

REPORT ON ORGANIZATION

OF

CRYSTAL RUN HEALTH INSURANCE COMPANY, INC.

AS OF

DECEMBER 10, 2014

DATE OF REPORT:

DECEMBER 29, 2014

EXAMINER:

HUZAIFA CHAUDHURY

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Organization	2
2.	Scope of examination	4
3.	Capitalization and subscription	4
4.	Balance sheet	5
5.	Authorized powers and minimum capital required	6
6.	Holding company system	8
7.	Allocation of expenses	10
8.	Conclusion	10
9.	Summary of comments and recommendations	12



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

December 29, 2014

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment Number 31257, dated November 14, 2014, and attached hereto, I have made an examination “on organization” of Crystal Run Health Insurance Company, Inc. and the following report thereon is respectfully submitted.

The examination was conducted at the home office of Crystal Run Health Insurance Company, Inc., located at 109 Rykowski Lane, Middletown, NY 10941.

Wherever the terms “Company” or “CRHIC” appear herein, without qualification, they should be understood to refer to Crystal Run Health Insurance Company, Inc.

Wherever the designation, the “Department” appears herein, without qualification, it should be understood to indicate the New York State Department of Financial Services.

1. ORGANIZATION

Crystal Run Health Insurance Company, Inc. was incorporated, pursuant to the Company's submission of a Declaration of Intention and Charter ("Charter") to the New York State Department of Financial Services, on December 2, 2013. Such Charter was approved by the Department pursuant to Section 1201 of the New York Insurance Law, and placed on file on the same date. The Company then filed an application for licensure as an Article 42 Accident and Health insurer with Department on January 21, 2014.

The Company's by-laws stipulate that the number of directors, which shall constitute the whole board of directors, shall be fixed from time to time by the board of directors, consistent with the provisions of the Charter. CRHIC's Charter states that the board of directors shall consist of no less than seven (7) and no more than twelve (12) directors. It should be noted that, as of the examination date, all the directors have a business affiliation with either CRHIC or Crystal Run Healthcare LLP. As of the date of this examination, the Company's board consisted of nine (9) directors, as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Scott Hines Slate Hill, NY	Medical Director/Division Leader, Crystal Run Healthcare LLP
David Jaeger Monroe, NY	Division Leader, Crystal Run Healthcare LLP
Gnanamba Kondagunta Goshen, NY	Division Leader, Crystal Run Healthcare LLP
Michelle Koury Goshen, NY	Chief Operating Officer, Crystal Run Healthcare LLP

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jonathan Nasser, MD Goshen, NY	Medical Director/Division Leader, Crystal Run Healthcare LLP
Laura Nicoll Monroe, NY	Medical Director/Division Leader, Crystal Run Healthcare LLP
Douglas Sansted Westport, CT	Chief Legal Officer, Crystal Run Healthcare LLP
Gregory Spencer, MD Goshen, NY	Chief Medical Officer, Crystal Run Healthcare LLP
Hal Teitelbaum, MD White Lake, NY	Chief Executive Officer/Managing Partner, Crystal Run Healthcare LLP

The officers of CRHIC included the following individuals:

<u>Name</u>	<u>Title</u>
Hal Teitelbaum, MD	President
Donna McGregor	Chief Financial Officer
Bryan Chung	Chief Compliance Officer
Jonathan Nasser, MD	Chief Medical Officer
Michelle Reay	Vice President Operations
Douglas Sansted	Secretary
Greg Spencer, MD	Assistant Secretary
Michelle Koury,	Treasurer

2. **SCOPE OF EXAMINATION**

The examination was comprised of 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, Board of Directors' minutes, Stockholders' register, and holding company organizational chart. 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**

The Company is a wholly-owned subsidiary of Crystal Run Health Group, LLC. On July 23, 2014, the Company issued to the parent 100,000 shares of capital stock with a par value of \$2.00 per share, for a price of \$68 per share resulting in an aggregate purchase price of \$6,800,000. The total investment consists of paid in capital of \$200,000 and contributed surplus of \$6,600,000.

4. BALANCE SHEET

The following balance sheet sets forth the Company's financial condition as of the date of this examination:

Assets

Cash	\$6,560,041
Bonds (U.S. Treasury Bills)	240,000
IT Equipment	<u>553</u>
 Total assets	 \$ <u>6,800,594</u>

Liabilities

Salaries	\$ 32,357
Payroll Taxes	8,089
Rent	4,074
Professional Fees	679,285
Accrued General Expenses	<u>68,471</u>
 Total Liabilities	 \$ <u>792,276</u>

Capital and Surplus

Common capital stock	200,000
Gross paid-in and contributed surplus	6,600,000
Unassigned surplus	<u>(791,682)</u>
 Total capital and surplus	 \$ <u>6,008,318</u>
 Total liabilities and surplus	 \$ <u>6,800,594</u>

5. AUTHORIZED POWERS AND MINIMUM CAPITAL REQUIRED

The Company is authorized pursuant to its Charter to transact the kind 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)	Accident and health insurance

The Company's Charter indicates that it may also engage in any other kind or kinds of business to the extent necessary or incidental to the kind or kinds of business which it is or may hereafter be authorized to transact in the State of New York.

The Company's minimum financial requirements for the above mentioned line of business, as set forth in Sections 4204 and 4206 of the New York Insurance Law are as follows:

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

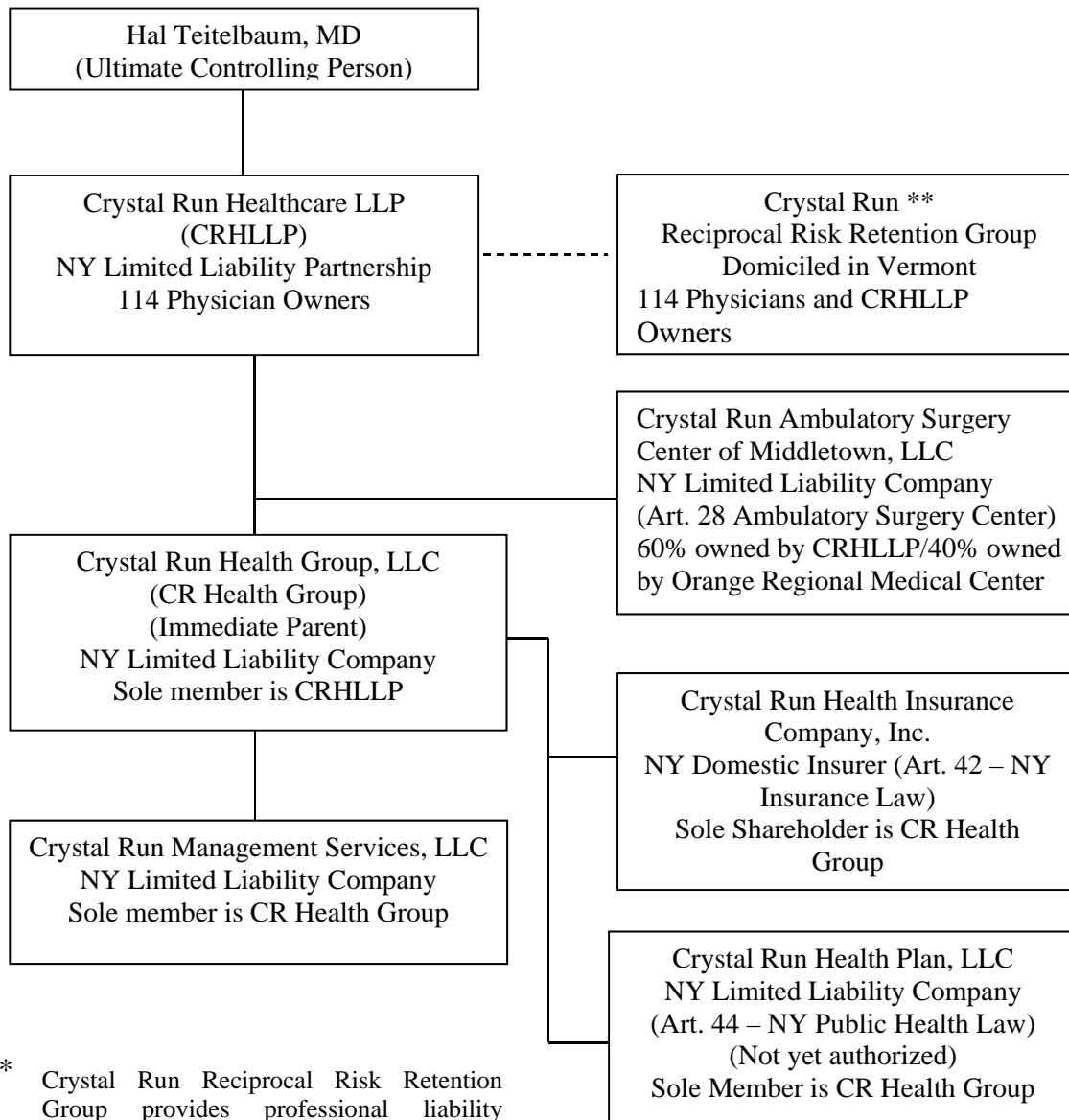
Pursuant to the provisions of Section 1314 of the New York Insurance Law, the Company, as of December 10, 2014, had deposited into a bank account at TD Wealth, in the name of the Superintendent of Financial Services, qualifying U.S Treasury bills with a book

value of \$240,000, in satisfaction of the \$200,000 deposit required pursuant to Section 4206 of the New York Insurance Law.

In addition to the \$300,000 initial surplus required by Section 4204 of the New York Insurance Law, an additional \$6,219,002 of capitalization is required based on the Company's submitted business plan and financial projections for a total capitalization requirement of \$6,519,002 (including pre-organizational expenses). As shown on the Balance Sheet above, the minimum capitalization requirement has been met.

6. HOLDING COMPANY SYSTEM

Below is a chart of the holding company system applicable to the Company and its related parties, as of the date of this examination:



** Crystal Run Reciprocal Risk Retention Group provides professional liability insurance to certain of the physicians practicing at Crystal Run Healthcare LLP. Crystal Run Healthcare LLP, and each partner of Crystal Run Healthcare LLP (individually) are subscribers in Crystal Run Reciprocal Risk Retention Group.

Hal Teitelbaum, MD is deemed the ultimate controlling person in CRHIC's holding company system because he is the managing partner of Crystal Run Healthcare LLP ("CRHLLP").

CRHLLP is a New York limited liability partnership and a multi-specialty physician practice, with a principal business address of 155 Crystal Run Road, Middletown, NY 10941. CRHLLP is owned by 114 physician partners, each of whom holds an equal partnership interest.

Crystal Run Reciprocal Risk Retention Group (CRRRG) is 100% held by CRHLLP. CRRRG is domiciled in Vermont and writes malpractice coverage for CRHLLP, its 114 physician owners and most of CRHLLP's employed physicians.

Crystal Run Ambulatory Surgery Center of Middletown, LLC, a New York limited liability company (CRASC) is held jointly by CRHLLP, which owns 60% of the membership interest, and Orange Regional Medical Center, which holds the other 40%.

Crystal Run Health Group, LLC, a New York limited liability company ("CR Health Group") is owned 100% by CRHLLP and is the sole shareholder (immediate parent) of the Company.

Crystal Run Health Plan, LLC, a New York limited liability corporation, whose sole member is CR Health Group, is seeking authorization under Article 44 of the New York Public Health Law.

As of December 10, 2014, CRHIC has an Administrative Services Agreement with Crystal Run Management Services, LLC ("CRMS"), pursuant to which CRMS will provide

certain administrative services to CRHIC. CRHIC has also a sublease agreement with CRMS, pursuant to which CRHIC subleases office space for its operations from CRMS.

7. ALLOCATION OF EXPENSES

During the examination of the Company's balance sheet, it was noted that certain pre-operational expenses were paid for by the Parent and thereafter, allocated to the Company. Some of these pre-operational expenses were allocated between CRHIC and its affiliate, Crystal Run Health Plan, LLC ("CRHP"), with thirty percent of the charge being allocated to the Company and the remaining seventy percent being allocated to CRHP. In some cases, the expenses were such that they could have been billed to and paid for directly by CRHIC. While the Department has accepted the allocation of these expenses as reasonable, Article 15 of the New York Insurance Law, and more specifically, Section 1505 of the New York Insurance Law sets forth requirements with regard to transactions between members of a holding company system. In addition, New York Insurance Regulation 30 (11 NYCRR 105) prescribes a methodology for an insurer's allocation of expenses.

Where applicable, the Company is reminded to comply with New York Insurance Law Article 15 and New York Insurance Regulation 30.

8. CONCLUSION

Based upon the foregoing examination, it is noted that, pursuant to a stock purchase agreement, the Company sold all of its 100,000 shares of \$2.00 par value per share common

stock for a sale price of \$68 per share resulting in a total sale price of \$6,800,000. Of this amount, \$240,000 was deposited into the account of the Superintendent of Financial Services to meet its statutory deposit and minimum capitalization requirements.

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Allocation of Expenses</u>	
	Where applicable, the Company is reminded to comply with New York Insurance Law Article 15 and New York Insurance Regulation 30.	10

Respectfully submitted,

_____/S/_____
Huzaifa Chaudhury
Senior Insurance Examiner

STATE OF NEW YORK)
) SS.
)
COUNTY OF NEW YORK)

HUZAIFA CHAUDHURY, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____
Huzaifa Chaudhury

Subscribed and sworn to before me

this _____ day of _____ 2014

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Huzaiifa Chaudhury

as a proper person to examine the affairs of

Crystal Run Health Insurance Company, Inc.

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

Company

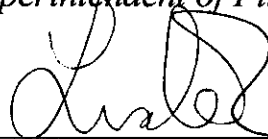
with such other information as he shall deem requisite.

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

this 14th day of November, 2014

*BENJAMIN M. LAWSKY
Superintendent of Financial Services*

By:



*Lisette Johnson
Bureau Chief
Health Bureau*

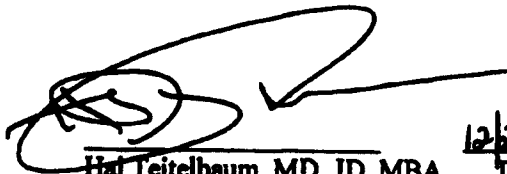


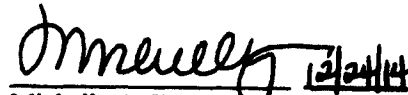
Report on Organization Affidavit

STATE OF NEW YORK)
) SS:
COUNTY OF ORANGE)

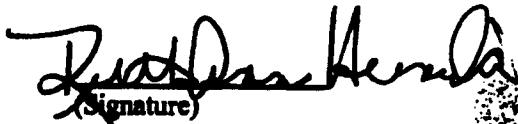
The undersigned, each an officer of Crystal Run Health Insurance Company, Inc. (the "Company") duly sworn, depose and say under oath that, on the date of December 10, 2014:

- (1) Each of the undersigned is an officer of the Company.
- (2) The Company's capital and contributed surplus equals Six Million Eight Hundred Thousand Dollars (\$6,800,000) (the "Paid-in Capital and Surplus"), consisting of paid-in capital of Two Hundred Thousand Dollars (\$200,000) and contributed surplus of Six Million Six Hundred Thousand Dollars (\$6,600,000). However, due to investment income, equipment purchases, and liabilities incurred to date, the Company's unassigned funds (surplus) equals negative Seven Hundred Ninety One Thousand Six Hundred Eighty Two Dollars (-\$791,682), leaving total capital and surplus of Six Million Eight Thousand Three Hundred Eighteen Dollars (\$6,008,318), which meets the minimum statutory requirement. The funds supporting Paid-in Capital and Surplus are on deposit with TD Wealth and TD Bank, N.A.
- (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 otherwise legitimately used 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 on 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 such 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 the said Paid-in Capital and Surplus until the same was or is wanted for investment or 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 made and provided.
- (6) That there is no agreement or understanding, expressed 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 the 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 therefor, or upon any other securities, terms and conditions whatsoever.
- (7) That neither the Company, nor any of its officers is in 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.


Hal Teitelbaum, MD, JD, MBA 12/24/14 Dated
President


Michelle A. Koury, MD 12/24/14 Dated
Treasurer

Subscribed and sworn to before me
this 24 day of December 2014


(Signature)

Notary Public Stamp

RUTH ANN HERMDA
Notary Public, State of New York
No. 01HE6044984
Qualified in Ulster County
Commission Expires Nov. 4 2018