

FirstCarolinaCare Insurance Company

Pinehurst, North Carolina

Report on Limited-Scope Examination

As of December 31, 2013

FirstCarolinaCare Insurance Company

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FirstCarolinaCare Insurance Company

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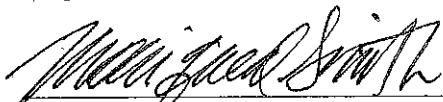
Honorable Wayne Goodwin
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

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 **FirstCarolinaCare Insurance Company** (“Company”) as of December 31, 2013. The Department’s last full-scope examination was as of December 31, 2008. This limited-scope examination was performed to address specific areas based on the Department’s review and analysis of the Company’s 2013 Annual Statement (“AS”).

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 2013 AS, 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, 2013. This report is not intended to communicate all matters of importance for an understanding of the Company’s financial condition as of December 31, 2013. 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,



Monique D. Smith, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

December 9, 2014

STATE OF NORTH CAROLINA
COUNTY OF WAKE

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

Signature:

Joel Seay
Joel Seay

Date:

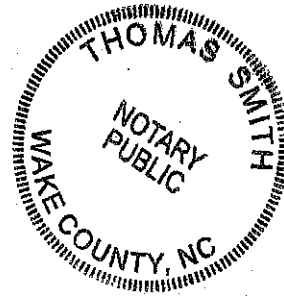
December 31, 2014

Sworn and subscribed before me this 31 day of December, 2014.

Notary Public Signature:

Thomas Smith

Notary Public Seal:



FirstCarolinaCare Insurance Company

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1. Company Background

The Company is a taxable, not-for-profit life and health insurance company with a Health Maintenance Organization ("HMO") line of business. The Company is organized as a non-stock corporation under the laws of the state of North Carolina. In January 2013, the Company commenced Medicare Advantage operations.

The Company is domiciled in North Carolina and is licensed to write business in North Carolina and South Carolina. Currently, all of its business is written in North Carolina.

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 on or attached to the AS. 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 the unpaid claims and unpaid claims adjustment expense provided by the Company for reasonableness and consistency. According to the actuarial opinion, the Company's reserves for unpaid claims 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 2013 AS:

- a) Uncollected Premium and Agents' Balances in the Course of Collection
- b) Claims Unpaid and Aggregate Health Policy Reserves
- c) Amounts Due to Parent, Subsidiaries and Affiliates
- d) Paid in Capital & Surplus
- e) Deferred Taxes
- f) Cash Receipts

4. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Detailed reviews and verification of supporting documentation for balances reported;
- 2) Substantive testing of underlying data and transactions;
- 3) Review of the most recent accident year's underwriting results for the purpose of evaluating the sufficiency of the recorded deficiency reserve;
- 4) An 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.

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- 2) **Examination Objective:** To verify the accuracy of the "reported" Claims Unpaid balance at December 31, 2013.

Findings:

We tested a sample of "reported" Claims Unpaid at December 31, 2013, and determined that "reported" Claims Unpaid in the amount of \$1,941,455 was accurate.

c) **Amounts Due to Parent, Subsidiaries and Affiliates**

- 1) **Examination Objective:** To determine the accuracy of the balance reported as Amounts Due to Parent, Subsidiaries and Affiliates at December 31, 2013.

Findings:

Based on our review, the balance reported as Amounts Due to Parent, Subsidiaries and Affiliates totaling \$1,098,746 at December 31, 2013, appears to be accurate.

- 2) **Examination Objective:** To determine whether the balance reported as Amounts Due to Parent, Subsidiaries and Affiliates at December 31, 2013, contains any unusual items and to determine whether amounts were properly settled in accordance with the terms of applicable agreements.

Findings:

Based on our review, the balance reported as Amounts Due to Parent, Subsidiaries and Affiliates at December 31, 2013, totaling \$1,098,746 did not contain any unusual items and was settled in accordance with the terms of applicable agreements.

d) **Paid in Capital and Surplus**

- 1) **Examination Objective:** To determine whether the capital contribution of \$4.3 million was properly reported in the Company's 2013 AS.

Findings:

Based on our review, the capital contribution was properly reported in the Company's 2013 AS.

e) **Deferred Taxes**

- 1) **Examination Objective:** To determine whether the Company has adequate procedures in place to calculate its deferred tax and income tax provisions.

Findings:

Based on our review, the Company does not calculate its deferred tax and income tax provisions internally. The Company relies on the independent Certified Public Accountant (CPA) designated to perform its annual audit to prepare its tax return and to determine the accuracy of its deferred tax and income tax provisions. Each year, the Company's independent CPA provides the Company with a financial statement adjustment to record as a result of the tax preparation work performed. We noted the Company recorded the CPA's adjustments for deferred tax and income tax provisions.

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Appendix A – Report Distribution

Michael George, Director of Finance
42 Memorial Drive
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Craig Humphrey, COO and Interim President
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Jim Byrd, Chairman Finance/Planning/Marketing Committee and Board Member
42 Memorial Drive
Pinehurst, NC 28374

Lynn DeJaco, CFO of FirstHealth
42 Memorial Drive
Pinehurst, NC 28374