



**THE COMMONWEALTH OF MASSACHUSETTS  
OFFICE OF CONSUMER AFFAIRS AND BUSINESS  
REGULATION**

**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION OF THE*  
NEIGHBORHOOD HEALTH PLAN, INC.**

**Boston, Massachusetts**

**As of December 31, 2009**

**NAIC COMPANY CODE 11109**

**EMPLOYERS ID NO. 04-2932021**

**For Informational Purposes Only**

# NEIGHBORHOOD HEALTH PLAN, INC.

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**COMMONWEALTH OF MASSACHUSETTS**  
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November 24, 2010

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Commissioner of Insurance  
Commonwealth of Massachusetts  
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1000 Washington Street  
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Honorable Commissioners and Superintendent:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 176G Section 10 and 211 CMR 43, an examination has been made of the financial condition and affairs of the

**NEIGHBORHOOD HEALTH PLAN, INC.**  
**Boston, MA**

at its home office located at 253 Summer Street, Boston, Massachusetts, 02210-1120. The following report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The Neighborhood Health Plan, Inc. (hereinafter referred to as the "Plan" or "NHP") was last examined as of December 31, 2005 under the association plan of the National Association of Insurance Commissioners (the "NAIC") by the Massachusetts Division of Insurance (the "Division"). The current association plan examination was also conducted by the Massachusetts Division of Insurance, and covers the period from January 1, 2006 through December 31, 2009, including any material transactions and/or events occurring subsequent to the examination date as noted during the course of this examination.

The examination was conducted in accordance with standards established by the Financial Condition (E) Committee of the NAIC as well as with the requirements of the NAIC Financial Condition Examiner's Handbook, the examination standards of the Division and with Massachusetts General Laws. The principal focus of the examination was 2009 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Plan, the examination included a review of the Plan's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan, treatment of Subscribers, and other pertinent matters to provide reasonable assurance that the Plan was in compliance with applicable laws, rules, and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Plan has been audited annually by Deloitte & Touche LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Plan's financial statements for the calendar years 2006 through 2009. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective. An independent certified public accounting firm, KPMG LLP, was retained by the Massachusetts Division of Insurance to evaluate the adequacy of the Plan's premium and claims unpaid reserves as of December 31, 2009. An evaluation of the adequacy and effectiveness of the IT Systems controls was done to determine the level of reliance to be placed on summary information generated by the data processing system.

## HISTORY

### General

The Plan was founded by the Massachusetts League of Community Health Centers (the "League") and the Greater Boston Forum for Health Action (the "Forum"), and incorporated on May 22, 1986 under the provisions of M.G.L. c. 180 for the purpose of arranging for the delivery of comprehensive health services on a prepaid basis. On November 9, 1987, the Commonwealth of Massachusetts Division of Insurance licensed the Plan to operate as a Health Maintenance Organization ("HMO") under the provisions of M.G.L. c. 176G. The Plan is a non-profit HMO, which contracts with businesses and the Commonwealth of Massachusetts to provide health care

to their employees and to Medicaid beneficiaries. Initially allowed to conduct business in greater Boston only, the Plan now operates throughout Massachusetts.

During 1997, the Plan entered into negotiations with Harvard Pilgrim Health Care, Inc. ("HPHC") for an affiliation. The deal was finalized in January 1998. Under the agreement, HPHC became the sole member of the Plan and agreed to provide up to \$9,000,000 to the Plan over a three-year period starting from the closing date. In addition, HPHC agreed to provide \$15,000,000 in funding to the Community Health Centers as grants over a three-year period. In January 1998, the Plan's Board was reduced from 25 directors to 12 directors; five determined by the League and seven determined by HPHC.

In September 1999, Community Medical Alliance Clinical Group became a wholly owned affiliate of NHP. In January 2000, Community Medical Alliance Clinical Group changed its name to Community Medical Alliance, Inc., ("CMA"). CMA provides direct care and care management services to certain Plan members and is reimbursed by the Plan on a capitated basis. The Plan is the sole source of revenue for CMA.

#### Growth of the Plan

The growth of the Plan for the years 2006 through 2009 is shown in the following schedule, which was prepared from the Plan's Annual Statements including any changes as a result of the examination.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premium Income</u>	<u>Capital &amp; Surplus</u>
2006	\$ 192,489,359	\$ 526,669,731	\$ 97,765,697
2007	248,291,729	667,982,779	132,823,105
2008	288,261,100	838,573,394	153,319,688
2009	261,304,119	923,914,113	121,965,021

#### Management

##### Annual Meeting

The bylaws indicate that the annual meeting of the Plan shall be held each year at such time, date and place as determined by the Directors upon twenty-four hours notice by telephone or facsimile, or upon written notice sent via the mail at least five days prior to the meeting. The annual meeting for 2009 was held on June 1, 2009.

*Board of Directors*

The bylaws provide that the Board of Directors shall manage the business and affairs of the Plan. Directors shall be elected at any meeting of the Members. The Members of the corporation are composed of the president of the Massachusetts League of Community Health Centers, Inc., a Massachusetts non-profit corporation (the "League"), the president of the corporation, and the chair of the corporation's Board of Directors. The Board of Directors shall consist of fifteen directors, subject to reduction to thirteen. Thirteen of the directors shall be elected by the Members and shall be (i) the president of the corporation and the president of the League (the "Ex-Officio Directors" with the power to vote), (ii) seven directors nominated by the League and elected by the Members (the "League Directors"), and (iv) four directors that the Members shall elect (the "At Large Directors"). So long as any amounts remain unpaid under the Surplus Note issued by the Plan to Blue Cross Blue Shield of Massachusetts ("BCBSMA"), two of the directors shall be elected by BCBSMA (the "BCBSMA Directors"). Upon payment in full of the Surplus Note, the number of directors may be reduced to thirteen. Each Director, other than the Ex-Officio Directors, shall serve for the term designated by the Members.

At December 31, 2009 the Board was comprised of fifteen members.

Directors duly elected and serving at December 31, 2009, and their address and business affiliation follow below:

Name of Director

Business Affiliation

Frances Anthes

President & CEO  
Family Health Center of Worcester, Inc.  
Worcester, MA

Lori Berry

Executive Director  
Lynn Community Health Center  
Lynn, MA

Tristram Blake

Chief Executive Officer  
South End Community Health Center  
Boston, MA

Jay Breines

Executive Director  
Holyoke Health Center, Inc.  
Holyoke, MA

Deborah C. Enos

President & CEO  
Neighborhood Health Plan  
Boston, MA

John A. Fallon, M.D.	Chief Physician Executive Senior Vice President Blue Cross Blue Shield of MA Boston, MA
Ralph Fuccillo	President DentaQuest Foundation Boston, MA
Peter C. Georgeopoulos	President & CEO Greater New Bedford Community Health Center, Inc. New Bedford, MA
Charles T. Grigsby	Senior Vice President Mass Capital Resource Company Boston, MA
James W. Hunt, Jr.	President and Chief Executive Officer MA League of Community Health Centers Boston, MA
Robert J. Ingala	Chief Executive Officer Greater Lawrence Family Health Center Lawrence, MA
Allen Maltz	Chief Financial Officer Blue Cross Blue Shield of MA Boston, MA
Tom Manning	Deputy Chancellor for Operations and Commonwealth Medicine UMass Medical School Shrewsbury, MA
Pauline Shaw Querner	Corporate VP, Community Health Centers Harbor Health Services, Inc. Dorchester, MA
Tobias Yarmonlinsky	Managing Director RBC Dain Rauscher Boston, MA

The bylaws do not specify the number of meetings to be held during a year. The minutes of the Board of Directors meetings indicated that meetings were held nine times in 2006, eight times in 2007, nine times in 2008, and nine times in 2009. At any meeting of the Board of Directors, a majority of directors constitutes a quorum.

The Board of Directors may elect from their number an executive committee and other committees. The bylaws require the appointment of a Patient Care Assessment Committee and the election of a Conflict Review Committee and a Contract Review Committee each year. There was not any record of the appointment or election of these committees within the Board minutes for the exam period.

The purpose and membership of Audit Committee at December 31, 2009 follows:

*Audit Committee*

The Audit Committee is comprised of not less than three Directors, a majority of whom qualify as Independent Directors. The Chairman of the Audit Committee, who shall be an Independent Director, shall be elected by the Board. The Audit Committee is empowered to act on behalf of the Board on matters concerning general supervision and oversight of corporate accounting, the financial reporting processes and internal control systems of the Plan, and the quality and integrity of the Plan's financial statements. It shall engage the Plan's outside auditor, monitor its independence and performance, and meet privately as appropriate with the outside auditor; it is authorized to directly engage on the Plan's behalf such accountants, counsel, or other professionals as it believes necessary and appropriate. In addition, it shall have such further powers and perform such other duties as the Board may from time to time prescribe. Directors serving on this Committee at December 31, 2009, are as follows:

Charles Grossby      Chair  
Robert Ingala  
Allen Metz

The Plan's bylaws specify the following committees to be appointed or elected.

*Patient Care Assessment Committee*

The directors shall appoint a Patient Care Assessment ("PCA Committee"), which shall be designated a standing peer review committee, to perform such duties as the directors may specify and as may be required by law. The PCA Committee shall be composed of the corporation's Medical Director, at least one director and such other staff as the Chief Medical Officer and the directors shall designate from time to time. The PCA Committee shall make recommendations and decisions concerning the PCA Program and shall make periodic reports of its activities to the directors.



### *Conflict Review Committee*

The Conflict Review Committee is a special committee of the board of directors that is elected each year to review all disclosures made under Section I.A.I. of the Conflict of Interest Policy. The Committee is delegated the power and authority to approve for and on behalf of the board of directors interested transactions involving goods or services provided to NHP having a gross cost or value not exceeding \$50,000 in any one year and other interested transactions referred to it for review by the board of directors provided all of such committee's members are disinterested directors with respect to the transaction being reviewed. The Audit Committee may serve as the Conflict Review Committee if the board of directors so approves. The Conflict Review Committee shall report its decisions to the board of directors at the next meeting of the board of directors following the meeting of the Conflict Review Committee. A majority of the Conflict Review Committee shall constitute a quorum thereof.

### *Contract Review Committee*

A special committee of the board of directors elected each year by the board of directors and shall be composed exclusively of directors of NHP who have no relationship with any Related Providers. The Conflict Review Committee may serve as the Contract Review Committee if its membership so qualifies and the board of directors approve. A majority of the Contract Review Committee constitutes a quorum thereof.

### *Officers*

The bylaws provide that the officers of the corporation shall be a chair, a president, a treasurer, a clerk, and such other officers as the directors may, from time to time, elect or appoint. The bylaws state that the chair, treasurer, and clerk shall be elected annually by the directors.

Vacancies among the officers may be filled and new offices created and filled by an affirmative vote of the majority of directors then in office.

The elected officers and their respective titles at December 31, 2009 follow:

<u>Name</u>	<u>Title</u>
Deborah Enos	President & Chief Executive Officer
Harold Putnam	Chief Financial Officer
Robert Ingala	Chair
Toby Yarmolinsky	Treasurer
Frederick J. Marx	Clerk

### Conflict of Interest Procedures

The Plan has adopted a policy statement pertaining to conflict of interest as indicated in response to Question 16 of the General Interrogatories of the Annual Statement. The Plan has an established procedure for the disclosure to the Board of Directors of any material interest or

affiliation on the part of any officer or director, which is in or is likely to conflict with his/her official duties.

Annually, each officer, director and responsible employee completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and no discrepancies noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Plan's 2009 Annual Statement.

#### Corporate Records

##### *Articles of Incorporation and Bylaws*

The bylaws and Articles of Incorporation and amendments thereto were read. Based upon the reading of the bylaws and Articles and amendments thereto, the Plan is operating substantially in compliance with its bylaws and in accordance with the purpose, functions and policies as set forth in its Articles of Incorporation.

##### *Disaster Recovery and Business Continuity*

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. c.175 ss.180M-180Q.

##### *Board of Directors Minutes*

The minutes of meetings of the Board of Directors for the period under statutory examination were read and indicated that all meetings were held in accordance with the Plan bylaws and the laws of the Commonwealth of Massachusetts. The Board minutes contained the necessary votes and authorizations.

#### Surplus Notes

On November 13, 2003, NHP issued a \$10,000,000 surplus note to BCBSMA in exchange for cash to be classified as surplus for statutory purposes. The note is unsecured and is subordinate to all present and future indebtedness of NHP, policy claims, and prior claims against the NHP, as provided by Massachusetts General Laws. This was voted by NHP's Board of Directors and appropriate filings were made with the Division. Issuance was approved by the Commissioner of Insurance of the Commonwealth of Massachusetts ("Massachusetts Commissioner").

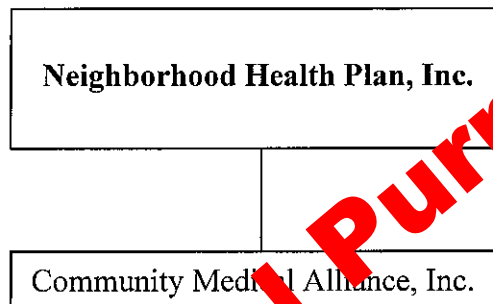
The interest rate on the note is 5.3% annually for the first five years and, as amended, two hundred basis points above the auction rate for US Treasury Bills with a maturity of 26 weeks thereafter. Interest payments are paid semiannually for the first ten years and due April 1 and October 1. Principal payments commence on April 1, 2014 and will be paid at \$1,000,000 semiannually until October 1, 2018. All payments of principal and interest are subject to the approval of the commissioner of the DOI. The agreement requires NHP to notify BCBSMA in

the event the total net assets of NHP decrease below \$20,000,000. NHP was in compliance with the debt covenant at December 31, 2009.

### **AFFILIATED COMPANIES**

Per Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L. c. 175, Section 206C. The Company is the "ultimate controlling person" for Community Medical Alliance, Inc.

#### **Organization Chart**



#### **Transactions and Agreements with Subsidiaries and Affiliates**

Effective September 1, 1999, the Plan entered into a ten-year agreement with their affiliate, Community Medical Alliance, Inc. to provide certain accounting, management, and other services. The agreement shall be automatically renewed for successive five-year terms unless either party gives notice of nonrenewal at least one hundred eighty days prior to expiration of the then current term. CMA pays the Plan an amount equal to their Administrative Services budget in twelve equal monthly installments. The Plan is CMA's only source of revenue, other than occasional grant amounts.

### **FIDELITY BOND AND OTHER INSURANCE**

The Plan maintains fidelity coverage with an authorized Massachusetts insurer. The aggregate limit of liability coverage meets the NAIC's suggested minimum as of December 31, 2009.

The Plan has further protected its interests and properties by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2009.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

NHP offers various insurance plans, including group and family life, dental and health coverage, short-term and long-term disability, and personal accident insurance to all employees working a minimum of 20 hours per week.

NHP offers an employee savings plan under Section 401(k) of the Internal Revenue Code. All full-time employees of the Company who are at least 18 years of age shall become participants in the savings plan immediately. NHP contributes 50% of each eligible participant's contribution up to a maximum of 4% of an employee's eligible compensation. Also, NHP may make a quarterly discretionary profit-sharing contribution, of 3% to 5% of employee's eligible compensation based on their length of service. The service requirement for participation in the Company matching contribution and the Company profit-sharing contribution is six months and one year, respectively.

## **STATUTORY DEPOSITS**

The statutory deposits of the Plan as of December 31, 2009, are as follows:

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value</u>
Massachusetts	US Treasury Note 3.88% due 2010	\$ 1,000,000	\$ 997,633	\$ 1,013,431

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Plan is licensed to transact business in Massachusetts and is not licensed in any other state.

The Plan is a Network-Model HMO, which arranges for the delivery of comprehensive health care services on a prepaid basis to covered members. Physicians providing services to Plan members are not employees of the HMO, but are affiliated through contractual relationships.

Approximately 67% percent of the Plan's business is derived from providing health care coverage to Medicaid beneficiaries through a Managed Care Organization contract with the Commonwealth of Massachusetts Division of Medical Assistance. The remaining business is with Commonwealth Connector and commercial with approximately 20% percent and 13% percent respectively.

### Advertising and Sales Materials

The Plan uses brochures and trade journals to advertise its insurance products. Advertising and sales material used during the examination period were reviewed. No misleading advertising was noted.

### Treatment of Subscribers

#### *Claims Settlement Practices*

Procedures performed in conjunction with the claims test work indicated that the Plan investigates and settles claims on a timely and equitable basis.

### Claimant Complaints

During the course of the examination, a general review was made of the manner in which the Plan conducts its business practices and fulfills its contractual obligations to claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination.

## REINSURANCE

### Ceded Reinsurance

Since January 1, 2007, the Plan has participated in an excess of loss reinsurance agreement with HCC Life Insurance Company, an authorized Massachusetts insurance company. Under the terms of this agreement, HCC Life will reimburse NHP for 90% of eligible expenses for Commercial claims in excess of \$525,000 or 95% of eligible expenses in excess of \$525,000 if contractual conditions are met. The individual contract year maximum is \$1,500,000 for this contract.

NHP has chosen to participate in a stop-loss program for RC II members offered within its MassHealth Contract. The stop-loss program covers 80% of eligible costs in excess of \$104,000.

Within the Plan's Connector business is a stop loss contract option to reinsure the Commonwealth Care Members for 75% of eligible expenses in excess of \$150,000.

The Plan did not assume any reinsurance risk during the years under examination.

### SUBSEQUENT EVENTS

- Two regulatory regulations that will impact NHP now and in the future:
  - (1) February, 2010, emergency regulation requiring plans to file and have approved premium rate filings for the Massachusetts merged market.
  - (2) March, 2010, the "Patient Protection and Affordability Act" was passed by the Federal government.
- May 28, 2010, the Company and the Commonwealth of Massachusetts finalized a new contract for a 3.9% rate increase effective July 1, 2010.
- June 4, 2010, the Company agreed to a settlement with the Commonwealth of Massachusetts that creates an overall blended base rate increase of 7.7 percent across all the company's commercial small group plans. The agreement applies to premiums for new and renewal business for the annual contract periods from June 1, 2010 through December 31, 2010.

### ACCOUNTS AND RECORDS

The internal controls structure was discussed with management through questionnaires and through a review of the work performed by the Plan's Independent Certified Public Accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the Information Systems (IS) environment. The questionnaire was completed by the Plan and reviewed by the Division, which evaluated the adequacy of the information systems controls. No material deficiencies were noted.

The Plan uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2009 Annual Statement.

The books and records of the Plan are audited annually by independent Certified Public Accountants in accordance with 211 CMR 23.00.

**FINANCIAL STATEMENTS**

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the *National Association of Insurance Commissioners* as of December 31, 2009.

Statement of Assets, Liabilities, and Capital and Surplus as of December 31, 2009

Statement of Revenue and Expenses for the Year Ended December 31, 2009

Reconciliation of Capital and Surplus, for Each Year in the Four-Year Period Ended December 31, 2009

**For Informational Purposes Only**

Neighborhood Health Plan, Inc.  
Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2009

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$231,226,358	\$ -	\$231,226,358	
Cash and short-term investments	(14,537,169)		(14,537,169)	
Subtotals, cash and invested assets	216,689,189		216,689,189	
Investment income due and accrued	867,371		867,371	
Uncollected premiums and agents' balances in the course of collection	15,427,029		15,427,029	
Reinsurance: Amounts recoverable from reinsurers	21,895,524		21,895,524	
Electronic data processing equipment	2,659,697		2,659,697	
Health care and other amounts receivable	3,270,981		3,270,981	( 2 )
Aggregate write-ins for other than invested assets	494,548		494,548	
Total Assets	<u>\$261,304,339</u>	<u>\$ -</u>	<u>\$261,304,339</u>	



Neighborhood Health Plan, Inc.  
Statement of Assets, Liabilities, Surplus and Other Funds (continued)  
As of December 31, 2009

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Claims Unpaid	\$101,306,445	\$ -	\$101,306,445	(1)
Unpaid claims adjustment expenses	2,796,748		2,796,748	
Aggregate health policy reserves	23,487,645		23,487,645	
Premiums received in advance	1,877,151		1,877,151	
General expenses due or accrued	9,228,696		9,228,696	
Amounts withheld or retained for the account of others	157,606		157,606	
Borrowed money and interest thereon	54,750		54,750	
Amounts due to parent, subsidiaries and affiliates	246,603		246,603	
Aggregate write-ins for liabilities	183,674		183,674	
Total Liabilities	<u>139,339,318</u>		<u>139,339,318</u>	
Surplus notes	10,000,000		10,000,000	
Unassigned funds (surplus)	<u>111,965,021</u>		<u>111,965,021</u>	
Surplus as regards policyholders	<u>121,965,021</u>		<u>121,965,021</u>	
Total Liabilities, Capital and Surplus	<u>\$261,304,339</u>	<u>\$ -</u>	<u>\$261,304,339</u>	

Neighborhood Health Plan, Inc.  
Statement of Revenue and Expenses  
For the Year Ended December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Net premium income	\$ 923,914,113	\$ -	\$ 923,914,113
Total revenue	923,914,113		923,914,113
<b>Hospital and Medical</b>			
Hospital/medical benefits	706,948,457		706,948,457
Other professional services	66,266,930		66,266,930
Emergency room and out-of-area	34,136,713		34,136,713
Prescription drugs	88,544,519		88,544,519
Aggregate write-ins for other hospital and medical	1,833,483		1,833,483
Subtotal	897,730,102		897,730,102
<b>Less</b>			
Net reinsurance recoveries	14,462,861		14,462,861
Total hospital and medical	883,267,241		883,267,241
Claims adjustment expenses	29,541,277		29,541,277
General administrative expenses	39,816,511		39,816,511
Increase in reserves for life and accident and health contracts	12,510,366		12,510,366
Total underwriting deductions	965,135,395		965,135,395
Net Underwriting gain	(41,221,282)		(41,221,282)
Net investment income earned	6,970,153		6,970,153
Net realized capital gains	3,276,862		3,276,862
Net investment gains	10,247,015		10,247,015
Net Income (loss)	<u>\$ (30,974,267)</u>	<u>\$ -</u>	<u>\$ (30,974,267)</u>

Neighborhood Health Plan, Inc.  
Statement of Revenue and Expenses (continued)  
For the Year Ended December 31, 2009

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Capital and surplus prior-reporting period	\$ 153,319,688	\$ -	\$ 153,319,688
Net income (loss)	(30,974,267)		(30,974,267)
Change in nonadmitted assets	<u>(380,400)</u>		<u>(380,400)</u>
Net Change in capital and surplus	(31,354,667)		(31,354,667)
Capital and surplus end of reporting period	<u>\$ 121,965,021</u>	<u>-</u>	<u>\$ 121,965,021</u>

Neighborhood Health Plan, Inc.  
Reconciliation of Capital and Surplus  
For Each Year in the Four Year Period Ended December 31, 2009

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Capital and surplus prior-reporting period	\$ 153,319,688	\$ 132,823,105	\$ 97,765,697	\$ 69,823,731
Net income (loss)	(30,974,267)	24,721,176	36,229,901	24,959,941
Change in nonadmitted assets	(380,400)	(4,224,593)	(1,172,493)	(29,262)
Aggregate write-ins for gains or (losses) in surplus	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,871,287</u>
Net change in capital and surplus for the year	<u>(31,354,667)</u>	<u>20,496,583</u>	<u>35,057,408</u>	<u>27,941,966</u>
Capital and surplus, December 31, current year	<u>\$ 121,965,021</u>	<u>\$ 153,319,688</u>	<u>\$ 132,823,105</u>	<u>\$ 97,765,697</u>

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1: Claims Unpaid**

In conjunction with the Division's regulatory examination of the Plan's financial statements, an independent certified public accounting firm, KPMG LLP, was retained by the Division to review the methodology and adequacy of the Unpaid Claim Liability of the Plan as of December 31, 2009, and to perform a review of the Plan's premium rating processes including the Plan's premium deficiency and rate adequacy analysis. A summary of findings is noted below:

- The Unpaid Claim Liability at December 31, 2009 is fairly stated in aggregate in all material respects.
- The reserve is calculated in accordance with Massachusetts' laws and regulations and NAIC requirements.
- The Plan's booked reserves include a provision for Loss Adjustment Expenses in 2009, and the resulting expense percentages are within industry norms.
- The Plan's premium deficiency reserve calculation was found to be reasonable, with no additional premium deficiency reserves required at December 31, 2009.

### **Note 2: Health Care Receivable**

Based on the examination review of the Health Care Receivable it has been noted that the asset was overstated by \$576,343. The overstatement was based on the account detail provided by the Company to support the receivable. Upon review of this detail and discussions with the Company it was noted that NHP received the aforementioned amount in the third quarter of 2009. Because the error shows a weakness in controls, we recommend that the Company review and update its financial controls to include quarterly account reconciliations of all financial statement accounts.

## **COMMENTS AND RECOMMENDATIONS**

It is recommended that management and the Board enact formal procedures to comply with currently recommended corporate best practices. The Board should have in place a written Executive Bonus Plan to approve any additional compensation to eligible employees. Currently executive bonuses are only recommended and approved by the CEO.

It is recommended that the Board draft and approve charters for all committees. The committee members and structure should be approved and documented within the Board minutes. The meeting minutes of the Members of the Corporation indicated only the appointment of the chairs of the Audit, Finance and Strategic Planning Committees. It is recommended that the Members and Board adhere to the corporation's bylaws which specify the election of a Conflict Review Committee and Patient Care Assessment Committee. In addition the Board apparently has other committees but, there is no documentation of their appointment or election within the Board minutes.

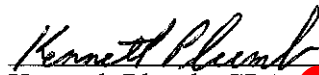
Conflict of Interest statements should be completed and reviewed by the Board on an annual basis for all officers, directors and senior managers. Initially the Plan was unable to provide the examiners with the Conflict of Interest statements for the CFO for the years under examination. Subsequently the Plan provided a signed Conflict of Interest Disclosure statement for the CFO for all years under examination.

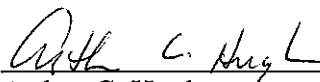
ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Plan.

The assistance rendered by the following Massachusetts Division of Insurance examiner who participated in this examination is hereby acknowledged.

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