

## **Amended Explanation Page**

***SummaCare, Inc.***

***Amended Cover Page***

***12/31/16***

SummaCare, Inc. has amended the 12/31/16 Annual Statement to reflect changes that resulted from the NAIC Financial Reporting & Analysis Data Validation. Specifically, changes were made to the following schedules:

26, Notes to the Financial Statement, 1A

29

E12

E16

RBC, XR004, Common stock



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**ANNUAL STATEMENT**  
**For the Year Ending DECEMBER 31, 2016**  
**OF THE CONDITION AND AFFAIRS OF THE**  
**SummaCare, Inc.**

NAIC Group Code	3259 (Current Period)	3259 (Prior Period)	NAIC Company Code	95202	Employer's ID Number	34-1726655
Organized under the Laws of	Ohio		State of Domicile or Port of Entry		OH	
Country of Domicile	United States of America					
Licensed as business type:	Life, Accident & Health[ ] Dental Service Corporation[ ] Other[ ]	Property/Casualty[ ] Vision Service Corporation[ ] Is HMO Federally Qualified? Yes[ ] No[ ] N/A[X]	Hospital, Medical & Dental Service or Indemnity[ ] Health Maintenance Organization[X]			
Incorporated/Organized	10/23/1992		Commenced Business	03/01/1993		
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 (Area Code) (Telephone Number)			
Primary Location of Books and Records	10 North Main Street (Street and Number)		Akron, OH, 44308 (Area Code) (Telephone Number)			
Internet Website Address	SummaCare.com					
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
Kathleen Tirbovich Geier	Chair
Robert Andrew Gerberry	Secretary
Brian Keith Derrick	Treasurer
Robert Stephen Paskowski	Interim President #

**OTHERS**

Anne Armao, VP - Marketing and Product Development  
 James Loveless, VP - Individual Product Line  
 Dennis Pijor, VP - Finance, CFO

Kevin Cavalier, VP - Sales  
 Donald Novosel, VP - Contracting & Network Development  
 Robert Paskowski, Interim President #

Keith Johnson, VP - Third Party Administrator  
 Charles Zonfa M.D., Chief Medical Officer #  
 Stephen Adamson, VP - Client Services #

**DIRECTORS OR TRUSTEES**

Lydia Alexander Cook M.D.  
 Kathleen Tirbovich Geier  
 James Ross McIlvaine  
 Benjamin Paul Sutton  
 Steven Aaron Eisenberg #  
 Russell Floyd Mohawk #

Thomas Anthony Malone M.D.  
 Rajiv Vishnu Taliwal M.D.  
 Brian Keith Derrick  
 Robert Stephen Paskowski #  
 Henry Leigh Gerstenberger #  
 Caroline Fisher Pearson #

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)  
 Dennis Dale Pijor  
 (Printed Name)  
 1.  
 President  
 (Title)

(Signature)  
 Michael Anthony O'Neill  
 (Printed Name)  
 2.  
 Chief Financial Officer  
 (Title)

(Signature)  
 Stephen Michael Adamson  
 (Printed Name)  
 3.  
 Vice President, Chief Operations Officer  
 (Title)

Subscribed and sworn to before me this  
 day of January, 2017

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

Yes[ ] No[X]

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11/02/2017

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(Notary Public Signature)

# Notes to Financial Statements

## 1. Summary of Significant Accounting Policies and Going Concern

### A. Accounting Practices

The financial statements of SummaCare, Inc. (the Company or SC) 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 and reporting the financial condition and results of operations of an insurance company, for determining its solvency under Ohio Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP) has been adopted as a component of the prescribed or permitted practices by the State. The State has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, 1) five-year life on Electronic Data Processing (EDP) equipment and, 2) a 90-day limitation on collection of affiliate balances. The Commissioner of Insurance has the right to permit other specific practices that deviate from the prescribed practices. Accordingly, the admitted assets, liabilities, capital and surplus of the Company as of December 31, 2016 and December 31, 2015 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 monetary effect on net income and statutory surplus between NAIC SAP and accounting principles prescribed or permitted by the ODI is not material.

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of Ohio is shown below:

	<u>SSAP #</u>	<u>F/S Page</u>	<u>F/S Line</u>	<u>2016</u>	<u>2015</u>
<b><u>Net Income</u></b>					
1) SummaCare state basis (Page 4, Line 32, Columns 2 & 3)	XXX	XXX	XXX	(499,931)	(5,153,801)
2) State Prescribed Practices that increase / (decrease) NAIC SAP:	-	-	-	-	-
3) State Permitted Practices that increase / (decrease) NAIC SAP:	-	-	-	-	-
4) NAIC SAP	XXX	XXX	XXX	<u>(499,931)</u>	<u>(5,153,801)</u>
<b><u>Surplus</u></b>					
5) SummaCare state basis (Page 3, Line 33, Columns 3 & 4)	XXX	XXX	XXX	55,496,729	51,573,428
6) State Prescribed Practices that increase / (decrease) NAIC SAP:	-	-	-	-	-
7) State Permitted Practices that increase / (decrease) NAIC SAP:	-	-	-	-	-
8) NAIC SAP	XXX	XXX	XXX	<u>55,496,729</u>	<u>51,573,428</u>

### B. Use of Estimates

The preparation of financial statements in conformity with *Accounting Practices and Procedures Manual*, 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 – See number seven, investments in subsidiaries, controlled and affiliated entities.

#### 4) Preferred stocks – None.

#### 5) Mortgage loans on real estate – None.

#### 6) Loan backed securities – None.

#### 7) SC carries its investment in its subsidiary, Summa Insurance Company (SIC), at audited statutory equity in accordance with SSAP No. 97, Investments in Subsidiary, Controlled and Affiliated Entities. The Company's investment in SIC is classified as common stock on the Assets page.

#### 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.

## Notes to Financial Statements

- 11) The cost of health care services is recognized in the period in which services are provided. Health care expenses also include an estimate of the cost of services provided to the Company's members by third-party providers, which have been incurred but not reported to the Company. 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 is 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 two (two quarters).

### **D. Going Concern** – Not applicable.

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

### **A. Accounting Changes** – None.

### **B. Corrections of Errors**

In 2015, it was determined that the amount of Medicare Advantage risk-share receivable was incorrect in 2014. In 2014, premium revenue (Statement of Revenue and Expenses, line 2) was understated by \$1,812,307 and uncollected premiums (Assets page, line 15.1) were understated by \$1,812,307. This correction caused an increase to unassigned funds of \$1,812,307 in 2015.

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

### **A. Statutory Purchase Method** – None.

### **B. Statutory Merger** – None.

### **C. Assumption Reinsurance** – None.

### **D. Impairment Loss** – None.

## **4. Discontinued Operations** – None.

## **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**

## Notes to Financial Statements

	1 Total Gross Restricted from Current Year	2 Total Gross Restricted from Prior Year	3 Increase / (Decrease) (1 minus 2)	4 Total Current Year Admitted Restricted	5 Percentage Gross Restricted to Total Assets	6 Percentage Admitted to Total Admitted Assets
a. Subject to contractual obligation for which liability is not shown	\$0	\$0	\$0	\$0	\$0	\$0
b. Collateral held under security lending agreement:	\$0	\$0	\$0	\$0	\$0	\$0
c. Subject to repurchase agreements	\$0	\$0	\$0	\$0	0.000	0.000
d. Subject to reverse repurchase agreements	\$0	\$0	\$0	\$0	0.000	0.000
e. Subject to dollar repurchase agreements	\$0	\$0	\$0	\$0	0.000	0.000
f. Subject to dollar reverse repurchase agreements	\$0	\$0	\$0	\$0	0.000	0.000
g. Placed under option contracts	\$0	\$0	\$0	\$0	0.000	0.000
h. Letter stock or securities restricted as to sale	\$0	\$0	\$0	\$0	0.000	0.000
i. FHLB capital stock	\$0	\$0	\$0	\$0	0.000	0.000
j. On deposit with states	\$426,189	\$418,987	\$7,202	\$426,189	0.490	0.511
k. On deposit with other regulatory bodies	\$0	\$0	\$0	\$0	0.000	0.000
l. Pledged as collateral to FHLB	\$0	\$0	\$0	\$0	0.000	0.000
m. Pleaded as collateral not captured in other categories	\$0	\$0	\$0	\$0	0.000	0.000
n. Other restricted assets						
o. Total restricted assets	\$426,189	\$418,987	\$7,202	\$426,189	0.490	0.511

- I. Working Capital Finance Investments** – None.
- J. Offsetting and Netting of Assets and Liabilities** – None.
- K. Structured Notes** – None
- L. 5\* Securities** – 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.
- B.** Total amount excluded - None

### 8. Derivative Instruments – None.

### 9. Income Taxes

- A.** The components of deferred tax asset as of December 31, 2016 and December 31, 2015 are:

# Notes to Financial Statements

	12/31/2016			12/31/2015			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
1.									
(a) Gross Deferred Tax Assets	\$3,488,253	\$0	\$3,488,253	\$4,637,323	\$0	\$4,637,323	(\$1,149,070)	\$0	(\$1,149,070)
(b) Statutory Valuation Allowance Adjustments	\$1,555,978	\$0	\$1,555,978	\$3,127,395	\$0	\$3,127,395	(\$1,571,417)	\$0	(\$1,571,417)
(c) Adjusted Gross DTA's (1a-1b)	\$1,932,275	\$0	\$1,932,275	\$1,509,928	\$0	\$1,509,928	\$422,347	\$0	\$422,347
(d) DTA's Nonadmitted	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(e) Subtotal Net DTA's (1c-1d)	\$1,932,275	\$0	\$1,932,275	\$1,509,928	\$0	\$1,509,928	\$422,347	\$0	\$422,347
(f) Deferred Tax Liabilities	\$1,932,275	\$0	\$1,932,275	\$1,509,928	\$0	\$1,509,928	\$422,347	\$0	\$422,347
(g) Net Admitted DTA / Net DTL (1e-1f)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2.									
Admission Calculation Components SSAP No. 101									
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$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)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1. Adjusted Gross DTA's Expected to be Realized Following the Balance Sheet Date.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2. Adjusted Gross DTA's Allowed Per Limitation Threshold.	XXX	XXX	\$8,324,509	XXX	XXX	\$7,736,014	XXX	XXX	\$588,495
(c) Adjusted Gross DTA's (Excluding The Amount of DTA's from 2 (a) and 2 (b) above) Offset by Gross DTL's.	\$1,932,275	\$0	\$1,932,275	\$1,509,928	\$0	\$1,509,928	\$422,347	\$0	\$422,347
(d) DTA's Admitted as the result of application of SSAP No. 101. Total (2(a)+2(b)+2(c))	\$1,932,275	\$0	\$1,932,275	\$1,509,928	\$0	\$1,509,928	\$422,347	\$0	\$422,347
3.									
(a) Ratio Percentage used To Determine Recovery Period And Threshold Limitation Amount.	2016	2015							
	456%	375%							
(b) Amount Of Adjusted Capital And Surplus Used To Determine Recovery Period And Threshold Limitation In 2 (b) 2 Above.	\$55,496,729		\$51,573,428						
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	\$1,932,275	\$0	\$0	\$1,932,275	\$1,509,928	\$0	\$0	\$1,509,928	
2. Percentage of Adjusted Gross DTA's	0%	0%	0%		0%	0%	0%	0%	
3. Net Admitted Gross DTA's	\$1,932,275	\$0	\$0	\$1,932,275	\$1,509,928	\$0	\$0	\$1,509,928	
4. Percentage of Net Admitted Gross DTA's because of tax planning.	0%	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:**

# Notes to Financial Statements

	12/31/2016	12/31/2015	Change
1. Current Income Tax			
(a) Federal	(\$1,310,331)	\$1,046,089	(\$2,356,420)
(b) Foreign	\$0	\$0	\$0
(c) Subtotal	(\$1,310,331)	\$1,046,089	(\$2,356,420)
(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	(\$1,310,331)	\$1,046,089	(\$2,356,420)
2. Deferred Tax Assets:			
(a) Ordinary			
(1) Unpaid Losses	\$58,686	\$71,581	(\$12,895)
(2) Unearned Premium Reserve	\$51,475	\$44,437	\$7,038
(3) Policyholder Reserves	\$126,923	\$125,865	\$1,058
(4) Investments	\$79,644	\$80,136	(\$492)
(5) Deferred Acquisition Costs	\$0	\$0	\$0
(6) Policyholder Dividends Accrual	\$0	\$0	\$0
(7) Fixed Assets	\$267,314	\$303,693	(\$36,378)
(8) Compensation and Benefits Accrual	\$0	\$0	\$0
(9) Pension Accrual	\$0	\$0	\$0
(10) Receivables - Nonadmitted	\$980,947	\$984,439	(\$3,492)
(11) Net Operating Loss Carry-Forward	\$986,272	\$1,994,036	(\$1,007,764)
(12) Tax Credits	\$0	\$0	\$0
(13) Other	\$936,992	\$1,033,137	(\$96,145)
Subtotal	<u>\$3,488,253</u>	<u>\$4,637,323</u>	<u>(\$1,149,070)</u>
(b) Statutory Valuation Allowance (Ordinary)	\$1,555,978	\$3,127,395	(\$1,571,417)
(c) Nonadmitted	\$0	\$0	\$0
(d) Admitted Ordinary Deferred Tax Assets	\$1,932,275	\$1,509,928	\$422,347
(e) Capital			
(1) Investments	\$0	\$0	\$0
(2) Net Capital Loss Carry-Forward	\$0	\$0	\$0
(3) Unrealized Gains/Losses	\$0	\$0	\$0
(4) Other	\$0	\$0	\$0
Subtotal	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
(f) Statutory Valuation Allowance Adjustment (Capital)	\$0	\$0	\$0
(g) Nonadmitted	\$0	\$0	\$0
(h) Admitted Capital Deferred Tax Assets	\$0	\$0	\$0
(i) Admitted Deferred Tax Assets	\$1,932,275	\$1,509,928	\$422,347
3. Deferred Tax Liabilities:			
(a) Ordinary			
(1) Investments	\$0	\$0	\$0
(2) Fixed Assets	\$0	\$0	\$0
(3) Deferred and Uncollected Premium	\$1,603,885	\$1,181,538	\$422,347
(4) Policyholder Reserves	0	\$0	\$0
(5) Other	\$328,390	\$328,390	(\$0)
Subtotal	<u>\$1,932,275</u>	<u>\$1,509,928</u>	<u>\$422,347</u>
(b) Capital			
(1) Investments	\$0	\$0	\$0
(2) Real Estate	\$0	\$0	\$0
(3) Other	\$0	\$0	\$0
Subtotal	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
(c) Deferred Tax Liabilities	\$1,932,275	\$1,509,928	\$422,347
4. Net Deferred Tax Assets / Liabilities	\$0	(\$0)	\$0

**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, 2016</u>	<u>Effective Tax Rate</u>
Provision computed at statutory rate	(\$615,489)	34.0%
Permanent Adjustments	\$841,169	-46.5%
Change in valuation allowance	(\$1,571,417)	86.8%
Change in nonadmitted assets	\$35,406	-2.0%
Total statutory income taxes incurred	<u>(\$1,310,331)</u>	<u>72.4%</u>
 Federal income taxes incurred	 (\$1,310,331)	72.4%
Change in net deferred income taxes	\$0	0.0%
Total statutory income taxes	<u>(\$1,310,331)</u>	<u>72.4%</u>

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

## **Notes to Financial Statements**

1. The company has a net operating loss carry-forward of \$2,900,799 as of December 31, 2016.
2. There are no income taxes available for recoupment in the event of future net losses.
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, 2016 and December 31, 2015.

### **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 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.

### **G. Federal and foreign loss contingencies as determined in accordance with SSAP 5R – None.**

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

### **A. Nature of the Relationships**

SummaCare, Inc. is a wholly owned subsidiary of Summa Health System Corporation (SHSC). Summa Insurance Company (SIC) is a wholly-owned subsidiary of SummaCare, Inc.

Affiliated and subsidiary organizations of SC include Summa Health System Community; HealthSpan Partners; Summa Health System, Inc. (SHS); Summa Insurance Company (SIC); Summa Health Network LLC (SHN); Apex Benefits Services, LLC (Apex); Summa Insurance Agency, LLC (SIA); Wadsworth-Rittman Professional Services Corporation; Summa Physicians, Inc. (SPI); Summa Foundation; Health Care Center Physicians Inc. (HCCP); Middlebury Assurance Corp. (MAC); 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); Health Innovations Ohio, LLC; and Medina-Summit ASC, LLC; Advanced Health Select, LLC.

The Company is licensed in Ohio as a health-insuring corporation (HIC) under Chapter 1751 of the Ohio Revised Code. SC contracts with providers to provide comprehensive health care services to a defined enrolled population (members) for a predetermined monthly fee. The population from which the Company draws its membership is predominately located in Northeast Ohio. The Company is subject to competition from other health insuring companies as well as to the regulations of certain state and federal agencies. The Company is also subject to periodic financial examinations by those regulatory authorities.

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

SC members receive various medical services from SHS, and other SHS subsidiaries. Certain members of the Board of Directors of the Company are members of the Board of Trustees of SHS and SHS's subsidiary and affiliated organizations.

The operating activities with affiliated entities as of December 31, 2016 and December 31, 2015 are as follows:

	<b>2016</b>	<b>2015</b>
Claims expense related to affiliated entities:		
SHS	\$ 54,450,072	60,869,481
SPI	7,299,271	9,219,326
ACO	1,110,699	1,519,788
Management fees charged to OHC	3,254	1,163
Management fees charged to SHN	75,991	77,178
Management fees charged to ACO	72,036	—
Management fees charged from SMSO	17,377,252	12,831,028
Management fees charged from Apex	1,155,000	1,167,496
Corporate expense allocation paid to SHS	2,179,312	585,666

## Notes to Financial Statements

In 2015, SC received a \$10 million capital contribution from its parent, SHSC. The Company received an additional \$10,000,000 capital contribution from SHSC in February 2016. This contribution was recorded as a Type 1 subsequent event on the December 31, 2015 annual statement in accordance with SSAP 72 Surplus and Quasi-Reorganizations (see footnote 22).

**D.** The balances outstanding with affiliated entities as of December 31, 2016 and December 31, 2015 are as follows:

	Due from		Due to	
	2016	2015	2016	2015
SHN	\$ —	—	—	2,792
SIC	—	—	807,060	1,403,870
SHS	—	—	329,274	446,204
OHC	22	20	—	—
Apex	—	803,750	111,319	—
SMSO	—	—	2,058,385	1,537,860
SHSC	—	10,000,000	—	—
ACO	—	—	—	194,401
	<hr/> \$ 22	<hr/> 10,803,770	<hr/> 3,306,038	<hr/> 3,585,127

**E.** Guarantees or undertakings – None.

**F.** In 2016 and 2015, the Company contracted with SMSO for general administrative services, which include but are not limited to claims processing, customer service, eligibility, human resources, computer support, programming, finance, and other general administrative services. Fees are based on actual expenses allocated from SMSO to the Company. The Company recognized expense of \$17,377,252 and \$12,831,028 in 2016 and 2015, respectively.

**G.** The Company's common membership is held by its parent, Summa Health System Corporation.

**H.** Investments in upstream intermediate entities or ultimate parent – None.

**I.** Investments in SCA Entities

As of December 31, 2016, the Company owned 100% of the common stock of SIC, whose carrying value is exceeds 10% of the admitted assets of SC. The Company carries SIC at audited statutory equity. Assets, liabilities and net losses of SIC as of December 31, 2016 were:

Assets - \$54,884,384  
 Liabilities - \$26,488,024  
 Net Income - \$4,029,637

**J.** Investments in impaired SCA entities – None.

**K.** Investments in foreign insurance subsidiaries – None.

**L.** Investment in downstream noninsurance holding company – None.

**M.** All SCA investment – None.

**N.** Investments in insurance SCA's – None.

### 11. Debt

SC has no debt as of December 31, 2016.

### 12. Retirement Plans

**A.** Defined Benefit Plan - None.

**B.** A narrative description of investment policy and strategies – Not applicable.

## **Notes to Financial Statements**

- C. The fair value of each class of plan asset – Not applicable.
- D. A narrative description of the basis used to determine the long-term rate of return – Not applicable.
- E. Defined Contribution Plan – None.
- F. Multiemployer Plan – None.
- G. Consolidated / Holding Company Plan – None.
- H. Postemployment Benefits and Compensated Absences – None.
- I. Impact of Medicare Modernization Act on Postretirement Benefits – None.

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

- 1.) SC is a nonprofit corporation under Ohio law. As such, ownership of the Company is designated as common membership. The sole common member of the Company as of December 31, 2016 and December 31, 2015 is SHSC.
- 2.) Dividends rate, liquidation value – Not applicable.
- 3.) Dividend Restrictions – Not applicable.
- 4.) Date and amounts of dividends paid – Not applicable.
- 5.) Portion of reporting entity's profits that can be paid as ordinary dividends – Not applicable.
- 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 – \$2,997,068
  - Unrealized Gains (Losses) – \$37,437
- 11.) Surplus notes – None.
- 12.) Restatement in a quasi-reorganization – Not applicable
- 13.) Quasi-reorganization – Not applicable.

### **14. Contingencies**

- 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**

#### **A. Lessee Leasing Arrangements.**

- 1.) The company leases its facility under a noncancelable operating lease which expires during 2017. Rent expense was approximately \$1,243,649 as of December 31, 2016 and was \$1,114,661 for year ending December 31, 2015.
- 2.) Future minimum payments under noncancelable operating leases are as follows:

## Notes to Financial Statements

Year ended December 31:

2017	1,225,558
Total minimum future commitment	\$ 1,225,558

3.) The Company has not entered into any sale-leaseback transactions.

**B. Lessor Leasing Arrangements - 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**

**A. Assets and liabilities measured and reported at fair value.**

**1) Fair value measurements at the reporting date.**

Description for each class of asset or liability	Level 1	Level 2	Level 3	Total
<b>a. Assets at fair value</b>				
Cash and short-term investments	\$19,949,722	\$0	\$0	\$19,949,722
Perpetual referred stock				
Industrial and misc	\$0	\$0	\$0	\$0
Parent, subsidiaries and affiliates	\$0	\$0	\$0	\$0
Total perpetual and preferred stock	\$0	\$0	\$0	\$0
Bonds				
U.S. Governments	\$0	\$0	\$0	\$0
Industrial and misc	\$0	\$0	\$0	\$0
Hybrid securities	\$0	\$0	\$0	\$0
Parent, subsidiaries and affiliates	\$0	\$0	\$0	\$0
Total Bonds	\$0	\$0	\$0	\$0
Common stock				
Industrial and misc	\$0	\$0	\$0	\$0
Parent, subsidiaries and affiliates	\$0	\$0	\$0	\$0
Total common stock	\$0	\$0	\$0	\$0
Derivative assets				
Interest rate contracts				
Foreign exchange contracts	\$0	\$0	\$0	\$0
Credit contracts	\$0	\$0	\$0	\$0
Commodity futures contracts	\$0	\$0	\$0	\$0
Commodity forwards contracts	\$0	\$0	\$0	\$0
Total derivatives	\$0	\$0	\$0	\$0
Separate account assets	\$0	\$0	\$0	\$0
Total assets at fair value	\$19,949,722	\$0	\$0	\$19,949,722
<b>b. Liabilities at fair value</b>				
Derivative liabilities	\$0	\$0	\$0	\$0
Total liabilities at fair value	\$0	\$0	\$0	\$0

**2) Fair value measurement in (Level 3) of the Fair Value Hierarchy – None.**

# Notes to Financial Statements

**3) Policy for determining when transfers between levels are recognized** – Not applicable.

**4) For fair value measurements categorized within level 2 and level 3 of the fair value hierarchy** – The fair values of the Company's investment in U.S. Treasury and U.S. government agency bond securities are based on quoted prices or dealer quotes. For bonds not actively traded, fair values are estimated using values obtained from independent pricing services, or in the case of private placements, are estimated by discounting the expected future cash flows using current market rates applicable to the yield, credit and maturity of the investment.

**5) Derivative assets and liabilities** – None.

- B.** The carrying amounts reported in the statutory statements of admitted assets, liabilities, and capital and surplus for cash and short-term investments, uncollected premiums, reinsurance recoverable, investment income due and accrued, other receivables, federal income tax receivable, receivables from and payables to parent, affiliates and subsidiary, claims unpaid, unpaid claims adjustment expenses, accrued medical incentive pool, premiums received in advance, general expenses due or accrued, and other liabilities approximate fair value because of the short-term nature of these items. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.
- C.** The following table summarizes the Company's fair value measurements for financial instruments where fair value is a financial statement disclosure item only.

Financial Instrument	December 31, 2016						Not Practicable (Carrying Value)
	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3		
U.S. Treasury securities	\$ 34,210,076	\$ 34,177,327	\$ 34,210,076	\$ -	\$ -	\$ -	\$ -
U.S. government agency securities	1,004,850	1,000,162	-	1,004,850	-	-	-
Short-term investments	3,760,918	3,760,918	3,760,918	-	-	-	-

  

Financial Instrument	December 31, 2015						Not Practicable (Carrying Value)
	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3		
U.S. Treasury securities	\$ 33,487,896	\$ 33,351,488	\$ 33,487,896	\$ -	\$ -	\$ -	\$ -
U.S. government agency securities	2,586,889	2,499,376	-	2,586,889	-	-	-
Short-term investments	2,450,348	2,450,348	2,450,348	-	-	-	-

- D.** Not practicable to estimate fair value – Not applicable.

## 21. Other Items

- A. Unusual or Infrequent Items** – None.
- B. Troubled Debt Restructuring** – None.
- C. Other Disclosures and Unusual Items** – None.
- 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

The following event was recognized on statutory statements for the period ending December 31, 2015.

In February 2016, SC received a \$10,000,000 capital contribution from its parent, SHSC. The Company received permission from the Ohio Department of Insurance to admit this as gross paid in and contributed surplus (Liabilities, Capital and Surplus page, line 28) and a corresponding receivable from parent (Assets page, line 23) as of December 31, 2015 according to SSAP 72 Surplus and Quasi-Reorganizations.

# Notes to Financial Statements

## 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?  
 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:

## Notes to Financial Statements

	<u>2016</u>	<u>2015</u>
Balance at January 1	\$ 27,746,154	30,744,997
Incurred related to:		
Current year	220,389,234	246,144,027
Prior years	(3,136,526)	(243,995)
Total	<u>217,252,708</u>	<u>245,900,032</u>
Paid related to:		
Current year	195,906,955	218,428,873
Prior years	24,576,628	30,470,002
Total	<u>220,483,583</u>	<u>248,898,875</u>
Balance at End of Period	<u>\$ 24,515,279</u>	<u>27,746,154</u>

Reserves as of December 31, 2015 were \$27,746,154. As of December 31, 2016, \$24,576,628 has been paid for incurred claims attributable to insured events of prior years. There is \$33,000 in reserves remaining for prior years as of December 31, 2016. Therefore, there has been \$3,136,526 in favorable development since December 31, 2015 to December 31, 2016. This favorable development 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, 2016, a receivable was recorded equal to two quarters of rebates. For quarter ending December 31, 2016, pharmacy rebates receivable were estimated by multiplying the most recent rebate received by two (two quarters). Pharmacy rebates receivable are recorded as nonadmitted assets in accordance with SSAP No. 84.

<u>Quarter</u>	<u>Estimated Pharmacy Rebates as Reported on Financial Statements</u>	<u>Pharmacy Rebates Received as Billed or Otherwise Confirmed</u>	<u>Actual Rebates Received</u>	<u>Actual Rebates Received Within 90 Days of Billing</u>	<u>Actual Rebates Received Within 91 to 180 Days of Billing</u>	<u>Actual Rebates Received More Than 180 Days After Billing</u>
12/31/2016	\$2,836,268	\$0	\$0	\$0	\$0	\$0
9/30/2016	\$2,710,344	\$1,000,366	\$0	\$0	\$1,000,366	
6/30/2016	\$2,306,363	\$2,087,085	\$0	\$0	\$2,087,085	
3/31/2016	\$2,441,355	\$2,304,604	\$0	\$0	\$2,304,604	
12/31/2015	\$2,738,381	\$2,465,554	\$0	\$0	\$2,465,554	
9/30/2015	\$2,487,283	\$2,412,054	\$0	\$0	\$2,412,054	
6/30/2015	\$1,671,800	\$2,422,178	\$0	\$0	\$2,422,178	
3/31/2015	\$1,426,259	\$2,105,596	\$0	\$0	\$2,105,596	
12/31/2014	\$1,601,646	\$2,466,689	\$0	\$0	\$2,466,689	
9/30/2014	\$1,944,155	\$2,433,613	\$0	\$0	\$2,433,613	
6/30/2014	\$1,680,029	\$2,244,717	\$0	\$0	\$2,244,717	
3/31/2014	\$1,536,507	\$2,144,643	\$0	\$0	\$2,144,643	

**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. There were no premium deficiency reserves recorded as of December 31, 2016 and December 31, 2015, respectively.

## **Notes to Financial Statements**

### **31. Anticipated Salvage Value and Subrogation – None**

**FIVE-YEAR HISTORICAL DATA**

	1 2016	2 2015	3 2014	4 2013	5 2012
<b>BALANCE SHEET (Pages 2 and 3)</b>					
1. TOTAL Admitted Assets (Page 2, Line 28) .....	91,357,753	90,584,577	85,166,633	105,328,668	88,308,822
2. TOTAL Liabilities (Page 3, Line 24) .....	35,861,024	39,011,149	42,405,999	74,746,355	36,147,298
3. Statutory minimum capital and surplus requirement .....	2,500,000	2,500,000	1,500,000	1,500,000	1,500,000
4. TOTAL Capital and Surplus (Page 3, Line 33) .....	55,496,729	51,573,428	42,760,634	30,582,313	52,161,524
<b>INCOME STATEMENT (Page 4)</b>					
5. TOTAL Revenues (Line 8) .....	252,603,781	271,448,549	315,686,847	277,576,364	283,277,051
6. TOTAL Medical and Hospital Expenses (Line 18) .....	217,252,708	245,893,361	283,915,317	236,239,851	218,409,628
7. Claims adjustment expenses (Line 20) .....	4,279,290	4,245,082	3,971,607	3,584,312	4,681,575
8. TOTAL Administrative Expenses (Line 21) .....	33,386,932	25,979,889	26,842,932	26,835,927	55,971,272
9. Net underwriting gain (loss) (Line 24) .....	(2,315,149)	(4,669,783)	956,991	10,916,274	4,214,576
10. Net investment gain (loss) (Line 27) .....	476,594	538,127	1,891,802	1,354,383	1,435,275
11. TOTAL Other Income (Lines 28 plus 29) .....	28,293	23,944	11,426	3,417	19,978
12. Net income or (loss) (Line 32) .....	(499,931)	(5,153,801)	1,981,388	9,115,187	3,898,469
<b>Cash Flow (Page 6)</b>					
13. Net cash from operations (Line 11) .....	(4,528,341)	(12,550,232)	(6,010,493)	19,280,548	4,434,149
<b>RISK-BASED CAPITAL ANALYSIS</b>					
14. TOTAL Adjusted Capital .....	55,496,729	51,573,428	42,760,634	30,582,313	52,161,524
15. Authorized control level risk-based capital .....	12,182,504	13,763,498	15,778,766	9,523,332	8,989,756
<b>ENROLLMENT (Exhibit 1)</b>					
16. TOTAL Members at End of Period (Column 5, Line 7) .....	23,714	26,419	32,654	28,447	24,556
17. TOTAL Members Months (Column 6, Line 7) .....	288,226	321,810	395,053	336,743	290,327
<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) .....	86.1	90.6	90.0	85.1	85.5
20. Cost containment expenses .....	0.3	0.4	0.2	0.2	0.6
21. Other claims adjustment expenses .....	1.4	1.2	1.0	1.1	1.2
22. TOTAL Underwriting Deductions (Line 23) .....	101.0	101.7	99.7	96.1	109.3
23. TOTAL Underwriting Gain (Loss) (Line 24) .....	(0.9)	(1.7)	0.3	3.9	1.7
<b>UNPAID CLAIMS ANALYSIS</b>					
(U&I Exhibit, Part 2B)					
24. TOTAL Claims Incurred for Prior Years (Line 13, Column 5) .....	24,668,331	30,599,331	29,615,812	16,887,178	23,184,175
25. Estimated liability of unpaid claims-[prior year (Line 13, Column 6)] .....	27,804,857	30,849,997	30,282,125	25,693,359	26,678,944
<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) .....	28,396,360	24,382,361	31,459,090		
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 .....				4,415,441	
32. TOTAL of Above Lines 26 to 31 .....	28,396,360	24,382,361	31,459,090	4,415,441	
33. TOTAL Investment in Parent Included in Lines 26 to 31 above .....					4,415,441

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::