

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF  
KPS HEALTH PLANS  
BREMERTON, WASHINGTON

NAIC CODE 53872  
December 31, 2011

Order No. 13-165  
KPS Health Plans  
Exhibit A

**SALUTATION**

Seattle, Washington  
March 27, 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:

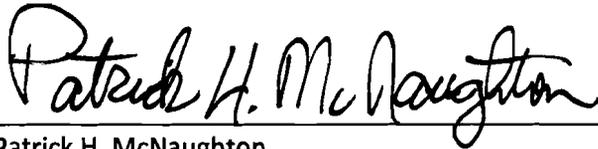
In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

KPS Health Plans  
of  
Bremerton, Washington

hereinafter referred to as "KPS" or the "Company" at its home office located at 400 Warren Avenue, Bremerton, Washington 98337. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2011.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of KPS Health Plans of Bremerton, Washington. This report shows the financial condition and related corporate matters as of December 31, 2011.

A handwritten signature in cursive script that reads "Patrick H. McNaughton". The signature is written in black ink and is positioned above a horizontal line.

Patrick H. McNaughton  
Chief Examiner

5-15-13

Date

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## **SCOPE OF THE EXAMINATION**

This examination covers the period January 1, 2007 through December 31, 2011 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 March 27, 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 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 2011 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 2011 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. NAIC Annual Statement Errors, Omissions, and Misclassifications**

- a. **Deferred Compensation Plan** - The Company reported \$187,205 of plan assets on page 2, Line 25, "Aggregate Write-ins for Other Than Invested Assets" for its executive deferred compensation plan. A corresponding liability of \$179,841 was reported on page 3, Line 12, "Amounts Withheld or Retained for the Account of Others." SSAP No. 14(11) requires the amount of plan assets that exceed the postretirement obligation to be non-admitted. Therefore, the \$7,363 excess of fair value of plan assets over the postretirement obligation should have been non-admitted. Due to immateriality, no examination adjustment was necessary.
- b. **Pension Plan** - KPS did not report \$930,000 of its long term pension liability in 2010. In addition, the Company did not report its long term pension liability in prior years NAIC Annual Statements. SSAP No. 89 requires long term pension liabilities to be reported. This error was corrected in the 2011 NAIC Annual Statement.

- c. **Notes to Financial Statements** - Note No. 12 on Page 25.7 of the 2011 NAIC Annual Statement incorrectly labeled \$6,437,928 as an unrecognized actuarial gain when it should have been labeled as an unrecognized actuarial loss. No examination adjustment was necessary since this was only a labeling error.
- d. **Pharmacy Receivables** - The Company reported \$96,380 of pharmacy receivables on Page 2, Line 25, "Aggregate Write-ins for Other Than Invested Assets" of the 2011 NAIC Annual Statement. The NAIC Annual Statement Instructions require these balances to be reported on Page 2, Line 24, "Health Care and Other Amounts Receivable."
- e. **Exhibit 3** - The Company reported the Letter of Credit (LOC) receivable from the Office of Personnel Management (OPM), related to the Federal Employee Health Benefit Program (FEHBP), as a risk-sharing receivable on Page 19, Line 5999999 of Exhibit 3 of the 2011 NAIC Annual Statement and, in Note No. 28. The LOC does not meet the definition of a risk-sharing receivable per SSAP No. 84(6) and should have been reported on Line 6999999 of Exhibit 3.

**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.**

**2. Limitation of Foreign Securities (Canadian Bonds)**

The Company reported \$3,910,431 of Canadian bonds on Page 2, Line 1 of its 2011 NAIC Annual Statement. RCW 48.13.180(2) limits investments in any one foreign country to five percent of the insurer's assets. The five percent of assets was \$2,275,577 as of December 31, 2011. The excess over the limitation was \$1,634,854. Chapter 48.13 RCW was revised effective July 1, 2012 and eliminated the foreign investment limitation contained in RCW 48.13.180(2). Because the Company is now in compliance, no examination adjustment was necessary. The Company will need to comply with the new insurance law contained in Chapter 48.13 RCW.

**The Company is instructed to comply with Chapter 48.13 RCW which became effective July 1, 2012.**

**3. Incorrect Reporting of the FEHBP**

The Company has a FEHBP contract with the OPM that it categorized as an experience-rated contract. The Company reported the service fee and administrative fee components of this contract as reductions to general administrative expenses on Page 4, Line 21 of the 2011 NAIC Annual Statement. Because this contract has a possibility of loss or liability due to claims incurred, it does not meet the definition of an uninsured plan per SSAP No. 47 and, therefore, must be accounted for as an insured plan. Additionally, the NAIC Annual Statement Instructions define written premiums as "...the contractually determined amount charged by the reporting entity to the policyholder for the effective period of the contract based on the expectation of risk, policy benefits, and expenses associated with the coverage provided by the terms of the insurance contract." Therefore, the administrative fee and service charge should be reported as premiums. Because FEHBP premiums are not subject to premium taxes and since the correction of this mis-classification error has no impact on the Company's surplus, no examination adjustment was necessary.

**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.**

**4. Reinsurance Broker Intermediary**

The Company used Evergreen RE as its reinsurance broker without a written authorization with the broker. RCW 48.94.015 requires a written authorization between a reinsurance intermediary-broker and an insurer. In addition, Evergreen RE is not licensed to do business in the state of Washington. RCW 48.94.010 requires reinsurance brokers to be licensed in the state of Washington or to be licensed in another state with comparable laws as Washington State. RCW 48.94.025 does not allow the Company to engage the services of an intermediary-broker unless the intermediary-broker is licensed in accordance with RCW 48.94.010.

**The Company is instructed to comply with RCW 48.94.015 by obtaining a written authorization with its reinsurance broker. In addition, the Company is instructed to comply with RCW 48.94.025 by using a reinsurance broker that meets the licensing requirements of RCW 48.94.010.**

**COMMENTS AND RECOMMENDATIONS**

**1. Reconciliation of Plan Assets to Custodian’s Statement**

The Company reported \$187,205 of plan assets for its executive deferred compensation plan. The Company’s CPA confirmed the investments in the amount of \$170,808 as of December 31, 2011. The Company did not reconcile the ledger account to the custodian’s statement.

**It is recommended that the Company periodically reconcile its general ledger to the custodian’s statement.**

**COMPANY PROFILE**

**Company History**

The Company was formed by the Kitsap County Medical – Dental Business Bureau. The Company was incorporated on June 8, 1948 as a Washington non-profit corporation under the name of Kitsap County Medical Service Bureau. On May 13, 1960, the Articles of Incorporation were amended to change its name to Kitsap Physicians Service. It received its original Certificate of Registration as a Health Care Service Contractor (HCSC) under Chapter 48.44 RCW from the OIC on January 14, 1975. The Company became KPS Health Plans in April of 1999.

On August 2, 1999, pursuant to Chapters 48.31 RCW and 48.99 RCW, KPS was placed into receivership for the purpose of rehabilitation by Order of the Thurston County Superior Court. On October 1, 2005, KPS emerged from receivership when Group Health Cooperative contributed \$19 million cash and became the sole voting member of KPS.

**Capitalization**

Group Health Cooperative (GHC) is the sole voting member of KPS. The minimum capital requirement of \$3 million required by RCW 48.44.037 was met with \$11,033,612 in capital and surplus as of December 31, 2011.

**Territory and Plan of Operation**

The Company is registered as a HCSC in the state of Washington only. The Company markets fee-for-service (FFS) health plan coverage based on a Preferred Provider Organization (PPO) network

throughout the state of Washington. The Company contracts directly with providers on the Olympic peninsula and utilizes a leased network of providers for the remainder of the state. The Company's product lines span from comprehensive medical and pharmacy plans to consumer-directed (Health Savings Account associated) high-deductible health plans.

In 2011, KPS operated in five distinct market segments: Individual, Medicare Supplement, Large Group (51+), FEHBP, and the self-insured market. KPS withdrew from the small group market, and, as of November, 2011, there were no members enrolled in this segment. KPS exited the Individual market and has no members enrolled in this segment as of July, 2012.

**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:

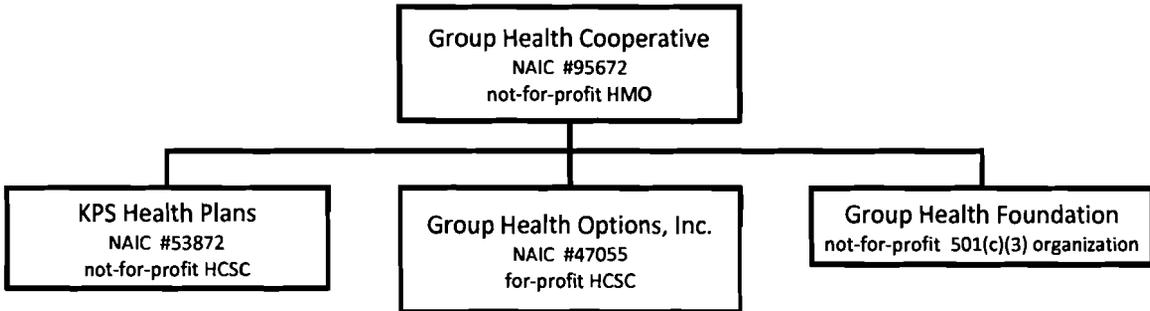
<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	
2011	\$45,511,545	\$34,477,933	\$11,033,612	
2010	44,456,759	31,912,974	12,543,785	
2009	48,518,546	34,799,691	13,718,855	
2008	42,558,494	25,231,426	17,327,068	
2007	48,031,797	26,364,647	21,667,150	

<u>Year</u>	<u>Total Revenues</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2011	\$126,570,631	\$2,496,505	\$117,337	\$2,371,683
2010	149,162,924	(1,900,288)	1,789,821	(558,273)
2009	146,063,384	(4,561,685)	(18,791)	(1,930,062)
2008	154,014,332	(2,051,046)	(1,628,358)	(3,488,366)
2007	150,899,180	(5,020,418)	2,140,680	(2,556,888)

**Affiliated Companies**

The following is an organization chart as of December 31, 2011:



Group Health Cooperative

KPS is a wholly-owned subsidiary of Group Health Cooperative (GHC), a Washington domiciled not-for-profit company registered as a health maintenance organization (HMO).

Group Health Options, Inc.

Group Health Options, Inc. (GHO) was incorporated in 1990 as a for-profit organization and is registered as a HCSC in the state of Washington. GHC owns 100 percent of the issued and outstanding stock of GHO.

Group Health Foundation

Group Health Foundation (GHF) is a Washington non-profit corporation organized September 28, 1983, and is tax-exempt per section 501(c)(3) of the Internal Revenue Code. GHF is organized to secure, invest, and allocate charitable gifts that support the purposes of GHC.

**Intercompany Agreements**

KPS entered into an Administrative Services Agreement with GHC effective January 1, 2007. The Agreement allows GHC to provide the following services to or on behalf of KPS: legal, internal audit, sales management, marketing, web services, coverage contract administration, finance operations, credentialing, sales, account services, human resources, appeals, claims review and pharmacy, finance planning, treasury and investment administration, administrative services, provider services and provider communications, care management, project management, and clinical and utilization review management.

**MANAGEMENT AND CONTROLS**

**Board of Directors**

The following individuals were on the Board of Directors (BOD) as of December 31, 2011:

Rick D. Woods	Chair
Richard E. Magnuson	Vice Chair
Scott E. Armstrong	Director
Carl D. Cramer	Director
Gordon N. Cromwell, Jr.	Director
Porsche Everson	Director
Pamela A. MacEwan	Director
David O. Miller	Director
Robert V. O'Brien Jr.	Director

**Officers**

The following individuals were Officers of the Company as of December 31, 2011:

Rick D. Woods	Chair, BOD
Richard E. Magnuson	Vice-Chair, BOD
W. James Page, Jr.	President
Pamela L. Tirao	Vice President
Richard E. Magnuson	Treasurer
Sarah B. Yates	Secretary

### **Conflict of Interest**

The Company requires the annual completion of a conflict of interest statement by directors, officers, and key employees. The purpose of the statement is to detect any activities or participation on the part of the directors and officers that could possibly be interpreted as a conflict of interest. No exceptions were noted during review for the period of examination.

### **Fidelity Bond and Other Insurance**

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

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

#### Retirement Pension Plan

In 2009, KPS curtailed its qualified defined benefit pension plan, which was available to employees who were at least 21 years of age and worked a minimum of 1,000 hours per year. A consulting actuary evaluated the retirement plan annually. (See Instruction No. 1(b).)

#### 401(k) Savings Plan

KPS offers a 401(k) Savings Plan to eligible employees. Employees are eligible to participate in the savings plan after three months of employment and must be at least 21 years of age. Employees may voluntarily defer from one percent to 100 percent of their pre-tax salary to this plan, up to the published Internal Revenue Service (IRS) annual maximum. KPS will match the employee's elective deferral at its discretion and the matching is vested immediately.

#### Executive Deferred Compensation Plan

KPS offers an unfunded deferred compensation plan to provide supplemental retirement benefits for a select group of management or highly compensated employees within the meaning of Section 201, 301 and 401 of the Employee Retirement Income Security Act of 1974 (ERISA). The participants may elect to defer up to 80 percent of their salary, and the Company may make discretionary contributions. There were four participants in the plan as of December 31, 2011. The Company's general ledger was not reconciled to the custodian's statement, resulting in an immaterial difference. (See Instruction No. 1(a) and Comment and Recommendation No. 1.)

## **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, 2011. 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 2011 NAIC Annual Statement; and estimating claims unpaid for the valuation date of December 31, 2011.

The OIC actuary determined reserves were in compliance with statutory requirements and the methods, assumptions, and methodologies used by the Company were appropriate.

### **REINSURANCE**

KPS participates in a stop loss reinsurance agreement with HCC Life Insurance Company. The reinsurance agreement complies with Washington State reinsurance statutes. The Company has controls in place to monitor its reinsurance program including the financial condition of the reinsurers. In addition, the Company utilizes the services of a reinsurance intermediary, Evergreen RE, to solicit, negotiate, and place reinsurance cessions on its behalf. The Company did not have a written authorization with its reinsurance broker, and the reinsurance broker was not properly licensed. (See Instructions No. 4 and No. 5.)

### **INDEMNITY DEPOSITS**

The Company maintained the following statutory deposit as of December 31, 2011:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Washington	US Treasury Bonds	\$2,449,267	\$2,651,083

### **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 is audited annually by the certified public accounting firm of KPMG 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 phases 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**

Richard Magnuson resigned as Vice Chair and Treasurer of KPS Health Plans effective September 17, 2012. In the third quarter of 2012, Breton Myers replaced Richard Magnuson as Treasurer. In the fourth quarter of 2012, Robert O'Brien, Jr. replaced Richard Magnuson as Vice Chair of the BOD.

The Company sold its building headquarters and adjacent land located in Bremerton, Washington on August 31, 2012 for \$5,200,000 to Group Health Options, Inc. (GHO), an affiliate.

### **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 KPS as of December 31, 2011:

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

**KPS Health Plans**  
**Assets, Liabilities, Capital and Surplus**  
**December 31, 2011**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
<b>ASSETS</b>			
Bonds	\$19,509,826	\$0	\$19,509,826
Real estate:			
Properties occupied by the company	2,940,792		2,940,792
Cash, cash equivalents, and short-term investments	<u>2,780,204</u>		<u>2,780,204</u>
<b>Subtotals, cash and invested assets</b>	<u>25,230,822</u>	<u>0</u>	<u>25,230,822</u>
Investment income due and accrued	119,510		119,510
Uncollected premiums and agents' balances in course of collection	6,506,879		6,506,879
Reinsurance:			
Amounts recoverable from reinsurers	458,495		458,495
Amounts receivable relating to uninsured plans	407,332		407,332
Current federal and foreign income tax recoverable and interest thereon	68,553		68,553
Net deferred tax asset	389,030		389,030
Electronic data processing equipment and software	23,596		23,596
Receivables from parent, subsidiaries and affiliates	20,994		20,994
Health care and other amounts receivable	11,656,569		11,656,569
Aggregate write-ins for other than invested assets	<u>629,765</u>		<u>629,765</u>
<b>Total Assets</b>	<u><b>\$45,511,545</b></u>	<u><b>\$0</b></u>	<u><b>\$45,511,545</b></u>
<b>LIABILITIES, CAPITAL AND SURPLUS</b>			
Claims unpaid	\$11,900,108		\$11,900,108
Unpaid claims adjustment expenses	297,000		297,000
Aggregate health policy reserves	13,941,012		13,941,012
Premiums received in advance	2,321,767		2,321,767
General expenses due or accrued	1,971,622		1,971,622
Amounts withheld or retained for the account of others	358,458		358,458
Amounts due to parent, subsidiaries and affiliates	111,210		111,210
Aggregate write-ins for other liabilities	<u>3,576,756</u>		<u>3,576,756</u>
<b>Total liabilities</b>	<u><b>34,477,933</b></u>	<u><b>0</b></u>	<u><b>34,477,933</b></u>
Gross paid in and contributed surplus	19,000,000		19,000,000
Surplus notes	4,637		4,637
Unassigned funds (surplus)	(7,971,025)		(7,971,025)
<b>Total capital and surplus</b>	<u><b>11,033,612</b></u>		<u><b>11,033,612</b></u>
<b>Total liabilities, capital and surplus</b>	<u><b>\$45,511,545</b></u>	<u><b>\$0</b></u>	<u><b>\$45,511,545</b></u>

**KPS Health Plans  
Statement of Revenue and Expenses  
For the Year Ended December 31, 2011**

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Member months	352,435		352,435
Net premium income	\$126,570,631	\$0	\$126,570,631
Total revenues	<u>\$126,570,631</u>	<u>0</u>	<u>\$126,570,631</u>
<b>Hospital and Medical:</b>			
Hospital/medical benefits	79,416,155		79,416,155
Other professional services	11,020,630		11,020,630
Outside referrals	4,051,086		4,051,086
Emergency room and out-of-area	6,549,019		6,549,019
Prescription drugs	16,015,315		16,015,315
Subtotal	<u>117,052,205</u>	<u>0</u>	<u>117,052,205</u>
<b>Less:</b>			
Net reinsurance recoveries	458,495		458,495
Total hospital and medical	116,593,710	0	116,593,710
Claims adjustment expenses	3,056,473		3,056,473
General administrative expenses	4,423,943		4,423,943
Total underwriting deductions	<u>124,074,126</u>	<u>0</u>	<u>124,074,126</u>
Net underwriting gain or (loss)	2,496,505	0	2,496,505
Net investment income earned	50,938		50,938
Net realized capital gains or (losses) less capital gains tax	66,399		66,399
Net investment gains or (losses)	117,337	0	117,337
Aggregate write-ins for other income or expenses	<u>(196,887)</u>	<u>0</u>	<u>(196,887)</u>
Net income or (loss) after capital gains tax and before all other federal income taxes	2,416,955	0	2,416,955
Federal and foreign income taxes incurred	45,272		45,272
Net income or (loss)	<u>\$2,371,683</u>	<u>\$0</u>	<u>\$2,371,683</u>
<b><u>CAPITAL AND SURPLUS ACCOUNT</u></b>			
Capital and surplus prior reporting year	<u>\$12,543,785</u>	<u>\$0</u>	<u>\$12,543,785</u>
Net income or (loss)	2,371,683		2,371,683
Change in net deferred income tax	(2,454,227)		(2,454,227)
Change in nonadmitted assets	(1,427,629)		(1,427,629)
Net change in capital & surplus	<u>(1,510,173)</u>	<u>0</u>	<u>(1,510,173)</u>
Capital and surplus end of reporting period	<u>\$11,033,612</u>	<u>\$0</u>	<u>\$11,033,612</u>

**KPS Health Plans**  
**Five Year Reconciliation of Surplus**  
**For the Years Ended December 31,**

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Capital and Surplus, December 31, prior year</b>	<b>\$12,543,785</b>	<b>\$13,718,855</b>	<b>\$17,327,068</b>	<b>\$21,667,153</b>	<b>\$20,887,462</b>
Net income or (loss)	2,371,683	(558,273)	(1,930,062)	(3,488,366)	(2,556,888)
Change in net unrealized capital gains		(1,253,696)	1,070,183	(349,391)	162,270
Change in net deferred income tax	(2,454,227)	(3,254,945)	910,436	1,131,931	566,960
Change in nonadmitted assets	(1,427,629)	3,891,844	(3,658,211)	(1,623,841)	3,673,119
Change in surplus notes			(559)	(10,418)	(1,065,770)
<b>Net change in capital &amp; surplus</b>	<b>(1,510,173)</b>	<b>(1,175,070)</b>	<b>(3,608,213)</b>	<b>(4,340,085)</b>	<b>779,691</b>
<b>Capital and Surplus, December 31, current year</b>	<b>\$11,033,612</b>	<b>\$12,543,785</b>	<b>\$13,718,855</b>	<b>\$17,327,068</b>	<b>\$21,667,153</b>

**NOTES TO THE FINANCIAL STATEMENTS**

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

**ACKNOWLEDGMENT**

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

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Respectfully submitted,



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