

**ORGANIZATIONAL EXAMINATION**  
**of the**  
**COMMUNITY HEALTH ALLIANCE MUTUAL INSURANCE COMPANY**

**445 SOUTH GAY STREET, SUITE 101**  
**KNOXVILLE, TENNESSEE**

**RECEIVED**

APR 24 2013

Dept. of Commerce & Insurance  
Company Examinations

**as of**  
**March 31, 2013**

**DEPARTMENT OF COMMERCE AND INSURANCE**  
**STATE OF TENNESSEE**  
**NASHVILLE, TENNESSEE**



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Nashville, Tennessee  
April 24, 2013

Honorable Julie Mix McPeak  
Commissioner  
State of Tennessee  
Department of Commerce and Insurance  
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with TENN. CODE ANN. § 56-2-103, a financial examination was made of the condition and affairs of the

**COMMUNITY HEALTH ALLIANCE MUTUAL INSURANCE COMPANY**  
445 SOUTH GAY STREET, SUITE 101  
KNOXVILLE, TN 37902

hereinafter and generally referred to as the "Company", and a report thereon is submitted as follows:

**INTRODUCTION**

This examination was called by the Commissioner of Commerce and Insurance of the state of Tennessee and commenced on April 5, 2013. The examination was the "Organizational Examination" and was conducted by a duly authorized representative of The Department of Commerce and Insurance, state of Tennessee ("TDCI").

**SCOPE OF EXAMINATION**

Upon payment by the Company of the application fee of \$675 prescribed in TENN. CODE ANN. § 56-4-101, this examination was conducted as of March 31, 2013, to determine if the Company has complied with the statutory and regulatory requirements to be issued a Certificate of Authority to establish and operate a life-chartered mutual health insurance company according to the provisions of TENN. CODE ANN. § 56-2-101, et seq.

**COMPANY HISTORY AND ORGANIZATION**

The Company was incorporated on September 27, 2011, under the Tennessee Business Corporation Act as a mutual benefit non-profit corporation authorized to transact business in the state of Tennessee. The Charter and Bylaws are discussed in

detail in this report under the caption, "CHARTER AND BYLAWS."

The Company stated that its mission is "to create new health insurance options that will increase the number of Tennesseans with coverage that meets their medical, wellness and financial needs."

The stated mission is to be accomplished through the operation of a private, Member governed, Consumer Operated and Oriented Plan ("CO-OP") under Section 1322 of the Affordable Care Act as further defined in the purposes of the corporation section of the Company's Charter.

The Company filed its Uniform Certificate of Authority Application ("UCAA") for Licensure with the TDCI on October 31, 2012. The U. S. Department of Health and Human Services asked that CO-OPs apply to states for provisional licensure even though much of the UCAA documentation is not available at time of the initial submission. The parties were aware that funding for capital and surplus amounts required by statute would have to be met prior to the granting of a Certificate of Authority by the TDCI allowing the Company to write health insurance business in the state of Tennessee.

Funding for operation of CO-OPs is to be provided by the Centers for Medicare & Medicaid Services ("CMS") in the form of "Start-up Loans" for operational expenses and "Solvency Loans" for capital and surplus requirements.

On August 21, 2012, CMS released the following announcement related to the funding of the Company:

"The Centers for Medicare & Medicaid Services ("CMS") today awarded a \$73,306,700 loan to Community Health Alliance Mutual Insurance Company ("CHA") in Tennessee to launch a new private non-profit, consumer-governed health insurance company, called a Consumer Operated and Oriented Plan ("CO-OP"). CO-OP loans are only made to private, nonprofit entities that demonstrate a high probability of financial viability. All CO-OPs receiving loans were selected by CMS on a competitive basis based on external independent review by a multi-disciplinary team. Only when CO-OPs meet or exceed developmental milestones are funds allowed to be incrementally drawn down."

Funding of the Company for the licensure process was completed on March 5, 2013, with the receipt of \$12,489,800 of solvency funds from CMS.

## CHARTER AND BYLAWS

### Charter:

The Charter of the Company was filed and recorded with the Tennessee Secretary of State on September 27, 2011, after having been approved by the TDCI on September 26, 2011. Said Charter establishes and sets forth the following:

1. The name of the Company shall be Community Health Alliance Mutual Insurance Company.
2. The Company shall be formed as a mutual benefit not-for-profit insurance company under Tennessee law and shall have perpetual duration.
3. The incorporator of the Company is:

Stephen R. Mosley  
Mosley & Ragel, PLC  
P. O. Box 34069  
Knoxville, Tennessee 37930

The initial registered agent of the Company is:

Stephen R. Mosley

The initial registered office of the Company is:

8904 Sony Lane  
Knoxville, Tennessee 37923

4. The home office and principal place of business of the Company is:

625 Market Street, Suite 900  
Knoxville, Tennessee 37902

(Home office has since moved to 445 South Gay Street, Suite 101,  
Knoxville, Tennessee 37902.)

5. The corporation is not for profit.
6. The Company will have Members. A quorum for all meetings of Members and for any actions to be taken by the Company on consent of its Members shall be Three Percent (3%) of the entire Membership,

determined as of a record date established by the Board of Directors consistent with applicable Tennessee law.

7. Upon dissolution of the Company all assets or the Company remaining after provision for or satisfaction of all just liabilities of the corporation shall be either:

- (a) paid, transferred or conveyed to another mutual benefit corporation created and operated with powers and purposes similar to this corporation for the benefit of the Members hereof, or

- (b) paid transferred or conveyed pursuant to condition of return of such assets in such event as directed by the Chancery Court for Knox County, Tennessee, in such manner as shall be consistent with provisions of the Patient Protection and Affordable Care Act, Pub. L. No. 111-148, as amended.

8. No Director of the Company shall be personally liable to the Company or its Members for monetary damages for breach of fiduciary duty as a Director, except: (i) for any breach of Director's duty of loyalty to the Company or its Members; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; or (iii) for distributions in violation of TENN. CODE ANN. § 48-58-304.

9. The purpose of the Company shall be to:

- (a) operate as a private, Member-governed, Consumer Operated and Oriented Plan under Section 1322 of the Affordable Care Act ("CO-OP");

- (b) apply for a grant or loan to operate as a CO-OP, and if successful enter into and maintain an agreement with the federal Department of Health and Human Services regarding the use of federal start-up and solvency funds;

- (c) ensure that all profits received by the Company shall be used to lower premiums, improve benefits, or for other programs intended to improve the quality of health care delivered to Members. The Company is not precluded from using revenue or profits to conduct marketing, repay loans, meet state solvency requirements or accumulate reserves to provide for enrollment growth, financial stability and stable coverage for Members, or for any other lawful purpose within the guidelines of the CO-OP program;

- (d) provide affordable, quality health insurance options for Members, primarily in the individual and small group markets and in accordance with

the requirements of the CO-OP program proposed to appear at 45 CFR part 156 subpart F;

(e) assure that consumer operation, control and focus will be a salient feature of the Company, to be sustained over time;

(f) educate and inform Members, as well as the wider population of the region in which the Company engages in its activities, regarding the strategies and benefits to be derived from encouraging and implementing integrated medical delivery systems that are committed to quality improvement, and to the values of high quality, cost efficient care;

(g) ensure Members are informed and encourage them to actively engage in improving their personal health and well-being as a vital component of implementing the objectives of the Company;

(h) ensure the Board of Directors is informed and actively engaged in designing health care benefit options that meet the needs of the Members;

(i) actively engage meaningful insurance market and health care delivery transformation through encouraging and implementing integrated medical delivery systems that are committed to quality improvement, and to the values of transparent, high quality, cost efficient care;

(j) operate with solvency and financial stability clearly identified as key components in the continuing success of the Company;

(k) for any other lawful purpose under Title 48, Chapters 51 through 68, of the Tennessee Code Annotated, as amended.

10. The Company shall have the following powers, in addition to any others available to it by law:

(a) Purchase, lease, or otherwise acquire, improve, construct, own, hold, use, maintain, operate, exchange, encumber, sell convey, or otherwise dispose of real and/or personal property of every kind, nature or description, as may be necessary or desirable to promote the primary purpose of this corporation;

(b) Make and perform contracts of every kind for any lawful purpose, without limit as to amount, with any person, firm, association, corporation, municipality, state, government or municipal or political subdivision;

(c) Have and exercise all of the rights and powers conferred on non-profit

corporations under the Tennessee Nonprofit Corporation Law, as such law is now in effect or may, at any time hereafter, be amended;

(d) Do all other acts necessary or expedient for the administration of the affairs and attainment of the purposes of this corporation.

**Bylaws:**

The Bylaws of the Company in effect at March 31, 2013, were adopted by the Board of Directors on September 30, 2011. The Bylaws are such as those generally found in corporations of this type and contain no unusual provisions.

The Bylaws state the purposes of the Corporation are to "(a) organize and operate as a private Member-governed, Consumer Operated and Oriented Plan under Section 1322 of the Affordable Care Act ("CO-OP"); (b) ensure that all profits received by the Corporation shall be used to lower premiums, improve benefits, or for other programs intended to improve the quality of health care delivered to Members."

The annual meeting of the Members shall, unless otherwise scheduled by the Board of Directors, be held in April of each and every year following the election and commencement of service of the first operational Board of Directors, at such date and time as the Board shall determine and announce. The annual meeting shall be held within the geographic region served by the Company at a time and place specified by the Board in a notice duly given to all Members.

Special meetings of Members may be held upon the call of the Members, or at the direction of the President, or upon written demand to the Secretary by Members holding at least 50% of all votes entitled to be cast on any issue to be considered. Any call or demand for a special meeting shall describe the purpose(s) for which the special meeting is to be held. Only business within the purpose(s) described in the meeting notice may be conducted at such meeting.

Unless otherwise stated or required by law or the Bylaws, not less than three (3%) percent of the Members shall constitute a quorum. Members may be represented, either in person or by proxy.

The Bylaws state that "all corporate powers of the Corporation shall be exercised by and under the authority of the Board of Directors." The affairs and business of the Company shall be managed under the direction of the Board.

Until such time as the Company shall have Members and have elected its first Operational Board, the Formation Board of Directors shall oversee the affairs of the Company. The number of Directors shall be no less than three (3) Members or nor more than fifteen (15) as identified in the Charter and subsequently elected by the

Formation Board. These Directors shall serve until election of an Operational Board of Directors.

The Operational Board shall be elected by the Members and shall have no less than fifteen (15) Members or nor more than twenty-one (21) Members.

The Board of Directors may hold regular or special meetings at such time and place as the Board shall determine. A majority of the Directors shall constitute a quorum. The Board of Directors may designate one or more committees, each committee to consist of one or more of the Directors of the Company.

The Officers for the Company shall include a President, Secretary, Treasurer and such other Officers as the Board of Directors shall from time to time deem necessary. The offices of President and Secretary may not be held by the same person.

The Bylaws contain a Conflict of Interest and Ethics Policy. This policy is intended to protect the Company and supplement but not replace any applicable federal or state statutes governing the conduct of interest and ethics applicable to non-profit and charitable organizations. The policy complies with TENN. CODE ANN. § 56-3-103, prohibiting Officers and Directors from having a pecuniary interest in investment or disposition of Company funds. The Directors, Officers and responsible employees shall file annual conflict of interest statements.

## MANAGEMENT AND CONTROL

### Management:

As provided for in the Bylaws, management of the Company's affairs and business is under the direction of its Board of Directors. The Charter provides that Interim Directors shall serve until such time as the corporation shall obtain its license to do business as a Life-chartered mutual health insurance company and thereafter until the first meeting of Members. The persons serving as Interim Directors at the incorporation of the Company were as follows:

#### Name and Address

Ron Perry  
P. O. Box 5164  
Brentwood, Tennessee 37024

LeeAnn Foster  
298 North Seven Oaks Drive  
Knoxville, Tennessee 37922

Ron Braam  
2302 Chestnut Lane  
Cleveland, Tennessee 37312

Jim Gray  
19 Washington Park  
Nashville, Tennessee 37205

As of the date of this examination, additional Directors had been added:

Name and Address

Renee V. Hoyos  
Knoxville, Tennessee

Lorri Patton  
Cordova, Tennessee

Phillip Brown  
Calhoun, Georgia

Eric Jensen  
Chicago, Illinois

Jonathan Patrick  
Knoxville, Tennessee

John Thomas  
Knoxville, Tennessee

Mr. Jim Gray resigned from the Board effective October 1, 2012.

Ron Braam is Chairman of the Board and Renee V. Hoyos is Secretary.

The following persons held office in the Company on March 31, 2013 as specifically called for in the Bylaws:

Jerry W. Burgess

Chief Executive Officer/President

David Young

Chief Financial Officer

Other Officers elected by the Board of Directors included:

Judy M. Slagle	Chief Operating Officer
Dr. Jerry D. Reeves	Chief Health Officer
Donald W. Lawhorn	Senior Vice President for Community & Provider Development

Certain services will be purchased from outside contractors if needed and are not available from in house personnel. Such services include independent audit, third party administration of claims and actuarial services from the following outside parties:

1. Auditing Services: Dixon Hughes Goodman, LLP  
6525 Morrison Boulevard, Suite 500  
Charlotte, North Carolina 28211  
  
Tennessee Locations:  
Memphis – 999 South Shady Grove Road, Suite 400  
Nashville – 2975 Sidco Drive
2. Third Party Administrators: HealthSCOPE Benefits  
27 Corporate Hill Drive  
Little Rock, Arkansas 72205  
  
Tennessee Location:  
Nashville – 2630 Elm Hill Pike, Suite 203

The Third Party Administrator must have the approval of CMS prior to commencing the claim processing operations for any CO-OP.

3. Actuarial Services: Optum  
1331 17<sup>th</sup> Street, Suite 1100  
Denver, Colorado 80202

**Control:**

The Company is a standalone mutual insurance company with no affiliates or subsidiaries and is not part of a holding company structure. Control is vested in its Members.

## PROPOSED PLAN OF OPERATION

The Company's plan of operation is to operate as a not-for-profit, consumer-governed health insurance company organized by local health and business leaders. The Company will be recognized by the U. S. Department of Health and Human Services (HHS) as a Consumer Operated and Oriented Plan (CO-OP).

The Company plans to enroll small businesses and individuals in 62 of the 95 counties in the state of Tennessee starting in October, 2013 for coverage effective on January 1, 2014. The coverage area includes all of West and Middle sections of Tennessee and the central portion of East Tennessee.

Unique to the mission of Community Health Alliance, customers will receive personalized health care with a strong emphasis on ensuring achievement of the best interests of consumers.

Products will be marketed through the Exchange (currently known as "Market Place") as provided for by the Affordable Care Act and additionally marketed outside the Exchange.

Financing for the Company was made available by CMS in the form of a CO-OP Start-up Loan and a CO-OP Solvency Loan.

## STATUTORY DEPOSIT

In compliance with statutory requirements, the Company maintained the following deposits with TDCI:

<u>Where Deposited and Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
<b>Tennessee</b>			
US Bank NA CD 0.25%, due 3/27/2015	\$200,000	\$200,000	\$200,000
<b>Total general deposits held for the benefit of all policyholders, claimants and creditors of the Company</b>	<b><u>200,000</u></b>	<b><u>200,000</u></b>	<b><u>200,000</u></b>
<b>Total</b>	<b><u>\$200,000</u></b>	<b><u>\$200,000</u></b>	<b><u>\$200,000</u></b>

The above deposit was pledged to the Commissioner of Commerce and Insurance,

State of Tennessee on March 27, 2013 as evidenced by a pledge receipt between the Company and U.S. Bank.

### REINSURANCE

The Company currently has no reinsurance contracts in place.

The following proposal was made in the license application to the TDCI:

"The CO-OP is planning to purchase excess reinsurance at \$250,000 the first year and then at \$450,000 the next two years. Due to the expected enrollment and the expected significant cost of reinsurance, the plan will not buy excess reinsurance after 2017. However, if there are good avenues through captives or purchasing coalitions such as the National Association of State Health Cooperatives (NASHCO), the actual strategy may vary from this plan. Due to the strong emphasis on network utilization, the Company should expect less high risk outliers on large claims under this plan, reducing the necessity of reinsurance long term. Therefore, by 2017, the CO-OP anticipates taking 100% of the risk, expecting to retain over 97% in the early years."

The majority of the Company's Membership for the foreseeable future is expected to be acquired from the Exchange, where risk mitigation provisions are available to participating carriers. The reinsurance program which the Company plans to integrate will mesh with the three provisions of reinsurance, risk corridor and risk adjustment provisions.

At March 31, 2013, the Company is participating in the NASHCO reinsurance purchasing process, and is also working directly with RBS Re which specializes in health plan reinsurance.

### SUBSEQUENT EVENTS

The Board of Directors has performed "Vendor Due Diligence" in order to select vendors who will assist with operating programs on behalf of the Company. The selections have been as follows:

Service

Vendor

Data Warehouse

HealthCare 21 Solutions  
625 Market Street, Suite 900  
Knoxville, Tennessee 37902

Pharmacy Benefits Manager

Catamaran  
2441 Warrensville Road, Suite 610  
Lisle, Illinois 60532-3642

Human Resources made the following selection for the Company's 401(k) vendor:

American Pensions  
2430 Mall Drive, Suite 360  
Charleston, South Carolina 29406

## FINANCIAL STATEMENT

The following is a statement of assets, liabilities and summary of operations at March 31, 2013, together with a reconciliation of capital and surplus for the period under review.

### ASSETS

	Net Admitted Assets <u>3/31/2013</u>	Net Admitted Assets <u>Per Exam</u>
Long-term investments ( First American Prime Obligation Fund)	\$12,289,800	\$12,289,800
Certificate of Deposit (negotiable, over one year)	200,000	200,000
Cash and short-term investments	7,797,652	7,797,652
Investment income due and accrued	<u>0</u>	<u>0</u>
 Total Assets	 <u>\$20,287,452</u>	 <u>\$20,287,452</u>

### LIABILITIES, SURPLUS, AND OTHER FUNDS

	<u>3/31/2013</u>	<u>Per Exam</u>
Accounts payable and accrued expenses	\$408,852	\$408,852
Borrowed money	<u>10,489,800</u>	<u>10,489,800</u>
Total Liabilities	10,898,652	10,898,652
 Common capital stock	 0	 0
Gross paid in and contributed surplus	0	0
Surplus Notes	12,489,800	12,489,800
Unassigned funds (surplus)	<u>(3,101,000)</u>	<u>(3,101,000)</u>
Surplus	9,388,800	9,388,800
 Total Liabilities and surplus	 <u>\$20,287,452</u>	 <u>\$20,287,452</u>

## SUMMARY OF OPERATIONS

Premiums and annuity considerations	0	
Net investment income	<u>\$2,352</u>	
Total		\$2,352
General insurance expenses	1,381,074	
Insurance taxes licenses and fees	<u>0</u>	
Total		<u>1,381,074</u>
Net gain from operations		(1,378,722)
Federal and foreign income taxes incurred		0
Net gain from operations		0
Net realized capital gains (losses)		<u>0</u>
Net income		(\$1,378,722)

## CAPITAL AND SURPLUS

Surplus beginning of year		(\$1,541,701)
Net income	(\$1,378,722)	
Net unrealized capital gains (losses)	0	
Change in net deferred income tax	0	
Change in non-admitted assets	(180,577)	
Cumulative effect of changes in accounting principles	0	
Capital changes: Paid in	0	
Surplus adjustments: Paid in	12,489,800	
Change in surplus as regards policyholders for the year		<u>10,930,501</u>
Capital and surplus as regards policyholders, March 31, 2013		<u>\$9,388,800</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS  
RESULTING FROM EXAMINATION**

No changes were made to the financial statement.

**COMMENTS**

- The Company and U.S. Bank National Association entered into an Insurance Custody Agreement covering securities deposited with the Bank which complied with TENN. COMP. R. & REGS. 0780-01-46 on January 31, 2013.
- The Company has received the following draws of funds from CMS for Start-up Loans and Solvency Loans:

<u>Date</u>	<u>Amount</u>	<u>Loan Description</u>
September 6, 2012	\$2,759,500	Start-up
January 30, 2013	3,410,000	Start-up
February 28, 2013	1,962,300	Start-up
March 22, 2013	<u>2,358,000</u>	Start-up
Total	\$10,489,800	Start-up

<u>Date</u>	<u>Amount</u>	<u>Loan Description</u>
March 5, 2013	<u>\$12,489,800</u>	Solvency
Total	\$12,489,800	Solvency

- The Company continues activities to meet requirements of the U.S. Department of Health and Human Services ("HHS") and the Centers for Medicare & Medicaid Services ("CMS"), including making the informational, document and policy filings necessary to operate as a Consumer Operated and Oriented Plan ("CO-OP") under the Affordable Care Act. This will allow the Company to issue policies beginning October 1, 2013 for coverage beginning January 1, 2014.

### CONCLUSION

I have verified the foregoing financial statement as included in this examination report. In conjunction, I have inspected the following documents and records of the Company: Charter of Incorporation, Bylaws, minutes of the Board meetings, biographical sketches of Directors and Officers and the plan of operation.

Based upon review of documents provided by the Company, the Company has fulfilled all necessary financial examination requirements to receive a Certificate of Authority pursuant to TENN. CODE ANN. § 56-2-101, et seq. in order to establish and operate a life-chartered mutual health insurance company in the state of Tennessee.

Respectfully submitted,



Keith M. Patterson  
Insurance Examiner  
State of Tennessee  
Southeastern Zone, N.A.I.C.

**AFFIDAVIT**

The undersigned deposes and says that he has duly executed the attached Organizational Examination Report of Community Health Alliance Mutual Insurance Company dated April 24, 2013, and made as of March 31, 2013, on behalf of The Department of Commerce and Insurance, state of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Keith M. Patterson  
Insurance Examiner  
State of Tennessee  
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 24th day of

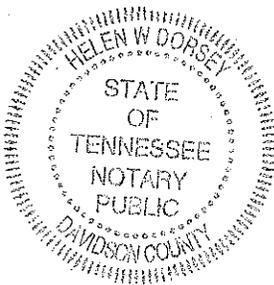
April, 2013

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014



## ORGANIZATIONAL CHART

N/A: The Company is a standalone mutual insurance company with no affiliates or subsidiaries.



**Community**  
Health Alliance

445 S. Gay Street, Suite 404  
Knoxville, TN 37902  
1-888-415-3332  
www.chaha.org

April 25, 2013

James E. York, Jr.  
Insurance Examinations Director  
State of Tennessee  
Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, TN 37243

*Via e-mail*

**RE: Organizational Examination of Community Health Alliance Mutual Insurance Company**

Dear Mr. York:

In response to your letter dated April 25<sup>th</sup> with regard to the Organizational Examination Report for Community Health Alliance made as of March 31, 2013, we hereby waive our right to written rebuttal in this matter.

Should you have any questions or require further action by us, please feel free to contact me.

Sincerely,  
COMMUNITY HEALTH ALLIANCE

Jerry Burgess  
President/ CEO

A New Era For Health Care Coverage In Tennessee

