

CERTIFICATE

I, KEN SELZER, Commissioner of Insurance of Kansas, do hereby certify that the following and hereto attached is a true copy of

REPORT OF EXAMINATION

OF

KANSAS SUPERIOR SELECT, INC.

3024 SOUTHWEST WANAMAKER RD. SUITE 300

TOPEKA, KANSAS 66614

AS OF

AUGUST 18, 2017

the original of which is now on file and a matter of record in this office.

In Witness Whereof, I, KEN SELZER, Commissioner of Insurance of Kansas, have hereto affixed by signature and the seal of the Commissioner of Insurance, in the city of Topeka, Kansas this 4th day of October, 2017



Commissioner of Insurance

FILED
OCT -4 2017
KEN SELZER
Commissioner of Insurance

**ORGANIZATIONAL REPORT ON EXAMINATION
OF
KANSAS SUPERIOR SELECT, INC.
3024 SOUTHWEST WANAMAKER RD., SUITE 300
TOPEKA, KANSAS 66614
AS OF
AUGUST 18, 2017**

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Topeka, Kansas
August 18, 2017

Honorable Ken Seltzer, CPA,
Commissioner of Insurance
Kansas Insurance Department
420 SW 9th Street
Topeka, Kansas 66612-1603

Dear Commissioner:

Pursuant to K.S.A. 40-208 – *Examination by Commissioner Before Issuance of Certificate*, and in accordance with your authorization, an organizational examination has been conducted of the financial condition and business affairs of

**KANSAS SUPERIOR SELECT, INC.
3024 SOUTHWEST WANAMAKER RD., SUITE 300
TOPEKA, KANSAS 66614**

hereinafter referred to as the “Company” or “KSSI”. 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 – *Certificate of Authority Required; Application*. 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 incorporation and bylaws.

HISTORY

General

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. – *Health Maintenance Organizations and Medicare Provider Organizations*. On December 10, 2015 the Company's name was changed to Kansas Superior Select, Inc.

The Company will operate as a health maintenance organization under Article 32, Chapter 40 of the Kansas Statutes Annotated. The Company was organized as a for-profit corporation as set forth in its articles of incorporation to engage in any lawful activity for which corporations may be organized under the general corporation code.

KSSI is seeking approval from the Centers for Medicare and Medicaid Services ("CMS") to operate as a special needs plan (SNP), otherwise known as Medicare Advantage. The Company will provide a coordinated care plan designed to provide targeted care and limit enrollment to individuals with special health care needs.

Capital Stock

Amended articles of incorporation ("Articles") were filed with the office of the Kansas Secretary of State on January 9, 2017. The amended Articles established five (5) categories of capital common stock consisting of 1,000 shares of common stock in each class. The Articles identifies five (5) separate limited liability companies (LLCs) who each will own a separate class of common stock. The newly established common stocks are without nominal or par value and will have equal rights, including voting rights. The Company's stock permit was issued by the Department on March 30, 2017.

| CAPITAL COMMON STOCK | HOLDER | CORPORATE DIRECTOR |
|-----------------------------|--------------------------------|---------------------------|
| Class A | ML-KSS, LLC | Garen L. Cox |
| Class B | Central Kansas Select, LLC | Fredrick C. Hermes |
| Class C | Klaton Insurance Partners, LLC | James A. Klausman |
| Class D | Health Care Investors, LLC | Tommy C. Coble |
| Class E | KSSI Advantage, LLC | James E. Reiker |

Management

The Company’s bylaws consist of thirty-four (34) articles which provide the framework for the operation, management and control of this domestic health maintenance organization.

Directors

The Company is managed by a Board of Directors (Board). The amended articles identify the Directors of the corporation, who may only be removed or replaced by the holders of that class of common stock represented by the director.

Separate investors own each LLC, which are the direct owners of the Company. Each LLC is identified as a holder of an individual class of common stock. Each LLC owns 20% of the Company’s common stock and have equal ownership and control of the Company.

The bylaws recognize the initial number of Directors will consist of five (5) Directors who will serve until the first annual shareholder meeting. Thereafter, succeeding Directors will be elected to terms not exceeding three (3) years. The Board has the authority to increase or decrease the number of authorized director positions to

no less than three (3) and not greater than nine (9) Directors. Each Director shall be elected at the annual meeting, and will hold office until a successor shall have been duly elected and qualified. At least one (1) director will be a Kansas resident.

The exhibit below identifies as of May 31, 2017 the members to the Board, the LLC represented and the year of expiration of their term.

| DIRECTOR | LLC REPRESENTED | TERM EXPIRATION |
|--------------------|--------------------------------|------------------------|
| Fredrick C. Hermes | Central Kansas Select, LLC | 2020 |
| Tom C. Coble | Health Care Investors, LLC | 2020 |
| Jennifer R. Sourk | Klaton Insurance Partners, LLC | 2020 |
| Clay F. Crosson | KSSI Advantage, LLC | 2020 |
| James E. Reiker | KSSI Advantage, LLC | 2020 |
| Garen L. Cox | ML-KSS, LLC | 2020 |
| Scott L. Hines | ML-KSS, LLC | 2020 |

Officers

The officers of the corporation will consist of a President, any Vice Presidents if deemed necessary by the Board, a Corporate Secretary and a Treasurer. The Board may also appoint other officers and agents as the Board deems necessary. Any two offices may be held by the same person. The following officers were elected on December 21, 2016 by the Board and serving in their respective positions as of April 30, 2017:

| <u>Name</u> | <u>Company Position</u> |
|--------------------|---------------------------------------|
| Tom C. Coble | Chief Executive Officer and President |
| Fredrick C. Hermes | Vice President |
| Scott L. Hines | Secretary and Treasurer |

AFFILIATED COMPANIES

The Company is owned by five LLCs, each owning 20% of the issued common capital stock. The ultimate owner(s) of each LLC consist of either individuals or revocable trusts. The following organizational charts identify the individuals or revocable trusts and their ownership percentage in their respective LLC:

Medicalodges Employees Stock Ownership Plan & Trust (100%)
ML-KSS, LLC

Dr. Greg Lakin, 20%
Fred Hermes (20%)
Mary Suzanne Meeker (18%)
Matt Lillie (10%)
Scott Riffel (10%)
Victor Riffel (10%)
Mark Rowe (10%)
Chance Becnal (2%)

Central Kansas Select, LLC

James Klausman Revocable Trust (50%)
Floyd Eaton Revocable Trust (50%)
Klaton Enterprises LLC and Affiliates (100%)
Klaton Insurance Partners, LLC

Tom Coble (100%)
Healthcare Investors, LLC

Richard H. Montgomery III 2008 Insurance Trust (45%)
RHM III 2012 Revocable Trust (45%)
Anna Christine Montgomery Revocable Trust (5%)
Richard H. Montgomery Revocable Trust (5%)
R.H. Montgomery Properties, Inc. and Affiliates (100%)
KSSI Advantage, LLC

The following organization chart depicts the relationship, ownership percentage of the direct owners and their class of common stock held in KSSI:

ML-KSS, LLC, Common Stock Class A (20%)
Central Kansas Select, LLC, Common Stock Class B (20%)
Klaton Insurance Partners, LLC, Common Stock Class C (20%)
Healthcare Investors, LLC, Common Stock Class D (20%)
KSSI Advantage, LLC, Common Stock Class E (20%)
Kansas Superior Select, Inc.

Insolvency Agreement

The Company has entered into an insolvency agreement with Aetna Health Insurance Company (AHIC). This insolvency plan provides for a reinsurance agreement with PartnerRe that will provide insolvency coverage in addition to excess medical coverage. This reinsurance agreement will be obtained after receiving CMS's approval to operate a Medicare Advantage health maintenance organization. The Company has identified the security deposits funds as being available for use.

In the event of insolvency and it has been determined that insolvency insurance and existing capital are insufficient to meet capital needs the Central Kansas Select, LLC will provide a Letter of Credit (LOC) of \$100,000. This LOC will pay for the continuation of benefits to members who are confined on the date of insolvency in an inpatient facility until their discharges or expiration of benefits.

FIDELITY BOND AND OTHER INSURANCE

Pursuant to K.S.A. 40-3225 – *Fiduciary Responsibilities, Fidelity Bond or Insurance*, 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.

The Company has not obtained fidelity bond coverage as of the date of this organization examination.

STATUTORY DEPOSIT

Pursuant to paragraph (a) and (f) K.S.A. 40-3227 – *Deposit Requirements*, 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 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. This deposit of securities was made on April 24, 2017.

INSURANCE PRODUCTS AND RELATED PRACTICES

As a CMS approved Medicare Advantage SNP health maintenance organization KSSI will provide targeted care and limit enrollment to members with special health care needs. KSSI's plan is designed specifically for people who live in an institution, similar to a nursing home, or requires a level of care that is usually provided in a nursing home.

Territory and Plan of Operation

The Company will utilize an in-house sales department and may use external insurance brokers for membership enrollment.

The Company has identified the following Kansas counties as its target area:

| | | | | |
|-----------|------------|---------|-----------|-------------|
| Allen | Atchison | Bourbon | Butler | Chautauqua |
| Cherokee | Clay | Cowley | Crawford | Dickinson |
| Douglas | Edwards | Finney | Greenwood | Harvey |
| Jackson | Johnson | Kingman | Labette | Leavenworth |
| Miami | Montgomery | Nemaha | Neosho | Osage |
| Riley | Russell | Saline | Sedgwick | Shawnee |
| Wabaunsee | Wyandotte | | | |

Eligible members must live in one of these counties. Any member moving from a territory outside of this area must notify the Company and must transfer their health

coverage to another Medicare health or drug plan, or to the federal government's Medicare program.

FINANCIAL STATEMENTS

The following financial statements reflect only the transactions regarding the capitalization of the Company as of April 30, 2017, and the assets and liabilities as of that date.


**KANSAS SUPERIOR SELECT, INC.
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF MAY 31, 2017**

| Assets | |
|--|----------------------------|
| Cash | \$ 1,240,496 |
| Deposit - Securities | 300,000 |
| Capital Contributions Receivable | 100,000 |
| Total Assets | <u>\$ 1,640,496</u> |
| LIABILITIES AND STOCKHOLDERS' SURPLUS | |
| Accounts Payable | <u>\$ 95,390</u> |
| Total Liabilities | <u>95,390</u> |
| Common Stock | - |
| Capital Contributions | 2,375,000 |
| Retained Earnings | |
| Prior Year | (436,613) |
| Current Year | (393,281) |
| Total Stockholders' Equity | <u>1,545,106</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 1,640,496</u> |

CONCLUSION

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tony Florez", written over a horizontal line.

Tony Florez
Senior Insurance Examiner
Examiner-In-Charge

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


State of Kansas

County of Shawnee

Tony Florez being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the organizational examination of Kansas Superior Select, Inc.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the organizational 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.



 Examiner's Signature

Subscribed and sworn before me by TONY FLOREZ on
 this 24th day of AUGUST, 2017.

(SEAL)



 Notary Public

My commission expires 8-11-21

 (date)

