



STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION

of

SelectHealth, Inc.

of

Murray, Utah



as of

December 31, 2009

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February 17, 2011

Honorable Neal T. Gooch, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Honorable Monica J. Lindeen, Commissioner
Secretary, Western Zone, NAIC
840 Helena Avenue
Helena, Montana 59601

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2009, has been made of the financial condition and business affairs of:

SelectHealth, Inc.
Murray, Utah

hereinafter referred to in this report as the “Organization”, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

We have performed our association financial examination of SelectHealth, Inc. This examination covers the period of January 1, 2007 through December 31, 2009.

Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and the NAIC Annual Statement Instructions when applicable to domestic state regulations. All accounts and activities of the Organization were considered in accordance with the risk-focused examination process.

Status of Prior Examination Findings

The last financial examination was completed as of December 31, 2006. There are no open items of significance from the prior examination report.

SUMMARY OF SIGNIFICANT FINDINGS

The custodial agreement with The Bank of New York Mellon was not in full compliance with Utah Administrative Code (U.A.C.) Rule R590-178. (SUBSEQUENT EVENTS)

The Organization did not properly maintain corporate records, pursuant to various sections of the Utah Code Annotated (U.C.A.), including U.C.A. § 16-6a-1601, § 16-17-202, § 31A-8-202, § 31A-8-204, and § 31A-5-219, for a proper examination of the affairs of the examinee pursuant to § 31A-2-203(1). The Organization properly filed documentation with the Department during the examination, upon notification from the examination, to remedy the non-compliance items. (CORPORATE RECORDS)

The real estate reported was not held in the name of the Organization in accordance with U.C.A. § 31A-4-108, and it did not meet the requirements of Statements of Statutory Accounting Principles (SSAP) No. 4 for admissibility, resulting in a \$14,614,128 reduction in admitted assets, charged to surplus as of December 31, 2009, pursuant to SSAP No. 3. (COMMENTS ON FINANCIAL STATEMENTS)

SUBSEQUENT EVENTS

New Custodial Agreement

On January 4, 2010, the Organization entered into a new custodial agreement with The Bank of New York Mellon for the majority of its invested assets. This custodial agreement was reviewed prospectively as part of our examination, and certain language was found not to be in compliance with U.U.A.C. Rule R590-178.

Upon examination recommendation, the Organization took corrective action by executing an amendment to the custodial agreement, approved by the Executive Committee of the board of trustees on October 14, 2010, bringing it into compliance with all requirements of U.A.C. Rule R590-178. Based on the actions of the Organization to bring the custodial agreement into compliance, the examination accepted the admitted assets as reported.

Permitted Practice

On February 11, 2010, the Organization sought the Department's approval for exemption from implementation of SSAP No. 43R in reporting certain listed securities owned as of that date for which other than temporary impairments were previously recorded at fair value. Evidence was provided to the Department that the Organization's method was more conservative and of insignificant amounts. On March 3, 2010, the Department gave the Organization retroactive approval for a Permitted Practice exempting it from implementation of SSAP No 43R, which will continue indefinitely for the seven specific securities listed on the approval.

Market Expansion

On July 1, 2010, the Organization expanded its market by introducing health plan coverage to those eligible for the Children's health Insurance Program. On January 1, 2010, the Organization expanded its market by introducing health plan coverage to federal employees.

SelectHealth Benefit Assurance Company Return of Capital to Organization

On December 22, 2010, the Department approved a request for Select Health Benefit Assurance Company (SHBAC) to transfer \$5,000,000 back to the Organization as a return of capital. SHBAC received the \$5,000,000 of additional paid in capital from the Organization during 2007, for the purpose of allowing SHBAC to stay within the single risk limitation of U.C.A. § 31A-20-108. During 2009, health insurance business was exempted from this requirement, and SHBAC no longer needed the additional capital.

Discontinuance of Transferring Point of Service Risks to SHBAC

With the passage of Utah House Bill 188 in 2009, a new subsection U.C.A. § 31A-22-618.5 became effective March 22, 2010. Health Maintenance Organizations (HMOs) may no longer be subject to some mandates, such as the 10% unusual or infrequent procedures penalty on point of service (POS) products in U.C.A. § 31A-8-408(3) through (6). Beginning in 2010, the Organization is no longer transferring POS claims risks and no further incurred claims have been assumed by SHBAC although existing 2009 claims are being run off.

Amendments to Articles of Incorporation and Bylaws

On October 14, 2010 the Organization filed 1) Articles of Amendment to the Articles of Incorporation, 2) Amended and Restated Articles of Incorporation, and 3) Amended bylaws, with the Utah Insurance Department (the Department), superseding all previous versions. The Articles of Amendment to the Articles of Incorporation and the Amended and Restated Articles of Incorporation were approved by the commissioner on November 9, 2010, as required by U.C.A. § 31A-5-219.

The Organization was assigned on-site legal counsel to provide legal support to the Organization and its subsidiary during the examination. (CORPORATE RECORDS)

ORGANIZATION HISTORY

General

In 1975, the Church of Jesus Christ of Latter-day Saints transferred all assets and liabilities of its hospital system to a board of trustees, which in turn created Intermountain Health Care, Inc. (IHC), a nonprofit corporation, to own and operate the hospital system. In 1982, IHC Hospitals, Inc., subsequently renamed IHC Health Services, Inc., was established as a subsidiary of IHC for the purpose of operating the hospital holdings.

On December 27, 1983, IHC incorporated IHC Health Plans, Inc. (HPI) under the provisions of the Utah Nonprofit Corporation and Cooperative Association Act, for the purpose of developing and administering financial mechanisms for its network of health care services. HPI began operations as a nonprofit preferred provider organization, and on December 6, 1985, became licensed as an HMO. HPI formed and became the sole controlling member of IHC Care, Inc. (Care), a non-profit HMO in 1985 and IHC Group, Inc. (Group), a non-profit HMO in 1991; both of which were merged into HPI during 2000. In 1992, HPI formed a wholly owned for-profit life insurance company, IHC Benefit Assurance Company (IBAC), Inc. In 2006 HPI changed its name to SelectHealth, Inc. (herein referred to as the Organization), and IBAC changed its name to SelectHealth Benefit Assurance Company, Inc. (herein referred to as SHBAC).

The Organization obtained a Third Party Administrator (TPA) license to administer life, accident and health insurance on September 1, 1984, and currently administers uninsured accident and health plans through this license.

Having lost its federal income tax exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC), the Organization applied for and received tax exempt status under Section 501(c)(4) of the IRC on November 1, 2005, retroactive to tax year 1987.

Dividends and Capital Contributions

There have been no changes to paid-in surplus since the prior examination. Additional paid in and contributed surplus has remained the same from 2006-2009 at \$30,175,275. No dividends have been declared or paid to the sole member since the prior examination.

Mergers and Acquisitions

There have been no mergers or acquisitions since the prior examination.

CORPORATE RECORDS

The previous examination report as of December 31, 2006, dated October 31, 2007, was distributed to the board of trustees and approved on March 13, 2008 in accordance with U.C.A. § 31A-2-204(8).

There were various changes to the Organization's articles of incorporation since the last examination; however, in accordance with U.C.A § 31A-5-219(2), absent approval by the Utah Insurance Department none of the changes are included here as becoming effective during the years 2007 through 2009.

Changes to the Organization's bylaws since the last examination include the following, made on July 10, 2009.

- To clarify responsibilities of the sole member (Intermountain Health Care, Inc.);
- Establish trustee term limits, age limits, and establish a five year term for the chairperson, to be consistent with recent Intermountain Healthcare changes; and
- Add wording with respect to voting and nonvoting trustees in response to recent IRS Form 990 changes.

In reviewing the articles of incorporation and the bylaws for all changes since the last examination, and for compliance with Utah insurance laws and rules, the examination encountered various issues related to the Organization's maintenance of the articles of incorporation and bylaws throughout the past three years.

Amendments to the articles of incorporation were made on July 10, 2009, and submitted to the Utah Department of Commerce and to the Insurance Department in October and November 2009, as part of the filing and review process. Both the Department of Commerce and the Utah Insurance Department requested certain changes to these documents prior to approval. On March 19, 2010, revised amendments to the articles of incorporation were prepared. However the Organization provided no evidence that the March 19, 2010 revisions were submitted to or approved by the Insurance Commissioner in accordance with U.C.A. § 31A-5-219(2), as applied to an HMO by U.C.A. § 31A-8-204(3). Accordingly, neither the amendments to articles of incorporation dated July 10, 2009 or March 19, 2010, are considered to be in effect or in conformity with U.C.A. § 31A-5-219(2).

On July 10, 2009, the board of trustees also adopted several changes to the bylaws, some of which differed significantly from the amendments that were previously adopted by the board of trustees. A copy of an unfiled amendment to the bylaws signed and dated July 10, 2009, was provided to the examination. However, an amendment to the bylaws dated July 14, 2009, was filed with the Utah Insurance Department on November 16, 2009, which differed significantly from the amendments that were adopted

by the board of trustees on July 10, 2009. There was no evidence in the corporate records of any additional meeting of the board of trustees subsequent to July 10, 2009, recording any actions or adoption of the changes made between July 10 and July 14, 2010. Failure to document all actions taken by the board of trustees is a violation of U.C.A. § 16-6a-1601.

During April 2010, the Organization moved to its new office location in Murray, Utah. Neither the articles of incorporation nor the bylaws were amended to reflect the change in location of the principal office, as required by U.C.A. § 31A-8-202(2) and § 16-17-202.

Overall, the Organization was unable to provide a chronological history of all revisions to the articles of incorporation and bylaws, necessary for review by this examination. As a result, the examination team reconstructed a chronological history through a review of the available corporate records, in order to adequately conclude on changes and compliance respective to the articles of incorporation and bylaws between January 1, 2007 and December 31, 2009, including any significant subsequent changes made during examination fieldwork.

U.C.A. § 16-6a-1601 sets forth the requirements for maintaining permanent corporate records. The Organization was unable to produce evidence that it was in compliance with U.C.A. § 16-6a-1601(1) lacking certain permanent records; was unable to produce in written form within a reasonable time, records of all actions taken since January 1, 2007, pursuant to U.C.A. § 16-6a-1601(4); and did not maintain a copy of all corporate records at its principal office as required by U.C.A. § 16-6a-1601(5).

In order to resolve the various issues related to our examination of the articles of incorporation and bylaws, and to bring the Organization into compliance with U.C.A. § 16-6a-1601, § 16-17-202, § 31A-5-219, § 31A-8-202, and § 31A-8-204, the following subsequent actions were taken. On October 14, 2010, the Executive Committee of the board of trustees and the sole member, Intermountain Health Care, Inc., approved new Articles of Amendment to the Articles of Incorporation, Amended and Restated Articles of Incorporation, and amended bylaws, superseding all previous versions. The new documents were immediately filed with the Utah Insurance Department on October 14, 2010, and the Articles of Amendment to the Articles of Incorporation and the Amended and Restated Articles of Incorporation were approved by the insurance commissioner on November 9, 2010, as required by U.C.A. § 31A-5-219.

The Organization took measures during 2010 to alleviate further issues with corporate records, by having its own on-site legal counsel, to provide legal support to the Organization and its subsidiary. The examination takes note of and appreciates this effort for continued improvement and oversight of the Organization's corporate functions. It is anticipated that these efforts will provide for a proper examination of the affairs of the examinee pursuant to U.C.A. § 31A-2-203(1) in the future.

We recommend the Organization:

- File any amendments and restatements of the articles of incorporation and obtain approval from the insurance commissioner in a timely manner, in accordance with U.C.A § 31A-5-219(2).
- Ensure compliance with U.C.A. § 16-6a-1601, in maintaining its permanent corporate records, particularly subsections (1), (4) and (5).
- Amend its articles of incorporation and bylaws to state the address of the new location of its principal office in accordance with U.C.A. § 31A-8-202(2) and U.C.A. § 16-17-202.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Organization indicated the number of trustees may be no less than four and no more than thirty. The following persons served as trustees of the Organization as of December 31, 2009:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Patricia Richards Salt Lake City, UT	President and Chief Executive Officer, SelectHealth, Inc., SelectHealth Benefit Assurance Company, Inc.
Mark R. Briesacher Salt Lake City, UT	Medical Director, Intermountain Healthcare
Vernon J. Cooley Salt Lake City, UT	Surgeon, Intermountain Healthcare
Keven J. Jensen Sandy, UT	Vice President, Professional Management Group
Edward G. Kleyn South Ogden, UT	Regional President, Wells Fargo Bank
Thomas B. Morgan Sandy, UT	Executive VP, Zions First National Bank
Daniel G. Gomez Sandy, UT	Financial Advisor
Diane T. Naylor Sandy, UT	Vice President, Naylor Insurance Agency
H. Don Norton Provo, UT	President and CEO, Far West Bank
Barbara J. Ray Salt Lake City, UT	CPA/RIA, Vantage Point Advisors
Bradford R. Rich St. George, UT	Executive Vice President and CFO, Skywest Airlines
Michael M. Smith Holladay, UT	COO and General Counsel, Equity Title
Charles W. Sorenson Jr. Salt Lake City, UT.	MD, President and CEO, Intermountain Healthcare
Stephen W. Wade St. George, UT	Owner and President, Wade Auto Center
Albert R. Zimmerli	Senior Vice President, Intermountain Healthcare

Sandy, UT

The composition of the board of trustees meets the requirements of the Organization's bylaws.

The Organization's bylaws provide for officers to consist of a President, a Vice President, a Secretary, a Treasurer, and such other officers as shall be determined by a resolution of the board of trustees. The officers of the Organization as of December 31, 2009, were as follows:

<u>Name</u>	<u>Title</u>
Patricia Richards	President and Chief Executive Officer
Mark Brown	Vice President, Chief Financial Officer, Appointed Actuary, and Treasurer
Lisa Fallert, RN	Vice President Health Care Services and Secretary
Stephen Barlow, MD	Vice President and Medical Director
Jerry Edgington	Vice President Sales and Marketing
David Olson	Vice President Sales
James Murphy Winfield	Vice President Provider Relations

The former President and CEO, Mr. Sid Paulson, retired in June 2009. The Organization hired Ms. Patricia Richards as President and CEO starting November 2009. Mr. Todd Trettin, resigned in September 2009, and Mr. Mark Brown was promoted to Vice President, Treasurer and CFO, in addition to his position of appointed actuary.

Significant committees and the respective members as of December 31, 2009 were as follows:

Audit Committee Members (IHC)

Barbara Ray, Chair
Don Norton, Vice Chair
Bradford Rich
Michael Smith
Staff: Mark Brown

Executive Committee Members

Thomas Morgan, Chair
Barbara Ray, Vice Chair
Bert Zimmerli
Patricia Richards

Appeals Committee Members

Thomas B. Morgan, Chair
Diane T. Naylor, Vice Chair
Vernon J. Cooley, M.D.
Stephen D. Taylor, M.D.
Keven J. Jensen
Staff: Greg Matis

Finance Committee Members

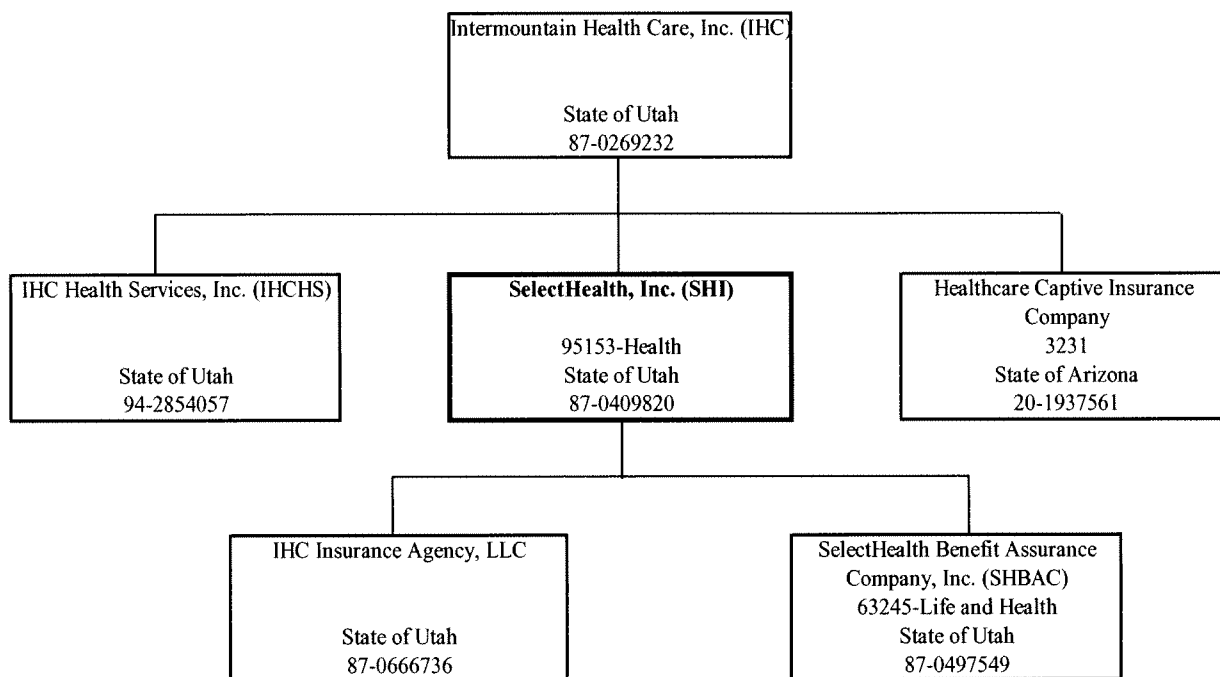
Barbara Ray, Chair
Don Norton, Vice Chair
Bradford Rich
Michael Smith
Bert Zimmerli
Staff: Mark Brown

Quality Assurance Committee Members

Daniel Gomez, Chair
Mark Briesacher, M.D., Vice Chair
Beth Cole, Ph.D., APRN, FAAN
Keven Jensen
Staff: Stephen Barlow, M.D.

Holding Company

The Organization is wholly owned and controlled by Intermountain Health Care, Inc. (IHC). Following is an abbreviated organizational chart derived from the Annual Statement, Schedule Y as of December 31, 2009:



IHC is a Utah nonprofit charitable corporation which, through its affiliated companies,, provides health care and related services to communities and individuals in the intermountain region. IHC Health Services, Inc. (IHCHS) is a Utah nonprofit corporation that owns and manages hospitals, clinics and other health care related operations, and provides medical and administrative services to the Organization. The Organization is the parent to SelectHealth Benefit Assurance Company, Inc. (SHBAC), a Utah life and health insurance company that insures certain non-emergency, out of network encounters for members of the Organization and offers stop loss coverage to the Organization’s uninsured plans. IHC Insurance Agency, LLC was formed to administer agent and agency agreements associated with the Organization’s business.

The following agreements and arrangements were in place with affiliates during the examined period and as of December 31, 2009:

Administrative Services Agreement with IHCHS

The Organization is party to an Administrative Services Agreement with its affiliate, IHCHS, for the purpose of providing various services to each other, including management, payroll processing, investment management, retirement, human resources, insurance coverage, legal, facilities, information systems and telecommunication services. The Agreement specifies that services are provided at their fair value, with “fair value” defined in accordance with usual accounting standards and practices.

The Organization also provides certain administrative services to the IHC, Inc. Retiree Welfare Benefit Trust, as part of the above agreement.

Administrative Services Agreement with IHC

The Organization is party to an Administrative Services Agreement with its parent, IHC, in which the Organization performs third party administrative (TPA) services related to IHC's self-funded employee insurance arrangement.

Administrative Services Agreement with SHBAC

The Organization maintains an Administrative Services Agreement with its subsidiary, SHBAC, to provide SHBAC with marketing and administrative services related to portions of the Organization's POS product transferred to SHBAC. In return for these services SHBAC pays the Organization a fee of 11% of the transferred premium. For any services that SHBAC provides, the Organization pays an administrative service fee of 1% of the transferred premium, limited to a maximum of \$150,000 for each contract year.

In conjunction with the Administrative Services Agreement there is a POS Policy between the Organization and SHBAC, as the vehicle by which the Organization, as policyholder, purchases for its eligible participant employer groups the POS indemnity coverage from SHBAC. Premiums for this coverage are computed on an aggregate basis and submitted to SHBAC monthly.

The Administrative Services Agreement also provides for an experience rating refund to be calculated at the end of five months following each year-end, and 99% of any calculated surplus is remitted from SHBAC to the Organization. However, if the experience rating refund is determined to be negative, the amount remains with SHBAC and is carried forward to the following period. According to the agreement, SHBAC is not entitled to a rescission of its policy with the Organization, or the Organization's policies written, or its reinsurance obligations with respect to the Organization's policy for any group which has accepted an offer.

Provider Agreements

The Organization maintains an agreement in which IHCHS contracts as a network participating provider; an agreement with Intermountain Medical Group (IMG), a division of IHCHS, in which IMG contracts on behalf of its physicians as a participating provider; and an arrangement in which the Organization shares financial risk with IMG.

Ground Lease Agreement with IHCHS

In February 2010, the Organization entered into a Ground Lease Agreement with IHCHS, effective retroactively to July 28, 2008. The ground lease permits the Organization to lease a parcel of land, known as Lot 2 of a larger campus, upon which the Organization is permitted to make improvements in the form of constructing a building for its primary headquarters. The lease is reported as an operating lease, with annual

payments of \$424,949 made in monthly installments of \$35,412.41 throughout the thirty year lease term and during any of the two five-year extension options. The payments over the thirty year term total \$12,748,470.

Parking Structure Reimbursement and Assignment

On December 15, 2009, the Organization and IHCHS entered into a Parking Structure Reimbursement and Assignment agreement, through which the Organization is periodically reimbursed by IHCHS for the costs associated with the construction of a parking structure, on behalf of IHCHS on IHCHS property. This agreement specifies a transfer or assignment of any rights, title and ownership the Organization has in the parking structure to IHCHS. Since the deed was held by IHCHS throughout this period, no actual conveyance was necessary. On December 29, 2009, IHCHS reimbursed the Organization the costs to date of \$6,743,973.72, and the remaining \$1,488,082.34 was subsequently reimbursed on June 20, 2010, for a total reimbursement of \$8,232,056.06. As of December 31, 2009, the Organization did not own or report this asset as owned.

Parking Structure Use Agreement with IHCHS

The Organization entered into a Parking Structure Use Agreement with IHCHS dated December 15, 2009, for the right to access and to use the adjacent parking structure in connection with its occupancy of the office building through the remaining term of the Ground Lease. The monthly rent installments for use of the parking structure will commence upon completion and occupancy of the building and determination of the final parking structure construction costs during 2010, to be approximately \$347,000 per year.

Asset Exchange Agreement with IHCHS

In January 2007, the Organization entered into an Asset Exchange Agreement with IHCHS, by which IHCHS may exchange assets with the Organization to ensure investment liquidity as needed. The Organization's short-term investments and marketable securities may be exchanged with IHCHS' marketable securities of an equivalent value to satisfy repurchase commitments associated with IHCHS Series 2003 Bonds. The Agreement enables IHCHS to avoid the expenses associated with purchasing liquidity insurance and includes guidelines that require IHCHS to use reasonable efforts to satisfy its obligations prior to exchanging assets with the Organization. Management considers the likelihood of an asset exchange to be remote.

Loan Guarantees

IHC has committed to provide the Organization with loan guarantees or financing sufficient to enable it to meet all of its financial obligations and commitments. The Organization also has a commitment to provide the same for its subsidiary, SHBAC.

Additional Paid in Capital to SHBAC

On October 31, 2007 the Organization invested \$5,000,000 of additional paid in capital to SHBAC, which was approved by the Commissioner, for the purpose of allowing SHBAC to issue policies that were within the single risk limitation of U.C.A. § 31A-20-108. As noted in SUBSEQUENT EVENTS, the Department's approval was obtained during the fourth quarter 2010 for this amount to be repaid to the Organization as a return of capital.

FIDELITY BONDS AND OTHER INSURANCE

As of the examination date, the Organization participated in fidelity bond coverage of \$5,000,000 under a commercial crime insurance policy issued to IHC and its subsidiaries and affiliates. The amount of coverage met the minimum limits suggested by the NAIC.

The Organization was also insured under various other IHC insurance policies, including property, general liability, workers' compensation, errors and omissions, and directors' and officers' liability insurance.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

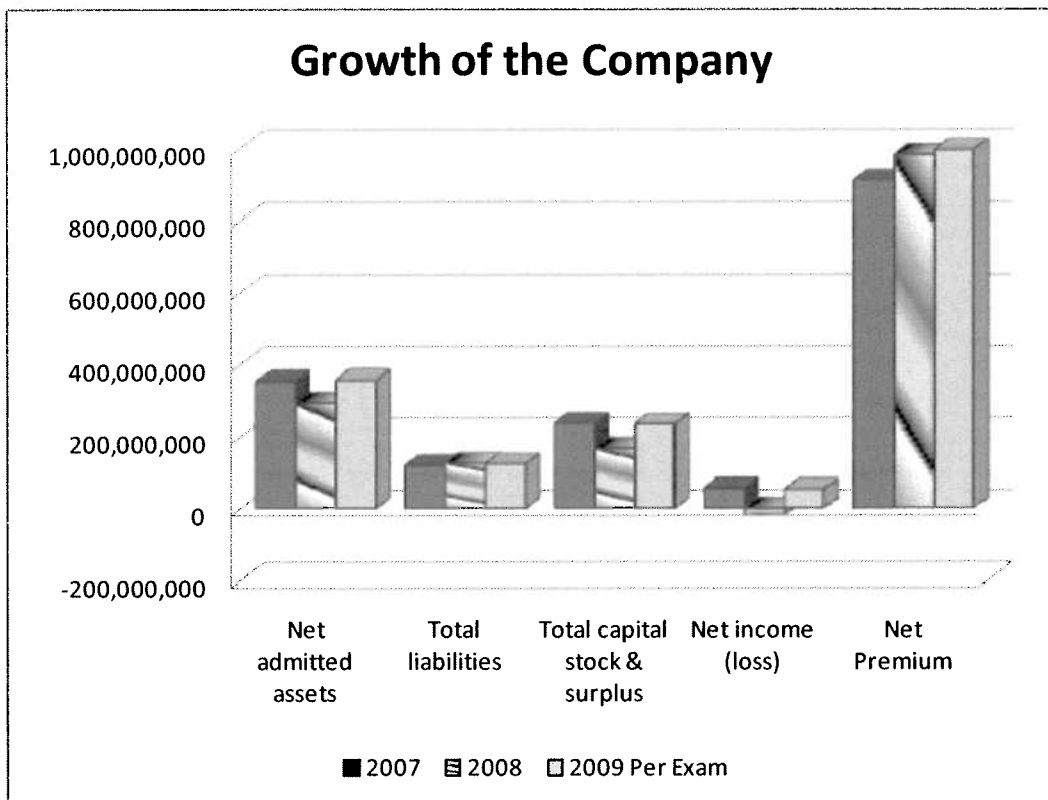
The Organization's employees are offered certain benefits, including a defined benefit pension plan, group medical and life insurance, a 401(k) plan, flexible spending accounts, short and long term disability and life insurance, and group rates for automobile, home and long term care insurance to its employees.

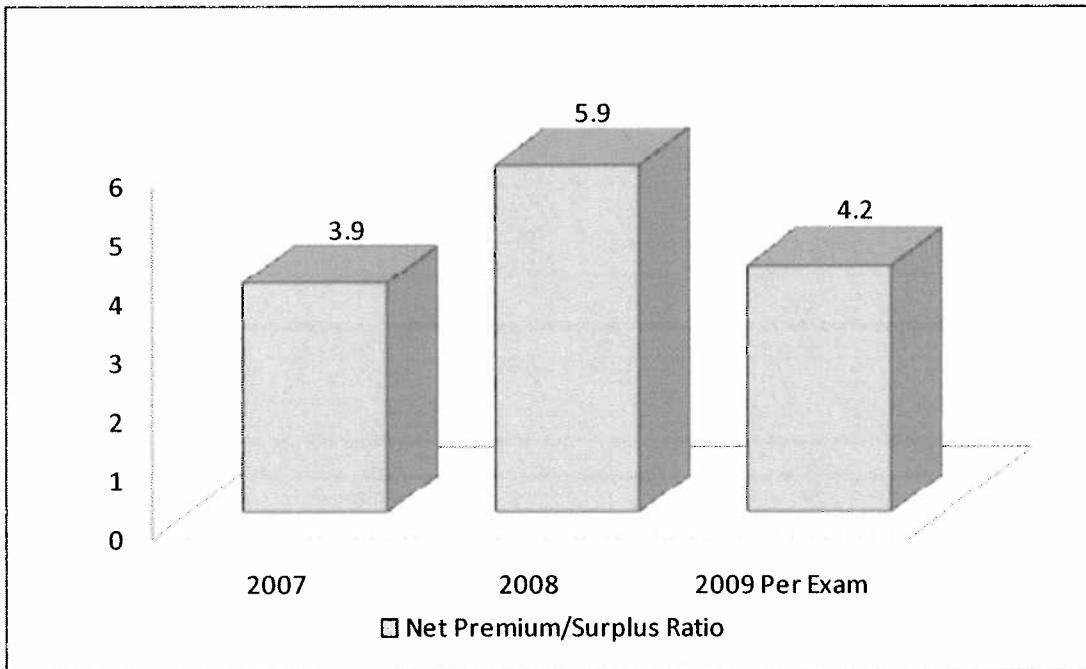
TERRITORY AND PLAN OF OPERATION

The Organization is licensed and authorized to conduct HMO business in the states of Utah and Idaho. It markets traditional HMO and POS plans in Utah, but it does not actively market its products in Idaho. The Organization covers commercial large and small employer groups, as well as individuals, primarily through independent producers appointed by an affiliated insurance agency, IHC Insurance Agency, LLC, and through unaffiliated insurance agencies appointed by the Organization.

GROWTH OF ORGANIZATION

<u>Description</u>	<u>2009 Per Exam</u>	<u>2008</u>	<u>2007</u>
Net admitted assets	356,863,179	292,282,562	352,818,571
Total liabilities	123,559,778	125,292,608	118,724,392
Total capital stock & surplus	233,303,401	166,989,954	234,094,179
Net income (loss)	52,860,932	(18,588,934)	56,232,929
Direct - Total premiums	994,085,132	979,504,938	911,594,257
Reinsurance ceded	393,746	402,587	346,797
Net Premium	993,691,386	979,102,351	911,247,460
Net premium/surplus ratio	4.2%	5.9%	3.9%

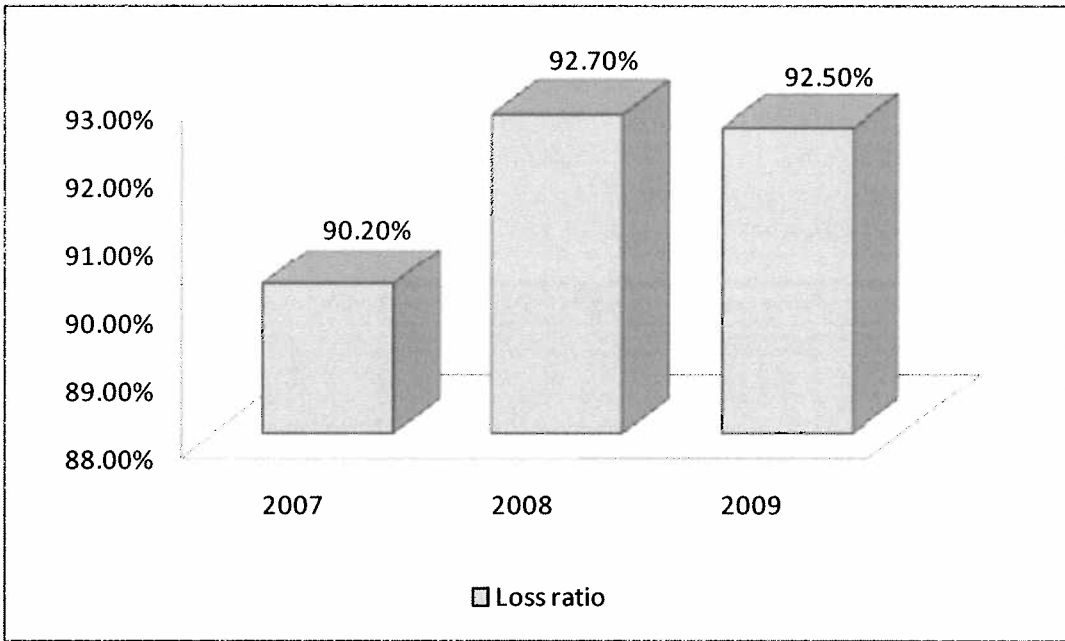
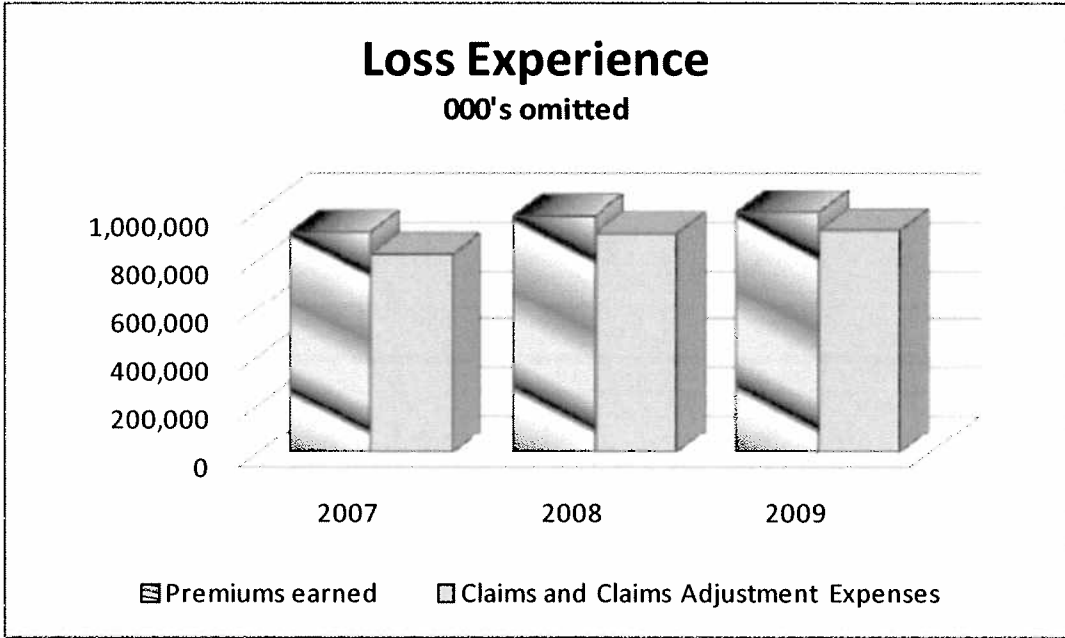




LOSS EXPERIENCE

000's Omitted

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Premiums earned	994,155	978,359	912,201
Claims and Claims Adjustment Expenses	920,008	907,203	822,416
Loss ratio	92.5%	92.7%	90.2%
Member months	4,788	4,861	4,844



REINSURANCE

As of the examination date, an excess loss reinsurance agreement with HM Life Insurance Company was in effect. The Organization's initial retention is the first \$1,000,000 of loss incurred at an IHC hospital, or the first \$500,000 of loss incurred at other hospitals, per covered person during the contract year. The reinsurer assumes the following, with a maximum of \$2,000,000 for each covered person per contract year.

- 90% of eligible losses, after certain reinsurance limitations, for approved transplant services performed in a hospital in which the reinsurer or the

Organization had negotiated arrangements. The Organization's arrangements were required to be approved by the reinsurer.

- 50% for eligible losses, after certain reinsurance limitations, for transplant services performed in a hospital with which neither the reinsurer nor the Organization had negotiated arrangements and/or the Organization's arrangements were not approved by the reinsurer.
- 90% of eligible losses for services other than transplant services, after certain reinsurance limitations, for services performed in a hospital.

ACCOUNTS AND RECORDS

The Organization's general ledger is on a system developed in-house, located on an IBM iSeries, and maintained and administered by IHCHS. Premium and claims transactions are automatically fed to the general ledger through the primary policy and claims administrative system, FACETS. No significant issues or deficiencies with the computerized system were noted from the examination.

An examination trial balance was prepared from the Organization's computerized general ledger as of December 31, 2009. Account balances were traced to the annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

An independent certified public accounting firm, KPMG LLP, audited the Organization's records for the years ended 2007, 2008 and 2009. Audit reports generated by these auditors and work papers were made available for examination use.

STATUTORY DEPOSITS

The Organization's statutory deposit requirement was \$10,041,547 pursuant to U.C.A. § 31A-8-211(1) for health maintenance organizations. The examination confirmed the Organization maintained a statutory deposit consisting of various bonds guaranteed by the U.S. Government with a total market value of \$11,763,141 and par value of \$11,645,000, which was adequate to cover the required deposit of \$10,041,547 for the benefit of all policyholders.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

SelectHealth, Inc.
BALANCE SHEET (ASSETS)
as of December 31, 2009

	Net Admitted Assets	Notes
Bonds	\$ 55,702,352	
Common Stocks	156,261,175	
Real Estate – Properties Occupied	0	(1)
Cash and Short-Term Investments	126,066,378	
Investment Income Due and Accrued	470,589	
Uncollected Premiums and Agents’ Balances	3,756,810	
Accrued Retrospective Premiums	3,555,725	
Amounts Recoverable Relating to Uninsured Plans	3,242,854	
Electronic Data Processing Equipment and Software	1,304,717	
Receivable from Parent, Subsidiaries and Affiliates	470,035	
Health Care and Other Amounts Receivable	6,032,544	
 Total Assets	 <u>\$ 356,863,179</u>	

SelectHealth, Inc.
BALANCE SHEET (LIABILITIES, SURPLUS AND OTHER FUNDS)
as of December 31, 2009

	Current Year	Notes
Claims unpaid (less \$0 reinsurance ceded)	\$ 89,866,205	
Accrued medical incentive pool and bonus amounts	618,996	
Unpaid claims adjustment expenses	4,850,000	
Aggregate health policy reserves	3,917,731	
Premiums received in advance	9,858,652	
General expenses due or accrued	13,451,158	
Amounts withheld or retained for the account of others	236,011	
Remittances and items not allocated	159,008	
Payable to parent, subsidiaries and affiliates	534,818	
Liability for amounts held under uninsured plans	67,199	
 Total Liabilities	 \$ 123,559,778	
 SURPLUS AND OTHER FUNDS		
Gross paid in and contributed surplus	\$ 30,125,275	
Unassigned funds (surplus)	203,178,126	
 Total Capital and Surplus	 \$ 233,303,401	(2)
 Total of Liabilities, Surplus, and Other Funds	 \$ 356,863,179	

SelectHealth, Inc.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2009

	Current Year
Net premium income	\$ 993,691,385
Change in unearned premium reserves	463,321
Total Revenues	\$ 994,154,706
Hospital/medical benefits	642,161,480
Other professional services	27,793,532
Emergency room and out-of-area	63,842,212
Prescription drugs	99,882,194
Aggregate write-ins for other hospital and medical	14,905,914
Incentive pool, withhold adjustments and bonus amounts	580,263
Total hospital and medical expenses	\$ 849,165,595
Net reinsurance recoveries	11,402
Total hospital and medical	\$ 849,154,193
Claims adjustment expenses	31,461,961
General administrative expenses	63,664,762
Increase in reserves	(1,486,325)
Total underwriting deductions	\$ 942,794,591
Net underwriting gain or (loss)	\$ 51,360,115
Net investment income earned	5,776,085
Net realized capital gains or (losses)	(4,275,268)
Net investment gains or (losses)	\$ 1,500,817
Net income or (loss) after capital gains tax and before other federal income taxes	\$ 52,860,932
Federal and foreign income taxes incurred	0
Net Income (Loss)	\$ 52,860,932

SelectHealth, Inc.
RECONCILIATION OF CAPITAL AND SURPLUS
2006 through 2009

	2006	2007	2008	Per Exam 2009	Notes
Capital and surplus prior reporting year	\$ 125,905,647	\$ 181,623,488	\$ 234,094,179	\$ 166,989,954	
Increase (decrease) in common stock					
Increase (decrease) in contributed capital					
Net Income (or loss)	48,926,430	56,232,929	(18,588,934)	52,860,932	
Change in net unrealized capital gains (losses)	4,661,697	(1,774,684)	(21,957,944)	40,418,433	
Change in non-admitted assets	2,129,716	(137,554)	(25,307,349)	(26,865,918)	(1)
Aggregate write-ins for gains (losses) in surplus		(1,850,000)	(1,250,000)	(100,000)	
Rounding	(2)		2	1	
Net change in capital and surplus	<u>55,717,841</u>	<u>52,470,691</u>	<u>(67,104,225)</u>	<u>66,313,448</u>	
Capital and surplus end of reporting year	<u>\$ 181,623,488</u>	<u>\$ 234,094,179</u>	<u>\$ 166,989,954</u>	<u>\$ 233,303,402</u>	(2)

COMMENTS ON FINANCIAL STATEMENTS

(1) Real Estate – Properties Occupied

\$-0-

The amount per examination reflects a decrease of the \$14,614,128 reported by the Organization. The real estate reported by the Organization in the amount of \$14,614,128, represents construction-in-progress, as of December 31, 2009, on a home office building located on land owned by an affiliate, IHCHS, pursuant to an operating lease on the ground. Review of the Salt Lake County property records and title search indicate that the owner of record to both the building and the underlying land is IHCHS, which has continuously owned the property since its acquisition of the 5300 South Green Street parcels in September 2006, through the present. The real estate reported by the Organization does not meet the definition of an asset for statutory accounting purposes, as defined in U.C.A. § 31A-4-108 and the Statement of Statutory Accounting Principles SSAP No. 4, as adopted by U.C.A. § 31A-17-102. The examination adjustment is made to non-admit the full reported amount of \$14,614,128, as a direct charge against surplus.

(2) Capital and surplus

\$233,303,401

The Organization's capital and surplus was determined to be \$233,303,401, as reported in the Organization's annual statement as of December 31, 2009. This reflects the \$14,614,128 reduction in the reported \$247,917,529 capital and surplus.

As of December 31, 2009, the Organization's minimum capital requirement was \$100,000 as defined by U.C.A. §31A-8-209(1)(a). As defined by U.C.A. § 31A-17 Part 6, the Organization had total adjusted capital of \$233,303,401, which was greater than the Organization action level risk-based capital (RBC) requirement of \$71,060,282 by \$162,243,119.

SUMMARY OF RECOMMENDATIONS

We recommend the Organization properly maintain all corporate records in compliance with various sections of the Utah Code Annotated (U.C.A.), including U.C.A. § 16-6a-1601, § 16-17-202, § 31A-5-219, § 31A-8-202, and § 31A-8-204, for the proper examination of the affairs of the examinee. (CORPORATE RECORDS).

We recommend the Organization ensure that all future custodial agreements entered into are in full compliance with Utah Administrative Code (U.A.C.) Rule R590-178. (SUBSEQUENT EVENTS)

We recommend the Organization ensure that it meets the requirements of the SSAP No. 4 and U.C.A. § 31A-4-108 for admissibility of reported assets. (COMMENTS ON FINANCIAL STATEMENTS)

ACKNOWLEDGEMENT

Michael Mayberry, FSA, MAAA, of Lewis & Ellis Actuaries and Consultants, performed the actuarial phases of the examination. Colette M. Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner, Clarissa Crisp, AFE, David Flores, CPA, CFE (Fraud), APIR, AFE, and Aaron Phillips, CFE participated in the examination representing the Utah Insurance Department. They join the undersigned in acknowledging the assistance and cooperation extended during the course of this examination by officers, employees, and representatives of the Organization.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Carolyn Maynard". The signature is written in a cursive style with a large initial 'C'.

Carolyn Maynard, CFE, Examiner-in-Charge
Huff, Thomas & Company
Representing the Utah Insurance Department