



DOCUMENTS REQUIRED FOR THE ORGANIZATIONAL EXAMINATION
OF A PENNSYLVANIA DOMESTIC CORPORATION

1. Copy of the minutes of the Organizational Meeting of the Stock Subscribers
2. Original Stock Subscription List
3. Original Stock Subscription Agreements
4. Copies of the Subscribers Biographical Affidavits
5. Copy of the Bylaws
6. Copy of the Articles of Agreement, stamped by the Department of State Corporations Bureau
7. Deposit records for all capital and surplus contributions
8. Copies of the minutes of all meetings of the stockholders
9. Copies of the minutes of all meetings of the Board of Directors and consents in lieu of meetings
10. Original stock registration book with evidence of certificates issued
11. Account books showing all transactions to date
12. Company seal as adopted by the stockholders
13. Copies of conflict of interest statements signed by all officers and directors
14. Evidence of fidelity bond in compliance with NAIC guidelines
15. Federal tax identification number
16. Copy of the long range business plan
17. Policy forms and rates filed for tentative approval by the Bureau of Rate and Policy Regulation
18. NAIC Company Code Number
19. Copies of service or reinsurance agreements between the company and parent or affiliated companies
20. Other information as required by the examiner

Suggested Minimum Amounts of Fidelity Insurance

<u>Exposure Index</u>		<u>Bracket No.*</u>		<u>Amount of Bond</u>	
\$ 1,000	—	\$ 25,000	1	\$ 15,000	—
25,000	—	125,000	2	25,000	—
125,000	—	250,000	3	50,000	—
250,000	—	500,000	4	75,000	—
500,000	—	750,000	5	100,000	—
750,000	—	1,000,000	6	125,000	—
1,000,000	—	1,375,000	7	150,000	—
1,375,000	—	1,750,000	8	175,000	—
1,750,000	—	2,125,000	9	200,000	—
2,125,000	—	2,500,000	10	225,000	—
2,500,000	—	3,325,000	11	250,000	—
3,325,000	—	4,175,000	12	300,000	—
4,175,000	—	5,000,000	13	350,000	—
5,000,000	—	6,075,000	14	400,000	—
6,075,000	—	7,150,000	15	450,000	—
7,150,000	—	9,275,000	16	500,000	—
9,275,000	—	11,425,000	17	600,000	—
11,425,000	—	15,000,000	18	700,000	—
15,000,000	—	20,000,000	19	800,000	—
20,000,000	—	25,000,000	20	900,000	—
25,000,000	—	50,000,000	21	1,000,000	—
50,000,000	—	87,500,000	22	1,250,000	—
87,500,000	—	125,000,000	23	1,500,000	—
125,000,000	—	187,500,000	24	1,750,000	—
187,500,000	—	250,000,000	25	2,000,000	—
250,000,000	—	333,325,000	26	2,250,000	—
333,325,000	—	500,000,000	27	2,500,000	—
500,000,000	—	750,000,000	28	3,300,000	—
750,000,000	—	1,000,000,000	29	3,500,000	—
1,000,000,000	—	1,250,000,000	30	4,000,000	—
1,250,000,000	—	1,500,000,000	31	4,500,000	—

Calculation of Bond Amount

1. Total Admitted Assets
 \$ _____ × 5% = \$ _____

2. Gross Income*
 \$ _____ × 10% = \$ _____

Exposure Index = \$ _____

3. Minimum Amount of Bond
 Bracket No. _____ \$ _____

* Include gross premium written and assumed plus interest and dividend income.

ORGANIZATIONAL EXAMINATIONS

One of the final steps towards the approval of a COA is the organizational examination. The purpose of this examination is to ascertain that the applicant possesses the minimum **statutory net worth** required (currently \$1,500,000) and has otherwise complied with the provisions of 40 P. S. Section 1551 et. seq. and 31 Pa. Code Chapter 301. This is a net worth requirement, i.e. excess of admitted assets over liabilities. The examination will verify the most current balance sheet on a **statutory accounting basis**.

It is crucial that entities applying for a COA understand that they will be regulated according to statutory accounting principles ("SAP"). One of the major differences between SAP and generally accepted accounting principles ("GAAP") is the existence of **non-admitted assets**, which are assets that are treated as having no value under SAP, in accordance with **40 P.S. Section 443.2**. Examples of non-admitted assets are advances to officers and directors, receivables over 90 days due, company vehicles, organizational and start-up expenses, furniture, fixtures and bonds in default. Please note that **borrowed money, unless subordinated in accordance with 40 P.S. Section 445.1 and 31 Pa. Code Section 301.121(e)**, is an asset offset by a liability and is not recognized as net worth.

The National Association of Insurance Commissioners ("NAIC") has developed two manuals designed to assist HMOs in filing the Annual Statement Blank: **The Annual Statement Instructions for Health Maintenance Organizations and the Accounting Practices and Procedures for Health Maintenance Organizations**. These manuals may be ordered from the NAIC at this address:

National Association of Insurance Commissioners
120 W. Twelfth St. Suite 1100
Kansas City, Missouri 64105
(816) 842-3600

In addition to the above, Pennsylvania Regulations provide that HMOs are subject to the investment regulations for a stock life insurance company (31 Pa. Code Section 301.121). The life company investment statutes are found in **Sections 404.1 and 404.2 of the Insurance Company Law of May 17, 1921, as amended**, (40 P.S. Sections 504.1 and 504.2).

The Department will not approve the COA until the organizational examination has been completed and the applicant is determined to be in compliance with the above-mentioned statutes and regulations. Prior to the scheduling of an organizational examination, Company Licensing will request the latest current statutory balance sheet. **If the balance sheet is not prepared on a statutory basis or does not reflect net worth of \$1,500,000, no organizational examination can be scheduled.** Should you have any questions regarding these issues, please contact the Company Licensing Division at (717) 737-2735.