

REPORT OF EXAMINATION
OF THE
CARE WEST INSURANCE COMPANY
AS OF
DECEMBER 31, 2007

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San Francisco, California
May 18, 2009

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CARE WEST INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office, located at 2521 Warren Drive, Suite B, Rocklin, California 95677.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007. The present examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2007, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

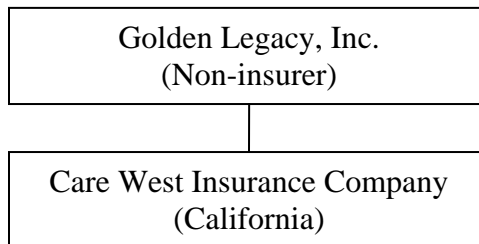
COMPANY HISTORY

In 2007, the Company purchased and moved into its current statutory home office at 2521 Warren Drive, Suite B, Rocklin, California.

The Company's wholly-owned subsidiary, CWIC Insurance Services, Inc. (CWIC), was merged into the Company on December 14, 2007. CWIC had previously provided underwriting services and safety and loss control services to the Company that are now performed in-house.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Golden Legacy, Inc. (formerly known as Horizon West, Inc.), and is a member of an insurance holding company system. The following organizational chart depicts the Company's relationship within this holding company system as of December 31, 2007 (all ownership is 100%):



Management of the Company is vested in a six-member board of directors elected annually. As of December 31, 2007, the directors and principal officers were as follows:

Directors

<u>Name and Residence</u>	<u>Primary Business Affiliation</u>
Steven E. Goode San Francisco, California	Senior Vice President Aon Re Global
Martin A. Harmon Rocklin, California	President and Chairman of the Board Golden Legacy, Inc.
Martine D. Harmon Grass Valley, California	Executive Property Manager Western Care Construction Company, Inc.
Matthew E. Harmon Rocklin, California	Vice President of New Development Western Care Construction Company, Inc.
James F. Schweder Carmichael, California	President and Chief Executive Officer Care West Insurance Company
Donald T. Trowbridge Loomis, California	Secretary, Treasurer, and Chief Financial Officer Care West Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
James F. Schweder*	President and Chief Executive Officer
Donald T. Trowbridge	Secretary, Treasurer, and Chief Financial Officer

*Retired and replaced by John T. Grush as of January 1, 2009.

Service Contracts

On January 1, 1997, the Company entered into a service contract with Western Care Construction Company, Inc. (WCCCI). Under the terms of this contract, WCCCI provides the Company with administrative, clerical, computer, and accounting support services. The

Company paid fees of \$9,201 to WCCCI for services under this agreement in 2007. The contract was terminated effective January 1, 2009.

Effective October 1, 2006, the Company entered into a service contract with Horizon West Healthcare, Inc., (HWHI), (a subsidiary of Golden Legacy, Inc.) for Information Technology (IT) services and support. Fees for the services are based on the hourly rate of the IT staff performing the service calculated at the employee's current month's base salary rate plus employee benefits and administrative overhead of 25%. The Company paid fees of \$9,021 to HWHI for the services under this agreement in 2007. This agreement was filed with the California Department of Insurance pursuant to California Insurance Code Section 1215.5(b)(4) and was approved on January 12, 2007.

Workers' Compensation Claims Administration Agreement

Effective January 1, 2006, the Company entered into a Workers' Compensation Claims Administration Agreement with Pegasus Risk Management, Inc. (Pegasus) and Status, Inc. (Status). Under the terms of the agreement, the following services are provided by Pegasus and Status: claims administration, managed care, special investigations, bill review, a Preferred Provider network, and managed information services. For these services, the Company pays a fixed rate of \$1,325 per indemnity claim, \$500 per medical-only claim, and \$200 per first aid claim (commencing on January 1, 2007).

TERRITORY AND PLAN OF OPERATION

The Company is licensed and operates exclusively in the State of California. It is authorized to write workers' compensation insurance only. Direct premiums written during 2007 were \$30.2 million.

Since its inception in 1996, the Company has focused its writings primarily on policies for companies affiliated with its parent, Golden Legacy, Inc., a senior healthcare management organization. In 2004, the Company decided to expand its writings beyond its previous book of

affiliated business by becoming a specialty writer of healthcare facilities. Business is acquired through six independent agents.

REINSURANCE

Assumed

Effective January 1, 2002, the Company entered into a quota share reinsurance agreement with First Dakota Indemnity Company, whereby the Company assumed various percentages of the gross retained liability and direct retained premium on workers' compensation and employers' liability business written in Minnesota and South Dakota. This agreement was terminated on a run-off basis, effective July 1, 2003.

As a captive insurance company in the State of Vermont, the Company reinsured risks related to workers' compensation policies issued to convalescent hospitals and retirement facilities related to its parent. Under the terms of the agreements, the Company reinsured all losses to a limit of \$350,000 per occurrence for policy years 1990-1991 and 1993-1995, \$250,000 for 1992, and \$500,000 for 1996. The ceding carriers were National Union Fire Insurance Company (1989 – 1991), Transamerica Insurance Company (1991 – 1994), Firemen's Fund Insurance Company (1994 – 1995), and Transamerica Insurance Company (1995 – 1996). These agreements have been in run-off since 1996.

Ceded

The following table is an outline of the Company's ceded reinsurance program as of December 31, 2007:

<u>Type of Contract</u>	<u>Reinsurer</u>	<u>Company's Retention</u>	<u>Reinsurer's Maximum Limit</u>
<i>Excess of Loss</i>			
First Layer	Aspen UK Limited – 10% Underwriters at Lloyd's of London – 90%	\$1 million ultimate net loss each occurrence	\$1 million excess of \$1 million ultimate net loss each occurrence

<u>Type of Contract</u>	<u>Reinsurer</u>	<u>Company's Retention</u>	<u>Reinsurer's Maximum Limit</u>
Second Layer	Aspen UK Limited – 10% Underwriters at Lloyd's of London – 90%	\$2 million ultimate net loss each occurrence	\$3 million excess of \$2 million ultimate net loss each occurrence
Third Layer	Aspen UK Limited – 10% Underwriters at Lloyd's of London – 90%	\$5 million ultimate net loss each occurrence	\$5 million excess of \$5 million ultimate net loss each occurrence

ACCOUNTS AND RECORDS

A review was made of the Company's general controls over its information systems and weaknesses were noted in the areas of logical and physical security controls, disaster recovery/business continuity planning, and program change controls. The weaknesses noted were presented to the Company along with recommendations to strengthen controls. It is recommended that the Company evaluate these recommendations and make appropriate changes to strengthen its information systems controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Conditions as of December 31, 2007

Underwriting and Investment Exhibit for the Year Ended December 31, 2007

Reconciliation of Surplus as Regards Policyholders from December 31, 2004 through
December 31, 2007

Statement of Financial Condition
as of December 31, 2007

	Ledger and Non-ledger Assets	Non- Admitted Assets	Net Admitted Assets	Notes
<u>Assets</u>				
Bonds	\$ 38,837,345	\$	\$ 38,837,345	
Real estate occupied by the company	1,796,707		1,796,707	
Cash and short-term investments	22,854,041		22,854,041	(1)
Investment income due & accrued	865,341		865,341	
Uncollected premiums and agents' balances in course of collection	371,371	73,931	297,440	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	11,407,814		11,407,814	
Reinsurance recoverables	53,100		53,100	
Funds held by or deposited with reinsured companies	141,000		141,000	
Current federal and foreign income tax recoverable and interest thereon	453,553		453,553	
Net deferred tax asset	3,401,415	2,210,457	1,190,958	
Guaranty funds on deposit	360,570	360,570		
Electronic data processing equipment and software	559,367	46,836	512,531	
Furniture and equipment	242,879	242,879		
Aggregate write-ins for other than invested assets	52,726	52,726		
 Total assets	 \$ 81,397,229	 \$	 \$ 78,409,830	
<u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 33,521,979	(2)
Reinsurance payable on paid losses and loss adjustment expenses			306,572	
Loss adjustment expenses			6,661,925	(2)
Commissions payable, contingent commissions and other similar charges			1,608,976	
Other expenses			604,786	
Taxes, licenses and fees			519,676	
Unearned premiums			9,419,564	
Ceded reinsurance premiums payable			230,179	
Policy deposits held in escrow			2,286,802	
 Total liabilities			 \$ 55,160,459	
Common capital stock		\$ 1,000,000		
Unassigned funds		22,249,371		
 Surplus as regards policyholders			 23,249,371	
 Total liabilities, surplus and other funds			 \$ 78,409,830	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2007

Statement of Income

Notes

Underwriting Income

Premiums earned		\$ 25,787,901
Deductions:		
Losses incurred	\$ 11,516,094	
Loss expenses incurred	3,977,515	
Other underwriting expenses incurred	<u>7,731,237</u>	
Total underwriting deductions		<u>23,224,846</u>
Net underwriting gain		2,563,055

Investment Income

Net investment income earned	\$ 2,787,234	
Net realized capital loss	<u>(28,784)</u>	
Net investment gain		2,758,450

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>7,847</u>	
Total other income		<u>7,847</u>
Net income before federal income taxes		5,329,352
Federal income taxes incurred		<u>2,348,914</u>
Net income		<u>\$ 2,980,438</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006		\$ 7,376,275
Net income	\$ 2,980,438	
Change in net unrealized capital gains or losses	(98,086)	
Change in deferred income tax	548,541	
Change in nonadmitted assets	(198,397)	
Change in provision for reinsurance	340,600	
Change in surplus due to CA Minimum Loss Liability	<u>12,300,000</u>	(3)
Change in surplus as regards policyholders for the year		<u>15,873,096</u>
Surplus as regards policyholders, December 31, 2007		<u>\$ 23,249,371</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2007

Surplus as regards policyholders, December 31, 2004, per Examination			\$ 7,877,889
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 13,301,888	\$	
Change in net unrealized capital losses		157,278	
Change in net deferred income tax	1,312,634		
Change in nonadmitted assets		1,230,762	
Change in surplus due to CA Minimum Loss Liability	<u>2,145,000</u>		
Totals	<u>\$ 16,759,522</u>	<u>\$ 1,388,040</u>	
Net increase in surplus as regards policyholders			<u>15,371,482</u>
Surplus as regards policyholders, December 31, 2007, per Examination			<u>\$ 23,249,371</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash and Short-term Investments

Certain cash and short-term investments are held in accordance with assumed reinsurance agreements for future payment of losses and loss adjustment expenses. Trust accounts were set up for each ceding carrier that the Company assumed business from during the periods of 1989 to 1996 and 2002 to 2003. All of these agreements are currently in run-off. Total invested assets that were held in these reinsurance trust accounts were \$2.2 million as December 31, 2007.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2007 were found to be reasonably stated.

(3) Changes in Surplus Due to California Schedule P Penalty

Senate Bill 316, which became effective January 1, 2008, eliminated the minimum reserve requirement for workers' compensation that was previously included as part of California Insurance Code Section (CICS) 11558. The Company elected not to book the minimum reserve per CICS 11558. The amount of additional reserve would have been \$12.3 million at December 31, 2007 had it been booked.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 6): It is recommended that the Company evaluate these recommendations and make appropriate changes to strengthen its information systems controls.

Prior Report of Examination

Subsequent Events (Page 2): It was recommended that the Company take measures to strengthen its information systems controls. Some of the recommendations have been addressed.

Management and Control – Management Agreements (Page 4): It was recommended that the Company submit the Client, Underwriting and Policy Service Agreement and the Safety and Loss Control Service Agreement with CWIC Insurance Services, Inc. to the California Department of Insurance (CDI) for review pursuant to California Insurance Code Section 1215.5(b)(4). The Company filed the above contracts with the CDI on October 2, 2006; however, prior to the CDI's completion of its review, the Company terminated the Client, Underwriting and Policy Service agreement on April 1, 2006 and terminated the Safety and Loss Control Service Agreement on November 1, 2006.

ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/s/

Kyo Chu, CFE
Examiner-in-Charge
Senior Insurance Examiner (Specialist)
Department of Insurance
State of California