

REPORT ON ORGANIZATION

OF

**SECURITY HEALTH INSURANCE COMPANY OF AMERICA,
NEW YORK, INC**

AS OF

OCTOBER 31, 2009

DATE OF REPORT

DECEMBER 16, 2009

EXAMINER

ROBERT W. MCLAUGHLIN, CFE, CIE

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NY 10004

David A. Paterson
Governor

James J. Wrynn
Superintendent

December 16, 2009

Honorable James J. Wrynn
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to the provisions of the New York Insurance Law, and acting in accordance with the instructions contained in Appointment Number 30392 dated November 2, 2009, and attached hereto, I have made an on-organization examination of Security Health Insurance Company of America, New York, Inc. as of October 31, 2009 and respectfully submit the following report thereon.

The examination was conducted at the Company's home office located at 461 Clinton Street Extension, Schenectady, New York.

Whenever the term, "the Company" appears herein without qualification, it should be understood to refer to Security Health Insurance Company of America, New York, Inc..

1. ORGANIZATION

Security Health Insurance Company of America, New York, Inc. was incorporated on November 12, 2008. The declaration of intention and charter were approved by the State of New York Insurance Department pursuant to Section 1201 of the New York Insurance Law and placed on file with the Department on the same date.

The members of the Company's board of directors and the principal officers are as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Bryan V. Anderson Apple Valley, MN	Executive Vice President & Secretary, Security Life Insurance Company of America, Inc.
Scott L. Becker North Oaks, MN	Managing Partner, Northstar Capital, Inc..
Harold D. Gordon, Esq. Clifton Park, NY	Partner Couch White, LLP,
Edward H. Hamm, Jr. Beverly Hills, CA	Vice President, Maxum Indemnity Corporation
Michael P. Krafcik Simsbury, CT	Vice President, Sales and Marketing, Security Life Insurance Company of America, Inc.
Robert L. Meller, Jr., Esq. Golden Valley, MN	Partner, Best & Flanagan, LLP
William C. Peterson Apple Valley, MN	Chairman and Chief Executive Officer, Private Capital Management, Inc.
Frank J. Radermacher St. Louis Park, MN	Vice President/Controller, Security Health Insurance Company of America, New York, Inc.
Gil C. Rohde, Jr. Woodbury, MN	President and Chief Executive Officer, Security Health Insurance Company of America, New York, Inc.
Colleen A. Sherin Ballston Spa, NY	Director of Operations, Security Life Insurance Company of America, Inc.

Brian K. Smith Eagan, MN	President, Private Capital Management, Inc.
Kevin J. Stangler Maple Grove, MN	Executive Vice President, Treasurer and Chief Financial Officer, Security Health Insurance Company of America, New York, Inc.
Theron M. Williams Eden Prairie, MN	Executive Vice President and Chief Marketing Officer, Security Life Insurance Company of America, Inc.

The principal officers of the Company, as of October 31, 2009, were as follows:

<u>Name</u>	<u>Title</u>
Gil C. Rohde, Jr.	President & Chief Executive Officer
Kevin J. Stangler	Executive Vice President, Treasurer and Chief Financial Officer
Bryan V. Anderson	Executive Vice President and Secretary
Theron M. Williams	Executive Vice President and Chief Marketing Officer
Frank J. Radermacher	Vice President, Controller
Michael P. Krafcik	Vice President, Sales

2. SCOPE OF EXAMINATION

The examination comprised a verification of the issuance of the Company's capital stock, the receipt of capital and surplus funds, and the determination of assets and liabilities. The records examined included the declaration of intention and charter, by-laws, corporate minute book, and the stock register. In addition, an affidavit, appended hereto, was obtained from two officers of the Company indicating that the transactions noted in this report were bona fide.

3. CAPITALIZATION AND SUBSCRIPTION

Security Health Insurance Company of America, New York, Inc. is a wholly-owned subsidiary of Security American Financial Enterprises, Inc. (SAFE), a holding company corporation domiciled in Minnesota. The Company issued 425,000 shares of \$1.00 par value per share common capital stock on October 19, 2009 to Security American Financial Enterprises, Inc. for a sales price of \$1.00 per share resulting in a total consideration of \$425,000. In addition, Security American Financial Enterprises, Inc. made a surplus contribution in the amount of \$675,000 to the Company on October 8, 2009.

4. BALANCE SHEET

The following balance sheet sets forth the Company's financial condition as of October 31, 2009 as determined by this examination. This statement is the same as the balance sheet provided by the Company.

<u>Assets</u>	
Bonds	\$ 352,161
Cash and short-term investments	747,443
Interest income due and accrued	<u>846</u>
Total assets	<u>1,100,450</u>
<u>Liabilities</u>	
Accrued liabilities and taxes.	\$ <u>153</u>
Total liabilities	<u>\$ 153</u>
<u>Capital and Surplus</u>	
Common capital stock	\$ 425,000
Gross paid in and contributed surplus	675,000
Unassigned surplus	<u>297</u>
Total capital and surplus	<u>\$ 1,100,297</u>
Total liabilities and surplus	<u>\$ 1,100,450</u>

5. AUTHORIZED POWERS AND MINIMUM CAPITAL REQUIRED

The Company is authorized by its declaration of intention and charter to transact the kinds of insurance as described in the following numbered paragraph of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
(3)(i) and (ii)	Accident and health insurance

The minimum financial requirements for this line of business, as set forth in Section 4204 and 4206 of the New York Insurance Law, are as follows:

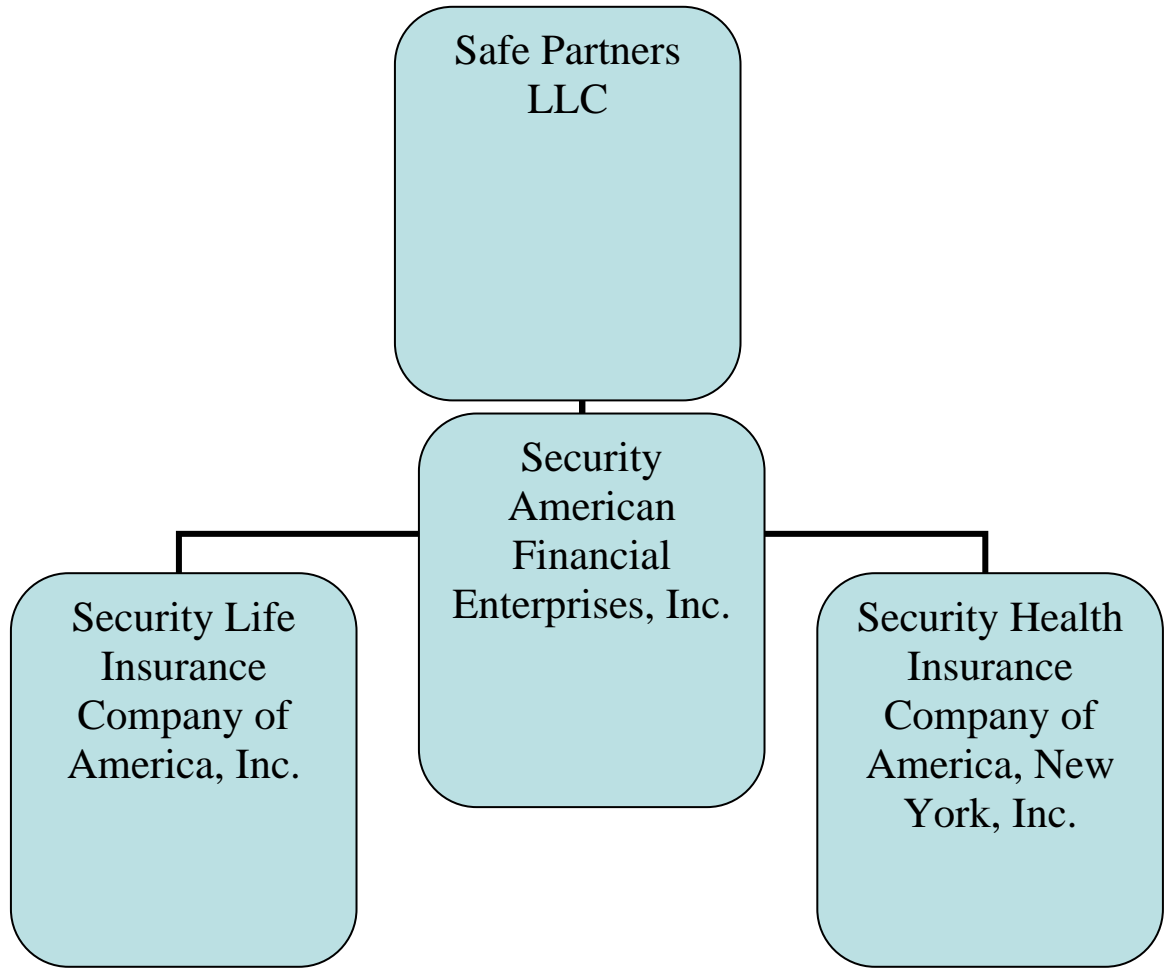
Initial Surplus	\$450,000
Surplus to be maintained	300,000
Deposit	200,000
Capital	300,000
Minimum capital investments	300,000

Pursuant to the provisions of Section 4206 of the New York Insurance Law, the Company has placed a qualifying security with a par value of \$250,000 in an account in the name of the Superintendent of Insurance at Wilbur National Bank, Halfmoon, New York.

6. HOLDING COMPANY SYSTEM

The Company is a wholly-owned subsidiary of Security American Financial Enterprises, Inc., a privately held corporation which in turn, is a wholly-owned subsidiary of Safe Partners LLC. Safe Partners LLC's ownership is comprised of Private Capital Management, Inc. (51% ownership) and Northstar Capital, Inc. (49% ownership), both Minnesota corporations.

The following chart depicts the Company in relationship to its parent and to certain affiliated companies as of October 31, 2009:



At the time of examination, the Company has in force the following agreements with members of its holding company system:

1. Management and Service Cost Sharing Agreement dated June 8, 2009 between Security American Financial Enterprises, Inc. and the Company whereby Security American Financial Enterprises, Inc.. performs various services on behalf of the Company, including personnel, managerial, accounting, legal, investment management, administrative and IT personnel services. According to the agreement, the Company agrees to reimburse SAFE for the full cost of all services provided

under the agreement, including the salaries of the personnel utilized by the Company. Allocated costs and expenses will be established in conformity with New York Insurance Department Regulation 30 (11 NYCRR 105-109).

2. Tax allocation agreement, dated June 8, 2009 between Security American Financial Enterprises, Inc. and the Company whereby the Company agrees to join in the filing of the Security American Financial Enterprises, Inc. Group's financial federal income tax return for each taxable year for which the Company is eligible to join in such filing. The Security American Financial Enterprises, Inc. Group consists of Security American Financial Enterprises, Inc., Security Life Insurance of America, Inc. and Security Health Insurance Company of America, New York, Inc.

For purposes of this agreement, for any taxable year covered by the agreement, the Company's hypothetical tax shall be the federal tax liability that the Company would have had for such year if it had filed a separate return for such year. In no event will the hypothetical tax be greater than the federal income tax liability that the Company would have incurred if it had filed a separate tax return.

The above agreements have been approved by this Department.

7. CONCLUSION

Based upon the foregoing examination, it is concluded that the Company sold 425,000 shares of \$1.00 par value per share capital stock for a sale price of \$1.00 per share resulting in a total consideration of \$425,000 on October 19 , 2009. Furthermore, the Company also received a surplus contribution of \$675,000 on October 8, 2009.

State of *Minnesota*

County of *Hennepin*

I, Gil C. Rohde, Jr., President and Chief Executive Officer and Kevin J. Stangler, Executive Vice President, Treasurer and Chief Financial Officer of Security Health Insurance Company of America, New York, Inc. (Company) after being duly sworn depose and say, and each for himself deposes and declares under oath:

1. That they are the above-described officers of said Company.
2. As of October 31, 2009, the proceeds of the common stock sale of the Company of \$425,000 and a paid-in surplus contribution from Security American Financial Enterprises, Inc. (SAFE) in the amount of \$675,000 were received by the Company.

(a) \$100,000 (Par Value) U.S. Treasury Note, 2.375%, September 30, 2014 maturity, and held in custody by Wilbur National Bank. As of October 31, 2009, the market value of this investment was \$100,398.01.

(b) \$745,000 cash held in a JPMorgan Chase Bank, N.A. commercial checking account.

FOR THE BENEFIT OF POLICYHOLDERS:

(c) \$250,000 (Par Value) U.S. Treasury Note, 3.00%, September 30, 2016 maturity and held in custody by Wilbur National Bank. As of October 31, 2009, the market value of this investment was \$250,664.02.

The above sums are the property of the Company and possessed by it in its corporate name and capacity.

3. That no part of said paid-in capital and surplus has been withdrawn, pledged or in any way impaired, except as wanted for investment or other-wise legitimately use or appropriated to and for the sole and exclusive use and benefit of the Company in its corporate capacity and in strict conformity with the statutes in such case made and provided,

4. That no part or portion thereof has been loaned or advanced to the Company by any person, partnership or corporation for the purpose of being used as paid-in capital and surplus.

5. That according to the best of their respective knowledge, information and belief, there was no intention or design existing on the part of any person or persons whomsoever, to withdraw any part or portion of said paid-in capital or surplus until the same was or is wanted for investment or was to be legitimately used or appropriated to and for the sole and exclusive use and benefit of the Company in its corporate capacity in strict conformity with the statutes in such case and provided,

6. That there is no agreement or understanding, express or implied, made or existing between the Company or its officers, or any or either of them or any person or persons, to the effect of import that the money paid-in by any stockholder shall be loaned or returned to him or any person or persons for his or their use or accommodation, or the hypothecation of stock of the Company as security therefore, or upon any securities, terms and conditions whatsoever.

7. That neither the Company, nor any of its officers is any way, manner or form, pledged or committed to make any investment, loan or disposition of said paid-in capital and surplus or any part or portion thereof, which is not in strict conformity in all respects with the provisions of the Insurance Law of the State of New York.

Security Health Insurance Company of America, New York, Inc.

By: Richard C. Rohde

By: _____

Subscribed and sworn to before me
this 15th day of Dec, 2009



State of New York

County of Schenectady

I, Gil C. Rohde, Jr., President and Chief Executive Officer and Kevin J. Stangler, Executive Vice President, Treasurer and Chief Financial Officer of Security Health Insurance Company of America, New York, Inc. (Company) after being duly sworn depose and say, and each for himself deposes and declares under oath:

1. That they are the above-described officers of said Company.
2. As of October 31, 2009, the proceeds of the common stock sale of the Company of \$425,000 and a paid-in surplus contribution from Security American Financial Enterprises, Inc. (SAFE) in the amount of \$675,000 were received by the Company.

(a) \$100,000 (Par Value) U.S. Treasury Note, 2.375%, September 30, 2014 maturity, and held in custody by Wilbur National Bank. As of October 31, 2009, the market value of this investment was \$100,398.01.

(b) \$745,000 cash held in a JPMorgan Chase Bank, N.A. commercial checking account.

FOR THE BENEFIT OF POLICYHOLDERS:

(c) \$250,000 (Par Value) U.S. Treasury Note, 3.00%, September 30, 2016 maturity and held in custody by Wilbur National Bank. As of October 31, 2009, the market value of this investment was \$250,664.02.

The above sums are the property of the Company and possessed by it in its corporate name and capacity.

3. That no part of said paid-in capital and surplus has been withdrawn, pledged or in any way impaired, except as wanted for investment or other-wise legitimately use or appropriated to and for the sole and exclusive use and benefit of the Company in its corporate capacity and in strict conformity with the statutes in such case made and provided,

4. That no part or portion thereof has been loaned or advanced to the Company by any person, partnership or corporation for the purpose of being used as paid-in capital and surplus.

5. That according to the best of their respective knowledge, information and belief, there was no intention or design existing on the part of any person or persons whomsoever, to withdraw any part or portion of said paid-in capital or surplus until the same was or is wanted for investment or was to be legitimately used or appropriated to and for the sole and exclusive use and benefit of the Company in its corporate capacity in strict conformity with the statutes in such case and provided,

6. That there is no agreement or understanding, express or implied, made or existing between the Company or its officers, or any or either of them or any person or persons, to the effect of import that the money paid-in by any stockholder shall be loaned or returned to him or any person or persons for his or their use or accommodation, or the hypothecation of stock of the Company as security therefore, or upon any securities, terms and conditions whatsoever.

7. That neither the Company, nor any of its officers is any way, manner or form, pledged or committed to make any investment, loan or disposition of said paid-in capital and surplus or any part or portion thereof, which is not in strict conformity in all respects with the provisions of the Insurance Law of the State of New York.

Security Health Insurance Company of America, New York, Inc.

By: *Kevin J Stangler*
KEVIN J STANGLER

By: _____

Subscribed and sworn to before me
this 15th day of December, 2009

Harold D. Gordon

Harold D. Gordon
Notary Public / State of New York
Qualified in Schenectady County
No. 02604623418
Commission Expires: 8/31/13

Appointment No. 30392

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

I, **James J. Wrynn**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Robert W. McLaughlin

as a proper person to examine into the affairs of the

Security Health Insurance Company of America, New York, Inc.

and to make a report to me in writing of the condition of the said

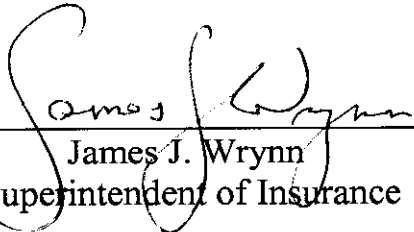
Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of this Department, at the City of New York.

this 2nd day of November, 2009




James J. Wrynn
Superintendent of Insurance