

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Physicians Health Plan of Northern Indiana, Inc.)
8101 West Jefferson Boulevard)
Fort Wayne, Indiana 46804)

Examination of **Physicians Health Plan of Northern
Indiana, Inc.**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **Physicians Health Plan of Northern Indiana, Inc.**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **Physicians Health Plan of Northern Indiana, Inc.** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

March 20, 2013
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

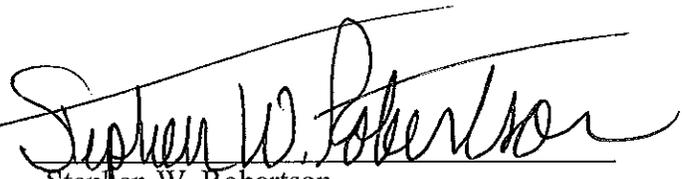
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2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2011.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 20th day of
March, 2013.


Stephen W. Robertson
Insurance Commissioner

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

PHYSICIANS HEALTH PLAN OF NORTHERN INDIANA, INC.
NAIC Co. CODE 95436
NAIC GROUP CODE 3828

As of
December 31, 2011

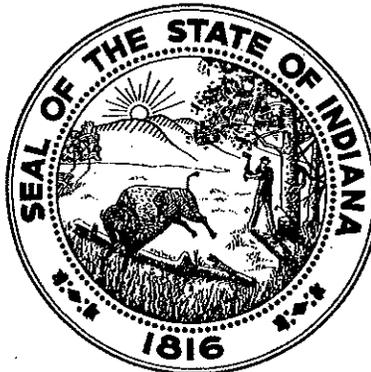


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STATE OF INDIANA

MICHAEL R. PENCE, Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE
311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
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Stephen W. Robertson, Commissioner

January 11, 2013

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3725, an examination has been made of the affairs and financial condition of:

Physicians Health Plan of Northern Indiana, Inc.
8101 West Jefferson Boulevard
Fort Wayne, IN 46804

hereinafter referred to as "PHPNI," an Indiana domestic health maintenance organization. The examination was conducted at PHPNI's corporate offices in Fort Wayne, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2011, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
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EXAMINATIONS / FINANCIAL SERVICES
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SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

PHPNI was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2008. The present risk-focused examination was conducted by Noble Consulting Services, Inc. (Noble) and covered the period from January 1, 2009 through December 31, 2011.

Jeffrey A. Beckley, FSA, MAAA, of Actuarial Options, LLC, was appointed by the INDOI and conducted a review of PHPNI's statutory reserves as of December 31, 2011. There were no actuarial adjustments or recommendations resulting from the review performed by Actuarial Options, LLC.

Noble conducted the risk-focused examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of PHPNI by obtaining information about PHPNI including corporate governance, identifying and assessing inherent risks within PHPNI, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and management's compliance with Statutory Accounting Principles, and Annual Statement instructions, when applicable to domestic state regulations.

All accounts and activities of PHPNI were considered in accordance with the risk-focused examination process.

HISTORY

PHPNI was incorporated on April 8, 1983, and commenced operations on December 1, 1983. PHPNI is sponsored by independent physicians as a not-for-profit Indiana-certified and federally qualified health maintenance organization (HMO). PHPNI is organized and operated pursuant to Article 13 of the Indiana Insurance Law. PHPNI is the ultimate controlling parent of PHP Insurance Company of Indiana, Inc. (PHPIC), which was incorporated as a life insurance company on September 28, 2005, and commenced business on May 1, 2006.

CAPITAL AND SURPLUS

As of December 31, 2011, PHPNI had no capital stock. Member physicians are required to make a one-time capital contribution. PHPNI is organized as a 501 (c) (4), not-for-profit social welfare organization and provides no shareholder dividends.

TERRITORY AND PLAN OF OPERATION

PHPNI is a not-for-profit managed care insurance company that offers medical coverage options to employees and individuals through a comprehensive local network of participating physicians, hospitals, pharmacies, and dentists in northern Indiana. Participating medical providers have a contractual relationship through capital contribution, universal pricing, and a risk-sharing contingency reserve that can be used as additional funding based on plan experience. Non-participating physicians are compensated using independent network arrangements or other discounted fee-for-service arrangements.

Member physicians agree to a single, master fee schedule for comprehensive medical services and required professional fee retention of 20% on non-evaluation and management codes pending annual review. The master fee schedule is established by a committee of the Board of Directors that excludes medical provider and membership participation. Provider fee retention allows for the protection of capital, adverse utilization, and adverse inflationary trends while providing rate stabilization and recovery of full pricing, pending review of final costs incurred for the plan. The release of the contingency reserves is determined annually upon finalization of medical costs incurred and Board approval.

Primary sales efforts are focused on small to medium size employer groups. PHPNI also offers a dental product and introduced an individual product in 2008. The service area encompasses a total of forty (40) counties in northern Indiana as of December 31, 2011.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted</u>		<u>Capital and Surplus</u>	<u>Total Revenues</u>	<u>Net Income</u>
	<u>Assets</u>	<u>Liabilities</u>			
2011	\$ 64,468,042	\$ 25,728,787	\$ 38,739,255	\$ 152,513,555	\$ 4,995,669
2010	64,584,421	29,654,365	34,930,056	152,487,018	2,591,737
2009	61,572,421	29,657,636	31,914,785	143,763,507	(7,243,337)

PHPNI's most significant liability, claims reserves, decreased from December 31, 2010 to December 31, 2011, due to two (2) primary factors; (1) membership at year-end 2011 was approximately 12% lower than at year-end 2010, and (2) unpaid inpatient facility claims, which can vary significantly at any point in time, were approximately \$2.5 million lower at year-end 2011 compared to year-end 2010.

The significant increase in net income from December 31, 2009 to December 31, 2011, was due primarily to a significant increase in investment income due to realized gains on equity securities sales. In 2009, significant realized losses on investments were reported due to both impairments and losses on the sales of both equity and bond portfolio securities.

Capital and surplus increased from December 31, 2010 to December 31, 2011, as a result of increased net income and contributions by member physicians.

MANAGEMENT AND CONTROL

Directors

The Articles of Incorporation provide that the Board of Directors shall be composed of not less than ten (10) directors and no more than twenty-one (21) directors. The directors shall hold office from annual meeting to annual meeting. The directors shall be of two (2) types; physician directors and consumer directors.

The physician directors, who must also be members of the Company, shall comprise no more than two-thirds (2/3) of the directors. At least one-third (1/3) of the directors shall be consumer directors.

The following is a listing of persons serving as directors at December 31, 2011, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
David W. Stein, MD Fort Wayne, Indiana	Physician ENT Associates
James C. Wehrenberg, MD Fort Wayne, Indiana	Physician Summit Radiology
Karl R. LaPan Fort Wayne, Indiana	President and Chief Executive Officer Northeast Indiana Innovation Center
Michael R. DeWald, CPA Roanoke, Indiana	Retired Partner Dulin, Ward & DeWald
Jerry A. Dearth, MD Fort Wayne, Indiana	Physician Parkview Physicians Group
Peter P. Fettig Fort Wayne, Indiana	Retired Lincoln National Corporation
Theresa A. Gutierrez, MD Fort Wayne, Indiana	Physician Fort Wayne Pediatrics
Michael D. Larkin Fort Wayne, Indiana	Chief Underwriting Officer K & K Insurance
David E. Lentz, DO Fort Wayne, Indiana	Physician Brooklyn Medical Center / LHN
Andrew W. O'Shaughnessy, MD Fort Wayne, Indiana	Physician Nephrology Association of Northern Indiana
Fred L. Rasp, MD, FCCP Fort Wayne, Indiana	Physician Lutheran Medical Group
Rhys A. Rudolph, MD Fort Wayne, Indiana	Physician Fort Wayne Urology
Donald F. Schenkel Fort Wayne, Indiana	Vice President for University Relations St. Francis University
Ron L. Sloan, MD Kendallville, Indiana	Physician Parkview Physicians Group
Joseph P. Yurkanin, MD LaGrange, Indiana	Anesthesiologist Preferred Anesthesia Group

Officers

PHPNI officers consist of officers of the Board of Directors and Executive Officers. The Bylaws state that the officers of the board shall consist of a Chairman, a Vice-Chairman, a Secretary, and a Treasurer. The officers of the Board of Directors shall hold office for one (1) year and/or until their successors are chosen and qualify.

The Executive Officers are to consist of a President, a Chief Medical Officer, and other officers that shall be appointed from time to time by the Board of Directors. The President and Chief Executive Officer shall be appointed by the Board of Directors. The President and Chief Executive Officer may appoint a Medical Director, with the approval of the Board of Directors. The following is a listing of the officers and their respective titles as of December 31, 2011:

<u>Name</u>	<u>Office</u>
David W. Stein, MD	Chairman, Interim President, and Chief Executive Officer
Karl R. LaPan	Secretary
Michael R. DeWald	Treasurer
James C. Wehrenberg	Vice Chairman
James A. Brunnemer	Chief Financial Officer
Gail M. Doran	Vice President of Operations
Phillip C. Wright, MD	Medical Director

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2011.

OATH OF OFFICE

Indiana Code (IC) 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. Each director signed an Oath of Office upon being elected.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments to the Bylaws during the examination period.

Minutes

The minutes from the Board of Directors meetings were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. The meetings of the Board were held in accordance with PHPNI's Bylaws.

The minutes from the Finance Committee meetings were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. The meetings of the Finance Committee were held in accordance with PHPNI's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

An organizational chart depicting PHPNI's relationship with other members of the holding company, as of December 31, 2011, is presented below.

Physicians Health Plan of Northern Indiana, Inc. (NAIC #95436)	IN
PHP Holding Company	IN
PHP Management Systems, Inc.	IN
PHP Insurance Company of Indiana, Inc. (NAIC #12331)	IN

Affiliated Agreements:

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI as required, in accordance with IC 27-1-23-4.

Management Agreement with PHP Management Systems, Inc.

Effective January 1, 2003, PHPNI entered into a Management Services Agreement with PHP Management Systems, Inc. (PMC). The agreement states the PHPNI shall provide to PMC comprehensive managerial services necessary for PMC's day-to-day operations. Such services include, but are not limited to; access to PHPNI's information systems, accounting and financial analysis services, medical management services, utilization review services, provider contracting services, claims administrative services, and other general administrative services.

PMC shall pay PHPNI a fee of \$500 per month, in addition to a fee of 10% of brokerage revenue. In addition, PMC shall be responsible for the payment of any brokerage commissions due to external brokers (PHPNI employees and other entities) as a result of the general agency business. PHPNI is reimbursed for all allocable costs incurred for managerial services. Any additional services increasing the expenses above compensation would be billed to PMC in addition to the administration fee agreed upon by both parties.

In addition to the general agency fees, PHPNI also receives a monthly amount equal to 90% of TPA fees and network access fees earned by PMC. PHPNI calculates the actual fee due and invoices PMC the difference between the actual amount and the estimate paid, per the agreement. The amount paid to PHPNI for the year-ending 2011, was \$281,722.

Management Agreement with PHP Insurance Company of Indiana, Inc.

Effective October 4, 2005, PHPNI entered into a Management Services Agreement with PHPIC. The agreement states that PHPNI shall provide PHPIC comprehensive medical services necessary for PHPIC's day-to-day operations. Such services include, but are not limited to; access to PHPNI information services, accounting and financial analysis services, actuarial services, underwriting services, medical management services, utilization review services, provider contracting services, claims administrative services, and other general administrative services.

PHPIC shall reimburse PHPNI for all allocable costs incurred by PHPNI for managerial services provided to support PHPIC's business. PHPNI may also add a reasonable margin to such costs. In no circumstances may the total charges exceed the greater of allocable costs plus 15% or fair market value of the services provided. The amount paid to PHPNI for the year-ending 2011, was \$47,842.

FIDELITY BOND AND OTHER INSURANCE

PHPNI protects itself against loss from fraudulent or dishonest acts by its employees through a fidelity bond issued by Federal Insurance Company. The bond provides coverage of \$2,000,000 with a retention amount of \$50,000. The bond amount meets the prescribed minimum coverage specified by the NAIC.

PHPNI had additional types of coverage in-force at December 31, 2011, including, but not limited to, executive liability, entity liability, employment practice liability, and third-party liability coverage's.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

PHPNI has adopted a qualified defined contribution retirement plan for its employees. Both PHPNI and its employees may make contributions. PHPNI contributions are determined annually.

STATUTORY DEPOSITS

PHPNI reported a statutory deposit as of December 31, 2011, for all policyholders, with a book value of \$4,162,087 and a fair value of \$4,449,682.

REINSURANCE

The need for reinsurance is limited to serve the statutory requirements of IC 27-13-16, which requires an HMO to have a plan for receivership that allows for the continuation of benefits after the date of receivership. PHPNI reinsures its commercial business with HM Life Insurance Company. At December 31, 2011, the retention amount was \$350,000.

ACCOUNTS AND RECORDS

PHPNI's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from PHPNI's general ledger for the years ended December 31, 2010 and December 31, 2011, were agreed to the respective Annual Statements with no material exceptions noted. The Annual Statements for the years ended December 31, 2009 through December 31, 2011, were agreed to each year's independent audit report with no material exceptions noted.

PHYSICIANS HEALTH PLAN OF NORTHERN INDIANA, INC.

FINANCIAL STATEMENTS

Assets

	As of December 31, 2011			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Assets:				
Bonds	\$ 39,996,200	-	\$ 39,996,200	\$ 36,474,343
Stocks				
Common stocks	12,949,822	-	12,949,822	13,250,221
Real estate:				
Properties occupied by the company	1,880,144	-	1,880,144	1,969,083
Cash, cash equivalents and short-term investments	<u>7,326,426</u>	<u>-</u>	<u>7,326,426</u>	<u>8,724,976</u>
Subtotals, cash and invested assets	62,152,592	-	62,152,592	60,418,623
Investment income due and accrued	352,058	-	352,058	376,385
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	187,996	-	187,996	220,561
Accrued retrospective premiums	268,182	-	268,182	424,925
Reinsurance:				
Amounts recoverable from reinsurers	547,586	-	547,586	1,937,358
Electronic data processing equipment and software	181,575	-	181,575	165,242
Receivables from parent, subsidiaries and affiliates	96,872	-	96,872	266,915
Health care and other amounts receivable	<u>681,181</u>	<u>-</u>	<u>681,181</u>	<u>774,412</u>
Total assets	\$ 64,468,042	\$ -	\$ 64,468,042	\$ 64,584,421

PHYSICIANS HEALTH PLAN OF NORTHERN INDIANA, INC.

FINANCIAL STATEMENTS

Liabilities, Capital and Surplus

	As of December 31, 2011			December 31,
	Per Annual Statement	Examination Adjustments	Per Examination	Prior Year
Liabilities:				
Claims unpaid	\$ 15,597,448	\$ -	\$ 15,597,448	\$ 20,195,434
Unpaid claims adjustment expenses	406,678	-	406,678	494,806
Aggregate health policy reserves, including the liability for medical loss ratio rebate per the Public Health Service Act	2,170,684	-	2,170,684	1,465,813
Aggregate health claim reserves	193,039	-	193,039	193,270
Premiums received in advance	3,769,538	-	3,769,538	4,425,510
General expenses due or accrued	3,545,919	-	3,545,919	2,823,610
Amounts withheld or retained for the account of others	13,012	-	13,012	16,145
Amounts due to parent, subsidiaries and affiliates	32,469	-	32,469	39,777
Total liabilities	25,728,787	-	25,728,787	29,654,365
Gross paid in and contributed surplus	2,355,600	-	2,355,600	2,278,600
Unassigned funds (surplus)	36,383,655	-	36,383,655	32,651,456
Total capital and surplus	38,739,255	-	38,739,255	34,930,056
Total liabilities, capital and surplus	\$ 64,468,042	\$ -	\$ 64,468,042	\$ 64,584,421

PHYSICIANS HEALTH PLAN OF NORTHERN INDIANA, INC.

FINANCIAL STATEMENTS

Statement of Revenue and Expenses

	As of December 31, 2011			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Member Months	490,744	-	490,744	526,177
Net premium income	\$ 152,438,753	\$ -	\$ 152,438,753	\$ 152,389,253
Aggregate write-ins for other non-health revenues	74,802	-	74,802	97,765
Total revenues	152,513,555	-	152,513,555	152,487,018
Hospital and Medical:				
Hospital/medical benefits	107,535,625	-	107,535,625	109,152,004
Other professional services	521,602	-	521,602	579,416
Prescription drugs	23,831,847	-	23,831,847	23,344,924
Subtotal	131,889,074	-	131,889,074	133,076,344
Less:				
Net reinsurance recoveries	5,299,860	-	5,299,860	1,954,062
Total hospital and medical	126,589,214	-	126,589,214	131,122,282
Claims adjustment expenses	5,721,664	-	5,721,664	6,290,840
General administrative expenses	17,016,563	-	17,016,563	15,607,125
Total underwriting deductions	149,327,441	-	149,327,441	153,020,247
Net underwriting gain or (loss)	3,186,114	-	3,186,114	(533,229)
Net investment income earned	1,494,415	-	1,494,415	1,548,051
Net realized capital gains (losses) less capital gains tax	197,399	-	197,399	1,537,616
Net investment gains (losses)	1,691,814	-	1,691,814	3,085,667
Aggregate write-ins for other income or expenses	117,741	-	117,741	39,299
Net income or (loss) after capital gains tax and before all other federal income taxes	4,995,669	-	4,995,669	2,591,737
Net income (loss)	\$ 4,995,669	\$ -	\$ 4,995,669	\$ 2,591,737

PHYSICIANS HEALTH PLAN OF NORTHERN INDIANA, INC.

FINANCIAL STATEMENTS

Reconciliation of Capital and Surplus

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and Surplus Account:			
Capital and surplus prior reporting year	\$ 34,930,056	\$ 31,914,785	\$ 34,377,101
Net income or (loss)	4,995,669	2,591,737	(7,243,337)
Change in net unrealized capital gains (losses) less capital gains tax	(1,074,612)	(174,212)	4,067,516
Change in nonadmitted assets	(188,858)	544,246	638,505
Surplus adjustments:			
Paid in	77,000	53,500	75,000
Net change in capital and surplus	<u>3,809,199</u>	<u>3,015,271</u>	<u>(2,462,316)</u>
Capital and surplus end of reporting year	<u>\$ 38,739,255</u>	<u>\$ 34,930,056</u>	<u>\$ 31,914,785</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2011, based on the results of this examination.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in the Report of Examination.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Actuarial Options, LLC performed an examination of **Physicians Health Plan of Northern Indiana, Inc.** as of December 31, 2011.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiner's Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of the conditions of **Physicians Health Plan of Northern Indiana, Inc.** as of December 31, 2011, as determined by the undersigned.

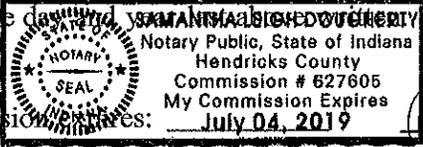


Marc A. Moyer, CFE, MBA
Noble Consulting Services, Inc.

State of:
County of:

On this 23rd day of January, 2013, before me personally appeared, Marc A. Moyer, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year first above written.

My commission expires: July 04, 2019


Notary Public