STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

TARGET FINANCIAL EXAMINATION

OF

Arcadian Health Plan, Inc.
Seattle, Washington

NAIC CODE 12151
JUNE 30, 2006

Order No. G07-347
Arcadian Health Plan, Inc.
Exhibit A

SALUTATION

Seattle, Washington
December 6, 2007

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

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.44.145 and RCW 48.03.010, a target examination was made of the corporate affairs and financial records of

Arcadian Health Plan, Inc.

of

Seattle, Washington

hereinafter referred to as "AHP" or the "Company." The target examination was conducted at the statutory home office located at 825 Washington Street, Suite 300, Oakland, California 94607.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Arcadian Health Plan, Inc., of Seattle, Washington. This report shows the financial condition and related corporate matters as of June 30, 2006.

Patrick H. McNaughton

Patrick H. McNaughton
Chief Examiner

12-06-2007

Date

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION

The Company was incorporated in June 2004 and began writing business in January 2005. The Company's periodic financial results reported to the OIC have evidenced numerous negative financial ratios, capital and surplus deficiencies, and solvency concerns. The Company has had to obtain additional capital infusions in order to maintain minimum statutorily required capital and surplus levels.

A targeted, limited-scope examination was called on September 16, 2006, based on the financial results of the Company as of June 30, 2006. The primary objective of the examination was to review the Company's financial solvency by conducting a focused review of the books and records targeting the financial reporting accuracy of premium revenue, claim reserves, benefit payments, cash balances, Medicare contracted liabilities, confirmation of investments, information technology controls, inter-company transactions and capital structure and subsequent events impacting the Company's solvency.

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 that were noted during the examination.

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 2005 NAIC Annual Statement and subsequent financial statements filed with the OIC during 2006. This review was performed to determine if the Company completed the NAIC Annual and Quarterly Statements in accordance with the NAIC Annual and Quarterly 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. Unrecorded Liabilities for Medicare Part D Prescription Drug Program

The Company failed to record two material liabilities until the preparation of its November 30, 2006 monthly statement. The liabilities should have been accrued monthly from the beginning of 2006. In addition, a decrease in the Company's investment in a controlled affiliate, Arkansas Community Center (ACC), was also affected when ACC reduced its capital and surplus from the same corresponding liability adjustments in its financial statements. (See Note No. 6 in the Notes to the Financial Statements) The two unrecorded liabilities are as follows:

A. Low Income Cost Sharing (LICS):

The Company established a LICS liability as "Aggregate write-ins for other liabilities" in the November 2006 monthly statement. This is for low income Medicare patients using the Part D program for prescription drugs. The liability should have been included as an accrued liability on all monthly statements beginning January 1, 2006 as required by SSAP No. 5. The Company incorrectly recorded all amounts received for LICS from the Center for Medicare and Medicaid Services (CMS) as premium income.

LICS monies received by the Company should have been recorded as a deposit liability and reduced when pharmacy benefits were paid to eligible participants. Any unused portion is remitted back to CMS. As of June 30, 2006, "Premium income" was overstated and "Aggregate write-ins for other liabilities" for LICS was understated by $1,789,056. (See Note No. 1 in the Notes to the Financial Statements)

B. Medicare Part D Risk Sharing Liability:

The Company established a Medicare Part D risk sharing liability as "Aggregate write-ins for other liabilities" in the November 2006 monthly statement. This was owed by the Company to CMS for a settlement based on experience rating for Medicare patients using the Part D prescription drug program.

This program began on January 1, 2006 and the liability should have been accruing throughout the year, but there was not enough experience to reasonably establish the liability in the first part of the year. As of June 30, 2006, "Premium income" was overstated and "Aggregate write-ins for other liabilities" Risk Sharing was understated by $2,713,890. (See Note No. 2 in the Notes to the Financial Statements)

The Company is instructed to comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs; with RCW 48.43.097 which requires the filing of its financial statements in accordance with the AP&P Manual; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P Manual.

COMMENTS AND RECOMMENDATIONS

1. Business Continuity Plan

The Company does not have a formal, written business continuity plan based on a business impact analysis that has been tested, and that addresses all significant business activities, including financial functions, telecommunication services, and data processing and network services.

It is recommended that the Company prepare a formal, written business continuity plan that 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, as recommended by the NAIC.

2. Disaster Recovery Plan

The Company does not have a formal, written, disaster recovery plan for the resumption of information systems (IS) operations in the event of a disruption of normal operations.

It is recommended that the Company write, test, and implement a disaster recovery plan that includes appropriate escalation procedures to resolve operational failures in a timely manner, as recommended by NAIC Guidelines.

3. Fidelity Bonding

The Company is a named insured on a financial institution fidelity bond with an aggregate loss limit of coverage in the amount of $100,000. There is no deductible. The NAIC suggests a minimum level of fidelity bonding for year 2006 based on the Company's assets, premium income, and other income of $175,000 to $200,000.

It is recommended that the Company closely monitor its fidelity bond coverage to keep pace with its rapid growth and increase coverage as needed to an appropriate level for its exposure in line with the recommendations of the NAIC at a minimum.

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 on April 6, 2004 and began writing business in January 2005.

Capitalization
The Company has 10,000 shares authorized and 3,657 shares issued and outstanding of $10 par value common capital stock as of June 30, 2006. The Company has no authorized preferred stock. Additional paid in capital of $10,900,000 was contributed by AMS during calendar year 2005 and $400,000 during the second quarter of 2006.

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). The Company maintains common capital stock in the amount of $36,570, paid in capital in the amount of $16,383,230, and has negative unassigned funds in the amount of $12,208,211 for total capital and surplus in the amount of $4,211,589 as of June 30, 2006.

Territory and Plan of Operation

The Company is a Medicare contractor authorized by 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 and South Carolina as of June 30, 2006. No business has been written in Maine or South Carolina as of June 30, 2006. The Company is pursuing an aggressive marketing campaign and increasing business by actively marketing to individual population centers that exceed 50,000 persons and are not typically serviced by other major health care providers.

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 the OIC filed monthly statements and NAIC quarterly and annual statements for the period ended October 31, 2006:

	12/31/2005	3/31/2006	6/30/2006	9/30/2006	10/31/2006
Assets, Liabilities, Capital and Surplus:					
Admitted Assets	$14,469,470	$18,202,854	$31,870,640	$30,584,438	$31,851,209
Liabilities	6,136,898	16,166,480	27,659,051	23,445,894	24,394,958
Capital and Surplus	$8,332,572	$2,036,374	$4,211,589	$7,138,544	$7,456,251
Revenue and Expenses:					
Premiums and Risk Revenue	$9,226,874	$14,504,788	$37,518,872	$63,627,242	$72,300,899
Net Underwriting Deductions	16,913,355	15,575,542	41,014,469	64,475,629	73,175,142
Underwriting Gain or Loss	(7,686,481)	(1,070,754)	(3,495,597)	(848,387)	(874,243)
Investment and Other Income	228,605	111,735	292,404	563,641	673,404
Pre-Tax Income	(7,457,876)	(959,019)	(3,203,193)	(284,746)	(200,839)
Taxes Incurred	0	0	0	0	0
Net Income	($7,457,876)	($959,019)	($3,203,193)	($284,746)	($200,839)

AFFILIATED COMPANIES

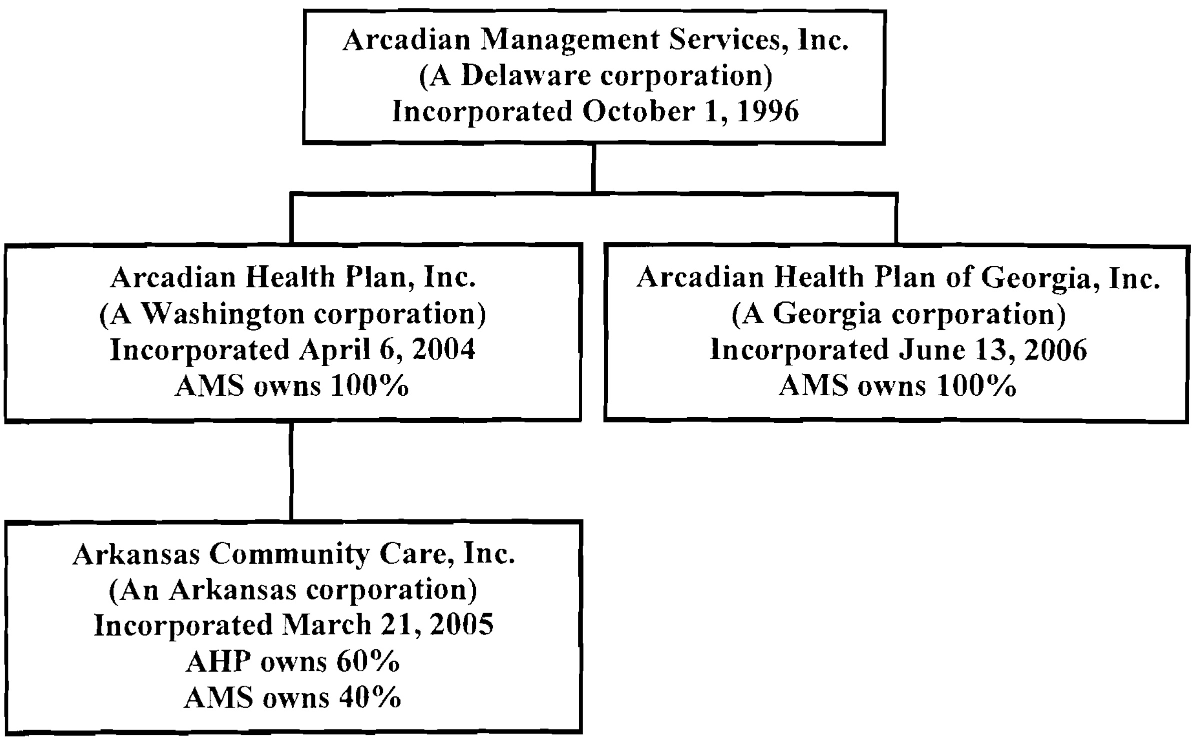
Arcadian Management Services (AMS):

AMS is the parent company of AHP and provides management services to AHP such as claim processing, information technology, financial and tax services. AMS is a stock corporation and is principally owned by John H. Austin, Chief Executive Officer (CEO), Three Arch Partners (venture capitalists), and Morgan Stanley Senior Funding, Incorporated. Cumulatively, the three principle stockholders represent 64% ownership.

Arkansas Community Care, Inc. (ACC):
In March 2005, AHP formed a subsidiary, ACC, domiciled in the state of Arkansas as a for profit stock health maintenance organization for the purpose of marketing Medicare Advantage products in the state of Arkansas. AHP's initial investment was $3,000,000 in cash. AHP owns 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 a subsidiary, AHPGA, domiciled in the state of Georgia as a for profit stock health maintenance organization for the purpose of marketing Medicare Advantage products in the state of Georgia.

Organization Chart (Members of the AMS Holding Company Group as of June 30, 2006)



INTERCOMPANY AGREEMENT

Administrative Services Agreement (ASA)
AHP and AMS entered into the ASA on June 1, 2004. 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 has been filed with the OIC pursuant to Chapter 48.31C RCW.

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 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 June 30, 2006:

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

Officers

Officers as of June 30, 2006:

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

Fidelity Bond and other Insurance

The Company is a named insured on a fidelity bond with an aggregate loss limit of coverage in the amount of $100,000. Also included is an endorsement which adds a $50,000 limit to each individual officer of the Company. The minimum amount recommended by the NAIC for the year 2006 is $175,000 to $200,000. It is recommended that the Company increase the fidelity coverage to the NAIC recommended amounts for 2006. (See Comments and Recommendations No. 3)

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 are eligible for a Company match of up to 5% of their income that is contributed to the plan.

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

An independent consulting actuary with Reden & Anders and a member of the American Academy of Actuaries performed a review with regard to the Company's loss reserves, actuarial liabilities and related items as included in the December 31, 2005 NAIC Annual Statement.
The OIC health actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2005. Additionally, the OIC health actuary reviewed the claims unpaid, and other claim liabilities reported in the June 30, 2006 NAIC Quarterly Statement, which was the target examination date.

This review included examining the Company's reserving procedures 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; reviewing historical paid claims and loss ratios; checking the consistency of the incurred-paid data from the Company system to the amounts reported in the June 30, 2006 NAIC Quarterly Statement; and estimating claims unpaid as of June 30, 2006.

Paid claim data, including the incurred-paid triangle data provided by the Company, was verified for accuracy and completeness and reconciled to the June 30, 2006 NAIC Quarterly Statement. The Company estimated "Unpaid claims adjustment expenses" to be 3% of "Claims unpaid". The Company's methodology for choosing 3% appeared reasonable and is within the industry range.

The Company failed to recognize Medicare Part D Risk Sharing liabilities related to Medicare Part D policies in the June 30, 2006 NAIC Quarterly Statement. The liability adjustment is $2,713,891. (See Instruction No. 1 and Notes to the Financial Statements No. 2)

"Claims unpaid" were reported as $17,676,312 in the June 30, 2006 NAIC Quarterly Statement. The Company adjusted that figure to $14,412,421. The OIC health actuary using updated claim data provided by the Company and using a methodology prescribed by the American Academy of Actuaries determined that the Company's downward adjustment of $3,263,891 as of November 30, 2006, was reasonable. A corresponding examination financial statement adjustment was required to reflect this decrease to "Claims unpaid". (See Notes to the Financial Statements No. 4)

Except for the Part D Medicare Risk Sharing Liability issue mentioned previously, the Company has booked the required liabilities as recommended in SSAP No. 55, Paragraph 7.

REINSURANCE

AHP is reinsured with Ace American Insurance Company for specific excess of loss reinsurance per covered person in excess of $100,000 to a maximum of $2 million per person. Total payments to Ace American Insurance Company for the six month period ending June 30, 2006 were $209,302.

SPECIAL DEPOSITS

The OIC requires the filing of the Underwriting of Indemnity Calculation or Funded Reserve Form pursuant to WAC 284-07-050(8). The calculation as of December 31, 2005, pursuant to WAC 284-44-340, required a minimum deposit of $923,990. The OIC financial analysts advised the Company in November 2006 that the reserve should include an additional amount for premiums received in advance. The Company subsequently increased the deposit in US Bank to $1.7 million to satisfy the funded reserve requirement.

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. The Company was audited for the first time by the certified public accounting firm of PriceWaterhouseCoopers, LLP (PWC). The Company received an unqualified opinion for the year ended 2005.

OIC examiners and PWC had concerns about written procedures and internal controls with regards to the separation of duties. The Company had a small number of individuals responsible for financial reporting and the separation of duties was not sufficient for adequate control purposes. The Company understands the situation and as the Company has grown, two key positions have been added in addition to the CFO, mitigating the problem.

The management of the Company is sufficiently knowledgeable of the information systems process. Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place. Operations and application controls were reviewed to determine the following: 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. Sufficient information system controls are in place and monitored by the Company.

The Company does not have a formal, written disaster recovery plan for the restoration of the information systems and does not have a formal, written business continuity plan that 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, as recommended by NAIC Guidelines. (See Comments and Recommendations No. 1 and 2)

SUBSEQUENT EVENTS

1. Adverse operating results, incorrect financial projections, and a failure to timely record liabilities have resulted in operating ratios that are outside normal, expected ranges for year-end 2006 and into 2007. The Company projected a net gain in operating results for the year ended December 31, 2006, but actual operating results for 2006 were a net loss of $5,372,042. This resulted in a requirement for the Company to obtain additional capital in order to comply with

risk-based capital (RBC) requirements. In addition, financial results reported by the Company have continued to evidence other ratio exceptions and conditions that could be considered by statute to place the Company in a financially hazardous condition as defined by WAC 284-16-300 through WAC 284-16-320.

WAC 284-16-310 defines fifteen (15) standards which singly or in combination of two or more, may be considered by the commissioner to determine whether the continued operation of any insurer transacting an insurance business in this state might be deemed to be hazardous to the policyholders, creditors, or the general public. Specific standards which could be applied by the commissioner included the following:

- The Company's November 2006 financial statement added two additional liabilities which had a material effect on its operating results for 2006. These liabilities should have been funded over the course of the year. The failure to timely book liabilities led to the material misstatement of previously filed financial statements.

- Seven of the NAIC Financial Analysis Solvency Tools (FAST) ratios fell outside designated thresholds for a health company on AHP's September 30, 2006 financial statement.

- As of November 30, 2006, the Company had an operating loss ratio of approximately 107% due from an underwriting loss ratio of 73.4% combined with an expense ratio of 33.4%. The high expense ratio relates to additional expenses incurred due to the Company's growth objectives, especially during the Medicare enrollment periods.

- The Company's operating loss in the last twelve month or shorter period is greater than fifty percent of it remaining surplus.

- The Company's annual premium for the year 2005 was $9,226,874. As of November 30, 2006, the Company reported annual premiums of $71,556,506. As of year end 2006, the annual premiums were projected at approximately $80 million. This resulted in a highly leveraged ratio of premiums to surplus of approximately 13 to 1.

The Company has filed and the OIC has approved a solicitation permit for additional financing pursuant to a corrective action plan prepared by the Company under OIC direction and review. The Company's corrective action plan is designed to bring it into compliance with all Washington statutes, bring the premium to surplus ratio down to 8 to 1, lower the combined ratio expense below 100%, and eliminate the need for additional capital infusions in the future.

2. AHP notified the OIC in a letter dated April 2, 2007 that it had dismissed PWC as independent auditor for AHP on March 30, 2007. The letter gave further notice that AHP had retained Ernst and Young (E&Y), LLP, to perform the independent audit of the Company as of December 31, 2006. As a result of the audit of the year-end 2006 statutory financial statements, the Company's external auditors, E&Y sent a letter to the Audit Committee of the BOD dated June 18, 2007 that identified a significant deficiency in AHP's internal controls in the processes used for broker commissions and identified material weaknesses in the accounting procedures

used to prepare period-ending financial statements and a need to improve their accuracy. AHP notified the OIC of these findings on June 29, 2007.

AHP was not following its documented procedures for recording broker commissions, resulting in missing documents such as signed broker agreements, code of ethics statements and Medicare tests. E&Y recommended that the AHP review its broker commission processes and documentation requirements. In addition, E&Y recommended controls be implemented to maintain and review signed broker agreements and other documents as required.

E&Y recommended that management prepare formal policies for the reconciliation of balance sheet accounts on a timely basis to correct material weakness in the year-end accounting closing procedures used in order to prepare accurate financial statements. E&Y also recommended that executive management evaluate the staff resources available in the finance department to ensure that financial statement closing processes and controls are in place to accurately complete financial statements in a timely fashion.

In addition, because of these material weaknesses in the preparation of the financial statements, numerous adjustments were made to the 2006 NAIC Annual Statement. The net effect of these adjustments was an increase of $266,196 in capital and surplus.

3. Arcadian Health Plan of Louisiana and Arcadian Health Plan of North Carolina were incorporated during 2007, becoming affiliated subsidiaries of AMS.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of Arcadian Health Plan, Inc., as of June 30, 2006:

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

ARCADIAN HEALTH PLAN, INC.
ASSETS, LIABILITIES, CAPITAL AND SURPLUS
JUNE 30, 2006

	BALANCE PER COMPANY	ref.	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Assets				
Bonds	$7,635,314		$0	$7,635,314
Common stocks	1,774,127	6	(232,462)	1,541,665
Cash and short-term investments	13,371,073			13,371,073
Investment income due and accrued	132,056			132,056
Premiums and considerations:				
Uncollected premiums and agents' balances	8,551,658			8,551,658
Receivables from parent, subsidiaries and affiliates	406,412			406,412
Total Assets	**$31,870,640**		**($232,462)**	**$31,638,178**
Liabilities, Capital, and Surplus				
Claims unpaid	$17,676,312	4	($3,263,891)	$14,412,421
Accrued medical incentive pool and bonus amounts	276,210			276,210
Unpaid claims adjustment expenses	530,289	5	(97,916)	432,373
Premiums received in advance	6,843,238			6,843,238
General expenses due or accrued	2,163,619			2,163,619
Amounts due to parent, subsidiaries and affiliates	169,383			169,383
Payable for securities				0
Liab. for amounts held under uninsured A&H plans				0
Aggregate write-ins for other liabilities:				
Medicare Part D - LICS		1, 3	1,565,356	1,565,356
Medicare Part D - Risk Sharing		2	2,713,891	2,713,891
Total Liabilities	**27,659,051**		**917,440**	**28,576,491**
Common capital stock	36,570			36,570
Gross paid in and contributed surplus	16,383,230			16,383,230
Unassigned funds (surplus)	(12,208,211)	1-6	(1,149,902)	(13,358,113)
Total Capital and Surplus	**4,211,589**		**(1,149,902)**	**3,061,687**
Total Liabilities, Capital and Surplus	**$31,870,640**		**($232,462)**	**$31,638,178**

ARCADIAN HEALTH PLAN, INC.
STATEMENT OF REVENUE AND EXPENSES
JUNE 30, 2006

	BALANCE PER COMPANY	ref.	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Member months	51,595			51,595
Net premium income	$37,518,872	1, 2	($4,502,947)	$33,015,925
Total revenues	37,518,872		(4,502,947)	33,015,925
Hospital and Medical:				
Hospital/medical benefits	18,368,811	4	(3,263,891)	15,104,920
Other professional services	1,879,029			1,879,029
Outside referrals	4,669,429			4,669,429
Emergency room and out-of-area	438,191			438,191
Prescription drugs	2,099,286	3	(223,700)	1,875,586
Subtotal	27,454,746		(3,487,591)	23,967,155
Less:				
Total hospital and medical	27,454,746		(3,487,591)	23,967,155
Claims adjustment expenses	1,899,631	5	(97,916)	1,801,715
General administrative expenses	11,660,092			11,660,092
Total underwriting deductions	41,014,469		(3,585,507)	37,428,962
Net underwriting gain or (loss)	(3,495,597)		(917,440)	(4,413,037)
Net investment income earned	292,404			292,404
Net Income (Loss)	**($3,203,193)**		**($917,440)**	**($4,120,633)**
CAPITAL AND SURPLUS ACCOUNT				
Capital and surplus prior reporting period	$8,332,572		$0	$8,332,572
Net Income (Loss) from above	(3,203,193)	1-5	(917,440)	(4,120,633)
Change in net unrealized capital gains and losses	(1,291,877)	6	(232,462)	(1,524,339)
Change in nonadmitted assets	(25,913)			(25,913)
Surplus adjustments:				
Paid in	400,000			400,000
Net change in capital and surplus	(4,120,983)		(1,149,902)	(5,270,885)
Capital and surplus end of reporting period	**$4,211,589**		**($1,149,902)**	**$3,061,687**

SURPLUS RECONCILIATION
FOR THE PERIODS ENDING

	6/30/2006	3/31/2006	12/31/2005	12/31/2004
Capital and Surplus, Prior Reporting Year	$8,332,572	$8,332,572	$5,144,502	$0
Net income or (loss)	(4,120,633)	(959,019)	(7,457,876)	24,702
Net unrealized capital gains and losses	(1,524,339)	(560,807)		
Change in nonadmitted assets	(25,913)	(4,776,372)	(254,054)	
Captial changes:				
Paid in				36,570
Surplus adjustments:				
Paid in	400,000		10,900,000	5,083,230
Net change in capital and surplus	(5,270,885)	(6,296,198)	3,188,070	5,144,502
Capital and Surplus, End of Reporting Period	**$3,061,687**	**$2,036,374**	**$8,332,572**	**$5,144,502**

NOTES TO THE FINANCIAL STATEMENTS

The Company has no special consents, permitted practices or orders from the state of Washington. There were six examination report adjustments.

1. AHP incorrectly recorded funds received for Medicare Part D, Low Income Subsidy (LICS) as "Net premium income". (See examination adjustment No. 1, debiting "Net premium income" and crediting "Aggregate write-ins for other liabilities", Medicare Part D – LICS in the amount of $1,789,056.)

2. AHP incorrectly recorded funds received for Medicare Part D, Risk Sharing Subsidy as "Net premium income". (See examination adjustment No. 2, debiting "Net premium income" and crediting "Aggregate write-ins for other liabilities", Medicare Part D – Risk Sharing in the amount of $2,713,891.)

3. AHP incorrectly recorded LICS pharmacy expense as "Prescription drugs". (See examination adjustment No. 3, debiting "Aggregate write-ins for other liabilities", Medicare Part D – LICS and crediting "Prescription drugs" in the amount of $223,700.)

4. AHP overstated the IBNR portion of "Claims unpaid". (See examination adjustment No. 4, debiting "Claims unpaid" and crediting "Hospital/medical benefits" in the amount of $3,263,891.)

5. AHP also overstated the "Unpaid claim adjustment expense" as a result of the IBNR overstatement. (See examination adjustment No. 5, debiting "Unpaid claim adjustment expense" and crediting "Claims adjustment expenses" in the amount of $97,916.)

6. AHP also incorrectly recorded the same income and expense items for its affiliate, Arkansas Community Center. AHP reports the value of its ACC common stock on an equity basis, and the net effect of the incorrect ACC recordings affected the common stock value held by AHP. (See examination adjustment No. 6, debiting "Change in net unrealized capital gains (losses)" and crediting "Common stocks" in the amount of $232,462.)

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; Lichiou Lee, ASA, MAAA, Health Actuary; and Kathleen Hicks, CPA, Financial Examiner, all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

Carl M Baker

Carl M. Baker, CPA, CFE, CISA
Examiner-in-Charge
State of Washington

AFFIDAVIT

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

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, CISA
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 6th day of December, 2007.

Notary Public in and for the
State of Washington