

## **Amended Explanation Page**

**Summa Insurance Company**

**Amended Cover Page**

**12/31/13**

Summa Insurance Company has amended the 12/31/13 Annual Statement to reclassify its reinsurance contract with Middlebury Assurance Company on Schedule S as Affiliate - Non-U.S.-Captive at the request of the Ohio Department of Insurance. In addition, a tax adjustment was made in accordance with a tax sharing agreement that the company has with affiliated entities. The financial statement changes are as follows:

**Assets:**

Line 18.1, Federal income taxes recoverable decreased by \$336,852.

Line 23, Receivables due from affiliates increased by \$187,869.

**Liabilities:**

Line 15, Amounts due to affiliates decreased by \$148,983.

The Annual Statement pages affected by these changes were:

2	23	33
3	26	34
6	29	Supp2
22	32	MD&A



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**ANNUAL STATEMENT**  
**For the Year Ending December 31, 2013**  
**OF THE CONDITION AND AFFAIRS OF THE**  
**Summa Insurance Company, Inc.**

NAIC Group Code	3259 (Current Period)	3259 (Prior Period)	NAIC Company Code	10649	Employer's ID Number	34-1809108
Organized under the Laws of	Ohio		State of Domicile or Port of Entry		Ohio	
Country of Domicile	United States of America					
Licensed as business type:	Life, Accident & Health[ <input checked="" type="checkbox"/> ] Dental Service Corporation[ <input type="checkbox"/> ] Other[ <input type="checkbox"/> ]	Property/Casualty[ <input checked="" type="checkbox"/> ] Vision Service Corporation[ <input type="checkbox"/> ] Is HMO Federally Qualified? Yes[ <input type="checkbox"/> ] No[ <input checked="" type="checkbox"/> ] N/A[ <input type="checkbox"/> ]	Hospital, Medical & Dental Service or Indemnity[ <input type="checkbox"/> ] Health Maintenance Organization[ <input type="checkbox"/> ]			
Incorporated/Organized	08/07/1995		Commenced Business	02/01/1996		
Statutory Home Office	10 North Main Street (Street and Number)		Akron, OH, 44308 (City or Town, State, Country and Zip Code)			
Main Administrative Office	10 North Main Street (Street and Number)		Akron, OH, 44308 (City or Town, State, Country and Zip Code)			
Primary Location of Books and Records	10 North Main Street (Street and Number)		Akron, OH, 44308 (City or Town, State, Country and Zip Code)			
Internet Website Address	SummaCare.com		(Area Code) (Telephone Number)			
Statutory Statement Contact	Roy Douglas Hall (Name) hallroy@summacare.com (E-Mail Address)		(330)996-8410-62057 (Area Code)(Telephone Number)(Extension) (330)996-8553 (Fax Number)			

**OFFICERS**

Name	Title
Martin Paul Hauser	CEO
William Armstrong Powel III	Secretary
Thomas Gene Knoll	Chairman
Kathleen Tirbovich Geier	Vice Chairman
Judith Ann Macro	Assistant Secretary
James Edward McNutt	Assistant Treasurer
Brian Keith Derrick	Treasurer

**OTHERS**

Anne Armao, VP - Marketing & Product Development  
Keith Johnson, VP - Third Party Administrator  
Judith Macro, VP - Corporate Services, Compliance Officer  
Donald Novosel, VP - Contracting & Network Development  
Mumtaz Ibrahim M.D., Chief Medical Officer

Kevin Cavalier, VP - Sales  
James Loveless, VP - Individual Product Line  
James McNutt, VP - Finance, CFO  
Annette Ruby, VP - Health Services Management  
Claude Vincenti, President

**DIRECTORS OR TRUSTEES**

Martin Paul Hauser	Thomas Gene Knoll
Vincent Hadar Johnson Jr. M.D.	Thomas Joseph Strauss
Erik Newman Steele D.O. #	John Byron Silvers Ph.D.
Richard Allen Merolla	Jay Curtis Williamson M.D.
Kenneth Eugene Berkovitz M.D.	Bradley Hall Crombie M.D.
Richard Howard Marsh	Kathleen Tirbovich Geier
Rajiv Vishnu Taliwal M.D.	James Ross McIlvaine #

State of Ohio  
County of Summit ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature) Martin Paul Hauser (Printed Name) 1. CEO (Title)	(Signature) Claude Maurius Vincenti (Printed Name) 2. President (Title)	(Signature) James Edward McNutt (Printed Name) 3. Vice President - Finance, CFO (Title)
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Subscribed and sworn to before me this  
23rd day of April, 2014

- a. Is this an original filing?  
b. If no, 1. State the amendment number  
2. Date filed  
3. Number of pages attached

Yes[  ] No[  ]  
3  
04/23/2014  
12

(Notary Public Signature)

**ASSETS**

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols.1-2)	4 Net Admitted Assets
1. Bonds (Schedule D) .....	11,802,924		11,802,924	15,043,516
2. Stocks (Schedule D)				
2.1 Preferred stocks .....				
2.2 Common Stocks .....				52,161,524
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens .....				
3.2 Other than first liens .....				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$.....0 encumbrances) .....				
4.2 Properties held for the production of income (less \$.....0 encumbrances) .....				
4.3 Properties held for sale (less \$.....0 encumbrances) .....				
5. Cash (\$.....7,337,922, Schedule E Part 1), cash equivalents (\$.....0, Schedule E Part 2) and short-term investments (\$.....361,373, Schedule DA) .....	7,699,295		7,699,295	21,023,811
6. Contract loans (including \$.....0 premium notes) .....				
7. Derivatives (Schedule DB) .....				
8. Other invested assets (Schedule BA) .....	30,582,313	30,582,313		
9. Receivables for securities .....				
10. Securities Lending Reinvested Collateral Assets (Schedule DL) .....				
11. Aggregate write-ins for invested assets .....				
12. Subtotals, cash and invested assets (Lines 1 to 11) .....	50,084,532	30,582,313	19,502,219	88,228,851
13. Title plants less \$.....0 charged off (for Title insurers only) .....	56,969		56,969	98,057
14. Investment income due and accrued .....				
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection .....	954,062	79,128	874,934	746,025
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (Including \$.....0 earned but unbilled premiums) .....				
15.3 Accrued retrospective premiums .....				
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers .....	443,987		443,987	350,123
16.2 Funds held by or deposited with reinsured companies .....				
16.3 Other amounts receivable under reinsurance contracts .....				16,210
17. Amounts receivable relating to uninsured plans .....				
18.1 Current federal and foreign income tax recoverable and interest thereon .....	1,403,042		1,403,042	
18.2 Net deferred tax asset .....	567,210		567,210	941,632
19. Guaranty funds receivable or on deposit .....				
20. Electronic data processing equipment and software .....	812,426		812,426	1,644,917
21. Furniture and equipment, including health care delivery assets (\$.....0) .....	112,343	112,343		
22. Net adjustment in assets and liabilities due to foreign exchange rates .....				
23. Receivables from parent, subsidiaries and affiliates .....	37,680,821		37,680,821	
24. Health care (\$.....388,446) and other amounts receivable .....	847,419	458,973	388,446	3,272,571
25. Aggregate write-ins for other than invested assets .....	86,773	86,773		
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25) .....	93,049,584	31,319,530	61,730,054	95,298,386
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....				
28. Total (Lines 26 and 27) .....	93,049,584	31,319,530	61,730,054	95,298,386
<b>DETAILS OF WRITE-INS</b>				
1101. ....				
1102. ....				
1103. ....				
1198. Summary of remaining write-ins for Line 11 from overflow page .....				
1199. <b>TOTALS</b> (Lines 1101 through 1103 plus 1198) (Line 11 above) .....				
2501. Prepaid Expenses .....	86,773	86,773		
2502. Deferred gain on sale of bonds to SummaCare .....				
2503. Pharmacy Rebates .....				
2598. Summary of remaining write-ins for Line 25 from overflow page .....				
2599. <b>TOTALS</b> (Lines 2501 through 2503 plus 2598) (Line 25 above) .....	86,773	86,773		

**LIABILITIES, CAPITAL AND SURPLUS**

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....0 reinsurance ceded) .....	23,144,138		23,144,138	21,157,500
2. Accrued medical incentive pool and bonus amounts .....	216,000		216,000	128,000
3. Unpaid claims adjustment expenses .....	462,191		462,191	291,396
4. Aggregate health policy reserves, including the liability of \$.....0 for medical loss ratio rebate per the Public Health Service Act .....				1,128,000
5. Aggregate life policy reserves .....				
6. Property/casualty unearned premium reserves .....				
7. Aggregate health claim reserves .....				
8. Premiums received in advance .....	4,894,070		4,894,070	5,936,530
9. General expenses due or accrued .....	1,954,618		1,954,618	1,976,416
10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)) .....				625,554
10.2 Net deferred tax liability .....				
11. Ceded reinsurance premiums payable .....				
12. Amounts withheld or retained for the account of others .....				
13. Remittances and items not allocated .....				
14. Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current) .....				
15. Amounts due to parent, subsidiaries and affiliates .....	468,266		468,266	4,606,014
16. Derivatives .....				
17. Payable for securities .....				
18. Payable for securities lending .....				
19. Funds held under reinsurance treaties (with \$.....0 authorized reinsurers, \$.....823,696 unauthorized reinsurers and \$.....0 certified reinsurers) .....	823,696		823,696	1,494,001
20. Reinsurance in unauthorized and certified (\$.....0) companies .....				
21. Net adjustments in assets and liabilities due to foreign exchange rates .....				
22. Liability for amounts held under uninsured plans .....				
23. Aggregate write-ins for other liabilities (including \$.....0 current) .....				
24. TOTAL Liabilities (Lines 1 to 23) .....	31,962,979		31,962,979	37,343,411
25. Aggregate write-ins for special surplus funds .....	XXX	XXX		
26. Common capital stock .....	XXX	XXX	2,500,062	2,500,062
27. Preferred capital stock .....	XXX	XXX		
28. Gross paid in and contributed surplus .....	XXX	XXX	32,866,381	33,589,064
29. Surplus notes .....	XXX	XXX	35,000,000	
30. Aggregate write-ins for other than special surplus funds .....	XXX	XXX		
31. Unassigned funds (surplus) .....	XXX	XXX	(40,599,368)	21,919,428
32. Less treasury stock, at cost:				
32.1 .....0 shares common (value included in Line 26 \$.....0) .....	XXX	XXX		53,579
32.2 .....0 shares preferred (value included in Line 27 \$.....0) .....	XXX	XXX		
33. TOTAL Capital and Surplus (Lines 25 to 31 minus Line 32) .....	XXX	XXX	29,767,075	57,954,975
34. TOTAL Liabilities, Capital and Surplus (Lines 24 and 33) .....	XXX	XXX	61,730,054	95,298,386
<b>DETAILS OF WRITE-INS</b>				
2301. Minority Interest .....				
2302. Deferred gain on sale of bonds to SummaCare, Inc. .....				
2303. Miscellaneous .....				
2398. Summary of remaining write-ins for Line 23 from overflow page .....				
2399. TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above) .....				
2501. .....	XXX	XXX		
2502. .....	XXX	XXX		
2503. .....	XXX	XXX		
2598. Summary of remaining write-ins for Line 25 from overflow page .....	XXX	XXX		
2599. TOTALS (Lines 2501 through 2503 plus 2598) (Line 25 above) .....	XXX	XXX		
3001. .....	XXX	XXX		
3002. .....	XXX	XXX		
3003. .....	XXX	XXX		
3098. Summary of remaining write-ins for Line 30 from overflow page .....	XXX	XXX		
3099. TOTALS (Lines 3001 through 3003 plus 3098) (Line 30 above) .....	XXX	XXX		

**CASH FLOW**

		1 Current Year	2 Prior Year
<b>Cash from Operations</b>			
1.	Premiums collected net of reinsurance .....	218,439,928	205,565,148
2.	Net investment income .....	332,937	316,936
3.	Miscellaneous income .....		
4.	Total (Lines 1 through 3) .....	218,772,865	205,882,084
5.	Benefit and loss related payments .....	202,761,829	176,379,740
6.	Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts .....		
7.	Commissions, expenses paid and aggregate write-ins for deductions .....	32,044,840	27,310,538
8.	Dividends paid to policyholders .....		
9.	Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses) .....	(3,299,219)	(6,979)
10.	Total (Lines 5 through 9) .....	231,507,450	203,683,299
11.	Net cash from operations (Line 4 minus Line 10) .....	(12,734,585)	2,198,785
<b>Cash from Investments</b>			
12.	Proceeds from investments sold, matured or repaid:		
12.1	Bonds .....	9,235,402	4,090,000
12.2	Stocks .....		
12.3	Mortgage loans .....		
12.4	Real estate .....		
12.5	Other invested assets .....		8,086,075
12.6	Net gains or (losses) on cash, cash equivalents and short-term investments .....		
12.7	Miscellaneous proceeds .....		
12.8	Total investment proceeds (Lines 12.1 to 12.7) .....	9,235,402	12,176,075
13.	Cost of investments acquired (long-term only):		
13.1	Bonds .....	5,979,126	4,485,469
13.2	Stocks .....		
13.3	Mortgage loans .....		
13.4	Real estate .....		
13.5	Other invested assets .....		
13.6	Miscellaneous applications .....		
13.7	Total investments acquired (Lines 13.1 to 13.6) .....	5,979,126	4,485,469
14.	Net increase (decrease) in contract loans and premium notes .....		
15.	Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14) .....	3,256,276	7,690,606
<b>Cash from Financing and Miscellaneous Sources</b>			
16.	Cash provided (applied):		
16.1	Surplus notes, capital notes .....	35,000,000	
16.2	Capital and paid in surplus, less treasury stock .....	(669,104)	
16.3	Borrowed funds .....		
16.4	Net deposits on deposit-type contracts and other insurance liabilities .....		
16.5	Dividends to stockholders .....		
16.6	Other cash provided (applied) .....	(38,177,103)	891,039
17.	Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6) .....	(3,846,207)	891,039
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>			
18.	Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17) .....	(13,324,516)	10,780,430
19.	Cash, cash equivalents and short-term investments:		
19.1	Beginning of year .....	21,023,811	10,243,381
19.2	End of year (Line 18 plus Line 19.1) .....	7,699,295	21,023,811

Note: Supplemental Disclosures of Cash Flow Information for Non-Cash Transactions:

20.0001			
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# Notes to Financial Statements

## 1. Summary of Significant Accounting Policies

### A. Accounting Practices

Summa Insurance Company's (the Company or SIC) statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Ohio Department of Insurance (ODI).

The ODI recognizes only statutory accounting practices prescribed or permitted by the State of Ohio (the State) for determining its solvency under Ohio Insurance Law. NAIC SAP has been adopted as a component of the prescribed or permitted practices by the State with some modifications. These modifications include a five-year life on Electronic Data Processing (EDP) equipment and a 90-day limitation on collection of affiliate balances. Accordingly, the admitted assets, liabilities, capital and surplus of the Company as of December 31, 2013 and December 31, 2012 and the results of its operations and its cash flow for the years then ended have been determined in accordance with accounting principles prescribed or permitted by the ODI. Management believes the difference in capital and surplus between NAIC SAP and accounting principles prescribed or permitted by the ODI is not material.

	State of Domicile	<u>12/31/2013</u>	<u>12/31/2012</u>
<b><u>Net Income</u></b>			
1) SummaCare state basis (Page 4, Line 32, Columns 2 & 3)	OH	(10,566,667)	(2,054,229)
2) State Prescribed Practices that increase / (decrease) NAIC SAP	OH	-	-
3) State Permitted Practices that increase / (decrease) NAIC SAP:	OH	-	-
4) NAIC SAP	OH	<u>(10,566,667)</u>	<u>(2,054,229)</u>
<b><u>Surplus</u></b>			
5) SummaCare state basis (Page 3, Line 33, Columns 3 & 4)	OH	29,767,075	57,954,975
6) State Prescribed Practices that increase / (decrease) NAIC SAP	OH	-	-
7) State Permitted Practices that increase / (decrease) NAIC SAP:	OH	-	-
8) NAIC SAP	OH	<u>29,767,075</u>	<u>57,954,975</u>

### B. Use of Estimates

The preparation of financial statements in conformity with NAIC SAP, the NAIC Annual Statement Instructions and other accounting practices prescribed or permitted by the ODI requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

### C. Accounting Policy

The Company uses the following accounting policies:

1) Cash and Short-Term Investments

Cash and short-term investments include cash on hand, cash held in bank accounts (including overdrafts), interest bearing deposits, and money market instruments purchased with an original maturity of one year or less. Short-term investments are stated at amortized cost.

2) Bonds not backed by other loans are stated at amortized cost using the interest method.

3) Common stocks – None.

## **Notes to Financial Statements**

- 4) Preferred stocks – None.
- 5) Mortgage loans on real estate – None.
- 6) Loan backed securities – None.
- 7) Investments in subsidiaries, controlled and affiliated entities

On November 15, 2013 the Company's subsidiary, SummaCare, Inc., converted from a for-profit corporation to a nonprofit corporation under Ohio law. At the time of conversion, the holder of all issued and outstanding shares of Common stock (Summa Insurance Company) became a Common Member of the Corporation and such issued and outstanding shares of Common stock were cancelled and extinguished. In addition, the holder of all issued and outstanding shares of Class A Preferred stock (Summa Health System) became a Class A Preferred Member of the Corporation and such issued and outstanding shares of Class A Preferred stock were cancelled and extinguished.

Due to the conversion of SummaCare from a for-profit corporation to a non-profit corporation, the Company now classifies its investment in SummaCare as Other Invested Assets on the Assets page of the Annual Statement dated December 31, 2013. In previous statement filings, the Company's investment in SummaCare was classified as common stock. The Company's investment in SummaCare is carried at audited statutory equity and is a nonadmitted asset according to the Ohio Department of Insurance.

- 8) Investments in joint ventures, partnerships and limited liability companies – None.
- 9) Accounting policy for derivatives – The Company does not invest in derivative instruments.
- 10) The Company anticipates investment income as a factor in premium deficiency calculation, in accordance with SSAP No. 54, Individual Group Accident and Health Contracts.
- 11) The cost of healthcare services is recognized in the period in which services are provided. Healthcare expenses also include an estimate of the cost of services provided to SIC members by third party providers, which have been incurred but not reported to SIC. The estimate for incurred but not reported claims is based on actuarial projections of costs using historical paid claims data. Estimates are continually monitored and reviewed and, as settlements are made or estimates are adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of claims paid are dependent on future developments, management is of the opinion that the reserves for claims and the cost to process claims make a reasonable and appropriate provision to cover such claims.
- 12) The Company's capitalization policy and predefined thresholds have not changed from the prior period.
- 13) Pharmaceutical rebates are reported as a reduction of prescription drug expense. Receivables related to pharmaceutical rebates are recorded in accordance with SSAP No. 84, Certain Health Care Receivables and Receivables Under Government Insured Plans. Pharmacy rebates receivable are estimated by multiplying the most recent rebate received by three (three quarters).

### **2. Accounting Changes and Corrections of Errors**

#### **A. Material Changes in accounting principles and / or corrections of errors include – None.**

### **3. Business Combinations and Goodwill**

On December 31, 1999, SIC acquired the net assets of SummaCare, Inc. (SC), which was a Health Insuring Corporation. This business combination was accounted for as a statutory purchase pursuant to SSAP No. 68. SC's net assets were acquired in exchange for 277,000 shares of SIC Class B common stock. The cost of acquiring the net assets was less than SC's book value, accordingly, negative goodwill was recorded as a contra asset in the financial statements as of December 31, 1999.

### **4. Discontinued Operations**

- 1) The Company entered into an agreement dated July 31, 2012 to sell its subsidiaries, Apex Benefits Services and Summa Insurance Agency, LLC, to Summa Integrated Services Organization for \$8,086,075 in cash. The loss from the disposal of \$45,984 was recorded as a reduction to capital and surplus.
- 2) The sale was completed on September 30, 2012.
- 3) Apex Benefits Services and Summa Insurance Agency were single members LLC's with Summa Insurance Company being the sole member. Summa Insurance Company transferred its membership to Summa Integrated Services Organization on the disposal date. This sale was approved by the Ohio Department of Insurance.
- 4) As of the balance sheet date, there are no remaining assets or liabilities of Apex Benefits Services, LLC or Summa Insurance Agency, LLC.

## **Notes to Financial Statements**

- 5) The amounts related to Discontinued Operations and the effect on the Company's Balance Sheet and Statement of Revenue and Expenses is as follows:

Balance Sheet as of December 31, 2012

Assets	
a. Line 5 Cash	\$8,086,075
b. Line 8 Other invested assets	<u>(\$8,132,059)</u>
c. Line 28 Totals	(\$45,984)
Liabilities and Other Funds	
e. Line 33 Total Capital and Surplus	<u>(\$45,984)</u>
f. Line 34 Total	(\$45,984)

### **5. Investments**

- A. Mortgage Loans** – None.
- B. Debt Restructuring** – None.
- C. Reverse Mortgages** – None.
- D. Loan Backed Securities** – None.
- E. Repurchase Agreements** – None.
- F. Real Estate** - None.
- G. Investments in Low-Income Housing Tax Credits** – None.
- H. Restricted Assets** – None.

### **6. Joint Ventures, Partnerships and Limited Liability Companies**

- A. For investments in joint ventures, partnerships and limited liability companies that exceed 10% of the admitted assets of the insurer** – None.
- B. Impaired investments in joint ventures, partnerships and limited liability companies** – None.

### **7. Investment Income**

- A. The basis, by category of investment income, for excluding (nonadmitting) any investment income due and accrued.**

All accrued investment income was admitted for the period.

### **8. Derivative Instruments** – None.

### **9. Income Taxes**

- A. The components of deferred tax asset / liability at December 31, 2013 and December 31, 2012 are as follows:**

# Notes to Financial Statements

	12/31/13			12/31/2012			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
1.									
(a)	Gross Deferred Tax Assets	\$0	\$11,540,434	\$1,417,749	\$0	\$1,417,749	\$10,122,685	\$0	\$10,122,685
(b)	Statutory Valuation Allowance Adjustments	\$0	\$10,668,180	\$0	\$0	\$0	\$10,668,180	\$0	\$10,668,180
(c)	Adjusted Gross DTA's (1a-1b)	\$872,254	\$0	\$872,254	\$1,417,749	\$0	\$1,417,749	(\$545,495)	\$0
(d)	DTA's Nonadmitted	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(e)	Subtotal Net DTA's (1e-1d)	\$872,254	\$0	\$872,254	\$1,417,749	\$0	\$1,417,749	(\$545,495)	\$0
(f)	Deferred Tax Liabilities	\$305,044	\$0	\$305,044	\$476,117	\$0	\$476,117	(\$171,073)	\$0
(g)	Net Admitted DTA / Net DTL (1e-1f)	\$567,210	\$0	\$567,210	\$941,632	\$0	\$941,632	(\$374,422)	\$0
2.	Admission Calculation Components SSAP No. 101								
(a)	Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks.	\$0	\$0	\$0	\$189,992	\$0	\$189,992	(\$189,992)	\$0
(b)	Adjusted Gross DTA's Expected to be Realized (Excluding The Amount of DTA's From 2(a) above) After Application of the Threshold Limitation. (The Lesser of 2 (b) 1 and 2 (b) 2 Below)	\$872,254	\$0	\$872,254	\$1,227,757	\$0	\$1,227,757	(\$355,503)	\$0
1.	Adjusted Gross DTA's Expected to be Realized Following the Balance Sheet Date.	\$872,254	\$0	\$872,254	\$1,227,757	\$0	\$1,227,757	(\$355,503)	\$0
2.	Adjusted Gross DTA's Allowed Per Limitation Threshold.	XXX	XXX	\$4,379,980	XXX	XXX	\$8,480,584	XXX	XXX
(c)	Adjusted Gross DTA's (Excluding The Amount of DTA's from 2 (a) and 2 (b) above) Offset by Gross DTL's.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(d)	DTA's Admitted as the result of application of SSAP No. 101. Total (2(a)+2(b)+2(c))	\$872,254	\$0	\$872,254	\$1,417,749	\$0	\$1,417,749	(\$545,495)	\$0
3.									
(a)	Ratio Percentage used To Determine Recovery Period And Threshold Limitation Amount.	344%	471%						
(b)	Amount Of Adjusted Capital And Surplus Used To Determine Recovery Period And Threshold Limitation In 2 (b) 2 Above.	\$29,199,865	\$56,537,226						
4.	Impact of Tax-Planning Strategies								
(a)	Determination of Adjusted Gross DTA's and Net Admitted DTA's By Tax Character as a percentage.								
1.	Adjusted Gross DTA's from 9A(c)	\$872,254	\$0	\$872,254	\$1,417,749	\$0	\$1,417,749		
2.	Percentage of Adjusted Gross DTA's	0%	0%	0%	0%	0%	0%		
3.	Net Admitted Gross DTA's 9A(e)	\$872,254	\$0	\$872,254	\$1,417,749	\$0	\$1,417,749		
4.	Percentage of Net Admitted Adjusted Gross DTA's because of tax planning.	0%	0%	0%	0%	0%	0%		
(b)	Does the Company's tax planning strategies include reinsurance?	Yes	No	X					

**B. Regarding deferred tax liabilities not recognized – None.**

**C. Current income taxes incurred consist of the following components:**

	12/31/2013	12/31/2012	Change
<b>1. Current Income Tax</b>			
(a) Federal	(\$5,327,814)	(\$352,475)	(\$4,375,339)
(b) Foreign	\$0	\$0	\$0
(c) Subtotal	(\$5,327,814)	(\$352,475)	(\$4,375,339)
(d) Federal Income Tax on Net Capital Gains	\$0	\$0	\$0
(e) Utilization of Capital Loss Carry Forwards	\$0	\$0	\$0
(f) Other	\$0	\$0	\$0
(g) Federal and Foreign Income Taxes Incurred	(\$5,327,814)	(\$352,475)	(\$4,375,339)
<b>2. Deferred Tax Assets:</b>			
(a) Ordinary			
(1) Unpaid Losses	\$86,082	\$109,156	(\$23,074)
(2) Unearned Premium Reserve	\$332,797	\$403,684	(\$70,887)
(3) Policyholder Reserves	\$0	\$0	\$0
(4) Investments	\$10,397,386	\$0	\$10,397,386
(5) Deferred Acquisition Costs	\$0	\$0	\$0
(6) Policyholder Dividends Accrual	\$0	\$0	\$0
(7) Fixed Assets	\$38,197	\$204,357	(\$166,160)
(8) Compensation and Benefit Accrual	\$453,375	\$470,685	(\$17,310)
(9) Pension Accrual	\$0	\$0	\$0
(10) Receivables - Nonadmitted	\$212,457	\$226,437	(\$13,980)
(11) Net Operating Loss Carry-Forward	\$0	\$0	\$0
(12) Other (Including items < 5% of total ordinary assets)	\$19,540	\$3,430	\$16,110
Subtotal	\$11,540,434	\$1,417,749	\$10,122,685
(b) Statutory Valuation Allowance	\$10,668,180	\$0	\$10,668,180
(c) Nonadmitted	\$0	\$0	\$0
(d) Admitted Ordinary Deferred Tax Assets	\$872,254	\$1,417,749	(\$545,495)
(e) Capital			
(1) Investments	\$0	\$0	\$0
(2) Net Capital Loss Carry-Forward	\$0	\$0	\$0
(3) Real Estate	\$0	\$0	\$0
(4) Other	\$0	\$0	\$0
Subtotal	\$0	\$0	\$0
(f) Statutory Valuation Allowance Adjustment	\$0	\$0	\$0
(g) Nonadmitted	\$0	\$0	\$0
(h) Admitted Capital Deferred Tax Assets	\$0	\$0	\$0
(i) Admitted Deferred Tax Assets	\$872,254	\$1,417,749	(\$545,495)
<b>3. Deferred Tax Liabilities:</b>			
(a) Ordinary			
(1) Investments	\$123,307	\$196,658	(\$72,752)
(2) Fixed Assets	\$180,128	\$273,458	(\$93,330)
(3) Deferred and Uncollected Premium	\$0	\$0	\$0
(4) Policyholder Reserves	\$0	\$0	\$0
(5) Other	\$1,003	\$0	\$1,003
Subtotal	\$305,044	\$476,117	(\$171,073)
(b) Capital			
(1) Investments	\$0	\$0	\$0
(2) Real Estate	\$0	\$0	\$0
(3) Other	\$0	\$0	\$0
Subtotal	\$0	\$0	\$0
(c) Deferred Tax Liabilities	\$305,044	\$476,117	(\$171,073)
<b>4. Net Deferred Tax Assets / Liabilities</b>			
	\$567,210	\$941,632	(\$374,422)

## **Notes to Financial Statements**

**D. The provision for federal income taxes incurred is different than that which would be obtained by applying the statutory federal income tax rate to income before taxes. The significant items causing this difference are as follows:**

	<u>December 31, 2013</u>	<u>Effective Tax Rate</u>
Provision computed at statutory rate	(\$5,404,124)	34.0%
Change in deferred income taxes	(\$374,422)	2.4%
Change in valuation allowance	\$10,668,180	-67.1%
Change in nonadmitted assets	(\$10,217,846)	64.3%
Other Adjustments	\$398	0.0%
<b>Total statutory income taxes incurred</b>	<b><u>(\$5,327,814)</u></b>	<b><u>33.5%</u></b>

**E. Amounts of operating loss and tax credit carry-forwards available for tax purposes**

1. The company does not have net operating loss or tax credit carry-forwards as of December 31, 2013.
2. The following are income taxes incurred in the current and prior year that will be available for recoupment in the event of future net losses: None
3. The Company has no protective tax deposits reported as admitted assets under Section 6603 of the internal Revenue Service Code as of December 31, 2013 and December 31, 2012.

**F. Consolidation of Federal Income Tax Return**

Summa Health System Corporation files a consolidated federal income tax which includes the following entities: SummaCare, Inc., Summa Insurance Company, Summa Integrated Services Organization, Apex Benefits Services, LLC, Summa Insurance Agency, LLC, Wadsworth-Rittman Professional Services Corporation, Ohio Health Choice, Summa Management Services Organization, Health Care Center Physicians, Patient Centered Collaborative and Cornerstone Medical Services. Allocation of federal income taxes is based upon separate income tax return calculations with credit for net losses that can be used on a consolidated basis.

**10. Information Concerning Parent, Subsidiaries, and Affiliates**

**A. Nature of the Relationships**

Summa Insurance Company, Inc. (SIC or Company) is incorporated as a domestic stock property and casualty company. As such, SIC offers groups preferred provider products through which enrolled members elect to receive care from a Summa Preferred Provider ("network provider") or a non-network provider at the member's option. Subsidiaries and affiliated organizations of SIC include Summa Health System Community, HealthSpan Partners, Summa Health System (SHS), Summa Health System Corporation (SHSC), Summa Akron City & St. Thomas Hospitals (SACH/STH), Summa Health Network LLC (SHN), Apex Benefits Services, LLC (Apex), Summa Insurance Agency, LLC (SIA), Summa Barberton Hospital (BCH), Summa Wadsworth-Rittman Hospital (WRH), Wadsworth-Rittman Professional Services Corporation, Crystal Clinic Orthopedic Center, LLC, Summa Physicians, Inc. (SPI), Summa Foundation, Health Care Center Physicians Inc. (HCCP), Middlebury Assurance Corp. (MAC), Summa Enterprise Group (SEG), Summa Enterprise Group Properties (SEG Properties), Summa Rehabilitation Hospital, LLC, Ohio Health Choice, Inc. (OHC), Cornerstone Medical Services (Cornerstone), ARIS Teleradiology LLC (ARIS), Summa Western Reserve Hospital (SWRH), Ohio Sleep Disorders, Summa Accountable Care Organization (ACO), Akron Endoscopy Associates (Akron Endoscopy) Summa Integrated Services Organization (SISO), Summa Management Services Organization (SMSO), Patient Centered Collaborative, Health Innovations Ohio, LLC, and Medina-Summit ASC, LLC, Summa Robinson Health Ventures.

SummaCare is a wholly owned subsidiary of SIC. SummaCare is licensed in the State of Ohio as a health-insuring corporation (HIC) under Chapter 1751 of the Ohio Revised Code. SummaCare contracts with providers to provide comprehensive health care services to a defined enrolled population (members) for a predetermined, monthly fee. The population from which SummaCare draws its membership is predominately in Northeast Ohio.

## **Notes to Financial Statements**

### **B. & C. Transactions with Affiliated Organizations**

The operating activities with affiliated entities as of December 31, 2013 and December 31, 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Claims expense related to affiliated entities:		
SACH/STH	23,322,767	21,808,247
SPI	2,208,350	2,078,293
BCH	3,298,171	3,007,046
WRH	1,017,630	849,581
Management fees charged to SIC from SC	—	12,283,564
Management fees charged to SIC from Apex	671,490	312,648
Management fees charged to SIC from SMSO	10,497,082	0
Corporate expense allocation paid to SHS	1,485,412	1,500,000

### **D. Balance outstanding with affiliated entities as of December 31, 2013 and December 31, 2012:**

	<b>Due from</b>		<b>Due to</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
SummaCare	37,435,158	—	—	3,935,185
Apex	187,869	—	—	496,960
ACO	13,527	—	—	—
SACH/STH	—	—	—	173,869
SIA	44,267	—	—	—
SMSO	—	—	468,266	—
	<hr/> \$ 37,680,821	<hr/> —	<hr/> 468,266	<hr/> 4,606,014

- E. Guarantees or undertakings – None.**
- F. SIC members receive various medical services from SACH/STH and other SHS subsidiaries. Certain members of the board of directors of the Company are members of the board of trustees of SACH/STH's and SHS's subsidiary and affiliated organizations. During 2012, SIC contracted to receive administrative and claims processing services from SC. In 2013, a cost restructuring initiative was implemented to better match administrative expenses to the company that incurred the expense. This restructuring includes 1) the creation of SMSO to administer and allocate employee services to the appropriate company, and 2) the direct charge back of non-employee expenses to the company that incurred the expense 3) the elimination of the chargeback of administrative expenses from SC to SIC and Apex.**
- G. All outstanding shares of common stock are owned by the parent, Summa Health System Corporation.**
- H. Investments in upstream intermediate entities or ultimate parent – None.**
- I. The Company owns a 100% common membership interest in SummaCare, Inc.**
- J. Investments in impaired SCA entities – None.**
- K. Investments in foreign insurance subsidiaries – None.**
- L. Investment in downstream noninsurance holding company – None.**

### **11. Debt**

SIC has no debt as of December 31, 2013.

### **12. Retirement Plans – None.**

### **13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations**

- 1) As of December 31, 2013, SHS owned all of the 100 authorized and outstanding shares of SIC Class A common stock. SHS also owns all of the 606,463 outstanding shares of SIC Class C common stock with a par value of \$.0001 per share.
- 2) Dividend rate, liquidation value and redemption schedule of preferred stock issues - None

## Notes to Financial Statements

- 3) Dividend restrictions – In accordance with the Ohio Revised Code, the Company must receive approval from ODI to pay a dividend or distribution during 2014, which when combined with the dividends or distributions paid within the preceding 12 months exceeds the greater of either (a) 10% of the Company's capital and surplus as of December 31, 2013, or (b) the Company's net gain from operations for the year ended December 31, 2013. Accordingly, during 2014, prior approval from the ODI is required for any dividend or distribution payment which exceeds \$2,976,708.
- 4) Dates and amounts of dividends paid – None.
- 5) Portion of reporting entities profits that may be paid as ordinary dividends - Reference number 3 above.
- 6) Restrictions on unassigned funds – None.
- 7) Mutual Reciprocals - None.
- 8) Stock held by the Company for special purposes – None.
- 9) Special surplus funds – None.
- 10) The portion of unassigned funds represented or reduced by :

Nonadmitted Asset Values – \$31,319,530

Unrealized Gains (Losses) - \$64,673

- 11) Surplus notes

Date Issued	Interest Rate	Par Value Face Amount	Carrying Value	Interest and / or Principal Paid Current Year	Total Interest and / or Principal Paid	Unapproved Interest and / or Principal	Date of Maturity
2/18/2014	3.25%	\$35,000,000	\$35,000,000	\$0	\$0	\$0	3/1/2044

The surplus note in the amount of \$35 million, listed in the above table, was issued to SummaCare, Inc. (subsidiary) in exchange for \$35 million.

The surplus note listed in the above table is governed by the laws of the State of Ohio and shall be effective on February 18, 2014.

The surplus note has the following repayments conditions and restrictions:

- (a) No principal payment shall be permitted on this Surplus Note unless such payment has received the prior approval of the Superintendent of the Ohio Department of Insurance (the “**Superintendent**”).
- (b) Periodic interest payments shall be paid as required under the terms of this Surplus Note, subject to the prior approval of the Superintendent.
- (c) Not less than thirty (30) days prior to each Scheduled Interest Payment Date or Scheduled Maturity Date hereof, Borrower will seek the approval of the Superintendent to make each payment of interest on and the principal of this Surplus Note. In the event the Superintendent does not approve Borrower’s request to make an interest or principal payment as scheduled herein, Borrower shall promptly notify Lender. The Scheduled Interest Payment Date or Scheduled Maturity Date, as the case may be, shall be extended and such payment or any unpaid portion thereof shall be made by Borrower on the next following Business Day on which Borrower shall have the approval of the Superintendent to make such payment or any unpaid portion thereof. Interest will continue to accrue on any such unpaid principal through the actual date of payment at the rate of interest stated on the face hereof. Interest will not accrue on interest with respect to which the Scheduled Interest Payment Date has been extended, during such period of extension.
- (d) Subject to the prior approval of the Superintendent, Borrower may repay the principal hereof, or any part thereof, at any time prior to the Scheduled Maturity Date, without any penalty or premium whatsoever.

The surplus note has the following subordination and liquidation terms:

- (a) In the event of the dissolution, liquidation, receivership, insolvency or bankruptcy of Borrower, repayment of principal and payment of interest under this Surplus Note shall be subordinated to the prior payment of, or provision for, all liabilities (including claim and policyholder liabilities) as reported in the statutory statement of assets and liabilities of Borrower, other than debts owed by Borrower to other holders of surplus notes issued by Borrower, with which this Surplus Note shall rank pari passu, but shall rank superior to the claim, interest, and equity arising in any equity interest in the Borrower held by its members.

- 12) Restatement in a quasi-reorganization – Not applicable

## Notes to Financial Statements

- 13) Quasi-reorganization – Not applicable.

### 14. Contingencies

The Company is involved in various legal proceedings arising, for the most part, in the ordinary course of business operations. Such lawsuits include professional and employment litigation, consistent with the health care industry.

The Company's business practices are subject to review by various state insurance and health care regulatory authorities and other state and federal authorities. These reviews may result in changes to or clarifications of business practices, and may result in fines, penalties or other sanctions.

In the opinion of management, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position or results of operations of the Company. Where appropriate, reserves have been established in accordance with SSAP No. 5.

- . A. Contingent commitments – None.
- B. Assessments – None
- C. Gain contingencies – None.
- D. Claims related extra contractual obligation and bad faith losses stemming from lawsuits – None.
- E. All other contingencies – None.

### 15. Leases – None.

### 16. Information Regarding Off-Balance Sheet Risk – Not applicable.

### 17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liability – Not applicable.

### 18. Gains or Loss to the Reporting Entity from Uninsured Plans – Not applicable.

### 19. Direct Premium Written / Produced by Managing General Agents / Third Party Administrators -

Not applicable.

### 20. Fair Value Measurement – The Company does not have any financial instruments carried at fair value.

### 21. Other Items

- A. Extraordinary Items – None.
- B. Troubled Debt Restructuring – None.
- C. Other Disclosures and Unusual Items

#### Stock Option Plan

Under the 2000 Summa Insurance Company, Inc. Nonqualified Stock Option Plan (the Plan), the Company granted options to certain SHN (formerly Akron City Health System) physicians for the purchase of up to 38,190 restricted shares of Class B common stock. Under the Plan, the exercise price of each option is \$50, and an option's maximum term is 10 years. Options were granted on January 1, 2000 and vested immediately as there is no requirement for future performance. The Plan also has a mandatory redemption period of three years, in which during the first 10 days of December 2001, 2002, and 2003, each participant has the right to require the Company to purchase all or part of the shares held by the participant, which are free of restrictions, at a purchase price equal to the fair market value of the shares at September 30 of the year during which the right is exercised. For participants that retire, resign from SHN or die during the year, the shares held by the participant are redeemed at the current market value. In November 2013, all of the independent

## **Notes to Financial Statements**

physician shareholders' 6,617 shares of SIC Class B common stock were redeemed. In 2012, no options were exercised and no shares were redeemed.

- D. Business Interruption Insurance Recoveries** – None.
- E. State Transferable and Non-transferable Tax Credits** – None.
- F. Subprime Mortgage Related Exposure** – None.
- G. Retained Assets** – None.

### **22. Events Subsequent**

#### **Type I – Recognized Subsequent Events**

On February 27, 2014, the Ohio Department of Insurance approved a transaction in which Summa Insurance Company issued a \$35 million Surplus Note to its subsidiary, SummaCare, Inc. Summa Insurance Company recorded this transaction as an Amount Due from Subsidiary on the Assets page with a corresponding amount recorded as Surplus Notes on the Liabilities, Capital and Surplus page. SummaCare paid \$35 million to Summa Insurance Company on February 27, 2014.

#### **Type II – Nonrecognized Subsequent Events**

On January 1, 2014, the Company will be subject to an annual fee under section 9010 of the Affordable Care Act (ACA). This fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1, 2014. As of December 31, 2013, the Company has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2014, and estimates their portion of the annual health insurance industry fee to be payable on September 30, 2014 to be \$3,162,000. This assessment is expected to impact risk based capital by 24%.

- H. ACA fee assessment payable - \$3,162,000**
- I. Assessment expected to affect RBC – 37%**

### **23. Reinsurance**

#### **A. Ceded Reinsurance Report**

##### Section 1 – General Interrogatories

- (1) Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the company or by any representative, officer, trustee, or director of the company?

Yes ( ) No (X)

If yes, give full details.

- (2) Have any policies issued by the company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or any other person not primarily engaged in the insurance business?

Yes ( ) No (X)

If yes, give full details.

##### Section 2 – Ceded Reinsurance Report – Part A

- (1) Does the company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit?

## Notes to Financial Statements

Yes ( ) No (X)

- a. If yes, what is the estimated amount of the aggregate reduction in surplus of a unilateral cancellation by the reinsurer as of the date of this statement, for those agreements in which cancellation results in a net obligation of the reporting entity to the reinsurer, and for which such obligation is not presently accrued? Where necessary, the reporting entity may consider the current or anticipated experience of the business reinsured in making this estimate. \$ \_\_\_\_\_
- b. What is the total amount of reinsurance credits taken, whether as an asset or as a reduction of liability for these agreements in this statement? \$ \_\_\_\_\_
- (2) Does the reporting entity have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under reinsurance policies?

Yes ( ) No (X)

If yes, give full details.

### Section 3 – Ceded Reinsurance Report – Part B

- (1) What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credits reflected in Section 2 above) of termination of all reinsurance agreements, by either party, as of the date of this statement? Where necessary, the company may consider the current or anticipated experience of the business reinsured in making this estimate. \$0
- (2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement?

Yes ( ) No (X)

If yes, what is the amount of the reinsurance credits, whether an asset or a reduction of a liability, taken for such new agreements or amendments? \$ \_\_\_\_\_

B. **Uncollectible Reinsurance** – None.

C. **Commutation of Ceded Reinsurance** – None.

D. **Certified Reinsurer Rating Downgraded or Status Subject to Revocation** – None.

### 24. Retrospectively Rated Contracts & Contracts Subject to Redetermination – None.

### 25. Changes in Incurred Claims and Claims Adjustment Expenses

Activity in claims unpaid is summarized as follows:

	<u>2013</u>	<u>2012</u>
Balance at January 1	\$ 21,157,500	17,145,575
Prior Year Adjustment - Reinsurance	—	—
Incurred related to:		
Current year	206,281,749	183,034,142
Prior years	<u>(2,811,370)</u>	<u>(1,666,952)</u>
Total	<u>203,470,379</u>	<u>181,367,190</u>
Paid related to:		
Current year	183,146,611	161,880,642
Prior years	<u>18,337,130</u>	<u>15,474,623</u>
Total	<u>201,483,741</u>	<u>177,355,265</u>
Balance at End of Period	<u>\$ 23,144,138</u>	<u>21,157,500</u>

Reserves as of December 31, 2012 were \$21,157,500. As of December 31, 2013, \$18,337,130 has been paid for incurred claims attributable to insured events of prior years. Reserves remaining for prior years are \$9,000 as a result

## **Notes to Financial Statements**

of re-estimation of unpaid claims principally on the PPO lines of insurance. Therefore, there has been \$2,811,370 in favorable experience from December 31, 2012 to December 31, 2013. This favorable experience is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

**26. Intercompany Pooling Arrangements – None.**

**27. Structured Settlements – None.**

**28. Healthcare Receivables**

The company receives pharmacy rebates on a quarterly basis. As of December 31, 2013, a receivable was recorded equal to three quarters of rebates. Pharmacy rebates receivable are estimated by multiplying the most recent rebate received by three (three quarters). The admission of pharmacy rebates receivable are subject to the terms stated within SSAP No. 84 (Certain Healthcare Receivables).

<u>Quarter</u>	Estimated	Actual	Actual		
	Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Rebates Received Within 90 Days of Billing	Rebates Received Within 91 to 180 Days of Billing	Actual Rebates Received More Than 180 Days After Billing
12/31/2013	\$528,500	\$0	\$0	\$0	\$0
9/30/2013	\$608,000	\$214,014	\$0	\$0	\$214,014
6/30/2013	\$590,599	\$369,321	\$0	\$0	\$369,321
3/31/2013	\$488,000	\$469,825	\$0	\$0	\$469,825
12/31/2012	\$624,017	\$479,046	\$0	\$0	\$479,046
9/30/2012	\$556,521	\$494,997	\$0	\$0	\$494,997
6/30/2012	\$719,351	\$594,181	\$0	\$0	\$594,181
3/31/2012	\$533,731	\$432,372	\$0	\$0	\$432,372
12/31/2011	\$1,007,250	\$779,591	\$0	\$0	\$779,591
9/30/2011	\$919,063	\$840,010	\$0	\$0	\$840,010
6/30/2011	\$843,955	\$821,800	\$0	\$0	\$821,800
3/31/2011	\$842,961	\$834,830	\$0	\$0	\$834,830

**29. Participating Policies – None.**

**30. Premium Deficiency Reserves**

Premium deficiency losses are recognized when it is probable that expected claim expenses will exceed future premiums on existing health contracts. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with the Company's method of acquiring, servicing and measuring the profitability of such contracts.

- |   |                   |
|---|-------------------|
| 1. Liability carried for premium deficiency reserve:              | \$0               |
| 2. Date of the most recent evaluation of this liability:          | December 31, 2013 |
| 3. Was anticipated investment income utilized in the calculation? | YES               |

**31. Anticipated Salvage Value and Subrogation – Not applicable.**

**FIVE-YEAR HISTORICAL DATA**

	1 2013	2 2012	3 2011	4 2010	5 2009
<b>BALANCE SHEET (Pages 2 and 3)</b>					
1. TOTAL Admitted Assets (Page 2, Line 28) .....	61,730,054	95,298,386	85,786,645	75,133,883	69,368,679
2. TOTAL Liabilities (Page 3, Line 24) .....	31,962,979	37,343,411	31,873,422	26,896,778	28,601,475
3. Statutory surplus .....	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
4. TOTAL Capital and Surplus (Page 3, Line 33) .....	29,767,075	57,954,975	53,913,223	48,237,105	40,767,204
<b>INCOME STATEMENT (Page 4)</b>					
5. TOTAL Revenues (Line 8) .....	219,611,297	205,246,012	175,692,634	153,995,227	145,849,050
6. TOTAL Medical and Hospital Expenses (Line 18) .....	203,630,813	181,568,296	153,404,242	134,406,188	138,022,515
7. Claims adjustment expenses (Line 20) .....	3,266,492	1,547,276	1,375,852	1,258,824	15,664,527
8. TOTAL Administrative Expenses (Line 21) .....	28,931,670	25,435,496	22,517,199	19,701,317	4,623,480
9. Net underwriting gain (loss) (Line 24) .....	(16,217,678)	(3,305,056)	(1,604,659)	(1,371,102)	(12,461,472)
10. Net investment gain (loss) (Line 27) .....	318,872	326,288	320,984	678,724	367,991
11. TOTAL Other Income (Lines 28 plus 29) .....	4,325	(27,936)	4,519	6,689	2,370
12. Net income or (loss) (Line 32) .....	(10,566,667)	(2,054,229)	(180,344)	(773,958)	(7,357,826)
<b>Cash Flow (Page 6)</b>					
13. Net cash from operations (Line 11) .....	(12,734,585)	2,198,785	1,807,994	2,162,395	(6,078,898)
<b>RISK-BASED CAPITAL ANALYSIS</b>					
14. TOTAL Adjusted Capital .....	29,767,075	57,954,975	53,913,223	48,237,105	40,767,204
15. Authorized control level risk-based capital .....	8,483,697	12,014,407	11,319,295	10,579,534	8,940,644
<b>ENROLLMENT (Exhibit 1)</b>					
16. TOTAL Members at End of Period (Column 5, Line 7) .....	59,289	56,247	51,093	44,342	43,889
17. TOTAL Members Months (Column 6, Line 7) .....	680,957	663,646	576,335	514,784	513,842
<b>OPERATING PERCENTAGE (Page 4)</b>					
(Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5) .....	100.0	100.0	100.0	100.0	100.0
19. TOTAL Hospital and Medical plus other non-health (Lines 18 plus Line 19) .....	92.7	88.5	87.3	87.3	94.6
20. Cost containment expenses .....	0.2	0.2	0.2	0.3	2.1
21. Other claims adjustment expenses .....	1.3	0.6	0.6	0.5	8.6
22. TOTAL Underwriting Deductions (Line 23) .....	107.4	101.6	100.9	100.9	108.5
23. TOTAL Underwriting Gain (Loss) (Line 24) .....	(7.4)	(1.6)	(0.9)	(0.9)	(8.5)
<b>UNPAID CLAIMS ANALYSIS</b>					
(U&I Exhibit, Part 2B)					
24. TOTAL Claims Incurred for Prior Years (Line 13, Column 5) .....	18,490,564	15,608,369	13,338,962	16,230,466	12,982,000
25. Estimated liability of unpaid claims-[prior year (Line 13, Column 6)] .....	21,285,500	17,202,215	17,175,286	18,495,714	14,964,365
<b>INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES</b>					
26. Affiliated bonds (Sch. D Summary, Line 12, Column 1) .....					
27. Affiliated preferred stocks (Sch. D Summary, Line 18, Column 1) .....					
28. Affiliated common stocks (Sch. D Summary, Line 24, Column 1) .....		52,161,524	48,490,049	44,407,469	27,766,598
29. Affiliated short-term investments (subtotal included in Sch. DA Verification, Col. 5, Line 10) .....					
30. Affiliated mortgage loans on real estate .....					
31. All other affiliated .....			5,942,464	4,189,443	2,697,626
32. TOTAL of Above Lines 26 to 31 .....		52,161,524	54,432,513	48,596,912	30,464,224
33. TOTAL investment in parent included in Lines 26 to 31 above .....					

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes [ ] No [ ] N/A [X]

If no, please explain::