STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Community Health Plan as of December 31, 2007

ORDER

After full consideration and review of the report of the financial examination of Community Health Plan for the period ended December 31, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Linda Bohrer, Acting Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Community Health Plan, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this August 29, 2008.

Linda Bohrer

Linda Bohrer, Acting Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF

ASSOCIATION FINANCIAL EXAMINATION

COMMUNITY HEALTH PLAN

AS OF

December 31, 2007

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS

AND PROFESSIONAL REGISTATION

JEFFERSON CITY, MISSOURI

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St. Joseph, Missouri
July 24, 2008

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, (E) Financial Condition Committee, NAIC

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable Linda Bohrer, Acting Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Ladies and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Community Health Plan

hereinafter referred to as such, as the "Company" or as "CHP." Its administrative office is located at 137 North Belt, St. Joseph, Missouri 64506, telephone number (816) 271-1247. This examination began on March 3, 2008 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior comprehensive financial examination of Community Health Plan was made as of December 31, 2004 and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination of the Company covers the period from January 1, 2005 through December 31, 2007 and has been conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination was conducted concurrently with the examination of Community Health Plan Insurance Company (CHPIC), a wholly owned subsidiary of CHP.

This examination also includes the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The Company's independent auditor is BKD, LLP of Kansas City, Missouri. The audited statutory financial statements for 2007 had not been issued as of the end of our examination fieldwork; therefore, the examiners relied upon information supplied by BKD, LLP for its audit covering the period from January 1, 2006 through December 31, 2006. Information relied upon included fraud questionnaires and narrative descriptions of processes and controls. The examiners also relied upon bank and investments confirmations supplied by BKD, LLP for their audit of the 2007 statutory financial statements.

Comments-Previous Examination

Listed below are notes, comments and recommendations of the previous examination report dated as of December 31, 2004 and the subsequent response or action taken by the Company.

Intercompany Transactions

Comment: The CHP Call Center provided various services to Heartland Regional Medical Center (HRMC) and related clinics without the benefit of a written agreement. The Company was directed to obtain a written agreement for the provision of the Call Center services. The agreement was to then be filed with the DIFP for approval as required by Section 382.195 RSMo (Prohibited transactions, exceptions).

Company Response: CHP has drawn up an intercompany contract for the provision of Call Center services and submitted it to the DIFP for review and approval.

Current Finding: The Company amended it Administrative Services Allocation Agreement with HRMC to include provision of Call Center services. The amendment was filed for approval with the DIFP.

Administrative Service Organization Fees

Comment: Fees received from the Administration Agreement with Heartland Health (Heartland) were reported under aggregate write-ins for other health care related revenues on the Statement of Revenue and Expenses. Per NAIC's Statement of Statutory Accounting Principles (SSAP) No. 47, all income and expenses related to claims, losses, premiums and other amounts received or paid on behalf of self-insured plans are to be excluded from the administrator's statement of operations. The administration fees should have been reported on line 19 of Part 3 of the Underwriting and Investment Exhibit as an offset to expenses. It was recommended that the Company ensure administration fees were properly reported on future Annual and Quarterly Statement filings.

Company Response: The Company will comply with the recommendation.

Current Finding: The fees associated with the Administration Agreement with Heartland Health were properly classified on the 2007 Annual Statement.

Administration Agreement

Comment: The Administration Agreement did not address how rebates received on pharmacy claims paid on behalf of the Heartland Employee Benefit Plan should be handled. These rebates were retained by CHP. It was recommended that the Company amend the Administration Agreement to clarify the handling of pharmacy rebates.

Company Response: The Company did not formally respond to this recommendation.

Current Finding: Although the Administration Agreement was not amended to address how pharmacy rebates should be handled, CHP no longer retains these fees.

Participating Hospital Amendments

Comment: A July 1, 2004 Amendment and a change to the discount rate made per a memorandum effective July 1, 2003 to the Participating Hospital Agreement with Heartland were not filed for prior approval with the DIFP as required by Section 382.195 RSMo (Prohibited transactions, exceptions). The Company was directed to file the July 1, 2004 Amendment with the DIFP and ensure amendments to intercompany agreements were properly filed in the future.

Company Response: An Amendment has been filed with the DIFP. The Company will endeavor to ensure all amendments to intercompany agreements are timely filed in the future.

Current Finding: Amendments to the Participating Hospital Agreement were properly filed with the DIFP; however, problems were noted in that amendments relating to other agreements were not filed during the current examination period. See the Intercompany Transaction section of this report for recommendations.

Fidelity Bond

Comment: The fidelity coverage for Heartland and its subsidiaries on a consolidated basis, did not meet the amount suggested in guidelines promulgated by the NAIC. It was recommended the Company ensure that if the crime coverage continued to be purchased on a consolidated basis, the amount was increased to meet the suggested NAIC amounts, or the Company should obtain crime coverage sufficient to meet the NAIC guidelines as a separate entity.

Company Response: The Company and Heartland will review the fidelity bond coverage for adequacy.

Current Finding: The fidelity coverage for Heartland and its subsidiaries including CHP was found to be within the NAIC guidelines.

Provider Contracts

Comment: PharmaCare Management Services, Inc. (PharmaCare) was not licensed as a Third Party Administrator (TPA) with the DIFP. In addition, the Company's contract with PharmaCare requires PharmaCare to perform utilization reviews; however, PharmaCare was not registered as a Utilization Review Agent (URA) with the DIFP. The Company was directed to cause PharmaCare to comply with all the applicable laws in this regard. CHP was further directed to comply with Section 376.1084 RSMo (Insurer responsible for benefits and underwriting) regarding semi-annual reviews of TPAs.

Company Response: CHP has been in contact with PharmaCare regarding the licensing as a Missouri TPA and registration as a URA. PharmaCare as assured CHP that applications to the DIFP have been made.

Current Finding: Effective November 15, 2007, CHP assigned its agreement with PharmaCare to CVS CareMark. CVS CareMark is a licensed TPA in the State of Missouri.

Custodial Agreement

Comment: The Company's custodial agreements with US Bank and with Commerce Bank did not contain all of the safeguard provisions specified in Part 1, Section IV of the NAIC Financial Condition Examiners Handbook. It was recommended the Company amend or restate the custodial agreement so that it contained all of the NAIC specified safeguard provisions. Until such time the agreement was brought into compliance with NAIC guidelines, it was to be disclosed in General Interrogatory 23.02 of the Annual Statement for custodial agreements that do not comply with NAIC guidelines.

Company Response: CHP has contacted the custodial banks and requested an amendment to bring the agreements into compliance with the NAIC guidelines.

Current Finding: The custodial agreements were revised to contain the safeguards and provisions specified by the NAIC.

HISTORY

General

Community Health Plan, a not-for-profit corporation, was incorporated under the laws of the State of Missouri on September 8, 1994. A Certificate of Authority to operate as a Health Maintenance Organization (HMO) was issued by the State of Missouri on December 29, 1994, and the Company commenced business on July 1, 1995. Effective December 6, 1996, the Company received a Certificate of Authority to transact business from the State of Kansas.

CHP is a wholly owned subsidiary of Heartland Health. Heartland, a not-for-profit organization, is the parent of Heartland Regional Medical Center of St. Joseph, Missouri, and various other health care related entities.

Capital Stock and Dividends

CHP is organized as a not-for-profit corporation, and consequently, does not have any capital stock and does not declare or pay any dividends. The ownership interest of Heartland in CHP is authorized in the Company's Articles of Incorporation.

Management

The management of CHP is vested in a Board of Directors that is appointed by the sole owner, Heartland Health. The Company's Bylaws specify that the number of directors shall be eleven. The directors of CHP elected and serving as of December 31, 2007 were as follows:

Name and Address	Business Affiliation
Theodore Kent Allison St. Joseph, Missouri	Executive Director St. Joseph Area Chamber of Commerce
Alan Wayne Brewer, DO Faucet, Missouri	Practicing Physician Heartland Health
Lowell Charles Kruse St. Joseph, Missouri	President & Chief Executive Officer Heartland Health
Jennifer Lynn Kneib St. Joseph, Missouri	Manager First Horizon Home Loans
Robert Edwin Loch, III St. Joseph, Missouri	Treasurer Loch Sand and Construction
Matthew Levi Lukens, MD St. Joseph, Missouri	Practicing Physician Heartland Health
Patrick Charles Dillon * St. Joseph, Missouri	Owner The Dillon Company
Jane Lynn Schwabe, MD St. Joseph, Missouri	Practicing Physician Heartland Health
Brian Andrew Bradley St. Joseph, Missouri	Vice President News Press & Gazette Company
Jean Gayle Brown St. Joseph, Missouri	Executive Director St. Joseph YWCA

Mary Ann Cotter St. Joseph, Missouri	Realtor Coldwell Banker

* Mr. Dillon resigned effective January 1, 2008 and was replaced by Jan Stallmeyer of Phoenix, Arizona. Ms. Stallmeyer is a manager for Schaller Anderson, Inc., a TPA ultimately controlled by Aetna, Inc.

Pursuant to its Bylaws, the officers of the Company shall be a President (Chief Executive Officer), a Chief Operating Officer, a Secretary, a Treasurer (Chief Financial Officer), an Assistant Secretary, an Assistant Treasurer, and such other officers and assistant officers as may be deemed necessary. The officers elected and serving, as December 31, 2007 were as follows:

Name	Title
Lowell Charles Kruse	President & Chief Executive Officer
Curtis Andrew Kretzinger	Chief Operating Officer
John Paul Wilson	Secretary/Treasurer
Karen Eugenia Dittemore	Assistant Secretary
Douglas Martin Brandt	Assistant Treasurer

The Company's Bylaws specify that the Company shall have the following committees: Executive, Financial/Membership and Provider Relationship/Quality Review. In addition, the Chairman of the Board of Directors may establish special committees as need. As of December 31, 2007, the only committees in operation were those specifically required by the Bylaws.

Conflict of Interest

The Company has procedures, which require all officers and directors complete a conflict of interest statement annually. Signed conflict of interest statements were reviewed for the examination period. No significant conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. The Bylaws were revised effective April 27, 2006. The changes consisted of some clarifications relating to election of directors, consolidation of committees, expansion of the number of officers and clarification of officer duties.

The minutes of the Company's Board of Directors and the various committee meetings were reviewed, and in general, appear to properly reflect and approve the corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

Effective October 1, 2005, Heartland Health transferred its ownership interest in Community Health Plan Insurance Company to CHP. The transfer was affected by Heartland's contribution of all 10,000 shares of its stock in CHPIC to CHP. No consideration was paid to Heartland in exchange for the CHPIC stock. As a result of this transfer, CHP became the direct parent of CHPIC with Heartland remaining the ultimate controlling entity.

Surplus Debentures

As of December 31, 1999, CHP had \$21,112,460 in surplus notes, comprised of \$19,950,000 in principal and \$1,162,460 in accrued interest, all due and payable to Heartland. Effective June 30, 2000, pursuant to an action of the Heartland Board of Directors, which was approved by the DIFP, the principal balance of the outstanding surplus notes was converted to contributed surplus. Therefore, as of December 31, 2007, only \$1,162,460 in accrued interest remained in CHP's surplus notes account. Any repayment of this accrued interest must receive prior approval of the Director of the DIFP.

AFFILIATED COMPANIES

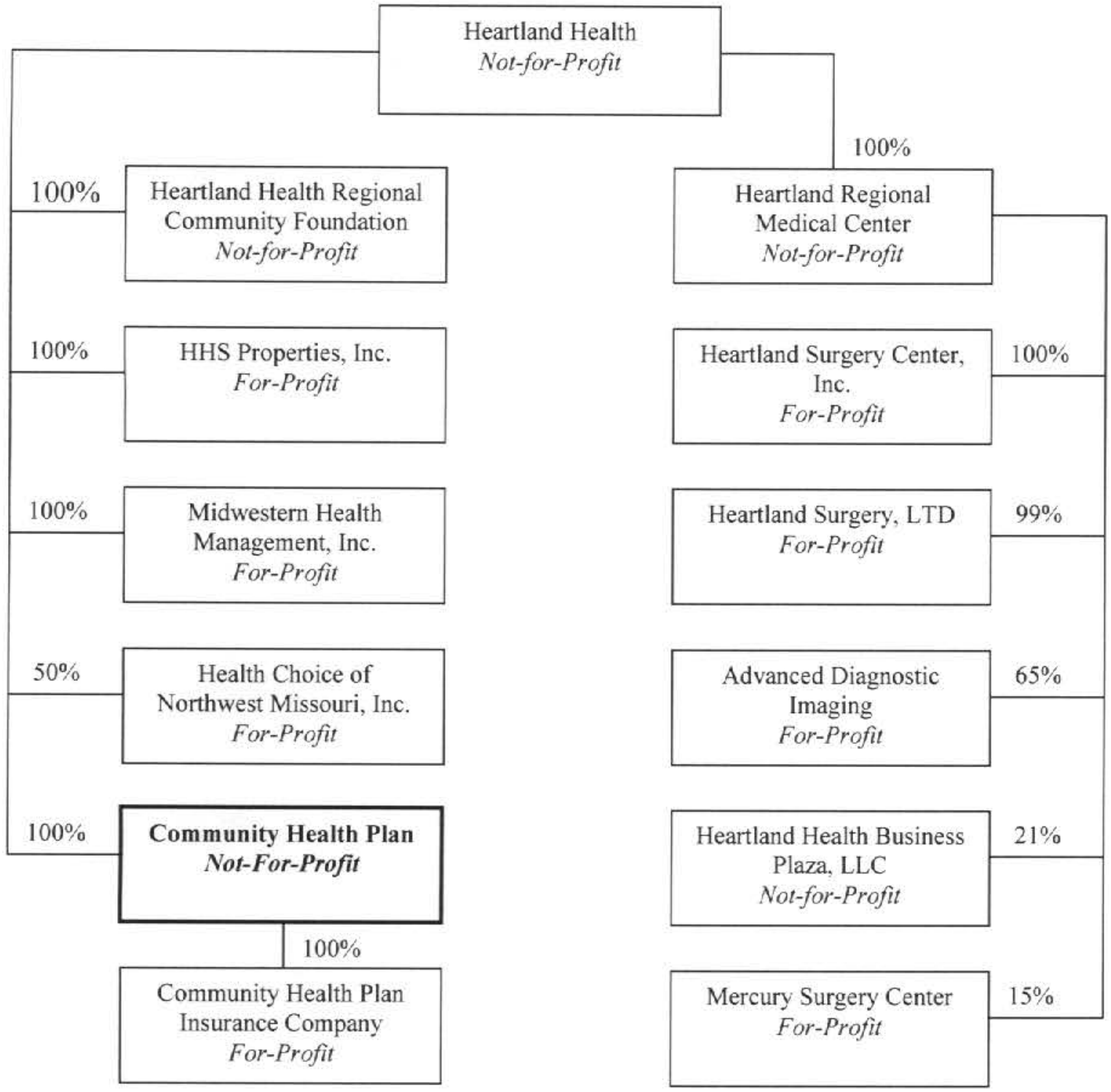
Holding Company, Subsidiaries and Affiliates

Community Health Plan is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). CHP is a wholly owned subsidiary of Heartland Health, the ultimate controlling entity within the holding company system. Insurance Holding Company Registration Statements were filed by Heartland on behalf of CHP and CHP's subsidiary, Community Health Plan Insurance Company for the periods under examination.

Heartland Health is a Missouri not-for-profit and community-based health care organization located in St. Joseph, Missouri. The Heartland Health system is comprised of a hospital, Heartland Regional Medical Center, and various other entities, all of which operate in, or are related to, the health care industry.

Organizational Chart

The following organizational chart depicts the holding company system including CHP as of December 31, 2007:



Intercompany Transactions

The Company was a party to various intercompany agreements with related parties as of December 31, 2007. These agreements are summarized as follows:

1. Type: Administrative Services Allocation Agreement

   Parties: CHP and HRMC

   Effective: Retroactive to December 29, 1994

Terms: HRMC provides various administrative services to CHP. A pro-rata share of the cost of the following services are charged to CHP each month: human resources management, employee benefit administration, payroll processing and accounts payable processing, purchasing and central supply, general ledger accounting, data processing management, financial (including tax) planning and management, education and training, and internal consulting/special projects.

In addition, 100% of the cost of the following items are reimbursed to HMRC by CHP: (a) salaries, payroll taxes, and fringe benefits and (b) accounts payable payments. The "accounts payable payments" specifically include: professional fees and purchased services; supplies, dues and subscriptions; insurance, utilities, repair and maintenance; travel, education, and training expenses; and all other CHP expenses paid through accounts payable.

The agreement was amended effective July 1, 2006 to include Call Center services. Under the terms of the amendment, CHP provides Call Center services to HRMC and bills HRMC a pro-rata share of the costs of providing these services based on human resource hours.

2. Type: Administrative Service and Network Access Agreement

   Parties: CHPIC and CHP

   Effective: July 1, 2003

   Terms: CHP will provide administrative, management and support services to CHPIC. These services shall include: finance, accounting, information systems, marketing, purchasing and medical claims benefits. CHP shall also provide CHPIC with access to its network of contracted health care providers. For the provision of these services, CHPIC shall pay CHP a monthly fee equal to14% of premiums received by CHPIC.

3. Type: Dual Option Product Agreement

   Parties: CHPIC and CHP

   Effective: January 1, 2004

Terms: CHPIC and CHP agree to offer a dual option health benefit program jointly to employer groups of 26 or more employees. CHP shall offer a HMO product and CHPIC shall offer a PPO product. The individual employees of each employer group shall elect which benefit program shall apply to them. Premiums shall be recorded by actuarially established rates on the books of each party, and medical expenses incurred under the dual option programs will be charged to the books of the respective company responsible for the benefit program chosen by the employee. On at least a quarterly basis, the net income or net loss of each group under the dual option program will be computed and split equally between CHP and CHPIC.

4. Type: Administration Agreement

Parties: CHP and Heartland

Effective: July 1, 2004

Terms: CHP shall provide claims processing and related administrative services to Heartland relating to Heartland's Employee Benefit Plan. CHP shall receive a fee of \$100.38 per employee per month for providing these services. Within 30 days of the last day of the contract term, a true-up of costs will be computed based on the actual average per member per month administration costs to CHP. The parties will then settle any over or under payments within 15 days of calculation of the true up amount.

5. Type: Office Space Lease Agreement

Parties: CHP and HRMC

Effective: July 1, 2002

Terms: CHP agrees to lease office space and office equipment and furniture from HRMC. The monthly amount of the base rent is set by HMRC at the beginning of each fiscal year (July 1), by an amendment to Exhibit 'A', and is payable by CHP before the end of the month following the month of occupancy.

Exception: The original agreement had an expiration date of June 30, 2004. The agreement was extended through amendments in 2005 and 2006 with the 2006 amendment extending the expiration date of the agreement to June 30, 2007. As there were no further amendments to extend the agreement past the June 30, 2007 expiration, it appears that the agreement has technically been allowed to expire. The Company should amend the agreement to extend its terms and reflect any cost adjustments. The amendment should be filed with the DIFP as required by Section 382.195 RSMo (Prohibited transactions, exceptions).

6. Type: Lease Agreement

   Parties: CHP and HRMC

   Effective: January 1, 2004

   Terms: Under a separate lease agreement which expired August 31, 2004, CHP paid HRMC $58,000 per month to lease the Erisco Facets Software System, which CHP uses for its business operations. The lease agreement which became effective January 1, 2004, is for upgrades to the software system. Under the agreement, CHP is entitled to use the software upgrades for its business operations at a monthly rental of $14,153 over a five-year period for a total of $849,205.

7. Type: Participating Hospital Agreement

   Parties: CHP and HRMC

   Effective: July 1, 1995

   Terms: HRMC shall provide hospital services to CHP members when services are provided by physicians or other licensed health care professionals with the requisite privileges at HRMC. HRMC is to be reimbursed by CHP the applicable per diem as set forth in Attachment "A" of the agreement subject to percentage discounts. Per an Amendment effective July 1, 2006, CHP receives a discount of 33% off charges for billed inpatient and outpatient services.

8. Type: Consulting Physician Agreement

   Parties: CHP and Heartland Regional Medical Center d/b/a Medical Group Practice (MGP)

   Effective: September 1, 2004

   Terms: MGP shall provide appropriate covered services to CHP members in the specialty area of MGP upon referral by a member's primary care physician. CHP will compensate MGP the lesser of MGP's billed charges or the CHP maximum fee schedule in effect as of the date of the service less any member co-pay. CHP's maximum fee schedule utilizes the current year's Medicare Resource Based Relative Value Scale multiplied by 145%.

9. Type: Primary Care Physician Agreement

   Parties: CHP and Heartland Heath d/b/a Heartland Primary Care (HPC)

   Effective: January 1, 2004

   Terms: HPC agrees to provide to CHP members medically necessary primary care covered services. HPC may refer members to other participating consultant physicians for services as necessary. CHP will compensate HPC the lesser of HPC's billed charges or the CHP maximum fee schedule in effect as of the date of the service less any member co-pay. CHP's maximum fee schedule utilizes the current year's Medicare Resource Based Relative Value Scale multiplied by 134%.

10. Type: Participating Ancillary Provider Agreement

    Parties: CHP and Mercury Surgery Center (Mercury)

    Effective: July 1, 2006

    Terms: Mercury agrees to provide certain medically necessary urological-related ambulatory surgical and case management services to CHP's members. CHP will compensate Mercury at the lesser of billed charges or the Ambulatory Surgical Center Category maximum fee schedule less any member responsibility. For those services not falling within an established category or case rate, CHP will pay Mercury 70% of billed charges until Medicare assigns the service to a payment group.

11. Type: Ancillary Participating Provider Agreement

    Parties: CHP and Heartland Regional Medical Center (HRMC) d/b/a Heartland Counseling Services

    Effective: July 1, 2004

    Terms: HRMC agrees to provide counseling services to CHP's members. CHP will compensate HRMC the lesser of billed charges or the CHP Maximum Fee Schedule in effect as of the date of the services minus the Members copay.

    Exception: The Company has not filed this agreement with the DIFP for prior approval as required by Section 382.195 RSMo (Prohibited transactions, exceptions). The Company is directed to file this agreement and any amendments with the DIFP.

12. Type: Tax Allocation Agreement

Parties: CHP and CHPIC

Effective: For the tax periods commencing on or after October 1, 2005

Terms: Allows CHP to file consolidated federal and state income tax returns with the respective taxing authorities on behalf of itself and CHPIC. Each company will determine its tax liability or refund on a separate return basis. CHPIC will pay its tax liability to or receive its tax refund from CHP based on its separate return with settlement to occur quarterly.

13. Type: Consulting Psychiatry Agreement

Parties: CHP, CHPIC and HRMC

Effective: March 1, 2007

Terms: HRMC will provide an employed physician who will act as a consulting psychiatrist for CHP's Behavioral Health Program. The consultant shall perform all administrative, supervisory and educational functions related to the Behavioral Health Program. CHP shall pay HRMC $125 per hour for the consulting services, up to a maximum of $12,000 annually.

The amounts paid to and (received) from parent and affiliates during years under examination were as follows:

	2007	2006	2005
Admin. Services Allocation Agreement			
(Received from) paid to HRMC	(462,964)	161,410	1,081,037
Admin. Service & Network Access Agreement			
Received from CHPIC	(1,265,180)	(1,204,522)	(873,603)
Dual Option Product Agreement			
Paid to CHPIC	-	962,622	323,045
Administration Agreement			
Received from Heartland	(3,375,265)	(2,813,964)	(2,302,444)
Office Space Lease Agreement			
Paid to HRMC	308,004	312,348	341,795
Lease Agreements			
Paid to HRMC	169,841	169,841	169,841
Participating Hospital Agreement			
Paid to HRMC	8,995,639	14,129,024	14,464,297
Consulting Physician Agreement			
Paid to HRMC	1,353,970	2,341,307	2,687,779
Primary Care Physician Agreement			
Paid to Heartland Health	433,459	728,106	1,062,751
Participating Ancillary Provider Agreement			
Paid to Mercury Surgery Center	108,013	-	N/A
Ancillary Participating Provider Agreement			
Paid to HRMC	237,929	59,872	-
Net amount paid or (received)	**6,503,446**	**14,846,044**	**16,954,498**

CHP is also a party to a Continuation of Coverage Policy and a HMO Excess of Loss Reinsurance Agreement with CHPIC. These agreements are discussed in greater detail in the Reinsurance section of this report.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a crime policy issued to Heartland Health. The policy provides coverage with a liability limit of $1 million and a $10,000 deductible. The crime coverage for Heartland and it subsidiaries on a consolidated basis meets the amount suggested in guidelines promulgated by the NAIC.

The Company is also a named insured on the following insurance policies issued to Heartland: Directors and Officers Liability, Excess Commercial General Liability and Umbrella Excess Commercial General Liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As of December 31, 2000, and prior, employees of CHP were participants in a qualified defined benefit pension plan sponsored by Heartland Health. Effective January 1, 2001, the plan was amended to become a 401(k) Retirement Plan on a going forward basis, with the following provisions: employees hired on or after January 1, 2001 who become eligible are restricted to the 401(k); and longer tenured employees have a choice to continue accruing benefits under the plan or switch to the 401(k). Both plans are funded by Heartland and employees may elect to defer a portion of their compensation for retirement in either plan.

Employees of CHP are provided a variety of other benefits, which include, but are not limited to, medical and dental coverage, vision coverage, life and accidental death and dismemberment coverage, paid vacation and sick leave, and education reimbursement. CHP's share of the cost of these benefits is paid to Heartland through the Administrative Services Allocation Agreement described in the Intercompany Transactions section of this report.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the DIFP as of December 31, 2007, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 354.410 RSMo (Issuance of certificate; trust deposits and capital requirements) and Section 354.551 RSMo (Point of service riders). The funds on deposit were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Notes	\$930,000	\$924,050	\$922,388

Deposits with Other States

CHP does not have funds on deposit with any other state.

INSURANCE PRODUCTS AND RELATED PRACTICES

General

The Company was organized under the laws of the State of Missouri in accordance RSMo Chapter 354 (Health Service Corporations-Health Maintenance Organizations) as it relates to health maintenance organizations. CHP is licensed to transact business in the states of Missouri and Kansas. The Company is also permitted to offer Point of Service riders (POS) with its approved health products in the State of Missouri.

The Company operates as an Individual Practice Association (IPA) model HMO which provides health care benefits to employer groups on a prepaid basis. Effective August 1, 2002, approximately 5,000 insured members of CHP who were also employees of Heartland Health, became insured by a self-insured plan (Plan) sponsored by Heartland. CHP was contracted by Heartland to become the administrator of the Plan, functioning as an Administrative Services Organization (ASO) pursuant to the Administration Agreement discussed in greater detail in the Intercompany Transactions section of this report.

The DIFP has a market conduct staff which performs a review of various market conduct issues and generates a separate market conduct report. The last Market Conduct Examination Report [#0405-45-PPE] dated July 26, 2006, was a targeted exam for claims and complaints covering the period from April 1, 2002 through September 30, 2002. A cursory review of the report indicated the Company was fined by the DIFP for various violations of Missouri insurance laws and regulations. The violations and resulting fines would not appear to have a material impact on the financial condition of the Company.

Marketing

The Company's marketing activities involve the use of pamphlets, brochures, newspaper, and radio advertising. The Company also has an internet site that provides information for members, providers, brokers and potential members. The site includes a quarterly newsletter, which reports health information and other health-care coverage events.

CHP markets its products mainly through the use of in-house and independent agents and insurance brokers. The Company's service area is comprised of 27 counties located in northwestern Missouri and 6 counties located in northeastern Kansas. As of December 31, 2007, CHP provided benefits to 7,831 enrollees.

Insured members of CHP are also offered group life and accidental death and dismemberment coverage through a TPA, North American Business Company underwritten by BCS Life Insurance Company. CHP collects and remits premiums for this coverage as a licensed TPA.

Provider Contracts

The Company has numerous provider agreements in place with participating hospitals, primary care physicians, consulting physicians, ancillary providers, and physician health organizations including a participating hospital agreement with its affiliate, Heartland Regional Medical Center.

Participating hospital providers are reimbursed on the basis of per diem or percentage of charges less applicable co-pays and deductibles. Consulting physicians are reimbursed for the lesser of the actual billed charges or CHP's maximum fee schedule in effect as of the service date, minus insured co-pays. Primary care physicians are also reimbursed for the lesser of the actual billed charges or CHP's maximum fee schedule in effect as of the service date, minus the member co-pays.

The Company contracts with CVS CareMark for management of its prescription benefit to include providing a network of retail pharmacies, mail service, claims processing, customer service, formulary programs, maintaining records, and serving as a purchasing agent.

Rates

The Company's underwriting guidelines and the underlying policies and procedures are utilized in determining rates charged to member-insureds. Insured groups are rated based on specific demographics such as single, employee and spouse, or family. The rates charged by the major providers are summarized as part of the review of provider contracts above.

Grievance Procedures

The Company has established procedures for handling both enrollee and provider complaints and grievances. The procedures, as outlined in a policy and procedures manual appear to meet the requirements of Missouri Regulation 20 CSR 400-7.110 (Health Maintenance Organizations-Resolutions of Enrollee Grievances).

Quality Assurance, Utilization Review and Provider Credentialing

The Company has procedures in place for each of these areas. CHP has a joint Provider Relations/Quality Review Committee that meets monthly to review and discuss quality management and utilization issues. This committee reviews credentialing and re-credentialing applications from prospective providers. Approved lists of credentialed providers are subsequently presented to the Board of Directors for final approval.

REINSURANCE

General

The Company's reinsurance and premium activity during the period under examination were as follows:

Premiums	2007	2006	2005
Direct premiums written	$ 32,260,770	$ 45,510,528	$ 62,323,434
Reinsurance assumed	-	-	-
Reinsurance ceded			
Affiliates	258,651	120,030	10,000
Non-affiliates	-	94,521	292,472
Net premiums written	$ 32,002,119	$ 45,295,977	$ 62,020,962

Assumed

The Company does not assume any business.

Ceded

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

The Company has a Continuation of Coverage Policy with its subsidiary CHPIC effective July 1, 2007 through June 30, 2008. Under the terms of the agreement, CHPIC is to provide continuation of care coverage to CHP members in the event of CHP's insolvency. An annual premium of $10,000 is charged under the agreement. Under a separate Guaranty Agreement between CHPIC and Heartland, Heartland unconditionally guarantees the full and prompt payment and performance of any amounts CHPIC is obligated to pay on behalf of CHP in connection with the Continuation of Coverage Policy.

CHP also has a HMO Excess of Loss Risk Agreement with CHPIC effective July 1, 2007 through June 30, 2008. Under the terms of this agreement, CHP cedes 90% of its eligible hospital and professional service claims subject to a $150,000 retention to CHPIC. CHPIC's maximum liability is limited to $1 million per member per agreement year with a maximum liability per covered member per lifetime of $2 million. The amounts ceded to CHPIC under this agreement are retroceded to a Standard Security Life Insurance Company of New York (Standard), a non-affiliated reinsurer, under a separate reinsurance agreement between CHPIC and Standard.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements for the years ending December 31, 2005 and December 31, 2006, were audited by the CPA firm of BKD, LLP, Kansas City, Missouri. BKD was also retained to perform the year-end December 31, 2007 statutory audit. Audited statutory financial statements for 2007 had not been issued as of the completion of our examination fieldwork.

Independent Actuary

The Company's unpaid claim reserves were reviewed and certified by Richard Johnson, FSA, MAAA, of Pavidan Benefit Services, Inc. of Minneapolis, Minnesota, for each of the years under examination.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2007. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements." (The failure of any column of numbers to add to its respective total is due to rounding or truncation).

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements. Therefore, they were communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

Assets

	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 3,265,887	$ -	$ 3,265,887
Common stocks	2,371,019	-	2,371,019
Cash, cash equivalents and short-term investments	1,546,854	-	1,546,854
Investment income due and accrued	26,468	-	26,468
Uncollected premiums and agents' balances	89,467	-	89,467
Amounts receivable relating to uninsured plans	4,376	-	4,376
Current federal income tax recoverable	232,297	-	232,297
Net deferred tax asset	9,883,146	9,679,346	203,800
EDP equipment and software	52,455	52,455	-
Furniture and equipment	118,295	118,295	-
Receivable from parent, subsidiaries and affiliates	539,423	-	539,423
Healthcare and other amounts receivable	113,300	112,500	800
Aggregate write-ins for other assets:			
Prepaid expenses	77,976	77,976	-
Total Assets	**$ 18,320,963**	**$ 10,040,572**	**$ 8,280,391**

Liabilities, Capital and Surplus

Claims unpaid	$	2,598,967
Unpaid claims adjustment expense		76,000
Premiums received in advance		1,014,855
General expenses due or accrued		969,477
Liability for amounts held under uninsured plans		8,177
Aggregate write-ins for other liabilities:		
Unclaimed funds		19,757
Total Liabilities		**4,687,233**
Gross paid in and contributed surplus		31,700,000
Surplus notes		1,162,460
Unassigned funds (surplus)		(29,269,302)
Total Capital and Surplus		**3,593,158**
Total Liabilities and Capital and Surplus	**$**	**8,280,391**

Statement of Revenue and Expenses

Net premium income	$	32,002,119
Aggregate write-in for other health care related revenues:		
Commissions		10,311
Call center and other fees		7,042
Total revenues		**32,019,472**
Hospital and Medical:		
Hospital/medical benefits		11,899,078
Other professional services		6,247,053
Outside referrals		878,900
Emergency room and out-of-area		1,918,753
Prescription drugs		4,130,088
Aggregate write-ins for other hospital and medical		
Outpatient		4,322,568
Net reinsurance recoveries		(272,276)
Total hospital and medical		**29,124,164**
Claims adjustment expense		878,000
General administrative expenses		3,444,177
Total underwriting deductions		**33,446,341**
Net underwriting gain or (loss)		**(1,426,869)**
Net investment gains (losses)		399,836
Net income or (loss) before income taxes		**(1,027,033)**
Federal income taxes incurred		(278,589)
Net income or (loss)	**$**	**(748,444)**

Capital and Surplus Account

Capital and surplus, December 31, 2006		**$ 2,875,094**
Net income	$ (748,144)	
Change in unrealized capital gains	392,407	
Change in net deferred income tax	110,902	
Change in nonadmitted assets	162,899	
Surplus adjustments: Paid in	800,000	
Net change in capital and surplus for the year		718,064
Capital and surplus, December 31, 2007		**$ 3,593,158**

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Office Space Lease Agreement (page 10)

The original agreement had an expiration date of June 30, 2004. The agreement was extended through amendments in 2005 and 2006 with the 2006 amendment extending the expiration date of the agreement to June 30, 2007. As there were no further amendments to extend the agreement past the June 30, 2007 expiration, it appears that the agreement has technically been allowed to expire. The Company should amend the agreement to extend its terms and reflect any cost adjustments. The amendment should be filed with the DIFP as required by Section 382.195 RSMo (Prohibited transactions, exceptions).

Ancillary Participating Provider Agreement (page 12)

The Company has not filed this agreement with the DIFP for prior approval as required by Section 382.195 RSMo (Prohibited transactions, exceptions). The Company is directed to file this agreement and any amendments with the DIFP.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Community Health Plan during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Barbara Bartlett, CPA, CFE, Steven Koonse, CFE and Angela Campbell, CFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration participated in this examination. Karen Elsom, FSA, MAAA of the actuarial firm of Lewis and Ellis, Inc. performed an actuarial analysis as part of this examination.

VERIFICATION

State of Missouri)
)
County of JACKSON)

I, Mark Nance, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Mark Nance
Mark Nance, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 23 day of July, 2008.

My commission expires: 08/08/08

James R Abbott
Notary Public

JAMES R. ABBOTT
Notary Public - Notary Seal
STATE OF MISSOURI
Platte County
My Commission Expires Aug. 8, 2008

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Vicki L. Denton

Vicki L. Denton, CFE
Audit Manager
Missouri Department of Insurance, Financial Institutions and Professional Registration

Simply, the right choice.
COMMUNITY HEALTH PLAN

August 25, 2008

Frederick Heese, CFE, CPA
Chief Financial Examiner & Acting Division Director
Missouri Department of Insurance, Financial Institutions, and Professional Registrations
301 West High Street, Room 530
Jefferson City, MO 65102-0690

Re: Examination Report from the Financial Exam of December 31, 2007

Dear Mr. Heese:

We have received the examination report and are herewith giving response to each item as follows. Note the comments are repeated (paraphrased) and the Community Health Plan (CHP) responses are in bold letters.

Office Space Lease Agreement. As there were no further amendments to extend the agreement past the June 30, 2007 expiration, it appears the agreement has technically been allowed to expire. The Company should amend the agreement to extend its terms and reflect any cost adjustments. The amendment should be filed with the DIFP as required by Section 382.195 RSMo (Prohibited transactions, exceptions).

CHP will amend the agreement to extend the term and reflect any applicable cost adjustments and file same with the DIFP as required by Section 382.195 RSMo.

Ancillary Participating Provider Agreement. (CHP and Heartland Regional Medical Center d/b/a Heartland Counseling Services)The Company has not filed this agreement with the DIFP for prior approval as required by Section 382.195 RSMo (Prohibited transactions exceptions). The Company is directed to file this agreement and any amendments with the DIFP.

Heartland Health Business Plaza • 137 North Belt • St. Joseph, Missouri 64506 • 816-271-1247 • FAX: 816-271-1248
www.mychp.com

CHP will file the Ancillary Participating Provider Agreement with Heartland Regional Medical Center d/b/a Heartland Counseling Services as required by Section 382.195 RSMo

Community Health Plan requests the above response be included in the final report as part of the public documents.

Sincerely,

Stan Vaughan
Finance Director

CC: Lowell C. Kruse, President and CEO
Linda S. Bahrke, Plan Administrator
R. Michael Cundiff, Compliance Coordinator
Dennis E. Carter, Finance Manager