

**REPORT ON EXAMINATION AS TO THE CONDITION OF**

**FLAGSHIP HEALTH SYSTEMS, INC.**

**PARSIPPANY, NEW JERSEY**

**AS OF DECEMBER 31, 2021**

**NAIC GROUP CODE 02918**

**NAIC COMPANY CODE 11179**

FILED

June 2, 2023

COMMISSIONER

NEW JERSEY DEPARTMENT

OF

BANKING AND INSURANCE

**Table of Contents**

**Page**

**SALUTATION.....1**  
**SCOPE OF EXAMINATION.....2**  
**HISTORY.....3**  
**STATUTORY DEPOSIT .....3**  
**TERRITORY AND PLAN OF OPERATIONS.....3**  
**MANAGEMENT AND CONTROL .....4**  
**REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS .....6**  
**INTER-COMPANY AGREEMENTS / RELATED PARTY TRANSACTIONS.....7**  
**POLICY ON CONFLICT OF INTEREST .....8**  
**CONTINUITY OF OPERATIONS .....8**  
**FIDELITY BOND AND OTHER INSURANCE COVERAGE.....9**  
**ACCOUNTS AND RECORDS.....9**  
**TREATMENT OF SUBSCRIBERS .....10**  
**FINANCIAL STATEMENT EXHIBITS .....11**  
    STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AT DECEMBER 31, 2021 .....12  
    SUMMARY OF REVENUE AND EXPENSES FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2021 .....13  
    CAPITAL AND SURPLUS ACCOUNT FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2021 .....14  
**NOTES TO THE FINANCIAL STATEMENTS.....15**  
    NOTE 1 – UNPAID CLAIMS ADJUSTMENT EXPENSES .....15  
    NOTE 2 – AGGREGATE HEALTH POLICY RESERVES .....15  
    NOTE 3 – CONTINGENCY RESERVES AND UNASSIGNED FUNDS .....15  
**SUMMARY OF EXAMINATION RECOMMENDATIONS .....16**  
**SUBSEQUENT EVENTS .....17**  
**CONCLUSION .....18**  
**AFFIDAVIT.....19**



**State of New Jersey**

DEPARTMENT OF BANKING AND INSURANCE  
DIVISION OF INSURANCE  
OFFICE OF SOLVENCY REGULATION

PO Box 325  
TRENTON, NJ 08625-0325

TEL (609) 292-5350  
FAX (609) 292-6765

PHIL MURPHY  
*Governor*

MARLENE CARIDE  
*Commissioner*

SHEILA OLIVER  
*Lt. Governor*

May 19, 2023

Honorable Marlene Caride  
Commissioner of Banking and Insurance  
State of New Jersey  
20 West State Street  
Trenton, New Jersey 08625

Commissioner:

In compliance with your instructions and pursuant to the Revised Statutes of the State of New Jersey, an examination has been made of the financial condition and affairs of:

FLAGSHIP HEALTH SYSTEMS, INC.  
PARSIPPANY, NEW JERSEY  
AS OF DECEMBER 31, 2021  
NAIC GROUP CODE 02918  
NAIC COMPANY CODE 11179

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, Flagship Health Systems, Inc. will be referred to in this report as "the Company" or "FHS".

## **SCOPE OF EXAMINATION**

This risk-focused examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A. 17:23-22.

The New Jersey Department of Banking and Insurance, hereinafter referred to as the “NJDOBI” or “We”, led a full scope coordinated multi-state risk-focused examination with the Connecticut Insurance Department participating. This examination covers the period of January 1, 2017, through December 31, 2021, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The principal portion of the examination was conducted via a hybrid approach, both offsite and at the Company’s statutory home office in Parsippany, New Jersey.

During the five-year exam period, the Company’s assets decreased by \$1,438,647 from \$3,556,782 to \$2,118,135; liabilities decreased by \$123,914 from \$495,978 to \$372,064 and total surplus decreased by \$1,976,102 from \$3,060,804 to \$1,084,702, after the examination adjustment for premium deficiency reserves.

The examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook (“the Handbook”). 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.

Pursuant to N.J.A.C. 11:10-1.7(f) if a Dental Plan Organization is subject to audit by an independent Certified Public Accountant (“CPA”), such audited financial statements will be provided to NJDOBI on or before June 1 of each year. WithumSmith+Brown, PC (“Withum”), the Company’s CPA, provided an unqualified audit opinion on the fair presentation of Delta Dental of New Jersey, Inc. and subsidiaries, including FHS, year-end financial statements based on accounting principles generally accepted in the United States of America (“GAAP”) for the reporting year period ending December 31, 2021. Relevant work performed by the CPA firm

during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers whenever feasible to facilitate efficiencies. Certain Withum work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

## **HISTORY**

The original Certificate of Incorporation of the Company was filed with the Secretary of the State of New Jersey on September 26, 1985 as Capital Healthplan Services, Inc. On December 10, 1985, an amendment was filed to change the name of the Company to Flagship Health Systems, Inc.

FHS commenced operations in July 1986 for the purpose of marketing and administering prepaid dental capitation plans in the State of New Jersey as a dental plan organization under N.J.S.A. 17:48D-1.

The organization is a wholly-owned subsidiary of Delta Dental Plan of New Jersey, Corp., (“DDPNJ Corporation”), which is a wholly-owned subsidiary of Delta Dental of New Jersey, Inc. (“Delta Dental” or “DDNJ”), a not-for profit dental service corporation. FHS has \$5,000 in common stock issued and outstanding which is held solely by its parent, DDPNJ Corporation. FHS has no surplus debentures.

FHS’s capitation business is substantially sold in conjunction with the offerings of Delta Dental when clients desire a prepaid dental capitation option.

The principal office of FHS is located at 1639 Route 10, Parsippany, New Jersey 07054. The agent in charge upon whom legal process may be served is Paul J. DiMaio, Esq., Senior Vice President, General Counsel and Secretary at the Company’s home office.

## **STATUTORY DEPOSIT**

Special deposit totaling \$50,000 was held by the NJDOBI on behalf of the Company which was in compliance as required by N.J.A.C. 11:10-1.8(a).

## **TERRITORY AND PLAN OF OPERATIONS**

FHS is a dental plan organization formed for the purpose of marketing and administering prepaid dental capitation plans, and is authorized to do business in the State of New Jersey. FHS’s capitation business is substantially sold in conjunction with the offerings of Delta Dental when clients desire a prepaid dental capitation option. During 1996, FHS was licensed and began operations in Pennsylvania, but in 1999, determined that its growth potential in that state was limited, and the responsibility for expansion in that market should be assumed by Delta Dental of Pennsylvania. All operations in that state were discontinued by FHS in 2003.

FHS has no employees. FHS has an inter-company servicing agreement with Delta Dental under which Delta Dental provides administrative services to FHS, which includes certain aspects of marketing, billing and collections of subscription revenue as well as the payment of capitation, claims and broker commissions. FHS reimburses Delta Dental for these services based upon methodologies and allocations inherent in the agreement.

FHS also has a coverage agreement with Delta Dental, under which Delta Dental provides coverage for specialty dental services for a premium based upon the total subscribers covered by FHS, multiplied by the applicable monthly rate in the agreement.

FHS's current group market consists of four major sectors: municipalities, commercial business, schools, and hospitals, and covers 8,395 subscribers as of December 2021. Sales and marketing of FHS's dental plans is performed by the marketing personnel of Delta Dental. Sales are made either directly by Delta Dental's account executives or through licensed independent brokers. Approximately 300 independent insurance brokers receive commissions from FHS based on three percent of the premium paid by the employer group (s) for whom they are the broker of record.

Limited use is made of advertising through print ads. Such efforts are generally focused on expanding awareness and familiarity with the Delta Dental brand rather than on promoting specific products. FHS primarily targets independent insurance brokers and employers through direct mailings, digital advertising, and telephone contact.

### **MANAGEMENT AND CONTROL**

FHS's Bylaws provide that the annual meeting of shareholders shall be held upon not less than 10 nor more than 60 days written notice of the time, place, and purposes of the meeting during the month of June of each year at the Company's offices, or at such other time and place as shall be specified in the notice of the meeting, in order to elect Directors and transact such other business as shall come before the meeting.

The Bylaws provide that the President subject to the Board of Directors shall have the general charge and supervision over and responsibility for, the business and affairs of the Company. The Board of Directors shall be comprised of no more than nine and no less than three members. Each Director shall be elected by the shareholders at each annual meeting and shall hold office until the next annual meeting of shareholders and until that Director's successor shall have been elected and qualified.

A regular meeting of the Board shall be held without notice immediately following and at the same place as the annual shareholder's meeting for the purposes of electing officers and conducting such other business as may come before the meeting. The Board, by resolution, may provide for additional regular meetings which may be held without notice, except to members not present at the time of the adoption of the resolution.

A special meeting of the Board may be called at any time by the President or by Directors for any purpose. Such meetings shall be held upon three-day notice if given orally, (either by telephone or in person), or by telegraph, or by three-day notice if given by depositing the notice in the United States mails, postage prepaid. Such notice shall specify the time and place of the meeting.

A majority of the entire Board shall constitute a quorum for the transaction of business. On December 31, 2021, the following members were serving on the Board of Directors:

<u>Name</u>	<u>Principal Occupation</u>
Dennis Wilson	President and CEO, Delta Dental of New Jersey, Inc.
Ronald Deblinger, D.M.D.	Retired Dentist Vice Chairman of the Board of Delta Dental prior to 6/22/11 Chairman of the Board since 6/22/11
William Faulkner	Retired Businessperson
Joseph Mazza, D.M.D.	Dentist (self-employed) Kearny Bank (Director)
Morton Reinhart	Reinhart Associates (consulting business - President)

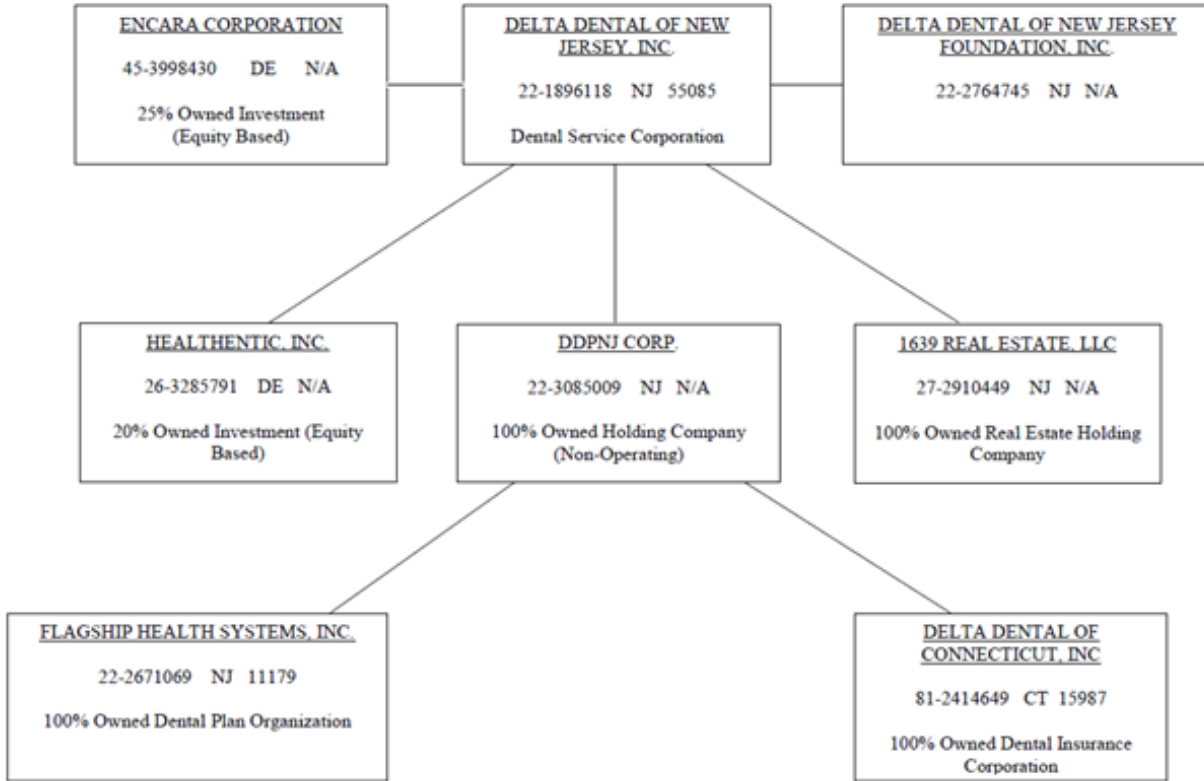
The Board of Directors' location for all correspondence is the FHS home office, 1639 Route 10, Parsippany, New Jersey 07054.

The elected officers of the Company serving on December 31, 2021, were as follows:

<u>Name</u>	<u>Title</u>
Dennis Wilson	President and Chief Executive Officer
Michael Rodrigues	Sr. Vice President, Chief Financial Officer and Treasurer
Paul DiMaio	Sr. Vice President, General Counsel and Secretary
Vincent Farinella	Vice President, Asst. Secretary and Asst. Treasurer
Keith Libou, D.M.D.	Chief Clinical Officer

**REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS**

DDNJ, the ultimate parent, operates as a not-for-profit dental service corporation in the State of New Jersey. The Company's organizational structure makes it a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1, and as such it has filed a holding company registration statement with the New Jersey Commissioner of Banking and Insurance in compliance with N.J.S.A. 17:27A-3. An organizational chart follows which illustrates the interrelationships of the companies within the holding company system as of December 31, 2021:



DDNJ wholly owns DDPNJ Corporation, a downstream holding corporation, which, in turn, is the 100% owner of FHS and Delta Dental of Connecticut, Inc. (“DDCT”).

FHS was formed in 1985 for the purpose of qualifying and operating as a dental plan organization under N.J.S.A. 17:48D-1. FHS's main business purpose is to market and administer prepaid dental capitation plans in the State of New Jersey. FHS’s capitation business is substantially sold in conjunction with the offerings of DDNJ when clients desire a prepaid dental capitation option.

DDCT was formed in 2015, and was granted licensure to sell insured products in Connecticut effective July 1, 2016. DDCT is a dental insurance company that markets its business to groups and individuals on an insured basis. Effective January 1, 2021, DDCT also markets and sells insured vision plans in Connecticut and New Jersey.

Delta Dental of New Jersey Foundation, Inc. ("Foundation") was formed in 1986 under N.J.S.A. 15A:1-1, "the New Jersey Nonprofit Corporation Act," for the purpose of promoting and assisting projects devoted to the enhancement of dental health research, education, and oral health. The



Foundation serves as DDNJ's arm for charitable outreach to the general public, and specifically, to those segments of society within New Jersey that are underserved for dental care. Originally, the Foundation was named the "Delta Dental Endowment Association," and later changed to "Delta Dental Plan of New Jersey Foundation, Inc." in October 2000. A change was effectuated again on February 9, 2005, following a resolution by the DDNJ Board of Trustees, adopting the current name.

1639 Real Estate, LLC ("1639RE") is a wholly owned real estate holding company formed in June 2010 to own and manage the building that the Company presently occupies as its home office. On the same date, 1639RE purchased the building where DDNJ is currently headquartered and for which it currently rents approximately 52% of the total available building space.

Encara Corporation was formed in December 2011 to act as a third-party which supports marketing, campaign execution, and product support for DDNJ's individual insurance products. DDNJ owns 25% interest in the entity, with the remaining equity owned by three other Delta Dental plans, Delta Dental of Wisconsin, Inc., Delta Dental of Virginia, and Washington Dental Services.

Healthentic, Inc. is a health informatics research company that began operations in September 2008 and is aimed at developing analytic products and tools that would meet the needs of benefit managers in controlling costs and establishing wellness initiatives as well as improve business practices in the administration of medical and dental insurance coverage plans for business, employers, and insurers. At year-end 2021, DDNJ owned a 20% interest, sharing with four other investors. These are Corvesta, Inc., Hawaii Dental Service, WDS Holdings LLC, and WYSSTA Investments, Inc.

#### **INTER-COMPANY AGREEMENTS / RELATED PARTY TRANSACTIONS**

At December 31, 2021, the FHS maintained three inter-company agreements with related parties. These agreements have been summarized as follows:

##### **Inter-Company Service Agreement**

On December 31, 2007, FHS entered into an inter-company service agreement with DDNJ. Under the terms of the agreement, DDNJ provides FHS with all necessary facilities, equipment and supplies, personnel and services required to implement and maintain FHS's operations as a dental plan organization. Additionally, DDNJ shall make "payments of convenience" on behalf of FHS to third parties as requested by FHS in writing. These payments may include, but not be limited to, salaries, claims and other expenses. DDNJ shall account for such payments by charging the inter-company account of FHS for the amount of the payment. DDNJ shall not be entitled to any commission or fee for making such payments. The agreement continues indefinitely until either party terminates upon thirty days written notice.

### Contract for Specialty Dental Services

DDNJ and FHS entered into a contract for specialty dental services, effective December 31, 2007, whereby DDNJ will arrange for certain DDNJ-designated dentists to perform specialty dental services for enrollees of FHS's dental plans, and FHS will compensate DDNJ for specialty dental services performed by DDNJ-designated dentists out of the capitation premiums received by FHS. The specialty dentists who agree to provide these services will do so under the terms of the Schedule of Services and Co-payments within the contract as Exhibit A. FHS agrees that it will compensate DDNJ directly for all specialty services performed by DDNJ-designated dental specialists for enrollees of its dental plans according to the Premium Schedule included within the Contract and labeled Exhibit B. The agreement continues indefinitely until either party terminates upon thirty days written notice.

### Tax Payment Allocation Agreement

The agreement is made with reference to the original Tax Payment Allocation Agreement for taxable years beginning January 1, 2010 between DDPNJ Corporation and FHS and Dental Reinsurance Company Ltd. (since dissolved in 2020).

The First Amendment to the Tax Payment Allocation Agreement was effective on November 14, 2016 with the formation of DDCT, a newly-formed, wholly-owned subsidiary of DDPNJ Corporation, DDCT becomes an additional member of the affiliated group, as that term is defined in Section 1504 of the Internal Revenue Code of 1986.

This agreement confers upon DDPNJ Corporation the responsibility of preparing and filing an annual consolidated federal income tax return on behalf of the respective members of the Group for all taxable years. DDPNJ Corporation agrees not to charge members a greater portion of consolidated tax liability that would have been paid by the member if it had filed a separate return. DDPNJ Corporation additionally agrees to reimburse each member for any tax benefit arising out of the use by DDPNJ Corporation of any of the member's investment credits, foreign tax credits, net operating losses and capital losses to the extent used in the consolidated return. Members shall pay to the DDPNJ Corporation an amount determined to be its portion of the consolidated estimated tax of the Group. This agreement may not be assigned or transferred by any member of the Group without the prior written consent of all of the other parties. The agreement terminates if parties agree in writing, membership in the holding company system ceases, and the Group fails to file a consolidated return for any taxable year.

### **POLICY ON CONFLICT OF INTEREST**

The Company has established procedures for the reporting of conflicts of interests by officers and key employees. Directors and officers are required to complete Conflict of Interest Statements on an annual basis. Additionally, the directors and officers stipulate that they will notify management immediately if a potential conflict arises in the interim. No exceptions were noted.

### **CONTINUITY OF OPERATIONS**

DDNJ's Board of Trustees is empowered by its' own by-laws with the general charge and management of the affairs, funds, and property of the Corporation and its subsidiaries. As such FHS's, business continuity is performed in conjunction with Delta Dental.

Delta Dental has developed a Business Continuity Plan for continuing its operations in the event of a loss of its current facility and/or a natural or manmade disaster. Delta Dental's Business Continuity Plan includes the makeup and functionality of the crisis team, outlines their individual responsibilities, as well as how Delta Dental handles a potential disaster regarding identification, communication, declaration, workflows, and recovery. The Business Continuity Plan also has a section on how Delta Dental handles a pandemic.

Delta Dental has 29 individual plans that supplement the overall Business Continuity Plan, which cover all of Delta Dental's key processes. Each of these individual plans includes both a Business Impact Analysis, identifying the key sub-processes, key vendors, and key required systems, as well as the plan itself, including various loss types and mitigation strategies.

Delta Dental's comprehensive Business Continuity Plan was reviewed by the examination team and Delta Dental was deemed to have adequate procedures in place to recover systems and records in the event of a disaster or business interruption.

The Company has made provisions for the succession of officers in its By-Laws.

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

FHS is a named insured on a commercial crime policy that contains a blanket fidelity coverage form with a single loss limit of insurance of \$5,000,000. This fidelity coverage is deemed adequate to satisfy the minimum amounts of fidelity insurance coverage as suggested by the NAIC exposure index.

DDNJ also maintains insurance coverage for the protection of its assets from losses arising from its business operations as of a dental service corporation. The Company was covered under the following coverages in force as of December 31, 2021: commercial crime; commercial property; commercial general liability; excess and umbrella liability; commercial excess liability; excess liability; workers' compensation and employers' liability; automobile liability; cyber liability; professional liability – errors and omissions; directors and officers liability; employed lawyer professional liability; kidnap and ransom; and employment practices liability coverages.

#### **ACCOUNTS AND RECORDS**

FHS uses externally developed software ("DataDental") specifically designed for managed-care dental programs (this software is no longer commercially available). The system is a stand-alone, client-server system using an Informix database, Linux operating system, SAN storage, and Cisco UCS virtual machines. The system is connected to desktop PCs through a local area network. It has been in use since 1997, and new releases are managed through Delta Dental's formal Release Management process on an as needed basis. FHS has a master software license agreement with the developer for use of the application and related software that permits electronic eligibility, encounters, and claims to be loaded. A support and upgrade contract for both applications is maintained with Applied Business Systems ("ABS"). ABS performs development support and services and performs system upgrades and maintenance releases. Internal staff handles database maintenance and restoration functions as needed. A major hardware and software upgrade was successfully completed in 2018. The upgrade involved migrating from the Solaris operating system to Linux, upgrading the Informix database software, and moving from Solaris hardware to Cisco

UCS servers with Dell EMC SAN storage. These upgrades help provide additional system resiliency while also substantially improving system performance and response time.

All services and transactions necessary to manage and support FHS's products, including group file, dental facility file, producer file maintenance, payment of capitation, specialty claims and broker commissions, production of group bills, operational and financial report production, patient encounter and specialty referral claims processing are managed almost exclusively through the DataDental system.

The Company uses an Enterprise Data Warehouse environment to fulfill its operational and client reporting needs. Salesforce.com is used for real time management insights/dashboards related to Sales/Clients Renewal/Prospect and to track marketing campaigns.

### **TREATMENT OF SUBSCRIBERS**

The Company's complaint register for grievances filed with the NJDOBI for years 2017 through 2021 and other written complaints for the examination period, which the Company received directly from other subscribers were reviewed. The inspection of these complaints determined that the treatment of subscribers was in compliance with N.J.S.A. 17:48D-12 (Complaint System) and N.J.S.A. 17:29B-4(10) (Complaint Handling Procedures).

**FINANCIAL STATEMENT EXHIBITS**

**Exhibit A:** Statement of Assets, Liabilities, Surplus and Other Funds at  
December 31, 2021 ..... 12

**Exhibit B:** Summary of Revenue and Expenses for the  
Five-Year Period ending December 31, 2021 ..... 13

**Exhibit C:** Capital and Surplus Account for the  
Five-Year Period ending December 31, 2021 ..... 14

**Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2021**Exhibit A

**FLAGSHIP HEALTH SYSTEMS, INC.**  
**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**  
**AT DECEMBER 31, 2021**

	Current Examination at 12/31/2021	Balance per Company at 12/31/2021	Examination Change	Note Number
<u>Assets</u>				
Cash	\$1,923,511	\$1,923,511	0	
Uncollected premiums and agents' balances in the course of collection	168,063	168,063	0	
Electronic data processing equipment and software	12,488	12,488	0	
Aggregate write-ins for other-than-invested assets	14,073	14,073	0	
<b>Total Admitted Assets</b>	<u>\$2,118,135</u>	<u>\$2,118,135</u>	<u>\$0</u>	
<u>Liabilities</u>				
Unpaid claims adjustment expenses	\$68,801	\$68,801	\$0	1
Aggregate health policy reserves	661,369	0	661,369	2
General expenses due or accrued	29,486	29,486	0	
Amounts due to parent, subsidiaries and affiliates	273,777	273,777	0	
<b>Total Liabilities</b>	<u>\$1,033,433</u>	<u>\$372,064</u>	<u>\$661,369</u>	
<u>Surplus and Other Funds</u>				
Common capital stock	\$5,000	\$5,000	\$0	3
Gross paid in and contributed surplus	9,245,000	9,245,000	0	3
Unassigned funds (surplus)	(8,165,298)	(7,503,929)	(661,369)	3
Surplus as regards policyholders	<u>\$1,084,702</u>	<u>\$1,746,071</u>	<u>(\$661,369)</u>	3
<b>Total Liabilities, Surplus and Other Funds</b>	<u>\$2,118,135</u>	<u>\$2,118,135</u>	<u>\$0</u>	

**Summary of Revenue and Expenses for the Five-Year Period Ending December 31, 2021****EXHIBIT B**

**FLAGSHIP HEALTH SYSTEMS, INC.**  
**SUMMARY OF REVENUE AND EXPENSES FOR THE**  
**FIVE-YEAR PERIOD ENDING DECEMBER 21, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Underwriting Income</u>					
Net premium income	\$5,067,984	\$5,219,743	\$5,504,841	\$5,619,593	\$5,785,468
<u>Deductions</u>					
Hospital/medical expenses	4,298,288	4,466,071	4,717,656	4,826,233	4,947,048
Claims adjustment expenses	1,110,205	1,052,658	1,145,347	1,042,309	995,672
General administrative expenses	495,686	337,821	367,069	317,878	354,761
Total underwriting deductions	<u>\$5,904,179</u>	<u>\$5,856,550</u>	<u>\$6,230,072</u>	<u>\$6,186,420</u>	<u>\$6,297,481</u>
<b>Net underwriting loss</b>	(\$836,195)	(\$636,807)	(\$725,231)	(\$566,827)	(\$512,013)
<u>Investment Income</u>					
Net investment income earned	<u>\$22</u>	<u>\$25</u>	<u>\$25</u>	<u>\$54</u>	<u>\$60</u>
Net investment gain	\$22	\$25	\$25	\$54	\$60
<u>Other Income</u>					
Aggregate write-ins for other income or expenses	<u>(\$235,368)</u>	<u>(\$2,544,661)</u>	<u>(\$3,185,666)</u>	<u>(\$161,722)</u>	<u>\$141,104</u>
Total other income (loss)	(\$235,368)	(\$2,544,661)	(\$3,185,666)	(\$161,722)	\$141,104
Net loss after capital gains tax and before all other federal income taxes	(\$1,071,541)	(\$3,181,443)	(\$3,910,872)	(\$728,495)	(\$370,849)
Federal and foreign income taxes incurred	0	0	0	196,153	(125,305)
<b>Net Loss</b>	<u>(\$1,071,541)</u>	<u>(\$3,181,443)</u>	<u>(\$3,910,872)</u>	<u>(\$924,648)</u>	<u>(\$245,544)</u>

**Capital and Surplus Account for the Five-Year Period Ending December 31, 2021****EXHIBIT C**

**FLAGSHIP HEALTH SYSTEMS, INC.  
CAPITAL AND SURPLUS ACCOUNT FOR THE  
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Surplus as regards policyholders December 31, prior year	\$744,141	\$1,988,855	\$1,903,057	\$2,866,913	\$3,060,804
Net loss	(\$1,071,541)	(\$3,181,443)	(\$3,910,872)	(\$924,648)	(\$245,544)
Change in net deferred income tax	24,857	(1,520,221)	1,109,114	153,386	192,582
Change in nonadmitted assets	48,614	456,950	(112,444)	(192,594)	(140,929)
Paid in surplus	2,000,000	3,000,000	3,000,000	0	0
Change in surplus as regards policyholders	\$1,001,930	(\$1,244,714)	\$85,798	(\$963,856)	(\$193,891)
Surplus as regards policyholders December 31, current year	<u>\$1,746,071</u>	<u>\$744,141</u>	<u>\$1,988,855</u>	<u>\$1,903,057</u>	<u>\$2,866,913</u>



## **NOTES TO THE FINANCIAL STATEMENTS**

### **Note 1 – Unpaid Claims Adjustment Expenses**

The reserves for claims adjustment expenses as reported by the Company at December 31, 2021 were \$68,801.

### **Note 2 – Aggregate Health Policy Reserves**

Aggregate health policy reserves, which represent premium deficiency reserves, were \$661,369 at December 31, 2021 as identified during the examination.

During the examination it was identified that the Company did not book premium deficiency reserves in accordance with Statement of Statutory Accounting Principles (“SSAP”) No. 54, *Individual and Group Accident and Health Contracts*, or the Health Reserves Guidance Manual. An adjustment was made to the Balance Sheet as of December 31, 2021 to reflect premium deficiency reserves equal to the amount of the Net Loss reported by the Company as of December 31, 2022, as this represents the “...expected claims payments or incurred costs, claim adjustment expenses and administration costs exceed the premiums to be collected for the remainder of a contract period” in accordance with SSAP 54.

NJDOBI reviewed the RRC Report on the Actuarial Examination of FHS and agreed with the premium deficiency reserves examination adjustment.

As a result of the premium deficiency reserves adjustment, the Company agreed to submit an action plan to NJDOBI that includes the establishment of premium deficiency reserves along with a related capital infusion. Consideration will be given by NJDOBI relating to the reporting of the adjustment pursuant to SSAP 3 after the completion of the financial examination and the plan is submitted by the Company.

### **Note 3 – Contingency Reserves and Unassigned Funds**

FHS reported total capital and surplus of \$1,746,071 at December 31, 2021. The accounts comprising total surplus consisted of the following:

Common Capital Stock	\$ 5,000
Gross Paid in and Contributed Surplus	9,245,000
Unassigned Funds (Surplus)	<u>(7,503,929)</u>
Total	<u>\$ 1,746,071</u>

The \$5,000 in common stock issued and outstanding is held solely by DDPNJ Corporation. Included in the total surplus is \$200,000 in contingency reserves. Such contingency reserves are in accordance with N.J.A.C. 11:10-1.8(a)3 (minimum general surplus) and N.J.S.A. 17:48D-7 (contingent surplus). FHS has no surplus debentures.

The examination will accept as stated the amount reported by FHS for contingency reserves and unassigned funds at December 31, 2021.

**SUMMARY OF EXAMINATION RECOMMENDATIONS**

This full scope coordinated multi-state risk focused examination of the Company yielded the following reportable recommendation:

It is recommended that the Company comply with the requirements of SSAP 54 specific to premium deficiency reserves.

### **SUBSEQUENT EVENTS**

A form and rate filing approved in late 2022 was designed to (a) introduce new plans with lower rates that will appeal to the smaller group market while being available to all market segments, and (b) update the FHS rate manual to ensure rate adequacy across all plans. The new plans were initially marketed beginning December 2022, shortly after all regulatory approvals were obtained.

**CONCLUSION**

A regular statutory financial condition examination was conducted by the undersigned under the supervision of the State of New Jersey, Department of Banking and Insurance.

The examination was conducted via a hybrid approach, both offsite and at the Company's statutory home office in Parsippany, New Jersey. The courteous assistance and cooperation of the Company's management is acknowledged.

Respectfully submitted,



---

Laura Clark, CFE, CPA  
Examiner-in-Charge  
Risk & Regulatory Consulting, LLC  
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,



---

Nancy Lee Chice, CFE  
CFE Reviewer – Supervising Examination  
New Jersey Department of Banking and Insurance

**AFFIDAVIT**

The undersigned hereby certifies that an examination has been made of Flagship Health Systems, Inc. and the foregoing report is true to the best of my knowledge and belief.

Respectfully submitted,

*Laura Clark*

---

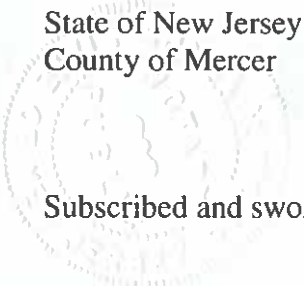
Laura Clark, CFE, CPA  
Examiner-in-Charge  
Risk & Regulatory Consulting, LLC  
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,

*Nancy Lee Chice*

---

Nancy Lee Chice, CFE  
CFE Reviewer -Supervising Examination  
New Jersey Department of Banking and Insurance



Subscribed and sworn to before me, on this 17<sup>th</sup> day of May, 2023.

*Sheila M. Stark*  
\_\_\_\_\_  
Notary Public of New Jersey

My commission expires: July 2025