

**REPORT ON EXAMINATION AS TO THE CONDITION OF
AMERICAN SPECIALTY HEALTH ODS OF NEW JERSEY, INCORPORATED**

10221 WATERIDGE CIRCLE

SAN DIEGO CA 92121

AT DECEMBER 31, 2021

NAIC COMPANY CODE 11866

NAIC GROUP CODE 3502

FILED

JUNE 26, 2023

COMMISSIONER

DEPARTMENT

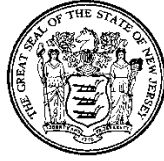
OF

BANKING AND INSURANCE

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PHIL MURPHY
Governor



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**State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
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April 25, 2023

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

Commissioner:

In accordance with the authority vested in you by the provisions of N.J.S.A. 17:23-22, a financial examination has been made of the assets and liabilities, methods of conducting business and all other affairs of the:

**AMERICAN SPECIALTY HEALTH ODS OF NEW JERSEY, INCORPORATED
10221 WATERIDGE CIRCLE
SAN DIEGO, CA 92121**

An licensed organized delivery system authorized to transact business in the State of New Jersey, and herein referred to in this report as "Company."

SCOPE OF EXAMINATION

The New Jersey Commissioner of Banking and Insurance called this examination in compliance with the requirements of N.J.S.A. 17:23-22. The examination was a full-scope comprehensive examination and was conducted remotely.

The examination was conducted using the risk-focused examination approach and addressed the five-year period from December 31, 2016, the date of the last Financial Condition Examination through December 31, 2021. During this five-year period under examination, based on the prior examination report, the Company's net admitted assets increased from \$2,731,759 to \$4,915,303. Liabilities increased from \$660,866 to \$1,832,224 and its surplus to policyholders increased from \$2,070,893 to \$3,083,079.

The conduct of the examination was governed in accordance with the procedures of the National Association of Insurance Commissioners ("NAIC") and followed regulatory procedures prescribed or permitted by the New Jersey Department of Banking and Insurance ("NJDOBI"). The scope of this examination was based upon the focus of certain specific key risk areas as determined by a risk assessment analysis. Risks were assessed based upon its impact to the Company's financial condition and its future results. An assessment of the Company's management, corporate governance and information systems was utilized to identify, control, assess and manage its business and financial reporting risks. The overall objectives of this examination are indicated below:

- Analyze business risk activities focusing on examination procedures in those areas deemed to have greater risk to the Company's overall operations identifying significant operating issues and/or deviations from statutory accounting practices that affect solvency assessment.
- Identify significant deviations from New Jersey insurance laws, regulations and department directives.
- To comply with the standards prescribed in the revised NAIC Financial Condition Examiners Handbook, NAIC accreditation/codification standards and procedures and NJDOBI Departmental policies and procedures.
- To identify and report significant operational and internal control deficiencies and assess the Company's risk management processes.
- Assess the quality and reliability of corporate governance to identify, assess and manage the risk environment facing the insurer to identify current or prospective risk areas.
- To assess the risks that the Company's surplus is not materially misstated.
- To provide a foundation for a profile of the Company's operations, risks and results to be utilized by regulatory authorities.
- Substantive procedures were completed on certain risks based upon the adequacy of controls, risk mitigation strategies and materiality of the risks. Additional substantive procedures were performed as required by the NJDOBI.

A review was made of the following matters to ascertain the Company's financial condition and its conformity with the insurance laws and incorporated as part of the written report and or made part of the examination work papers:

Company History
Territory and Plan of Operation
Treatment of Policyholders
Holding Company System
Intercompany Agreements
Management and Control
Corporate Records
Policy on Conflicts of Interest
Fidelity Bond and Other Insurance Coverages

Continuity of Operations

Limited market conduct examination activities were undertaken during the examination period.

This report is confined to financial statements, assessment of risks and comments on matters that involve departures from law, regulations, rules or any other matters, which are deemed to require special explanation or description.

Pursuant to N.J.A.C. 11:2-26.4 an annual audit was performed KPMG LLP as of December 31, 2021 and an audited financial CPA report was filed with the NJDOBI.

COMPANY HISTORY

The Company was formed on March 28, 2002 under the name American Specialty Health Systems of New Jersey, Inc. in accordance with N.J.S.A. 14A:2-7 for the purpose of engaging in activity as permitted by N.J.S.A. 14A:1-1 et seq. The authorized capital stock of the Company was 1,000 shares at a par value of \$.001 per share. On November 17, 2003 the Certificate of Incorporation was amended to reflect a name change to American Specialty Health ODS of New Jersey, Inc. The registered agent upon whom process may be served is the Corporation Service Company 316 Berrhill Drive, Williamstown, New Jersey 08094.

TERRITORY AND PLAN OPERATION

The Company provides complementary health care services, through American Specialty Health Health Group, Inc. (“ASHG”), an affiliated entity, to enrolled New Jersey based subscribers through health benefit management contracts with health plan customers. As of December 31, 2021, The Company had contracts in effect to provide chiropractic care with WellCare and Cigna Healthcare of New Jersey, Inc.

Effective April 1, 2010, the Company entered into a Managed Care Alliance Agreement with Cigna Healthcare of New Jersey, Inc. to provide chiropractic care services on a capitation basis.

Effective April 1, 2010, the Company entered a Provider Group Services Contract with Cigna Health Corporation to provide chiropractic services through the Company’s affiliate, American Specialty Health Networks, Inc. (subsequently renamed American Specialty Health Group, Inc.).

An agreement effective January 1, 2014, was made with American Specialty Health Group, Inc. (on behalf of the Company) and Cigna Health Corporation to add Physical Therapy and Occupational Therapy services. Subsequent amendments to the contract are utilized to update fee schedules for all of the states under the contract including New Jersey. Risk revenue generated from this contract was effective in 2014 but the New Jersey market was not added until Amendment No 5. with the January 1, 2016 effective date.

The Company solicits business by directly contacting health maintenance organizations and insurance companies utilizing an internal sales force.

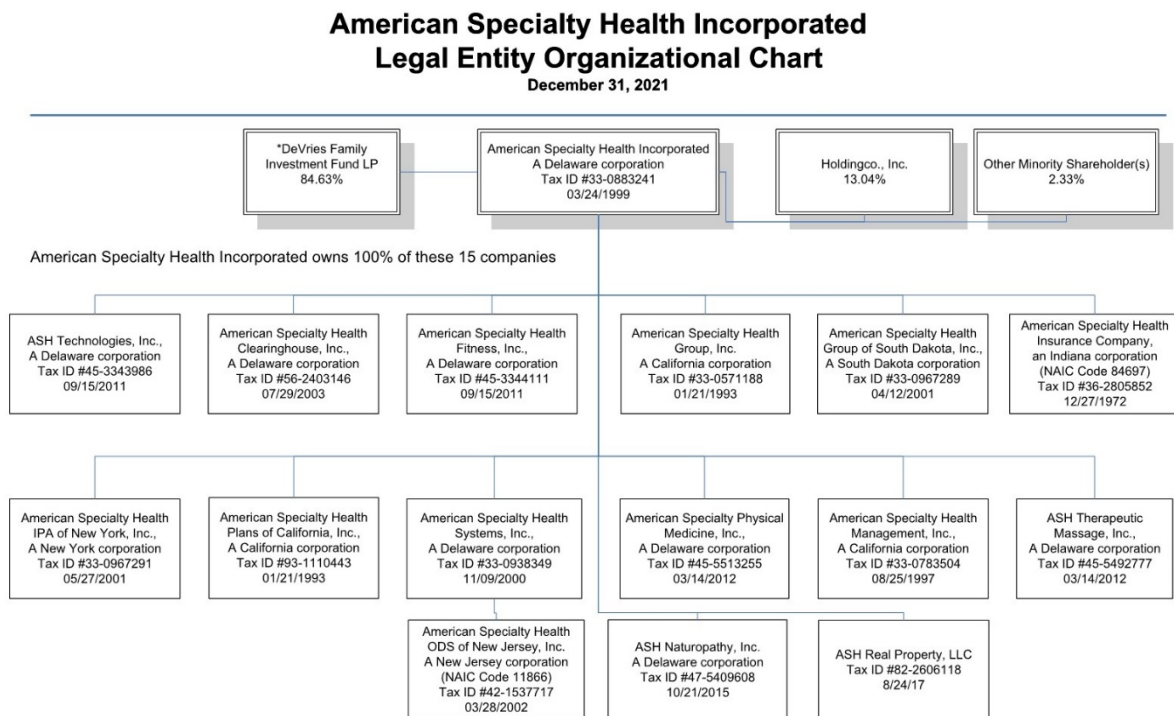
All accounting records and administrative business is conducted from the Company’s main administrative office in 10221 Wateridge Circle San Diego, California.

TREATMENT OF POLICYHOLDERS

The review of the Company's complaint log indicated that the Company maintains its complaint log in accordance with N.J.S.A. 17:29B-4(10).

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company as defined in N.J.S.A. 17:27A-1, and as such has registered with the Commissioner of Banking and Insurance of the State of New Jersey under N.J.S.A. 17:27A-3. The Company’s ultimate parent is American Specialty Health Incorporated (“ASHI”), a Delaware Corporation. An organizational chart showing the relationships between the Company, its parent and any affiliated companies is shown below:



INTER-COMPANY AGREEMENTS

The Company is a participant in the following inter-company agreements in effect as of December 31, 2021.

Income Tax Allocation Agreement

The Company files a consolidated federal income tax return with its affiliates under a tax-sharing agreement with ASHI amended May 16, 2013. The agreement was approved by the Company’s Board of Directors’ and NJDOBI and sets forth the manner in which the total combined federal income tax is allocated to each entity that is a party to the consolidation. Pursuant to this tax sharing agreement, the consolidated income tax liability of ASHI is allocated to the Company in accordance with the pro rata share of ASHI’s total consolidated taxable income that is attributable to the Company’s operations.

Administrative Services Agreement

Under an administrative services agreement effective April 1, 2002, ASHG provides claims processing, medical necessity review, call center services, and other administrative services and provides access to its contracted practitioners to the Company. The amount ASHG charges for these services is based upon a percentage of revenue.

Under an administrative services agreement effective April 1, 2002, ASHI provides facilities, administrative personnel, information technology support, equipment leasing, legal, accounting, insurance, and cash and investment services to the Company. The amount allocated from ASHI to the Company for these services is an amount equal to ASHI's allocable expenses multiplied by a fraction, the numerator of which is the Company's Total Gross Profit and the denominator of which is the Total Gross Profit of ASHI and its subsidiaries.

MANAGEMENT & CONTROL

The business, property and affairs of the Company are managed by the President and his delegated officers under the guidance and direction of the Board of Directors. A listing of the seven (7) directors serving at December 31, 2021 is as follows:

George T. DeVries, III - Chairman & Chief Executive Officer
Robert P. White – Chief Operations Officer, President
Erin Hiley – Chief Legal Officer, Executive Vice President & Secretary
Marcel Danko – Chief Financial Officer, Executive Vice President & Treasurer
Douglas Metz – Chief Health Services Officer & Executive Vice President
Joy Kleinmaier – Chief Business Development Officer & Executive Vice President
Jerome Bonhomme - Chief Technology Officer & Executive Vice President

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4d (3) which states that, "not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with, that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity". The Company complied with this statute, as the Board of Directors of their parent meets this requirement.

The Company is also required to comply with the provisions of N.J.S.A. 17:27A-4d (4) which states that, "the board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer of any such entity." The Company was determined to be in compliance with this statute, as ASHI, the Company's ultimate parent, has an Audit Committee comprised entirely of outside directors.

A review of the minutes of the meetings of the Board of Directors noted that they were well attended by the Company's Directors, and that the proceedings of the meetings were performed in compliance with the Company's state charter and by-laws.

The officers of the Company perform duties as designated by the Company's by-laws with respect to the offices they hold, or as otherwise indicated by the Board of Directors.

<u>Name</u>	<u>Title</u>
George T. Devries, III	Chairman & Chief Executive Officer
Robert P. White	Chief Operations Officer, President
Marcel Danko	Chief Financial Officer, Executive Vice President & Treasurer
Erin Hiley	Chief Legal Officer, Executive Vice President & Secretary
Douglas Metz	Chief Health Services Officer & Executive Vice President
Joy Kleinmaier	Chief Business Development Officer & Executive Vice President
Jerome Bonhomme	Chief Technology Officer & Executive Vice President

CORPORATE RECORDS

A review of the minutes of the Board meetings noted that all meetings were well attended. The Board minutes also indicated that the Company's overall transactions and events were adequately supported and approved.

POLICY ON CONFLICTS OF INTEREST

The Company maintains a policy statement on conflicts of interest. Each year, members of the Board, officers, and key employees of the Company are required to complete a formal conflict of interest questionnaire, which requires the individual to disclose any act or affiliation that is likely to conflict with the individual's official duties. A review of the conflict-of-interest questionnaires for the examination period did not disclose the existence of any conflicts or irregularities.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company maintains insurance coverages through its ultimate parent ASHI. Coverages include property, general liability, employee benefits liability, automobile, umbrella and excess umbrella, errors and omissions (professional liability), directors and officers liability, worker compensation, and products liability. In addition, the Company maintains crime (fidelity) coverage to \$5,000,000 with a \$50,000 deductible and fiduciary coverage for \$3,000,000 each claim and each policy period.

The crime and fiduciary coverage limits are in excess of the suggested minimum amount of fidelity bond insurance as promulgated by the NAIC which amounted to a range from \$1,250,000 to \$1,500,000.

CONTINUITY OF OPERATIONS

During the examination a review was conducted and determined that the Company has a Disaster Recovery/Business Contingency Plan in place. The plan maintains procedures and processes required to restore critical systems and functions in the event of a disaster to continue its business operations

FINANCIAL STATEMENTS

Financial statements as reported by the Company are listed below:

- Exhibit - A Statement of Financial Position as of December 31, 2021
- Exhibit - B Statement of Operating Results for the Five-Year Period Ended December 31, 2021
- Exhibit - C Capital and Surplus Account for the Five-Year Period Ended December 31, 2021

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2021

Exhibit A

<u>Assets</u>	Current Examination at 12/31/21	Balance per Company at 12/31/21	Examination Change	Note Number
Cash, Cash Equivalents and Short-term Investments	\$3,082,007	\$3,082,007	\$0	
Net Deferred Tax Asset	38,620	38,620	0	
Receivables from Parent	15,085	15,085	0	
Aggregate Write-ins for Other Than Invested Assets	<u>1,779,591</u>	<u>1,779,591</u>	0	
Total Admitted Assets	<u>4,915,303</u>	<u>4,915,303</u>	<u>0</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Claims Unpaid	\$1,349,216	\$1,349,216	\$0	1
Unpaid Claims Adjustment Expenses	73,354	73,354	0	1
Aggregate Health Policy Reserves	39,716	39,716	0	1
General Expenses Due or Accrued	46,498	46,498	0	
Current Federal and Foreign Income Tax Payable and Interest Thereon	28,643	28,643	0	
Amounts due to Parent, Subsidiaries and Affiliates	<u>294,797</u>	<u>294,797</u>	0	
Total Liabilities	<u>1,832,224</u>	<u>1,832,224</u>	<u>0</u>	
 <u>Surplus and Other Funds</u>				
Common Capital Stock	\$1	\$1	\$0	
Gross Paid-In and Contributed Surplus	4,485,339	4,485,339	0	2
Unassigned Funds (Surplus)	<u>(1,402,261)</u>	<u>(1,402,261)</u>	0	2
Total Surplus and Other Funds	<u>\$3,083,079</u>	<u>\$3,083,079</u>	<u>\$0</u>	
Total Liabilities, Surplus and Other Funds	<u>\$4,915,303</u>	<u>\$4,915,303</u>	<u>\$0</u>	

Statement of Revenue and Expenses for Year Period Ended December 31, 2021
Exhibit B

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	Total
<u>Underwriting Income</u>						
Total Revenue	\$10,407,733	\$11,385,548	\$14,049,522	\$11,800,891	\$15,893,512	\$63,537,206
Deductions:						
Other Professional Services	8,028,259	8,864,518	11,006,803	9,070,794	12,322,418	49,292,792
Claims Adjustment Expenses	1,248,928	1,366,266	1,685,943	1,416,107	1,907,221	7,624,465
General Administrative Expenses	1,018,682	1,183,721	1,459,784	942,145	1,439,189	6,043,521
Increase in Reserves for Life and Health Contracts	<u>(24,909)</u>	<u>10,918</u>	<u>(7,848)</u>	<u>(35,176)</u>	<u>22,020</u>	<u>(34,995)</u>
Total Underwriting Deductions	<u>10,270,960</u>	<u>11,425,423</u>	<u>14,144,682</u>	<u>11,393,870</u>	<u>15,690,848</u>	<u>62,925,783</u>
Net Underwriting Gain or (Loss)	<u>136,773</u>	<u>(39,875)</u>	<u>(95,160)</u>	<u>407,021</u>	<u>202,664</u>	<u>611,423</u>
<u>Investment Income</u>						
Net Investment Income Earned	11,363	25,726	44,723	31,515	2,105	115,432
Net Investment Gain or (Loss)	11,363	25,726	44,723	31,515	2,105	115,432
Net Income or (Loss) after Capital Gains Tax and Before Federal Income Taxes	148,136	(14,149)	(50,437)	438,536	204,769	726,855
Federal and Foreign Taxes Incurred	49,116	(284,011)	38,583	170,114	84,661	58,463
Net Income (Loss)	<u>99,020</u>	<u>269,862</u>	<u>(89,020)</u>	<u>268,422</u>	<u>120,108</u>	<u>668,392</u>

Capital and Surplus for the Five-Year Period Ended December 31, 2021
Exhibit C

	2017	2018	2019	2020	2021
Surplus as Regards Policyholders December 31, Previous Year	2,070,893	2,184,509	2,304,022	2,563,382	2,909,680
Net Income or (Losses)	99,020	269,862	(89,020)	268,422	120,108
Change in Non-Admitted Assets	0	0	(909)	(432)	1,341
Change in Net Deferred Income Tax	31,886	(151,177)	49,289	78,281	41,498
Paid in Capital	0	0	300,000	0	0
Paid in Surplus	0	0	0	0	0
Prior Year Adjustments	<u>(17,290)</u>	<u>828</u>	<u>0</u>	<u>27</u>	<u>10,452</u>
 Change in Surplus Regards Policyholders for the Year	 <u>113,616</u>	 <u>119,513</u>	 <u>259,360</u>	 <u>346,298</u>	 <u>173,399</u>
 Surplus as Regards Policyholders December 31, Current Year	 <u>2,184,509</u>	 <u>2,304,022</u>	 <u>2,563,382</u>	 <u>2,909,680</u>	 <u>3,083,079</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – LOSS AND LOSS ADJUSTMENT EXPENSES

At December 31, 2021, the Company reported a net liability for Claims Unpaid and Unpaid Claims Adjustment Expenses of \$1,422,570 which consisted of net claims unpaid of \$1,349,216 and unpaid claims adjustment expenses of \$73,354.

The Company's outside opining actuary reviewed the Company's loss reserves and actuarial liabilities and the examination actuarial consultants determined the recorded amounts were reasonably stated. The Life and Health Actuarial Division of the NJDOBI reviewed the final report regarding the actuarial examination of the Company's loss and loss adjustment expense reserves as of December 31, 2021 and accepted the reported reserves without adjustment.

NOTE 2 - TOTAL CAPITAL AND SURPLUS

A summary of the Surplus as Regards Policyholders is detailed below:

Common Capital Stock	\$	1.00
Gross Paid in and Contributed Surplus		4,485,339
Unassigned Funds		<u>(1,402,261)</u>
	\$	
Total Surplus as Regards Policyholders		<u>3,083,079</u>

The Surplus as Regards Policyholders as determined by this examination amounted to \$3,083,079 and meets the minimum needed surplus requirement.

CONCLUSION

The examination of the Company as of December 31, 2021, was conducted under the supervision of the NJDOBI, by the undersigned.

The examination was conducted remotely. The courteous assistance and cooperation of the Company's management is acknowledged.

Respectfully Submitted,



Jeffrey Good, CFE, CIE, CPCU, AIAF, ARC, MCM
Examiner-in-Charge
The NOVO Consultant Group
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,



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

AFFIDAVIT

I, Jeffrey Good, 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, 2021, to the best of my information, knowledge, and belief.

Jeffrey Good

Jeffrey Good, CFE, CIE, CPCU, AIAF, ARC, MCM
Examiner-in-Charge
The NOVO Consultant Group
Representing the New Jersey Department of Banking and
Insurance

Under the Supervision of,

Nancy Lee Chice

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

State of New Jersey
County of Mercer

Subscribed and sworn to before me, *Sheila Tkacs*, on
this *1st* day of *June*, 2023

Sheila M. Tkacs

Notary Public of New Jersey

My commission expires: *July 2025*