

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

IN THE MATTER OF: )  
 )  
**Southeastern Indiana Health Organization, Inc.** )  
**417 Washington Street** )  
**Columbus, IN 47201** )

Examination of: **Southeastern Indiana Health Organization, 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 Southeastern Indiana Health Organization, Inc., any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on June 13, 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 Southeastern Indiana Health Organization, 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 27, 2018  
Date

  
Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 9773**

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

IN THE MATTER OF: )  
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**Southeastern Indiana Health Organization, Inc.** )  
**417 Washington Street** )  
**Columbus, IN 47201** )

Examination of: **Southeastern Indiana Health Organization, Inc.**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Southeastern Indiana Health Organization, 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 13, 2018 and was received by the Company on June 18, 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 Southeastern Indiana Health Organization, Inc. as of December 31, 2016.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the Southeastern Indiana Health Organization, 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 27 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.

*[Handwritten signature]*

*[Handwritten signature]*

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**

**SOUTHEASTERN INDIANA HEALTH ORGANIZATION, INC.**  
NAIC Co. CODE 95812

As of

December 31, 2016

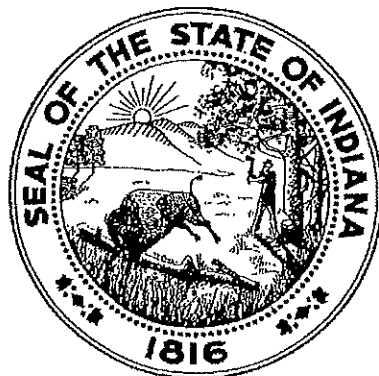


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# STATE OF INDIANA

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/idoi](http://in.gov/idoi)

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 3948, an examination has been made of the affairs and financial condition of:

**Southeastern Indiana Health Organization, Inc.**  
417 Washington Street  
Columbus, Indiana 47201

hereinafter referred to as the "Company", or "SIHO", an Indiana domestic 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. 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 originally incorporated as an Indiana nonprofit corporation on December 18, 1986, and was licensed as a health maintenance organization (HMO) by the INDOI. SIHO merged with and into SIHO Merger Company, Inc., effective January 1, 2015. The effect of the transaction was to change SIHO to a for-profit taxpaying entity. SIHO Holding, Inc. owns 100% of the stock of SIHO. SIHO Holding, Inc. is owned by four (4) non-profit owners: Columbus Regional Hospital, Inc., IU Health Bloomington, Inc. (formerly Bloomington Hospital), Jackson County Schneck Memorial Hospital, and Multi-County Physicians, Inc. Each of the four (4) non-profits own 25% of the stock of SIHO Holding, Inc.

## CAPITAL AND SURPLUS

The outstanding number of shares is 10,000, issued on December 15, 2014. Stockholders are the owners of the Company and have equal shares and control of the entity and its affiliates. The stockholders participate on the Board of Directors (Board) as described in the Bylaws.



### 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>
2016	\$ 1,000,000	\$ 1,000,000	\$ -
2015	-	-	-
2014	-	-	-
Total	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ -</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. In accordance with IC 27-1-23-1.5, the Company notified the INDOI of all declared dividends to the parent during the examination period.

### TERRITORY AND PLAN OF OPERATION

The Company markets itself to small group employers (51 + employees), and remains a niche player in the small group fully insured market. Employer group products are distributed entirely through health agents and brokers. The Company was certified on November 15, 2014 by the INDOI as a Qualified Health Plan, which allowed the Company to begin writing business on the Federally Facilitated Marketplace in Indiana (Indiana Exchange) effective January 1, 2015 for individuals. The Company exited this market after reducing its exposure in 2016 to one-half the level of 2015. As of January 1, 2017, the Company has withdrawn from the individual and small group market.

### 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	\$ 12,998,301	\$ 6,887,707	\$ 6,110,594	\$ 33,458,311	\$ 395,963
2015	16,446,668	7,317,365	9,129,303	36,375,455	(1,536,482)
2014	18,787,690	8,450,577	10,337,113	47,445,286	1,036,279

The decreases in admitted assets, liabilities, and capital and surplus during the examination period have occurred primarily because of the 2015 non-admission of real estate pledged as collateral (\$2.5 million) and the \$1 million dividend paid in 2016. Further, the Company reported negative net income in 2015 due to participation in the Indiana Exchange and declining membership.

The Company's total revenues amounted to \$33.5 million in 2016, a decrease of \$2.9 million from 2015. Decreases in total revenues are primarily due to declining membership.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws provide that the business affairs of the Corporation shall be managed under the direction of a Board consisting of at least three (3) directors. Per the Articles of Incorporation, directors shall serve for a term of three (3) years and until a successor is elected and qualified. A director may serve any number of consecutive or nonconsecutive terms.

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

<u>Name and Address</u>	<u>Principal Occupation</u>
Matthew D. Bailey Bloomington, Indiana	Chief Operating Officer IU Health Bloomington
David S. Barker <sup>A</sup> Columbus, Indiana	President and Chief Executive Officer SIHO Insurance Services
James D. Bickel Columbus, Indiana	President and Chief Executive Officer Columbus Regional Hospital
Bradford J. Bomba, Jr., M.D. Bloomington, Indiana	Internist Internal Medicine Associates
Michael J. Dorenbusch, M.D. Columbus, Indiana	Surgeon Southern Indiana Surgery
Warren L. Forgey Seymour, Indiana	President and Chief Executive Officer Schneck Medical Center
John L. Fye, M.D. Seymour, Indiana	Family Practice Physician Family Medical Center
Terrence M. Greene, M.D. Bloomington, Indiana	General, Thoracic, Vascular Access, and Laparoscopic Surgeon (Solo Practitioner)
Thomas A. Sonderman, M.D. Columbus, Indiana	Chief Medical Officer Columbus Regional Hospital
Douglas A. Towriss, M.D. Seymour, Indiana	Chief Medical Officer Schneck Medical Center

### Officers

The Bylaws state that the officers of the Company shall consist of a President and Secretary, and such other officers as the Board may from time to time elect. Any two (2) or more offices may be held by the same person, except the offices of the President and Secretary. Any officer other than the President may, but need not, be a member of the Board.

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<sup>A</sup> David Barker's retirement was announced in October 2017, along with the appointment of the new CEO, John Sadtler.

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

<u>Name</u>	<u>Office</u>
David S. Barker <sup>A</sup>	President and Chief Executive Officer
Douglas A. Towriss, M.D.	Chairman
Douglas R. Fauth	Vice President and General Counsel
Mike L. Clancy, Jr.	Vice President Information Technology
Richard A. Kramer	Chief Financial Officer
James D. Bickel	Secretary

### 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, 2016.

### CORPORATE RECORDS

#### Articles of Incorporation

Effective December 15, 2014, the Company submitted Articles of Incorporation for SIHO Merger Company, Inc. in connection with the reorganization that changed the Company to a for-profit tax paying organization effective January 1, 2015.

#### Bylaws

Effective December 15, 2014, the Company submitted amended and restated Bylaws in connection with the reorganization that changed the Company to a for-profit tax paying organization effective January 1, 2015. SIHO also submitted amended and restated Bylaws effective May 1, 2015.

#### Minutes

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

The Board committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit and Compliance Committee, Corporate Governance and Compensation Committee, and Quality Management Committee.

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<sup>A</sup> David Barker's retirement was announced in October 2017, along with the appointment of the new CEO, John Sadtler.

## AFFILIATED COMPANIES

### Organizational Structure

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

	NAIC Co. Code	Domiciliary State/Country
IU Health Bloomington, Inc.		IN
Columbus Regional Hospital, Inc.		IN
Jackson County Schneck Memorial Hospital		IN
Multi-county Physicians, Inc.		IN
SIHO Holding, Inc. d/b/a SIHO Insurance Services		IN
<b>Southeastern Indiana Health Organization, Inc.</b>	<b>95812</b>	<b>IN</b>
Genesis Re, Inc. (Genesis)		VT
Genesis Re, Inc. Cell A		VT
Genesis Re, Inc. Cell B		VT
Southeastern Indiana Health Operations, Inc.		IN
Corporate Administrative Services, LLC		IN
Corporate Consulting Services, LLC		IN
SIG Insurance Services, Inc.		IN
SIHOPS Medical Care, LLC		IN
Southern Indiana Primary Care, LLC		IN
SIHO Network, LLC		IN
SIHO Foundation, Inc.		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. See the Other Significant Issues Section of this Report of Examination.

#### *Administrative Services Agreement*

Effective July 1, 2003, SIHO, Southeastern Indiana Health Operations, Inc. (SIHOPS), SIG Insurance Services, Inc. (SIG), SIHO, LLC, SIHOPS, LLC, and SIHO Network, LLC entered into an Administrative Services Agreement. Effective January 1, 2015 and February 5, 2015, SIHO Holding Company, Inc., and Genesis became parties to the agreement. The services to be performed include communications, corporate finance, executive strategic and operations management, facilities management, human resources, information technology, mail, printing, product management, records, sales and marketing, supplies, tax, telecommunications, and third-party administration. During 2016, SIHOPS was paid \$1,545,000 by SIHO under the agreement.

#### *Promissory Note*

Effective January 1, 2013, two (2) promissory notes from an affiliated corporation, Multi-County Physicians, Inc. (MCP), were together refinanced into another promissory note. The face amount of the refinanced MCP note was \$259,292, and its term was seventy-six (76) months. As of December 31, 2016, the principal balance of the refinanced MCP note was \$98,276, and the remaining term was thirty (30) months.

#### *417 Lease Agreement*

Effective October 10, 2011, SIHO entered into a lease agreement with SIHOPS for its principal office building located at 417 Washington Street, Columbus, Indiana. On February 21, 2013, SIHO and SIHOPS executed an amendment to 417 Lease Agreement whereby the 417 Lease Agreement was amended to obligate SIHOPS to indemnify and hold SIHO and its officers, directors, and employees harmless from and against losses that arose as a result of SIHOPS' negligence. On August 1, 2013, SIHO and SIHOPS executed a second amendment to 417 Lease Agreement whereby the 417 Lease Agreement was further amended to eliminate the \$2,250,000 cap on the purchase price in the event SIHOPS exercised its option to purchase the leased real estate. The annual rent payments on the building are \$264,000 (\$22,000 per month) and the initial term of the lease is ten (10) years with two (2) five (5) year options.

#### *415 Lease Agreement*

On December 20, 2013, SIHO purchased from an unaffiliated third party the building at 415 Washington Street, Columbus, Indiana, which is connected to SIHO's and SIHOPS' home and principal executive office. Effective the same date, SIHO leased the building to SIHOPS at the same monthly rent of \$2,200.

#### *The Employee Health Service Agreement*

Effective November 12, 2012, SIHO and an affiliate, Southern Indiana Primary Care (SIPC), entered into The Employee Health Service Agreement. Pursuant to the agreement, SIHO paid a capitation to the clinic for fully insured members residing in Jackson County. In 2016, this capitation totaled \$378,140, and covered approximately 1,492 fully insured members. On February 1, 2016, SIPC sold its assets and operations of the 4 Your Health Center to Schneck Medical Center (SMC) and the agreement likewise transferred to SMC. The INDOI requested changes to the agreement and was approved in May, 2017.

#### *Broker Agreement*

Effective July 23, 2015, SIHO and SIG entered into a Broker Agreement. The agreement is the subject of a Form D originally filed with the INDOI on July 31, 2015. In 2016, SIHO paid SIG \$92,301 for HMO policies placed with SIHO pursuant to the agreement.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Travelers Casualty & Surety Company of America. The bond has a single loss coverage limit of \$10,000,000, with a \$100,000 deductible. 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, commercial general liability, crime & fiduciary coverage, employed lawyers errors & omission, employers liability, management liability, network risk, property, umbrella liability, and workers' compensation.

### **PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS**

The Company has no employees and therefore it does not participate in any pension, stock ownership or insurance plans. The costs for these types of plans are covered by the company's administrative services agreement. Its affiliated company, SIHOPS, offers basic retirement benefits through company paid contributions to 401K Plans and a deferred compensation and pension program for key executives. These plans do not have a material impact on the financial results of either affiliated organization.

## STATUTORY AND SPECIAL DEPOSITS

The Company reported the following deposit at December 31, 2016:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Deposits For the Benefit of All Policyholders:		
Indiana	\$ 500,000	\$ 500,000
Total Deposits	<u>\$ 500,000</u>	<u>\$ 500,000</u>

## REINSURANCE

### Ceded Reinsurance

#### *Quota Share Reinsurance Agreement*

During the examination period the Company had a Quota Share Reinsurance Agreement in place with Companion Life Insurance Company for Point of Service and HMO Out of Plan Services. This agreement covers 100% of losses on point of service benefits up to \$300,000 maximum per member per agreement year. IC 27-13-13-8 requires a ratio of point of service revenues to Company net worth of three (3) to one (1). As of December 31, 2016, there was a \$200,000 gap in reinsurance coverage for the point of service benefit coverage issued by the Company. The Company ceded premiums of \$931,481 for 2016. See the Other Significant Issues Section of this Report of Examination.

#### *Stop Loss Agreement*

The Company has a specific Stop Loss agreement in place with Zurich American Insurance Company for exchange and non-exchange fully insured members. The agreement covers 80% of losses incurred in excess of \$500,000 for each member. The Company ceded premiums of \$354,921 for 2016.

### Assumed Reinsurance

The Company has no assumed 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, 2014 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.

SOUTHEASTERN INDIANA HEALTH ORGANIZATION, INC.

Assets  
As of December 31, 2016

	<u>Per Examination*</u>
Cash, cash equivalents and short-term investments	<u>\$ 11,404,293</u>
Subtotals, cash and invested assets	11,404,293
Investment income due and accrued	3,801
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	77,677
Net deferred tax asset	236,623
Furniture and equipment, including health care delivery assets	43,980
Receivables from parent, subsidiaries and affiliates	951,988
Health care and other amounts receivable	255,000
Aggregate write-ins for other than invested assets	<u>24,939</u>
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>12,998,301</u>
Total	<u>\$ 12,998,301</u>

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

SOUTHEASTERN INDIANA HEALTH ORGANIZATION, INC.  
Liabilities, Capital and Surplus  
As of December 31, 2016

	<u>Per Examination*</u>
Claims unpaid	\$ 4,397,500
Unpaid claims adjustment expenses	183,000
Aggregate health policy reserves	1,275,000
Premiums received in advance	207,048
General expenses due or accrued	302,172
Current federal and foreign income tax payable and interest thereon	200,547
Ceded reinsurance premiums payable	34,035
Amounts due to parent, subsidiaries and affiliates	172,072
Aggregate write-ins for other liabilities	116,333
Total liabilities	6,887,707
Common capital stock	1
Gross paid in and contributed surplus	5,452,005
Unassigned funds (surplus)	658,588
Total capital and surplus	6,110,594
Total liabilities, capital and surplus	\$ 12,998,301

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



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

	Per Examination*
Member Months	76,661
Net premium income	\$ 33,844,534
Change in unearned premium reserves and reserve for rate credits	(986,217)
Aggregate write-ins for other health care related revenues	344,548
Aggregate write-ins for other non-health revenues	255,446
Total revenues	33,458,311
<b>Hospital and Medical:</b>	
Hospital/medical benefits	20,863,607
Other professional services	988,293
Outside referrals	850,661
Emergency room and out-of-area	1,903,454
Prescription drugs	5,158,020
Aggregate write-ins for other hospital and medical	508,725
Incentive pool, withhold adjustments and bonus amounts	(12,147)
Subtotal	30,260,613
<b>Less:</b>	
Net reinsurance recoveries	1,084,682
Total hospital and medical	29,175,931
Claim adjustment expenses, including cost containment expenses	558,831
General administrative expenses	3,406,441
Increase in reserves for life and accident and health contracts	(251,700)
Total underwriting deductions	32,889,503
Net underwriting gain or (loss)	568,808
Net investment income earned	27,702
Net investment gains (losses)	27,702
Net income or (loss) after capital gains tax and before all other federal income taxes	596,510
Federal and foreign income taxes incurred	200,547
Net income	\$ 395,963

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

SOUTHEASTERN INDIANA HEALTH ORGANIZATION, INC.  
Capital and Surplus Account Reconciliation

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Capital and surplus prior year reporting	\$ 9,129,303	\$ 10,337,113	\$ 9,352,887
Net income or (loss)	395,963	(1,536,482)	1,036,279
Change in net deferred income tax	(1,076)	133,638	(14,125)
Change in nonadmitted assets	(2,413,596)	195,031	(37,928)
Capital Changes:			
Paid in	-	1	-
Transferred to surplus	(40,803)	(40,431)	(40,700)
Surplus adjustments:			
Paid in	40,803	40,431	40,700
Dividends to stockholders	(1,000,000)	-	-
Aggregate write-ins for gains or (losses) in surplus	-	2	-
Net change in capital and surplus	<u>(3,018,709)</u>	<u>(1,207,810)</u>	<u>984,226</u>
Capital and surplus end of reporting period	<u>\$ 6,110,594</u>	<u>\$ 9,129,303</u>	<u>\$ 10,337,113</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 Company took the following actions during the examination period without the approval of the INDOI in violation of Indiana Code sections 27-1-23-3(b) and 27-1-23-4:

- a. The Company changed their allocation methodology for shared administrative expenses from actual cost plus 10% to \$18 per member per month without notifying the INDOI as required.
- b. The Company failed to file a Form D for prior approval/non-disapproval for a guarantee letter of credit backed by a real estate mortgage as required.

It is recommended that the Company obtain the required approvals for these actions from the INDOI as required by the Indiana Code and report future activity as required by the Indiana Code.

IC 27-13-13-8 requires either a ratio of point of service revenues to Company net worth of three (3) to one (1) or a reinsurance agreement, which cedes one hundred percent (100%) of the liability for out-of-plan services. As of December 31, 2016, there was a \$200,000 gap in reinsurance coverage for the point of service benefit coverage issued by the Company. This gap in reinsurance coverage was in violation of IC 27-13-13-8 and was addressed with a change to the quota share reinsurance agreement subsequent to the examination period.

It is recommended that the Company maintain the required coverage demonstrating compliance with Indiana Code.

### SUBSEQUENT EVENTS

The Board appointed John Sadtler, CEO effective October 2017 upon the retirement of Dave Barker, the outgoing CEO.



**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 Southeastern Indiana Health Organization, Inc., as of December 31, 2016.

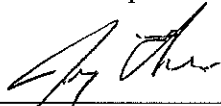
The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

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 Southeastern Indiana Health Organization, Inc. as of December 31, 2016, as determined by the undersigned.

  
\_\_\_\_\_  
Brad Neff, CFE  
Noble Consulting Services, Inc.

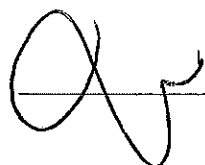
Under the Supervision of:

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

State of: Indiana  
County of: Marion

On this 4<sup>th</sup> day of April, 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

