CoOportunity Health

Statutory Basis Financial Statements
with Independent Auditor’s Report Thereon
December 31, 2012

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
CoOportunity Health
West Des Moines, Iowa

Report on the Financial Statements

We have audited the accompanying statutory basis financial statements of CoOportunity Health, which comprise the statutory basis statement of admitted assets, liabilities, capital and surplus of CoOportunity Health as of December 31, 2012, and the related statutory basis statements of revenue and expenses, capital and surplus, and cash flows for the year then ended and the related notes to the statutory basis financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these statutory basis financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory 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 statutory basis 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 statutory basis financial statements.

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

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

As described in Note 1 to the financial statements, CoOportunity Health prepared these financial statements using accounting practices prescribed or permitted by the Insurance Division of the State of Iowa, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter 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 accounting principles generally accepted in the United States of America, the financial position of CoOportunity Health as of December 31, 2012, or the results of its operations or its cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of CoOportunity Health as of December 31, 2012, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May___, 2013, on our consideration of CoOportunity Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CoOportunity Health's internal control over financial reporting and compliance.

McGladrey LLP

Des Moines, Iowa
May 28, 2013

CoOportunity Health

Statement of Admitted Assets, Liabilities,
Capital and Surplus - Statutory Basis
December 31, 2012

Admitted Assets		
Cash	**$**	**1,275,931**
Total admitted assets	**$**	**1,275,931**
Liabilities, Capital and Surplus		
Liabilities		
General expenses due or accrued	**$**	**15,051**
Borrowed money (including $0 current) and interest thereon $0 (including $0 current)		**3,589,706**
Total liabilities		**3,604,757**
Capital and surplus, unassigned funds		**(2,328,826)**
Total liabilities, capital and surplus	**$**	**1,275,931**

See Notes to Statutory Basis Financial Statements.

CoOportunity Health

Statement of Revenue and Expenses - Statutory Basis
Year Ended December 31, 2012

Revenue:	
Other income	$ 397
Total revenues	**397**
General administrative expenses	2,284,380
Total underwriting deductions	**2,284,380**
Net underwriting (loss)	**(2,283,983)**
Net (loss)	**$ (2,283,983)**

See Notes to Statutory Basis Financial Statements.

CoOportunity Health

Statement of Capital and Surplus – Statutory Basis
Year Ended December 31, 2012

Capital and surplus prior reporting year	**$ -**
Net (loss)	**(2,283,983)**
Change in nonadmitted assets	**(44,843)**
Net change in capital and surplus	**(2,328,826)**
Capital and surplus end of reporting year	**$ (2,328,826)**

See Notes to Statutory Basis Financial Statements.

CoOportunity Health

Statement of Cash Flows – Statutory Basis
Year Ended December 31, 2012

Cash From Operations		
Miscellaneous income	$	397
Commissions, expenses paid and other		(2,269,329)
Net cash from operations		(2,268,932)
Cash From Financing and Miscellaneous Sources		
Cash provided (applied):		
Borrowed funds		3,589,706
Other cash applied		(44,843)
Net cash from financing and miscellaneous sources		3,544,863
Reconciliation of Cash		
Net change in cash		1,275,931
Cash		
Beginning of year		-
End of year	$	1,275,931

See Notes to Statutory Basis Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: CoOportunity Health is a non-profit consumer operated and oriented plan (CO-OP) incorporated in October 2011 in the State of Iowa. The CO-OP was approved for funding in February 2012 under the Affordable Care Act. The CO-OP was formed to create and manage an affordable, accessible and accountable consumer-centric health CO-OP in the States of Iowa and Nebraska that will create a new competitive presence in the insurance marketplace. The CO-OP will primarily target individuals and small groups using a variety of benefit designs.

The CO-OP is currently governed by its formation board of directors. Within twenty four months of issuing its first health insurance policy, the entity will be a member-owned and member-governed health insurance company through the addition of individuals who are members of the CO-OP to the board of directors.

The CO-OP received insurance licensure in the States of Iowa and Nebraska in the first quarter of 2013.

Basis of presentation: The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Iowa Insurance Division (Division). The Division recognizes only statutory accounting practices prescribed or permitted by the State of Iowa for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the state laws, regulations and general administrative rules. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Iowa. The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices. However, the CO-OP does not employ any such permitted practices. Also, there are no differences in net income and statutory capital and surplus for the CO-OP between NAIC SAP and SAP as promulgated by the State of Iowa.

Statutory accounting practices comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) and differ in some respects. Such significant differences include the following:

- Certain assets designated as "non-admitted assets" (prepaid expenses, data processing (EDP) equipment and operating system software and property and equipment) are charged against capital and surplus. Non-admitted assets as of December 31, 2012 were approximately $44,843.

- EDP equipment and operating system software are generally depreciated over a life not to exceed three years, which is generally shorter than their estimated useful life under GAAP. The aggregate amount of admitted EDP equipment and operating system software, net of accumulated depreciation, shall be limited to three percent of the CO-OP's capital and surplus adjusted to exclude any EDP equipment and operating system software. All of the CO-OP's EDP equipment and operating system software were non-admitted as of December 31, 2012.

- Statutory requirements indicate the financial statements are to be prepared in a form and using language and groupings substantially the same as the annual statements of the CO-OP will file with the NAIC and state regulatory authorities upon approval for its insurance license. Accordingly, the financial statements are presented in a format consistent with the annual statement a licensed health insurance enterprise would file which differs from the presentation and disclosures of financial statements presented under GAAP.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

- Lessees account for all leases as operating leases. Under GAAP, lessees should classify all leases at the inception date either as capital or operating leases in accordance with the terms of the agreements.

- Surplus notes are reported as a component of statutory surplus in the accompanying statutory financial statements. In financial statements prepared in conformity with GAAP, surplus notes would be accounted for as debt and included in liabilities.

Accounting estimates: The preparation of financial statements, in conformity with statutory accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

Cash: For purposes of reporting cash flows, the CO-OP only held cash as of December 31, 2012. Although the CO-OP maintains its cash accounts in a limited number of commercial banks, the CO-OP believes it is not exposed to any significant credit risk on cash.

EDP equipment and operating system software: EDP equipment and operating system software are carried at cost less accumulated depreciation. Depreciation for financial reporting purposes is computed by the straight-line method over the shorter of the estimated useful lives of the respective assets or three years. The CO-OP's policy is to capitalize all individual assets in excess of $1,500. Depreciation expense recognized in the statement of revenue and expenses – statutory basis was $6,188 for the year ended December 31, 2012.

Depreciation on non-admitted assets: Furniture and fixtures and leasehold improvements are considered non-admitted assets. Depreciation for financial reporting purposes is computed by the straight-line method over the estimated useful lives of the respective assets. The leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the term of the lease. Amortization and depreciation on all non-admitted assets including EDP equipment and operating system software and leasehold improvements was $7,533 for the year ended December 31, 2012.

Income tax matters: CoOportunity Health is exempt from paying income taxes on all income other than unrelated business income under Section 501(c)(29) of the Internal Revenue Code as evidenced by a letter from the Internal Revenue Service with an effective date of October 4, 2011.

Subsequent events: These statutory financial statements disclose subsequent events through May 28, 2013, the date these statutory financial statements were available to be issued.

Note 2. Borrowed Money

In February 2012, the CO-OP entered into a loan agreement with the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services to assist in the commencement of operations for the CO-OP. The loan agreement consists of two series: (1) Series A – CO-OP Start-up Loan and (2) Series B – CO-OP Solvency Loan. Loan disbursements are contingent upon the CO-OP meeting certain milestones in its business plan. As a result, multiple draws will be made under the loan agreement.

Note 2. Borrowed Money (Continued)

Series A – CO-OP Start-up Loan
The Series A loan proceeds will be used for the establishment of the CO-OP and can only be used in accordance with the CO-OP's approved business plan. The outstanding balance on the Series A loan at December 31, 2012 was $3,589,706. The interest rate on the Series A loan is fixed at 0%. The maximum principal available under the Series A loan is $14,700,000. No principal or interest payments are due before 5 years from the date of a specific disbursement. The outstanding balance at December 31, 2012 is due in 2017.

Series B – CO-OP Solvency Loan
The Series B loan proceeds will be used for the establishment of risk-based capital reserves necessary to meet state reserve requirements and other state insurance laws. In connection with the loan approval process, the Iowa Division of Insurance has approved the loan terms as eligible for treatment as capital and surplus for solvency purposes conditioned upon the CO-OP successfully receiving licensure to operate as a health insurance company in Iowa. Borrowings on the Series B loan will be subordinated to the (1) claims of creditors, (2) claims of policyholders, (3) operating expenses of the CO-OP, and (4) reserve and solvency requirements as determined by applicable state law. There were no amounts borrowed on the Series B loan at December 31, 2012. The interest rate on the Series B loan is fixed at 0.37%. The maximum principal available under the Series B loan is $97,912,000. Borrowings will be reflected as surplus notes reported as a component of capital and surplus under statutory accounting principles. In 2013, $16,731,213 was borrowed in connection with the CO-OP's licensure in the States of Iowa and Nebraska.

No payment of principal or interest shall be made without authorization and approval by the Iowa Division of Insurance. In accordance with Statutory Accounting Principles, interest will not be recorded as a liability or expense in the CO-OP's statutory financial statements prior to such approval. Subject to approval, repayment terms as outlined in the promissory note provide:

> For Series B borrowings made after 2012, but no later than 2018, the interest-only payment period begins in 2019 and ends 7 years from the date of the disbursement. During the interest-only payment period, interest payments are due annually. Interest will be capitalized on an annual basis during the period prior to the first scheduled interest payment due date.
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> For Series B borrowings made after 2018, the interest-only payment period begins one year after the disbursement date, and ends 7 years after the disbursement date. During the interest-only payment period, 7 annual interest payments are due.
>
> For Series B loan disbursements, principal payments begin the later of 2019 or 8 years from the time of the disbursement and ends 15 years from the time of the disbursement. During this period, 8 equal, annual payments, that include principal and interest, are due each year based upon the full amortization of the remaining unpaid principal balance over the remaining term.

The loan agreement contains covenants and failure to comply with any such covenants could result in the debt becoming payable on demand. The covenants are primarily non-financial and data monitoring and reporting covenants focused on compliance with terms of the loan agreement as well as providing insights to CMS on activities performed.

Note 3. Commitments

Administrative Services Agreement: The CO-OP entered into an administrative service agreement to provide core insurance operations including enrollment, premium collection, and claims administration to future policy holders of the CO-OP. The initial term of the agreement extends to December 31, 2019 and will automatically be extended for successive additional terms of three years each unless parties to the contract provide written notice of its intent to terminate.

The CO-OP will pay a $1,875,000 customization fee to adapt existing infrastructure of the third party administrator to CO-OP specifications. The customization fee is anticipated to be paid in three installments during 2013 upon the completion of agreed upon milestones. Subsequent to year end, the CO-OP paid $675,000, in January 2013. The customization fee shall be recognized over the term of the agreement and any unamortized prepaid asset will be reflected as a non-admitted asset under statutory accounting principles. In future periods, the CO-OP will pay a per member per month fee.

Leases: The CO-OP leases office space under two operating leases. The first lease expires on April 30, 2013 and the second lease is month-to-month. Both leases provide for minimum monthly rental payments. Total rental expense for all operating leases during 2012 was $38,322. Minimum future lease payments required under the noncancelable leases including the lease agreement described in Note 5 are as follows: $71,491 in 2013, $189,610 in 2014 through 2017 and $173,809 thereafter.

Note 4. Contingencies

Affordable Care Act: The passage at the Federal level of the Patient Protection and Affordable Care Act (ACA) during 2010 represents significant changes to the current U.S. health care system. The legislation is far-reaching and is intended to expand access to health insurance coverage over time by increasing the eligibility thresholds for most state Medicaid programs and providing certain other individuals and small businesses with tax credits to subsidize a portion of the cost of health insurance coverage. The legislation includes a requirement that most individuals obtain health insurance coverage beginning in 2014 and also a requirement that certain large employers offer coverage to their employees or pay a financial penalty. In addition, the new Federal Law includes certain new taxes and fees, including an excise tax on high premium insurance policies, limitations on the amount of compensation that is tax deductible and new fees required to be paid by insurance companies and certain employers.

The federal legislation also imposes new regulations on the health insurance sector, including, but not limited to, guaranteed coverage requirements, prohibitions on some annual and all lifetime limits on amounts paid on behalf of or to our members, increased restrictions on rescinding coverage, establishment of minimum medical loss ratio requirements, a requirement to cover preventive services on a first dollar basis, the establishment of state insurance exchanges and essential benefit packages and greater limitations on how we price certain of our products.

Some of the provisions of the ACA (Health Care Reform) legislation became effective in 2010, while other provisions will become effective over the next several years. These changes could impact us through potential disruption to the employer-based market, potential cost shifting in the health care delivery system to insurance companies and limitations on the ability to increase premiums to meet costs. We will need to dedicate material resources and incur material expenses to implement and comply with Health Care Reform at both the state and federal levels, including implementing and complying with the future regulations that will provide guidance on and clarification of significant portions of the legislation. The Health Care Reform law and regulations are likely to have significant effects on our future operations, which in turn, could impact the value of our business model and results of operations.

Note 5. Subsequent Events

Promissory Note: On January 17, 2013, the CO-OP entered into an unsecured promissory note with a banking institution to borrow up to $75,000. The floating interest rate is the prime rate as published in the Wall Street Journal using the 365 simple interest basis. Interest only payments will be made quarterly beginning in January 2014. All outstanding principal and interest is due on December 15, 2014.

Service as a Software Agreement: On March 19, 2013, the CO-OP entered into a software service agreement to provide a front-end member enrollment tool and calculator for the CO-OP's website, www.cooportunityhealth.com. The initial term of the agreement extends to March 19, 2016 and may be extended up to two additional three year terms at the discretion of the CO-OP if certain criteria have been met.

The CO-OP will pay an implementation fee of $220,500 with fifty percent of the implementation fee being paid at the time of contract execution and the remaining being paid at the time the enrollment tool and calculator are deployed. The CO-OP will also pay a license fee of $622,850 with fifty percent being paid at the time of contract execution and the remaining being paid on January 1, 2014. The implementation and license fees will be recognized in expense over the term of the agreement and any unamortized prepaid asset will be reflected as a non-admitted asset under statutory accounting principles.
Once the enrollment tool and calculator has been deployed, a monthly managed service fee of $18,798 will be paid.

Lease: On March 19, 2013, the CO-OP entered into license (temporary space) and lease agreements for new office space. The license agreement starts on April 1, 2013 and ends on October 31, 2013. No license fee is required for the month of April and $6,906 will be paid monthly for the remaining term. Rents will be recognized using the straight-line basis.

The lease agreement is for permanent office space and begins when premises are delivered. This is expected to be September 1, 2013. The lease will end on November 30, 2018 and may be extended for three additional three year terms. The CO-OP will receive the first three month's rent for free and a tenant improvement allowance of $226,400. Any construction costs in excess of the tenant improvement allowance are owed by the CO-OP. After the first three months' rent, the CO-OP will make sixty monthly payments of $15,801. Rent expense will be recognized using the straight-line basis.

The lease contains a tenant improvement allowance in a maximum amount of $226,400. As these improvements are placed in service, the lease incentive will be recorded as an addition to leasehold improvements and as deferred rent. The leasehold improvements will be amortized over the shorter of the useful life of the improvement or the term of the lease and the unamortized balance will be reflected as a non-admitted asset under statutory accounting principles. The deferred rent will be amortized as a reduction of rental expense over the remaining term of the lease on a straight-line basis.

Website Development Agreement: On March 27, 2013, the CO-OP entered into an agreement to develop and host the CO-OP's market ready website. The contract terminates on December 31, 2013. The CO-OP will pay $161,000 for the services provided in accordance with the contract. It is expected that a portion of these costs will be capitalized in accordance with SSAP No. 16r *Electronic Data Processing Equipment and Accounting for Software* and depreciated over the useful life of the website. The net website costs will be reflected as a non-admitted asset under statutory accounting principles.