

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF  
ARCADIAN HEALTH PLAN, INC.  
BOTHELL, WASHINGTON

NAIC CODE 12151  
December 31, 2012

Order No. 14-48  
Arcadian Health Plan, Inc.  
Exhibit A

Participating States:  
Georgia, North Carolina,  
New York, Washington

**SALUTATION**

Seattle, Washington  
November 21, 2013

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 48.03.010, an examination was made of the corporate affairs and financial records of

Arcadian Health Plan, Inc.  
of  
Bothell, Washington

hereinafter referred to as "AHP" or the "Company" at the main administrative office of its ultimate, parent, Humana, Inc., located at 500 West Main Street, Louisville, KY 40202. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2012.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of Arcadian Health Plan, Inc., of Bothell, Washington. This report shows the financial condition and related corporate matters as of December 31, 2012.



Patrick H. McNaughton  
Chief Examiner

3-5-14

Date

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## **SCOPE OF THE EXAMINATION**

The examination of the Company was part of a coordinated examination that included four regulated entities domiciled in four states. The Washington Office of the Insurance Commissioner (OIC) assumed the responsibility of the coordinating state for the 2012 financial examination cycle. Communication and sharing of the examination work among the states led to a more efficient use of resources while reducing duplication of work. Group examinations not only provide information on each insurer individually but also provide a structure to understand and evaluate risks of the holding company group as a whole.

This examination of the Company covers the period of January 1, 2009 through December 31, 2012 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 Commissioners (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 November 21, 2013.

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.

This examination was performed in compliance with the 2012 NAIC FCEH which requires the examiners 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 NAIC Annual Statements as part of the statutory examination. This review was performed to determine if the Company completed its 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. Income Tax Errors and Amended Annual Statement**

- a) The Company did not calculate its income tax provision in accordance with SSAP No. 101, which caused several balances to be reported incorrectly in the 2012 NAIC Annual Statement. Specifically, the following balances were impacted and later adjusted (See Instruction No. 1(b)): Page 3 line 10.1 "Current federal and foreign income taxes payable and interest thereon," page

2 line 18.2: "Net deferred tax asset," Page 4 line 31: "Federal and foreign Income taxes incurred," and page 3 line 31: "unassigned funds (Surplus)." The net reduction to surplus was \$1,582,042. (See Examination Adjustment No. 1.)

- b) During the audit performed by the Company's external audit firm, the errors were identified and the Company filed an amendment to submit a corrected 2012 NAIC Annual Statement to the OIC. However, the Company did not obtain prior approval from the OIC as required by SSAP No. 3(10).

**The Company is instructed to comply with RCW 48.43.097, WAC 284-07-050(5), and SSAP No. 3 and No. 101 by correctly reporting its income tax-related balances, and by obtaining prior approval from its domiciliary regulator prior to filing an amended NAIC Annual Statement.**

## **2. Related Party Cost Allocations**

Humana, Inc., did not allocate corporate shared services to the Company for the remainder of the first year after acquisition. The Company did not receive an expense allocation for services that Humana, Inc., performed on its behalf in 2012, such as actuarial, human resources, financial statement reporting, and investment services. RCW 48.31C.050 requires charges or fees for services performed to be fair and reasonable when transactions take place between a company subject to registration and another entity within the holding company system. Similarly, SSAP No. 25 and No. 70 require transactions involving services between related parties to be recorded at the amount charged, expenses that result from cost allocations to be allocated subject to fair and reasonable standards, and books and records of each party to disclose clearly and accurately the precise nature and details of the transactions.

**The Company is instructed to comply with RCW 48.31C.050 and SSAP No. 25 and No. 70 by allocating shared services on a fair and reasonable basis and to the entity to which they belong.**

## **3. Unpaid Claim 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 the 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 used the past experience of other Humana, Inc. entities to estimate AHP's unpaid claim adjustment expenses (CAE). Because AHP used its own claims system, processes and claims personnel to adjudicate claims incurred through December 31, 2012, using the past experience of other Humana, Inc. entities to estimate AHP's unpaid CAE did not follow SSAP 55(8).

The Company's actual claim adjustment experience for the last three years, excluding expenses that do not require adjudication was 2.81 percent. The Company used an estimated percentage based on past experience of Humana, Inc.'s other entities of 0.87 percent. The Company should have used a percentage based on historical actual CAE of 2.81 percent. An examination adjustment to increase unpaid CAE in the amount of \$711,324 was made to accurately reflect the true cost. (See Examination Adjustment No. 2.)

**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.**

**4. Annual Statement Errors**

- a) **Schedule D, Part 2:** Arcadian Health Plan, Inc., reported 3,000 shares of Arkansas Community Care, Inc., (ACC), an affiliate, on Schedule D, Part 2, Section 2. The correct amount was three shares. Since only three shares were issued, the information reported on Schedule D, Part 2 is incorrect for both 2011 and 2012. Due to immateriality, no examination adjustment was necessary.
- b) **Schedule D, Part 1:** The Company reported incorrect acquisition dates and actual cost for several securities reported on Schedule D, Part 1. Due to immateriality, no examination adjustment was necessary.
- c) **Underwriting and Investment Exhibit (U&I), Part 3:** The Company categorized all expenses on the U&I, Part 3 as general and administrative expenses for the last three quarters of 2012. SSAP No. 70(5) and (6) require expenses to be categorized as general administrative expenses, investment expenses, or investment expenses on the U&I, Part 3. The error did not affect surplus.

The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-060(2)(a) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

**5. Adequate Accounts and Records**

The Company could not provide support for amounts reported in Notes To The Financial Statements No. 10 as paid to parent or affiliates (prior to its acquisition by Humana, Inc.) between Arcadian Management Services, Inc., (AMS) and the Company relating to the Administrative Services Agreement.

RCW 48.31C.050(1)(d) requires the books, accounts, and records of each party to be maintained so they clearly and accurately disclose the nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties.

The Company is instructed to comply with RCW 48.31C.050(1)(d) by maintaining adequate accounts and records of all intercompany transactions.

**6. Board of Director (BOD) Review and Approval of Investment Policy**

The Arcadian Health Plan, Inc. BOD meeting minutes do not show annual review and approval of the investment policy as required by RCW 48.13.051. Washington law does not allow this function to be delegated.

The Company is instructed to comply with RCW 48.13.051 by ensuring that the BOD minutes reflect review and approval of the company's investment policy at least annually.

**COMMENTS AND RECOMMENDATIONS**

None

## COMPANY PROFILE

### Company History

Arcadian Health Plan, Inc., (AHP) was incorporated on April 6, 2004, and began writing business on January 1, 2005. It is a wholly-owned subsidiary of Arcadian Management Services, Inc., (AMS) and is domiciled in the state of Washington. On March 31, 2012, Humana, Inc., and its wholly-owned subsidiary Humsol, Inc., executed a merger and acquisition of AMS. Humsol, Inc., was merged at closing with and into AMS, at which time Humana, Inc., became the sole stockholder of AMS and its subsidiaries. Humana, Inc., is the ultimate controlling entity.

Arcadian Health Plan, Inc., is a state of Washington domiciled stock corporation organized under Chapter 24.03 RCW, and is registered as a health care service contractor pursuant to Chapter 48.44 RCW.

### Capitalization

The Company met the minimum capital requirements of RCW 48.44.037 with \$73,656,680 of capital and surplus as of December 31, 2012.

### Territory and Plan of Operation

The Company is registered as a health care service contractor in the state of Washington and is licensed as a health maintenance organization in twelve states: Arizona, California, Indiana, Kentucky, Maine, Missouri, New Hampshire, South Carolina, Texas, Virginia and West Virginia. The Company provides medical coverage solely to Medicare eligible individuals under a Medicare Advantage contract with the Centers for Medicare and Medicaid Services (CMS).

### Growth of Company

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

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	
<b>2012*</b>	\$140,767,977	\$67,111,297	\$73,656,680	
<b>2011</b>	93,449,778	54,992,125	38,457,653	
<b>2010</b>	92,372,811	47,639,941	44,732,870	
<b>2009</b>	80,958,941	35,775,864	45,183,077	

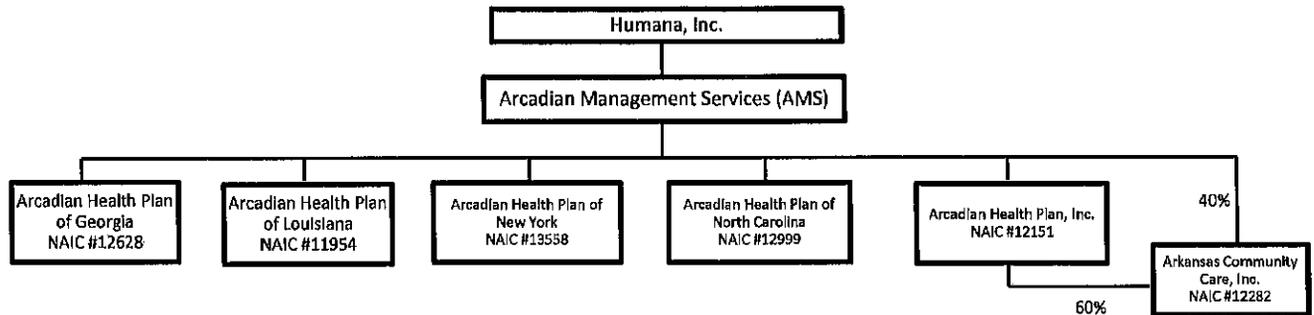
<u>Year</u>	<u>Total Revenues</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
<b>2012*</b>	\$399,766,688	(\$3,009,279)	\$1,594,420	\$342,983
<b>2011</b>	406,022,923	(8,236,755)	4,255,941	(2,337,246)
<b>2010</b>	379,650,685	1,776,002	2,311,061	3,626,054
<b>2009</b>	272,763,336	18,080,079	2,305,969	14,291,249

\* Balances are per the original NAIC Annual Statement filing. (See Instruction No. 1(b).)

### Affiliated Companies

Arcadian Health Plan, Inc., is a wholly-owned subsidiary of Arcadian Management Services, which is a wholly-owned subsidiary of Humana, Inc.

The following is an abbreviated organization chart as of December 31, 2012:



### Humana, Inc.

Humana, Inc., is a health care company that offers a wide range of insurance products and health and wellness services, with four distinct business segments: Retail, Employer Group, Health & Well-Being Services, and Other Businesses. As of December 31, 2012, Humana, Inc., reported 12.1 million members in medical benefit plans, with an additional 8.1 million members in specialty products. Humana, Inc., acquired all issued and outstanding capital stock of AMS on March 31, 2012.

### Arcadian Management Services

AMS provided services to AHP under an administrative services agreement through May 31, 2012. Those services included: enrollment processing, claims processing, professional credentialing, information technology, treasury, and financial and tax services. The compensation under this contract was on a per member per month basis with additional flat rate fees. This agreement was terminated after the acquisition of AMS by Humana, Inc.

### Arcadian Health Plan of Georgia

Arcadian Health Plan of Georgia (AHPGA) was formed in 2006 and is domiciled in the state of Georgia. It is a wholly-owned subsidiary of AMS. On April 1, 2012, AMS was acquired by Humana, Inc., at which time Humana, Inc., became the owner of all issued and outstanding capital stock of AMS.

AHPGA is a health maintenance organization authorized to sell health plan products in the state of Georgia under contracts with CMS. The company provided coordinated care and pharmacy coverage through a variety of plans through the end of 2012. Contracts with CMS were not renewed in 2013.

### Arcadian Health Plan of Louisiana

Arcadian Health Plan of Louisiana (AHPLA) was formed in 2007 and is domiciled in the state of Louisiana. It is a wholly-owned subsidiary of AMS. On April 1, 2012, AMS was acquired by Humana, Inc., at which time Humana, Inc., became the owner of all issued and outstanding capital stock of AMS.

AHPLA is a health maintenance organization authorized to sell health plan products in the state of Louisiana under contracts with CMS. The company provided coordinated care and pharmacy coverage through a variety of plans through the end of 2012. Contracts with CMS were not renewed in 2013.

**Arcadian Health Plan of New York**

Arcadian Health Plan of New York (AHPNY) was formed in 2008 and is domiciled in the state of New York. It is a wholly-owned subsidiary of AMS. On April 1, 2012, AMS was acquired by Humana, Inc., at which time Humana, Inc., became the owner of all issued and outstanding capital stock of AMS.

AHPNY is a health maintenance organization authorized to sell health plan products in the state of New York under contracts with CMS. The company provides coordinated care and pharmacy coverage through a variety of plans.

**Arcadian Health Plan of North Carolina**

Arcadian Health Plan of North Carolina was formed in 2007 and is domiciled in the state of North Carolina. It is a wholly-owned subsidiary of AMS. On April 1, 2012, AMS was acquired by Humana, Inc., at which time Humana, Inc., became the owner of all issued and outstanding capital stock of AMS.

AHPNC is a health maintenance organization authorized to sell health plan products in the state of North Carolina under contracts through CMS. The company provides coordinated care and pharmacy coverage through a variety of plans.

**Arkansas Community Care**

In March 2005, Arkansas Community Care (ACC) obtained a certificate of authority in the state of Arkansas with the intention of offering Medicare Advantage programs to seniors in select markets through ACC's contract with CMS. Enrollment for the state of Arkansas began in 2006.

In 2006, ACC obtained certificates of authority to sell Medicare Advantage products in Texas and Oklahoma, and enrollment for those states began in early 2007. Subsequent to the acquisition of the Company by Humana, Inc., ACC changed its name to Humana Regional Health Plan (HRHP). ACC did not renew its CMS contracts in 2013, and therefore has no members in 2013.

**Intercompany Agreements**

As of December 31, 2012, the Company had the following intercompany agreements in force:

**Corporate Service Agreement**

The Company entered into the Corporate Service Agreement with Humana, Inc., effective July 1, 2012. Under the terms of the agreement, Humana, Inc., provides executive management, human resources management, legal services, tax services, marketing and advertising services, employee benefit plan services, and certain other services.

**Service Center Service Agreement**

The Company entered into the Corporate Service Agreement with Humana, Inc., and Humana Insurance Company (HIC) effective July 1, 2012 to provide various services including claims processing, customer service, front end operations, billing, and enrollment. HIC performs the same services on behalf of several other Humana, Inc. affiliated legal entities. Under the terms of the

agreement, Humana, Inc. collects monies due to the Company and HIC and performs banking, accounting, and administrative duties.

**Marketing Service Agreement**

The Company entered into the Marketing Service Agreement with Humana, Inc., and Humana MarketPOINT, Inc. Under the terms of the agreement, Humana MarketPOINT, Inc., provides marketing services including the provision of staff, systems, and related support to AHP. Humana, Inc., collects monies due to the Company and to Humana MarketPOINT, Inc., and also provides banking, accounting, and administrative duties.

**Tax Allocation Agreement**

The Company entered into the Tax Allocation Agreement with Humana, Inc., effective July 1, 2012. The agreement specifies the method by which the consolidated Humana, Inc. tax liability is allocated to Humana, Inc. subsidiaries in accordance with the US Internal Revenue Code (IRS). The agreement also stipulates that Humana, Inc., will prepare the Company's tax return and calculate its tax liability.

**Indemnity Agreement**

The Company entered into the Indemnity Agreement with Humana, Inc., effective July 1, 2012. Per the agreement, Humana, Inc., agrees to indemnify the Company from any and all liability, loss, or damage the Company may suffer as a result of the Company's failure to perform its obligations arising under the certificates to offer health care services and coverage to individuals, employers, and other groups that the Company assumed.

**MANAGEMENT AND CONTROL**

**Board of Directors (BOD)**

The Company's BOD consists of three Humana, Inc. officers, and a majority of the directors constitute a quorum for a BOD meeting. The Company's BOD attends Humana, Inc. BOD meetings where direction and corporate governance for the Company is shaped.

The Company's BOD has delegated management functions to the following Humana, Inc. Board of Directors committees: Audit Committee, Executive Committee, Investment Committee, Nominating & Corporate Governance Committee, and the Organization & Compensation Committee.

The following individuals were directors of the Company as of December 31, 2012:

James H. Bloem	Director
Bruce D. Broussard	Director
James E. Murray	Director

**Officers**

The following individuals were officers of the Company as of December 31, 2012:

Bruce D. Broussard	President and Chief Executive Officer
James H. Bloem	Sr. Vice President, CFO, and Treasurer
Elizabeth D. Bierbower	President, Employer Group Segment
Jonathan A. Canine	Appointed Actuary

Michael P. Franks	Regional President, Senior Products/West Coast Region
Joan O. Lenahan	Vice President & Corporate Secretary
Thomas J. Liston	President, Retail Segment
Bruce D. Perkins	President, Health and Well-Being Services Segment
Oraida M. Roman	Regional President, Senior Products/Intermountain Region
Pattie D. Tye	President, Large Group
Timothy A. Wheatley	Vice President, Senior Products

**Conflict of Interest**

The Company’s conflict of interest policy requires all associates upon hire, and annually thereafter during ethics and compliance training, to complete a Conflict of Interest Information Disclosure and Agreement disclosing any activity which may constitute a conflict of interest with Humana, Inc. Any conflict is referred to the Conflict of Interest Committee which will review the issue with senior management to determine whether further action is necessary. The purpose of the statement is to detect any activities or participation on the part of the directors or officers that could possibly be interpreted as a conflict of interest. No exceptions were noted during our review.

**Fidelity Bond and Other Insurance**

The Company was a named insured on a financial institution fidelity bond purchased by Humana, Inc. The aggregate amount of coverage meets the minimum amounts recommended by the NAIC FCEH guidelines.

**Officers’, Employees’, and Agents’ Welfare and Pension Plans**

AHP is included in the Humana, Inc. Retirement Savings Plan. Associates have immediate eligibility in the plan. Associates can defer from one to 37 percent of income into the plan. The plan matches 125 percent of the first six percent of employee contributions. The plan has a two year vesting schedule tied to any employer contributions including matching contributions.

AHP is also included in the Humana, Inc. Retirement Equalization Plan. This is a non-qualified plan for associates that exceed the annual compensation limit of \$255,000 in 2013. This plan offers a continuation of the match based on the percent contributed to the Humana, Inc. Retirement Savings Plan for any compensation over the annual compensation limit, as long as the elective deferral limit was met in the qualified plan.

**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. Other than the lack of an annual review and approval of the investment policy by the BOD, no exceptions were noted. (See Instruction No. 6.)

**ACTUARIAL REVIEW**

Actuarial Group Inc., (AGI) Services, on behalf of the Georgia Department of Insurance, reviewed the Company’s actuarial report, claims unpaid, and other claim liabilities as of December 31, 2012. 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 2012 NAIC Annual Statement; and estimating claims unpaid for the valuation date of December 31, 2012.

Based on the actuarial review, and except for the finding relating to unpaid claims adjustment expenses, the examiners concluded that reserves and methodologies were reasonable, and the claim liabilities included necessary provisions. (See Examination Adjustment No. 2.)

### **REINSURANCE**

The Company had no reinsurance in effect during 2012. Reinsurance recoveries during 2012 were related to reinsurance contracts in effect in the prior year.

### **INDEMNITY DEPOSITS**

AHP maintained the following statutory deposit as of December 31, 2012:

<b><u>State</u></b>	<b><u>Type</u></b>	<b><u>Book Value</u></b>	<b><u>Fair Value</u></b>
Washington	Other	\$1,993,703	\$2,001,971

### **ACCOUNTING RECORDS AND INFORMATION SYSTEM**

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company was audited by the certified public accounting firm of PriceWaterHouseCooper (PWC) LLP. The Company received an unqualified opinion for the year under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

The Company's Information Technology (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.

### **SUBSEQUENT EVENTS**

Arkansas Community Care changed its name to Humana Regional Health Plan. The business was fully divested in 2013, and the business is in run out.

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

The examination team reviewed the prior examination findings. Although they were not all corrected, the transition of AHP's processes and systems into Humana, Inc.'s processes and systems remediated the findings, and no further review was necessary.

### **FINANCIAL STATEMENTS**

The following financial statements show the financial condition of AHP as of December 31, 2012:

Assets, Liabilities, Capital and Surplus

Statement of Revenue and Expenses

Four Year Reconciliation of Surplus

Analysis of Changes in Financial Statements Resulting from the Examination

**Arcadian Health Plan, Inc.**  
**Assets, Liabilities, Capital and Surplus**  
**December 31, 2012**

	BALANCE PER COMPANY*	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	NOTES
<b>ASSETS</b>				
Bonds	\$77,298,303	\$0	\$77,298,303	
Stocks:				
Common stocks	\$8,915,034		\$8,915,034	
Cash, cash equivalents, and short term investments	33,944,999		33,944,999	
Investment income due and accrued	439,065		439,065	
Premiums and considerations:				
Uncollected premium and agents' balances in the course of collection	70,549		70,549	
Accrued retrospective premiums	9,316,173		9,316,173	
Amounts receivable relating to uninsured plans	7,189,117		7,189,117	
Net deferred tax asset	86,444	2,570,742	2,657,186	1
Electronic data processing equipment and software	556,153		556,153	
Health care and other amounts receivable	2,952,140		2,952,140	
<b>Total assets</b>	<b>\$140,767,977</b>	<b>\$2,570,742</b>	<b>\$143,338,719</b>	
<b>LIABILITIES, CAPITAL AND SURPLUS</b>				
Claims unpaid	\$44,080,020	\$0	\$44,080,020	
Unpaid claim adjustment expenses	291,851	711,324	1,003,175	2
Aggregate health policy reserves	389,199		389,199	
Premium received in advance	446,047		446,047	
General expenses due or accrued	17,045,924		17,045,924	
Current federal and foreign income tax payable and interest thereon	720,856	4,152,784	4,873,640	1
Amounts withheld or retained for the account of others	28,520		28,520	
Amounts due to parent, subsidiaries and affiliates	2,387,922		2,387,922	
Liabilities for amounts held under uninsured plans	1,719,614		1,719,614	
Aggregate write-ins for other liabilities	1,344		1,344	
<b>Total liabilities</b>	<b>67,111,297</b>	<b>4,864,108</b>	<b>71,975,405</b>	
Common capital stock	600,000		600,000	
Gross paid in and contributed surplus	68,696,777		68,696,777	
Unassigned fund (surplus)	4,359,903	(2,293,366)	2,066,537	1
<b>Total capital and surplus</b>	<b>73,656,680</b>	<b>(2,293,366)</b>	<b>71,363,314</b>	
<b>Total liabilities, capital and surplus</b>	<b>\$140,767,977</b>	<b>\$2,570,742</b>	<b>\$143,338,719</b>	

\* Balances are per the original NAIC Annual Statement filing. (See instruction No. 1(b).)

**Arcadian Health Plan, Inc.**  
**Statement of Revenue and Expenses**  
**For the Year Ended December 31, 2012**

	BALANCE PER COMPANY*	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	NOTES
Member months	510,986		510,986	
Net premium income	\$399,766,688	\$0	\$399,766,688	
Total revenues	399,766,688	0	399,766,688	
<b>Hospital and Medical:</b>				
Hospital/medical benefits	248,644,975		248,644,975	
Other professional services	23,864,453		23,864,453	
Outside referrals	9,955,668		9,955,668	
Emergency room and out-of-area	20,266,038		20,266,038	
Prescription drugs	28,590,214		28,590,214	
Incentive pool, withhold adjustments and bonus amounts	312,418		312,418	
Subtotal	331,633,766	0	331,633,766	
<b>Less:</b>				
Net reinsurance recoveries	570,467	0	570,467	
Total hospital and medical	331,063,299	0	331,063,299	
Claims adjustment expenses	4,888,317	711,324	5,599,641	2
General administrative expenses	66,824,351		66,824,351	
Total underwriting deductions	402,775,967	711,324	403,487,291	
Net underwriting gain or (loss)	(3,009,279)	(711,324)	(3,720,603)	
Net investment income earned	1,426,035		1,426,035	
Net realized capital gains (losses) less capital gains tax	168,385		168,385	
Net investment gains (losses)	1,594,420	0	1,594,420	
Net gain or (loss) from agents' or premium balances charged off			0	
Aggregate write-ins for other income or expenses	89,611		89,611	
Net income or (loss) after capital gains tax and before all other federal income taxes	(1,325,248)	(711,324)	(2,036,572)	
Federal and foreign income taxes incurred	(1,668,231)	4,152,784	2,484,553	1
<b>Net income or (loss)</b>	<b>\$342,983</b>	<b>(\$4,864,108)</b>	<b>(\$4,521,125)</b>	
<b>CAPITAL AND SURPLUS ACCOUNT</b>				
Capital and surplus prior reporting year	\$38,457,653	\$0	\$38,457,653	
Net income or (loss)	342,983	(4,864,108)	(4,521,125)	1
Change in net unrealized capital gains (losses)	758,136		758,136	
Change in net deferred income tax	2,404,368	494,743	2,899,111	1
Change in nonadmitted assets	(1,701,467)	2,075,999	374,532	1
Surplus adjustments:			0	
Paid in	34,000,000		34,000,000	
Aggregate write-ins for gains or (losses) in surplus	(604,993)		(604,993)	
<b>Net change in capital &amp; surplus</b>	<b>35,199,027</b>	<b>(2,293,366)</b>	<b>32,905,661</b>	
<b>Capital and surplus end of reporting period</b>	<b>\$73,656,680</b>	<b>(\$2,293,366)</b>	<b>\$71,363,314</b>	

\* Balances are per the original NAIC Annual Statement filing. (See Instruction No. 1(b).)

**Arcadian Health Plan, Inc.**  
**Four Year Reconciliation of Surplus**  
**For the Years Ended December 31,**

	<u>2012*</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Capital and surplus prior reporting year</b>	<b>\$38,457,653</b>	<b>\$44,732,871</b>	<b>\$45,183,078</b>	<b>\$30,667,137</b>
Net income or (loss)	(4,521,125)	(2,337,246)	3,626,054	14,291,249
Change in net unrealized capital gains (losses)	758,136	(3,776,378)	2,306,238	2,620,222
Change in net deferred income tax	2,899,111	136,862	14,761	533,049
Change in nonadmitted assets	374,532	(384,113)	(1,804,602)	(3,258,979)
Surplus adjustments:				
Paid in	34,000,000			
Dividends to stockholders			(4,470,000)	
Aggregate write-ins for gains or (losses) in surplus	(604,993)	85,657	(122,658)	330,400
<b>Net change in capital &amp; surplus</b>	<b>32,905,661</b>	<b>(6,275,218)</b>	<b>(450,207)</b>	<b>14,515,941</b>
<b>Capital and surplus end of reporting period</b>	<b>\$71,363,314</b>	<b>\$38,457,653</b>	<b>\$44,732,871</b>	<b>\$45,183,078</b>

\* includes examination adjustments

**Arcadian Health Plan, Inc.**  
**Analysis of Changes in Financial Statements Resulting from the Examination**  
**December 31, 2012**

	<u>Per Annual Statement*</u>	<u>Per Examination</u>	<u>Notes</u>	<u>Increase (Decrease) in Surplus</u>	<u>Total</u>
<b>Capital and surplus 12/31/2012 Per NAIC Annual Statement</b>	\$73,656,680				\$73,656,680
<b>Assets</b>					
Net deferred tax asset	86,444	2,657,186	1	2,570,742	
<b>Liabilities</b>					
Unpaid claims adjustment expenses	291,851	1,003,175	2	(711,324)	
Current federal and foreign income tax payable and interest thereon	720,856	4,873,640	1	(4,152,784)	
Change in surplus					<u>(2,293,366)</u>
<b>Capital and surplus 12/31/2012 per examination</b>					<u><b>\$71,363,314</b></u>

\* Balances are per the original NAIC Annual Statement filing. (See Instruction No. 1(b).)

## NOTES TO THE FINANCIAL STATEMENTS

### **1. Federal Income Tax Calculation Error**

To correct federal income tax calculations in accordance with SSAP No. 101: Increase page 4, line 31, "Federal and foreign income taxes incurred" by \$4,152,784, increase page 3, line 10.1, "Current federal and foreign income tax payable and interest thereon" by \$4,152,784, increase page 2, line 18.2, "Net deferred tax asset" by \$2,570,742, increase page 5, line 38, "Change in net deferred income tax" by \$494,743, and increase page 5, line 39 "Change in nonadmitted assets" by \$2,075,999. The net effect decreases page 5, line 34, "Net income" by \$4,152,784 and decreases page 3, line 31, "Unassigned funds (surplus)" by \$1,582,042. (See Instruction No. 1(a).)

### **2. Unpaid Claims Adjustment Expenses**

To increase unpaid CAE in accordance with SSAP No. 55(8): Increase page 3, line 3, "Unpaid claim adjustment expenses" by \$711,324, and increase page 4, line 20, "Claims adjustment expenses" by \$711,324. The net effect decreases page 5, line 34, "Net income" by \$711,324 and decreases page 3, line 31, "Unassigned funds (surplus)" by \$711,324. (See Instruction No. 3.)

### **Special Consent**

The Company has no special consents or permitted practices in the state of Washington.

## ACKNOWLEDGMENT

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Friday Enoye, AFE, Examiner-in-Charge; Timothy F. Hays, CPA, JD, Investment Specialist; Christine Berch, CPA, Financial Examiner; Terry Gates, CPA, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report. Rob Armbruster, Examiner; Herb Maltba, CFE, Supervising Examiner; both from North Carolina Department of Insurance, participated in the examination. Joe Detrick, AES, CISA, CFE, CPA, IT Specialist; from Jennan Enterprises, LLC, contractor for the Georgia Department of Insurance; John Humphries, Managing Partner; Mike Presley, FSA, MAAA, Senior Actuary, both from AGI Services, contractor for the Georgia Department of Insurance; and Thomas Mayberry, Examiner-in-Charge from the Georgia Department of Insurance participated in the examination. Kenneth Merritt, Examiner-in-Charge; Elsaïd Elbially, CFE, Principal Examiner; Tommy Kong, Senior Insurance Examiner; Charles McBurnie, Insurance Examiner all from New York Department of Insurance participated in the examination.

Respectfully submitted,



Adrienne C. Sulaiman, CPA, CFE, MHP  
Health Field Supervising Examiner  
State of Washington

