

RISK POOL PRACTICES AGREEMENT

Now come New Hampshire School Health Care Coalition d/b/a SchoolCare, of 370 Harvey Road, Suite 4, Manchester, NH 03103 ("SchoolCare") and the New Hampshire Secretary of State, by and through the New Hampshire Bureau of Securities Regulations (the "Bureau") and hereby stipulate and agree to the terms stated in this RISK POOL PRACTICES AGREEMENT (the "Agreement"). SchoolCare and the Bureau are collectively referred to herein as the "Parties" and singularly as a "Party." Capitalized terms are defined in Appendix A which is incorporated by reference as though set forth herein.

Recitals

1.0 The following recitals in Section 1 below are a material part of this Agreement and the Parties have relied upon them in entering into this Agreement.

Statutory Framework

1.1. SchoolCare operates a pooled risk management program (the "Pool" or the "pooled risk program") pursuant to RSA ch. 5-B that provides health and wellness benefits to school district and municipal employees.

1.2 The New Hampshire legislature has determined that :

[I]nsurance and risk management [are] essential to the proper functioning of political subdivisions; that risk management can be achieved through purchase of traditional insurance or by participation in pooled risk management programs established for the benefit of political subdivisions; that pooled risk management is an essential governmental function by providing focused public sector loss prevention programs, accrual of interest and dividend earnings which may be returned to the public benefit and establishment of costs predicated solely on the actual experience of political subdivisions within the state; that the resources of political subdivisions are presently burdened by the securing of insurance protection through standard carriers; and that pooled risk management programs which meet the standards established by this chapter should not be subject to insurance regulation and taxation by the state.

RSA 5-B:1. It is the intent of the Parties that the operation of the SchoolCare Pool (and any subsequent pooled risk programs hereafter established by SchoolCare) be consistent with the letter, spirit and intent of RSA ch. 5-B and this Agreement, and that the operation of pooled risk programs by SchoolCare continue to be open, transparent and for the sole and exclusive purpose of supporting the political subdivisions participating in the Pools (the "Members").

1.3 The Bureau has legal authority to enforce New Hampshire law regarding the regulation of the operations of the SchoolCare Pool and to inquire and determine that the Pools are managed in conformity with RSA ch. 5-B. See RSA 5-B:4-a. Included in this regulatory authority is the Bureau's right and responsibility to conduct formal and informal investigations and examinations, the right to issue orders designed to address instances of non-compliance with RSA ch. 5-B and 421-B and the right to initiate enforcement proceedings should a Pool contest

an enforcement action. *Id.* Included in the foregoing is the Bureau's right, authority and power to negotiate informal resolutions with pooled risk programs under its jurisdiction.

1.4 The Bureau first was assigned regulatory responsibility for pooled risk programs on June 29, 2009 and its current regulatory powers did not become effective until June 14, 2010. Prior to June 29, 2009, the Secretary of State only had the authority to collect and maintain financial statements, but not to act upon any irregularity apparent therein.

Relevant Background

1.5 The Bureau commenced an investigation of pooled risk programs operated by the Local Government Center ("LGC") in 2010. The investigation resulted in the release of a report and the issuance of a petition and enforcement order (collectively, the "LGC Enforcement Action"). In the LGC Enforcement Action, the BSR demanded that LGC comply with RSA ch. 5-B by *inter alia*:

- Operating its Pools exclusively through legal entities organized under the laws of New Hampshire, and not under the laws of any other state;
- Ensuring that each New Hampshire entity be governed directly by a board of directors whose members are chosen completely in conformity with the standards set out in RSA 5-B:5,1,b and subject to written bylaws and not other forms of governance documents;
- Returning all earnings and surpluses in excess of amounts required for the proper administration of the Pools, payment of claims, maintenance of reserves, and purchase of excess insurance coverage;
- Discontinuing the practice of subsidizing the operation of pooled risk programs with monies collected through premiums and investments related to other pooled risk programs; and
- Operating its Pools in compliance with the letter, spirit and intent of RSA ch. 5-B.

1.6 In 2010, pursuant to Ch. 149:6, Laws of 2010, the BSR issued a report entitled "Recommendations Concerning the Limitation of Reserves and the Limitation on Administrative Expenses as a Percentage of Claims of Pooled Risk Management Programs" (the "2010 Report"). In the 2010 Report, the BSR stated that "[w]hile ... different risks (property-liability, workers' compensation, health care) require different approaches, this recommendation covers the primary coverage provided for healthcare." 2010 Report, at pp 1-2. The Report recommended that healthcare pooled risk management programs should adopt the "stochastic modeling" approach for calculating appropriate reserves because such approach "should provide a disciplined and unified method of analysis to assure sufficient reserves for any of the Pools while insuring that, as required by RSA 5-B, surplus is returned to member cities and towns." *Id.*, at page 6.

1.7 After the Bureau's investigation of LGC became publicly known, the Bureau received a complaint dated June 1, 2010 that in some respects made similar complaints against New Hampshire's other RSA 5-B entities, namely Primex and SchoolCare (the "Other Pools Complaint"). The LGC, orally and in writing, has subsequently made inquiry about the complaint filed against Primex and SchoolCare and challenged the Bureau's decision to marshal

its limited resources to first complete the enforcement action against the LGC before taking action with regard to allegations contained in the Other Pools Complaint. The LGC has also asserted as a defense to the enforcement action that the Bureau is engaged in selective prosecution against it, a defense that the Bureau denies.

1.8 As part of the enforcement action against the LGC, the Bureau and LGC engaged in settlement discussions. LGC insisted that Primex and SchoolCare participate with regard to industry issues impacting operations of all risk pools established under RSA ch. 5-B. At the invitation of the Bureau, SchoolCare voluntarily agreed to participate in said discussions and later agreed to participate in direct two-party negotiations with the Bureau. SchoolCare, in its communications and actions, has demonstrated an intention to be open and transparent with the Bureau and with its Members, and to promptly and efficiently work toward a mutual agreement regarding best practices for the benefit of its Members. In addition to reaching agreement on best practices, SchoolCare invited the Bureau to conduct an on-site examination of SchoolCare's books, records and procedures and requested that the Other Pools Complaint be appropriately reviewed, addressed and resolved as it pertains to SchoolCare. The Bureau has conducted an on-site examination and this Agreement resolves the Other Pools Complaint with respect to SchoolCare.

1.9 As part of the two-party discussions, SchoolCare invited the Bureau to conduct an on-site examination of its operations and certified to the Bureau the accuracy of the books and records provided to the Bureau for review and the representations made to the Bureau by its officers, counsel and staff as part of the examination. *See* Appendix B. SchoolCare was cooperative, responsive, respectful and open in its dealings with the Bureau. The Bureau is satisfied with the results of the on-site examination.

The SchoolCare Operations

1.10 SchoolCare operates as a New Hampshire nonprofit corporation that was formed on February 28, 1995 pursuant to NH RSA 292. SchoolCare has Articles of Agreement and bylaws that govern its operations that are on file with the Bureau. The initial board of directors of SchoolCare adopted the bylaws in 1995. SchoolCare has never operated, nor attempted to operate, through an entity organized under the laws of another state.

1.11 SchoolCare's bylaws provide for a 10-member Board of Directors. The bylaws establish a Membership Council made up of two representatives from each current Member – a labor representative and a management representative. The Member Council elects eight (8) Directors to the SchoolCare Board, four (4) of whom are representatives of management and four (4) of whom are representatives of labor. Thus, all eight of these directors are elected at large in unweighted voting. The Board itself names two additional board members to make up the full complement of ten (10) directors. SchoolCare believes that its board structure ensures that the Pool is administered in the best interest of both the Member political subdivisions and their respective employees. The governing board of SchoolCare is selected in conformity with RSA 5-B:5,1,b and the board operates with the benefit of clear written policies that prohibit self-dealing, conflicts or other unethical activities and that define financial and other internal controls.

1.12 SchoolCare operates a pooled risk program that offers Members health and wellness benefits similar or equivalent to health and wellness benefits offered by commercial, for-profit health insurance companies and health maintenance organizations. The premiums for the SchoolCare program are paid by political subdivisions (as defined in RSA 5-B:2,III) and by contributions of employees, former employees and retirees of those political subdivisions. SchoolCare also provides risk management, training, Member services and claims management directly associated with health and wellness coverage.

1.13 SchoolCare does not maintain a staff dedicated to lobbying activities, although it occasionally contracts with an outside firm to represent its interests in legislative matters which relate to RSA 5-B or risk pool coverage lines. SchoolCare does not require its Members to belong to or participate in the activities of any other organization or municipal lobbying entity.

1.14 SchoolCare owns the two condominium units from which it conducts its business, comprising a total of approximately 4,800 square feet, located at 370 Harvey Road, Suites 3 and 4, Manchester, New Hampshire 03103. SchoolCare does not own any real estate at any other location (although it does have investments in real estate investment trusts and similar entities).

1.15 SchoolCare does not operate its business through the use of a parent and subsidiary corporate model of organization. SchoolCare is organized as a New Hampshire voluntary corporation and is in good standing under NH RSA ch. 292.

1.16 SchoolCare is a member of the Association of Government Risk Pools ("AGRiP") and has been a member since 2007. AGRiP was organized in late 1998 as a membership organization for public entity risk and benefits pools in North America. It is a successor to the pooling section that operated for nearly 20 years under the auspices of the Public Risk Management Association. SchoolCare has received "Best Practices" certification from AGRiP for the years 2010 through 2013. Since 2010, SchoolCare's current Executive Director, Lisa Duquette, has been a member of the AGRiP Membership Practices Committee and serves as an evaluator for AGRiP's certification of other pooled risk programs.

1.17 On January 27, 2011, in response to the 2010 Report, the SchoolCare Board of Directors instructed its actuary to use the stochastic modeling approach to determine its recommended level of reserves and has used the stochastic modeling approach ever since. The BSR commends SchoolCare on its adoption of the recommendations made by the Bureau in the 2010 Report.

Provisions of the Agreement

2.0 Based upon the foregoing recitals, the Parties agree to the following terms and conditions applicable to the operation of the SchoolCare Pool (and any subsequent pooled risk programs established by SchoolCare hereafter) as of the Effective Date of this Agreement.

Board Governance

2.1 SchoolCare, in the event it offers any other risk pool programs in the future the premiums for which are not paid, in whole or in part, by employees, former employees or retirees (e.g, property and casualty, worker's compensation and the like) shall create and maintain for such coverages a separate and distinct New Hampshire risk pool entity governed by an independent

board. The governing board(s) of any such separate pool(s) shall be composed of directors selected in conformity with RSA 5-B:5,1,b. In the event SchoolCare offers additional employee benefit coverages in the future (e.g., life, disability, etc.) such programs may be operated under the existing Pool with a single governing board. SchoolCare has not, and shall not in the future, offer lines of coverage not specifically approved by statute. *See* RSA 5-B:3,III.

2.2 All SchoolCare governing boards in existence or created during the Term of this Agreement shall comply with the following terms, in addition to the express terms of RSA ch. 5-B and in addition to the terms stated in the preceding section:

2.2.1 No board shall exceed eleven (11) members nor have fewer than five (5) members. Each board shall include at least one (1) board member elected on an unweighted basis by the participating Members. The Bureau acknowledges that the provisions of SchoolCare's current bylaws pertaining to the board of directors meet these requirements.

2.2.2 Each SchoolCare board shall adopt and operate pursuant to written bylaws and written policies that address financial and internal controls, prohibit conflicts of interest and self-dealing, and address business ethics. The written policies shall generally conform with best practices in the industry described in the publications of AGRiP or similar organizations and shall be submitted to the Bureau for approval prior to their adoption. The Bureau acknowledges that SchoolCare's current bylaws and written policies meet these standards. Further, said written policies shall expressly recognize as a disqualifying conflict of interest any board member's use of or participation in any employment search conducted by SchoolCare on behalf of a political subdivision that is then a Member in a SchoolCare Pool during a period of time that extends from three years before to three years after the contemplated board service. *See* RSA 7:19-a. There is no evidence that SchoolCare has ever engaged in this practice and SchoolCare agrees not to engage in this practice in the future.

2.2.3 By written policy and supported by appropriate training and budgeting, SchoolCare shall continue to provide its board(s) with direct access to consultants and lawyers independent from consultants and legal counsel retained for SchoolCare by its management. Said retention of independent consultants and lawyers shall be for the purpose of allowing board members to obtain second opinions and different perspectives on important business, financial, actuarial, and legal issues apart from those opinions and perspectives that may be proposed and supported by management. SchoolCare currently operates in this manner in that its board members can have access to outside expertise as the board deems necessary. SchoolCare will memorialize these requirements in the form of a written policy and through adoption of a specific budget line item to provide funds for board retention of consultants and lawyers.

2.3 SchoolCare agrees that its most senior executive officer, generally referred to as the Executive Director, shall be selected or confirmed by the board(s) and that only persons experienced in the operations of risk pools or insurance companies shall be eligible for appointment or retention as Executive Director. The Bureau acknowledges that SchoolCare's present Executive Director meets these requirements.

Surplus and Reserves

3.0 SchoolCare acknowledges that RSA 5-B:5,1(c) requires pools to annually return surplus funds, in excess of any amounts required for administration, claims, reserves and purchase of excess insurance, to its Members. SchoolCare believes that it has complied with RSA 5-B:5,1(c) by establishing a separate, identifiable fund for purposes of returning this surplus to its Members in the form of "rate stabilization."

3.1 The term "rate stabilization" refers to a process by which SchoolCare utilizes surplus from the previous year to reduce the Members' premium rates for future years. SchoolCare's Board has addressed the issue of rate stabilization at its regular board meetings, which are open to the public, and since the adoption of NH RSA 5-B:5, 1(g) in 2010 SchoolCare has held two (2) public hearings per year at which the rate stabilization procedures were reviewed. During its on-site examination, the Bureau noted SchoolCare's documentation of its rate stabilization procedures and its designation of Surplus for this purpose. However, the Bureau, as a policy matter, does not agree that the use of rate stabilization, as described herein, is compliant with RSA ch. 5-B's surplus return requirement. While SchoolCare is concerned about the administrative burden that a Premium Holiday may impose on its Members SchoolCare agrees to implement the method of Surplus return required by the Bureau (the so-called Premium Holiday method) as soon as it is practical to do so, except in those cases where binding agreements presently limit SchoolCare's ability to do so. See § 3.4.3 below.

3.2 On an annual basis, by specific and express board resolution, with the assistance of actuaries and other consultants and in the exercise of sound business judgment, SchoolCare shall adopt a means of calculating a Contingent Reserves target, which SchoolCare refers to as its "medical risk corridor," based on stochastic modeling with a 95% confidence level. Additional margins shall not be added to the modeling. Said resolution shall expressly provide that funds held by SchoolCare in any form, including in investments and cash, in excess of Loss Reserves and Contingent Reserves shall be considered Surplus. All such Surplus shall be returned to Members annually. SchoolCare agrees that it may not deviate from the above stated method for calculating Contingent Reserve targets without the adoption of a board resolution at least thirty (30) days prior to the deviation, and said resolution shall expressly state each and every reason, including but not limited to an actuarial analysis, in support of the deviation. SchoolCare acknowledges that it does not have a present reason for deviating from the Contingent Reserve target and is unlikely to have sufficient reason to deviate from the Contingent Reserve target for the two years following the effective date of this Agreement. SchoolCare also recognizes that a change in the means by which Loss Reserves or Contingent Reserves are calculated may cause a resultant change in Surplus and Member premiums, and these changes may impact upon the operations of the Members. The board resolution in support of the deviation from the established target for Contingent Reserves shall be distributed to each and every Member and to the Bureau by electronic or regular mail and shall be posted for public review on the SchoolCare web site upon adoption.

3.3 The Parties acknowledge that the size of a risk pool informs the amount of capital a pool must keep as a hedge against unexpected losses, with the need for capital being inversely related to the size of the pool. The SchoolCare "Net Assets Policy" is appended hereto as Appendix C.

The Parties acknowledge that SchoolCare's Net Assets Policy may change with changes in the size of SchoolCare .

3.4 The Parties agree that the adoption of the above-referenced Loss Reserves calculation and Contingent Reserves target will at present result in SchoolCare having Surplus in the approximate amount of \$22 million on annual premium revenues of approximately \$116 million. Of this Surplus, SchoolCare has contractually committed to the use of up to \$5.2 million for rate stabilization for existing Members for the 2012 plan year and \$8.3 million for rate stabilization for existing Members during the 2013 plan year. SchoolCare agrees not to further commit these rate stabilization funds for rates quoted to new Members. Further, any of the contractually committed funds for existing Members not used for the stated purpose during the 2012 and 2013 plan years as well as any other Surplus available as a result of operations shall be returned to Members in Phase III of the surplus return described below. Subtracting these funds, SchoolCare agrees it has approximately \$8.5 million available for return to Members as Surplus during Phase I and II described below.

3.4.1 Phase I: SchoolCare shall return approximately \$4.25 million to its eligible Members as soon as practicable, but not later than December 31, 2012. SchoolCare agrees that Members who participated in the Pool as of June 29, 2009 and who are Members of SchoolCare as of the time the Surplus is distributed shall be eligible to receive this return of Surplus. SchoolCare may consider the nature of its current investment holdings, the timing of its plan and underwriting years and when premiums are received in determining when to complete the Phase I return of Surplus.

3.4.2 Phase II: SchoolCare shall return approximately \$4.25 million to its eligible Members as soon as practicable, but not later than December 31, 2013. SchoolCare agrees that Members who participated in the Pool as of June 29, 2009 and who are Members of SchoolCare as of the time the Surplus is distributed shall be eligible to receive this return of Surplus. SchoolCare may consider the nature of its current investment holdings, the timing of its plan and underwriting years and when premiums are received in determining when to complete the Phase II return of Surplus.

3.4.3 Phase III: SchoolCare shall return all funds currently committed to be used for rate stabilization purposes during plan years 2012 and 2013 that are not ultimately used for that purpose in Phase III as well as any other Surplus resulting from operations. Surplus returned during Phase III shall be returned to eligible Members as soon as practicable, but not later than December 31, 2014. SchoolCare agrees that Members who participated in the Pool as of June 29, 2009 and who are Members of SchoolCare as of the time the Surplus is distributed shall be eligible to receive this return of Surplus. SchoolCare may consider the nature of its current investment holdings, the timing of its plan and underwriting years and when premiums are received in determining when to complete the Phase III return of Surplus. SchoolCare shall fully report to the Bureau about its use of the rate stabilization funds on an annual basis until they are completely depleted or are distributed as Surplus.

3.5 All returns of Surplus shall be in the form of Premium Holidays in which SchoolCare will forego, in whole or in part, premium payments from Members. Surplus shall not be returned through the use of Crediting Rates. Each Member shall be advised electronically or in writing of

the amount of Surplus available for return, how much the Member is entitled to receive in return of the Surplus, the amount of the Member's Premium Holiday, and when the Member will receive its Premium Holiday.

Annual Returns of Surplus

4.0 Annual returns of Surplus shall also be made by means of Premium Holidays. Annual returns of Surplus shall be determined by SchoolCare for the immediately concluded plan year based on its audited financial statements. Each Member shall be advised electronically or in writing of the amount of Surplus, if any, how much the Member is entitled to receive in return of the Surplus, the amount of the Member's Premium Holiday and when that Member will receive its Premium Holiday as re-payment of Surplus to the Member. SchoolCare shall advise the Bureau in writing of the amounts and timing of annual returns of Surplus no later than 90 days after SchoolCare receives its completed audited financial statement. Surpluses shall not be returned through the use of Crediting Rates.

Investments

5.0 SchoolCare has been transparent with its Members with respect to its investment policy. Nevertheless, with the exception of those investments specifically described in Section 5.1, no later than 24 months after the Effective Date, SchoolCare shall cause all of its investments to be compliant with the requirements imposed upon municipalities pursuant to RSA 35:9, allowing for exceptions for investments in inter-pool loans (if SchoolCare shall ever create other independent pools) and other non-compliant investments which together shall not exceed eight (8) percent of the entire SchoolCare investment portfolio (which, for the purposes of this Section 5, shall include cash and cash equivalents). The allowance for eight (8) percent non-compliant investments shall increase to ten (10) percent non-compliant investments upon SchoolCare's liquidation of its REITs as referenced in the following section.

5.1 SchoolCare's current investment portfolio includes positions in certain illiquid real estate investment trusts ("REITs") with an approximate current value of \$5,302,000. If SchoolCare were required to divest its portfolio of these REIT investments prior to their contractual maturity, SchoolCare would incur substantial penalties of approximately \$2,600,000. In recognition of these facts, the Bureau consents to SchoolCare temporarily retaining these investments on the following conditions and to excluding the non-compliant REITs from the preceding section of this Agreement: (a) SchoolCare shall liquidate the REIT investments as soon as it is practicable to do so without incurring penalties or breakage fees; (b) SchoolCare shall limit its investment in these REITs by requiring any dividends paid by the REIT investments be paid to SchoolCare in cash and not reinvested in the REIT; (c) the SchoolCare REITs shall not be considered as part of the allowable percentage of non-compliant investments and (d) SchoolCare shall provide the Bureau with annual updates on the status of the REIT investments and with more frequent updates should unexpected events occur with respect to the REIT investments.

5.2 The ownership of real estate from which SchoolCare operates its business shall not be considered an investment. The ownership shall be considered a capital asset. Subject to the provisions of Section 5.1, SchoolCare agrees that it shall not in the future purchase or own real

estate, or an interest in real estate, as an investment due to its illiquid nature. Investments in REITs or similar products are considered investments in real estate.

5.3 Subject to the provisions of Section 5.1, SchoolCare's investment portfolio may vary from RSA 35:9 investments to an amount not to exceed eight (8) or ten percent (10%) of its overall portfolio value as described in Section 5.0, provided such non-compliant investments are specifically approved for investment by a non-life insurer pursuant to RSA 402:28, I, with the exception of 402:28,I,o.

5.4 SchoolCare's current investment portfolio includes certain structured investments other than REITs that do not comply with the preceding section and SchoolCare agrees to liquidate these structured investments. The Bureau has been advised that the liquidation of SchoolCare's structured, non-REIT investments will not result in substantial penalties or breakage fees.

5.5 SchoolCare shall annually file its formal investment policy statement adopted by its board with the Bureau and shall publish its investment policy statement on its web site. The current investment policy statement shall be modified to reflect the terms of this Agreement.

General Terms and Conditions

6.0 This Agreement is intended by the Parties to be a binding contract fully enforceable in a court of law or through an administrative enforcement action as of the time of its execution.

6.1 This Agreement shall be governed by the laws of the state of New Hampshire without reference to its conflicts of laws principles.

6.2 The Effective Date for this Agreement is April 25, 2012. Modification of this Agreement may occur only as a result of a written agreement executed by the Parties. To the extent either Party encounters unanticipated hardship as a result of any provision of this Agreement, the Parties agree to negotiate proposed ameliorative modifications in good faith.

6.3 The Term of this Agreement is five years from the Effective Date. SchoolCare shall have a reasonable period of time to implement any policy or procedural changes required by this Agreement and shall begin working on same forthwith.

6.4 In negotiating and agreeing to be bound by the terms of this Agreement, each Party has relied upon the representations and warranties, all of which are set forth herein, made to it by the other Party, its officers, directors, legal counsel, and agents.

6.5 The provisions set forth in this Agreement constitute the Parties' entire Agreement, and supersede all prior agreements, discussions, negotiations and understandings, written or oral.

6.6 This Agreement is not intended to constitute an admission of any fact or circumstance not expressly stated herein. The Agreement is not evidence of wrongdoing or misconduct. SchoolCare expressly denies any misconduct and has voluntarily entered into this Agreement to promote transparency and cooperation with the regulatory authority and to reach agreement on certain important best practices for risk pools. SchoolCare, its employees, officers, and agents

have not been coerced or threatened to induce their execution of this Agreement. No promises have been made by the Bureau to SchoolCare except those expressed herein.

6.7 This Agreement was jointly negotiated by the Parties and is not to be strictly construed for or against any party. Headings are merely for convenience and not a part of this Agreement. Appendices A, B, and C are a part of this Agreement and are incorporated by reference.

6.8 In addition to the terms of this Agreement, SchoolCare agrees to obey all laws pertaining to the operation of its Pool. These laws include, but are not limited to, RSA 5-B, 15:5, 35:9, and 421-B:26-a.

6.9 In light of SchoolCare's cooperation and transparency, the results of the Bureau's on-site examination of SchoolCare, SchoolCare's history and organizational structure, and this best practices agreement, the Bureau agrees that no sanctions, fines or fees are assessed. Costs in the amount of \$10,000.00 are assessed against SchoolCare for the voluntary on-site examination but are suspended pending SchoolCare's compliance with the terms of this Agreement.

6.10 As this is a voluntary agreement, an enforcement action was not begun against SchoolCare pursuant to RSA 5-B:4-a. Nonetheless, SchoolCare, by entering into this Agreement voluntarily waives its rights to an administrative proceeding based on, related to or arising out of the facts described in the Recitals to this Agreement, or as alleged, described or questioned in the Other Pools Complaint and any appeal therefrom.

6.11 The Bureau forever releases, discharges and waives any enforcement, legal or regulatory action or remedy based on, related to, or arising out of the conduct of SchoolCare (including its directors, officers, employees and agents) expressly described in the Recitals to this Agreement, or as alleged, described or questioned in the Other Pools Complaint, on and after June 29, 2009 through and including the Effective Date of this Agreement.

6.12 SchoolCare and the Bureau agree not to take any action or make any public statement, including statements made in regulatory filings, that are inconsistent with the recitals, terms or conditions of this agreement.

6.13 In signing this Agreement, SchoolCare's representative warrants that she has the authorization of the SchoolCare Board of Directors and the Bureau's representative warrants that he has the authorization of the New Hampshire Secretary of State.

THE PARTIES EXECUTE THIS AGREEMENT AFTER FULL OPPORTUNITY TO CONSULT WITH COUNSEL AND AGREE TO BE FULLY BOUND BY ITS TERMS AND CONDITIONS

New Hampshire School Health Care Coalition ("SchoolCare")

By:  Date: 4/25/12
Lisa J. Duquette, Executive Director, Duly Authorized

New Hampshire Secretary of State

By: 
William M. Gardner, Secretary of State

Date: 4/25/2012

APPENDIX A TO
RISK POOL PRACTICES AGREEMENT

Definitions

The underlined terms used herein shall have the meanings indicated.

Agreement means the Risk Pool Practices Agreement executed between the Parties on or about April 25, 2012.

AGRiP means the membership organization formed in late 1998 for public entity risk and benefits pools in North America. It is a successor to the pooling section that operated for nearly 20 years under the auspices of the Public Risk Management Association.

Bureau means the New Hampshire Bureau of Securities Regulation of the office of the New Hampshire Secretary of State.

Confidence Levels are the mathematically determined factors or range of factors used to determine Contingent Reserves.

Contingent Reserves means funds reserved for all business risks not included in Loss Reserves, including but not limited to excess claim losses, underwriting risk, premium risk, catastrophic claim losses, adverse market developments, uncollectible ceded reinsurance, capital asset losses and capital investment losses.

Crediting Rates means utilizing Surplus to reduce rating factors or variables in the rating model.

Effective Date means the date upon which the latter of the Parties executes the Agreement.

Loss Reserves means the sum of funds (i) reserved for claims reported but not fully settled ("Case Reserves") including loss adjustment expenses related to such claims, (ii) reserved for incurred but not reported claims ("IBNR") including (x) estimates of future loss adjustment expenses (excluding paid ULAE) relating to such claims and (y) reserves for adverse development on known claims. Loss adjustment expenses include allocated and unallocated loss adjustment expenses. Loss Reserves do not include claims which have been settled but not paid as of the financial statement date and which are recorded as "Claims Payable" or equivalent balance sheet liability nor do Loss Reserves include any company expenses not related to claims and generally referred to as "Underwriting Expenses."

Members means those political subdivisions (as defined by RSA 5-B:2, III) who have signed participation agreements or who are otherwise contractually permitted to participate in the SchoolCare Pool.

Party means the Bureau or SchoolCare.

Parties means the Bureau and SchoolCare

Pools or Pooled Risk Programs means programs of self-insurance or through which insurance is purchased for political subdivisions of the State of New Hampshire pursuant to RSA 5-B.

SchoolCare means the New Hampshire School Health Care Coalition, a New Hampshire voluntary corporation with offices located at 370 Harvey Road, Suite 4, Manchester, NH 03103.

Premium Holiday means utilizing Surplus to reduce a Member's calculated and invoiced coverage premium.

Surplus means funds held in excess of the sum of Loss Reserves and Contingent Reserves.

Term means the term of this Agreement which is for a period of five (5) years beginning on the Effective Date.

SchoolCare HEALTH BENEFIT PLANS

of the NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION

April 10, 2012

The State of New Hampshire
Department of State
Bureau of Securities Regulation (BSR)
Attention: Kevin Bannon
107 North Main Street Room 204
Concord, NH 03301-4989

Dear Mr. Bannon:

This letter is in connection with your examination of NH School Health Care Coalition (dba "SchoolCare") and its affiliated entities we understand your examination included reviews of financial statements, supporting documentation and transactions from FY 2007 to FY 2011 (the "financial statements") as well as other specific scope items.

We understand that during your examinations you had discussions with the Executive Director and Program Manager received copies of documentation from them as a result of these discussions. We also understand that you did not perform an examination of SchoolCare internal controls and will not be issuing an opinion on any financial statements.

We confirm, to the best of our knowledge and belief, the following representations made to you during your examination, that these representations are accurate as of the date of your last fieldwork date April 10, 2012, and pertain to the period covered by our audited financial statements for FY 2007 through FY 2011.

1. We have made available to you all of the following, relative to your questions asked:
 - a. Financial statements, records and related data;
 - b. Where applicable, minutes of all Board of Director and Board Committees meetings from FY 2007 to the current meetings in FY 2012
2. We are responsible for the fair and proper presentation of the financial information in financial reports submitted to you.
3. The financial statements given to you are fairly presented in conformity with generally accepted accounting principles.
4. The accounting records underlying our financial statements accurately and fairly reflect, in reasonable detail, the transactions of our business.
5. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements
6. SchoolCare has satisfactory title to all owned assets reported in the financial statements, except for the land and building, cash and some investments which are security for a note payable to a bank; and restricted cash to comply with the requirements of a reinsurance agreement, as per

COALITION
FOUNDERS

New Hampshire
Education
Association
New Hampshire

New Hampshire
School Boards
Association

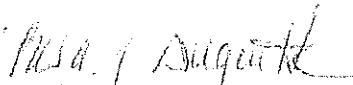
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Administrators
Association

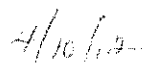
New Hampshire
Association of
School Business
Officials

New Hampshire
School Boards
Insurance Trust

footnote disclosure in the audited financial statements. Such assets have no liens or encumbrances, nor have any assets been pledged.

7. We have no plans or intentions that materially affect the carrying value or classification of assets and liabilities.
8. Guarantees under which SchoolCare has material contingent liabilities have been properly reported or disclosed.
9. Provisions, where material, have been made to reduce asset values to their estimated net realizable value.
10. Related party transactions between entities, management and Board members and their related accounts receivable or payable, including distribution, contributions, transfers, assessments, loans, and guarantees, have been properly recorded and disclosed.
11. People identified as having authority to approve expenditures identified in our examination, at the gross amounts identified in the transactions, have in fact that authority.
12. There are no
 - a. Possible violations of laws or regulations whose effects should be considered for disclosure, which have not been disclosed, in the financial statements or to the BSR, as a basis for recording a loss contingency;
 - b. Material liabilities or gain or loss contingencies that are required to be accrued or disclosed beyond those contained in the financial statements; or
 - c. Unasserted claims or assessments that are probable of assertion and that must be disclosed.
13. We have complied with all respects of contractual agreements that would have material effect on the financial statements in the event of noncompliance.
14. No material events or transactions have occurred subsequent to June 30, 2011 that have not been properly recorded in the financial statements or disclosed in the notes.
15. We have made all material, recommended auditor adjustments to the financial statements.
16. There has been no material fraud involving
 - a. Management or employees;
 - b. Others that could have a material effect on the financial statements.
17. We are responsible for establishing and maintaining internal control.


Lisa J. Duquette, Executive Director


Date



V. – D. Net Assets

The funding of the Coalition is obviously of vital concern to the Members, not only from the perspective of the overall financial well-being of the entire group, but also the individual member's costs. Funding determination is also a critical part of the decision-making process when a potential member is considering joining a pool. The size of a risk pool informs the amount of net assets that must be retained as a hedge against unexpected losses, with the need being inversely related to the size of the pool. The net assets are one indicator of the financial strength of the Coalition.

The net assets are any excess of assets over liabilities for current expenses and Loss Reserves. Loss reserves are the sum of liabilities reserved for claims reported but not fully settled ("Case Reserves") including loss adjustment expenses related to such claims and reserved for incurred but not reported claims ("IBNR").

The Board must maintain a designated portion of the net assets as "restricted" for Medical Risk Corridor, also referred to as "Contingent Reserves". Net assets Designated for Medical Risk Corridor is a reserve for all business risks not included in Loss Reserves, including but not limited to excess claim losses, underwriting risk, premium risk, catastrophic claim losses, adverse market developments, uncollectible ceded reinsurance, capital asset losses and capital investment losses. The Medical Risk Corridor shall be calculated based on stochastic modeling with a 95% confidence level. Any net assets in excess of Designated for Medical Risk Corridor shall be considered Surplus.

There shall be no distribution of Surplus in the form of dividends to members. In addition, the Coalition's historical practice of returning Surplus through rate stabilization (reducing Members' premium rates for future years) shall be discontinued except as binding contractual agreements limit doing so. Surplus shall be returned to Members annually in the form of Premium Holidays. Premium Holidays means utilizing Surplus to reduce a Member's calculated and invoiced coverage premium. Members of the Coalition at the time the Premium Holiday is distributed shall be eligible to receive the return of Surplus. If and when the Coalition is dissolved, surplus assets shall be available for distribution to then current Members, but are restricted by the Coalition's Articles of Agreement to offsetting future employee benefit costs.

7/22/08
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