EXAMINATION REPORT
of
PIEDMONT COMMUNITY HEALTHCARE, INC.
Lynchburg, Virginia
as of
December 31, 2009

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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

COMMONWEALTH OF VIRGINIA

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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Piedmont Community Healthcare, Inc. as of December 31, 2009, 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 11th day of January, 2011

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
October 29, 2010

Honorable Alfred W. Gross
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Dear Commissioner:

Pursuant to your instructions and by the authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

PIEDMONT COMMUNITY HEALTHCARE, INC.

Lynchburg, Virginia

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

DESCRIPTION

The Corporation is a stock accident and sickness insurance company licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. Prior to December 19, 2007, the Corporation operated as a health maintenance organization ("HMO") in the Commonwealth of Virginia. The Corporation was last examined by representatives of the State Corporation Commission's ("Commission") Bureau of Insurance ("Bureau") as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009.

HISTORY

The Corporation was issued a certificate of incorporation by the Commission on September 26, 1997 and began operating as a HMO effective June 29, 1998. The Corporation operated as a HMO until December 19, 2007. On December 19, 2007, the Corporation received approval from the Bureau to convert from a HMO to an accident and sickness insurer pursuant to Section 38.2-1016.1 of the Code of Virginia. As groups began renewing in 2008, the Corporation moved employers from HMO policies to health insurance policies. The last group was converted in February 2009.

On June 28, 2007, the Bureau granted approval for the Corporation to convert $350,000 of subordinated debt owed to Piedmont Community Health Plan, Inc. ("PCHP") and reported as Surplus notes in the 2006 Annual Statement to Common capital stock. Additionally, the Bureau approved the payment of $44,070 in accrued interest on the surplus note to PCHP. This amount was paid to PCHP on July 27, 2007.

MANAGEMENT AND CONTROL

The bylaws of the Corporation provide that the affairs of the Corporation shall be managed by a Board of Directors (the "Board") consisting of twelve individuals. The Board shall be comprised of the same individuals who serve as the directors of PCHP. A majority of the Board shall constitute a quorum for the transaction of business.

The bylaws also provide that the Board may designate one or more of its members to constitute an executive committee or any other committee. If the Board appoints an executive committee, it shall have and may exercise all of the authority of the Board except to fill vacancies on the Board or any of its committees, amend the articles of incorporation, adopt, amend or repeal the bylaws, approve a plan of merger, authorize or approve a distribution, or authorize or approve the issuance or sale of shares of the Corporation's stock.

The Board shall annually elect officers of the Corporation. The officers shall consist of a Chairman of the Board, a Vice-Chairman, a President, a Secretary and a Treasurer who shall be the same individuals who serve in these capacities for PCHP. Such other officers and assistant officers may be elected or appointed by the Board as deemed necessary. At December 31, 2009, the Board and Officers of the Corporation were as follows:

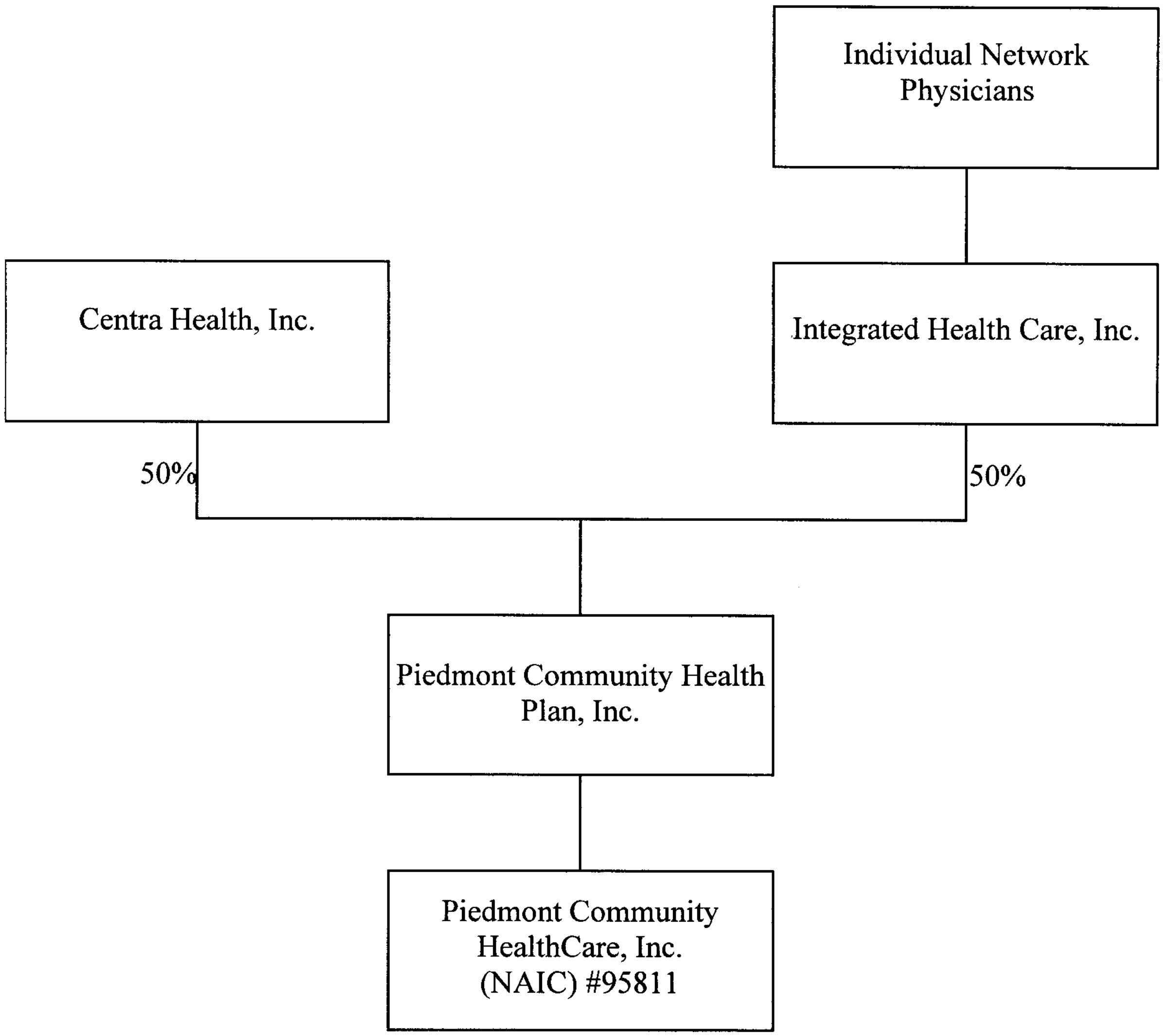
Directors	Principal Occupation
Lewis C. Addison	Senior Vice President and Chief Financial Officer Centra Health, Inc. Lynchburg, Virginia
Michael V. Bradford	Senior Vice President Wachovia Bank Lynchburg, Virginia
Robert D. Clower, M.D.	Physician Lynchburg, Virginia

Directors	Principal Occupation
Charles H. Coggin, III, M.D.	Physician Lynchburg, Virginia
James D. Cure, M.D.	Physician Lynchburg, Virginia
Lewis P. Dabney, M.D.	Physician Lynchburg, Virginia
George W. Dawson	President and Chief Executive Officer Centra Health, Inc. Lynchburg, Virginia
Rodger W. Fauber	Retired Lynchburg, Virginia
Morris E. McCrary, III, M.D.	Physician Lynchburg, Virginia
Richard C. Morris, M.D.	Physician Lynchburg, Virginia
Marc A. Schewel	Business Owner Lynchburg, Virginia
William H. Varner	Vice President Centra Health, Inc. Lynchburg, Virginia

Officers

George W. Dawson	Chairman of the Board
Charles H. Coggin, III, M.D.	Vice-Chairman
Alan J. Wood	President and Chief Executive Officer
Lewis C. Addison	Treasurer
Robert D. Clower, M.D.	Secretary

The Corporation is a wholly owned subsidiary of PCHP. PCHP is owned equally by Integrated Healthcare, Inc. ("Integrated"), a stock corporation of physicians providing care to residents in the Lynchburg area, and Centra Health, Inc. ("Centra Health"), a not-for-profit corporation consisting primarily of three acute care hospitals, three nursing homes and a residential adolescent psychiatric facility. By virtue of this ownership, the Corporation is a member of an insurance company holding system as defined in Section 38.2-1322 of the Code of Virginia. The chart on the following page illustrates the organizational structure of the Corporation and its affiliated entities at December 31, 2009.


Individual Network Physicians
Centra Health, Inc.
Integrated Health Care, Inc.
50%
50%
Piedmont Community Health Plan, Inc.
Piedmont Community HealthCare, Inc. (NAIC) #95811

TRANSACTIONS WITH AFFILIATES

Management Services Agreement

Effective September 1, 2000, the Corporation entered into an amended Management Services Agreement with PCHP. According to the agreement, PCHP shall provide or arrange for all administrative and management services including, but not limited to, the following:

a. Development of provider network agreements and implementation of a medical delivery system.

b. Development and implementation of utilization review and quality assurance programs.

c. Development and filing of all forms, benefit plans, rates, contracts and other documents necessary to sell the Corporation's products.

d. Management of the Corporation's assets and liabilities including cash disbursement authority and accounting and reporting of financial results.

e. Providing data processing services and claims administration services including customer service, claims processing, member eligibility, reporting and related services.

f. Marketing of the Corporation's products.

g. Providing underwriting and actuarial services.

h. Arranging for legal services as necessary.

As compensation for administrative and management services, the Corporation shall pay PCHP 10% of premiums received, net of commissions, no later than 30 days after the end of each calendar quarter. The Corporation incurred management fees equaling $4,480,133 and $4,080,734 in 2009 and 2008, respectively.

Network Services Agreement

Effective January 1, 2007, the Corporation entered into an amended and restated Network Services Agreement with PCHP whereby PCHP will provide the Corporation access to its provider network in exchange for including these providers in the Corporation's network of participating providers. The network provided by PCHP includes participating physicians, hospitals and other health professionals and facilities. Participating providers are compensated on a fee-for-service basis based on the lesser of billed charges or established fee schedules minus any applicable copayments. Twenty percent of the payment to Integrated and Centra Health providers designated by the Corporation is retained by the Corporation in a withhold account. One hundred twenty days after the end of the calendar year, the Corporation will calculate actual medical expenses and compare actual medical expenses to budgeted medical expenses for the year. Each year, the budgeted medical expenses is set at 90% of total earned premiums, net of agent commissions. If the actual medical expenses are less than the budgeted medical expenses, the Corporation shall pay PCHP the difference within 20 days of such determination. If the actual medical expenses are greater than the budgeted medical expenses, PCHP shall contribute, or arrange for Integrated and Centra Health to contribute, the difference to the Corporation within 30 days of receipt of request for payment from the Corporation. Such contributions by PCHP or Integrated and Centra Health, in total, shall not exceed 15% of the budgeted medical expenses for the year. Contributions made by Integrated and Centra Health shall be based on a percentage of medical payments received by Integrated and Centra Health providers during the year. All of the 20% withholds from Integrated and Centra Health providers are paid to PCHP or directly to Integrated and Centra Health providers within 120 days after the end of the calendar year. Upon PCHP's request, the Corporation shall pay the 20% withholds in advance of 120 days after the end of the calendar year or on a regular distribution schedule.

Tax Sharing Agreement

Effective December 1, 2006, the Corporation entered into a Tax Sharing Agreement with PCHP. Pursuant to the agreement, the Corporation is included in the consolidated federal income tax return filed by PCHP. The Corporation's federal income tax liability or refund is determined as if it was filing its own separate federal income tax return. If the Corporation's tax liabilities are used to increase the consolidated federal tax liability, the Corporation will pay PCHP the amount equal to the increase in the consolidated federal income tax liability. If the Corporation's tax benefits (i.e. losses or credits) are used to reduce the consolidated federal tax liability, PCHP shall retain the amount equal to the reduction in the consolidated federal income tax liability. In the instance where PCHP retains the reduction in the consolidated federal income tax liability caused by the Corporation's losses or credits, PCHP will have funded the Corporation's losses through the Network Services Agreement described above and, in turn, would receive the benefit derived by such losses in the consolidated federal income tax return.

TERRITORY AND PLAN OF OPERATION

At December 31, 2009, the Corporation was authorized to transact the business of accident and sickness insurance in the Commonwealth of Virginia. The Corporation is not licensed to do business in any other state.

The Corporation markets a point-of-service ("POS") product and a preferred provider organization ("PPO") product. Under the POS product, a member is required to select a primary care physician ("PCP") from a directory of the Corporation's primary providers. A member can receive covered services from either participating or non-participating providers without a referral from a PCP; however, these services are subject to a reduced level of benefits. Under the PPO product, members receive covered services from either participating or non-participating providers and are not required to select a PCP. A member who receives covered services from non-participating providers is subject to a reduced level of benefits.

Marketing of these products is directed toward employer groups that qualify for either small or large group insurance coverage. The Corporation's marketing effort is primarily accomplished through the use of independent agents.

CONFLICT OF INTEREST

The Corporation has adopted a conflict of interest policy applicable to its officers and directors. The conflict of interest policy states that officers and directors should govern the Corporation's affairs honestly and economically, exercising best care, skill and judgement for the benefit of the Corporation. To avoid any potential conflicts the Corporation's officers and directors should disclose any situation where a conflicting interest or duality of interest could cause the officer or director to act in any matter other than in the best interest of the Corporation. To ensure compliance with the Corporation's conflict of interest policy, officers and directors must complete conflict of interest disclosure forms on an annual basis.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2009, the Corporation was listed as a named insured on a commercial crime policy with a $900,000 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 directors and officers liability policy and a managed care errors and omissions liability policy.

GROWTH OF THE CORPORATION

The following data represents the growth of the Corporation for the ten-year period ending December 31, 2009. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report.

Year	Total Admitted Assets	Total Liabilities	Total Capital and Surplus
2000	$3,855,541	$2,822,370	$1,033,171
2001	596,703	4,570,269	(3,973,566)
2002	8,929,854	5,858,802	3,071,052
2003	13,370,629	9,682,330	3,688,299
2004	11,977,378	7,850,451	4,126,927
2005	13,304,922	8,510,800	4,794,122
2006	15,825,372	10,240,188	5,585,184
2007	14,344,603	8,408,369	5,936,234
2008	15,025,865	8,995,504	6,030,361
2009	17,187,686	11,155,020	6,032,666

Year	Total Revenue	Net Investment Gains	Medical & Hospital Expenses	Administrative Expenses	Pre-Tax Income (Loss)
2000	$8,955,438		$7,750,532	$901,065	$303,841
2001*	15,879,702	179,613	14,830,015	2,195,447	(966,147)
2002	27,210,564	71,824	24,476,532	4,555,810	(1,749,954)
2003	34,024,380	77,362	30,111,356	3,297,006	693,380
2004	33,767,274	108,888	29,012,350	4,213,148	650,664
2005	32,664,617	324,455	28,162,320	3,935,416	891,336
2006	37,806,094	643,520	32,663,902	4,485,763	1,299,949
2007	38,529,856	587,496	34,069,908	4,497,793	549,651
2008	41,804,749	179,558	36,726,607	5,117,773	139,927
2009	46,621,403	29,751	40,321,197	6,327,052	2,905

*Prior to 2001, Net investment gains or losses were included in Total Revenue.

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

Year	Number of Members
2000	7,404
2001	10,556
2002	15,724
2003	13,613
2004	11,704
2005	11,942
2006	12,615
2007	11,732
2008	12,800
2009	13,161

EXCESS LOSS INSURANCE

Effective September 1, 2009, the Corporation entered into an Excess Risk Insurance Agreement with HCC Life Insurance Company ("HCC Life"). For eligible services, the deductible is $300,000 per member for each policy year. Once the deductible has been reached in a policy year, HCC Life will reimburse the Corporation 90% of all eligible expenses.

The maximum lifetime excess insurance payable under this agreement for any one member shall not exceed $2,000,000. The agreement includes a continuation of coverage endorsement in the event of the Corporation's insolvency.

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, 2007 through December 31, 2009. Assets were verified and liabilities established at December 31, 2009.

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 as of December 31, 2009; a statement of revenue and expenses for the year ending December 31, 2009; a reconciliation of capital and surplus for the period under review; and a statement of cash flows for the year ending December 31, 2009. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash and short-term investments	$12,894,399		$12,894,399
Subtotals, cash and invested assets	$12,894,399	$0	$12,894,399
Investment income due and accrued	3,418		3,418
Uncollected premiums and agents' balances in the course of collection	332,357		332,357
Amounts recoverable from reinsurers	11,299		11,299
Net deferred tax asset	97,612		97,612
Health care and other amounts receivable	3,848,601		3,848,601
Total assets	$17,187,686	$0	$17,187,686

LIABILITIES, CAPITAL AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid	$7,203,954	$416,483	$7,620,437
Aggregate health policy reserves	1,170,000		1,170,000
Premiums received in advance	1,055,709		1,055,709
General expenses due or accrued		37,710	37,710
Current federal income tax payable		103,678	103,678
Amounts due to parent, subsidiaries and affiliates		1,167,486	1,167,486
Total liabilities	$9,429,663	$1,725,357	$11,155,020
Common capital stock			$1,000,000
Gross paid in and contributed surplus			4,779,191
Unassigned funds (surplus)			253,475
Total capital and surplus			$6,032,666
Total liabilities, capital and surplus			$17,187,686

STATEMENT OF REVENUE AND EXPENSES

	Uncovered	Total
Net premium income	XXX	$46,621,403
Total revenues	XXX	$46,621,403
Hospital and Medical		
Hospital/medical benefits	$780,377	$13,726,389
Other professional services	861,663	19,446,979
Emergency room and out-of-area	255,215	1,540,937
Prescription drugs		8,359,698
Aggregate write-ins for other hospital and medical		(3,848,601)
Subtotal	$1,897,255	$39,225,402
Less:		
Net reinsurance recoveries		74,205
Total hospital and medical	$1,897,255	$39,151,197
General administrative expenses	6,327,052	6,327,052
Increase in reserves for life and accident and health contracts		1,170,000
Total underwriting deductions	$8,224,307	$46,648,249
Net underwriting (loss)	XXX	($26,846)
Net investment income earned		$29,751
Net investment gains		$29,751
Net income before federal income taxes	XXX	$2,905
Federal income taxes incurred	XXX	0
Net income	XXX	$2,905

RECONCILIATION OF CAPITAL AND SURPLUS

	2007	2008	2009
Capital and surplus prior reporting year	$5,585,184	$5,936,234	$6,030,361
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income	$348,621	$86,970	$2,905
Change in net deferred income tax	(2,501)	14,636	(11,896)
Change in surplus notes	(350,000)		
Capital changes:			
Paid in	990,000		
Surplus adjustments:			
Paid in	(640,000)		
Aggregate write-ins for gains or (losses) in surplus	4,930	(7,479)	11,296
Net change in capital and surplus	$351,050	$94,127	$2,305
Capital and surplus end of reporting year	$5,936,234	$6,030,361	$6,032,666

CASH FLOW

CASH FROM OPERATIONS

Premiums collected net of reinsurance	$47,002,686
Net investment income	30,979
Total	$47,033,665
Benefit and loss related payments	$43,310,900
Commissions, expenses paid and aggregate write-ins for deductions	6,383,421
Federal income taxes paid	41,783
Total	$49,736,104
Net cash from operations	($2,702,439)

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Cash provided (applied):	
Other cash provided	$1,086,088
Net cash from financing and miscellaneous sources	$1,086,088

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	($1,616,351)
Cash and short-term investments:	
Beginning of the year	14,510,750
End of the year	$12,894,399

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, Chris Collins, AFE, Jack Drean, CFE, and Kevin Knight, AFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

John E. Bunce, CFE
Assistant Chief Examiner
Commonwealth of Virginia
Representing the Southeastern Zone, NAIC

PIEDMONT COMMUNITY HEALTHCARE
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STATE CORP COMMISSION
BUREAU OF INSURANCE
11 JAN -5 AM 9: 39

January 3, 2011

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

Re: Examination Report as of December 31, 2009

Dear Mr. Smith:

This will acknowledge receipt of your letter dated December 20, 2010, with which you provided a copy of the Piedmont Community HealthCare ("Piedmont") Examination Report as of December 31, 2009. As requested, this letter serves as notice that this Examination Report has been received.

On behalf of Piedmont's management and staff, I also want to express our appreciation for the courtesy and professionalism we experienced from Mr. John E. Bunce, Mr. Chris Collins, Mr. Jack Drean, and Mr. Kevin Knight during this examination.

Regards,

Alan J. Wood
President & Chief Executive Officer