



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690
RE: Examination Report of Alliance for Community Health, LLC as of December 31, 2008

ORDER

After full consideration and review of the report of the financial examination of Alliance for Community Health, LLC for the period ended December 31, 2008, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Alliance for Community Health, LLC, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 12th day of April.

A handwritten signature in black ink, appearing to read "John M. Huff", written over a horizontal line.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration



FINANCIAL EXAMINATION

Alliance for Community Health, LLC

As of:
DECEMBER 31, 2008

FILED
APR 22 2010
DIRECTOR OF INSURANCE &
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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March 3, 2010
Saint Louis, MO

Honorable Alfred W. Gross, Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
Chair of the NAIC Financial Condition (E) Committee

Honorable Mary Jo Hudson, Director
Ohio Department of Insurance
Secretary of the Midwestern Zone, NAIC

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, MO 65101

Lady and Gentlemen:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Alliance for Community Health, LLC

also referred to as "Alliance" or the "Company." The examination was conducted at Alliance's home office at 12400 Olive Blvd, Suite 100, St. Louis, MO 63141, telephone number (314) 819-5300. This examination began on October 26, 2009 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The previous examination of Alliance was performed as of December 31, 2004. That examination was conducted by examiners from the state of Missouri.

The current examination covers the period from January 1, 2005 through December 31, 2008. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC). No other zones participated in this examination. This examination also included material transactions or events occurring after December 31, 2008.

Procedures

We conducted the current examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook) except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (Department) or statutes of the state of Missouri prevailed. The Handbook requires that we plan

and perform the examination to evaluate the financial condition and to identify prospective risks of the Company. This process includes obtaining information, including corporate governance, about the Company, identifying and assessing inherent risks within the Company and evaluating the system controls and procedures used by the Company to mitigate those risks. The examination also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation including compliance with Statutory Accounting Principles and Annual Statement Instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. We identified the following key activities: Treasury, Premiums and Underwriting, Losses and Corporate Governance.

The Alliance's independent auditor, Brown Smith Wallace, LLC, provided information and work papers from their 2008 year-end audit. We relied upon work performed by the independent auditor, including fraud risk analysis, internal control narratives, walk-throughs and tests of controls, when appropriate.

SUMMARY OF SIGNIFICANT FINDINGS

The Department's consulting actuary found the Company's year-end reserves to be overstated (EXAMINATION CHANGES).

The Company's Board of Managers did not review investments on a quarterly basis as required by statute (CORPORATE RECORDS).

The Company's fidelity coverage does not meet the requirements of the governing statute (FIDELITY BOND AND OTHER INSURANCE).

SUBSEQUENT EVENTS

On January 5, 2009, Joanne Volovar, George Goldstein and Margo Wright were appointed to the Board of Managers replacing the prior membership of the Board.

COMPANY HISTORY

General

On March 5, 1986, the Company incorporated as a not-for-profit entity. On June 17, 1987, Alliance was licensed as a health maintenance organization (HMO). The Company began operations on September 1, 1995. Alliance converted to a limited liability corporation (LLC) on August 16, 1996. On May 28, 2004, CCP Acquisition Limited and three members of management acquired the Company.

Capital Stock

The Company does not issue capital stock.

Dividends

The Company paid the following dividends during the examination period. For 2007, \$9,561,512 of the distribution was considered a return of capital.

<u>Year</u>	<u>Amount</u>
2005	\$ 3,200,000
2006	6,722,611
2007	20,335,343
2008	4,049,596
Total	<u>\$ 34,307,550</u>

Mergers and Acquisitions

On June 30, 2006, Mercy Health Plans, Inc. obtained fifty-percent ownership of the Company; the Company's d/b/a changed to Mercy CarePlus. On October 31, 2007, all ownership interests in the Company were sold to Molina Healthcare, Inc. (CA). The Department approved the sale October 22, 2007. As a condition of its approval, the Department requires the Company to maintain a minimum surplus of \$15 million. The Company has complied with the Department's condition by maintaining a minimum surplus of \$15 million.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board of Managers for the exam period. The minutes appear to properly support and document the major transactions and events during the exam period.

Section 376.293 RSMo (Permissible investments—written plan for investments required) requires an insurer's board of directors (or equivalent governing body) to review investment activity on at least a quarterly basis. The Company's minutes do not indicate that the Board of Managers reviewed investment activity as frequently as required by the statute. The Company should ensure that its Board of Managers reviews investment activity on at least a quarterly basis.

MANAGEMENT AND CONTROL

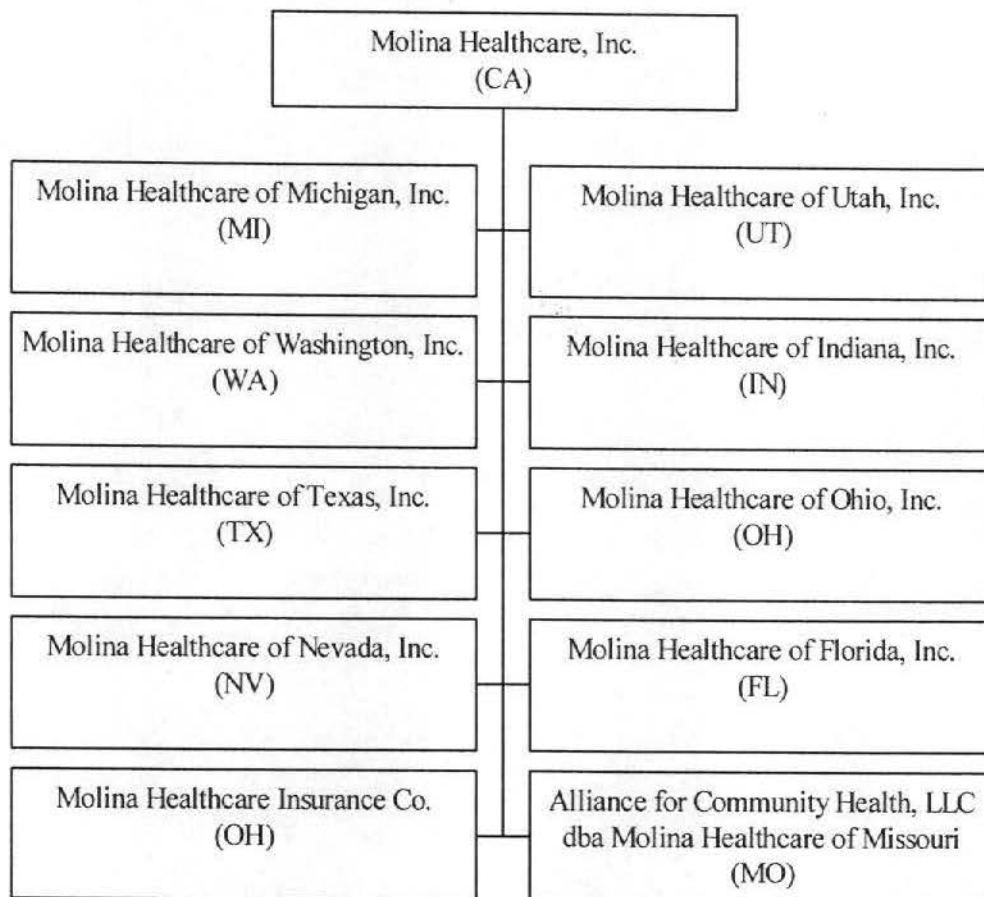
At year-end 2008, the Company's board consisted of the following members:

<u>Name</u>	<u>Affiliation</u>
Joseph M. Molina, MD South Pasadena, CA	Chairman and CEO Molina Healthcare, Inc.
John C. Molina Long Beach, CA	Chief Financial Officer Molina Healthcare, Inc.
Mark L. Andrews Sacramento, CA	General Counsel Molina Healthcare, Inc.

At year-end 2008, the Company's officers consisted of the following:

<u>Name</u>	<u>Office</u>
Joanne Volovar	President
Mark Andrews	Secretary
Edward Oswald	Chief Financial Officer

Alliance is a member of an Insurance Holding Company system as defined by Chapter 382 RSMo. The Company's ultimate parent is Molina Healthcare, Inc. (CA). The chart below depicts Molina Healthcare, Inc. and its direct subsidiary insurance companies. A complete organization chart is available in the Annual Statement.



At year-end 2008, the Company was party to two intercompany agreements.

Tax Sharing Agreement

A consolidated tax sharing agreement was approved by the Department on October 26, 2007 and became effective November 1, 2007. Under the agreement the Company and its parent, Molina Healthcare, Inc., file a consolidated federal income tax return. The Company's tax liability is computed under the "Stand Alone" method. The Company and its parent settle intercompany tax balances annually, on or before the tax return is filed.

Administrative Services Agreement

Under a service agreement approved by the Department on October 29, 2007, and effective November 1, 2007, the Company receives consultation and services from its parent, Molina Healthcare, Inc. The following services are included in the agreement: preparing annual budgets; implementing systems for adjudicating and paying claims; planning; report generation; developing, designing, supporting and operating information systems; obtaining insurance; performing actuarial and data analysis; performing legal services, accounting, financial, tax and marketing; recruiting employee candidates; assisting with government relations; performing market analysis; developing enrollment and disclosure materials; developing processes and systems to protect the confidentiality of records; designing and drafting contracts with participating providers, subscriber groups and vendors. The Company pays for the actual costs incurred in providing the services. Molina Healthcare, Inc. submits bills by the 15th of each month for the prior month's services; the Company remits payment within 30 days of receipt.

During the examination period, the Company paid intercompany fees in the following amounts:

Year	Amount
2005	\$ -
2006	9,058,079
2007	9,917,331
2008	<u>10,447,669</u>
Total	<u>\$ 29,423,079</u>

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a Fidelity and Crime policy maintained by its parent. The policy has a limit of \$2 million with a \$50,000 deductible. This coverage exceeds the minimum amount of coverage recommended by the National Association of Insurance Commissioners.

Section 354.425 RSMo (Bonding of officers who invest funds) requires HMOs to maintain surety/fidelity coverage with a minimum discovery period of one-year and further requires that policies with a discovery period of less than three years be non-cancellable without ninety days' prior written notice to the Department Director. The Company's fidelity coverage does not comply with Section 354.425 RSMo. The Company should amend its fidelity coverage to comply with the requirements of Section 354.425 RSMo.

The Company is also insured through policies providing coverage for professional liability (errors and omissions), directors' and officers' liability, workers' compensation, commercial property, employer's liability and automobile liability. The coverage appears to adequately protect the Company's operations.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not offer a pension plan but does provide a 401(k) savings plan for its employees. The Company provides additional benefits to its employees including paid leave,

tuition reimbursement, employee assistance program, employee stock purchase plan, flexible spending accounts, disability insurance, life insurance, medical coverage, dental coverage, prescription coverage and a vision plan. Expenses and liabilities associated with employee benefits appear to have been properly reported in the annual statement.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed by the Department as a HMO under sections 354.400 through 354.636 RSMo (Health Maintenance Organizations). The Company operates as a Medicaid HMO provider under an agreement with MO HealthNet, a division of the Missouri Department of Social Services. The Company's territory consists of the Eastern, Central and Western Regions of Missouri as defined by MO HealthNet.

GROWTH OF COMPANY

The Company has significantly increased its surplus since the prior examination. The Company's premium to surplus ratio for the examination period is exhibited below:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Premium income	85,487,331	124,237,316	173,084,644	225,091,120
Surplus	11,000,007	25,613,616	22,485,953	30,071,556
Premium: Surplus ratio	7.77	4.85	7.70	7.49

LOSS EXPERIENCE

The Department engaged the actuarial firm of Lewis & Ellis, Inc. to opine on the adequacy of the Company's year-end 2008 unpaid losses. The actuary found the Company's reserves to be overstated by \$3.7 million.

REINSURANCE

The Company does not assume reinsurance. The Company cedes reinsurance on an excess of loss basis, retaining the first \$1 million in losses per enrollee. Guy R. Carpenter serves as the Company's reinsurance intermediary.

The Company's premiums on a direct written and ceded basis for the current examination period were as follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Direct premiums	\$ 86,120,817	\$ 124,469,611	\$ 173,451,060	\$ 225,280,452
Ceded premiums	<u>633,486</u>	<u>232,295</u>	<u>366,416</u>	<u>189,332</u>
Net premiums	<u>\$ 85,487,331</u>	<u>\$ 124,237,316</u>	<u>\$ 173,084,644</u>	<u>\$ 225,091,120</u>

ACCOUNTS AND RECORDS

Independent Accountants

Brown Smith Wallace, LLC has audited the Company's financial statements annually since 2005. The 2008 audit work papers were reviewed. The work papers were used in the course of the current financial examination as deemed appropriate.

Actuarial Opinion

Brian F. Goebel, FSA, MAAA, Molina Healthcare, Inc. Chief Actuary, provided the actuarial opinion for 2008. Karen O. McDonald, FSA, MAAA, Molina Healthcare, Inc. Chief Actuary, provided the actuarial opinion for 2007. For 2007 and 2008, reserves were found to be adequate.

Information Systems

In conjunction with this examination, Andrew Balas, CFE, AES, CPA, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems. No material exceptions were noted.

Consulting Actuary

The Department retained a consulting actuary, Karen Elsom, FSA, MAAA, of Lewis & Ellis, Inc. to review the adequacy of the Alliance's reserves and related liabilities. As noted above, the actuary found the reserves to be overstated.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2008, as reflected below, were sufficient in par and market value to meet the minimum deposit requirement in accordance with Section 354.410 RSMo – Certificate issued, when—annual deposit requirements.

	Par Value	Market Value	Statement Value
U.S. Treasury Note	\$ 500,000	\$ 512,190	\$ 506,094
U.S. Treasury Bill	<u>600,000</u>	<u>599,952</u>	<u>598,525</u>
Total	<u>\$ 1,100,000</u>	<u>\$1,112,142</u>	<u>\$1,104,619</u>

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2008, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements or comments regarding such are made in the "Comments on Financial Statements" which follow the financial statements.

There may have been additional differences found in the course of this examination which are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the work papers for each individual financial statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 1,105,000	\$ -	\$ 1,105,000
Cash and short-term investments	29,354,354	-	29,354,354
Investment income due and accrued	23,055	-	23,055
Uncollected premiums	23,534,095	-	23,534,095
Net deferred tax asset	5,166,037	4,140,789	1,025,248
Electronic data processing equipment and software	20,955	6,636	14,319
Furniture and equipment	484,896	445,516	39,380
Health care and other amounts receivable	505,559	4,831	500,728
Prepaid expenses	294,384	294,384	-
Intangible asset	587,765	-	587,765
Totals	<u>\$ 61,076,100</u>	<u>\$ 4,892,156</u>	<u>\$ 56,183,944</u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid (NOTE 1)	\$ 18,757,275
Unpaid claims adjustment expenses	564,456
General expenses due or accrued	1,574,006
Current federal income tax payable	754,670
Amounts due to parent, subsidiaries and affiliates	<u>709,071</u>
Total liabilities	\$ 22,359,478
Gross paid in and contributed surplus	\$ 21,126,899
Unassigned funds (surplus) (NOTE 1)	<u>12,697,567</u>
Total capital and surplus	\$ 33,824,466
Total liabilities, capital and surplus	<u>\$ 56,183,944</u>

STATEMENT OF REVENUE AND EXPENSES

Net premium income	\$ 225,091,120
Total revenues	225,091,120
Hospital/medical benefits	85,860,632
Other professional services	28,216,144
Outside referrals	18,746,619
Emergency room and out-of-area	26,529,503
Prescription drugs	22,432,069
Net reinsurance recoveries	(185,352)
Total hospital and medical	181,599,615
Claims adjustment expenses	8,188,817
General administrative expenses	17,782,956
Total underwriting deductions	207,571,388
Net underwriting gain	17,519,732
Net investment income earned	954,167
Federal income taxes incurred	6,740,093
Net income	<u>\$ 11,733,806</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus prior reporting year	\$ 22,485,953
Net income	11,733,806
Change in net deferred income tax	(1,628,503)
Change in nonadmitted assets	1,529,896
Dividends to stockholders	(4,049,596)
Examination changes (NOTE 1)	3,752,910
Net change in capital and surplus	11,338,513
Capital and surplus end of reporting year	<u>\$ 33,824,466</u>

EXAMINATION CHANGES

Total Capital and Surplus Per Company, December 31, 2008:

Gross Paid In and contributed Surplus	\$ 21,126,899
Unassigned Funds	8,944,657
Total Capital and Surplus	\$ 30,071,556

	INCREASE IN <u>SURPLUS</u>	DECREASE IN <u>SURPLUS</u>	
Claims Unpaid	NOTE 1	3,752,910	
Net Increase(Decrease) in Surplus			3,752,910

Total Policyholder Surplus per Examination, December 31, 2008:

Gross Paid In and Contributed Surplus	21,126,899
Unassigned Funds	12,697,567
Total Capital and Surplus	\$ 33,824,466

COMMENTS ON FINANCIAL STATEMENTS

NOTE 1

Claims unpaid	\$18,757,275
Unassigned funds (surplus)	12,697,567

The Company's year-end unpaid claims liability was reduced by \$3,752,910 based on the findings of the consulting actuary, Karen Elsom of Lewis & Ellis, Inc. The Company's year-end surplus was increased accordingly.

SUMMARY OF RECOMMENDATIONS

Corporate Records

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Fidelity Bond and Other Insurance

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