

REPORT ON EXAMINATION
AS TO CONDITION OF THE
FLAGSHIP HEALTH SYSTEMS, INC.
PARSIPPANY, NEW JERSEY 07054
AS AT DECEMBER 31, 2016
NAIC COMPANY CODE 11179
NAIC GROUP CODE 2918

Filed
June 18, 2018
Commissioner
Department of Banking &
Insurance

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION
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Lt. Governor

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PETER L. HARTT
Director

May 18, 2018

Honorable Marlene Caride
Acting Commissioner of Banking and Insurance
State of New Jersey
Trenton, New Jersey 08625

Dear Acting Commissioner:

In accordance with your instructions and the requirements of the statutes of the State of New Jersey an examination has been made of the condition and affairs of:

FLAGSHIP HEALTH SYSTEMS, INC.

PARSIPPANY NEW JERSEY 07054

NAIC GROUP CODE 2918

NAIC COMPANY CODE 11179

a domestic dental service plan authorized to transact business in the State of New Jersey. Hereinafter, Flagship Health Systems, Inc. will be referred to as "Flagship" or "Company."

SCOPE OF THE EXAMINATION

The New Jersey Department of Banking and Insurance, “NJDOBI” acting as the lead State and the Connecticut Insurance Department, “CID” as the participating State conducted a multi-state financial condition examination of the Delta Dental Group of Companies, comprised of Delta Dental of New Jersey, Inc., Flagship Health Systems, Inc. and Delta Dental of Connecticut, Inc. for the five-year period ending December 31, 2016, which included a review of material transactions and/or events occurring subsequent to the examination date. The examination was conducted at the Company's home office located at 1639 Route 10, Parsippany, New Jersey 07054.

During the period under examination, Flagship's assets decreased from \$3,620,999 to \$3,556,782; liabilities decreased from \$590,381 to \$495,978 and total capital and surplus increased from \$3,030,618 to \$3,060,804.

The New Jersey Department of Banking and Insurance (“NJDOBI”) conducted the examination in accordance with the 2016 edition of the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (the “NAIC Handbook”). The NAIC Handbook requires NJDOBI to plan and perform the examination in order to evaluate the financial condition and identify prospective risks of the Company. To meet these objectives NJDOBI obtained information regarding the Company’s corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated the Company’s system of internal controls and procedures used to mitigate identified risks. The examination also included assessing the principles used and significant estimates made by management, as well as, evaluating the overall Financial Statement presentation, management’s compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

According to the NAIC Handbook, “One of the increased benefits of the enhanced risk focused approach is to include ... consideration of other than financial risks that could impact the insurer’s future solvency. By utilizing the enhanced approach, the examiner reviewed the “financial” and “enterprise” risks that existed at the examination “as of” date and will be positioned to assess “financial” and “enterprise” risks that extend or commence during the time the examination was conducted and “prospective” risks which are anticipated to arise or extend past the point of examination completion. Using this approach examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer.”

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

Additional information reviewed during the examination follows;

- Board of Directors (“Board”) and other Board committee minutes (through 2017);
- Management’s Discussion and Analysis;
- Statements of Actuarial Opinion;
- Annual Statements filed with the NJDOBI

- Reports of the Internal Audit Department.

HISTORY AND KIND OF BUSINESS

The original Certificate of Incorporation of the Company was filed with the Secretary of the State of New Jersey on September 23, 1985 as Capital Health Plan Services, Inc. On December 10, 1985 an amendment was filed to change the name of the Company to Flagship Health Systems, Inc.

Flagship 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 et seq.** It is authorized to do business in New Jersey and Pennsylvania, but only writes in New Jersey at this time.

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

Flagship'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 Flagship Health Systems, Inc. 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.

TERRITORY AND PLAN OF OPERATION

Flagship 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. Flagship's capitation business is substantially sold in conjunction with the offerings of Delta Dental when clients desire a prepaid dental capitation option. During 1996, Flagship 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 Flagship in 2003.

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

Flagship 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 Flagship, multiplied by the applicable monthly rate in the agreement.

The above agreements will be discussed in detail under the captioned heading of this report titled "Inter-Company agreements". Flagship's current group market consists of four major sectors: municipalities, commercial business schools, and hospitals. The number of subscribers has decreased from 12,780 to 12,535, which is a decrease of 245 subscribers from December 2015 to December 2016 (2%). The decrease in the current premium appears reasonable compared to the decrease in subscribers.

Sales and marketing of Flagship'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 500 independent insurance brokers receive commissions from Flagship 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. Flagship primarily targets independent insurance brokers and employers through direct mailings and telephone contact.

INTER-COMPANY AGREEMENTS

At December 31, 2016, the Flagship maintained three inter-company agreements with related parties. These agreements have been summarized as follows:

Inter-Company Service Agreement:

On December 31, 2007, Flagship entered into an inter-company service agreement with Delta Dental. Under the terms of the agreement, Delta Dental provides Flagship with all necessary facilities, equipment and supplies, personnel and services required to implement and maintain Flagship's operations as a dental plan organization. Additionally, Delta Dental shall make "payments of convenience" on behalf of Flagship to third parties as requested by Flagship in writing. These payments may include, but not be limited to, salaries, claims and other expenses. Delta Dental shall account for such payments by charging the inter-company account of Flagship for the amount of the payment. Delta Dental 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:

The Company and Flagship entered into a contract for specialty dental services, effective December 31, 2007, whereby Delta Dental will arrange for certain DDNJ-designated dentists to perform specialty dental services for enrollees of Flagship's dental plans, and Flagship will compensate the Plan for specialty dental services performed by DDNJ-designated dentists out of the capitation premiums received by Flagship. 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. Flagship agrees that it will compensate Delta Dental 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:

This agreement, established between DDPNJ, Flagship, Dental Reinsurance Company, Ltd., and Delta Dental of Connecticut, Inc. (collectively "the Group"), confers upon DDPNJ 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 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 additionally agrees to reimburse each member for any tax benefit arising out of the use by DDPNJ 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 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.

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

The agreement is made with reference to the original Tax Payment Allocation Agreement for taxable years beginning January 1, 2010 between DDPNJ Corp. ("Parent") and Flagship Health Systems, Inc. and Dental Reinsurance Company Ltd. ("Subsidiaries").

All of the above agreements were submitted to the NJDOBI by the Company.

MANAGEMENT AND CONTROL

Flagship's By-laws provide that the annual meeting of shareholders shall be held upon not less than ten 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 By-laws provide that the Board of Directors shall have the general charge and management of the affairs, funds and property of the Corporation. 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. At December 31, 2016, the following members were serving on the Board of Directors:

<u>Name and Address</u>	<u>Principal Occupation</u>
Dennis Gerard Wilson 1639 Route 10 Parsippany, NJ 07054	President and CEO, Delta Dental of New Jersey, Inc.
Ronald Deblinger, D.M.D. 1639 Route 10 Parsippany, NJ 07054	Clifton Endodontic Associates, Clifton, NJ; Deblinger Financial Management, Montvale, NJ; UMDNJ, Clinical Assistant Professor (voluntary)

Louis Bernard Lombardi
1639 Route 10
Parsippany, NJ 07054

First Senior Vice President (Retired) Bank of New York,
West Paterson, NJ

William Faulkner
1639 Route 10
Parsippany, NJ 07054

Bilcole, LLC (real estate)
P.O. Box 543
Interlaken, NY

Morton Reinhart
1639 Route 10
Parsippany, NJ 07054

Reinhart Associates, Inc.
(Consulting Services – President)

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

The elected officers of the Company serving at December 31, 2016, were as follows:

<u>Name</u>	<u>Title</u>
Dennis Gerard Wilson	President and Chief Executive Officer
James Suleski	Sr. Vice President, CFO and Treasurer
Paul Joseph DiMaio, Esq.	Sr. Vice President, General Counsel and Secretary

CONTINUITY OF OPERATIONS

Delta Dental'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 Flagship Health Systems, Inc.'s, disaster recovery of its accounting and other critical functions is performed in conjunction with Delta Dental.

The Company has developed a Business Recovery Plan for continuing its operations in the event of a loss of its current facility and/or a natural or manmade disaster. The plan incorporates the utilization of outsourcing and IBM's Business Recovery Services. The primary recovery location would be IBM's facilities in Sterling Forest, New York. In the event of a disaster, Delta would transport their back-up tapes that are stored off-site to the IBM facilities and implement the processes that would allow Delta to continue its business functions. Based upon availability of office space and the extent of the disaster, Delta may be required and is prepared to acquire temporary space in the immediate vicinity of Parsippany with access to the recovery location via internet conductivity.

Delta developed specific strategies that address the corporate priorities in the event of work interruptions for the following critical functions or departments:

- Claims processing
- Customer Service
- Enrollment
- Disbursements
- Billing & Collections
- Flagship
- Telephone

- Office Equipment
- Information Systems
- Underwriting & Actuarial
- Human Resources
- Professional Services
- Client Administration
- 1639 Corporation

For its information systems, Delta’s contingency plan is designed to recover core functionality and application files, no later than 48 hours from the point in which a disaster declaration has been issued.

Delta Dental addresses the restoring of system and non-system procedures to reduce business interruption from a disaster.

POLICY ON CONFLICT OF INTEREST

Flagship has a formal program for the completion of annual questionnaires and the submission of signed statements of compliance in connection with Flagship’s policy on conflict of interest. Under this program statements of compliance are to be completed by each trustee, officer, consultant, advisor, key employee, and non-trustee member of a standing committee. The program and procedures are set forth in the Statement of Policy on The Matter of Conflict of Interest.

The examination noted that there were no apparent or potential conflicts of interest reported during the examination period ending December 31, 2016.

FIDELITY BOND AND OTHER INSURANCE COVERAGE

Flagship is covered under a commercial crime policy through Delta Dental. Flagship also has insurance coverage through Delta Dental for the protection of its assets from losses arising due to the day to day business operations of a dental service corporation.

Delta Dental maintains 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 National Association of Insurance Commissioners (N.A.I.C.) exposure index.

The following outline shows the types and amounts of coverage that were in force at December 31, 2016:

<u>Type of Coverage</u>	<u>Amount of Limits</u>
Commercial Crime	\$5,000,000 (Fidelity) \$1,000,000 (Forgery or Alteration) \$3,000,000 (Computer Fraud) \$1,000,000 (on premises) \$1,000,000 (in transit) \$ 50,000 (single loss deductible)
Professional Liability (included Claims Expense)	\$10,000,000 (each claim) \$10,000,000 (aggregate)

Directors and Officers Insurance	\$15,000,000 (each claim) \$15,000,000 (aggregate)
Employed Lawyer	\$2,000,000 (limit)
Building Property Liability	\$5,000,000 (aggregate) \$ 25,000 (extra expense) \$ 250,000 (valuable papers) \$ 50,000 (EDP equipment) \$ 100,000 (fine arts)
Commercial General Liability	\$1,000,000 (each occurrence) \$2,000,000 (products & completed operations - aggregate) \$1,000,000 (personal & advertising injury) \$ 10,000 (medical expense -any one person)
Commercial Excess and Umbrella Liability (Travelers)	\$25,000,000 (each occurrence) \$25,000,000 (included other aggregate limit)
Commercial Excess and Umbrella Liability (RSUI Indemnity Co.)	\$5,000,000 (each occurrence) \$5,000,000 (included other aggregate limit)
Workers' Compensation and Employer's Liability	\$1,000,000 (each accident) \$1,000,000 (disease - policy limit) \$1,000,000 (disease - each employee)
Automobile Liability	\$1,000,000 (each accident)
Fiduciary Liability	\$3,000,000 (for all claims) \$ 10,000 (retention for each claim)
Cyber Liability	\$10,000,000 (limit)
Corporate Counsel Liability	\$2,000,000 (limit) \$ 25,000 (retention for each claim)
Managed Care Risk Liability	\$15,000,000 (each claim) \$15,000,000 (aggregate)

POLICY FORMS AND UNDERWRITING PRACTICES

Since Flagship markets and administers prepaid dental capitation plans there is no underwriting involved. Flagship earns subscription revenue from group contracts written under various plans filed with the NJDOBI. Subscription fees are billed and paid by member groups and recognized as income by Flagship on a monthly basis. The groups provide a monthly listing of enrollees with the group which the premiums are based on per enrollee. Flagship generates its own bills. Premium receipt reports are compiled monthly and sent to Delta Dental accounting for financial processing.

Flagship pays no claims but capitation amounts are paid to the dentists on a monthly basis for the specific

subscribers assigned during the month. Flagship records these payments as an expense on a monthly basis. Payments are subject to the level of control which Delta Dental provides over its own disbursements. Checks are signed by facsimile signature by James Suleski, Senior Vice President and Chief Financial Officer, and Dennis Gerard Wilson, President and Chief Executive Officer.

ACCOUNTS AND RECORDS

Flagship utilizes for its operations the SeeBeyond DataDental system, a stand-alone client-server system utilizing the Informix database, UNIX operating system, and Sun Solaris servers. The system is connected to clients (desktop PCs) via a TCP-IP protocol through a local area network (LAN). The software was developed by SeeBeyond Technologies, Inc. (formerly Software Technologies Corporation, Inc.) of Monrovia, California, which was acquired by Oracle. Flagship has a master software license agreement with SeeBeyond for use of the Data Dental application and related software ("DataLoad") that permits electronic eligibility, encounters, and claims to be loaded into Data Dental. A support and upgrade contract for both applications is maintained with Dental Vision-Life Software Solutions, LLC ("DVL Solutions") Upland, California. DVL Solutions performs all support and "help-desk" services and develops system upgrade and maintenance releases.

Capitation, other payments and a small percentage of specialty/claims and orthodontic premiums are processed by the Data Dental system, which processes the Flagship Health Systems transactions.

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

Audited Financials

In accordance with the provisions of **N.J.A.C. 11:2-26.4** an annual independent audit of Delta Dental of New Jersey, Inc. and subsidiaries and Affiliates was performed by the CPA firm WithumSmith+Brown, PC and a year-end Audited Financial CPA Report was filed with the New Jersey Commissioner of Banking and Insurance. The Report contains a synopsis of the major audit activities and results in the corporate area.

TREATMENT OF SUBSCRIBERS

The Company's complaint register for grievances filed with the Department of Banking and Insurance for years 2012 through 2016 and other written complaints for the examination period, which Delta 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).

THE COMPANY'S BALANCE SHEET, INCOME STATEMENT AND CHANGES IN SURPLUS AS REPORTED BY THE COMPANY ARE INDICATED WITHIN THE FOLLOWING EXHIBITS:

Exhibit A - Statutory Balance Sheet as of December 31, 2016

Exhibit B - Underwriting & Investment Exhibit for the Five-Year Period Ending December 31, 2016

Exhibit C – Capital and Surplus for the Period December 31, 2012 to December 31, 2016

EXHIBIT-A

STATUTORY BALANCE SHEET AS OF DECEMBER 31, 2016

	Balance per Examination @ 12/31/16	Balance per Company @ 12/31/16	NOTE #
<u>ASSETS</u>			
Cash & Short Term Investments	\$ 3,050,507	\$ 3,050,507	
Investment Income Due and Accrued	5	5	
Uncollected Premiums and Agents' Balances	304,902	304,902	
Current Federal & Foreign Income Tax Recoverable and Interest Thereon	149,825	149,825	
Net Deferred Tax Asset	40,282	40,282	
Aggregate for Other Than Invested Assets	11,261	11,261	
Total Admitted Assets	<u>\$ 3,556,782</u>	<u>\$ 3,556,782</u>	
<u>LIABILITIES</u>			
Unpaid Claims Adjustment Expenses	\$ 150,274	\$ 150,274	1
General Expenses Due or Accrued	64,403	64,403	
Amounts Due to Parent, Subsidiaries and Affiliates	281,301	281,301	
Total Liabilities	<u>\$ 495,978</u>	<u>\$ 495,978</u>	
<u>CAPITAL AND SURPLUS</u>			
Common Capital Stock	\$ 5,000	\$ 5,000	2
Gross Paid in and Contributed Surplus	1,245,000	1,245,000	2
Unassigned Funds	1,810,804	1,810,804	2
Total Capital and Surplus	<u>\$ 3,060,804</u>	<u>\$ 3,060,804</u>	
Total Liabilities, Capital and Surplus	<u>\$ 3,556,782</u>	<u>\$ 3,556,782</u>	

EXHIBIT-B**UNDERWRITING AND INVESTMENT EXHIBIT FOR THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2016**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Underwriting Income</u>					
Net Premium Income	\$ 7,634,312	\$ 7,105,713	\$ 6,988,997	\$ 6,443,668	\$ 6,047,495
Deduct:					
Dental Benefits	\$ 6,363,474	\$ 5,979,674	\$ 5,861,346	\$ 5,441,650	\$ 5,137,869
Claim Adjustment Expenses	762,623	833,316	762,890	814,926	879,794
Administrative Expenses	387,198	355,378	337,691	338,024	325,600
Total Underwriting Deductions	\$ 7,513,295	\$ 7,168,368	\$ 6,961,927	\$ 6,594,600	\$ 6,343,263
Net Underwriting Gain	\$ 121,017	\$ (62,655)	\$ 27,070	\$ (150,932)	\$ (295,768)
<u>Investment Income</u>					
Net Investment Income Earned	\$ 881	\$ 170	\$ 170	\$ 153	\$ 60
Net Investment Gain	\$ 881	\$ 170	\$ 170	\$ 153	\$ 60
<u>Other Income or (Expense)</u>					
Aggregate Write-ins for Other Income or Expenses	\$ 16,134	\$ 33,622	\$ 47,530	\$ 58,764	\$ 85,023
Total Other Income Gain or (Loss)	\$ 16,134	\$ 33,622	\$ 47,530	\$ 58,764	\$ 85,023
Net Income or (Loss) After Capital Gains					
Tax and Before Federal Income Taxes	\$ 138,032	\$ (28,863)	\$ 74,770	\$ (92,015)	\$ (210,685)
Federal and Foreign Income Taxes Incurred	53,395	1,274	41,005	(56,609)	(63,960)
Net Income (loss)	\$ 84,637	\$ (30,137)	\$ 33,765	\$ (35,406)	\$ (146,725)

EXHIBIT-C

CAPITAL AND SURPLUS FOR THE PERIOD DECEMBER 31, 2007 TO DECEMBER 31, 2016

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Capital and Surplus, December 31, Previous Year	<u>\$ 3,030,618</u>	<u>\$ 3,092,645</u>	<u>\$ 3,214,633</u>	<u>\$ 3,297,209</u>	<u>\$ 3,219,844</u>
Net Income (Loss)	84,637	(30,137)	33,765	(35,406)	(146,725)
Change In Net Deferred Income Tax	2,675	4,614	21,900	(18,206)	3,113
Change in Non-Admitted Assets	<u>(25,285)</u>	<u>147,511.00</u>	<u>26,911.00</u>	<u>(23,753.00)</u>	<u>(15,428.00)</u>
Change in Capital and Surplus	<u>\$ 62,027</u>	<u>\$ 121,988</u>	<u>\$ 82,576</u>	<u>\$ (77,365)</u>	<u>\$ (159,040)</u>
Capital and Surplus, December 31, Current Year	<u><u>\$ 3,092,645</u></u>	<u><u>\$ 3,214,633</u></u>	<u><u>\$ 3,297,209</u></u>	<u><u>\$ 3,219,844</u></u>	<u><u>\$ 3,060,804</u></u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1: Unpaid Claims Adjustment Expenses

The Company reported \$150,274 for Unpaid Claim Adjustment Expenses at December 31, 2016.

NOTE 2: Contingency Reserves and Unassigned Funds

Flagship reported \$3,060,804 for total capital and surplus at December 31, 2016. This amount consisted of the following:

Common Capital Stock	\$ 5,000
Gross Paid in and Contributed Surplus	1,245,000
Unassigned Funds	<u>1,810,804</u>
Total	<u>\$3,060,804</u>

The \$5,000 in common stock issued and outstanding is held solely by DDPNJ Corporation. Flagship has no surplus debentures.

The examination will accept as stated the amount reported by Flagship for contingency reserves and unassigned funds at December 31, 2016.

CONCLUSION

The examination was conducted by the undersigned with the assistance of the New Jersey Department of Banking and Insurance, Office of Solvency Regulation staff at Flagship's home office located at 1639 Route 10, Parsippany, New Jersey 07054.

The courteous assistance and cooperation of Flagship's officers, employees and certified public accounting firm is acknowledged.

Respectfully Submitted,

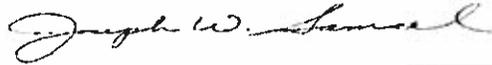
A handwritten signature in cursive script that reads "Joseph W. Samsel". The signature is written in black ink and is positioned above a horizontal line.

Joseph W. Samsel, CFE, CICA
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance

FLAGSHIP HEALTH SYSTEMS. INC.

I, Joseph W. Samsel, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2016 to the best of my information, knowledge and belief.

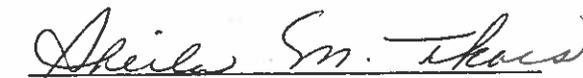
Respectfully Submitted,



Joseph W. Samsel, CFE, CICA
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Joseph W. Samsel, on
this 4th day of June, 2018.


Notary Public of New Jersey

My commission expires: July 2020