

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
MONTGOMERY, ALABAMA

REPORT OF  
EXAMINATION

OF

FIRSTCOMMUNITY HEALTH PLAN, INC.

HUNTSVILLE, ALABAMA

AS OF DECEMBER 31, 2014

# TABLE OF CONTENTS

EXAMINER'S AFFIDAVIT .....	ii
SALUATION .....	1
SCOPE OF EXAMINATION .....	2
ORGANIZATION AND HISTORY .....	3
MANAGEMENT AND CONTROL .....	4
<u>Board of Directors</u> .....	4
<u>Officers</u> .....	6
<u>Conflict of Interest</u> .....	6
<u>Dividends to Policyholders</u> .....	7
CORPORATE RECORDS .....	7
HOLDING COMPANY AND AFFILIATE MATTERS .....	7
<u>Holding Company</u> .....	7
<u>Transactions and Agreements with Affiliates</u> .....	7
<u>Management Agreement with the Health Care Authority</u> .....	7
<u>Accounting Services Agreement</u> .....	9
<u>Organizational Chart</u> .....	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLAN .....	10
SECTION 1033 OF TITLE 18 OF THE U.S. CODE .....	10
MARKET CONDUCT ACTIVITIES .....	11
<u>Plan of Operation</u> .....	11
<u>Territory</u> .....	11
<u>Marketing and Sales</u> .....	12
<u>Complaint Handling</u> .....	12
<u>Claims Handling</u> .....	12
<u>Compliance with Producer's Licensing Requirements</u> .....	12
<u>Underwriting and Ratings</u> .....	13
<u>Privacy</u> .....	13
SCHEDULE OF SPECIAL DEPOSITS .....	13
FINANCIAL CONDITION AND GROWTH OF COMPANY .....	14
REINSURANCE .....	14
<u>Reinsurance Assumed</u> .....	14
<u>Reinsurance Ceded</u> .....	14
ACCOUNTS AND RECORDS .....	14
FINANCIAL STATEMENTS INDEX .....	18
SUMMARY OF SIGNIFICANT FINDINGS OF FACT .....	21
NOTES TO FINANCIAL STATEMENT .....	21
COMMITMENTS AND CONTINGENT LIABILITIES .....	23
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS .....	23
COMMENTS AND RECOMMENDATIONS .....	24
CONCLUSION .....	29

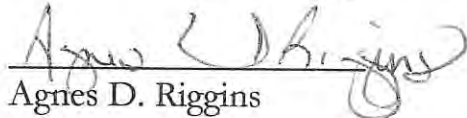
**EXAMINER'S AFFIDAVIT**

**STATE OF ALABAMA  
COUNTY OF MADISON**

Agnes D. Riggins being duly sworn, states as follows:


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

The affiant says nothing further.

  
Agnes D. Riggins

Subscribed and sworn before me by Agnes D. Riggins on this 3<sup>rd</sup> day of February, 2016.

(SEAL)

  
(Signature of Notary Public)

My commission expires 3-13-17.



ROBERT BENTLEY  
GOVERNOR

JIM L. RIDLING  
COMMISSIONER

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
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Deputy Commissioner  
CHARLES M. ANGELL

Chief Examiner  
RICHARD L. FORD

STATE FIRE MARSHAL  
EDWARD S. PAULK

General Counsel  
REYN NORMAN

February 3, 2016

Jim L. Ridling, Commissioner  
State of Alabama  
Department of Insurance  
201 Monroe Street, Suite 502  
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

**FirstCommunity Health Plan, Inc.**  
**Huntsville, Alabama**

at the office located at 699 Gallatin Street, SW Suite A2, Huntsville, Alabama 35801, as of December 31, 2014. The report of examination is submitted herewith.

Where the description "Company" appears herein, without qualification, it will be understood to indicate FirstCommunity Health Plan, Inc.

## SCOPE OF EXAMINATION

An examination was performed on FirstCommunity Health Plan, Inc., a single state, healthcare insurance provider. The last examination covered the three year period January 1, 2009 to December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2014. The examination was conducted by examiners representing the State of Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to 2014 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the State of Alabama for a Health Care Service Plan as provided for ALA. CODE § 10A-20-6.01 through § 10A-20-6.16, and in accordance with Alabama Insurance Department regulations and bulletins in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the 2015 NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to:

- Evaluate the financial condition of the Company as of December 31, 2014.
- Assess corporate governance.
- Identify current and prospective risks and evaluate system controls and procedures used to mitigate those risks.
- Identify and evaluate significant risks that could result in a material misstatement of surplus, currently or prospectively.
- Evaluate management's compliance with statutory accounting principle.

The examination was conducted in accordance with the risk-focused examination approach. All accounts and activities were considered including significant estimates made by management. The examination does not attest to the fair presentation of the financial statements included herein. Adjustments identified including their impact on surplus was documented in the Analysis to Change in Surplus on page 23.

An examination of the market conduct activities and information systems (IS) was conducted concurrently with the financial examination. The market conduct examination included a review of the Company's territory and plan of operation, marketing and sales, complaint handling, claims handling, compliance with producer's licensing requirements and underwriting and ratings. See "**Market Conduct Activities**" – Page 11. The IS examination included a review of physical access, logical access, cybersecurity and disaster recovery controls.

The Company's Annual Statements for all years under examination were compared with or reconciled to the corresponding general ledger account balances. During the period covered by the examination, January 1, 2012 to December 31, 2014, the Company was audited by Warren Averett, Inc. The workpapers of Warren Averett, Inc.'s were reviewed and used in the examination as deemed appropriate by the examiners.

A signed certificate of representation was obtained during the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2014.

## **ORGANIZATION AND HISTORY**

The Company was formed on February 3, 1995, pursuant to the provisions of laws of the State of Alabama providing for the organization and regulation of nonprofit corporations for the establishment of health service plans. The Company was incorporated under the laws of the State of Alabama on July 23, 1996. The Bylaws provided for the Board of Directors to manage the property and business of the Company. The Bylaws further provided that the sole member of the Company would be the Health Care Authority of Huntsville, Alabama doing business as Huntsville Hospital. In its capacity as member, Huntsville Hospital would pay such dues and assessments as may be established by the Board.

A certificate of authority was issued on August 24, 1995, and the Company commenced business as "Tennessee Valley Community Health Plan" with reserves and unassigned funds totaling \$425,639. The Company received no premiums and paid no claims prior to January 1, 1996. On September 22, 1997, the Company changed its name to FirstCommunity Health Plan, Inc.

On February 13, 1998, the Alabama Department of Insurance issued a certificate of authority for FirstCommunity Healthcare, Inc. (an HMO) that was a wholly-owned subsidiary of the Company. In 1997, the Company invested \$1,000,000 in the stock of the HMO, which at December 31, 1997, was valued at \$1,015,930 using the equity method. On March 29, 1999, the Company voluntarily surrendered the certificate of authority for the HMO to the Alabama Department of Insurance and verified that all of the HMO's groups were converted into the Company starting on that date.

In September 1999, the Health Care Authority of Huntsville's Board of Directors resolved to downsize the Company. All insured member groups of the Company,

except for the Medicare Select group, would be terminated or non-renewed by September 30, 2000.

The Company received approval on January 27, 2009, from the Alabama Department of Insurance Commissioner to repay Huntsville Hospital for the \$1.3 million restricted capital note. At 8.5% interest compounded since November 2000, the total repaid on March 31, 2009 was \$2,532,965. This placed the Company in Hazardous Financial Condition. The Company was ordered by the Alabama Department of Insurance to infuse \$500,000 into surplus. The Company obtained a surplus note from Huntsville Hospital for \$500,000. The Company made its first payment of \$25,000 during 2012.

On September 30, 2013, the Company received approval from the Alabama Department of Insurance to repay the surplus note plus accrued interest. The surplus note plus accrued interest totaling \$531,249.99 was repaid on October 10, 2013.

As of December 31, 2014, the Company reported \$25,975,245 and unassigned funds of (\$20,390,979). The Company reported capital and surplus of \$5,584,266.

## MANAGEMENT AND CONTROL

### Board of Directors

The Company's Bylaws require that the Company have a minimum of fifteen members on the Board of Directors at all times. The Company was in compliance with the Bylaws with fifteen Directors throughout the examination period. The following members were serving on the Board of Directors as of December 31, 2014:

<u>Name and Residence</u>	<u>Principle Occupation</u>
Jack Edwin Bachelor, DMD Huntsville, Alabama	Retired Dentist
Tommie Lee Batts Huntsville, Alabama	Business Executive DP Associates, Inc.
Lee Roy Hoekenschnieder, Jr. Huntsville, Alabama	Banking Executive Progress Bank

Carl August Grote, Jr., MD Huntsville, Alabama	Retired Physician
Joseph William Clark, Sr., MD Huntsville, Alabama	Orthopedic Surgeon The Orthopedic Center
Shirley Richardson Hale Huntsville, Alabama	Retired President Huntsville Botanical Gardens
Edwin Nelson Hoff Gurley, Alabama	Commercial Banker BB&T Bank
Nancy Palmer Rooks Huntsville, Alabama	Retired Principal and Educator
Edward Earl Cobb Huntsville, Alabama	Retired Engineer
Richard Aloysius Finch, MD Huntsville, Alabama	Retired Nephrologist
Jesse Johnson, Jr. Huntsville, Alabama	Retired Military US Army Retired Civil Service USAMICOM
Jean Wessel Templeton Huntsville, Alabama	Retired President Wesfam Restaurants, Inc.
Felicia Ann Wilson Lambert Athens, Alabama	Director of Volunteer Services Athens Limestone Hospital
Ashley Keir Burchfield, MD Madison, Alabama	Physician Huntsville Hospital Physician Care
Taron Keith Thorpe Madison, Alabama	Market Executive First Commercial Bank



## Finance Committee

The Members of the Finance Committee as of December 31, 2014 were as follows:

Lee Roy Hoekenschnieder, Jr., Chair  
Jack Edwin Batchelor, DMD  
Tommie Lee Batts  
Richard Aloysius Finch, MD

## Officers

The Officers serving at December 31, 2014 were as follows:

<u>Name</u>	<u>Position</u>
Robert Eugene Smith	President/CEO
Jack Edwin Batchelor, DMD	Chair
Richard Aloysius Finch, MD	Vice Chair
Shirley Richardson Hale	Secretary
Lee Roy Hoekenschnieder, Jr.	Treasurer
Robert Willis Chappell, Jr., MD	Medical Director

## Conflict of Interest

The Company's Bylaws, Article III, Section 6 Disclosure of Interest requires that the Directors file conflict of interest statements annually to disclose any personal interest that may conflict with the Company's interest.

There were no conflicts reported; however, one Board member did not submit a conflict of interest statement in 2012. The Director submitted conflict of interest statements for the years 2013 and 2014.

The Company did not have a conflict of interest policy for the Officers of the Company. There were no conflict of interest statements signed by the officers of the Company during the examination period.

## Dividends to Policyholders

No dividends were paid to the policyholders.

## **CORPORATE RECORDS**

The Company filed a Certificate of Intention to become a Health Care Service Plan on February 25, 1995. The Certificate of Intention was amended on September 22, 1997. The Company's Bylaws were approved on July 23, 1996 and amended on February 7, 2002.

The documents were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations.

## **HOLDING COMPANY AND AFFILIATE MATTERS**

### Holding Company

The Company is organized as a nonprofit organization under ALA. CODE § 10A-20-6.01 (2009) and is not subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975).

### Transactions and Agreements with Affiliates

The following agreements were approved during this examination period:

#### Management Agreement with the Health Care Authority

This agreement was revised in August 2004 and was approved by the Alabama Department of Insurance on December 17, 2004.

The management services agreement was entered into by and between The Health Care Authority of the City of Huntsville, Alabama ("Manager" with regard to managing the Plan and "Authority" with regard to being a Health Care Service Provider) and FirstCommunity Health Plan, Inc. (Plan).

#### *General Duties of the Manager*

The Manager is responsible for providing and maintaining office space, information systems and personnel. The Manager is also the attorney-in-fact for

the purpose of negotiating and effectuating contractual issues for and on behalf of the Plan.

#### *Duties and Responsibilities of the Plan*

Neither the Plan nor its individual Board members will develop or promote any other competing health plan without the approval of 67% of the Plan Board. The Plan also agrees not to develop or assist in the development of any other form of health plan without the Manager's approval.

#### *Fees and Expenses*

The plan agrees to pay its actual operating costs and expenses to the Manager on a monthly basis. In addition, the Plan is also responsible for normal business expenses including compensation and reimbursement to health care providers; Federal, State or local taxes; fines or penalties; legal judgments against the Plan; commissions and brokerage fees; extraordinary consultant or legal expenses not requested by the Plan Board or approved by the Manager; and any extraordinary expenses not identified in the published financial projections in the Business Plan and which were authorized by the Plan Board after the financial projections were published.

The Manager is responsible for billing and collecting premiums from subscribers. The Manager is also responsible for establishing a bank account in the Plan's name for the deposit of premiums collected. The Chief Executive Officer of the Manager designates individuals authorized on the Plan's bank account.

#### *Assets of the Plan*

Any surplus or excess cash generated by the Plan above regulatory requirements are to be used to pay providers in the Plan, to reduce premiums paid by enrollees, to increase covered services and benefits available to enrollees or for other mutually agreed upon health-related community benefit.

#### *Term and Termination*

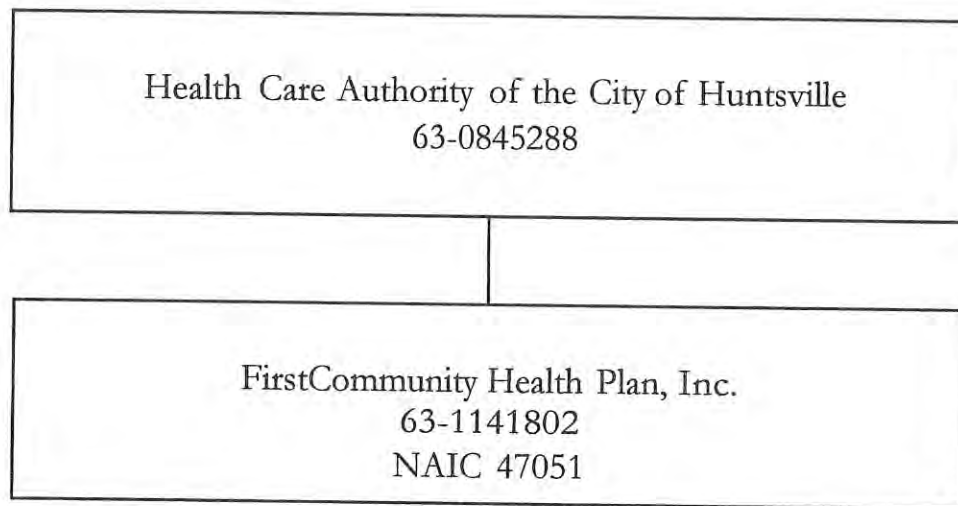
This agreement remains in force for ten years unless terminated by mutual agreement of the parties. The agreement will automatically renew for an additional five-year term unless the Manager or Board decides otherwise. Ninety days written notice must be provided in order to terminate the agreement.

## Accounting Services Agreement

January 1, 2013, The Health Care Authority of North Alabama (HGA), FirstCommunity Health Plan (FCHP) and The Health Care Authority of the City of Huntsville (HH) entered into an Accounting Services Agreement which transferred certain accounting services to HGA.

## Organizational Chart

The following chart presents the corporate affiliations of the Company as of December 31, 2014:



## Schedule Y - Part 1

The examiners reviewed Schedule Y - Part 1 for compliance with previous recommendations. The two-character state abbreviation was not shown. It is recommended that the Company complete Schedule Y, Part 1 in accordance with NAIC Annual Statement Instructions, which states, in part:

Attach a chart or listing presenting the identities of and interrelationships between the parent, all affiliated insurers and reporting entities; and other affiliates, identifying all insurers and reporting entities as such and listing the Federal Employer's Identification Number for each. The NAIC company code and two-character state abbreviation of the state of domicile should be included for all domestic insurers.

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

The Company did not have any employees. All individuals who perform administrative and operational functions for the Company were employees of Huntsville Health Care Authority of the City of Huntsville. The following benefits are offered:

- Earned Time Off
- Voluntary Sick Plan
- Group Health Insurance and Dental Insurance
- Retiree Health Insurance
- Employee Badge Purchase
- Flexible Spending Account
- Health Care Authority 401(k) Plan
- 457(b) Deferred Compensation Plan
- Group Life Insurance
- Short-Term and Long-Term Disability
- Education Reimbursement
- Employee Assistance Program
- Employee Pharmacy
- Child Development Center
- Group Vision Plan
- Critical Illness Policy
- HealthWorks 2.0

## **SECTION 1033 OF TITLE 18 OF THE U.S. CODE**

ALA. ADMIN. CODE 482-1-146-.11 (2009) states:

A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:

(a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.

(b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.

The Company had internal procedures in place for determining if applicants for employment had been convicted of a Section 1033 offense. There were procedures to periodically ascertain if existing employees had been convicted of a Section 1033 offense since the date of hire as well.

## **MARKET CONDUCT ACTIVITIES**

### **Plan of Operation**

The Company is a non-stock, not-for-profit company that offers Medicare supplement policies (Senior Select Plan A, Senior Select Plan B and Senior Select Plan C). Baker Woodward Communications, Inc. handled the Company's marketing strategy. The Company used print ads, brochures and television ads as well as their website ([www.firstcomm.org](http://www.firstcomm.org)) to promote their product.

### **Territory**

The Company was authorized to do business in the state of Alabama. The Company's service area was Colbert, Franklin, Jackson, Lauderdale, Lawrence, Limestone, Madison, Marshall and Morgan counties. However, in reviewing the Company's 2014 Annual Statement - Schedule T, it was determined that Schedule T was not completed correctly. The Company was not in compliance with NAIC Annual Statement Instructions, which states:

#### Column 1 – Active Status

Use the following codes to identify the Reporting Entity's status for each state or territory reported in the schedule as of the end of the reporting period. Enter the code that applies to the Reporting Entity's status in the state or territory.

L – Licensed or Chartered (Licensed Carrier and Domiciled Risk Retention Groups referred to in some states as admitted.)

### **Marketing and Sales**

The examiner reviewed all the television scripts, print ads and brochures as well as the Company's website (www.firstcomm.org). The ads disclosed the kind of plan and benefits offered by the Company. The materials also included the name and address of the Company and identified the policy (Medicare Supplement) being marketed. The ads were not misleading and did not guarantee benefits different than what the Certificate of Coverage outlined. Also, the examiner reviewed the approvals from the Alabama Department of Insurance for all advertising materials. The Company's producers were not allowed to use their own advertising materials.

### **Complaint Handling**

The Company's Certificate of Coverage stated the initial grievances are to be responded to within forty-five days. It was determined 4 of the 46 complaints were not responded to within the required 45 days. However, the four complaints referenced above occurred in 2012 which was prior to the recommendation provided in the previous examination report. Based on the examiners review, it was determined the Company did not comply with the Company's Certificate of Coverage.

### **Claims Handling**

The Alabama Department of Insurance does not regulate the claims payment activities of this Company.

### **Compliance with Producer's Licensing Requirements**

As of December 31, 2014, the Company had a total of 39 active producers and two business entities licensed and appointed to write business for the Company. The examiners reviewed the Company's records and determined that the producers and business entities representing the Company were duly licensed and appointed by the State of Alabama. No discrepancies were found.

The examiners obtained a listing of new business applications that were written during the examination period. There was a total of 1,636 new business files. Based on the NAIC *Market Regulation Handbook's* Acceptance Samples Table (other than claims), a sample size of 114 files was selected. A review of the sample selection determined that the producers were properly licensed and appointed to transact business on the Company's behalf at the time the policies were written.

## Underwriting and Ratings

During the examination period, the Company utilized the rates filed and approved by the Alabama Department of Insurance (ALDOI). The Company submitted new filings with the ALDOI and did not implement the new rates until the proper approval was received.

The only underwriting that the Company performed was verification that the applicants had Medicare coverages Parts A and B, no Medicaid with the exception of SLMB (Specified Low-Income Medicare Beneficiary), be 65 years of age, and live in North Alabama. Also, the potential insured must not:

1. Have had, or been advised to have any organ transplant;
2. Be applying for or using dialysis for kidney disease; or
3. Be hospitalized, confined to a skilled nursing facility, or have been advised that they will require confinement in a skilled nursing facility in the next 30 days.

## Privacy

The Company was not required to comply with ALA. ADMIN. CODE 482-1-122 (2001) based on ALA. CODE § 10A-20-6.16 (1975) (Applicability of Insurance Law). The Company's privacy procedures were reviewed and determined to be in compliance with HIPAA (Health Insurance Portability and Accountability Act). The Privacy Notice is provided to the member at enrollment and then mailed to each member annually. A copy of the Privacy Notice was available on the Company's website. The Privacy Notice disclosed that the Company had physical, electronic and procedural safeguards that complied with federal regulations to maintain the confidentiality and security of nonpublic personal information. The Privacy Notice also disclosed the categories of information that the Company may disclose. The Company may disclose nonpublic personal information about an applicant to nonaffiliated third parties as permitted or required by law.

## **SCHEDULE OF SPECIAL DEPOSITS**

The Company maintained the following deposit with the respective statutory authority at December 31, 2014, as required or permitted by law.

<u>States and Territories</u>	<u>Book Value</u>	<u>Fair Value</u>
Alabama	\$ 30,000	\$ 30,000
<b>TOTAL</b>	<b>\$ 30,000</b>	<b>\$ 30,000</b>



## FINANCIAL CONDITION AND GROWTH OF COMPANY

The following information presents significant items that reflect the growth of the Company for the years indicated.

	2014	2013	2012	2011
<b>Admitted Assets</b>	\$ 6,868,937	\$ 6,487,818	\$ 6,324,731	\$ 6,054,328
<b>Liabilities</b>	\$ 1,284,671	\$ 1,166,171	\$ 1,327,692	\$ 1,406,152
<b>Capital and Surplus</b>	\$ 5,584,266	\$ 5,321,647	\$ 4,997,039	\$ 4,648,176
<b>Premiums Earned</b>	\$ 7,089,067	\$ 6,844,520	\$ 6,345,045	\$ 6,291,397

## REINSURANCE

### Reinsurance Assumed

The Company did not assume any business for the period under examination.

### Reinsurance Ceded

The Company did not cede any business for the period under examination.

## ACCOUNTS AND RECORDS

The Company maintained its accounting, premium, and investments data electronically utilizing commercial software. There were some workpapers maintained in hard copy format as well.

The Company was audited annually by the certified public accounting (CPA) firm of Warren Averett, LLC for each year under examination. The CPA workpapers were utilized for the examination to the extent determined to be appropriate.

The opening actuary for each year under examination period was Benjamin M. Cohen, FSA, MAAA, Wakely Actuarial.

### Awareness Letter

The Company appointed Warren Averett, LLC as their new external auditor during the period under examination. The examiner requested an "Awareness Letter". The Company was unable to provide an "Awareness Letter"; therefore, the Company was not in compliance with ALA. ADMIN. CODE 482-1-141-.06 (2) (2008), which states:

The insurer shall obtain a letter from the accountant and file a copy

with the commissioner stating that the accountant is aware of the provisions of the insurance code and the regulations of the insurance department of the state of domicile that relate to the accounting and financial matters and affirming that the accountant will express his or her opinion on the financial statements in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by that insurance department, specifying such exceptions as he or she may believe appropriate.

An awareness letter was issued by the CPA on August 18, 2015, stating their understanding of the insurance codes and regulations applicable to the insurer and affirming that the opinion expressed on the financial statements is in terms of the conformity to the statutory accounting principles.

#### Communication of Internal Control Related Matters

The Company did not furnish a “Communication of Internal Control Related Matters” letter for the years 2012 and 2013 to the Alabama Department of Insurance. The Company was not in compliance with ALA. ADMIN. CODE 482-1-141-.11 (2008), which states:

In addition to the annual audited financial report, each insurer shall furnish the commissioner with a written communication as to any unremediated material weaknesses in its internal controls over financial reporting noted during the audit. Such communication shall be prepared by the accountant within sixty (60) days after the filing of the annual audited financial report, and shall contain a description of any unremediated material weakness (as the term material weakness is defined by Statement on Auditing Standard 60, *Communication of Internal Control Related Matters Noted in an Audit*, or its replacement) as of December 31 immediately preceding (so as to coincide with the audited financial report discussed in rule 482-1-141-.04 (1) in the insurer’s internal control over financial reporting noted by the accountant during the course of their audit of the financial statements. If no unremediated material weaknesses were noted, the communication should so state.

The Company provided the “Communication of Internal Control Related Matters” letter to the Alabama Department of Insurance for the year 2014. The content was evaluated and it was determined that no deficiencies in internal control were identified that was considered to be a material weakness.

### Confirmation Letter

The Company appointed Warren Averett, LLC as their new external auditor for the 2012 Statutory Audit and notified the Alabama Department of Insurance of the changes. However, the "Confirmation Letter" from the former auditor was not obtained until August 3, 2015. The Company did not comply with ALA. ADMIN. CODE 482-1-141-.06(3) (2008), which states:

If an accountant who was the accountant for the immediately preceding filed audited financial report is dismissed or resigns, the insurer shall within five (5) business days notify the commissioner of this event. The insurer shall also furnish the commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former accountant... The insurer shall also in writing request the former accountant to furnish a letter addressed to the insurer stating whether the accountant agrees with the statements contained in the insurer's letter and, if not, stating the reasons for which he or she does not agree; and the insurer shall furnish the responsive letter from the former accountant to the commissioner together with its own.

### Underwriting and Investment Exhibit – Part 2C

A review of the Underwriting and Investment Exhibit noted that the Company incorrectly completed the Underwriting and Investment Exhibit Part 2C - Development of Paid and Incurred Health Claims, Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio, which showed a loss ratio of 92.115% for year 2014. The Company agreed that the loss ratio not accurately stated and the correct loss ratio for 2014 was 72%.

### Underwriting and Investment Exhibit - Part 3

A review of the Underwriting and Investment Exhibit, Part 3 Analysis of Expenses noted that the Company incorrectly included gains/losses on investments in Column 4 Investment Expense Line 24. Investment expenses not included elsewhere. The Company included the investment gain of \$8,300 in Column 4 Line 24, Investment expenses not included elsewhere. The Company should not include gains/losses on investments on the Underwriting and Investment Exhibit - Part 3 Analysis of Expenses Line Column 4 Line 24. It was determined that the Company was not in compliance with NAIC Annual Statement Instructions, which states:

Line 24 - Investment Expenses Not Included Elsewhere

Include: Only items for which no specific provision has been made elsewhere, (e.g., contributions or assessments for bondholders' protective committees, fees of investment counsel, custodian and trustee fees).

## FINANCIAL STATEMENTS INDEX

The financial statements included in this report were based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds.....	19
Statement of Summary of Operations .....	20
Statement of Reconciliation of Capital and Surplus.....	20

**FirstCommunity Health Plan, Inc.**  
**Statement of Assets, Liabilities, Capital and Surplus**  
**For the Year Ended December 31, 2014**

<u>ASSETS</u>	<u>Nonadmitted</u>	<u>Net Admitted</u>	
	<u>Assets</u>	<u>Assets</u>	<u>Assets</u>
Bonds	\$ 3,376,956	\$ -	\$ 3,376,956
Cash, cash equivalents and short-term investments	<u>3,472,291</u>	<u>-</u>	<u>3,472,291</u>
Subtotal, cash and invested assets	\$ 6,849,247	\$ -	\$ 6,849,247
Investment income due and accrued	15,482		15,482
Premium considerations:			
Uncollected premiums and agents' balances in the course of collection	3,570		3,570
Net deferred tax asset	1,672,271	1,672,271	
Health care (\$0) and other amounts receivable	638		638
Aggregate write-ins for other than invested assets:			
Prepaid Administrative Insurance	<u>15,288</u>	<u>15,288</u>	
<b>TOTAL</b>	<b>\$ <u>8,556,496</u></b>	<b>\$ <u>1,687,559</u></b>	<b>\$ <u>6,868,937</u></b>

**LIABILITIES**

Claims unpaid		<b>2014</b>
Unpaid claims adjustment expenses		\$ 740,202
Premiums received in advance		111,030
General expenses due or accrued		154,544
Current federal and foreign income tax payable and interest thereon (including other realized capital gains (losses))		244,926
Amounts due to parent, subsidiaries and affiliates		1,430
<b>TOTAL LIABILITIES</b>		<b><u>32,539</u></b>
		<b>\$ <u>1,284,671</u></b>

**CAPITAL AND SURPLUS**

Gross paid in and contributed surplus		25,975,245
Surplus notes		-
Aggregate write-ins for other than special surplus funds		-
Unassigned funds (surplus)		<u>(20,390,979)</u>
<b>TOTAL CAPITAL AND SURPLUS</b>		<b>\$ <u>5,584,266</u></b>

**FirstCommunity Health Plan, Inc.**  
**Statement of Revenue and Expenses**  
**For the Years Ended December 31, 2014, 2013, 2012**

	2014	2013	2012
Net premium income	\$ 7,089,067	\$ 6,844,520	\$ 6,345,045
Total revenues	<u>\$ 7,089,067</u>	<u>\$ 6,844,520</u>	<u>\$ 6,345,045</u>
<b>Hospital and Medical:</b>			
Hospital/medical benefits	\$ 4,987,585	\$ 4,272,961	\$ 4,409,470
<b>Less:</b>			
Total hospital and medical	\$ 4,987,585	\$ 4,272,961	\$ 4,409,470
Claim adjustment expenses	692,491	692,391	637,652
General administrative expenses	<u>1,156,181</u>	<u>1,072,485</u>	<u>974,656</u>
Total underwriting deductions	\$ 6,836,257	\$ 6,037,837	\$ 6,021,778
Net underwriting gain or (loss)	252,810	806,683	323,267
Net investment income earned	61,773	56,100	55,669
Net realized capital gains or (loss)			
less capital gains tax of \$0	(54,542)	(38,738)	(40,975)
Net investment gains (losses)	7,231	17,362	14,694
Net gain or (loss) from agents' or premium balances charges off	-	-	-
Aggregate write-ins for other income or expenses	2,896	5,642	-
Net income or (loss) after capital gains tax and before other federal income taxes	<u>262,937</u>	<u>829,687</u>	<u>337,961</u>
Federal foreign income taxes	-	10,000	-
Net income (loss)	<u>\$ 262,937</u>	<u>\$ 819,687</u>	<u>\$ 337,961</u>

**STATEMENT OF RECONCILIATION OF CAPITAL AND SURPLUS**  
**Capital and Surplus Account**

Capital and surplus prior reporting period	\$ 5,321,647	\$ 4,997,039	\$ 4,648,680
Net income	262,937	819,687	337,961
Change in net deferred income tax	(223,826)	191,134	(4,312,300)
Change in nonadmitted assets	223,508	(186,213)	4,322,698
Change in surplus notes		(500,000)	
Net change in capital & surplus	<u>262,619</u>	<u>324,608</u>	<u>348,359</u>
Capital and surplus end of reporting period	<u>\$ 5,584,266</u>	<u>\$ 5,321,647</u>	<u>\$ 4,997,039</u>

## SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no material adverse findings; significant non-compliance issues; material changes or regulatory findings that would adversely affect the financial condition of the Company.

## NOTES TO FINANCIAL STATEMENT

### Note 1 – Bonds

\$ 3,376,956

The captioned amount is the same as the amount reported by the Company in its 2014 Annual Statement. No changes were made to the surplus reported by the Company.

During the reconciliation of the securities listed on Schedule D – Part 1 of the 2014 Annual Statement, the examiners determined that the Company was not amortizing bond premiums as required by SSAP No. 26, paragraph 6 of the NAIC Accounting Practices and Procedures Manual, which states:

Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond (INT 07-01)... Although the concept for yield to worst shall be followed for all callable bonds, make whole call provisions, which allow the bond to be callable at any time, shall not be considered in determining the timeframe for amortizing bond premium or discount unless information is known by the reporting entity indicating that the issuer is expected to invoke the make whole call provision.

The Company did not fully complete column 13 of Schedule – Part 1 as required by the NAIC Annual Statement Instructions, which states:

#### Column 13 - Current Year's (Amortization)/Accretion

This amount should equal the current reporting year's amortization of premium or accrual of discount (regardless of whether or not the security is currently carried at Amortized Cost). The accrual of discount amounts in this column are to be reported as increases to investment income in the Exhibit of Net Investment Income, while the amortization of premium amounts are to be reported as decreases to investment income.



The Company did not complete Column 17 of Schedule D – Part 1 as required by the NAIC Annual Statements Instructions, which states:

Column 17 - Effective Rate of Interest

For issuer obligations, include the effective rate at which the purchase was made. For mortgage-backed/loan-backed and structured securities, report the effective yield used to value the security at the reporting date. The Effective Yield calculation should be modified for other-than-temporary impairments recognized.

**Note 2 - Cash, Cash Equivalents and Short-Term Investments**                      **\$ 3,472,291**

The review of Schedule E – Part 1 indicated that the Company maintained Certificate of Deposit (CD) in the amount of \$1,589,556 and Money Market (MM) account in the amount of \$269,169 in Progress Bank & Trust. In October 2012, the Company converted the CD and MM into overnight Sweep Accounts (repurchase agreements) with Progress Bank and Trust. The Company should have reported the amounts on Schedule DA – Part 1: Short-Term Investments. The guidance provided by SSAP No. 2, paragraph 10 of the NAIC Accounting Practices and Procedures Manual, which states:

All investments with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition (excluding those investments classified as cash equivalents as defined in paragraph 3) shall be considered short-term investments. Short-term investments include, but are not limited to, bonds, commercial paper, money market instruments, repurchase agreements...

Schedule DA – Part 1 of the NAIC Annual Statement Instructions, which states:

Include all investments whose maturities (or repurchase dates under repurchase agreement) at the time of acquisition were one year or less except those defined as cash or cash equivalents in accordance with SSAP No. 2, Cash, Drafts, and Short-term Investments.

The Company also indicated “not applicable” in response to Note 5E of the Notes to Financial Statements which was not in accordance with the guidance provided by the NAIC Annual Statement Instructions.

### Analysis of Changes to Surplus

Surplus at December 31, 2014, per Annual Financial Statement			\$ 5,584,266
		<u>Increase</u>	<u>Decrease</u>
	Net increase or (decrease)		\$ 0
	Surplus at December 31, 2014, after adjustment		<u>\$ 5,584,266</u>

### Summary of Reclassifications

There were no reclassifications as a result of the examination.

## COMMITMENTS AND CONTINGENT LIABILITIES

Examination of these items included: reviewing the statutory financial statement disclosures, minutes of the corporate governing bodies, examination of the accounts and unrecorded items; and obtaining a letter of representation from management. The external auditor's legal letter summary at December 31, 2014 was reviewed as well. At December 31, 2014, there was no pending litigation against the Company and no material contingent liabilities were identified.

## COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The Company satisfactorily complied with prior examination recommendations except for the following:

Schedule Y – Part 1 – Page 9: In the prior examination report, it was recommended that the Company complete Schedule Y – Part 1 in accordance with the NAIC Annual Statement Instructions. It was determined that the two-character state abbreviation was not shown.

Complaint Handling – Page 12: In the prior examination report, it was recommended that the Company issue a decision no later than 45 calendar days from the date an initial complaint is received as required by the Company's Certificate of Coverage. It was determined 4 of the 46 complaints were not responded to within the required 45 days.

Underwriting and Investment Exhibit – Page 16: In the prior examination report, it was recommended that the Company not include gains/losses on investments on the Underwriting and Investment Exhibit – Part 3 – Analysis of Expenses, in accordance with the NAIC Annual Statement Instructions. A review of the Underwriting and

Investment Exhibit - Part 3 Analysis of Expenses determined that the Company included gains/losses on investments of \$8,300 on Line 24.

## COMMENTS AND RECOMMENDATIONS

### Schedule Y – Page 9

It is again recommended that the Company complete Schedule Y, part 1 in accordance with NAIC Annual Statement Instructions which states, in part:

Attach a chart or listing presenting the identities of and interrelationships between the parent, all affiliated insurers and reporting entities; and other affiliates, identifying all insurers and reporting entities as such and listing the Federal Employer's Identification Number for each. The NAIC company code and two-character state abbreviation of the state of domicile should be included for all domestic insurers.

### Territory – Page 11

It is recommended complete Schedule T in accordance with NAIC Annual Statement Instructions, which states:

#### Column 1 – Active Status

Use the following codes to identify the Reporting Entity's status for each state or territory reported in the schedule as of the end of the reporting period. Enter the code that applies to the Reporting Entity's status in the state or territory.

L – Licensed or Chartered (Licensed Carrier and Domiciled Risk Retention Groups referred to in some states as admitted.)

### Complaint Handling – Page 12

It is again recommended the Company issue a decision no later than 45 calendar days from the date an initial complaint is received as required by the Company's Certificate of Coverage.

### Awareness Letter - Page 14

**It is recommended** the Company obtain an awareness letter from the accountant in accordance with ALA. ADMIN. CODE 482-1-141-.06(2) (2008) which states:

The insurer shall obtain a letter from the accountant and file a copy with the commissioner stating that the accountant is aware of the provisions of the insurance code and the regulations of the insurance department of the state of domicile that relate to the accounting and financial matters and affirming that the accountant will express his or her opinion on the financial statements in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by that insurance department, specifying such exceptions as he or she may believe appropriate.

### Communication of Internal Control Related Matters Letter – Page 15

**It is recommended** the Company furnish a “Communication of Internal Control Related Matters” letter in accordance with ALA. ADMIN. CODE 482-1-141-.11 (2008) which states:

In addition to the annual audited financial report, each insurer shall furnish the commissioner with a written communication as to any unremediated material weaknesses in its internal controls over financial reporting noted during the audit. Such communication shall be prepared by the accountant within sixty (60) days after the filing of the annual audited financial report, and shall contain a description of any unremediated material weakness (as the term material weakness is defined by Statement on Auditing Standard 60, *Communication of Internal Control Related Matters Noted in an Audit*, or its replacement) as of December 31 immediately preceding (so as to coincide with the audited financial report discussed in rule 482-1-141-.04(1) in the insurer’s internal control over financial reporting noted by the accountant during the course of their audit of the financial statements. If no unremediated material weaknesses were noted, the communication should so state.

### Confirmation Letter – Page 16

**It is recommended** the Company obtain a “Confirmation Letter” from the former auditor in accordance with ALA. ADMIN. CODE 482-1-141-.06(3) (2008) which states:

If an accountant who was the accountant for the immediately preceding filed audited financial report is dismissed or resigns, the insurer shall within five (5) business days notify the commissioner of this event. The insurer shall also furnish the commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former accountant... The insurer shall also in writing request the former accountant to furnish a letter addressed to the insurer stating whether the accountant agrees with the statements contained in the insurer's letter and, if not, stating the reasons for which he or she does not agree; and the insurer shall furnish the responsive letter from the former accountant to the commissioner together with its own.

### **Underwriting and Investment Exhibit – Part 2C – Page 16**

**It is recommended** the Company accurately complete the Underwriting and Investment Exhibit – Part 2C.

### **Underwriting and Investment Exhibit – Part 3 – Page 16**

**It is again recommended** the Company complete the Underwriting and Investment Exhibit – Part 3 – Analysis of Expenses in accordance with NAIC Annual Statement Instructions which states:

Line 24 - Investment Expenses Not Included Elsewhere

Include: Only items for which no specific provision has been made elsewhere, (e.g., contributions or assessments for bondholders' protective committees, fees of investment counsel, custodian and trustee fees).

### **Bonds – Page 21**

**It is recommended** the Company complete Schedule D Part 1, column 13 in accordance with the guidance provided by SSAP No. 26, paragraph 6 of the NAIC Accounting Practices and Procedures Manual, which states:

Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond

(INT 07-01)... Although the concept for yield to worst shall be followed for all callable bonds, make whole call provisions, which allow the bond to be callable at any time, shall not be considered in determining the timeframe for amortizing bond premium or discount unless information is known by the reporting entity indicating that the issuer is expected to invoke the make whole call provision.

The NAIC Annual Statement Instructions, which states:

**Column 13 - Current Year's (Amortization)/Accretion**

This amount should equal the current reporting year's amortization of premium or accrual of discount (regardless of whether or not the security is currently carried at Amortized Cost). The accrual of discount amounts in this column are to be reported as increases to investment income in the Exhibit of Net Investment Income, while the amortization of premium amounts are to be reported as decreases to investment income.

**It is also recommended** the Company complete column 17 in accordance with the NAIC Annual Statements Instructions, which states:

**Column 17 - Effective Rate of Interest**

For issuer obligations, include the effective rate at which the purchase was made. For mortgage-backed/loan-backed and structured securities, report the effective yield used to value the security at the reporting date. The Effective Yield calculation should be modified for other-than-temporary impairments recognized.

**Cash, Cash Equivalents and Short-Term Investments – Page 21**

**It is recommended** that the Company report investments under repurchase agreement on Schedule DA – Part 1 in accordance with the guidance provided by SSAP No. 2, paragraph 10 of the NAIC Accounting Practices and Procedures Manual, which states:

All investments with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition (excluding those investments classified as cash equivalents as defined in paragraph 3) shall be considered short-term investments. Short-term investments include, but are not limited to, bonds, commercial paper, money market instruments, repurchase agreements...

Schedule DA – Part 1 of the NAIC Annual Statement Instructions, which states:

Include all investments whose maturities (or repurchase dates under repurchase agreement) at the time of acquisition were one year or less except those defined as cash or cash equivalents in accordance with SSAP No. 2, Cash, Drafts, and Short-term Investments.

**It is recommended** the Company complete the Notes to Financial Statements to correctly report Repurchase Agreements.

### **SUBSEQUENT EVENTS**

There were no significant subsequent events identified.

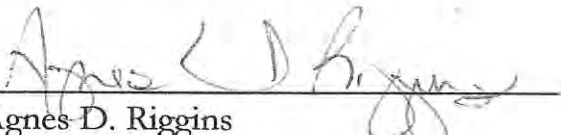
## CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing FirstCommunity Health Plan, Inc. during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Mora Perkins-Taylor, MCM, market conduct, Charles Turner, CISA, examiner and Harland Dyer, ASA, MAAA, actuarial examiner; all representing the Alabama Department of Insurance, participated in the examination of FirstCommunity Health Plan, Inc.

Respectfully submitted,



Agnes D. Riggins  
Examiner-in-charge  
State of Alabama  
Department of Insurance