(2,992)	486,396
Political subdivision of states, territories, and possessions	1,571,750	7,650	(500)	1,578,900
Unaffiliated industrial and miscellaneous	1,019,040	294	(2,335)	1,016,999
Total bonds	10,714,725	28,974	(5,841)	10,737,858
Common stock – mutual funds	237,310	46,664	—	283,974
Total	$ 10,952,035	75,638	(5,841)	11,021,832

	December 31, 2010			
	Cost or amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Bonds:				
U.S. government-sponsored agencies	$ 7,146,780	12,935	(23,701)	7,136,014
States, territories, and possessions	311,880	3,483	—	315,363
Political subdivision of states, territories, and possessions	2,577,244	13,886	(7,248)	2,583,882
Unaffiliated industrial and miscellaneous	519,535	—	(2,435)	517,100
Total bonds	10,555,439	30,304	(33,384)	10,552,359
Common stock – mutual funds	259,638	98,833	—	358,471
Total	$ 10,815,077	129,137	(33,384)	10,910,830

The gross unrealized losses comprise 5 securities in a loss position at December 31, 2011.

The cost or amortized cost and estimated fair value of fixed income investments at December 31, 2011 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment obligations.

	2011	
	Cost or amortized cost	**Estimated fair value**
Due in less than one year	$ 3,595,485	3,603,878
Due after one year through five years	7,119,240	7,133,980
Total	$ 10,714,725	10,737,858

Proceeds from maturity of investments in bonds and common stock during 2011 and 2010 were $8,351,132 and $9,859,594, respectively. Gross gains of $23,672 and $47,582 were realized on those maturities in 2011 and 2010, respectively.

Net investment income, including amortization and accretion, is summarized as follows:

		2011	2010
Interest income – bonds	$	113,833	165,647
Interest and dividend income – short-term investments		1,029	7,743
Interest expense		(18,116)	(14,516)
Interest and dividend income – common stock		3,724	2,029
Realized gains – common stock		23,672	47,582
	$	124,142	208,485

The following table summarizes the investments with unrealized losses as of December 31, 2011:

		Less than 12 months		12 months or longer		Total	
		Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
Bonds:							
U.S. government-sponsored agencies	$	395,967	14	—	—	395,967	14
U.S. States, territories and possessions		160,016	154	181,917	2,838	341,933	2,992
Political subdivision of states, territories, and possessions		—	—	191,975	500	191,975	500
Unaffiliated industrial and miscellaneous		—	—	509,050	2,335	509,050	2,335
Temporarily impaired securities	$	555,983	168	882,942	5,673	1,438,925	5,841

The following table summarizes the investments with unrealized losses as of December 31, 2010:

		Less than 12 months		12 months or longer		Total	
		Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
Bonds:							
U.S. government-sponsored agencies	$	—	—	4,219,932	23,701	4,219,932	23,701
Political subdivision of states, territories, and possessions		347,684	4,398	494,440	2,850	842,124	7,248
Unaffiliated industrial and miscellaneous		—	—	517,100	2,435	517,100	2,435
Temporarily impaired securities	$	347,684	4,398	5,231,472	28,986	5,579,156	33,384

These temporarily impaired securities are the result of market value and interest rate changes and are expected to regain their lost value with market shifts. Management has the intent to hold these investments until their lost value is regained and does not believe them to be other than temporarily impaired at December 31, 2011 or 2010.

An investment is impaired if the fair value of the investment is less than its book or amortized cost, resulting in an unrealized loss position. Impaired securities are assessed to determine if the impairment is other-than-temporary. CUP evaluates investment securities for other than temporary impairment based on qualitative and quantitative factors. If the Company has the intent to sell, or it is more likely than not that it will be sold before recovery, other than temporary impairment is recorded in income equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. For impaired fixed income securities that the Company does not intend to sell or it is more likely than not it would not be sold and will not fully recover the amortized cost basis, the decline in value is deemed to be other than temporary impairment and the credit component of the other than temporary impairment is recognized in income. No other than temporary impairment losses were recognized in 2011 or 2010.

(4) Reserve for Claims Unpaid and Unpaid Claims Adjustment Expense

Claims unpaid include both reported and unreported medical claims. Unreported medical claims represent an actuarial estimate of claims incurred on behalf of CUP's members that had not yet been reported to CUP at December 31 based on a number of factors, including prior claims experience. Adjustments, if necessary, are made to hospital and medical expenses in the periods the actual claims costs are ultimately determined.

Claims adjustment expense represents costs incurred related to the claim settlement process such as costs to record, process, and adjust claims. These expenses are calculated using a percentage of current medical costs, based on historical experience.

The following table summarizes activities in the reserve for claims unpaid and claims adjustment expense for the years ended December 31:

		2011	2010
Claims unpaid at beginning of year	$	6,463,874	6,805,114
Add incurred claims related to:			
Current year		120,106,583	87,484,954
Prior years		(488,342)	(1,539,809)
Total incurred		119,618,241	85,945,145
Deduct paid claims related to:			
Current year		112,754,353	81,393,257
Prior years		5,463,858	4,893,128
Total paid		118,218,211	86,286,385
Claims unpaid at end of year	$	7,863,904	6,463,874

Reserves for claims unpaid and claims adjustment expense attributable to insured events of prior years decreased $488,342 and $1,539,809 in 2011 and 2010, respectively, as a result of reestimation of claims unpaid and claim adjustment expense. This decrease is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

 (Continued)

(5) Related-Party Transactions

(a) PeaceHealth Southwest Medical Center (PHSW)

A significant portion of hospital healthcare services provided to CUP enrollees is provided by PHSW. PHSW is controlled by Southwest Washington Health System, and approved its affiliation with PeaceHealth effective January 1, 2011. Fee-for-service reimbursement paid to PHSW was $19,419,445 and $16,711,161 in 2011 and 2010, respectively. Additionally, PHSW received $250,923 and $568,782 in risk-share reimbursement from CUP in 2011 and 2010, respectively. Certain professional medical services are provided to CUP enrollees by clinics owned by PHSW or its parent. CUP reimburses these clinics through capitation and fee-for-service arrangements. Total amounts paid to these clinics were $4,887,479 and $5,109,072 in 2011 and 2010, respectively.

CUP performs certain medical management and claims payment functions for PeaceHealth Medical Group P.S., a clinic owned by SWHS. Total fees received in 2011 and 2010 related to this agreement were $180,560 and $163,515, respectively. These fees are recorded as a reduction to general administrative expense.

Beginning January 1, 2011, CUP expanded its contract with PHSW to act as a third-party administrator for its employee's self-insured health plan to include claims payment in addition to medical management services. Total fees received in 2011 for these services were $626,802. In 2010, CUP contracted to perform certain medical management service only for the PHSW employee's self-insured health plan. Total fees received in 2010 for these services were $188,496. These fees are recorded as a deduction to general administrative expense.

Due to the related nature of these entities, the amounts received and paid may not have been the same if similar activities had been undertaken with unrelated parties.

(b) Physicians

CUP contracts with physicians and other healthcare professionals to provide care for its enrollees. These contracts are negotiated on a year-to-year basis and include capitation and fee-for-service arrangements. Some of these providers may be minority owners of CUP common stock and may be members of CUP's board of directors. Management believes that the loss of certain members of its provider network would have a significant detrimental effect on its ability to provide healthcare services to its enrollees.

CUP performs certain medical management and claims payment functions for a clinic, which is owned by minority shareholders of CUP, and which is represented on CUP's board of directors. Total fees received in 2011 and 2010 related to this agreement were $294,055 and $292,749, respectively. These fees are recorded as a reduction to general administrative expense.

(6) Commitments

Pursuant to Title 48 of the Revised Code of Washington State, the Washington State Health Insurance Pool (WSHIP) may assess state health plans to cover the net cost of insuring eligible Washington residents who are denied health coverage elsewhere. Plans are assessed annually on a per-member per-month basis.

CUP's WSHIP assessments for 2011 and 2010 are $1,387,624 and $888,100, respectively, and are included in general administrative expense in the year of assessment.

CUP has contracted with a healthcare information systems vendor to provide software licensing, data processing, and support to CUP for its claims and managed care administration. This agreement terminates in 2013 and is cancellable by CUP with 60 days notice. CUP pays a monthly fee based on the number of CUP users. Total data processing support expense for 2011 and 2010 was $298,350 and $289,742, respectively.

In January 2002, CUP executed a noncancelable operating lease for office space. The commencement date of the lease was January 1, 2002, expiring January 31, 2012. In August 2011, the lease was renewed for a sixty-month period commencing February 1, 2012. The lease agreement calls for escalating rent payments over the life of the lease, which CUP records in its statutory statements of revenues and expenses on a straight-line basis. CUP recorded lease expense related to the office space of $372,153 and $462,800 for the years ended December 31, 2011 and 2010, respectively.

In December 2011, CUP entered into a contract with a healthcare information system vendor to provide software licensing, data processing and support to CUP for its claims and managed care administration, with implementation commencing January 2012. The minimum aggregate rental and data processing support commitments for the year ending December 31, 2012 includes the lease obligations for office space and cost of operating two data processing systems simultaneously. Lease costs for years commencing January 1, 2013 and future years represents the annual lease obligations for office space and the new data processing system.

The following is a schedule of future minimum payments required under CUP's operating lease and the software licensing and data processing arrangement at December 31, 2011:

2012	$	1,191,711
2013		972,467
2014		983,492
2015		994,793
2016		1,001,480
Total future minimum payments	$	5,143,943

(7) Retirement Plan

CUP maintains a 401(k) plan covering substantially all employees. Matching contributions of up to 4% of an employee's compensation are made by CUP in addition to a profit sharing contribution, as established by CUP. CUP contributed $228,740 and $206,929 for 2011 and 2010, respectively.

(8) Uninsured Plans

CUP performs certain administrative functions for uninsured plans of related entities (see note 5(a)). Net reimbursement received for administrative services only (ASO) plans was $180,560 and $163,515 in 2011 and 2010, respectively. The net reimbursement approximates the cost of providing such services and is included in general and administrative expense. The claims paid volume for 2011 and 2010 was approximately $1,524,776 and $1,426,084, respectively.

CUP performs certain administrative functions for a self-funded employee health plan of related entities (see note 5(a)). Net reimbursement for ASO plan was $626,802 and $188,496 in 2011 and 2010, respectively. The reimbursement from this ASO plan resulted in a net loss of $374 and $158,248 in 2011 and 2010, respectively. Such reimbursement is included as an offset to general and administrative expense. The claims paid volume for 2011 and 2010 was approximately $1,524,776 and $1,426,084, respectively.

CUP performs certain administrative functions for the uninsured plan of a related entity (note 5(b)). Gross reimbursement for medical cost incurred under this administrative services contract for 2011 and 2010 was $3,707,207 and $3,975,810, respectively. Net reimbursement for administrative services provided by CUP was $294,055 and $292,749 for 2011 and 2010, respectively, which approximates the cost of providing such services. Such reimbursement is included as an offset to general and administrative expense.

(9) Income Taxes

CUP adopted SSAP 10R, *Income Taxes – A Temporary Replacement of SSAP No. 10*, effective December 31, 2009. The December 31, 2011 and 2010 balances and related disclosures are calculated and presented pursuant to SSAP 10R. CUP has not elected to admit additional deferred tax assets pursuant to paragraph 10.e. for the years ended December 31, 2011 and 2010.

The net deferred tax asset (liability) at December 31 and the change from prior year comprise the following components:

	December 31, 2011			December 31, 2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Total gross deferred tax assets	$ 246,512	—	246,512	236,427	—	236,427	10,085	—	10,085
Valuation allowance adjustment	—	—	—	—	—	—	—	—	—
Adjusted gross deferred tax assets	246,512	—	246,512	236,427	—	236,427	10,085	—	10,085
Total gross deferred tax liabilities	(45,496)	(16,002)	(61,498)	—	(33,873)	(33,873)	(45,496)	17,871	(27,625)
Net deferred tax assets	201,016	(16,002)	185,014	236,427	(33,873)	202,554	(35,411)	17,871	(17,540)
Total deferred tax assets nonadmitted	—	—	—	(3,652)	—	(3,652)	3,652	—	3,652
Net admitted deferred tax assets	$ 201,016	(16,002)	185,014	232,775	(33,873)	198,902	(31,759)	17,871	(13,888)

The change in deferred income taxes reported in surplus before consideration of nonadmitted assets comprises the following components:

	December 31		
	2011	2010	Change
Net adjusted deferred tax asset	$ 185,014	202,554	(17,540)
Tax effect of unrealized gains and losses	16,002	33,873	(17,871)
Net tax effect without unrealized gains and losses	$ 201,016	236,427	(35,411)

Unrecognized Deferred Tax Liabilities

There are no temporary differences for which deferred tax liabilities are not recognized.

Components of current tax expense are as follows:

		2011	2,010
Current year tax expense	$	2,097,710	2,180,389
Prior year adjustments		(23,603)	35,022
	$	2,074,107	2,215,411

CUP's income tax incurred and change in deferred income tax differs from the amount obtained by applying the federal statutory rate of 34% to income before income taxes as follows:

		December 31 2011	2010
Current income taxes incurred	$	2,074,107	2,215,411
Change in deferred income tax (without tax on unrealized gains and losses)		17,540	67,356
Total income tax reported	$	2,091,647	2,282,767
Income before taxes	$	6,210,859	6,439,002
Currently enacted tax rate		34%	34%
Expected income tax expense at 34% statutory rate	$	2,111,692	2,189,261
Increase (decrease) in actual tax reported resulting from:			
Nondeductible expenses for meals, penalties, and lobbying		7,993	1,952
Tax-exempt income		(21,520)	(17,100)
Change in deferred taxes on nonadmitted assets		3,652	57,091
Other		(10,170)	51,563
Total income tax reported	$	2,091,647	2,282,767

Operating Loss Carryforward

As of December 31, 2011, there are no operating loss or tax credit carryforwards available for tax purposes. The amounts of federal income taxes incurred that are available for recoupment in the event of future net losses are as follows:

		Ordinary	Capital	Total
2011	$	1,974,315	—	1,974,315
2010		2,052,131	—	2,052,131

(Continued)

CUP files tax returns in the U.S. federal jurisdiction. As of 2011, the tax years that remain subject to examination began with 2008. CUP does not believe it is reasonably possible that a significant change will occur within the coming year to its unrecognized tax benefits.

Deferred income tax assets and liabilities consist of the following major components:

	December 31, 2011			December 31,	
	Ordinary	Capital	Total	2010	Change
Deferred tax assets:					
Deferred rent	$ 3,381	—	3,381	13,168	(9,787)
Claims expense	45,090	—	45,090	40,706	4,384
Vacation accrual	93,516	—	93,516	78,948	14,568
Fixed assets	—	—	—	49,944	(49,944)
Other	104,525	—	104,525	53,661	50,864
Total gross deferred tax assets	246,512	—	246,512	236,427	10,085
Valuation allowance adjustment	—	—	—	—	—
Total adjusted gross deferred tax assets	246,512	—	246,512	236,427	10,085
Nonadmitted deferred tax assets	—	—	—	(3,652)	3,652
Admitted deferred tax assets	246,512	—	246,512	232,775	13,737
Deferred tax liabilities:					
Unrealized gains	—	(16,002)	(16,002)	(33,873)	17,871
Fixed assets	(45,496)	—	(45,496)	—	(45,496)
Total deferred tax liabilities	(45,496)	(16,002)	(61,498)	(33,873)	(27,625)
Net admitted deferred tax asset	$ 201,016	(16,002)	185,014	198,902	(13,888)

(10) Fair Value of Financial Instruments

The carrying amount reported in the statutory statements of admitted assets, liabilities, capital and surplus for uncollected premiums, amounts receivable from uninsured health plans, net deferred tax assets, interest and other investment income due and accrued, healthcare receivables, receivables from reinsurers, receivables from affiliate, claims unpaid, unpaid claims adjustment expense, federal income tax payable, and other expenses due or accrued approximates fair value because of the short maturity of these instruments.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value and establishes a framework for measuring fair value and expands disclosures about fair value measurements. In accordance with FASB ASC Topic 820, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are as follows:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 1 includes CUP's mutual funds.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Level 2 valuations are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. CUP has no Level 2 financial assets or financial liabilities that are measured at fair value in the statutory statements of admitted assets, liabilities, and capital and surplus.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. CUP has no Level 3 financial assets or financial liabilities.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2011:

	Fair value	Level 1	Level 2	Level 3
Assets:				
Mutual funds	$ 283,974	283,974	—	—
	$ 283,974	283,974	—	—

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2010:

	Fair value	Level 1	Level 2	Level 3
Assets:				
Mutual funds	$ 358,471	358,471	—	—
	$ 358,471	358,471	—	—

(11) Reconciliation between the Audited Statutory Financial Statements and the Annual Statement Filed with the OIC

Certain adjustments were made to the December 31, 2011 and 2010 statutory financial statements that were not reflected in CUP's annual filings with the OIC. The tables below reflect these adjustments as shown on the current year statutory financial statements and in CUP's annual filings as of and for the years ended December 31, 2011 and 2010, respectively.

		As reported on the annual filing	Reclassifications and adjustments	As reported on the statutory financial statements
December 31, 2011:				
Statutory statement of revenues and expenses:				
Premium income, net	1	$ 136,609,282	(938,105)	135,671,177
Hospital and medical expenses	1	117,996,553	(919,343)	117,077,210
General administrative expense	1	10,161,833	(18,762)	10,143,071

1 Remove impact of pass-through payments received and remitted to providers via Washington Safety Net program.

		As reported on the annual filing	Reclassifications and adjustments	As reported on the statutory financial statements
December 31, 2010:				
Statutory statement of admitted assets, liabilities, and capital and surplus:				
Federal income tax payable	1	$ 392,032	(108,808)	283,224
Unassigned surplus	1	15,729,274	108,808	15,838,082
Statutory statement of revenues and expenses:				
Federal income tax expense	1	2,253,652	(38,241)	2,215,411
Statutory statement of changes in capital and surplus:				
Net income	1	4,185,350	38,241	4,223,591
Change in net deferred tax asset	1	(41,856)	(25,500)	(67,356)
Statutory statement of cash flow:				
Net investment income	2	301,739	(98,452)	203,287
Total investment acquired	2	9,859,594	98,452	9,958,046

1 Reversing impact of prior year tax-related entry to adjust amounts reported in annual filing

2 Adjustments to presentation of cash flow to reflect proper categorization of investment related changes

(12) Subsequent Events

CUP evaluated subsequent events after the balance sheet date of December 31, 2011 through June 21, 2012, which was the date the statutory financial statements were available to be issued.

COLUMBIA UNITED PROVIDERS, INC.

Investment Risks Interrogatories

December 31, 2011

CUP's total admitted assets as reported on page two CUP's annual statement for the year ended December 31, 2011 is:	$	34,189,687

The following are CUP's 10 largest exposures to a single issuer, borrower, and/or investment, excluding U.S. government, U.S. government agency securities, and exempt money market funds, at December 31, 2011:

Investment category		Amount	Percentage of admitted assets
Bonds:			
Grays Harbor County Washington School District GO Bonds	$	375,325	1.1
Lane County, Oregon General Obligation Bond		341,196	1.0
King County, WA School District #411		260,155	0.8
King County, WA General Obligation Bond		192,475	0.6
Washington State General Obligation Bond		184,755	0.5
King County, WA School District 210 General Obligation Bond		177,652	0.5
Washington State General Obligation Bond Refunding		160,171	0.5
Washington State General Obligation Bond		141,044	0.4
Dallas, Oregon General Obligation Bond		116,928	0.3
Skagit County Washington School District		108,019	0.3

The following are the amounts and percentages of CUP's total admitted assets held in bonds, government money markets, and preferred stock by NAIC rating:

		Amount	Percentage of total admitted assets
Bonds:			
NAIC – 1	$	10,714,725	31%

At December 31, 2011, $377,566 of CUP's cash balances were pledged as collateral and were, therefore, restricted from sale.

CUP's admitted assets held in equity interests, excluding exempt or class one money market funds, at December 31, 2011 are as follows:

Issuer		Amount	Percentage of admitted assets
Artisan MidCap Funds	$	37,419	0.1
Columbia Acorn Fund		24,408	0.1
CRM MidCap Value Investor Class		33,147	0.1
Dodge & Cox Stock Funds		52,355	0.2
Growth Fund of America CL F		49,770	0.1
Oppenheimer Developing Markets		16,215	0.0
Royce Opportunity Funds		21,898	0.1
Victory Diversified Stock A		48,762	0.1

See accompanying independent auditors' report.

Schedule 2

COLUMBIA UNITED PROVIDERS, INC.

Summary Investment Schedule

December 31, 2011

Investment categories	Gross investment holdings* Amount	Gross investment holdings* Percentage	Admitted assets as reported in the annual statement Amount	Admitted assets as reported in the annual statement Percentage
Bonds:				
U.S. government-sponsored agencies	$ 7,637,966	25.0%	$ 7,637,966	25.0%
Other debt securities (excluding short-term):				
States, territories, and possessions general obligations	485,969	1.6	485,969	1.6
Political subdivisions of states, territories, and possessions	1,571,750	5.1	1,571,750	5.1
Industrial development and similar obligations	1,019,040	3.3	1,019,040	3.3
Equity interests:				
Investments in mutual funds	283,974	0.9	283,974	0.9
Cash, cash equivalents, and short-term investments	19,559,094	64.0	19,559,094	64.0
Total invested assets	$ 30,557,793	100.0%	$ 30,557,793	100.0%

* Gross investment holdings as valued in compliance with *NAIC Accounting Practices and Procedures Manual*

See accompanying independent auditors' report.