



STATE OF MINNESOTA

DEPARTMENT OF COMMERCE

SAINT PAUL, MINNESOTA

EXAMINATION REPORT

OF

SOUTH COUNTRY HEALTH ALLIANCE

OWATONNA, MINNESOTA

AS OF

DECEMBER 31, 2015



Protecting, Maintaining and Improving the Health of All Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2015 of:

SOUTH COUNTRY HEALTH ALLIANCE
2300 Park Drive
Owatonna, MN 55060

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 its 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.

A handwritten signature in black ink, appearing to read 'Ehlinger' with a flourish underneath, and the word 'for' written below it.

Edward P. Ehlinger, MD, MSPH
Commissioner

Dated: 07/14/2017

Pursuant to the authority vested in the Commissioner of Commerce of the State of Minnesota, Mike Rothman, 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 55060**

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, 2015 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.

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

MIKE ROTHMAN
Commissioner



By: Frederick Andersen
Acting Deputy Commissioner and Life
Actuary

Dated: _____

8/24/17

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May 16, 2017

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

Honorable Edward Ehlinger, M.D.
Commissioner of Health
Minnesota Department of Health
625 N. Robert St.
St. Paul, Minnesota 55155-2538

Dear Commissioners:

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

SOUTH COUNTRY HEALTH ALLIANCE
2300 Park Drive
Owatonna, MN 55060

(hereinafter referred to as "SCHA" or the "Company")

The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The examination of South Country Health Alliance, (SCHA), was a comprehensive examination, conducted by the State of Minnesota Department of Commerce (hereinafter referred to as Commerce), on behalf of the Minnesota Department of Health (Health). Pursuant to Minn. Stat. 62D.24 Health and Commerce have entered into an Intercompany Agreement whereby Commerce conducts financial examinations of County Based Purchasing Organizations on behalf of Health.

The examination was conducted observing the guidelines and procedures in the NAIC Financial Condition Examiners Handbook (hereinafter referred to as the Handbook). Examination Order #16-013 directed that the examination includes 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, 2012. This full-scope examination covers the three-year period from January 1, 2013, through December 31, 2015. In accordance with the Handbook, the examination included significant transactions and/or events occurring subsequent to December 31, 2015 that were noted during the course of this examination. Key activities of the Company which was reviewed as part of the examination included Premiums, Reserving/Claims Handling, and General and Administrative Expenses.

We conducted our examination in accordance with the Handbook as adopted by the National Association of Insurance Commissioners (NAIC), along with specific procedures defined by Commerce. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of SCHA 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 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 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 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 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.

The Company was audited annually, for the years 2013 through 2015, by the accounting firm of CliftonLarsonAllen (CLA or the CPA). Among the procedures incorporated into this

examination was a review of the annual audit work papers prepared by CLA. Certain work papers developed by the CPA were relied upon by the examiners and were incorporated into the examiners' work papers.

STATUS OF SIGNIFICANT FINDINGS FROM PRIOR EXAM

The prior examination report contained no findings or adjustments.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in no reportable findings or recommendations.

COMPANY HISTORY

General

SCHA was created by a Joint Powers Agreement between various governmental units on July 24, 1998, under Minnesota Statute 471.59. This was done in accordance with Minnesota Statute 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 (CBP) functions for persons enrolled in public healthcare programs.

Under contracts with the Minnesota Department of Human Services (DHS) and the Center for Medicare and Medicaid Services (CMS), SCHA is authorized to provide comprehensive health maintenance services to persons enrolled under public healthcare programs in each of the below-listed member counties.

SCHA serves enrollees in the counties of Brown, Dodge, Goodhue, Kanabec, Morrison, Sibley, Steele, Todd, Wabasha, Wadena and Waseca.

MANAGEMENT AND CONTROL

Corporate Governance

SCHA is governed by a Joint Powers Board (the "Board"), consisting of one individual from each Member County selected by the county board of that county ("Board Member"). 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, 2015, the Board consisted of the following members:

Board Members:

Scott Windschitl
David Erickson
Dan Rechtzigel
Kathi Ellis
Duane Johnson
Gary Kruggel
Nina Huntington
Gary Kneisl
Don Springer
Bill Stearns
Jim Peterson

SCHA's Board had the following committees and members as of December 31, 2015:

Executive

Gary Kneisl, Chair
Scott Windschitl, Vice Chair
Dan Rechtzigel, Past-Chair
Bill Stearns, Finance Chair
Dave Erikson, Quality Chair

Finance

Bill Stearns, Chair
Gary Kneisl
Kathi Ellis
James Peterson
Deb Gruber

Compliance

Duane Johnson, Chair
Dan Rechtzigel
Gary Kruggel
Scott Windschitl
Amy Roggenbuck
Jeff Marks
Leota Lind
Dr. Brad Johnson

Cheri Lewer

Quality Assurance

Dave Erickson, Chair
Anne Grimmus
Nina Huntington
Don Springer
Dr. Bob Daschner
Pat Irvine, MD
Amy Roggenbuck
Wendy Thompson
Wendy Thompson
Susan Maricle
Kay Neuendorf
Brad Johnson, MD
James Rohde, MD
Maureen Murray

Officers as of December 31, 2015:

Leota B. Lind, CEO
Brian V. Hicks, CFO
John Whittington, CIO
Bradley S. Johnson, MD, CMO

TERRITORY AND PLAN OF OPERATION

SCHA is located in Owatonna, MN and had approximately 37,000 members as of December 31, 2015. The Company does not market its products or have any plans for product expansion. Under contracts with DHS and the federal Centers for Medicare and Medicaid Services (CMS), SCHA is authorized to provide health coverage to persons enrolled under public healthcare programs in its member counties. Minnesota Health Care Programs (MHCP) include the following:

- Medical Assistance (PMAP)
- Minnesota Senior Care Plus (MSC+)
- MinnesotaCare
- Minnesota Senior Health Options (MSHO)
- Special Needs Basic Care (SNBC)

REINSURANCE

SCHA cedes to Partner Re America Insurance Company; it does not assume any reinsurance.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the company with the Minnesota Department of Commerce and present the financial condition of the company for the period ending December 31, 2015. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

SOUTH COUNTRY HEALTH ALLIANCE
Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2015
(in 000)

ASSETS	
Cash and short-term Investments	\$ 70,361
Cash and invested assets	\$ 70,361
Investment income due and accrued	30
Uncollected premiums and agents balances	15,659
Accrued retrospective premiums and contracts subject to redetermination	178
Amounts recoverable from reinsurers	4
Amounts receivable under reinsurance contracts	239
Other amounts receivable relating to uninsured plans	304
Electronic data processing equipment and software	682
Healthcare and other amounts receivable	510
Aggregate write-ins for other than invested assets	<u>1</u>
Total Assets	<u>\$ 87,968</u>
LIABILITIES	
Claims unpaid	\$ 25,528
Accrued medical incentive pool and bonus amounts	5,328
Unpaid claims adjustment expense	766
Aggregate health policy reserves	2,649
Premiums received in advance	14,821
General Expenses due or accrued	1,017
Amounts due parent, subsidiaries and affiliates	1
Aggregate write-ins for other liabilities	<u>7,500</u>
Total Liabilities	\$ 57,610
Gross Paid in and Contributed Surplus	\$ 11,077
Unassigned Funds	<u>19,281</u>
Total Capital and Surplus	\$ 30,358
Total Liabilities, Capital, and Surplus	<u>\$ 87,968</u>

SOUTH COUNTRY HEALTH ALLIANCE
Statement of Revenue and Expenses
December 31, 2015
(in 000)

Member months	445
Net premium income	\$ 245,553
Aggregate write-ins for health care related revenues	<u>3</u>
Total Revenue	\$ 245,556
Hospital/medical benefits	\$ 112,936
Other professional services	24,314
Emergency room and out-of-area	17,693
Prescription drugs	25,918
Aggregate write-ins for other hospital and medical	32,473
Incentive pool, withhold adjustments and bonus amounts	<u>4,999</u>
Sub-total	\$ 218,333
Net reinsurance recoveries	<u>712</u>
Total hospital and medical	\$ 217,621
Claims adjustment expenses	\$ 10,637
General administrative expenses	13,879
Increase in reserves for life and accident and health contracts	<u>1,889</u>
Total Underwriting	\$ 244,027
Net underwriting gain	<u>\$ 1,530</u>
Net investment income earned	68
NET INCOME	<u>\$ 1,598</u>
SURPLUS ACCOUNT	
Surplus, December 31, previous year	\$ 29,071
Net income	1,598
Change in non-admitted assets	<u>(311)</u>
Change in surplus for year	\$ 1,287
Surplus as of 12/31/15	<u>\$ 30,358</u>

SOUTH COUNTRY HEALTH ALLIANCE
Statement of Cash Flow
December 31, 2015
(in 000)

Cash from operations:	
Premiums collected net of reinsurance	\$ 237,883
Net investment income	38
Miscellaneous income	<u>3</u>
Total	\$ 237,924
Benefit and loss related payments	\$ 210,137
Commissions, expense paid and aggregate write-ins for deductions	<u>24,193</u>
Total	\$ 234,330
Net cash from operations	\$ 3,594
Cash from investments:	
Bonds	\$ <u>0</u>
Total investment proceeds	\$ 0
Cost of investments acquired:	
Bonds	\$ 0
Total investments acquired	\$ 0
Net cash from investments	\$ <u>0</u>
Other cash provided (applied)	(\$ 197)
Net cash from financing and miscellaneous	(\$ 197)
Net change in cash, cash equivalents, and short-term investments	<u>\$ 3,397</u>
Cash and short-term investments:	
Beginning	\$ 66,964
Ending	\$ 70,361

SOUTH COUNTRY HEALTH ALLIANCE
Comparative Analysis of Changes in Surplus
December 31, 2015

The following is a reconciliation of surplus between the amount reported by the Company and as determined by examination:

	Per Annual Statement	Per Examination	Change in Surplus
Total Assets	\$87,967,809	\$87,967,809	\$0
Total Liabilities	\$57,609,901	\$57,609,901	\$0
Surplus at December 31, 2015	\$30,357,908	\$30,357,908	\$0

SUBSEQUENT EVENTS

During 2015 the State of Minnesota held a competitive bidding process for its Medicaid contract and SCHA only won the bid in one of its member counties. The State subsequently allowed SCHA to be listed as a secondary provider in its remaining member countries; this has slightly reduced SCHA's membership.

CONCLUSION

As a result of this examination, the financial condition of South Country Health Alliance as of December 31, 2015 is summarized as follows:

Admitted assets	\$87,967,809
Liabilities	\$57,609,901
Surplus	\$30,357,908
Total liabilities and surplus	\$87,967,809

Per examination findings, the Company met the minimum surplus requirements pursuant to Minnesota Statutes, Section 256B.692 as of December 31, 2015.

In addition to the undersigned, Grace Kelly, State of Minnesota Assistant Chief Examiner; Mary Hartell, Contract Supervisor, and Waheed Zafer, Risk and Regulatory Consulting, participated in this examination.

Respectfully submitted,



Jan M. Moenck, CFE
Examiner-in-Charge
Representing the State of Minnesota,
Department of Commerce