

**EXAMINATION REPORT**  
**of**  
**OPTIMA HEALTH GROUP, INC.**  
**Virginia Beach, Virginia**  
**as of**  
**December 31, 2010**

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
TDD/VOICE: (804) 371-9206  
<http://www.scc.virginia.gov/division/boi>

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Optima Health Group, Inc. as of December 31, 2010, 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 21st day of July, 2011

---

Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>Description.....</b>	<b>1</b>
<b>History.....</b>	<b>1</b>
<b>Capital and Surplus .....</b>	<b>2</b>
<b>Net Worth Requirement.....</b>	<b>2</b>
<b>Management and Control .....</b>	<b>2</b>
<b>Affiliated Companies .....</b>	<b>4</b>
<b>Transactions with Affiliates .....</b>	<b>6</b>
<b>Territory and Plan of Operation .....</b>	<b>7</b>
<b>Conflict of Interest .....</b>	<b>8</b>
<b>Fidelity Bond and Other Insurance .....</b>	<b>8</b>
<b>Provider Agreements .....</b>	<b>8</b>
<b>Contract Forms .....</b>	<b>9</b>
<b>Growth of the Corporation .....</b>	<b>10</b>
<b>Special Reserves and Deposits .....</b>	<b>11</b>
<b>Scope.....</b>	<b>12</b>
<b>Financial Statements.....</b>	<b>13</b>
<b>Conclusion .....</b>	<b>19</b>

Richmond, Virginia  
May 5, 2011

Honorable Jacqueline K. Cunningham  
Commissioner of Insurance  
Richmond, Virginia

Dear Madam:

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

**OPTIMA HEALTH GROUP, 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 September 9, 1988. The Corporation operates as a capitated and fee-for-service individual practice association HMO. The Corporation was last examined by representatives from the State Corporation Commission's Bureau of Insurance ("Bureau") as of December 31, 2007. This examination covers the period from the January 1, 2008 through December 31, 2010.

**HISTORY**

The Corporation was incorporated in the Commonwealth of Virginia on August 26, 1988. Effective September 1, 1988, the Corporation entered into an Agreement of Sale with the Receiver of Maxicare Virginia, L.P. The Agreement sold, conveyed, transferred, and delivered to the Corporation all rights, title, and interest in and to the assets of Maxicare, unless specifically excluded in the Agreement. The Corporation also assumed the future payments and performances of Maxicare's specified liabilities as of the effective date of the Agreement.

Effective April 19, 2004, the Corporation changed its name from Sentara Health Plans, Inc. to Optima Health Group, Inc.

### **CAPITAL AND SURPLUS**

At December 31, 2010, the Corporation's capital and surplus was \$2,508,695. According to the amended and restated Articles of Incorporation, the Corporation has the authority to issue 5,000 shares of common stock with no par value and a stated value of \$2 per share. As of December 31, 2010, 5,000 shares were outstanding, with gross paid in and contributed surplus of \$25,390,000 and unassigned funds of (\$22,891,305).

### **NET WORTH REQUIREMENT**

Section 38.2-4302 of the Code of Virginia states that an 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 three-month period ending December 31, 2010 was \$7,273, the Corporation's minimum net worth requirement at December 31, 2010 was \$600,000.

### **MANAGEMENT AND CONTROL**

As of December 31, 2010, the amended and restated bylaws of the Corporation provide that the affairs, property and funds of the Corporation shall be managed by the Board of Directors (the "Board"). The number of Directors shall not be less than three nor more than sixteen. Each Director may be re-elected upon expiration of their term. The bylaws state that one third of the Directors shall be elected by the shareholders at the annual meeting of the Corporation each year. Each group of electors shall be elected in the succeeding years over a three-year period.

The bylaws also provide for the creation of an Advisory Panel to advise the Board and officers of the Corporation on matters affecting members. The Advisory Panel shall consist of not less than five members with the number of members to be set by the Board. The President shall appoint the members to serve on the Advisory Panel. Members shall serve on the panel until they retire or are removed by the President. At least two of the members selected by the President shall advise the Board with respect to grievances filed by members.

The officers of the Corporation shall consist of a Chairman, a President, a Secretary, a Treasurer and such other officers with such duties as may be authorized and determined by the Board. Any person may hold more than one office, except for the offices of the President and the Secretary. The Chairman shall be selected from among the Board members. Each officer shall serve a one year term or until their successors are

duly elected and qualified. The officers of the Corporation shall be elected by the shareholders at its annual meeting.

At December 31, 2010, the Board and Officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
David L. Bernd	Chief Executive Officer Sentara Healthcare Norfolk, Virginia
Robert A. Broermann	Senior Vice President, Chief Financial Officer Sentara Healthcare Norfolk, Virginia
William K. Butler, II	Retired Virginia Beach, Virginia
Dian T. Calderone	Owner Hunt-Calderone PC Newport News, Virginia
Michael M. Dudley	System Vice President Sentara Healthcare Norfolk, Virginia
Vicky G. Gray	Senior Vice President, System Development Sentara Healthcare Norfolk, Virginia
George W. Hubbard, M.D.	Surgeon Norfolk, Virginia
John T. Kalafsky, M.D.	Physician Norfolk, VA
Howard P. Kern	President and Chief Operating Officer Sentara Healthcare Norfolk, Virginia
Charles F. Lovell, Jr. M.D	Physician Norfolk, Virginia

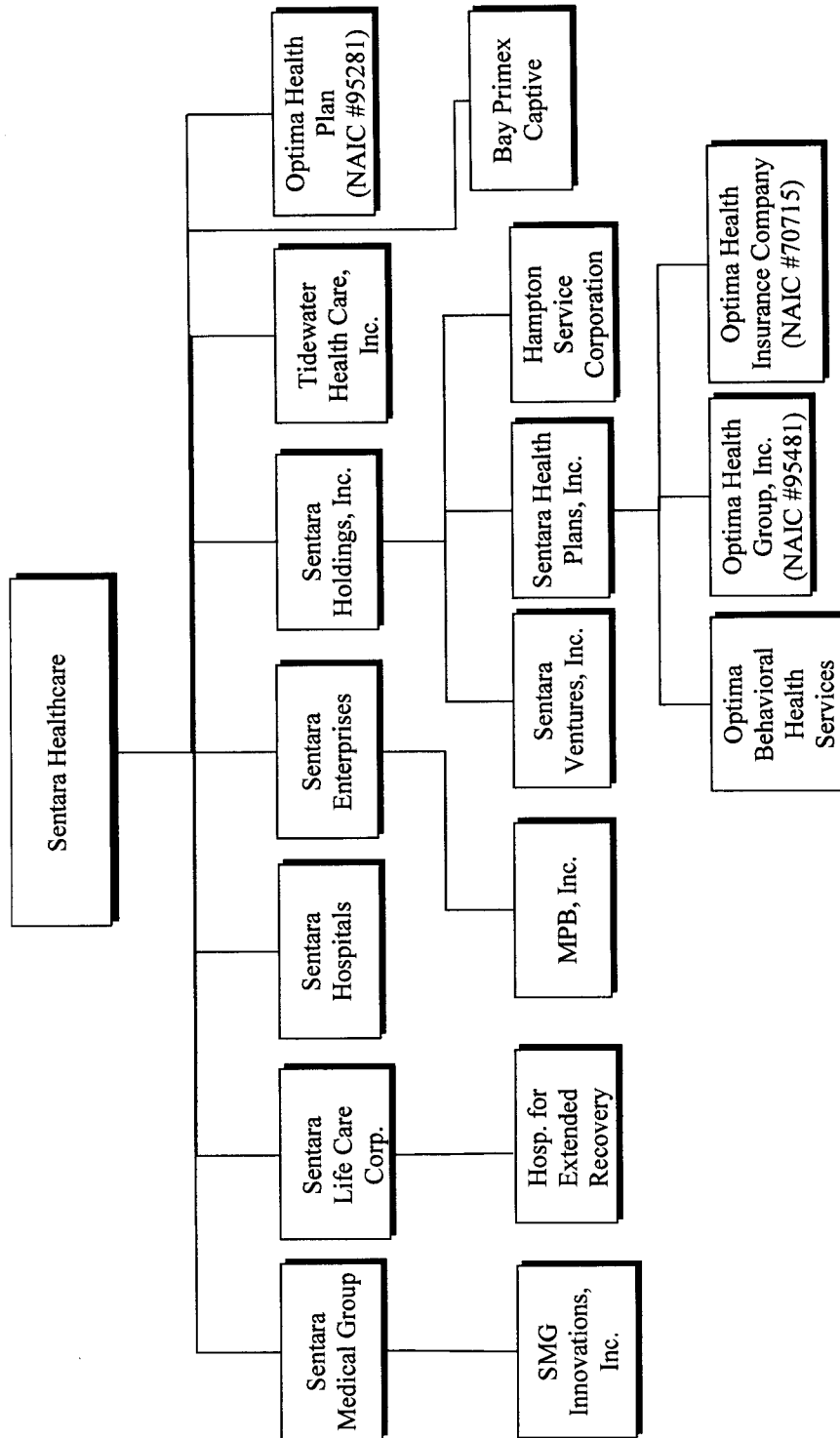
Darleen A. Mastin	Senior Vice President and Chief Operating Officer Sentara Health Plans, Inc. Norfolk, Virginia
David M. Pariser, M.D.	Physician Norfolk, Virginia
Meredith B. Rose, M.D.	Physician Virginia Beach, Virginia
Theodore M. Wille, Jr.	Retired Virginia Beach, Virginia
Gary R. Yates, M.D.	Chief Medical Officer Sentara Healthcare Norfolk, Virginia

Officers

David L. Bernd	Chairman of the Board
Michael M. Dudley	President
Howard P. Kern	Secretary/Treasurer
Robert A. Broermann	Assistant Treasurer
John E. DeGruttola	Senior Vice President, Marketing
James A. Hilbert	Senior Vice President, CFO
Darleen A. Mastin	Senior Vice President, Operations

**AFFILIATED COMPANIES**

As of December 31, 2010, the amended and restated Articles of Incorporation stated that the Corporation has the authority to issue 5,000 shares of common stock. As of December 31, 2010, the 5,000 issued shares are owned by Sentara Health Plans, Inc. ("SHP"), which is a wholly owned subsidiary of Sentara Holdings, Inc. ("SHI") which is a wholly owned subsidiary of Sentara Healthcare. The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2010:





## TRANSACTIONS WITH AFFILIATES

### Administrative Services and Marketing Agreement

Effective April 1, 2005, the Corporation entered into an Administrative Services and Marketing Agreement with SHP. According to the provisions of the agreement, SHP shall perform, or arrange for the performance of the administrative services necessary to fulfill the Corporation's obligations under its Evidences of Coverage. The services include the following:

- Underwriting Services
- Enrollment Services
- Claims Administration Services
- Information Systems Services
- Premium Billing and Collecting
- Inquiries and Requests
- Administrative Material
- Investment Services
- Medical Care Management
- Provider Relations
- Marketing Services

As compensation for these services, the Corporation shall pay SHP a monthly administrative fee. The administrative fee shall equal the actual costs incurred by SHP in providing the services and shall include the direct costs as well as the allocable portion of costs incurred by SHP in connection with providing such services. SHP will develop and periodically revise a cost allocation model to allocate appropriate administrative costs among the SHP companies. During 2010, the Corporation paid \$13,000 in administrative fees related to this agreement.

### HMO Excess Risk Policy

Effective October 1, 2001, the Corporation entered into a HMO Excess Risk Policy with Optima Health Insurance Company ("OHIC"). The policy terminated June 30, 2010 but covers claims incurred October 1, 2001 through June 30, 2010. According to the terms of the policy, OHIC shall reimburse the Corporation 100% of the eligible services incurred in excess of the \$500,000 deductible per member per catastrophic event up to a maximum of \$1,000,000 per member per year. Eligible services are defined as those acute care hospital services, approved by the Corporation, rendered to a member who is registered as a bed patient at a licensed acute care hospital. Covered services also include hospital services for members approved for transplants, except transplants performed at Sentara Norfolk General Hospital which are specifically excluded under the policy. The Corporation paid OHIC a per member per month rate set forth in the policy.

to cover all excess risk claims. The policy includes a continuation of coverage endorsement in the event of the Corporation's insolvency.

### Tax Allocation Agreement

Effective January 1, 2009, the Corporation entered into a Tax Allocation Agreement with and among SHI and its subsidiaries. The agreement establishes methods for allocating consolidated Federal income tax liability among the affiliates and for sharing the benefits that may be derived from filing a consolidated Federal income tax return. Under the terms of the agreement, the affiliates shall pay to SHI the amount of its tax cost or will receive from SHI the amount of its tax benefit to the extent that it reduces the group taxable income.

### Provider Agreements

The Corporation contracts with several subsidiaries of Sentara Healthcare ("SHC") to provide hospital, mental health physician services and other medical services to members.

### Dividend to Stockholder

On April 15, 2009, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of \$3,500,000 to SHP. The Bureau approved the Corporation's request on May 5, 2009 and the dividend was paid on June 25, 2009.

## **TERRITORY AND PLAN OF OPERATION**

At December 31, 2010, the Corporation's service area, as reported in its 2010 Annual Statement, includes the cities of Norfolk, Virginia Beach, Portsmouth, Hampton, Suffolk, Newport News, Poquoson, Gloucester, Williamsburg, and Chesapeake and the counties of James City, Isle of Wight, York, Charles City, King William, Mathews, New Kent and Surry.

Medical services are provided by physicians in independent practice within the Corporation's service area. Each member chooses a primary care physician ("PCP") from a list of the Corporation's primary providers. All hospital admissions must be arranged by an attending physician and approved in advance by the Corporation.

On February 6, 2007, the State Corporation Commission issued a consent order in which the Corporation agreed to not issue any new business in Virginia until further order of the Commission. The Corporation also agreed to continue to comply with the Bureau's financial and reporting requirements.

## **CONFLICT OF INTEREST**

The Corporation has adopted a conflict of interest policy. The objective of this policy is to ensure that each director, officer, and employee faithfully serves the Corporation and refrains from doing anything which is adverse or prejudicial to the Corporation's interest. To ensure compliance with the policy, the Corporation has established procedures which require directors, officers and members of a committee with Board delegated powers to sign a conflict of interest disclosure form annually.

## **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2010, the Corporation was listed as a named insured on a commercial crime policy with a \$4,000,000 limit of liability, subject to a \$100,000 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 professional/commercial general liability policy, an umbrella liability policy, a commercial property insurance policy, a business automobile liability policy, a directors and officers liability policy and a workers compensation and employers liability policy.

## **PROVIDER AGREEMENTS**

### **Medical Services**

The Corporation has entered into agreements with numerous PCPs and specialist physicians to provide covered services to members. PCPs and specialist physicians are compensated on a fee for service basis at the lesser of billed charges or established fee schedules less any applicable copayments.

### **Hospital Care**

The Corporation has entered into agreements with a number of hospitals in its service area to provide covered hospital services to members. The Corporation compensates participating hospitals on either a discounted fee for service, a fixed per diem, or a per case basis. The amounts paid to each hospital are based on terms disclosed in each individual agreement.

### **Other Health Care Services**

The Corporation provides other health care services to members through various ancillary agreements. These services include ambulance services, skilled nursing care, home health care, physical, occupational and speech therapy, laboratory and pharmaceutical services, vision, and dental care. Compensation is based on arrangements set forth in each agreement.

**CONTRACT FORMS**

The group contract agreement generally covers the following services provided by PCPs, participating specialists, and other professional providers:

1. Professional Services
2. Allergy Care
3. Hospital Services
4. Maternity Services
5. Family Planning and Infertility Services
6. Skilled Nursing Facility Care
7. Home Health Care Skilled Services
8. Orthopedic and Prosthetic Appliances
9. Ambulance Service
10. Emergency Services
11. Mental Health Services
12. Durable Medical Equipment

Exclusions generally include services or supplies that were not authorized or arranged by the member's PCP or the Corporation; any service, supply or treatment not specifically covered in the Evidence of Coverage; personal comfort items; private duty nursing; cosmetic surgery; costs of services covered by a group insurance mechanism or governmental program; eye surgery to correct refraction errors; school physicals; physical examinations for employment or insurance; and experimental medical, surgical or mental health care procedures or services. Other exclusions include treatment or drugs for smoking cessation; services and drugs in connection with obesity; routine footcare and foot orthotics; immunizations related to foreign travel or employment; coverage for a newborn or other child of a dependent child; hearing aids; eyeglasses or contact lenses or the fitting thereof and prescription drugs unless covered under a rider.

The above are abbreviated descriptions of the coverages and exclusions and each individual contract may vary.

## GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the ten-year period ending December 31, 2010. 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>Total Capital and Surplus</u>		
2001	\$12,077,143	\$4,494,250	\$7,582,893		
2002	14,402,954	5,646,643	8,756,311		
2003	20,733,387	5,520,201	15,213,186		
2004	15,564,207	1,756,024	13,808,183		
2005	5,370,395	75,964	5,294,431		
2006	5,499,840	40,937	5,458,903		
2007	5,641,539	11,107	5,630,432		
2008	5,899,136	17,944	5,881,192		
2009	2,524,592	20,467	2,504,125		
2010	2,511,070	2,375	2,508,695		

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Medical &amp; Hospital Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2001	\$34,814,656		\$32,923,939	\$2,209,015	(\$318,298)
2002	39,898,454	441,927	36,347,305	2,976,088	1,016,988
2003	46,927,781	350,787	37,877,274	3,178,810	6,222,484
2004	35,761,226	296,444	30,630,369	2,940,677	2,486,624
2005	(107,223)	143,822	(628,434)	72,343	592,690
2006	10,373	187,436	(16,864)	35,182	179,491
2007	5,934	248,944	18,411	36,414	200,053
2008	1,582	285,654	(22,639)	33,251	276,624
2009	0	215,189	(3,544)	46,871	171,862
2010	0	13,696	(18)	14,268	(554)

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

<u>Year</u>	<u>Number of Members</u>
2001	17,018
2002	16,849
2003	17,137
2004	624
2005	5
2006	2
2007	2
2008	0
2009	0
2010	0

### **SPECIAL RESERVES AND DEPOSITS**

At December 31, 2010, the Bureau required the Corporation to maintain a \$300,000 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, 2008 through December 31, 2010. Assets were verified and liabilities established at December 31, 2010.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination to evaluate the financial condition and identify prospective risks of the Corporation, assess corporate governance, identify and assess inherent risks within the Corporation, and evaluate 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 annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Corporation were considered in accordance with the risk-focused examination process.

**FINANCIAL STATEMENTS**

There follows a statement of financial condition at December 31, 2010; a statement of revenue and expenses for the year ending December 31, 2010; a reconciliation of capital and surplus for the period under review and a statement of cash flow for the year ending December 31, 2010. 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	\$433,592		\$433,592
Cash and short-term investments	<u>2,074,478</u>		<u>2,074,478</u>
Subtotals, cash and invested assets	\$2,508,070	\$0	\$2,508,070
Net deferred tax asset	12,000	9,000	3,000
Furniture and equipment, including health care delivery assets	149	149	0
Aggregate write-ins for other than invested assets	<u>1,078</u>	<u>1,078</u>	<u>0</u>
Total assets	<u><u>\$2,521,297</u></u>	<u><u>\$10,227</u></u>	<u><u>\$2,511,070</u></u>

**LIABILITIES, CAPITAL AND SURPLUS**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Unpaid claim adjustment expenses	\$0	\$500	\$500
Amounts due to parent, subsidiaries and affiliates		1,538	1,538
Aggregate write-ins for other liabilities		337	337
	<u>\$0</u>	<u>\$2,375</u>	<u>\$2,375</u>
Total liabilities			
Common capital stock			\$10,000
Gross paid in and contributed surplus			25,390,000
Unassigned funds (surplus)			<u>(22,891,305)</u>
Total capital and surplus			<u>\$2,508,695</u>
Total liabilities, capital and surplus			<u><u>\$2,511,070</u></u>

**STATEMENT OF REVENUE AND EXPENSES**

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	<u>\$0</u>
Total revenues	<u>XXX</u>	<u>\$0</u>
<b>Hospital and Medical:</b>		
Prescription drugs		<u>(\$18)</u>
Total hospital and medical		<u>(\$18)</u>
General administrative expenses	<u>7,273</u>	<u>14,268</u>
Total underwriting deductions	<u>\$7,273</u>	<u>\$14,250</u>
Net underwriting loss	<u>XXX</u>	<u>(\$14,250)</u>
Net investment income earned		<u>\$13,696</u>
Net investment gains		<u>\$13,696</u>
Net loss before federal income taxes	XXX	(\$554)
Federal income taxes incurred	<u>XXX</u>	<u>958</u>
Net loss	<u>XXX</u>	<u>(\$1,512)</u>

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Capital and surplus prior reporting year	<u>\$5,630,432</u>	<u>\$5,881,192</u>	<u>\$2,504,125</u>
<b>GAINS AND LOSSES TO CAPITAL AND SURPLUS</b>			
Net income or (loss)	\$235,311	\$111,255	(\$1,512)
Change in net deferred income tax	(56,000)	0	(1,000)
Change in nonadmitted assets	62,600	6,088	6,567
Dividends to stockholders	0	(3,500,000)	0
Aggregate write-ins for gains or (losses) in surplus	<u>8,849</u>	<u>5,590</u>	<u>515</u>
Net change in capital and surplus	<u>\$250,760</u>	<u>(\$3,377,067)</u>	<u>\$4,570</u>
Capital and surplus end of reporting year	<u><u>\$5,881,192</u></u>	<u><u>\$2,504,125</u></u>	<u><u>\$2,508,695</u></u>

**CASH FLOW****Cash from Operations**

Net investment income	<u>\$15,764</u>
Total	<u>\$15,764</u>
Benefit and loss related payments	(\$18)
Commissions, expenses paid and aggregate write-ins for deductions	14,268
Federal income taxes paid	<u>958</u>
Total	<u>\$15,208</u>
Net cash from operations	<u>\$556</u>

**Cash from Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash provided	<u>(\$11,980)</u>
Net cash from financing and miscellaneous sources	<u>(\$11,980)</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

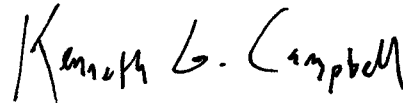
Net change in cash and short-term investments	(\$11,424)
Cash and short-term investments:	
Beginning of the year	<u>2,085,902</u>
End of the year	<u><u>\$2,074,478</u></u>

**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, Darrin Bailey, CFE, John Bunce, CFE, Jack Drear, CFE, David Fiden, Kevin Knight, AFE, Hai Nguyen and Michael Peterson participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Kenneth G. Campbell". The signature is written in a cursive style with a large initial "K".

Kenneth G. Campbell, CFE  
Assistant Chief Examiner

11 JUL -8 AM 10:49

Finance  
4456 Corporation Lane  
Suite 336  
Virginia Beach, VA 23462  
Tel: 757.252.8000  
Fax: 757.252.8030  
www.optimahealth.com

July 6, 2011

David Smith, CFE, CPA, CPCU  
Chief Examiner  
State Corporation Commission  
Bureau of Insurance  
P. O. Box 1157  
Richmond, VA 23218

RE: Optima Health Group, Inc.  
Examination Report as of December 31, 2010

Dear Mr. Smith:

I am acknowledging receipt of the examination report as of December 31, 2010 for Optima Health Group, Inc.

Please send me two copies of the final report.

Sincerely,



Michael M. Dudley  
President

Cc: Andrew Palmer