

Report on Examination
of
NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND, INC.

Smithfield, Rhode Island

as of

December 31, 2017



State of Rhode Island and Providence Plantations
Department of Business Regulation
Insurance Division



**State of Rhode Island and Providence Plantations
OFFICE OF THE HEALTH INSURANCE COMMISSIONER
1511 Pontiac Avenue, Bldg. 69-1
Cranston, Rhode Island 02920**

ADOPTION ORDER

The attached Report of Examination as of December 31, 2017, of the condition and affairs of

NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND, INC.

was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of the Company and its financial condition, as reflected in the report.

It is therefore ORDERED that said Report be, and it is hereby, adopted and filed and made an official record of this Department as of this date.

Department of Business Regulation

Marie L. Ganim, PhD
Health Insurance Commissioner

Dated: March 21, 2019

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SALUTATION

February 28, 2019

Marie L. Ganim, PhD
Health Insurance Commissioner
State of Rhode Island and Providence Plantations
Department of Business Regulation
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Dear Superintendent Dwyer:

In accordance with your instructions and pursuant to Chapters 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2017, of the financial condition and affairs of

NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND, INC.

located at 910 Douglas Pike, Smithfield, Rhode Island. The report of such examination is herewith submitted.

Neighborhood Health Plan of Rhode Island, Inc. (also referred to as the “Company” or “Corporation”) was previously examined as of December 31, 2013, and both the current and prior examinations were conducted by the Insurance Division of the State of Rhode Island (“Insurance Division”).

SCOPE OF EXAMINATION

The current examination covered the four-year period from January 1, 2014 through December 31, 2017 and was performed in compliance with the above-mentioned sections of the General Laws of the State of Rhode Island, as amended. The current examination was conducted as a single-state full scope risk-focused examination in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”), risk-focused examination process.

The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, and general information about the

insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.) are not included within the examination report, but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material adverse or significant non-compliance finding noted during the examination as of December 31, 2017.

COMPANY HISTORY

The Company, under the name of Neighborhood Health Plan of Rhode Island, Inc., was incorporated as a Delaware business corporation and commenced business on December 9, 1993. Subsequently, the Department of Health of the State of Rhode Island licensed the Company to transact business. The Company, in accordance with the provisions of Rhode Island General Laws §27-41, applied for and received licensing with the Insurance Division of the Rhode Island Department of Business Regulation on December 1, 1994, and began operations on December 10, 1994.

On December 31, 1996, a new Rhode Island corporation was formed under the name of NHPRI, Inc. On the same day, a Certificate of Merger was filed with the Secretary of State of Delaware to combine the Delaware based Neighborhood Health Plan of Rhode Island, Inc. with the Rhode

Island based NHPRI, Inc. Subsequent to the merger, the Rhode Island Corporation remained as the surviving entity and pursuant to the Agreement and Plan of Merger between the merged corporation and the surviving corporation; the name of the surviving corporation was changed to “Neighborhood Health Plan of Rhode Island, Inc.” The previous Delaware Company applied for a Certificate of Withdrawal from the Secretary of the State of Delaware, which was approved.

On September 22, 2000, the Corporation filed Articles of Incorporation with the Office of the Secretary of State in the State of Rhode Island to incorporate the not-for-profit entity. The Corporation also filed Articles of Merger or Consolidation with the Office of the Secretary of State in the State of Rhode Island on December 21, 2000, merging Neighborhood Health Plan of Rhode Island, Inc. into NHPRI, Inc. with the surviving company’s name being Neighborhood Health Plan of Rhode Island, Inc.

Effective January 1, 2001, Neighborhood Health Plan of Rhode Island, Inc. organized a non-stock, not-for-profit organization, and contributed all of its assets and liabilities to the new not-for-profit organization. Concurrently, the preferred and common shareholders of Neighborhood Health Plan of Rhode Island, Inc. exchanged their shares of stock for member interests in the new not-for-profit organization.

On May 9, 2001, the Corporation also filed Articles of Amendment to its Articles of Incorporation with the Office of the Secretary of State in the State of Rhode Island to amend Article IV, Section B in its entirety as follows: “Except as otherwise provided by law, the Corporation may at any

time dissolve by the affirmative vote of two-thirds of the total number of Members of the Corporation. Upon dissolution, the Board of Directors shall, after paying or making provision for the payment of all of the liabilities of the Corporation, distribute all of the assets of the Corporation to those of its Members which are then engaged in the direct provision of health care to patients, and are organizations described in Section 501(c)(3) of the Code, pursuant to a resolution of the Board of Directors of the Corporation or failing such resolution, the order of a court of competent jurisdiction in the State of Rhode Island, specifying the methodology for such distribution.”

On September 29, 2015, the Company updated the Bylaws to delete references to the Rhode Island Foundation (“RIF”) and replace the appointed RIF Member with a community Member.

MANAGEMENT AND CONTROL

The Company’s Bylaws state that the Company shall have the power, either directly or indirectly, either alone or in conjunction or cooperation with others, to do any and all lawful acts and things and to engage in any and all lawful activities in accordance with the provisions of these Bylaws which may be necessary, useful, suitable, desirable or proper for the furtherance, accomplishment, fostering or attainment of any or all of the purposes for which the Company is organized, and to aid or assist other organizations whose activities are such as to further accomplish, foster, or attain any of the Company’s purposes. Notwithstanding anything herein to the contrary, the Company shall not engage, other than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more purposes exempt from taxation under the Internal Revenue Code (“Code”).

The Bylaws also stipulate that the Company shall be organized and operated as a non-profit corporation under Rhode Island law and under Section 501(a) of the Code, as amended, or any corresponding provision of any future United States Internal Revenue Law. No part of the net earnings of the Company shall inure to the benefit of its Members, except that reasonable compensation may be paid to the Members for services rendered to and for the Company. In the event of the liquidation, dissolution, termination or winding up of the Company, whether voluntary, involuntary or by operation of law, the property or assets of the Company remaining after providing for the payment of its debts and obligations shall be distributed to those of its Members which are then engaged in the direct provision of health care to patients and are organizations described in Section 501(c)(3) of the Code pursuant to a resolution of the Board of Directors of the Company, or, failing such resolution, the order of a court of competent jurisdiction in the State of Rhode Island, specifying the methodology for such distribution.

Members

Article II, Section 1 of the Bylaws specifies the Members of the Company and notwithstanding this provision, only entities which meet the following criteria may become or remain Members of the Company:

- (a) A Member must be exempt from taxation under the Internal Revenue Code as an organization described in Section 501(c)(3) of the Code;
- (b) Any Member must be a member in good standing of the Rhode Island Health Center Association, a Rhode Island non-profit corporation exempt from taxation under the Code as an organization described in Section 501(c)(3) of the Code (the “Association”); and
- (c) Any Member other than the Association must have in effect with the Corporation a “Participating Provider Agreement” (or similarly named contract) pursuant to which the

Member agrees to provide health care services for the Corporation's enrollees in exchange for payment by the Corporation.

Unless otherwise provided in the Bylaws, the Members shall have the responsibilities ascribed to Members under the Rhode Island Non-Profit Corporation Act, including, without limitation, the right to amend the Corporation's Bylaws, approve amendments to the Corporation's Articles of Incorporation, and approve the merger, consolidation, dissolution and/or sale of all or substantially all of the Company's assets.

Membership status in the Company is not transferable to any other person or entity. If two or more Members "affiliate," only one of the entities may remain a Member. At any time, the Members may admit as an additional Member, any entity meeting all of the criteria for membership set forth in Article II, Section 2 of the Bylaws. Each Member shall be entitled to one vote. All decisions must be made by a majority of the Members present at a meeting at which a quorum is present and voting.

Board of Directors

The Bylaws provide that all of the affairs of the Company shall be managed by a Board of no more than seventeen (17) directors. The Board shall be comprised of one person designated by each Member provided that Member is the designated primary care provider for individuals who are entitled to receive covered services from the Company in its capacity as a health maintenance organization and represent at least six thousand (6,000) member months over the prior calendar year. Other directors include seven (7) persons nominated by the Corporation's Nominating

Committee; the Executive Director of the Association (ex officio with vote); and the President of the Corporation, (ex officio with vote).

Regular meetings of the Board shall be held in Providence, Rhode Island, or at such other place, either within or without the State of Rhode Island, as the Directors or the Chair may determine. The Secretary, President of the Corporation, or other officer of the Corporation shall give notice of meetings to each Director in writing, at least three (3) days before the meeting. Notices of such meetings may be waived, in writing, by the Director entitled to notice, whether or not she or he is present. The Chair shall preside over and conduct such meetings.

The membership of the Board, together with their principal business or professional affiliation was as follows at December 31, 2017:

	<u>Name and Location</u>	<u>Principal Occupation</u>
1	Peter Bancroft, CPA, <i>Chairman</i>	WellOne Primary Medical & Dental Care - President & Chief Executive Officer
2	Jane Hayward, <i>Vice-Chairman</i>	Rhode Island Health Center Association - President & Chief Executive Officer
3	Merrill Thomas, <i>Treasurer</i>	Providence Community Health Center - Chief Executive Officer
4	Brenda Dowlatshahi, <i>Secretary</i>	Tri-Town Community Action Agency Chief Operating Officer
5	Peter Marino	Neighborhood Health Plan of Rhode Island - President & Chief Executive Officer

6	Richard Besdine, MD	Brown University School of Public Health Center for Gerontology & Healthcare Research
7	Doris De Los Santos	Providence School Department -Executive Director Development, Partnership & Engagement
8	William Hochstrasser-Walsh	Action Program - Senior Vice President & Chief Operating Officer
9	Jeanne LaChance	Thundermist Health Center - Interim President & Chief Executive Officer
10	Raymond Lavoie	Blackstone Valley Community Health Center - Chief Executive Officer
11	*Michael Lichtenstein	Wood River Health Services - President & Chief Executive Officer
12	Christopher Little, Esq.	Little, Medeiros, Kinder, Bulman - Partner
13	Patricia Martinez	Central Falls School Distric Center for Family Support - Executive Director
14	Pablo Rodriguez, MD	Women's Care - Chief Executive Officer
15	Dennis Roy	Action Program - President & Chief Executive Officer

*Michael Lichtenstein, resigned from the Board effective August 2018.

Gary Furtado, Navigant Credit Union-President & CEO - appointed to the Board effective January 2018.

Keith Oliveira, RI League of Charter Schools - Executive Director - appointed to the Board effective January 2018.

Alison Croke, Wood River Health Services - President & CEO - appointed to the Board effective January 2019.

Committees

The Bylaws stipulate that the following standing committees of the Board of Directors shall be established:

- Executive Committee
- Finance & Audit Committee
- Nominating Committee
- Planning Committee

In addition to the standing committees, the Board of Directors may designate such other committees as the Board deems appropriate, each of which shall consist of at least two (2) or more Directors. The Chair or President shall appoint the chair of each committee and the Nominating Committee shall appoint its members, except that: (i) the Treasurer of the Corporation shall be the Chair of the Finance Committee, ex officio; (ii) the Executive Committee will be composed of the Chair, Vice Chair, President, Secretary, Treasurer and the Chair of the Nominating Committee, and; (iii) the Nominating Committee shall be appointed by the Board. Off-Board committee members may be appointed and shall have the right to vote on committee matters in the case of advisory committees that do not have the authority to bind the Board or the Corporation. Each committee shall have and may exercise all of the authority delegated to it by the Board in the resolution that establishes the committee, except that no committee shall have the authority of the Board with respect to amending, altering or repealing the Bylaws; electing, appointing or removing any member of any such committee or any Director or officer of the Company; restating the Company's Articles of Incorporation; adopting a plan of merger or adopting a plan of consolidation with another corporation; authorizing the sale, lease, exchange or mortgage of all or substantially all of the property and assets of the Company; authorizing the voluntary dissolution of the Company; or amending, altering or repealing any resolution of the Board which by its terms provides that it shall not be amended, altered or repealed by such committee. At December 31, 2017, the following committees in addition to the standing committees of the Board were established:

- Clinical Affairs Committee
- Human Resources Committee
- Investment Committee

Committees elected by the Board of Directors consisted of the following at December 31, 2017:

Executive Committee

Peter Bancroft, *Chair*
Brenda Dowlatsahi
Jane Hayward, *Vice-Chair*
Pablo Rodriguez
Peter Walsh
Peter Marino

Finance & Audit Committee

Peter Walsh, *Chair*
Ray Lavoie
Merrill Thomas
Diane Hopper
Doris De Los Santos
Jeanne LaChance
Peter Marino

Nominating Committee

Pablo Rodriguez, *Chair*
Jane Hayward
Peter Marino
Brenda Dowlatsahi
Doris De Los Santos

Planning Committee

Jane Hayward, *Chair*
Dennis Roy
Christopher Little
Merrill Thomas
Patricia Martinez
Peter Marino
Ron Winter
Peter Bancroft
Tara Townsend

Investment Committee

Raymond Lavoie, *Chair*
Peter Walsh
James Worrell, JD
Jeffrey Hanna, CFA
Katie Umile

Human Resource Committee

Brenda Dowlatsahi, *Chair*
Daria Kreher
Michael Lichtenstein
Peter Marino
William Hochstrasser-Walsh
Sybil Bailey

Clinical Affairs Committee

Pablo Rodriguez, MD, Chair
Richard Besdine, MD
David Bourassa, MD
Denise F. Coppa, NP, PhD
Clifford Gordon, ED.D
William Hochstrasser-Walsh, MSW, LICSW
Cathleen Whelan, MD
Tony Wu, MD

Officers

The Bylaws provide that the principal officers of the Company shall be a Chair, a Vice Chair, a President, a Secretary and a Treasurer. The Board may appoint Vice Presidents and such other officers as they may from time to time authorize, which additional officers shall have the powers and duties assigned by the Board. To the extent permitted by law and the Bylaws, any two or more offices may be held by the same person.

The Bylaws provide that each officer other than the President (who serves at the will of the Board) shall be elected by the Board for a term of two (2) years, or until a respective successor is duly elected and qualified, or until such officer's earlier death, removal or resignation. All principal officers, except the President, shall be elected from the Board of Directors. Officers, other than the President, may serve a maximum of two (2) consecutive two (2) year terms in the same office.

The Bylaws state that the principal officers shall have the powers and perform the duties commonly incident to their respective offices, including the power and duties listed in the Bylaws. Officers shall have such additional powers and duties as the Directors may designate from time to time. A principal officer may delegate such of his or her powers as he/she deems advisable, except those powers which by law, the Articles of Incorporation, or the Bylaws may not be so delegated, to such persons as the Board or the principal officer may designate from time to time.

The officers elected or approved by the Board of Directors and serving at December 31, 2017, were as follows:

Name	Title
Peter Marino	President & Chief Executive Officer
Branda Dowlatshahi	Secretary
Merrill Thomas	Treasurer
Frank Meaney	Senior Vice President & Chief Financial Officer
Douglas Byrd	Senior Vice President, General Counsel & Chief Administrative Officer
David Burnett*	Chief Operating Officer
Francisco Trilla, MD**	Chief Medical Officer
Camille Bressler	Compliance Officer
Russell Proulx***	Information Security Officer

*David Burnett became Chief Growth Officer subsequent to December 31, 2017 and Peter Lymm was hired as Chief Operating Officer.

** Francisco Trilla, MD left as Chief Medical Officer subsequent to December 31, 2017 and was replaced by Marylou Buyse.

*** Russell Proulx left as Information Security Officer subsequent to December 31, 2017 and was replaced by Helena Chmielinski.

Corporate Structure

The Company is a stand-alone non-stock, not-for-profit organization. The Company has no investments in parent, subsidiaries or affiliates. The Company is owned by its members which, according to its Bylaws, includes certain Rhode Island Community Health Centers (CHC) to be “Members of the Corporations” so long as specific criteria continue to be met, which includes having a contract in effect with the Company to provide health care services for the Company’s enrollees in exchange for payment.

Related Party Transactions and Agreements

The Company has certain contracts with Members of the Company to provide health care services for the Company's enrollees in exchange for payment. Contracts between the Company and Members of the Company provide for capitation-based reimbursement to manage and deliver primary care medical services and fee-for-service based reimbursement to deliver other medical services.

Risk/Gain Sharing Agreement

The Company has a Risk/Gain Sharing Agreement (the Agreement) with the State of Rhode Island as an attachment to the RItE Care, RHP, RHO, RHE contracts. Under the risk sharing portion of the Agreement, the State pays the Company a stated percentage of eligible medical and hospital expenses, as defined in the Agreement, in excess of a stated percentage of medical portion of premiums, as defined in the Agreement. Under the gain sharing portion of the Agreement, the Company pays the State a stated percentage of eligible medical and hospital expenses below a stated percentage of the medical portion of premiums, as defined in each Agreement.

Risk/gain share settlements are computed and settled twelve months after the close of the applicable risk period. Since medical and hospital expenses used to determine risk/gain share settlements are based in part on actuarially determined estimates which could vary materially in the near term, there is at least a reasonable possibility that amounts recorded as risk/gain share settlements might change by a material amount in the near term.

Due to the risk/gain share, the Company's contracts with the State are accounted for as a retrospectively rated contract. The amount of net premiums written during 2017 and 2016 that were subject to the retrospective rating feature was \$1,300 million and \$1,067 million, which represents 95% and 95% of total premiums written excluding the risk/gain share adjustment, respectively.

For the year ended December 31, 2017 and 2016, the Company was in a gain share position. The risk and gain share incurred totaled (\$9,656) million and (\$1,175) million in 2017 and 2016, respectively. Gain share and risk share are considered an adjustment to premiums earned. At December 31, 2017 the gain share receivable is \$12,905 million and at December 31, 2016 the gain share payable is \$2,916 million.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed to operate only in the State of Rhode Island. The Company is a network model HMO with headquarters in Smithfield, Rhode Island, and serves members in Bristol, Kent, Newport, Providence and Washington counties in Rhode Island.

The Company contracts for the provision of comprehensive health care services to its membership with participating provider groups (eight of which are founding non-profit Community Health Centers), hospitals and other specialty health care providers. The Company delivers comprehensive healthcare services on a prepaid basis principally to Medicaid recipients and participants in HealthSource RI (the Rhode Island Health Benefits Exchange).

As of December 31, 2017, the Company serves the following Medicare (Part A and Part B) and Medicaid populations in Rhode Island: 1) Families with low to moderate income; 2) Children with special health care needs; 3) All children in the Rhode Island foster care system; 4) Medicaid-only adults with disabilities; and; 5) Dually eligible Medicare/Medicaid beneficiaries (Medicaid and Medicare Part A and Part B eligibility). The Company is one of three companies presently under contract to serve Medicaid managed care populations.

As of January 1, 2014, the Company began serving individuals (with low income) and small businesses through HealthSource RI and the Medicaid expansion population.

REINSURANCE

On a yearly basis, the Company enters into a reinsurance agreement with an independent reinsurer to limit its losses on individual claims. Under the terms of the reinsurance agreement effective January 1, 2017, the reinsurer provides coverage for Inpatient, Outpatient, Professional, Pharmacy, Behavioral Health, and Durable Medical Equipment medical expenses incurred by covered persons. Covered persons include members who are covered under the Company's policies issued for Medicaid, Medicare Dual Eligibles and Commercial Exchange.

Under the terms of the reinsurance agreement, the reinsurer will reimburse the Company for 90% of eligible hospital and other inpatient hospital expenses, in excess of a \$500,000 deductible, limited to a maximum of \$3,000,000 per covered person per contract period.

In addition to the reinsurance agreement, the RItE Care contract includes stop-loss provisions for certain services, including transplant, skilled nursing facilities, early intervention services, and drugs related to Hepatitis C treatment. Certain neonatal services are carved out of the RItE Care contract and in exchange for a reduction in premium to the plan, the State of Rhode Island assumes the medical costs for certain neonatal services.

INFORMATION TECHNOLOGY: GENERAL CONTROLS REVIEW REPORT

INS Services, Inc. (INS Services) assisted insurance examiners from the Rhode Island Insurance Division in performing a review of the information technology and computer systems of the Company. Results of the review were noted in the Information Technology Report provided to the Company.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by Neighborhood Health Plans of Rhode Island, Inc. with the State of Rhode Island Department of Business Regulation and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on financial statements reflect examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements:

Comparative Statement of Assets
December 31, 2017 and December 31, 2013

Comparative Statement of Liabilities and Capital and Surplus
December 31, 2017 and December 31, 2013

Statement of Revenue and Expenses
Year Ended December 31, 2017

Reconciliation of Capital and Surplus
December 31, 2013 to December 31, 2017

Analysis of Examination Adjustments
December 31, 2017

NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND, INC.

Comparative Statement of Assets

December 31, 2017 and December 31, 2013

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2013</u>	<u>Increase</u> <u>(Decrease)</u>
Bonds	\$ 102,349,117	\$ 47,207,214	\$ 55,141,903
Cash, cash equivalents, and short-term investments	243,611,242	77,475,398	166,135,844
Receivables for securities	10,836	-	10,836
Investment income due and accrued	846,575	275,343	571,232
Uncollected premiums and agents' balances in the course of collection	9,528,369	1,382,755	8,145,614
Accrued retrospective premiums	15,356,078	-	15,356,078
Amounts recoverable from reinsurers	1,085,347	770,424	314,923
Electronic data processing equipment and software	1,361,628	320,998	1,040,630
Furniture and equipment	-	-	-
Health care and other amounts receivable	5,352,352	1,878,688	3,473,664
Aggregate write-ins for other than invested assets	<u>3,071,213</u>	<u>5,165,163</u>	<u>(2,093,950)</u>
 Total Assets	 <u>\$ 382,572,757</u>	 <u>\$ 134,475,983</u>	 <u>\$ 248,096,774</u>

NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND, INC.

Comparative Statement of Liabilities and Capital and Surplus

December 31, 2017 and December 31, 2013

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2013</u>	<u>Increase</u> <u>(Decrease)</u>
Claims unpaid	\$ 154,720,427	\$ 36,265,398	\$ 118,455,029
Accrued medical incentive pool and bonus amounts	3,190,351	4,398,007	(1,207,656)
Unpaid claims adjustment expenses	3,816,620	1,030,771	2,785,849
Aggregate health policy reserves	10,413,158	8,617,962	1,795,196
Premiums received in advance	91,787,572	41,885,960	49,901,612
General expenses due or accrued	14,148,523	6,143,189	8,005,334
Amounts withheld or retained for the account of others	1,765,572	382,613	1,382,959
Liability for amounts held under uninsured plans	2,446,518	-	2,446,518
Aggregate write-ins for other liabilities	6,447	5,273	1,174
	<u>\$ 282,295,188</u>	<u>\$ 98,729,173</u>	<u>\$ 183,566,015</u>
Total Liabilities			
Surplus notes	-	1,000,000	(1,000,000)
Unassigned funds (surplus)	100,277,568	34,746,810	65,530,758
	<u>\$ 100,277,568</u>	<u>\$ 35,746,810</u>	<u>\$ 64,530,758</u>
Total Capital and Surplus			
Total Liabilities, Capital and Surplus	<u>\$ 382,572,756</u>	<u>\$ 134,475,983</u>	<u>\$ 248,096,773</u>

NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND, INC.

Statement of Revenue and Expenses

December 31, 2017 and December 31, 2013

Revenues:

Net premium income	\$ 1,363,671,765
Aggregate write-ins for other health care related revenues	<u>2,214,798</u>
Total Revenues	1,365,886,563

Hospital and Medical:

Hospital/medical benefits	\$ 591,563,495
Other professional services	268,392,516
Outside referrals	177,646,290
Emergency room and out-of-area	47,183,129
Prescription drugs	152,120,221
Aggregate write-ins for other hospital and medical	(8,129,753)
Incentive pool, withhold adjustments and bonus amounts	<u>5,820,681</u>
Subtotal	<u>1,234,596,579</u>

Less:

Net reinsurance recoveries	<u>2,310,810</u>
Total hospital and medical	1,232,285,769
Claims adjustment expenses, including \$17,912,369 cost containment expenses	29,889,981
General administrative expenses	<u>103,393,547</u>
Total underwriting deductions	<u>1,365,569,297</u>
Net underwriting gains (losses)	317,266
Net investment income earned	2,138,981
Net realized capital gains (losses) less capital gains tax	<u>(87,109)</u>
Net investment gains (losses)	2,051,872
Net gain (loss) from agents' or premium balances charged off	(4,032,989)
Net Income	<u><u>\$ (1,663,851)</u></u>

NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND, INC.

Reconciliation of Capital and Surplus

December 31, 2013 to December 31, 2017

Capital and Surplus, December 31, 2013			\$ 35,746,810
	<u>Gains</u>	<u>Losses</u>	
Net income	\$ 67,776,307		
Change in net unrealized capital gains	754,471		
Change in nonadmitted assets		\$ 3,000,020	
Change in surplus note		1,000,000	
	<u>68,530,778</u>	<u>4,000,020</u>	
Total gains and losses			
Net change in capital and surplus for the period			<u>64,530,758</u>
Capital and surplus at December 31, 2017			<u><u>\$ 100,277,568</u></u>

NEIGHBORHOOD HEALTH PLAN OF RHODE ISLAND, INC.

Analysis of Examination Adjustments

December 31, 2017

The examination of Neighborhood Health Plan of Rhode Island, Inc., performed as of December 31, 2017, did not disclose any material misstatements to the financial statements contained in its 2017 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for purposes of this report.

COMMENTS ON FINANCIAL STATEMENTS

Note 1: Bonds

Bonds

\$ 102,349,117

The above amount is the net admitted value of bonds held by the Company at December 31, 2017 and is the same amount reported by the Company in its 2017 Annual Statement. All of the Corporation's bonds are held in accordance with the terms of custodial agreements with third party financial institutions.

The quality ratings of all securities included in the Company's bond portfolio were reviewed based upon criteria established by the National Association of Insurance Commissioners ("NAIC"). It was noted that 100% of the bond portfolio represented class 1, which are bonds of the "highest" quality, according to the NAIC rating system.

The book value, fair value, actual Cost and par value of the bond portfolio at December 31, 2017, are as follows:

<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>	<u>Par Value</u>
\$102,349,117	\$101,734,026	\$102,275,753	\$101,358,171

Note 2: Cash, Cash Equivalents and Short-term Investments

Cash, Cash Equivalents and Short-term Investments	\$ 243,611,242
Cash	\$96,160,172
Cash Equivalents	\$95,613,431
Short-term Investment	\$51,837,639

The above amounts are the same amounts reported by the Company in its 2017 Annual Statement.

All of the Company's short-term investments are held in accordance with the terms of custodial agreements with third-party financial institutions.

Note 3: Actuarially determined assets and (liabilities)

Accrued retrospective premium	\$ 15,356,078
Amounts recoverable from reinsurers	1,085,347
Health care and other amounts receivable	5,352,352
Claims unpaid	(154,720,472)
Accrued medical incentive pool	(3,190,351)
Unpaid claims adjustment expenses	(3,816,620)
Aggregate health policy reserves	(10,413,158)
Liability for amounts held under uninsured plans	(2,446,518)

The significant actuarially-determined amounts above are the same as those reported in the Company's 2017 Annual Statement. The calculations prepared by the Company were reviewed by INS Consultants, Inc. consulting actuaries for the State of Rhode Island Insurance Division. INS Consultants, Inc., relied upon the underlying data reported by the Company, and their analyses included a review of the actuarial assumptions and methods used by the Company in determining the reserves, and such tests of actuarial calculations as deemed necessary.

In assisting INS Consultants, Inc. with their analysis, the examiners either independently performed or relied upon the procedures performed by the Company's independent accounting firm to verify the integrity of the underlying claims data, including completeness and accuracy testing. A combination of subjective and statistical sampling techniques was utilized in testing the claims data, as deemed appropriate.

INS Consultants, Inc. reviewed the actuarially-determined liabilities as of December 31, 2017 and rendered an opinion that the amounts carried in the balance sheet as of December 31, 2017, are fairly stated.

SUBSEQUENT EVENTS

A review of financial information, Company records, and the minutes to the Board of Directors' meetings and various committees for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. Based upon our review, the following significant events occurred subsequent to December 31, 2017.

Changes in the Board of Directors:

- Michael Lichtenstein, resigned from the Board effective August 2018.
- Gary Furtado, Navigant Credit Union-President & CEO was appointed to the Board effective January 2018.
- Keith Oliveira, RI League of Charter Schools - Executive Director was appointed to the Board effective January 2018.
- Alison Croke, Wood River Health Services - President & CEO was appointed to the Board effective January 2019.

Changes in the Board Committees:

- Various membership changes occurred in the Board Committees, subsequent to December 31, 2017.
- The Human Resources Committee was dissolved effective June 2018.

Changes in Senior Management:

- Francisco Trilla, MD left as Chief Medical Officer subsequent to December 31, 2017 and was replaced by Marylou Buyse.
- Russell Proulx left as Information Security Officer subsequent to December 31, 2017 and was replaced by Helena Chmielinski.

CONCLUSION

We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during the course of this examination, such errors and/or irregularities would have been disclosed in this report. Other than what has been noted in the body of this report, we were not informed of, and did not become aware of any errors or irregularities that could have a material effect on the financial condition of the Company as presented in this report.

Participating in the examination with the undersigned were various staff insurance examiners from the Rhode Island Insurance Division. In addition, acknowledgment is made of INS Regulatory Insurance Services, Inc. and its related companies, INS Consultants, Inc. and INS Services, Inc., for the services rendered to assist with the examination by providing consulting financial examiners, actuaries and information technology specialists.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "K M Willison".

Kelly M. Willison, CPA, CFE, CFE (Fraud)
Insurance Examiner-In-Charge
INS Regulatory Insurance Services, Inc., on behalf of
Rhode Island Insurance Division