

Karima M. Woods, Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Organization Examination – **Health Services for Children with Special Needs, Inc.** as of August 31, 2020

ORDER

An Organization Examination of **Health Services for Children with Special Needs, Inc.** as of August 31, 2020 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 3rd day of November 2020, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.



Philip Barlow
Associate Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND
BANKING



REPORT ON ORGANIZATION EXAMINATION

HEALTH SERVICES FOR CHILDREN WITH SPECIAL
NEEDS, INC.

AS OF

AUGUST 31, 2020

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Health Services for Children with Special Needs, Inc.

Report on Organization Examination

AUGUST 31, 2020

Washington, D.C.
September 25, 2020

Honorable Karima Woods
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, D.C. 20002

Dear Madam:

In accordance with Section 31-1402 of the D.C. Official Code, we have examined the financial condition and activities of

HEALTH SERVICES FOR CHILDREN WITH SPECIAL NEEDS, INC.

(hereinafter called the “Company”) and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

This was an organization examination as of August 31, 2020 conducted by examiners of the District of Columbia Department of Insurance, Securities and Banking. The Company has made application for an original certificate of authority to establish and operate a health maintenance organization.

Our examination was conducted in accordance with examination policies and standards established by the Department and accordingly included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

Our examination included a review of the business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities of the Company. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company is audited annually by an independent public accounting firm. The firm expressed an unqualified opinion on the financial statements of the Company for calendar year 2019. We placed substantial reliance on the audited financial statements for calendar year 2019.

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HISTORY

General:

The Company was incorporated as Health Services for Children with Special Needs, Inc., under the laws of the District of Columbia on February 2, 1994. According to its Amended and Restated Articles of Incorporation which were reviewed by the Department, the primary purpose for which the Company was formed is to operate as a health maintenance organization, as defined under D.C. Official Code §31-3401(21), to provide for or arrange for the delivery of basic health care services to enrollees on a prepaid basis.

Capital Stock:

The Company's Amended and Restated Articles of Incorporation did not authorize the Company to issue shares of common capital stock. The sole corporate member of the Company is The HSC Foundation, a District of Columbia nonprofit corporation and a public charity under Section 501(c)(3) of the Internal Revenue Code.

Management:

The following persons were serving on the Company's Board of Directors as of August 31, 2020:

<u>Name and Address</u>	<u>Principal Occupation</u>
Kathryn K. Appel Washington, D.C.	President Kuhmerker Consulting Group, LLC
Anna P. Dunn Ashton, MD	Chief Executive Officer and President Health Services for Children with Special Needs, Inc.
Neil Grammer Adelphi, MD	Senior Vice President, Audit & Compliance Interstate Hotels and Resort, Inc.
Michael A. Jones Charlotte, NC	Executive Vice Chairman Ranpak Holdings Corporation
Sharon B. Martin Fairfax, VA	Consultant Brickhouse Martin Healthcare Engineering

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Wendy M. Goldberg
Bethesda, MD

Consultant
Bella Italia

The Company's Board of Directors is in compliance with District of Columbia Code Section 31-706(c)(3) which states that no less than one-third of the directors of a domestic insurer shall be persons who are not officers or employers 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 stock of insurer or such an entity.

Officers:

The following person was serving as the Company's Officer as of August 31, 2020:

Anna P. Dunn	Chief Executive Officer and President
Alec H. King	Chief Financial Officer ¹
Mary A. Hilliard	Exec. Vice President and General Counsel
Eric B. Levey	Chief Medical Officer
Nadine E. Coy	Chief Operating Officer
Steven G. Braden	Director of Finance
Stephanie D. Taylor	Vice President of Risk Management

Committees:

The Company's Bylaws allow for the Board of Directors to create one (1) or more Board committees, and appoint members of the Board of Directors to serve on them, by resolution of the Board of Directors adopted by a majority of all the Directors in office when the resolution is adopted. The Company has established an Audit Committee to be comprised solely of Directors, which shall be subject to the final approval of the Audit Committee of the Children's National Board. The Audit Committee's primary duties and responsibilities are to:

- a) Appoint, determine the compensation of, and oversee the work of the Company's independent auditor,

¹ Aldwin Lindsay assumed this role in October 2020 as an interim assignment.

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- b) Monitor the integrity of the Company's financial statements and accounting and financial reporting processes,
- c) Review the adequacy and effectiveness of the Company's systems of internal accounting and financial controls,
- d) Review the annual independent audit of the Company's financial statements, and
- e) Provide an avenue for open communication among the independent auditor, management, and the Board of Directors.

The composition of the committee complies with the District of Columbia Official Code Section 31-405 which states that every controlled insurer shall have an audit committee of the board of directors composed of independent directors. Additionally, the composition of the audit committee complies with District of Columbia Code Section 31-706(c)(4), which requires that the Board of Directors establish one or more committees comprised of individuals who are not officers or employees of the Company, or of any entity controlling, controlled by or under common control with the Company.

Conflicts of Interest:

Directors and Officers of the Company have completed conflict of interest questionnaires. Our review of the questionnaires did not disclose any conflicts of interest that would adversely affect the Company.

Corporate Records:

We reviewed the minutes of the organizational meeting of Board of Directors for the period under examination. Based on our review, it appeared that the minutes documented the Company's significant transactions and events, and that the directors approved those transactions and events.

The Company is a wholly owned subsidiary of The HSC Foundation (i.e., The HSC Foundation is the sole corporate member of the Company). The HSC Foundation is also the controlling entity of The Hospital for Sick Children d/b/a The HSC Pediatric Center, and HSC Home Care, LLC. The Foundation and its controlled entities and subsidiaries comprise the HSC Health Care System (the "System").

Children's National Medical Center, is a District of Columbia tax-exempt, nonstock corporation which, through its subsidiaries provides health care services to infants, children, and youth in the District of Columbia and the surrounding metropolitan area. On September 1, 2019 and by means of an acquisition (also referred to as a non-profit member substitution), Children's National Medical Center became the sole corporate member (i.e., the non-profit owner) of The HSC Foundation. Through this reorganization, The HSC Foundation retains its position (control) of the Company, while Children's National Medical Center becomes the

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ultimate controlling person of the Company according to the Holding Company Act. More specifically the holding company now includes the Company and The HSC Foundation, a District of Columbia not for-profit corporation. No consideration was paid by Children's National Medical Center.

AFFILIATED COMPANIES/INTER-COMPANY AGREEMENT

The Company is part of a holding company system with affiliated companies and the Company is a party to one inter-company agreement.

The Company is a wholly owned subsidiary of The HSC Foundation and the HSC Foundation is a wholly owned subsidiary of Children's National Medical Center, a holding company domiciled in the District of Columbia. Children's National Medical Center is a non-profit federally tax-exempt corporation.

INTER-COMPANY AGREEMENT

The Company entered into an Integrated Services and Cost Agreement with Children's National Medical Center. The Company desires to secure from Children's National Medical Center certain consulting, administrative and other support services, which are intended to enhance the Company's organizational and administrative capacity, and to augment its operations.

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ORGANIZATIONAL CHART

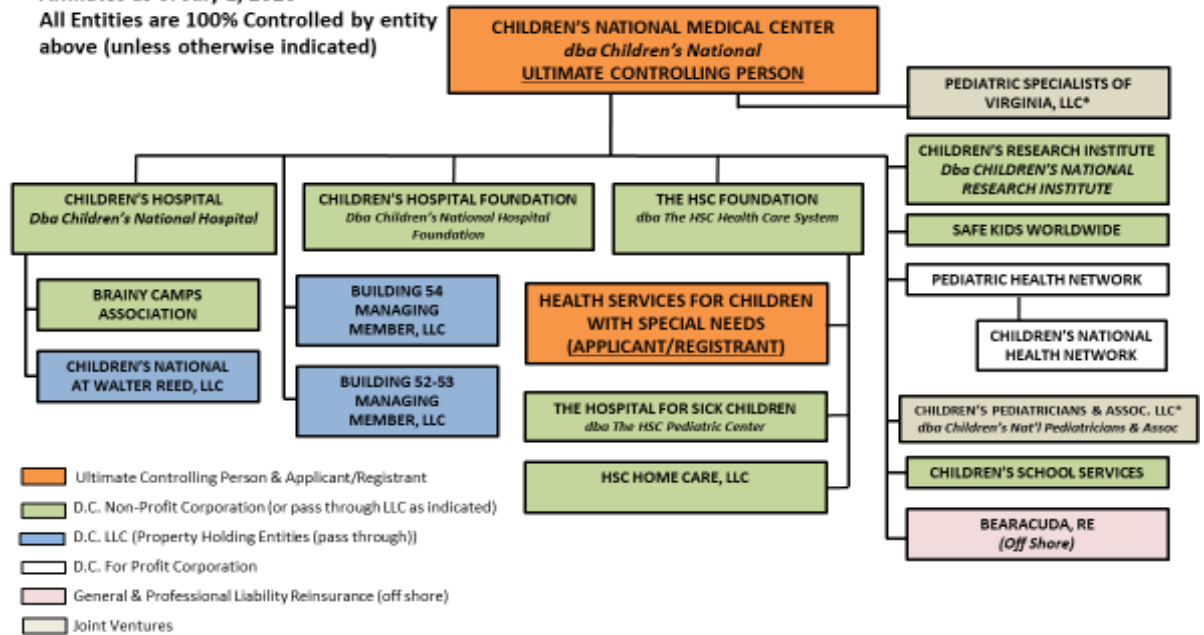
Children's National Medical Center

Form B Item 2:

Health Services for Children with Special Needs, Inc.

Affiliates as of July 1, 2020

All Entities are 100% Controlled by entity above (unless otherwise indicated)



- Ultimate Controlling Person & Applicant/Registrant
- D.C. Non-Profit Corporation (or pass through LLC as indicated)
- D.C. LLC (Property Holding Entities (pass through))
- D.C. For Profit Corporation
- General & Professional Liability Reinsurance (off shore)
- Joint Ventures

- Pediatric Specialist's of VA, is a VA LLC & 50/50 Joint Venture with Innova
- CP&A is 50/50 Joint Venture between Children's National and Children's Nat'l Hospital (as a result, it is 100% controlled by Children's National)

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FIDELITY BOND AND OTHER INSURANCE

The Company is insured under a fidelity crime policy that provides coverage in the amount of \$5,000,000 with a deductible of \$25,000. The proposed policy limits of the crime (fidelity) coverage would satisfy the amount recommended by the National Association of Insurance Commissioners.

In addition, the Company is insured for other risks (e.g. healthcare general liability, director and officers, employment practices, crime policy, workers compensation, employers' liability, medical professional, and manage care liability). Based upon our review, the Company's insurance coverage for these risks appear adequate.

<u>Lines</u>	<u>Limits</u>
Healthcare General Liability	\$10,000,000
Director and Officers Liability	5,000,000
Employment Practices Liability	5,000,000
Crime Policy Liability	5,000,000
Workers Compensation & Employers Liability	1,000,000
Medical Professional General Liability	3,000,000
Manage Care Liability (E&O)	5,000,000

STATUTORY DEPOSIT

Pursuant to D.C. Code §31-3412(b), the Company is required to maintain a minimum deposit of \$300,000 with the District of Columbia's Insurance Commissioner, as trustee, in trust for the subscribers and creditors of the Company, for the purposes of paying the obligations related to the Company in the District of Columbia. The Company has established a custodial account pursuant to the D.C. Code §31-3412(b). The deposit in the amount of \$305,797 was confirmed from the records of SunTrust Bank, N.A.

TERRITORY AND PLAN OF OPERATION

The Company intends to apply to become a participating Health Maintenance Organization (HMO) with the District of Columbia, Department of Healthcare Finance eligible population enrolled in the District of Columbia Child and Adolescent Supplemental

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Security Income Program (CASSIP) program. With the foregoing in mind, the Company is not required to employ sales and marketing techniques; rather its members shall be enrolled through the CASSIP program.

The Company intends to coordinate and manage medical, behavioral, dental, drug, long-term care and social benefits for enrollees between birth and twenty-six years of age with disabilities and complex medical needs through a network of more than 2,000 providers. The Company will have an office within the District of Columbia staffed to provide, among other managed care activities: Care Management, Marketing & Outreach, Provider Relations, Quality Improvement and Utilization Management. The Company's staff will include the Chief Executive Officer/President, Chief Medical Officer, Chief Psychiatric Medical Officer, Chief Operating Officer, as well as other departmental managers, and administrative staff.

REINSURANCE

Although the Company is exposed to risk of losses for low incidence, high cost admission cases, such as high cost transplants and other high costs admission cases, the Company does not intend to utilize cession reinsurance to limit its financial risk.

The Company does not anticipate entering into assumption reinsurance agreements.

ACCOUNTS AND RECORDS

The Company's general accounting records consist of an automated general ledger and various subsidiary ledgers (e.g. cash receipts, cash disbursements). A review did not disclose any significant deficiencies in these records.

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FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Company as of August 31, 2020, as determined by this organizational examination (**NOTE 1**):

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The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

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ASSETS
FOR THE PERIOD ENDED DECEMBER 31, 2019 and AUGUST 31, 2020

ASSETS	12/31/2019	8/31/2020
Current assets:		
Cash	\$25,319,557	24,495,706
Due from affiliates	975,242	
Other	1,914,736	448,456
Total current assets	28,209,535	24,944,162
Assets limited as to use:		
Restricted cash (Statutory Deposit)	155,081	305,797
Investments	19,404,229	20,531,072
Property and equipment:		
Furniture and equipment	291,180	2,516,008
Leasehold improvements	604,825	1,398,130
Information systems	2,031,187	2,031,187
	2,927,192	5,945,325
Less accumulated depreciation and amortization	(371,589)	(1,385,164)
	2,555,603	4,560,161
Work-in-progress	894,758	288,273
	3,450,361	4,848,434
Other assets:		
Due from third parties	8,437,214	12,672,530
Other	161,109	
Right-of-use (RoU) asset	-	4,119,115
Total other assets	8,598,323	16,791,645
Total assets	\$59,817,529	\$67,421,110

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Liabilities, and Net Assets
FOR DECEMBER 31, 2019 and AUGUST 31, 2020

LIABILITIES AND NET ASSETS	12/31/2019	8/31/2020
Current liabilities:		
Medical claims payable	\$21,850,386	\$25,611,401
Accounts payable and accrued expenses	7,557,524	5,123,173
Payroll accruals	1,579,278	1,855,855
Total current liabilities	30,987,188	32,590,429
Non-current liabilities:		
Due to third parties	6,140,094	4,958,349
Self-insurance professional liability	77,019	77,019
Operating lease liability		4,508,824
Total liabilities	37,204,301	42,134,621
Net assets:		
Net assets	22,613,228	25,286,489
Total liabilities and net assets	\$59,817,529	\$67,421,110

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SUMMARY OF OPERATIONS
FOR DECEMBER 31, 2019 and AUGUST 31, 2020

	As of 12/31/2019	As of 8/31/2020
Operating Revenues:		
Capitation revenue	\$180,417,655	\$117,711,140
Investment return, net	2,221,089	1,443,021
Other operating revenue	108	
Total operating revenue	\$182,638,852	\$119,154,161
Operating expenses:		
Salaries and benefits	17,350,333	12,849,649
Medical claims	140,259,007	90,708,101
Professional services	3,474,612	2,497,288
Shared services allocations	7,343,522	3,205,797
General and administrative	6,084,547	3,830,369
Depreciation and amortization	812,084	1,013,575
Premium tax	3,545,367	2,395,455
Total operating expenses	\$178,869,472	\$116,500,234
Operating income (loss)	\$3,769,380	\$2,653,927
Change in unrealized gain (loss) on investments		
Realized gain (loss) on investments		
Inherent Contribution: (Change in market value of acquired assets)	1,509,668	
Excess (deficiency) of revenue over expenses	\$5,279,048	\$2,653,927

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**RECONCILIATION OF NET ASSETS
ENDED AUGUST 31, 2020**

Balance at December 31, 2019	\$ 22,613,228
Net Income as of August 31, 2020	2,653,927
Change in Prior Period Adjustment from 2019	<u>19,334</u>
Balance at August 31, 2020	<u>\$ 25,286,489</u>

ANALYSIS OF EXAMINATION CHANGES TO NET ASSETS

There were no changes to the Company's surplus as a result of the examination.

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NOTES TO FINANCIAL STATEMENTS

1. Net Worth, Deposits and Risk-Based Capital Standards:

Chapter 34 (“HEALTH MAINTENANCE ORGANIZATIONS”) of Title 31 (“Insurance and Securities”) of the District of Columbia Official Code requires the Company to have an initial net worth of \$1,500,000.

Chapter 34 of Title 31 of the District of Columbia Code requires that the Company submit to the Department a financial feasibility plan which includes detailed enrollment projections, the methodology for determining dues to be charged during the first 12 months of operations certified by an actuary, a projection of balance sheets, cash flow statements, income and expense statements anticipated from the start of operation until the Company has had net income for at least 1 year, and a statement as to the sources of working capital as well as any other sources of funding.

In addition, Chapter 38b (“RISK-BASED CAPITAL”) of Title 31 of the District of Columbia Official Code requires the Company to maintain statutory capital and surplus levels as determined in accordance with the applicable risk-based capital formulas.

As of the date of our organizational examination, the Company meets the requirements of the aforementioned provisions of the District of Columbia Official Code.

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COMMENTS AND RECOMMENDATIONS

Additional Comments and Recommendations:

The Company must meet the following additional conditions and requirements:

1. Must file Quarterly Financial Statements.
2. Must file reports on D.C. Escheatable Property, as required by Chapter 2 of Title 42 of the District of Columbia Related Laws to the Insurance Code.
3. Must prepare an Annual Audited Report in accordance with the statutory accounting practices as required by the District of Columbia Code, § 31-303.
4. Must file an Annual Actuarial Opinion on the Company's reserves.
5. Must file the holding company system's reporting and compliance documents of Chapter 7 of Title 31 of the District of Columbia Code which include, but are not limited to, an Annual Registration Statement and Prior Notice of a Material Transaction and the Company must maintain compliance with requirements regarding the composition of the Board of Directors and Committees of the Board.

The above stated requirements are not all inclusive, and the Company will have additional regulatory and compliance requirements, which must also be satisfied.

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CONCLUSION

Our organizational examination disclosed that as of August 31, 2020, the Company had:

Total Assets	<u>\$ 67,421,110</u>
Liabilities	\$ 42,134,621
Net Assets	<u>\$ 25,286,489</u>
Total Liabilities and Net Assets	<u>\$ 67,421,110</u>

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at August 31, 2020. The Company has requested an original certificate of authority to establish and operate a health maintenance organization in accordance with Title 31, Chapter 34 (“Health Maintenance Organizations”) of the District of Columbia Official Code. Based on our examination, the Company meets the minimum net worth requirements of Section 31-3412 of the District of Columbia Official Code and is entitled to the issuance of a certificate of authority to establish and operate a health maintenance organization.

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SIGNATURES

The following undersigned from the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination.

Respectfully submitted,



Samuel Merlo, AFE, CPA
Examiner-In-Charge
District of Columbia Department of
Insurance, Securities and Banking

Under the Supervision of,



Nathaniel Kevin Brown, CFE, CPA
Chief Financial Examiner
District of Columbia Department of
Insurance, Securities and Banking