

REPORT ON EXAMINATION
OF
KANSAS SUPERIOR SELECT, INC.
201 JORDAN ROAD, SUITE 200
FRANKLIN, TN 37067
AS OF
DECEMBER 31, 2021

FILED

JUNE 26, 2023

VICKI SCHMIDT
Commissioner of Insurance

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Overland Park, KS
May 19, 2023

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

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

KANSAS SUPERIOR SELECT, INC.

with its statutory home office at:

**112 SW 7th STREET SUITE 3C.
TOPEKA, KANSAS 66603**

and main administrative office at:

**201 JORDAN ROAD, SUITE 200
FRANKLIN, TN 37067**

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

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of Kansas Superior Select, Inc., a Kansas-domiciled health maintenance organization. This is the first financial examination of the Company. This examination covers the four-year period from January 1, 2018, through December 31, 2021. This examination was performed as part of the multi-state coordinated examination of the American Health Company Inc. Group ("AHC or AHC Group") of regulated entities wherein Tennessee was the lead state.

The examination was conducted in accordance with the rules, regulations, and directives of the Kansas Insurance Department (“Department”) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners 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 identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles.

Those activities considered in the examination as key or critical to KSSI included Capital Management, Investments, Reinsurance, Related Party, Reserving, and Underwriting and Pricing. The examination also included a review and evaluation of information technology general controls.

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 is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and general information about the insurer 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 separately communicated to other regulators and the Company.

Independent Audit Reports

Financial statements of the Company were audited by LBMC of Brentwood, Tennessee for the years ending December 31, 2018, through December 31, 2021. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company as of December 31, 2021, the results of its operations, and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

Actuarial Review

The Company's Appointed Actuary, Stuart D. Rachlin, FSA, MAAA, Principal and Consulting Actuary of Milliman, Tampa, Florida, performed a review of the Company's actuarial practices and reserves as of December 31, 2021. The review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in its reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the examination.

COMPANY HISTORY

General

Kansas Superior Select, Inc. is a single-state insurer licensed in Kansas. The Company was incorporated in Kansas on November 12, 2015, under the name Kansas Superior Select, LLC, as a health maintenance organization under the provisions of K.S.A. 40-3201 et seq.

On December 10, 2015, the Company's name was changed to Kansas Superior Select, Inc. The Kansas Certificate of Authority was issued on April 25, 2017. The Company commenced writing business in January 2018.

Capital Stock

As of December 31, 2021, the Company had 1,000 shares of common capital stock authorized, issued and outstanding in each of the five classes A, B, C, D and E with no par value.

Dividends and Capital Contributions

During the period under examination, no dividend payments were reported. The Company also reported capital contribution receivable of \$100,000 on December 31, 2019. These funds were received as of February 28, 2020.

COPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. There were amendments to the articles of incorporation and the bylaws during the examination period as follows:

Article 6 of the articles of incorporation was amended effective January 9, 2017, to include 1,000 shares of Class E common stock without nominal or par value as part of the capital structure of the Company.

Article 8 of the articles of incorporation was amended effective January 9, 2017, to change the identity of the Class B common stock shareholder and to add a shareholder for the Class E common stock.

Article 5.2 of the bylaws was amended effective January 9, 2017, to grant each shareholder the right to nominate one person for election as a director.

MANAGEMENT AND CONTROL

Shareholders

The current ownership interest of KSSI is as follows: American Health Holdings, LLC (UCP – Mark T. Mitchell) 26.666%; ML-KSS, LLC (UCP – Medicalodges, Inc.) 26.666%; Klaton Insurance Partners, LLC (UCP – Klaton Enterprises, LLC) 26.666%; and KSSI Advantage, LLC (UCP – R.H. Montgomery Properties, Inc.) 20%.

Board of Directors

The Company's bylaws consist of thirty-four (34) articles which provide the framework for the operation, management, and control of the Company. The Company is managed under the direction of its board of directors ("Board").

Pursuant to Article 5, Section 5.3 of the Company's Bylaws, "Each director will hold office until expiration of that director's term which will not exceed three years or until the director dies, resigns, or may be removed. A director may be elected for successive terms.

The directors elected and serving as of December 31, 2021, were as follows:

<u>Directors</u>	<u>Principal Occupation and Business Affiliation</u>
Michael D. Bailey	Chief Executive Officer & President, American Health Companies, LLC
Jim Klausman	Corporate Director, Klaton Insurance Partners, LLC
James E. Reiker	Corporate Director, KSSI Advantage, LLC
Garen L. Cox	Corporate Director, ML-KSS, LLC

Committees

Article 7 of the Company's bylaws indicate that the Board, by resolution adopted by a majority of the directors in office, may designate and appoint one (1) or more standing or temporary committees, each of which will consist of one or more directors. The Governing Board of the Company's parent, AHC Group, acting as a committee of the whole, serves as the Corporate Governance Committee and the Audit Committee.

Officers

Pursuant to Article 11, Section 11.1 of the Company's bylaws, "The officers of the Company will be appointed by the Board, and they will be a President, any Vice Presidents if deemed necessary by the Board, a Corporate Secretary, and a Treasurer."

The officers appointed and serving as of December 31, 2021, were as follows:

<u>Name</u>	<u>Office</u>
Michael D. Bailey	Chief Executive Officer & President
Jeffrey A. Bogle	Chief Financial Officer & Treasurer
Robin F. Bradley	Chief Operating Officer & Secretary

INSURANCE HOLDING COMPANY SYSTEM

KSSI is an affiliated insurance subsidiary within the American Health Company Inc. Group (AHC Group). AHC Group, through its subsidiary American Health Holdings, LLC ("AHH") acquired a 26.666% interest in KSSI. The current ownership interest of KSSI is as follows: American Health Holdings, LLC (UCP – Mark T. Mitchell) 26.666%, ML-KSS, LLC (UCP – Medicalodges, Inc.) 26.666%, Klaton Insurance Partners, LLC (UCP – Klaton Enterprises, LLC) 26.666% and KSSI Advantage, LLC (UCP – R.H. Montgomery Properties, Inc.) 20%.

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The ultimate parent of the holding company system is MFO AHP, LLC, which owns Florida Limited Partnership (FLP). FLP also owns 100% of American Health Companies (AHC). AHC in turn owns 90.5% of American Health Holdings, LLC (AHH) and 9.5% ownership belongs to Healthcare Investors, LLC. Healthcare Investors, LLC is 100% owned by Tom Coble, an individual. The ultimate controlling entities of the Company are AHC, Medicalodges, Inc., R.H. Montgomery Properties, Inc., and Klaton Enterprises, LLC.

The abbreviated organizational chart below illustrates the identities and intercompany relationships among subsidiaries within the AHC group and the controlling entities thereof, as of December 31, 2021. Ownership is noted in parentheses and the Kansas domiciled insurer is bolded.



Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreements executed with affiliated entities that were in effect as of December 31, 2021.

Management Services Agreement

Effective August 21, 2020, the Company entered into a Management Agreement with American Health Management Services, LLC (“AHMS”), which Management Agreement was approved by the Kansas Insurance Department on May 3, 2021, with retroactive approval to August 21, 2020, which is the date that AHH became an owner of the Company. AHMS is an

affiliate of AHH and AHH has 26.666% ownership interest in KSSI which in turn created an affiliated relationship between KSSI and AHMS effective August 21, 2020. Through this agreement, AHMS provides, or arranges for the provision of, accounting, accounts payable, investments, compliance, internal audit, reinsurance, human resources, executive management, payroll, agents, pharmacy benefit management services, etc., for the day-to-day operation of the Company. Pursuant to the agreement, the Company expensed management fees in the amount of \$1,353,005 as of December 31, 2021. No other amounts were reported for the other years under the examination (2018, 2019 and 2020).

Participating Skilled Nursing Facility Agreements

Effective June 2020, the Company entered into affiliated Participating Skilled Nursing Facility Agreements with each of Americare Systems, Inc., Midwest Health, Inc., Medicalodges, Inc., and Physicians Development Group, LLC.

Three of the Participating Skilled Nursing Facility Agreements (Americare Systems, Inc., Midwest Health, Inc., and Medicalodges, Inc.) were amended and restated effective April 1, 2021. These three remained as parties to their respective affiliate Participating Skilled Nursing Facility Agreements through year-end 2021.

In 2023, the Participating Skilled Nursing Facility Agreements for Americare Systems, Inc., Midwest Health, Inc., and Medicalodges, Inc., were again amended and restated. The second amended and restated agreements were made effective January 1, 2023.

All three of these entities are affiliated with KSSI, as they are the ultimate controlling entities that directly own KSSI. Americare Systems, Inc. is affiliated with KSSI Advantage, LLC; Midwest Health, Inc. is affiliated with Klaton Insurance Partners, LLC; and Medicalodges, Inc. is affiliated with ML-KSS, LLC. These ultimate controlling entities

are also owners of skilled nursing facilities (each skilled nursing facility is referred to as “Facility”) located in Kansas. This agreement allows each Facility to participate in KSSI’s Medicare Advantage (“MA”) benefit plans.

KSSI expensed fees to ML-KSS, LLC (affiliated with Medicalodges, Inc.) in the amount of \$1,071,948 for the periods ended December 31, 2021. KSSI expensed fees to KSSI Advantage, LLC (affiliated with Americare Systems, Inc.) in the amount of \$190,011 for the periods ended December 31, 2021. KSSI expensed fees to Klaton Insurance Partners LLC (affiliated with Midwest Health, Inc.) in the amount of \$823,536 for the periods ended December 31, 2021.

Care Management Service Agreements

Effective August 21, 2020, the Company entered into a Care Management Services Agreement with TruHealth, Inc. This agreement provides that TruHealth would provide data collection and reporting of health risk assessments as well as personalized care by registered nurses and other medical staff to manage the care of participants within the skilled nursing facilities care and case management services. KSSI expensed fees to TruHealth in the amount of \$1,248,225 as of December 31, 2021.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company was authorized to transact business in the state of Kansas and premiums reported in the Annual Financial Statements were solely from Kansas. In 2021, the Company reported premium income of \$10,663,681 in Kansas. The NAIC Schedule T Exceptions Report was reviewed for the state where the Company was licensed. No exceptions were noted.

The Company primarily provides a Medicare Advantage (“MA”) Institutional

Special Needs Plan (“I-SNP”) to Kansas residents who are eligible for Medicare Parts A, B, and D. The Company’s Medicare Part D plan has received a CMS STAR rating of “4” for 2022.

As part of AHC Group, each company in the Group sponsors a Medicare Advantage I-SNP within a managed care framework authorized by the Centers for Medicare and Medicaid Services (“CMS”). This requires each company to arrange for and coordinate the delivery of health care services for Medicare and Medicaid insured members.

I-SNPs restrict enrollment to MA eligible individuals who, for 90 days or longer, require services provided in a long-term care (“LTC”) skilled nursing facility (“SNF”), a LTC nursing facility (“NF”), a SNF/NF, an intermediate care facility for the developmentally disabled, inpatient psychiatric facility, or an assisted living facility. I-SNPs may also enroll MA eligible individuals living in the community, but requiring an institutional level of care, known as Institutional Equivalent SNPs. I-SNPs are not subject to annual election periods, thus marketing the product takes place throughout the entire year.

As of December 31, 2021, 515 members were enrolled in KSSI, which represented 4,990 member months.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company’s financial amounts for the period of December 31, 2017, through December 31, 2021. The financial amounts were obtained from annual statements filed by the Company.

<i>(in millions)</i>	2021	2020	2019	2018	2017
Admitted Assets	\$ 5,172,628	\$ 4,219,280	\$ 3,520,251	\$ 2,934,981	\$ 1,611,494
Liabilities	2,349,168	1,590,645	2,104,612	1,507,933	228,856
Capital and Surplus	2,823,460	2,628,635	1,415,639	1,427,048	1,382,639
Net Underwriting Gain/(Loss)	311,080	765,387	(1,224,097)	(707,306)	(1,049,482)
Net Income (Loss)	321,448	770,310	(1,220,191)	(702,839)	(1,047,362)
Direct Written Premium	10,694,618	9,188,391	7,403,496	3,315,878	-
Total Revenues	10,663,680	9,154,598	7,383,423	3,301,519	-

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

Premium Type	2017	2018	2019	2020	2021
Direct Written Premium	\$0	\$3,315,878	\$7,403,496	\$9,188,391	\$10,694,618
Reinsurance Assumed	-	-	-	-	-
Reinsurance Ceded	-	(14,359)	(20,073)	(17,626)	(30,938)
Net Premiums Written	<u>\$0</u>	<u>\$3,301,519</u>	<u>\$7,383,423</u>	<u>\$9,170,765</u>	<u>\$10,663,680</u>

Assumed Reinsurance

The Company assumed no business from other insurance carriers.

Ceded Reinsurance

The Company and other entities within the Group have an Excess of Loss reinsurance contract with PartnerRe America Insurance Company ("PartnerRe") and 90/10% quota share to mitigate claim fluctuation risk and stress on operating capital. Maximum payment by PartnerRe is \$2 million. There are no other reinsurance agreements in effect.

The Company is contingently liable for all reinsurance losses ceded to others. This

contingent liability would become an actual liability in the event an assuming reinsurer fails to perform its obligations under the reinsurance contract.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and represent the financial condition of the Company for the period ending December 31, 2021. There were no adjustments to the Company's filed statutory financial statements as a result of this examination.

KANSAS SUPERIOR SELECT, INC.
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2021

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 320,000	\$ -	\$ 320,000
Cash and cash equivalents	1,780,032		1,780,032
Investment income due & accrued	5,525		5,525
Uncollected premiums and agents' balances in the course of collection	-	-	-
Accrued retrospective premiums and contracts subject to redetermination	294,757		294,757
Amounts receivable relating to uninsured plans	2,281,582		2,281,582
Net deferred tax asset	509,396	229,935	279,461
Furniture and equipment	-	-	-
Receivable from parent, subsidiaries and affiliates	-	-	-
Healthcare and other amounts receivable	294,565	83,294	211,271
Aggregate write-ins for other than invested assets	27,472	27,472	-
Totals	\$ 5,513,329	\$ 340,701	\$ 5,172,628

**KANSAS SUPERIOR SELECT, INC.
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2021**

Claims unpaid	\$ 1,327,245
Accrued medical incentive pool	550,877
Unpaid claims adjustment expenses	24,158
Aggregate health policy reserves, including the liability for medical loss ratio rebate per the Public Health Service Act	-
Premiums received in advance	84,972
General expenses due or accrued	42,744
Current federal and foreign income tax payable	-
Remittances and items not allocated	-
Amounts due to parent, subsidiaries and affiliates	319,172
Funds held under reinsurance treaties	-
Aggregate write-ins for other liabilities	-
Total liabilities	<u>\$ 2,349,168</u>
Common capital stock	-
Gross paid in and contributed surplus	4,970,000
Unassigned funds	<u>(2,146,540)</u>
Surplus as regards policyholders	<u>2,823,460</u>
Totals	<u><u>\$ 5,172,628</u></u>

**KANSAS SUPERIOR SELECT, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021**

Member months	4,990
Net premium income	\$ 10,663,680
Change in unearned premium reserves	-
Total revenues	<u>\$ 10,663,680</u>
<u>Hospital and Medical:</u>	
Hospital/medical benefits	\$ 6,727,259
Other professional services	-
Outside referrals	-
Emergency room and out-of-area	-
Prescription drugs	894,915
Incentive pool, withhold adjustment and bonus amounts	673,228
Subtotal	<u>\$ 8,295,402</u>
<u>Less:</u>	
Net reinsurance recoveries	-
Total hospital and medical	<u>\$ 8,295,402</u>
Claims adjustment expenses	591,527
General and administrative expenses	1,465,671
Total underwriting deductions	<u>\$ 10,352,600</u>
Net underwriting loss	\$ 311,080
Net investment income earned	\$ 10,368
Net realized capital losses	-
Net investment gains (losses)	<u>\$ 10,368</u>
Net income (loss) after capital gains tax, before fed income tax	<u>\$ 321,448</u>
Federal income taxes incurred	-
Net income (loss)	<u><u>\$ 321,448</u></u>

**KANSAS SUPERIOR SELECT, INC.
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Surplus as regards policyholders, December 31 prior year	\$ -	\$ 1,382,639	\$ 1,427,048	\$ 1,415,639	\$ 2,628,635
Net Income (Loss)	(1,047,362)	(702,839)	(1,220,191)	770,310	321,448
Change in net unrealized capital gains or (losses)	-	-	-	-	-
Change in net deferred income tax	403,257	151,935	260,807	(252,567)	(54,024)
Change in nonadmitted assets	(411,643)	(154,687)	(292,025)	590,253	(72,599)
Change in provision for reinsurance	-	-	-	-	-
Surplus adjustments – paid in	2,875,000	750,000	1,240,000	105,000	-
Dividends to stockholders	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	(436,613)	-	-	-	-
Surplus as regards policyholders, December 31 current year	<u>1,382,639</u>	<u>1,427,048</u>	<u>1,415,639</u>	<u>2,628,635</u>	<u>2,823,460</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company as of December 31, 2021, was \$2,823,460, which was the same amount reported by the Company in its 2021 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop throughout 2020, 2021 and into 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the

Company.

SUMMARY OF RECOMMENDATIONS

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Emma Muambo, CFE (Fraud), and James Menck, CPA, CFE, CIA, CFE (Fraud), MCM, of Eide Bailly LLP assisted on the financial portion of the examination; and Mike Mayberry, FCAS, MAAA, Actuary with Lewis Ellis, LLP performed an actuarial review of the Company.

Respectfully submitted,

Michael Nadeau

Michael Nadeau, CPA, CFE, CISA, AES
Examiner-in-Charge
Noble Consulting Services, Inc.
representing the Kansas Insurance Department

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 Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.



Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Insurance Department

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

State of maine,

County of cumberland,

Michael Nadeau, being duly sworn, states as follows:

1. I have authority to represent the kansas Insurance Department in the examination of Kansas Superior Select, Inc.
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 Kansas Superior Select, Inc. was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

The affiant says nothing further.

Michael Nadeau

Examiner's Signature

Subscribed and sworn before me by Vadim V Popov on this 21 day of June, 2023.

(SEAL)

Vadim V Popov

Notary Public

My commission expires _____ [date].

VADIM V POPOV
NOTARY PUBLIC
State of Maine
My Commission Expires
September 20, 2029

