

STATE OF MINNESOTA

DEPARTMENT OF COMMERCE

ST. PAUL, MINNESOTA

EXAMINATION REPORT

OF

SOUTH COUNTRY HEALTH ALLIANCE

OWATONNA, MINNESOTA

AS OF

DECEMBER 31, 2018



Protecting, Maintaining and Improving the Health of All Minnesotans

The attached report of an examination made of the condition and affairs as of December 31, 2018, of:

**South Country Health Alliance
2300 Park Drive
Owatonna, MN 55030**

was recently completed by duly qualified examiners of the State of Minnesota.

Due consideration has been given to the comments of the examiners regarding the operations of South Country Health Alliance, and their financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

Jan K. Malcolm
Commissioner

A handwritten signature in blue ink, appearing to read 'Marie Dotseth', written over a horizontal line.

By: Marie Dotseth, M.H.A.,
Assistant Commissioner

Dated: 2/12/2020

Pursuant to the authority vested in the Commissioner of Commerce of the State of Minnesota, Steve Kelley, being first duly sworn, upon his oath, deposes and says that a comprehensive examination was made of the affairs and financial condition of

**South Country Health Alliance
2300 Park Drive
Owatonna, MN 55030**

a county based purchasing organization authorized under the laws of the State of Minnesota. That, to the best of his information, knowledge, and belief, the attached Report of Examination describes the affairs and financial condition of the above-named company as of December 31, 2018, as determined by a comprehensive examination made in accordance with Minnesota Statutes Section 62D.24. The examination was completed by duly qualified examiners of the State of Minnesota representing the Midwestern Zone (III) of the National Association of Insurance Commissioners.

Due consideration has been given to the comments of the examiners regarding the operations of the above named company and its financial condition, as reflected in this Report of Examination.

This Report of Examination is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

Steve Kelley
Commissioner



By: Grace Arnold
Deputy Commissioner

Dated: 2-13-20

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December 03, 2019

The Honorable Jan K. Malcolm
Commissioner of Health
Minnesota Department of Health
625 North Robert Street
St. Paul, Minnesota 55155-2538

The Honorable Steve Kelley
Commissioner of Commerce
Minnesota Department of Commerce
85 7th Place East, Suite 280
St. Paul, Minnesota 55101-2198

Dear Commissioner:

Pursuant to your instructions and the statutory requirements of the State of Minnesota, a comprehensive examination has been made of the affairs and financial condition of:

South Country Health Alliance
2300 Park Drive
Owatonna, MN 55030

(hereinafter referred to as SCHA or the Company)

Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

We have performed our risk-focused statutory financial condition examination of the Company pursuant to the Minnesota Department of Commerce Examination Order #19-004. The examination of the Company was performed as a risk-focused examination of SCHA as of December 31, 2018. The examination was conducted on behalf of the State of Minnesota Department of Health ("Health") by the State of Minnesota Department of Commerce ("Commerce"), observing the guidelines and procedures in the National Association of Insurance Commissions Financial Condition Examiners Handbook (Handbook). Pursuant to Minnesota Statutes §62D.24, Health and Commerce have entered into an Interagency Agreement whereby Commerce conducts a financial examination of Health regulated health plan companies on behalf of Health. Examination Order #19-004 directed that the examination include a determination of the Company's financial condition and a general review of its corporate affairs and insurance operations to determine compliance with statutes. The last exam was completed as of December 31, 2015. This examination covered the period of January 1, 2016 through December 31, 2018, including any material transactions and/or events occurring subsequent to the examination date.

We conducted our examination in accordance with the Handbook along with specific procedures defined by Commerce. 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.

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

The Company was audited annually, for the years 2016 through 2018, by the accounting firm of CliftonLarsonAllen. The Company received an unqualified opinion in all three years. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination.

This examination report includes significant findings of 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.), were not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements during the examination.

STATUS OF SIGNIFICANT FINDINGS FROM PRIOR EXAMINATION

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements noted as a result of the prior examination.

COMPANY HISTORY

SCHA was created by a Joint Powers Agreement between various governmental units on July 24, 1998, under Minnesota Statutes §471.59. This was done in accordance with Minnesota Statutes §256B.692. This statute provides for the formation of a joint powers organization and board of directors to operate, control, and manage County Based Purchasing functions for persons enrolled in public healthcare programs.

MANAGEMENT AND CONTROL

SCHA is governed by a Joint Powers Board (Board), consisting of one individual from each Member County selected by the county board of that county. Each Member County also designates one individual to serve as an alternate to the Board in the absence of the designated director; such alternate shall have all of the powers and duties of a Board Member when serving as such. At December 31, 2018, the Board consisted of the following members:

<u>Board Members:</u>	<u>County</u>
Scott Windschitl	Brown
Rodney Peterson	Dodge
Brad Anderson	Goodhue
Greg Blaine	Morrison
Gary Kruggel	Sibley
Greg Krueger	Steele
Gary Kneisl	Todd
Don Springer	Wabasha
Bill Stearns	Wadena

Committees of the Board of Directors

As of December 31, 2018, SCHA's Board had the following committees:

- Executive Committee
- Finance Committee
- Compliance Committee
- Quality Assurance Committee
- Health Information Organization Governance Committee

Officers as of December 31, 2018

<u>Name</u>	<u>Position</u>
Leota B. Lind	Chief Executive Officer
Bradley S. Johnson, MD	Chief Medical Officer
Barb Bender	Chief Operations Officer
John Whittington	Chief Information Officer
Scott Schuffman	Chief Financial Officer

TERRITORY AND PLAN OF OPERATION

SCHA is located in Owatonna, MN and had approximately 40,309 members as of December 31, 2018. The Company does not market its products or have any plans for product expansion. Under contracts with the Minnesota Department of Human Services and the Center for Medicare and Medicaid Services, SCHA is authorized to provide health coverage to persons enrolled under public healthcare programs in its member counties.

As of December 31, 2018, the following counties were members of the SCHA Joint Powers: Brown, Dodge, Goodhue, Kanabec, Morrison, Sibley, Steele, Todd, Wabasha, Wadena, and Waseca. The counties of Morrison, Todd, and Wadena have given notice to SCHA that they will be withdrawing from SCHA as of January 1, 2020 and entitled to their capital and surplus.

Minnesota Health Care Programs include the following:

- Medical Assistance
- Minnesota Senior Care Plus
- MinnesotaCare
- Minnesota Senior Health Options
- Special Needs Basic Care

REINSURANCE

SCHA has excess of loss reinsurance coverage with Partner Re America Insurance Company for claims over \$300,000 per member per year, 75% coverage up to \$2 million and 100% coverage for \$2-\$5 million maximum per person.

The reinsurance agreement complied with Minnesota Statutes § 60A.092, Subdivision 11 and NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadline clauses.

SCHA does not assume any reinsurance.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination a material adjustment was identified, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the members of SCHA with Commerce, are reflected in the following:

**SOUTH COUNTRY HEALTH ALLIANCE
STATEMENT OF ASSETS
DECEMBER 31, 2018**

ASSETS	
Cash and short-term Investments	<u>\$ 33,859,428</u>
Cash and invested assets	\$ 33,859,428
Uncollected premiums and agents balances	18,625,610
Electronic data processing equipment and software	2,039,885
Receivables from parent, subsidiaries and affiliates	8,191,316
Healthcare and other amounts receivable	1,035,607
Aggregate write-ins	<u>5,779</u>
Total Assets	<u>\$ 66,199,195</u>

**SOUTH COUNTRY HEALTH ALLIANCE
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
DECEMBER 31, 2018**

LIABILITIES	
Claims unpaid	\$ 27,590,324
Accrued medical incentive pool and bonus amounts	881,605
Unpaid claims adjustment expense	823,072
Premiums received in advance	15,488,350
General Expenses due or accrued	1,107,777
Amounts due parent, subsidiaries and affiliates	312,274
Liability for amounts held under uninsured plans	<u>605,348</u>
Total Liabilities	\$ 46,808,751
Gross Paid in and Contributed Surplus	\$ 19,268,555
Unassigned Funds	<u>121,889</u>
Surplus	\$ 19,390,444
TOTAL Liabilities and Surplus	<u>\$ 66,199,195</u>

**SOUTH COUNTRY HEALTH ALLIANCE
STATEMENT OF LIABILITIES, REVENUE AND EXPENSES
DECEMBER 31, 2018**

Member months	495,741
Net premium income	\$ 298,717,263
Aggregate write-ins for health care related revenues	<u>229</u>
Total Revenue	\$ 298,717,492
Hospital/medical benefits	\$ 147,568,437
Other professional services	28,959,709
Emergency room and out-of-area	24,656,638
Prescription drugs	37,054,593
Aggregate write-ins for other hospital and medical	54,623,936
Incentive pool, withhold adjustments and bonus amounts	<u>1,142,303</u>
Sub-total	\$ 294,005,616
Net reinsurance recoveries	<u>7,373,093</u>
Total hospital and medical	\$ 286,632,523
Claims adjustment expenses	\$ 10,113,805
General administrative expenses	<u>14,936,591</u>
Total Underwriting deductions	\$ 311,682,919
Net underwriting loss	<u>(\$ 12,965,427)</u>
Net investment income earned	671,314
NET LOSS	<u>(\$ 12,294,113)</u>

**SOUTH COUNTRY HEALTH ALLIANCE
RECONCILIATION OF CAPITAL AND SURPLUS
DECEMBER 31, 2018**

CAPITAL & SURPLUS ACCOUNT	
Surplus, December 31, previous year	\$ 25,794,565
Net loss	(12,294,113)
Change in nonadmitted assets	(2,301,324)
Surplus Adjustment: Paid in	<u>8,191,316</u>
Change in surplus for year	(\$ 6,404,121)
Surplus as of 12/31/18	<u>\$ 19,390,444</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

The examination actuary reviewed the summary of actuarial opinion, actuarial analysis and underlying supporting document, and data provided by the Company. The examination actuarial review indicates that the employed actuarial methodologies, applied assumptions and judgement, and the reserves recorded by the Company were sufficient; however process improvement recommendations were made.

SUBSEQUENT EVENTS

The counties of Morrison, Todd and Wadena have given notice to SCHA that they will be withdrawing from SCHA as of January 1, 2020. They will be entitled to their capital and surplus as of January 1, 2020, which can be paid out in a lump sum or over a period up to five years.

In 2018, SCHA was asked to file a Corrective action plan by the Minnesota Department of Health (MDH). This Plan included provisions for additional capital to be contributed in 2019 from member counties. A total of \$13.6 million in capital contributions from member counties was received in March and May 2019.

The MDH approved the \$8.2 million capital contribution receivable as an admitted asset on the December 31, 2018 financial statements, after receiving confirmation of receipt of funds in March 2019.

OTHER SIGNIFICANT EVENTS

No other significant events were noted during the examination that would have a material impact on the examination report.

CONCLUSION

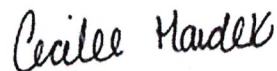
As a result of this examination, the financial condition of South Country Health Alliance as of December 31, 2018 is summarized as follows:

Admitted assets	<u>\$66,199,195</u>
Liabilities	\$46,808,751
Capital and surplus	<u>19,390,444</u>
Total liabilities, capital, and surplus	<u>\$66,199,195</u>

Per examination findings, SCHA did not meet the minimum surplus requirements pursuant to Minnesota Statutes §256B.692 as of December 31, 2018. Following the Company's submission of its 2018 year-end financial statement, the Minnesota Department of Health found that SCHA's reported Risk Based Capital (RBC) ratio constituted a Company Action Level event, pursuant to Minnesota Statutes §60A.52, and subsequently, MDH required that SCHA submit an RBC plan to restore RBC as required pursuant to Minnesota Statutes §60A.50. SCHA submitted an RBC plan to MDH pursuant to Minnesota Statutes §60A.52 which was subsequently accepted by MDH.

In addition to the undersigned, other representatives of Examination Resources, LLC and Taylor Walker Consulting, LLC., both appointed to represent the State of Minnesota, participated in this examination.

Respectfully submitted,



Cecilee Houdek, CPA CFE, MCM
Examiner-in-Charge
Examination Resources, LLC
Representing the State of Minnesota,
Department of Commerce

Grace Kelly

Grace Kelly, PIR
Assistant Chief Examiner
Minnesota Department of Commerce