

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
ASURIS NORTHWEST HEALTH
SEATTLE, WASHINGTON

NAIC CODE 47350
December 31, 2010

Order No. 12-174
Asuris Northwest Health
Exhibit A

SALUTATION

Seattle, Washington
June 27, 2012

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:

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

Asuris Northwest Health
of
Seattle, Washington

hereinafter referred to as "ANH" or the "Company" at its home office located at 1800 Ninth Avenue, Seattle, WA 98101. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2010.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Asuris Northwest Health of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2010.



Patrick H. McNaughton
Chief Examiner

6-27-12

Date

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION	1
INSTRUCTIONS	1
COMMENTS AND RECOMMENDATIONS	5
COMPANY PROFILE	5
Company History	5
Capitalization	6
Territory and Plan of Operation	6
Growth of Company	6
Affiliated Companies	7
Intercompany Agreements.....	9
MANAGEMENT AND CONTROL	9
Board of Directors	10
Officers	10
Conflict of Interest.....	10
Fidelity Bond and Other Insurance.....	10
Officers', Employees', and Agents' Welfare and Pension Plans.....	10
CORPORATE RECORDS	11
ACTUARIAL REVIEW	11
REINSURANCE	12
INDEMNITY DEPOSITS	12
ACCOUNTING RECORDS AND INFORMATION SYSTEMS	12
SUBSEQUENT EVENTS	13
FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS	13
FINANCIAL STATEMENTS	13
Assets, Liabilities, Capital and Surplus.....	14
Statement of Revenue and Expenses.....	15
Five Year Reconciliation of Surplus.....	17
Analysis of Changes in Financial Statements Resulting from the Examination.....	18
NOTES TO THE FINANCIAL STATEMENTS	18
ACKNOWLEDGMENT	19
AFFIDAVIT	20

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2006 through December 31, 2010 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioner (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination though the end of field work on April 20, 2012.

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 section 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.

This examination was performed in compliance with the 2010 NAIC FCEH which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Company's filed 2010 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 outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. Related Party Transactions

- a. **Regence Rx, Inc. (Regence Rx) Services** – Regence BlueCross BlueShield of Oregon (RBS-OR) performs services on behalf of Regence Rx, and RBS-OR allocates the costs of these services to ANH. There is no agreement between the Company and RBS-OR or Regence Rx for these services. RCW 48.31C.050(2) requires management agreements, service contracts, and cost-sharing arrangements to be filed with the Commissioner prior to entering into the transaction. SSAP No. 96 requires all agreements between affiliates to be in writing and RCW 48.43.097 requires adherence to the AP&P.

In addition, the examiners identified some Regence Rx expenses that were improperly allocated to ANH. Specifically, consulting expenses to re-brand Regence Rx were allocated to the Company. These types of expenses are not related to a service performed for the Company, and allocating a

portion of these expenses is not in accordance with RCW 48.31C.050 and SSAP No. 70 which require shared expenses to be fair and reasonable and allocated to the entity to which they belong.

Regence Rx retained eight percent of pharmacy network access fees collected from pharmacies for ANH pharmacy claims without providing any services to ANH. Regence Rx did not bear the cost of setting up or maintaining the network. In addition, only 92 percent of the network access fee charged to external customers was allocated amongst affiliates (including ANH) even though 100 percent of the expenses associated with this activity were allocated to affiliates (including ANH). This is not in accordance with RCW 48.31C.050 and SSAP No. 70 which require expenses incurred and payment received to be fair and reasonable and allocated to the entity to which they belong.

The Company is instructed to comply with RCW 48.31C.050, RCW 48.43.097 and SSAP No. 96 by executing and filing with the Commissioner a service agreement for Regence Rx services; and with RCW 48.43.097 and SSAP No. 70 by allocating expenses on a fair and reasonable basis and to the entity to which they belong. (See Comment and Recommendation No. 2.)

- b. Accrual of Expenses and Liabilities** – The Regence Group (TRG), the parent company of Regence BlueShield (RBS), posted \$6 million of expense accruals in its books from April through July of 2010, and no transactions had actually occurred. RBS is a Washington State domestic and parent company of ANH. TRG allocated a share of these expenses as well as the corresponding liabilities to RBS, and RBS then allocated a share to ANH. These accruals were done to record expenses that were expected to occur in later periods, and the entries were reversed in November of 2010. The practice of accruing expenses when an obligation to pay does not exist fails to meet the definition of a liability under SSAP No. 5. In addition, recording an expense for a transaction that has not occurred is not in accordance with Generally Accepted Accounting Principles (GAAP) or commonly recognized accounting practices. RCW 48.43.097 and WAC 284-07-050(5) require statutory financial statements to be in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.

The Company is instructed to comply with RCW 48.43.097 and WAC 284-07-050(5) by filing its NAIC Annual Statement in accordance with the AP&P. Specifically, the Company should only book a liability if the definition of a liability contained in SSAP No. 5 is met, and it should only record an expense when a transaction has taken place that gives rise to the expense, and that meets the definition of an expense contained within the AP&P.

- c. Legal Fees Not Borne by the Entity to Which They Belong** – The Company's process of allocating legal expenses did not result in the expense being borne by the entity to which it belonged. A new process was implemented in 2011 to correct the problem. In our test of the new process, we identified legal expenses that were allocated to entities to which the invoice did not relate. RCW 48.31C.050 and SSAP No. 70 require intercompany allocations to be fair and reasonable and require shared expenses to be apportioned to the entities to which they belong. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.

The Company is instructed to comply with RCW 48.31C.050, RCW 48.43.097, and SSAP No. 70 by allocating expenses to the entity to which they belong. (See Comment and Recommendation No. 2.)

- d. **Monitor Reversing Entries** – The Company was allocated expenses from its parent, RBS, and from other affiliates. The basis for allocation is a statistic that changes from month-to-month. If a journal entry is manually reversed in a subsequent period, the reversal is allocated. When this happens, the allocation of the reversal uses the current statistic rather than the statistic used when the original entry was recorded. The original allocated amount may not reconcile with the amount reversed. The reversal amount that is eventually allocated to the Company has the potential to be significantly different from the amount originally allocated. RCW 48.31C.050 and SSAP No. 70 require intercompany allocations to be fair and reasonable and require shared expenses to be apportioned to the entities to which they belong. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.

The Company is instructed to comply with RCW 48.31C.050, RCW 48.43.097 and SSAP No. 70(8) by monitoring reversing entries to ensure that the allocated reversal amount is the same as the original amount charged.

- e. **Expenses for Kinetix Living Corp. (Kinetix) Services Were Not Allocated to Subsidiaries** – An entry was made at year-end to reclassify the March 2010 through December 2010 Kinetix expenses. This reclassifying entry caused the allocation methodology to stop at RBS, Regence BlueCross BlueShield Utah (RBS-UT), Regence BlueShield of Idaho, Inc. (RBS-ID), and RBS-OR (collectively referred to as “plan parents”) and to not allocate to the subsidiaries of the plan parents. For Washington entities, this resulted in RBS being allocated its share plus \$21,363 that should have been allocated to its subsidiary, ANH. RCW 48.31C.050(1) and SSAP No. 70(8) require shared expenses to be allocated to the entities incurring the expense as if the expense had been paid solely by the incurring entity; transactions to be fair and reasonable; and expenses incurred and payment received to be allocated to the health carrier in conformity with customary accounting principles, consistently applied. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.

The Company is instructed to comply with RCW 48.31C.050(1), RCW 48.43.097 and SSAP No. 70(8) by allocating expenses to the entity to which they belong. (See Comment and Recommendation No. 2.)

- f. **Health Systems International, LLC Invoice Coding Errors** – Network fees were charged to RBS instead of ANH in error. RCW 48.31C.050(1) and SSAP No. 70(8) require shared expenses to be allocated to the entities incurring the expense as if the expense had been paid solely by the incurring entity. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. SSAP No. 85(4)(a) requires these costs to be recorded as cost containment expenses. For the years 2008 through 2010, the error amounted to \$729,131.

The Company is instructed to comply with RCW 48.31C.050(1), RCW 48.43.097, and SSAP No. 70(8) by allocating expenses to the entity to which they belong. (See Examination Adjustment No. 3 and Comment and Recommendation No. 2.)

2. Actuarial Findings

- a. **Incurred But Not Reported (IBNR) Claims** – The Company underestimated its reserve for IBNR claims that are reported on page 3, line 1 “Claims unpaid,” of the 2010 NAIC Annual Statement. RCW 48.44.037(4) requires the Company to include an estimated amount to provide for the payment of all claims which have been incurred, whether reported or not. Furthermore, RCW 48.12.080(2) requires the Company to increase its loss reserves to an amount that is needed to make them adequate, when the Company’s loss experience indicates that its loss reserves, however estimated, are inadequate.

The IBNR includes estimates for both retrospective and prospective business and these carry additional balance sheet items on page 3, line 4, and page 2, line 15.3, of the 2010 NAIC Annual Statement, which were also impacted by the IBNR understatement.

The following examination adjustment was required to the Company’s 2010 NAIC Annual Statement:

Increase page 3, line 1 “Claims unpaid” by \$2,052,517

Decrease page 3, line 4 “Aggregate health policy reserves” by \$ 138,917

Increase page 2, line 15.3 “Accrued retrospective premiums” by \$387,447

The net effect is a decrease in surplus of \$1,526,153

The Company is instructed to comply with RCW 48.44.037(4) and RCW 48.12.080(2) by recording an adequate estimate for claims unpaid. (See Examination Adjustment No. 1.)

- b. **Unpaid Claims Adjustment Expenses** – The Company’s method for calculating the amounts for unpaid claims adjustment expenses (CAE) did not follow SSAP No. 55(8), which requires these expenses to be based on estimated ultimate cost of settling claims using past experience adjusted for current trends, and any other factor that would modify past experience. RCW 48.43.097 requires adherence to the AP&P.

The Company’s actual claim adjustment experience for the last three years, excluding cost containment expenses, was 5.1 percent. The Company’s estimated percentage used was 2.6 percent. The Company should have used a percentage based on historical actual CAE’s of 5.1 percent. An exam adjustment to increase unpaid CAE in the amount of \$573,222 was made to accurately reflect the true cost.

The Company is instructed to comply with RCW 48.43.097, WAC 284-07-050(2) and SSAP No. 55(8) by estimating the cost of settling unpaid claims, using past experience adjusted for current trends, and any other factor that would modify past experience. (See Examination Adjustment No. 2.)

3. Unclaimed Property Liability

The Company incorrectly included \$440,000 of unclaimed property on page 3, line 23 “Aggregate write-ins for other liabilities” on its 2010 NAIC Annual Statement. ANH hired a third party administrator to process its pharmaceutical claims. The third party erroneously gave ANH a list of checks that were determined to be stale but were in fact voided. ANH did not have a reconciliation

process in place to detect the mistake. As a result, the Company recorded a liability for unclaimed property that did not exist and does not meet the definition of a liability under SSAP No. 5.

The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the AP&P, SSAP No. 5. (See Examination Adjustment No. 4.)

4. NAIC Annual Statement Error - Underwriting and Investment Exhibit (U&I) Part 2D

The Company included prescription (Rx) rebates payable on the U&I Part 2D, line 1 "Unearned premium reserves" in error. Rx rebates payable should be reported under line 5 of the U&I Part 2D "Aggregate write-ins for other policy reserves" per the NAIC Annual Statement Instructions. There was no effect on page 3 "Liabilities, Capital, and Surplus", since the entire U&I Part 2D is included in page 3, line 4 "Aggregate health policy reserves."

The Company is instructed to comply with RCW 48.43.097 by filing 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. Internal Controls Relating to Net Deferred Taxes

The Company had significant internal control deficiencies relating to deferred tax asset calculations, which were caused by a lack of spreadsheet controls and insufficient review of the income tax provision. These control deficiencies caused immaterial errors for ANH. However, they did rise to the level of a material weakness for one affiliate, and failure to correct these deficiencies could cause them to rise to the level of a material weakness for ANH in the future.

It is recommended that the Company implement measures to ensure that deferred tax calculations are adequately reviewed.

2. Internal Controls over General Ledger Coding

The examiners found instances where the person approving a vendor invoice or manual journal entry also provided the initial general ledger coding. No independent review and approval of this coding was evident. The initial coding must be accurate and supportable to properly allocate intercompany expenses and fees to the entities within the group.

It is recommended that the Company strengthen its controls over the review and approval of initial entity and department general ledger coding for vendor invoices and manual journal entries. (See Instruction Nos. 1.a, 1.c, 1.e, and 1.f.)

COMPANY PROFILE

Company History

ANH was originally incorporated as Walla Walla Valley Medical Service Corporation in 1933, as a taxable, nonprofit corporation. It was issued a Certificate of Registration as a health care service contractor under Chapter 48.44 RCW by the OIC on September 5, 1947. It was acquired by King County Medical

Blue Shield, currently known as RBS, in November 1994. The Company's name was changed to Regence Northwest Health in 1997 and to ANH in September 2002.

Capitalization

Pursuant to RCW 48.44.037, the Company met minimum capital requirements with \$50,543,092 (capital and surplus) as of December 31, 2010. The Company does not have any capital stock. RBS is the sole member of the corporation.

Territory and Plan of Operation

The Company is registered as a health care service contractor in the state of Washington. Its authorized lines of business are: Comprehensive Hospital and Medical, Medicare Supplement, Dental, Medicare, and Medicaid. Approximately 84 percent of the business comes from the comprehensive line. In addition, the state of Oregon issued ANH a Certificate of Authority to transact insurance as of December 24, 2007. It is authorized to transact health care services.

Growth of Company

The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the five year period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & surplus</u>	
*2010	\$90,110,985	\$41,956,399	\$48,154,586	
2009	85,394,829	41,586,591	43,808,238	
2008	63,286,432	30,310,116	32,976,316	
2007	68,133,592	33,943,435	34,190,157	
2006	48,681,262	34,472,260	14,209,002	

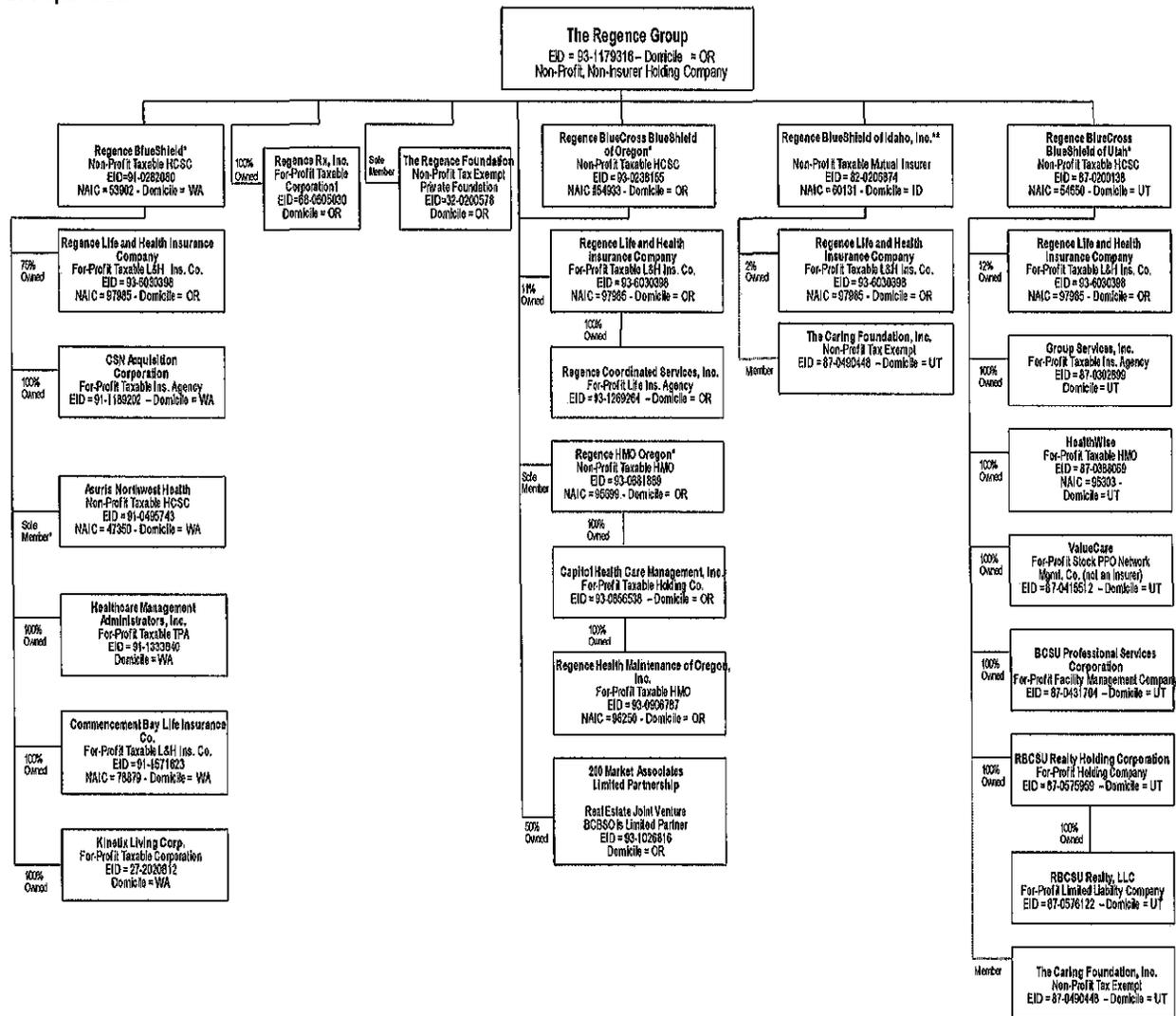
<u>Year</u>	<u>Total Revenue</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income (Loss)</u>
*2010	\$246,568,268	\$2,599,906	\$2,018,747	\$1,600,887
2009	219,353,527	(15,527,487)	1,464,850	(9,391,872)
2008	195,235,294	(4,834,938)	2,112,046	(2,118,531)
2007	170,368,581	4,016,955	2,234,516	5,787,486
2006	131,635,513	(3,663,941)	1,153,242	(1,865,191)

*Adjusted balances per Examination Adjustments.

Affiliated Companies

Organizational Chart

The following organization chart as of December 31, 2010 shows the Company's parent and affiliated companies:



The Regence Group (TRG)

TRG is an Oregon nonprofit public benefit corporation. It is authorized to do business in Utah and California.

TRG is the sole voting member of RBS, RBS-OR, and RBS-UT. As the sole voting member, TRG has authority to approve elections to the governing Board of Directors (BOD) of these three affiliates, to discharge members of the governing BOD at any time, with or without cause. In addition, TRG manages RBS-ID under the terms of a management and administrative service agreement dated May 25, 1995.

Regence BlueShield (RBS)

RBS is a Washington nonprofit corporation organized pursuant to Chapter 24.03 RCW and is licensed as a health care service contractor pursuant to 48.44 RCW. Its sole voting member is TRG, and RBS is the sole member of ANH.

Regence Life and Health Insurance Company (RLH)

RLH is an Oregon for-profit, taxable life and health Insurance company and was formed on February 23, 2005.

In 2008, RBS-OR sold 16,795 shares of RLH stock to RBS for \$26,946,000. After the transaction, RBS held 75 percent of RLH stock. The remaining RLH stock is owned as follows: RBS-OR 11 percent; RBS-ID 2 percent; and RBS-UT 12 percent.

RLH changed its name to LifeMap Assurance Company in April 2012.

CSN Acquisition Corporation (CSN)

CSN is a Washington for-profit non-health insurance agency that was formed on March 31, 1999 and is a wholly-owned subsidiary of RBS.

Healthcare Management Administrators, Inc.(HMA)

HMA was formed in Washington on March 20, 1986. It provides third-party administrative services to self-funded employers located in Washington and Oregon and offers access to providers in the Regence BlueShield Preferred Provider Organization (PPO) and participating networks. It is a for-profit healthcare administrator.

Commencement Bay Life Insurance Company (CBL)

CBL was incorporated on August 12, 1992 as a Washington stock life and disability insurance company under the laws of the state of Washington. It is a wholly owned subsidiary of RBS. It is a for-profit life, accident and health insurance company which currently has no policies in-force.

Kinetix Living Corporation (Kinetix)

RBS acquired the assets of Kinetix on March 1, 2010 and created a new wholly-owned subsidiary by the same name. It provides a program which combines cardio, strength-building, nutrition education and training with ongoing communications to create a culture of health and wellness within an organization. It ceased operation on December 30, 2011.

Regence Rx, Inc. (Regence Rx)

Regence Rx is an Oregon corporation organized under the Oregon Business Corporation Act. Articles of Incorporation were filed with, and approved by, the Oregon Secretary of State on April 20, 2005. Regence Rx is wholly owned by TRG, and is not a risk-bearing entity.

Regence Rx was organized to engage in pharmacy benefit management services and in other business, trade or activity which may lawfully be conducted by a corporation organized under the Oregon Business Corporation Act. Its primary purpose was to process drug claims including claims adjudication and provider payments on behalf of each affiliated health carrier. (See Instruction No. 1.a.)

The Regence Foundation

The Regence Foundation was formed on June 11, 2007. The Regence Foundation is an Internal Revenue Service (IRS) 501(c)(3) organization that manages charitable contributions made primarily on behalf of TRG and affiliates. It is organized and operates exclusively for charitable purposes permitted by Section 501(c)(3) of the Internal Revenue Code. The Regence Foundation changed its name to Cambia Health Foundation with the State of Oregon on April 26, 2012.

Regence BlueCross BlueShield of Oregon (RBS-OR)

RBS-OR is an Oregon domiciled non-profit health care service contractor. Its sole voting member is TRG.

Regence BlueShield of Idaho, Inc. (RBS-ID)

RBS-ID is an Idaho domiciled mutual disability insurance company. All corporate powers are vested in the Board of Directors. TRG manages RBS-ID under the terms of a management and administrative service agreement dated May 25, 1995.

Regence BlueCross BlueShield of Utah (RBS-UT)

RBS-UT is a Utah domiciled nonprofit taxable health care service contractor. Its sole voting member is TRG.

Intercompany Agreements

The Company is a party to various intercompany agreements with affiliates. As of December 31, 2010, the Company had the following intercompany agreements in force:

Regence Administrative Services Agreement

On December 28, 2007, TRG entered into the Regence Administrative Services Agreement (ASA) with RBS-OR, RBS-UT, and RBS. It includes RBS subsidiaries, ANH, Commencement Bay Life Insurance Company, and Regence Life and Health Insurance Company. The ASA was filed with the OIC on January 11, 2008, and resubmitted to the OIC on February 28, 2008 to include a provision addressing settlement timing in compliance with SSAP No. 25(6).

The Regence Group & Subsidiaries Consolidated Federal Income Tax Agreement

This agreement is between TRG and its affiliates and subsidiaries including ANH. It became effective for the tax year ended December 31, 1997. It sets forth the arrangement to allocate consolidated tax liability among the parties.

MANAGEMENT AND CONTROL**Ownership**

The Company's Articles of Incorporation state that there shall be no capital stock. RBS is the sole voting member of the corporation. The sole member has all rights, powers and privileges to manage the Company.

Board of Directors

The following individuals were on the Board of Directors (BOD) as of December 31, 2010:

Mack L. Hogans	Chairman
Mark C. Adams	Director
Mark B. Ganz	Director
Murphy J. Hensley	Director
Michael G. Koppel	Director
Katharine G. Lindemann	Director
Jack G. Strother	Director

Officers

The following individuals were officers as of December 31, 2010:

Brady D. Cass	President
Kerry E. Barnett	Secretary
Andreas B. Ellis	Treasurer
Leonard A. Hagen	Assistant Secretary

Conflict of Interest

The Company's policy requires that members of the BOD, officers and all employees sign a conflict of interest statement each year. The purpose of the statement is to detect any activities or participation on the part of an employee that could possibly be interpreted as having the appearance of a conflict of interest. No such conflicts were noted during the examination period.

Fidelity Bond and Other Insurance

ANH is a named insured, along with RBS and other affiliates of TRG, on a financial institution fidelity bond. The aggregate limit of coverage was \$20 million, and the single loss limit was \$10 million as of December 31, 2010. The aggregate amount of coverage meets the recommended guidelines by the NAIC.

In addition, the Company is a named insured on policies for property, auto, and general liability insurance with umbrella coverage.

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

The Company had the following officers', employees', and agents' welfare and pension plans as of December 31, 2010:

Retirement Plans

The Company participates in a defined-benefit pension plan sponsored by TRG that covers substantially all full-time employees having one or more years of service. Benefits are based upon years of service and the employee's final average compensation. TRG froze the plan as of December 31, 2009.

The Company participates in a Supplemental Executive Retirement Plan (SERP) sponsored by TRG to cover key employees meeting certain eligibility requirements. The SERP is a non-qualified defined benefit pension plan that is not subject to Employee Retirement Income Security Act (ERISA) minimum funding requirements. The plan is funded only on a "pay-as-you go" basis.

The Company has no legal obligation for benefits under these plans. The obligation is carried by TRG.

Postretirement Benefit Plan

The Company participates in a postretirement health and welfare plan sponsored by TRG that provides certain health care and life insurance benefits to retired employees that meet certain eligibility rules based on age and years of service at their retirement date. To be eligible for the plan, the employees must have been hired on or before January 1, 2004 and were active participants in health plans at the time of retirement. Coverage for eligible participants who retire on or after January 2, 2010, will terminate the date the participant or beneficiary attains Medicare eligibility. The Company has no legal obligation for benefits under this plan. The obligation is carried by TRG. In fiscal year 2010, the Company's share of net expense for the postretirement benefit plan was \$14,523.

Employee Savings Plan

The Company participates in an employee savings plan sponsored by TRG. In 2010, TRG matched employee contributions up to 100 percent of the first six percent of salary for each pay period in which the employee made a contribution. In addition, the BOD approved discretionary contributions of five percent of eligible earnings for eligible employees for the year ended December 31, 2010. The Company's share of the net expense was \$999,146 in 2010. The Company has no legal obligation for benefits under the plan. The obligation is carried by TRG.

Physician Deferred Compensation Plans

The Company maintains a separate non-qualified deferred compensation plan covering certain member physicians who voluntarily deferred their billings for services provided. The Company funds the obligations primarily through the purchase of group flexible paid-up life insurance contracts for active participants and annuity contracts for retired participants. The Company is both the owner and beneficiary of these contracts.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws, Certificate of Registration, and minutes of the BOD and committees were reviewed for the period under examination. 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, 2010. The review included examining the Company's reserving philosophy and methodologies to determine the reasonableness of the claim liabilities; verifying that claim liabilities include provisions for all components noted in SSAP No. 55(7) and (8), and SSAP No. 54(12), (13), (18) and (19); reviewing historical paid claims and loss ratios; checking the consistency of the incurred-paid data from the Company's system with the figures reported in the 2010 NAIC Annual Statement; and estimating claims unpaid for the valuation date of December 31, 2010.

The OIC Actuary determined reserves were understated and an examination adjustment has been made to increase claims unpaid by \$2,052,517. (See Instruction No. 2.a.) In addition, the Company's methodology for reserving for unpaid claims adjustment expenses was not in compliance with SSAP No. 55(7) and (8), and an examination adjustment has been made to increase unpaid claims adjustment expenses by \$573,222. (See Instruction No. 2.b.)

REINSURANCE

The Company is a party to a reinsurance agreement with RBS-OR, effective January 1, 2006. The agreement applies to all liability incurred by ANH under Asuris Medicare Script insurance policies issued by ANH to individuals that reside in the state of Oregon. ANH will cede 100 percent of its liability for benefits under the contract to RBS-OR.

INDEMNITY DEPOSITS

ANH maintained the following statutory deposits as of December 31, 2010:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Washington	US Government Bond	\$8,129,765	\$8,209,200
Oregon	US Government Bond	261,601	263,229
Total		<u><u>\$8,391,366</u></u>	<u><u>\$8,472,429</u></u>

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a GAAP accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of Deloitte & Touche, LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination.

The Company's IT environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and Related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT systems and controls were evaluated to gain an understanding of general IT control risks and assess the effectiveness of these controls. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels. The Company has an effective Business

Continuity Plan and Disaster Recovery Plan, which have been tested on a regular basis and include the availability of an alternate site.

SUBSEQUENT EVENTS

On November 4, 2011, the Company's holding company, TRG, changed its name to Cambia Health Solutions, Inc.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and comments have been addressed and corrected.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Asuris Northwest Health as of December 31, 2010:

Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Five Year Reconciliation of Surplus
Analysis of Changes in Financial Statements Resulting from the Examination

**Asuris Northwest Health
Assets, Liabilities, Capital and Surplus
December 31, 2010**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
ASSETS				
Bonds	\$60,237,150	\$0	\$60,237,150	
Cash	22,358,101		22,358,101	
Investment income due and accrued	547,812		547,812	
Premiums and considerations				
Uncollected premium and agents' balances in the course of collection	2,334,310		2,334,310	
Accrued retrospective premiums	8,563	387,447	396,010	1
Reinsurance				
Funds held by or deposited with reinsured	149,954		149,954	
Amounts receivable relating to uninsured	1,222,840		1,222,840	
Net deferred tax asset	1,508,358		1,508,358	
Health care and other amounts receivable	665,348		665,348	
Aggregate write-ins for other than invested	691,103		691,103	
Total assets	<u>\$89,723,538</u>	<u>\$387,447</u>	<u>\$90,110,985</u>	
LIABILITIES, CAPITAL AND SURPLUS				
Claims unpaid	\$24,556,131	\$2,052,517	\$26,608,648	1
Unpaid claim adjustment expenses	630,954	573,222	1,204,176	2
Aggregate health policy reserves	841,428	(138,917)	702,511	1
Premium received in advance	5,423,076		5,423,076	
General expenses due or accrued	1,797,319		1,797,319	
Current federal and foreign income tax payable and interest thereon	3,208,780		3,208,780	
Ceded reinsurance premium payable	74,723		74,723	
Amounts withheld or retained for the account	774,315		774,315	
Remittances and Items not allocated	119,112		119,112	
Amounts due to parent, subsidiaries and Aggregate write-ins for other liabilities	1,298,376	729,131	2,027,507	3
	456,232	(440,000)	16,232	4
Total liabilities	<u>39,180,446</u>	<u>2,775,953</u>	<u>41,956,399</u>	
Gross paid in and contributed surplus	56,879,723		56,879,723	
Unassigned fund (surplus)	(6,336,631)	(2,388,506)	(8,725,137)	1,2,3,4
Total capital and surplus	<u>50,543,092</u>	<u>(2,388,506)</u>	<u>48,154,586</u>	
Total liabilities, capital and surplus	<u>\$89,723,538</u>	<u>\$387,447</u>	<u>\$90,110,985</u>	

**Asuris Northwest Health
Statement of Revenue and Expenses
For the Year Ended December 31, 2010**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
Member months	988,092		988,092	
Net premium income	\$247,218,319	\$0	\$247,218,319	
Change in unearned premium reserves and reserve for rate credits	(650,051)		(650,051)	
Total revenues	<u>246,568,268</u>	<u>0</u>	<u>246,568,268</u>	
Hospital and Medical:				
Hospital/medical benefits	96,880,457	1,526,153	98,406,610	1
Other professional services	58,633,287		58,633,287	
Outside referrals	1,375,350		1,375,350	
Emergency room and out-of-area	6,606,803		6,606,803	
Prescription drugs	44,380,490		44,380,490	
Incentive pool, withhold adjustments and bonus amounts	(100,867)		(100,867)	
Subtotal	<u>207,775,520</u>	<u>1,526,153</u>	<u>209,301,673</u>	
Less:				
Net reinsurance recoveries	4,881,968		4,881,968	
Total hospital and medical	202,893,552	1,526,153	204,419,705	
Claims adjustment expenses	10,549,392	954,618	11,504,010	2,3
General administrative expenses	28,044,647		28,044,647	
Total underwriting deductions	<u>241,487,591</u>	<u>2,480,771</u>	<u>243,968,362</u>	
Net underwriting gain or (loss)	<u>5,080,677</u>	<u>(2,480,771)</u>	<u>2,599,906</u>	
Net investment income earned	1,866,004		1,866,004	
Net realized capital gains (losses) less capital gains tax	152,743		152,743	
Net investment gains (losses)	<u>2,018,747</u>	<u>0</u>	<u>2,018,747</u>	
Net gain or (loss) from agents' or premium balances charged off	(534,864)		(534,864)	
Aggregate write-ins for other income or expenses	<u>1,883</u>		<u>1,883</u>	
Net income or (loss) after capital gains tax and before all other federal income taxes	6,566,443	(2,480,771)	4,085,672	
Federal and foreign income taxes incurred	<u>2,484,785</u>		<u>2,484,785</u>	
Net income or (loss)	<u>\$4,081,658</u>	<u>(\$2,480,771)</u>	<u>\$1,600,887</u>	

**Asuris Northwest Health
Statement of Revenue and Expenses (Continued)
For the Year Ended December 31, 2010**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>				
Capital and surplus prior reporting year	<u>\$43,808,238</u>	<u>\$0</u>	<u>\$43,808,238</u>	
Net income or (loss)	4,081,657	(2,480,771)	1,600,886	1, 2, 3
Change in net deferred income tax	190,288		190,288	
Change in nonadmitted assets	2,462,909		2,462,909	
Aggregate write-ins for gains or (losses) in surplus		92,265	92,265	3, 4
Net change in capital & surplus	<u>6,734,854</u>	<u>(2,388,506)</u>	<u>4,346,348</u>	
Capital and surplus end of reporting period	<u>\$50,543,092</u>	<u>(\$2,388,506)</u>	<u>\$48,154,586</u>	

**Asuris Northwest Health
Five Year Reconciliation of Surplus
For the Years Ended December 31**

	<u>*2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Capital and surplus prior reporting year	<u>\$43,808,238</u>	<u>\$32,976,316</u>	<u>\$34,190,158</u>	<u>\$14,209,001</u>	<u>\$17,591,114</u>
Net income or (loss)	1,600,886	(9,391,872)	(2,118,531)	5,787,486	(1,865,191)
Change in net deferred income tax	190,288	143,903	85,348	299,869	634,533
Change in nonadmitted assets	2,462,909	(740,204)	819,341	(1,106,198)	(2,151,459)
Surplus adjustments:					
Paid in		20,000,000		15,000,000	
Aggregate write-ins for gains or (losses) in sur	92,265	820,095			
Net change in capital & surplus	<u>4,346,348</u>	<u>10,831,922</u>	<u>(1,213,842)</u>	<u>19,981,157</u>	<u>(3,382,117)</u>
Capital and surplus end of reporting period	<u>\$48,154,586</u>	<u>\$43,808,238</u>	<u>\$32,976,316</u>	<u>\$34,190,158</u>	<u>\$14,209,001</u>

*Adjusted balances per Examination Adjustments

Asuris Northwest Health
Analysis of Changes in Financial Statements Resulting from the Examination
December 31, 2010

	<u>Per Annual Statement</u>	<u>Per Examination</u>	<u>Notes</u>	<u>Increase (Decrease) in Surplus</u>	<u>Total</u>
Capital and surplus 12/31/2010 Per NAIC Annual Statement					\$50,543,092
Assets					
Accrued retrospective premiums	8,563	396,010	1	387,447	
Liabilities					
Claims unpaid	24,556,131	26,608,648	1	(2,052,517)	
Aggregate health policy reserves	841,428	702,511	1	138,917	
Unpaid claims adjustment expenses	630,954	1,204,176	1, 2	(573,222)	
Amounts due to parent, subsidiaries and affiliates	1,298,376	2,027,507	3	(729,131)	
Aggregate write-ins for other liabilities	456,232	16,232	4	440,000	
Change in surplus					<u>(2,388,506)</u>
Capital and surplus 12/31/2010 per examination					<u>\$48,154,586</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Estimate of Incurred Claims

To correct understatement of IBNR the following adjustment was needed: Increase page 3, line 1, "Claims unpaid" by \$2,052,517, decrease page 3, line 4, "Aggregate health policy reserves" by \$138,917, increase page 2, line 15.3, "Accrued retrospective premiums" by \$387,447, increase page 4, line 9, "Hospital/medical benefits" by \$1,526,153. (See Instruction No. 2.a.)

2. Unpaid Claims Adjustment Expenses

To correct the understatement of unpaid claims adjustment expenses, the following adjustment was needed: Increase page 3, line 3, "Unpaid claims adjustment expenses" by \$573,222 and increase page 4, line 20, "Claims adjustment expenses" by \$573,222. (See Instruction No. 2.b.)

3. General Ledger Coding Errors

To correctly charge network fees to ANH instead of RBS, for the years 2008 through 2010, the following adjustment was needed: Increase page 3, line 15 "Amounts due to parent, subsidiaries and affiliates" by \$729,131, increase page 4, line 20, "Claims adjustment expenses" by \$381,396, and decrease page 3, line 31, "Unassigned funds (surplus)" by \$347,735. (See Instruction No. 1.f.)

4. Unclaimed Property Liability

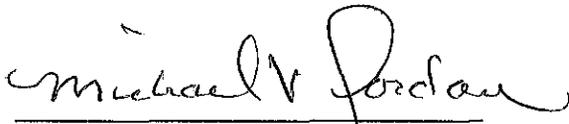
To correct for the overstatement of the unclaimed property liability, the following adjustment was needed: Decrease page 3, line 23 "Aggregate write-ins for other liabilities" by \$440,000, and increase page 3, line 31, "Unassigned funds (surplus)" by \$440,000. (See Instruction No. 3.)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Asuris Northwest Health and its affiliates during the course of this examination.

In addition to the undersigned, Adrienne C. DeBella, CPA, CFE, Health Field Supervising Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, FLMI, CFE, ARA, Reinsurance Specialist; Shiraz Jetha, FSA, MAAA, CERA, Health Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Kathy Hicks, CPA, Financial Examiner; Dinesh Weerasooriya, CPA, Financial Examiner; Friday Enoye, AFE, Financial Examiner; Tony Quach, AFE, Financial Examiner; Youngjae Lee, CPA, Financial Examiner; Euli Rath, CPA, Financial Examiner; Zairina Othman, Financial Examiner; Laurie Reiser, Financial Examiner; and Terry Gates, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael V. Jordan". The signature is written in a cursive style with a horizontal line underneath the name.

Michael V. Jordan, CPA, CFE, MHP
Assistant Chief Examiner
State of Washington

