

FirstCarolinaCare Insurance Company

Pinehurst, North Carolina

Report on Examination

As of December 31, 2018

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	3
COMPANY HISTORY	3
MANAGEMENT AND CONTROL	3
Corporate Governance	3
Code of Conduct and Conflict of Interest	5
Corporate Records	5
Corporate Organization	5
Organization Chart	6
Statutory Deposits	6
Related Party Agreements	6
Fidelity Bonds and Other Insurance	7
TERRITORY AND PLAN OF OPERATION	8
Trends of the Company	8
Actuarial Opinion	8
REINSURANCE PROGRAM OVERVIEW	9
Reinsurance Ceded	9
Reinsurance Assumed	9
FINANCIAL STATEMENTS	9
COMMENTS ON FINANCIAL STATEMENTS	15
SUBSEQUENT EVENTS	18
DISTRIBUTION OF REPORT ON EXAMINATION	19
CONCLUSION	20

October 31, 2019

Honorable Mike Causey
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 an examination of the records, business affairs and financial condition of

FirstCarolinaCare Insurance Company

(hereinafter referred to as the “Company”) at its main administrative and statutory home office located at 42 Memorial Drive, Pinehurst, North Carolina 28374. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2014 to December 31, 2018, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2013.

The purpose of this examination is to review and evaluate the Company’s business processes and controls to assist in accessing and monitoring its current financial condition and prospective solvency. Pursuant to GS § 58-2-132, this Report on Examination comprises only facts appearing in the books, records, or other documents of the Company (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Premiums and Underwriting
Claims and Reserves
Reinsurance Ceding
Related Parties
Cash and Investments
Capital and Surplus

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). CliftonLarsonAllen, LLP of Charlotte, North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2018.

SUMMARY OF SIGNIFICANT FINDINGS

1. Comments, Recommendations, and Directives

- a. The Company's PDR totaling \$378,000 at December 31, 2018, is insufficient to cover its estimated loss on unearned premium. Based on the Department's review, the Company's PDR was materially insufficient for all years covered by our examination, including the year ended December 31, 2014, through the year ended December 31, 2018. According to the Company's most recent forecast of its projected Medicare Advantage loss for 2019, the Company's PDR is understated by \$1,540,649 at December 31, 2018. The Department recommends that the Company compare its PDR to its actual results on a quarterly basis to recognize and report to the Department any new or emerging deficiencies and evaluate its effect on the reserves of the Company.
- b. The Company did not settle balances due to FirstHealth of the Carolinas, Inc. ("FirstHealth"), its Parent, in a timely manner pursuant to the terms provided in its executed management agreement. The Company is provided additional time to submit its management fee payments to FirstHealth when the executed agreement requires payments to be made by the 20th day of each month. The Company is directed to settle related party balances in accordance with the terms specified in its executed agreement or amend its agreement.
- c. Conflict of interest forms were not executed annually by all officers and trustees of the Company. The Company did not have all required forms for 2014 through 2017. Pursuant to the NCAC Title 11 Chapter 11C.0117, the Company is directed to execute conflict of interest forms annually.

COMPANY HISTORY

The Company, formally known as FirstCarolinaCare, Inc., operated as a taxable for-profit health maintenance organization ("HMO") organized as a stock corporation in North Carolina from 1999 to 2003. FirstCarolinaCare, Inc. reorganized as a taxable not-for-profit nonstock corporation on January 1, 2004. Effective April 30, 2007, FirstCarolinaCare, Inc., merged with into the Company, then known as FirstCarolinaCare Insurance Company, Inc., with the Company being the surviving entity. After the merger, the Company commenced operations as a taxable for-profit HMO. On March 5, 2009, the Company reorganized again as a taxable, not-for-profit, nonstock corporation and changed its name to FirstCarolinaCare Insurance Company. FirstHealth is the sole member of the Company.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Board of Trustees

The Company conducts business through its management team, and subject to review by the Board. The bylaws specify that the number of trustees shall be not less than seven nor more than eighteen. Trustees are elected annually, at the annual meeting of its member or by the written consent of the member and each trustee elected shall hold office until a successor is elected and qualified.

The following individuals served as trustees as of December 31, 2018:

Name	Location	Principal Occupation
Michael Bartiss	Pinehurst, NC	Ophthalmologist
Lynn DeJaco	New London, NC	Chief Financial Officer, FirstHealth
David Burns	Laurinburg, NC	Chairman of the Board Z.V. Pate, Inc.
Pamela Kantorowski	Aberdeen, NC	Physician
David Kilarski	Pinehurst, NC	Chief Executive Officer, FirstHealth
Lowel Simon	West End, NC	Teacher
Greg Blakely	Aberdeen, NC	Physician
James Lewis	West End, NC	Physician
David Cowherd	Southern Pines, NC	Physician
John Jameson	Southern Pines, NC	Physician
Carolyn Helms	Southern Pines, NC	Nursing Instructor
David Woronoff	Pinehurst, NC	Newspaper and Magazine Publisher
Herman E. Collier, Jr	Pinehurst, NC	Consultant
Craig Humphrey	Pinehurst, NC	President, FirstCarolinaCare Insurance Company
Sheila Welch	Pinehurst, NC	Retired

The Board established a Finance, Planning and Marketing Committee to act on behalf of the Company. This Board committee also serves as the Company's Audit Committee.

The following individuals served on the Finance, Planning and Marketing Committee as of December 31, 2018:

John Jameson, Chair
 Lowel Simon
 Craig Humphrey
 Lynn DeJaco
 Bryan Hawkins

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a Chairman, a Vice Chairman, a secretary-treasurer, and any other officers as the Board may from time to time elect. All officers shall hold office, subject to removal at any time by the Board until their successors are elected and qualified. Any two offices may be held by the same person, except the offices of the Chairman and Secretary.

The following individuals served as officers of the Company as of December 31, 2018:

Name	Title
Micheal Bartiss	Chair
Lowel Simon	Vice-Chair
Craig Humphrey	President and Chief Operating Officer
Lynn DeJaco	Secretary and Treasurer

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report them to the Board. Annually, the Company requires a signed statement from each trustee and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed the Company did not act in accordance with its policies and procedures for disclosure of conflicts of interest. (Refer to the Summary of Significant Findings)

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committee for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the trustees approved these transactions and events.

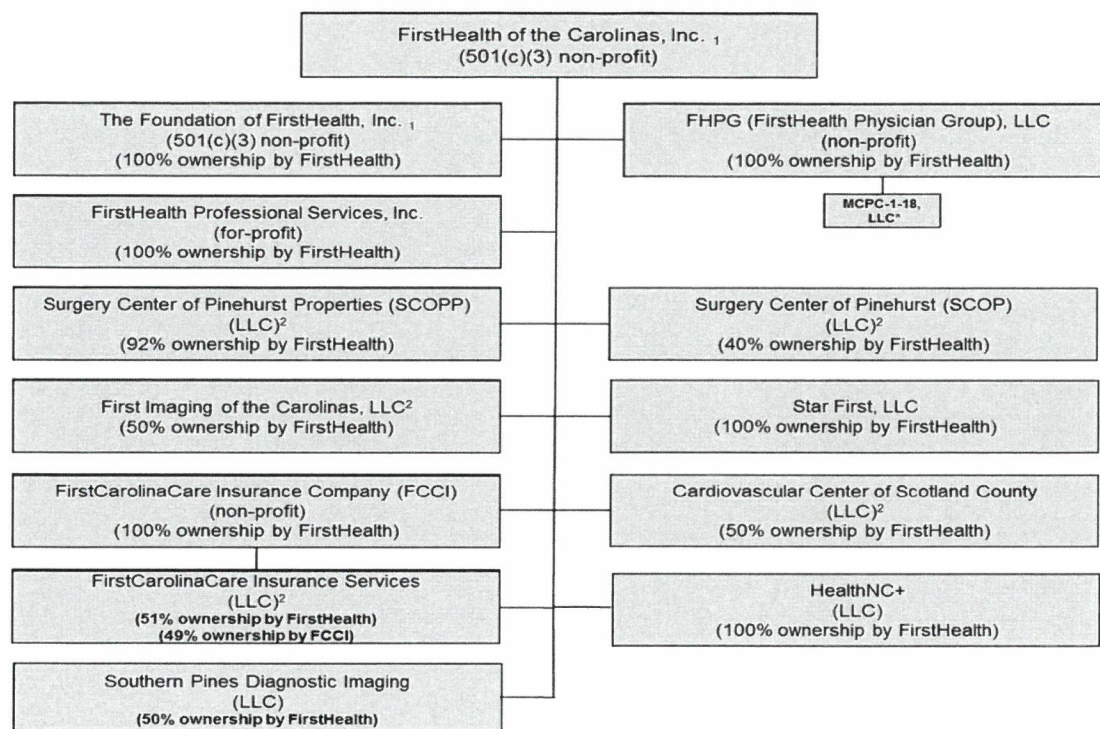
The Company's Articles of Incorporation and bylaws were reviewed for any changes during the period under examination. On December 11, 2018, the Company amended its bylaws to prepare for the future change in the ownership, which will result in changes to the composition of the Company's Board. This amendment was properly filed with and approved by the Department,

CORPORATE ORGANIZATION

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is wholly owned by FirstHealth, a private, not-for-profit health care network of several healthcare providers. In 2008, the Company started FirstCarolinaCare Insurance Services, LLC, which is a joint venture with FirstHealth, with the Company owning 49% and FirstHealth owning 51%. The Company relies on its First Health and other affiliated entities within the insurance holding company system for its business operations.

ORGANIZATION CHART

The following is a summarized organizational chart of the Company as of December 31, 2018:



STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2018 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state. The Company maintains a statutory deposit in North Carolina only.

RELATED PARTY AGREEMENTS

The Company has the following related party and affiliated agreements in place as of December 31, 2018:

1. The Company has an Administrative Services Agreement with FirstHealth, its Parent, effective October 1, 2015, whereby FirstHealth provides various management services to the Company, including human resource support, payroll services, housekeeping, facility management and maintenance, financial services, marketing support and services, information system services, and business analytics. Under this agreement, the Company paid \$336,000 in 2018 and \$336,000 in 2017, respectively.

2. The Company has a Medical Director Agreement with FirstHealth, effective October 1, 2016, whereby FirstHealth provides a qualified physician as the medical director for the Company's clinical program. Under this agreement, the Company paid FirstHealth \$195,014 and \$203,230 in 2018 and 2017, respectively.
3. The Company has an Operating Lease Agreement with FirstHealth, whereby the Company paid FirstHealth monthly rent for 10 years, effective December 1, 2003 through November 30, 2013. The Company has paid rent on a month-to-month basis since December 31, 2014. The Company paid FirstHealth \$78,998 and \$79,498 in 2018 and 2017, respectively.
4. The Company is included in a consolidated income tax return in accordance with a Tax Allocation Agreement between the Company and FirstHealth, effective April 30, 2007. The agreement sets forth the parties' obligations in connection with their filing as a consolidated tax filing group. Each entity shall remit to FirstHealth any amount determined to be due in accordance with the agreement no more than 30 days after the taxes are due. Refunds received by FirstHealth resulting from tax savings shall be remitted to the applicable entity within 30 days in which that part of the tax refund was received. The tax agreement has not been implemented to date.
5. The Company has a FirstHealth Fitness Centers Agreement with FirstHealth, effective November 2003 for commercial business and January 2013 for Medicare Advantage business, whereas members and subscribers enrolled with certain employer groups that are fully insured by the Company receive discounted or subsidized membership fees at FirstHealth's fitness centers. Under this agreement, the Company paid FirstHealth \$443,222 and \$417,275 in 2018 and 2017, respectively, for fitness center membership fees.
6. The Company has an Employee Assistance Program Services Agreement ("EAP") with FirstHealth, effective May 1, 2007, whereby FirstHealth provides EAP services to the Company's member groups. The EAP services include short term counseling sessions for eligible employees and immediate family members of the employer groups. Under this agreement, the Company paid FirstHealth \$127,381 and \$153,920 in 2018 and 2017, respectively.
7. The Company has various provider agreements with its affiliates, whereby affiliated hospitals and/or medical centers provide health services to member groups. The Company made claim payments under these affiliated agreements totaling \$121,424,844 and \$126,971,672 in 2018 and 2017, respectively.

FIDELITY BONDS AND OTHER INSURANCE

The Company does not have any employees. The Company's payroll and benefit expenses are allocated and passed to the Company through an Administrative Services Agreement with FirstHealth. (Refer to Related Party Agreements). FirstHealth, is a named insured under a fidelity bond with coverage totaling \$1,000,000 in aggregate. The coverage exceeds the minimum amount of fidelity bond coverage recommended by the NAIC.

In addition, FirstHealth is a named insured on various policies providing coverage for excess professional liability, commercial general liability, employee benefits liability, and employer's liability, which appear to be adequate to cover risks in the normal course of business.

TERRITORY AND PLAN OF OPERATION

The Company is a not-for-profit, non-stock corporation licensed as a life and health insurance company with an HMO line of business. At December 31, 2018, the Company was licensed in two (2) States, North Carolina and South Carolina, with all of its business being written in North Carolina.

The Company offers one-year health insurance contracts to employer groups under statewide Preferred Provider Organization plans and Point-of-Services plans. The Company began offering a Medicare Advantage product in 2013. The Company operates extensively through brokers for commercial health insurance and Medicare.

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended December 31, 2018:

Year	Net Admitted Assets	Capital and Surplus	Direct Premiums Written	Net Earned Premium	Net (loss)
2018	\$26,911,278	\$12,108,068	\$132,510,769	\$132,232,534	\$(5,015,647)
2017	\$34,052,051	\$17,014,493	\$134,882,635	\$134,374,292	\$(9,704,299)
2016	\$25,891,525	\$7,853,312	\$117,948,418	\$117,665,568	\$(17,574,253)
2015	\$30,088,168	\$13,700,629	\$98,252,336	\$98,046,547	\$(12,749,977)
2014	\$23,196,610	\$9,679,635	\$74,069,813	\$74,232,573	\$(10,134,034)

ACTUARIAL OPINION

Every health insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually have an Actuarial Opinion and Actuarial Memorandum made available to the Board in accordance with the Annual Statement Instructions and GS 58-2-165(c).

The statutory reserves and related items as of December 31, 2018, were reviewed and certified by the Company's actuary, Christopher S. Girod, FSA, MAAA of Milliman, Inc. Actuarial opinions regarding the Company's reserves for unpaid claims, unpaid claims adjustment expenses and premium deficiency reserves were issued by the Company's actuary for all years in the examination period. The Company's actuary evaluated the data provided by the Company for reasonableness and consistency of the unpaid claims, unpaid claims adjustment expenses and premium deficiency reserves. According to the actuarial opinions, the Company's reserves for unpaid claims and unpaid claims adjustment expenses and premium deficiency 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 obligations of the Company. The Company's premium deficiency reserve was underestimated by \$1,540,649 at December 31, 2018. (Refer to the Summary of Significant Findings)

REINSURANCE PROGRAM OVERVIEW

REINSURANCE CEDED

The Company has an excess risk reinsurance agreement with RGA Reinsurance Company for its Medicare Advantage line of business, effective January 1, 2018, whereby the Company retains 10% of losses and the reinsurer pays 90% after a \$275,000 deductible has been satisfied. Reinsurance limits are unlimited with a paid premium of \$1.92 per Medicare advantage member per month, with a \$300,000 combined minimum premium required between the Medicare and commercial agreements.

The Company has an excess risk reinsurance agreement for its Commercial Comprehensive Major Medical line of business with RGA Reinsurance Company effective January 1, 2018, whereby the Company retains 10% of losses and the reinsurer pays 90% after a \$350,000 deductible has been satisfied. Reinsurance limits are unlimited with a paid premium of \$7.71 per commercial member. In 2018 and 2017, the Company ceded premiums totaling \$923,842 and \$1,132,847, respectively, to RGA under these agreements.

REINSURANCE ASSUMED

The Company has a stop loss reinsurance agreement with Moore County government, effective July 1, 2018, whereby the Company provides specific stop loss coverage and aggregate stop loss coverage.

For the specific stop loss coverage, the Company assumes claims incurred and paid during the agreement period, with an \$80,000 specific losses deductible, an aggregate deductible of \$150,000, an unlimited risk limit, and unlimited lifetime maximum.

For the aggregate stop loss coverage, the Company assumes claims incurred and paid during the agreement period, with an attachment point of \$6,096,015 for aggregate losses deductible, risk limit of 125% of the attachment point as of July 1, 2018, composite rate of \$785 per employee per month (“PEPM”), and premiums of \$82 PEPM.

The Company assumed \$645,606 and \$624,504 in premiums in 2018 and 2017, respectively. The Company reported reinsurance payables of \$28,724 and \$90,209 as of December 31, 2018 and 2017, respectively.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2018, prior to the proposed examination adjustments. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2017, are unexamined and are presented for comparative purposes only.

FirstCarolinaCare Insurance Company
Statutory Statement of Admitted Assets
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Bonds	\$12,176,536	\$11,611,571
Preferred stocks	17,392	35,623
Common stocks	3,373,987	3,628,635
Cash and cash equivalents	5,804,727	8,237,155
Other Invested assets	15,499	15,554
Receivables for securities	11,256	513,818
Total cash and invested assets	21,399,397	24,042,356
Investment income due and accrued	120,872	108,439
Uncollected premiums and agents' balances in course of collection	540,449	1,661,668
Reinsurance recoverable	1,552,838	135,321
Amounts receivable relating to uninsured plans	1,193,540	748,349
Net deferred tax asset	42,213	47,794
Guaranty funds receivable or on deposit	618,124	618,124
Receivable from parent, subsidiaries and affiliates	1,000,000	6,500,000
Healthcare and other amounts receivable	443,845	190,000
Total admitted assets	\$26,911,278	\$34,052,051

FirstCarolinaCare Insurance Company
Statutory Statement of Liabilities and Surplus
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Claims unpaid	\$10,933,000	\$13,862,000
Unpaid claims adjustment expenses	327,990	415,860
Aggregate health policy reserves	378,000	-
Premiums received in advance	9,185	12,767
General expenses due or accrued	1,905,476	1,284,400
Amounts due to parent, subsidiaries, and affiliates	1,249,559	1,307,360
Total Liabilities	14,803,210	17,037,558
ACA health insurance provider fee	-	1,750,000
Gross paid in and contributed surplus	68,610,098	67,610,098
Unassigned funds (surplus)	(56,502,030)	(52,345,605)
Total Surplus	12,108,068	17,014,493
Total Liabilities and Surplus	\$26,911,278	\$34,052,051

FirstCarolinaCare Insurance Company
Statutory Statement of Operations
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Underwriting Income:		
Net Premium Income	\$132,232,534	\$134,374,292
Income from minority interest in First Carolina Care Insurance services, LLC	(55)	(37)
Total Revenues	132,232,479	134,374,255
Hospital and Medical:		
Hospital/medical benefits	95,341,039	105,509,594
Prescription drugs	19,423,334	19,524,738
Other Medical	2,822,359	3,034,290
Reinsurance Claim Expense	753,940	(43,779)
Subtotal	118,340,672	128,024,843
Less:		
Net reinsurance recoveries	1,802,168	595,088
Total hospital and medical	116,538,504	127,429,755
Claims adjustment expenses	3,850,859	3,786,837
General administrative expenses	17,004,608	15,216,594
Increase in reserves for life and accident health contracts	378,000	378,000
Total Underwriting deductions	137,771,971	144,433,186
Net underwriting loss	(5,539,492)	(10,058,931)
Net investment income earned	429,841	341,578
Net unrealized capital gains	94,004	13,054
Net investment gains	523,845	354,632
Net Loss	\$(5,015,647)	\$(9,704,299)

FirstCarolinaCare Insurance Company
Statutory Statement of Surplus
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Surplus, prior reporting year	\$17,014,493	\$7,853,311
Net loss	(5,015,647)	(9,704,299)
Change in net unrealized capital gains (losses)	(502,166)	518,367
Change in net deferred income tax	1,031,629	(3,969,420)
Change in non-admitted assets	(1,417,263)	3,297,455
Surplus adjustments paid in	1,000,000	19,000,000
Other	(2,977)	19,079
Net change in surplus	(4,906,424)	9,161,182
Surplus, end of year	\$12,108,068	\$17,014,493

FirstCarolinaCare Insurance Company
Statutory Statement of Cash Flow
December 31, 2018

	2018	2017 <i>(unexamined)</i>
Cash from Operations		
Premiums collected net of reinsurance	\$133,759,618	\$131,960,490
Net investment income	524,962	488,786
Miscellaneous income	(55)	(37)
Total	134,284,525	132,449,239
Benefit and loss related payments	121,672,037	124,335,690
Commissions, expenses paid and aggregate write-ins	20,972,787	18,903,131
Total	142,644,824	143,238,821
Net cash from operations	(8,360,299)	(10,789,582)
Cash from Investments		
Proceeds from investments sold, matured, or repaid:		
Total investment proceeds	3,859,430	3,062,728
Cost of investments acquired (long-term only):		
Total investments acquired	4,164,615	3,432,344
Net cash from investments	(305,184)	(369,616)
Cash from Financing and Miscellaneous Sources		
Cash provided (applied):		
Paid-in surplus	1,000,000	19,000,000
Other cash provided (applied)	5,233,055	(6,596,180)
Net cash from financing and miscellaneous sources	6,233,055	12,403,820
Reconciliation of Cash, Cash Equivalents and Short-Term Investment		
Net change in cash, cash equivalents, and short-term investments	(2,432,428)	1,244,622
Cash and cash equivalents, beginning of year	8,237,155	6,992,533
Cash and cash equivalents, end of year	\$5,804,727	\$8,237,155

COMMENTS ON FINANCIAL STATEMENTS

Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

Preferred stocks: Investment grade perpetual stocks are stated at fair value. Investment grade redeemable preferred stocks are stated at cost. Preferred stock at non-investment grade is stated at the lower of cost or fair value.

Common stocks: Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under equity method.

Unpaid claims and unpaid claim adjustment expenses: Includes amounts determined from individual case estimates and loss reports and amounts, based on past experience, for losses incurred but not reported.

Analysis of Assets:

The following represents an analysis of the Company's net admitted assets as of December 31, 2018, prior to the proposed examination adjustments:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$12,176,536	-	\$12,176,536
Preferred stocks	17,392	-	17,392
Common stocks	3,373,987	-	3,373,987
Cash and cash equivalents	5,804,727	-	5,804,727
Other invested assets	15,499	-	15,499
Receivables for securities	11,256	-	11,256
Total cash and invested assets	21,399,397	-	21,399,397
Investment income due and accrued	120,872	-	120,872
Uncollected premiums and agents' balances in the course of collection	540,449	-	540,449
Amounts recoverable from reinsurers	1,552,838	-	1,552,838
Amounts receivable relating to uninsured plans	1,398,875	\$205,335	1,193,540
Net deferred tax assets	12,937,426	12,895,213	42,213
Guaranty funds receivable or on deposit	618,124	-	618,124
Furniture and Equipment, including healthcare delivery assets	25,849	25,849	-
Receivable from parent, subsidiaries and affiliates	1,000,000	-	1,000,000
Healthcare and other amounts receivable	443,845	-	443,845
Prepays	241,290	241,290	-
Total admitted assets	\$40,278,965	\$13,367,687	\$26,911,278

Reinsurance Activity:

The Company has excess of loss contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company.

Direct, assumed, and ceded premiums written and earned are as follows:

	2018	2017
Direct and assumed written	\$645,606	\$624,504
Ceded written	923,838	1,132,847
Net written	(278,232)	(508,343)
Direct and assumed earned	645,606	624,504
Ceded earned	923,838	1,132,847
Net earned	\$(278,232)	\$(508,343)

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described under the Reinsurance Program Overview section.

Summary of Reserves:

The following provides a reconciliation of the Company's reserves for unpaid claims and unpaid claims adjustment expenses:

	Current Year	Prior Year
Reserve for unpaid claims and unpaid claims adjustment expenses, beginning of year	\$ 13,862,000	\$12,964,000
Add:		
Provision for unpaid claims and unpaid claims adjustment expenses, current year	118,836,363	126,455,952
Change in estimated unpaid claims and unpaid claims adjustment expenses, prior years	(2,297,858)	973,803
Total incurred	116,538,505	127,429,755
Deduct:		
Unpaid claims and unpaid claims adjustment expenses paid, current year	107,903,363	112,593,952
Unpaid claims and unpaid claims adjustment expenses paid, prior year	11,564,142	13,936,803
Total paid	119,467,505	126,530,755
Reserve for unpaid claims and unpaid claims adjustment expenses, end of year	10,933,000	13,863,000
Increase in reserve for unpaid claims and unpaid claims adjustment expenses	\$(2,929,000)	\$899,000

Reserves for unpaid claims and unpaid claims adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2018 and 2017, the liability for

unpaid claims and unpaid claims adjustment expenses was reduced by \$1,552,838 and \$135,321, respectively, for amounts to be recovered from reinsurers.

Surplus:

The following, in conjunction with the Statutory Statement of Surplus, represents the changes in the Company’s surplus since the Department’s last examination as of December 31, 2013:

	2016	2015	2014
Surplus, prior reporting year	\$13,700,629	\$9,679,635	\$14,442,819
Net (loss)	(17,574,25)	(12,749,977)	(10,134,034)
Change in net unrealized capital gain (loss)	240,524	(543,990)	54,412
Change in net deferred income tax	6,058,032	4,447,221	3,532,518
Change in nonadmitted assets	(6,556,642)	(4,134,449)	(3,209,901)
Surplus adjustments paid in	12,000,000	17,000,000	5,000,000
Other	(14,979)	2,189	(6,179)
Net change in Surplus	(5,847,318)	4,020,994	(4,763,184)
Surplus, end of year	\$7,853,311	\$13,700,629	\$9,679,635

Contingencies and Commitments:

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

SUBSEQUENT EVENTS

The Company updated its excess risk reinsurance agreement with RGA Reinsurance Company for its Commercial line of business, effective January 1, 2019. Under the new agreement, the Company has increased the deductible from \$350,000 to \$375,000. The Department has approved the new agreement.

FirstCarolinaCare Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2018

Michael George, Director of Finance
42 Memorial Drive
Pinehurst, North Carolina 28374

Craig Humphrey, President and Chief Operating Officer
42 Memorial Drive
Pinehurst, North Carolina 28734

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings but an adjustment to surplus has been recommended.

We conclude that the Company complies with the minimum surplus requirements of GS § 58-7-75(2a) and GS § 58-67-110 for the kinds of insurance that the Company has been authorized to write, which is \$1,750,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



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

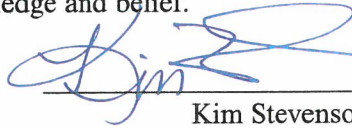
October 31, 2019

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Kim Stevenson-CFE, 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:



Kim Stevenson

Date:

10/30/19

Sworn and subscribed before me this 30th day of October, Year.

Notary Public Signature:

Jameka N Bell

Notary Public Seal:

