

EXHIBIT A



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

**REPORT ON ORGANIZATIONAL EXAMINATION
OF THE
HBAT BENEFITS TRUST
NASHVILLE, TENNESSEE**

**AS OF
OCTOBER 31, 2017**

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Nashville, Tennessee
December 18, 2017

Honorable Julie Mix McPeak
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tenn. Code Ann. § 56-26-204 and Tenn. Comp. R. & Regs. 0780-01-76, an organizational examination was made of the financial condition and affairs of the

HBAT Benefits Trust
213 Fifth Avenue North, Suite 200
Nashville, Tennessee 37219

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

INTRODUCTION

This examination was arranged by the Commissioner of the Tennessee Department of Commerce and Insurance (TDCI) and commenced on November 8, 2017. The examination was an "organizational examination" and was conducted by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

This examination was conducted as of October 31, 2017, to determine if the Trust has complied with the statutory and regulatory requirements to be issued a Certificate of Authority to establish and operate a self-insured qualified "Multiple Employer Welfare Arrangement" (MEWA) according to the provisions of Tenn. Code Ann. § 56-26-204 and Tenn. Comp. R. & Regs. 0780-01-76. The examination included the verification of assets, review of organizational documents, and plan of operation.

The following documents and records of the Trust were reviewed:

1. Trust Agreement;
2. Trust's Application Filing;

3. Minutes to meetings and Resolutions of the Board of Trustees meetings;
4. Biographical sketches of all trustees and officers;
5. Trust's proposed Plan of Operation;
6. Trust's executed Surplus Note;
7. Investment statements; and
8. Tri-party Depository Agreement – General Deposit between the Trust, the Commissioner of the TDCI, and Pinnacle Bank.

COMPANY HISTORY AND ORGANIZATION

The Trust, sponsored by the Home Builders Association of Tennessee (HBAT), was formed in order to establish an employee welfare benefit plan as defined by the Employee Retirement Income Security Act of 1974 (ERISA). The HBAT, in its Board of Directors Meeting on June 28, 2017, approved the creation of the Trust. The resolution authorized the development of the Trust, which shall make plans of employee welfare benefits available to HBAT members, their employees, and dependents.

The Trust filed its Uniform Certificate of Authority Application (UCAA) for licensure with the TDCI on September 20, 2017, and paid the required application fee of \$675 prescribed by Tenn. Code Ann. § 56-4-101(a)(1).

The issuance of a Surplus Note payable to the Trust in the amount of \$300,000 was provided by HBAT. Those funds were distributed to the Trust on October 26, 2017, satisfying the funding requirement by the TDCI for capital and surplus, prior to the granting of a Certificate of Authority for a MEWA to offer health benefits. Therefore, the minimum surplus requirements of Tenn. Comp. R. & Regs. 0780-01-76-.06 are satisfied.

MANAGEMENT AND CONTROL

MANAGEMENT

Trustees

As provided for by the Trust Agreement, the Trustees shall have the duty and the responsibility for the overall operation and administration of the Trust. The term for the initial Trustees shall be staggered at one (1), two (2), and three (3) years for select Trustees, then the term for each successor Trustee shall typically be three (3) years. The number of the successor Trustees to the initial Trustees shall be determined by a majority vote of the then serving Trustees, but that number shall be no more than seven (7) and no less than three (3) individuals.

The Trust appointed the following individuals as Trustees of its initial Board of Trustees. These individuals were still serving as Board Trustees on October 31, 2017:

<u>Name</u>	<u>Term</u>	<u>Principal Business Affiliation</u>
Jeff Burkhart	3-year term	Jeff Burkhart Custom Properties
James Carbine	3-year term	Carbine & Associates, LLC
Ethan Collier	2-year term	Ethan Collier Construction Co., Inc.

As of October 31, 2017, four additional initial Trustees were added.

Lisa Luster	1-year term	Johnson City Area Home Builders Association
Mark Miesse	1-year term	Memphis Title Company
James Reid	2-year term	Reid Homes, Inc.
Susan Ritter	3-year term	President - Home Builders Association of Tennessee

The Trustees shall meet not less than quarterly at the time and place in the State of Tennessee as called upon to do so by the Chairman of the Trustees after reasonable, written notice to the Trustees. Action taken by the Trustees with or without a meeting shall be undertaken by a majority vote of the Trustees whether by proxy or otherwise.

Officers

The Trustees, by majority vote, shall elect one Trustee as the Chairman for the Trustees. The Trustees may elect additional officers for the Trust as necessary to effectively fulfill its responsibilities. The Trustees will elect these officers by majority vote, each to serve at the pleasure of or for the term or terms as set by a majority vote of the Trustees.

The following persons were appointed as initial officers of the Trust and were still serving in that role, as of October 31, 2017:

<u>Name</u>	<u>Title</u>
Jeff Burkhart	Chairman
Ethan Collier	Vice Chairman
Susan Ritter	Secretary / Treasurer

Biographical affidavits of all trustees and officers were reviewed for compliance with Tenn. Comp. R. & Regs. 0780-01-76, with no exceptions noted.

CONTROL

The Trust is ultimately owned and controlled by its participants. No common stock is issued nor owned by any corporation or entity. The HBAT is the Plan Sponsor who

created the Trust, but does not own the Trust. Per ERISA and Tenn. Code Ann. § 56-26-204, a sponsoring association must organize the MEWA, and eligibility to participate in that particular association is how an employer qualifies to enroll in the Plan.

The Trustees are elected by the participants to run the operations of the Plan. The Trustees have authority (as outlined in the Trust Agreement) to choose to outsource many components of the operations. At the time of this report, there were preliminary plans to outsource many components, but these plans would not be implemented until licensed by the TDCI.

CONFLICTS OF INTEREST AND PECUNIARY INTEREST

The Trust does not have a formal conflict of interest policy to govern the actions of all trustees, officers, and employees to ensure compliance with Tenn. Code Ann. § 56-3-103. This issue is noted further in the section titled “Comments and Recommendations”.

AFFILIATED COMPANIES

As previously discussed in the Control section of this report, the Trust is a participant-owned health plan and is not owned by any corporation or entity. Also, the Trust does not own any other corporations or entities. Therefore, the Trust is not part of any holding company system as defined by Tenn. Code Ann. § 56-11-101(b)(7).

CORPORATE RECORDS

Trust Agreement

The Trust does not have a Charter or Bylaws. Because the Trust Agreement is the governing document for the Trust that describes the rights and obligations of the employers, employees, and beneficiaries of the arrangement, it contains many of the components found within typical Bylaws and satisfies the requirements of Tenn. Comp. R. & Regs. 0780-01-76-.05(2)(a). The Trust Agreement is entered into, by, and between the HBAT and the Trust. It was signed by each of these parties in September 2017.

The Trust Agreement states its primary purpose is to hold and invest the contributions made to the Trust for the exclusive benefit of the subscribers in the plan and their dependents and to pay from the assets of the Trust the reasonable and proper expenses of the plan and the Trust.

Meeting Minutes

All meeting minutes from the Board of Trustees since inception, were reviewed and found to provide a summary of the actions approved.

PROPOSED PLAN OF OPERATION

The Trust proposes to offer health benefits to those plan participants who agree to make contributions to the Trust to provide for payment of the benefits outlined in the Trust's Plan Document. This type of arrangement is in accordance with Tenn. Code Ann. § 56-26-204 and Tenn. Comp. R. & Regs. 0780-01-76.

Participants will be solicited for business by the Trust's Managing General Agent, MT&M, LLC (MT&M). Prior to being licensed, the Johnson City Area Home Builders Association included information on their website indicating that the Trust was licensed and to contact the Trust for more information. The Clarksville and Chattanooga websites also had materials posted prematurely. References to the Trust were later removed at the request of the TDCI. See "Comments and Recommendations" section of this report.

The Trust's actuary and underwriter will evaluate each eligible employer that applies for coverage and determine the amount to be contributed by the employer and the amount to be contributed, if any, by each covered employee, subject to policy forms and rates being filed and approved by the TDCI. Once coverage is established, the Trust will pay claims based off the eligible medical benefits described in the Plan Document.

The Trust will be tentatively offering five (5) plan designs with deductibles ranging from \$1,000 up to \$5,000. The Trust will implement a renewal strategy that renews the entire block on January 1 each year. Initially the group will have rates guaranteed between one (1) and twelve (12) months, depending on its effective date. A group's second year rates will be guaranteed for twelve (12) months, and they will move to a January 1 effective date.

The Trust will use Health Cooperative Strategies, LLC (HCS) for plan oversight; Allied Benefit Systems, Inc. (ABS) a third-party administrator, for claims administration; and Lewis & Ellis Inc. will support the plan by providing actuarial and underwriting services.

As required by Tenn. Comp. R. & Regs. 0780-01-76-.04(3), the Trust will maintain specific and aggregate stop loss insurance coverage covering one hundred percent (100%) of claims in excess of the attachment points recommended by a qualified actuary. The proposed stop loss insurance carrier is American Alternative Insurance

Company, a wholly-owned subsidiary of Munich Re Stop Loss Inc., and is licensed in all 50 states.

STATUTORY DEPOSIT

The following table reflects the securities that comprise the Trust's statutory deposit held by Pinnacle Bank in accordance with Tenn. Comp. R. & Regs. 0780-01-76, as of October 31, 2017.

<u>Jurisdiction</u>	<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Tennessee	Certificate of Deposit, 1.7%, issued 10/26/2017, due 10/26/2019, Certificate # 198485	\$100,000	\$100,000	\$100,000
Total		<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>

The Trust executed a Depository Agreement and placed a deposit with the Commissioner of the TDCI pursuant to Tenn. Comp. R. & Regs. 0780-01-76, on October 9, 2017. The securities are held pursuant to a tri-party Depository Agreement – General Deposit with the Trust, the Commissioner of the TDCI, and Pinnacle Bank. The Trust signed the agreement on November 30, 2016, and Pinnacle Bank signed the agreement on October 9, 2017.

FINANCIAL STATEMENTS

Here follows a statement of assets and liabilities as of October 31, 2017, as established by this organizational examination:

ASSETS

Bonds (long-term certificate of deposit)	\$100,000
Cash	<u>200,000</u>
Total admitted assets	<u>\$300,000</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Liabilities	\$0
Common capital stock	0
Surplus note	<u>300,000</u>
Capital and surplus	<u>300,000</u>
Total liabilities, capital, and surplus	<u>\$300,000</u>

Surplus

The Trust's surplus is in the form of cash and a long-term certificate of deposit held by Pinnacle Bank. The certificate of deposit is pledged to the Commissioner of the TDCI, as noted in the "Statutory Deposit" section of this report.

SUBSEQUENT EVENTS

None.

COMMENTS AND RECOMMENDATIONS

Comments

1. The methodology and process of establishing the initial Trustees and their terms are defined in the Trust agreement and described in this report. However, from discussions with representatives from the Trust's plan supervisor, a vote to replace the initial Trustees may occur sooner than defined in the Trust Agreement. In addition, participants will be allowed to nominate Trustees. The purpose of the proposed changes is to ensure participants have a more active role in the election of their Trustees. Although the Board may feel that the alternative terms and voting processes are considered in the best interest of the participants, the Trust should abide by the parameters of the Trust Agreement or pursue the appropriate process for amending the Trust.
2. The Trust does not have a formal conflict of interest policy to govern the actions of its trustees and officers. To evidence compliance with Tenn. Code Ann. § 56-3-103, the Trust is advised to implement such a policy and require annual disclosures of conflicts or potential conflicts of interest.

Recommendations


1. Prior to obtaining licensure from the TDCI, the Clarksville, Chattanooga, and Johnson City Area Home Builders Associations stated on their websites that the Trust was licensed and directed prospective participants to contact the Trust for more information. References to the Trust were later removed at the request of the TDCI. In the future, the Trust should adhere to Tennessee statutory requirements regarding proper licensing.

CONCLUSION

Through this examination, it was determined that, as of October 31, 2017, the Trust had admitted assets of \$300,000 and liabilities of \$0. Thus, there existed capital and surplus funds of \$300,000.

The courteous cooperation of representatives of the Trust extended during the course of the examination is hereby acknowledged.

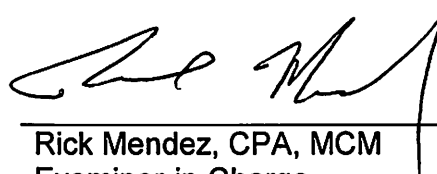
Respectfully submitted,



Rick Mendez, CPA, MCM
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of HBAT Benefits Trust, located in Nashville Tennessee, as of October 31, 2017, and dated December 18, 2017, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further states 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.



Rick Mendez, CPA, MCM
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the State of Tennessee


State Indiana

County Hendricks

Subscribed to and sworn before me

this 18 day of April, 2018

Notary



My Commission Expires: July 4, 2019

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of HBAT Benefits Trust, located in Nashville Tennessee, as of October 31, 2017, and dated December 18, 2017, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further states 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.



A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 20th day of April, 2018

Notary Mindy C Walker

My Commission Expires: 7.6.2020

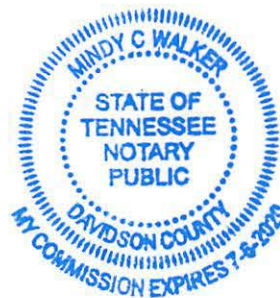


EXHIBIT B



April 25, 2018

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

RE: Report of Examination – **HBAT Benefits Trust**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for – **HBAT Benefits Trust**. By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

A handwritten signature in black ink, appearing to read 'RD', is written over a horizontal line. The signature is stylized and somewhat abstract.

Ryan Davis
SVP, Trust Operations