

**ORGANIZATIONAL REPORT ON EXAMINATION
OF
CARESOURCE KANSAS LLC
2900 SW WANAMAKER DRIVE, SUITE 204
TOPEKA, KANSAS 66614
AS OF
JUNE 30, 2022**

FILED
OCT 26 2022
VICKI SCHMIDT
Commissioner of Insurance

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Topeka, Kansas
August 19, 2022

Honorable Vicki Schmidt,
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Road
Topeka, Kansas 66604-4019

Dear Commissioner:

Pursuant to K.S.A. 40-208, and in accordance with your authorization, an organizational examination has been conducted of the financial condition and business affairs of

**CARESOURCE KANSAS LLC
2900 SW WANAMAKER DRIVE, SUITE 204
TOPEKA, KANSAS 66614**

hereinafter referred to as the "Company". The following report on such organizational examination is respectfully submitted.

SCOPE OF EXAMINATION

This is an organizational examination of the Company conducted in accordance with K.S.A. 40-3203. The examination was conducted pursuant to the instructions and directives of the Kansas Insurance Department.

The affairs, activities, and transactions of the Company were reviewed and analyzed to determine the Company's compliance with applicable statutes and regulations and adherence to provisions of its articles of organization and operating agreement. K.S.A. 40-208 requires corporators or officers of the Company to certify under oath to the person making such examination that the money, notes, stocks, bonds, mortgages, deeds of trust and all obligations exhibited to the examiner are the bona fide property of the Company.

COMPANY HISTORY

The Company was organized as a limited liability company in Kansas on November 3, 2021, under the name CareSource Kansas LLC as a health maintenance organization under the provisions of K.S.A. 40-3201 *et seq.*

The Company will operate as a health maintenance organization under Article 32, Chapter 40 of the Kansas Statutes Annotated.

Article II, Section 3 of the Company's operating agreement provides that: "The purpose and business of the Company shall be (i) to carry on any lawful business, purposes or activity permitted under the Act; (ii) to possess and exercise all powers and privileges granted by the Act or other Kansas law, together with any powers incidental thereto, including such powers and privileges as are necessary or convenient to the conduct, promotion or attainment of the business, purposes or activities of the Company; and (iii) to carry on any lawful business, purposes or activity in furtherance of CareSource's Charitable Purpose as may be permitted under the Act."

MANAGEMENT AND CONTROL

Member

Article III, Section 1 of the Company's operating agreement provides that: "CareSource Management Services Holding LLC is the sole member of the Company, owning one hundred percent (100%) of the Membership Interest in the Company."

Board of Directors

Article V, Section 1 of the Company's operating agreement provides that: "Except for situations in which the approval of the Member is required by this Agreement or by nonwaivable provisions of applicable law: (a) the Board of Directors of the Company (the

“Board”) shall have the right and power to manage and control the business and affairs of the Company, and (b) the Board may make any decisions and take any action for the Company not otherwise provided for in this Agreement, subject in either case to the delegation of any part of such right and power by the Board to another Person (including, without limitation, any officer appointed pursuant to Article VII or any employee of the Company).”

Article V, Section 2 of the Company’s operating agreement provides that: “The Board shall consist of not less than one (1) or more than five (5) Directors (or such other number of Directors as may be fixed from time to time by the Member) each of whom shall be deemed to be a "manager" of the Company for purposes of the Act.”

Article V, Section 8 of the Company’s operating agreement provides that: “Each Director shall hold office for a term of three (3) years, or, if a Director holds office by virtue of their position with the Company or its Member or any of its affiliates, such Director shall hold office during their tenure in such position. Each Director shall hold office until either their successor is elected and qualified or their earlier resignation, removal from office, or death. With the exception of the Initial Term, the term of each Director, if applicable, shall commence and expire on the date of the regular annual meeting of the Company.”

The Board members elected and serving as of June 30, 2022, were as follows:

<u>Director</u>	<u>Position(s) Held</u>
Scott R. Markovich	Executive Vice President, Markets & Products CareSource Management Services LLC
Stephanie A. Williams	Chief Actuary & Senior VP, Managed Care CareSource Management Services LLC

Officers

Article VII, Section 1 of the Company's operating agreement provides that: "Subject to Section 6 of this Article, the Officers of the Company shall be a Chair, President, Treasurer and Secretary and such other officers as the Board may deem necessary. Any number of offices may be held by the same person."

Article VII, Section 6 of the Company's operating agreement provides that: "Except as otherwise provided in this Section 6, the term for officer positions shall be three (3) years. If an officer holds office by virtue of their position with the Company or its Member or any of its affiliates, the officer shall hold office for the tenure in such position. Each officer shall hold office until either their successor is elected or the officer's earlier resignation, removal from office, or death. The Member or the Board may remove any officer at any time, with or without cause. There shall be no limit as to how long an officer may serve the Company."

The Officers elected and serving as of June 30, 2022, were as follows:

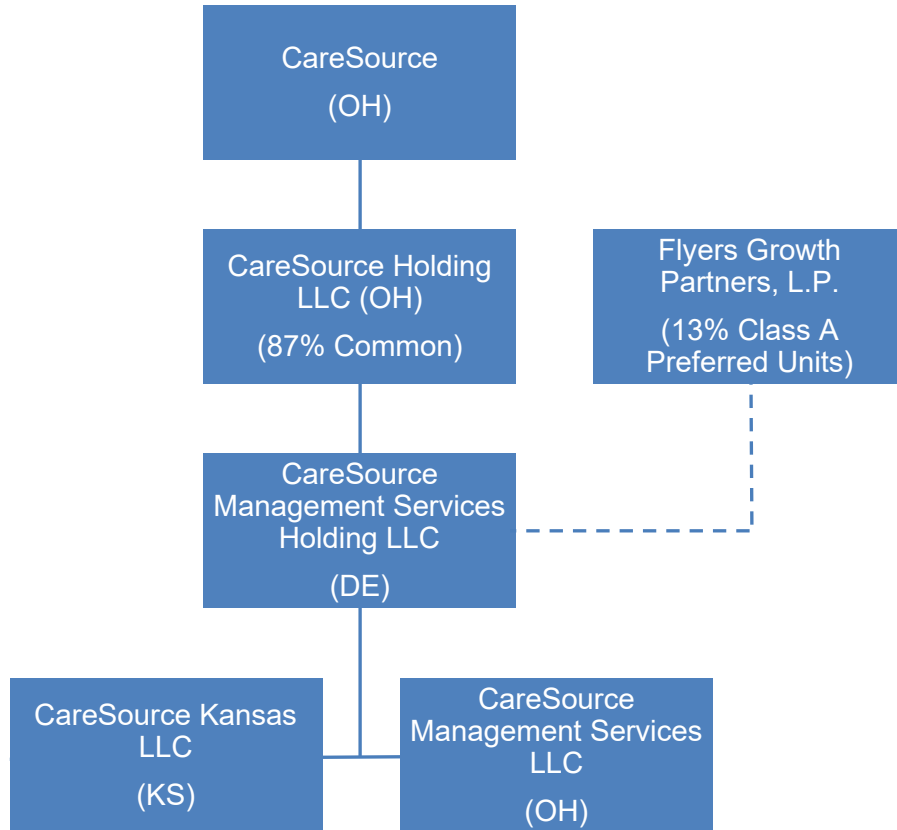
<u>Officer</u>	<u>Position(s) Held</u>
Scott R. Markovich	Chair
Erhardt H. Preitauer	Chief Executive Officer and President
Stephanie A. Williams	Secretary and Treasurer
Lawrence R. Smart*	Chief Financial Officer
Jai P. Pillai*	Chief Operating Officer

**Pursuant to an Action Without Meeting of October 10, 2022, Officer was elected with a retroactive effective date of November 3, 2021.*

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3301 *et seq.*, requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance.

The exhibit below is an abbreviated organizational chart as of April 2022, indicating the identities and inter-company relationships having a direct bearing on the Company.



*ownership percentage is 100% unless otherwise noted.

Administrative Services Agreement

The Company has submitted a draft Administrative Services Agreement with CareSource Management Services LLC (“CSMS”), an affiliated company, under the ultimate controlling person, CareSource. CSMS shall supervise and manage the day-to-day operations of the Company including but not limited to, program planning and development, provider contracting, marketing and sales, policies and procedures, reporting and notices, member and provider services, appeals and grievances, medical and utilization review/utilization review and quality assurance, claims administration,

pharmacy benefit manager coordination, regulatory services, underwriting/actuarial services, premium, rates, billings and taxes, reserves, reinsurance/stop loss/ professional liability, accounting and financial services, and program integrity. Additionally, CSMS will provide facilities and support services, and also hire, maintain, and supervise all personnel and staff on behalf of the Company.

The monthly administrative fee will be based upon: (a) variable degrees of administrative services required to support differing categories of members covered by the Company and (b) the annual net revenue of the Company.

FIDELITY BOND AND OTHER INSURANCE

Pursuant to K.S.A. 40-3225, the Company is required to maintain a fiduciary bond sufficient to cover any director, officer or partner of a health maintenance organization or Medicare provider organization, who receives, collects, disburses, or invests funds on behalf of the Company. Such level of coverage shall be not less than \$250,000 for each health maintenance organization or \$5,000,000 in aggregate maintained on behalf of health maintenance organizations by a common parent organization. CareSource, the Company's ultimate parent, has crime coverage for employee dishonesty for its various subsidiaries. The limit of insurance per occurrence is \$5,000,000 with a \$10,000 deductible. The policy meets the amount established by statute and suggested by the National Association of Insurance Commissioners ("NAIC").

Other insurance coverages were reviewed, and the Company is covered by the following other insurance coverages: automobile, cybersecurity, directors and officers, errors and omissions, general liability, property, umbrella, and workers compensation.

STATUTORY DEPOSIT

Pursuant to paragraph (a) and (f) K.S.A. 40-3227, the Company will have an initial minimum net worth of \$1,500,000 prior to the issuance of a certificate of authority. The Company is also required to deposit into a custodial account \$300,000 in the form of securities or a combination of these or other measures, for the benefit of all enrollees of the Company. The deposit of a US Treasury Note with a market value of \$328,043 was made on February 10, 2022.

INSURANCE PRODUCTS AND RELATED PRACTICES

The State of Kansas has a program to provide managed care for the Medicaid and Children's Health Insurance Plan ("CHIP") programs. Managed care services that will be provided include physical health services, behavioral health services and long-term care, including nursing facility care and home and community-based services. Services include Medicaid funded inpatient and outpatient mental health and substance use disorder service, including 1915(c) HCBS (Home and Community-Based Services) waiver programs for children with serious emotional disturbance.

The Company also intends to write Qualified Health Plans ("QHP") on the federal exchange beginning on January 1, 2024.

Territory and Plan of Operation

All CHIP members and almost all Medicaid members will be required to enroll in the managed care program. The level of participation will require the Company to provide services throughout Kansas. All members are enrolled through the Kansas Department of Health and Environment, freeing the Company from underwriting and marketing responsibilities.

The Company will be submitting a bid on a Request for Proposal (“RFP”) from the Kansas Department of Health and Environment for the program starting January 1, 2024.

Beginning January 1, 2024, the Company plans to offer QHP to eligible enrollees in 38 of the 107 counties in Kansas. The Company intends to market the policies through their website, broadcast (TV and radio), direct mail, and print publications. Additionally, the Company will incorporate a range of digital strategies, such as email and social media postings, as well as hardcopy materials.

FINANCIAL STATEMENTS

The following financial statements reflect only the transactions regarding the capitalization of the Company as of June 30, 2022, and the assets and liabilities as of that date.

CARESOURCE KANSAS LLC ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AS OF JUNE 30, 2022

Assets	
Bonds	\$ 326,506
Cash and cash equivalents	1,172,134
Investment income due and accrued	2,248
Total assets	\$ 1,500,888
Liabilities, Surplus and Other Funds	
Total liabilities	\$ -
Net assets	1,500,000
Net income	888
Surplus as regards to policyholders	1,500,888
Total liabilities, surplus and other funds	\$ 1,500,888

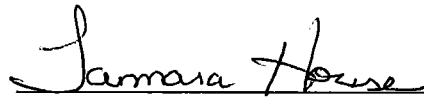
The Company's ultimate parent is CareSource for which a summary of key financial information (in thousands) from its December 31, 2021, consolidated audited financial statements is provided:

Assets	\$4,573,628
Liabilities	\$2,716,058
Total Net Assets	\$1,857,570

CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated.

Respectfully submitted,



Tamara House, CFE
Senior Insurance Examiner
Examiner-In-Charge

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Kansas,

County of Shawnee,

Tamara House, being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of CareSource Kansas LLC.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of CareSource Kansas LLC, was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

Tamara House

Examiner's Signature

Subscribed and sworn before me by Tamara House on this 18th day of October, 2022.

(SEAL)



Glenda M. Haverkamp

Notary Public

My commission expires 9-23-2023
(date)