

America's 1st Choice Insurance Company of North Carolina, Inc.

Tampa, Florida

Report on Limited-Scope Examination

As of December 31, 2014

America's 1st Choice Insurance Company of North Carolina, Inc.

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America's 1st Choice Insurance Company of North Carolina, Inc.

Report on Limited-Scope Examination

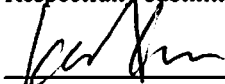
Honorable Wayne Goodwin
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section ("§") 58-2-131 of the General Statutes of North Carolina ("GS"), the North Carolina Department of Insurance ("Department") conducted a limited-scope examination of America's 1st Choice Insurance Company of North Carolina, Inc. ("Company") as of December 31, 2014. The Department's last full-scope examination was as of December 31, 2009. This limited-scope examination was performed to address specific areas based on the Department's review and analysis of the Company's 2014 Annual Statement.

This examination was performed in accordance with auditing standards established by the Department. The purpose of this examination was to review specific aspects of the Company's 2014 Annual Statement as specified in the Scope of the Examination on page 4. The scope of this examination was not comprehensive, but included a limited review of the Company's practices and procedures, its corporate and accounting records, details of certain transactions, and an evaluation of certain assets and liabilities reported as of December 31, 2014. This report is not intended to communicate all matters of importance for an understanding of the Company's financial condition as of December 31, 2014. Therefore, the findings and conclusions contained within this report are based solely on the work performed on the specific areas of concern and are provided in the Summary of Examination Objectives and Findings on page 5.

Respectfully submitted,



Ke Xu, CPA, CFE
Chief Financial Examiner
Agile Enterprise Section
North Carolina Department of Insurance

August 21, 2015

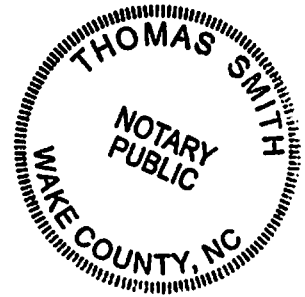
STATE OF NORTH CAROLINA
COUNTY OF WAKE

Eileen Culliney, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature: Eileen Culliney Date: 10/19/15
Eileen Culliney

Sworn and subscribed before me this 9 day of October, 2015.

Notary Public Signature: [Signature] Notary Public Seal:



America's 1st Choice Insurance Company of North Carolina, Inc.
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1. Company Background

The Company was incorporated on August 16, 2007, and commenced business on October 31, 2007. The Company writes only Medicare Advantage plans in North Carolina and has a membership cap of 7,500. The Company provides accident & health coverage, including hospitalization in North Carolina.

In 2014, the Company notified the Department that it had requested and received approval from the Centers for Medicare and Medicaid Services to exit the Medicare market in North Carolina, effective December 31, 2014. The Company provided the current plan members with notification and an opportunity to choose another plan during the annual enrollment period from October 15, 2014 through December 7, 2014.

2. Appointed Actuary

All life and health insurers are required to file annual statements in accordance with the appropriate NAIC Annual Statement Instructions Handbook, pursuant to GS § 58-2-165(c). The Annual Statement Instructions require the statement of the appointed actuary setting forth an opinion relating to claim reserves and any other actuarial items included in or attached to the Annual Statement. Actuarial opinions regarding the Company's reserves for unpaid claims and unpaid claims adjustment expenses were issued by an appointed actuary for the examination period. The appointed actuary evaluated the data of unpaid claims and unpaid claims adjustment expenses provided by the Company for reasonableness and consistency. According to the actuarial opinion, the Company's reserves for unpaid claims, unpaid claims adjustment expenses, and aggregate health policy reserves met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid claims and unpaid claims expense obligations of the Company.

3. Scope of the Examination

The scope of this examination was limited to the following areas relative to the 2014 Annual Statement:

- a) Claims and reserves
- b) Investments
- c) Operations and related party transactions
- d) Other considerations

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4. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Review and verification of supporting documentation for reported balances;
- 2) Analytical procedures and recalculation of account balances;
- 3) Substantive testing of underlying data and transactions;
- 4) Actuarial review of the Company's reserves by the Department's Actuarial Services Division;
- 5) Other examination procedures deemed necessary to meet the established objectives.

5. Summary of Examination Objectives and Findings

a. Claims and Reserves

- 1) Examination Objective: To verify the accuracy and completeness of the claims paid totaling \$23,799,149 reported in the Company's Annual Statement for the year ended December 31, 2014.

Findings: No adverse findings were noted.

- 2) Examination Objective: To review the reasonableness and adequacy of the unpaid claims reserve totaling \$3,189,566 reported in the Company's Annual Statement as of December 31, 2014.

Findings: No adverse findings were noted.

- 3) Examination Objective: To review the appropriateness of the reserving methodologies utilized by the Company for unpaid claims reserve.

Findings: No adverse findings were noted.

b. Investments

- 1) Examination Objective: To verify the existence of the bonds totaling \$3,032,816 reported in the Company's Annual Statement as of December 31, 2014.

Findings: No adverse findings were noted.

- 2) Examination Objective: To verify that the Board of Directors ("Board") had proper oversight over the Company's investments to ensure compliance with applicable laws and regulations.

Findings: The Company cannot provide documentation that the Board reviewed and approved the Company's investments during its meetings. The Company is directed to comply with GS §58-7-168, which requires the Board to authorize and approve its investments and to record the authorization in the minutes of the Board meetings.

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c. Operations and Related Party Transactions

- 1) **Examination Objective:** To review the reasonableness of the administrative expenses totaling \$2,946,367 reported in the Company's Annual Statement as of December 31, 2014, and compliance with the terms of the Management Service Agreement with America's Health Management Services, Inc., the Company's affiliate.

Findings: No adverse findings were noted.

d. Other Considerations

- 1) **Examination Objective:** To determine whether the Company properly elected officers in accordance with its bylaws.

Findings: Article V, Section 1.34 of the Company's bylaws state that officers of the corporation are to be elected annually by the Board at its first meeting held after each annual meeting. There is no documentation showing that officers were elected in 2013 and 2014. The Company is directed to comply with its bylaws and have the Board elect the officers of the Company.

- 2) **Examination Objective:** To verify that the Company's independent auditor was properly appointed by the Board.

Findings: The Company's 2014 annual audited financial statement was prepared by a designated public accounting firm. However, the Audit Committee of the Board did not appoint the public accounting firm engaged by the Company as required by its Audit Committee Charter. Article IV, Section 1.30 of the Company's bylaws require that each committee fix its own rules governing the conduct of its activities and make such reports to the Board of its activities. The Company is directed to comply with its bylaws and the Board's Audit Committee Charter.

- 3) **Examination Objective:** To verify that the Audit Committee of the Board maintains meeting minutes in accordance with the Audit Committee Charter and its bylaws.

Findings: The Audit Committee of the Board did not prepare and maintain the minutes of the Audit Committee meetings held in 2013 and 2014, as required by the Company's Audit Committee Charter and Article IV, Section 1.30 of the Company's bylaws. The Company is directed to comply with its bylaws and the Board's Audit Committee Charter.

6. Subsequent Event

On September 18, 2015, the Department approved the repayment of Surplus Notes to Dr. Kiran C. Patel totaling \$3,074,884, plus accrued interest. At the same time, the Company agreed to enter into a Voluntary Settlement Agreement with the Department to restrict its license to no new or renewal business, effective September 24, 2015.

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Appendix A – Report Distribution

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