



MISSISSIPPI INSURANCE DEPARTMENT

501 N. WEST STREET, SUITE 1001
 WOOLFOLK BUILDING
 JACKSON, MISSISSIPPI 39201
 www.mid.state.ms.us

MAILING ADDRESS
 Post Office Box 79
 Jackson, Mississippi 39205-0079
 TELEPHONE: (601) 359-3569
 FAX: (601) 359-2474

MIKE CHANEY
 Commissioner of Insurance
 State Fire Marshal

MARK HAIRE
 Deputy Commissioner of Insurance

February 12, 2013

CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. Michael D. McKinney, President
 Magnolia Health Plan, Inc.
 111 East Capitol Street, Suite 500
 Jackson, MS 39201

RE: Report of Examination as of December 31, 2011

Dear Mr. McKinney:

In accordance with Miss. Code Ann. §§ 83-5-201 et seq. and 83-41-337(1) (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department of Insurance will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY
 COMMISSIONER OF INSURANCE

BY


 Christina J. Kelsey
 Senior Attorney

MC/CJK/bs
 Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI**

**RE: REPORT OF EXAMINATION OF
MAGNOLIA HEALTH PLAN, INC.**

CAUSE NO. 13-6595

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. §§ 83-5-201 et seq. and 83-41-337(1) (Rev. 2011). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. §§ 83-5-201 et seq. and 83-41-337(1) (Rev. 2011).

II.

That Magnolia Health Plan, Inc. is a Mississippi-domiciled health maintenance organization ("HMO") which was initially certified as an HMO by the Mississippi State Department of Health on April 9, 2009.

FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. §§ 83-5-201 et seq. and 83-41-337(1) (Rev. 2011), called for an examination of Magnolia Health Plan, Inc. and appointed Katerina Bolbas, Examiner-In-Charge, to conduct said examination.

IV.

That on or about December 7, 2012, the draft Report of Examination concerning Magnolia Health Plan, Inc. for the period of August 4, 2010, through December 31, 2011, was submitted to the Mississippi Department of Insurance by Examiner-In-Charge, Katerina Bolbas.

V.

That on or about January 9, 2013, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to said draft. On or about January 24, 2013, the Company responded in a letter citing no comments or concerns with the report.

CONCLUSIONS OF LAW

VII.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the draft Report of Examination and all relevant examiner work papers, that the draft Report of Examination of Magnolia Health Plan, Inc., attached hereto as Exhibit "A", should be and same is hereby adopted as final.

IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential information for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, Magnolia Health Plan, Inc. shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that Magnolia Health Plan, Inc. take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

SO ORDERED, this the 12th day of February 2013.




J. MARK HAIRE
DEPUTY COMMISSIONER OF INSURANCE

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 12th day of February 2013, to:

**Mr. Michael D. McKinney, President
Magnolia Health Plan, Inc.
111 East Capitol Street, Suite 500
Jackson, MS 39201**



Christina J. Kelsey
Senior Attorney

Christina J. Kelsey
Senior Attorney
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 9853



Mississippi Insurance Department

Report of Examination

of

MAGNOLIA HEALTH PLAN INC.

as of

December 31, 2011

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION**

State of Illinois,

County of Cook,

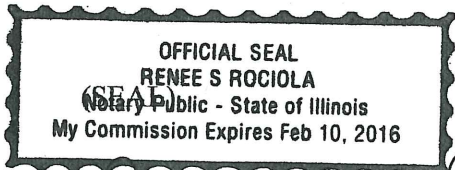
Katerina Bolbas, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Magnolia Health Plan Inc.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Magnolia Health Plan Inc. was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

The affiant says nothing further.

Katerina Bolbas
Katerina Bolbas, CFE
Examiner-in-charge

Subscribed and sworn before me by Katerina Bolbas on this 4 day of Feb, 2013.



Renee S. Rociola
Notary Public

My commission expires 2/10/16 [date].



MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

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MARK HAIRE
Deputy Commissioner of
Insurance

December 13, 2012

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance Department
1001 Woolfolk Building
501 North West Street
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2011, of the affairs and financial condition of:

MAGNOLIA HEALTH PLAN INC.

111 East Capitol Street, Suite 500
Jackson, MS 39201

License #	NAIC Group #	NAIC #	FEETS#	ETS#
1000006	1295	13923	13923-MS-2011-13	MS120-M16

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 *et seq.* and the report of examination is herewith submitted.

SCOPE OF EXAMINATION

We have performed our examination of Magnolia Health Plan Inc. This was the first exam of the Company. This examination covered the period of August 4, 2010 through December 31, 2011.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

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

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION

The examination as of December 31, 2011, is the commencement examination for Magnolia Health Plan, Inc.

HISTORY OF THE COMPANY

The Company is a Mississippi domestic stock life insurance company. The Company was licensed as a Health Maintenance Organization (HMO) on August 4, 2010 and commenced business on January 1, 2011 under the laws of the State of Mississippi. The Company was formed for purposes of providing comprehensive managed healthcare services to Medicaid beneficiaries in Mississippi as provided for by Miss. Code Ann. § 83-41-301 et seq.

The authorized stock of the Company at the time of incorporation was 3,000 shares of common stock; par value \$1 per share. At December 31, 2011, the Company had 1,000 shares issued and outstanding to its parent, Centene Corporation (Centene).

Gross paid-in and contribution surplus increased from \$1,499,000 at 12/31/2010 to \$17,782,204 at 12/31/2011. Changes in paid-in capital were as follows:

Date	Amount	Type
12/31/2010	\$ 1,499,000	
3/31/2011	3,659,589	Securities from parent
5/17/2011	1,197,194	Cash
8/12/2011	472,455	Cash
8/12/2011	3,771,348	Securities from parent
11/15/2011	932,618	Cash
12/31/2011	6,250,000	Accounts Receivable from Parent
12/31/2011	<u>\$ 17,782,204</u>	

Capital contribution in form of transferred securities was accounted in accordance with SSAP 95, and recorded at market value of transferred investments. Accounts Receivable from parent in the amount of \$6,250,000 was collected on 2/23/2012.

No dividends were paid in 2010 or 2011.

CORPORATE RECORDS

The minutes of the meetings of Stockholders and Board of Directors (“Board”), regarding the Company’s business affairs as recorded during the period covered by the examination, were reviewed and appeared to be complete and in order with regard to recording action on matters brought up at the meetings for deliberation.

MANAGEMENT AND CONTROL

Board of Directors

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board. The members of the duly elected Board, along with their place of residence, year elected/appointed, and principal occupation, at December 31, 2011, were as follows:

Name and Residence	Year Elected/Appointed	Principal Occupation
Mr. Brent D. Layton St. Louis, Missouri	2011	SVP Business Development of Centene Corporation
Mr. Christopher D. Bowers Ladue, Missouri	2011	Sr. VP of Health Plans of Centene Corporation
Dr. Jasmin R. Chapman Terry, Mississippi	2011	CEO of Jackson-Hinds Comprehensive Health Center
Mr. Lawrence J. Kissner Madison, Mississippi	2011	President and CEO of Magnolia Health Plan, Inc.
Ms. Mary G. Troupe Pearl, Mississippi	2011	Executive Director of MS Coalition for Citizens with Disabilities
Mr. Thomas E. Joiner Brandon, Mississippi	2011	Physician, Self-Employed

Committees

Pursuant to Section 14 of the Model Audit Rule, the Company designated the Centene's Audit Committee to be the Audit Committee for the Company. The following directors served on the Audit Committee at December 31, 2011:

Name and Residence	Year Elected/Appointed	Principal Occupation
John R. Roberts, Chair	2011	Director and Chairman of the audit committees of Regions Financial Corporation and Energizer Holdings, Inc.
Frederick H. Eppinger	2011	Director, President and Chief Executive Officer of The Hanover Insurance Group, Inc.

Pamela A. Joseph	2011	Vice Chairman of U.S. Bancorp and Chairman and Chief Executive Officer of NOVA Information Systems, Inc.
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Officers

The following were the officers that were duly elected by the Board and holding office at December 31, 2011.

Name	Year Elected/Appointed	Title
Christopher Donald Bowers	2010	Chairman of the Board
Lawrence J. Kissner	2011	President
Keith Harvey Williamson	2010	Secretary
Jeffrey Alan Schwaneke	2010	Treasurer
Jesse Nathan Hunter	2010	Vice President
William Nelder Scheffel	2010	Vice President
Mark William Eggert	2010	Vice President
Brent D. Layton	2010	Vice President
Tricia Lynn Dinkelman	2010	Director of Tax

Conflict of Interest

The Company has formal procedures whereby disclosure is made to the Board of any material interest or affiliation on the part of any officer or director that is, or would likely be, a conflict with their official duties. These procedures were reviewed, and no conflicts were noted; however, conflict of interest statements had not been executed for three external board directors at the time of our examination.

Corporate Governance

The Company was 100% owned by Centene Corporation. The Board was made up of primarily five independent members with the exception of the Chairman of the Board. The Company has elected to designate the independent Audit Committee of Centene to serve as the Audit Committee of the Company. The Centene Audit Committee is comprised of three independent members.

The Board's involvement and oversight along with its independence from management was considered during the course of our examination without material concern. Other key variables in our consideration of the Board's involvement included, but were not limited to factors such as: (1) the frequency of Board Meetings and attendance of the directors, (2) the type of information

communicated to the Board prior to meetings and the topics discussed along with the depth and quality of discussions, (3) key communication channels to and from management with the Board, along with overall “tone at the top”. Information regarding the Board members, committees and other related information can be found in the Management and Control section of this report.

The appropriateness of the Company’s organizational structure and its ability to provide the necessary information flow to manage its activities were considerations in obtaining our understanding of its organizational structure. This includes consideration of the entity’s local and corporate level structures and its ability to communicate information upstream, downstream and across all business activities. Our consideration also encompassed understanding the assignment of authority and responsibility. There were no material concerns regarding the Company’s organizational structure, its ability to provide for necessary information flow to manage its activities or assignment of authority and responsibility.

Our consideration of corporate governance encompassed the risk management function through discussions with senior management/Board members, understanding the Internal Audit role in enterprise risk management as well as through gaining an understanding of the risk management function through inspection of relevant risk management documentation. Upon our review and consideration of these components and functions, there was no material concerns noted.

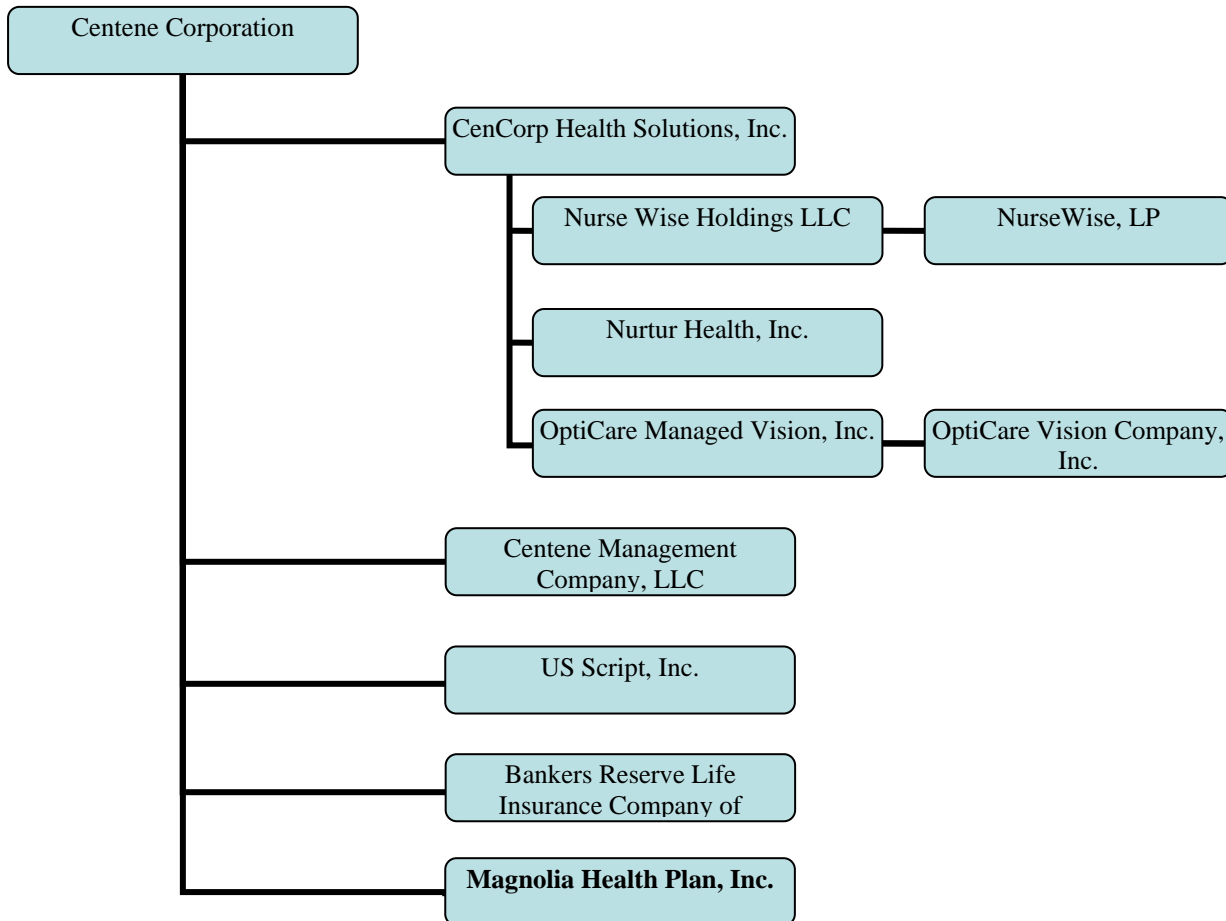
Management competence was a consideration in overall assessment of corporate governance. In our review of this area, we considered factors such as (1) experience level within the Company of key management, (2) management/employee turnover and (3) previous experience of key management. There was no material concerns noted upon our consideration of this area.

HOLDING COMPANY STRUCTURE

The Company was a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. Holding Company Registration Statements were filed during the examination period with the MID in accordance with Miss. Code Ann. § 83-6-5 and § 83-6-9. The statements and applicable amendments that were filed with the MID during the examination period were reviewed and it appeared that any changes and material transactions by and between the Company and its affiliates were appropriately disclosed.

Organizational Chart

A simplified organizational chart as of December 31, 2011, reflecting the holding company system, is shown below. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.



The following is information concerning the Company's affiliates and subsidiary:

Centene Corporation: This is a Delaware stock corporation, and is the ultimate controlling company of the insurance holding company group. Centene Corporation has grown from a single health plan in 1984 to 12 health plans in 2011 with at-risk memberships totaling 1.8 million. Centene Corporation is a multi-line healthcare enterprise operating in two segments: Medicaid Managed Care and Specialty Services. The Medicaid Managed Care segment provides Medicaid and Medicaid-related health plan coverage to individuals through government subsidized programs, including Medicaid, the State Children's Health Insurance Program (CHIP), Foster Care, Medicare Special Needs Plans and the Supplemental Security Income Program, known as Aged, Blind or Disabled (ABD). The Specialty Services segment offers products for behavioral

health, health insurance exchanges, individual health insurance, life and health management, long-term care programs, managed vision and other commercial organizations.

NurseWise, LP: This company, a subsidiary of NurseWise Holdings LLC, and a wholly owned subsidiary of Centene Corporation, provided certain services to and on behalf of health maintenance organizations and other health care providers.

NurturHealth, Inc.: This company, a subsidiary of CenCorp Health Solutions, Inc., and a wholly owned subsidiary of Centene Corporation, offered disease management programs designed to improve the quality of life and/or health outcomes of patients with chronic disease.

OptiCare Vision Company, Inc.: This company, a subsidiary of OptiCare Managed Vision, Inc., and a wholly owned subsidiary of Centene Corporation, provided and arranged for the provision of covered vision care services through participating providers.

Centene Management Company, LLC: This company, a wholly owned subsidiary of Centene Corporation, provided certain administrative services to and on behalf of health maintenance organizations and other health care providers.

US Script, Inc.: This company, a wholly owned subsidiary of Centene Corporation, provided management services for the delivery of pharmacy benefits.

Bankers Reserve Life Insurance Company of Wisconsin: This Wisconsin-domiciled insurer provides reinsurance coverage to the Company.

Affiliated and Related Party Transactions

Management Agreement

Effective January 1, 2011, the Company entered into a Management Agreement with Centene Management Company, LLC (CMC) whereby CMC provided program planning and development services, a management information system, financial systems and services, claims administration, provider and enrollee services and records, utilization review, and quality assurance. The Company paid 12% of its revenues to CMC for the above referenced services. In addition to above noted expenses, the Company was liable for other expenses incurred by the Company or on its behalf including, but not limited to travel, payment to providers and suppliers, fees and expenses associated with audits, including external audits, preparation of the Company's tax returns, expenses for legal, actuarial and other consulting services, advertising, and all licensing and certification fees.

Pharmacy Benefit Management Agreement

Effective January 1, 2011, the Company became a party to a Pharmacy Benefit Management agreement with US Script, Inc. (USS) in which USS provided the management and delivery of pharmacy benefits to the Company eligible enrollees. Services included, but were not limited to claims processing, eligibility management, benefits management, utilization management,

pharmacy network management, and call center services. Duration of the agreement was for one year.

Disease Management Program Services Agreement

Effective January 1, 2011, the Company entered into a Disease Management Program Services Agreement with Nurtur Health, Inc. These services included individualized education programs and member interactions, which were conducted through a combination of telephonic, in-home and printed materials. The programs varied based on disease state and level of acuity of the members' illness or risk status. Initial term of the agreement was three years. Thereafter, the agreement shall renew automatically for successive one-year renewal terms.

Services Agreement

Effective January 1, 2011, the Company entered into Services Agreement with NurseWise, L.P. The services primarily consisted of utilizing professional registered nurses to provide health information and advice to enrolled members during designated hours of operation. Initial term of the agreement was one year, and shall automatically renew for additional terms of one year unless terminated.

Vision Services Agreement and Delegated Services Agreement

Effective January 1, 2011, the Company entered into a Vision Services Agreement with OptiCare Vision Company, Inc. (OptiCare), also known as OptiCare Managed Vision. Under the terms of this agreement OptiCare agreed to provide or arrange for the provision of covered vision care services to the Company's enrolled members. The same parties also entered into a Delegated Services Agreement, under which OptiCare agreed to provide quality improvement, utilization management, case management, benefit administration, claims adjudication and provider payment, network development and maintenance, and provider credentialing with respect to Vision care covered by the Company. Initial term of this agreement was one year, and shall be automatically renewed for successive one year periods.

Tax Allocation Agreement

The Company was also a party to a Tax Sharing Agreement with Centene Corporation and its subsidiaries. Tax liability was allocated to each subsidiary based on the subsidiary's contribution to consolidated taxable income. Within 90 days of the return filing date, a subsidiary shall pay to Parent, or Parent to a subsidiary, an amount equal to the difference between consolidated tax reflected on the pro-forma Federal tax return and the aggregate amount of the estimated installments of the respective consolidated tax.

FIDELITY BOND AND OTHER INSURANCE

The Company's parent company, Centene Corporation, maintained a fidelity bond in the amount of \$5 million single loss limit of liability, which met the NAIC's suggested minimum amount for fidelity coverage. Centene Corporation had additional coverage, including general liability, auto, umbrella and workers' compensation.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have any direct employees, nor did it provide any benefits or welfare programs for its officers or directors.

TERRITORY AND PLAN OF OPERATION

The Company was licensed in the State of Mississippi to provide comprehensive managed healthcare services to Medicaid beneficiaries in Mississippi. The Company contracted directly with the Mississippi Department of Medicaid (DOM) on a capitated basis for non-inpatient services and operated under a savings guarantee arrangement for inpatient hospital services.

GROWTH OF COMPANY

	<u>2011</u>	<u>2010</u>
Total admitted assets	\$ 56,083,726	\$ 1,535,827
Total liabilities	\$ 40,936,810	\$ 17,441
Total capital and surplus	\$ 15,146,917	\$ 1,518,386
Net cash from operations	\$ 32,608,859	\$ 11,918
Total adjusted risk-based capital	\$ 15,146,917	\$ 1,518,386
Authorized control level risk-based capital	\$ 7,482,683	\$ 4,857
Members enrolled	31,764	0
Total revenues	\$ 187,040,750	\$ -
Net underwriting gain (loss)	\$ (2,410,739)	\$ (8,068)
Net investment income earned	\$ 72,118	\$ 7,700
Net Income	\$ (6,585,866)	\$ 4
Net underwriting gain to PHS	-15.9%	-0.5%
Return on surplus	-43.5%	0.0%
Yield on invested assets	0.2%	0.5%
Non-investment grade bonds to total bonds	0.0%	0.0%

REINSURANCE

In accordance with the Risk Surveillance Approach contained within the NAIC Examiners Handbook, the reinsurance program of the Company was considered and no material concerns were noted. Further, no treaties were noted that contained unusual provisions, transfer of risk issues or other relevant concerns. A general description and listing of the reinsurance agreements are presented below.

Assumed

The Company did not assume any business during the examination period.

Ceded

The Company had a reinsurance agreement with Bankers Reserve Life Insurance Company of Wisconsin for the 2011 term to reinsure on an excess of loss basis of \$50,000 up to \$2,000,000 maximum per covered person. All claim expenses that exceeded the deductible were paid 90% by the reinsurer and 10% by the Company. Maximum retained risk is \$120,000 per member net of reinsurance (coverage is up to \$750,000 per member).

ACCOUNTS AND RECORDS

The 2011 trial balance of the Company's accounts was traced to the balance sheet of the Company's statutory annual statement filed with the MID, with no exceptions noted. The Company was audited annually by an independent CPA firm.

The Company utilized a blended platform of its operating system for the processing of its records. The Company maintained supporting documentation that was reviewed during the examination as applicable.

STATUTORY DEPOSITS

The Company's statutory deposits with the state of Mississippi complied with Miss. Code Ann. § 83-41-325(5). The following chart displays the Company's total statutory deposits as held at December 31, 2011 in Mississippi.

Description	Book/Adjusted Carrying Value	Fair Value
Certificate of Deposit	\$ 516,322	\$ 516,322
	<u>\$ 516,322</u>	<u>\$ 516,322</u>

Magnolia Health Plan Inc.
Financial Statements
Examination as of December 31, 2011

Introduction

The following financial statements reflect the same amounts reported by the Company and consist of a Statement of Assets, Liabilities, Capital and Surplus at December 31, 2011, a Statement of Revenue and Expenses for the year ended December 31, 2011, and a Reconciliation of Capital and Surplus for the examination period ended December 31, 2011.

Magnolia Health Plan Inc.
Statement of Assets, Liabilities, Capital and Surplus – Statutory

December 31,	2011
Assets	
Bonds	\$ 16,376,868
Cash and short-term investments	27,641,450
Receivable for securities	5,000
Investment income due and accrued	137,639
Uncollected premiums and agents' balances in course of collection	315,490
Amounts recoverable from reinsurers	599,132
Net deferred tax asset	4,247,245
Receivable from parent, subsidiaries and affiliates	6,250,000
Health Care and other amounts recoverable	510,902
Total admitted assets	\$ 56,083,726
Liabilities, Capital and Surplus	
Claims unpaid	\$ 20,110,568
Unpaid claims adjustment expenses	439,000
Aggregate health policy reserves	2,645,350
General expenses due or accrued	1,433,775
Current federal and foreign income taxes	4,253,135
Amounts due to parent, subsidiaries and affiliates	419,430
Aggregate write-ins for other liabilities	
Risk score adjustment payable	7,707,055
Inpatient savings guarantee payable	3,781,160
State tax payable	147,337
Total liabilities	40,936,810
Common capital stock	1,000
Gross paid in and contributed surplus	17,782,204
Unassigned funds	(2,636,288)
Total capital and surplus	15,146,916
Total liabilities, capital and surplus	\$ 56,083,726

Magnolia Health Plan Inc.
Statement of Revenue and Expenses – Statutory

For the Year Ended December 31,	2011
Member Months	378,116
Net premium income	\$ 187,040,750
Total revenues	187,040,750
Hospital and Medical:	
Hospital/medical benefits	82,354,963
Other professional services	6,781,948
Emergency room and out-of-area	18,770,827
Prescription drugs	54,239,959
Subtotal	162,147,697
Less:	
Net reinsurance recoveries	3,004,032
Total hospital and medical	159,143,665
Claims adjustment expenses	6,168,421
General administrative expenses	21,494,053
Increase in reserves for life and accident and health contracts	2,645,350
Total underwriting deductions	189,451,489
Net underwriting gain or (loss)	(2,410,739)
Net investment income earned	72,118
Net investment gains (losses)	72,118
Net income (loss) after capital gain tax and before and before all other federal income taxes	(2,338,621)
Federal income taxes incurred	4,247,245
Net income	\$ (6,585,866)

Magnolia Health Plan Inc.
Reconciliation of Capital and Surplus – Statutory

For the examination period ended December 31, 2011

	2010	2011
Surplus as regards policyholders, beginning of the year	\$ 1,518,383	\$ 1,518,383
Net income (loss)		(6,585,866)
Change in net unrealized capital gains (losses)		
Change in net deferred income tax		4,247,245
Change in non-admitted assets		(316,050)
Surplus adjustment paid-in		16,283,204
Surplus as regards policyholders, end of the year	\$ 1,518,383	\$ 15,146,916

Magnolia Health Plan Inc.
Reconciliation of Examination Adjustments to Surplus – Statutory

For the year ended December 31, 2011

As a result of this examination, there have been no changes affecting surplus, as regards to policyholders, made to the admitted assets, liabilities, and surplus balance reported by the Company in the December 31, 2011 annual statement as filed with the MID. The capital and surplus reported by the Company of \$15,146,916 is accepted as reasonably stated for purposes of the balance sheet per the examination. The Company's net worth, as determined by the examination, was in compliance with Miss. Code Ann. § 83-41-325(2).

MARKET CONDUCT ACTIVITIES

A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct. The areas in which limited procedures were performed included operations/management, claims handling, grievance procedures and provider credentialing. No significant exceptions with regard to the limited procedures performed were noted.

Operations/Management

The Company had a privacy policy in place for the protection of its policyholders. No material concerns were noted during the course of our testing regarding the Company's privacy policy.

Claims Handling

No exceptions were noted during the course of our testing regarding the Company's claims handling.

Grievance Procedures

No exceptions were noted during the course of our testing regarding the Company's grievance procedures.

Provider Credentialing

Based upon procedures performed during the course of the examination, the Company appeared to have the appropriate provider credentialing process. No exceptions were noted during the course of our testing regarding the Company's provider credentialing.

COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 2011, the Company was not a party to any legal proceedings.

COMMENTS AND RECOMMENDATIONS

The examination did not identify any material comments and/or recommendations deemed appropriate for inclusion in the examination report.

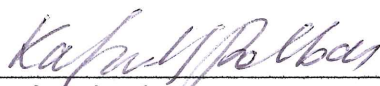
ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner-in-charge	Katerina Bolbas, CFE Lewis & Ellis, Inc.
Examiner:	Amy Carter, CPA Lewis & Ellis, Inc. David Palmer, CFE Lewis & Ellis, Inc.
Supervising Examiner:	Sarah Lucibello, CPA, CFE, CIA Lewis & Ellis, Inc.
Automation Examiner:	Scott Langstein, CISA Cerebres, LLC Steven Sigler, CFE, AES Examination Resources, LLC
Actuary:	Michael A. Mayberry, FSA, MAAA Lewis & Ellis, Inc.

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Examiner-in-charge