

**Report on Examination**  
**of**  
**Neighborhood Health Partnership, Inc.**  
**Miami, Florida**  
**as of**  
**December 31, 2004**

**By The**  
**State of Florida**  
**Office of Insurance Regulation**

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Tallahassee, Florida

March 28, 2006

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
200 East Gaines Street  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2004, of the financial condition and corporate affairs of:

**Neighborhood Health Partnership, Inc.  
7600 Corporate Center Drive  
Miami, Florida 33126-1216**

hereinafter generally referred to as the "Company". Such report of examination is herewith respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2002 through December 31, 2004. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of June 30, 2001. In lieu of conducting a statutory financial examination of the Company for the six month period ended December 31, 2001, the Office accepted the independent certified public accountant's (CPA) audit report on the Company's statutory-basis financial statements covering that period pursuant to Section 641.27(1), F.S.

Planning for the current examination began on August 1, 2005. The fieldwork commenced on August 8, 2005 and concluded on January 20, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a statutory financial examination conducted in accordance with the NAIC *Financial Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions*, with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value, and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, various ratio results, *Best's Insurance Reports*, the Company's independent audit reports, and certain work papers prepared by the Company's independent CPA were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2004 annual statement. Transactions subsequent to December 31, 2004 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

#### **STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of June 30, 2001, along with resulting action taken by the Company in connection therewith.

##### Health Care Receivables

The Company incorrectly reported its claims payable net of \$1,282,535 in pharmacy rebate receivables which should have been reported as health care receivables. The Company was directed to correctly report its pharmacy rebate receivables as health care receivables in its filings with the Office.

Resolution: The Company correctly reported its health care receivables in its 2004 annual statement.

##### Amounts Due to Affiliates

The Company failed to fully accrue amounts due to an affiliate consisting of the Company's share of consolidated federal income taxes. Resolution: The Company corrected the error.

## HISTORY

### GENERAL

On December 8, 1992, the Company was incorporated in Florida as a not-for-profit corporation named Dimension Physician-Hospital Organization, Inc. It was licensed on July 1, 1993 to operate as a health maintenance organization (“HMO”) in accordance with Part I of Chapter 641, F.S. On October 18, 1994, the Company changed its name to Neighborhood Health Partnership, Inc., and on December 18, 2000, it received approval from the Office to convert to a for-profit corporation.

On December 31, 2004, the Plan was authorized to transact business as an HMO in accordance with Part I of Chapter 641, F.S., and as a third party administrator in accordance with Part VII of Chapter 626, F.S.

Neither the Company’s articles of incorporation nor its bylaws were amended during the period covered by this examination.

### CAPITAL STOCK

As of December 31, 2004, the Company’s capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	100,000
Total common capital stock	\$100
Par value per share	\$0.001

At December 31, 2004, the Company was wholly-owned and controlled by Neighborhood Health Holding Corp., which in turn was wholly-owned and controlled by NHP Holding, LLC. An abbreviated organizational chart appears on page 7.

## PROFITABILITY

For the period of this examination, the Company reported the following:

(\$ Millions)	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net premiums	\$797.9	\$786.6	\$671.0
Total revenues	\$797.9	\$786.6	\$671.0
Net income	\$12.9	\$9.5	\$9.5
Total capital & surplus	\$22.4	\$19.6	\$20.8

## DIVIDENDS

The Company paid shareholder dividends in the amounts of \$7,828,065, \$9,492,977, and \$5,691,524 in years 2004, 2003, and 2002, respectively.

## MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 628.231, F.S. Directors serving as of December 31, 2004 were:

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Mayda Antun, M.D. Miami, Florida	Sr. V.P. & Chief Medical Officer of the Company
John T. Fries Miami, Florida	Vice Chairman of the Company's Board of Directors
Leon D. Gould Tortola, British Virgin Islands	Investor & Trustee of the Fertosa Trust
Ira Lubert St. Thomas, British Virgin Islands	Investor
Joseph R. Papa Miami, Florida	Chief Executive Officer & Chairman of the Company's Board of Directors
David J. Pollack Miami, Florida	President of the Company
Charles S. Ricevuto, Jr. Miami, Florida	Executive consultant to the Company

The following were the Company's senior officers as of December 31, 2004, as appointed by its board of directors in accordance with the Company's bylaws:

**Senior Officers**

<b>Name</b>	<b>Title</b>
Joseph R. Papa	Chief Executive Officer
David J. Pollack	President
Vivian Lindsay	Sr. V.P of Operations & Chief Operating Officer
Ann Mary Pardo	Sr. V.P. & Chief Financial Officer
Linda Belcher	Sr. V.P. of H.R. & Chief Compliance Officer
Lisa Kofsky	Sr. V.P. of Commercial Sales
Mayda Antun, M.D.	Sr. V.P. & Chief Medical Officer
Robert Mossie	Sr. V.P. of Medicare Marketing
Mercy Marill-Kirkpatrick	Treasurer & V.P. of Finance

**CONFLICT OF INTEREST PROCEDURE**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

**CORPORATE RECORDS**

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period examined. The recorded minutes of the Board of Directors adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., except that there was no documentation in the minutes of board authorization of Company investments as required by Section 641.35(7), F.S.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code (F.A.C.) Its latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on August 2, 2005.

The following agreements were in force between the Company and its affiliates:

### **ADMINISTRATIVE AND MANAGEMENT SERVICES AGREEMENT**

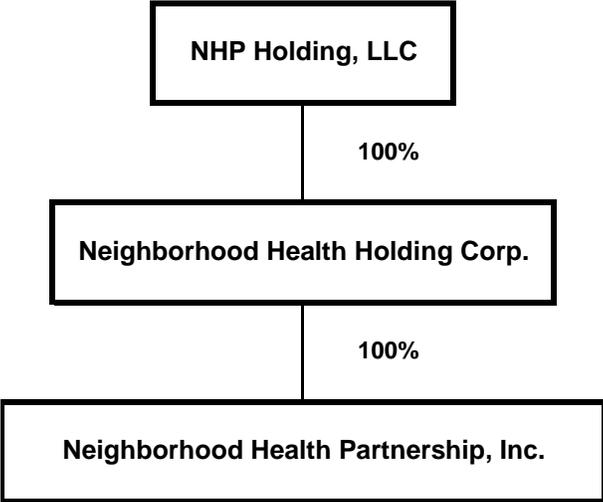
NHP Holding, LLC provides the Company with administrative and management services pursuant to an agreement effective October 7, 1994, in return for a variable fee. The fee is equal to the amount of certain premiums collected by the Company net of certain of its expenses, as specified in the agreement. The management fees are adjusted by the amount necessary to result in the Company's income before the provision for income taxes being equal to approximately two percent (2%) of total revenue, and amounted to \$67.4 million, \$76.3 million, and \$67.3 million in years 2004, 2003, and 2002, respectively.

### **TAX ALLOCATION AGREEMENT**

The results of the Company's operations are included in the consolidated federal income tax return of Neighborhood Health Holding Corp. pursuant to a tax allocation agreement effective July 1, 2002. Consolidated income tax is allocated to members of the consolidated group.

An abbreviated organizational chart as of December 31, 2004 reflecting the holding company system is shown below. Schedule Y of the Company's 2004 annual statement provided the names of all related companies in the holding company group.

**Neighborhood Health Partnership, Inc.  
Organizational Chart  
December 31, 2004**



## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintains acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and maintains a blanket fidelity bond in the amount of \$15 million, as required by Section 641.22, F.S. As an individual practice association (IPA) model HMO, the Company maintains adequate professional liability insurance. It requires in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Rule 69O-191.069, F.A.C.

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

Eligible employees may participate in the Company's 401(k) retirement plan. The Company matches 50% of participate contributions up to 6% of the participant's salary.

## **STATUTORY DEPOSITS**

The Company maintained on deposit with the Office an insolvency protection deposit of \$300,471 in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, F.S. It also maintained a deposit with the Florida Agency for Health Care Administration (AHCA) in the amount of \$543,828.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **TERRITORY AND PLAN OF OPERATION**

At December 31, 2004, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. It holds a current health care provider certificate issued by AHCA, pursuant to Part III of Chapter 641, F.S., which is valid until October 1, 2006.

The Company uses a network of general agents and brokers, and operates as an IPA model. It provides health care services to comprehensive and Medicare subscribers. Its total membership at December 31, 2004 was 177,403, of which 79% was comprehensive and 21% was Medicare.

The Company operates in the Florida counties of Palm Beach, Broward, and Miami-Dade.

### **TREATMENT OF MEMBERS**

The Company established procedures for handling written complaints in accordance with Section 641.511, F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

## **REINSURANCE**

The Company maintains stop-loss insurance with Allianz Life Insurance Company of North America covering 90% of certain medical costs in excess of \$225,000, up to \$1 million per member. The reinsurance agreement was found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines. The reinsurance contracts were reviewed by the Company's appointed actuary and utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory-basis financial statements annually for years 2002, 2003, and 2004, pursuant to Section 641.26(1)(c), F.S.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office is located in Miami, Florida, where this examination was conducted.

The following agreements were in effect between the Company and non-affiliates:

### **MANAGEMENT AGREEMENT**

Healthcare Resources International Inc. ("HRI"), a New Jersey corporation, and Belgravia Partners, LP ("Belgravia"), a U.S. Virgin Islands limited partnership, manage the business operations of the Company and NHP Holding, LLC pursuant to an agreement that was amended and restated as of January 1, 2004. In conjunction with the agreement, HRI and Belgravia provide the Company and NHP Holding, LLC with a chief executive officer, an executive vice president, a chief operating officer, a chief financial officer, a chief medical officer, and consultants. Fees for these services were \$6.8 million, \$8.1 million, and \$8.0 million in years 2004, 2003, and 2002, respectively.

### **CUSTODIAL AGREEMENT**

The Bank of America provided custodial services to the Company pursuant to a March 27, 2002 agreement in return for fees which amounted to \$115,618, \$111,673, and \$112,527 in years 2004, 2003, and 2002, respectively.

## **INDEPENDENT AUDITOR AGREEMENT**

The Company contracted with Ernst & Young to audit its financial statements for years 2002, 2003, and 2004.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following four pages contain statements of the Company's financial position at December 31, 2004, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

**Neighborhood Health Partnership, Inc.**  
**Assets**  
**December 31, 2004**

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$87,453,682	\$0	\$87,453,682
Cash, cash equivalents, & short-term investments	<u>31,641,651</u>	<u>0</u>	<u>31,641,651</u>
	119,095,333	0	119,095,333
Investment income due & accrued	960,755	0	960,755
Uncollected premiums & agents' balances			
in the course of collection	3,675,123	0	3,675,123
Amounts recoverable from reinsurers	333,264	0	333,264
Net deferred tax asset	1,456,834	0	1,456,834
Health care & other amounts receivable	5,724,389	0	5,724,389
Aggregate write-ins for other than invested assets	<u>139,692</u>	<u>0</u>	<u>139,692</u>
Totals	<u><u>\$131,385,390</u></u>	<u><u>\$0</u></u>	<u><u>\$131,385,390</u></u>

**Neighborhood Health Partnership, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2004**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Claims unpaid	\$101,586,627	\$0	\$101,586,627
Unpaid claims adjustment expenses	1,312,314	0	1,312,314
Aggregate health claim reserves	411,940	0	411,940
Premiums received in advance	4,599,049	0	4,599,049
General expenses due or accrued	255,612	0	255,612
Amounts due to parent, subsidiaries and affiliates	<u>841,033</u>	<u>0</u>	<u>841,033</u>
Total liabilities	<u>109,006,575</u>	<u>0</u>	<u>109,006,575</u>
<b>Capital and Surplus</b>			
Common capital stock	100	0	100
Gross paid in and contributed surplus	4,988,383	0	4,988,383
Unassigned funds (surplus)	<u>17,390,332</u>	<u>0</u>	<u>17,390,332</u>
Total capital and surplus	<u>22,378,815</u>	<u>0</u>	<u>22,378,815</u>
Total liabilities, capital and surplus	<u><u>\$131,385,390</u></u>	<u><u>\$0</u></u>	<u><u>\$131,385,390</u></u>

**Neighborhood Health Partnership, Inc.**  
**Statement of Revenue and Expenses**  
**For the Year Ended December 31, 2004**

Net premium income		\$797,896,940
Hospital/medical benefits	\$543,013,921	
Other professional services	57,085,782	
Emergency room and out-of-area	43,467,006	
Prescription drugs	<u>62,580,705</u>	
	706,147,414	
Net reinsurance recoveries	<u>(4,723,083)</u>	
Total hospital and medical	710,870,497	
Claims adjustment expenses	10,200	
General administrative expenses	<u>74,370,137</u>	
Total underwriting deductions		<u>785,250,834</u>
Net underwriting gain		12,646,106
Net investment income earned	2,488,975	
Net realized capital gains	<u>82,999</u>	
Aggregate write-ins for other income or expenses		<u>340,919</u>
Net income before federal income taxes		15,558,999
Federal and foreign income taxes incurred		<u>2,670,833</u>
Net income		<u><u>\$12,888,166</u></u>

**Neighborhood Health Partnership, Inc.  
Capital and Surplus Account  
For the Year Ended December 31, 2004**

Capital and surplus, December 31, 2003		\$19,602,076
Net income	\$12,888,166	
Change in net deferred income tax	(2,540,839)	
Change in nonadmitted assets	257,477	
Dividends to stockholders	<u>(7,828,065)</u>	
	2,776,739	
Examination adjustments	<u>0</u>	<u>2,776,739</u>
Capital and surplus, December 31, 2004		<u><u>\$22,378,815</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

<b>Claims unpaid</b>	<b>\$101,586,627</b>
<b>Unpaid claims adjustment expenses</b>	<b>\$1,312,314</b>
<b>Aggregate health claim reserves</b>	<b>\$411,940</b>

An outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2004 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion. Based on the results of the Office actuary's review and analysis of work papers and data provided by the Company, we concluded that the aggregate liability was not materially misstated.

**Neighborhood Health Partnership, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2004**

The following is a reconciliation of total capital and surplus between that reported by the Company and as determined by the examination.

<b>Capital &amp; Surplus - December 31, 2004, per annual statement</b>				<b>\$22,378,815</b>
	<b>Per Company</b>	<b>Per Exam</b>	<b>Increase (Decrease) in Surplus</b>	
Assets	\$131,385,390	\$131,385,390	\$0	
Liabilities	\$109,006,575	\$109,006,575	\$0	
Net change in capital & surplus				0
<b>Capital &amp; Surplus - December 31, 2004, per examination</b>				<b>\$22,378,815</b>

## SUMMARY OF FINDINGS

### COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the 2001 examination report issued by the Office.

### CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2004.

#### Authorization of Investments

As discussed on page 5, there was no documentation in the minutes of the Board of Directors meetings of board authorization of Company investments as required by Section 641.35(7), F.S. **We recommend that the Company comply with the requirements of Section 641.35(7), F.S.**

### SUBSEQUENT EVENTS

Subsequent to the date of this examination, in September of 2005, NHP Holding, LLC was acquired by UnitedHealthcare, Inc. The acquisition was approved by the Office on September 15, 2005.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Neighborhood Health Partnership, Inc.** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$22,378,815, which was in compliance with Section 641.225, F.S. Its minimum capital and surplus at December 31, 2004 was \$15,957,939.

In addition to the undersigned, Stephen Feliu, Financial Examiner/Analyst, and David C. Schleit, CPA, Financial Examiner/Analyst Supervisor, and Richard Tan, Actuary, participated in this examination.

Respectfully submitted,

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Steven A. Steele  
Financial Specialist  
Florida Office of Insurance Regulation