STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION

OF

DaVita VillageHealth Insurance of Alabama, Inc.

Birmingham, Alabama

AS OF

DECEMBER 31, 2008
# TABLE OF CONTENTS

EXAMINER AFFIDAVIT .................................................................................. iii
SALUTATION ...................................................................................... 1
SCOPE OF EXAMINATION ........................................................................ 2
ORGANIZATION AND HISTORY ............................................................... 3
MANAGEMENT AND CONTROL ............................................................... 4
  Stockholder .................................................................................. 4
  Board of Directors ........................................................................ 4
  Committees ................................................................................. 5
  Officers ....................................................................................... 5
  Conflict of Interest ....................................................................... 6
CORPORATE RECORDS ............................................................................. 6
HOLDING COMPANY AND AFFILIATE MATTERS ...................................... 6
  Holding Company Registration ....................................................... 6
  Dividends to Stockholder ............................................................... 6
  Management and Service Agreements ............................................. 7
  Organizational Chart .................................................................... 8
FIDELITY BOND AND OTHER INSURANCE ............................................. 10
EMPLOYEE WELFARE ........................................................................... 10
SPECIAL DEPOSITS .............................................................................. 10
FINANCIAL CONDITION/GROWTH OF THE COMPANY ........................... 11
SCHEDULE T- PREMIUMS AND OTHER CONSIDERATIONS .................. 11
LOSS EXPERIENCE .............................................................................. 11
MARKET CONDUCT ACTIVITIES ............................................................ 12
  Territory .................................................................................... 12
  Underwriting and Rating .............................................................. 12
  Plan of Operation ....................................................................... 12
  Producer Licensing ...................................................................... 12
  Compliance with ALA. ADMIN. CODE 482-I-211 (2003) ................. 13
REINSURANCE ..................................................................................... 13
  Reinsurance Assumed ................................................................ 13
  Reinsurance Ceded ..................................................................... 14
STATE OF ALABAMA
COUNTY OF JEFFERSON

Rhonda B. Ball, being first duly sworn, upon her oath deposes and says:

THAT she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

THAT an examination was made of the affairs and financial condition of DaVita VillageHealth Insurance of Alabama, Inc., for the period of April 3, 2007 through December 31, 2008;

THAT the following 26 pages constitute the report to the Commissioner of Insurance of the State of Alabama; and

THAT the statements, exhibits and data therein contained are true and correct to the best of her knowledge and belief.

Rhonda B. Ball

Subscribed and sworn to before the undersigned authority this 20th day of July, 2009.

Pamela P. Whitfield
(Signature of Notary Public)
(Pamela P. Whitfield) Notary Public
(Print Name)

in and for the State of Alabama

My Commission Expires 11/08/2010

My commission expires
Birmingham, Alabama
July 20, 2009

Honorable Jim Ridling
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination as of December 31, 2008 has been made of

DaVita VillageHealth Insurance of Alabama, Inc.

located at 3500 Colonnade Parkway, Suite 525; Birmingham, Alabama 35243. The report of examination is submitted herewith.

Where the description “Company” appears herein, without qualification, it will be understood to indicate DaVita VillageHealth Insurance of Alabama, Inc.
SCOPE OF EXAMINATION

An examiner representing the State of Alabama conducted an organizational examination on the Company as of April 2, 2007. The Alabama Department of Insurance issued the Company a certificate of authority on May 31, 2007. The current examination covers the intervening period from the date of the last examination through December 31, 2008 and was conducted by examiners representing the State of Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to 2008 were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department’s regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2008 and to identify the Company’s prospective risks by obtaining information about the Company including corporate governance. In addition, the examination was planned and performed to identify and assess inherent risks within the Company and to evaluate system controls and procedures used to mitigate those risks. The examination also included 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.

A review of the Company’s information systems (IS) was conducted concurrently with the financial examination. The IS examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls and network and internet controls.

The market conduct phase of the examination consisted of a review of the Company’s territory, plan of operation, underwriting and rating, producer licensing, and compliance with requirements of ALA ADMIN. CODE 482-1-121 (2003).

The Company’s 2008 annual statement was compared with or reconciled to the corresponding general ledger account balances.

The Company was exempt from the 2007 CPA audit report due to less than $1
million in premiums and less than 1,000 policyholders under ALA ADMIN. CODE
482-1-100-03. KPMG, LLP conducted the Company's 2008 CPA audit. The CPAs'
work papers were utilized in the examination as deemed appropriate by the examiners.

A signed certificate of representation was obtained during the course of the
examination. In this certificate, management attested to having valid title to all assets
and to the nonexistence of unrecorded liabilities as of December 31, 2008. A signed
letter of representation was also obtained at the conclusion of the examination,
whereby management represented that, through the date of this examination report,
complete disclosure was made to the examiners regarding asset and liability valuation,
financial position of the Company, and contingent liabilities.

ORGANIZATION AND HISTORY

The Company was incorporated on January 23, 2007, under the laws of the State of
Alabama. The Articles of Incorporation were filed for record in the office of Probate
Judge, Reese McKinney, Jr., of Montgomery County, Alabama.

Paragraph two of the Articles of Incorporation authorized 1,000,000 shares of
common stock with a par value of $1 per share, with an aggregate value of $1,000,000.

Paragraph three of the Articles of Incorporation lists the purpose or purposes for
which the organization was incorporated. The primary purpose of incorporation was:

“(1) transacting insurance as authorized from time to time pursuant to the
Alabama Insurance Code (as amended and supplemented from time to time,
the ‘Code’), including life insurance and accident and health insurance
(commonly known as disability insurance) as described in Section 27-5-4 of the
Code, together with other activities reasonably incidental or supplemental
thereto, and (ii) engaging in any other lawful act or activity for which a
corporation may be organized under the laws of the State of Alabama.”

The Company issued 1,000,000 shares of common capital stock, fully paid-up, and
commenced business with capitalization of $2,500,000. The paid-in capital consisted
of 1,000,000 shares of common capital stock with a par value of $1 per share, for
$1,000,000, and paid-in surplus for $1,500,000. At December 31, 2008, the Company
had $1,000,000 in common capital stock and $6,787,880 for gross paid in and
contributed surplus.
MANAGEMENT AND CONTROL

Stockholder

At December 31, 2008, DaVita VillageHealth, Inc. owned 100% of the Company’s common capital stock.

The Company’s stockholder had no annual meeting during the examination period. This was not in compliance with ARTICLE II, Section 2 of the Company’s By-laws, which states:

“Annual meetings of stockholders shall be held at such date and time as shall be designated from time to time by the board of directors and stated in the notice of the meeting, at which they shall elect the board of directors in accordance with the terms of Article III hereof, and transact such other business as may properly be brought before the meeting.”

Also, according to ALA. CODE § 27-27-23 (1975), “Directors must be elected by the member or stockholders of a domestic insurer at the annual meeting of stockholders or members.”

Board of Directors

The Company’s-By-laws provided that the business and affairs of the Corporation shall be managed under the direction of the Board of Directors. ARTICLE III, Section 2 of the By-laws, states:

“The board of directors shall consist of no less than three (3) nor more than nine (9) members, with the number of directors to be determined by action of the Board of Directors and which shall at all times be consistent with applicable law. At least one-third (1/3) of the number of directors (or such greater or lesser amount as may be required by applicable law from time to time) will be individuals who are residents of Alabama.”

There were no shareholder’s minutes provided by the Company reflecting the election of the Company’s Board of Directors. According to the Company's Jurat page in its 2008 Annual Statement, the Board of Directors serving at December 31, 2008 were:
<table>
<thead>
<tr>
<th>Name and Residence</th>
<th>Principal Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angela Theresa Kurosaka</td>
<td>Vice President of Support Services-DaVita, Inc.</td>
</tr>
<tr>
<td>Birmingham, Alabama</td>
<td></td>
</tr>
<tr>
<td>Thomas Orville Usilton, Jr.</td>
<td>Senior Vice President-DaVita, Inc.</td>
</tr>
<tr>
<td>Atlanta, Georgia</td>
<td></td>
</tr>
<tr>
<td>Leslie June Rice</td>
<td>Vice President of Finance-DaVita VillageHealth, Inc.</td>
</tr>
<tr>
<td>Tacoma, Washington</td>
<td></td>
</tr>
<tr>
<td>Jess Inghram Parks</td>
<td>General Manager-DaVita VillageHealth, Inc.</td>
</tr>
<tr>
<td>Vernon Hills, Illinois</td>
<td></td>
</tr>
<tr>
<td>Brandon Dana King</td>
<td>People Services Manager-DaVita, Inc.</td>
</tr>
<tr>
<td>Birmingham, Alabama</td>
<td></td>
</tr>
</tbody>
</table>

**Committees**

The Company had no committees during the examination period.

**Officers**

ARTICLE V, Section 1, of the By-laws states:

"The officers of the Corporation shall be chosen by the board of directors and shall be a president, a chief operating officer, a secretary, a treasurer and a chief medical officer. The board of directors may also designate additional officers with whatever titles are determined to be appropriate and all of whom shall be considered officers with whatever titles are determined to be appropriate and all of whom shall be considered officers according to these by-laws, including one or more vice presidents and one or more assistant secretaries and assistant treasurers. Any number of offices may be held by the same person, unless the articles of incorporation or these by-laws otherwise provide."

At December 31, 2008, the following officers were serving:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jess Inghram Parks</td>
<td>President and CEO</td>
</tr>
<tr>
<td>Scott David Ireland</td>
<td>Secretary and COO</td>
</tr>
<tr>
<td>Corinna Bernice Polk</td>
<td>Assistant Secretary</td>
</tr>
<tr>
<td>Leslie June Rice</td>
<td>Treasurer and CFO</td>
</tr>
<tr>
<td>Steve Irving Grieger</td>
<td>Assistant Treasurer</td>
</tr>
<tr>
<td>Allen Richard Nissenson</td>
<td>Chief Medical Officer</td>
</tr>
</tbody>
</table>
Conflict of Interest

The Company provided conflict of interest statements for 2008 for all of its officers and directors. No conflicts affecting the Company were disclosed.

CORPORATE RECORDS

The Company’s Certificate of Incorporation, as filed with the Montgomery County Judge of Probate, and By-laws, as established by the Board of Directors, were inspected during the course of this examination and appeared to provide for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations.

Minutes of the meetings of the Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with regard to actions taken on matters before the respective bodies for deliberation and action, except as noted otherwise in this report.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company is deemed to be subject to the provisions of the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE § 27-29-1 (1975) by virtue of the control held by its sole shareholder, DaVita VillageHealth, Inc. Since the Company is a member of a holding company system, the Company is required to file annual registration statements in accordance with ALA. CODE § 27-29-4(a) (1975), which states: “Registration. – Every insurer which is authorized to do business in this state and which is a member of an insurance holding company system shall register with the commissioner, except a foreign insurer subject to registration requirements…”

The Company made the appropriate holding company filings under the Holding Company Act.

Dividends to Stockholder

There were no dividends paid to the stockholder during the examination period.
Management and Service Agreements

The Company had one management and service agreement with DaVita VillageHealth, Inc. (DVH), which was effective on January 1, 2008.

DVH shall provide or arrange to perform all duties and functions that are required for the Company's development, implementation and operation of the Company.

The Company is responsible for paying DVH an Administrative Fee on a quarterly basis, due on the fifteenth of the month, following the end of the quarter. The Company also compensates DVH for costs incurred for services performed under the agreement. The amount paid for services will be reviewed on an annual basis and within sixty days of DVH's fiscal year end.

Term of the agreement: initial term three years and then the agreement will automatically renew every three years. Either party must notify the other in writing at least 180 days in advance of not renewing the agreement.

Exhibit A:

Personnel: DVH is required to keep the Company's president/CEO informed of the names of management and supervisory employees who are assigned to provide management service for the Company. The Company's Board of Directors shall appoint its officers.

Planning & Development: DVH is responsible for providing the Company’s Board of Directors with any objectives or plans for their approval.

Legal Services: DVH can retain legal counsel on behalf of the Company with the approval of the Company’s Board of Directors.

Operations: DVH can implement and carry out the following operational activities: billing and collections; customer service; claims and capitation administration; financial reporting and analysis; treasury services; internal audit; tax services; office facilities and services; financial monitoring of contract providers (contract analysis); personnel management and payroll services; and recommend Medicare reimbursement structures.

Health Care Services: DVH can prepare and negotiate agreements with duly licensed physicians, hospitals and providers for the Company’s members. DVH can implement the following health care services: quality improvement, utilization management; disease management and health improvement services (wellness programs); grievances and appeals; and develop and maintain information systems (hardware and software).
This agreement was approved by the Alabama Department of Insurance.

Organizational Chart

The following details the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2008:
FIDELITY BOND AND OTHER INSURANCE

The Company was covered under its ultimate parent’s, DaVita, Inc., fidelity bond policy issued by XL Specialty Insurance Company. This policy met the suggested minimum requirements of the NAIC Financial Examiners Handbook. In addition to the aforementioned fidelity bond, the Company also maintained the following coverages to protect it against hazards to which it may be exposed:

- Employee Benefit Plan Fiduciary Liability
- Blanket Crime Policy
- Managed Care Risk Solutions

The coverages and limits carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company’s interests at the examination date.

EMPLOYEE WELFARE

The Company had no employees. Administrative and operational functions for the Company were provided by DaVita VillageHealth, Inc. via a management and service agreement. Persons employed by DaVita VillageHealth, Inc. were offered the following benefits:

- Paid Time Off
- Company Holidays
- Health and Dental Plans
- Vision Care
- Health Care Spending Account
- Adoption Assistance
- Education Benefits
- Short-term and Long-term Disability
- Employee Assistance Program

SPECIAL DEPOSITS

In accordance with the requirements of ALA. CODE § 27-3-11 (a) (1975), as amended, the Company maintained the following deposit with the State of Alabama, at December 31, 2008:
United States Treasury Note

<table>
<thead>
<tr>
<th>Par Value</th>
<th>Statement Value</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>$100,807</td>
<td>$101,414</td>
</tr>
</tbody>
</table>

**Total**

$100,000       $100,807       $101,414

**FINANCIAL CONDITION/GROWTH OF THE COMPANY**

The following schedule presents financial data, which reflects the growth of the Company for the years indicated:

<table>
<thead>
<tr>
<th></th>
<th>Admitted Assets</th>
<th>Liabilities</th>
<th>Capital &amp; Surplus</th>
<th>Premiums Earned</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$2,708,060</td>
<td>$35,991</td>
<td>$2,672,069</td>
<td>$0</td>
</tr>
</tbody>
</table>

*Per Examination

**SCHEDULE T- PREMIUMS AND OTHER CONSIDERATIONS**

The Company began operations in 2008. The following presents premiums written for 2008:

<table>
<thead>
<tr>
<th>State</th>
<th>Medicare Title XVIII</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>$4,118,190</td>
</tr>
</tbody>
</table>

**TOTAL**

$4,118,190

**LOSS EXPERIENCE**

The following is the percentage of losses incurred and loss expenses to premiums earned for 2008:

**2008**

90.99%
MARKET CONDUCT ACTIVITIES

Territory

The Company was issued a perpetual certificate of authority effective May 31, 2007 for Life, Disability and Annuities. The Company was only authorized to transact business in the state of Alabama. Premiums are received through reimbursement of Title XVIII - Medicare.

DaVita VillageHealth Insurance of Alabama, Inc. (DVH of AL) only operates in the state of Alabama and does not have pending licenses in other states. However, the Company's parent, DaVita VillageHealth Inc. (DVH Inc.), has separate subsidiaries that operate in the states of Georgia, Ohio, Virginia and the District of Columbia. Each of these other health plan entities has their own health plan licenses and funding.

Underwriting and Rating

The policy forms utilized by the Company are filed with Centers for Medicare and Medicaid Services (CMS). There have been no policy forms or rate filings filed with the Alabama Department of Insurance.

Plan of Operation

The Company markets its product to prospective End-Stage Renal Disease (ESRD) Medicare members. Members are eligible to join if they are entitled to Medicare Part A, enrolled in Medicare Part B, and reside in the service area of Jefferson County, Alabama. Because ESRD has a very low prevalence rate, the Company focuses on a very targeted group of patients receiving dialysis in dialysis centers and ESRD patients of nephrologists (primary physician whose specialty is dealing with ESRD). The Company has a network of physicians, specialists, hospitals, and pharmacies. Much of the information about the Company is supplied through informational materials (pamphlets and brochures), the Company's website, and personal interaction of the member associate with the prospective patient.

Producer Licensing

The Company utilizes a trained membership associate, who is employed by its parent company, DaVita VillageHealth, Inc. (DVH), to market its product to prospective End-Stage Renal Disease (ESRD) Medicare members. This trained membership associate did have an Alabama insurance license; however, the associate was not
appointed by the Company to sell the Company's business. The 2008 written premiums by the associate that was not appointed were $4,118,190. According to ALA CODE § 27-7-4(a)(1975), “(a) No person shall in this state sell, solicit, or negotiate insurance for any class or classes of insurance unless the person is then licensed for that line of authority in accordance with this chapter. Any insurer accepting business directly from a person not licensed for that line of authority and not appointed by the insurer shall be liable to a fine up to three times the premium received from the person.”

The Company also did not notify the Department of the designated contact person for the appointment of producers, which was not in accordance with ALA. ADMIN. CODE 482-1-109-.04 (2002), which states: “(1) The Department will develop and maintain a list of contacts with insurers representing a person for each insurer designated by the insurer to be responsible for the continuation of appointment for producers and service representatives. (2) All insurers will provide the following information to the Department regarding this designated person: Insurer name, designated person's name and title, mailing address, telephone number, facsimile number, and E-mail address.”

**Compliance with ALA. ADMIN. CODE 482-1-121 (2003)**

The Company complied with the requirements of ALA. ADMIN. CODE 482-1-121 (2003), which requires that: “Failure to inform the Department of a prior felony conviction on a license application could result in a violation of this statute, as well as constitute grounds for denial of an insurance license. Insurance companies, as well as persons employing anyone to conduct the business of insurance may be in violation of this statute if they willfully permit participation by a prohibited person, including persons who are already employed or being considered for employment. Failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred.”

The Company's parent, DaVita VillageHealth, Inc., has a screening process in place for new hires and for existing employees.

**REINSURANCE**

**Reinsurance Assumed**

The Company had no assumed reinsurance for the examination period.
Reinsurance Ceded

During the course of this examination, the Company had one reinsurance contract in effect. The contract was reviewed with regard to type, limits, and pertinent safeguards. The Company ceded reinsurance under an excess loss agreement with Munich American Reassurance Company. The following was noted during the review of the agreement:

Terms of Coverage: 12 months at January 1, 2008

Coverage: Renal Care Special Needs Plan policies (Medicare Advantage policies)

Limits on Coverage: 90% of Ultimate Net Loss, each member, in excess of the Company's retention of $250,000 not to exceed $1,575,000 each member.

The contract contained an insolvency clause, which provided for reinsurance payments to a liquidator, receiver or statutory successor without diminution in the event of the insolvency of the Company. No reserve credits were taken for reinsurance ceded by the Company during the examination period.

ACCOUNTS AND RECORDS

During a review of the Company's responses to the NAIC Financial Condition Examiner's Handbook, Exhibit C, "Evaluation of Controls in Information Systems (IS)," it could not be determined if the Company maintained a business contingency plan. The lack of a business contingency plan significantly increases the risk the Company will not be able to efficiently recover from an adverse event.

The Company's opining actuary for 2008 was Edward Jhu, FSA, MAAA, who is associated with the consulting actuarial firm of Milliman, Inc., Consultants and Actuaries.

The Company did not maintain all of its records nor its principal place of business in Alabama. All items with the exception of the 2007 and 2008 financial filings and trial balances were provided by the examination contact in Tacoma, Washington. This was not in accordance with ALA CODE § 27-27-29 (1975), which states: "Every domestic insurer shall have, and maintain, its principal place of business and home
office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

The Company did not always provide requested information within ten working days, as is required by ALA. ADMIN. CODE 482-1-118-.06 (1999), which states: “The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. …”

FINANCIAL STATEMENTS INDEX

The Financial Statements included in this report were prepared in conformity with those accounting practices prescribed or permitted by the Commissioner of Insurance for the State of Alabama utilizing Company records and is intended to depict the statutory financial condition of the Company as of December 31, 2008. The information reported therein has been verified by the examiner to the extent deemed necessary. The notes immediately following the Financial Statements in this report are an integral part thereof.

| Statement of Assets, Liabilities, Surplus and Other Funds | 16 |
| Statement of Revenue and Expenses | 17 |
| Capital and Surplus Account | 17 |

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.
DaVita VillageHealth Insurance of Alabama, Inc.

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
For the Period Ended December 31, 2008

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Assets</th>
<th>Not Admitted</th>
<th>Net Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stocks (Note 1)</td>
<td>$3,639,444</td>
<td>$3,639,444</td>
<td>$ 0</td>
</tr>
<tr>
<td>Cash ($252,376) and Short-term investments ($100,807)</td>
<td>353,183</td>
<td>0</td>
<td>353,183</td>
</tr>
<tr>
<td>Subtotals, cash and invested assets</td>
<td>$3,992,627</td>
<td>$3,639,444</td>
<td>$ 353,183</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>4,757</td>
<td>0</td>
<td>4,757</td>
</tr>
<tr>
<td>Uncollected premiums</td>
<td>45,824</td>
<td>1,434</td>
<td>44,390</td>
</tr>
<tr>
<td>Current federal and foreign income tax recoverable and interest thereon (Note 2)</td>
<td>2,368,545</td>
<td>$2,368,545</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>$6,411,753</td>
<td>$6,009,423</td>
<td>$ 402,330</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>Covered</th>
<th>Uncovered</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims unpaid (Note 3)</td>
<td>$1,011,811</td>
<td>$58,641</td>
<td>$1,070,452</td>
</tr>
<tr>
<td>Unpaid claims adjustment expenses</td>
<td>56,701</td>
<td>56,701</td>
<td></td>
</tr>
<tr>
<td>Aggregate life policy reserves</td>
<td>1,048,898</td>
<td>1,048,898</td>
<td></td>
</tr>
<tr>
<td>Premiums received in advance</td>
<td>3,607</td>
<td>3,607</td>
<td></td>
</tr>
<tr>
<td>General expenses due or accrued</td>
<td>28,598</td>
<td>28,598</td>
<td></td>
</tr>
<tr>
<td>Current Federal and foreign income tax payable and interest thereon (Note 2)</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Ceded reinsurance premiums payable</td>
<td>3,768</td>
<td>3,768</td>
<td></td>
</tr>
<tr>
<td>Liability for amounts held under uninsured plans</td>
<td>83,606</td>
<td>0</td>
<td>83,606</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>$2,213,585</td>
<td>$58,641</td>
<td>$2,292,226</td>
</tr>
</tbody>
</table>

Common capital stock | $1,000,000 |
Gross paid in & contributed surplus | 6,787,880 |
Unassigned funds (surplus) (Note 4) | -9,681,181 |
TOTAL CAPITAL AND SURPLUS | -1,893,301 |

TOTAL LIABILITIES, CAPITAL & SURPLUS | $ 402,330 |

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF
DaVita Village Health Insurance of Alabama, Inc.
STATEMENT OF REVENUE AND EXPENSES
For the Period Ended December 31, 2008

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net premium income</td>
<td>$4,091,285</td>
<td></td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$4,091,285</td>
<td></td>
</tr>
</tbody>
</table>

**Hospital and Medical:**

- Hospital/medical benefits: $1,960,548
- Other professional services: $1,370,650
- Emergency room & out-of-area: $247,404
- Prescription drugs: $114,442
- Aggregate write-ins: $29,827

Subtotal: $3,722,870

**Less:**

- Claims adjustment expenses: $694,714
- General administrative expenses: $4,746,595
- Increase in reserves: $1,108,295

**Total underwriting deductions:** $10,724,474

- Net underwriting loss: $(6,181,189)
- Net investment income earned: $48,602
- Federal & Foreign income taxes incurred: $(2,404,536)

Net income (loss): $(3,728,051)

**Capital and Surplus Account**

- Capital and surplus prior reporting year: $2,672,069
- Net loss: $(3,728,051)

Change in non-admitted assets: $(6,009,423)

**Capital changes:**

Paid in: $1,000,000

**Surplus adjustments:**

Paid in: $5,172,104

Net change in capital & surplus: $(4,565,370)

Capital and surplus end of reporting year: $(1,893,301)

$2,672,069

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.
NOTES TO FINANCIAL STATEMENTS

Note 1- Common stocks

The captioned amount is $3,639,444 less than the $3,639,444 reported by the Company in its 2008 Annual Statement.

The Company had one security listed on its Schedule D- Part 2- Section 2 (common stocks), which was a money market fund issued by Regions Trust. Shares in this fund were purchased during the period covered by this examination with the Company owning 3,639,444.40 shares at December 31, 2008. Company management represented that this asset was insured up to $250,000 by the FDIC and was backed thereafter by federal treasury securities. However, according to the Appendix to the NAIC Purposes and Procedures Manual of the Securities Valuation Office (SVO), this fund was not listed therein as an approved fund. According to Part 4 Section 8(e) of the Purposes & Procedures manual, a fund which is not classified as an approved fund may be reported as equity on Schedule D-Part 2-Section 2. Also, according to Part 11, Section 1 of this manual, “As set forth in Part Four, Section 8(e) of this Manual, the SVO is charged with verifying whether a money market fund is eligible to be listed on the U.S. Direct Obligations/Full Faith and Credit Exempt List or the Class 1 List...”

According to correspondence with a senior analyst at the NAIC SVO, the cusip number reported for this security in the Company's 2008 Schedule D- Part 2- Section 2 was not valid. Before filing this fund with the NAIC SVO, the Company should obtain a valid cusip number from the Standard and Poors cusip bureau before submitting an Authorization To File (ATF) filing application with the SVO.

According to ALA. ADMIN. 482-1-098-.02, “(1) All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC Securities Valuation Office (SVO). Any security owned by an insurer that has not been valued by the SVO shall be submitted to the SVO for valuation in accordance with the procedures of the SVO. ... (3) Any security not valued in accordance with this rule shall be carried as a non-admitted asset on all financial statements of the insurer until such time as the insurer has complied with Paragraph (1) or (2) or this rule.” Because the Company did not comply with the NAIC Purposes and Procedures Manual of the Securities Valuation Office, this mutual fund was not admitted for the purposes of this examination.

The Company also did not comply with ALA. CODE § 27-41-6(a) (1975), as amended, which states “An insurer shall not have at any one time any single
investment or combination of investments in or loans upon the security of the obligations, property or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer’s assets or the total of its capital and surplus, as shown in the latest annual report of the insurer filed pursuant to subsection (a) of section 27-3-26 of the Alabama insurance code, less the minimum capital and surplus required of said insurer for authority to transact insurance by sections 27-3-7 and 27-3-8 of the Alabama insurance code.”

The calculation of this was computed as follows:

10% of the Company’s 2007 admitted assets = $2,708,060 x .10 = $270,806

or
total capital and surplus at 12/31/2007 less the required minimum capital and surplus = $2,672,069 - $1,000,000 = $1,672,069

The greater of these is $1,672,069; therefore, the Company was not in compliance with the aforementioned code section.

The nonadmitted portion of this would have been:

$3,639,444 - $1,672,069 = $1,967,375.

Note 2- Current federal and foreign income tax recoverable and interest thereon $0

and Current federal and foreign income tax payable and interest thereon $0

The captioned amounts are $2,368,545 and $35,991, respectively, less than the $2,368,545 and $35,991, respectively, reported by the Company in its 2008 Annual Statement.

The Company submitted an intercompany tax allocation agreement within its Form D filing on August 10, 2007 in accordance with ALA. CODE § 27-29-5 (b) (1975), which states: “The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period. ... (4) All management agreements, service contracts, and all cost-sharing arrangements...” The Alabama Department of Insurance (ALDOI) followed-up with the Company to make a change to the submitted agreement. An amended agreement with this change was however not submitted to the ALDOI. Because the agreement was not approved, the
Company was not considered to have a written agreement and the receivable related to the agreement was not admitted for the purposes of this examination.


**Note 3- Claims unpaid**

$1,070,452

The captioned amount is $59,395 more than the $1,011,057 reported by the Company in its 2008 Annual Statement.

The claim liability that should have been recorded was $1,070,452. During the first three months of 2009, the Company paid $909,885 for claims incurred in 2008. Utilizing the opining actuary’s estimate of 85-90% of claims paid incurred in a prior period (which the examination actuary agrees with), the ultimate claim liability for 2008 should be approximately $1,070,452 ($909,885/.85). Thus, based upon the opining actuary’s estimate of run-off, the claim liability was understated by $59,395.

The Company had 138 claims, which totaled $61,722, that were paid in the first three months of 2009, were incurred in 2008 and had reported dates in 2008. Of the 138 claims, 18 were claims that were re-opened in 2009 and amounts were paid in 2009. The reported dates in the Company’s system were the original reported dates of the original claims instead of the dates that these claims were resubmitted. According to a Company official, the remaining 120 claims were claims that were received in 2008 but were not yet logged into the Company’s billing system due to a timing lag in entering claims (approximately one to two weeks) by The Trizetto Group, Inc., the company that processes the Company’s claims, and therefore were not reported to the Company during calendar-year 2008. The $61,722 is included in the $909,885 noted in the first paragraph above.

**Note 4- Unassigned funds (surplus)**

$(9,681,181)

The captioned amount is -$6,031,393 less than the -$3,649,788 reported by the Company in its 2008 Annual Statement.

The following presents a reconciliation of unassigned funds per the Company’s filed 2008 Annual Statement to the unassigned fund per this examination.
Unassigned funds per Company  
Examination increase/(decrease) to assets:  
Common Stock  
Federal and foreign income tax recoverable  
NET CHANGES IN ASSETS  

Examination (increase)/decrease to liabilities:  
Claims unpaid  
Federal and foreign income tax payable  
TOTAL (INCREASE) TO LIABILITIES  

TOTAL UNASSIGNED FUNDS PER EXAMINATION  

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS  

A review was conducted during the current examination with regard to the Company’s compliance with the recommendations made in the previous organizational examination report. This review indicated that the Company had satisfactorily complied with prior examination recommendations except for the following:

Stockholder  

In the prior examination report, it was recommended that the annual meeting of the stockholders be held annually in accordance with the Company’s By-laws and ALA. CODE § 27-27-23 (1975), which states: “Directors must be elected by the members or stockholders of a domestic insurer at the annual meeting of stockholders or members…” This examination noted that there was not a shareholder’s meeting in 2008.

Accounts and Records  

In the prior examination report, it was recommended that the Company maintain its principal place of business and complete records of its assets, transactions and affairs within the State of Alabama in accordance with ALA. CODE § 27-27-29 (1975), which states: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.” This
examination noted that all records with the exception of the 2007 and 2008 quarterly and annual statements and trial balances were provided from the examination contact in Tacoma, Washington.

It was also recommended in the prior examination report that the Company follow the guidance provided by the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*. Also, any securities not meeting the requirements of the SVO should be not admitted assets. ALA. ADMIN. CODE 482-1-098-.2 (1994) states: “(1) All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC Securities Valuation Office (SVO). Any security owned by an insurer that has not been valued by the SVO shall be submitted to the SVO for valuation in accordance with the procedures of the SVO. ... (3) Any security not valued in accordance with this rule shall be carried as a non-admitted asset on all financial statements of the insurer until such time as the insurer has complied with Paragraph (1) or (2) or this rule.” This examination noted that the Company did not comply with this recommendation with regard to its Common stock- see “Note 1-Common stocks” on page 18.

**Cash**

The prior examination report recommended that the Company comply with the investment limitation statute when reporting cash and other securities in accordance with ALA. CODE § 27-41-6 (1975), which states: “An insurer shall not have at any one-time any single investment or combination of investments in or loans upon the security of the obligations, property or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer’s assets or the total of its capital and surplus, as shown in the latest annual report of the insurer filed pursuant to subsection (a) of section 27-3-26 of the Alabama insurance code, less the minimum capital and surplus required of said insurer for authority to transact insurance by sections 27-3-7 and 27-3-8 of the Alabama insurance code.” This examination noted that the Company did not comply with this recommendation with regard to its Common stocks- see “Note 1-Common stocks” on page 18.

**COMMITMENTS AND CONTINGENT LIABILITIES**

The review of contingent liabilities and pending litigation included a review of the Company’s records and files for unrecorded items; obtaining a letter of representation from management; and obtaining confirmations from outside attorneys representing the Company. Nothing significant was noted.
SUBSEQUENT EVENTS

On March 31, 2009, the Company was issued an Order to Show Cause from the Alabama Department of Insurance. This order was a direct result of the Company having met the standards for the determination of hazardous financial condition as set forth in ALA. ADMIN. CODE 482-1-101-.03(f), which states: “The following standards, either singly or a combination of two or more, may be considered by the Commissioner to determine whether the continued operation of any insurer transacting an insurance business in this state might be deemed to be hazardous to its policyholders, creditors or the general public. The Commissioner may consider: (f) Whether the insurer's operating loss in the last twelve month period or any shorter period, including but not limited to net capital gain or loss, change in non-admitted assets, and cash dividends paid to shareholders is greater than 50% such insurer's remaining surplus as regards policyholders in excess of the minimum required.” As of December 31, 2008, the Company reported a net loss of ($3,704,647) and capital and surplus totaling $4,138,092.

On May 29, 2009, the Company sent a written request to CMS to mutually terminate its Medicare Advantage Special Needs Contract. The request is to terminate the contract prior to the current termination date of December 31, 2009. The request is still pending with CMS. According to the 2008 CPA Audit Report, if this request is denied the Company will not renew its contract effective January 1, 2010 and beyond and plans to cease operations on December 31, 2009.

COMMENTS AND RECOMMENDATIONS

Stockholder – Page 4

It is recommended that the annual meeting of the stockholder be held annually in accordance with the Company’s By-laws and ALA. CODE § 27-27-23 (1975), which states: “Directors must be elected by the members or stockholders of a domestic insurer at the annual meeting of stockholders or members…”

Producer Licensing- Page 12

It is recommended that the Company appoint the trained membership associate, selling its business, in accordance with ALA. CODE Section 27-7-4 (1975), which states: “(a) No person shall in this state sell, solicit, or negotiate insurance for any class or classes of insurance unless the person is then licensed for that line of authority in accordance with this chapter. (b) No producer shall act on behalf of any insurer for which an appointment is not held under this chapter.”
authority in accordance with this chapter. (b) No producer shall act on behalf of any insurer for which an appointment is not held under this chapter.”

It is recommended that the Company notify the Department of the designated contact person for the appointment of producers, in accordance with ALA. ADMIN. CODE 482-1-109-.04 (2002), which states: “(1) The Department will develop and maintain a list of contacts with insurers representing a person for each insurer designated by the insurer to be responsible for the continuation of appointment for producers and service representatives. (2) All insurers will provide the following information to the Department regarding this designated person: Insurer name, designated person's name and title, mailing address, telephone number, facsimile number, and E-mail address.”

Accounts and Records – Page 14

It is recommended the Company develop and maintain a business contingency plan.

It is recommended that the Company maintain its principal place of business and complete records of its assets, transactions and affairs within the State of Alabama in accordance with ALA. CODE § 27-27-29 (1975), which states: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

It is recommended that the Company provide responses within ten working days for information requested by personnel representing the Alabama Department of Insurance in accordance with ALA. ADMIN. CODE 482-1-118-.06 (1999), which states: “The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. …”

Common stocks – Page 18

It is recommended that the Company obtain a valid cusip number from the Standard and Poors cusip bureau for its money market mutual fund and complete the appropriate filing process with the NAIC Securities Valuation Office in accordance with the NAIC Purposes and Procedures Manual of the SVO or not admit this mutual fund in accordance with ALA. ADMIN. 482-1-098-.02, which states ”(1) All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC Securities Valuation Office (SVO). Any security owned by an insurer
that has not been valued by the SVO shall be submitted to the SVO for valuation in accordance with the procedures of the SVO. ... (3) Any security not valued in accordance with this rule shall be carried as a non-admitted asset on all financial statements of the insurer until such time as the insurer has complied with Paragraph (1) or (2) or this rule.”

It is recommended that the Company comply with the investment limitation statute when reporting its common stocks and other securities in accordance with ALA. CODE § 27-41-6(a) (1975), as amended, which states “An insurer shall not have at any one time any single investment or combination of investments in or loans upon the security of the obligations, property or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer’s assets or the total of its capital and surplus, as shown in the latest annual report of the insurer filed pursuant to subsection (a) of section 27-3-26 of the Alabama insurance code, less the minimum capital and surplus required of said insurer for authority to transact insurance by sections 27-3-7 and 27-3-8 of the Alabama insurance code.”

Current federal and foreign income tax recoverable and interest thereon and Current federal and foreign income tax payable and interest thereon – Page 19

It is recommended that the Company have its intercompany tax allocation agreement approved by the Alabama Department of Insurance in accordance with ALA. CODE § 27-29-5(b) (1975), which states: “The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period. ... (4) All management agreements, service contracts, and all cost-sharing arrangements...”

It is recommended that the Company not admit any uncollected receivable related to its federal income taxes until the Alabama Department of Insurance has approved the Company’s intercompany tax allocation agreement.

Claims unpaid- Page 20

It is recommended that the Company establish an adequate liability for claims unpaid in future financial filings.

It is recommended that the Company utilize the date that it becomes aware of a claim (whether original submission or resubmission) as the reported date.
CONCLUSION

Acknowledgment is hereby made of the courtesy and cooperation extended by Company management in the process of conducting the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and evaluation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, the following persons represented the Alabama Department of Insurance as participants in this examination: Juliette Glenn, MCM, Charles Turner, and Harland A. Dyer, ASA, MAAA, FCA.

The examiners determined that the Company was insolvent at December 31, 2008.

Respectfully submitted,

Rhonda B. Ball
Examiner-in-Charge
Alabama Department of Insurance