

## University Health Care, Inc. & Affiliates Combined Statement of Financial Position

	September 30, 2015
<b>ASSETS</b>	
Current Assets	
Cash	2,007,242
Accounts Receivable	19,193,908
Prepaid Expenses	977,717
Total Current Assets	22,178,867
Other Assets	
Investment in Unity	59,690,950
Investment in e-Care of Wisconsin	397,716
Other, net of accumulated amortization	2,689,087
Total Other Assets	62,777,753
Property and Equipment - At Cost	
Buildings and Improvements	3,752,011
Furniture and Equipment	8,646,725
	12,398,736
Less Accumulated Depreciation	7,668,745
	4,729,991
Land	926,643
	5,656,634
Total Assets	90,613,255
<b>LIABILITIES</b>	
Current Liabilities	
Current Maturities of Long-Term Debt	91,488
Accounts Payable	17,481,384
Total Current Liabilities	17,572,872
Long-Term Debt, Less Current Maturities	120,823
Total Liabilities	17,693,695
<b>NET ASSETS</b>	
Unrestricted Net Assets	
Additional Paid-In Capital	-
Retained Earnings (Deficit)	74,781,457
Current Year Income	(1,861,897)
Total Net Assets	72,919,560
Total Liabilities and Net Assets	90,613,255

**University Health Care, Inc. & Affiliates**  
**Combined Statement of Income**  
**For the Nine Months Ending September 30,**

	2015
<b>Operating Revenues</b>	
Capitation	177,105,400
Program and Other Support	13,944,012
<b>Total Operating Revenue</b>	191,049,413
<b>Operating Expenses</b>	
Capitation Costs	177,105,400
Staff Salaries and Wages	4,143,682
Staff Benefits	1,213,776
Purchased Services, Admin and Office	2,804,706
Outreach Per Diems and Expenses	3,136,913
Advertising, Promotion and Recruitment	73,370
Building Expense	864,249
Equipment Expense	1,882,050
<b>Total Operating Expenses</b>	191,224,147
Income from Operations	(174,734)
<b>Other Income (Expense)</b>	
Interest and Dividends	271
Unity Health Plans	(1,989,686)
e-Care of Wisconsin	(407,229)
UW Johnson Creek Cancer Center	-
Watertown Network, LLC	-
AFCH at Watertown	-
Management, Rental, and Other Revenue	795,899
Amortization Expense	-
Interest Expense	(5,718)
Income Tax Expense	(80,700)
<b>Total Other Income (Expense)</b>	(1,687,163)
<b>Increase (Decrease) in Net Assets</b>	(1,861,897)
Capital Contributions from Parent/Affiliates	-
Unrestricted Net Assets at January 1,	74,781,457
Capital Contributions (Refund) Net - Current Year	-
<b>Net Assets at September 30,</b>	72,919,560



Grant Thornton

Consolidated Financial Statements and Report of  
Independent Certified Public Accountants and  
Supplementary Information

**University Health Care, Inc. and Subsidiaries**

December 31, 2014 and 2013

# Contents

	<b>Page</b>
Report of Independent Certified Public Accountants	3
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9
Supplementary Information	
Consolidating Statement of Financial Position - December 31, 2014	31
Consolidating Statement of Financial Position - December 31, 2013	33
Consolidating Statement of Activities - Year Ended December 31, 2014	35
Consolidating Statement of Activities - Year Ended December 31, 2013	36



# Grant Thornton

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP  
2501 E Enterprise Avenue, Suite 300  
Appleton, WI 54913-7805  
T 920.968.6700  
F 920.968.6719  
[www.GrantThornton.com](http://www.GrantThornton.com)

Board of Directors and Stockholders  
University Health Care, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of University Health Care, Inc. (a Wisconsin not-for-profit corporation) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University Health Care, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Grant Thornton LLP*

Appleton, Wisconsin  
April 22, 2015

**This page intentionally left blank**

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
December 31,

<b>ASSETS</b>	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 41,607,187	\$ 64,604,071
Marketable securities	24,608,512	26,083,220
Accounts receivable, net	79,390,013	33,109,443
Prepaid expenses	778,519	772,530
Deferred income taxes	1,416,856	3,293,124
	<u>147,801,087</u>	<u>127,862,388</u>
<b>Total current assets</b>		
<b>MARKETABLE SECURITIES</b>	57,420,804	53,446,958
<b>PROPERTY AND EQUIPMENT - AT COST</b>		
Buildings and improvements	7,550,512	7,499,722
Leasehold improvements	108,852	108,852
Furniture and equipment	23,454,196	21,327,718
	<u>31,113,560</u>	<u>28,936,292</u>
Less accumulated depreciation and amortization	20,519,280	16,123,371
	<u>10,594,280</u>	<u>12,812,921</u>
Projects in process	513,408	588,637
Land	926,643	926,643
	<u>12,034,331</u>	<u>14,328,201</u>
<b>OTHER ASSETS</b>		
Investment in affiliates	1,164,421	1,026,784
Goodwill, less accumulated amortization of \$2,011,352 in 2014 and 2013	2,689,087	2,689,087
Other, less accumulated amortization of \$272,000 in 2014 and \$136,000 in 2013	414,353	590,015
	<u>4,267,861</u>	<u>4,305,886</u>
	<u>\$ 221,524,083</u>	<u>\$ 199,943,433</u>

The accompanying notes are an integral part of these statements.



<b>LIABILITIES AND NET ASSETS</b>	<u>2014</u>	<u>2013</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 287,496	\$ 322,040
Accounts payable	29,040,565	22,915,699
Claims payable	42,688,663	38,834,656
Unearned revenue	69,595,642	60,400,466
Accrued liabilities	<u>3,014,052</u>	<u>3,456,485</u>
<b>Total current liabilities</b>	144,626,418	125,929,346
<b>LONG-TERM DEBT, less current maturities</b>	172,969	460,466
<b>DEFERRED INCOME TAX LIABILITY</b>	380,340	815,839
<b>UNRESTRICTED NET ASSETS</b>	<u>76,344,356</u>	<u>72,737,782</u>
	<u><u>\$ 221,524,083</u></u>	<u><u>\$ 199,943,433</u></u>

The accompanying notes are an integral part of these statements.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
Years ended December 31,

	2014	2013
<b>Revenues</b>		
Insurance premiums	\$ 754,009,786	\$ 629,734,581
Programs and other support		
University of Wisconsin Hospital and Clinics Authority	12,043,359	8,941,486
University of Wisconsin Medical Foundation	6,315,091	4,539,972
University of Wisconsin School of Medicine and Public Health	2,468,200	887,796
	20,826,650	14,369,254
Investment income	2,277,818	1,822,300
Other income	8,165,209	5,270,668
	8,165,209	5,270,668
<b>Total revenues</b>	785,279,463	651,196,803
<b>Operating expenses</b>		
Health care and capitation costs	692,271,688	584,227,038
Staff salaries, wages and benefits	33,116,692	27,188,356
Purchased services and office expenses	32,172,583	23,842,150
Occupancy and equipment expense	9,051,740	8,229,770
Advertising and promotion	5,877,673	4,976,540
Amortization expense	136,000	136,000
	772,626,376	648,599,854
<b>Operating income</b>	12,653,087	2,596,949
<b>Other expense</b>		
Interest expense	20,431	33,190
	20,431	33,190
<b>Increase in net assets before change in net unrealized gains on investments and income tax expense</b>	12,632,656	2,563,759
<b>Income tax expense (benefit)</b>		
Current	7,434,068	3,110,217
Deferred	1,500,078	(2,180,854)
	8,934,146	929,363
<b>Increase in net assets before change in net unrealized gains on investments</b>	3,698,510	1,634,396
Change in net unrealized gains on investments, net of deferred taxes of \$(59,309) in 2014 and \$(767,805) in 2013	(91,936)	(1,190,182)
<b>INCREASE IN NET ASSETS</b>	3,606,574	444,214
Net contributions	-	3,750,000
Net assets at beginning of year	72,737,782	68,543,568
Net assets at end of year	\$ 76,344,356	\$ 72,737,782

The accompanying notes are an integral part of these statements.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years ended December 31,

	2014	2013
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 3,606,574	\$ 444,214
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,796,830	5,244,047
Share in net loss of affiliates	222,820	177,930
Gain on sales of investments	(438,290)	(61,793)
Change in unrealized gains on investments	151,245	1,957,987
Impairment of investments	-	37,746
Gain on sales of property and equipment	(6,440)	(1,836)
Deferred income taxes	1,440,769	(2,948,659)
Changes in operating assets and liabilities:		
Accounts receivable	(46,280,570)	13,965,418
Prepaid expenses	(5,989)	(149,297)
Other assets	39,662	(3,022)
Accounts payable	6,124,866	13,937,315
Claims payable	3,854,007	4,768,852
Unearned revenue	9,195,176	12,366,258
Accrued liabilities	(442,433)	1,385,342
	(17,741,773)	51,120,502
<b>Net cash (used in) provided by operating activities</b>		
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(2,367,020)	(2,251,412)
Proceeds from sales of property and equipment	6,500	15,300
Purchases of marketable securities	(22,265,614)	(35,601,276)
Proceeds from sales and maturities of marketable securities	20,053,521	21,102,835
Investment in affiliates	(360,457)	(237,133)
Sale of affiliate	-	3,750,000
	(4,933,070)	(13,221,686)
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities:</b>		
Capital contributions from sponsors	-	7,500,000
Capital distributions to sponsors	-	(3,750,000)
Issuance of long-term debt	-	342,515
Payments of long-term debt	(322,041)	(708,961)
	(322,041)	3,383,554
<b>Net cash (used in) provided by financing activities</b>		
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(22,996,884)	41,282,370
Cash and cash equivalents at beginning of year	64,604,071	23,321,701
Cash and cash equivalents at end of year	\$ 41,607,187	\$ 64,604,071

The accompanying notes are an integral part of these statements.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Organization**

The accompanying consolidated financial statements include the accounts of University Health Care, Inc. (UHC), Unity Health Plans Insurance Corporation (Unity), Health Professionals of Wisconsin, Inc. (HPW), e-Care of Wisconsin, LLC (ECARE), and SPWI TPI, Inc. (Quartz) (collectively, the Company).

UHC is a non-stock, not-for-profit corporation organized under Chapter 181 of the Wisconsin Statutes to promote medical education, research and public service by the University of Wisconsin School of Medicine and Public Health (UWSMPH) and its faculty, the University of Wisconsin Medical Foundation (UWMF) and the University of Wisconsin Hospital and Clinics Authority (UWHC).

Unity is a for-profit stock corporation which offers a variety of health maintenance organization, preferred provider organization and point-of-service medical products to employer groups and individuals in the state of Wisconsin. Unity is a wholly-owned subsidiary of UHC.

Quartz is a for-profit stock corporation organized to provide administrative services to non-related entities. Quartz is a wholly-owned subsidiary of Unity.

HPW is a for-profit stock corporation which owns real property leased to UWMF and UWHC, along with an additional non-related party entity. HPW is a wholly-owned subsidiary of UHC.

ECARE is a single member limited liability company which monitors intensive care beds of customer hospitals. UHC is the sole member.

A summary of the Company's significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

**2. Principles of Consolidation**

UHC consolidates the accounts and transactions of its wholly-owned subsidiaries, Unity, HPW and ECARE, as well as Unity's wholly-owned subsidiary, Quartz. All significant intercompany balances and transactions have been eliminated in consolidation.

**3. Use of Estimates**

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**3. Use of Estimates - continued**

Claims payable consists of unpaid claims reported to the Company and a liability for health care claims incurred before December 31 which have not yet been reported to the Company by that date. Estimated claims payable are based on historical trends and current cost projections, which are reviewed by an independent actuary as of the date of the consolidated financial statements. Management believes that the estimate is a reasonable approximation of the incurred but not reported medical claims. However, it is reasonably possible that the claims presented for payment may not follow past trends and, therefore, may be more or less than the approximate \$42,689,000 and \$38,835,000 recorded on the consolidated financial statements as of December 31, 2014 and 2013, respectively.

**4. Cash and Cash Equivalents**

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value due to the short maturities of these investments.

**5. Depreciation and Amortization**

Depreciation and amortization of property and equipment are computed by both straight-line and accelerated methods over the estimated useful lives as follows:

Buildings and improvements		7 to 39 years
Leasehold improvements	Lesser of lease terms or	10 years
Furniture and equipment		3 to 10 years

Projects in process are not depreciated until placed into service.

**6. Goodwill**

Management evaluates goodwill for impairment on an annual basis or at an interim period if events occur or circumstances change that would more likely than not reduce the fair value below the carrying amount. When evaluating whether goodwill is impaired, the Company utilizes a discounted cash flow model to determine the fair value of the goodwill and compares the fair value to the carrying amount. The Company determined there was no impairment in 2014 or 2013.

**7. Revenue Recognition**

Premiums are recognized in the period for which services are covered. The Company records premium amounts billed in advance of a coverage period in unearned revenue.

Programs and other support is recognized when due from UWSMPH, UWMPF, and UWHC.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**8. Health Care and Capitation Costs**

Health care and capitation costs consist of amounts paid or due to hospital and physician providers. Health care and capitation costs are reported net of recoveries of approximately \$6,077,000 and \$4,480,000 for the years ended December 31, 2014 and 2013, respectively. Recoveries consist mainly of drug company volume discounts, subrogation and reinsurance. Changes in estimates of claims costs resulting from the continuous review process and differences between estimates and payments for claims are recognized in the period in which the estimates are changed or payments are made.

**9. Income Taxes**

Unity and HPW use the liability method in accounting for income taxes. Deferred income taxes are established for temporary differences in the reporting of marketable securities, allowance for doubtful accounts, depreciation and amortization, accrued compensation, claims payable and unearned premium for financial statement and income tax purposes.

Deferred tax balances are adjusted to reflect tax rates, based on currently enacted tax laws, that will be in effect in the years in which the temporary differences are expected to reverse.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company has applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open. There are no material unrecognized tax benefits taken or expected to be taken in a tax return that have been recorded on the Company's financial statements for the years ended December 31, 2014 and 2013 as it was determined that all tax positions taken meet the more likely than not threshold.

Unity and HPW file corporate income tax returns in the United States federal jurisdiction and in the State of Wisconsin. Tax years open to examination by tax authorities under federal and state statute of limitations for these entities include calendar years 2011 through 2014 and 2010 through 2014, respectively. UHC is exempt from income tax, though it is subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded by the Internal Revenue Code. UHC files a federal informational return each year. Beginning in 2011, UHC determined that it was necessary to file a federal and state income tax return due to unrelated business income. Calendar years 2011 through 2014 are open to examination under federal and state statute of limitations. All years prior to 2011 will remain open to examination for both federal and state purposes for UHC as the statute of limitations does not run for income tax returns not filed. ECARE is a wholly-owned disregarded entity of UHC. As such, ECARE does not have a federal or a state income tax filing requirement.

The Company recognizes, if necessary, interest and penalties related to unrecognized tax benefits in the provision for income taxes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended December 31, 2014 and 2013.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**10. Concentrations**

The Company has cash and cash equivalents deposited in financial institutions in which the balances exceed the federal government agency (FDIC) insured limit. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Revenue from the State of Wisconsin accounts for 43% and 45% of total premium revenues for the years ended December 31, 2014 and 2013, respectively.

**11. Advertising Costs**

The Company expenses advertising costs as they are incurred. Advertising expenses were approximately \$2,206,000 and \$1,500,000 for the years ended December 31, 2014 and 2013, respectively.

**12. Collaborative Arrangements**

The Company evaluates whether an arrangement is a collaborative arrangement at its inception based on the facts and circumstances specific to the arrangement. For those collaborative arrangements where it is determined that the Company is not the principal participant, costs incurred and revenue generated from third parties are recorded on a net basis in the consolidated statements of activities. See note K.

**13. New Accounting Pronouncement**

In May 2014, the Financial Accounting Standards Board (FASB) issued Auditing Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which amends the accounting for revenue recognition. The amendments are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. Insurance contracts are not in scope of this new guidance. The new guidance will be effective for annual reporting periods beginning after December 15, 2017. Early adoption is not permitted. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on their financial statements nor decided upon the method of adoption.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**14. Health Care Reform**

The Patient Protection and Affordable Care Act (ACA) enacted significant reforms to various aspects of the U.S. health insurance industry. Certain of these reforms became effective January 1, 2014, including an annual insurance industry premium-based fee. This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the previous calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year on or after January 1, 2014. This fee is not deductible for tax purposes. In September 2014, Unity paid the federal government approximately \$9,237,000 for the annual health insurance industry fee attributable to calendar year 2014. As of December 31, 2014, Unity has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2015, and estimates their portion of the annual health insurance fee to be payable on September 30, 2015 to be approximately \$14,250,000.

The ACA also establishes risk spreading premium stabilization programs effective January 1, 2014. The risk spreading programs are applicable to certain commercial medical insurance products. These programs, commonly referred to as the 3Rs, include a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridors program designed to more evenly spread the financial risk borne by issuers and to mitigate the risk that issuers would have mispriced products. The transitional reinsurance and temporary risk corridors programs are for years 2014 through 2016, with potential for additional reinsurance recoveries through 2018 to the extent funds are available.

The permanent risk adjustment program adjusts the premiums that commercial individual and small group health insurance issuers receive based on the demographic factors and health status of each member as derived from current year medical diagnosis as reported throughout the year. This program transfers funds from lower risk plans to higher risk plans within similar plans in the same state. The risk adjustment program is applicable to commercial individual and small group health plans operating both inside and outside of the health insurance exchanges established under the ACA. Under the risk adjustment program, a risk score is assigned to each covered member to determine an average risk score at the individual and small group level by legal entity in a particular market in a state. Additionally, an average risk score is determined for the entire subject population for each market in each state. Settlements are determined on a net basis by legal entity and state. Each health insurance issuer's average risk score is compared to the state's average risk score. Plans with an average risk score below the state average will pay into a pool and health insurance issuers with an average risk score that is greater than the state average risk score will receive money from that pool. The estimate of amounts receivable and/or payable under the risk adjustment program is based on the estimate of both Unity's and the state's average risk scores. Unity expects to refine estimates as new information becomes available, including additional data released by the Department of Health and Human Services, or HHS, regarding estimates of state average risk scores. Risk adjustment will be subject to audit by HHS beginning in 2014, however, there will be no payments associated with these audits for 2014 or 2015, the first two years of the program.



**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**14. Health Care Reform - continued**

The temporary risk corridor program applies to individual and small group Qualified Health Plans (or substantially equivalent plans), or QHPs, as defined by HHS, operating both inside and outside of the exchanges. Accordingly, plans subject to risk adjustment that are not QHPs, including small group health plans, will not be subject to the risk corridor program. The risk corridor provisions limit issuer gains and losses by comparing allowable medical costs to a target amount, each defined/prescribed by HHS, and sharing the risk for allowable costs with the federal government. Allowable medical costs are adjusted for risk adjustment settlements, transitional reinsurance recoveries, and cost sharing reductions received from HHS. Variances from the target exceeding certain thresholds may result in HHS making additional payments to Unity or require Unity to refund HHS a portion of the premiums received. While risk corridor payments from HHS were expected to be limited to the extent of the risk corridor collections received by HHS over the duration of the program, on May 16, 2014, HHS released clarifying guidance. This guidance indicated that risk corridor collections are expected to be sufficient to make all risk corridor payments. However, in the event of a shortfall, HHS has indicated that it intends to find other sources of funding for the risk corridors payments, subject to the availability of the requisite appropriations by Congress.

The transitional reinsurance program requires Unity to make reinsurance contributions for calendar years 2014 through 2016 to a state or HHS established reinsurance entity based on a national contribution rate per covered member as determined by HHS. While all commercial medical plans, including self-funded plans, are required to fund the reinsurance entity, only fully-insured plans compliant with the ACA in the individual commercial market will be eligible for recoveries if individual claims exceed a specified threshold. Accordingly, Unity accounts for transitional reinsurance contributions associated with all commercial medical health plans as an assessment in operating costs in the consolidated statements of earnings. Unity accounts for contributions made by individual commercial plans compliant with ACA, which are subject to recoveries, as ceded premiums (a reduction of premiums) and similarly accounts for any recoveries as ceded benefits (a reduction of benefits expense) in the consolidated statements of activities. For the year ended December 31, 2014, Unity recorded operating costs of approximately \$8,640,000 associated with transitional reinsurance contributions for plans. An additional approximate \$319,000 was recorded as a reduction of premium revenue for the year ended December 31, 2014, in accordance with ACA guidance. In addition, Unity recorded ceded benefits of approximately \$4,160,000 in the consolidated statements of activities for the year ended December 31, 2014. No such amounts were recorded in 2013 as the program was not effective until January 1, 2014.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**14. Health Care Reform - continued**

The accompanying consolidated statements of financial position include the following amounts associated with the 3Rs at December 31, 2014. No such amounts were recorded in the consolidated statements of financial position at December 31, 2013 as the programs were not effective until January 1, 2014.

	December 31, 2014		
	Risk adjustment settlement	Risk corridor settlement	Reinsurance recoverables
Accounts receivable	\$ 3,100,000	\$ 1,714,000	\$ 4,160,000

Unity is required to remit payment of a portion of the per member reinsurance contribution in January of the year following the benefit year, or January 2015 for the 2014 benefit year. The remainder is due in November 2015. Risk adjustment calculations will be completed and HHS will notify Unity of recoveries due or payments owed to/from Unity under the risk adjustment and reinsurance programs by June 30 of the year following the benefit year. Payments due to HHS under the risk adjustment program must be remitted within 30 days of notification and will be collected prior to the distribution of recoveries by HHS. Following this notification, risk corridor calculations are then due by July 31 of the year following the benefit year. Payment and recovery amounts will be settled with HHS annually in the second half of the year following the benefit year. Accordingly, for the 2014 benefit year, Unity expects to receive recoveries and/or pay amounts due under these programs in the second half of 2015.

In addition to the provisions discussed above, beginning in 2014, HHS pays Unity a portion of the health care costs for low-income individual members for which Unity assumes no risk in accordance with the ACA. Unity does not recognize premiums revenue or benefits expense for these subsidies. Receipt and payment activity is accumulated at the state and legal entity level and recorded in the consolidated statements of financial position in other current assets or trade accounts payable and accrued expenses depending on the state and legal entity balance at the end of the reporting period. Unity will be notified of final settlement amounts by June 30 of the year following the benefit year. Receipts from HHS associated with these cost sharing subsidies for which Unity does not assume risk were approximately \$3,245,000 higher than claims payments for the year ended December 31, 2014.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE B - DISCLOSURES ABOUT THE FAIR VALUES OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to estimate the fair value of each classification of financial instruments for which it was practicable to do so:

**Cash and cash equivalents:** The carrying amount for cash and cash equivalents is cost which approximates fair value due to the short maturities of these instruments.

**Receivables and current liabilities:** Receivables are reflected at net realizable value based on anticipated losses due to potentially uncollectible balances, which approximates fair value. Accounts payable and accrued liabilities are reflected at cost, which approximates fair value because of the short-term duration of these instruments.

**Debt:** The carrying amount of long-term debt approximates estimated fair value based on borrowing rates currently available to the Company for bank loans with similar terms and maturities.

**NOTE C - ACCOUNTS RECEIVABLE**

Accounts receivable are due upon receipt of invoice. Receivables are stated net of any allowance for doubtful accounts. The Company determines its allowance for doubtful accounts by considering the number of days past due, collection history, and the general economy and industry as a whole. The Company writes-off accounts receivable when they become uncollectible and payments subsequently received are credited to the allowance for doubtful accounts.

The following is a summary of the accounts receivable balance as of December 31:

	2014	2013
Premiums receivable	\$ 59,250,351	\$ 27,395,341
Health care receivables	14,243,737	2,131,515
Investment income receivables	522,243	499,426
Due from related parties (note K)	3,894,114	2,820,974
Other	1,539,568	322,187
	79,450,013	33,169,443
Less allowance for doubtful accounts	60,000	60,000
	\$ 79,390,013	\$ 33,109,443

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE D - MARKETABLE SECURITIES**

The Company classifies its marketable securities as available-for-sale and these securities are reported at fair value. Quoted market prices and model-based pricing are used to determine the fair value of marketable securities.

Unrealized and realized gains and losses are credited or charged to operations. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, using the effective interest method.

Investment securities are exposed to various risks including, but not limited to, interest rate, market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

A schedule of marketable securities held for investment at amortized cost, together with market value and the respective gross unrealized gains and losses, is as follows as of December 31:

	2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
U.S. Treasury securities	\$ 23,920,613	\$ 173,908	\$ 20,085	\$ 24,074,436
U.S. government agency obligations	1,857,417	9,641	-	1,867,058
Mortgage-backed securities				
U.S. government issued	4,726,992	43,577	14,913	4,755,656
Non U.S. government issued	2,432,593	59,725	35,905	2,456,413
Other debt securities				
Domestic	15,040,838	945,185	40,839	15,945,184
Foreign	10,313,600	366,722	26,633	10,653,689
Mutual funds	22,416,075	-	139,195	22,276,880
	<u>\$ 80,708,128</u>	<u>\$ 1,598,758</u>	<u>\$ 277,570</u>	<u>\$ 82,029,316</u>
	2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
U.S. Treasury securities	\$ 16,293,369	\$ 365,394	\$ 166,173	\$ 16,492,590
U.S. government agency obligations	4,241,037	19,452	1,530	4,258,959
Mortgage-backed securities				
U.S. government issued	5,395,784	34,342	58,504	5,371,622
Non U.S. government issued	2,219,802	92,164	21,516	2,290,450
Other debt securities				
Domestic	17,896,141	1,133,314	181,927	18,847,528
Foreign	11,145,847	420,395	75,912	11,490,330
Mutual funds	20,865,765	-	87,066	20,778,699
	<u>\$ 78,057,745</u>	<u>\$ 2,065,061</u>	<u>\$ 592,628</u>	<u>\$ 79,530,178</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE D - MARKETABLE SECURITIES - Continued**

The Company includes all mutual funds and debt securities with a contractual maturity date in one year or less within current assets on the consolidated statements of financial position.

The amortized cost and estimated market value of debt securities, by contractual maturities, are as follows as of December 31, 2014:

	Amortized cost	Estimated market value
In one year or less	\$ 2,294,488	\$ 2,331,632
After one year through five years	30,551,567	31,596,181
After five years through ten years	22,723,352	23,077,072
After ten years through twenty years	379,866	392,061
After twenty years	2,342,780	2,355,490
	<u>\$ 58,292,053</u>	<u>\$ 59,752,436</u>

The proceeds, gross realized gains and losses from the sale of marketable securities and impairment of marketable securities for the years ended December 31 are summarized as follows:

	2014	2013
Proceeds	<u>\$ 20,053,521</u>	<u>\$ 21,102,835</u>
Gross realized gains	\$ 439,469	\$ 179,601
Gross realized losses	<u>(1,179)</u>	<u>(117,808)</u>
Net realized gain	<u>\$ 438,290</u>	<u>\$ 61,793</u>
Impairment of marketable securities	<u>\$ -</u>	<u>\$ (37,746)</u>

Investment income consists of the following for the years ended December 31:

	2014	2013
Interest	\$ 2,121,010	\$ 2,054,099
Net realized gain	438,290	61,793
Share in loss of investees, net	(222,822)	(177,930)
Investment manager fees	(58,660)	(77,916)
Impairment loss	-	(37,746)
	<u>\$ 2,277,818</u>	<u>\$ 1,822,300</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE D - MARKETABLE SECURITIES - Continued**

The following tables summarize the investments in debt securities in an unrealized loss position at December 31, 2014 and 2013 by indicating the length of time these individual securities have been in a continuous unrealized loss position.

	2014					
	Less than 12 months		12 months or longer		Total	
	Market value	Unrealized losses	Market value	Unrealized losses	Market value	Unrealized losses
U.S. Treasury securities	\$ -	\$ -	\$ 2,147,303	\$ 20,085	\$ 2,147,303	\$ 20,085
Mortgage-backed securities						
U.S. government issued	425,459	1,812	450,162	13,101	875,621	14,913
Non U.S. government issued	395,532	3,057	1,469,298	32,848	1,864,830	35,905
Other debt securities						
Domestic	2,327,934	11,284	1,377,643	29,555	3,705,577	40,839
Foreign	2,044,728	22,944	244,950	3,689	2,289,678	26,633
Mutual funds	22,276,880	139,195	-	-	22,276,880	139,195
	<u>\$ 27,470,533</u>	<u>\$ 178,292</u>	<u>\$ 5,689,356</u>	<u>\$ 99,278</u>	<u>\$ 33,159,889</u>	<u>\$ 277,570</u>

	2013					
	Less than 12 months		12 months or longer		Total	
	Market value	Unrealized losses	Market value	Unrealized losses	Market value	Unrealized losses
U.S. Treasury securities	\$ 9,161,543	\$ 166,173	\$ -	\$ -	\$ 9,161,543	\$ 166,173
U.S. government agency obligations	621,251	1,530	-	-	621,251	1,530
Mortgage-backed securities						
U.S. government issued	4,158,124	58,504	-	-	4,158,124	58,504
Non U.S. government issued	-	-	525,877	21,516	525,877	21,516
Other debt securities						
Domestic	5,310,938	181,927	-	-	5,310,938	181,927
Foreign	3,667,722	75,912	-	-	3,667,722	75,912
Mutual funds	20,778,699	87,066	-	-	20,778,699	87,066
	<u>\$ 43,698,277</u>	<u>\$ 571,112</u>	<u>\$ 525,877</u>	<u>\$ 21,516</u>	<u>\$ 44,224,154</u>	<u>\$ 592,628</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE D - MARKETABLE SECURITIES - Continued**

The total unrealized losses represent less than 1% of the aggregate fair value of the portfolio as of December 31, 2014. The total unrealized losses are comprised of 32 individual securities. Of the securities in a loss position, 12 securities have been in a loss position for more than 12 months.

The Company reviews its investment portfolio to ensure that investments that may be other than temporarily impaired are identified and that any impairment is charged against earnings in the proper period. Holdings have been reviewed and the Company has concluded that there were other-than-temporary impairments totaling approximately \$0 and \$38,000 as of December 31, 2014 and 2013, respectively. Issuers have continued to satisfy all contractual obligations and are expected to continue to do so. The Company believes that all other securities in an unrealized loss position are not impaired and the Company intends to hold such securities until recovery.

**NOTE E - LONG-TERM DEBT**

Long-term debt consists of the following at December 31:

	2014	2013
Note payable to BMO Harris Bank, interest rate of 3.45%, collateralized by assets of HPW, payable in monthly installments of \$6,232, including interest, remaining balance due in May 2018	\$ 240,432	\$ 305,583
Finance agreement with IBM for purchased software totaling \$803,000, interest imputed at a rate of 3%, payable in monthly installments of \$22,307, remaining balance due in October 2015	220,033	476,923
	460,465	782,506
Less current maturities	287,496	322,040
	\$ 172,969	\$ 460,466

Interest expense totaled \$20,431 and \$33,190 for the years ended December 31, 2014 and 2013, respectively.

Following is a schedule of future maturities of long-term debt as of December 31, 2014:

Years ending December 31,		
2015	\$	287,496
2016		69,842
2017		72,336
2018		30,791
	\$	460,465

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE F - CLAIMS PAYABLE**

The activity relating to claims payable is as follows:

	2014	2013
Balance at January 1,	\$ 38,834,656	\$ 34,065,804
Claims incurred related to		
Current year	381,200,959	324,517,417
Prior year	(5,090,727)	(6,295,458)
Total claims incurred	376,110,232	318,221,959
Claims paid related to		
Current year	(341,642,515)	(287,741,486)
Prior year	(30,613,710)	(25,711,621)
Total medical claims paid	(372,256,225)	(313,453,107)
Balance at December 31,	\$ 42,688,663	\$ 38,834,656

The liability for reported and estimated claims at January 1, 2014 and 2013 developed favorably in 2014 and 2013 due primarily to lower than anticipated claims.

**NOTE G - EMPLOYEE BENEFIT PLANS**

All Unity employees are eligible to participate in a Unity-sponsored 401(k) plan. Employees are eligible to participate as of the first of the month following 60 days of employment. Under this plan, employees may contribute a percentage of their compensation on a pre-tax basis. Employee contributions of up to 6% are matched by a 100% employer contribution. In addition, at the discretion of the Unity Board of Directors, plan participants may receive an additional contribution of up to 4% of eligible compensation. In 2014 and 2013, a 4% discretionary contribution was authorized by the Unity Board of Directors. For the years ended December 31, 2014 and 2013, approximately \$1,256,000 and \$1,083,000, respectively, was contributed to the 401(k) plan related to the employer matching and discretionary contributions.



**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE H - COMMITMENTS AND CONTINGENCIES**

Leases

The Company leases office space and equipment under non-cancellable operating lease arrangements expiring on various dates through 2018. Total minimum lease payments under these lease obligations at December 31, 2014 are approximately as follows:

<u>Years ending December 31,</u>	
2015	\$ 500,000
2016	84,000
2017	11,000
2018	9,000
	<u>\$ 604,000</u>

The Company also has various leases for office space and equipment that are on a month-to-month basis. Total rent expense for operating leases was approximately \$1,103,000 and \$822,000 for 2014 and 2013, respectively.

HPW leases property to UWMF and UWHC, both related parties, and an additional non-related party entity under various leasing arrangements that expire at various dates through May 2018. The terms of the leases call for monthly payments ranging from \$4,746 to \$19,530 during 2014. Subsequent to 2014, rental payments will be increased by no less than 2% annually. Rental income was \$545,641 and \$536,582 for the years ended December 31, 2014 and 2013, respectively.

**NOTE I - FUNCTIONAL EXPENSES**

Expenses that can be specifically identified with a program service are assigned to that function. Other expenses are allocated to the appropriate function based on the use of departmental information within the Company. Following is a summary of expenses for the years ended December 31, reported on a functional basis:

	2014	2013
Program services	\$ 706,597,455	\$ 596,911,967
General and administrative	66,028,921	51,687,887
	<u>\$ 772,626,376</u>	<u>\$ 648,599,854</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE J - INCOME TAXES**

UHC has received a determination letter dated October 23, 1984 from the Internal Revenue Service stating that it is an organization described in Section 510(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes under Section 501(a) of the Code. Accordingly, no provision for federal income taxes has been made in the accompanying consolidated financial statements for UHC.

Unity and HPW are taxable organizations and recorded an income tax payable of approximately \$591,000 and 1,123,000 as of December 31, 2014 and December 31, 2013, respectively. The current provision for income tax expense was approximately \$7,434,000 and \$3,110,000 for 2014 and 2013, respectively.

Deferred income tax assets (liabilities) consist of the following at December 31:

	2014	2013
Current		
Allowance for doubtful accounts	\$ 25,140	\$ 25,140
Unearned premiums	1,132,960	3,169,987
Discounted unpaid losses	196,511	237,212
Accrued vacation	476,336	376,383
Unrealized gains on marketable securities	(516,937)	(576,246)
HIRSP	-	108,955
Other	102,846	(48,307)
Non-current		
Depreciation and amortization	(380,340)	(1,189,869)
Other	-	374,030
	1,036,516	2,477,285
Current deferred income tax assets	1,416,856	3,293,124
Long-term deferred income tax liability	\$ (380,340)	\$ (815,839)

All current deferred income tax assets at December 31, 2014 and 2013 are deemed to be fully realizable by management.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE K - RELATED PARTIES**

UHC holds a 33.33% interest in UW Cancer Center Johnson Creek, LLC (LLC). This investment is accounted for on the equity method and the carrying amount is \$555,653 and \$568,594 as of December 31, 2014 and 2013, respectively. UHC recognized a loss of \$12,941 and a gain of \$44,043 for the years ended December 31, 2014 and 2013, respectively. LLC is owned by UHC, Fort Atkinson Memorial Health Services and UW Health Partners Watertown Regional Medical Center, Inc., each having a one-third membership interest. Its purpose is to acquire, hold, own and lease assets to be used by health care providers for their provision of cancer care services.

UHC has guaranteed 33.33% of the outstanding balance on a construction loan which LLC used to construct a medical clinic. The remaining portion of the outstanding balance is guaranteed by the other two members of LLC. The total loan equaled \$4,325,000, of which \$2,621,921 and \$2,808,023 is outstanding as of December 31, 2014 and 2013, respectively. The portion guaranteed by UHC will be reduced upon the occurrence of certain events as defined in the guaranty agreement. As of December 31, 2014 and 2013, there is no accrual for this guarantee as it is not probable UHC will have to make payments under this guarantee.

As of December 31, 2014 and 2013, UHC accounts receivable included amounts due from LLC of \$5,000 and \$2,000, respectively.

Condensed unaudited financial information of LLC follows:

	2014	2013
As of December 31,		
Total assets	\$ 4,512,000	\$ 4,733,000
Total liabilities	2,845,000	3,027,000
Years ended December 31,		
Net income (loss)	(39,000)	132,000

UHC holds a 50% interest in Watertown Network, LLC (WN). This investment is accounted for on the equity method and the carrying amount is \$114,178 and \$63,600 as of December 31, 2014 and 2013, respectively. UHC has recognized gains of \$50,578 and \$7,920 for the years ended December 31, 2014 and 2013, respectively. WN is owned by UHC and UW Health Partners Watertown Regional Medical Center, Inc., each having a one-half ownership interest.

Condensed unaudited financial information of WN follows:

	2014	2013
As of December 31,		
Total assets	\$ 303,000	\$ 219,000
Total liabilities	75,000	92,000
Years ended December 31,		
Net income	101,000	16,000

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE K - RELATED PARTIES - Continued**

UHC entered into a Joint Operating Agreement (JOA) with UW Health Partners Watertown Regional Medical Center, Inc. (WRMC). As part of the agreement, UHC holds a 50% interest in the JOA. This investment is accounted for on the equity method and the carrying amount is \$394,590 and \$394,590 as of December 31, 2014 and 2013, respectively. UHC has recognized and funded losses of \$260,457 and \$229,893 for the years ended December 31, 2014 and 2013, respectively.

During 2012, UHC entered into a membership interest purchase agreement to acquire a 50% membership interest in Chartwell Wisconsin Enterprises, LLC. UHC paid \$3,750,000 for this membership interest, which was recorded in investment in affiliates on the consolidated statements of financial position. During 2013, UHC's membership interest was purchased by UWMF for a purchase price of \$3,750,000.

During 2012, UHC entered into a co-management agreement with Beloit Health System, Inc. (BHS) to assist with the development of an expanded program to provide cancer and oncology care, including the development of an outpatient cancer center by BHS (BHS Cancer Center). For the management services to be provided, UHC will receive a monthly management fee equal to 25% of the BHS Cancer Center net revenues, defined as revenues billed and collected less direct expenses incurred in connection with the BHS Cancer Center operations. If the BHS Cancer Center net revenue is less than zero, UHC is responsible to pay BHS 25% of net loss. UHC paid a one-time, non-refundable fee of \$680,000 to participate in this agreement. This fee has been capitalized and is included in other assets in the consolidated statements of financial position. The fee will be amortized over five years, the initial term of the agreement. For the years ended December 31, 2014 and 2013, amortization expense of \$136,000 was recognized. For the years ended December 31, 2014 and 2013, expenses of \$9,521 and \$0, respectively are recorded in the consolidated statements of activities attributable to operations associated with this collaborative agreement.

During 2014, UHC purchased a membership interest Wisconsin Value Network, LLC (WVN). The initial member of WVN are Aspirus, Inc., Aurora Health Care, Inc., Bellin Health Systems, Inc., Gunderson Lutheran Health System, Inc., ProHealth Care, Inc., ThedaCare, Inc., and UHC. UHC paid \$100,000 for this membership interest, which was recorded in investment in affiliates on the consolidated statements of financial position under the cost method. The purpose of WVN is to operate a clinically integrated network and conduct clinically integrated activities to promote quality, reduce costs, and improve care for patient populations. For the year ended December 31, 2014, expenses of \$451,045 are recorded in the consolidated statements of activities attributable to these operations.

The Company has employee services agreements with UWHC and UWMF. Under the terms of the agreements, UHC pays UWHC and UWMF for the use of their respective personnel for services performed as stated in the agreements. The amount paid by UHC is equal to that of the salary and benefits of the personnel multiplied by the percentage of their time devoted to UHC during the applicable period. The amounts paid to UWHC and UWMF under the terms of these agreements are recorded in staff salaries, wages and benefits in the consolidated statements of activities. During the years ended December 31, 2014 and 2013, \$10,664,271 and \$8,451,395, respectively, was paid to UWHC and UWMF for these services.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE K - RELATED PARTIES - Continued**

In addition, the Company has managed care contracting service agreements with UWHC and UWMF. Under the terms of this agreement, UHC incurred capitation costs of \$218,064,496 and \$193,854,653 in 2014 and 2013, respectively.

At December 31, 2014 and 2013, UHC accounts receivable included amounts due from UWMF of approximately \$1,376,000 and \$961,000, respectively, and from UWHC of \$2,519,000 and \$1,860,000, respectively. Included in accounts payable at December 31, 2014 and 2013 are approximately \$1,303,000 and \$949,000, respectively, due to UWMF and \$1,629,000 and \$2,030,000, respectively, due to UWHC.

HPW leases certain properties to UWHC and UWMF. See note H.

**NOTE L - REGULATORY ENVIRONMENT**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include matters such as reimbursement for patient services, Medicare and Medicaid fraud and abuse, accreditation, etc. Management believes that the Company is in material compliance with fraud and abuse regulations, as well as other applicable government laws.

**NOTE M - SUPPLEMENTAL CASH FLOW INFORMATION**

Supplemental disclosure of cash flow information	2014	2013
Taxes paid	\$ 7,993,599	\$ 1,607,330
Interest paid	20,431	33,190

**NOTE N - INSURANCE ACCOUNTING PRACTICES**

Unity, which is domiciled in Wisconsin, also prepares statutory basis financial statements in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin (OCI). The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual*, version effective March 1, 2014 (NAIC SAP), has been adopted as a component of prescribed or permitted practices by the State of Wisconsin. Such practices differ in certain respects from accounting principles generally accepted in the United States of America, primarily in the non-recording of certain assets and the valuation of debt securities.

The State of Wisconsin requires that insurance companies domiciled in the State of Wisconsin prepare their statutory basis financial statements in accordance with NAIC SAP, subject to any deviations prescribed or permitted by the State of Wisconsin insurance commissioner. Management represents that the Company does not use any prescribed or permitted accounting practices that deviate from NAIC SAP.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE N - INSURANCE ACCOUNTING PRACTICES - Continued**

As of and for the years ended December 31, 2014 and 2013, differences between the financial statements prepared on the statutory basis and those prepared in accordance with accounting principles generally accepted in the United States of America were mainly the result of the non-recording of certain assets, deferred income tax assets, and the method of accounting for debt securities.

Without prior approval of the OCI, dividends to Unity's shareholders are limited by the laws of the State of Wisconsin. For the years ending December 31, 2014 and 2013, there were no dividends paid.

The State of Wisconsin insurance regulations require the companies to maintain a minimum compulsory surplus based upon a percentage of premiums written. As of December 31, 2014, Unity is required to maintain a compulsory surplus reserve or total minimum net worth, determined in accordance with accounting practices prescribed or permitted by the OCI, of at least \$23,704,394. Unity's net assets, determined in accordance with statutory accounting principles, as of December 31, 2014 (excluding the security surplus reserve deposit of \$7,566,199), are \$51,575,483. In addition, Unity is subject to risk-based capital (RBC) requirements promulgated by the NAIC. The RBC requirements establish minimum levels of capital and surplus based on the insurance operations of the companies. As of December 31, 2014, Unity had capital and surplus which management believes is in compliance with these requirements.

**NOTE O - FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE O - FAIR VALUE MEASUREMENTS - Continued**

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy. There has been no change in the valuation methodology for the years ended December 31, 2014 and 2013.

**U.S. Treasury securities, U.S. government agency obligations and other debt securities:** When quoted prices are available in an active market, U.S. Treasury securities, U.S. government agency obligations and other debt securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The fair values of corporate debt securities estimated using pricing models or matrix pricing based on observable prices of corporate debt securities that trade in inactive markets are generally classified within Level 2 of the fair value hierarchy. The significant inputs include coupon rate, maturity, and consideration of the credit ratings of the securities.

**Mortgage-backed securities:** Fair values for Level 2 mortgage-backed securities are estimated using a market approach, including a pricing model with observable inputs. The significant inputs include the applicable interest rate and maturity. Mortgage-backed securities are classified within Level 3 when market activity is significantly limited or when there is less transparency around inputs to the valuation.

**Mutual funds:** Quoted market prices in active markets are used to determine the fair value of mutual funds and are classified within level 1 of the fair value hierarchy.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of December 31:

	2014			
	Level 1	Level 2	Level 3	Total
U.S. Treasury securities	\$ -	\$ 24,074,436	\$ -	\$ 24,074,436
U.S. government agency obligations	-	1,867,058	-	1,867,058
Mortgage-backed securities				
U.S. government issued	-	4,755,656	-	4,755,656
Non U.S. government issued	-	2,456,413	-	2,456,413
Other debt securities				
Domestic	-	15,945,184	-	15,945,184
Foreign	-	10,653,689	-	10,653,689
Mutual funds	22,276,880	-	-	22,276,880
<b>Total</b>	<b>\$ 22,276,880</b>	<b>\$ 59,752,436</b>	<b>\$ -</b>	<b>\$ 82,029,316</b>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2014 and 2013

**NOTE O - FAIR VALUE MEASUREMENTS - Continued**

	2013			Total
	Level 1	Level 2	Level 3	
U.S. Treasury securities	\$ -	\$ 16,492,590	\$ -	\$ 16,492,590
U.S. government agency obligations	-	4,258,959	-	4,258,959
Mortgage-backed securities				
U.S. government issued	-	5,371,622	-	5,371,622
Non U.S. government issued	-	2,290,450	-	2,290,450
Other debt securities				
Domestic	-	18,847,528	-	18,847,528
Foreign	-	11,490,330	-	11,490,330
Mutual funds	20,778,699	-	-	20,778,699
Total	<u>\$ 20,778,699</u>	<u>\$ 58,751,479</u>	<u>\$ -</u>	<u>\$ 79,530,178</u>

The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers in and out of Level 3 for the years ending December 31, 2014 or 2013.

**NOTE P - REINSURANCE**

Unity has a reinsurance contract that protects against catastrophic in-patient claims. The deductible as of December 31, 2014 is \$1,000,000. Unity paid reinsurance premiums of approximately \$1,167,000 and \$995,000 for the years ended December 31, 2014 and 2013, respectively. Recoveries from this contract for the years ended December 31, 2014 and 2013 totaled approximately \$1,077,000 and \$337,000, respectively. Reinsurance premiums and recoveries are included in health care and capitation costs on the consolidated statements of activities.

Reinsurance contracts do not relieve Unity from its obligations to subscribers. Unity remains liable to its subscribers for the portion reinsured to the extent that the reinsurance company does not meet the obligations assumed under the reinsurance contract.

**NOTE Q - SUBSEQUENT EVENTS**

The Company evaluated its December 31, 2014 consolidated financial statements for subsequent events through April 22, 2015 the date that the financial statements were available to be issued. Other than the matter discussed below, the Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

On January 1, 2015, UHC transferred substantially all assets and liabilities to University Health Resources, Inc. and simultaneously acquired SwedishAmerican Health System through a separate member substitution agreement.



**SUPPLEMENTARY INFORMATION**

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
December 31, 2014

<b>ASSETS</b>	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 300,815	\$ 40,111,753	\$ 851,332	\$ 343,287	\$ -	\$ 41,607,187
Marketable securities	-	24,608,512	-	-	-	24,608,512
Accounts receivable, net	15,360,597	74,983,229	106,939	150,465	(11,211,217)	79,390,013
Prepaid expenses	284,904	474,767	4,225	14,623	-	778,519
Deferred income taxes	-	1,416,856	-	-	-	1,416,856
<b>Total current assets</b>	<b>15,946,316</b>	<b>141,595,117</b>	<b>962,496</b>	<b>508,375</b>	<b>(11,211,217)</b>	<b>147,801,087</b>
<b>MARKETABLE SECURITIES</b>	-	57,420,804	-	-	-	57,420,804
<b>PROPERTY AND EQUIPMENT - AT COST</b>						
Buildings and improvements	-	3,799,841	3,750,671	-	-	7,550,512
Leasehold improvements	1,339	-	-	107,513	-	108,852
Furniture and equipment	8,561,796	12,252,808	84,929	2,554,663	-	23,454,196
	8,563,135	16,052,649	3,835,600	2,662,176	-	31,113,560
Less accumulated depreciation and amortization	4,131,154	12,575,739	2,237,352	1,575,035	-	20,519,280
	4,431,981	3,476,910	1,598,248	1,087,141	-	10,594,280
Projects in process	155,208	144,000	-	214,200	-	513,408
Land	-	-	926,643	-	-	926,643
	4,587,189	3,620,910	2,524,891	1,301,341	-	12,034,331
<b>OTHER ASSETS</b>						
Investment in affiliates	66,787,789	-	-	-	(65,623,368)	1,164,421
Goodwill, less accumulated amortization of \$2,011,352	2,689,087	-	-	-	-	2,689,087
Other, less accumulated amortization of \$272,000	408,000	6,353	-	-	-	414,353
	69,884,876	6,353	-	-	(65,623,368)	4,267,861
	<b>\$ 90,418,381</b>	<b>\$ 202,643,184</b>	<b>\$ 3,487,387</b>	<b>\$ 1,809,716</b>	<b>\$ (76,834,585)</b>	<b>\$ 221,524,083</b>

<b>LIABILITIES AND NET ASSETS</b>	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT LIABILITIES</b>						
Current maturities of						
long-term debt	\$ 220,033	\$ -	\$ 67,463	\$ -	\$ -	\$ 287,496
Accounts payable	13,764,224	25,720,257	109,168	658,133	(11,211,217)	29,040,565
Claims payable	-	42,688,663	-	-	-	42,688,663
Unearned revenue	-	69,252,464	-	343,178	-	69,595,642
Accrued liabilities	89,768	2,920,824	-	3,460	-	3,014,052
<b>Total current liabilities</b>	14,074,025	140,582,208	176,631	1,004,771	(11,211,217)	144,626,418
<b>LONG-TERM DEBT, less current maturities</b>	-	-	172,969	-	-	172,969
<b>DEFERRED INCOME TAX LIABILITY</b>	-	380,340	-	-	-	380,340
<b>COMMON STOCK</b>	-	1,000	669,715	-	(670,715)	-
<b>UNRESTRICTED NET ASSETS</b>	76,344,356	61,679,636	2,468,072	804,945	(64,952,653)	76,344,356
	<u>\$ 90,418,381</u>	<u>\$ 202,643,184</u>	<u>\$ 3,487,387</u>	<u>\$ 1,809,716</u>	<u>\$ (76,834,585)</u>	<u>\$ 221,524,083</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
December 31, 2013

<b>ASSETS</b>	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 1,037,686	\$ 62,568,832	\$ 591,799	\$ 405,754	\$ -	\$ 64,604,071
Marketable securities	-	26,083,220	-	-	-	26,083,220
Accounts receivable, net	17,194,469	29,998,418	165,636	75,350	(14,324,430)	33,109,443
Prepaid expenses	351,703	395,119	4,436	21,272	-	772,530
Deferred income taxes	-	3,293,124	-	-	-	3,293,124
<b>Total current assets</b>	<b>18,583,858</b>	<b>122,338,713</b>	<b>761,871</b>	<b>502,376</b>	<b>(14,324,430)</b>	<b>127,862,388</b>
<b>MARKETABLE SECURITIES</b>	-	53,446,958	-	-	-	53,446,958
<b>PROPERTY AND EQUIPMENT - AT COST</b>						
Buildings and improvements	-	3,749,051	3,750,671	-	-	7,499,722
Leasehold improvements	1,339	-	-	107,513	-	108,852
Furniture and equipment	7,143,666	11,562,960	84,929	2,536,163	-	21,327,718
	7,145,005	15,312,011	3,835,600	2,643,676	-	28,936,292
Less accumulated depreciation and amortization	2,755,588	9,905,699	2,136,478	1,325,606	-	16,123,371
	4,389,417	5,406,312	1,699,122	1,318,070	-	12,812,921
Projects in process	355,256	-	-	233,381	-	588,637
Land	-	-	926,643	-	-	926,643
	4,744,673	5,406,312	2,625,765	1,551,451	-	14,328,201
<b>OTHER ASSETS</b>						
Investment in affiliates	64,250,538	-	-	-	(63,223,754)	1,026,784
Goodwill, less accumulated amortization of \$2,011,352	2,689,087	-	-	-	-	2,689,087
Other, less accumulated amortization of \$136,000	544,000	46,015	-	-	-	590,015
	67,483,625	46,015	-	-	(63,223,754)	4,305,886
	<b>\$ 90,812,156</b>	<b>\$ 181,237,998</b>	<b>\$ 3,387,636</b>	<b>\$ 2,053,827</b>	<b>\$ (77,548,184)</b>	<b>\$ 199,943,433</b>

<b>LIABILITIES AND NET ASSETS</b>	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT LIABILITIES</b>						
Current maturities of						
long-term debt	\$ 256,889	\$ -	\$ 65,151	\$ -	\$ -	\$ 322,040
Accounts payable	17,520,663	19,429,252	112,509	177,705	(14,324,430)	22,915,699
Claims payable	-	38,834,656	-	-	-	38,834,656
Unearned revenue	-	60,061,747	-	338,719	-	60,400,466
Accrued liabilities	76,788	3,370,834	-	8,863	-	3,456,485
<b>Total current liabilities</b>	17,854,340	121,696,489	177,660	525,287	(14,324,430)	125,929,346
<b>LONG-TERM DEBT, less current maturities</b>	220,034	-	240,432	-	-	460,466
<b>DEFERRED INCOME TAX LIABILITY</b>	-	815,839	-	-	-	815,839
<b>COMMON STOCK</b>	-	1,000	669,715	-	(670,715)	-
<b>UNRESTRICTED NET ASSETS</b>	72,737,782	58,724,670	2,299,829	1,528,540	(62,553,039)	72,737,782
	<u>\$ 90,812,156</u>	<u>\$ 181,237,998</u>	<u>\$ 3,387,636</u>	<u>\$ 2,053,827</u>	<u>\$ (77,548,184)</u>	<u>\$ 199,943,433</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
Year ended December 31, 2014

	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>Revenues</b>						
Insurance premiums and capitation fees	\$ 218,064,496	\$ 754,009,786	\$ -	\$ -	\$ (218,064,496)	\$ 754,009,786
Programs and other support						
University of Wisconsin Hospital and Clinics Authority	12,043,359	-	-	-	-	12,043,359
University of Wisconsin Medical Foundation	6,315,091	-	-	-	-	6,315,091
University of Wisconsin School of Medicine and Public Health	2,468,200	-	-	-	-	2,468,200
	<u>20,826,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,826,650</u>
Investment income	2,177,118	2,500,314	2,417	-	(2,402,031)	2,277,818
Other income	1,508,911	2,579,758	545,641	4,032,730	(501,831)	8,165,209
<b>Total revenues</b>	<u>242,577,175</u>	<u>759,089,858</u>	<u>548,058</u>	<u>4,032,730</u>	<u>(220,968,358)</u>	<u>785,279,463</u>
<b>Operating expenses</b>						
Health care and capitation costs	218,064,496	692,271,688	-	-	(218,064,496)	692,271,688
Staff salaries, wages and benefits	6,544,481	22,699,840	-	3,872,371	-	33,116,692
Purchased services and office expenses	11,061,994	20,906,004	61,407	228,981	(85,803)	32,172,583
Occupancy and equipment expense	3,066,548	5,541,390	204,857	654,973	(416,028)	9,051,740
Advertising and promotion	83,870	5,793,803	-	-	-	5,877,673
Amortization expense	136,000	-	-	-	-	136,000
	<u>238,957,389</u>	<u>747,212,725</u>	<u>266,264</u>	<u>4,756,325</u>	<u>(218,566,327)</u>	<u>772,626,376</u>
<b>Operating income (loss)</b>	<u>3,619,786</u>	<u>11,877,133</u>	<u>281,794</u>	<u>(723,595)</u>	<u>(2,402,031)</u>	<u>12,653,087</u>
<b>Other expense</b>						
Interest expense	13,212	-	9,636	-	(2,417)	20,431
<b>Increase (decrease) in net assets before change in net unrealized gains on investments and income tax expense (benefit)</b>	<u>3,606,574</u>	<u>11,877,133</u>	<u>272,158</u>	<u>(723,595)</u>	<u>(2,399,614)</u>	<u>12,632,656</u>
<b>Income tax expense (benefit)</b>						
Current	-	7,330,153	103,915	-	-	7,434,068
Deferred	-	1,500,078	-	-	-	1,500,078
	<u>-</u>	<u>8,830,231</u>	<u>103,915</u>	<u>-</u>	<u>-</u>	<u>8,934,146</u>
<b>Increase (decrease) in net assets before change in net unrealized gains on investments</b>	<u>3,606,574</u>	<u>3,046,902</u>	<u>168,243</u>	<u>(723,595)</u>	<u>(2,399,614)</u>	<u>3,698,510</u>
Change in net unrealized gains on investments, net	-	(91,936)	-	-	-	(91,936)
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>3,606,574</u>	<u>2,954,966</u>	<u>168,243</u>	<u>(723,595)</u>	<u>(2,399,614)</u>	<u>3,606,574</u>
Contributions (distributions), net	-	-	-	-	-	-
Net assets at beginning of year	72,737,782	58,724,670	2,299,829	1,528,540	(62,553,039)	72,737,782
Net assets at end of year	<u>\$ 76,344,356</u>	<u>\$ 61,679,636</u>	<u>\$ 2,468,072</u>	<u>\$ 804,945</u>	<u>\$ (64,952,653)</u>	<u>\$ 76,344,356</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
Year ended December 31, 2013

	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>Revenues</b>						
Insurance premiums and capitation fees	\$ 193,854,653	\$ 629,734,581	\$ -	\$ -	\$ (193,854,653)	\$ 629,734,581
Programs and other support						
University of Wisconsin Hospital and Clinics Authority	8,941,486	-	-	-	-	8,941,486
University of Wisconsin Medical Foundation	4,539,972	-	-	-	-	4,539,972
University of Wisconsin School of Medicine and Public Health	887,796	-	-	-	-	887,796
	14,369,254	-	-	-	-	14,369,254
Investment income (loss)	(403,353)	1,999,805	1,542	-	224,306	1,822,300
Other income	984,990	279,174	536,582	4,103,060	(633,138)	5,270,668
<b>Total revenues</b>	<b>208,805,544</b>	<b>632,013,560</b>	<b>538,124</b>	<b>4,103,060</b>	<b>(194,263,485)</b>	<b>651,196,803</b>
<b>Operating expenses</b>						
Health care and capitation costs	193,854,653	584,227,038	-	-	(193,854,653)	584,227,038
Staff salaries, wages and benefits	5,074,892	18,284,581	-	3,828,883	-	27,188,356
Purchased services and office expenses	7,013,696	16,656,451	66,972	248,408	(143,377)	23,842,150
Occupancy and equipment expense	2,216,087	5,636,858	205,297	661,289	(489,761)	8,229,770
Advertising and promotion	48,017	4,927,019	-	1,504	-	4,976,540
Amortization expense	136,000	-	-	-	-	136,000
	208,343,345	629,731,947	272,269	4,740,084	(194,487,791)	648,599,854
<b>Operating income (loss)</b>	<b>462,199</b>	<b>2,281,613</b>	<b>265,855</b>	<b>(637,024)</b>	<b>224,306</b>	<b>2,596,949</b>
<b>Other expense</b>						
Interest expense	17,985	-	16,628	-	(1,423)	33,190
<b>Increase (decrease) in net assets before change in net unrealized gains on investments and income tax expense (benefit)</b>	<b>444,214</b>	<b>2,281,613</b>	<b>249,227</b>	<b>(637,024)</b>	<b>225,729</b>	<b>2,563,759</b>
<b>Income tax expense (benefit)</b>						
Current	-	3,017,584	92,633	-	-	3,110,217
Deferred	-	(2,180,854)	-	-	-	(2,180,854)
	-	836,730	92,633	-	-	929,363
<b>Increase (decrease) in net assets before change in net unrealized gains on investments</b>	<b>444,214</b>	<b>1,444,883</b>	<b>156,594</b>	<b>(637,024)</b>	<b>225,729</b>	<b>1,634,396</b>
Change in net unrealized gains on investments, net	-	(1,190,182)	-	-	-	(1,190,182)
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>444,214</b>	<b>254,701</b>	<b>156,594</b>	<b>(637,024)</b>	<b>225,729</b>	<b>444,214</b>
Contributions (distributions), net	3,750,000	6,000,000	-	500,000	(6,500,000)	3,750,000
Net assets at beginning of year	68,543,568	52,469,969	2,143,235	1,665,564	(56,278,768)	68,543,568
Net assets at end of year	<b>\$ 72,737,782</b>	<b>\$ 58,724,670</b>	<b>\$ 2,299,829</b>	<b>\$ 1,528,540</b>	<b>\$ (62,553,039)</b>	<b>\$ 72,737,782</b>







Grant Thornton

Consolidated Financial Statements and Report of  
Independent Certified Public Accountants and  
Supplementary Information

**University Health Care, Inc. and Subsidiaries**

December 31, 2013 and 2012



# Contents

	<b>Page</b>
Report of Independent Certified Public Accountants	3
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9
Supplementary Information	
Consolidating Statement of Financial Position - December 31, 2013	29
Consolidating Statement of Financial Position - December 31, 2012	31
Consolidating Statement of Activities - Year Ended December 31, 2013	33
Consolidating Statement of Activities - Year Ended December 31, 2012	34



Grant Thornton

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Grant Thornton LLP  
2501 E Enterprise Avenue, Suite 300  
Appleton, WI 54913-7805  
T 920.968.6700  
F 920.968.6719  
[www.GrantThornton.com](http://www.GrantThornton.com)

Board of Directors and Stockholders  
University Health Care, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of University Health Care, Inc. (a Wisconsin not-for-profit corporation) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University Health Care, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Grant Thornton LLP*

Appleton, Wisconsin  
April 18, 2014

**This page intentionally left blank**

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

December 31,

ASSETS	2013	2012
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 64,604,071	\$ 23,321,701
Marketable securities	26,083,220	12,249,111
Accounts receivable, net	33,109,443	47,074,861
Prepaid expenses	772,530	623,233
Deferred income taxes	3,293,124	1,563,332
	<hr/>	<hr/>
<b>Total current assets</b>	127,862,388	84,832,238
<b>MARKETABLE SECURITIES</b>	53,446,958	54,716,566
<b>PROPERTY AND EQUIPMENT - AT COST</b>		
Buildings and improvements	7,499,722	7,457,680
Leasehold improvements	108,852	108,852
Furniture and equipment	21,327,718	22,269,732
	<hr/>	<hr/>
	28,936,292	29,836,264
Less accumulated depreciation and amortization	16,123,371	14,421,042
	<hr/>	<hr/>
	12,812,921	15,415,222
Projects in process	588,637	856,435
Land	926,643	926,643
	<hr/>	<hr/>
	14,328,201	17,198,300
<b>OTHER ASSETS</b>		
Investment in affiliates	1,026,784	4,717,581
Goodwill, less accumulated amortization of \$2,011,352 in 2013 and 2012	2,689,087	2,689,087
Other, less accumulated amortization of \$136,000 in 2013	590,015	722,993
	<hr/>	<hr/>
	4,305,886	8,129,661
	<hr/>	<hr/>
	\$ 199,943,433	\$ 164,876,765

The accompanying notes are an integral part of these statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2013</u>	<u>2012</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 322,040	\$ 672,030
Accounts payable	22,915,699	8,978,384
Claims payable	38,834,656	34,065,804
Unearned revenue	60,400,466	48,034,208
Accrued liabilities	<u>3,456,485</u>	<u>2,071,143</u>
<b>Total current liabilities</b>	125,929,346	93,821,569
<b>LONG-TERM DEBT, less current maturities</b>	460,466	476,922
<b>DEFERRED INCOME TAX LIABILITY</b>	815,839	2,034,706
<b>UNRESTRICTED NET ASSETS</b>	<u>72,737,782</u>	<u>68,543,568</u>
	<u>\$ 199,943,433</u>	<u>\$ 164,876,765</u>



**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

Years ended December 31,

	2013	2012
<b>Revenues</b>		
Insurance premiums	\$ 629,734,581	\$ 477,778,143
Programs and other support		
University of Wisconsin Hospital and Clinics Authority	8,941,486	7,511,469
University of Wisconsin Medical Foundation	4,539,972	3,728,980
University of Wisconsin School of Medicine and Public Health	887,796	1,050,000
	14,369,254	12,290,449
Investment income	1,822,300	2,490,033
Other income	5,270,668	4,804,854
	651,196,803	497,363,479
<b>Operating expenses</b>		
Health care and capitation costs	584,227,038	442,506,586
Staff salaries, wages and benefits	27,188,356	23,666,445
Purchased services and office expenses	23,842,150	21,431,137
Occupancy and equipment expense	8,229,770	7,472,349
Advertising and promotion	4,976,540	3,488,707
Amortization expense	136,000	-
	648,599,854	498,565,224
<b>Operating income (loss)</b>	2,596,949	(1,201,745)
<b>Other expense</b>		
Interest expense	33,190	36,122
	2,563,759	(1,237,867)
<b>Increase (decrease) in net assets before change in net unrealized gains on investments and income tax expense (benefit)</b>		
<b>Income tax expense (benefit)</b>		
Current	3,110,217	(2,126,141)
Deferred	(2,180,854)	1,405,583
	929,363	(720,558)
<b>Increase (decrease) in net assets before change in net unrealized gains on investments</b>	1,634,396	(517,309)
Change in net unrealized gains on investments, net of deferred taxes of \$(767,805) in 2013 and \$257,255 in 2012	(1,190,182)	226,917
<b>INCREASE (DECREASE) IN NET ASSETS</b>	444,214	(290,392)
Net contributions	3,750,000	9,750,000
Net assets at beginning of year	68,543,568	59,083,960
Net assets at end of year	\$ 72,737,782	\$ 68,543,568

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31,

	2013	2012
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ 444,214	\$ (290,392)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation and amortization	5,244,047	4,469,840
Share in net loss of affiliates	177,930	270,021
Gain on sales of investments	(61,793)	(896,521)
Change in unrealized gains on investments	1,957,987	(484,172)
Impairment of investments	37,746	40,630
(Gain) loss on sales of property and equipment	(1,836)	185
Deferred income taxes	(2,948,659)	1,662,839
Changes in operating assets and liabilities		
Accounts receivable	13,965,418	(10,763,390)
Prepaid expenses	(149,297)	133,804
Other assets	(3,022)	(705,787)
Accounts payable	13,937,315	1,365,338
Claims payable	4,768,852	6,842,370
Unearned revenue	12,366,258	9,666,273
Accrued liabilities	1,385,342	(732,109)
	51,120,502	10,578,929
<b>Net cash provided by operating activities</b>		
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(2,251,412)	(3,046,379)
Proceeds from sales of property and equipment	15,300	-
Purchases of marketable securities	(35,601,276)	(26,930,609)
Proceeds from sales and maturities of marketable securities	21,102,835	23,864,882
Investment in affiliates	(237,133)	(3,978,003)
Sale of affiliate	3,750,000	-
	(13,221,686)	(10,090,109)
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities</b>		
Capital contributions from sponsors	7,500,000	9,750,000
Capital distributions to sponsors	(3,750,000)	-
Issuance of long-term debt	342,515	-
Payments of long-term debt	(708,961)	(245,457)
	3,383,554	9,504,543
<b>Net cash provided by financing activities</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	41,282,370	9,993,363
Cash and cash equivalents at beginning of year	23,321,701	13,328,338
Cash and cash equivalents at end of year	\$ 64,604,071	\$ 23,321,701

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2013 and 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Organization**

The accompanying consolidated financial statements include the accounts of University Health Care, Inc. (UHC), Unity Health Plans Insurance Corporation (Unity), Health Professionals of Wisconsin, Inc. (HPW) and e-Care of Wisconsin, LLC (ECARE) (collectively, the Company).

UHC is a non-stock, not-for-profit corporation organized under Chapter 181 of the Wisconsin Statutes to promote medical education, research and public service by the University of Wisconsin School of Medicine and Public Health (UWSMPH) and its faculty, the University of Wisconsin Medical Foundation (UWMF) and the University of Wisconsin Hospital and Clinics Authority (UWHC).

Unity is a for-profit stock corporation which offers a variety of health maintenance organization, preferred provider organization and point-of-service medical products to employer groups and individuals in the state of Wisconsin. Unity is a wholly-owned subsidiary of UHC.

HPW is a for-profit stock corporation which owns real property leased to UWMF and UWHC, along with an additional non-related party entity. HPW is a wholly-owned subsidiary of UHC.

ECARE is a single member limited liability company which monitors intensive care beds of customer hospitals. UHC is the sole member.

A summary of the Company's significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

**2. Principles of Consolidation**

UHC consolidates the accounts and transactions of its wholly-owned subsidiaries, Unity, HPW and ECARE. All significant intercompany balances and transactions have been eliminated in consolidation.

**3. Use of Estimates**

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2013 and 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**3. Use of Estimates - continued**

Claims payable consists of unpaid claims reported to the Company and a liability for health care claims incurred before December 31 which have not yet been reported to the Company by that date. Estimated claims payable are based on historical trends and current cost projections, which are reviewed by an independent actuary as of the date of the consolidated financial statements. Management believes that the estimate is a reasonable approximation of the incurred but not reported medical claims. However, it is reasonably possible that the claims presented for payment may not follow past trends and, therefore, may be more or less than the approximate \$38,835,000 and \$34,066,000 recorded on the consolidated financial statements as of December 31, 2013 and 2012, respectively.

**4. Cash and Cash Equivalents**

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value due to the short maturities of these investments.

**5. Depreciation and Amortization**

Depreciation and amortization of property and equipment are computed by both straight-line and accelerated methods over the estimated useful lives as follows:

Buildings and improvements	7 to 39 years
Leasehold improvements	Lesser of lease terms or 10 years
Furniture and equipment	3 to 10 years

Projects in process are not depreciated until placed into service.

**6. Goodwill**

Management evaluates goodwill for impairment on an annual basis or at an interim period if events occur or circumstances change that would more likely than not reduce the fair value below the carrying amount. When evaluating whether goodwill is impaired, the Company utilizes a discounted cash flow model to determine the fair value of the goodwill and compares the fair value to the carrying amount. The Company determined there was no impairment in 2013 or 2012.

**7. Revenue Recognition**

Premiums are recognized in the period for which services are covered. The Company records premium amounts billed in advance of a coverage period in unearned revenue.

Programs and other support is recognized when due from UWSMPH, UWMF, and UWHC.

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Health Care and Capitation Costs

Health care and capitation costs consist of amounts paid or due to hospital and physician providers. Health care and capitation costs are reported net of recoveries of approximately \$4,480,000 and \$3,046,000 for the years ended December 31, 2013 and 2012, respectively. Recoveries consist mainly of drug company volume discounts, subrogation and reinsurance. Changes in estimates of claims costs resulting from the continuous review process and differences between estimates and payments for claims are recognized in the period in which the estimates are changed or payments are made.

9. Income Taxes

Unity and HPW use the liability method in accounting for income taxes. Deferred income taxes are established for temporary differences in the reporting of marketable securities, allowance for doubtful accounts, depreciation and amortization, accrued compensation, claims payable and unearned premium for financial statement and income tax purposes.

Deferred tax balances are adjusted to reflect tax rates, based on currently enacted tax laws, that will be in effect in the years in which the temporary differences are expected to reverse.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company has applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open. There are no material unrecognized tax benefits taken or expected to be taken in a tax return that have been recorded on the Company's financial statements for the years ended December 31, 2013 and 2012 as it was determined that all tax positions taken meet the more likely than not threshold.

Unity and HPW file corporate income tax returns in the United States federal jurisdiction and in the State of Wisconsin. Tax years open to examination by tax authorities under federal and state statute of limitations for these entities include calendar years 2010 through 2013 and 2009 through 2013, respectively. UHC is exempt from income tax, though it is subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded by the Internal Revenue Code. UHC files a federal informational return each year. Beginning in 2011, UHC determined that it was necessary to file a federal and state income tax return due to unrelated business income. Calendar years 2011 through 2013 are open to examination under federal and state statute of limitations. All years prior to 2011 will remain open to examination for both federal and state purposes for UHC as the statute of limitations does not run for income tax returns not filed. ECARE is a wholly-owned disregarded entity of UHC. As such, ECARE does not have a federal or a state income tax filing requirement.

The Company recognizes, if necessary, interest and penalties related to unrecognized tax benefits in the provision for income taxes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended December 31, 2013 and 2012.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**10. Concentrations**

The Company has cash and cash equivalents deposited in financial institutions in which the balances exceed the federal government agency (FDIC) insured limit. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Revenue from the State of Wisconsin accounts for 45% and 44% of total premium revenues for the years ended December 31, 2013 and 2012, respectively.

**11. Advertising Costs**

The Company expenses advertising costs as they are incurred. Advertising expenses were approximately \$1,500,000 and \$1,773,000 for the years ended December 31, 2013 and 2012, respectively.

**12. Collaborative Arrangements**

The Company evaluates whether an arrangement is a collaborative arrangement at its inception based on the facts and circumstances specific to the arrangement. For those collaborative arrangements where it is determined that the Company is not the principal participant, costs incurred and revenue generated from third parties are recorded on a net basis in the consolidated statement of activities. See note L.

**13. New Accounting Pronouncements**

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-06, *Fees Paid to the Federal Government by Health Insurers - a consensus of the FASB Emerging Issues Task Force*, to address the accounting for the annual fee to be levied on health insurers starting in 2014 by The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act. This guidance is effective for calendar years beginning after December 31, 2013. See note R.

**NOTE B - DISCLOSURES ABOUT THE FAIR VALUES OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to estimate the fair value of each classification of financial instruments for which it was practicable to do so:

**Cash and cash equivalents:** The carrying amount for cash and cash equivalents is cost which approximates fair value due to the short maturities of these instruments.

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2013 and 2012

**NOTE B - DISCLOSURES ABOUT THE FAIR VALUES OF FINANCIAL INSTRUMENTS -  
Continued**

**Receivables and current liabilities:** Receivables are reflected at net realizable value based on anticipated losses due to potentially uncollectible balances, which approximates fair value. Accounts payable and accrued liabilities are reflected at cost, which approximates fair value because of the short-term duration of these instruments.

**Debt:** The carrying amount of long-term debt approximates estimated fair value based on borrowing rates currently available to the Company for bank loans with similar terms and maturities.

**NOTE C - ACCOUNTS RECEIVABLE**

Accounts receivable are due upon receipt of invoice. Receivables are stated net of any allowance for doubtful accounts. The Company determines its allowance for doubtful accounts by considering the number of days past due, collection history, and the general economy and industry as a whole. The Company writes-off accounts receivable when they become uncollectible and payments subsequently received are credited to the allowance for doubtful accounts.

The following is a summary of the accounts receivable balance as of December 31:

	2013	2012
Premiums receivable	\$ 27,395,341	\$ 40,836,848
Health care receivables	2,131,515	3,489,636
Investment income receivables	499,426	510,107
Income tax receivables	-	601,979
Due from related parties (note L)	2,820,974	1,931,006
Other	322,187	239,285
	33,169,443	47,608,861
Less allowance for doubtful accounts	60,000	534,000
	\$ 33,109,443	\$ 47,074,861

**NOTE D - MARKETABLE SECURITIES**

The Company classifies its marketable securities as available-for-sale and these securities are reported at fair value. Quoted market prices and model-based pricing are used to determine the fair value of marketable securities.

Unrealized and realized gains and losses are credited or charged to operations. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, using the effective interest method.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2013 and 2012

**NOTE D - MARKETABLE SECURITIES - Continued**

Investment securities are exposed to various risks including, but not limited to, interest rate, market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

A schedule of marketable securities held for investment at amortized cost, together with market value and the respective gross unrealized gains and losses, is as follows as of December 31:

	2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
U.S. Treasury securities	\$ 16,293,369	\$ 365,394	\$ 166,173	\$ 16,492,590
U.S. government agency obligations	4,241,037	19,452	1,530	4,258,959
Mortgage-backed securities				
U.S. government issued	5,395,784	34,342	58,504	5,371,622
Non U.S. government issued	2,219,802	92,164	21,516	2,290,450
Other debt securities				
Domestic	17,896,141	1,133,314	181,927	18,847,528
Foreign	11,145,847	420,395	75,912	11,490,330
Mutual funds	20,865,765	-	87,066	20,778,699
	<u>\$ 78,057,745</u>	<u>\$ 2,065,061</u>	<u>\$ 592,628</u>	<u>\$ 79,530,178</u>
	2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
U.S. Treasury securities	\$ 19,051,044	\$ 824,260	\$ -	\$ 19,875,304
U.S. government agency obligations	5,599,377	86,081	-	5,685,458
Mortgage-backed securities				
U.S. government issued	4,351,185	125,620	1,383	4,475,422
Non U.S. government issued	2,765,698	178,051	12,561	2,931,188
Other debt securities				
Domestic	15,415,052	1,510,463	905	16,924,610
Foreign	7,973,640	714,201	-	8,687,841
Mutual funds	8,379,261	6,593	-	8,385,854
	<u>\$ 63,535,257</u>	<u>\$ 3,445,269</u>	<u>\$ 14,849</u>	<u>\$ 66,965,677</u>



**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2013 and 2012

**NOTE D - MARKETABLE SECURITIES - Continued**

The Company includes all mutual funds and debt securities with a contractual maturity date in one year or less within current assets on the consolidated statements of financial position.

The amortized cost and estimated market value of debt securities, by contractual maturities, are as follows as of December 31, 2013:

	Amortized cost	Estimated market value
In one year or less	\$ 5,191,318	\$ 5,304,522
After one year through five years	31,354,348	32,686,504
After five years through ten years	18,095,431	18,142,388
After ten years through twenty years	332,911	344,039
After twenty years	2,217,972	2,274,026
	<u>\$ 57,191,980</u>	<u>\$ 58,751,479</u>

The proceeds, gross realized gains and losses from the sale of marketable securities and impairment of marketable securities for the years ended December 31 are summarized as follows:

	2013	2012
Proceeds	<u>\$ 21,102,835</u>	<u>\$ 23,864,882</u>
Gross realized gains	\$ 179,601	\$ 906,561
Gross realized losses	(117,808)	(10,040)
Net realized gain	<u>\$ 61,793</u>	<u>\$ 896,521</u>
Impairment of marketable securities	<u>\$ (37,746)</u>	<u>\$ (40,630)</u>

Investment income consists of the following for the years ended December 31:

	2013	2012
Interest	\$ 2,054,099	\$ 1,992,409
Net realized gain	61,793	896,521
Share in loss of investees, net	(177,930)	(270,021)
Investment manager fees	(77,916)	(88,246)
Impairment loss	(37,746)	(40,630)
	<u>\$ 1,822,300</u>	<u>\$ 2,490,033</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2013 and 2012

**NOTE D - MARKETABLE SECURITIES - Continued**

The following tables summarize the investments in debt securities in an unrealized loss position at December 31, 2013 and 2012 by indicating the length of time these individual securities have been in a continuous unrealized loss position.

	2013					
	Less than 12 months		12 months or longer		Total	
	Market value	Unrealized losses	Market value	Unrealized losses	Market value	Unrealized losses
U.S. Treasury securities	\$ 9,161,543	\$ 166,173	\$ -	\$ -	\$ 9,161,543	\$ 166,173
U.S. government agency obligations	621,251	1,530	-	-	621,251	1,530
Mortgage-backed securities	4,158,124	58,504	525,877	21,516	4,684,001	80,020
Other debt securities						
Domestic	5,310,938	181,927	-	-	5,310,938	181,927
Foreign	3,667,722	75,912	-	-	3,667,722	75,912
Mutual funds	20,778,699	87,066	-	-	20,778,699	87,066
	<u>\$ 43,698,277</u>	<u>\$ 571,112</u>	<u>\$ 525,877</u>	<u>\$ 21,516</u>	<u>\$ 44,224,154</u>	<u>\$ 592,628</u>
	2012					
	Less than 12 months		12 months or longer		Total	
	Market value	Unrealized losses	Market value	Unrealized losses	Market value	Unrealized losses
Other debt securities						
Domestic	\$ 669,200	\$ 905	\$ -	\$ -	\$ 669,200	\$ 905
Mortgage-backed securities	1,258,327	13,944	-	-	1,258,327	13,944
	<u>\$ 1,927,527</u>	<u>\$ 14,849</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,927,527</u>	<u>\$ 14,849</u>

The total unrealized losses represent less than 1% of the aggregate fair value of the portfolio as of December 31, 2013. The total unrealized losses are comprised of 47 individual securities. Of the securities in a loss position, one security has been in a loss position for more than 12 months.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2013 and 2012

**NOTE D - MARKETABLE SECURITIES - Continued**

The Company reviews its investment portfolio to ensure that investments that may be other than temporarily impaired are identified and that any impairment is charged against earnings in the proper period. Holdings have been reviewed and the Company has concluded that there were other-than-temporary impairments totaling approximately \$38,000 and \$41,000 as of December 31, 2013 and 2012, respectively. Issuers have continued to satisfy all contractual obligations and are expected to continue to do so. The Company believes that all other securities in an unrealized loss position are not impaired and the Company intends to hold such securities until recovery.

**NOTE E - LINE OF CREDIT**

The Company had an unsecured line of credit of \$5,000,000 from US Bank which expired on September 30, 2013. Interest on any borrowings under this line of credit was at the one-month LIBOR rate plus 2.00%. There were no borrowings under this line of credit during 2013 or 2012.

**NOTE F - LONG-TERM DEBT**

Long-term debt consists of the following at December 31:

	2013	2012
Note payable to BMO Harris Bank, interest rate of 3.45%, collateralized by assets of HPW, payable in monthly installments of \$6,232, including interest, remaining balance due in May 2018	\$ 305,583	\$ 409,191
Finance agreement with IBM for purchased software totaling \$803,000, interest imputed at a rate of 3%, payable in monthly installments of \$22,307, due in October 2015	476,923	739,761
	782,506	1,148,952
Less current maturities	322,040	672,030
	\$ 460,466	\$ 476,922

Interest expense totaled \$33,190 and \$36,122 for the years ended December 31, 2013 and 2012, respectively.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE F - LONG-TERM DEBT - Continued**

Following is a schedule of future maturities of long-term debt as of December 31, 2013:

<u>Years ending December 31,</u>	
2014	\$ 322,040
2015	287,496
2016	69,842
2017	72,336
2018	30,792
	<u>\$ 782,506</u>

**NOTE G - CLAIMS PAYABLE**

The activity relating to claims payable is as follows:

	2013	2012
Balance at January 1,	\$ 34,065,804	\$ 27,223,434
Claims incurred related to		
Current year	324,517,417	262,195,028
Prior year	<u>(6,295,458)</u>	<u>(1,463,599)</u>
Total claims incurred	318,221,959	260,731,429
Claims paid related to		
Current year	(287,741,486)	(230,319,984)
Prior year	<u>(25,711,621)</u>	<u>(23,569,075)</u>
Total medical claims paid	<u>(313,453,107)</u>	<u>(253,889,059)</u>
Balance at December 31,	<u>\$ 38,834,656</u>	<u>\$ 34,065,804</u>

Included in the claims payable liability at December 31, 2013 and 2012 is a \$0 and \$165,000 premium deficiency reserve related to expected losses for 2014 and 2013, respectively. The liability for reported and estimated claims at January 1, 2013 and 2012 developed favorably in 2013 and 2012 due primarily to lower than anticipated claims.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE H - EMPLOYEE BENEFIT PLANS**

All Unity employees are eligible to participate in a Unity-sponsored 401(k) plan. Employees are eligible to participate as of the first of the month following 60 days of employment. Under this plan, employees may contribute a percentage of their compensation on a pre-tax basis. Employee contributions of up to 6% are matched by a 100% employer contribution. In addition, at the discretion of the Unity Board of Directors, plan participants may receive an additional contribution of up to 4% of eligible compensation. In 2013, a 4% discretionary contribution was authorized by the Unity Board of Directors. In 2012, no discretionary contribution was made. For the years ended December 31, 2013 and 2012, approximately \$621,000 and \$551,000, respectively, was contributed to the 401(k) plan related to the employer matching and discretionary contributions.

**NOTE I - COMMITMENTS AND CONTINGENCIES**

**1. Leases**

The Company leases office space and equipment under non-cancellable operating lease arrangements expiring on various dates through 2018. Total minimum lease payments under these lease obligations at December 31, 2013 are approximately as follows:

<u>Years ending December 31,</u>	
2014	\$ 420,000
2015	386,000
2016	69,000
2017	11,000
2018	<u>7,000</u>
	<u>\$ 893,000</u>

The Company also has various leases for office space and equipment that are on a month-to-month basis. Total rent expense for operating leases was approximately \$822,000 and \$669,000 for 2013 and 2012, respectively.

HPW leases property to UWMF and UWHC, both related parties, and an additional non-related party entity under various leasing arrangements that expire at various dates through May 2018. The terms of the leases call for monthly payments ranging from \$4,653 to \$19,148 during 2013. Subsequent to 2013, rental payments will be increased by no less than 2% annually. Rental income was \$536,582 and \$527,207 for the years ended December 31, 2013 and 2012, respectively.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE J - FUNCTIONAL EXPENSES**

Expenses that can be specifically identified with a program service are assigned to that function. Other expenses are allocated to the appropriate function based on the use of departmental information within the Company. Following is a summary of expenses for the years ended December 31, reported on a functional basis:

	2013	2012
Program services	\$ 596,911,967	\$ 454,678,939
General and administrative	51,687,887	43,886,285
	\$ 648,599,854	\$ 498,565,224

**NOTE K - INCOME TAXES**

UHC has received a determination letter dated October 23, 1984 from the Internal Revenue Service stating that it is an organization described in Section 510(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes under Section 501(a) of the Code. Accordingly, no provision for federal income taxes has been made in the accompanying consolidated financial statements for UHC.

Unity and HPW are taxable organizations and recorded an income tax payable of approximately \$1,123,000 as of December 31, 2013 and income tax receivable of approximately \$602,000 as of December 31, 2012. The current provision for income tax expense (benefit) was approximately \$3,110,000 and (\$2,126,000) for 2013 and 2012, respectively.

Deferred income tax assets (liabilities) consist of the following at December 31:

	2013	2012
Current		
Allowance for doubtful accounts	\$ 25,140	\$ 31,425
Unearned premiums	3,169,987	847,294
Discounted unpaid losses	237,212	207,835
Accrued vacation	376,383	344,121
Premium deficiency reserve	-	69,135
Unrealized gains on marketable securities	(576,246)	(1,344,051)
HIRSP	108,955	1,235,711
Other	(48,307)	171,862
Non-current		
Depreciation and amortization	(1,189,869)	(2,034,706)
Other	374,030	-
	2,477,285	(471,374)
Current deferred income tax assets	3,293,124	1,563,332
Long-term deferred income tax liability	\$ (815,839)	\$ (2,034,706)

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE K - INCOME TAXES - Continued**

All current deferred income tax assets at December 31, 2013 and 2012 are deemed to be fully realizable by management.

**NOTE L - RELATED PARTIES**

UHC holds a 33.33% interest in UW Cancer Center Johnson Creek, LLC (LLC). This investment is accounted for on the equity method and the carrying amount is \$568,594 and \$524,551 as of December 31, 2013 and 2012, respectively. UHC recognized a gain of \$44,043 and a loss of \$44,878 for the years ended December 31, 2013 and 2012, respectively. LLC is owned by UHC, Fort Atkinson Memorial Health Services and UW Health Partners Watertown Regional Medical Center, Inc., each having a one-third membership interest. Its purpose is to acquire, hold, own and lease assets to be used by health care providers for their provision of cancer care services.

UHC has guaranteed 33.33% of the outstanding balance on a construction loan which LLC used to construct a medical clinic. The remaining portion of the outstanding balance is guaranteed by the other two members of LLC. The total loan equaled \$4,325,000, of which \$2,808,023 and \$2,987,102 is outstanding as of December 31, 2013 and 2012, respectively. The portion guaranteed by UHC will be reduced upon the occurrence of certain events as defined in the guaranty agreement. As of December 31, 2013 and 2012, there is no accrual for this guarantee as it is not probable UHC will have to make payments under this guarantee.

As of December 31, 2013 and 2012, UHC accounts receivable included amounts due from LLC of \$2,000 and \$5,000, respectively.

Condensed unaudited financial information of LLC follows:

	2013	2012
As of December 31,		
Total assets	\$ 4,733,000	\$ 4,730,000
Total liabilities	3,027,000	3,156,000
Years ended December 31,		
Net income (loss)	132,000	(135,000)

UHC holds a 50% interest in Watertown Network, LLC (WN). This investment is accounted for on the equity method and the carrying amount is \$63,600 and \$55,680 as of December 31, 2013 and 2012, respectively. UHC has recognized gains of \$7,920 and \$2,860 for the years ended December 31, 2013 and 2012, respectively. WN is owned by UHC and UW Health Partners Watertown Regional Medical Center, Inc., each having a one-half ownership interest.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE L - RELATED PARTIES - Continued**

Condensed unaudited financial information of WN follows:

	2013	2012
As of December 31,		
Total assets	\$ 219,000	\$ 190,000
Total liabilities	92,000	78,000
Years ended December 31,		
Net income	15,800	5,700

UHC entered into a Joint Operating Agreement (JOA) with UW Health Partners Watertown Regional Medical Center, Inc. (WRMC). As part of the agreement, UHC holds a 50% interest in the JOA. This investment is accounted for on the equity method and the carrying amount is \$394,590 and \$387,350 as of December 31, 2013 and 2012, respectively. UHC has recognized and funded losses of \$229,893 and \$228,000 for the years ended December 31, 2013 and 2012, respectively.

During 2012, UHC entered into a membership interest purchase agreement to acquire a 50% membership interest in Chartwell Wisconsin Enterprises, LLC. UHC paid \$3,750,000 for this membership interest, which was recorded in investment in affiliates on the consolidated statements of financial position. During 2013, UHC's membership interest was purchased by UWMF for a purchase price of \$3,750,000.

During 2012, UHC entered into a co-management agreement with Beloit Health System, Inc. (BHS) to assist with the development of an expanded program to provide cancer and oncology care, including the development of an outpatient cancer center by BHS (BHS Cancer Center). For the management services to be provided, UHC will receive a monthly management fee equal to 25% of the BHS Cancer Center net revenues, defined as revenues billed and collected less direct expenses incurred in connection with the BHS Cancer Center operations. If the BHS Cancer Center net revenue is less than zero, UHC is responsible to pay BHS 25% of net loss. UHC paid a one-time, non-refundable fee of \$680,000 to participate in this agreement. This fee has been capitalized and is included in other assets in the consolidated statements of financial position. The fee will be amortized over five years, the initial term of the agreement. For the year ended December 31, 2013, amortization expense of \$136,000 was recognized. For the year ended December 31, 2013 and 2012, there was no revenue or expenses recorded in the consolidated statements of activities attributable to operations associated with this collaborative agreement.

The Company has employee services agreements with UWHC and UWMF. Under the terms of the agreements, UHC pays UWHC and UWMF for the use of their respective personnel for services performed as stated in the agreements. The amount paid by UHC is equal to that of the salary and benefits of the personnel multiplied by the percentage of their time devoted to UHC during the applicable period. The amounts paid to UWHC and UWMF under the terms of these agreements are recorded in staff salaries, wages and benefits in the consolidated statements of activities. During the years ended December 31, 2013 and 2012, \$8,451,395 and \$8,637,208, respectively, was paid to UWHC and UWMF for these services.



**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE L - RELATED PARTIES - Continued**

In addition, the Company has managed care contracting service agreements with UWHC and UWMF. Under the terms of this agreement, UHC incurred capitation costs of \$193,854,653 and \$133,079,964 in 2013 and 2012, respectively.

At December 31, 2013 and 2012, UHC accounts receivable included amounts due from UWMF of approximately \$961,000 and \$851,000, respectively, and from UWHC of \$1,860,000 and \$1,080,000, respectively. Included in accounts payable at December 31, 2013 and 2012 are approximately \$949,000 and \$850,000, respectively, due to UWMF and \$2,030,000 and \$625,000, respectively, due to UWHC.

HPW leases certain properties to UWHC and UWMF. See note I.

**NOTE M - REGULATORY ENVIRONMENT**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include matters such as reimbursement for patient services, Medicare and Medicaid fraud and abuse, accreditation, etc. Government activity concerning possible fraud and abuse issues involving health care insurers and providers has increased, violations of which could possibly result in exclusion penalties, as well as significant repayments for patient services previously billed and received. Management believes that the Company is in material compliance with fraud and abuse regulations, as well as other applicable government laws.

**NOTE N - SUPPLEMENTAL CASH FLOW INFORMATION**

	2013	2012
Supplemental disclosure of cash flow information		
Taxes paid	\$ 1,607,330	\$ 648,559
Interest paid	16,628	32,440

**Non-cash investing and financing activity**

During 2012, the Company entered into a financing agreement to purchase \$803,000 of hardware and software.

**NOTE O - INSURANCE ACCOUNTING PRACTICES**

Unity, which is domiciled in Wisconsin, also prepares statutory basis financial statements in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin (OCI). The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual*, version effective March 1, 2013 (NAIC SAP), has been adopted as a component of prescribed or permitted practices by the State of Wisconsin. Such practices differ in certain respects from accounting principles generally accepted in the United States of America, primarily in the non-recording of certain assets and the valuation of debt securities.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE O - INSURANCE ACCOUNTING PRACTICES - Continued**

The State of Wisconsin requires that insurance companies domiciled in the State of Wisconsin prepare their statutory basis financial statements in accordance with NAIC SAP, subject to any deviations prescribed or permitted by the State of Wisconsin insurance commissioner. Management represents that the Company does not use any prescribed or permitted accounting practices that deviate from NAIC SAP.

As of and for the years ended December 31, 2013 and 2012, differences between the financial statements prepared on the statutory basis and those prepared in accordance with accounting principles generally accepted in the United States of America were mainly the result of the non-recording of certain assets, deferred income tax assets, and the method of accounting for debt securities.

Without prior approval of the OCI, dividends to Unity's shareholders are limited by the laws of the State of Wisconsin. For the years ending December 31, 2013 and 2012, there were no dividends paid.

The State of Wisconsin insurance regulations require the companies to maintain a minimum compulsory surplus based upon a percentage of premiums written. As of December 31, 2013, Unity is required to maintain a compulsory surplus reserve or total minimum net worth, determined in accordance with accounting practices prescribed or permitted by the OCI, of at least \$19,808,970. Unity's net assets, determined in accordance with statutory accounting principles, as of December 31, 2013 (excluding the security surplus reserve deposit of \$6,357,857), are \$49,468,603. In addition, Unity is subject to risk-based capital (RBC) requirements promulgated by the NAIC. The RBC requirements establish minimum levels of capital and surplus based on the insurance operations of the companies. As of December 31, 2013, Unity had capital and surplus which management believes is in compliance with these requirements.

**NOTE P - FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2013 and 2012

**NOTE P - FAIR VALUE MEASUREMENTS - Continued**

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy. There has been no change in the valuation methodology for the years ended December 31, 2013 and 2012.

**U.S. Treasury securities, U.S. government agency obligations and other debt securities:** When quoted prices are available in an active market, U.S. Treasury securities, U.S. government agency obligations and other debt securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The fair values of corporate debt securities estimated using pricing models or matrix pricing based on observable prices of corporate debt securities that trade in inactive markets are generally classified within Level 2 of the fair value hierarchy. The significant inputs include coupon rate, maturity, and consideration of the credit ratings of the securities.

**Mortgage-backed securities:** Fair values for Level 2 mortgage-backed securities are estimated using a market approach, including a pricing model with observable inputs. The significant inputs include the applicable interest rate and maturity. Mortgage-backed securities are classified within Level 3 when market activity is significantly limited or when there is less transparency around inputs to the valuation.

**Mutual funds:** Quoted market prices in active markets are used to determine the fair value of mutual funds and are classified within level 1 of the fair value hierarchy.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of December 31:

	2013			Total
	Level 1	Level 2	Level 3	
U.S. Treasury securities	\$ -	\$ 16,492,590	\$ -	\$ 16,492,590
U.S. government agency obligations	-	4,258,959	-	4,258,959
Mortgage-backed securities				
U.S. government issued	-	5,371,622	-	5,371,622
Non U.S. government issued	-	2,290,450	-	2,290,450
Other debt securities				
Domestic	-	18,847,528	-	18,847,528
Foreign	-	11,490,330	-	11,490,330
Mutual funds	20,778,699	-	-	20,778,699
<b>Total</b>	<b>\$ 20,778,699</b>	<b>\$ 58,751,479</b>	<b>\$ -</b>	<b>\$ 79,530,178</b>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE P - FAIR VALUE MEASUREMENTS - Continued**

	2012			Total
	Level 1	Level 2	Level 3	
U.S. Treasury securities	\$ -	\$ 19,875,304	\$ -	\$ 19,875,304
U.S. government agency obligations	-	5,685,458	-	5,685,458
Mortgage-backed securities				
U.S. government issued	-	4,475,422	-	4,475,422
Non U.S. government issued	-	2,931,188	-	2,931,188
Other debt securities				
Domestic	-	16,924,199	411	16,924,610
Foreign	-	8,687,841	-	8,687,841
Mutual funds	8,385,854	-	-	8,385,854
Total	<u>\$ 8,385,854</u>	<u>\$ 58,579,412</u>	<u>\$ 411</u>	<u>\$ 66,965,677</u>

The following table presents additional information about assets measured at fair value on a recurring basis that have been measured using significant unobservable inputs (Level 3) as of December 31:

	2013	2012
Beginning balance	\$ 411	\$ 411
Write-off of investment	(411)	-
Ending balance	<u>\$ -</u>	<u>\$ 411</u>

The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers in and out of Level 3 for the years ending December 31, 2013 or 2012.

**NOTE Q - REINSURANCE**

Unity has a reinsurance contract that protects against catastrophic in-patient claims. The deductible as of December 31, 2013 is \$500,000. Unity paid reinsurance premiums of approximately \$995,000 and \$961,000 for the years ended December 31, 2013 and 2012, respectively. Recoveries from this contract for the year ended December 31, 2013 and 2012 totaled approximately \$337,000 and \$292,000, respectively. Reinsurance premiums and recoveries are included in health care and capitation costs on the consolidated statements of activities.

Reinsurance contracts do not relieve Unity from its obligations to subscribers. Unity remains liable to its subscribers for the portion reinsured to the extent that the reinsurance company does not meet the obligations assumed under the reinsurance contract.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2013 and 2012

**NOTE R - SUBSEQUENT EVENTS**

The Company evaluated its December 31, 2013 consolidated financial statements for subsequent events through April 18, 2014, the date that the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements, other than described below.

On January 1, 2014, the Company will be subject to an annual fee under section 9010 of the Affordable Care Act (ACA). This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the previous calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year on or after January 1, 2014. As of December 31, 2013, the Company has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2014, and estimates their portion of the annual health insurance fee to be payable on September 30, 2014 to be approximately \$12,419,000.

**SUPPLEMENTARY INFORMATION**

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
December 31, 2013

ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 1,037,686	\$ 62,568,832	\$ 591,799	\$ 405,754	\$ -	\$ 64,604,071
Marketable securities	-	26,083,220	-	-	-	26,083,220
Accounts receivable, net	17,194,469	29,998,418	165,636	75,350	(14,324,430)	33,109,443
Prepaid expenses	351,703	395,119	4,436	21,272	-	772,530
Deferred income taxes	-	3,293,124	-	-	-	3,293,124
<b>Total current assets</b>	<b>18,583,858</b>	<b>122,338,713</b>	<b>761,871</b>	<b>502,376</b>	<b>(14,324,430)</b>	<b>127,862,388</b>
<b>MARKETABLE SECURITIES</b>	<b>-</b>	<b>53,446,958</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53,446,958</b>
<b>PROPERTY AND EQUIPMENT - AT COST</b>						
Buildings and improvements	-	3,749,051	3,750,671	-	-	7,499,722
Leasehold improvements	1,339	-	-	107,513	-	108,852
Furniture and equipment	7,143,666	11,562,960	84,929	2,536,163	-	21,327,718
	7,145,005	15,312,011	3,835,600	2,643,676	-	28,936,292
Less accumulated depreciation and amortization	2,755,588	9,905,699	2,136,478	1,325,606	-	16,123,371
	4,389,417	5,406,312	1,699,122	1,318,070	-	12,812,921
Projects in process	355,256	-	-	233,381	-	588,637
Land	-	-	926,643	-	-	926,643
	4,744,673	5,406,312	2,625,765	1,551,451	-	14,328,201
<b>OTHER ASSETS</b>						
Investment in affiliates	64,250,538	-	-	-	(63,223,754)	1,026,784
Goodwill, less accumulated amortization of \$2,011,352	2,689,087	-	-	-	-	2,689,087
Other, less accumulated amortization of \$136,000	544,000	46,015	-	-	-	590,015
	67,483,625	46,015	-	-	(63,223,754)	4,305,886
	<b>\$ 90,812,156</b>	<b>\$ 181,237,998</b>	<b>\$ 3,387,636</b>	<b>\$ 2,053,827</b>	<b>\$ (77,548,184)</b>	<b>\$ 199,943,433</b>

<b>LIABILITIES AND NET ASSETS</b>	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT LIABILITIES</b>						
Current maturities of						
long-term debt	\$ 256,889	\$ -	\$ 65,151	\$ -	\$ -	\$ 322,040
Accounts payable	17,520,663	19,429,252	112,509	177,705	(14,324,430)	22,915,699
Claims payable	-	38,834,656	-	-	-	38,834,656
Unearned revenue	-	60,061,747	-	338,719	-	60,400,466
Accrued liabilities	76,788	3,370,834	-	8,863	-	3,456,485
<b>Total current liabilities</b>	<b>17,854,340</b>	<b>121,696,489</b>	<b>177,660</b>	<b>525,287</b>	<b>(14,324,430)</b>	<b>125,929,346</b>
<b>LONG-TERM DEBT, less current maturities</b>	<b>220,034</b>	<b>-</b>	<b>240,432</b>	<b>-</b>	<b>-</b>	<b>460,466</b>
<b>DEFERRED INCOME TAX LIABILITY</b>	<b>-</b>	<b>815,839</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>815,839</b>
<b>COMMON STOCK</b>	<b>-</b>	<b>1,000</b>	<b>669,715</b>	<b>-</b>	<b>(670,715)</b>	<b>-</b>
<b>UNRESTRICTED NET ASSETS</b>	<b>72,737,782</b>	<b>58,724,670</b>	<b>2,299,829</b>	<b>1,528,540</b>	<b>(62,553,039)</b>	<b>72,737,782</b>
	<b>\$ 90,812,156</b>	<b>\$ 181,237,998</b>	<b>\$ 3,387,636</b>	<b>\$ 2,053,827</b>	<b>\$ (77,548,184)</b>	<b>\$ 199,943,433</b>



**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
December 31, 2012

ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 175,984	\$ 22,614,964	\$ 362,979	\$ 167,774	\$ -	\$ 23,321,701
Marketable securities	-	12,249,111	-	-	-	12,249,111
Accounts receivable, net	2,794,818	44,903,179	245,363	206,337	(1,074,836)	47,074,861
Prepaid expenses	162,017	434,833	4,595	21,788	-	623,233
Deferred income taxes	-	1,563,332	-	-	-	1,563,332
<b>Total current assets</b>	<b>3,132,819</b>	<b>81,765,419</b>	<b>612,937</b>	<b>395,899</b>	<b>(1,074,836)</b>	<b>84,832,238</b>
<b>MARKETABLE SECURITIES</b>		54,716,566	-	-	-	54,716,566
<b>PROPERTY AND EQUIPMENT - AT COST</b>						
Buildings and improvements	-	3,707,009	3,750,671	-	-	7,457,680
Leasehold improvements	1,339	-	-	107,513	-	108,852
Furniture and equipment	5,536,547	14,127,390	69,632	2,536,163	-	22,269,732
	5,537,886	17,834,399	3,820,303	2,643,676	-	29,836,264
Less accumulated depreciation and amortization	1,543,784	9,777,913	2,036,356	1,062,989	-	14,421,042
	3,994,102	8,056,486	1,783,947	1,580,687	-	15,415,222
Projects in process	544,814	97,421	-	214,200	-	856,435
Land	-	-	926,643	-	-	926,643
	4,538,916	8,153,907	2,710,590	1,794,887	-	17,198,300
<b>OTHER ASSETS</b>						
Investment in affiliates	61,667,064	-	-	-	(56,949,483)	4,717,581
Goodwill, less accumulated amortization of \$2,011,352	2,689,087	-	-	-	-	2,689,087
Other	680,000	42,993	-	-	-	722,993
	65,036,151	42,993	-	-	(56,949,483)	8,129,661
	<b>\$ 72,707,886</b>	<b>\$ 144,678,885</b>	<b>\$ 3,323,527</b>	<b>\$ 2,190,786</b>	<b>\$ (58,024,319)</b>	<b>\$ 164,876,765</b>

<b>LIABILITIES AND NET ASSETS</b>	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT LIABILITIES</b>						
Current maturities of						
long-term debt	\$ 262,839	\$ -	\$ 409,191	\$ -	\$ -	\$ 672,030
Accounts payable	3,360,191	6,415,687	101,386	175,956	(1,074,836)	8,978,384
Claims payable	-	34,065,804	-	-	-	34,065,804
Unearned revenue	-	47,686,220	-	347,988	-	48,034,208
Accrued liabilities	64,366	2,005,499	-	1,278	-	2,071,143
<b>Total current liabilities</b>	3,687,396	90,173,210	510,577	525,222	(1,074,836)	93,821,569
<b>LONG-TERM DEBT, less current maturities</b>	476,922	-	-	-	-	476,922
<b>DEFERRED INCOME TAX LIABILITY</b>	-	2,034,706	-	-	-	2,034,706
<b>COMMON STOCK</b>	-	1,000	669,715	-	(670,715)	-
<b>UNRESTRICTED NET ASSETS</b>	68,543,568	52,469,969	2,143,235	1,665,564	(56,278,768)	68,543,568
	<u>\$ 72,707,886</u>	<u>\$ 144,678,885</u>	<u>\$ 3,323,527</u>	<u>\$ 2,190,786</u>	<u>\$ (58,024,319)</u>	<u>\$ 164,876,765</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
Year ended December 31, 2013

	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>Revenues</b>						
Insurance premiums and capitation fees	\$ 193,854,653	\$ 629,734,581	\$ -	\$ -	\$ (193,854,653)	\$ 629,734,581
Programs and other support						
University of Wisconsin Hospital and Clinics Authority	8,941,486	-	-	-	-	8,941,486
University of Wisconsin Medical Foundation	4,539,972	-	-	-	-	4,539,972
University of Wisconsin School of Medicine and Public Health	887,796	-	-	-	-	887,796
	<u>14,369,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,369,254</u>
Investment income (loss)	(403,353)	1,999,805	1,542	-	224,306	1,822,300
Other income	984,990	279,174	536,582	4,103,060	(633,138)	5,270,668
<b>Total revenues</b>	<u>208,805,544</u>	<u>632,013,560</u>	<u>538,124</u>	<u>4,103,060</u>	<u>(194,263,485)</u>	<u>651,196,803</u>
<b>Operating expenses</b>						
Health care and capitation costs	193,854,653	584,227,038	-	-	(193,854,653)	584,227,038
Staff salaries, wages and benefits	5,074,892	18,284,581	-	3,828,883	-	27,188,356
Purchased services and office expenses	7,013,696	16,656,451	66,972	248,408	(143,377)	23,842,150
Occupancy and equipment expense	2,216,087	5,636,858	205,297	661,289	(489,761)	8,229,770
Advertising and promotion	48,017	4,927,019	-	1,504	-	4,976,540
Amortization expense	136,000	-	-	-	-	136,000
	<u>208,343,345</u>	<u>629,731,947</u>	<u>272,269</u>	<u>4,740,084</u>	<u>(194,487,791)</u>	<u>648,599,854</u>
<b>Operating income (loss)</b>	<u>462,199</u>	<u>2,281,613</u>	<u>265,855</u>	<u>(637,024)</u>	<u>224,306</u>	<u>2,596,949</u>
<b>Other expense</b>						
Interest expense	17,985	-	16,628	-	(1,423)	33,190
<b>Increase (decrease) in net assets before change in net unrealized gains on investments and income tax expense (benefit)</b>	<u>444,214</u>	<u>2,281,613</u>	<u>249,227</u>	<u>(637,024)</u>	<u>225,729</u>	<u>2,563,759</u>
<b>Income tax expense (benefit)</b>						
Current	-	3,017,584	92,633	-	-	3,110,217
Deferred	-	(2,180,854)	-	-	-	(2,180,854)
	<u>-</u>	<u>836,730</u>	<u>92,633</u>	<u>-</u>	<u>-</u>	<u>929,363</u>
<b>Increase (decrease) in net assets before change in net unrealized gains on investments</b>	<u>444,214</u>	<u>1,444,883</u>	<u>156,594</u>	<u>(637,024)</u>	<u>225,729</u>	<u>1,634,396</u>
Change in net unrealized gains on investments, net	-	(1,190,182)	-	-	-	(1,190,182)
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>444,214</u>	<u>254,701</u>	<u>156,594</u>	<u>(637,024)</u>	<u>225,729</u>	<u>444,214</u>
Contributions (distributions), net	3,750,000	6,000,000	-	500,000	(6,500,000)	3,750,000
Net assets at beginning of year	68,543,568	52,469,969	2,143,235	1,665,564	(56,278,768)	68,543,568
<b>Net assets at end of year</b>	<u>\$ 72,737,782</u>	<u>\$ 58,724,670</u>	<u>\$ 2,299,829</u>	<u>\$ 1,528,540</u>	<u>\$ (62,553,039)</u>	<u>\$ 72,737,782</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
Year ended December 31, 2012

	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>Revenues</b>						
Insurance premiums and capitation fees	\$ 133,079,964	\$ 477,778,143	\$ -	\$ -	\$ (133,079,964)	\$ 477,778,143
Programs and other support						
University of Wisconsin Hospital and Clinics Authority	7,511,469	-	-	-	-	7,511,469
University of Wisconsin Medical Foundation	3,728,980	-	-	-	-	3,728,980
University of Wisconsin School of Medicine and Public Health	1,050,000	-	-	-	-	1,050,000
	<u>12,290,449</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,290,449</u>
Investment income	(1,710,570)	2,759,464	2,154	-	1,438,985	2,490,033
Other income	767,792	152,063	527,207	3,832,419	(474,627)	4,804,854
<b>Total revenues</b>	<u>144,427,635</u>	<u>480,689,670</u>	<u>529,361</u>	<u>3,832,419</u>	<u>(132,115,606)</u>	<u>497,363,479</u>
<b>Operating expenses</b>						
Health care and capitation costs	133,079,964	442,506,586	-	-	(133,079,964)	442,506,586
Staff salaries, wages and benefits	4,564,097	15,327,558	-	3,774,790	-	23,666,445
Purchased services and office expenses	5,342,960	15,929,058	62,908	251,496	(155,285)	21,431,137
Occupancy and equipment expense	1,615,657	5,302,584	201,880	671,570	(319,342)	7,472,349
Advertising and promotion	109,513	3,379,194	-	-	-	3,488,707
	<u>144,712,191</u>	<u>482,444,980</u>	<u>264,788</u>	<u>4,697,856</u>	<u>(133,554,591)</u>	<u>498,565,224</u>
<b>Operating income (loss)</b>	<u>(284,556)</u>	<u>(1,755,310)</u>	<u>264,573</u>	<u>(865,437)</u>	<u>1,438,985</u>	<u>(1,201,745)</u>
<b>Other expense</b>						
Interest expense	5,836	-	32,440	-	(2,154)	36,122
<b>Increase (decrease) in net assets before change in net unrealized gains on investments and income tax expense (benefit)</b>	<u>(290,392)</u>	<u>(1,755,310)</u>	<u>232,133</u>	<u>(865,437)</u>	<u>1,441,139</u>	<u>(1,237,867)</u>
<b>Income tax expense (benefit)</b>						
Current	-	(2,204,311)	78,170	-	-	(2,126,141)
Deferred	-	1,405,583	-	-	-	1,405,583
	<u>-</u>	<u>(798,728)</u>	<u>78,170</u>	<u>-</u>	<u>-</u>	<u>(720,558)</u>
<b>Increase (decrease) in net assets before change in net unrealized gains on investments</b>	<u>(290,392)</u>	<u>(956,582)</u>	<u>153,963</u>	<u>(865,437)</u>	<u>1,441,139</u>	<u>(517,309)</u>
Change in net unrealized gains on investments, net	-	226,917	-	-	-	226,917
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>(290,392)</u>	<u>(729,665)</u>	<u>153,963</u>	<u>(865,437)</u>	<u>1,441,139</u>	<u>(290,392)</u>
Contributions (distributions), net	9,750,000	5,000,000	-	1,000,000	(6,000,000)	9,750,000
Net assets at beginning of year	59,083,960	48,199,634	1,989,272	1,531,001	(51,719,907)	59,083,960
Net assets at end of year	<u>\$ 68,543,568</u>	<u>\$ 52,469,969</u>	<u>\$ 2,143,235</u>	<u>\$ 1,665,564</u>	<u>\$ (56,278,768)</u>	<u>\$ 68,543,568</u>



Grant Thornton

Consolidated Financial Statements and Report of  
Independent Certified Public Accountants and  
Supplementary Information

**University Health Care, Inc. and Subsidiaries**

December 31, 2012 and 2011

# Contents

	<b>Page</b>
Report of Independent Certified Public Accountants	3
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9
Supplementary Information	
Consolidating Statement of Financial Position - December 31, 2012	29
Consolidating Statement of Financial Position - December 31, 2011	31
Consolidating Statement of Activities - Year Ended December 31, 2012	33
Consolidating Statement of Activities - Year Ended December 31, 2011	34



Grant Thornton

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Audit • Tax • Advisory  
Grant Thornton LLP  
100 E. Wisconsin Avenue, Suite 2100  
Milwaukee, WI 53202-4169  
T 414.289.8200  
F 414.289.9910  
[www.GrantThornton.com](http://www.GrantThornton.com)

Board of Directors and Stockholders  
University Health Care, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of University Health Care, Inc. (a Wisconsin not-for-profit corporation) and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University Health Care, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Grant Thornton LLP*

Milwaukee, Wisconsin  
July 9, 2013



**This page intentionally left blank**

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

December 31,

ASSETS	2012	2011
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 23,321,701	\$ 13,328,338
Marketable securities	12,249,111	11,467,040
Accounts receivable, net	47,074,861	36,311,471
Prepaid expenses	623,233	757,037
Deferred income taxes	1,563,332	1,951,321
	<hr/>	<hr/>
<b>Total current assets</b>	84,832,238	63,815,207
<b>MARKETABLE SECURITIES</b>	54,716,566	51,092,847
<b>PROPERTY AND EQUIPMENT - AT COST</b>		
Buildings and improvements	7,457,680	7,446,220
Leasehold improvements	108,852	127,737
Furniture and equipment	22,269,732	18,335,338
	<hr/>	<hr/>
	29,836,264	25,909,295
Less accumulated depreciation and amortization	14,421,042	10,356,999
	<hr/>	<hr/>
	15,415,222	15,552,296
Projects in process	856,435	1,340,007
Land	926,643	926,643
	<hr/>	<hr/>
	17,198,300	17,818,946
<b>OTHER ASSETS</b>		
Investment in affiliates	4,717,581	1,009,599
Goodwill, less accumulated amortization of \$2,011,352 in 2012 and 2011	2,689,087	2,689,087
Other	722,993	17,206
	<hr/>	<hr/>
	8,129,661	3,715,892
	<hr/>	<hr/>
	\$ 164,876,765	\$ 136,442,892

The accompanying notes are an integral part of these statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2012</u>	<u>2011</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 672,030	\$ 182,233
Accounts payable	8,978,384	7,613,046
Claims payable	34,065,804	27,223,434
Unearned revenue	48,034,208	38,367,935
Accrued liabilities	<u>2,071,143</u>	<u>2,803,252</u>
<b>Total current liabilities</b>	93,821,569	76,189,900
<b>LONG-TERM DEBT, less current maturities</b>	476,922	409,176
<b>DEFERRED INCOME TAX LIABILITY</b>	2,034,706	759,856
<b>UNRESTRICTED NET ASSETS</b>	<u>68,543,568</u>	<u>59,083,960</u>
	<u>\$ 164,876,765</u>	<u>\$ 136,442,892</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
Years ended December 31,

	2012	2011
<b>Revenues</b>		
Insurance premiums	\$ 477,778,143	\$ 391,771,296
Programs and other support		
University of Wisconsin Hospital and Clinics Authority	7,511,469	6,512,326
University of Wisconsin Medical Foundation	3,728,980	3,223,797
University of Wisconsin School of Medicine and Public Health	1,050,000	-
	12,290,449	9,736,123
Investment income	2,490,033	2,822,053
Other income	4,804,854	4,427,775
	497,363,479	408,757,247
<b>Operating expenses</b>		
Health care and capitation costs	442,506,586	357,123,430
Staff salaries, wages and benefits	23,666,445	22,082,067
Purchased services and office expenses	21,431,137	19,434,623
Occupancy and equipment expense	7,472,349	5,646,376
Advertising and promotion	3,488,707	2,652,047
	498,565,224	406,938,543
<b>Operating income (loss)</b>	(1,201,745)	1,818,704
<b>Other expense</b>		
Interest expense	36,122	45,663
	36,122	45,663
<b>Increase (decrease) in net assets before change in unrealized gains on investments and income tax expense (benefit)</b>	(1,237,867)	1,773,041
<b>Income tax expense (benefit)</b>		
Current	(2,126,141)	920,497
Deferred	1,405,583	287,819
	(720,558)	1,208,316
<b>Increase (decrease) in net assets before change in unrealized gains on investments</b>	(517,309)	564,725
Change in unrealized gains on investments, net of deferred taxes of \$257,255 in 2012 and \$99,791 in 2011	226,917	248,022
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(290,392)	812,747
Net contributions	9,750,000	2,000,000
Net assets at beginning of year	59,083,960	56,271,213
Net assets at end of year	\$ 68,543,568	\$ 59,083,960

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31,

	2012	2011
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ (290,392)	\$ 812,747
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization of property and equipment	4,469,840	2,475,515
Share in net loss of affiliates	270,021	107,421
Gain on sales of investments	(896,521)	(972,618)
Change in unrealized gains on investments	(484,172)	(347,813)
Impairment of investments	40,630	49,583
Loss on sales of property and equipment	185	1,525
Deferred income taxes	1,662,839	387,609
Changes in operating assets and liabilities		
Accounts receivable	(10,763,390)	(3,439,603)
Prepaid expenses	133,804	67,010
Other assets	(705,787)	(17,206)
Accounts payable	1,365,338	(2,824,832)
Claims payable	6,842,370	1,171,530
Unearned revenue	9,666,273	475,216
Accrued liabilities	(732,109)	539,744
	10,578,929	(1,514,172)
<b>Net cash provided by (used in) operating activities</b>		
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(3,046,379)	(7,395,181)
Proceeds from sales of property and equipment	-	14,303
Purchases of marketable securities	(26,930,609)	(20,877,961)
Proceeds from sales and maturities of marketable securities	23,864,882	19,797,108
Investment in affiliates	(3,978,003)	(706,726)
Distributions from affiliates	-	75,000
	(10,090,109)	(9,093,457)
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities</b>		
Capital contributions from sponsors	9,750,000	2,000,000
Payments of long-term debt	(245,457)	(248,641)
	9,504,543	1,751,359
<b>Net cash provided by financing activities</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	9,993,363	(8,856,270)
Cash and cash equivalents at beginning of year	13,328,338	22,184,608
Cash and cash equivalents at end of year	\$ 23,321,701	\$ 13,328,338

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Organization**

The accompanying consolidated financial statements include the accounts of University Health Care, Inc. ("UHC"), Unity Health Plans Insurance Corporation ("Unity"), Health Professionals of Wisconsin, Inc. ("HPW") and e-Care of Wisconsin, LLC ("ECARE") (collectively, the "Company").

UHC is a non-stock, not-for-profit corporation organized under Chapter 181 of the Wisconsin Statutes to promote medical education, research and public service by the University of Wisconsin School of Medicine and Public Health ("UWSMPH") and its faculty, the University of Wisconsin Medical Foundation ("UWMF") and the University of Wisconsin Hospital and Clinics Authority ("UWHC").

Unity is a for-profit stock corporation which offers a variety of health maintenance organization, preferred provider organization and point-of-service medical products to employer groups and individuals in the state of Wisconsin. Unity is a wholly-owned subsidiary of UHC.

HPW is a for-profit stock corporation which owns real property leased to UWMF and UWHC. HPW is a wholly-owned subsidiary of UHC.

ECARE is a single member limited liability company which monitors intensive care beds of customer hospitals. UHC is the sole member.

A summary of the Company's significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

**2. Principles of Consolidation**

UHC consolidates the accounts and transactions of its wholly-owned subsidiaries, Unity, HPW and ECARE. All significant intercompany balances and transactions have been eliminated in consolidation.

**3. Use of Estimates**

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**3. Use of Estimates - continued**

Claims payable consists of unpaid claims reported to the Company and a liability for health care claims incurred before December 31 which have not yet been reported to the Company by that date. Estimated claims payable are based on historical trends and current cost projections, which are reviewed by an independent actuary as of the date of the consolidated financial statements. Management believes that the estimate is a reasonable approximation of the incurred but not reported medical claims. However, it is reasonably possible that the claims presented for payment may not follow past trends and, therefore, may be more or less than the \$34,066,000 and \$27,223,000 recorded on the consolidated financial statements as of December 31, 2012 and 2011, respectively.

**4. Cash and Cash Equivalents**

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value due to the short maturities of these investments.

**5. Depreciation and Amortization**

Depreciation and amortization of property and equipment are computed by both straight-line and accelerated methods over the estimated useful lives as follows:

Buildings and improvements	7 to 39 years
Leasehold improvements	5 to 10 years
Furniture and equipment	3 to 10 years

Projects in process are not depreciated until placed into service.

**6. Goodwill**

Management evaluates goodwill for impairment on an annual basis or at an interim period if events occur or circumstances change that would more likely than not reduce the fair value below the carrying amount. When evaluating whether goodwill is impaired, the Company utilizes a discounted cash flow model to determine the fair value of the goodwill and compares the fair value to the carrying amount. The Company determined there was no impairment in 2012 or 2011.

**7. Revenue Recognition**

Premiums are recognized in the period for which services are covered. The Company records premium amounts billed in advance of a coverage period in unearned revenue.

Programs and other support is recognized when due from UWSMPH, UWMF, and UWHC.

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Health Care and Capitation Costs

Health care and capitation costs consist of amounts paid or due to hospital and physician providers. Health care and capitation costs are reported net of recoveries of \$3,046,000 and \$2,364,000 for the years ended December 31, 2012 and 2011, respectively. Recoveries consist mainly of drug company volume discounts, subrogation and reinsurance. Changes in estimates of claims costs resulting from the continuous review process and differences between estimates and payments for claims are recognized in the period in which the estimates are changed or payments are made.

9. Income Taxes

Unity and HPW use the liability method in accounting for income taxes. Deferred income taxes are established for temporary differences in the reporting of marketable securities, allowance for doubtful accounts, depreciation and amortization, accrued compensation, claims payable and unearned premium for financial statement and income tax purposes.

Deferred tax balances are adjusted to reflect tax rates, based on currently enacted tax laws, that will be in effect in the years in which the temporary differences are expected to reverse.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company has applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open. There are no material unrecognized tax benefits taken or expected to be taken in a tax return that have been recorded on the Company's financial statements for the years ended December 31, 2012 and 2011 as it was determined that all tax positions taken meet the more likely than not threshold.

Unity and HPW file corporate income tax returns in the United States federal jurisdiction and in the State of Wisconsin. Tax years open to examination by tax authorities under federal and state statute of limitations for these entities include calendar years 2009 through 2012 and 2008 through 2012, respectively. UHC is exempt from income tax, though it is subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded by the Internal Revenue Code. UHC files a federal informational return each year and tax years open to examination by tax authorities under federal statute of limitations include calendar years 2009 through 2012. Beginning in 2011, UHC determined that it was necessary to file a federal and state income tax return due to unrelated business income. Calendar years 2011 and 2012 are open to examination under federal and state statute of limitations. All years prior to 2011 will remain open to examination for both federal and state purposes for UHC as the statute of limitations does not run for returns not filed. ECARE is a wholly-owned disregarded entity of UHC. As such, ECARE does not have a federal or a state income tax filing requirement.



UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**9. Income Taxes - continued**

The Company recognizes, if necessary, interest and penalties related to unrecognized tax benefits in the provision for income taxes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended December 31, 2012 and 2011.

**10. Concentrations**

The Company has cash and cash equivalents deposited in financial institutions in which the balances exceed the federal government agency ("FDIC") insured limit. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Revenue from the State of Wisconsin accounts for 44% and 46% of total premium revenues for the years ended December 31, 2012 and 2011, respectively.

**11. Advertising Costs**

The Company expenses advertising costs as they are incurred. Advertising expenses were \$1,773,000 and \$1,153,000 for the years ended December 31, 2012 and 2011, respectively.

**12. Collaborative Arrangements**

The Company evaluates whether an arrangement is a collaborative arrangement at its inception based on the facts and circumstances specific to the arrangement. For those collaborative arrangements where it is determined that the Company is not the principal participant, costs incurred and revenue generated from third parties are recorded on a net basis in the consolidated statement of activities. See note L.

**13. New Accounting Pronouncements**

In July 2011, the FASB issued ASU 2011-06, *Fees Paid to the Federal Government by Health Insurers - a consensus of the FASB Emerging Issues Task Force*, to address the accounting for the annual fee to be levied on health insurers starting in 2014 by The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act. This guidance is effective for calendar years beginning after December 31, 2013. The Company is in the process of evaluating the impact the guidance will have on the financial statements.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE B - DISCLOSURES ABOUT THE FAIR VALUES OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to estimate the fair value of each classification of financial instruments for which it was practicable to do so:

Cash and cash equivalents - The carrying amount for cash and cash equivalents is cost which approximates fair value due to the short maturities of these instruments.

Receivables and current liabilities - Receivables are reflected at net realizable value based on anticipated losses due to potentially uncollectible balances, which approximates fair value. Accounts payable and accrued liabilities are reflected at cost, which approximates fair value because of the short-term duration of these instruments.

Debt - The carrying amount of long-term debt approximates estimated fair value based on borrowing rates currently available to the Company for bank loans with similar terms and maturities.

**NOTE C - ACCOUNTS RECEIVABLE**

Accounts receivable are due upon receipt of invoice. Receivables are stated net of any allowance for doubtful accounts. The Company determines its allowance for doubtful accounts by considering the number of days past due, collection history, and the general economy and industry as a whole. The Company writes-off accounts receivable when they become uncollectible and payments subsequently received are credited to the allowance for doubtful accounts.

The following is a summary of the accounts receivable balance as of December 31:

	2012	2011
Premiums receivable	\$ 40,836,848	\$ 31,997,926
Health care receivables	3,489,636	1,382,221
Investment income receivables	510,107	497,645
Income tax receivables	601,979	400,734
Other	2,170,291	2,107,945
	<u>47,608,861</u>	<u>36,386,471</u>
Less allowance for doubtful accounts	534,000	75,000
	<u>\$ 47,074,861</u>	<u>\$ 36,311,471</u>

**NOTE D - MARKETABLE SECURITIES**

The Company classifies its marketable securities as available-for-sale and these securities are reported at fair value. Quoted market prices and model-based pricing are used to determine the fair value of marketable securities.

Unrealized and realized gains and losses are credited or charged to operations. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, using the effective interest method.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE D - MARKETABLE SECURITIES - Continued**

Investment securities are exposed to various risks including, but not limited to, interest rate, market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

A schedule of marketable securities held for investment at amortized cost, together with market value and the respective gross unrealized gains and losses, is as follows as of December 31:

	2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
U.S. Treasury securities	\$ 19,051,044	\$ 824,260	\$ -	\$ 19,875,304
U.S. government agency obligations	5,599,377	86,081	-	5,685,458
Mortgage-backed securities				
U.S. government issued	4,351,185	125,620	1,383	4,475,422
Non U.S. government issued	2,765,698	178,051	12,561	2,931,188
Other debt securities				
Domestic	15,415,052	1,510,463	905	16,924,610
Foreign	7,973,640	714,201	-	8,687,841
Mutual funds	8,379,261	6,593	-	8,385,854
	<u>\$ 63,535,257</u>	<u>\$ 3,445,269</u>	<u>\$ 14,849</u>	<u>\$ 66,965,677</u>
	2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
U.S. Treasury securities	\$ 18,318,819	\$ 1,105,796	\$ -	\$ 19,424,615
U.S. government agency obligations	9,045,699	251,810	-	9,297,509
Mortgage-backed securities				
U.S. government issued	1,357,496	44,622	-	1,402,118
Non U.S. government issued	2,462,050	169,538	-	2,631,588
Other debt securities				
Domestic	14,970,205	1,039,599	84,695	15,925,109
Foreign	6,235,475	359,318	81,316	6,513,477
Mutual funds	7,223,895	215,213	73,637	7,365,471
	<u>\$ 59,613,639</u>	<u>\$ 3,185,896</u>	<u>\$ 239,648</u>	<u>\$ 62,559,887</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2012 and 2011

**NOTE D - MARKETABLE SECURITIES - Continued**

The Company includes all mutual funds and debt securities with a contractual maturity date in one year or less within current assets on the consolidated statements of financial position.

The amortized cost and estimated market value of debt securities, by contractual maturities, are as follows as of December 31, 2012:

	<u>Amortized cost</u>	<u>Estimated market value</u>
In one year or less	\$ 3,729,177	\$ 3,863,257
After one year through five years	25,742,601	27,186,179
After five years through ten years	22,903,311	24,597,168
After ten years through twenty years	17,340	26,541
After twenty years	<u>2,763,567</u>	<u>2,906,678</u>
	<u>\$ 55,155,996</u>	<u>\$ 58,579,823</u>

The proceeds, gross realized gains and losses from the sale of marketable securities and impairment of marketable securities for the years ended December 31 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Proceeds	<u>\$ 23,864,882</u>	<u>\$ 19,797,108</u>
Gross realized gains	\$ 906,561	\$ 992,901
Gross realized losses	<u>(10,040)</u>	<u>(20,283)</u>
Net realized gain	<u>\$ 896,521</u>	<u>\$ 972,618</u>
Impairment of marketable securities	<u>\$ (40,630)</u>	<u>\$ (49,583)</u>

Investment income consists of the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Interest	\$ 1,992,409	\$ 2,096,087
Net realized gain	896,521	972,618
Share in loss of investees, net	(270,021)	(107,421)
Investment manager fees	(88,246)	(89,648)
Impairment loss	<u>(40,630)</u>	<u>(49,583)</u>
	<u>\$ 2,490,033</u>	<u>\$ 2,822,053</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE D - MARKETABLE SECURITIES - Continued**

The following tables summarize the investments in debt securities in an unrealized loss position at December 31, 2012 and 2011 by indicating the length of time these individual securities have been in a continuous unrealized loss position.

		2012					
		Less than 12 months		12 months or longer		Total	
		Market value	Unrealized losses	Market value	Unrealized losses	Market value	Unrealized losses
Other debt securities							
Domestic	\$	669,200	\$ 905	-	-	\$ 669,200	\$ 905
Mortgage-backed securities		1,258,327	13,944	-	-	1,258,327	13,944
	\$	<u>1,927,527</u>	<u>\$ 14,849</u>	<u>-</u>	<u>-</u>	<u>\$ 1,927,527</u>	<u>\$ 14,849</u>
		2011					
		Less than 12 months		12 months or longer		Total	
		Market value	Unrealized losses	Market value	Unrealized losses	Market value	Unrealized losses
Other debt securities							
Domestic	\$	2,405,874	\$ 84,695	-	-	\$ 2,405,874	\$ 84,695
Foreign		1,466,233	46,230	438,872	35,086	1,905,105	81,316
	\$	<u>3,872,107</u>	<u>\$ 130,925</u>	<u>438,872</u>	<u>\$ 35,086</u>	<u>\$ 4,310,979</u>	<u>\$ 166,011</u>

The total unrealized losses represent less than 1% of the aggregate fair value of the portfolio as of December 31, 2012. The total unrealized losses are comprised of 6 individual securities. The security with the largest percentage loss represents less than 1% of the total holdings of the portfolio. The security with the largest dollar loss, as compared to book value, represents less than 1% of the total holdings in the portfolio. Of the securities in a loss position, all have been in a loss position for less than 12 months.

The Company reviews its investment portfolio to ensure that investments that may be other than temporarily impaired are identified and that any impairment is charged against earnings in the proper period. Holdings have been reviewed and the Company has concluded that there were other-than-temporary impairments totaling approximately \$41,000 and \$50,000 as of December 31, 2012 and 2011, respectively. Issuers have continued to satisfy all contractual obligations and are expected to continue to do so. The Company believes that all other securities in an unrealized loss position are not impaired and the Company intends to hold such securities until recovery.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2012 and 2011

**NOTE E - LINE OF CREDIT**

The Company has an unsecured line of credit of \$5,000,000 from US Bank which expires on September 30, 2013. Interest on any borrowings under this line of credit is at the one-month LIBOR rate plus 2.00% (effective rate of 2.21% at December 31, 2012). As of December 31, 2012 and 2011, there were no borrowings outstanding under this line of credit.

**NOTE F - LONG-TERM DEBT**

Long-term debt consists of the following at December 31:

	2012	2011
Notes payable to BMO Harris Bank, interest rate of 6.27%, collateralized by assets of HPW, payable in monthly installments of \$17,888, including interest, remaining balance due in May 2013 (1)	\$ 409,191	\$ 591,409
Finance agreement with IBM for purchased software totaling \$803,000, interest imputed at a rate of 3%, payable in monthly installments of \$22,307, due in October 2015	739,761	-
	1,148,952	591,409
Less current maturities	672,030	182,233
	\$ 476,922	\$ 409,176

(1) Subsequent to year end, this note payable was refinanced with BMO Harris Bank. The new note payable bears an interest rate of 3.45% and is payable in monthly installments of \$6,232 with the last payment due in May 2018.

Interest expense totaled \$32,440 and \$45,663 for the years ended December 31, 2012 and 2011, respectively.

Following is a schedule of future maturities of long-term debt as of December 31, 2012:

Years ending December 31,		
2013	\$	672,030
2014		256,889
2015		220,033
	\$	1,148,952

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2012 and 2011

**NOTE G - CLAIMS PAYABLE**

The activity relating to claims payable is as follows:

	2012	2011
Balance at January 1,	\$ 27,223,434	\$ 26,051,904
Claims incurred related to		
Current year	262,195,028	210,294,490
Prior year	(1,463,599)	(3,782,294)
Total claims incurred	260,731,429	206,512,196
Claims paid related to		
Current year	(230,319,984)	(184,734,929)
Prior year	(23,569,075)	(20,605,737)
Total medical claims paid	(253,889,059)	(205,340,666)
Balance at December 31,	\$ 34,065,804	\$ 27,223,434

Included in the claims payable liability at December 31, 2012 and 2011 is a \$165,000 and \$1,532,000 premium deficiency reserve related to expected losses for 2013 and 2012, respectively. The liability for reported and estimated claims at January 1, 2012 and 2011 developed favorably in 2012 and 2011 due primarily to lower than anticipated claims.

**NOTE H - EMPLOYEE BENEFIT PLANS**

All Unity employees are eligible to participate in a Unity-sponsored 401(k) plan. Employees are eligible to participate as of the first of the month following 60 days of employment. Under this plan, employees may contribute a percentage of their compensation on a pre-tax basis. Employee contributions of up to 6% are matched by a 100% employer contribution. In addition, at the discretion of the Unity Board of Directors, plan participants may receive an additional contribution of up to 4% of eligible compensation. In 2012 and 2011, no discretionary contribution was made. For the years ended December 31, 2012 and 2011, \$551,000 and \$503,000, respectively, was contributed to the 401(k) plan related to the employer matching contributions.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE I - COMMITMENTS AND CONTINGENCIES**

**1. Leases**

The Company leases office space and equipment under non-cancellable operating lease arrangements expiring on various dates through 2017. Total minimum lease payments under these lease obligations at December 31, 2012 are as follows:

<u>Years ending December 31,</u>	
2013	\$ 250,000
2014	229,000
2015	201,000
2016	76,000
2017	3,000
	<u>\$ 759,000</u>

The Company also has various leases for office space and equipment that are on a month-to-month basis. Total rent expense for operating leases was \$669,000 and \$520,000 for 2012 and 2011, respectively.

HPW leases property to UWMP and UWHC, both related parties, and an additional non-related party entity under various leasing arrangements that expire at various dates through July 2016. The terms of the leases call for monthly payments ranging from \$4,286 to \$19,250 during 2012. Subsequent to 2012, rental payments will be increased by no less than 2% annually. Rental income was \$527,207 and \$513,105 for the years ended December 31, 2012 and 2011, respectively.

**2. System and Service Agreements**

ECARE has purchased software and services to enable remote continuous monitoring of patients for customer hospitals. ECARE has a system and service agreement with an estimated total cost of \$2,788,100 and has incurred costs totaling \$2,540,700 through December 31, 2012. ECARE intends to finance the remainder of this project through cash generated by current operations.

Unity has purchased software and services to migrate the core processing system to a new platform, redesign the data warehouse and improve the web technology which will add full integration with their affiliates. Unity has several service agreements with an estimated total cost of \$10,787,000 and has incurred costs totaling \$9,544,000 through December 31, 2012. Unity intends to finance the remainder of this project through cash generated by current operations and investment returns.



**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE J - FUNCTIONAL EXPENSES**

Expenses that can be specifically identified with a program service are assigned to that function. Other expenses are allocated to the appropriate function based on the use of departmental information within the Company. Following is a summary of expenses for the years ended December 31, reported on a functional basis:

	2012	2011
Program services	\$ 454,678,939	\$ 368,598,497
General and administrative	43,886,285	38,340,046
	\$ 498,565,224	\$ 406,938,543

**NOTE K - INCOME TAXES**

UHC has received a determination letter dated October 23, 1984 from the Internal Revenue Service stating that it is an organization described in Section 510(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes under Section 501(a) of the Code. Accordingly, no provision for federal income taxes has been made in the accompanying consolidated financial statements for UHC.

Unity and HPW are taxable organizations and recorded income tax receivables of \$602,000 and \$401,000 as of December 31, 2012 and 2011, respectively. The current provision for income tax expense (benefit) was approximately (\$2,126,000) and \$920,000 for 2012 and 2011, respectively.

Deferred income tax assets (liabilities) consist of the following at December 31:

	2012	2011
<b>Current</b>		
Allowance for doubtful accounts	\$ 31,425	\$ 31,425
Unearned premiums	847,294	588,542
Discounted unpaid losses	207,835	188,497
Accrued vacation	344,121	393,992
Premium deficiency reserve	69,135	641,799
Unrealized gains on marketable securities	(1,344,051)	(1,086,796)
HIRSP	1,235,711	778,669
Other	171,862	415,193
<b>Non-current</b>		
Depreciation and amortization	(2,034,706)	(759,856)
	(471,374)	1,191,465
<b>Current deferred income tax assets</b>	1,563,332	1,951,321
<b>Long-term deferred income tax liability</b>	\$ (2,034,706)	\$ (759,856)

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2012 and 2011

**NOTE K - INCOME TAXES - Continued**

All current deferred income tax assets at December 31, 2012 and 2011 are deemed to be fully realizable by management.

**NOTE L - RELATED PARTIES**

UHC holds a 33.33% interest in UW Cancer Center Johnson Creek, LLC ("LLC"). This investment is accounted for on the equity method and the carrying amount is \$524,551 and \$569,429 as of December 31, 2012 and 2011, respectively. UHC recognized a loss of \$44,878 and a gain of \$213,838 for the years ended December 31, 2012 and 2011, respectively. UHC received a dividend distribution of \$75,000 in 2011. LLC is owned by UHC, Fort Atkinson Memorial Health Services and UW Health Partners Watertown Regional Medical Center, Inc., each having a one-third membership interest. Its purpose is to acquire, hold, own and lease assets to be used by health care providers for their provision of cancer care services.

UHC has guaranteed 33.33% of the outstanding balance on a construction loan which LLC used to construct a medical clinic. The remaining portion of the outstanding balance is guaranteed by the other two members of LLC. The total loan equaled \$4,325,000, of which \$2,987,102 and \$3,159,097 is outstanding as of December 31, 2012 and 2011, respectively. The portion guaranteed by UHC will be reduced upon the occurrence of certain events as defined in the guaranty agreement. As of December 31, 2012 and 2011, there is no accrual for this guarantee as it is not probable UHC will have to make payments under this guarantee.

As of December 31, 2012 and 2011, UHC accounts receivable included amounts due from LLC of \$5,000 and \$4,000, respectively.

Condensed unaudited financial information of LLC follows:

	2012	2011
As of December 31,		
Total assets	\$ 4,730,000	\$ 5,139,000
Total liabilities	3,156,000	3,430,000
Years ended December 31,		
Net income (loss)	(131,000)	642,000

UHC holds a 50% interest in Watertown Network, LLC ("WN"). This investment is accounted for on the equity method and the carrying amount is \$55,680 and \$52,820 as of December 31, 2012 and 2011, respectively. UHC has recognized a gain of \$2,860 and a loss of \$1,900 for the years ended December 31, 2012 and 2011, respectively. WN is owned by UHC and UW Health Partners Watertown Regional Medical Center, Inc., each having a one-half ownership interest.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE L - RELATED PARTIES - Continued**

Condensed unaudited financial information of WN follows:

	2012	2011
As of December 31,		
Total assets	\$ 190,000	\$ 184,000
Total liabilities	78,000	78,000
Years ended December 31,		
Net income (loss)	5,700	(3,800)

UHC entered into a Joint Operating Agreement (“JOA”) with Watertown Regional Medical Center, Inc. (“WRMC”) in 2011. As part of the agreement, UHC holds a 50% interest in the JOA. This investment is accounted for on the equity method and the carrying amount is \$387,350 as of December 31, 2012 and 2011. UHC has recognized and funded losses of \$228,000 and \$319,400 for the years ended December 31, 2012 and 2011, respectively. UHC contributed \$387,350 in capital contributions as part of the JOA in 2011.

During 2012, UHC entered into a membership interest purchase agreement to acquire a 50 percent membership interest in Chartwell Wisconsin Enterprises, LLC. UHC paid \$3,750,000 for this membership interest, which is recorded in investment in affiliates on the consolidated statements of financial position. Subsequent to year-end, UHC’s membership interest was purchased by UWWMF for a purchase price of \$3,750,000.

During 2012, UHC entered into a co-management agreement with Beloit Health System, Inc. (“BHS”) to assist with the development of an expanded program to provide cancer and oncology care, including the development of an outpatient cancer center by BHS (“BHS Cancer Center”). For the management services to be provided, UHC will receive a monthly management fee equal to 25 percent of the BHS Cancer Center net revenues, defined as revenues billed and collected less direct expenses incurred in connection with the BHS Cancer Center operations. If the BHS Cancer Center net revenue is less than zero, UHC is responsible to pay BHS 25 percent of net loss. UHC paid a one-time, non-refundable fee of \$680,000 to participate in this agreement. This fee has been capitalized and is included in other assets in the consolidated statements of financial position. The fee will be amortized over five years, the initial term of the agreement. For the year ended December 31, 2012 there was no revenue or expenses recorded in the consolidated statements of activities attributable to this collaborative agreement.

The Company has employee services agreements with UWHC and UWWMF. Under the terms of the agreements, UHC pays UWHC and UWWMF for the use of their respective personnel for services performed as stated in the agreements. The amount paid by UHC is equal to that of the salary and benefits of the personnel multiplied by the percentage of their time devoted to UHC during the applicable period. The amounts paid to UWHC and UWWMF under the terms of these agreements are recorded in staff salaries, wages and benefits in the consolidated statements of activities. During the years ended December 31, 2012 and 2011, \$8,637,208 and \$7,043,396, respectively, was paid to UWHC and UWWMF for these services.

In addition, the Company has managed care contracting service agreements with UWHC and UWWMF. Under the terms of this agreement, UHC incurred capitation costs of \$133,079,964 and \$115,949,587 in 2012 and 2011, respectively.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE L - RELATED PARTIES - Continued**

At December 31, 2012 and 2011, UHC accounts receivable included amounts due from UWMF of \$851,000 and \$598,000, respectively, and from UWHC of \$1,080,000 and \$1,217,000, respectively. Included in accounts payable at December 31, 2012 and 2011 are \$850,000 and \$764,000, respectively, due to UWMF and \$625,000 and \$1,301,000, respectively, due to UWHC.

HPW leases certain properties to UWHC and UWMF. See note I.

**NOTE M - REGULATORY ENVIRONMENT**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include matters such as reimbursement for patient services, Medicare and Medicaid fraud and abuse, accreditation, etc. Government activity concerning possible fraud and abuse issues involving health care insurers and providers has increased, violations of which could possibly result in exclusion penalties, as well as significant repayments for patient services previously billed and received. Management believes that the Company is in material compliance with fraud and abuse regulations, as well as other applicable government laws.

**NOTE N - SUPPLEMENTAL CASH FLOW INFORMATION**

	2012	2011
Supplemental disclosure of cash flow information		
Taxes paid	\$ 648,559	\$ 769,254
Interest paid	32,440	45,663

**Non-cash investing and financing activity**

During 2012, the Company entered into a financing agreement to purchase \$803,000 of hardware and software.

**NOTE O - INSURANCE ACCOUNTING PRACTICES**

Unity, which is domiciled in Wisconsin, also prepares statutory basis financial statements in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI"). The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual, version effective March 1, 2012 ("NAIC SAP"), has been adopted as a component of prescribed or permitted practices by the State of Wisconsin. Such practices differ in certain respects from accounting principles generally accepted in the United States of America, primarily in the non-recording of certain assets and the valuation of debt securities.

The State of Wisconsin requires that insurance companies domiciled in the State of Wisconsin prepare their statutory basis financial statements in accordance with NAIC SAP, subject to any deviations prescribed or permitted by the State of Wisconsin insurance commissioner. Management represents that the Company does not use any prescribed or permitted accounting practices that deviate from NAIC SAP.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE O - INSURANCE ACCOUNTING PRACTICES - Continued**

As of and for the years ended December 31, 2012 and 2011, differences between the financial statements prepared on the statutory basis and those prepared in accordance with accounting principles generally accepted in the United States of America were mainly the result of the non-recording of certain assets, deferred income tax assets, and the method of accounting for debt securities.

Without prior approval of the OCI, dividends to Unity's shareholders are limited by the laws of the State of Wisconsin. For the years ending December 31, 2012 and 2011, there were no dividends paid.

The State of Wisconsin insurance regulations require the companies to maintain a minimum compulsory surplus based upon a percentage of premiums written. As of December 31, 2012, Unity is required to maintain a compulsory surplus reserve or total minimum net worth, determined in accordance with accounting practices prescribed or permitted by the OCI, of at least \$18,942,557. Unity's net assets, determined in accordance with statutory accounting principles, as of December 31, 2012 (excluding the security surplus reserve deposit of \$4,898,070), are \$40,698,755. In addition, Unity is subject to risk-based capital ("RBC") requirements promulgated by the NAIC. The RBC requirements establish minimum levels of capital and surplus based on the insurance operations of the companies. As of December 31, 2012, Unity had capital and surplus which management believes is in compliance with these requirements.

**NOTE P - FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy. There has been no change in the valuation methodology for the years ended December 31, 2012 and 2011.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE P - FAIR VALUE MEASUREMENTS - Continued**

**U.S. Treasury securities, U.S. government agency obligations and other debt securities:** When quoted prices are available in an active market, U.S. Treasury securities, U.S. government agency obligations and other debt securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The fair values of corporate debt securities estimated using pricing models or matrix pricing based on observable prices of corporate debt securities that trade in inactive markets are generally classified within Level 2 of the fair value hierarchy. The significant inputs include coupon rate, maturity, and consideration of the credit ratings of the securities.

**Mortgage-backed securities:** Fair values for Level 2 mortgage-backed securities are estimated using a market approach, including a pricing model with observable inputs. The significant inputs include the applicable interest rate and maturity. Mortgage-backed securities are classified within Level 3 when market activity is significantly limited or when there is less transparency around inputs to the valuation.

**Mutual funds:** Quoted market prices in active markets are used to determine the fair value of mutual funds and are classified within level 1 of the fair value hierarchy.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of December 31:

	2012			Total
	Level 1	Level 2	Level 3	
U.S. Treasury securities	\$ -	\$ 19,875,304	\$ -	\$ 19,875,304
U.S. government agency obligations	-	5,685,458	-	5,685,458
Mortgage-backed securities				
U.S. government issued	-	4,475,422	-	4,475,422
Non U.S. government issued	-	2,931,188	-	2,931,188
Other debt securities				
Domestic	-	16,924,199	411	16,924,610
Foreign	-	8,687,841	-	8,687,841
Mutual funds	8,385,854	-	-	8,385,854
<b>Total</b>	<b>\$ 8,385,854</b>	<b>\$ 58,579,412</b>	<b>\$ 411</b>	<b>\$ 66,965,677</b>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2012 and 2011

**NOTE P - FAIR VALUE MEASUREMENTS - Continued**

	2011			Total
	Level 1	Level 2	Level 3	
U.S. Treasury securities	\$ -	\$ 19,424,615	\$ -	\$ 19,424,615
U.S. government agency obligations	-	9,297,509	-	9,297,509
Mortgage-backed securities				
U.S. government issued	-	1,402,118	-	1,402,118
Non U.S. government issued	-	2,631,588	-	2,631,588
Other debt securities				
Domestic	-	15,924,698	411	15,925,109
Foreign	-	6,513,477	-	6,513,477
Mutual funds	7,365,471	-	-	7,365,471
<b>Total</b>	<b>\$ 7,365,471</b>	<b>\$ 55,194,005</b>	<b>\$ 411</b>	<b>\$ 62,559,887</b>

The following table presents additional information about assets measured at fair value on a recurring basis that have been measured using significant unobservable inputs (Level 3) as of December 31:

	2012	2011
Beginning balance	\$ 411	\$ 411
Net transfers in and/or out of Level 3	-	-
Ending balance	\$ 411	\$ 411

The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers in and out of Level 3 for the years ending December 31, 2012 or 2011.

**NOTE Q - REINSURANCE**

Unity has a reinsurance contract that protects against catastrophic in-patient claims. The deductible as of December 31, 2012 is \$500,000. Unity paid reinsurance premiums of approximately \$961,000 and \$536,000 for the years ended December 31, 2012 and 2011, respectively. Recoveries from this contract for the year ended December 31, 2012 totaled \$292,000. There were no recoveries from this contract for the year ended December 31, 2011. Reinsurance premiums and recoveries are included in health care and capitation costs on the consolidated statements of activities.

Reinsurance contracts do not relieve Unity from its obligations to subscribers. Unity remains liable to its subscribers for the portion reinsured to the extent that the reinsurance company does not meet the obligations assumed under the reinsurance contract.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2012 and 2011

**NOTE R - SUBSEQUENT EVENTS**

The Company evaluated its December 31, 2012 consolidated financial statements for subsequent events through July 9, 2013, the date that the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.



**SUPPLEMENTARY INFORMATION**

**This page intentionally left blank**

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
December 31, 2012

ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 175,984	\$ 22,614,964	\$ 362,979	\$ 167,774	\$ -	\$ 23,321,701
Marketable securities	-	12,249,111	-	-	-	12,249,111
Accounts receivable, net	2,794,818	44,903,179	245,363	206,337	(1,074,836)	47,074,861
Prepaid expenses	162,017	434,833	4,595	21,788	-	623,233
Deferred income taxes	-	1,563,332	-	-	-	1,563,332
<b>Total current assets</b>	<b>3,132,819</b>	<b>81,765,419</b>	<b>612,937</b>	<b>395,899</b>	<b>(1,074,836)</b>	<b>84,832,238</b>
<b>MARKETABLE SECURITIES</b>	-	54,716,566	-	-	-	54,716,566
<b>PROPERTY AND EQUIPMENT - AT COST</b>						
Buildings and improvements	-	3,707,009	3,750,671	-	-	7,457,680
Leasehold improvements	1,339	-	-	107,513	-	108,852
Furniture and equipment	5,536,547	14,127,390	69,632	2,536,163	-	22,269,732
	5,537,886	17,834,399	3,820,303	2,643,676	-	29,836,264
Less accumulated depreciation and amortization	1,543,784	9,777,913	2,036,356	1,062,989	-	14,421,042
	3,994,102	8,056,486	1,783,947	1,580,687	-	15,415,222
Projects in process	544,814	97,421	-	214,200	-	856,435
Land	-	-	926,643	-	-	926,643
	4,538,916	8,153,907	2,710,590	1,794,887	-	17,198,300
<b>OTHER ASSETS</b>						
Investment in affiliates	61,667,064	-	-	-	(56,949,483)	4,717,581
Goodwill, less accumulated amortization of \$2,011,352	2,689,087	-	-	-	-	2,689,087
Other	680,000	42,993	-	-	-	722,993
	65,036,151	42,993	-	-	(56,949,483)	8,129,661
	<b>\$ 72,707,886</b>	<b>\$ 144,678,885</b>	<b>\$ 3,323,527</b>	<b>\$ 2,190,786</b>	<b>\$ (58,024,319)</b>	<b>\$ 164,876,765</b>

<b>LIABILITIES AND NET ASSETS</b>	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT LIABILITIES</b>						
Current maturities of long-term debt	\$ 262,839	\$ -	\$ 409,191	\$ -	\$ -	\$ 672,030
Accounts payable	3,360,191	6,415,687	101,386	175,956	(1,074,836)	8,978,384
Claims payable	-	34,065,804	-	-	-	34,065,804
Unearned revenue	-	47,686,220	-	347,988	-	48,034,208
Accrued liabilities	64,366	2,005,499	-	1,278	-	2,071,143
<b>Total current liabilities</b>	<b>3,687,396</b>	<b>90,173,210</b>	<b>510,577</b>	<b>525,222</b>	<b>(1,074,836)</b>	<b>93,821,569</b>
<b>LONG-TERM DEBT, less current maturities</b>	<b>476,922</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>476,922</b>
<b>DEFERRED INCOME TAX LIABILITY</b>	<b>-</b>	<b>2,034,706</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,034,706</b>
<b>COMMON STOCK</b>	<b>-</b>	<b>1,000</b>	<b>669,715</b>	<b>-</b>	<b>(670,715)</b>	<b>-</b>
<b>UNRESTRICTED NET ASSETS</b>	<b>68,543,568</b>	<b>52,469,969</b>	<b>2,143,235</b>	<b>1,665,564</b>	<b>(56,278,768)</b>	<b>68,543,568</b>
	<b>\$ 72,707,886</b>	<b>\$ 144,678,885</b>	<b>\$ 3,323,527</b>	<b>\$ 2,190,786</b>	<b>\$ (58,024,319)</b>	<b>\$ 164,876,765</b>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
December 31, 2011

ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 605,864	\$ 12,154,096	\$ 246,659	\$ 321,719	\$ -	\$ 13,328,338
Marketable securities	-	11,467,040	-	-	-	11,467,040
Accounts receivable, net	2,651,525	34,366,923	287,495	106,148	(1,100,620)	36,311,471
Prepaid expenses	112,645	634,369	3,529	6,494	-	757,037
Deferred income taxes	-	1,951,321	-	-	-	1,951,321
<b>Total current assets</b>	<b>3,370,034</b>	<b>60,573,749</b>	<b>537,683</b>	<b>434,361</b>	<b>(1,100,620)</b>	<b>63,815,207</b>
<b>MARKETABLE SECURITIES</b>	-	51,092,847	-	-	-	51,092,847
<b>PROPERTY AND EQUIPMENT - AT COST</b>						
Buildings and improvements	-	3,695,549	3,750,671	-	-	7,446,220
Leasehold improvements	20,224	-	-	107,513	-	127,737
Furniture and equipment	3,019,866	12,996,676	69,632	2,249,164	-	18,335,338
	3,040,090	16,692,225	3,820,303	2,356,677	-	25,909,295
Less accumulated depreciation and amortization	1,026,913	6,606,099	1,936,373	787,614	-	10,356,999
	2,013,177	10,086,126	1,883,930	1,569,063	-	15,552,296
Projects in process	769,491	54,416	-	516,100	-	1,340,007
Land	-	-	926,643	-	-	926,643
	2,782,668	10,140,542	2,810,573	2,085,163	-	17,818,946
<b>OTHER ASSETS</b>						
Investment in affiliates	53,400,221	-	-	-	(52,390,622)	1,009,599
Goodwill, less accumulated amortization of \$2,011,352	2,689,087	-	-	-	-	2,689,087
Other	-	17,206	-	-	-	17,206
	56,089,308	17,206	-	-	(52,390,622)	3,715,892
	<b>\$ 62,242,010</b>	<b>\$ 121,824,344</b>	<b>\$ 3,348,256</b>	<b>\$ 2,519,524</b>	<b>\$ (53,491,242)</b>	<b>\$ 136,442,892</b>

<b>LIABILITIES AND NET ASSETS</b>	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT LIABILITIES</b>						
Current maturities of long-term debt	\$ -	\$ -	\$ 182,233	\$ -	\$ -	\$ 182,233
Accounts payable	3,104,058	5,007,444	97,860	504,304	(1,100,620)	7,613,046
Claims payable	-	27,223,434	-	-	-	27,223,434
Unearned revenue	-	38,122,256	-	245,679	-	38,367,935
Accrued liabilities	53,992	2,510,720	-	238,540	-	2,803,252
<b>Total current liabilities</b>	<b>3,158,050</b>	<b>72,863,854</b>	<b>280,093</b>	<b>988,523</b>	<b>(1,100,620)</b>	<b>76,189,900</b>
<b>LONG-TERM DEBT, less current maturities</b>	-	-	409,176	-	-	409,176
<b>DEFERRED INCOME TAX LIABILITY</b>	-	759,856	-	-	-	759,856
<b>COMMON STOCK</b>	-	1,000	669,715	-	(670,715)	-
<b>UNRESTRICTED NET ASSETS</b>	<u>59,083,960</u>	<u>48,199,634</u>	<u>1,989,272</u>	<u>1,531,001</u>	<u>(51,719,907)</u>	<u>59,083,960</u>
	<u>\$ 62,242,010</u>	<u>\$ 121,824,344</u>	<u>\$ 3,348,256</u>	<u>\$ 2,519,524</u>	<u>\$ (53,491,242)</u>	<u>\$ 136,442,892</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
Year ended December 31, 2012

	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>Revenues</b>						
Insurance premiums and capitation fees	\$ 133,079,964	\$ 477,778,143	\$ -	\$ -	\$ (133,079,964)	\$ 477,778,143
Programs and other support						
University of Wisconsin Hospital and Clinics Authority	7,511,469	-	-	-	-	7,511,469
University of Wisconsin Medical Foundation	3,728,980	-	-	-	-	3,728,980
University of Wisconsin School of Medicine and Public Health	1,050,000	-	-	-	-	1,050,000
	12,290,449	-	-	-	-	12,290,449
Investment income	(1,710,570)	2,759,464	2,154	-	1,438,985	2,490,033
Other income	767,792	152,063	527,207	3,832,419	(474,627)	4,804,854
<b>Total revenues</b>	<b>144,427,635</b>	<b>480,689,670</b>	<b>529,361</b>	<b>3,832,419</b>	<b>(132,115,606)</b>	<b>497,363,479</b>
<b>Operating expenses</b>						
Health care and capitation costs	133,079,964	442,506,586	-	-	(133,079,964)	442,506,586
Staff salaries, wages and benefits	4,564,097	15,327,558	-	3,774,790	-	23,666,445
Purchased services and office expenses	5,342,960	15,929,058	62,908	251,496	(155,285)	21,431,137
Occupancy and equipment expense	1,615,657	5,302,584	201,880	671,570	(319,342)	7,472,349
Advertising and promotion	109,513	3,379,194	-	-	-	3,488,707
	144,712,191	482,444,980	264,788	4,697,856	(133,554,591)	498,565,224
<b>Operating income (loss)</b>	<b>(284,556)</b>	<b>(1,755,310)</b>	<b>264,573</b>	<b>(865,437)</b>	<b>1,438,985</b>	<b>(1,201,745)</b>
<b>Other expense</b>						
Interest expense	5,836	-	32,440	-	(2,154)	36,122
<b>Increase (decrease) in net assets before change in unrealized gains on investments and income tax expense (benefit)</b>	<b>(290,392)</b>	<b>(1,755,310)</b>	<b>232,133</b>	<b>(865,437)</b>	<b>1,441,139</b>	<b>(1,237,867)</b>
<b>Income tax expense (benefit)</b>						
Current	-	(2,204,311)	78,170	-	-	(2,126,141)
Deferred	-	1,405,583	-	-	-	1,405,583
	-	(798,728)	78,170	-	-	(720,558)
<b>Increase (decrease) in net assets before change in unrealized gains on investments</b>	<b>(290,392)</b>	<b>(956,582)</b>	<b>153,963</b>	<b>(865,437)</b>	<b>1,441,139</b>	<b>(517,309)</b>
Change in unrealized gains on investments, net	-	226,917	-	-	-	226,917
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(290,392)</b>	<b>(729,665)</b>	<b>153,963</b>	<b>(865,437)</b>	<b>1,441,139</b>	<b>(290,392)</b>
Contributions (distributions) - net	9,750,000	5,000,000	-	1,000,000	(6,000,000)	9,750,000
Net assets at beginning of year	59,083,960	48,199,634	1,989,272	1,531,001	(51,719,907)	59,083,960
Net assets at end of year	<b>\$ 68,543,568</b>	<b>\$ 52,469,969</b>	<b>\$ 2,143,235</b>	<b>\$ 1,665,564</b>	<b>\$ (56,278,768)</b>	<b>\$ 68,543,568</b>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
Year ended December 31, 2011

	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>Revenues</b>						
Insurance premiums and capitation fees	\$ 115,949,587	\$ 391,771,296	\$ -	\$ -	\$ (115,949,587)	\$ 391,771,296
Programs and other support						
University of Wisconsin Hospital and Clinics Authority	6,512,326	-	-	-	-	6,512,326
University of Wisconsin Medical Foundation	3,223,797	-	-	-	-	3,223,797
	9,736,123	-	-	-	-	9,736,123
Investment income	230,588	2,927,181	6,338	-	(342,054)	2,822,053
Other income	630,536	163,766	513,105	3,413,914	(293,546)	4,427,775
<b>Total revenues</b>	<b>126,546,834</b>	<b>394,862,243</b>	<b>519,443</b>	<b>3,413,914</b>	<b>(116,585,187)</b>	<b>408,757,247</b>
<b>Operating expenses</b>						
Health care and capitation costs	115,949,587	357,123,430	-	-	(115,949,587)	357,123,430
Staff salaries, wages and benefits	3,627,065	14,958,105	-	3,496,897	-	22,082,067
Purchased services and office expenses	4,860,392	14,381,598	57,147	283,140	(147,654)	19,434,623
Occupancy and equipment expense	1,174,836	3,775,506	200,545	641,381	(145,892)	5,646,376
Advertising and promotion	115,869	2,536,178	-	-	-	2,652,047
Goodwill amortization expense	-	-	-	-	-	-
	125,727,749	392,774,817	257,692	4,421,418	(116,243,133)	406,938,543
<b>Operating income (loss)</b>	<b>819,085</b>	<b>2,087,426</b>	<b>261,751</b>	<b>(1,007,504)</b>	<b>(342,054)</b>	<b>1,818,704</b>
<b>Other expense</b>						
Interest expense	6,338	-	45,663	-	(6,338)	45,663
<b>Increase (decrease) in net assets before change in unrealized gains on investments and income tax expense</b>	<b>812,747</b>	<b>2,087,426</b>	<b>216,088</b>	<b>(1,007,504)</b>	<b>(335,716)</b>	<b>1,773,041</b>
<b>Income tax expense</b>						
Current	-	835,760	84,737	-	-	920,497
Deferred	-	287,819	-	-	-	287,819
	-	1,123,579	84,737	-	-	1,208,316
<b>Increase (decrease) in net assets before change in unrealized gains on investments</b>	<b>812,747</b>	<b>963,847</b>	<b>131,351</b>	<b>(1,007,504)</b>	<b>(335,716)</b>	<b>564,725</b>
Change in unrealized gains on investments, net	-	248,022	-	-	-	248,022
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>812,747</b>	<b>1,211,869</b>	<b>131,351</b>	<b>(1,007,504)</b>	<b>(335,716)</b>	<b>812,747</b>
Contributions (distributions) - net	2,000,000	-	-	1,000,000	(1,000,000)	2,000,000
Net assets at beginning of year	56,271,213	46,987,765	1,857,921	1,538,505	(50,384,191)	56,271,213
Net assets at end of year	\$ 59,083,960	\$ 48,199,634	\$ 1,989,272	\$ 1,531,001	\$ (51,719,907)	\$ 59,083,960





Grant Thornton

Consolidated Financial Statements and Report of  
Independent Certified Public Accountants and  
Supplementary Information

**University Health Care, Inc. and Subsidiaries**

December 31, 2011 and 2010



# Contents

	<b>Page</b>
Report of Independent Certified Public Accountants	3
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9
Supplementary Information	
Consolidating Statement of Financial Position - December 31, 2011	29
Consolidating Statement of Financial Position - December 31, 2010	31
Consolidating Statement of Activities - Year Ended December 31, 2011	33
Consolidating Statement of Activities - Year Ended December 31, 2010	34



## **Report of Independent Certified Public Accountants**

Board of Directors and Stockholders  
University Health Care, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of financial position of University Health Care, Inc. (a Wisconsin not-for-profit corporation) and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University Health Care, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of their activities and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 29-34 is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Grant Thornton LLP*

GRANT THORNTON LLP  
Milwaukee, Wisconsin  
April 17, 2012

**This page intentionally left blank**

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
December 31,

ASSETS	2011	2010
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 13,328,338	\$ 22,184,608
Marketable securities	11,467,040	10,197,654
Accounts receivable, net	36,311,471	32,871,868
Prepaid expenses	757,037	824,047
Deferred income taxes	1,951,321	1,845,505
<b>Total current assets</b>	63,815,207	67,923,682
<b>MARKETABLE SECURITIES</b>	51,092,847	50,010,532
<b>PROPERTY AND EQUIPMENT - AT COST</b>		
Buildings and improvements	7,446,220	7,427,296
Leasehold improvements	127,737	127,737
Furniture and equipment	18,335,338	11,584,920
	25,909,295	19,139,953
Less accumulated depreciation and amortization	10,356,999	9,318,443
	15,552,296	9,821,510
Projects in process	1,340,007	2,166,955
Land	926,643	926,643
	17,818,946	12,915,108
<b>OTHER ASSETS</b>		
Investment in affiliates	1,009,599	485,294
Goodwill, less accumulated amortization of \$2,011,352 in 2011 and 2010	2,689,087	2,689,087
Other	17,206	-
	3,715,892	3,174,381
	\$ 136,442,892	\$ 134,023,703

The accompanying notes are an integral part of these statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2011</u>	<u>2010</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 182,233	\$ 248,655
Accounts payable	7,613,046	10,437,878
Claims payable	27,223,434	26,051,904
Unearned revenue	38,367,935	37,892,719
Accrued liabilities	<u>2,803,252</u>	<u>2,263,508</u>
<b>Total current liabilities</b>	76,189,900	76,894,664
<b>LONG-TERM DEBT, less current maturities</b>	409,176	591,395
<b>DEFERRED INCOME TAX LIABILITY</b>	759,856	266,431
<b>UNRESTRICTED NET ASSETS</b>	<u>59,083,960</u>	<u>56,271,213</u>
	<u>\$ 136,442,892</u>	<u>\$ 134,023,703</u>



**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

Years ended December 31,

	2011	2010
<b>Revenues</b>		
Insurance premiums	\$ 391,771,296	\$ 368,016,642
Programs and other support		
University of Wisconsin Hospital and Clinics Authority	6,512,326	4,753,600
University of Wisconsin Medical Foundation	3,223,797	3,349,407
	9,736,123	8,103,007
Investment income	2,822,053	3,125,181
Other income	4,427,775	3,145,369
	408,757,247	382,390,199
<b>Operating expenses</b>		
Health care and capitation costs	357,123,430	331,502,478
Staff salaries, wages and benefits	22,082,067	19,435,609
Purchased services and office expenses	19,434,623	16,628,125
Occupancy and equipment expense	5,646,376	4,286,177
Advertising and promotion	2,652,047	2,786,380
Goodwill amortization expense		313,363
	406,938,543	374,952,132
<b>Operating income</b>	1,818,704	7,438,067
<b>Other expense</b>		
Interest expense	45,663	64,078
	1,773,041	7,373,989
<b>Increase in net assets before change in unrealized gains on investments and income tax expense</b>		
	1,773,041	7,373,989
<b>Income tax expense</b>		
Current	920,497	2,666,213
Deferred	287,819	353,304
	1,208,316	3,019,517
<b>Increase in net assets before change in unrealized gains on investments</b>		
	564,725	4,354,472
Change in unrealized gains on investments, net of deferred taxes of \$99,791 in 2011 and \$260,236 in 2010	248,022	400,411
	812,747	4,754,883
<b>INCREASE IN NET ASSETS</b>		
	812,747	4,754,883
Net contributions (distributions)	2,000,000	(300,000)
Net assets at beginning of year	56,271,213	51,816,330
Net assets at end of year	\$ 59,083,960	\$ 56,271,213

The accompanying notes are an integral part of these statements.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31,

	2011	2010
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 812,747	\$ 4,754,883
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization of property and equipment	2,475,515	1,360,594
Amortization of goodwill	-	313,363
Share in net loss (income) of affiliates	107,421	(99,603)
Gain on sales of investments	(972,618)	(1,056,780)
Change in unrealized gains on investments	(347,813)	(660,647)
Impairment of investments	49,583	133,954
Loss (gain) on sales of property and equipment	1,525	(3,000)
Deferred income taxes	387,609	613,540
Changes in operating assets and liabilities		
Accounts receivable	(3,439,603)	(2,934,999)
Prepaid expenses	67,010	(327,256)
Other assets	(17,206)	-
Accounts payable	(2,824,832)	3,621,779
Claims payable	1,171,530	1,749,714
Unearned revenue	475,216	7,057,536
Accrued liabilities	539,744	(129,883)
	(1,514,172)	14,393,195
<b>Net cash provided by (used in) operating activities</b>		
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(7,395,181)	(4,275,406)
Proceeds from sales of property and equipment	14,303	3,000
Purchases of marketable securities	(20,877,961)	(28,067,103)
Proceeds from sales and maturities of marketable securities	19,797,108	20,017,740
Investment in affiliates	(706,726)	-
Distributions from affiliates	75,000	-
	(9,093,457)	(12,321,769)
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities</b>		
Capital distributions to sponsors	-	(3,000,000)
Capital contributions from sponsors	2,000,000	2,700,000
Payments of long-term debt	(248,641)	(269,995)
	1,751,359	(569,995)
<b>Net cash provided by (used in) financing activities</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(8,856,270)	1,501,431
Cash and cash equivalents at beginning of year	22,184,608	20,683,177
Cash and cash equivalents at end of year	\$ 13,328,338	\$ 22,184,608

The accompanying notes are an integral part of these statements.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Organization**

The accompanying consolidated financial statements include the accounts of University Health Care, Inc. ("UHC"), Unity Health Plans Insurance Corporation ("Unity"), Health Professionals of Wisconsin, Inc. ("HPW") and e-Care of Wisconsin, LLC ("ECARE") (collectively, the "Company").

UHC is a non-stock, not-for-profit corporation organized under Chapter 181 of the Wisconsin Statutes to promote medical education, research and public service by the University of Wisconsin School of Medicine and Public Health and its faculty, the University of Wisconsin Medical Foundation ("UWMF") and the University of Wisconsin Hospital and Clinics Authority ("UWHC").

Unity is a for-profit stock corporation which offers a variety of health maintenance organization, preferred provider organization and point-of-service medical products to employer groups and individuals in the state of Wisconsin. Unity is a wholly-owned subsidiary of UHC.

HPW is a for-profit stock corporation which owns real property leased to UWMF and UWHC. HPW is a wholly-owned subsidiary of UHC.

ECARE is a single member limited liability company which monitors intensive care beds of customer hospitals. UHC is the sole member.

A summary of the Company's significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

**2. Principles of Consolidation**

UHC consolidates the accounts and transactions of its wholly-owned subsidiaries, Unity, HPW and ECARE. All significant intercompany balances and transactions have been eliminated in consolidation.

**3. Use of Estimates**

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**3. Use of Estimates - continued**

Claims payable consists of unpaid claims reported to the Company and a liability for health care claims incurred before December 31 which have not yet been reported to the Company by that date. Estimated claims payable are based on historical trends and current cost projections, which are reviewed by an independent actuary as of the date of the consolidated financial statements. Management believes that the estimate is a reasonable approximation of the incurred but not reported medical claims. However, it is reasonably possible that the claims presented for payment may not follow past trends and, therefore, may be more or less than the \$27,223,000 and \$26,052,000 recorded on the consolidated financial statements as of December 31, 2011 and 2010, respectively.

**4. Cash and Cash Equivalents**

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value due to the short maturities of these investments.

**5. Depreciation and Amortization**

Depreciation and amortization of property and equipment are computed by both straight-line and accelerated methods over the estimated useful lives as follows:

Buildings and improvements	7 to 39 years
Leasehold improvements	5 to 10 years
Furniture and equipment	3 to 10 years

Projects in process are not depreciated until placed into service.

**6. Goodwill**

Management evaluates goodwill for impairment on an annual basis or at an interim period if events occur or circumstances change that would more likely than not reduce the fair value below the carrying amount. When evaluating whether goodwill is impaired, the Company utilizes a discounted cash flow model to determine the fair value of the goodwill and compares the fair value to the carrying amount. The Company determined there was no impairment in 2011 or 2010.

**7. Revenue Recognition**

Premiums are recognized in the period for which services are covered. The Company records premium amounts billed in advance of a coverage period in unearned revenue.

Programs and other support is recognized when due from UWMF and UWHC.

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Health Care and Capitation Costs

Health care and capitation costs consist of amounts paid or due to hospital and physician providers. Health care and capitation costs are reported net of recoveries of \$2,364,000 and \$2,836,000 for the years ended December 31, 2011 and 2010, respectively. Recoveries consist mainly of drug company volume discounts, subrogation and reinsurance. Changes in estimates of claims costs resulting from the continuous review process and differences between estimates and payments for claims are recognized in the period in which the estimates are changed or payments are made.

9. Income Taxes

Unity and HPW use the liability method in accounting for income taxes. Deferred income taxes are established for temporary differences in the reporting of marketable securities, allowance for doubtful accounts, depreciation and amortization, accrued compensation, claims payable and unearned premium for financial statement and income tax purposes.

Deferred tax balances are adjusted to reflect tax rates, based on currently enacted tax laws, that will be in effect in the years in which the temporary differences are expected to reverse.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company has applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open. There are no material unrecognized tax benefits taken or expected to be taken in a tax return that have been recorded on the Company's financial statements for the years ended December 31, 2011 and 2010 as it was determined that all tax positions taken meet the more likely than not threshold.

Unity and HPW file corporate income tax returns in the United States federal jurisdiction and in the State of Wisconsin. Tax years open to examination by tax authorities under federal and state statute of limitations for these entities include calendar years 2008 through 2011 and 2007 through 2011, respectively. UHC is exempt from income tax, though it is subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded by the Internal Revenue Code. UHC files a federal informational return each year, but management has determined that there is no unrelated business income to report for UHC, therefore income tax returns are not required to be filed. Because the statute of limitations does not run for returns not filed, all years will remain open to audit for both federal and state purposes for UHC. ECARE is a wholly-owned disregarded entity of UHC. As such, ECARE does not have a federal or a state income tax filing requirement.

The Company recognizes, if necessary, interest and penalties related to unrecognized tax benefits in the provision for income taxes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended December 31, 2011 and 2010.

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. Concentrations

The Company has cash and cash equivalents deposited in financial institutions in which the balances exceed the federal government agency ("FDIC") insured limit. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

Revenue from the State of Wisconsin accounts for 44% and 46% of total premium revenues for the years ended December 31, 2011 and 2010, respectively.

11. Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising expenses were \$1,153,000 and \$717,000 for the years ended December 31, 2011 and 2010, respectively.

12. New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, *Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-04 amends Topic 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance of U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011. The guidance will primarily impact the Company's disclosures, but otherwise is not expected to have a material impact on the Company's financial statements.

In July 2011, the FASB issued ASU 2011-06, *Fees Paid to the Federal Government by Health Insurers - a consensus of the FASB Emerging Issues Task Force*, to address the accounting for the annual fee to be levied on health insurers starting in 2014 by The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act. This guidance is effective for calendar years beginning after December 13, 2013. The Company is in the process of evaluating the impact the guidance will have on the financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, to allow entities to use a qualitative approach to test goodwill for impairment. ASU No. 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU No. 2011-08 is effective for annual and interim impairment tests performed in fiscal years beginning after December 15, 2011 and earlier adoption is permitted. The Company does not expect the adoption of these provisions to have a material impact on the Company's financial statements.

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

**NOTE B - DISCLOSURES ABOUT THE FAIR VALUES OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to estimate the fair value of each classification of financial instruments for which it was practicable to do so:

Cash and cash equivalents - The carrying amount for cash and cash equivalents is cost which approximates fair value due to the short maturities of these instruments.

Receivables and current liabilities - Receivables are reflected at net realizable value based on anticipated losses due to potentially uncollectible balances, which approximates fair value. Accounts payable and accrued liabilities are reflected at cost, which approximates fair value because of the short-term duration of these instruments.

Debt - The carrying amount of long-term debt approximates estimated fair value based on borrowing rates currently available to the Company for bank loans with similar terms and maturities.

**NOTE C - ACCOUNTS RECEIVABLE**

Accounts receivable are due upon receipt of invoice. Receivables are stated net of any allowance for doubtful accounts. The Company determines its allowance for doubtful accounts by considering the number of days past due, collection history, and the general economy and industry as a whole. The Company writes-off accounts receivable when they become uncollectible and payments subsequently received are credited to the allowance for doubtful accounts.

The following is a summary of the accounts receivable balance as of December 31:

	2011	2010
Premiums receivable	\$ 31,997,926	\$ 28,380,779
Health care receivables	1,382,221	1,463,853
Investment income receivables	497,645	505,872
Income tax receivables	400,734	566,161
Other	2,107,945	2,105,203
	<u>36,386,471</u>	<u>33,021,868</u>
Less allowance for doubtful accounts	75,000	150,000
	<u>\$ 36,311,471</u>	<u>\$ 32,871,868</u>

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

**NOTE D - MARKETABLE SECURITIES**

The Company classifies its marketable securities as available-for-sale and these securities are reported at fair value. Quoted market prices and model-based pricing are used to determine the fair value of marketable securities. The net unrealized gain reported in net assets at December 31, 2011 and 2010 was \$2,946,248 and \$2,598,435, respectively.

Realized gains and losses are credited or charged to operations. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, using the effective interest method.

Investment securities are exposed to various risks including, but not limited to, interest rate, market and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

A schedule of marketable securities held for investment at amortized cost, together with market value and the respective gross unrealized gains and losses, is as follows:

	2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
U.S. Treasury securities	\$ 18,318,819	\$ 1,105,796	\$ -	\$ 19,424,615
U.S. government agency obligations	9,045,699	251,810	-	9,297,509
Mortgage-backed securities				
U.S. government issued	1,357,496	44,622	-	1,402,118
Non U.S. government issued	2,462,050	169,538	-	2,631,588
Other debt securities				
Domestic	14,970,205	1,039,599	84,695	15,925,109
Foreign	6,235,475	359,318	81,316	6,513,477
Mutual funds	7,223,895	215,213	73,637	7,365,471
	<u>\$ 59,613,639</u>	<u>\$ 3,185,896</u>	<u>\$ 239,648</u>	<u>\$ 62,559,887</u>



**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**NOTE D - MARKETABLE SECURITIES - Continued**

	2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
U.S. Treasury securities	\$ 20,068,662	\$ 357,438	\$ 189,316	\$ 20,236,784
U.S. government agency obligations	8,263,170	427,689	-	8,690,859
Mortgage-backed securities				
U.S. government issued	1,481,883	64,435	18	1,546,300
Non U.S. government issued	3,073,351	179,482	13,363	3,239,470
Other debt securities				
Domestic	14,547,554	1,503,562	98,691	15,952,425
Foreign	3,104,429	301,207	6,690	3,398,946
Mutual funds	7,070,702	98,330	25,630	7,143,402
	<u>\$ 57,609,751</u>	<u>\$ 2,932,143</u>	<u>\$ 333,708</u>	<u>\$ 60,208,186</u>

The amortized cost and estimated market value of debt securities, by contractual maturities, are as follows as of December 31, 2011:

	Amortized cost	Estimated market value
In one year or less	\$ 4,073,277	\$ 4,101,569
After one year through five years	24,400,793	25,468,598
After five years through ten years	21,439,717	22,984,644
After ten years through twenty years	28,069	37,953
After twenty years	2,447,888	2,601,652
	<u>\$ 52,389,744</u>	<u>\$ 55,194,416</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**NOTE D - MARKETABLE SECURITIES - Continued**

The proceeds, gross realized gains and losses from the sale of marketable securities and impairment of marketable securities for the years ended December 31 are summarized as follows:

	2011	2010
Proceeds	<u>\$ 19,797,108</u>	<u>\$ 20,017,740</u>
Gross realized gains	\$ 992,901	\$ 1,067,604
Gross realized losses	<u>(20,283)</u>	<u>(10,824)</u>
Net realized gain	<u>\$ 972,618</u>	<u>\$ 1,056,780</u>
Impairment of marketable securities	<u>\$ (49,583)</u>	<u>\$ (133,954)</u>

Investment income consists of the following for the years ended December 31:

	2011	2010
Interest	\$ 2,096,087	\$ 2,209,050
Net realized gain	972,618	1,056,780
Share in (loss) income of investees, net	(107,421)	99,603
Investment manager fees	(89,648)	(106,298)
Impairment loss	<u>(49,583)</u>	<u>(133,954)</u>
	<u>\$ 2,822,053</u>	<u>\$ 3,125,181</u>

The following tables summarize the investments in debt securities in an unrealized loss position at December 31, 2011 and 2010 by indicating the length of time these individual securities have been in a continuous unrealized loss position.

	2011					
	Less than 12 months		12 months or longer		Total	
	Market value	Unrealized losses	Market value	Unrealized losses	Market value	Unrealized losses
Other debt securities						
Domestic	\$ 2,405,874	\$ 84,695	\$ -	\$ -	\$ 2,405,874	\$ 84,695
Foreign	<u>1,466,233</u>	<u>46,230</u>	<u>438,872</u>	<u>35,086</u>	<u>1,905,105</u>	<u>81,316</u>
	<u>\$ 3,872,107</u>	<u>\$ 130,925</u>	<u>\$ 438,872</u>	<u>\$ 35,086</u>	<u>\$ 4,310,979</u>	<u>\$ 166,011</u>

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

**NOTE D - MARKETABLE SECURITIES - Continued**

	2010					
	Less than 12 months		12 months or longer		Total	
	Market value	Unrealized losses	Market value	Unrealized losses	Market value	Unrealized losses
U.S. Treasury securities	\$ 4,169,260	\$ 189,316	\$ -	\$ -	\$ 4,169,260	\$ 189,316
Mortgage-backed securities						
U.S.						
government issued	43,916	18	-	-	43,916	18
Non U.S.						
government issued	770,350	11,861	159,099	1,502	929,449	13,363
Other debt securities						
Domestic	2,719,633	85,640	234,121	13,051	2,953,754	98,691
Foreign	-	-	103,851	6,690	103,851	6,690
	<u>\$ 7,703,159</u>	<u>\$ 286,835</u>	<u>\$ 497,071</u>	<u>\$ 21,243</u>	<u>\$ 8,200,230</u>	<u>\$ 308,078</u>

The total unrealized losses represent less than 1% of the aggregate fair value of the portfolio as of December 31, 2011. The total unrealized losses are comprised of 27 individual securities. The security with the largest percentage loss represents less than 1% of the total holdings of the portfolio. The security with the largest dollar loss, as compared to book value, represents less than 1% of the total holdings in the portfolio. Of the securities in a loss position, 25 have been in a loss position for less than 12 months.

The Company reviews its investment portfolio to ensure that investments that may be other than temporarily impaired are identified and that any impairment is charged against earnings in the proper period. Holdings have been reviewed and the Company has concluded that there were other-than-temporary impairments totaling \$50,000 and \$134,000 as of December 31, 2011 and 2010, respectively. Issuers have continued to satisfy all contractual obligations and are expected to continue to do so. The Company believes that all other securities in an unrealized loss position are not impaired and the Company intends to hold such securities until recovery.

**NOTE E - LINE OF CREDIT**

The Company has an unsecured line of credit of \$2,000,000 from US Bank which expires on September 30, 2012. Interest on any borrowings under this line of credit is at the one-month LIBOR rate plus 2.00% (effective rate of 2.28% at December 31, 2011). As of December 31, 2011 and 2010, there were no borrowings outstanding under this line of credit.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**NOTE F - LONG-TERM DEBT**

Long-term debt consists of the following at December 31:

	2011	2010
Notes payable to M&I Bank of Southern Wisconsin, interest rate of 6.27%, collateralized by assets of HPW, payable in monthly installments of \$17,888, including interest, due in May 2013	\$ 591,409	\$ 840,050
Less current maturities	182,233	248,655
	\$ 409,176	\$ 591,395

Interest expense totaled \$45,663 and 64,078 for the years ended December 31, 2011 and 2010, respectively.

Following is a schedule of future maturities of long-term debt as of December 31, 2011:

Years ending December 31,	
2012	\$ 182,233
2013	409,176
	\$ 591,409

**NOTE G - CLAIMS PAYABLE**

The activity relating to claims payable is as follows:

	2011	2010
Balance at January 1,	\$ 26,051,904	\$ 24,302,190
Claims incurred related to		
Current year	210,294,490	217,982,467
Prior year	(3,782,294)	(1,433,456)
Total claims incurred	206,512,196	216,549,011
Claims paid related to		
Current year	(184,734,929)	(193,574,842)
Prior year	(20,605,737)	(21,224,455)
Total medical claims paid	(205,340,666)	(214,799,297)
Balance at December 31,	\$ 27,223,434	\$ 26,051,904

UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2011 and 2010

**NOTE G - CLAIMS PAYABLE - Continued**

Included in the claims payable liability at December 31, 2011 and 2010 is a \$1,532,000 and \$1,080,000 premium deficiency reserve related to expected losses for 2012 and 2011, respectively. The liability for reported and estimated claims at December 31, 2010 and 2009 developed favorably in 2011 and 2010 due primarily to lower than anticipated claims.

**NOTE H - EMPLOYEE BENEFIT PLANS**

All Unity employees are eligible to participate in a Unity-sponsored 401(k) plan. Employees are eligible to participate as of the first of the month following 60 days of employment. Under this plan, employees may contribute a percentage of their compensation on a pre-tax basis. Employee contributions of up to 6% are matched by a 100% employer contribution. In addition, at the discretion of the Unity Board of Directors, plan participants may receive an additional contribution of up to 4% of eligible compensation. In 2011, no discretionary contribution was made. In 2010, a 4% discretionary contribution was authorized by the Unity Board of Directors. For the years ended December 31, 2011 and 2010, \$503,000 and \$808,000, respectively, was contributed to the 401(k) plan related to the employer matching and discretionary contributions.

**NOTE I - COMMITMENTS AND CONTINGENCIES**

**1. Leases**

The Company leases office space and equipment under non-cancellable operating lease arrangements expiring on various dates through 2016. Total minimum lease payments under these lease obligations at December 31, 2011 are as follows:

<u>Years ending December 31,</u>	
2012	\$ 215,000
2013	172,000
2014	147,000
2015	128,000
2016	45,000
	<hr/>
	\$ 707,000
	<hr/>

Total rent expense for operating leases was \$520,000 and \$481,000 for 2011 and 2010, respectively.

HPW leases property to UWMF and UWHC under various leasing arrangements that expire at various dates through July 2016. The terms of the leases call for monthly payments ranging from \$4,174 to \$18,753 during 2011. Subsequent to 2011, rental payments will be increased by no less than 2% annually. Rental income was \$513,105 and \$500,217 for the years ended December 31, 2011 and 2010, respectively.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**NOTE I - COMMITMENTS AND CONTINGENCIES - Continued**

**2. System and Service Agreements**

ECARE has purchased software and services to enable remote continuous monitoring of patients for customer hospitals. ECARE has a system and service agreement with an estimated total cost of \$2,788,100 and has incurred costs totaling \$2,255,100 through December 31, 2011. ECARE intends to finance the remainder of this project through cash generated by current operations.

Unity has purchased software and services to migrate the core processing system to a new platform, re-design the data warehouse and improve the web technology which will add full integration with their affiliates. Unity has several service agreements with an estimated total cost of \$10,513,000 and has incurred costs totaling \$8,379,459 through December 31, 2011. Unity intends to finance the remainder of this project through cash generated by current operations and investment returns.

**NOTE J - FUNCTIONAL EXPENSES**

Expenses that can be specifically identified with a program service are assigned to that function. Other expenses are allocated to the appropriate function based on the use of departmental information within the Company. Following is a summary of expenses for the years ended December 31, reported on a functional basis:

	2011	2010
Program services	\$ 368,598,497	\$ 341,778,306
General and administrative	38,340,046	33,173,826
	\$ 406,938,543	\$ 374,952,132

**NOTE K - INCOME TAXES**

UHC has received a determination letter dated October 23, 1984 from the Internal Revenue Service stating that it is an organization described in Section 510(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes under Section 501(a) of the Code. Accordingly, no provision for federal income taxes has been made in the accompanying consolidated financial statements for UHC.

Unity and HPW are taxable organizations and recorded an income tax receivables of \$401,000 and \$552,000 as of December 31, 2011 and 2010, respectively. The current provision for income tax was \$920,000 and \$2,666,000 for 2011 and 2010, respectively.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**NOTE K - INCOME TAXES - Continued**

Deferred income tax assets (liabilities) consist of the following at December 31:

	2011	2010
Current		
Allowance for doubtful accounts	\$ 31,425	\$ 62,850
Unearned premiums	588,542	877,219
Discounted unpaid losses	188,497	213,250
Accrued vacation	393,992	262,004
Premium deficiency reserve	641,799	452,587
Unrealized gains on marketable securities	(1,086,796)	(987,005)
HIRSP	778,669	620,261
Other	415,193	344,339
Non-current		
Depreciation and amortization	(759,856)	(266,431)
	1,191,465	1,579,074
Current deferred income tax assets	1,951,321	1,845,505
Long-term deferred income tax liability	\$ (759,856)	\$ (266,431)

All current deferred income tax assets at December 31, 2011 and 2010 are deemed to be fully realizable by management.

**NOTE L - RELATED PARTIES**

UHC holds a 33.33% interest in UW Cancer Center Johnson Creek, LLC ("LLC"). This investment is accounted for on the equity method. UHC recognized income of \$213,838 and \$81,208 for the years ended December 31, 2011 and 2010, respectively. UHC received a dividend distribution of \$75,000 in 2011. LLC is owned by UHC, Fort Atkinson Memorial Health Services and UW Health Partners Watertown Regional Medical Center, Inc., each having a one-third membership interest. Its purpose is to acquire, hold, own and lease assets to be used by health care providers for their provision of cancer care services.

UHC has guaranteed 33.33% of the outstanding balance on a construction loan which LLC used to construct a medical clinic. The remaining portion of the outstanding balance is guaranteed by the other two members of LLC. The total loan equaled \$4,325,000, of which \$3,159,097 and \$3,311,557 is outstanding as of December 31, 2011 and 2010, respectively. The portion guaranteed by UHC will be reduced upon the occurrence of certain events as defined in the guaranty agreement. As of December 31, 2011 and 2010, there is no accrual for this guarantee as it is not probable UHC will have to make payments under this guarantee.

As of December 31, 2011 and 2010, UHC accounts receivable included amounts due from LLC of \$4,000 and \$5,000, respectively.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**NOTE L - RELATED PARTIES - Continued**

Condensed unaudited financial information of LLC follows:

	2011	2010
As of December 31,		
Total assets	\$ 5,139,000	\$ 4,930,000
Total liabilities	3,430,000	3,639,000
Years ended December 31,		
Net income	642,000	244,000

UHC holds a 50% interest in Watertown Network, LLC ("WN"). This investment is accounted for on the equity method. UHC has recognized a loss of \$1,900 and a gain of \$18,400 for the years ended December 31, 2011 and 2010, respectively. WN is owned by UHC and UW Health Partners Watertown Regional Medical Center, Inc., each having a one-half ownership interest.

Condensed unaudited financial information of WN follows:

	2011	2010
As of December 31,		
Total assets	\$ 184,000	\$ 194,000
Total liabilities	78,000	84,000
Years ended December 31,		
Net (loss) income	(3,800)	37,000

UHC entered into a Joint Operating Agreement ("JOA") with Watertown Regional Medical Center, Inc. ("WRMC") in 2011. As part of the agreement, UHC holds a 50% interest in WRMC. This investment is accounted for on the equity method. UHC has recognized and funded a loss of \$319,400 for the year ended December 31, 2011. UHC contributed \$387,350 in capital contributions as part of the JOA in 2011.

The Company has employee services agreements with UWHC and UWMF. Under the terms of the agreements, UHC pays UWHC and UWMF for the use of their respective personnel for services performed as stated in the agreements. The amount paid by UHC is equal to that of the salary and benefits of the personnel multiplied by the percentage of their time devoted to UHC during the applicable period. The amounts paid to UWHC and UWMF under the terms of these agreements are recorded in staff salaries, wages and benefits in the consolidated statements of activities. During the years ended December 31, 2011 and 2010, \$7,043,396 and \$5,380,717, respectively, was paid to UWHC and UWMF for these services.

In addition, the Company has managed care contracting service agreements with UWHC and UWMF. Under the terms of this agreement, UHC incurred capitation costs of \$115,949,587 and \$110,342,098 in 2011 and 2010, respectively.



**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**NOTE L - RELATED PARTIES - Continued**

At December 31, 2011 and 2010, UHC accounts receivable included amounts due from UWMF of \$598,000 and \$950,000, respectively, and from UWHC of \$1,217,000 and \$574,000, respectively. Included in accounts payable at December 31, 2011 and 2010 are \$764,000 and \$738,000, respectively, due to UWMF and \$1,301,000 and \$959,000, respectively, due to UWHC.

HPW leases certain properties to UWHC and UWMF. See note I.

**NOTE M - REGULATORY ENVIRONMENT**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include matters such as reimbursement for patient services, Medicare and Medicaid fraud and abuse, accreditation, etc. Government activity concerning possible fraud and abuse issues involving health care insurers and providers has increased, violations of which could possibly result in exclusion penalties, as well as significant repayments for patient services previously billed and received. Management believes that the Company is in material compliance with fraud and abuse regulations, as well as other applicable government laws.

**NOTE N - SUPPLEMENTAL CASH FLOW INFORMATION**

	2011	2010
Supplemental disclosure of cash flow information		
Taxes paid	\$ 769,254	\$ 3,533,124
Interest paid	45,663	64,078

**NOTE O - INSURANCE ACCOUNTING PRACTICES**

Unity, which is domiciled in Wisconsin, also prepares statutory basis financial statements in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI"). The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual, version effective March 1, 2011 ("NAIC SAP"), has been adopted as a component of prescribed or permitted practices by the State of Wisconsin. Such practices differ in certain respects from accounting principles generally accepted in the United States of America, primarily in the non-recording of certain assets and the valuation of debt securities.

The State of Wisconsin requires that insurance companies domiciled in the State of Wisconsin prepare their statutory basis financial statements in accordance with NAIC SAP, subject to any deviations prescribed or permitted by the State of Wisconsin insurance commissioner. Management represents that the Company does not use any prescribed or permitted accounting practices that deviate from NAIC SAP.

As of and for the years ended December 31, 2011 and 2010, differences between the financial statements prepared on the statutory basis and those prepared in accordance with accounting principles generally accepted in the United States of America were mainly the result of the non-recording of certain assets, deferred income tax assets, and the method of accounting for debt securities.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2011 and 2010

**NOTE O - INSURANCE ACCOUNTING PRACTICES - Continued**

Without prior approval of the OCI, dividends to Unity's shareholders are limited by the laws of the State of Wisconsin. For the years ending December 31, 2011 and 2010, there were dividends paid of \$0 and \$3,000,000, respectively. The dividend payments made were below the maximum allowed amount without prior OCI approval.

The State of Wisconsin insurance regulations require the companies to maintain a minimum compulsory surplus based upon a percentage of premiums written. As of December 31, 2011, Unity is required to maintain a compulsory surplus reserve or total minimum net worth, determined in accordance with accounting practices prescribed or permitted by the OCI, of at least \$15,806,564. Unity's net assets, determined in accordance with statutory accounting principles, as of December 31, 2011 (excluding the security surplus reserve deposit of \$4,299,134), are \$34,479,692. In addition, Unity is subject to risk-based capital ("RBC") requirements promulgated by the NAIC. The RBC requirements establish minimum levels of capital and surplus based on the insurance operations of the companies. As of December 31, 2011, Unity had capital and surplus which management believes is in compliance with these requirements.

**NOTE P - FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value, as well as the general classification pursuant to the valuation hierarchy. There has been no change in the valuation methodology for the years ended December 31, 2011 and 2010.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**NOTE P - FAIR VALUE MEASUREMENTS - Continued**

**U.S. Treasury securities, U.S. government agency obligations and other debt securities**

When quoted prices are available in an active market, U.S. Treasury securities, U.S. government agency obligations and other debt securities are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The fair values of corporate debt securities estimated using pricing models or matrix pricing based on observable prices of corporate debt securities that trade in inactive markets are generally classified within Level 2 of the fair value hierarchy. The significant inputs include coupon rate, maturity, and consideration of the credit ratings of the securities.

**Mortgage-backed securities**

Fair values for Level 2 mortgage-backed securities are estimated using a market approach, including a pricing model with observable inputs. The significant inputs include the applicable interest rate and maturity. Mortgage-backed securities are classified within Level 3 when market activity is significantly limited or when there is less transparency around inputs to the valuation.

**Mutual funds**

Quoted market prices in active markets are used to determine the fair value of mutual funds and are classified within level 1 of the fair value hierarchy.

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**NOTE P - FAIR VALUE MEASUREMENTS - Continued**

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of December 31:

	2011			
	Level 1	Level 2	Level 3	Total
U.S. Treasury securities	\$ -	\$ 19,424,615	\$ -	\$ 19,424,615
U.S. government agency obligations	-	9,297,509	-	9,297,509
Mortgage-backed securities				
U.S. government issued	-	1,402,118	-	1,402,118
Non U.S. government issued	-	2,631,588	-	2,631,588
Other debt securities				
Domestic	-	15,924,698	411	15,925,109
Foreign	-	6,513,477	-	6,513,477
Mutual funds	7,365,471	-	-	7,365,471
Total	<u>\$ 7,365,471</u>	<u>\$ 55,194,005</u>	<u>\$ 411</u>	<u>\$ 62,559,887</u>

	2010			
	Level 1	Level 2	Level 3	Total
U.S. Treasury securities	\$ -	\$ 20,236,784	\$ -	\$ 20,236,784
U.S. government agency obligations	-	8,690,859	-	8,690,859
Mortgage-backed securities				
U.S. government issued	-	1,546,300	-	1,546,300
Non U.S. government issued	-	3,239,470	-	3,239,470
Other debt securities				
Domestic	-	15,952,014	411	15,952,425
Foreign	-	3,398,946	-	3,398,946
Mutual funds	7,143,402	-	-	7,143,402
Total	<u>\$ 7,143,402</u>	<u>\$ 53,064,373</u>	<u>\$ 411</u>	<u>\$ 60,208,186</u>

The following table presents additional information about assets measured at fair value on a recurring basis that have been measured using significant unobservable inputs (Level 3) as of December 31:

	2011	2010
Beginning balance	\$ 411	\$ 409,200
Net transfers in and/or out of Level 3	-	(408,789)
Ending balance	<u>\$ 411</u>	<u>\$ 411</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010

**NOTE P - FAIR VALUE MEASUREMENTS - Continued**

The Company's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that caused the transfer. Transfers in and out of Level 3 were due to the change in availability of pricing information.

**NOTE Q - REINSURANCE**

Unity has a reinsurance contract that protects against catastrophic in-patient claims. The deductible as of December 31, 2011 is \$500,000. Unity paid reinsurance premiums of approximately \$536,000 and \$784,000 for the years ended December 31, 2011 and 2010, respectively. Recoveries from this contract in 2011 and 2010 totaled \$0 and \$972,000, respectively. Reinsurance premiums and recoveries are included in health care and capitation costs on the consolidated statements of activities.

Reinsurance contracts do not relieve Unity from its obligations to subscribers. Unity remains liable to its subscribers for the portion reinsured to the extent that the reinsurance company does not meet the obligations assumed under the reinsurance contract.

**NOTE R - SUBSEQUENT EVENTS**

The Company evaluated its December 31, 2011 consolidated financial statements for subsequent events through April 17, 2012, the date that the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

**SUPPLEMENTARY INFORMATION**

**This page intentionally left blank**

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
December 31, 2011

ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 605,864	\$ 12,154,096	\$ 246,659	\$ 321,719	\$ -	\$ 13,328,338
Marketable securities	-	11,467,040	-	-	-	11,467,040
Accounts receivable, net	2,651,525	34,366,923	287,495	106,148	(1,100,620)	36,311,471
Prepaid expenses	112,645	634,369	3,529	6,494	-	757,037
Deferred income taxes	-	1,951,321	-	-	-	1,951,321
<b>Total current assets</b>	<b>3,370,034</b>	<b>60,573,749</b>	<b>537,683</b>	<b>434,361</b>	<b>(1,100,620)</b>	<b>63,815,207</b>
<b>MARKETABLE SECURITIES</b>	-	51,092,847	-	-	-	51,092,847
<b>PROPERTY AND EQUIPMENT - AT COST</b>						
Buildings and improvements	-	3,695,549	3,750,671	-	-	7,446,220
Leasehold improvements	20,224	-	-	107,513	-	127,737
Furniture and equipment	3,019,866	12,996,676	69,632	2,249,164	-	18,335,338
	3,040,090	16,692,225	3,820,303	2,356,677	-	25,909,295
Less accumulated depreciation and amortization	1,026,913	6,606,099	1,936,373	787,614	-	10,356,999
	2,013,177	10,086,126	1,883,930	1,569,063	-	15,552,296
Projects in process	769,491	54,416	-	516,100	-	1,340,007
Land	-	-	926,643	-	-	926,643
	2,782,668	10,140,542	2,810,573	2,085,163	-	17,818,946
<b>OTHER ASSETS</b>						
Investment in affiliates	53,400,221	-	-	-	(52,390,622)	1,009,599
Goodwill, less accumulated amortization of \$2,011,352	2,689,087	-	-	-	-	2,689,087
Other	-	17,206	-	-	-	17,206
	56,089,308	17,206	-	-	(52,390,622)	3,715,892
	<b>\$ 62,242,010</b>	<b>\$ 121,824,344</b>	<b>\$ 3,348,256</b>	<b>\$ 2,519,524</b>	<b>\$ (53,491,242)</b>	<b>\$ 136,442,892</b>



LIABILITIES AND NET ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT LIABILITIES</b>						
Current maturities of long-term debt	\$ -	\$ -	\$ 182,233	\$ -	\$ -	\$ 182,233
Accounts payable	3,104,058	5,007,444	97,860	504,304	(1,100,620)	7,613,046
Claims payable	-	27,223,434	-	-	-	27,223,434
Unearned revenue	-	38,122,256	-	245,679	-	38,367,935
Accrued liabilities	53,992	2,510,720	-	238,540	-	2,803,252
<b>Total current liabilities</b>	<b>3,158,050</b>	<b>72,863,854</b>	<b>280,093</b>	<b>988,523</b>	<b>(1,100,620)</b>	<b>76,189,900</b>
<b>LONG-TERM DEBT, less current maturities</b>						
	-	-	409,176	-	-	409,176
<b>DEFERRED INCOME TAX LIABILITY</b>						
	-	759,856	-	-	-	759,856
<b>COMMON STOCK</b>						
	-	1,000	669,715	-	(670,715)	-
<b>UNRESTRICTED NET ASSETS</b>						
	59,083,960	48,199,634	1,989,272	1,531,001	(51,719,907)	59,083,960
	<b>\$ 62,242,010</b>	<b>\$ 121,824,344</b>	<b>\$ 3,348,256</b>	<b>\$ 2,519,524</b>	<b>\$ (53,491,242)</b>	<b>\$ 136,442,892</b>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
December 31, 2010

ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 109,778	\$ 21,615,174	\$ 227,344	\$ 232,312	\$ -	\$ 22,184,608
Marketable securities	-	10,197,654	-	-	-	10,197,654
Accounts receivable, net	5,706,528	30,947,897	337,961	374,919	(4,495,437)	32,871,868
Prepaid expenses	103,686	665,880	3,539	50,942	-	824,047
Deferred income taxes	-	1,845,505	-	-	-	1,845,505
<b>Total current assets</b>	<b>5,919,992</b>	<b>65,272,110</b>	<b>568,844</b>	<b>658,173</b>	<b>(4,495,437)</b>	<b>67,923,682</b>
<b>MARKETABLE SECURITIES</b>	<b>-</b>	<b>50,010,532</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,010,532</b>
<b>PROPERTY AND EQUIPMENT - AT COST</b>						
Buildings and improvements	-	3,676,625	3,750,671	-	-	7,427,296
Leasehold improvements	20,224	-	-	107,513	-	127,737
Furniture and equipment	2,463,636	6,841,847	69,632	2,209,805	-	11,584,920
	2,483,860	10,518,472	3,820,303	2,317,318	-	19,139,953
Less accumulated depreciation and amortization	518,478	6,438,924	1,834,211	526,830	-	9,318,443
	1,965,382	4,079,548	1,986,092	1,790,488	-	9,821,510
Projects in process	-	1,878,455	-	288,500	-	2,166,955
Land	-	-	926,643	-	-	926,643
	1,965,382	5,958,003	2,912,735	2,078,988	-	12,915,108
<b>OTHER ASSETS</b>						
Investment in affiliates	51,540,200	-	-	-	(51,054,906)	485,294
Goodwill, less accumulated amortization of \$2,011,352	2,689,087	-	-	-	-	2,689,087
	54,229,287	-	-	-	(51,054,906)	3,174,381
	<b>\$ 62,114,661</b>	<b>\$ 121,240,645</b>	<b>\$ 3,481,579</b>	<b>\$ 2,737,161</b>	<b>\$ (55,550,343)</b>	<b>\$ 134,023,703</b>

LIABILITIES AND NET ASSETS	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>CURRENT LIABILITIES</b>						
Current maturities of long-term debt	\$ -	\$ -	\$ 248,655	\$ -	\$ -	\$ 248,655
Accounts payable	5,799,011	8,324,250	113,893	696,161	(4,495,437)	10,437,878
Claims payable	-	26,051,904	-	-	-	26,051,904
Unearned revenue	-	37,596,532	-	296,187	-	37,892,719
Accrued liabilities	44,437	2,012,763	-	206,308	-	2,263,508
<b>Total current liabilities</b>	<b>5,843,448</b>	<b>73,985,449</b>	<b>362,548</b>	<b>1,198,656</b>	<b>(4,495,437)</b>	<b>76,894,664</b>
 <b>LONG-TERM DEBT, less current maturities</b>	 -	 -	 591,395	 -	 -	 591,395
 <b>DEFERRED INCOME TAX LIABILITY</b>	 -	 266,431	 -	 -	 -	 266,431
 <b>COMMON STOCK</b>	 -	 1,000	 669,715	 -	 (670,715)	 -
 <b>UNRESTRICTED NET ASSETS</b>	 <u>56,271,213</u>	 <u>46,987,765</u>	 <u>1,857,921</u>	 <u>1,538,505</u>	 <u>(50,384,191)</u>	 <u>56,271,213</u>
	<u>\$ 62,114,661</u>	<u>\$ 121,240,645</u>	<u>\$ 3,481,579</u>	<u>\$ 2,737,161</u>	<u>\$ (55,550,343)</u>	<u>\$ 134,023,703</u>

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
Year ended December 31, 2011

	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>Revenues</b>						
Insurance premiums and capitation fees	\$ 115,949,587	\$ 391,771,296	\$ -	\$ -	\$ (115,949,587)	\$ 391,771,296
Programs and other support						
University of Wisconsin Hospital and Clinics Authority	6,512,326	-	-	-	-	6,512,326
University of Wisconsin Medical Foundation	3,223,797	-	-	-	-	3,223,797
	9,736,123	-	-	-	-	9,736,123
Investment income	230,588	2,927,181	6,338	-	(342,054)	2,822,053
Other income	630,536	163,766	513,105	3,413,914	(293,546)	4,427,775
<b>Total revenues</b>	<b>126,546,834</b>	<b>394,862,243</b>	<b>519,443</b>	<b>3,413,914</b>	<b>(116,585,187)</b>	<b>408,757,247</b>
<b>Operating expenses</b>						
Health care and capitation costs	115,949,587	357,123,430	-	-	(115,949,587)	357,123,430
Staff salaries, wages and benefits	3,627,065	14,958,105	-	3,496,897	-	22,082,067
Purchased services and office expenses	4,860,392	14,381,598	57,147	283,140	(147,654)	19,434,623
Occupancy and equipment expense	1,174,836	3,775,506	200,545	641,381	(145,892)	5,646,376
Advertising and promotion	115,869	2,536,178	-	-	-	2,652,047
Goodwill amortization expense	-	-	-	-	-	-
	125,727,749	392,774,817	257,692	4,421,418	(116,243,133)	406,938,543
<b>Operating income (loss)</b>	<b>819,085</b>	<b>2,087,426</b>	<b>261,751</b>	<b>(1,007,504)</b>	<b>(342,054)</b>	<b>1,818,704</b>
<b>Other expense</b>						
Interest expense	6,338	-	45,663	-	(6,338)	45,663
<b>Increase (decrease) in net assets before change in unrealized gains on investments and income tax expense</b>	<b>812,747</b>	<b>2,087,426</b>	<b>216,088</b>	<b>(1,007,504)</b>	<b>(335,716)</b>	<b>1,773,041</b>
<b>Income tax expense</b>						
Current	-	835,760	84,737	-	-	920,497
Deferred	-	287,819	-	-	-	287,819
	-	1,123,579	84,737	-	-	1,208,316
<b>Increase (decrease) in net assets before change in unrealized gains on investments</b>	<b>812,747</b>	<b>963,847</b>	<b>131,351</b>	<b>(1,007,504)</b>	<b>(335,716)</b>	<b>564,725</b>
Change in unrealized gains on investments, net	-	248,022	-	-	-	248,022
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>812,747</b>	<b>1,211,869</b>	<b>131,351</b>	<b>(1,007,504)</b>	<b>(335,716)</b>	<b>812,747</b>
Contributions (distributions) - net	2,000,000	-	-	1,000,000	(1,000,000)	2,000,000
Net assets at beginning of year	56,271,213	46,987,765	1,857,921	1,538,505	(50,384,191)	56,271,213
Net assets at end of year	\$ 59,083,960	\$ 48,199,634	\$ 1,989,272	\$ 1,531,001	\$ (51,719,907)	\$ 59,083,960

**UNIVERSITY HEALTH CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
Year ended December 31, 2010

	University Health Care, Inc.	Unity Health Plans Insurance Corporation	Health Professionals of Wisconsin, Inc.	eCare of Wisconsin, LLC	Eliminations	Consolidated total
<b>Revenues</b>						
Insurance premiums and capitation fees	\$ 110,342,098	\$ 368,016,642	\$ -	\$ -	\$ (110,342,098)	\$ 368,016,642
Programs and other support						
University of Wisconsin Hospital and Clinics Authority	4,753,600	-	-	-	-	4,753,600
University of Wisconsin Medical Foundation	3,349,407	-	-	-	-	3,349,407
	8,103,007	-	-	-	-	8,103,007
Investment income	4,810,256	3,023,058	9,715	-	(4,717,848)	3,125,181
Other income	364,671	122,823	500,217	2,295,945	(138,287)	3,145,369
<b>Total revenues</b>	<b>123,620,032</b>	<b>371,162,523</b>	<b>509,932</b>	<b>2,295,945</b>	<b>(115,198,233)</b>	<b>382,390,199</b>
<b>Operating expenses</b>						
Health care and capitation costs	110,342,098	331,502,478	-	-	(110,342,098)	331,502,478
Staff salaries, wages and benefits	2,910,901	13,663,026	-	2,861,682	-	19,435,609
Purchased services and office expenses	4,591,524	11,886,614	52,867	235,407	(138,287)	16,628,125
Occupancy and equipment expense	602,633	2,876,080	202,144	605,320	-	4,286,177
Advertising and promotion	94,915	2,691,465	-	-	-	2,786,380
Goodwill amortization expense	313,363	-	-	-	-	313,363
	118,855,434	362,619,663	255,011	3,702,409	(110,480,385)	374,952,132
<b>Operating income (loss)</b>	<b>4,764,598</b>	<b>8,542,860</b>	<b>254,921</b>	<b>(1,406,464)</b>	<b>(4,717,848)</b>	<b>7,438,067</b>
<b>Other expense</b>						
Interest expense	9,715	-	64,078	-	(9,715)	64,078
<b>Increase (decrease) in net assets before change in unrealized gains on investments and income tax expense</b>	<b>4,754,883</b>	<b>8,542,860</b>	<b>190,843</b>	<b>(1,406,464)</b>	<b>(4,708,133)</b>	<b>7,373,989</b>
<b>Income tax expense</b>						
Current	-	2,591,228	74,985	-	-	2,666,213
Deferred	-	353,304	-	-	-	353,304
	-	2,944,532	74,985	-	-	3,019,517
<b>Increase (decrease) in net assets before change in unrealized gains on investments</b>	<b>4,754,883</b>	<b>5,598,328</b>	<b>115,858</b>	<b>(1,406,464)</b>	<b>(4,708,133)</b>	<b>4,354,472</b>
Change in unrealized gains on investments, net	-	400,411	-	-	-	400,411
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>4,754,883</b>	<b>5,998,739</b>	<b>115,858</b>	<b>(1,406,464)</b>	<b>(4,708,133)</b>	<b>4,754,883</b>
Contributions (distributions) - net	(300,000)	(3,000,000)	-	1,500,000	1,500,000	(300,000)
Net assets at beginning of year	51,816,330	43,989,026	1,742,063	1,444,969	(47,176,058)	51,816,330
Net assets at end of year	<b>\$ 56,271,213</b>	<b>\$ 46,987,765</b>	<b>\$ 1,857,921</b>	<b>\$ 1,538,505</b>	<b>\$ (50,384,191)</b>	<b>\$ 56,271,213</b>

