

**STATE OF NORTH DAKOTA  
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION**

**OF**

**HEART OF AMERICA HEALTH PLAN  
RUGBY, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 2012**

STATE OF NORTH DAKOTA  
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

**Heart of America Health Plan**

**Rugby, North Dakota**

as of December 31, 2012, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto  
set my hand and affixed my official seal at my  
office in the City of Bismarck, this 23 day of  
June, 2014.



  
Adam Hamm  
Insurance Commissioner

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Rugby, North Dakota  
April 25, 2014

Honorable Adam Hamm  
Commissioner  
North Dakota Insurance Department  
600 East Boulevard Avenue, Dept. 401  
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

**Heart of America Health Plan  
Rugby, North Dakota**

Heart of America Health Plan, hereinafter referred to as the "Company", was last examined as of December 31, 2007, by the North Dakota Insurance Department (Department).

**SCOPE OF STATUTORY EXAMINATION**

This examination was a risk-focused financial condition examination conducted in accordance with N.D.C.C. § 26.1-18.1-18 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the five-year period from January 1, 2008, to and including December 31, 2012, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Our examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, we planned and performed 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. Our examination also included assessment of the accounting principles used and significant estimates made by management as well as evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles, annual statement instructions, and when applicable, to domestic state regulations.

Work papers provided by the Company's independent auditor, Eide Bailly, LLP, were reviewed and where deemed appropriate, certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

This examination was conducted by Examiners from the North Dakota Insurance Department, representing the Midwestern Zone.

## **STATUS OF PRIOR EXAM FINDINGS**

The examination included a review to determine the current status of the five exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2003, to December 31, 2007. We determined that the Company had satisfactorily addressed all of these items.

## **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings or material changes in the financial statements.

## **SUBSEQUENT EVENTS**

Effective July 1, 2013, the Company became a subsidiary of Sanford Health Plan (SHP), a wholly-owned subsidiary of Sanford Health which, in turn, is wholly-owned by Sanford, the ultimate parent. In connection with the merger with SHP, two consumer representative board members from the Company joined the SHP Board of Directors. In addition, as part of the merger with SHP, the Company's surplus notes to Heart of America Medical Center were paid and the Company amended its Articles changing the name of the Company to Sanford Heart of America Health Plan. On December 16, 2013, SHP contributed an additional \$1,000,000 of capital to the Company.

## **HISTORY**

### **General**

The Company was incorporated January 19, 1978, pursuant to the North Dakota Nonprofit Corporation Act as a nonprofit corporation. The original name of the Company was Hub of America HMO Planning Council. On November 30, 1979, the Articles of Incorporation were amended which had the effect of bringing the corporation also under the provision of N.D.C.C. ch. 26-38 and Public Law 93-222. On February 24, 1982, the Company amended the Articles changing the name of the Company to Heart of America HMO. On August 1, 2004, the Company amended the Articles changing the name of the Company to Heart of America Health Plan.

As noted in the Subsequent Events section of this report, due to the Company's merger with Sanford Health Plan on July 1, 2013, the Company amended its Articles changing the name of the Company to Sanford Heart of America Health Plan.

The purpose of the Company is to develop and operate an HMO; to promote the general and social welfare of the citizens of North Dakota within the HMO market area; to improve the availability and accessibility of quality health care and health services; to provide and assist in the implementation of comprehensive health planning through cooperation with municipal,

county, state, and federal agencies; and to do anything and everything necessary, proper, convenient, suitable, and incidental to the above-stated purposes or which may be done by a nonprofit corporation.

The Company is exempt from the payment of federal income taxes under the provisions of Internal Revenue Code Section 501(c)(4).

N.D.C.C. § 26.1-18.1-12(1)(c) provides that health maintenance organizations licensed before August 1, 1993, and licensed only in the State of North Dakota must maintain the minimum net worth requirements in effect at the time N.D.C.C. ch. 26.1-18.1 became law. The Company has no net worth requirement since it was chartered in 1982 when no net worth was required for health maintenance organizations.

The Company is subject to the risk-based capital requirements for health organizations under N.D.C.C. ch. 26.1-03.2, which became effective August 1, 1999.

### **Surplus Notes**

Effective November 1, 1999, the Company issued two \$250,000 surplus notes—one to Johnson Clinic, P.C. and one to Heart of America Medical Center. On July 13, 2006, the Department approved the payment of the Johnson Clinic, P.C. surplus note and issuance of a second \$250,000 surplus note to Heart of America Medical Center. On July 31, 2006, Heart of America Medical Center issued a check to the Company which in turn issued a check along with a Release and Settlement Agreement to Johnson Clinic, P.C. in the amount of \$250,000.

The terms of the two surplus notes issued to Heart of America Medical Center provide for the following:

- The 1999 note pays interest at 8.25% per annum, with interest and principal payments payable semi-annually on May 1 and November 1 of each year and an extended maturity date that is contingent on net worth and risk-based capital requirements imposed by North Dakota law.
- The 2006 note pays interest at 6% per annum, with interest and principal payments payable semi-annually on May 1 and November 1 of each year and an extended maturity date that is contingent on net worth and risk-based capital requirements imposed by North Dakota law.

All principal and interest payments require the prior approval of the Commissioner. With the Commissioner's approval, the Company began payments on the surplus notes to Heart of America Medical Center in October 2006. As of December 31, 2007, \$80,000 in principal and interest had been paid and a \$428,000 outstanding balance remained on the two surplus notes held by Heart of America Medical Center.

On April 23, 2008, and September 2, 2008, the Commissioner approved \$30,000 payments on the surplus notes to Heart of America Medical Center. As of December 31, 2008, \$60,000 in principal and interest had been paid and a \$374,000 outstanding balance remained on the two surplus notes held by Heart of America Medical Center.

On March 31, 2009, the Commissioner approved a \$60,000 payment on the surplus notes to Heart of America Medical Center. As of December 31, 2009, \$60,000 in principal and interest had been paid and a \$320,000 outstanding balance remained on the two surplus notes held by Heart of America Medical Center.

As part of the Company's merger with Sanford Health Plan, on May 31, 2013, the Commissioner approved payment of the outstanding principal and interest on the surplus notes. On July 24, 2013, the Company paid off the two surplus notes for a total payment of \$354,182.

## **MANAGEMENT**

### **Board of Directors**

The Bylaws provide that a Board of Directors of nine members shall manage the business of the corporation.

The Directors shall be those nominated and appointed by the Board of Directors of the Company. Individuals may be eligible to serve as a Director under one of the following conditions:

1. Individual is a subscriber or a subscriber's spouse enrolled under a group or non-group contract. Five of the nine Directors must qualify under this provision.
2. Individual is a physician, physician assistant or registered nurse, or once was in one of the three professions, and whose medical expertise is considered to be beneficial. No more than two Directors may serve under this provision.
3. Individual is in a profession, or once was in a profession, which would be considered beneficial because of their expertise in backgrounds such as financial, business or insurance. No more than two Directors may serve under this provision.

Candidates for the Board of Directors are nominated by a committee made up of current Board members. The nominees receiving the majority of the votes by the Board of Directors are appointed to the Board. Appointment of Directors is announced at the annual membership meeting with the Director taking office at the adjournment of the meeting. In the event an appointment is made to fill a vacancy, the Director takes office at the next meeting following the appointment.

Directors are appointed to a three-year term. No person shall be eligible to serve as a Director for more than two consecutive three-year terms. However, a Director who has served for two consecutive three-year terms may be eligible for reappointment after having been off the Board for one year. The two-term limit may be waived for Directors appointed under Provision 2 above by a majority vote of the remaining Board of Directors.

Directors serving at December 31, 2012, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Rob St. Michel Rugby, ND	Business Owner, St. Michel's Furniture
Robert Hovland Rugby, ND	President, Center Mutual Insurance Company
Teri Hurly, M.D. Minot, ND	Physician, Trinity Medical Group
Wayne Judkins Towner, ND	Teacher
Philip Backstrom Maddock, ND	Farming
Tim McKay Minot, ND	Grain Elevator Manager
Denise Myhre Rugby, ND	Teacher
Cynthia Tastad Rolette, ND	Farming
Rod Wurgler York, ND	Farming & Engineering Consultant

### Officers

The Bylaws provide that the Company's officers shall be a President, a Vice President, and a Secretary, all of whom shall be elected by the Board of Directors at the first Board meeting after the annual meeting.

The Bylaws also provide for the Board of Directors to appoint an Executive Director and a Medical Director.

The officers duly elected or appointed by the Board of Directors and holding office at December 31, 2012, were as follows:

<u>Name</u>	<u>Title</u>
Rob St. Michel	President
Rob Hovland	Vice President
Denise Myhre	Secretary
Mary Ann Jaeger	Executive Director
Dr. Teri Hurly	Medical Director

## Committees

The Bylaws provide that all committee members shall be appointed by the President with approval of the Board of Directors. The one permanent or standing committee is the Executive Committee. Other committees shall be established ad hoc for specific purposes and then dissolve when their assigned tasks are completed, such as the Company's Budget Committee. Through a review of the board minutes, the Executive and Budget Committees have met a total of seven times during the exam period. The committees and their respective members at December 31, 2012, were as follows:

### Executive Committee

Rob St. Michel, Chairman  
Rob Hovland  
Denise Myhre

### Budget Committee

Rob St. Michel, Chairman  
Rob Hovland  
Denise Myhre

Investments made during the period covered by the examination were approved by the full Board membership.

## Audit Committee

Under N.D. Admin. Code § 45-03-20-02(3), if an audit committee is not designated by the insurer, the insurer's entire board of directors shall constitute the audit committee. Since the Company did not designate an Audit Committee, the Company's full Board of Directors serves as its Audit Committee. During the period under examination, the Company's independent auditor, Eide Bailly, LLP, conducted annual audits of the Company's books and records. During those audits, Eide Bailly's main contact was Mary Ann Jaeger, the Company's Executive Director. During the entire examination period, Eide Bailly did not present its annual audit report findings and recommendations to the Board of Directors or to an Audit Committee as required by N.D. Admin. Code § 45-03-20-12.1(1) which states:

The audit committee shall be directly responsible for the appointment, compensation, and oversight of the work of any accountant, including resolution of disagreements between management and the accountant regarding financial reporting, for the purpose of preparing or issuing the audited financial report or related work pursuant to this chapter. Each accountant shall report directly to the audit committee.

The Company stated that Eide Bailly presented its findings and recommendations to Mary Ann Jaeger, Executive Director. Ms. Jaeger then subsequently provided Eide Bailly's findings and recommendations to the full board at its next regularly scheduled meeting for approval.

Subsequent to the exam period, SHP's Audit Committee, which also now serves as the Company's Audit Committee, is presented with the findings and recommendations by its external auditor, Deloitte.

## CORPORATE RECORDS

### Articles of Incorporation and Bylaws

There were no changes to the Articles of Incorporation during the period covered by this examination.

The Bylaws were amended effective November 7, 2012, to delete Article III - Membership, in its entirety and to delete Article IV – Meetings, in its entirety and replace it with the following language:

- Regular meetings of the Board of Directors shall be held no less frequently than quarterly at such place and time as shall be approved by the Board of Directors.
- Special meetings of the Board of Directors may be called at any time by the President, the President's designee or a majority of the Board of Directors, upon two days' notice to the members of the Board of Directors, which notice may be verbal, written or via electronic transmission/email. The business to be transacted at any special meeting shall be limited to those items of business set forth in the notice of the meeting.

### Board of Directors, Members, and Committee Minutes

The minutes of the membership, the Board of Directors, and committees for the period under examination were read.

The minutes of the various meetings indicate that full board meetings were well attended and were held in compliance with the Bylaws, Articles of Incorporation and statutory requirements. The deliberations of the board were adequately documented and supported the Company's transactions and events.

### Conflict of Interest

The Company has an established procedure for disclosing potential conflicts of interest to its Board of Directors of any material interest or affiliation on the part of its officers, directors or key employees which is in or likely to conflict with the official duties of such person.

The conflict of interest statements were reviewed and no conflicts were noted which would adversely affect the Company.

## AFFILIATES

The Company was not a member of an insurance holding company system at December 31, 2012.

The Company was affiliated with Heart of America Medical Center through surplus note transactions. The Company also has a capitation agreement with Heart of America Medical Center which is described under the provider contract caption of this report.

The Company leased its office from Heart of America Medical Center during the period under examination. The annual lease payment was \$24,325 in 2008 and \$26,417 for 2009 through 2012.

## FIDELITY BOND AND OTHER INSURANCE

The Company is protected against loss from fraudulent or dishonest acts of its employees by a commercial blanket bond providing coverage in the amount of \$100,000. The amount of coverage meets the minimum amount recommended in the NAIC *Examiners Handbook*.

The Company also had in force policies covering directors and officers liability, errors and omissions, and a professional office package policy covering office contents.

## PENSION AND INSURANCE PLANS

The Company reimburses \$1,000 for the purchase of a qualified IRA without requiring employee matching funds. In addition, the Company will match up to four percent of the employee's gross salary when matched by the employee. During the period under examination the Company reimbursed employees as follows for IRA purchases:

<u>Year</u>	<u>Amount</u>
2008	\$3,898
2009	\$7,560
2010	\$8,082
2011	\$8,002
2012	\$7,042

## STATUTORY DEPOSITS

Deposits held by or pledged to regulatory agencies at December 31, 2012, are as follows:

State	Type of Asset	Fair Value	Statement Value
North Dakota	Certificates of Deposit	\$392,456	\$392,456

The deposits held by the State of North Dakota are held pursuant to N.D.C.C. §§ 26.1-18.1-12(2) and 26.1-18.1-13.

## TERRITORY AND PLAN OF OPERATION

### Territory

The Company is authorized to transact business in the following North Dakota counties:

Benson	Bottineau	Burke	McHenry	Mountrail	Divide
Renville	Rolette	Pierce	Towner	Ward	McKenzie
Eddy	McLean	Sheridan	Wells	Williams	

### Plan of Operation

The Company is duly licensed and qualified to transact accident and health business as a nonprofit mutual insurance company in North Dakota. The Certificate of Authority issued by the State of North Dakota was reviewed and found to be in proper order and effect.

The Company's enrollment at December 31, 2012, was approximately 1,112 members which consisted of the following:

<u>Type</u>	<u>Totals</u>
Medicare	397
Individual	253
Group	399
Federal Employees	<u>63</u>
Total Enrollment	1,112

## PROVIDER CONTRACTS

### Capitation Contracts

The Examiner reviewed the capitation contracts for hold harmless provisions, services to be provided, payment amounts, risk mechanisms, and effective and termination dates with no differences noted.

The following is a summary of the significant capitation agreements in effect at December 31, 2012:

#### Heart of America Medical Center

Effective April 1, 2000, the Company entered into an agreement with Heart of America Medical Center covering health services provided to members of the Company. The agreement continues annually beginning on January 1 of each year unless terminated by notice received not less than 90 days prior to the expiration of each term.

The capitation rate in effect in 2012 was \$57.37 for the high option and \$56.11 for the low option per member per month. The total amount paid in 2012 to the Heart of America Medical Center was \$399,503.

Dakota Eye Institute, P.C.

Effective January 1, 1997, the Company entered into an ophthalmology services agreement with the Dakota Eye Institute, P.C. The agreement was changed as of January 1, 2011; the contract went from a capitation arrangement to payment based on 100% of the Medicare Fee Schedule. The Company agrees to pay to the Institute an amount 100% of the reimbursable amount for participating providers per the Medicare Fee Schedule that is in effect for the date the service is provided. The total amount paid in 2012 to Dakota Eye Institute was \$101,958.

The agreement shall be automatically renewed and continue in effect from year to year unless terminated by either party by written notice given at least 60 days in advance of such intended termination date.

Heart of America Medical Center - Johnson Clinic

Effective August 1, 2010, the Company entered into a Medical Service Agreement with Heart of America Medical Center-Johnson Clinic to provide health care services to its members enrolled through a Non-Medicare Plan or a Medicare Cost Plan.

For members enrolled through a Non-Medicare Plan, the Company agreed to pay HAMC within 25 working days of receipt of a correct invoice detailing the specific services rendered to a member and the charges thereof, 85% of Medical Group's standard charge schedule for such Medical Services. For members enrolled through a Medicare Cost Plan, the Company agreed to pay HAMC within 25 working days of receipt of a correct invoice detailing the specific services rendered to a member and the charges thereof, 65% of Medical Group's standard charge schedule for such Medical Services.

The agreement continues annually beginning on January 1 of each year unless terminated by notice received not less than 90 days prior to the expiration of each term. The total amount paid in 2012 to Heart of America Medical Center under this agreement was \$209,539 for Non-Medicare Payments and \$279,468 for Medicare Payments.

## GROWTH OF THE COMPANY

The growth of the Company for the years 2008 through 2012 is shown on the following schedule:

Year	Admitted Assets	Liabilities	Capital & Surplus	Net Premium Earned	Members	Member Months
2008	\$2,114,173	\$490,831	\$1,623,342	\$4,514,525	1,488	18,420
2009	2,073,967	572,904	1,501,063	4,418,978	1,372	17,066
2010	2,123,735	782,360	1,341,375	4,440,216	1,296	15,954
2011	1,778,594	592,676	1,185,918	4,519,308	1,260	15,315
2012	1,461,960	608,416	853,544	4,141,983	1,112	13,837

Due to the Company's continued declining assets, surplus, and enrollment throughout the exam period, the Company subsequently merged with Sanford Health Plan, which is further discussed under the Subsequent Events section of this report.

## LOSS EXPERIENCE

The ratio of claims and expenses incurred to premiums earned for years 2008 through 2012 is shown in the following schedule:

Year	Net Premium Earned	Hospital & Medical Benefits	Medical Loss Ratio	Claims Adj. & General Admin. Expenses	Admin. Expense Ratio	Combined Ratio
2008	\$4,514,525	\$3,657,139	78.6%	\$458,946	10.2%	88.8%
2009	4,418,978	4,492,342	92.0%	459,518	10.4%	102.4%
2010	4,440,216	4,494,764	95.0%	455,456	10.3%	105.2%
2011	4,519,308	4,598,373	93.8%	446,683	9.9%	103.7%
2012	4,141,983	4,282,610	98.3%	426,247	10.3%	108.6%

The Company's total hospital and medical benefits per average member for the years 2008 through 2012 is shown in the following schedule:

Year	Total Members at Year-End	Average Members	Hospital & Medical Benefits	Hospital & Medical Benefits Per Member
2008	1,488	1,562	\$3,657,139	\$2,341.32
2009	1,372	1,430	4,492,342	3,141.50
2010	1,296	1,334	4,494,764	3,369.39
2011	1,260	1,278	4,598,373	3,598.10
2012	1,112	1,186	4,282,610	3,610.97

The Company's average members decreased 24% over the exam period, while the hospital and medical benefits per member increased 54%.

## REINSURANCE

The following is a summary of the reinsurance treaty in force at December 31, 2012:

Ceding Contract:

- Type: Excess of Loss  
Reinsurer: HCC Life Insurance Company  
Scope: Commercial HMO  
Retention: \$45,000

Coverages:

A. Percentage Payable – 90%

B. Inpatient Hospital Services at:  
Short Term Hospitals, Including Pharmaceuticals Heart of America  
Medical Center

The lesser of:

- 100% of billed charges, the amount Paid, or \$1,000 per day all other Short Term Hospitals

The lesser of:

- 100% of billed charges, the amount Paid, or Average Daily Maximum (ADM) of \$4,500

The per day & ADM Limits do not apply to Eligible Expenses that are for anesthesia and operating room expenses, Durable Medical Equipment (DME), Implants or Rev Codes 270-279.

Long Term Acute Facilities

The lesser of:

- 100% of billed charges, the amount Paid, or \$2,000 per day up to a maximum of 365 days per Contract Period

The per day limit does not apply to Eligible Expenses that are for Durable Medical Equipment (DME), Implants or Rev Codes 270-279.

Skilled Nursing Facilities

The lesser of:

- 100% of billed charges, the amount Paid, or \$2,000 per day up to a maximum of 365 days per Contract Period

Rehabilitation Facilities

The lesser of:

- 100% of billed charges, the amount Paid, or \$2,000 per day up to a maximum of 365 days per Contract Period

C. Transplants during the Transplant Confinement

The lesser of:

- 100% of billed charges, the amount Paid, or Average Daily Maximum (ADM) of \$4,500

D. Emergency Out of Area Care

Refer to Allowable Charges within this section for the Service received.

E. Outpatient Services

Heart of America Medical Center

The lesser of:

- 100% of billed charges, the amount Paid, or \$1,000 per day all other Outpatient Services

The lesser of:

- 72.5% of billed charges, the amount Paid, or \$4,500 per day

The per day limit does not apply to Eligible Expenses that are for Durable Medical Equipment (DME), Implants or Rev Codes 270-279.

F. Physician Services

The lesser of:

- the amount Paid, or 150% of Medicare Allowable or 75% of billed charges if no Medicare Allowable

G. Home Health Care

The lesser of:

- 100% of billed charges, the amount Paid, or \$250 per day to a maximum of 365 days per Contract Period

H. Ambulance

The lesser of:

- 100% of billed charges, or the amount Paid

I. Durable Medical Equipment (DME), other than Inpatient Hospital Services

The lesser of:

- 100% of billed charges, the amount Paid, or \$50,000 per Contract Period combined with Implants

J. Implants

The lesser of:

- 100% of billed charges, the amount Paid, or \$50,000 per Contract Period combined with Durable Medical Equipment (DME)

Premium: Commercial HMO \$38.19 per member per month

Effective Date: August 1, 2012

Termination: Twelve months from the effective date or upon nonpayment of premium, the date a party ceases operation, the date of any material change that the Company is unwilling to accept, a material breach of agreement or declaration of receivership, whichever is earliest.

The reinsurance agreement contain the insolvency clause required by N.D.C.C. § 26.1-02-21 and all of the required clauses set forth in the NAIC's *Accounting Practices and Procedures Manual*.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2012, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2012 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company is audited annually by Eide Bailly, LLP, an outside firm of independent certified public accountants. Eide Bailly's work papers were made available to the Examiners and were used to the extent deemed appropriate for this examination.

### **Claim Complaints**

N.D.C.C. § 26.1-04-03(10) requires that the Company adopt and implement reasonable standards for the prompt handling of written communications, primarily expressing grievances, received by the Company from insureds or claimants.

During the exam period, the Company did maintain complaint material, but it was not possible to determine how the complaint was resolved or that it was resolved timely. With the exception of 2008, it is unclear how many total complaints were filed with the Company, as there was no complaint log listing included in the Company's files. In addition, the Company was unable to provide the complaint data for 2012.

**It is recommended that the Company maintain an internal complaints log that meets the requirements of N.D.C.C. § 26.1-04-03(10) for any complaints that are reported to the Company.**

## **FINANCIAL STATEMENTS**

The financial statements of the Company are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Capital and Surplus, December 31, 2012  
Statement of Revenue and Expenses for the Year Ending December 31, 2012  
Reconciliation of Capital and Surplus, January 1, 2008 through December 31, 2012

**Sanford Heart of America Health Plan  
Statement of Assets  
December 31, 2012**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$783,616		\$783,616
Preferred stocks	41,790		41,790
Common Stocks	244,130	\$65,919	178,211
Cash	273,411		273,411
Investment Income Due and Accrued	8,454		8,454
Uncollected Premiums and Agents' Balances in the Course of Collection	2,322		2,322
Amounts Recoverable from Reinsurers	38,573		38,573
Amounts Receivable Relating to Uninsured Plans	134,730		134,730
Electronic Data Processing Equipment and Software	853		853
Furniture & Equipment	431	431	0
Prepaid Insurance	17,128	17,128	0
Totals	<u>\$1,545,438</u>	<u>\$83,478</u>	<u>\$1,461,960</u>

**Sanford Heart of America Health Plan  
Liabilities, Capital and Surplus  
December 31, 2012**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims Unpaid	\$406,093	\$147,712	\$ 553,805
Unpaid Claims Adjustment Expenses	22,152		22,152
Premiums Received in Advance	3,182		3,182
General Expenses Due or Accrued	29,277		<u>29,277</u>
 TOTAL LIABILITIES	 <u>\$460,704</u>	 <u>\$147,712</u>	 <u>\$ 608,416</u>
 Surplus Notes			 \$ 320,000
Unassigned Funds			<u>533,544</u>
 TOTAL CAPITAL AND SURPLUS			 <u>\$ 853,544</u>
 TOTAL LIABILITIES, CAPITAL AND SURPLUS			 <u><u>\$1,461,960</u></u>

**Sanford Heart of America Health Plan  
Statement of Revenue and Expenses  
Year Ending December 31, 2012**

	<b>Uncovered</b>	<b>Total</b>
Net Premium Income		\$4,141,983
Medical and Hospital:		
Hospital/Medical Benefits		\$3,473,392
Outside Referrals	\$609,533	609,533
Emergency Room and Out-of-Area		194,780
Prescription Drugs		4,905
Subtotal	\$609,533	\$4,282,610
Net Reinsurance Recoveries		209,991
Total Medical and Hospital	\$609,533	\$4,072,619
Claims Adjustments Expenses		66,391
General Administrative Expenses		359,856
Total Underwriting Deductions	\$609,533	\$4,498,866
Net Underwriting Gain or (Loss)		(356,883)
Net Investment Income Earned		46,830
Net Realized Capital Gain or (Loss)		0
NET INVESTMENT GAIN OR (LOSS)		46,830
Net Income or (Loss) Before Federal Income Taxes		\$(310,053)
Federal Income Taxes Incurred		(10,305)
NET INCOME		<u>\$ (299,748)</u>

**Sanford Heart of America Health Plan  
Reconciliation of Capital and Surplus Account  
January 1, 2008 through December 31, 2012**

	2012	2011	2010	2009	2008
Capital and Surplus, December 31, Prior Year	\$1,185,918	\$1,341,375	\$1,501,063	\$1,623,342	\$1,083,040*
Net Income or (Loss)	(299,748)	(110,260)	(166,635)	(45,051)	564,780
Net Unrealized Capital Gain or (Loss)	30,467	(48,511)	11,976	(23,280)	28,958
Change in Nonadmitted Assets	(63,094)	3,314	(5,029)	52	564
Change in Surplus Notes	0	0	0	(54,000)	(54,000)
Net Change in Capital and Surplus	\$ (332,375)	\$ (155,457)	\$ (159,688)	\$ (122,279)	\$540,302
Capital and Surplus, December 31, Current Year	\$853,543	\$1,185,918	\$1,341,375	\$1,501,063	\$1,623,342

\*Amount as reported by the Company in its 2007 Annual Statement, but does not reflect the \$12,838 increase determined in the prior examination.

## CONCLUSION

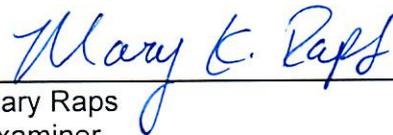
The financial condition of the Company as of December 31, 2012, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$1,461,960</u>
Total Liabilities	\$608,416	
Total Capital and Surplus	<u>853,544</u>	
Liabilities, Surplus, and Other funds		<u>\$1,461,960</u>

Since the last examination conducted as of December 31, 2007, the Company's admitted assets have decreased \$253,467, its total liabilities have decreased \$11,133, and its capital and surplus has decreased by \$242,334.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

Respectfully submitted,



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Mary Raps  
Examiner  
North Dakota Insurance Department

## **RECOMMENDATIONS**

It is recommended that the Company maintain an internal complaints log that meets the requirements of N.D.C.C. § 26.1-04-03(10) for any complaints that are reported to the Company.