

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
CareSource Indiana, Inc.)
230 North Main Street)
Dayton, Ohio 45402)

Examination of **CareSource Indiana, Inc.**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **CareSource Indiana, Inc.**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on April 30, 2013, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **CareSource Indiana, Inc.** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

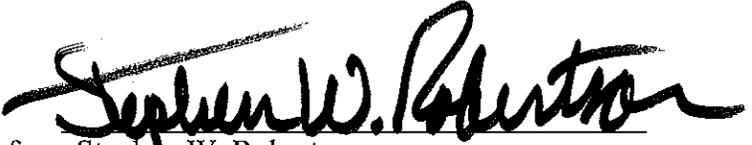
6-6-2013
Date


Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0015 5240 85

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 6th day of
June, 2013.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
CARESOURCE INDIANA, INC.

NAIC Co. CODE 10142
NAIC GROUP CODE 3683

As of
December 31, 2011

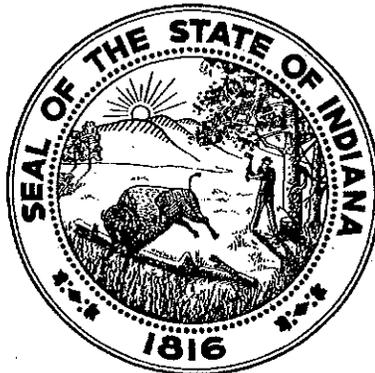


TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION.....	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	2
TERRITORY AND PLAN OF OPERATIONS.....	3
GROWTH OF THE COMPANY.....	3
MANAGEMENT AND CONTROL.....	3
Officers.....	3
CONFLICT OF INTEREST.....	4
CORPORATE RECORDS.....	4
Minutes.....	4
AFFILIATED COMPANIES.....	5
Organizational Structure.....	5
Affiliated Agreements:.....	5
FIDELITY BOND AND OTHER INSURANCE.....	5
STATUTORY DEPOSITS.....	5
REINSURANCE.....	5
ACCOUNTS AND RECORDS.....	6
FINANCIAL STATEMENTS.....	7
Assets:.....	7
Liabilities, Capital and Surplus:.....	8
Statement of Revenue and Expenses:.....	9
Reconciliation of Capital and Surplus:.....	10
COMMENTS ON THE FINANCIAL STATEMENTS.....	11
OTHER SIGNIFICANT ISSUES.....	11
SUBSEQUENT EVENTS.....	11
AFFIDAVIT.....	12



STATE OF INDIANA

MICHAEL R. PENCE, Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE
311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

April 17, 2013

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3729, an examination has been made of the affairs and financial condition of:

CareSource Indiana, Inc.
230 North Main Street
Dayton, OH 45402

an Indiana limited service health maintenance organization "HMO" hereinafter referred to as the "Company". The examination was conducted at the offices of Noble Consulting Services, Inc. in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2011, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by Noble Consulting Services, Inc. (Noble) on behalf of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2008. The present risk-focused examination was conducted by Noble and covered the period from January 1, 2009 through December 31, 2011.

No independent audit was performed for 2010 or 2011 as the Company obtained an exemption waiving the requirement from the INDOI. In addition, no actuarial or information systems review was considered necessary.

Noble conducted the risk-focused examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and management's compliance with Statutory Accounting Principles, and Annual Statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company operates as a not-for-profit, domiciled in the State of Indiana, and is a wholly-owned subsidiary of CareSource Management Group Company (CSMG), which is also the parent of CareSource Ohio, a Medicaid managed-care plan in Ohio. The Company is managed by CSMG. The Company has been recognized by the Internal Revenue Service as an organization described in Internal Revenue Code Section 501(c)(3), and as such, is treated as being exempt from federal income taxes, but is subject to the unrelated business income tax code.

The Company was incorporated on February 28, 2004 and commenced operations on January 1, 2005. During 2005, the Company entered into a contract with the Office of Medicaid Policy and Planning (OMPP) to provide financing and delivery of health-care services to Medicaid beneficiaries throughout the State of Indiana through its contracted network of primary care and specialty physicians, hospitals, nursing facilities, home health care agencies, and other medical providers. During the fourth quarter of 2006, the Company exited the Hoosier Healthwise Plan when its contract with OMPP was terminated. The Company completed run-out of claims as of June 30, 2008.

CAPITAL AND SURPLUS

Based on Indiana Code (IC) 27-1-36.1-2(b), the Company is exempt from the risk-based capital requirement because of the premium threshold. The Company reported \$1.9 million in capital and surplus at December 31, 2011, which was comprised of gross paid in and contributed surplus and unassigned funds.

TERRITORY AND PLAN OF OPERATIONS

The Company intends to maintain its HMO license to be in a position to respond to future opportunities and is licensed only in Indiana.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted</u> <u>Assets</u>	<u>Liabilities</u>	<u>Capital</u> <u>and Surplus</u>	<u>Total</u> <u>Revenues</u>	<u>Net</u> <u>Income</u>
2011	\$ 1,915,877	\$ 6,114	\$ 1,909,763	\$ -	\$ 10,497
2010	1,922,516	23,251	1,899,265	-	58,401
2009	1,891,647	50,782	1,840,865	970	498,167

The Company recorded net income in both 2010 and 2011 which was driven by recoveries related to coordination of benefits efforts on former members.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors. The directorships expire upon staggered three (3) year terms. After initial appointment, the directors hold office until either a successor is elected and qualified or an earlier resignation, removal from office, or death. The sole shareholder, CSMG, elects the Board of Directors. The Company does not have a director that resides in the state of Indiana as required by IC 27-13-2-10. See the "Other Significant Issues" section of this report. The following is a listing of persons serving as directors at December 31, 2011:

<u>Name and Address</u>	<u>Principal Occupation</u>
Pamela B. Morris Dayton, OH	President and Chief Executive Officer CareSource USA Holding Company
J. Thomas Maultsby Dayton, OH	Owner and Group Leader Group One Development, LLC
Kevin R. Brown Potomac, MD	President and Chief Executive Officer DST Health Solutions, Inc.

Officers

The Company's bylaws state that the officers of the Company shall be elected by a majority of the directors in office.

The following is a listing of the officers and their respective titles as of December 31, 2011:

<u>Name</u>	<u>Office</u>
Pamela B. Morris	President & Chief Executive Officer
L. Tarlton Thomas III	Chief Financial Officer
Bobby L. Jones	Chief Operating Officer
Craig S. Thiele, M.D.	Chief Medical Officer

CONFLICT OF INTEREST

The Company requires officers and directors to review and sign Conflict of Interest statements on an annual basis. It was determined that officers and directors listed previously in this Report of Examination had reviewed and signed statements as of year-end 2011.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Articles of Incorporation and Bylaws were both amended, effective January 1, 2009. The Articles of Incorporation added language relating to the manner in which the Company is to be organized and operate under section 501(c)(3), and upon dissolution, remaining assets are to be given to The CareSource Foundation. The Bylaws changed the length of term of the Board of Directors, the required officers, and the terms of the officers. No other changes were made to the Articles of Incorporation or Bylaws during the period under examination.

Minutes

The minutes from the Board of Directors/Trustees meetings were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that meetings of the Board were held in accordance with the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

An organization chart depicting the Company's relationship with its parent and other insurance affiliates, as of December 31, 2011, is presented below:

<u>Name of Company</u>	<u>NAIC Co. Code</u>	<u>State of Domicile</u>
CareSource Management Group Company		
CareSource Ohio	95201	OH
The CareSource Foundation		
CareSource Indiana, Inc.	10142	IN
CareSource Michigan	95562	MI
CareSource Illinois		IL
CareSource Management Services, Inc.		OH
CareSource Insurance, LLC	13717	VT

Affiliated Agreements:

The following affiliated agreement was disclosed as part of the Form B – Holding Company Registration Statement and was filed and not disapproved by the INDOI as required, in accordance with IC 27-1-23-4.

Management Agreement

The Management Agreement is between CSMG and the Company. CSMG provides management services for the Company for a monthly management fee of 8%. The fee is for all net member revenues due the Company from any State contract. The agreement was filed with the INDOI and approved on November 30, 2005. The Management Agreement was subsequently amended and approved by the INDOI on May 11, 2006. The Company paid \$30,963 to CSMG during 2011.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by National Union Fire Insurance Company with Marsh USA Inc. as the producer. The bond provides crime coverage of \$5,000,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by NAIC.

STATUTORY DEPOSITS

The Company reported \$1 million in statutory deposits with the state of Indiana comprised of certificates of deposit at December 31, 2011.

REINSURANCE

The Company did not have any reinsurance in place as of December 31, 2011.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2010 and 2011 were agreed to the Annual Statements. No independent audit report was required for 2010 or 2011. The Company's accounting procedures, practices, and account records were determined to be satisfactory.

CARESOURCE INDIANA, INC.

FINANCIAL STATEMENTS

Assets:

	As of December 31, 2011			
	<u>Per Annual</u>	<u>Examination</u>	<u>Per</u>	<u>December 31,</u>
	<u>Statement</u>	<u>Adjustments</u>	<u>Examination</u>	<u>Prior Year</u>
Assets:				
Cash, cash equivalents and short-term investments	\$ 1,912,157	\$ -	\$ 1,912,157	\$ 1,922,516
Subtotals, cash and invested assets	1,912,157	-	1,912,157	1,922,516
Receivables from parent, subsidiaries and affiliates	3,720	-	3,720	-
Total assets	\$ 1,915,877	\$ -	\$ 1,915,877	\$ 1,922,516

CARESOURCE INDIANA, INC.

FINANCIAL STATEMENTS

Liabilities, Capital and Surplus:

	As of December 31, 2011			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Liabilities:				
General expenses due or accrued	\$ 6,114	\$ -	\$ 6,114	\$ 20,145
Amounts due to parent, subsidiaries and affiliates	-	-	-	3,106
Total liabilities	<u>6,114</u>	<u>-</u>	<u>6,114</u>	<u>23,251</u>
Gross paid in and contributed surplus	23,925,061	-	23,925,061	23,925,061
Unassigned funds (surplus)	(22,015,298)	-	(22,015,298)	(22,025,796)
Total capital and surplus	<u>1,909,763</u>	<u>-</u>	<u>1,909,763</u>	<u>1,899,265</u>
Total liabilities, capital and surplus	<u>\$ 1,915,877</u>	<u>\$ -</u>	<u>\$ 1,915,877</u>	<u>\$ 1,922,516</u>

CARESOURCE INDIANA, INC.

FINANCIAL STATEMENTS

Statement of Revenue and Expenses:

	As of December 31, 2011			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Hospital and Medical:				
Hospital/medical benefits	\$ (27,769)	\$ -	\$ (27,769)	\$ (67,660)
Total hospital and medical	<u>(27,769)</u>	<u>-</u>	<u>(27,769)</u>	<u>(67,660)</u>
General administrative expenses	17,522	-	17,522	26,095
Total underwriting deductions	<u>(10,247)</u>	<u>-</u>	<u>(10,247)</u>	<u>(41,565)</u>
Net underwriting gain or (loss)	<u>10,247</u>	<u>-</u>	<u>10,247</u>	<u>41,565</u>
Net investment income earned	250	-	250	16,836
Net investment gains (losses)	<u>250</u>	<u>-</u>	<u>250</u>	<u>16,836</u>
Net income (loss)	<u>\$ 10,497</u>	<u>\$ -</u>	<u>\$ 10,497</u>	<u>\$ 58,401</u>

CARESOURCE INDIANA, INC.

FINANCIAL STATEMENTS

Reconciliation of Capital and Surplus:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and Surplus Account:			
Capital and surplus prior reporting year	\$ 1,899,266	\$ 1,840,865	\$ 1,342,698
Net income or (loss)	<u>10,497</u>	<u>58,401</u>	<u>498,167</u>
Net change in capital and surplus	<u>10,497</u>	<u>58,401</u>	<u>498,167</u>
Capital and surplus end of reporting year	<u>\$ 1,909,763</u>	<u>\$ 1,899,266 *</u>	<u>\$ 1,840,865</u>

* This Report of Examination reflects the information presented in the Annual Statement filing. Note that there are immaterial differences in the amount of total capital and surplus reported in this exhibit and that reported elsewhere in this report.

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2011 based on the results of this examination.

OTHER SIGNIFICANT ISSUES

The Company does not have a director that resides in the state of Indiana as specified by IC 27-13-2-10. Compliance with IC 27-13-2-10 is required and the Company should notify the INDOI once compliance is attained.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in the Report of Examination.

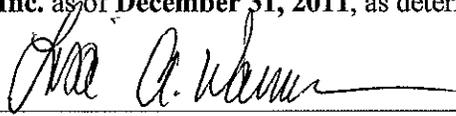
AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of **CareSource Indiana, Inc.**, as of **December 31, 2011**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of **CareSource Indiana, Inc.** as of **December 31, 2011**, as determined by the undersigned.



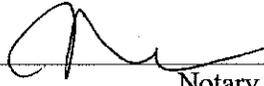
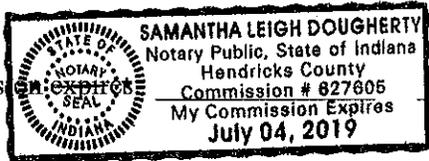
Lisa A. Warrum, CFE
Noble Consulting Services, Inc.

State of:
County of:

On this 29 day of April, 2013, before me personally appeared, Lisa A. Warrum, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commiss



Notary Public