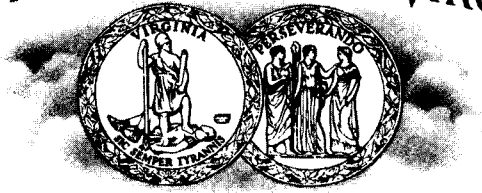


EXAMINATION REPORT
of
AMERIGROUP VIRGINIA, INC.
Virginia Beach, Virginia
as of
December 31, 2008

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
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<http://www.scc.virginia.gov/division/boi>

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of AMERIGROUP Virginia, Inc. as of December 31, 2008, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 20th day of January, 2010

A handwritten signature in cursive script that reads "Alfred W. Gross".

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
October 8, 2009

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

AMERIGROUP VIRGINIA, INC.

Virginia Beach, Virginia

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation became licensed in Virginia as a health maintenance organization ("HMO") pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on May 24, 2005. The Corporation was last examined by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2008.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia on August 30, 2004.

CAPITAL AND SURPLUS

At December 31, 2008, the Corporation's capital and surplus was \$12,378,034. According to its Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of common stock with a par value of \$1 per share. At December 31, 2008, 1,000 shares were issued and outstanding with gross paid in and contributed surplus of \$5,622,956 and unassigned funds of \$6,754,078.

NET WORTH REQUIREMENT

Section 38.2-4302 of the Code of Virginia states that a HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-210-60 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Corporation's uncovered expenses for the three-month period ending December 31, 2008 was \$1,848,744, the Corporation's minimum net worth requirement at December 31, 2008 was \$1,848,744.

MANAGEMENT AND CONTROL

The bylaws of the Corporation provide that the Board of Directors shall be responsible for the business and affairs of the Corporation. The Board shall consist of not less than one nor more than six Directors. The Directors shall be elected each year at the annual meeting of the shareholders. A majority of the Board shall constitute a quorum for the transaction of business. The officers of the Corporation shall consist of a President, a Secretary, a Treasurer and such other officers that the Board may determine. Each such officer shall hold office at the pleasure of the Board or until resignation. At December 31, 2008, the Board of Directors and Officers were as follows:

Directors

Julia C. Locke

Principal Occupation

Mid-Atlantic Region Chief Executive Officer
AMERIGROUP Corporation
Richmond, Virginia

Nicholas J. Pace

Senior Vice President – Deputy General Counsel
AMERIGROUP Corporation
Virginia Beach, Virginia

Officers

Julia C. Locke

President and Chief Executive Officer

Brian J. Wise

Vice President and Chief Operating Officer

Stanley F. Baldwin

Vice President and Secretary

Scott W. Anglin

Vice President and Treasurer

Nicholas J. Pace

Vice President and Assistant Secretary

Richard C. Zoretic

Vice President and Assistant Secretary

James W. Truess

Vice President and Assistant Treasurer

Karen L. Shields

Vice President and Assistant Treasurer

Margaret M. Roomsburg

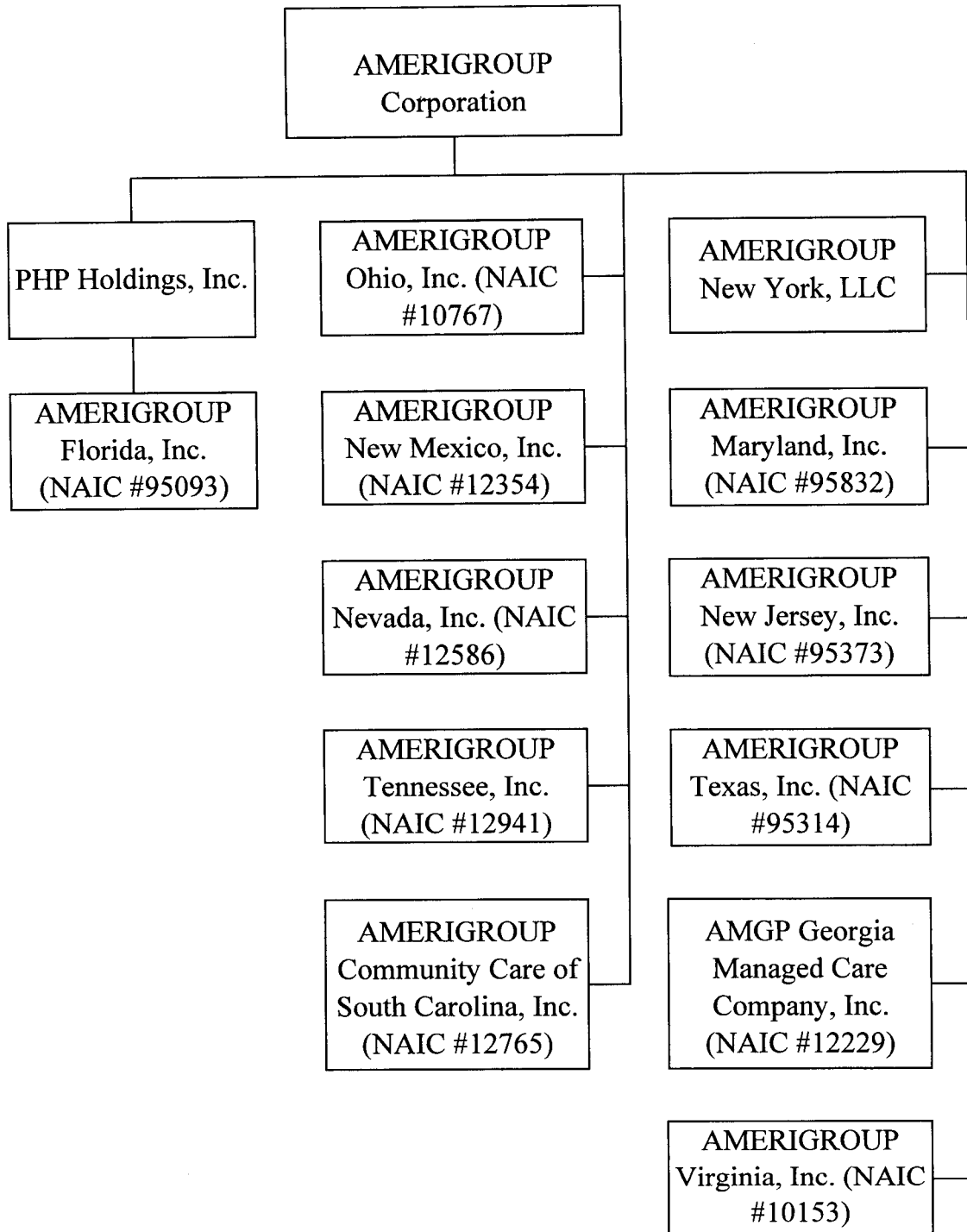
Vice President

Linda K. Whitley-Taylor

Vice President

AFFILIATED COMPANIES

At December 31, 2008, the Corporation was a wholly owned subsidiary of AMERIGROUP Corporation ("AMERIGROUP"). The following chart illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2008:



TRANSACTIONS WITH AFFILIATES

Administrative Service Agreement

Effective March 6, 2008, the Corporation entered into an amended and restated Administrative Services Agreement with AMERIGROUP. Pursuant to the agreement, AMERIGROUP shall provide all administrative support and services necessary for the operation of the Corporation, including finance, management information systems, claim administration, legal, regulatory, provider credentialing and other necessary services. For these services, the Corporation shall monthly reimburse AMERIGROUP all costs, direct and indirect, plus an administrative fee equal to ten percent of the costs. The agreement had an initial term of one year, commencing January 1, 2003, and renews automatically for one-year terms thereafter. Either party may terminate the agreement upon 180 days written notice. The Corporation incurred \$3,875,603 in fees related to this agreement in 2008.

Tax Sharing Agreement

Effective December 15, 2006, the Corporation entered into a Tax Allocation Agreement with AMERIGROUP and its wholly owned subsidiaries. The agreement establishes methods for allocating the consolidated income tax liability of the consolidated group among its members, for reimbursing AMERIGROUP for payment of such tax liability, for compensating any member for use of its tax losses or tax credits and to provide for the allocation and payment of any refund arising from a carryback of losses or tax credits. In accordance with the agreement, for each tax period, AMERIGROUP shall determine the separate tax liability for each member of the group as if a separate tax return had been filed and each member shall pay AMERIGROUP such amount. If a member has a taxable loss for a tax period, credit shall be provided to the extent that the loss is eligible for carry back to prior periods. To the extent that the taxable loss exceeds the amount available for carry back by the member, no credit shall be provided by AMERIGROUP, instead, the loss will be used to offset future separate member taxable income.

Dividends

The Corporation paid a cash dividend of \$5 million to AMERIGROUP on October 18, 2007.

CONFLICT OF INTEREST

The Corporation has adopted AMERIGROUP's Code of Business Conduct and Ethics policy. The policy, as it relates to conflicts of interest, states that employees must refrain from participation in any business transaction in which they or any family member have a personal interest if there is or might reasonably appear to be a conflict between their personal interest and that of the Corporation. To ensure compliance with the policy, each officer and director must acknowledge in writing his or her understanding of the policy and agreement to abide by it on an annual basis.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2008, the Corporation was listed as a named insured on a commercial crime policy with a \$25,000,000 limit of liability, subject to a \$250,000 deductible, to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Corporation was listed as a named insured on a general liability policy, a commercial business automobile policy, a workers' compensation and employers liability policy, a directors and officers liability policy, a property insurance policy, a pollution liability policy, an umbrella and excess liability policy, a managed care organization errors and omissions liability policy and an employment practices liability policy.

TERRITORY AND PLAN OF OPERATION

At December 31, 2008, the Corporation's service area, as reported in its 2008 Annual Statement, included the Virginia cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park and the Virginia counties of Arlington, Culpeper, Fairfax, Fauquier, Loudoun, and Prince William.

Physician services are provided by physicians in independent practice in the Corporation's service area. Each member selects a Primary Care Physician ("PCP") from the list of the Corporation's primary providers. The PCP is the coordinator for all of the member's health care needs. All specialty services and all hospital admissions and outpatient surgery require a prior written referral (except in emergencies) from a PCP.

DEPARTMENT OF MEDICAL ASSISTANCE SERVICES AGREEMENT

At December 31, 2008, the Corporation has a prepaid Medicaid agreement with the Virginia Department of Medical Assistance Services ("DMAS"). DMAS is an agency of the Commonwealth of Virginia that administers the State Plan for Medicaid Assistance. Pursuant to this agreement, the Corporation is responsible for directly providing, arranging, purchasing, or otherwise making available the full scope of services to which persons are entitled under the State Plan for Medicaid Assistance.

As compensation for these services, DMAS shall pay the Corporation a monthly capitation fee for each Medicaid recipient enrolled in the Corporation. The monthly capitation payment is based on the number, the age, and the sex of the Medicaid recipient. The agreement with DMAS accounts for 100% of the Corporation's enrollment at December 31, 2008.

PROVIDER AGREEMENTS

Medical Services

The Corporation has entered into agreements with numerous PCPs and specialist physicians to render, provide or arrange for the provision of covered health care services to members. The Corporation compensates participating physicians either on a capitated basis or a fee-for-service arrangement.

Hospital Care

The Corporation has entered into agreements with a number of hospitals in its service area to provide covered hospital services to its members. The Corporation compensates participating hospitals on either a case/admission rate basis or a per diem rate basis in accordance with compensation schedules attached to each individual agreement.

Other Health Care Services

The Corporation has entered into various ancillary service agreements. These agreements provide vision services, pharmacy services, laboratory services, and transportation services. Compensation is based on arrangements set forth in each agreement.

BENEFITS

The general benefits available to the Corporation's Medicaid enrollees when provided by PCPs, specialist physicians and other professional providers and approved by the Corporation are as follows:

1. Inpatient Hospital Services
2. Outpatient Medical Care
3. Physician Services
4. Maternity Care
5. Maternal and Infant Care Coordination
6. Women's Health Care Services
7. Well Child Program
8. Rehabilitation Services
9. Home Health Services
10. Family Planning
11. Vision Care
12. Mental Health Services
13. Physical and Occupational Therapy
14. Prescription Drugs
15. Durable Medical and Prosthetic Devices
16. Transportation Services
17. Health Education Programs

Exclusions include experimental or investigational procedures; abortions for any reason other than to save the life of the mother; cosmetic surgery; chiropractic services; fertility treatment services; sterilization; and anything deemed not medically necessary. The above are general summaries of coverages and exclusions and are not intended to be all inclusive.

EXCESS LOSS INSURANCE

At December 31, 2008, the Corporation had an Excess Risk Agreement in force with ReliaStar Life Insurance Company ("ReliaStar"). For eligible hospital and professional services, the deductible amount shall be \$1,000,000 per member per agreement year. Once the deductible has been reached, ReliaStar will indemnify the Corporation 90% of eligible hospital and professional services up to a maximum of \$1,000,000 per member, per agreement year and \$2,000,000 per member, per lifetime. The agreement includes a continuation of coverage endorsement in the event of the Corporation's insolvency.

GROWTH OF THE CORPORATION

The following data represents the growth of the Corporation since its inception. The data is compiled from the Corporation's filed Annual Statements, the previous examination report, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital And Surplus</u>
2005	\$15,272,168	\$11,761,857	\$3,510,311
2006	21,769,613	11,067,558	10,702,055
2007	19,022,339	10,161,855	8,860,484
2008	21,078,450	8,700,416	12,378,034

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gain</u>	<u>Medical & Hospital Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2005	\$19,287,332	\$160,263	\$19,299,114	\$2,147,578	(\$1,999,097)
2006	60,226,398	1,027,062	42,247,610	7,786,158	11,219,692
2007	61,633,187	1,179,387	50,387,057	7,676,665	4,748,852
2008	62,426,270	646,258	48,876,182	8,483,056	5,713,290

The Corporation's enrollment data at year-end is illustrated as follows:

<u>Year</u>	<u>Number of Members</u>
2005	18,661
2006	21,856
2007	23,449
2008	24,875

SPECIAL RESERVES AND DEPOSITS

At December 31, 2008, the Bureau required that the Corporation maintain a \$500,000 minimum deposit with the Treasurer of Virginia.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2006 through December 31, 2008. Assets were verified and liabilities were established at December 31, 2008. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the National Association of Insurance Commissioners Examiners Handbook. Analytical review procedures were applied for non-SRA items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Corporate Records
Management and Control
Territory and Plan of Operation
Conflict of Interest
Fidelity Bond and Other Insurance
Provider Agreements
Benefits
Excess Loss Insurance
Growth of the Corporation
Special Reserves and Deposits
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2008; a statement of revenue and expenses for the year ending December 31, 2008; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2008. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$5,513,419		\$5,513,419
Cash and short-term investments	<u>15,343,231</u>		<u>15,343,231</u>
Subtotals, cash and invested assets	\$20,856,650	\$0	\$20,856,650
Investment income due and accrued	51,927		51,927
Net deferred tax asset	165,409		165,409
Electronic data processing equipment and software	33,662	29,198	4,464
Furniture and equipment, including health care delivery assets	346,914	346,914	0
Health care and other amounts receivable	<u>7,202</u>	<u>7,202</u>	<u>0</u>
Total assets	<u><u>\$21,461,764</u></u>	<u><u>\$383,314</u></u>	<u><u>\$21,078,450</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$6,983,267	\$42,607	\$7,025,874
Unpaid claims adjustment expenses	182,555		182,555
Premiums received in advance	1,391,464		1,391,464
Current federal income tax payable and interest thereon		51,719	51,719
Amounts due to parent, subsidiaries and affiliates		48,804	48,804
	<hr/>	<hr/>	<hr/>
Total liabilities	\$8,557,286	\$143,130	\$8,700,416
Common capital stock			\$1,000
Gross paid in and contributed surplus			5,622,956
Unassigned funds (surplus)			6,754,078
			<hr/>
Total capital and surplus			\$12,378,034
			<hr/>
Total liabilities, capital and surplus			\$21,078,450
			<hr/> <hr/>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	<u>XXX</u>	<u>\$62,426,270</u>
Total revenues	<u>XXX</u>	<u>\$62,426,270</u>
Hospital and Medical		
Hospital/medical benefits	\$124,658	\$28,056,285
Other professional services		1,134,183
Emergency room and out-of-area		6,785,506
Prescription drugs		11,363,371
Aggregate write-ins for other hospital and medical		<u>1,536,837</u>
Total hospital and medical	<u>\$124,658</u>	<u>\$48,876,182</u>
Claims adjustment expenses	2,103,176	2,103,176
General administrative expenses	<u>6,379,880</u>	<u>6,379,880</u>
Total underwriting deductions	<u>\$8,607,714</u>	<u>\$57,359,238</u>
Net underwriting gain	<u>XXX</u>	<u>\$5,067,032</u>
Net investment income earned		\$644,957
Net realized capital gains		<u>1,301</u>
Net investment gains		<u>\$646,258</u>
Net income before federal income taxes	XXX	\$5,713,290
Federal income taxes incurred	<u>XXX</u>	<u>2,084,658</u>
Net income	<u>XXX</u>	<u>\$3,628,632</u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Capital and surplus prior reporting year	<u>\$3,510,311</u>	<u>\$10,702,055</u>	<u>\$8,860,484</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income	\$7,244,719	\$3,097,729	\$3,628,632
Change in net deferred income tax	108,316	16,092	41,001
Change in nonadmitted assets	(162,237)	19,004	(240,081)
Surplus adjustments:			
Paid in	946	25,604	87,998
Dividends to stockholders	<u>0</u>	<u>(5,000,000)</u>	<u>0</u>
Net change in capital and surplus	<u>\$7,191,744</u>	<u>(\$1,841,571)</u>	<u>\$3,517,550</u>
Capital and surplus end of reporting year	<u><u>\$10,702,055</u></u>	<u><u>\$8,860,484</u></u>	<u><u>\$12,378,034</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$63,817,734
Net investment income	<u>745,334</u>
Total	<u>\$64,563,068</u>
Benefit and loss related payments	\$51,172,680
Commissions, expenses paid and aggregate write-ins for deductions	8,348,470
Federal income taxes paid	<u>1,438,519</u>
Total	<u>\$60,959,669</u>
Net cash from operations	<u>\$3,603,399</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$9,515,000
Miscellaneous proceeds	<u>3,513</u>
Total investment proceeds	<u>\$9,518,513</u>
Cost of investments acquired (long-term only):	
Bonds	\$5,515,213
Miscellaneous applications	<u>1,301</u>
Total investment acquired	<u>\$5,516,514</u>
Net cash from investments	<u>\$4,001,999</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	<u>(\$693,795)</u>
Net cash from financing and miscellaneous sources	<u>(\$693,795)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$6,911,603
Cash and short-term investments:	
Beginning of the year	<u>8,431,628</u>
End of the year	<u>\$15,343,231</u>

SUBSEQUENT EVENT

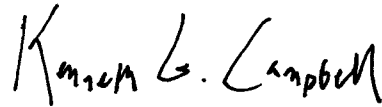
The Corporation paid a cash dividend of \$3.6 million to AMERIGROUP on October 30, 2009.

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Cliff Lewis, CFE, and Milton Parker participated in the work of the examination.

Respectfully submitted,

Handwritten signature of Kenneth G. Campbell in black ink.

Kenneth G. Campbell, CFE
Assistant Chief Examiner

AMERIGROUP *Community Care*

January 6, 2010

David H. Smith, CFE, CPA, CPCU
Chief Examiner
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
1300 E. Main Street
Richmond, Virginia 23219



RE: Examination Report as of December 31, 2008 – AMERIGROUP Virginia, Inc.

Dear Mr. Smith:

We respectfully acknowledge receipt of the December 31, 2008 Examination Report.

As there are no exceptions or findings in the report, we have no comments or concerns.

Sincerely,

AMERIGROUP Virginia, Inc.

A handwritten signature in black ink that reads "Brian Wise".

Brian Wise
Chief Operating Officer