

STATE OF INDIANA
COUNTY OF MARION

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) SS:
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BEFORE THE INDIANA
COMMISSIONER OF INSURANCE

IN THE MATTER OF:

Health Resources, Inc.
P.O. Box 659
Evansville, IN 47704-0659

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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 December 16, 2014, 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.

January 28, 2015
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0047 0935 04

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

IN THE MATTER OF:)

Health Resources, Inc.)
P.O. Box 659)
Evansville, IN 47704)

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, 2011 through December 31, 2013

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on December 2, 2014.

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 December 16, 2014 and was received by the Company on January 6, 2015.

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, 2013.
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.

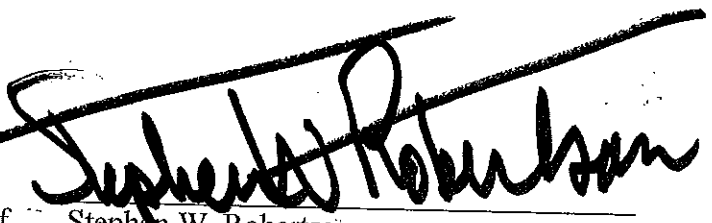
Based on the FINDINGS, the Commissioner does hereby ORDER:

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 and Sealed this 28th day of January, 2015.



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.

A handwritten signature in black ink, appearing to read "Michael J. [unclear]", is written across the page. The signature is cursive and somewhat stylized.

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

HEALTH RESOURCES, INC.

NAIC Co. CODE 96687

As of

December 31, 2013



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STATE OF INDIANA

IDOI

MICHAEL R. PENCE, Governor

Indiana Department of Insurance

311 W. Washington Street, Suite 300

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

Fax: (317) 232-5251

Stephen W. Robertson, Commissioner

December 2, 2014

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 3827, 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 corporate offices of Noble Consulting Services, Inc., in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2013, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395

EXAMINATIONS/FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES/COMPANY RECORDS
(317) 232-1991

STATE HEALTH INSURANCE PROGRAM
1-800-455-1111

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2010. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2011 through December 31, 2013, 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 and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and Annual Statement instructions, when applicable to domestic state regulations.

Merlinos & Associates, Inc. provided all actuarial services throughout the examination and conducted a review of the actuarially determined balances as of December 31, 2013.

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

HISTORY

The Company was organized in 1986 and is owned and managed by dentists. The Company is a for-profit limited service health maintenance organization domiciled in Indiana. The Company formerly owned Health Resources Services, Inc., (HRIS) a company which arranges for vendors to provide supplies and services needed by dentists. Effective March 31, 2010, all assets of HRIS were transferred to the Company and the subsidiary became inactive.

CAPITAL AND SURPLUS

The Company has 1,000,000 shares of no par value common stock authorized. As of December 31, 2013, there were 372,840 shares outstanding. The ownership of the common shares is restricted to licensed or formerly licensed dentists (including heirs and specified legal entities created by the dentists) practicing within the service area of the Company. By agreement with its shareholders, at the option of the Company, the Company may redeem or purchase its common stock with two-thirds approval of its Board of Directors (Board) and the approval of the selling shareholder. In addition, an individual shareholder cannot own more than 5% of the outstanding stock of the Company.

A Board authorized stock repurchase was completed on April 26, 2013. The Company paid \$33,390 to purchase 3,710 shares from retired non-practicing dentists and dentist heirs. The shares will not be reissued. The Board has not approved any additional stock repurchases. The Company has no preferred stock authorized, issued, or outstanding.

DIVIDENDS TO STOCKHOLDERS

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

<u>Year</u>	<u>Total</u>	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2013	\$ 130,494	\$ 130,494	\$ -
2012	97,903	97,903	-
2011	86,607	86,607	-
Total	<u>\$ 315,004</u>	<u>\$ 315,004</u>	<u>\$ -</u>

Dividends paid during the examination period were ordinary in nature and did not require prior regulatory approval. In accordance with Indiana Code (IC) 27-1-23-1.5, the Company notified the INDOI of all declared dividends during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company provides prepaid dental insurance as a fee-for-service product primarily to small employer groups in Indiana and Kentucky. The Company's dental network includes more than 2,000 providers participating throughout its service area. Approximately 15% to 20% of all business is sold directly from the Company and the remainder is sold through independent agents.

In 2013, the Company signed a licensing agreement with Connection Dental Network, providing access for members to over 46,000 dentists nationwide. This was in response to employer groups who, due to mergers and acquisitions, have employees outside of the Company's traditional coverage area.

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>
2013	\$ 20,960,494	\$ 4,890,754	\$ 16,069,740	\$ 60,847,620	\$ 3,461,466
2012	17,060,575	3,970,289	13,090,286	61,500,439	3,483,166
2011	13,485,057	3,744,289	9,740,768	60,138,684	2,727,417

Admitted assets increased primarily due to the Company investing its net cash from operations in certificates of deposit. Liabilities increased primarily due to an increase in premiums received in advance and a higher income tax payable balance in 2013. Capital and surplus increased primarily due to an increase in net income.

MANAGEMENT AND CONTROL

Directors

The Company is managed by a Board consisting primarily of dentists. The Company's Bylaws state the number of Board members shall not be less than three (3) or more than eighteen (18); at least 75% of the directors must be or have been dentists licensed to practice in the United States.

The following is a listing of persons serving as directors at December 31, 2013, and their principal occupations as of that date:

Name and Address	Principal Occupation
Bradley Bath Newburgh, Indiana	General Dentist Self-Employed
Greg Berger Jasper, Indiana	General Dentist Self-Employed
Wilber Boren III Bristol, Indiana	Retired Oral Surgeon and Stockbroker
Gary Breslauer Carmel, Indiana	Retired General Dentist
Brent Grafe Newburgh, Indiana	Endodontist Midwest Endodontics
David Harris Evansville, Indiana	General Practice Attorney Frick Powell LLP
David Lowry Owensboro, Kentucky	Periodontist Self-Employed
David Reeder, Jr. Evansville, Indiana	Retired Professor and Dean of College of Business University of Evansville
Allan Reid Henderson, Kentucky	Chief Executive Officer and President Oral Surgeon Health Resources, Inc. Reid Oral Surgery
Peter Sabella Evansville, Indiana	Retired BKD
Francis Shembab Bristol, Indiana	Retired General Dentist
Mark Sitzman Evansville, Indiana	General Dentist Self-Employed
Harold Smith Wynne, Arkansas	Retired General Dentist
William Teare Evansville, Indiana	General Dentist Self-Employed
Stephen Troyer Evansville, Indiana	Oral Surgeon Oral Surgery Group

Officers

The Bylaws state the officers of the Company shall be elected by the Board and consist of a Chairman of the Board, a President or President and/or Chief Executive Officer, one (1) or more Vice Presidents, a Secretary, and a Treasurer. Officers shall be elected to annual terms of service unless removed, with or without cause, by at least two-thirds majority of the Board members present at a validly held meeting. Any two (2) or more offices may be held by the same person, except that the duties of the President and Secretary shall not be performed by the same person. The following is a list of key officers and their respective titles as of December 31, 2013:

<u>Name</u>	<u>Office</u>
Stephen Troyer	Chairman
Allan Reid	President and Chief Executive Officer
Harold Smith	Executive Vice President
Mark Sitzman	Secretary
William Teare	Treasurer

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2013.

CORPORATE RECORDS

Articles of Incorporation

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

Bylaws

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

Minutes

The Board and shareholder meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of Shareholders, Members, or Policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws note that the annual meeting must occur no later than five (5) months after the close of each fiscal year. For each year under review, the annual meeting of shareholders was held within five (5) months following the close of each fiscal year.

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

AFFILIATED COMPANIES

Organizational Structure

The following organizational chart shows the Company's subsidiaries as of December 31, 2013:

Health Resources, Inc.	NAIC Co. Code	Domiciliary State/Country
Health Resource Services, Inc. ^A	96687	IN

^A Effective March 31, 2010, all of the assets of HRIS were transferred to the Company and HRIS became inactive.

Affiliated Agreements

As part of the Form B – Holding Company Registration Statement filed with the INDOL, the Company notes that there have been no material transactions between the Company and HRIS since HRIS became inactive in 2010. There were no other Affiliated Agreements in effect as of the date of this Report of Examination.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by its employees through a fidelity bond issued by Travelers Casualty and Surety Company of America. The bond has a single loss coverage limit of \$1,000,000, with a \$25,000 single loss 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 at December 31, 2013, including but not limited to, directors and officers liability, general liability, professional errors and omissions liability, and workers' compensation.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has a contributory simplified pension plan covering all employees who meet the eligibility requirements. The Company matches employee deferrals up to 3% of eligible compensation. Contributions were \$56,141 for 2013.

STATUTORY DEPOSITS

The Company reported the following statutory deposits at December 31, 2013:

State	Book Value	Fair Value
For All Policyholders:		
Indiana	\$ 50,000	\$ 50,000
Kentucky	50,000	50,000
Total Deposits	\$ 100,000	\$ 100,000

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, 2012 and December 31, 2013, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2010 through December 31, 2013, 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, 2013

	<u>Per Examination*</u>
Bonds	\$ 9,029,511
Properties occupied by the company	1,447,538
Cash, cash equivalents, and short-term investments	<u>9,790,467</u>
Subtotals, cash and invested assets	20,267,516
Investment income due and accrued	25,782
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	185,764
Net deferred tax asset	12,175
Electronic data processing equipment and software	351,653
Health care and other amounts receivable	116,066
Aggregate write-ins for other than invested assets	<u>1,538</u>
Total	<u>\$ 20,960,494</u>

* 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, 2013

	<u>Per Examination*</u>
Claims unpaid	\$ 1,731,727
Accrued medical incentive pool and bonus amounts	500,000
Unpaid claims adjustment expenses	49,455
Premiums received in advance	1,297,098
General expenses due or accrued	736,809
Current federal and foreign income taxes on realized capital gains (losses)	437,187
Aggregate write-ins for other liabilities	138,478
Total liabilities	<u>4,890,754</u>
Common capital stock	546,833
Unassigned funds (surplus)	15,522,907
Total capital and surplus	<u>16,069,740</u>
Total liabilities, capital and surplus	<u>\$ 20,960,494</u>

* 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, 2013

	<u>Per Examination*</u>
Member months	2,625,976
Net premium income	\$ 60,847,620
Total revenues	<u>60,847,620</u>
Hospital and Medical:	
Hospital/medical benefits	45,887,730
Incentive pool, withhold adjustments and bonus amounts	500,000
Subtotal	<u>46,387,730</u>
Less:	
Total hospital and medical	<u>46,387,730</u>
Claims adjustment expenses	678,000
General administrative expenses	8,586,768
Total underwriting deductions	<u>55,652,498</u>
Net underwriting gain or (loss)	5,195,122
Net investment income earned	129,056
Net realized capital gains (losses) less capital gains tax	(4,217)
Net investment gains (losses)	124,839
Aggregate write-ins for other income or expenses	558
Net income or (loss) after capital gains tax and before all other federal income taxes	<u>5,320,519</u>
Federal and foreign income taxes incurred	1,859,053
Net income	<u>\$ 3,461,466</u>

* 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

	2013	2012	2011
Capital and surplus prior reporting year	\$ 13,090,286	\$ 9,740,768	\$ 7,563,858
Net income	3,461,466	3,483,166	2,727,417
Change in net deferred income tax	46,556	(105,905)	56,274
Change in nonadmitted assets	(364,686)	70,155	(520,174)
Capital changes:			
Paid in	(5,431)	-	-
Surplus adjustments:			
Transferred from capital	(27,959)	-	-
Dividends to stockholders	(130,494)	(97,903)	(86,607)
Aggregate write-ins for gains or (losses) in surplus	2	5	-
Net change in capital and surplus	<u>2,979,454</u>	<u>3,349,518</u>	<u>2,176,910</u>
Capital and surplus end of reporting year	<u>\$ 16,069,740</u>	<u>\$ 13,090,286</u>	<u>\$ 9,740,768</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2013, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

There were no significant issues identified as of December 31, 2013, based on the results of this examination.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of field work which were considered material events requiring disclosure in this Report of Examination.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc.; and actuarial assistance from Merlinos & Associates, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of Health Resources, Inc., as of December 31, 2013.

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, 2013, as determined by the undersigned.



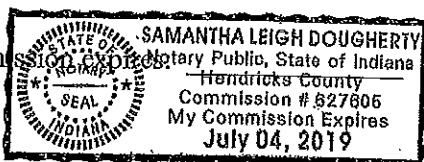
James Kattman, CFE
Noble Consulting Services, Inc.

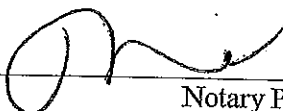
State of: Indiana
County of: Marion

On this 15 day of December, 2014, before me personally appeared, James Kattman, 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 comm





Notary Public

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