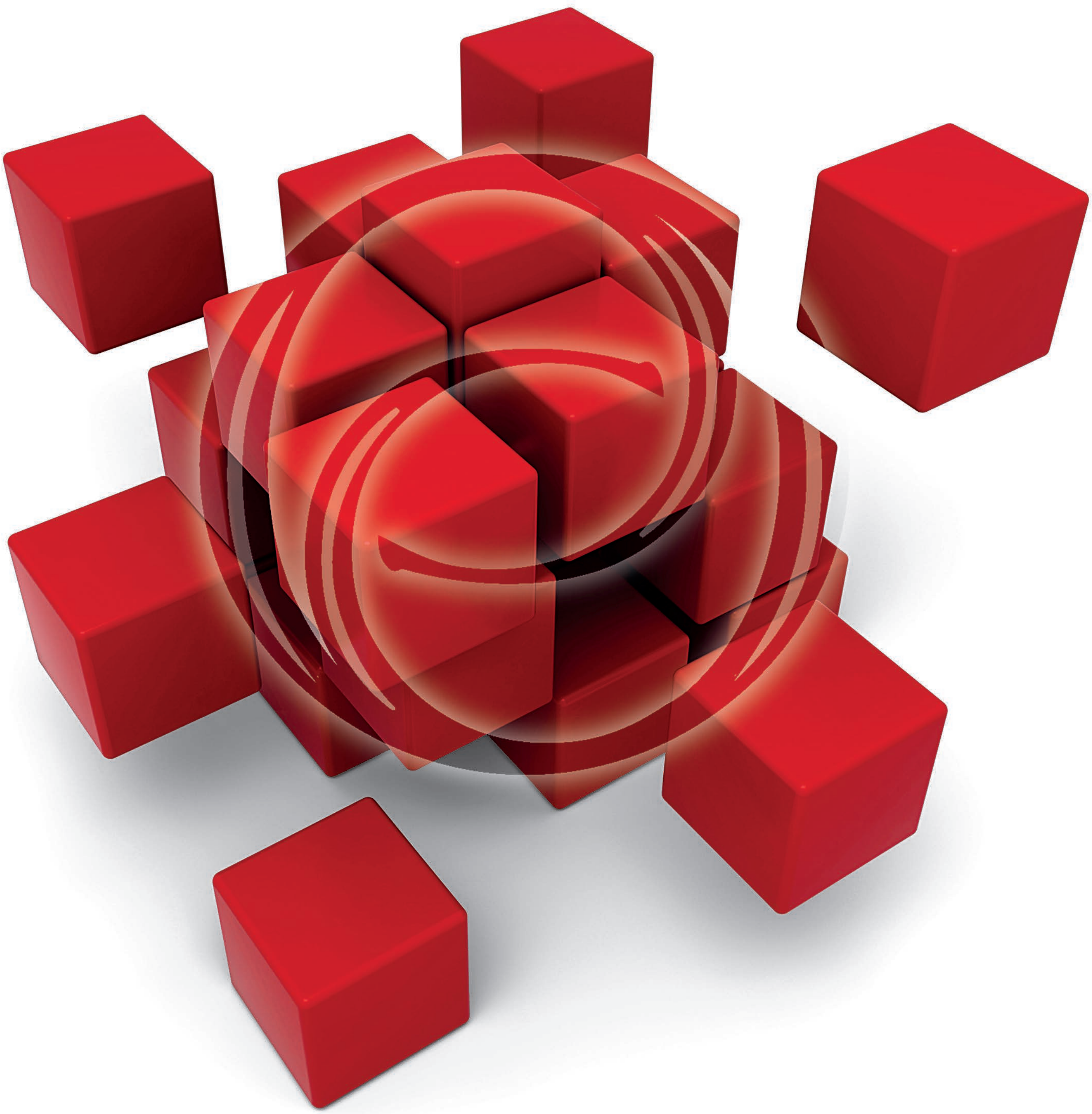
COOPERATIVE OF
AMERICAN PHYSICIANS

2015 Annual Report

Helping You Build a Better Business



Mission Statement

We are leaders and innovators in the healthcare community.

Statement of Principles

Through its core products, Mutual Protection Trust and the CAPAssurance Risk Purchasing Group, the Cooperative of American Physicians, Inc. provides the best possible medical professional liability protection and related services, maintaining the highest ethical standards in a climate of constant improvement.

Our members, associates, and affiliates receive services that are satisfying, dependable, effective, economical, and valuable.

We continually develop knowledge and resources that meet the changing legal, societal, and medical environment.

The organization's commitment to financial integrity justifies the continuing confidence of our members.

All business is conducted in accordance with federal, state, and local regulations.

MPT membership decisions and the disposition of claims are reached by boards and committees of member physicians.

Our decisions are reached with information that assists us in both reducing the risks associated with operating a medical practice and enhancing patient care.

Our employees are committed to excellence and continuous quality improvement.

Our leadership provides an atmosphere of collaboration, recognition, and fair compensation.

Our dedication to the medical community, business partners, and the public at large is exemplified by our accountability, innovation, integrity, and a commitment to quality of the highest order.

Chairs' Message

Béla S. Kenessey, MD
President and Chair
Cooperative of American Physicians, Inc.

Glenn H. Weissman, MD
Chair
Mutual Protection Trust

With the political fires over the Medical Injury Compensation Reform Act doused and California again firmly committed to the principles of judicial fairness, your organization dedicated a large part of 2015 to advancing its role in strengthening the medical practices of our members.

The best way to move forward, of course, is first to make sure that basic responsibilities are met. For us, that means providing physicians with the best medical professional liability protection available. That is what the Cooperative of American Physicians, Inc., and its professional liability provider, the Mutual Protection Trust, have done for nearly four decades and that is why CAP members remain so loyal to our risk-sharing model.

Even in a market that does not see organic growth easily, CAP grew in 2015, showing that during a period in which medicine is exploring a great variety of methods to deliver healthcare, CAP and its MPT product remain an attractive alternative for physicians dedicated to personal patient care.

Managing the Mutual Protection Trust requires constant attention to volatile claims indemnity costs (even with MICRA) and a number of members saw an increase in their overall dues and assessments. Through careful member selection, assertive claims handling, and a disciplined fiscal approach, however, the base payment by our members remains lower than 10 years ago. It's a formula that in 2015 earned MPT its A+ (Superior) rating from A.M. Best for the tenth year in a row.

A key component in MPT's ability to effectively manage risk is the Cooperative of American Physicians Insurance Company, Inc., a Class 4 sponsored captive insurance company that has provided reinsurance to MPT since its founding in 2002. Again in 2015, CAPIC earned an A- (Excellent) rating from A.M. Best while it enlarged its role as a reinsurer in the CAPAssurance Risk Purchasing Group program.

We firmly believe that our members' embrace of CAP's risk management and patient safety programs reduces medical injuries and contributes to lower claims frequency, which was down again in 2015. During the year, we tapped the expertise of our risk management professionals to extend CAP's educational outreach to areas acutely relevant to helping our members' practices thrive, including webinars on HIPAA compliance and ICD-10 implementation. As more fully noted in CEO Sarah Pacini's message, participation by physicians and their staff in CAP's webinars and special live programs has been rewarding. That's not surprising for a membership that has always been known for its dedication to constant improvement.

In governance matters, members approved amendments to the MPT Agreement and CAP Bylaws that include changes to improve operational efficiencies and maintain coverage flexibility. In addition, with the election of CAP Directors and MPT Trustees to two-year terms, members will now only need to take time out of their busy schedules every other year to vote on their CAP and MPT ballots.

On the MPT Board of Trustees, Glenn Weissman, MD, was elected chair effective January 1, 2016, assuming board leadership responsibility from Juan Carlos Cobo, MD, who remains on the Board. It was during Dr. Cobo's tenure that MPT achieved some of its most important milestones and we are particularly grateful for Dr. Cobo's instrumental role in the MICRA coalition's defeat of Proposition 46 in 2014.

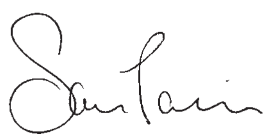
At CAP, we welcomed Wayne Kleinman, MD, an anesthesiologist in Tarzana, as the newest member elected to the Board of Directors.

The current pause in the attacks on MICRA does not diminish CAP's commitment to leadership on public policy. Our political action committees and independent expenditures continue to support candidates and officeholders who know that our judicial system should work for across-the-board access to care – not for outsized payouts to a select few. And using state law principles in conjunction with new federal policy, our lawyers at Schmid & Voiles argue regularly in the courts that the Affordable Care Act's guarantees on health insurance for Americans can only mean that judicial awards for future medical care in malpractice suits against members must be moderated substantially.

We are an institution that in 2017 will celebrate 40 years of providing medical professional liability protection to California's finest physicians and the people at CAP are energized and motivated to meet your needs with a range of practice-related solutions.

We strive to make this energy palpable with every single interaction that you have with us.

CEO's Message



Sarah E. Pacini, JD
Chief Executive Officer

As Dr. Kenessey and Dr. Weissman have indicated, 2014 brought a landmark decision for the Medical Injury Compensation Reform Act. The fight against Proposition 46 was tracked with intense interest by healthcare advocates across the country.

The staggering pace of change in healthcare only accelerated in 2015. Value based compensation, expanded regulation and legislation, workplace violence, and ongoing cost management challenges are only a few of the pressures faced by physicians and healthcare entities on a daily basis. The Cooperative of American Physicians recognizes the mounting pressures faced by our members and has taken a proactive approach to helping you successfully build your business. CAP continues to evolve and change to anticipate your needs and to help you overcome the hurdles you face with proper support and resources.

To be sure, CAP's flagship professional liability coverage product, the Mutual Protection Trust (MPT), remains the preeminent choice for California's finest physicians. Both MPT and the CAPAssurance Risk Purchasing Group, created by CAP to provide hospitals, facilities, and large physician groups with medical malpractice coverage and CAP services, experienced another strong year in 2015.

Stable, managed growth promotes an effective spread of risk for CAP members in MPT and the healthcare facilities that purchase coverage through CAPAssurance. In addition to the growth experienced by MPT and CAPAssurance, the CAP Physicians Insurance Agency continues to expand its book of business. The Agency provides CAP members and others with a full suite of physician-specific and discounted commercial and personal insurance products. The Agency is just one example of how CAP surrounds the medical practice with a full spectrum of protection, services, and resources.

To further support the growth of the organization, CAP introduced a new streamlined online application, making it even faster and easier for California physicians to join CAP for better coverage and more benefits.

Another CAP hallmark is physician engagement and support. When physicians are engaged in managing their medical liability risk, they increase the likelihood of achieving outstanding patient safety and satisfaction – both critical to avoiding malpractice claims. In 2015, CAP visited some 1,500 physician offices to provide complimentary risk analysis and customized risk reduction recommendations.

CAP offers practice management education, programs, and training to help members operate successful practices. Three new programs developed in 2015 further demonstrate CAP's commitment to surrounding the practice with vital management support:

- **The Patient Experience Survey Program** – a high-performance, cost-effective online survey platform that quickly and precisely reports patients' perceptions of the physician, the staff, and the overall office experience.
- **The CAP Job Board** – a site where CAP member groups can post their job openings at no charge, while CAP markets those openings to residents and practicing physicians throughout California and surrounding states.
- **"Surviving and Thriving Through Healthcare Reform"** – a quarterly webinar series with topics spanning online reputation management, ICD-10, HIPAA updates, and cyber risk.

Emphasis on risk management and patient safety remains a cornerstone of the Cooperative of American Physicians. CAP provides its physicians, groups, and facilities with innovative risk management education, tools, and resources to manage safe and successful practices and achieve quality outcomes.

In addition to thousands of medical office visits, CAP conducted 28 CME-accredited risk management seminars across California in 2015, as well as more than 50 seminars on various risk management and practice management topics. Furthermore, CAP offered the complimentary online Risk Management Institute program that several hundred physicians and staff members completed. These unique programs support CAP's aspiration that all California physicians manage safer practices and deliver superior patient experiences.

Underpinning all of CAP's products and services is a disciplined commitment to financial excellence. This means a vigorous defense of claims to minimize our covered physician and entity indemnity expenses. In 2015, Schmid & Voiles, the 30-lawyer law firm dedicated to defending CAP members and affiliated healthcare providers and institutions, was named a Top Boutique Law Firm in California for its outstanding medical malpractice defense. Utilizing both the talented lawyers at Schmid & Voiles and expert outside counsel, CAP protects some 12,000 physicians and numerous medical practices, hospitals, and other healthcare facilities.

Financial excellence also corresponds to prudent organizational budgeting and expense management. The money we spend is our members' money. In 2015, we continued to emphasize prudent budgeting and spending – always with the aim to protect and support our members and entities.

In summary, 2015 was a year of growth, adaptability, and success. These organizational tenets remain our focus for CAP and for all of the physician members and facilities that we are honored to protect and serve.

Board of Trustees Mutual Protection Trust

Glenn H. Weissman, MD, Chair

Juan Carlos Cobo, MD, FACS

Mearl A. Naponic, MD

Othella T. Owens, MD

Andrew L. Sew Hoy, MD

Charles P. Steinmann, MD

Phillip Unger, MD

Board of Directors Cooperative of American Physicians

Béla S. Kenessey, MD, President and Chair

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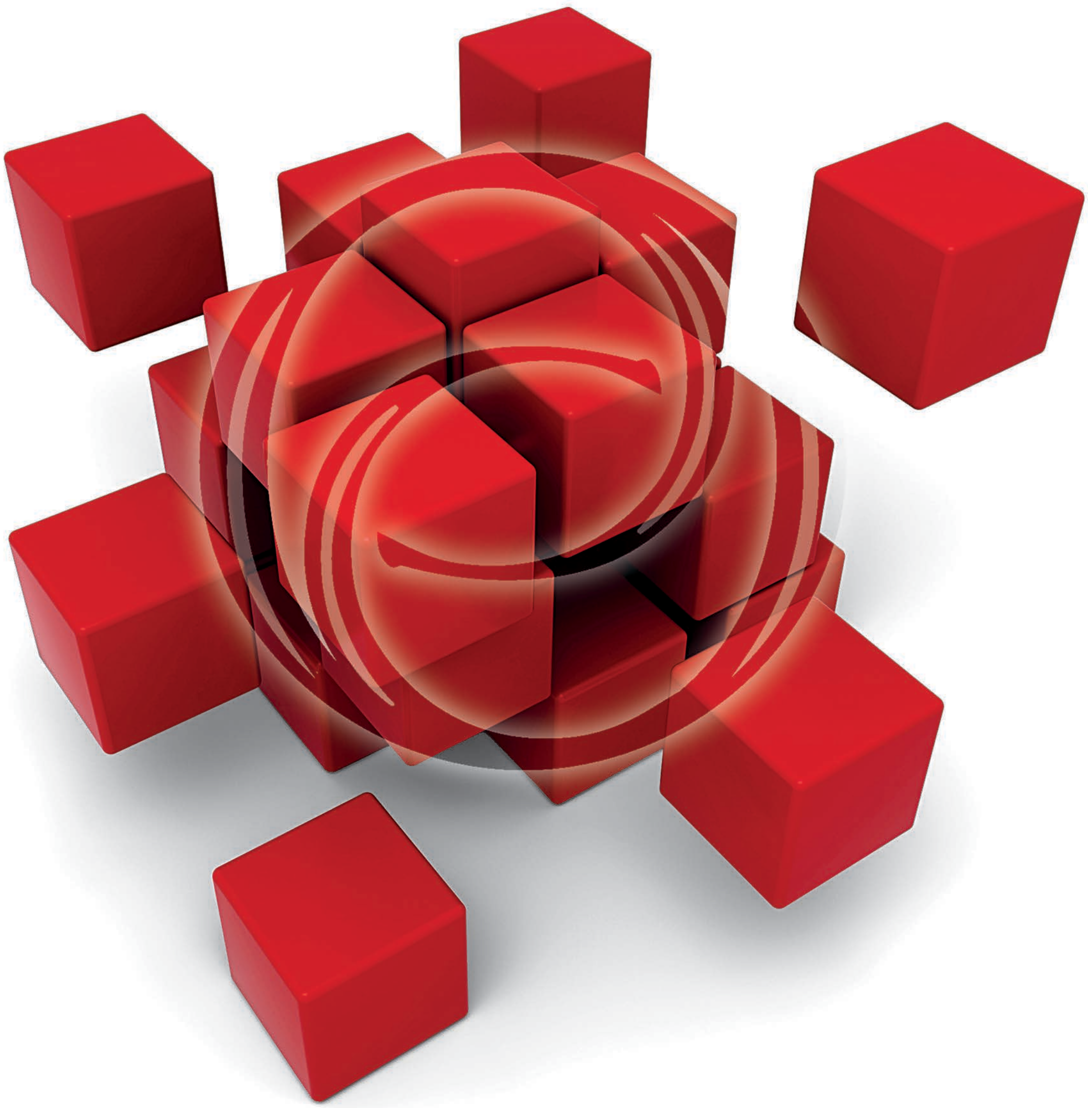
Paul R. Weber, MD, PhD

Bruce J. Weimer, MD

Cooperative of American Physicians, Inc.

CAP 2015 Financial Reports



COOPERATIVE OF AMERICAN PHYSICIANS, INC. (CAP) AND SUBSIDIARIES AND
MUTUAL PROTECTION TRUST (MPT)

Report to the Membership

BY THE CAP AND MPT AUDIT COMMITTEE

The consolidated financial statements of CAP, the financial statements of MPT, and related financial information included in this annual report, have been prepared by CAP and MPT, whose management is responsible for its integrity. These financial statements, which necessarily reflect estimates and judgments have been prepared in conformity with U.S. generally accepted accounting principles.

The financial statements as of and for the years ended December 31, 2015 and 2014 have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports appearing on pages 9 and 29.

CAP and MPT maintain a system of internal controls to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded.

The Audit Committee, which consists solely of members who are not employees of the Company, meets periodically with management and the independent auditors to review the scope of their activities and to discuss internal controls and financial reporting matters. The independent auditors have full and free access to the Audit Committee and meet with the Committee both with and without the presence of Company management.

This report will be filed with the California Department of Business Oversight with a statement from the Board of Trustees that this report was prepared from the official books and records of CAP and MPT.

Stewart Shanfield MD

Stewart Shanfield, MD
Chair
CAP and MPT Audit Committee
March 22, 2016

Report of Independent Auditors

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

THE BOARD OF DIRECTORS
COOPERATIVE OF AMERICAN PHYSICIANS, INC.

We have audited the accompanying consolidated financial statements of the Cooperative of American Physicians, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in members' equity 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 financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cooperative of American Physicians, Inc. and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Los Angeles, California
March 22, 2016

Consolidated Balance Sheets

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	December 31 2015	December 31 2014
ASSETS		
Cash and cash equivalents	$ 7,351,000	$ 6,260,000
Restricted cash	2,285,000	1,820,000
Short-term investments	—	350,000
Fixed income securities, at fair value	32,755,000	31,894,000
Equity securities, at fair value	4,495,000	4,707,000
Premiums receivable	5,743,000	4,064,000
Funds held by reinsured	3,251,000	1,515,000
Receivable from affiliated entities	1,610,000	1,512,000
Receivable for claims and risk management services	737,000	478,000
Other assets	1,389,000	1,121,000
	$59,616,000	$53,721,000
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Reserves for losses and loss adjustment expenses	$14,825,000	$13,799,000
Payable to affiliated entities	407,000	—
Dues received in advance	1,115,000	1,045,000
Deferred tax liabilities, net	42,000	114,000
Unearned premiums	1,317,000	753,000
Income taxes payable	359,000	619,000
Unearned claims and risk management services	680,000	471,000
Premiums payable	8,025,000	5,880,000
Accounts payable and other liabilities	4,632,000	3,937,000
	31,402,000	26,618,000
Contingencies and commitments (see Note 6)		
Total Members' Equity:		
Members' equity	27,662,000	26,369,000
Accumulated other comprehensive income	552,000	734,000
	28,214,000	27,103,000
	$59,616,000	$53,721,000

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	Years Ended December 31	
	2015	2014
Revenues		
Member and participant dues	$ 3,243,000	$ 3,249,000
Claims and risk management service revenues	42,821,000	41,925,000
Premiums earned	6,872,000	5,699,000
Commissions earned	1,768,000	1,593,000
Investment income, net	925,000	950,000
Other revenues	1,000	66,000
Total Revenues	55,630,000	53,482,000
Expenses		
Salaries and related expenses	29,488,000	29,037,000
Other operating costs	19,894,000	19,126,000
Losses and loss adjustment expenses	4,159,000	2,901,000
Total Expenses	53,541,000	51,064,000
Income Before Income Taxes	2,089,000	2,418,000
Income Tax Expense	796,000	913,000
Net Income	1,293,000	1,505,000
Other Comprehensive (Loss) Income, Net		
Net unrealized (losses) gains on securities available-for-sale, net of taxes	(182,000)	243,000
Comprehensive Income	$ 1,111,000	$ 1,748,000

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Members' Equity

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	Members' Equity	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at January 1, 2014	$24,864,000	$ 491,000	$25,355,000
Net Income	1,505,000	—	1,505,000
Other Comprehensive Income			
(net of deferred income taxes of $125,000)	—	243,000	243,000
Balance at December 31, 2014	26,369,000	734,000	27,103,000
Net Income	1,293,000	—	1,293,000
Other Comprehensive Loss			
(net of deferred income taxes of $93,000)	—	(182,000)	(182,000)
Balance at December 31, 2015	$27,662,000	$ 552,000	$28,214,000

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

	Years Ended December 31 2015	2014
Operating Activities		
Net income	$ 1,293,000	$ 1,505,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization on fixed income securities	389,000	389,000
Net realized investment gains	(7,000)	(91,000)
Deferred income taxes	22,000	(36,000)
Changes in operating assets and liabilities:		
Restricted cash	(465,000)	(890,000)
Income taxes	(260,000)	908,000
Premiums receivable	(1,679,000)	(1,343,000)
Funds held by reinsured	(1,736,000)	(977,000)
Receivable from affiliated entities	(98,000)	197,000
Receivable for claims and risk management services	(259,000)	(151,000)
Other assets	(268,000)	266,000
Reserves for losses and loss adjustment expenses	1,026,000	811,000
Payable to affiliated entities	407,000	(295,000)
Dues received in advance	70,000	100,000
Unearned premiums	564,000	86,000
Unearned claims and risk management services	209,000	345,000
Premiums payable	2,145,000	2,229,000
Accounts payable and other liabilities	695,000	265,000
Net Cash Provided by Operating Activities	2,048,000	3,318,000
Investing Activities		
Purchases of fixed income and equity securities	(9,701,000)	(9,539,000)
Proceeds from sale or maturity of fixed income and equity securities	8,394,000	6,505,000
Proceeds from sale of short-term investments	350,000	—
Purchase of short-term investments	—	(350,000)
Net Cash Used In Investing Activities	(957,000)	(3,384,000)
Net Change in Cash and Cash Equivalents	1,091,000	(66,000)
Cash and Cash Equivalents at Beginning of Year	6,260,000	6,326,000
Cash and Cash Equivalents at End of Year	$ 7,351,000	$ 6,260,000

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 1: Organization

The Cooperative of American Physicians, Inc. (CAP) was incorporated in 1975 for the purpose of providing various services relating to the general and professional welfare of its membership, which is comprised exclusively of physicians and surgeons licensed to practice in California. On January 1, 2013, physician members of the Hawaii Association of Physicians for Indemnification (HAPI), a group of physicians and surgeons licensed to practice in Hawaii, became non-voting participants in CAP and received certain benefits from CAP pursuant to an agreement. Additional non-voting participants have been added through the CAPAssurance Program, which is more fully described below.

CAP formed Mutual Protection Trust (MPT) in 1977 in accordance with California legislation enacted in 1976 permitting the formation of such interindemnity arrangements to provide medical professional liability protection for physicians. MPT is a separate legal entity governed by its Board of Trustees. Physicians covered by MPT are required to be members of CAP.

In April 2013, CAP formed CAPAssurance Risk Purchasing Group (CAPAssurance), a non-profit, unincorporated association domiciled in California that was established to allow large physician groups, hospitals, and facilities access to a medical professional liability insurance product. As a risk purchasing group, CAPAssurance is not a subsidiary of CAP and is comprised of physician groups and medical facilities that purchase their liability insurance through CAPAssurance. Insurance under the program is provided by a national medical professional liability insurance company, with certain risk management, claims administration, and other policy services provided by CAP under agreements that became effective in March 2013 for hospitals and July 2013 for large physician groups (collectively the CAPAssurance Program) (see Note 2). In 2014, CAP began collecting premiums on new or renewal business produced through the CAPAssurance Program. Physicians and medical facilities that are insured through the CAPAssurance Program can access various benefits of CAP as non-voting participants. CAP, with the CAPAssurance Program, can now better serve larger medical groups with professional liability coverage either through an insurance product or through the interindemnity arrangement provided by MPT.

In 2002, CAP formed the Cooperative of American Physicians Insurance Company, Inc. (CAPIC), a wholly owned subsidiary domiciled in the state of Hawaii under that state's captive insurance statutes. The original purpose of CAPIC was to offer supplemental reinsurance and insurance coverage to its affiliate MPT and supplemental insurance coverage to CAP. In December 2011, CAPIC received approval from the state of Hawaii to be re-licensed as a Class 3 risk retention captive insurance company effective January 1, 2012, and the name was changed to Cooperative of American Physicians Insurance Company, Inc., a Risk Retention Group as it relates to operations after December 31, 2011. As a risk retention group, CAPIC, in addition to its current products, offered medical professional liability insurance coverage to targeted larger physician medical groups. This expanded CAPIC's product offerings to large physician groups, hospitals, and medical facilities who become non-voting participants of CAP. In the second quarter of 2013, CAP determined that larger physician medical groups could be better served through an insurance product provided by a larger national medical professional liability insurance company and managed by CAP. This made it unnecessary for CAPIC to operate as a risk retention group; therefore, on May 23, 2013, CAPIC was re-licensed to a Class 4 sponsored captive insurance company. Under its new license, CAPIC entered into a pro rata reinsurance agreement with the insurance company providing insurance coverage for the CAPAssurance Program and thereby participating in the underwriting results. Under the reinsurance agreement, CAPIC participates on a pro rata basis at rates that vary based on the type of insured covered by the policies. The policy acquisition costs and claims administration expenses of the insurance company on these policies are also reimbursed by CAPIC on the same pro rata basis per the terms of the reinsurance agreement. CAPIC amortizes these expenses over the related policy term. These expenses include certain claims administration and other policy services provided by CAP to the insurance company under the CAPAssurance Program. CAPIC is consolidated in the operations of CAP.

In 2006, CAP formed the Cooperative of American Physicians Insurance Services, Inc. (CAPIS), a wholly owned subsidiary domiciled in Delaware, and licensed as a broker-dealer by the Financial Industry Regulatory Authority. CAPIS provided CAP and its affiliate, MPT, with an alternative distribution channel for both the products offered by CAP and the medical professional liability protection services of MPT. Operations commenced in 2007 and were consolidated with the operations of CAP. More recently, it was determined that this alternative distribution channel was no longer necessary, and the company was dissolved on February 20, 2015.

In 2007, CAP formed the CAP Physicians Insurance Agency, Inc. (CAP Agency), a wholly owned subsidiary of CAP domiciled in California, which provides access to business and other coverages for CAP members and participants. In addition,

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 1: Organization (continued)

under an agreement that became effective January 1, 2013, CAP Agency performs the billing and collection obligations under CAP's group disability and life program. The operations of CAP Agency are consolidated with the operations of CAP.

In 2003, CAP entered into a patent licensing and consulting agreement, which authorizes the use of CAP's claims-paid insurance policy form and intellectual knowledge to a third party. Under this agreement, CAP receives royalty and/or consulting fee payments based on a percentage of premiums earned.

Effective January 1, 2010, CAP and MPT entered into an administrative and management services agreement whereby CAP provides membership, claim, risk management, financial, legal and other administrative and management services to MPT. CAP receives monthly fees from MPT for these services. Effective January 1, 2013, MPT and CAPIC entered into a services agreement whereby CAPIC provides claims legal defense services to MPT physicians. MPT pays CAPIC monthly fees for these services that are based on actual costs incurred (see Note 8).

CAP sponsors the CAP State Political Action Committee and the CAP Federal Political Action Committee, which solicit and accept donations from members of CAP and make contributions in support of candidates for public office. CAP also maintains the Cooperative of American Physicians State Independent Expenditure Committee and the Cooperative of American Physicians Federal Independent Expenditure Committee, which participate in independent expenditure candidate campaigns. These committees are subject to laws and regulations of the state of California and the federal government.

Note 2: Summary of Significant Accounting Policies

BASIS OF FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements of CAP and its wholly owned subsidiaries, CAPIC, CAPIS and CAP Agency (collectively, the Company), have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). This basis of accounting requires the use of management estimates that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Intercompany transactions and balances have been eliminated in consolidation.

The expenses of CAP are incurred on behalf of its members and participants, MPT, and the political action committees. For certain membership benefit expenses, CAP is reimbursed by MPT. Other revenues include royalties under certain license agreements. Membership dues are $250 per member. For participants, the dues vary based on the benefits selected by such participants.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term highly liquid investments with maturities of 90 days or less at acquisition and are principally stated at amortized cost.

RESTRICTED CASH

Restricted cash represents funds held in Premium Trust accounts for CAP Agency and CAPAssurance premiums and premium related receipts. Disbursements are made from these accounts to pay premiums to insurance companies, agent commissions to CAP Agency, dues and claims and risk management service fees to CAP, and excise surplus lines taxes to taxing authorities.

SHORT-TERM INVESTMENTS

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are principally stated at amortized cost.

INVESTMENTS

Investments are classified as available-for-sale and are carried at fair value. Transfers between fair value hierarchy levels 1, 2, or 3 are recognized on the actual date of the circumstances that caused the transfer to occur. Unrealized gains and losses are

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 2: Summary of Significant Accounting Policies (continued)

accounted for, net of tax, as a component of accumulated other comprehensive income in members' equity. Realized gains and losses from sales transactions occurring during the year are recognized in operations using the specific identification method. Unrealized gains and losses are determined using the specific identification method. Investment income is recorded as earned. Premiums and discounts on investment securities are primarily amortized using the interest method over the estimated lives of the investments. Adjustments for other-than-temporary market declines are recorded when determination of loss is probable and are reported as a write-down of cost or amortized cost to fair value.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and fixed income securities. The Company places its temporary cash investments with high credit quality financial institutions. Concentrations of credit risk with respect to fixed income securities are limited due to the large number of such investments and their distribution across many different sectors. The Company's investments in federal agency securities are considered to have an implicit guarantee as to principal from the U.S. government and are considered to have minimal credit risk.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value amounts, defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date, have been determined using available market information and other appropriate valuation methodologies. However, considerable judgment is required in developing the estimates of fair value where quoted market prices are not available. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimating methodologies may have an effect on the estimated fair value amounts.

The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments in the accompanying consolidated financial statements and in these notes:

Cash and cash equivalents, restricted cash, short-term investments, premiums receivable, funds held by reinsured, receivable from affiliated entities, receivable for claims and risk management services, payable to affiliated entities, dues received in advance, premiums payable, accounts payable and other liabilities. The carrying amounts for these financial instruments as reported in the accompanying consolidated balance sheets approximate their estimated fair values.

Investments. The Company determines the fair value of its financial instruments based on the fair value hierarchy established in Accounting Standards Codification (ASC) 820, which requires an entity to disclose the use of observable inputs and minimize the use of unobservable inputs for measuring fair value. Estimates of fair value measurements for these securities are estimated using relevant inputs, including available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additionally, an Option Adjusted Spread model is used to develop prepayment and interest rate scenarios. Industry standard models are used to analyze and value securities with embedded options or prepayment sensitivities.

Each asset class is evaluated based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.

This method of valuation will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If objectively verifiable information is not available, the Company would be required to produce an estimate of fair value using some of the same methodologies, but would have to make assumptions for market-based inputs that are unavailable due to market conditions.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 2: Summary of Significant Accounting Policies (continued)

Because the fair value estimates of most fixed income securities are determined by evaluations that are based on observable market information rather than market quotes, most estimates of fair value for fixed income securities are based on estimates using objectively verifiable information and are included in the amount disclosed in Level 2 of the hierarchy. The values of states and municipalities, U.S. treasuries, corporate bonds, residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities are based on the observable market information and as such, are included in Level 2 of the hierarchy. Level 1 is limited to unadjusted quoted prices in active markets for identical instruments and includes all equity securities.

The following table presents investments in the accompanying consolidated balance sheets that are stated at fair value and the fair value measurements used as of December 31, 2015 and 2014 (see Note 3):

	Total	Level 1	Level 2
DECEMBER 31, 2015			
Fixed income securities			
States and municipalities	$16,577,000	$ —	$16,577,000
Corporate bonds	2,760,000	—	2,760,000
Residential mortgage-backed securities	6,986,000	—	6,986,000
Commercial mortgage-backed securities	2,955,000	—	2,955,000
Asset-backed securities	3,477,000	—	3,477,000
Total fixed income securities	32,755,000	—	32,755,000
Equity securities: mutual funds	4,495,000	4,495,000	—
Total fixed income and equity securities	$37,250,000	$4,495,000	$32,755,000
DECEMBER 31, 2014			
Fixed income securities			
States and municipalities	$14,441,000	$ —	$14,441,000
U.S. Treasuries	350,000	—	350,000
Corporate bonds	2,821,000	—	2,821,000
Residential mortgage-backed securities	8,425,000	—	8,425,000
Commercial mortgage-backed securities	3,364,000	—	3,364,000
Asset-backed securities	2,843,000	—	2,843,000
Total fixed income securities	$32,244,000	$ —	$32,244,000
Equity securities: mutual funds	4,707,000	4,707,000	—
Total fixed income and equity securities	$36,951,000	$4,707,000	$32,244,000

There were no securities at December 31, 2015 or 2014, whose fair value measurements were based on Level 3: Unobservable inputs.

There were no significant transfers in and out of Level 1 and Level 2 fair value measurements during the years ended December 31, 2015 or 2014.

REVENUES

Dues: Members' dues are recognized on January 1 of each year and earned ratably over the year. For participants, dues are recognized on a pro rata basis over the related agreement or insurance policy term.

Claims and risk management service revenues: These services are comprised primarily of services provided to MPT and to an insurance company pursuant to the CAPAssurance Program (see Notes 1 and 8). Claims and risk management services to MPT are recognized as earned, and are derived under agreements to provide certain administrative, claims legal defense, and management services. For all services except claims legal defense, revenues are determined based on actual expenses incurred plus a margin. The calculation of expense to MPT is based on the ratio of assessments, dues and revenues of MPT to total assessments, dues and revenues of the Company and MPT combined. The Company excludes revenues from this administra-

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 2: Summary of Significant Accounting Policies (continued)

tive and management services agreement in calculating this ratio. The claims legal defense service revenues are determined based on actual costs incurred and represent services provided by CAPIC to MPT physicians pursuant to an agreement effective January 1, 2013.

The claims and risk management services under the CAPAssurance Program are derived from agreements with an insurance company that became effective in 2013. These services consist of claims administration, risk management and certain insurance services in the areas of underwriting support, risk management, marketing, and other administrative services. The insurance company retains underwriting authority on all policies issued. Service fees are based on percentages of premiums on policies issued. If a policy is cancelled prior to its expiration date, the Company returns service fees to the insurance company based on the unearned premium of the cancelled policy. These service obligations are part of other agreements that together allow the Company to offer a medical professional liability insurance product to large physician medical groups, hospitals, and medical facilities. One of these other agreements is a pro rata reinsurance agreement between CAPIC and the insurance company. This enables the Company to participate in the underwriting results on insurance policies issued by the insurance company through the CAPAssurance Program. Accordingly, the Company will not only generate claims and risk management service revenues on policies issued by the insurance company, but will also recognize premiums earned through the reinsurance agreement and dues revenue for any physician and medical facility participants who purchase benefits from CAP.

The Company recognizes the marketing services revenues at the inception of the policy period since these services are complete as of the inception of the policy. Underwriting support, risk management and other administration services under the CAPAssurance Program (policy services) are recognized over the related policy term. Policy services are provided during the policy term. Service fees are subject to return should the underlying policy be cancelled. For claims administration services, an estimated payout period of reported claims is used to recognize service fee revenue. This period is generally longer than the related policy term and is aligned with the Company's obligation to provide claims administration services on reported claims until final resolution of the claim. The allocation of service fees between claims administration and policy services is based on the premium percentages for such services as stated in the underlying agreements. The Company determined these rates to be reasonable by comparing these percentages to the recent historical experience of the insurance company and found such rates comparable. The insurance company is a leading provider of medical professional liability insurance nationwide and is considered representative of what competitive policy services cost should approximate.

Premiums: Premiums are recognized on a pro rata basis over the policy term. Premiums under extended reported endorsements are recognized on the effective date of the endorsement.

Reinsurance: CAPIC is involved in the assumption of reinsurance with a non-affiliated insurance company. CAPIC participates on a pro rata basis in the first $1.0 million of exposure on medical professional liability policies at rates that vary based on the type of insured covered by the policies. Assumed premiums written under this agreement were $2,131,000 and $1,224,000 for the years ended December 31, 2015 and 2014, respectively. Premiums earned under this agreement were $1,567,000 and $1,138,000 for the years ended December 31, 2015 and 2014, respectively. CAPIC is consolidated in the operations of CAP.

Commissions earned: Commissions on premiums billed and commission adjustments, including policy cancellations and override commissions, are recorded when estimable or received. Supplemental commissions are received from insurance companies as additional incentive for achieving specified premium volume goals and/or the loss experience of the insurance placed by the Company. Supplemental commissions are recognized when the Company receives data from the insurance companies that allows the amounts to be reasonably estimated. Commission expense represents amounts the Company pays on business placed by insurance brokers and agents based on agreed-upon commission percentages between the Company and the insurance brokers and agents. Commission expense is recognized on the effective date of the related MPT coverage period. Commission income is reported gross of commission expense.

Royalties: Royalties are recognized as earned and are included in other revenues in the accompanying consolidated statements of comprehensive income.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 2: Summary of Significant Accounting Policies (continued)

RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Reserves for losses and loss adjustment expenses under contracts of insurance and reinsurance written on a claims-made form is determined from reported losses and an amount, based on an actuarial evaluation which considers past experience, for development on such losses. Such liabilities are necessarily based on estimates and, while management believes that the amount is within a reasonable range of adequacy, the ultimate liability may be in excess of, or less than, the amount provided. Changes in estimates of the liabilities resulting from their periodic review and differences between estimates and ultimate payments are reflected in current operations.

PREMIUMS RECEIVABLE AND PREMIUMS PAYABLE

The Company records premiums receivable and payable under its agency billed and CAPAssurance business using the accrual basis. Under this method, new and renewal premiums on policies produced by CAP Agency on agency billed business or CAP on CAPAssurance Program business is recognized as a premium receivable from the physician, group or medical facility and a premium payable to the insurance company. Cash received from agency or CAP billings reduce the premiums receivable and cash payments to the insurance company reduce the premiums payable. For business where CAP Agency is not obligated to perform billing services, accounts are settled on a cash basis.

FUNDS HELD BY REINSURED

In 2013, CAPIC entered into a pro rata reinsurance agreement with an insurance company as part of the CAPAssurance Program (see Note 1). Under the terms of the agreement, premiums assumed, less specified policy acquisition costs and claims administration expenses, are held by the insurance company to secure incurred but unpaid obligations of CAPIC, such as incurred but unpaid claims and unearned premiums. Should the assumed premiums, net of expenses, be insufficient to secure these unpaid obligations, then additional funds will be paid to the insurance company to make up any shortfall. In December 2014, the Company funded $222,000 in additional funds to the insurance company. No additional funds were required in 2015. The amounts held by the insurance company are reported as funds held by reinsured.

RECEIVABLE FOR CLAIMS AND RISK MANAGEMENT SERVICES

The receivable for claims and risk management services represents uncollected claims, risk management and insurance services fees on insurance policies issued under the CAPAssurance Program (see Note 1). A receivable is established at the inception date of the issued policies and CAP collects these service fees based on the premium payment terms of the issued policies.

UNEARNED CLAIMS AND RISK MANAGEMENT SERVICES

Risk management and insurance services provided by CAP under the CAPAssurance Program are recognized over the underlying insurance policy periods. Claims administration services provided by CAP under this program are recognized over an estimated payout period of reported claims. Unearned claims and risk management services represent the amount of these service fees that relate to either the unexpired policy periods or the unexpired claim payout period as of the balance sheet date (see Note 1).

CAPITAL REQUIREMENTS

CAPIC is required by the state of Hawaii to maintain capital and surplus in an amount, and in certain investments, deemed appropriate by the Hawaii State Insurance Commissioner. At December 31, 2015 and 2014, CAPIC exceeded the minimum requirement of $1,000,000. Hawaii law provides that no dividends may be paid to shareholders without prior approval of the Insurance Commissioner. No dividends were declared or paid for the years ended December 31, 2015 and 2014.

INCOME TAXES

CAP and its wholly owned subsidiaries file a consolidated federal income tax return. CAP allocates income taxes to these subsidiaries based on the separate return method. Income taxes are provided for current taxes payable or refundable and the temporary differences arising from future tax consequences of events that have been recognized in the Company's financial statements or income tax returns. The effects of income taxes are measured based on enacted tax laws and rates. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are recognized if,

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 2: Summary of Significant Accounting Policies (continued)

based on the weight of available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized. Interest and penalties on tax amounts paid or received are included in investment income, net and other operating costs, respectively.

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive (loss) income. Other comprehensive (loss) income refers to revenues, expenses, gains and losses that are not included in net income less reclassification adjustments for gains or losses, but rather are recorded in comprehensive income. For the years ended December 31, 2015 and 2014, other comprehensive (loss) income consists solely of net unrealized gains and losses, net of tax, on securities classified as available-for-sale. Reclassification adjustments related to available-for-sale securities for the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Net realized investment (losses) gains included in the calculation of investment income, net	$(4,000)	$ 7,000
Tax effect (at 34%)	1,000	(2,000)
Net realized investment (losses) gains reclassified from other comprehensive income	$(3,000)	$ 5,000

NEW ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU 2014-09 in order to clarify the principles for recognizing revenue, improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets and to provide more useful information to users of financial statements through improved disclosure requirements. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update will be effective for reporting periods beginning after December 15, 2018, and may be adopted earlier, but not before reporting periods beginning after December 15, 2016. The Company has not yet adopted this guidance. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

In May 2015, the FASB issued ASU 2015-09, which requires all insurance entities that issue short-duration contracts to expand disclosures about the liability for unpaid claims and claim adjustment expenses. This update increases transparency of significant estimates made in measuring those liabilities, improves comparability by requiring consistent disclosure of information, and provides financial statement users with additional information to facilitate analysis of the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities and the development of loss reserve estimates. This update is effective retrospectively for annual reporting periods beginning after December 15, 2016, and may be adopted earlier. The Company has not yet adopted this guidance.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

SUBSEQUENT EVENTS

The Company has completed an evaluation of all subsequent events through March 22, 2016, which is the date the consolidated financial statements were available for issuance, and has concluded that no subsequent events occurred which would require recognition or disclosure.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 3: Investments

Investment securities, exclusive of cash and cash equivalents, are comprised of the following:

	Amortized Cost/Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2015				
Fixed income securities				
States and municipalities	$15,966,000	$ 612,000	$ (1,000)	$16,577,000
Corporate bonds	2,779,000	13,000	(32,000)	2,760,000
Residential mortgage-backed securities	6,969,000	99,000	(82,000)	6,986,000
Commercial mortgage-backed securities	2,971,000	—	(16,000)	2,955,000
Asset-backed securities	3,487,000	—	(10,000)	3,477,000
Total fixed income securities	32,172,000	724,000	(141,000)	32,755,000
Equity securities: mutual funds	4,242,000	553,000	(300,000)	4,495,000
Total fixed income and equity securities	$36,414,000	$1,277,000	$(441,000)	$37,250,000
DECEMBER 31, 2014				
Fixed income securities				
States and municipalities	$13,935,000	$ 507,000	$ (1,000)	$14,441,000
U.S. Treasuries	350,000	—	—	350,000
Corporate bonds	2,791,000	31,000	(1,000)	2,821,000
Residential mortgage-backed securities	8,334,000	145,000	(54,000)	8,425,000
Commercial mortgage-backed securities	3,350,000	21,000	(7,000)	3,364,000
Asset-backed securities	2,838,000	6,000	(1,000)	2,843,000
Total fixed income securities	31,598,000	710,000	(64,000)	32,244,000
Equity securities: mutual funds	4,242,000	568,000	(103,000)	4,707,000
Total fixed income and equity securities	$35,840,000	$1,278,000	$(167,000)	$36,951,000

The amortized cost and fair value of fixed income securities available-for-sale as of December 31, 2015, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 755,000	$ 759,000
Due after one year through five years	4,406,000	4,532,000
Due after five years through 10 years	6,007,000	6,228,000
Due after 10 years	7,577,000	7,818,000
	18,745,000	19,337,000
Mortgage-backed and asset-backed securities	13,427,000	13,418,000
	$32,172,000	$32,755,000

For the years ended December 31, 2015 and 2014, proceeds from sales of investments were $3,146,000 and $4,341,000, respectively.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 3: Investments (continued)

The following table shows the gross unrealized losses and fair value aggregated by investment category and length of time those securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
DECEMBER 31, 2015						
Fixed income securities						
States and municipalities	$ 168,000	$ (1,000)	$ —	$ —	$ 168,000	$ (1,000)
Corporate bonds	967,000	(32,000)	—	—	967,000	(32,000)
Residential mortgage-backed securities	1,821,000	(15,000)	2,013,000	(67,000)	3,834,000	(82,000)
Commercial mortgage-backed securities	1,948,000	(10,000)	498,000	(6,000)	2,446,000	(16,000)
Asset-backed securities	3,228,000	(9,000)	249,000	(1,000)	3,477,000	(10,000)
Total fixed income securities	8,132,000	(67,000)	2,760,000	(74,000)	10,892,000	(141,000)
Equity securities: mutual funds	—	—	2,701,000	(300,000)	2,701,000	(300,000)
Total fixed income and equity securities	$8,132,000	$ (67,000)	$5,461,000	$(374,000)	$13,593,000	$(441,000)
DECEMBER 31, 2014						
Fixed income securities						
States and municipalities	$ 730,000	$ (1,000)	$ —	$ —	$ 730,000	$ (1,000)
Corporate bonds	482,000	(1,000)	—	—	482,000	(1,000)
Residential mortgage-backed securities	1,290,000	(1,000)	2,545,000	(53,000)	3,835,000	(54,000)
Commercial mortgage-backed securities	429,000	(1,000)	501,000	(6,000)	930,000	(7,000)
Asset-backed securities	832,000	(1,000)	—	—	832,000	(1,000)
Total fixed income securities	3,763,000	(5,000)	3,046,000	(59,000)	6,809,000	(64,000)
Equity securities: mutual funds	2,898,000	(103,000)	—	—	2,898,000	(103,000)
Total fixed income and equity securities	$6,661,000	$(108,000)	$3,046,000	$ (59,000)	$ 9,707,000	$(167,000)

The Company reviews at least quarterly its investment portfolio for securities that may have an other-than-temporary impairment. In its impairment analysis, the Company takes into consideration numerous criteria, including the duration and extent of any decline in estimated fair value, industry factors, downgrades by rating agencies, liquidity and fundamental factors of the issuers, as well as its ability and intent to retain its investment in the issuer to allow for any anticipated recovery in market value or maturity. If the decline is determined to be other than temporary, the investment's amortized cost is written down to estimated fair value with the unrealized loss recognized in earnings as a realized loss on investments. As of December 31, 2015 and 2014, none of the Company's investments whose estimated fair values were less than amortized cost were considered to be other-than-temporarily impaired given the severity and duration of the impairment and the credit quality of the issuers. Regarding equity securities, the Company has evaluated the near-term prospects of the securities in relation to the severity and duration of the impairment and intends to hold these securities until a recovery of fair value has occurred. The Company does not intend to sell its investments whose fair values are less than amortized cost and it is not more likely than not that the Company will be required to sell the investments before recovery of the amortized cost bases, which may be maturity.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 3: Investments (continued)

Investment income, net is summarized as follows:

	Years Ended December 31 2015	2014
Interest income	$1,344,000	$1,282,000
Gains on sales of investments	9,000	99,000
Losses on sales of investments	(2,000)	(8,000)
Investment management fees and expenses	(37,000)	(34,000)
Net amortization of premium on fixed income securities	(389,000)	(389,000)
Investment income, net	$ 925,000	$ 950,000

Note 4: Reserves for Losses and Loss Adjustment Expenses

The activity in the reserves for losses and loss adjustment expenses is summarized as follows:

	December 31 2015	2014
Reserves — beginning of year	$13,799,000	$12,988,000
Incurred related to:		
Current year	5,951,000	6,237,000
Prior years	(1,792,000)	(3,336,000)
Total incurred	4,159,000	2,901,000
Paid related to:		
Current year	(612,000)	(606,000)
Prior years	(2,521,000)	(1,484,000)
Total paid	(3,133,000)	(2,090,000)
Reserves — end of year	$14,825,000	$13,799,000

For the year ended December 31, 2015, the provision for losses and loss adjustment expenses in prior years decreased $1,792,000, comprised mainly of favorable development on the 2010 through 2011 claims-made years totaling $1,629,000, and on the 2013 through 2014 claims-made years totaling $568,000. This was offset primarily by adverse development of $426,000 on the 2012 claims-made year. The favorable development in calendar year 2015 was due to primarily to lower than expected claim severity, offset partially by lower than expected claim frequency. The adverse development in calendar year 2015 on the 2012 claims-made year was due mainly to higher than expected claim severity. For the year ended December 31, 2014, the provision for losses and loss adjustment expenses in prior years decreased $3,336,000, comprised primarily of favorable development on the 2010 through 2013 claims-made years totaling $3,225,000, and favorable development on the 2007 and 2008 claims-made years totaling $113,000. The favorable development in calendar year 2014 was due to both lower than expected claim frequency and lower than expected claim severity.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 5: Premiums

The following table presents short-duration insurance premiums written and earned:

	Years Ended December 31 2015	2014
Premiums written:		
Direct	$2,979,000	$3,040,000
Assumed	4,936,000	3,903,000
Total written	$7,915,000	$6,943,000
Premiums earned:		
Direct	$2,500,000	$1,883,000
Assumed	4,372,000	3,816,000
Total earned	$6,872,000	$5,699,000

Note 6: Contingencies and Commitments

The Company is subject to legal proceedings arising from the normal conduct of its business. In the opinion of management, any ultimate liability that may arise from these proceedings will not have a material effect on the Company's consolidated financial position.

CAP and MPT occupy their home office and regional office facilities under operating leases which provide for adjustments to the lease payments based upon contractual commitments and inflationary factors. Both companies are lessees under these operating leases. Rent expense is apportioned between CAP and MPT based primarily on the number of employees. The total rent expense under these leases was $3,102,000 and $2,442,000 for the years ended December 31, 2015 and 2014, respectively. In November 2015, CAP and MPT extended the lease covering their Orange, California facility for an additional ten and a half years to a new expiration date of April 30, 2026. The future minimum rental commitments under these operating leases are as follows:

Years Ending December 31	Amount
2016	$ 1,870,000
2017	2,127,000
2018	2,198,000
2019	2,164,000
2020 and after	10,375,000
	$18,734,000

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 7: Income Taxes

The components of the provision for income taxes are as follows:

	Years Ended December 31 2015	2014
Current	$774,000	$949,000
Deferred	22,000	(36,000)
	$796,000	$913,000

A reconciliation of income tax expense computed at the federal statutory tax rate to total income tax expense is summarized as follows:

	Years Ended December 31 2015	2014
Federal income tax expense at 34%	$ 710,000	$822,000
Adjustments in taxes resulting from:		
State income tax expense (net of federal benefit)	61,000	28,000
Employee benefit plan	16,000	24,000
Tax effect of PAC Committee's reimbursement for taxes	93,000	90,000
Tax-exempt investment income	(115,000)	(81,000)
Meals and entertainment exclusion	22,000	23,000
Other	9,000	7,000
Total federal income tax expense	$ 796,000	$913,000

The significant components of deferred income tax assets and liabilities are as follows:

	December 31 2015	2014
Deferred tax assets:		
Discounting of reserves for losses and loss adjustment expenses	$ 437,000	$ 434,000
Other-than-temporary impairments of other investments	17,000	17,000
Capital loss carryover	18,000	18,000
Employee benefit obligations	205,000	214,000
State taxes	17,000	—
Unearned premiums	92,000	55,000
Deferred commissions	10,000	13,000
Deferred tax assets	796,000	751,000
Deferred tax liabilities:		
Unrealized gain on investments	(285,000)	(378,000)
State tax on unremitted earnings of subsidiaries	(209,000)	(199,000)
Accretion of bond discount	(183,000)	(181,000)
Deferred acquisition costs	(149,000)	(91,000)
State taxes	—	(4,000)
Other items	(12,000)	(12,000)
Deferred tax liabilities	(838,000)	(865,000)
Deferred tax liability, net	$ (42,000)	$(114,000)

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 7: Income Taxes (continued)

The Company has not established a valuation allowance against deferred tax assets as it has been determined that it is more likely than not that the assets will be realized.

Income taxes paid for the years ended December 31, 2015 and 2014 were $1,129,000 and $40,000, respectively. Income taxes refunded for the year ended December 31, 2015 were $95,000. There were no penalties on tax amounts paid in either year ended December 31, 2015 or 2014.

As of December 31, 2015 and 2014, the Company had no net operating loss carryforwards.

The Company's income tax returns are subject to audit by the Internal Revenue Service and state tax authorities. Significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions because of differing interpretations of tax laws and regulations. The Company periodically evaluates its exposures associated with tax filing positions.

As of December 31, 2015 and 2014, the Company had no uncertain tax positions.

Tax years 2012 through 2014 and tax years 2011 through 2014 are subject to examination by the federal and California taxing authorities, respectively.

Note 8: Related Party Transactions

CAP and MPT operate under an administrative and management services agreement whereby CAP provides membership, claims, risk management, financial, legal and other administrative and management services to MPT. Under the agreement, CAP receives monthly fees from MPT for these services that are based on actual expenses incurred by CAP plus a margin. The margin applies to all services, except legal, whose services are provided to MPT at cost. Total revenues of $25,397,000 and $24,982,000 for the years ended December 31, 2015 and 2014, respectively, recognized from MPT for administrative and management services under the agreement are included in claims and risk management service revenues in the consolidated statements of comprehensive income. Expenses related to these agreements are included in salaries and related expenses totaling $16,640,000 and $16,999,000 for the years ended December 31, 2015 and 2014, respectively, and in other operating costs totaling $8,081,000 and $7,301,000 for the years ended December 31, 2015 and 2014, respectively.

Effective January 1, 2013, CAPIC and MPT entered into a services agreement whereby CAPIC provides claims legal defense services to MPT physicians. CAPIC receives from MPT monthly fees for these services that are based on actual costs incurred. Claims services fees recognized under this agreement were $17,010,000 and $16,672,000 for the years ended December 31, 2015 and 2014, respectively. Included in the receivable from affiliated entities is $1,784,000 and $1,786,000 due from MPT for these services as of December 31, 2015 and 2014, respectively.

In 2015 and 2014, CAPIC had reinsurance contracts with MPT. These contracts principally provide per claim excess of loss reinsurance coverage on a claims-made form for claims reported in 2015 and 2014. These agreements can be terminated and commuted at the end of any calendar quarter prospectively by mutual agreement of CAPIC and MPT. Premiums paid by MPT under these agreements were $2,600,000 and $2,476,000 for the years ended December 31, 2015 and 2014, respectively. CAPIC also participates in a reinsurance contract that provides MPT coverage on a claims-made basis for multiple claims arising out of one common event. Premiums received by CAPIC under this contract were $228,000 for the years ended December 31, 2015 and 2014. For the years ended December 31, 2015 and 2014, total affiliate reinsurance premium income under all reinsurance contracts with MPT was $2,805,000 and $2,679,000, respectively.

CAP provides its members and participants defense coverage for medical board actions with a $25,000 limit and employer practice defense coverage with a $50,000 limit. CAPIC provides insurance coverage to CAP for these benefits. MPT reimburses CAP for a significant portion of the cost of this coverage. CAP paid CAPIC $2,579,000 and $2,640,000 for the years ended December 31, 2015 and 2014, respectively, for this coverage, of which MPT reimbursed CAP $2,500,000 and $1,877,000 for the same respective years.

Notes to Consolidated Financial Statements

COOPERATIVE OF AMERICAN PHYSICIANS, INC. AND SUBSIDIARIES

Note 8: Related Party Transactions (continued)

The Company sponsors a 401(k) savings plan for its employees. Employees' contributions are matched by the Company at a level that is determined by the Board of Directors. The contribution expense for the 401(k) savings plan was $730,000 and $712,000 for the years ended December 31, 2015 and 2014, respectively. Eligible employees vest in the Company's contribution over a four-year vesting schedule. The Company also sponsors a supplemental employee retirement program (SERP) for certain employees. Participants vest, on average, over a 10-year period. All of the expense related to the SERP is incurred by MPT. SERP liabilities for the Company's participants have been assumed by MPT.

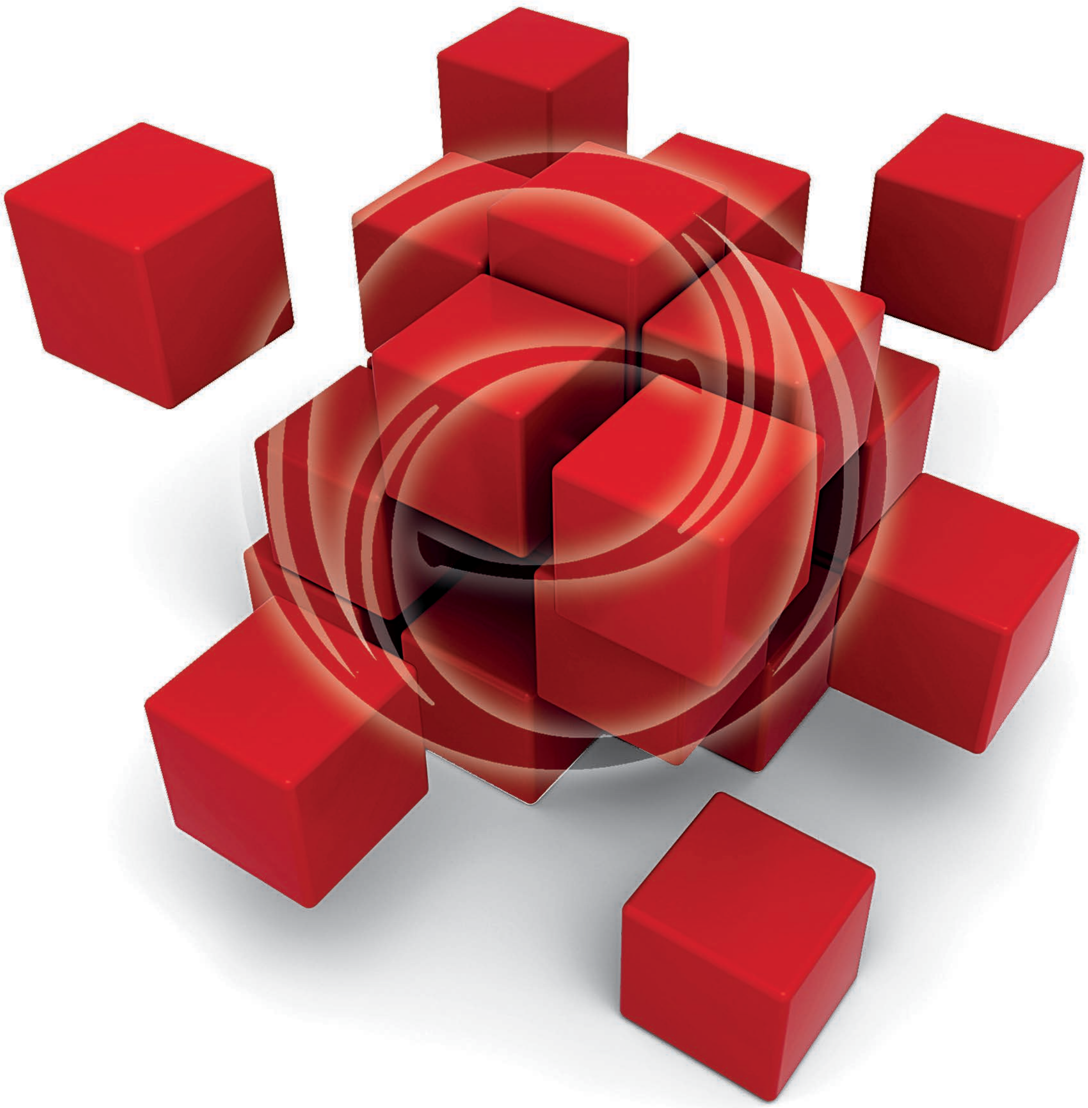
The Company maintains a non-qualified deferred compensation program (NDCP) for eligible employees and Board members. Under the plan, participants can defer compensation or Board fees based on an annual election. Amounts deferred are credited with notional investment earnings on a tax deferred basis until such amounts are distributed to participants. Amounts deferred are remitted to MPT who administers the NDCP on behalf of the Company.

Note 9: Employee Benefits

The Company maintains a post-retirement medical benefit plan for certain employees. Beginning at the age of 62, participants can use amounts held in a separate post-retirement account held on their behalf (by a third-party trust) to fund eligible medical expenses. Amounts paid to the trust by the Company are not refundable and become the property of the trustee on behalf of participants. The trust invests funds received from the Company in universal life insurance policies covering participants, which includes a death benefit funded by the Company until the participant reaches the vesting age of 62. While the plan establishes targeted post-retirement benefit levels for participants, there is no obligation for the Company to fully fund these levels and the employees are only eligible to receive the benefits accumulated in their account. Amounts contributed to the trust by the Company were $65,000 and $101,000 for the years ended December 31, 2015 and 2014, respectively.

Mutual Protection Trust

MPT 2015 Financial Reports



Report of Independent Auditors

THE BOARD OF TRUSTEES
MUTUAL PROTECTION TRUST

We have audited the accompanying financial statements of the Mutual Protection Trust, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations and net (decrease) increase in members' equity, changes in members' equity 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 financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mutual Protection Trust at December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

Ernst & Young LLP

Los Angeles, California
March 22, 2016

Balance Sheets

MUTUAL PROTECTION TRUST

	December 31 2015	December 31 2014
ASSETS		
Trust Fund Corpus, restricted:		
Fixed income securities, available-for-sale, at fair value	$138,334,000	$143,020,000
Short-term investments	1,528,000	—
Cash and cash equivalents	1,806,000	1,124,000
Accrued interest receivable	855,000	955,000
Deferred tax liability	(386,000)	(1,210,000)
	142,137,000	143,889,000
Trust Fund Operating Accounts:		
Fixed income securities, available-for-sale, at fair value	66,452,000	65,462,000
Cash and cash equivalents	11,151,000	13,431,000
Assessments, dues and other coverages receivable	89,464,000	91,366,000
Fixed assets, net	2,310,000	2,768,000
Deferred tax asset, net	14,084,000	16,321,000
Income taxes receivable	78,000	—
Other assets	18,779,000	20,388,000
	202,318,000	209,736,000
	$344,455,000	$353,625,000
LIABILITIES		
Trust Fund Operating Accounts:		
Non-assessable former members' liability	$ 33,652,000	$ 33,265,000
Unpaid claims and expenses	12,861,000	13,452,000
Deferred assessments, dues and other coverages	111,724,000	110,010,000
Payable to affiliated entity	1,530,000	1,531,000
Income taxes payable	—	254,000
Other liabilities	25,174,000	29,546,000
	184,941,000	188,058,000
Contingencies and commitments (see Notes 5 and 9)		
MEMBERS' EQUITY		
Trust Fund Corpus, including accumulated other comprehensive income of $717,000 and $2,246,000 for 2015 and 2014, respectively	142,137,000	143,889,000
Trust Fund Operations	17,377,000	21,678,000
	159,514,000	165,567,000
	$344,455,000	$353,625,000

The accompanying notes are an integral part of these financial statements.

Statements of Operations and Net (Decrease) Increase in Members' Equity

MUTUAL PROTECTION TRUST

	Years Ended December 31 2015	2014
Assessments and Dues	$107,592,000	$108,640,000
Revenues		
Investment income:		
Interest income, net	5,539,000	5,655,000
Realized gains	136,000	153,000
Investment income, net	5,675,000	5,808,000
Other coverage fees	14,560,000	15,984,000
Total Assessments, Dues and Revenues	127,827,000	130,432,000
Expenses		
Claims costs:		
Indemnity expense	46,246,000	42,278,000
Defense and investigative services	36,684,000	35,184,000
Salaries and related expenses	6,014,000	6,165,000
Other operating costs	11,532,000	11,580,000
	100,476,000	95,207,000
General and administrative:		
Salaries and related expenses	13,298,000	15,771,000
Other operating costs	15,297,000	19,973,000
	28,595,000	35,744,000
Total Expenses	129,071,000	130,951,000
Deficit of Assessments, Dues and Revenues Over Expenses Before Income Taxes	(1,244,000)	(519,000)
Income Tax (Expense) Benefit	(2,522,000)	5,154,000
Net (Deficit) Excess of Assessments, Dues and Revenues Over Expenses	(3,766,000)	4,635,000
Other Comprehensive (Loss) Income, Net		
Net unrealized (losses) gains on securities available-for-sale, net of taxes	(2,064,000)	1,429,000
Net (Decrease) Increase in Members' Equity	$ (5,830,000)	$ 6,064,000

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Members' Equity

MUTUAL PROTECTION TRUST

		Trust Fund Corpus					
	Trust Fund Operations	Active Members	Accumulated Other Comprehensive Income (Loss)	Members' Deferred Contract Receivable	Retired Members and Voluntary Terminations	Total Trust Fund Corpus	Total Members' Equity
Balance at January 1, 2014	$16,419,000	$140,723,000	$ 1,441,000	$(12,501,000)	$14,187,000	$143,850,000	$160,269,000
Corpus Activity:							
Additions	—	6,189,000	—	(6,189,000)	—	—	—
Payments on deferred contracts receivable	—	—	—	6,888,000	—	6,888,000	6,888,000
Repayments	—	—	—	—	(6,773,000)	(6,773,000)	(6,773,000)
Contributions relinquished	—	(881,000)	—	—	—	(881,000)	(881,000)
Transfers of Corpus	—	(7,141,000)	—	—	7,141,000	—	—
Net Excess of Assessments, Dues and Revenues over Expenses	4,635,000	—	—	—	—	—	4,635,000
Other Comprehensive Income (net of deferred income taxes of $769,000)	624,000	—	805,000	—	—	805,000	1,429,000
Balance at December 31, 2014	21,678,000	138,890,000	2,246,000	(11,802,000)	14,555,000	143,889,000	165,567,000
Corpus Activity:							
Additions	—	6,023,000	—	(6,023,000)	—	—	—
Payments on deferred contracts receivable	—	—	—	6,503,000	—	6,503,000	6,503,000
Repayments	—	—	—	—	(5,694,000)	(5,694,000)	(5,694,000)
Contributions relinquished	—	(1,032,000)	—	—	—	(1,032,000)	(1,032,000)
Transfers of Corpus	—	(4,751,000)	—	—	4,751,000	—	—
Net Deficit of Assessments, Dues and Revenues over Expenses	(3,766,000)	—	—	—	—	—	(3,766,000)
Other Comprehensive Loss (net of deferred income taxes of $1,112,000)	(535,000)	—	(1,529,000)	—	—	(1,529,000)	(2,064,000)
Balance at December 31, 2015	$17,377,000	$139,130,000	$ 717,000	$(11,322,000)	$13,612,000	$142,137,000	$159,514,000

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

MUTUAL PROTECTION TRUST

	Years Ended December 31 2015	2014
Operating Activities		
Net (deficit) excess of assessments, dues and revenues over expenses	$ (3,766,000)	$ 4,635,000
Adjustments to reconcile net (deficit) excess of assessments, dues and revenues over expenses to net cash provided by operating activities:		
Depreciation	897,000	925,000
Amortization on fixed income securities	976,000	1,080,000
Net realized investment gains	(136,000)	(153,000)
Deferred income taxes	2,525,000	(3,119,000)
(Decrease) Increase in lease incentive obligation	(123,000)	740,000
Changes in operating assets and liabilities:		
Accrued interest receivable	100,000	9,000
Assessments, dues and other coverages receivable	1,902,000	2,551,000
Income taxes receivable	(332,000)	379,000
Other assets	1,489,000	803,000
Non-assessable former members' liability	387,000	(4,399,000)
Unpaid claims and expenses	(591,000)	(2,802,000)
Deferred assessments, dues and other coverages	1,714,000	(313,000)
Payable to affiliated entity	(1,000)	(141,000)
Other liabilities	(4,249,000)	4,246,000
Net Cash Provided by Operating Activities	792,000	4,441,000
Investing Activities		
Fixed income securities available-for-sale:		
Purchases	(38,384,000)	(31,830,000)
Sales and maturities	38,064,000	29,517,000
Net increase in short-term investments	(1,528,000)	—
Purchases of fixed assets	(439,000)	(239,000)
Net Cash Used in Investing Activities	(2,287,000)	(2,552,000)
Financing Activities		
Funds held by reinsurers	120,000	—
Additions to Trust Fund Corpus	6,503,000	6,888,000
Repayments of Trust Fund Corpus	(6,726,000)	(7,654,000)
Net Cash Used in Financing Activities	(103,000)	(766,000)
Net Change in Cash and Cash Equivalents	(1,598,000)	1,123,000
Cash and Cash Equivalents at Beginning of Year		
Trust Fund Corpus	1,124,000	1,775,000
Trust Fund Operations	13,431,000	11,657,000
	14,555,000	13,432,000
Cash and Cash Equivalents at End of Year		
Trust Fund Corpus	1,806,000	1,124,000
Trust Fund Operations	11,151,000	13,431,000
	$ 12,957,000	$ 14,555,000

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 1: Organization

The Mutual Protection Trust (MPT) was organized in 1977 for the purpose of providing its member physicians with medical professional liability protection and related claims administration, including defense and investigative services. Only physicians licensed to practice medicine in the state of California are eligible for membership. MPT is an interindemnity arrangement structured so that its members share the cost of medical professional liability protection. California legislation enacted in 1976 permitted the formation of a trust fund, with specific provisions including the requirement to accumulate a minimum Trust Fund Corpus of $10 million. The Cooperative of American Physicians, Inc. (CAP) sponsored the organization of MPT and the initial accumulated contributions from the members were transferred to the Trust Fund Corpus. MPT is governed by a Board of Trustees.

Each member is required to pay an Initial Trust Contribution based upon the member's risk classification and other factors. These contributions are accumulated into the Trust Fund Corpus. MPT members are allowed to pay Initial Trust Contributions in installments. The amount of Trust Fund Contributions unpaid is reported as a deferred contract receivable from members and is reported as a reduction in members' equity.

In accordance with the Mutual Protection Trust Agreement (the MPT Agreement), the Trust Fund Corpus may be utilized by the Board of Trustees only for (1) investment in qualified securities, (2) return of contributions to qualified members in connection with death, retirement or termination, (3) payment of claims in an amount not exceeding 10% of the Trust Fund Corpus, with such amounts being promptly repaid to the Trust Fund Corpus by levying assessments against MPT members, (4) collateral for bonds or deposits in court necessary for the appeal of judgments in an amount not exceeding 15% of the Trust Fund Corpus, (5) distribution to MPT members in the event of the dissolution of MPT, and (6) other lawful purposes approved in accordance with the MPT Agreement. The use of the Trust Fund Corpus for any other purpose is strictly prohibited.

Initial Trust Contributions are repaid to the member on the 10th anniversary of the membership effective date to members who have retired or who have voluntarily terminated membership in accordance with California Insurance Code Section 1280.7 and the MPT Agreement. Members must be in compliance with all terms and conditions of the MPT Agreement, including the payment of all amounts due to MPT, to be entitled to the repayment of initial trust contributions. All repayments of initial trust contributions require the written authorization of at least two-thirds of the Board of Trustees. Members who have voluntarily terminated membership through December 31, 2015 will receive the return of their Initial Trust Contributions aggregating $13,612,000, in accordance with the provisions of the MPT Agreement through the year 2025. The Initial Trust Contributions of members who have been involuntarily terminated pursuant to the provisions of the MPT Agreement that provide for no return of the Initial Trust Contribution, are recognized in operations in the year of termination since these members have relinquished the right to the return of their Initial Trust Contributions.

Assessments and dues are determined by the Board of Trustees in accordance with California Insurance Code Section 1280.7 and the MPT Agreement and are used to fund estimated operating needs through the succeeding fiscal year. The Board of Trustees has the ability to levy additional assessments, should there be an operating shortfall in a given year (see Note 5). Assessments and dues become an obligation of active members on the date of levy by the Board of Trustees. Results from operations may vary from year to year since actual amounts may differ from the estimates used to levy assessments and dues.

Revenues are primarily comprised of other coverage fees and net investment income. Assessments, dues and revenues are used to pay legally binding final judgments and settlements against MPT members, claims defense and investigative expenses and administrative expenses, and are used to fund MPT's actuarially estimated future liability for claims against non-assessable former members in accordance with the MPT Agreement and resolution of the Board of Trustees (see Note 4).

Note 2: Summary of Significant Accounting Policies

BASIS OF FINANCIAL STATEMENT PRESENTATION

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). This basis of accounting necessarily requires the use of management estimates that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of assessments, revenues and expenses during the reporting period. Actual results may differ from those estimates.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 2: Summary of Significant Accounting Policies (continued)

ASSESSMENTS AND DUES

Member assessments are levied by the Board of Trustees annually and recognized over the period in which membership services are rendered. Member assessments levied in advance of the fiscal year to which they apply are deferred and recognized in operations in the subsequent year. In November 2015 and 2014, MPT levied $108,424,000 and $103,539,000 in member assessments, respectively. The following table reconciles the assessments levied in November 2014 and 2013 to the assessments recognized in the Statements of Operations:

	Years Ended December 31 2015	2014
Assessment levied in November of the preceding year	**$103,539,000**	$105,813,000
Assessments transferred to:		
2016	**(500,000)**	—
2013	**—**	(2,000,000)
Net adjustments to member assessments during the year	**(321,000)**	(336,000)
Dues recognized	**4,874,000**	5,163,000
Assessments and dues recognized in the Statements of Operations	**$107,592,000**	$108,640,000

In addition to the assessments levied in November 2015 and 2014, the Board of Trustees also established annual dues of $190 per active member. In the November 2015 assessment, approximately $1,224,000 of the annual dues were contributed, based on an election made by the member, to the CAP State Political Action Committee, or to another political action committee established to support medical liability reform. The Board of Trustees directed that the residual dues remain in MPT and be used to offset operating costs in 2016. Total residual dues of $1,000,000 is included in deferred assessments, dues, and other coverages as of December 31, 2015 with none deferred as of December 31, 2014. In the November 2014 assessment, substantially all of the annual dues were contributed to these political action committees. Amounts contributed to the political action committees are not recognized in assessments and dues, and any contributions to these funds are not recognized as expenses. These funds are included in other liabilities as a payable to CAP's political action committees and totaled $1,224,000 and $2,213,000 as of December 31, 2015 and 2014, respectively. In addition to the annual dues of $190, in November 2014 the Board of Trustees also levied a special dues amount totaling $4,984,000 that was intended to replace $5,000,000 in operating cash used in 2014 for certain public affairs activities. This expense, which is included in general and administrative other operating costs, was incurred in 2014 to support activities that preserve medical professional liability tort limits in California. A similar special dues was recognized in 2014 pursuant to a levy by the Board of Trustees in November 2013. Included in dues recognized in the table above are special dues totaling $4,874,000 and $4,913,000 for the years ended December 31, 2015 and 2014, respectively. Included in deferred assessments, dues and other coverages as of December 31, 2014 is $4,921,000 in special dues with none deferred as of December 31, 2015.

REVENUES

Other coverage fees are recognized when billed and earned as revenue over the period in which services are rendered. The billing for other coverage fees typically occurs in the first quarter of the calendar year.

NET (DECREASE) INCREASE IN MEMBERS' EQUITY

Net (decrease) increase in members' equity consists of net (deficit) excess of assessments, dues and revenues over expenses and other comprehensive income. MPT does not report total comprehensive income since its statutory authority precludes the Board of Trustees from assessing MPT's members for anything other than operating needs. Assessments and dues are not revenues as they are levied by the Board of Trustees solely to support such operating needs. Accordingly, there is no net income or loss, or total comprehensive income or loss. Any excess of assessments, dues and revenues over expenses are the property of MPT members (see Note 1). Other comprehensive income or loss refers to losses and gains that are not included in net (deficit) excess of assessments, dues and revenues over expenses, but rather are recorded directly in members' equity. For the years ended December 31, 2015 and 2014, the net (decrease) increase in members' equity consists of net (deficit) excess of assessments, dues and revenues over expenses and unrealized (losses) gains on securities classified as available-for-sale.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 2: Summary of Significant Accounting Policies (continued)

Reclassification adjustments related to available-for-sale securities for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Net realized investment gains included in the calculation of investment income, net	$17,000	$ 66,000
Tax effect (at 35%)	(6,000)	(23,000)
Net realized investment gains reclassified from other comprehensive income	$11,000	$ 43,000

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term highly liquid investments with maturities of 90 days or less at acquisition and are principally stated at amortized cost.

SHORT-TERM INVESTMENTS

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are principally stated at amortized cost.

INVESTMENTS

Investments are limited to those qualifying under California law as defined in Section 16430 of the Government Code.

Investments are classified as available-for-sale and are carried at fair value. Transfers between fair value hierarchy levels 1, 2, or 3 are recognized on the actual date of the circumstances that caused the transfer to occur. Unrealized gains and losses are accounted for, net of tax, as a component of other comprehensive income in members' equity.

Investments in the Trust Fund Corpus and Trust Fund Operating accounts are designated as available-for-sale and are carried at fair value.

Investment income is recorded as earned. Premiums and discounts on investment securities are primarily amortized using the interest method over the estimated lives of the investments. Realized gains and losses from sales transactions occurring during the year, are recognized in operations using the specific identification method. Unrealized gains and losses are determined using the specific identification method. Adjustments for other-than-temporary market declines are recorded when determination of loss is probable and are reported as a write-down of amortized cost to fair value.

FIXED ASSETS

Fixed assets consist of the following:

	December 31	
	2015	2014
Software	$ 620,000	$ 620,000
Computer equipment	3,521,000	3,333,000
Document imaging	591,000	591,000
Leasehold improvements	3,396,000	3,352,000
Furniture and equipment	3,986,000	3,779,000
	12,114,000	11,675,000
Accumulated amortization and depreciation	(9,804,000)	(8,907,000)
Fixed assets, net	$ 2,310,000	$ 2,768,000

Included in this category is capitalized software costs, which represent costs directly related to obtaining, developing or upgrading internal-use software. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are generally as follows:

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 2: Summary of Significant Accounting Policies (continued)

Asset Description	Asset Life
Software	5 years
Computer equipment	5 years
Document imaging	5 years
Leasehold improvements	5 years
Furniture and equipment	8 years

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject MPT to concentrations of credit risk consist principally of temporary cash investments and fixed income securities; assessments, dues and other coverages receivable; and other assets. MPT places its temporary cash investments with high credit quality financial institutions. Concentrations of credit risk with respect to fixed income securities are limited due to the large number of such investments and their distribution across many different industries and geographic regions. MPT's investments in federal agency securities are considered to have an implicit guarantee as to principal from the U.S. government and are considered to have minimal credit risk. Credit risk concentration in assessments, dues and other coverages receivable is considered minimal due to the large number of physicians totaling approximately 11,800 that comprise the total receivable.

Within other assets, financial instruments that potentially subject MPT to concentrations of credit risk are assets that support MPT's employee benefit plan obligations. Substantially all of these employee benefit plan assets are comprised of mutual funds and cash values in company-owned life insurance policies. Such cash values are also invested in mutual funds. Concentrations of credit risk are mitigated through both the large number of mutual funds used, and the diversification within each mutual fund among many different equity and fixed income positions across many companies and security issuers (see Note 7).

FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value amounts, defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date, have been determined using available market information and other appropriate valuation methodologies. However, considerable judgment is required in developing the estimates of fair value where quoted market prices are not available. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimating methodologies may have an effect on the estimated fair value amounts.

The following methods and assumptions were used by MPT in estimating the fair value disclosures for financial instruments in the accompanying financial statements and in these notes:

Cash and cash equivalents, assessments, dues and other coverages receivable. The carrying amounts for these financial instruments as reported in the accompanying balance sheets approximate their estimated fair values.

Investments. MPT determines the fair value of its investments based on the fair value hierarchy established in Accounting Standards Codification (ASC) 820, which requires an entity to disclose the use of observable inputs and minimize the use of unobservable inputs for measuring fair value. Estimates of fair value measurements for these securities are estimated using relevant inputs, including available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. Additionally, an Option Adjusted Spread model is used to develop prepayment and interest rate scenarios. Industry standard models are used to analyze and value securities with embedded options or prepayment sensitivities.

Each asset class is evaluated based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 2: Summary of Significant Accounting Policies (continued)

This method of valuation will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If objectively verifiable information is not available, MPT would be required to produce an estimate of fair value using some of the same methodologies, but would have to make assumptions for market-based inputs that are unavailable due to market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities, additional inputs may be necessary.

Because the fair value estimates of most fixed income securities are determined by evaluations that are based on observable market information rather than market quotes, most estimates of fair value for fixed income securities are based on estimates using objectively verifiable information and are included in the amount disclosed in Level 2 of the hierarchy. The values of U.S. agencies, states and municipalities, corporate bonds, residential mortgage-backed securities and commercial mortgage-backed securities is based on the observable market information and as such, are included in Level 2 of the hierarchy. Level 1 is limited to unadjusted quoted prices in active markets for identical instruments.

All investments on the accompanying balance sheet are stated at fair value and are considered Level 2 investments as of December 31, 2015 and 2014.

There were no transfers in and out of Level 1 and Level 2 fair value measurements during the years ended December 31, 2015 and 2014. There were no securities at December 31, 2015 or 2014 whose fair value measurements were based on Level 3: Unobservable inputs.

UNPAID CLAIMS AND EXPENSES AND NON-ASSESSABLE FORMER MEMBERS' LIABILITY

MPT reports its liability consistent with California Insurance Code Section 1280.7 and the MPT Agreement. Such liability at each year-end, as detailed in Note 4, represents the unpaid amount of the following items:

1. Accrued liability for claims defense and investigative expenses for all open claims under MPT management;

2. Total liability for legally binding final settlements and judgments against members who are current in the payment of all amounts due under the MPT Agreement and former members who have met the requirements for retirement, termination with tail coverage, transfer of membership or who are deceased; and

3. Actuarially estimated future liability for claims reported and claims incurred but not reported against former MPT members who are no longer assessable because of retirement, transfer of membership, voluntary or involuntary termination with tail coverage or death (collectively referred to as non-assessable former members' liability). Also included in this liability is an estimate for claims administration and other adjusting expenses that will be incurred in administering the claims for such non-assessable former members.

INCOME TAXES

MPT files its federal income tax return as a mutual insurance company and files its California income tax return under the provision of the California Bank and Corporation Tax Law as a business trust. Income taxes are provided on the basis of items included in the determination of income for financial reporting purposes regardless of the period when such items are reported for tax purposes. Deferred tax assets and liabilities are recorded to reflect the tax consequences in future years of temporary differences between the tax bases of assets and liabilities and the corresponding bases used for the financial statements. A valuation allowance is recorded to reduce deferred tax assets to an amount that represents management's best estimate of the amount that more likely than not will be realized. The income tax effect on unrealized investment gains and losses on the Trust Fund Corpus investments is accounted for as deferred income taxes and is included as a separate component of the Trust Fund Corpus. Interest and penalties on tax amounts paid or received are included in investment income, net and general and administrative other operating costs, respectively (see Note 8).

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 2: Summary of Significant Accounting Policies (continued)

NEW ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU 2014-09 in order to clarify the principles for recognizing revenue, improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets and to provide more useful information to users of financial statements through improved disclosure requirements. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update will be effective for reporting periods beginning after December 15, 2018, and may be adopted earlier, but not before reporting periods beginning after December 15, 2016. MPT has not yet adopted this guidance. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

SUBSEQUENT EVENTS

MPT has completed an evaluation of all subsequent events through March 22, 2016, which is the date the financial statements were available for issuance, and has concluded that no subsequent event occurred which would require recognition or disclosure.

Note 3: Investments

Fixed income securities, exclusive of cash and cash equivalents, are comprised of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2015				
Trust Fund Corpus, restricted:				
Fixed income securities, available-for-sale				
States and municipalities	$ 22,611,000	$1,070,000	$ —	$ 23,681,000
Corporate bonds	36,117,000	407,000	(338,000)	36,186,000
Residential mortgage-backed securities	78,502,000	961,000	(996,000)	78,467,000
Total fixed income securities	$137,230,000	$2,438,000	$(1,334,000)	$138,334,000
Trust Fund Operating:				
Fixed income securities, available-for-sale				
Corporate bonds	$ 20,258,000	$ 223,000	$ (137,000)	$ 20,344,000
Residential mortgage-backed securities	46,293,000	401,000	(586,000)	46,108,000
Total fixed income securities	$ 66,551,000	$ 624,000	$ (723,000)	$ 66,452,000
DECEMBER 31, 2014				
Trust Fund Corpus, restricted:				
Fixed income securities, available-for-sale				
States and municipalities	$ 24,199,000	$1,864,000	$ —	$ 26,063,000
Corporate bonds	43,170,000	772,000	(120,000)	43,822,000
Residential mortgage-backed securities	70,968,000	1,431,000	(511,000)	71,888,000
Commercial mortgage-backed securities	1,226,000	21,000	—	1,247,000
Total fixed income securities	$139,563,000	$4,088,000	$ (631,000)	$143,020,000
Trust Fund Operating:				
Fixed income securities, available-for-sale				
Corporate bonds	$ 21,538,000	$ 493,000	$ (31,000)	$ 22,000,000
Residential mortgage-backed securities	43,200,000	603,000	(341,000)	43,462,000
Total fixed income securities	$ 64,738,000	$1,096,000	$ (372,000)	$ 65,462,000

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 3: Investments (continued)

The amortized cost and fair value of fixed income securities available-for-sale as of December 31, 2015, by contractual repayment date of principal, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Trust Fund Corpus, restricted		
Due in one year or less	$ 15,263,000	$ 15,415,000
Due after one year through five years	37,730,000	38,402,000
Due after five years through 10 years	5,735,000	6,050,000
	58,728,000	59,867,000
Residential mortgage-backed securities	78,502,000	78,467,000
	$137,230,000	$138,334,000
Trust Fund Operating		
Due in one year or less	$ 4,004,000	$ 4,051,000
Due after one year through five years	13,242,000	13,266,000
Due after five years through 10 years	3,012,000	3,028,000
	20,258,000	20,345,000
Residential mortgage-backed securities	46,293,000	46,107,000
	$ 66,551,000	$ 66,452,000

For the years ended December 31, 2015 and 2014, proceeds from sales of investments were $9,721,000 and $10,575,000, respectively.

The following table shows the gross unrealized losses and fair value aggregated by investment category and length of time those securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
DECEMBER 31, 2015						
Trust Fund Corpus, restricted:						
Fixed income securities						
Corporate bonds	$17,774,000	$(312,000)	$ 3,217,000	$ (26,000)	$20,991,000	$ (338,000)
Residential mortgage-backed securities	30,946,000	(628,000)	12,175,000	(368,000)	43,121,000	(996,000)
Total fixed income securities	$48,720,000	$(940,000)	$15,392,000	$(394,000)	$64,112,000	$(1,334,000)
Trust Fund Operating:						
Fixed income securities						
Corporate bonds	$ 7,067,000	$(134,000)	$ 496,000	$ (3,000)	$ 7,563,000	$ (137,000)
Residential mortgage-backed securities	20,895,000	(331,000)	8,000,000	(255,000)	28,895,000	(586,000)
Total fixed income securities	$27,962,000	$(465,000)	$ 8,496,000	$(258,000)	$36,458,000	$ (723,000)

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 3: Investments (continued)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
DECEMBER 31, 2014						
Trust Fund Corpus, restricted:						
Fixed income securities						
Corporate bonds	$ 7,754,000	$(27,000)	$ 6,704,000	$ (93,000)	$14,458,000	$(120,000)
Residential mortgage-backed securities	3,200,000	(7,000)	25,720,000	(504,000)	28,920,000	(511,000)
Total fixed income securities	$10,954,000	$(34,000)	$32,424,000	$(597,000)	$43,378,000	$(631,000)
Trust Fund Operating:						
Fixed income securities						
Corporate bonds	$ 2,846,000	$(16,000)	$ 1,043,000	$ (15,000)	$ 3,889,000	$ (31,000)
Residential mortgage-backed securities	4,163,000	(19,000)	17,543,000	(322,000)	21,706,000	(341,000)
Total fixed income securities	$ 7,009,000	$(35,000)	$18,586,000	$(337,000)	$25,595,000	$(372,000)

MPT reviews at least quarterly its investment portfolio for securities that may have an other-than-temporary impairment. In its impairment analysis, MPT takes into consideration numerous criteria, including the duration and extent of any decline in estimated fair value, industry factors, downgrades by rating agencies, liquidity and fundamental factors of the issuers, as well as its ability and intent to retain its investment in the issuer to allow for any anticipated recovery in market value or maturity. If the decline is determined to be other than temporary, the investment's amortized cost is written down to estimated fair value with the unrealized loss recognized in operations as a realized loss on investments.

As of December 31, 2015 and 2014, none of the investments whose estimated fair values were less than amortized cost were considered to be other-than-temporarily impaired given the severity and duration of the impairment and the credit quality of the issuers.

MPT does not intend to sell its investments whose fair values are less than amortized costs, and it is not more likely than not that MPT will be required to sell the investments before recovery of the amortized cost bases, which may be maturity.

Investment income, net is summarized as follows:

	Years Ended December 31	
	2015	2014
Interest income	**$6,827,000**	$ 7,059,000
Gross gains on sales of investments	**136,000**	153,000
Investment management fees and expenses	**(312,000)**	(324,000)
Net amortization of premium on fixed income securities	**(976,000)**	(1,080,000)
Investment income, net	**$5,675,000**	$ 5,808,000

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 4: Unpaid Claims and Expenses and Non-Assessable Former Members' Liability

Unpaid claims and expenses for assessable members are comprised of the following:

	December 31 2015	December 31 2014
Accrued indemnity	$ 9,658,000	$10,230,000
Accrued defense and investigative services	3,203,000	3,222,000
	$12,861,000	$13,452,000

MPT has assumed claims liability by providing tail coverage to certain former members who are no longer liable for assessments (non-assessable former members) including those who are retired, transferred, terminated or deceased. Members voluntarily terminating have no tail coverage from MPT unless they remain liable for assessments or pay a tail coverage fee.

Under California Insurance Code Section 1280.7, members involuntarily terminated by MPT's peer review process are entitled to receive tail coverage without liability for future assessments upon release of the right to a return of their Initial Trust Contributions.

The liability for claims of non-assessable former members reflects an estimate of future payments for claims reported as of each year-end, an estimate of the related defense and investigative expenses, an estimate for claims administration and other adjusting expenses, and a provision for claims incurred but not reported. Since this liability is based upon estimates, and while management believes that amounts recorded are adequate, the ultimate liability may differ from the amounts provided in the financial statements. The methodologies for making such estimates and for establishing the resulting liabilities are continually reviewed by management and the independent actuaries of MPT. Adjustments to the estimates are included in operations in the period they are determined. The actuarially estimated liability for claims of non-assessable former members is as follows:

	December 31 2015	December 31 2014
Claims reported:		
Members retired	$ 7,003,000	$ 3,633,000
Members voluntarily terminated, transferred and deceased	7,712,000	9,243,000
Members involuntarily terminated	11,142,000	11,838,000
Claims incurred but not reported	6,134,000	6,292,000
Claims administration and other adjusting expenses	1,661,000	2,259,000
	$33,652,000	$33,265,000

The following summarizes the years in which the actuarially estimated liability for claims reported and claims incurred but not reported for non-assessable former members are estimated to be paid:

Years Ending December 31	Amount
2016	$ 9,555,000
2017	7,743,000
2018	5,493,000
2019	3,874,000
2020	3,028,000
2021 and after	3,959,000
	$33,652,000

Cash and investments in MPT's Trust Fund Operations accounts have been retained sufficient to fund the total estimated future liability for claims against non-assessable former members of $33,652,000 at December 31, 2015. Such funds may be used for other purposes only upon approval of the Trustees, and it is the Board's intention to replenish any such funds through the regular assessment process.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 5: Contingencies

MPT is liable for unpaid claims and expenses only as required by California Insurance Code Section 1280.7 and the MPT Agreement. Any future liability beyond the amount reported in the financial statements for unpaid claims and expenses of the MPT members will become the liability of MPT only to the extent that final settlements or judgments exist against MPT members who are current in all payments due to MPT, or when an MPT member becomes a former member and qualifies for non-assessable former member status.

MPT's independent actuaries have estimated the aggregate liability of the assessable members for all actual claims and expenses, which are not the current liability of MPT, to be $129,733,000 (net of reinsurance of $11,522,000 as discussed below) and $125,249,000 (net of reinsurance of $10,855,000 as discussed below) as of December 31, 2015 and 2014, respectively. This liability is MPT's estimate of future payments for all claims reported as of each year-end and the related defense and investigative expenses. Additional occurrences may become reported claims in subsequent periods. Actuarial studies have estimated that this liability for unpaid claims and expenses will require funding through future assessments, which are affected by the amount of investment earnings, over a period of up to 19 years. In the highly unlikely event this contingent liability becomes due in its entirety within the next 12 months, management believes there will be sufficient available liquidity within its Trust Fund Operations' cash and cash equivalents, fixed income securities, reinsurance recoveries, and available lines of credit to fully fund this contingent liability prior to making any unanticipated assessment of the membership.

MPT has entered into reinsurance contracts with major global reinsurance companies and its affiliate, Cooperative of American Physicians Insurance Company, Inc. (CAPIC, a wholly-owned subsidiary of CAP), which provide coverage on a claims-made basis for case losses in excess of a $1,000,000 retention for which MPT is obligated. Coverage also has been purchased that applies to multiple cases arising from the same occurrence. MPT is contingently liable with respect to ceded reinsurance, if any, should any reinsurer be unable to meet its obligations under those agreements. MPT also has reinsurance contracts with major London-based reinsurance companies and CAPIC, which provides coverage on a claims-made basis for multiple claims arising out of one common, systemic event. Under these systemic event reinsurance contracts, limits of $7,000,000 are available to MPT on a claims-made basis over a $3,000,000 retention. Premiums paid under these contracts were $578,000 and $565,000 for the years ended December 31, 2015 and 2014, respectively (see Note 6).

In 2014, MPT and a municipal taxing authority reached agreement on two audits covering the 2008 through 2013 tax years and established a more appropriate method of preparing MPT's municipal tax returns. As a result of these agreements, in June 2014, MPT received a refund of $515,000 in taxes previously paid on the 2008 through 2013 tax years, and the audits for these tax years have been closed.

MPT is subject to legal proceedings arising from the normal conduct of its business. In the opinion of management, any ultimate liability that may arise from these proceedings will not have a material effect on MPT's financial position.

Note 6: Related Party Transactions

Effective January 1, 2010, MPT and CAP entered into an administrative and management services agreement whereby CAP provides membership, claims, risk management, financial, legal and other administrative and management services to MPT. Under the agreement, CAP receives monthly fees from MPT for these services that are based on actual expenses incurred by CAP plus a margin. The margin applies to all services, except legal, whose services are provided to MPT at cost. Fees of $25,397,000 and $24,982,000 were incurred by MPT for administrative and management services under the agreement for the years ended December 31, 2015 and 2014, respectively.

Effective January 1, 2013, MPT and CAPIC entered into a services agreement whereby CAPIC provides legal defense services to MPT physicians. MPT pays CAPIC monthly fees for these services that are based on actual costs incurred. Fees incurred under this agreement were $17,010,000 and $16,672,000 for the years ended December 31, 2015 and 2014, respectively. Included in the payable to affiliated entity is $1,784,000 and $1,786,000 payable to CAPIC for these services as of December 31, 2015 and 2014, respectively.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 6: Related Party Transactions (continued)

In 2015 and 2014, MPT had reinsurance contracts with CAPIC. These contracts principally provide per claim excess of loss reinsurance coverage on a claims-made form for MPT for claims reported in 2015 and 2014. These agreements can be terminated and commuted at the end of any calendar quarter prospectively by mutual agreement of CAPIC and MPT. Premiums paid by MPT under these agreements were $2,600,000 and $2,500,000 for the years ended December 31, 2015 and 2014, respectively. MPT also maintains reinsurance coverage on a claims-made basis for multiple claims arising out of one common event. CAPIC participates in this contract along with other non-affiliated reinsurance companies. Premiums paid by MPT to CAPIC under this contract were $228,000 and $204,000 for the years ended December 31, 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, total affiliate reinsurance premium expense under all reinsurance contracts with CAPIC was $2,805,000 and $2,679,000, respectively, and is included in Claims: Other Operating Costs.

Note 7: Employee Benefits

MPT sponsors a 401(k) savings plan for its employees. Employees' contributions are matched by MPT at a level that is determined by the Board of Trustees. The contribution expense for the 401(k) savings plan was $21,000 for the years ended December 31, 2015 and 2014. Eligible employees vest in MPT's contribution over a four-year vesting schedule. MPT also sponsors a supplemental employee retirement program (SERP) for certain employees. Participants vest, on average, over a 10-year period. SERP liabilities, which are included in other liabilities, totaled $5,642,000 and $5,722,000 at December 31, 2015 and 2014, respectively. The expense related to this program was $331,000 and $301,000 for the years ended December 31, 2015 and 2014, respectively. MPT maintains a non-qualified deferred compensation program (NDCP) for eligible employees and Board members. Under the plan, participants can defer compensation or Board fees based on an annual election. Amounts deferred are credited with notional investment earnings on a tax deferred basis until such amounts are distributed to participants. Liabilities of the NDCP, which are included in other liabilities, totaled $10,049,000 and $11,134,000 at December 31, 2015 and 2014, respectively.

MPT funds its SERP and NDCP obligations principally through life insurance policies on the participants and eligible participants. Mutual fund investments are also used to fund these obligations. The life insurance policy assets supporting these benefit plan obligations are carried at their cash surrender value, which approximates fair value, and are included in other assets, totaling $13,377,000 and $13,660,000 at December 31, 2015 and 2014, respectively. The mutual fund assets are carried at fair value, totaling $3,821,000 and $4,846,000 at December 31, 2015 and 2014, respectively.

MPT maintains a post-retirement medical benefit plan for certain employees. Beginning at the age of 62, participants can use amounts contributed to a separate post-retirement account held on their behalf (by a third-party trust) to fund eligible medical expenses. Amounts paid to the trust by MPT are not refundable and become the property of the trustee on behalf of participants. The trust invests funds received from MPT in universal life insurance policies covering participants, which includes a death benefit funded by MPT until the participant reaches the vesting age of 62. While the plan establishes targeted post-retirement benefit levels for participants, there is no obligation for MPT to fully fund these levels and the employees are only eligible to receive the benefits accumulated in their account. MPT contributed $21,000 for the years ended December 31, 2015 and 2014.

Note 8: Income Taxes

The components of the income tax (expense) benefit are as follows:

	Years Ended December 31	
	2015	2014
Current	$ 4,000	$2,035,000
Deferred	(2,526,000)	3,119,000
Total	$(2,522,000)	$5,154,000

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 8: Income Taxes (continued)

A reconciliation of income tax benefit computed at the federal statutory tax rate to total income tax (expense) benefit is summarized as follows:

	Years Ended December 31 2015	2014
Federal income tax benefit at 35%	$ 435,000	$ 182,000
Adjustments in taxes resulting from:		
State income tax benefit (net of federal expense)	99,000	1,542,000
Non-deductible public affairs activities	—	(1,801,000)
Change in valuation allowance	(2,776,000)	4,890,000
Return-to-provision adjustments	(9,000)	361,000
Employee benefit plans	(264,000)	—
Other	(7,000)	(20,000)
Total federal income tax (expense) benefit	$(2,522,000)	$ 5,154,000

The significant components of deferred income tax assets and liabilities are as follows:

	December 31 2015	2014
Trust Fund Corpus, restricted:		
Deferred tax liability attributable to net unrealized investment gains	$ (386,000)	$ (1,210,000)
Trust Fund Operating:		
Deferred tax assets attributable to:		
Initial trust contributions	$ 46,417,000	$ 46,543,000
Discounting of non-assessable former members' claim and other liability	1,743,000	1,897,000
Net operating loss carryforward	13,280,000	10,504,000
Employee benefit obligations	7,930,000	8,370,000
Lease incentive obligations	1,334,000	1,388,000
California EZ credit	129,000	129,000
Capital loss carryover	119,000	215,000
Deferred tax asset attributable to net unrealized investment losses	35,000	—
Deferred tax assets before valuation allowance	70,987,000	69,046,000
Valuation allowance	(13,280,000)	(10,504,000)
Deferred tax assets after valuation allowance	57,707,000	58,542,000
Deferred tax liabilities attributable to:		
Discounting of assessable members' contingent claim liability	(41,981,000)	(40,096,000)
Deferred tax liability attributable to net unrealized investment gains	—	(253,000)
Accretion of bond discount	(1,503,000)	(1,442,000)
Other	(139,000)	(430,000)
Deferred tax liabilities	(43,623,000)	(42,221,000)
Deferred tax asset, net	$ 14,084,000	$ 16,321,000

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 8: Income Taxes (continued)

ASC 740, *Income Taxes,* requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Realization of the deferred income tax asset is dependent on MPT generating sufficient taxable excess of assessments and revenues over expenses in future years as the deferred income tax charges become currently deductible for tax reporting purposes. MPT evaluates the need for a valuation allowance taking into consideration all available evidence, both positive and negative, including future sources of income, tax planning strategies, future contractual cash flows and reversing temporary differences.

As of December 31, 2015, there remains federal net operating loss carryforwards totaling $31,448,000 which will expire beginning 2026, to be applied to future tax years. The net operating loss carryforward resulted primarily from a change in accounting method for incurred losses that was permitted by the Internal Revenue Service in 2008 on 2006 and subsequent tax years. As of December 31, 2015, there remains a state net operating loss carryforward totaling $25,711,000 which will expire beginning 2028 to be applied to future tax years. MPT has determined that it is not more likely than not that the deferred tax assets related to the net operating losses will be recognized. Accordingly, MPT has established a valuation allowance against these deferred tax assets. The valuation allowance increased by $2,776,000 in 2015 and decreased by $4,889,000 in 2014.

MPT believes that it is more likely than not that the results of future operations and various tax planning strategies will generate sufficient taxable income in the periods necessary to realize the remaining $14,084,000 in deferred tax assets, net. Additional valuation allowance benefits or charges could be recognized in the future due to changes in management's expectations regarding the realization of tax benefits.

On December 8, 2014, MPT was granted its request to the California taxing authority to be treated as a cooperative as defined under Revenue and Taxation Code 24405. Under this section, an eligible cooperative is entitled to a special deduction generally equal to taxable income. Through an additional agreement, MPT was allowed to amend prior tax returns covering 2008 through 2012 tax years to apply this special deduction. As a result of this agreement, in December 2014 MPT received a refund of prior income taxes totaling $2,324,000 and interest of $171,000.

Income taxes paid for the year ended December 31, 2015 was $328,000. Income taxes refunded for the year ended December 31, 2014 were $2,413,000. There was no tax penalties recognized for the year ended December 31, 2015 or 2014.

Tax years 2012 through 2014 and tax years 2011 through 2014 are subject to examination by the federal and California taxing authorities, respectively. There are no income tax examinations currently in progress.

MPT's income tax returns are subject to audit by the Internal Revenue Service and state tax authorities. Significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions because of differing interpretations of tax laws and regulations. MPT periodically evaluates its exposures associated with tax filing positions.

As of December 31, 2015 and 2014, MPT had no uncertain tax positions.

Notes to Financial Statements

MUTUAL PROTECTION TRUST

Note 9: Commitments

MPT and CAP occupy their home office and regional office facilities under operating leases which provide for adjustments to the lease payments based upon contractual commitments and inflationary factors. Both companies are lessees under these operating leases. Rent expense is apportioned between MPT and CAP based primarily on the number of employees. The total rent expense under these leases was $3,102,000 and $2,442,000 for the years ended December 31, 2015 and 2014, respectively. In November 2015, MPT and CAP extended the lease covering their Orange, California facility for an additional ten and a half years to a new expiration date of April 30, 2026. The future minimum rental commitments under these operating leases are as follows:

Years Ending December 31	Amount
2016	$ 1,870,000
2017	2,127,000
2018	2,198,000
2019	2,164,000
2020 and after	10,375,000
	$18,734,000

MPT maintains a line of credit in the amount of $20,000,000, which bears interest at the bank prime rate or a borrowing rate based upon the London Interbank Offered Rates plus a margin for any portion outstanding. The line of credit includes a sub-feature for letters of credit which may be used to collateralize appeal bonds obtained by MPT. There were no letters of credit outstanding under this sub-feature at December 31, 2015 or 2014.

MPT obtains surety bonds for use as collateral for judgments on appeal. MPT indemnifies the surety company for any recoveries made against the appeal bond. Fees are paid based upon the amount and duration of the appeal bond. No amounts were outstanding on appeal bonds at December 31, 2015 or 2014.

Supplementary Financial Information

MUTUAL PROTECTION TRUST

	As of and For the Years Ended				
	2015	2014	2013	2012	2011
RESULTS OF OPERATIONS					
(In millions)					
Total Assessments, Dues and Revenues	$127.8	$130.4	$135.3	$127.1	$118.0
Expenses					
Indemnity Expense	$ 46.2	$ 42.3	$ 48.1	$ 51.0	$ 43.4
Defense and Investigative	36.7	35.2	35.1	31.9	30.7
Other	46.1	53.5	51.8	46.5	44.7
Total Expenses	$129.0	$131.0	$135.0	$129.4	$118.8
(Deficit) Excess of Assessments, Dues and Revenues Over Expenses, net of income taxes	$ (3.8)	$ 4.6	$ 0.3	$ (2.0)	$ 1.8
FINANCIAL POSITION					
Cash and Invested Assets	$219.3	$223.0	$218.3	$226.5	$226.1
Total Assets	$344.5	$353.6	$350.7	$346.7	$340.3
Members' Equity	$159.5	$165.6	$160.3	$163.0	$162.5
MEMBERSHIP AND CLAIMS (Unaudited)					
Active Members at Year End	11,743	11,688	11,789	11,726	11,533
Services for Reported Claims					
Cases Opened	1,052	1,142	1,234	1,198	1,291
Cases Closed	1,143	1,113	1,170	1,190	1,228
Cases Under Management	1,431	1,522	1,493	1,429	1,421
Per Active Member (In thousands)					
Total Assessments, Dues and Revenues	$ 10.9	$ 11.2	$ 11.5	$ 10.8	$ 10.2
Indemnity Expense	3.9	3.6	4.1	4.3	3.8
Defense and Investigative	3.1	3.0	3.0	2.7	2.7
Other Expenses	3.8	4.6	4.4	4.0	3.8
Total Expenses	$ 10.9	$ 11.2	$ 11.5	$ 11.0	$ 10.3

Cooperative of American Physicians, Inc. is licensed as a property and casualty broker-agent and surplus line broker (California license No. 0B72723). Insurance purchased by CAPAssurance, a Risk Purchasing Group, is from a “non-admitted” or “surplus line” insurer that is not licensed by the state of California.

CAP Physicians Insurance Agency, Inc. is authorized under California license No. 0F97719.

COOPERATIVE OF
AMERICAN PHYSICIANS

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