Government of the District of Columbia
Department of Insurance, Securities and Banking

Gennet Purcell
Commissioner

BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA

Re: Report on Examination – **Health Right, Inc.** as of December 31, 2008

ORDER

Pursuant to Examination Warrant 2009-5, an Examination of **Health Right, Inc.** as of December 31, 2008 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 7th day of May, 2010, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

Gennet Purcell
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

Report of

Financial Condition Examination

Health Right, Inc.

As of

December 31, 2008

NAIC COMPANY CODE 95787

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Washington, DC
March 8, 2010

Honorable Gennet Purcell
Commissioner of Insurance
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE Suite 701
Washington, DC 20002

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions of District of Columbia Code § 31-1402, an examination has been made of the financial condition and affairs of the:

Health Right, Inc.

hereinafter referred to as "HRI" or the "Company". The examination was conducted at the principal office of the Company, located at 1101 14th Street, NW, Suite 900 Washington, D.C. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The examination, covering the period from January 1, 2004 to December 31, 2008, and including any material transactions and/or events noted occurring subsequent to December 31, 2008, was a single state/district examination conducted by contract examiners from INS Consultants, Inc. on behalf of the District of Columbia Department of Insurance, Securities and Banking (DISB).

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, incorporating the risk-focused examination techniques and in accordance with examination policies and standards established by the DISB and, accordingly, included such tests of the accounting records and other examination procedures as considered necessary.

The examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities and identification of risks, assessing and analyzing those risks, documenting the results of the analysis, and developing recommendations for how the analysis can be applied to the ongoing monitoring of the insurer. In addition, the examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risks, and the examination efforts were directed accordingly.

The Company was audited annually by independent accounting firms. The firms expressed unqualified opinions on the Company's financial statements for the calendar years 2004 through 2008. It should be noted that in 2008, the Company changed the independent accounting firm from Squire, Lemkin and O'Brien, LLP to McGladrey and Pullen, PC. As a result of the change in accounting firms, the Examiners only placed reliance on the audited financial statements for calendar year 2008. Thus, examination efforts were concentrated on the year ended December 31, 2008. The workpapers prepared by the independent accounting firm, McGladrey and Pullen, PC only related to the audit for the year ended December 31, 2008, and were utilized to the extent applicable.

STATUS OF PRIOR EXAMINATION FINDINGS

The examination included a review to determine the current status of the 8 exception conditions commented upon in the preceding Report on Examination, dated August 4, 2004, which covered the three-year period from January 1, 2001, to December 31, 2003. During the current period under examination and subsequent thereto, the Company complied with all exceptions aside from adhering with certain NAIC Annual Statement Instructions.

SUMMARY OF SIGNIFICANT FINDINGS

DISB defines material adverse findings as follows:

> ***"A material adverse finding is defined as a finding , typically made by a financial examiner or financial analyst, with respect to an event, trend, transaction or series of transactions, fluctuation, agreement, arrangement, operating results or violation of law, which either has, or reasonably could have, a significant negative impact on a company's financial position."***

There was one material adverse finding that was noted during the examination. The finding was a result of operating results and the financial position of the Company per the filed 2008 Annual Statement. At the direction of the DISB, the Company provided an action plan of remediation in 2009.

A material adverse finding was noted again with the filed 2009 Annual Statement. See also additional comments under the caption **"SUBSEQUENT EVENTS"** for further discussion.

SUBSEQUENT EVENTS

Nonrenewal of Medicaid/Alliance Contract

The District of Columbia Department of Health Care Finance's ("DHCF") contract with the Company to provide health care services for the District's DC Healthy Families (Medicaid) and Alliance populations expired on April 30, 2010. The Company was notified in a letter dated April 1, 2010 of DHCF's intent to not exercise Option Year Two of the contract. The contract with DHCF provided the primary source of revenue for the Company and, as a result of the nonrenewal of the contract; substantial doubt exists about the Company's ability to continue as a going concern. The Company's management has asserted their intentions to fulfilling any regulatory and contractual obligations and intends to continue to maintain its certificate of authority for the foreseeable future.

Change of Actuarial Firms

In 2009, the Company changed its outside actuarial firm from Actuarial Health Solutions, LLC to Ernst and Young, LLP.

Resignations and Terminations

Management staff were terminated or resigned in 2009 in the following key positions as of December 31, 2008:

Chief Financial Officer
Chief Operating Officer
Chief Compliance Officer
Director Government and Community Affairs

In 2009, the Company hired replacements in the accompanying positions and new positions were created as part of the new reorganization structure.

Chief Financial Officer*
Director of Finance*
Chief Information Officer
Chief Compliance Officer
Chief Operating Officer
Consulting Chief Financial Officer
Consulting Chief Operating Officer

* Hired and Resigned in 2009

Donna Carris, Acting CEO in 2008 was appointed the CEO on November 1, 2009, by the Board of Directors. In a letter dated April 14, 2010 from the Chairman of the Company, DISB was notified that Donna Carris had resigned effective April 13, 2010.

<u>Amendments to By-Laws</u>

On July 23, 2009, the Company amended and restated their By-Laws. The Company noted that the By-Laws were amended on the recommendation of HRI's outside counsel for general 'clean up' purposes and in response to the prior DISB examination conducted in 2004. Material changes were made to the following articles and sections:

- Article II. Section 2 to include special shareholders meeting
- Article III. Section 2 to permit up to 7 directors, that not less than one-third must be independent and remove the CEO's right to vote as director (also struck from IV.7)
- Article III. Section 3 to set the term as a director at 3 years and stagger terms
- Article III. Section 4 to permit the Evaluation and Review Committee to nominate persons to fill Board vacancies
- Article III. Section 9 to mandate that quorum include at least 1 independent director
- Article V. Sections 1 and 3 to include an Evaluation and Review Committee
- Article V. Section 2 to length time shareholder will receive the annual financial statements
- Article V. Section 3 to strike language permitting HRI to pay for services with shares

Additionally, it was noted that in July 2009, "the Board voted to further amend the By-Laws to rename the *"Evaluation and Review Committee"* the *"Audit and Evaluation Committee"* and to reduce the minimum number of members of the Committee from three (3) to two (2). Those changes were not yet reflected in the By-Laws.

The change in By-Laws was made without evidence in the minutes of the Board of Director meetings that the Board had discussed the changes to the By-Laws. A review of the July 23, 2009, and prior Board of Director meeting minutes provided to the Examiners did not evidence a discussion and approval of the 2009 changes and amendment to the By-Laws by the Board of Directors.

See the "Comments and Recommendations" section of this Report under the caption "Subsequent Events" for further discussion.

Audit and Evaluation Committee

In July of 2009, the Company formed an Audit and Evaluation Committee. The members of that Committee as of December 31, 2009, are as follows:

Richard C. Bohrer, Chair
Roberta Miliman
Charles Barber

All members of the Audit and Evaluation Committee are independent of the Company and Holding Company Group and thus in compliance with District of Columbia Code § 31- 31-706(c) (4).

Material Adverse Finding

A material adverse finding occurred subsequent to the examination date. The finding was a result of operating results and financial position of the Company per the filed 2009 Annual Statement. At the direction of the DISB, the Company will be required to provide an action plan of remediation in 2010.

HISTORY

GENERAL

Health Right, Inc. was incorporated on November 1, 1996 under the laws of the District of Columbia and commenced business on April 15, 1998. HRI is a managed care organization duly licensed in the District of Columbia. HRI is unique because it is owned by the only Federally Qualified Health Centers (FQHC) in the District of Columbia, Unity Health Care and Columbia Road Health Services (CRHC). All revenue is generated by the Medicaid, Alliance and Department of Correction contracts with the District of Columbia.

CAPITAL STOCK

The Company has 1,000 authorized shares and 369 of outstanding shares of capital common stock (Treasury) with no nominal or par value. The Company reported $1,651,000 for common capital stock. The Company is a private business and has the authority to determine the selling price for common capital stock. The Company, along with its legal counsel, states that the Company's purchase price for the capital common stock is mutually agreed upon with the buyer and the seller. Unity Health Care owns 97% of the outstanding common shares of Health Right, Inc. and Columbia Road Health Services owns the remaining 3%.

Dividends to Stockholders

A cash dividend in the amount of $773,195 was paid to the stockholders on December 12, 2008. UHC received $750,000 and CRHC received $23,195. The dividend constituted an ordinary distribution and was approved by the Board of Directors.

However, it was noted that the Company did not make the appropriate disclosures with regards to the dividends paid to CRHC in the Annual Statement Notes nor in the Holding Company Registration Statement.

See the "Comments and Recommendations" section of this Report under the caption "Dividends to Stockholders" for further discussion.

MANAGEMENT AND CONTROL

Board of Directors

Article III, Section 2 of the Company By-Laws designates that the number of Board members shall be three and appointed at the Annual Meeting of shareholders. The jurat page in the 2008 Annual Statement indicates the following Board of Directors as December 31, 2008:

Name	Title
Vincent Keane	Chairman, Health Right, Inc. CEO, Unity HealthCare,
Charles Barber	Senior Counsel, George Washington University
Marlene Kelley	Retired Physician
Richard Bohrer	Health Care Consultant, Martin, Blank and Associates

Charles Barber, Richard Bohrer and Marlene Kelley were added to the Board on January 27, 2005, July 1, 2008 and September 4, 2008 respectively. Roberta Miliman was added to the Board on July 23, 2009, although this was not reflected on the jurat page of the Quarterly Statement filed as of September 30, 2009.

See the "Comments and Recommendations section" of this Report under the caption "Board of Directors" for further discussion.

Officers

Article IV Section 1 of the Company's By-Laws state that "officers of the Company shall consist of a President, a Secretary, a Treasurer, and such other officers, as the Board of Directors may from time to time deem advisable".

The officers of the Company as of December 31, 2008, were as follows:

Name	Title
Vince Keane	Chairman
Donna Carris	Acting CEO (permanent 11/09)

As noted above, the Company did not have an elected President, Secretary and Treasurer as of December 31, 2008.

See the "Comments and Recommendations" section of this Report under the caption "Officers" for further discussions.

Committees

The following committees were in place at December 31, 2008, and updated to November 2009 as provided by the Company.

Executive Committee
Compliance Committee
Appeals & Grievance Committee
Credentialing Committee
Quality Advisory Committee - Pharmacy & Therapeutics
Quality Management Committee
Recruitment & Retention Committee

The Executive Committee is comprised of the President, Secretary and Treasurer. See additional comments under the caption **"Management and Control – Officers".**

CORPORATE GOVERNANCE

HRI is not a public company and not subject to the Sarbanes-Oxley Act (SOX). Therefore, it does not obtain an attestation as to the effectiveness of the internal control environment and the integrity of the financial statements from its external CPA firm.

Also, the Company does not have an internal audit program due to its size of operation. As noted above, the Company has an established Audit and Evaluation Committee and all of its members are independent as of November 2009.

Conflict of Interest

The Company requires personnel in positions that influence decisions to read the corporate conflict of interest policy and then disclose any conflict of interest on a signed conflict of interest statement. From a review of the completed conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. No conflicts of interest were noted.

<u>Corporate Records</u>

The Company's Articles of Incorporation and By-Laws were provided for review. Neither the Articles of Incorporation nor the By-Laws have been amended for the period under examination.

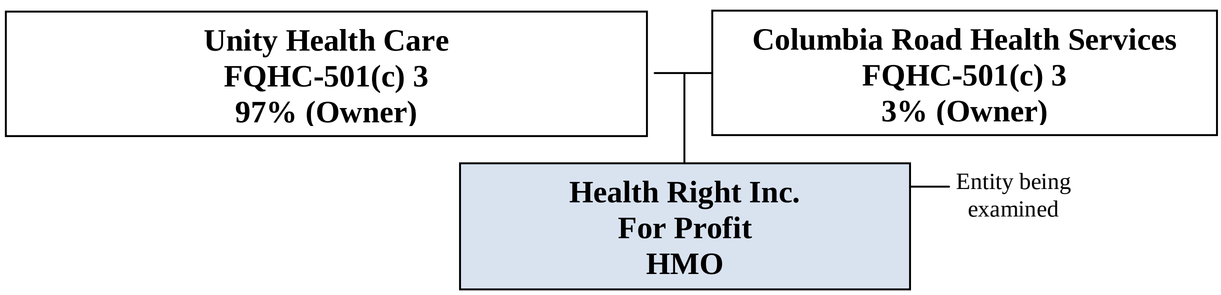
The Company's By-Laws provide that the Board of Directors may delegate some of its powers to officers and agents of the Corporation. The officers of the Corporation shall consist of a president, a secretary, a treasurer and such other officers as the Board of Directors may appoint. The same individual may simultaneously hold more than one office in the Corporation.

See additional comments under the captions **"SUBSEQUENT EVENTS"** and **MANAGEMENT AND CONTROL - Board of Directors and Officers".**

AFFLIATED COMPANIES

The Company is the only subsidiary entity under the ownership of majority owner Unity Health Care and minority owner Columbia Road Health Services as noted below in the organization chart. In compliance with District of Columbia Code 31-705, Registration of Insurers, and Chapter 16 and Appendix of Title 26 of the Regulations, the Company filed the Form B and C Registration Amendments. See additional comments under the caption **"INTERCOMPANY AGREEMENTS".**

ORGANIZATION CHART



INTERCOMPANY AGREEMENTS

The Company has entered into the following intercompany or related party agreements:

Management and Administrative Services Agreement

On January 1, 2000, HRI entered into a management and administrative services agreement with Unity Heath Care, Inc. (UHC) under which UHC provides senior management support, clinical and quality assurance support, human resources and payroll support, and financial and accounting support. In November 2008, this agreement was amended to a cost-based contract, retroactively effective June 1, 2008. In accordance with the amended agreement, HRI reimburses UHC for the total allocated share of General and Administrative (G&A) Services.

Subcontract Agreement with UHC

Unity Health Care, Inc. (UHC) is engaged behalf of the District of Columbia Department of Corrections (DOC) to provide health care services for persons in custody of the DOC and housed at the Central Detention Facility, the Correctional Treatment Facility, and Community Corrections Centers (halfway houses). Effective October 18, 2006, HRI entered into a subcontractor agreement with UHC under which UHC provides comprehensive health care services, on behalf of the DOC, to persons in the custody of the District of Columbia. The subcontractor agreement has a term of three years and may be extended for a period of two (2) one-year option periods. In accordance with this agreement, UHC makes proportional monthly payments to HRI, based on a fee schedule (Price/Cost Table) which includes Allowable Cost, Capitation Rate and Operational Period considerations.

Primary Care Provider Agreements with Parents UHC and CRHS

As a managed care organization Health Right, Inc. is required by the District of Columbia Health Care Finance (HCF) to contract with all local FQHCs. Health Right, Inc. has entered into such a provider care agreement with its controlling parent UHC (97%), which operates a Federally-Qualified Health Center. The original contract was initiated with an *Interim Letter of Agreement* effective February 20, 1998 and later finalized under a *Participating Provider Agreement* for primary care services effective May 1, 1998. A subsequent addendum to the agreement became effective June 1, 2006 and an amendment to the agreement was entered into effective May 2, 2008. Health Right, Inc. and UHC entered into a Delegation of Credentialing Agreement effective June 1, 2009, in connection with the participating provider agreement.

Health Right, Inc. has also entered into such a provider care agreement with its minority parent CRHS (3%), another Federally-Qualified Health Center. The original contract was initiated with an *Interim Letter of Agreement* effective February 20, 1998, and later finalized under a *Participating Provider Agreement* for primary care services effective February 2, 1999. A Memorandum Agreement was entered into effective January 1, 2003 establishing HRI as the third party that provides CRHS with the information necessary to credential CRHS practitioners. A subsequent addendum to the participating provider agreement became effective June 1, 2006 and a first amendment to the agreement was entered into effective May 2, 2008.

It was noted during the Examination that the Company did not file the above agreements with the DISB for prior approval and that the Company was deficient with regards to Annual Statement Notes disclosures concerning certain agreements.

See the "Comments and Recommendations" section of this Report under the caption "Inter-Company Agreements" for further discussion.

It was noted that the Company filed Form D's with the DISB for approval of the Subcontract Agreement with UHC and an amendment made to Management and Administrative Service Agreement in 2009.

The Amendment to the Administrative Service Agreement was subsequently approved by the DISB on February 18, 2010.

THIRD PARTY ADMINISTRATOR AGREEMENTS

Medicaid Contract

The Company first entered into a Medicaid contract in March 1998 with the District of Columbia. The contract was last renewed in March 2007 with DHCF. Per the contract, the Company must maintain an adequate network of health services providers and agencies which is sufficient to meet the health care needs of Medicaid enrollees. The Company must maintain accurate and current information regarding the membership of its provider network and the capacity of each primary care provider within the network. The Company shall provide complete, accurate and current written information on its provider network membership and the new patient capabilities. Lastly, the Company shall provide or arrange for services, which are covered under the contract in accordance with professional accepted standards of medical practice.

The Company shall comply with the standards of operation under the District of Columbia's Health Maintenance Organization Amendment Act of 2002.

The Company shall maintain a positive net worth, and insolvency reserves or deposits that equal or exceed the minimum requirements established by the DISB as a condition for maintaining a certificate of authority to operate a health maintenance organization in the District.

Per the contract, the Company must maintain reinsurance at its own expense in the form of stop loss protection; fidelity bonds, liability and malpractice insurance; unemployment and workers compensation coverage; and furnish services to enrollees until the insurance is reinstated or comparable coverage is obtained.

Alliance Program

Effective June 1, 2006, Health Right, Inc. began participating in the Alliance Program, to provide coverage to District of Columbia uninsured residents not eligible for Medicaid coverage, but having family income before taxes equal to or below 200% of the Federal Poverty Level.

Lease Agreement

The Company entered into this Agreement with SFERS REAL ESTATE CRP. R, in October 2001. The Company leases 6,569 sq. ft. from the lessor to use as the Company's home office. The lease agreement terminates on September 30, 2011 i.e. after 10 years of its commencement. The lease has an initial monthly payment of approximately $18,340 with a 2.5% escalation per year. SFERS REAL ESTATE CRP. R and the Company both have an indemnity and hold harmless clause for each other.

The lease was amended in December 20, 2005 for additional space and the termination date was extended to July 31, 2013. Rent expense incurred under the office lease for 2008 was $423,584 as noted in the 2008 Amended Annual Statement Notes to Financial Statement. Per the Company, the above amount includes amounts for taxes and other related expenses in additional to the determined monthly rent. Further, the amounts noted for future years do not include the additional real estate tax and other expenses that will be paid each year.

Data Storage Service Agreement

The Company had an agreement with Pro Softnet Corporation through its subsidiary, IBackup, to provide off site data storage service as of December 31, 2008. The contract was renewed in 2009.

Medical Services Agreement

On May 6, 1998, the Company entered into an agreement with Quality Plan Administrators (QPA). Under this agreement, QPA, who is accredited by the Joint Commission on Accreditation of Healthcare Organizations, provides ancillary dental and vision services to HRI Medicaid members.

Integrated Partner Model Agreement

Effective December 1, 2008, the Company entered into an agreement with Beacon Health Strategies, whereby Beacon has been contracted to arrange, coordinate, and manage mental health and substance abuse services for HRI's Behavioral Health Program offered to HRI members.

Master Level Agreement

Effective September 21, 2006, the Company entered into a Master Level agreement with ZeOmega. Under this agreement, ZeOmega provided independent consulting and services with respect to the integrated care management software platform and applications owned by ZeOmega and deployed by HRI.

Master Customer Agreement

Effective October 28, 2004, the Company entered into an agreement with Plexis Healthcare Systems Inc. whereby Plexis licenses, provides and delivers computer software, hardware and associated services to HRI.

CareGuide Services Agreement

Effective November 1, 1999 and amended April 1, 2008, the Company entered into a services agreement with CareGuide. Under this agreement, CareGuide provides utilization management services (i.e., medical management and population health management) to HRI for its health benefit plans.

Management Services Agreement

Effective April 1, 2004, the Company entered into a management services agreement with PharmaCare Management Services Inc., whereby PharmaCare provides prescription plan management services to HRI members covered under prescription drug plans. Under this agreement, PharmaCare and HRI jointly promote managed care initiatives in an effort to reduce overall prescription plan costs while maintaining and improving overall quality of care.

FIDELITY BOND AND OTHER INSURANCE

The Company appears to have adequate insurance coverages in all exposed areas of risk. The examination of these coverages involved determining the methods by which the Company assesses risk, adequacy of limits and retention, and solvency of the insurers providing the coverages.

The fidelity coverage of $250,000 meets the prescribed minimum coverage suggested by the NAIC.

OFFICER AND EMPLOYEE WELFARE PLANS

Defined Contribution Plan

HRI employees are covered by a defined contribution plan whereby contributions may be matched up to 5 percent of each employee’s compensation at the end of each year. HRI’s contribution to the plan for 2008 was zero.

No other retirement or post retirement benefits are offered to the employees.

STATUTORY DEPOSITS

The Company is required to maintain a deposit of $300,000 with the District of Columbia Insurance Commissioner, as trustee, in trust for the subscribers and creditors of the Company, for the purposes of paying the obligations related to the Company in the District of Columbia. As of December 31, 2008, the Company maintained a custodial account pursuant to the District of Columbia Code §31-3412(b). The deposit was confirmed from the records of the SunTrust Bank.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business as a Health Maintenance Organization within the District of Columbia. The Company writes Medicaid business through a contract with the District of Columbia Department of Health Care Finance, which requires the Company to provide health care services for Medicaid and Temporary Assistance to Needy Families (TANF). As of October 2009, total members served are 21,085.

Effective June 1, 2006, Health Right, Inc. began participating in the Alliance Program, to provide coverage to District of Columbia uninsured residents not eligible for Medicaid coverage. As of October 2009, total members served are 17,848.

Effective October 18, 2006, HRI entered into a subcontractor agreement with UHC under which UHC provides comprehensive health care services, on behalf of the Department of Corrections, to persons in the custody of the District of Columbia**.** See more comments under the caption **"Intercompany Agreements".**

As of October 2009, the Company has contracted with approximately 328 primary care physicians and 1,747 specialists and has a relationship with seven (7) hospitals.

The Company does have a service map identifying the District of Columbia Metropolitan area in which it services. The Company does not have any agents writing business. The Company's comprehensive health benefits include primary care visits, specialists' visits, inpatient hospitalizations, prescription benefits, dental and vision services and transportation as well as coordinated outreach and health education activities.

Health Right's model focuses on primary care services for all of its members across their life span; a strong emphasis is placed on preventive services and health promotion. More than seventy percent of the Company's members are children under the age of 21 years.

The Company's integrated provider network includes providers who have traditionally provided services to the underserved community. Through this network, the

Company has primary care health centers located within every ward in the District of Columbia.

INSURANCE PRODUCT AND RELATED PRACTICES

A full scope examination of Market Conduct activities was not performed on the Company as a part of this examination. A market conduct report has not been issued since the last financial examination. However, the examiner obtained the complaint register as documentation of compliance with District of Columbia Code § 31-2231.18 - Complaint Handling Procedures.

The examiner requested the Company's fraud log that is maintained to respond to the DC Health Care Finance for complaints and or fraudulent acts. The examiner reviewed those logs for the examination period to determine any malfeasance on the part of the Company. Other than routine inquiries, there appeared to be none that were focused on the Company.

The review included a determination of compliance with District of Columbia Code § 31-3406 – Quality Assurance Program. From the documentation provided, the examiner determined that the Company essentially complies and has taken steps to meet the minimum threshold provided under said statutes although some documentation of committee meetings could be improved.

GROWTH OF COMPANY

The comparative financial position of the Company for the five-year period ended December 31, 2008, is as follows:

	2008	2007	2006	2005	2004
Member months	458,591	450,385	308,146	154,604	139,839
Average premium pmpm	217.98	232.96	202.69	206.01	193.98
Average medical cost pmpm	215.98	201.11	173.51	174.18	155.28
Assets	$37,168,556	$39,586,538	$27,940,894	$8,697,466	$7,842,169
Liabilities	27,666,497	24,422,228	19,693,967	3,616,286	3,460,667
Capital and Surplus	9,502,058	15,164,310	8,246,927	5,081,179	4,381,953
Premiums earned	99,962,821	104,923,788	62,458,717	31,849,764	27,126,526
Net underwriting gain	(5,796,059)	8,079,519	4,652,322	967,256	1,051,910
Investment gain	968,446	1,215,775	677,464	228,268	67,197
Net income	(3,949,624)	6,508,356	3,167,035	694,560	707,886

pmpm/per member per month

Amounts in the preceding financial statements are the amounts per examination.

REINSURANCE

Health Right, Inc.'s reinsurance program consists solely of ceded reinsurance. The following is a summarization of the various reinsurance contracts in place as of December 31, 2008.

Medicaid HMO Reinsurance Agreement

On May 1, 2008, HRI entered into a reinsurance agreement ceding Medicaid HMO facility costs to OneBeacon Insurance Company under an excess of loss reinsurance agreement. The maximum benefit per member per period is $1million excess $100,000 per member per policy period. The reinsured percentage is 90% with a premium rate per member per month of $3.63. The minimum annual premium is $400,000.

Alliance Members HMO Reinsurance Agreement

On June 1, 2008 HRI entered into a reinsurance agreement ceding eligible HMO facility costs to OneBeacon Insurance Company under an excess of loss reinsurance agreement. The maximum benefit per member per policy period is $1 million excess $100,000 per member per policy period for non-transplant services. The reinsured percentage is 90% with a premium rate per member per month of $0.36. The minimum annual premium is $75,000.

District of Columbia Jail System Reinsurance Agreement

On October 1, 2008 HRI entered into a reinsurance agreement with OneBeacon Insurance Company ceding eligible HMO facility costs stemming from the District of Columbia Jail Healthcare Program to OneBeacon under an excess of loss reinsurance agreement. The maximum benefit per member per policy is $500,000 excess $75,000 per member per policy period. The insured percentage is 90% of eligible facility costs in excess of the retention for non-transplant services and any organ / tissue transplants performed in a contracted Transplant Facility. The insured percentage is 50% of eligible facility costs in excess of retention for all other organ / tissue transplants. The premium rate per DC Jail Inmate per month is $0.40 with a minimum annual premium of $200,000.

Also, see additional comments under the caption **"Note 2 – Unpaid Claims and Note 3 - Claims Adjustment Expenses"**.

ACCOUNTS AND RECORDS

The Company uses Quick Book Pro 2000 to produce the general ledger. In 2004 PCM (Plexis Claims Manager, a proprietary vendor system that is not modified by HRI staff) was purchased. To prepare the Annual Statement, the Company uses SunGard EFS Annual Statement 2008. The Company plans to update the accounting and claims processes in 2010.

The accounts and records review included an assessment of the Company’s risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified but not tested, and the Company’s methodology for assessing the effectiveness of the established mitigation factors was not evaluated. As noted under the caption **“SUBSEQUENT EVENTS”**, key management were either terminated or resigned in 2009, including the CFO. For most all years of examination, considerable historical knowledge of past events was lost.

In general, it has been determined that the Company did not have a sufficient level of controls in place for financial reporting. The Company now performs full system backups and rotates copies of programs and data files to its off-site storage facility on a weekly basis. The disaster recovery plan was completed in 2009.

The IS portion of the examination was performed by INS Services, Inc. and the financially significant applications were evaluated. The review was performed in accordance with the NAIC Handbook. The desk audit review of IS controls included IS management and organizational controls; application and operating system software change controls; system and program development controls; overall systems documentation; logical and physical security controls; contingency planning; local and wide area networks, personal computers, and mainframe controls. All comments and recommendations were provided to the Company.

It should be noted that the independent certified public accounting firm, McGladrey and Pullen, reported in Management Letters to the Company and parent (UHC) 2 significant deficiencies and 12 other comments related to the reporting of financial results in the 2008 Annual Statement.

From a review of financial analyst files, there were a number of errors noted in the quarterly and annual statement filings for each year under examination resulting in non compliance with NAIC Annual Statement Instructions and NAIC Statutory Accounting Principles (SSAP). See additional comments under “**AFFILIATED AGREEMENTS** and **NOTES TO FINANCIAL STATEMENT Note 4 - Reinsurance”.**

The examiner notes the Company’s efforts in progress to make changes in key operational areas with regard to accounting personnel and other management positions, as well as updating the accounting general ledger and claims processes.

See the “Comments and Recommendations” section of this Report under the caption “Accounts and Records” for further discussion.

FINANCIAL STATEMENTS

The Company's financial position at December 31, 2008 and the results of its operations during 2008 are presented in the following financial statements:

The accompanying "Notes to Financial Statements" are an integral part of these financial statements.

BALANCE SHEET

ASSETS

AS OF DECEMBER 31, 2008

	Assets	NonAdmitted Assets	Net Admitted Assets	Examination Adjustment Increase (Decrease)	Net Admitted Assets Per Examination
Cash $782,423, cash equivalents $0 and short-term investments $28,143,694 (**Note 1**)	$ 28,926,117	$	$ 28,926,117	$	$ 28,926,117
Subtotals, cash and invested assets	28,926,117		28,926,117		28,926,117
Amounts recoverable from reinsurers	124,270		124,270		124,270
Current federal income tax recoverable	2,652,912		2,652,912		2,652,912
Net deferred tax asset	483,541	17,590	465,951		2,652,912
Electronic data processing equipment and software	6,318		6,318		6,318
Furniture and equipment including health care delivery assets ($ 82,085)	211,679	114,428	97,251		97,251
Receivable from parent, subsidiaries and affiliates	1,622,400		1,622,400		1,622,400
Health care and other amounts receivable	4,088,232	814,896	3,273,337		3,273,337
Totals	$ 38,115,470	$ 946,914	$ 37,168,556	$	$ 37,168,556

LIABILITIES, CAPITAL AND SURPLUS

AS OF DECEMBER 31, 2008

	Liabilities per Company	Examination Adjustments	Liabilities per Examinations
Claims Unpaid **(Note 2)**	$ 26,369,885	$	$ 26,369,885
Unpaid claims adjustment expenses **Note (3)**	401,311		401,311
General expenses due and accrued	885,301		885,301
Amounts due to parent, subsidiaries and affiliates	10,000		10,000
Total liabilities	$ 27,666,497	$	$ 27,666,497
Common stock	1,651,000		1,651,000
Unassigned funds (surplus)	9,151,058		9,151,058
Less treasury stock	1,300,000		1,300,000
Total capital and surplus	$ 9,502,058		9,502,058
Total Liabilities, capital and surplus	$ 37,168,555	$	$ 37,168,555

STATEMENT OF REVENUE AND EXPENSES

YEAR ENDED DECEMBER 31, 2008

Member Months		458,591
Net premiums income (including $0 non-health premium income)	$99,962,821	
Total revenues		$ 99,962,821
Hospital and Medical:		
Hospital/medical benefits	65,777,386	
Other professional services	26,336,487	
Emergency room and out-of-area	1,172,657	
Prescription drugs	5,822,696	
Aggregate write-ins for other hospital and medical	63,589	
Subtotal (hospital and medical)	99,172,814	
Less:		
Net reinsurance recoveries	124,270	
Total hospital and medical	99,048,544	
Claims adjustment expenses, including $77,994 cost containment expenses	401,311	
General administrative expenses	6,309,026	
Total underwriting deductions		105,758,881
Net underwriting gain or (loss)		(5,796,059)
Net investment income earned		968,446
Net income or (loss) after capital gains tax and before all other federal income taxes		(4,827,613)
Federal and foreign income taxes incurred		(877,989)
Net income (loss)		$ (3,949,624)

STATEMENT OF REVENUE AND EXPENSES (Continued)

Capital and Surplus Account

Capital and surplus prior reporting year		$15,164,310
Net income or (loss)	$(3,949,624)	
Change in net deferred income tax	379,072	
Change in nonadmitted assets	(946,914)	
Dividends to stockholders	(773,195)	
Aggregate write-ins for gains or (losses) in surplus	(371,591)	
Net change in capital and surplus		($5,662,252)
Capital and surplus end of reporting year		$ 9,502,058

ANALYIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company's surplus as a result of this examination.

NOTES TO FINANCIAL STATEMENT

Note 1

Cash and Short-term Investments **$28,926,117**

Short-term investments are classified as cash according to SSAP No. 2 and valued at cost. The total cash admitted is $28,926,117, consisting of open deposits in banks of $782,423 and short-term investments of $28,143,694.

Note 2

Claims Unpaid **$26,369,885**

The Claims Unpaid liability is reported on Page 3, Line 1 and in the Underwriting and Investment Exhibit, Part 2A of Health Right's December 31, 2008 Annual Statement. The actuarial review was performed by INS Consultants, Inc. The liability by benefit type is broken down as follows:

Area/coverage	Coverage Type	Amount
Alliance	Inpatient	$ 7,201,118
Alliance	Outpatient	3,703,672
Alliance	Physician and Other	1,754,322
Department of Corrections	Inpatient	731,590
Department of Corrections	Outpatient	498,302
Department of Corrections	Physician and Other	282,744
Medicaid	Inpatient	8,277,041
Medicaid	Outpatient	2,838,642
Medicaid	Physician and Other	1,082,454
Total		$26,369,885

The Claims Unpaid liability is estimated based on past payment and reporting trends experienced by Health Right. The claims unpaid liability is calculated by Health Right using a completion factor method. Documentation of Health Right's methodology was provided and appears reasonable. Completion factors were developed from claim triangles separately for the three types and three areas of coverage. The Claims Unpaid liability consists of estimates of claim payments related to claims incurred on or before December 31, 2008, including those for which Health Right has not received notice of the claim.

The examiners performed both data validity and completeness testing for Health Right. Based on these tests, the actuary concluded that the underlying data used in the calculation of the unpaid claims liability is complete and substantially free of error.

Claim triangles for all benefits as of December 31, 2008, were provided by the Company. The actuary performed a retrospective calculation of the unpaid claims liability as of December 31, 2008, using actual claims reported through September 30, 2009 and a completion factor approach for claims expected to be paid thereafter. The total recalculated liability of $25.9 million represents a better estimate of the year end liability since it is based on more current data. HRI's corresponding year end liability of approximately $26.4 million exceeds INS' recalculated liability by $.5 million. Based on the results of this analysis, INS concluded that HRI's total claims unpaid liability is sufficient.

Part 2B of HRI's Underwriting and Investment Exhibit as of December 31, 2008, was used to review the adequacy of the total claims unpaid liability for the prior year. The December 31, 2007, liability was found to cover approximately 117.3% of the claims paid during 2008 on account of claims incurred prior to January 1, 2008 and thereby appears to be adequate. This indicates that the methods used by the Company to determine the Claims Unpaid liability produced adequate results in the prior year. In addition, the trend analysis over the examination period for the total claims unpaid liability indicated an adequate liability in all years except for 2004, which had a small shortage. The actuary concluded that the overall trend appeared reasonable.

Based on the above review and analysis, the actuary concluded that the claims unpaid liability as reported by HRI on Page 3, Line 1 and in the Underwriting and Investment Exhibit, Part 2A of the December 31, 2008 Annual Statement appears fairly stated. It has been accepted for the purpose of this report.

Note 3

Unpaid claims adjustment expenses **$401,311**

This liability is reported on Page 3, Line 3 of Health Right's December 31, 2008 Annual Statement. The amount is established to cover expenses associated with the claims unpaid liability. The actuary reviewed Health Right's workpapers supporting this liability and found them to be in order.

The liability is calculated by Health Right using estimates of the actual future expenses required to pay claims and is approximately 1.52% of the claims unpaid liability. This ratio is a little low as compared to the range of 2%-6% that INS has typically seen in other examinations but appears reasonable.

Based on the above review and analysis, the actuary concluded that the unpaid claims adjustment expenses liability as reported by Health Right on Page 3, Line 3 of the December

31, 2008 Annual Statement appears fairly stated. It has been accepted for the purpose of this report.

<u>Note 4</u>

<u>Reinsurance</u>

INS performed an analysis of Health Right's reinsurance for compliance and effectiveness. Health Right has one stop loss reinsurance agreement with OneBeacon. The agreement has three separate declaration (member groups) pages, one each for the Alliance, Medicaid and District of Columbia Jail Healthcare programs. Differences for each member are incorporated by the addition of appropriate endorsements to the basic reinsurance agreement.

This reinsurance agreement is typical for medical coverage. It is characterized by a deductible (retention limit) and maximum benefit. Generally coverage is based on the date services are performed within the defined coverage period. Premiums are based on a per member per month basis and may change with each renewal period. Renewal periods may run from one to three years. The Health Right plan has a one year renewal period. A review of the reinsurance agreement indicates that the provisions, benefits and premiums are reasonable.

Limits, premiums and the policy period (based on a fiscal year) vary for the member groups. If Health Right ceases operations, member benefits continue to the end of the policy period for which premiums have been paid. For the last two years, recoveries under the reinsurance agreement have been less than the stop loss premiums.

See the "Comments and Recommendations" section of this Report under the caption "Notes to Financial Statement Note 4 - Reinsurance" for further discussion.

COMMENTS AND RECOMMENDATIONS

Subsequent Events

On July 23, 2009, the Company amended and restated their By-Laws. However, the Company's Board of Director minutes did not reflect approval of the amendment to the By-Laws.

It is recommended that the Board of Directors approve all actions determined by the Board and formally note those actions in the minutes of meetings per Article IV, Section 5 (a).

Dividends to Stockholders

A cash dividend in the amount of $773,195 was paid to the stockholders on December 12, 2008. UHC received $750,000 and CRHC received $23,195.

The Company did not reflect dividends paid to CRHC in the 2008 Amended Annual Statement "Notes to Financial Statements" nor include the dividend in the Holding Company Registration Statement. Form B filing in April 2009, in accordance with Annual Statement Instructions and/or District of Columbia Code § 31-705(b) (3) (E).

It is recommended that the Company include comments relative to dividends paid to both parents in filed Annual Statements and/or Form B filings.

Board of Directors

Roberta Miliman was added to the Board on July 23, 2009 although this was not reflected on the jurat page of the Quarterly Statement filed as of September 30, 2009. Vince Keane was stated to be Chairman in corporate documents, although not noted in the section of the jurat page designated for Directors in the 2008 Annual Statement.

During the examination period and subsequent thereto, there were no shareholder minutes to reflect that an Annual or Special Shareholders Meeting took place for the election, appointment and/or replacement of Board of Directors in accordance with Article III Section 3 of the By-Laws. Also, the number of Board Members including Vince Keane as of December 2008 exceeds the number of Board Members per Article III Section 2 of the By-Laws.

It is recommended that the Company adhere to the By-laws by formally reflecting approval of appointed Board of Directors as required by Article III of said By-Laws. Also, it is recommended that the Company include all appointed Board Members in the appropriate section of the jurat page in accordance with the NAIC Annual Statement Instructions.

Officers

Article IV Section 1 of the Company's By-Laws state that "officers of the Company shall consist of a President, a Secretary, a Treasurer, and such other officers, as the Board of Directors may from time to time deem advisable".

The Company did not have an elected President, Secretary and Treasurer as of December 31, 2008. Further, in prior years of examination (2005-2007), the Company did not annually elect a President and thus; has not adhered to the Article IV Section 2 of the By-Laws since 2004.

From a review of the minutes of the annual meeting held each year, there was no evidence of approval that Vince Keane was elected President and/or given the additional responsibilities of Secretary and Treasurer by the Board of Directors.

> ***It is recommended that the Company abide by Article IV. Section 2 of the By-Laws and reflect approval of all actions taken by the Board of Directors. Company management has advised DISB that the Company has subsequently held an annual meeting of its directors, during which it re-elected Mr. Kean e as President, and elected both a Secretary and Treasurer from among its directors.***

Intercompany Agreements

The Company has entered into the following intercompany or related party agreements:

Management and Administrative Services Agreement
Subcontract Agreement with UHC
Primary Care Provider Agreements with Parents UHC and CRHS

For the affiliated agreements noted above, the following exceptions are noted:

- The Company entered into the above agreements with affiliates without submitting a Form D Filing to the DC DISB 30 days prior to entering into the agreements and/or transactions which was not in compliance with District of Columbia Code § 31-706.
- With the exception of the Management and Administrative Services Agreement, the Company did not include the Subcontract Agreement with UHC and the Primary Care Provider agreements with both parents (UHC and CRHC) in the Holding Company Registration Statements Form B Filings for the period of examination and subsequent thereto. This was not in compliance with DC Code § 31-705 (b) (3) (E) "Registration of Insurers".
- The Company did not disclose the Primary Care Provider Agreements with UHC and CRHC in the Annual Statement "Notes to Financial Statement" for the examination

period and subsequent thereto. This is not in accordance with the NAIC Annual Statement Instructions.

It is recommended that for all violations of DC statutes named above, the Company file for approval and/ or report all applicable agreements in accordance with each said statute requirement. It is also recommended that the Company disclose all holding company transactions in filed Quarterly and Annual Statements in accordance with the NAIC Annual Statement Instructions.

Accounts and Records

The independent certified public accounting firm, McGladrey and Pullen, reported in Management Letters to the Company and parent (UHC) 2 significant deficiencies and 12 other comments related to reporting of financial results in the 2008 Annual Statement.

From a review of financial analyst files, there were numerous deficiencies noted in the reporting of financial results in the quarterly and annual statements for each year under examination resulting in non compliance with NAIC Annual Statement Instructions and/s NAIC Statutory Accounting Principles (SSAP). See additional comments under "Affiliated Agreements, and Notes to Financial Statement Note 4 - Reinsurance".

The Examination noted the Company's efforts in progressing to make changes in key operational areas with regard to accounting personnel and other management positions, as well as updating the accounting general ledger and claims processes.

It is recommended that the Company take due care in the preparation of the Annual Statement and utilize the available accounting consulting services and external CPA accounting firm to assure proper reporting of financial results in future annual statements in compliance with the NAIC Annual Statement Instructions and Statements of Statutory Accounting Principals (SSAPs).

Reinsurance – Note 4

The net reinsurance recoveries shown in the Statement of Revenue and Expenses, Line 17, did not agree with the amount shown in the Notes to Financial Statement, Note 22 on Page 25.5, for the 2008 Annual Statement. Also, there did not appear to be any amount reflected in Schedule S.

It is recommended that Health Right report correct amounts in completing Schedule S for this and future Annual Statements.

In May 2006, Health Right added a retro corridor to the reinsurance agreement. If total eligible claims exceed 55% of the total premium due, OneBeacon is to reimburse Health

Right 55% of the total premium. Upon request, Health Right provided a work sheet showing the amount due under this provision.

> ***It is recommended that Health Right provide more detail analysis to support any payment under this provision for future Annual Statements since the amounts in the worksheets provided did not tie to the 2008 Annual Statement "Statement of Revenue and Expenses, Statement of Cash Flow and other applicable Exhibits and Schedules.***

CONCLUSION

As a result of this examination, the financial condition of the Health Right, Inc., as of December 31, 2008, was determined and noted below. The filed Annual Statement as of December 31, 2009, is also included.

Description	12/31/08 Current Examination	12/31/09 Filed Annual Statement
Assets	$37,168,556	$33,964,215
Liabilities	$27,666,498	$26,880,194
Common capital stock	1,651,000	1,651,000
Unassigned funds (surplus)	9,151,058	6,733,022
Less: Treasury stock	(1,300,000)	(1,300,000)
Capital and Surplus	9,502,058	7,084,022
Total liabilities, capital and surplus	$37,168,556	$33,964,216

Based on this examination, the accompanying balance sheet properly presents the statutory financial position of the Company as of December 31, 2008, and the accompanying statements of income properly presents the statutory results of operations for the examination period. The supporting financial statements properly present the information prescribed by the District of Columbia Official Code and the National Association of Insurance Commissioners except where specifically noted otherwise in this examination report.

District of Columbia Code § 31-38B (Health Organizations RBC) and District of Columbia Code § 31-34 (Health Maintenance Organizations) specify the level of capital and surplus required for the Company. It is concluded that the Company's Capital and Surplus funds exceeded the minimum requirements at December 31, 2008. Per the filed December 31, 2009 Annual Statement's financial results, a corrective action plan by the Company is required by the DISB to remediate an adverse material condition.

ACKNOWLEDGEMENT

In addition to the undersigned, the following representatives of INS Consultants, Inc. and INS Services, Inc. on behalf of the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Maria Chrysikos, CFE, Staff Examiner, INS Consultants, Inc

Don Carbone, CFE, RE, MCM, Supervising Examiner, INS Consultants, Inc.

George Lentini, Process Flow, INS Services, Inc.

Claude Granese and Fern McBee, EDP (Exhibit C), INS Services, Inc.

Brian Dunn, ACL, INS Consultants, Inc.

The actuarial portion of this examination was completed by Frank Edward, FSA, MAAA, of INS Consultants, Inc.

Respectfully Submitted,

Darryl Reese, CFE, CIE, CFE
Examiner-In-Charge
Representing the District of Columbia Department of Insurance, Securities and Banking

Under the Supervision of,

Nathaniel Kevin Brown, CFE, CPA
Chief Examiner
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