STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

of

Group Health Options, Inc.
Seattle, Washington

NAIC CODE 47055
DECEMBER 31, 2003

Group Health Options, Inc.
Order No. G06-53
Exhibit A

SALUTATION

Seattle, Washington
September 1, 2006

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building – Capitol Campus
302 – 14th Avenue SW
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.44.145 and RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Group Health Options, Inc.

of

Seattle, Washington

hereinafter referred to as "GHO" or the "Company," at the location of its home office, 521 Wall Street, Seattle, Washington 98121. This report is respectfully submitted showing the condition of the Company as of December 31, 2003.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Group Health Options, Inc., of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2003.

Patrick H. McNaughton
Chief Examiner

9-1-06
Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 1999 through December 31, 2003 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2003 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review.

1. NAIC Annual Statement Errors

The results of the examination disclosed several instances in which the Company's filing of the 2003 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions.

a. Unearned premium/Premiums received in advance
GHO reported $1,747,870 as Unearned premium reserves in the 2003 NAIC Annual Statement which was reflected in the balance sheet as Aggregate health policy reserves. However, that amount was determined to be premiums received in advance. (See examination reclassification adjustment No. 1, debiting Aggregate health policy reserves, and crediting Premiums received in advance.)

b. Contracts subject to retrospective rating
The Company has several contracts subject to retrospective rating. Pursuant to SSAP No. 66, paragraph 8, retrospective premium adjustments are estimated for the portion of the policy period that has expired and shall be considered an immediate adjustment to

premium. Examiners determined by review of the Company work papers, that an additional accrued retrospective premium receivable in the amount of $171,255 and an accrued return retrospective premium reserve in the amount of $683,614 should have been reported as of December 31, 2003. No examination adjustment is recommended due to immateriality.

No evidence was provided to establish that any accounting entries as of December 31, 2003 were prepared for accrued retrospective rating premiums. Accrued retrospective premiums were not reported in the 2003 NAIC Annual Statement, Assets, Page 2, Line 12.3, nor were accrued retrospective rating refunds reported in the 2003 NAIC Annual Statement, U&I Exhibit - Part 2D, Line 4, pursuant to SSAP No. 66, paragraph 8. In addition, SSAP No. 66, paragraphs 12-14, discuss NAIC Annual Statement disclosure of retrospective rating contracts. GHO did not prepare a complete disclosure pursuant to statutory requirements.

c. Unclaimed property (outstanding checks and drafts)
Chapter 63.29 RCW, The Uniform Unclaimed Property Act, defines outstanding checks and drafts as unclaimed property. Unclaimed property, outstanding after five years, is subject for remittance to the state of Washington as unclaimed property. The Company erroneously reported $15,385 in unclaimed checks and drafts as general expenses due or accrued. The 2003 NAIC Annual Statement Instructions require these balances to be reported as Aggregate write-ins for other liabilities and specifically named under details of write-ins. No examination adjustment is recommended due to immateriality.

d. Interest due and accrued
The Company erroneously reported on Schedule DA - Part 1 in the 2003 NAIC Annual Statement, interest due and accrued in the amount of $3,996,500 for a FNMA bond. No examination adjustment will be made because the error was made on a supporting schedule and does not affect the balance sheet or surplus.

e. Long term bond reported as short term bond
The Company reported on Schedule DA - Part 1 in the 2003 NAIC Annual Statement, a security with a holding period left to maturity of thirteen months as a short term investment. Pursuant to SSAP No. 2, paragraph 10, only investments held less than one year qualify as short term investments. Additionally, the Company reported in the Notes to Financial Statements in the 2003 NAIC Annual Statement, that GHO did not hold any long-term bonds as of December 31, 2002 and 2003.

f. Acquisition date reported incorrectly
The Company reported in the 2003 NAIC Annual Statement the acquisition of a security on its settlement date, not the trade date. Pursuant to SSAP No. 26, paragraph 4 states that the acquisition date is the trade date, not the settlement date.

g. Affiliated companies and transaction disclosures
Group Health Services, Inc. (GHS) is a Washington stock corporation and Group Health Cooperative (GHC) owns 100% of the stock. GHS is inactive at the present time with

regards to business activity. GHS is not reported as an affiliate in the GHO 2003 NAIC Annual Statement pursuant to the NAIC 2003 Annual Statement Instructions.

Group Health of Washington (GHWA) is a Washington nonprofit membership corporation. GHC trustees are the sole members of GHWA. GHWA has no assets and is inactive at the present time with regards to business activity. GHWA is not reported as an affiliate in the GHO NAIC 2003 Annual Statement pursuant to the NAIC 2003 Annual Statement Instructions.

The 2003 NAIC Health Annual Statement Instructions (page 195) require "All insurers and reporting entity members of a holding company group...," to be listed on Sch. Y, Part 1, Organizational Chart. GHS and GHWA qualify as "reporting entity members," and should be included in the Organizational Chart.

There is also no mention of GHS or GHWA in Note No. 10 of the 2003 NAIC Annual Statement. The 2003 NAIC Health Annual Statement Instructions (page 117) requires annual statement disclosure of all material related party transactions. SSAP No. 25, paragraph 17.g., states that the relationship shall be disclosed, even though there are no transactions between the enterprises.

The Company is instructed to comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs; with RCW 48.43.097 which requires the filing of its financial statements in accordance with the NAIC AP&P Manual; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual.

2. **Investment Custodial Agreement**

The Company's custodial and safekeeping agreement with Bank of America (BOA) does not contain all the custodial agreement criteria as required by the 2003 NAIC Financial Condition Examiners Handbook (FCEH), Part 1 - General, Section IV.J. The 2003 NAIC Annual Statement Instructions for General Interrogatory No. 23 requires investment custodial safekeeping agreements to include language as required by the NAIC FCEH.

The Company also incorrectly listed BOA in General Interrogatory No. 23.01 on page 30 of the 2003 NAIC Annual Statement as having a custodial agreement that complies with the NAIC FCEH.

The Company is instructed to amend its custodial agreement with BOA to include the appropriate wording and criteria as set forth in the NAIC FCEH pursuant to WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions.

In connection with the incorrect statement in General Interrogatory No. 23.01, the Company is also instructed to comply with RCW 48.44.100 and file an accurate statement of its financial condition, transactions, and affairs.

3. **The Actuary Must Opine on all Required Items**

The consulting actuary stated in the certified Statement of Actuary Opinion (SAO) that the following amounts were not reviewed:

$21,236,724 Accrued Capitation & Hospital Risk Pool
$0 Accrued Medical Incentive Pool and Bonus Payments
$1,063,734 Unpaid Claims Adjustment Expenses
$1,747,870 Aggregate Health Policy Reserves (Unearned Premiums)
$0 Aggregate Health Claim Reserves
$0 Experience Rated Refunds

The NAIC Annual Statement Instructions requires the actuary to form an opinion on the items listed above.

WAC 284-07-060(2)(a) requires each health carrier to include with its NAIC Annual Statement a statement of actuarial opinion setting forth the actuary's opinion related to the insurer's reserves and other actuarial items, prepared in accordance with the appropriate NAIC Annual Statement Instructions and the NAIC AP&P Manual.

The Company is instructed to comply with WAC 284-07-060(2)(a) and include a SAO that is in compliance with the NAIC Annual Statement Instructions and the NAIC AP&P Manual.

4. **Health Carrier Holding Company Act Failure to Report**

Pursuant to RCW 48.31C.040, the Company is required to list all affiliates in Form B, Health Carrier Holding Company System Annual Registration Statement. GHS and GHWA were not included in Form B, Health Carrier Holding Company System Annual Registration Statement to the OIC for the reporting years 2001, 2002 and 2003.

The Company is instructed to comply with RCW 48.31C.040 and register with the OIC, reporting all information required for all companies in the holding company system.

5. **Collection of Funds by an Affiliate Company has not been Approved**

The collection of funds by GHC, an affiliate, is not supported by an inter-company management service agreement on file with OIC as required by RCW 48.31.C.050(2)(d). In addition, GHC collects funds on behalf of the Company in a bank account not under the exclusive control of the Company. The Company has an Administrative Service Agreement that does state that GHC will provide, "banking transactions, review and reconcile bank statements...", but this does not allow GHC to collect and deposit Company funds into a bank account not under the exclusive control of the Company.

The Company is instructed to collect funds in a bank account under its exclusive control as required by RCW 48.12.010 or to change the Administrative Service Agreement filed

with OIC to allow GHC to collect and deposit funds into a fiduciary bank account that is controlled by the Company.

COMMENTS AND RECOMMENDATIONS

1. **Disaster Recovery Plan**

The Company does not have a formal, written and tested disaster recovery plan.

It is recommended that the Company write, test and implement a disaster recovery plan that includes appropriate escalation procedures to resolve operational failures of the information system (IS) in a timely manner, as recommended by the NAIC.

2. **Business Contingency Plan**

The Company does not have a business contingency plan, for the administrative operations, based on a business impact analysis, which has been tested, and addresses all significant business activities, including financial functions, telecommunication services, data processing, and network services.

It is recommended that GHO implement a business contingency plan to address the continuation of all significant business activities, including financial functions, telecommunication services, and data processing services in the event of a disruption of normal business activities, as recommended by the NAIC. The plan should be in written format with copies kept in relevant off-site locations. The plan should include a restoration priority for all significant business activities, a list of critical computer programs, applications and data files, and a list of supplies needed to perform manual operations. The plan must clearly describe senior management's roles and responsibilities associated with the declaration of an emergency and identify specifically the officers who are authorized to declare an emergency and to initiate implementation of the plan. The ultimate responsibility for implementing a business contingency plan resides with the Board of Directors.

3. **Secured Program Holding Region**

GHO uses computer software called, ChangeMan, to control changes to program files. However, programmers still have access to a file after it has been reviewed and approved and have the ability to include unauthorized changes prior to moving the file into production.

It is recommended that a secured region on the network be created for the purpose of holding changed programs prior to being migrated into the secured production region. When a changed program has been tested, reviewed, and approved the reviewer should immediately transfer the approved program files to the secured holding region of the network, thus preventing unauthorized changes by a programmer. Currently, the reviewed and approved programs are not secured and a programmer has the ability to

insert unauthorized changes after the review. The unauthorized changes would then be transferred into the secured production region without management's knowledge.

4. **Record Retention Plan**

The record retention and disposition standards policy does not include any of the specific information required to comply with GHO's standards. The policy does not identify the specific types of records to be retained, the retention period for each record type, and the primary holder for each record type. The policy does not provide any information that can be used to verify compliance with the retention policy.

It is recommended that GHO revise the record retention and disposition standards policy to include specific detail relevant to the types of records being retained, the retention period for each type of record, and the primary holder for each type of record.

5. **Alternative Data Processing Site**

GHO does not have a written agreement or contract for the use of an alternative data center in the event the data facility necessitates relocation. Subsequent to the examination period, GHC began building a systems recovery site at its facility located in Spokane, Washington as a hot site for both GHC and GHO, but there are no formal, written procedures that identify the procedure for relocation of data processing operations. NAIC guidelines recommend procedures be formalized in written format and regularly tested to ensure data processing operations can be restored in a timely manner. Until the Spokane facility is operational, GHO does not have arrangements for an alternative site.

It is recommended that GHO prepare formal written procedures for the relocation of data processing operations to a specific alternative site and that the procedures be tested regularly to ensure data processing operations can be restored in a timely manner.

COMPANY PROFILE

Company History
Group Health Options, Inc. is a for-profit state of Washington domiciled health care service contractor (HCSC). The Company, originally named, Options Health Care, Incorporated was incorporated as a wholly owned subsidiary of Group Health Cooperative January 30, 1990. Options Health Care, Incorporated was issued a certificate of registration as a HCSC in the state of Washington on October 23, 1990 pursuant to RCW 48.44.015. The name was changed in December 2002 to Group Health Options, Inc.

Capitalization
The state of Washington requires domestic health care service contractors to maintain a minimum net worth of the greater of $3,000,000 or 2% of the first $150,000,000 of premium

revenues and 1% of premiums in excess of $150,000,000. Minimum net worth requirements pursuant to RCW 48.44.037 are met with 175,000 authorized, issued and outstanding shares of $10 par value common capital stock, $16,550,000 in gross paid in and contributed surplus, and $7,914,848 in unassigned funds, as of December 31, 2003.

Territory and Plan of Operation
GHO is licensed in Idaho and Washington. GHC and GHO entered into a medical services agreement through which GHC agreed to provide health care services to GHO enrollees on a capitated basis .

Growth of Company
The following reflects the growth of the Company as reported in its filed NAIC Annual Statement for the five year period under examination:

	1999	2000	2001	2002	2003
Assets, Liabilities, Capital and Surplus:					
Admitted Assets	$54,812,947	$71,143,605	$63,366,644	$64,907,028	$60,759,457
Liabilities	35,372,019	50,211,038	37,052,013	42,057,038	34,544,609
Capital and Surplus	19,440,928	20,932,567	26,314,631	22,849,990	26,214,848
Revenue and Expenses:					
Premiums Earned	280,525,161	297,784,514	323,329,839	347,130,056	345,652,691
Net Underwriting Deductions	280,538,843	297,190,572	319,710,324	350,775,171	341,409,550
Underwriting Gain or Loss	(13,682)	593,942	3,619,515	(3,645,115)	4,243,141
Investment and Other Income		1,451,617	972,384	327,805	229,435
Pre-Tax Income	(13,682)	2,045,559	4,591,899	(3,317,310)	4,472,576
Taxes Incurred		701,128	450,131	(437,610)	933,670
Net Income	($13,682)	$1,344,431	$4,141,768	($2,879,700)	$3,538,906

AFFILIATED COMPANIES

Group Health Cooperative
GHC, the parent company, was organized in 1945 in the state of Washington and received its original certificate of registration on April 7, 1976 as a health maintenance organization (HMO) pursuant to Chapter 48.46 RCW.

GHC owns and operates its own medical facilities throughout the state of Washington and hires medical support personnel to staff them. GHC also contracts with outside medical providers using a variety of reimbursement methods for services unavailable through its own facilities. GHC performs as an independent contractor and provides covered medical care services to GHO enrollees pursuant to a Medical Services Agreement.

Group Health Community Foundation (GHCF)
GHCF (formerly the Group Health/Kaiser Permanente Community Foundation) is a Washington nonprofit corporation organized September 28, 1983, and a supporting organization to GHC under section 509(a) of the Internal Revenue Code. GHCF is registered in the state of Washington as a Charitable Gift Annuity Organization and is organized exclusively to benefit, to perform the functions of, and to carry out the purposes of GHC by securing, investing, and allocating charitable gifts in order to support research, health careers training, health education, and other charitable programs that support the purpose of GHC. GHCF is a membership corporation and has no capital stock. The membership of GHCF consists of those persons elected as trustees of GHC, in their official capacities as GHC trustees.

Group Health Services, Inc. (GHS)
GHS is a Washington stock corporation and GHC owns 100% of the stock. GHS is inactive at the present time with regards to business activity.

GHO has not reported GHS as an affiliate pursuant to Chapter 48.31C RCW, Holding Company Act for Health Care Service Contractors and Health Maintenance Organizations. GHS is also not reported in the GHO NAIC 2003 Annual Statement, Schedule D and Schedule Y, pursuant to the NAIC 2003 Annual Statement Instructions. (See Instruction No. 1.g. and No. 4)

Group Health of Washington (GHWA)
GHWA is a Washington nonprofit membership corporation. GHC trustees are the sole members of GHWA. GHWA has no assets and is inactive at the present time with regards to business activity.

GHO has not reported GHWA as an affiliate pursuant to Chapter 48.31C RCW, Holding Company Act for Health Care Service Contractors and Health Maintenance Organizations. GHWA is also not reported in the GHO NAIC 2003 Annual Statement, Schedule D and Schedule Y, pursuant to the NAIC 2003 Annual Statement Instructions. (See Instruction No.1.g. and No. 4)

INTERCOMPANY AGREEMENTS

The Company had several in-force agreements. As a member of an insurance company holding system, these agreements and any amendments with effective dates May 7, 2001 and later must be filed with the OIC pursuant to RCW 48.31C.050(2). As of December 31, 2003, the Company had the following material intercompany agreements in force:

Administrative Services Agreement (ASA between GHC and GHO)
The current ASA was effective January 1, 2001 and has been subject to amendment over the years. It is indefinite in term, subject to termination with or without cause pursuant to the terms of the contract. Generally, GHO engages GHC to provide to or on behalf of GHO the administrative services described in Schedule A of the agreement pursuant to the terms and conditions of the agreement. The ASA and subsequent amendments have been filed with and commented upon in the Annual Registration Statement, Form B, as required by RCW

48.31C.040 of the Health Carrier Holding Company Act.

Medical Services Agreement
The current MSA was effective January 1, 2001 and has been subject to amendment over the years. It is indefinite in term, subject to termination with or without cause pursuant to the terms of the contract. GHC performs as an independent contractor and provides covered medical care services to GHO enrollees who elect to receive care from GHC as described within this agreement. The MSA and subsequent amendments have been filed with and commented upon in the Annual Registration Statement, Form B, as required by RCW 48.31C.040 of the Health Carrier Holding Company Act.

MANAGEMENT AND CONTROL

Ownership
The Company's Articles of Incorporation authorized the issuance of one hundred seventy five thousand (175,000) shares of $10 par value common capital stock. One hundred percent of the authorized, issued and outstanding shares are owned directly by the corporation's parent, GHC.

Board of Directors (BOD)
Control of the Company is vested in the BOD, which consists of seven members pursuant to Article 3 of the Corporate Bylaws. Directors are elected at the annual shareholders' meeting pursuant to Article 2.1 of the Corporate Bylaws. The following individuals were directors as of December 31, 2003:

Scott Elliot Armstrong	Ruth Ann Ballweg
Grant Hamro Hendrickson	Cheryl Marion Scott
Gloria Janeen Smith	Stephen Leslie Tarnoff
James Ward Truess	

Officers
Officers are elected for a one year term by the BOD at the first BOD meeting after each annual shareholders meeting pursuant to Article 5 of the Corporate Bylaws. Officers as of December 31, 2003 were:

Maureen Patricia McLaughlin	President
Rick Dale Woods	Secretary
James Ward Truess	Treasurer
Cheryl Marion Scott	Chair, Board of Directors
Vacant	Vice Chair, Board of Directors
Vacant	Vice President
Sarah Barian Yates	Assistant Secretary

Conflict of Interest
The Company has adequate reporting procedures in place to reveal potential conflicts of interest to the BOD.

Fidelity Bond and Other Insurance
The Company is a named insured on a Financial Institution Fidelity Bond. An aggregate loss limit of coverage in the amount of $10,000,000 is provided for all of the affiliated companies insured and the single loss deductible is $50,000. The minimum amount recommended by the NAIC for the insured companies is $2,000,000 to $2,250,000. The aggregate amount of coverage meets the NAIC recommended level for the Company.

The Company is also provided protection against certain property and liability losses as a named insured on several other purchased insurance policies. Policies in effect at December 31, 2003 provided the following coverages:

- Directors and officers liability insurance including employment practices liability coverage.
- Fiduciary liability.
- Professional, general, automobile and employers liability.
- Kidnap/ransom and extortion.
- Property.
- Excess workers' compensation.
- Errors and omissions.

Officers', Employees', and Agents' Welfare and Pension Plans

GHO does not have employees of its own. GHO engages GHC to provide administrative services described in Schedule A of the ASA to GHO pursuant to the terms and conditions of the agreement.

ACTUARIAL REVIEW

The OIC health actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2003. This review included: examining the Company's reserving philosophy and methods to determine the reasonableness of the claim liabilities, verifying that claim liabilities included provisions for all components noted in SSAP No. 55, paragraphs 7 and 8, reviewing historical paid claims and loss ratios, checking the consistency of the incurred-paid data from the Company system to the amounts reported in the 2003 NAIC Annual Statement, and estimating claims unpaid as of December 31, 2003.

The OIC health actuary determined that the Company's consulting actuary did not review a number of actuarial items that are required to be reviewed by the NAIC Annual Statement Instructions. (See Instruction No. 3)

REINSURANCE

The Company did not participant in any reinsurance contracts as of December 31, 2003.

STATUTORY DEPOSITS

The OIC requires the filing of the underwriting of indemnity calculation or the funded reserve form. The agreement of the health care provider for the uncovered expenditure obligations to the enrolled participants can be guaranteed by cash, securities deposits, surety bond, or an insurance policy pursuant to the requirements within WAC 284-44-320, WAC 284-44-330, and WAC 284-44-340. GHO has chosen to purchase a health care service contractor bond (surety bond) to meet the requirements of RCW 48.44.030.

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The parent company, Group Health Cooperative, performs these services for GHO pursuant to an Administrative Services Agreement.

GHO maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for NAIC annual statement reporting. The Company is audited annually by the certified public accounting firm of Deloitte & Touche LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

During the review of Exhibit C – Information Systems Questionnaire, the records retention policy was reviewed. The policy states that retention standards shall be developed for all GHO records; the standards shall specify the relevant retention periods; and shall specify the primary holder of each record. GHO department managers are responsible for ensuring compliance with and maintenance of record retention policies and procedures.

A review of the submitted policy concluded that the policy was only a list of standards and does not include any of the specific information required to comply with GHO's standards. The policy does not identify the specific types of records to be retained, the retention period for each record type, and the primary holder for each record type. The policy does not provide either the GHO department manager or OIC examiner with any information that can be used to verify compliance with the retention policy. The retention policy needs to be revised to include the specific information relevant to the types of records being retained. (See Comments and Recommendations No. 4)

The GHC's IS Department provides data processing services and support for the administrative operations (accounting, premium billing, claims processing, etc.) and health plan facilities (clinics, specialty centers, hospitals, etc.) for the Company.

Systems development, acquisition and maintenance controls were reviewed and evaluated. The internal controls for program changes need to be strengthened. GHO does not secure or limit access to programs after changes have been reviewed and approved, allowing a programmer

access to the reviewed program and the opportunity to insert unauthorized changes prior to transferring the program into production. (See Comments and Recommendations No. 3)

Operations and application controls were reviewed to determine the type of hardware installed, operating systems and proprietary software in use, and the controls exercised to maintain data security. Appropriate internal controls are in place for the operation of the main frame and network systems.

During the examination period, GHO did not have a formal, written business contingency plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC guidelines. (See Comments and Recommendations No. 2)

During the examination period, GHO did not have a formal, written and tested disaster recovery plan that includes appropriate escalation procedures to resolve operational failures of the IS system in a timely manner, as recommended by NAIC guidelines. (See Comments and Recommendations No. 1)

During the examination period, GHO did not have a written agreement or contract for the use of an alternative data center in the event the data facility necessitates relocation. (See Comments and Recommendations No. 5)

Subsequent to the examination period, GHO has been working with three different consulting groups to prepare a business contingency plan and a disaster recovery plan. Also, GHC has begun building a systems recovery site at its facility located in Spokane, Washington, which will function as a hot site for both GHC and GHO.

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of Group Health Options, Inc., as of December 31, 2003:

Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Five Year Reconciliation of Surplus

GROUP HEALTH OPTIONS, INC.
ASSETS, LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2003

	BALANCE PER COMPANY	REF.	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Assets				
Cash and short-term investments	$20,049,134		$0	$20,049,134
Investment income due and accrued	7,540			7,540
Uncollected premiums and agents' balances	5,803,105			5,803,105
Current federal and foreign income tax recoverable and interest thereon	135,039			135,039
Net deferred tax asset	361,495			361,495
Receivable from parent, subsidiaries and affiliates	33,924,489			33,924,489
Aggregate write-ins for other than invested assets: Miscellaneous assets	478,655			478,655
Total Assets	**$60,759,457**		**$0**	**$60,759,457**
Liabilities, Capital, and Surplus				
Claims unpaid	$29,240,730		$0	$29,240,730
Unpaid claims adjustment expenses	1,063,734			1,063,734
Aggregate health policy reserves	1,747,870	1	(1,747,870)	0
Premiums received in advance		1	1,747,870	1,747,870
General expenses due or accrued	2,492,275			2,492,275
Total Liabilities	**34,544,609**		**0**	**34,544,609**
Common capital stock	1,750,000			1,750,000
Gross paid in and contributed surplus	16,550,000			16,550,000
Unassigned funds (surplus)	7,914,848			7,914,848
Total Capital and Surplus	26,214,848		0	26,214,848
Total Liabilities, Capital and Surplus	**$60,759,457**		**$0**	**$60,759,457**

GROUP HEALTH OPTIONS, INC.
STATEMENT OF REVENUE AND EXPENSES
DECEMBER 31, 2003

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Member months	5,342,456		5,342,456
Net premium income	$345,135,788	$0	$345,135,788
Change in unearned premium reserves	516,903		516,903
Total revenues	345,652,691	0	345,652,691
Hospital and Medical:			
Hospital/medical benefits	295,154,762		295,154,762
Other professional services	(213,211)		(213,211)
Prescription drugs	9,437,792		9,437,792
Subtotal	304,379,343	0	304,379,343
Less:			
Net reinsurance recoveries	0		0
Total hospital and medical	304,379,343		304,379,343
Claims adjustment expenses	13,924,811		13,924,811
General administrative expenses	23,105,396		23,105,396
Total underwriting deductions	341,409,550	0	341,409,550
Net underwriting gain or (loss)	4,243,141	0	4,243,141
Net investment income earned	192,964		192,964
Aggregate write-ins for other income or exspenses	36,471		36,471
Net income or (loss) before FIT	4,472,576	0	4,472,576
Federal and foreign income taxes incurred	933,670		933,670
Net Income (Loss)	**$3,538,906**	**$0**	**$3,538,906**
CAPITAL AND SURPLUS ACCOUNT			
Capital and surplus prior reporting period	$22,849,990	$0	$22,849,990
Net Income (Loss) from above	3,538,906		3,538,906
Change in net dererred income tax	(589,405)		(589,405)
Change in nonadmitted assets	931,641		931,641
Cumulative effect of changes in accounting principles	(516,284)		(516,284)
Net change in capital and surplus	3,364,858		3,364,858
Capital and surplus end of reporting period	**$26,214,848**	**$0**	**$26,214,848**

GROUP HEALTH OPTIONS, INC.
SURPLUS RECONCILIATION
FOR THE YEARS ENDED DECEMBER 31

	2003	2002	2001	2000	1999
Capital and Surplus, Prior Reporting Year	$22,849,990	$26,314,631	$20,932,567	$19,440,928	$19,035,658
Net income or (loss)	3,538,906	(2,879,700)	4,141,768	1,344,431	(13,682)
Change in net deferred income tax	(589,405)	673,316	(1,107,875)		
Change in nonadmitted assets	931,641	(774,864)	(280,818)	147,208	420,873
Cumulative effect of changes in accounting principles	(516,284)	(483,393)	2,628,989		
Aggregate write-ins for gains or (losses) in surplus:					
1999 Audit adjustment					(1,921)
Net change in capital and surplus	3,364,858	(3,464,641)	5,382,064	1,491,639	405,270
Capital and surplus, end of reporting period	**$26,214,848**	**$22,849,990**	**$26,314,631**	**$20,932,567**	**$19,440,928**

NOTES TO THE FINANCIAL STATEMENTS

The Company has no special consents, permitted practices or orders from the state of Washington. There was one examination adjustment.

1. GHO reported $1,747,870 as Aggregate health policy reserves in the 2003 NAIC Annual Statement. That amount was determined to be Premiums received in advance. An examination reclassification adjustment debiting Aggregate health policy reserves, and crediting Premiums received in advance is reflected in the preceding financial statement.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of Group Health Options, Inc., during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Carl M. Baker, CPA, CFE, CISA, Supervising Examiner; John Jacobson, AFE, Information Systems Specialist; Lichiou Lee, ASA, MAAA, Health Actuary; Adrienne DeBella, Insurance Examiner; Friday P. Enoye, Insurance Examiner and Youngjae Lee, Insurance Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

Larry A. Omdal
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
} **ss**
COUNTY OF KING }

Larry A. Omdal, being duly sworn, deposes and says that the foregoing report subscribed is true to the best of his knowledge and belief.

He attests that the examination of Group Health Options, Inc. performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

Larry A. Omdal
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 1st day of September, 2006.

Notary Public in and for the
State of Washington