

**STATE OF WASHINGTON  
OFFICE OF THE INSURANCE  
COMMISSIONER**



**FINANCIAL EXAMINATION  
OF  
ARCADIAN HEALTH PLAN, INC.  
SPOKANE, WASHINGTON**

**NAIC CODE 12151  
December 31, 2008**

**Participating States:  
Washington**

Arcadian Health Plan, Inc.  
Order No. 10-0059  
Exhibit A

**SALUTATION**

Seattle, Washington  
March 29, 2010

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building – Capitol Campus  
302 Sid Snyder Avenue SW, Suite 200  
Olympia, WA 98504

The Honorable Alfred W. Gross, Commissioner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Chair, NAIC Financial Condition (E) Committee  
PO Box 1157  
Richmond, VA 23218

The Honorable Paulette Thabault  
Commissioner  
Vermont Department of Insurance  
NAIC Secretary, Northeastern Zone  
89 Main Street  
Montpelier, VT 05620-3101

The Honorable James J. Donelon  
Commissioner  
Louisiana Department of Insurance  
NAIC Secretary, Southeastern Zone  
PO Box 94214  
Baton Rouge, LA 70802

The Honorable Mary Jo Hudson  
Director  
Ohio Department of Insurance  
NAIC Secretary, Midwestern Zone  
50 West Town Street  
3<sup>rd</sup> Floor, Suite 300  
Columbus, OH 43215

The Honorable Christina Urias, Director  
Arizona Department of Insurance  
NAIC Secretary, Western Zone  
2910 North 44<sup>th</sup> Street, Suite 210  
Phoenix, AZ 85018-7256

Dear Commissioners and Directors:

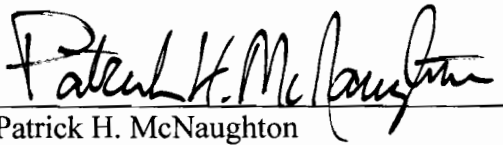
In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

**Arcadian Health Plan, Inc.**  
of  
Spokane, Washington

hereinafter referred to as “AHP” or the “Company”, at the main administrative office located at 825 Washington Street, Suite 300, Oakland, California 94607. This report is respectfully submitted showing the condition of the Company as of December 31, 2008.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of Arcadian Health Plan, Inc., of Spokane, Washington. This report shows the financial condition and related corporate matters as of December 31, 2008.



Patrick H. McNaughton  
Chief Examiner

3-29-10

Date

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## SCOPE OF THE EXAMINATION

This examination covers the period July 1, 2006 through December 31, 2008 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administration Code (WAC), Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through February 4, 2010.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

## INSTRUCTIONS

The examiners reviewed the Company's filed 2008 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

### **1. NAIC Annual Statement Errors and Misclassifications**

The results of the examination disclosed several instances in which the Company's filing of the 2008 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions.

#### **a. Amounts Withheld for the Accounts of Others**

The Company incorrectly included amounts held for the accounts of others such as federal withholding tax, 401k payments, and dependent care payments as "General expenses due or accrued". Amounts held for payments to others should be recorded as "Amounts withheld or retained for the account of others" as required by the 2008 NAIC Annual Statement Instructions and SSAP No. 67, Paragraphs No. 7 and 8. This had no effect on capital and surplus and no reclassification is necessary due to immateriality.

#### **b. The Statement of Actuarial Opinion (SAO)**

The consulting actuary used the wording "state of domicile" in the SAO, when the wording should have been more specific to name the "state of Washington" as the state of domicile, pursuant to the 2008 NAIC Annual Statement Instructions, Actuarial Opinion, Page 10, Paragraph 8.C.

c. Prescription Drug Administrative Fees

The Company incorrectly included administrative fees for the processing of pharmaceutical claims payable as “Prescription drugs” in the 2008 NAIC Annual Statement. SSAP No. 85, Paragraph 4.b., requires that administrative fees for prescription drugs be reported as “Claim adjustment expenses” on page 4, line 20, and on the Underwriting and Investment Exhibit, Part 3 – Analysis of Expense, on page 14, line 14. This had no effect on capital and surplus and no reclassification is necessary due to immateriality.

d. Aggregate Health Policy Reserves and Liability for Amounts Held Under Uninsured Plans

The Company incorrectly included Medicare reinsurance returns for Medicare as “Aggregate health policy reserves” in the 2008 NAIC Annual Statement. Pursuant to SSAP INT 05-05 and SSAP No. 47, Paragraph 11, these amounts should be reported as “Liability for amounts held under uninsured plans.” This had no effect on capital and surplus and no reclassification is necessary due to immateriality.

e. Jurat Page

On the Jurat Page in its 2008 NAIC Annual Statement, the Company incorrectly reported the day the Company commenced business as July 21, 2004, the statutory home office as Oakland, California, and the primary location of books and records as Spokane, Washington. Pursuant to the 2008 NAIC Annual Statement Instructions for the Jurat Page, the day the Company commenced business should be the day the Company first became obligated for any insurance risk (January 1, 2005), the statutory home office is the address identified on the Certificate of Registration in the domiciled state (Spokane, Washington), and the primary location of books and records is the location where examiners may review records during an examination (Oakland, California).

**The Company is instructed to file an accurate statement of its financial condition, transactions, and affairs pursuant to RCW 48.43.097 which requires the filing of its financial statements in accordance with the AP&P; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.**

**2. Intercompany Agreements must be Written and include a Due Date**

AHP is a participant with affiliated companies in a cost allocation agreement and an administrative services agreement that do not include a settlement due date for inter-company payables and receivables. In-addition, for year 2008 the Company participated in a consolidated federal tax agreement with its affiliates without a written agreement. SSAP 25, Paragraph 6, of the AP&P manual require that transactions between related parties must be written and include a due date for settlement of account balances. RCW 48.31C.050(2)(d) requires written agreements to be filed with the OIC.

**The Company is instructed to amend its agreements to include specific due dates for settlement of intercompany balances and intercompany agreements must be in writing as required by SSAP No. 25, Paragraph 6, and to file written agreements with the OIC in compliance with RCW 48.31C.050(2)(d).**

### **3. Administrative Service Agreement**

The Company failed to submit a Form D filing for a change to its Administrative Service Agreement (ASA) between AHP and its parent, Arcadian Management Services, Inc. The Company changed the compensation rates in the ASA effective May 7, 2008. The changing of the compensation rates changed the terms of the ASA contract. Prior written notice is required for an ASA under RCW 48.31C.050(2)(d) by filing Form D with the OIC as outlined in WAC 284-18A-940.

**The Company is instructed to file a Form D as outlined in WAC 284-18A-940 for its ASA contract as required by RCW 48.31.C.050(2)(d).**

### **4. 2008 NAIC Annual Statement Amendment**

The Company discovered a reporting error in the 2008 NAIC Annual Statement, and then filed an amended 2008 NAIC Annual Statement without requesting and obtaining prior approval from the OIC pursuant to SSAP No. 3, Paragraph No. 10. The Company had incorrectly reported "Current federal and foreign income taxes payable and interest thereon" in the amount of \$1,222,130 as "Amounts due to parent, subsidiaries and affiliates."

**The Company is instructed to obtain permission from the OIC prior to filing any amendment to a previously filed financial statement pursuant to RCW 48.43.097 which requires the filing of its financial statements in accordance with the AP&P and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.**

## **COMMENTS AND RECOMMENDATIONS**

### **1. Conflict of Interest Statements**

Arcadian Management Services, Inc. (AMS) has a conflict of interest policy included in its employee handbook that discusses expectations of employee conduct and requires immediate and periodic written disclosure. There is an annual questionnaire regarding outside activities that the BOD is required to complete at the beginning of each fiscal year. AHP is not following the procedure required in the annual questionnaire regarding outside activities. For the current examination period, only one conflict of interest statement was completed out of a total of six BOD members.

**It is recommended that the Company follow its written requirement and have the questionnaires completed annually and presented to the BOD for consideration and action if deemed necessary. It is also recommended that the Company amend the employee handbook and the annual questionnaire regarding outside activities of directors to include officers, and other key management employees, and that the conflict of interest reporting process be noted in the BOD minutes and the results of the process documented.**

## COMPANY PROFILE

### **Company History**

Arcadian Health Plan, Inc., is a state of Washington domiciled stock corporation organized pursuant to Chapter 24.03 RCW and is registered as a health care service contractor pursuant to Chapter 48.44 RCW. The Company was incorporated in April 2004 and began writing business in January 2005.

### **Capitalization**

Every health care service contractor must have and maintain a minimum net worth of \$3,000,000 pursuant to RCW 48.44.037(1)(a). Total capital and surplus as of December 31, 2008 is \$30,667,137. The Company has 60,000 authorized shares of \$10 par value common capital stock as of December 31, 2008, all of which are issued and outstanding.

### **Territory and Plan of Operation**

The Company is a Medicare contractor authorized by the Center for Medicare Services (CMS) to operate various Medicare Advantage prepaid health plans for the provision of covered services through AHP physician and specialist networks to persons enrolled as members in the plans.

The Company is licensed and authorized to write business in the states of Washington, Arizona, Texas, Maine, South Carolina, California, and Virginia as of December 31, 2008. No business has been written in California and Virginia as of December 31, 2008.

### **Growth of Company**

The Company began writing business in January 2005 and has evidenced continued growth from that date forward. The following reflects the growth of the Company based on filed NAIC Annual Statements for the years 2004 through 2008:

	<b>Admitted</b>		<b>Capital and</b>
<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2008	\$75,489,397	\$44,822,260	\$30,667,137
2007	73,366,768	52,047,967	21,318,801
2006	36,310,369	28,928,081	7,382,288
2005	14,469,470	6,136,898	8,332,572
2004	5,208,644	64,143	5,144,501

	<b>Net</b>	<b>Net</b>		
<u>Year</u>	<u>Premiums</u>	<u>Underwriting</u>	<u>Investment</u>	
	<u>Earned</u>	<u>Gain (Loss)</u>	<u>Gain (Loss)</u>	
			<u>Net Income</u>	
2008	\$230,337,506	\$2,461,820	\$2,736,288	\$3,975,978
2007	158,278,879	2,084,464	2,513,823	4,598,287
2006	80,025,887	(5,998,547)	915,262	(5,083,285)
2005	9,226,874	(7,686,481)	228,606	(7,457,875)
2004	0	(3,749)	28,450	24,701



## AFFILIATED COMPANIES

### **Arcadian Management Services (AMS)**

AMS organized the Arcadian Health Plans in 2004 to participate in the Medicare Advantage (MA) federal program. AMS is the parent company of AHP and all other affiliated companies. AMS provides management services such as claim processing, information technology, financial and tax services, enrollment processing, and professional credentialing. AMS is a stock corporation and is principally owned by Three Arch Partners (24.61%), Third Amended Austin/Smalley Living Trust dated March 30, 2004 (21.66%), and Morgan Stanley Senior Funding, Incorporated (15.10%). Cumulatively, the three principle stockholders represent 61% ownership. The remaining 39% is primarily owned by individuals that are currently or formerly employed by AMS.

In order to provide capital to AHP and other affiliates, the parent, AMS, entered into three separate loan agreements for a total principal amount of \$41.4 million. In addition, there is an internal debt due to AMS shareholders for a total of \$1.5 million.

The information below is a summary of the outstanding loan balances included in the December 31, 2008 AMS consolidated financial statement report prepared by the Company's external, independent auditors.

#### **AMS Short-Term Debt Summary**

	<u>principal</u>	<u>accrued interest</u>	<u>liability as of 12/31/2008</u>	<u>due date as of 12/31/2008</u>	
Morgan Stanley Senior Funding: (Three year term, eff. February 7, 2007)	\$21,644,368	\$3,200,470	\$24,844,838	2/7/2010	*
Morgan Stanley Dean Witter Venture Partners IV, LP & various stockholders: (6 month term, entered into May 23, 2008, and automatically extended for 6 month periods until privately placed, or October 31, 2010)	4,740,001	600,414	5,340,415	5/23/2009	+
<b>TOTAL Short-Term Debt</b>	<b><u>26,384,369</u></b>	<b><u>3,800,884</u></b>	<b><u>30,185,253</u></b>		

#### **AMS Long-Term Debt Summary**

Three Arch Partners:	15,000,000	4,979,834	19,979,834	7/5/2011	
<b>TOTAL Long-Term Debt</b>	<b><u>15,000,000</u></b>	<b><u>4,979,834</u></b>	<b><u>19,979,834</u></b>		
<b>TOTAL External Debt</b>	<b><u>41,384,369</u></b>	<b><u>8,780,718</u></b>	<b><u>50,165,087</u></b>		

#### **Shareholder Note**

Notes Payable	1,500,000		1,500,000	7/5/2011	
<b>TOTAL AMS Notes Payable</b>	<b><u>\$42,884,369</u></b>	<b><u>\$8,780,718</u></b>	<b><u>\$51,665,087</u></b>		

\* For extension of maturity dates see Subsequent Events Section of this report, "AMS Debt Refinancing".

The AMS audited consolidated financial statements as of December 31, 2008, reported stockholders equity of \$3.8 million and a net loss for the year of \$1.1 million. AMS's outside independent auditors also reported that, no events of default have occurred with respect to any of AMS's debt agreements as of December 31, 2008, and that AMS was in compliance with all debt covenants for the year ended December 31, 2008.

**Arkansas Community Care, Inc. (ACC)**

In March 2005, AHP formed the subsidiary, ACC, domiciled in the state of Arkansas, as a for profit stock health maintenance organization for the purpose of marketing MA products in the state of Arkansas. AHP invested \$3,000,000 in cash for a 60% equity stake in ACC and AMS owns the remaining 40%. ACC began operations on January 1, 2006.

**Arcadian Health Plan of Georgia, Inc. (AHPGA)**

In June 2006, AMS formed the subsidiary, AHPGA, domiciled in the state of Georgia, as a for profit stock health maintenance organization for the purpose of marketing MA products in the state of Georgia.

**Arcadian Health Plan of Louisiana, Inc. (AHPLA)**

In March 2007, AMS formed the subsidiary, AHPLA, domiciled in the state of Louisiana, as a for profit stock health maintenance organization for the purpose of marketing MA products in the state of Louisiana.

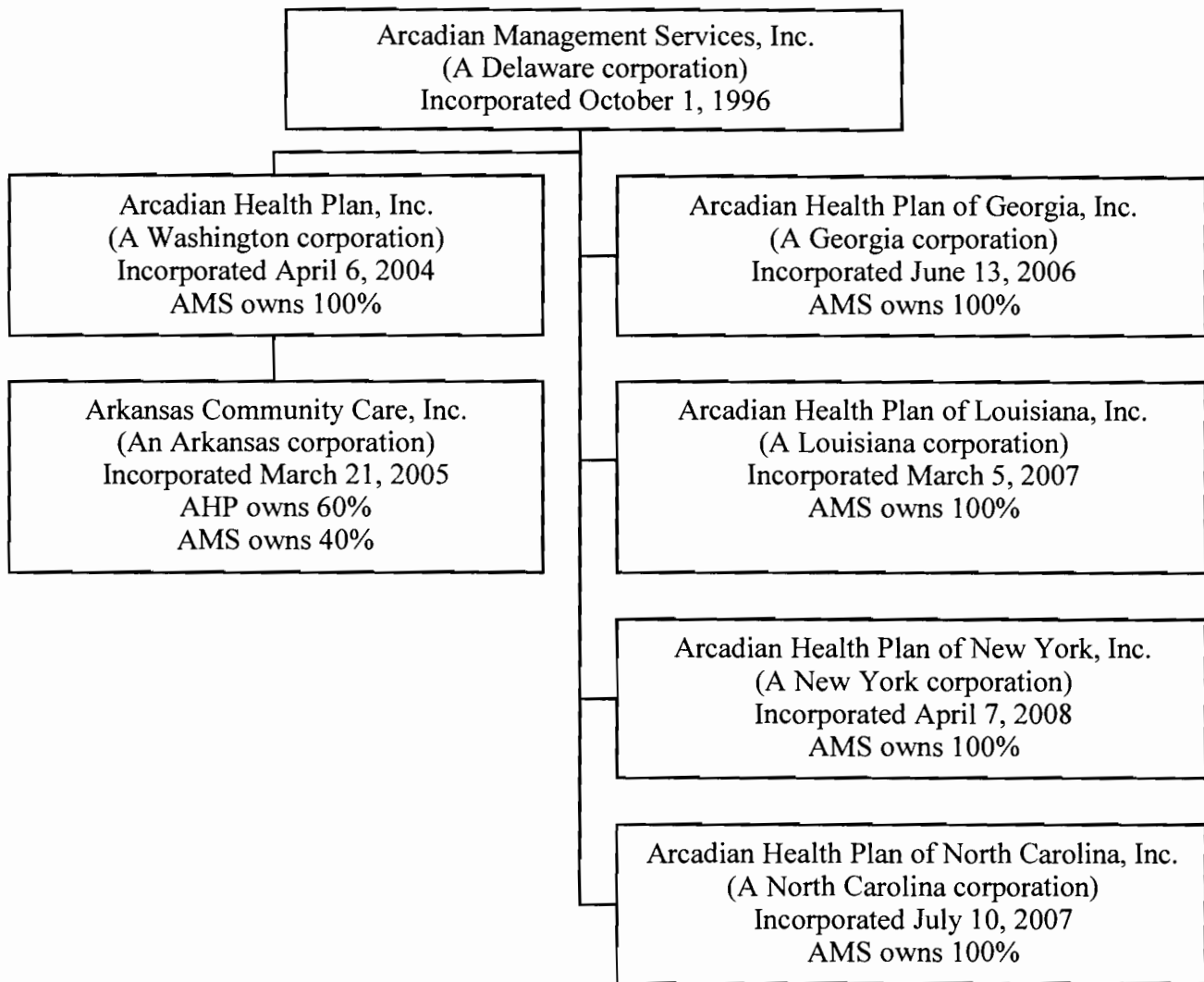
**Arcadian Health Plan of North Carolina, Inc. (AHPNC)**

In July 2007, AMS formed the subsidiary, AHPNC, domiciled in the state of North Carolina, as a for profit stock health maintenance organization for the purpose of marketing MA products in the state of North Carolina.

**Arcadian Health Plan of New York, Inc. (AHPNY)**

In April 2008, AMS formed the subsidiary, AHPNY, domiciled in the state of New York, as a for profit stock health maintenance organization for the purpose of marketing MA products in the state of New York.

**Organizational Chart** (Members of the AMS Holding Company Group as of December 31, 2008)



**INTERCOMPANY AGREEMENTS**

**Administrative Services Agreement (ASA)**

AHP and AMS entered into an ASA on June 1, 2004. Amendments were made to that agreement effective April 1, 2005 and April 1, 2006. AMS supplies certain services to the Company under the ASA. Those services include claims processing, professional credentialing, information technology, treasury, financial and tax services. The agreement and amendments have been filed with the OIC pursuant to Chapter 48.31C RCW.

**Cost Allocation and Shared Services Agreement**

A cost allocation and shared services agreement was entered into between AHP and all AMS affiliated companies effective January 1, 2007. This agreement provides affiliated companies the mechanism to equitably share expenses when one affiliate provides a service that multiple affiliates may benefit from. AHPNY is not included in this agreement, but has a separate, similar agreement as indicated below.

**Management and Administrative Services Agreement**

AHP and AHPNY entered into a cost allocation agreement October 6, 2008. Under this agreement, AHP will provide health plan management and administrative services for AHPNY. This plan is similar in its terms and conditions to the Cost Allocation and Shared Services Agreement that exists between AHP and all other AMS affiliated companies.

**Tax Allocation Agreement**

AHP is included in the consolidated federal tax agreement filed by AMS along with the following affiliated companies; ACC, AHPGA, AHPLA, AHPNC, and AHPNY. The agreement requires the companies to use a pure separate company approach with no current credit for any net operating losses or other items utilized in the consolidated tax return. The agreement has been in force since the affiliates were organized, but was not formalized in written form until January 1, 2009. (See Instruction No. 2.)

**MANAGEMENT AND CONTROL**

**Ownership**

The Company’s Articles of Incorporation state that AHP is a stock insurer and authorized to issue only one class of shares. AMS owns 100% of the issued and outstanding shares of common capital stock. Directors and officers of the Company own approximately 35% of the outstanding shares of the parent, AMS.

**Board of Directors (BOD)**

Management of the Company is vested in a board of five directors elected by AMS, the sole shareholder, at an annual meeting to serve a one year term.

Directors as of December 31, 2008:

John H. Austin	Nancy E. Freeman
Kenneth B. Zimmerman	Chase S. Milbrandt
Cheryl Y. Perkins	

**Officers**

Officers as of December 31, 2008:

John H. Austin	Chief Executive Officer
Nancy E. Freeman	President, Secretary
Kenneth B. Zimmerman	CFO, Treasurer

**Conflict of Interest**

AMS has a conflict of interest policy written in the employee handbook that applies to all affiliated company employees, directors and officers. That policy discusses expectations for employee conduct. There is an annual questionnaire regarding outside activities that the BOD is required to complete annually at the beginning of each year. There were no potential conflicts of interest disclosed. It was determined that AHP employees, directors and officers were not in full compliance with the procedures in place. (See Comment and Recommendation No. 1.)

**Fidelity Bond and other Insurance**

The Company has fidelity insurance that meets the NAIC recommended minimum coverage levels. Additionally, AHP has property, auto and general liability coverage. Directors and officers are also covered for errors and omissions.

#### **Officers', Employees', and Agents' Welfare and Pension Plans**

AMS performs services for AHP pursuant to the ASA. AHP participates in a qualified 401K plan sponsored by the parent company, AMS. Non-highly compensated employees who earned less than \$100,000 in the previous calendar year are eligible for a Company match of up to 5% of their annual income that is contributed to the plan. Employer match contributions are made on a yearly basis and are accrued monthly.

### **CORPORATE RECORDS**

The Company's Articles of Incorporation, Bylaws, Certificate of Registration and minutes of the BOD and committees were reviewed for the period under examination. No exceptions were noted and all BOD meetings were conducted with a quorum present.

### **ACTUARIAL REVIEW**

The OIC health actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2008. The review included examining the Company's reserving philosophy and methods to determine the reasonableness of the claim liabilities; verifying that claim liabilities included provisions for all components noted in SSAP No. 55, Paragraphs 7, and 8, and SSAP No. 54, Paragraphs 12, 13, 18 and 19; reviewing historical paid claims and loss ratios; and estimating claims unpaid as of December 31, 2008. It was determined reserves were within a reasonable range.

### **REINSURANCE**

AHP is reinsured with HCC Life Insurance Company for specific excess of loss reinsurance per covered person in excess of \$150,000 to a maximum of \$2 million per person. There is a separate contract for each state in which AHP writes the MA plan. The Company reported \$630,189 as "Amounts recoverable from reinsurers" as of December 31, 2008.

### **SPECIAL DEPOSITS**

AHP is subject to the indemnity requirements of RCW 48.44.030, where estimated unpaid claims for uncovered expenditures to providers outside of the network, and not covered by contract, need to be guaranteed by an approved method. Pursuant to this statute, AHP has on deposit with the state of Washington, cash and short term, class one, money market mutual funds, in the amount of \$1,823,404.

In addition to the deposit with the state of Washington, AHP also maintains required deposits with other states as follows:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Texas	Bond	\$4,754,491	\$5,148,494
Arizona	Bond	\$1,341,097	1,823,404
Virginia	Bond	517,425	533,347
Maine	Bond	432,656	460,745
South Carolina	Bond	314,694	354,400

### **ACCOUNTING RECORDS AND INFORMATION SYSTEMS**

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for NAIC Annual Statement reporting. PriceWaterhouseCoopers, LLP (PWC) performed a statutory audit as of December 31, 2005. Subsequent audits for the years 2006, 2007 and 2008, have been performed by the certified public accounting firm of Ernst & Young, LLP (E&Y). The Company received unqualified opinions for all years under review.

The management of the Company is sufficiently knowledgeable of the information systems process, and provides direction and oversight through its information technology (IT) Steering Committee. The Company has documented operational policies and procedures and a security policy that defines the responsibilities of users, management and information systems (IS) personnel. Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the internal controls exercised to maintain data security.

The Company has a detailed, written business contingency plan that includes appropriate escalation procedures to resolve operational failures in a timely manner and addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities.

### **SUBSEQUENT EVENTS**

#### **Director and Officer Changes**

Robert Fahlman was appointed Chief Executive Officer of AHP effective June 1, 2009, replacing Dr. John Austin. He was also elected to the BOD, and appointed as Chairman. Effective July 1, 2009, Robert Fahlman was appointed to the positions of President and Secretary of AHP, replacing Nancy Freeman.

There have been several controller changes during the period of this examination. Most recently, Salvatore Lento resigned in May 2009 and was replaced August 24, 2009 by David Buhler who became the Vice President and Corporate Controller. Effective November 1, 2009, David Buhler assumed the position of CFO of AHP, replacing Kenneth Zimmerman. Kenneth Zimmerman continued to serve as Treasurer and as a member of the BOD of the Company. Effective

November 7, 2009, David Buhler was elected to the BOD of AHP, replacing Nancy Freeman who left the Company.

#### AMS Debt Refinancing

AMS has two loans outstanding that are classified as short term debt. Morgan Stanley Senior Funding loaned AMS \$21,644,368 on February 7, 2007 for a three year term. The terms of the loan were changed to extend the due date until October 2010.

Morgan Stanley Dean Witter Venture Partners IV, LP and various stockholders loaned AMS \$4,740,001 on May 23, 2008 for a renewable six month term until privately placed or October 31, 2010. As of our examination date of December 31, 2008 and subsequent through the end of our field work, this loan has not been privately placed.

AMS plans to refinance all of its debt and has prepared a draft prospectus to use when market conditions improve.

#### Health Care Market Expansion

AMS is evaluating the possibility of approximately 30% growth and expansion into new geographical areas. AMS experienced the same growth during 2007 and 2008. AHP became licensed to operate in the states of Missouri and New Hampshire during 2009. On October 6, 2009, AHP announced the offering of the MA health plans for select counties in California, Missouri, New Hampshire and Virginia, as well as continued expansion into existing markets including Maine and Texas. Affiliated companies also continue the expansion of the MA health plans in Georgia, Louisiana, New York, Oklahoma, and North Carolina.

#### AHP Re-domestication

AMS is seeking re-domestication for AHP from the state of Washington to the state of Texas where it has its largest base of enrolled members and premiums.

### **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

All report instructions and recommendations from the previous target financial examination were corrected and satisfactorily addressed.

### **FINANCIAL STATEMENTS**

The following examination financial statements show the financial condition of Arcadian Health Plan, Inc., as of December 31, 2008:

Assets, Liabilities, Capital and Surplus  
Statement of Revenue and Expenses  
Five Year Reconciliation of Surplus

**ARCADIAN HEALTH PLAN, INC.**  
**ASSETS, LIABILITIES, CAPITAL AND SURPLUS**  
**DECEMBER 31, 2008**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
<b>Assets</b>			
Bonds	\$47,074,237	\$0	\$47,074,237
Common stocks	6,286,753		6,286,753
Cash and short-term investments	3,069,787		3,069,787
Investment income due and accrued	589,355		589,355
Premiums and considerations:			
Uncollected premiums and agents' balances	9,592,342		9,592,342
Amounts recoverable from reinsurers	603,189		603,189
Net deferred tax asset	1,974,811		1,974,811
Receivables from parent, subsidiaries and affiliates	3,736,494		3,736,494
Health care and other amounts receivable	2,562,429		2,562,429
<b>Total Assets</b>	<b><u>\$75,489,397</u></b>	<b><u>\$0</u></b>	<b><u>\$75,489,397</u></b>
<b>Liabilities, Capital, and Surplus</b>			
Claims unpaid	\$31,240,424	\$0	\$31,240,424
Accrued medical incentive pool and bonus amounts	195,916		195,916
Unpaid claims adjustment expenses	1,148,398		1,148,398
Aggregate health policy reserves	3,473,450		3,473,450
General expenses due or accrued	5,797,520		5,797,520
Current federal and foreign income tax payable	1,222,130		1,222,130
Amounts due to parent, subsidiaries and affiliates	281,944		281,944
Liability for amounts held under uninsured Accident and Health plans	1,462,478		1,462,478
<b>Total Liabilities</b>	<b><u>44,822,260</u></b>	<b><u>0</u></b>	<b><u>44,822,260</u></b>
Common capital stock	600,000		600,000
Gross paid in and contributed surplus	34,696,777		34,696,777
Unassigned funds (surplus)	(4,629,640)		(4,629,640)
<b>Total Capital and Surplus</b>	<b><u>30,667,137</u></b>	<b><u>0</u></b>	<b><u>30,667,137</u></b>
<b>Total Liabilities, Capital and Surplus</b>	<b><u>\$75,489,397</u></b>	<b><u>\$0</u></b>	<b><u>\$75,489,397</u></b>



**ARCADIAN HEALTH PLAN, INC.**  
**STATEMENT OF REVENUE AND EXPENSES**  
**DECEMBER 31, 2008**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Member months	303,299		303,299
Net premium income	\$230,337,506	\$0	\$230,337,506
Total revenues	<u>230,337,506</u>	<u>0</u>	<u>230,337,506</u>
<b><u>Hospital and Medical:</u></b>			
Hospital/medical benefits	109,654,900		109,654,900
Other professional services	19,234,596		19,234,596
Outside referrals	29,330,632		29,330,632
Emergency room and out-of-area	4,916,170		4,916,170
Prescription drugs	25,516,997		25,516,997
Incentive pool, withhold adjustments and bonus amounts	290,764		290,764
Subtotal	<u>188,944,059</u>	<u>0</u>	<u>188,944,059</u>
<b><u>Less:</u></b>			
Net reinsurance recoveries	1,796,723	0	1,796,723
Total hospital and medical	187,147,336		187,147,336
Claims adjustment expenses	7,674,579		7,674,579
General administrative expenses	33,053,771		33,053,771
Total underwriting deductions	<u>227,875,686</u>	<u>0</u>	<u>227,875,686</u>
Net underwriting gain or (loss)	<u>2,461,820</u>	<u>0</u>	<u>2,461,820</u>
Net investment income earned	2,640,650		2,640,650
Net realized capital gains or (losses)	95,638		95,638
Net investment gains or (losses)	<u>2,736,288</u>	<u>0</u>	<u>2,736,288</u>
Net income or (loss) before federal income tax	5,198,108	0	5,198,108
Federal and foreign income taxes incurred	1,222,130		1,222,130
<b>Net Income (Loss)</b>	<b><u>\$3,975,978</u></b>	<b><u>\$0</u></b>	<b><u>\$3,975,978</u></b>
<b><u>CAPITAL AND SURPLUS ACCOUNT</u></b>			
Capital and surplus prior reporting period	\$21,318,801	\$0	\$21,318,801
Net Income (Loss) from above	3,975,978	0	3,975,978
Change in net unrealized capital gains and losses	1,961,492		1,961,492
Change in net deferred income tax	2,085,991		2,085,991
Change in nonadmitted assets	1,324,875		1,324,875
Net change in capital and surplus	<u>9,348,336</u>	<u>0</u>	<u>9,348,336</u>
<b>Capital and surplus end of reporting period</b>	<b><u>\$30,667,137</u></b>	<b><u>\$0</u></b>	<b><u>\$30,667,137</u></b>

**ARCADIAN HEALTH PLAN, INC.  
FIVE YEAR RECONCILIATION OF SURPLUS  
FOR THE YEARS ENDED DECEMBER 31**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Capital and Surplus, December 31, prior year</b>	<u>\$21,318,801</u>	<u>\$7,382,288</u>	<u>\$8,332,572</u>	<u>\$5,144,501</u>	<u>\$0</u>
Net income or (loss)	3,975,978	4,598,287	(5,083,285)	(7,457,875)	24,701
Change in net unrealized capital gains and losses	1,961,492	(1,708,729)	(1,412,014)		
Change in net deferred income tax	2,085,991				
Change in nonadmitted assets	1,324,875	(2,474,940)	(911,845)	(254,054)	
Capital changes:					
Paid in		12,820,001	563,430		36,570
Surplus adjustments:					
Paid in			5,893,546	10,900,000	5,083,230
Aggregate write-ins for gains or (losses) in surplus:					
Prior year audit adjustment		701,894	(116)		
Net change in capital and surplus	<u>9,348,336</u>	<u>13,936,513</u>	<u>(950,284)</u>	<u>3,188,071</u>	<u>5,144,501</u>
<b>Capital and Surplus, December 31, current year</b>	<u><u>\$30,667,137</u></u>	<u><u>\$21,318,801</u></u>	<u><u>\$7,382,288</u></u>	<u><u>\$8,332,572</u></u>	<u><u>\$5,144,501</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**

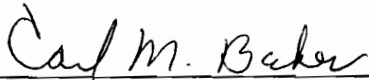
The Company has no special consents, permitted practices or orders from the state of Washington as of December 31, 2008.

## **ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of Arcadian Health Plan, Inc., during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Larry A. Omdal, Examiner-in-charge; John R. Jacobson, AFE, CISA, AES, Automated Examination Specialist; Shiraz Jetha, FSA, FCIA, MAAA, Health Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; and Randy E. Fong, AFE, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



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Carl M. Baker, CPA, CFE  
Health Field Supervisor  
State of Washington

**AFFIDAVIT**

**STATE OF WASHINGTON**        }  
  }  
**COUNTY OF KING**            } ss  
  }

Carl M. Baker, being duly sworn, deposes and says that the foregoing report subscribed is true to the best of his knowledge and belief.

He attests that the examination of Arcadian Health Plan, Inc., was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

Carl M. Baker  
Carl M. Baker, CPA, CFE  
Health Field Supervisor  
State of Washington

Subscribed and sworn to before me this 29<sup>th</sup> day of March, 2010.

Susan E. Miller  
Notary Public in and for the  
State of Washington

