

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

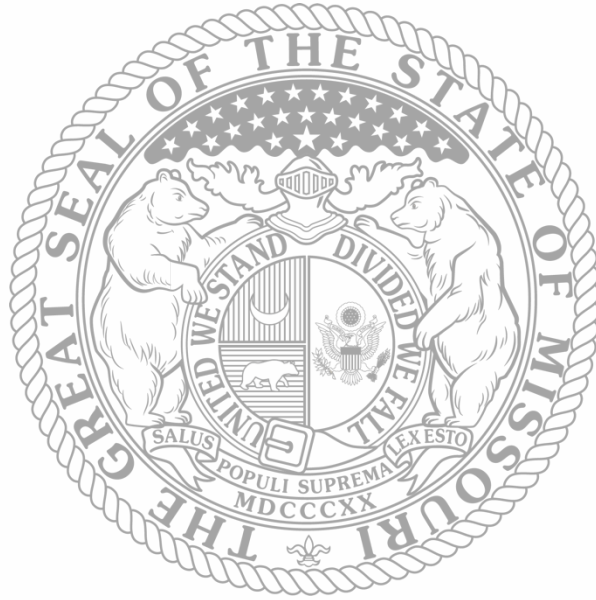
After full consideration and review of the report of the financial examination of NHC Advantage, LLC for the period ended December 31, 2019, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, history, corporate records, management and control, territory and plan of operations, accounts and records, financial statements, comments on the financial statements, subsequent events and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of NHC Advantage, LLC as of December 31, 2019 be and is hereby ADOPTED as filed and for NHC Advantage, LLC to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement and verify compliance with each item mentioned in the Comments on the Financial Statement and/or Summary of Recommendations section of such report; and (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 20th day of May, 2021.



Chlora Lindley-Myers
Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

NHC ADVANTAGE, LLC

AS OF
DECEMBER 31, 2019

**STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE**

JEFFERSON CITY, MISSOURI

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Saint Louis, MO
April 13, 2021

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

NHC Advantage, LLC (NAIC #16000)

hereinafter referred to as such, as NHCA, or as the Company. Its administrative office is located at 10900 Nuckols Rd, Suite 110, Glen Allen, Virginia 23060, telephone number (804) 396-6412. The fieldwork for this examination began on June 29, 2020, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a multiple-state financial examination of NHCA. This is the first examination of the Company by the Department. The current examination covers the period from the Company's inception through December 31, 2019, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. 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 the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to NHCA included Related Parties, Capital & Surplus, Premiums & Underwriting, Investments and Claims & Reserves. The examination also included a review and evaluation of information technology general controls.

This examination was conducted as part of a coordinated examination of the National Healthcare Corporation Group, which consists of two insurance companies domiciled in separate states. The Tennessee Department of Commerce and Insurance is the lead state regulator for the group with Missouri as the only other participating state.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company 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 are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Since the Company began operations, the Department has requested an accurate list of all related parties, and related party contracts. The Form B supplemental registration is required per RSMo 382.010 and has been requested annually as part of the required Form B review process, and a list of related parties, and associated contracts was requested as part of the examination procedures for this exam. The company has been unable to provide this information. This finding has limited the examiner's ability to identify all related parties and the associated intercompany transactions.

The Company provided 14 contracts with NHC HealthCare facilities in South Carolina. The effective date of the contracts is January 1, 2021. Per RSMo 382.195, the Company is required to file a Form D notification at least 30 days in advance of the contract going into effect. No Form D has been filed for any of the 14 contracts.

The Company reported the majority of its expenses in bulk in Underwriting & Investment Exhibit Part 3 as management fees rather than allocating them to the appropriate individual expenses to which they apply. The 2019 Health Annual Statement Instructions specify all management fees should be reported on the appropriate lines as if the Company had incurred these expenses directly, and explicitly prohibit the reporting of management, administration, or similar fees as one-line expenses. The reporting entity may estimate these expense allocations based on a formula or other reasonable basis.

The Company has not identified an Audit Committee. Per RSMo 375.1030, the Company shall designate a group of individuals as constituting its audit committee to perform the duties set forth in RSMo 375.1053.

COMPANY HISTORY

General

The Company was organized under the Missouri Limited Liability Company Act and received a certificate of organization on September 9, 2015. NCHA is a Medicare Advantage organization licensed as a HMO in Missouri effective April 27, 2016.

NHCA was issued a Tennessee license to transact HMO business, effective April 20, 2018 and is expanding into South Carolina in 2021.

Mergers, Acquisitions, and Major Corporate Events

No mergers, acquisitions or other major corporate events occurred during the examination period.

Dividends and Capital Contributions

NHCA has not issued any dividends since inception.

Below are the capital contributions made by National HealthCare Corporation (NHC) after the Company was initially capitalized in 2016.

Year	Amount
2018	\$ 1,520,000
2019	1,550,000
Total	\$ 3,070,000

Surplus Notes

NHCA does not have any surplus notes outstanding.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that are appointed by the parent companies of NHCA. The Company’s operating agreement specifies that there shall be three directors. The Board of Directors appointed and serving as of December 31, 2019, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Robert Ussery Murfreesboro, TN	Chief Operating Officer and Senior Vice-President of Operations NHC
Steven Flatt Murfreesboro, TN	President and Senior Vice-President of Development NHC
Will Saunders Glen Allen, VA	Chief Executive Officer AllyAlign

Senior Officers

The officers elected and serving, as of December 31, 2019, were as follows:

<u>Name</u>	<u>Office</u>
Robert Ussery	President
Will Saunders	Secretary

Principal Committees

The Board of Directors is authorized to establish committees. The committees in place as of December 31, 2019 were the Compliance Committee, the Quality Improvement Committee, and the Executive Steering Committee. Each committee consists of membership established by the Board.

Corporate Records

In place of Articles of Incorporation and Bylaws, NHCA has a formal Operating Agreement. No amendments were made since inception. The minutes of the Board of Directors were reviewed for the period under examination. The minutes appear to properly document and approve corporate events and transactions.

Holding Company, Subsidiaries, and Affiliates

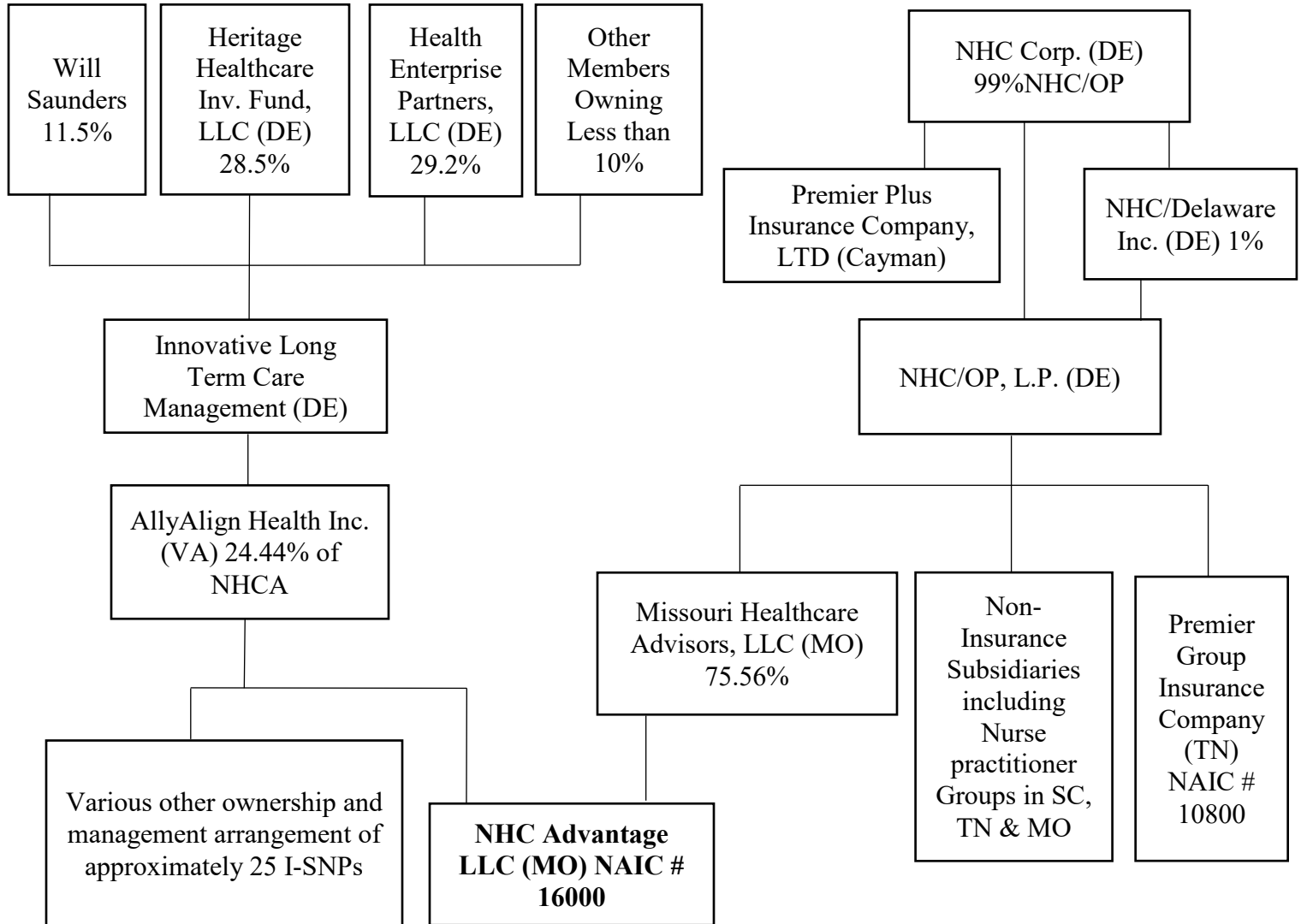
NHCA is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). The Ultimate Controlling Entities are NHC Corp and Innovative Long Term Care Management (ILTCM). NHCA is owned 24.44% by AllyAlign Health Inc. (AllyAlign) and 75.56% by Missouri Healthcare Advisors, LLC (MHA). MHA is a wholly-owned subsidiary of National Healthcare Corporation (NHC), a Delaware Corporation specializing in operation and management of senior health care and long-term care services. AllyAlign is primarily engaged in the accounting, administrative, and back office services for the healthcare industry. AllyAlign is wholly-owned by ILTCM.

The Company is governed by the Board of Directors, which is appointed by the two owners, AllyAlign and NHC, who are the Ultimate Controlling Entities.

An Insurance Holding Company System Registration Statement was filed by NHCA each year of the examination period. However, as noted in the Summary of Significant Findings section of this report, the Form B supplemental registration was not filed in any year during the examination period.

Organizational Chart

The following organizational chart depicts the known applicable portion of the holding company group as of December 31, 2019. Ownership percentage is 100% unless otherwise indicated. As noted in the Summary of Significant Findings section of this report, this may not be an all-inclusive list.



Intercompany Transactions

The following agreements represent significant contracts executed with affiliated entities that were disclosed by the Company and in effect as of December, 31, 2019. As mentioned in the Summary of Significant Findings section of this report, the Department has not been provided a complete list of related parties, and therefore could not verify this is a complete list of intercompany transactions. A brief description of these known agreements are as follows:

Facility Provider Services Agreement: On January 1, 2017, the Company entered into separate agreements with eight NHC affiliates to provide skilled nursing care Part-A and Part-B therapy services in Missouri.

Nurse Practitioner Agreement: On January 1, 2017, the Company entered into a Nurse Practitioner Agreement with Missouri Gateway Health, LLC (Gateway). Gateway will provide Licensed Nurse Practitioner Care and Care Coordination Services.

Medical Director Agreement: On January 1, 2017, the Company entered into a Medical Director Agreement with Gateway. Gateway will provide the Company with a Medical Director to oversee clinical direction of medical and other services.

Medical Director Agreement: On January 1, 2019, the Company entered into a Medical Director Agreement with Gateway. Gateway will provide the Company with medical directorship services to employ, contract or lease physicians in all states where NHCA writes business. This agreement was originally filed with the Department in 2020.

Management Services Agreement: On October 1, 2015, the Company entered into an agreement for AllyAlign to provide the Company with management and consulting healthcare services, including, without limitation, computerized management information system services, financial system services, claims administration services, claims payment, and plan development and administration services.

Advanced Practice Providers Participation Agreement: On January 1, 2019, the Company entered into an agreement for Tennessee Health Partners to provide the Company with nurse practitioner healthcare services in the State of Tennessee. This agreement was originally filed with the Department in 2020

Business Associate Agreement: On October 1, 2015, the Company entered into an agreement with AllyAlign to acknowledge it is a business associate under the Health Insurance Portability Act. This agreement was originally filed with the Department in 2017.

Facility Provider Services Agreement: On January 1, 2019, the Company entered an agreement for 34 NHC affiliates to provide skilled nursing care Part-A and Part-B therapy services in Tennessee.

Facility Provider Services Agreement: On January 1, 2021, the Company entered an agreement for 14 NHC affiliates to provide skilled nursing care Part-A and Part-B therapy services in South Carolina. As mentioned in the Significant Findings section, no Form D has been filed for these agreements.

TERRITORY AND PLAN OF OPERATION

NHCA is licensed as a Health Maintenance Organization (HMO) under Chapter 354 RSMo (Health Service Corporations). The Company was also licensed to transact business in Tennessee during the examination period.

The Company's only line of business is Institutional Special Needs Plan (I-SNP) that covers all benefits of Medicare (Part A and B) and prescription Drug coverage (Part D). NHCA's service area in Missouri includes the following counties: Camden, Jackson, St. Charles, Greene, Jasper, and St. Louis.

In 2018, NHCA received a license to write I-SNP business in Tennessee. Tennessee now makes up 90% of NHCA's business.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The Company began writing I-SNP in Missouri in 2017 and expanded to Tennessee in 2019. All of the growth from 2018 to 2019 is attributable to the Tennessee expansion.

The table below summarizes the Company's growth for the period under examination:

(\$000s omitted)

Year	Total Assets	Net Premiums Earned	Underwriting Gain (Loss)	Net Income (Loss)	Capital and Surplus	Ratio of Net Premiums to Surplus
2019	\$ 6,794	\$ 24,933	\$ (851)	\$ (791)	\$ 2,422	1,029%
2018	2,492	2,729	(1,023)	(998)	1,830	149%
2017	2,008	2,553	(234)	(228)	1,305	196%
2016	1,552	0	(581)	(581)	1,522	0%
2015	0	0	0	0	0	0%

Losses increased by 774% from 2018 to 2019. This is attributable to the increase in premium of 813% for the same time period.

The table below summarizes the Company's total revenues, incurred hospital and medical expenses, and medical loss ratios from inception through the end of the period under examination:

(\$000s omitted)

Year	Total Revenues	Total Hospital and Medical Benefits	Medical Loss Ratio
2019	\$ 24,933	\$ 21,951	88%
2018	2,729	2,510	92%
2017	2,553	2,239	88%
2016	0	0	0%
2015	0	0	0%

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis, from inception through the end of the period under examination, is detailed below:

(\$000s omitted)

Premium Type	2019	2018	2017	2016	2015
Direct Premiums Written	\$ 25,037	\$ 2,745	\$ 2,583	\$ 0	\$ 0
Reinsurance Ceded:					
Non-Affiliates	104	16	30		
Net Premiums Written	\$ 24,933	\$ 2,729	\$ 2,553	\$ 0	\$ 0

Assumed Reinsurance

The Company does not assume any insurance.

Ceded Reinsurance

NHCA is party to a Stop Loss Agreement with a retention of \$200,000 per covered person per agreement term. Each agreement term is for one year and begins on January 1. NHCA is indemnified 90% of the cost of claims in excess of the retention if the claim is received by the reinsurer prior to October 1 of the following year, and 50% if the claim is not received by the reinsurer by October 1 of the following year. In 2020, the 90% indemnification was increased to 100% for claims received by the reinsurer prior to October 1 of the following year.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, LMBC, in Brentwood, Tennessee, performed the 2019 statutory audit of the Company. Reliance was placed upon the CPA workpapers as deemed appropriate.

Actuarial Opinion

The Company's 2019 actuarial opinion regarding reserves, actuarial liabilities and related items was issued by Eric P. Goetsch, FSA, MAAA, of Milliman, Inc.

Consulting Actuary

In lieu of a consulting actuary, we relied on the work of the Independent Auditor who tested elements of the loss reserves.

Information Systems

In conjunction with this examination, examiners conducted a review of the Company's information systems and general controls. No material weaknesses were identified.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of NHCA for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS

As of December 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 1,442,234	\$	\$ 1,442,234
Cash, Cash Equivalents, and Short-Term Investments	2,340,962		2,340,962
Investment Income Due and Accrued Premiums and Considerations:	2,975		2,975
Uncollected Premiums and Agents' Balances	2,766	2,766	0
Accrued Retrospective Premiums	270,949		270,949
Amounts Receivable Relating to Uninsured Plans	1,007,907		1,007,907
Receivables from Parent, Subsidiaries, and Affiliates	1,150,000		1,150,000
Health Care and Other Amounts Receivable	673,667	158,944	514,723
Aggregate Write-Ins for Other-Than-Invested Assets	83,994	19,161	64,833
TOTAL ASSETS	\$ 6,975,454	\$ 180,871	\$ 6,794,583

LIABILITIES, CAPITAL AND SURPLUS

As of December 31, 2019

Claims Unpaid	\$ 3,286,411
Accrued Medical Incentive Pool and Bonus Amounts	124,903
Unpaid Claims Adjustment Expenses	118,243
Premiums Received in Advance	20,908
General Expenses Due or Accrued	170,051
Liability for Amounts Held Under Uninsured Plans	651,834
TOTAL LIABILITIES	\$ 4,372,350
Gross Paid-In and Contributed Surplus	5,456,800
Unassigned Funds (Surplus)	(3,034,567)
TOTAL CAPITAL AND SURPLUS	\$ 2,422,233
TOTAL LIABILITIES AND SURPLUS	\$ 6,794,583

STATEMENT OF REVENUE AND EXPENSES

For the Year Ended December 31, 2019

Net Premium Income	\$ 24,933,467
Total Revenue	\$ 24,933,467
Hospital/Medical Benefits	18,152,410
Other Professional Services	1,046,253
Emergency Room and Out-of-Area	343,314
Prescription Drugs	1,778,619
Aggregate Write-Ins for Other Hospital and Medical	371,858
Incentive Pool, Withhold Adjustments, and Bonus Amounts	258,727
Claims Adjustment Expenses	1,052,884
General Administrative Expenses	2,780,414
Total Underwriting Deductions	\$ 25,784,479
Net Underwriting Gain (Loss)	\$ (851,012)
Net Investment Income Earned	59,688
Net Investment Gain (Loss)	\$ 59,688
Net Income (Loss) After Capital Gains Tax and Before All Other Federal Income Taxes	\$ (791,324)
Federal and Foreign Income Taxes Incurred	0
NET INCOME (LOSS)	\$ (791,324)

RECONCILIATION OF CAPITAL AND SURPLUS

Changes from January 1, 2016 to December 31, 2019

	2016	2017	2018	2019
Capital and Surplus, Beginning of Year	\$ (2,578)	\$ 1,552,221	\$ 1,305,072	\$ 1,830,124
Net Income (Loss)	(581,730)	(228,849)	(998,944)	(791,324)
Change in Nonadmitted Assets		(18,300)	3,996	(166,567)
Paid In	2,136,800			
Surplus Adjustments:				
Paid In			1,520,000	1,550,000
Aggregate Write-Ins for Gains (Losses) in Surplus	(271)			
Net Change in Capital and Surplus	1,554,799	(247,149)	525,052	592,109
Capital and Surplus, End of Year	\$ 1,552,221	\$ 1,305,072	\$ 1,830,124	\$ 2,422,233

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

Related Party Parties and Contracts Page 2

The Company should provide the Department a complete list of all related parties as defined by SSAP 25 Affiliates and Other Related Parties and file a complete and accurate Form B Supplement each year.

The Company should file Form D requests for all contracts with affiliated parties, in which it has not already done so.

Underwriting and Investment Expense Reporting Page 2

The Company should report expenses in the Underwriting and Investment Exhibit as if they had incurred the expensed directly, as prescribed in the 2019 Health Annual Statement Instructions, rather than reporting the expense in bulk as outsourced services.

Audit Committee Page 2

The Company should designate an audit committee to oversee independent audits of NHCA.

SUBSEQUENT EVENTS

Since the end of the exam period, the Company filed a disclaimer of affiliation in with Innovative Long-Term Care Management (ILTCM), the parent of AllyAlign. This filing was later withdrawn.

The Department has recently received a Form A filing for a change in ownership. As of the end of fieldwork for this examination, the filing was being reviewed and a final determination has not been made.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Department is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Department and all insurance regulators, with the assistance of the NAIC, are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The Department has been in communication with NHCA regarding the impact of COVID-19 on its business operations and financial position.


ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of NHC Advantage, LLC during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION


State of Missouri)
) ss
County of Saint Louis)

I, Scott Reeves, CFE, CPA, CAMS, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of NHCA Advantage, LLC, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Scott Reeves, CFE, CPA, CAMS
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 27th day of April, 2021.

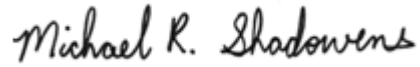
My commission expires: 05/31/2022 

Notary Public

SHERMIRA KIMBLE
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: May 31, 2022
18905791

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance

May 20, 2021

REPORT OF
FINANCIAL EXAMINATION OF
NHC ADVANTAGE, LLC
AS OF
DECEMBER 31, 2019

The Missouri Department of Insurance performed a multi-state examination on NHC Advantage from inception to 12/31/2019. The items below are the findings identified and the Company's response.

Finding Summary

1. Since the Company began operations, the Department has requested an accurate list of all related parties, and related party contracts. The Form B supplemental registration is required per RSMo 382.010 and has been requested annually as part of the required Form B review process, and a list of related parties, and associated contracts was requested as part of the examination procedures for this exam. The company has been unable to provide this information. This finding has limited the examiner's ability to identify all related parties and the associated intercompany transactions.
The Company provided the requested information; however, the South Carolina contracts were originally missed as they were not loaded in our system. The contracts are not being used as the plan does not have members in South Carolina at this time. These contracts were later provided. It was uncovered that some of these were not sent to the Division for approval. The plan submitted Form D's for the South Carolina agreements on 5/12. The plan is also doing a reconciliation and adding a process to ensure filings are submitted timely.
2. The Company provided 14 contracts with NHC HealthCare facilities in South Carolina. The effective date of the contracts is January 1, 2021. Per RSMo 382.195, the Company is required to file a Form D notification at least 30 days in advance of the contract going into effect. No Form D has been filed for any of the 14 contracts. *This is correct, the Form D filing was missed prior to contracting. The plan is not currently using the contracts as there is no membership in the state. The plan submitted the Form D filings to the department on 5/12/2021.*

3. The Company reported the majority of its expenses in bulk in Underwriting & Investment Exhibit Part 3 as management fees rather than allocating them to the appropriate individual expenses to which they apply. The 2019 Health Annual Statement Instructions specify all management fees should be reported on the appropriate lines as if the Company had incurred these expenses directly, and explicitly prohibit the reporting of management, administration, or similar fees as one-line expenses. The reporting entity may estimate these expense allocations based on a formula or other reasonable basis. *The company will make an effort to further allocate expenses from the TPA. The Company did not report one-line expenses however the auditor felt the allocation was not as specific as it could be which the company will try to address.*

4. The Company has not identified an Audit Committee. Per RSMo 375.1030, the Company shall designate a group of individuals as constituting its audit committee to perform the duties set forth in RSMo 375.1053. *The Company identified an Audit Committee but failed to document the committee approval by the board. The Company will address this issue and get formal documentation.*