

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

IN THE MATTER OF:)
)
Health Resources, Inc.)
5010 Carriage Drive)
Evansville, Indiana 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 November 21, 2011, 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 12, 2012

Date



Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 9056

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

IN THE MATTER OF:)
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Health Resources, Inc.)
5010 Carriage Drive)
Evansville, Indiana 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, 2008 through December 31, 2010.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on October 26, 2011.

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 November 21, 2011 and was received by the Company on November 28, 2011.

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, 2010.
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 12th day of January, 2012.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

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

As of
December 31, 2010

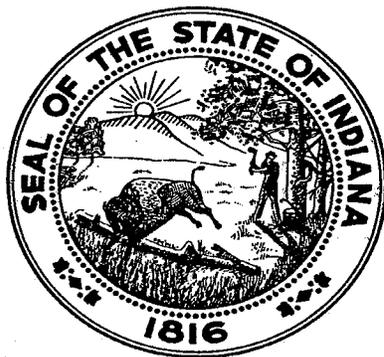


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

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

October 27, 2011

Honorable Joseph Torti, III
Chair, NAIC Financial Condition (E) Committee
Superintendent, State of Rhode Island
Department of Business Regulation
Division of Insurance Regulation
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920-4407

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

Dear Superintendent and Commissioner:

Pursuant to the authority vested in Appointment Number 3680, 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," an Indiana domestic limited service health maintenance organization. The examination was conducted at the corporate offices of the Company in Evansville, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2010, 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
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance as of the period ending December 31, 2007. The present risk-focused examination was conducted by Noble Consulting Services, Inc. and covered the period from January 1, 2008, through December 31, 2010.

David M. Shepherd, FCAS, MAAA, of Merlino & Associates, Inc. was appointed by the Indiana Department of Insurance and conducted a review of the Company's statutory reserves as of December 31, 2010. There were no actuarial adjustments or recommendations resulting from the review performed by Merlino & Associates, Inc.

We conducted our risk-focused examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of 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, and management's compliance with Statutory Accounting Principles, and annual statement instructions, when applicable to domestic state regulations.

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 owns Health Resources Services, Inc. (HRIS), a company which arranges for vendors to provide supplies and services needed by dentists.

CAPITAL AND SURPLUS

As of December 31, 2010, the Company had 1,000,000 shares of common stock authorized, without par value, of which 376,550 shares were issued and outstanding. The Company reported capital stock totaling \$552,264 as of December 31, 2010. During the examination period dividends were declared and paid in the amounts listed below. These dividends were paid to the shareholders, who are all dentists within the Company's network.

<u>Year</u>	<u>Dividends</u>
2010	\$ 67,779
2009	86,607
2008	86,607

TERRITORY AND PLAN OF OPERATION

The Company provides prepaid dental insurance as a fee-for-service product to all size employer groups in Indiana and Kentucky. The Company offers group dental products to employers with two (2) or more employees of different households on both an employer paid and voluntary basis.

The Company currently offers five (5) plan designs, all of which cover preventive care, basic services, and endodontics. Three (3) of the five (5) plans cover periodontics and implants. Annual benefit maximum options range from \$500 to \$2,000. An orthodontics rider is available on select plans with ten (10) or more covered subscribers. The Company's dental network has more than 1,600 providers throughout its service area. Each participating dentist agrees to accept the fees established by the Company and cannot balance-bill the patient for any unpaid portion, unless services were for an excluded benefit or the annual maximum has been met. The Company continues its penetration of the Indianapolis metropolitan area since its expansion into this market in 2008. Approximately 15-20% of all business is sold directly from the Company and the remainder is sold through independent agents.

GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted</u> <u>Assets</u>	<u>Liabilities</u>	<u>Capital</u> <u>and Surplus</u>	<u>Total</u> <u>Revenues</u>	<u>Net</u> <u>Income</u>
2010	\$ 11,480,404	\$ 3,916,542	\$ 7,563,862	\$ 55,376,301	\$ 1,142,273
2009	11,449,812	5,087,752	6,362,056	48,999,288	62,418
2008	9,731,132	3,492,047	6,239,083	43,521,275	672,438

Admitted assets increased during the examination period. The increase from 2008 to 2009, was primarily due to the Company investing its net cash from operations in laddered certificates of deposit. Liabilities decreased from 2009 to 2010, mainly due to the timing of claims payments. The change in liabilities from 2008 to 2009, was a result of an increase in member utilization causing an increase in claims received and unpaid.

Capital and surplus increased from 2009 to 2010, as reflected by an increase in net income. Total revenues increased during the examination period as a direct result of membership growth. Net income increased from 2009 to 2010, as reflected by an increase in total revenues. The change in net income from 2008 to 2009, was mainly due to an increase in hospital and medical benefits and general administrative expenses, as a result of higher member utilization.

MANAGEMENT AND CONTROL

Directors

The Articles of Incorporation provide that the business affairs of the Company are to be managed by a Board of Directors consisting of not less than three (3) and no more than eighteen (18) members. At least 75% of the membership of the Board of Directors must be or have been dentists licensed to practice in the United States of America. Directors need not be shareholders but must be citizens of the United States of America. The Board of Directors shall be divided into three (3) groups. Each group shall serve staggered

terms of three (3) years and are elected at different annual meetings. Directors shall hold office until the annual meeting for the year in which their terms expire and until their successors shall be elected and qualify. The following is a listing of persons serving as directors for the Company and their principal occupations as of December 31, 2010:

<u>Name and Address</u>	<u>Principal Occupation</u>
Gregory A. Berger, DDS Jasper, Indiana	General Dentist
Wilbur C. Boren III, DDS Bristol, Indiana	Retired Oral Surgeon and Stockbroker
Gary L. Breslauer, DDS Indianapolis, Indiana	General Dentist
Sammy J. Euler, DDS Evansville, Indiana	Retired General Dentist
Brent R. Grafe, DDS Evansville, Indiana	Endodontist
David G. Harris Evansville, Indiana	General Practice Attorney
David A. Lowry, DMD Owensboro, Kentucky	Periodontist
David B. Reeder, Jr. Evansville, Indiana	Retired Professor and Dean of Business Administration College of Business, University of Evansville
Allan L. Reid, DMD Evansville, Indiana	Chief Executive Officer, President and Oral Surgeon Health Resources, Inc.
Francis J. Shembab, DDS Bristol, Indiana	Retired General Dentist
Mark A. Sitzman, DDS Evansville, Indiana	General Dentist
Harold M. Smith, DMD Wynne, Arkansas	Claims Review Dentist and Retired General Dentist Health Resources, Inc.
William T. Teare, DDS Evansville, Indiana	General Dentist
Stephen H. Troyer, DDS Evansville, Indiana	Oral Surgeon

Officers

The Bylaws state the officers of the Company shall be elected by the Board of Directors and consist of a Chairman of the Board, a 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 members of the Board of Directors 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 Jurat page of the Company's 2010 Annual Statement did not report all of the officers serving the Company as of December 31, 2010. See the Other Significant Issues section of this Report of Examination for further commentary. The following is a list of key officers and their respective titles as of December 31, 2010:

<u>Name</u>	<u>Office</u>
Stephen H. Troyer	Chairman of the Board
Allan L. Reid	President and Chief Executive Officer
Sammy J. Euler	Secretary
William T. Teare	Treasurer
Harold M. Smith	Executive Vice President

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that 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, 2010.

CORPORATE RECORDS

Articles of Incorporation

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

Bylaws

The Bylaws were amended effective June 23, 2009, to reflect changes in authority between the Chairman of the Board and the President.

Minutes

The Board of Directors, Shareholders, Audit Committee, Compliance Committee, Executive Committee, Finance Committee, Governance Committee, and Personnel and Compensation Committee meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted. The annual meetings and other regular Board of Directors meetings were held in accordance with the Company's Bylaws.

AFFILIATED COMPANIES

The Company owns HRIS, which was formed as a buying group to provide supplies and services needed by dentists. The Company's extensive network of dentists enabled HRIS to negotiate favorable terms with vendors. Effective March 31, 2010, all of the assets of HRIS were transferred to the Company and HRIS became inactive.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from fraudulent or dishonest acts by any employees through a fidelity bond with Cincinnati Insurance Company. The bond has blanket coverage of \$200,000. The amount of the fidelity bond does not meet the prescribed minimum coverage specified by the NAIC. See the Other Significant Issues section of this Report of Examination for further commentary.

The Company had additional types of coverage in-force at December 31, 2010, including, but not limited to, general liability, professional errors and omissions liability, workers' compensation, and directors and officers liability.

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. During 2010, the Company contributed \$62,503 to the plan.

The ownership of the voting common stock is restricted to licensed or formerly licensed dentists practicing within the service area of the Company, trustees of grantor-type trusts established by these dentists or surviving heirs, legatees, or personal representatives of deceased shareholders. Voting common stock may also be owned by limited liability companies, limited liability partnerships, and professional corporations as long as these entities are owned solely by one (1) or more licensed or formerly licensed dentists practicing within the service area of the Company.

By agreement with its shareholders, the Company, at its option, may redeem or purchase its common stock with two-thirds approval of its Board of Directors and the approval of the selling shareholder. In addition, an individual shareholder cannot own more than 5% of the outstanding stock of the Company.

STATUTORY DEPOSITS

The Company reported statutory deposits held for the benefit of all policyholders in Indiana and Kentucky. The deposits were comprised of two (2) certificates of deposit, in the amount of \$50,000 each.

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, 2009, and 2010, were reconciled to the respective Annual Statements with no material exceptions noted. The Annual Statements for the years ended December 31, 2008, through 2010, were reconciled to each year's independent audit report with no material exceptions noted.

HEALTH RESOURCES, INC.

FINANCIAL STATEMENTS

Assets

	As of December 31, 2010			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Assets:				
Bonds	\$ 3,953,000	\$ -	\$ 3,953,000	\$ 3,215,000
Stocks:				
Common stocks	-	-	-	46,742
Real estate:				
Properties occupied by the company	1,544,625	-	1,544,625	1,598,018
Cash, cash equivalents, and short-term investments	5,712,685	-	5,712,685	6,217,168
Subtotals, cash and invested assets	11,210,310	-	11,210,310	11,076,928
Investment income due and accrued	23,574	-	23,574	15,260
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	167,641	-	167,641	83,590
Current federal and foreign income tax recoverable and interest thereon	-	-	-	76,747
Net deferred tax asset	15,250	-	15,250	-
Electronic data processing equipment and software	62,089	-	62,089	165,638
Health care and other amounts receivable	-	-	-	30,109
Aggregate write-ins for other than invested assets	1,540	-	1,540	1,540
Total assets	<u>\$ 11,480,404</u>	<u>\$ -</u>	<u>\$ 11,480,404</u>	<u>\$ 11,449,812</u>

HEALTH RESOURCES, INC.

FINANCIAL STATEMENTS

Liabilities, Capital and Surplus

	As of December 31, 2010			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Liabilities:				
Claims unpaid	\$ 1,424,889	\$ -	\$ 1,424,889	\$ 2,761,939
Unpaid claims adjustment expenses	38,807	-	38,807	50,082
Premiums received in advance	1,558,831	-	1,558,831	1,578,970
General expenses due or accrued	595,181	-	595,181	618,791
Current federal and foreign income tax payable and interest thereon	289,889	-	289,889	-
Net deferred tax liability	-	-	-	77,970
Aggregate write-ins for other liabilities	8,945	-	8,945	-
Total liabilities	<u>3,916,542</u>	<u>-</u>	<u>3,916,542</u>	<u>5,087,752</u>
Common capital stock	552,264	-	552,264	552,264
Unassigned funds (surplus)	7,011,598	-	7,011,598	5,809,792
Total capital and surplus	<u>7,563,862</u>	<u>-</u>	<u>7,563,862</u>	<u>6,362,056</u>
Total liabilities, capital and surplus	<u>\$ 11,480,404</u>	<u>\$ -</u>	<u>\$ 11,480,404</u>	<u>\$ 11,449,808</u>

HEALTH RESOURCES, INC.

FINANCIAL STATEMENTS

Statement of Revenue and Expenses

	As of December 31, 2010			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Member Months	2,500,194	-	2,500,194	2,285,458
Net premium income	<u>\$ 55,376,301</u>	<u>\$ -</u>	<u>\$ 55,376,301</u>	<u>\$ 48,999,288</u>
Total revenues	<u>55,376,301</u>	<u>-</u>	<u>55,376,301</u>	<u>48,999,288</u>
Hospital and Medical:				
Hospital/medical benefits	45,319,362	-	45,319,362	41,023,609
Total hospital and medical	<u>45,319,362</u>	<u>-</u>	<u>45,319,362</u>	<u>41,023,609</u>
Claims adjustment expenses, including \$73,325 cost containment expenses	587,434	-	587,434	688,085
General administrative expenses	7,811,421	-	7,811,421	7,287,180
Total underwriting deductions	<u>53,718,217</u>	<u>-</u>	<u>53,718,217</u>	<u>48,998,874</u>
Net underwriting gain or (loss)	<u>1,658,084</u>	<u>-</u>	<u>1,658,084</u>	<u>414</u>
Net investment income earned	106,294	-	106,294	97,250
Net realized capital gains (losses) less capital gains tax	-	-	-	9,622
Net investment gains (losses)	<u>106,294</u>	<u>-</u>	<u>106,294</u>	<u>106,872</u>
Aggregate write-ins for other income or expenses	117,495	-	117,495	2,735
Net income or (loss) after capital gains tax and before all other federal income taxes	1,881,873	-	1,881,873	110,021
Federal and foreign income taxes incurred	<u>739,600</u>	<u>-</u>	<u>739,600</u>	<u>47,603</u>
Net income (loss)	<u>\$ 1,142,273</u>	<u>\$ -</u>	<u>\$ 1,142,273</u>	<u>\$ 62,418</u>

HEALTH RESOURCES, INC.

FINANCIAL STATEMENTS

Reconciliation of Capital and Surplus

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and Surplus Account:			
Capital and surplus prior reporting year	\$ 6,362,061	\$ 6,239,082	\$ 5,783,426
Net income or (loss)	1,142,273	62,418	672,438
Change in net unrealized capital gains (losses) less capital gains tax	-	4,855	(32,707)
Change in net deferred income tax	93,220	-	(97,048)
Change in nonadmitted assets	34,083	142,313	(420)
Dividends to stockholders	(67,779)	(86,607)	(86,607)
Net change in capital and surplus	<u>1,201,797</u>	<u>122,979</u>	<u>455,656</u>
Capital and surplus end of reporting year	<u>\$ 7,563,858 *</u>	<u>\$ 6,362,061 *</u>	<u>\$ 6,239,082</u>

* This Report of Examination reflects the information presented in the Annual Statement filing. Note that there are immaterial differences in the amount of total capital and surplus reported in this exhibit and that reported elsewhere in this report.

COMMENTS TO THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2010, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

As of December 31, 2010, the Jurat page of the 2010 Annual Statement did not report all the officers of the Company. Stephen Troyer was not listed as Chairman of the Board on the Jurat page of the 2010 Annual Statement. For future reporting periods the Company should report all officers of the Company on the Annual Statement Jurat page.

As of December 31, 2010, the Company had fidelity bond coverage in the amount of \$200,000 through The Cincinnati Insurance Company. This amount does not meet the prescribed minimum coverage amount of \$450,011 specified by the NAIC. The Company increased its fidelity bond coverage to \$500,000 in 2011 and is now appropriately bonded to meet the prescribed minimum coverage amount specified by the NAIC.

SUBSEQUENT EVENTS

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

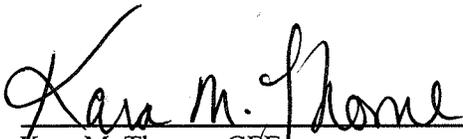
AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Merlinos & Associates, Inc., performed an examination of **Health Resources, Inc.** as of December 31, 2010.

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, 2010, as determined by the undersigned.

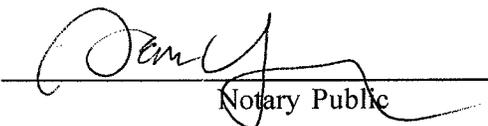


Kara M. Thome, CFE
Noble Consulting Services, Inc.

State of: Indiana
County of: Hendricks

On this 27th day of Oct, 2011, before me personally appeared, Kara M. Thome, 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

