

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

IN THE MATTER OF:)
)
Health Resources, Inc.)
5010 Carriage Drive)
Evansville, IN 47715)

Examination of: **Health Resources, 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 Health Resources, Inc., any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on June 11, 2018, 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 Health Resources, 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.

June 20, 2018 _____
Date
Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 9933

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

IN THE MATTER OF:)
)
Health Resources, Inc.)
5010 Carriage Drive)
Evansville, IN 47715)

Examination of: **Health Resources, Inc.**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Health Resources, Inc. (hereinafter “Company”) for the time period January 1, 2014 through December 31, 2016.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on March 21, 2018.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on June 11, 2018 and was received by the Company on June 13, 2018.

The Company did not file any objections.


NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Health Resources, Inc. as of December 31, 2016.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the Health Resources, Inc. to comply with the 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, 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. 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 this 20 day of
June, 2018.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
HEALTH RESOURCES, INC.
NAIC Co. CODE 96687

As of
December 31, 2016

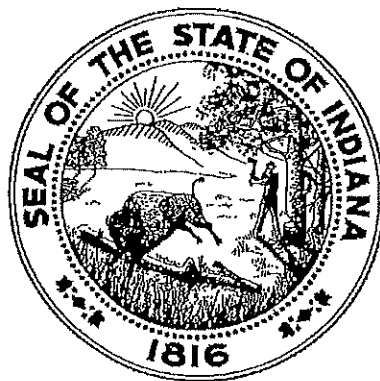


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STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Stephen W. Robertson, Commissioner
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: 317-232-2385
Fax: 317-232-5251
Website: in.gov/doi

March 21, 2018

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 3949, an examination has been made of the affairs and financial condition of:

**Health Resources, Inc.
5010 Carriage Drive
Evansville, Indiana 47715**

hereinafter referred to as the "Company", or "HRI", an Indiana domestic stock, limited service health maintenance organization. The examination was conducted at the offices of Noble Consulting Services, Inc., in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2016, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
317-232-2413

COMPANY COMPLIANCE
317-232-3495

CONSUMER SERVICES
317-232-2395/1-800-622-4461

FINANCIAL SERVICES
317-232-2390

MEDICAL MALPRACTICE
317-232-2402

COMPANY RECORDS
317-232-5692

STATE HEALTH INSURANCE PROGRAM
1-800-452-4800

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI), and covered the period from January 1, 2011 through December 31, 2013. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2014 through December 31, 2016, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted 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, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

Merlinos & Associates, Inc. staff provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2016.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as in the Indiana Code (IC) 27-1-3.1-10 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and/or the Company.

HISTORY

The Company was organized in 1986 and was owned and managed by dentists. HRI is a for-profit limited service health maintenance organization (HMO) domiciled in Indiana.

On December 3, 2015, the INDOI received notice of the closing of the acquisition of the Company. At the conclusion of the acquisition, HKW Capital Partners IV, L.P. and HKW Capital Partners IV-A, L.P. became the ultimate controlling person. HRI became a wholly owned subsidiary of HRI Intermediate Holdings, Inc. Prior to the merger, the Company was owned by various dentist and dental practices in which no single person or entity owned more than 5% of the outstanding voting stock.

Subsequent to the examination period the Company was acquired by ProMedica, a health system in Ohio. See the Subsequent Events Section of this Report of Examination.

CAPITAL AND SURPLUS

The Company has 100,000 shares of no par value common stock authorized. There are 32,850 shares issued and outstanding.

DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends to stockholders during the examination period:

<u>Year</u>	<u>Total</u>	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2016	\$ 1,500,000	\$ *750,000	\$ *750,000
2015	10,460,000	460,000	10,000,000
2014	171,506	171,506	-
Total	<u>\$ 12,131,506</u>	<u>\$ 1,381,506</u>	<u>\$ 10,750,000</u>

In accordance with IC 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of 10% of the prior year's surplus or the net income of such insurer of the prior year. The Company paid three (3) extraordinary dividends during the examination period with the prior approval of the INDOI. Other dividends paid during the examination period were ordinary in nature and did not require prior regulatory approval. In accordance with IC 27-1-23-1.5, the Company notified the INDOI of all declared dividends to the stockholders during the examination period.

*Note 13 of the Annual Statement is incorrect. 1. An ordinary dividend paid on June 29, 2016 is missing from Note 13 of the Annual Statement. 2. An extra-ordinary dividend paid on September 30, 2016 is stated as ordinary dividend in Note 13 of the Annual Statement. See the Other Significant Issues section of the Report of Examination.

TERRITORY AND PLAN OF OPERATION

The Company is a limited service HMO providing prepaid dental insurance as a fee for service to small employer groups in Indiana and Kentucky. Dental premiums represent ninety-nine percent (99%) of premiums and administrative services only business represents the remaining one percent (1%). As of December 31, 2016, the Company provides dental benefits to 216,801 members throughout Indiana and Kentucky out of which 90% of membership is fully insured.

GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Total Revenues</u>	<u>Net Income</u>
2016	\$ 19,398,963	\$ 3,926,482	\$ 15,472,481	\$ 60,018,265	\$ 4,183,728
2015	17,316,785	4,738,948	12,577,837	58,787,788	3,096,442
2014	22,746,376	3,712,174	19,034,202	59,192,658	2,873,741

The financial results of the Company have primarily been driven by results of operations during the exam period. The decrease in capital and surplus in 2015 was the result of the \$10 million dividend which was partially offset by positive net income of \$3 million.

Total revenues and net income were positively affected by an increase in membership of 2,526 during 2016.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board) consisting of no less than five (5) and no more than nine (9) directors. At least one (1) of the directors must be a resident of Indiana. The shareholders, at each annual meeting, elect the members of the Board.

The following is a listing of persons serving as directors as of December 31, 2016, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Terry L. Bawel Evansville, Indiana	President and Chief Executive Officer Health Resources Services, Inc.
Dennis W. Casey Fishers, Indiana	President and Chief Executive Officer Sunnyslope Consulting, LLC
Christopher M. Bline Indianapolis, Indiana	Private Equity Vice President Hammond, Kennedy, Whitney, & Company, Inc.
Ted H. Kramer Indianapolis, Indiana	Private Equity President Hammond, Kennedy, Whitney, & Company, Inc.
Allan L. Reid Henderson, Kentucky	Oral Surgeon Reid Oral Surgery
Jeffrey G. Wood Indianapolis, Indiana	Chief Executive Officer Hammond, Kennedy, Whitney, & Company, Inc.

Officers

The Bylaws state that the elected officers of the Company shall consist of a President, a Treasurer, a Secretary, and such other officers as may be chosen by the Board. The President may appoint one (1) or more officers or assistant officers until next annual Board meeting. Any two (2) or more offices may be held by the same person, except the office of President and Secretary.

The following is a list of key officers and their respective titles as of December 31, 2016:

<u>Name</u>	<u>Office</u>
Jeffery G. Wood	Chairman
Terry L. Bawel	President and Chief Executive Officer
Allan L. Reid	Secretary
Cynthia M. Watson	Treasurer

CONFLICT OF INTEREST

The Company appears to be in compliance with the conflict of interest requirements outlined in the policies and procedures of the Company Employee Manual and Code of Conduct.

CORPORATE RECORDS

Articles of Incorporation

As of December 3, 2015, the Company filed for restatement of Articles of Incorporation which was approved on December 11, 2015. The new amendments restate the Company's name, address of their office, and number of shares authorized to issue.

Bylaws

The Bylaws were amended December 3, 2015 for similar reasons as noted above.

Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date.

The Board committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Finance Committee, and Personnel and Compensation Committee.

AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the Company's parent and subsidiaries as of December 31, 2016:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
HKW Capital Partners IV, L.P. and HKW Capital Partners IV-A, L.P. (94.46% owned) Institutional investors (5.54% owned)		DE
HRI Holdings Corporation		IN
HRI Intermediate Holdings Corporation		IN
Health Resources, Inc.	96687	IN
Health Resources Services, Inc. (HRSI)		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 Services Agreement

Effective January 1, 2016, the Company entered into a Management Services Agreement with HRSI. HRSI provides employees and benefits administration to the Company. The contract was filed and approved by the INDOI on January 5, 2016. The Company made payments of approximately \$2,223,000 during 2016.

Consolidated Tax Allocation Agreement

Effective December 3, 2015, the Company entered into a Consolidated Tax Allocation Agreement with HRI Holdings Corporation, along with HRI Intermediate Holdings Corporation, and HRSI. HRI Holdings Corporation will file consolidated tax returns on behalf of the group. The agreement was approved by the INDOI on January 5, 2016.

Capital Maintenance Agreement

Effective November 24, 2015, HKW Capital Partners IV, LP and HKW Capital Partners IV-A, LP agreed to ensure that HRI's total adjusted capital will be maintained in an amount no less than 300% of HRI's authorized control level risk based capital as defined in IC 27-1-36-4. There were no payments made under this agreement during the examination period.

Pledge of Company Stock

Effective December 3, 2015, HRI Holdings Corporation pledged all of the common stock of HRI Intermediate Holdings Corporation to Madison Capital Funding, LLC in connection with a loan made by Madison Capital Funding, LLC. Further, HRI Intermediate Holdings Corporation pledged all of the common stock of Health Resources Services, Inc. and the Company in connection with the same loan.

FIDELITY COVERAGE AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through fidelity coverage issued by Federal Insurance Company. The coverage has a single loss coverage limit of \$1,000,000 per claim, with a \$25,000 retention. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2016, including but not limited to business automobile, business declaration, crime coverage, directors and officers liability, employment practices liability, entity liability, executive liability, fiduciary liability, and outside directorship liability.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company, through a management agreement with HRSI contributes a match to an employee Simple IRA plan covering employees who meet the eligibility requirements. HRSI matches employee deferrals up to 3% of eligible compensation. Contributions were \$51,906 for the year ended December 31, 2016.

SPECIAL AND STATUTORY DEPOSITS

The Company reported the following special and statutory deposits as of December 31, 2016:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Deposits For the Benefit of All Policyholders:		
Indiana	\$ 50,000	\$ 50,000
Kentucky	50,000	50,000
Total Deposits	<u>\$ 100,000</u>	<u>\$ 100,000</u>

REINSURANCE

The Company has no reinsurance.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2015 and December 31, 2016, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2015 through December 31, 2016, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

HEALTH RESOURCES, INC.
Assets
As of December 31, 2016

	Per Examination*
Bonds	\$ 2,790,770
Real estate:	
Properties occupied by the Company	1,255,671
Cash, cash equivalents and short-term investments	14,692,945
Subtotals, cash and invested assets	18,739,386
Investment income due and accrued	10,352
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	426,546
Electronic data processing equipment and software	115,119
Health care and other amounts receivable	104,759
Aggregate write-ins for other-than-invested assets	2,801
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	19,398,963
Total	\$ 19,398,963

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

HEALTH RESOURCES, INC.
Liabilities, Surplus and Other Funds
As of December 31, 2016

	Per Examination*
Claims unpaid	\$ 1,455,506
Unpaid claims adjustment expenses	51,691
Premiums received in advance	469,354
General expenses due or accrued	1,096,584
Current federal and foreign income tax payable and interest thereon	605,753
Net deferred tax liability	92,428
Aggregate write-ins for other liabilities	155,166
Total liabilities	3,926,482
Common capital stock	546,833
Gross paid in and contributed surplus	969,727
Unassigned funds (surplus)	13,955,921
Total capital and surplus	15,472,481
Total liabilities, capital and surplus	\$ 19,398,963

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

HEALTH RESOURCES, INC.
Statement of Revenue and Expenses
For the Year Ended December 31, 2016

	Per Examination*
Member Months	2,600,278
Net premium income	\$ 60,018,265
Total revenues	60,018,265
Hospital and Medical:	
Hospital/medical benefits	44,584,231
Subtotal	44,584,231
Less:	
Total hospital and medical	44,584,231
Claims adjustment expenses	484,855
General administrative expenses	8,638,391
Total underwriting deductions	53,707,477
Net underwriting gain or (loss)	6,310,788
Net investment income earned	95,021
Net realized capital gains (losses) less capital gains tax	729
Net investment gains (losses)	95,750
Aggregate write-ins for other income or expenses	138,744
Net income or (loss) after capital gains tax and before all other federal income taxes	6,545,282
Federal and foreign income taxes incurred	2,361,554
Net income	\$ 4,183,728

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

HEALTH RESOURCES, INC.
Capital and Surplus Account Reconciliation

	2016	2015	2014
Surplus as regards policyholders, December 31 prior year	\$ 12,577,837	\$ 19,034,202	\$ 16,069,740
Net income	4,183,728	3,096,442	2,873,741
Change in net deferred income tax	8,259	(85,054)	(27,808)
Change in nonadmitted assets	202,658	22,520	290,035
Surplus Adjustments - Paid in	-	969,727	-
Dividends to stockholders	(1,500,000)	(10,460,000)	(171,506)
Aggregate write-ins for gains and losses in surplus	(1)	-	-
Change in surplus as regards policyholders for the year	<u>2,894,644</u>	<u>(6,456,365)</u>	<u>2,964,462</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 15,472,481</u>	<u>\$ 12,577,837</u>	<u>\$ 19,034,202</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2016, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

The presentation of dividends in Note 13 in the 2016 Annual Statement was incorrect. 1. An ordinary dividend paid on June 29, 2016 is missing from Note 13 of the Annual Statement. 2. An extraordinary dividend paid on September 30, 2016 is stated as ordinary dividend in Note 13 of the Annual Statement. It is recommended that the Company complete its Annual Statement in accordance with NAIC Annual Statement Instructions.

SUBSEQUENT EVENTS

The Company was acquired by ProMedica, a health system in Ohio, in December 2017.


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 Merlino & Associates, Inc., performed an examination of Health Resources, Inc., as of December 31, 2016.

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

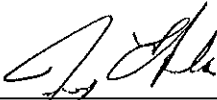
This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing 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 condition of Health Resources, Inc., as of December 31, 2016, as determined by the undersigned.



Brad Neff, CFE
Noble Consulting Services, Inc.

Under the Supervision of:

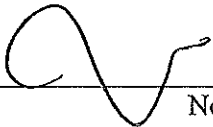


Jerry Ehlers, CFE, AES
Examinations Manager
Indiana Department of Insurance

State of: Indiana
County of: Marion

On this 21 day of March, 2018, before me personally appeared, Brad Neff and Jerry Ehlers, 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 last above written.

My commission expires: July 4, 2019  _____
Notary Public

