



I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused FirstCarolinaCare Insurance Company as of December 31, 2021 with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 27th day of February, 2023.



Mike Causey
Commissioner of Insurance

Monique D. Smith, CPA, CFE
Deputy Commissioner
Financial Examination Division

FirstCarolinaCare Insurance Company

Pinehurst, NC

Report on Examination

As of December 31, 2021

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February 3, 2023

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-67-100 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”), acknowledging that its main administrative office is located at 3310 Fields South Drive, Champaign, Illinois. The Company’s statutory home office is located at 42 Memorial Drive, Pinehurst, North Carolina. 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, 2019, to December 31, 2021, 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, 2018.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

This was a multi-state coordinated financial examination of five (5) insurance company subsidiaries of CHA Holding, Inc. (“CHA”). Illinois served as the Lead State and the Participating States included North Carolina and Washington.

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:

Reserves
Investments
Other Receivables
Underwriting
Reinsurance – Assuming & Ceding
Related Party
Claims Handling and Provider Contracts
Treasury

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). KPMG of Chicago, Illinois, the designated independent public accountant of the Company, issued an unmodified opinion for the years ended December 31, 2021, and 2020. CliftonLarsonAllen, LLP of Charlotte, North Carolina, the former designated independent public accountant of the Company, issued an unmodified opinion for the year ended December 31, 2019.

REPORT ACRONYMS

Board of Trustees	“Board”
CHA Holdings, Inc.	“CHA”
FirstCarolinaCare Insurance Company	“Company”
FirstCarolinaCare Insurance Services, LLC	“FCCIS”
FirstHealth of the Carolinas, Inc.	“FirstHealth”
General Statutes of North Carolina	“GS”
National Association of Insurance Commissioners	“NAIC”
North Carolina Department of Insurance	“Department”
The Carle Foundation	“Carle”
Health Alliance Medical Plans, Inc.	“HAMP”

SUMMARY OF SIGNIFICANT FINDINGS

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

1. The Company did not report any reinsurance restatement adjustments on Schedule S Part 7 Column 2 in its 2019 and 2020 Annual Statements filed with the Department. The Company is directed to provide accurate information in all future filings to the Department pursuant to GS § 58-2-165(c).

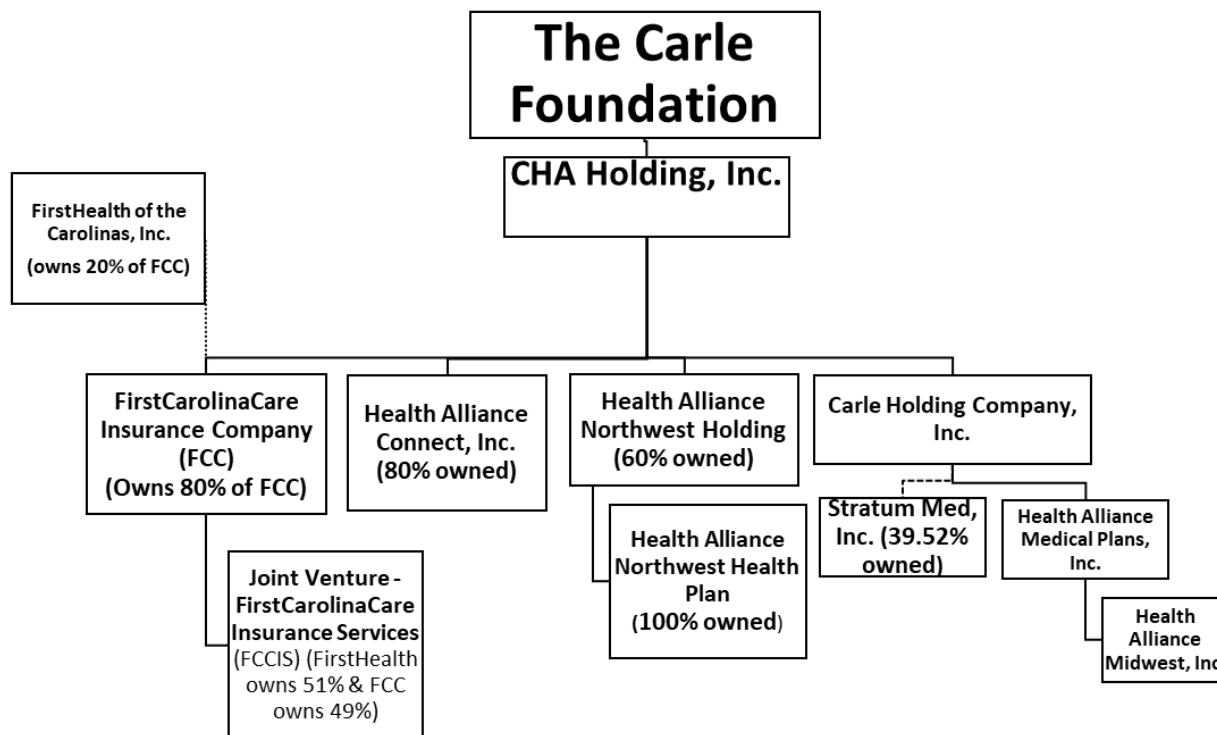
ORGANIZATIONAL STRUCTURE

HOLDING COMPANY

The Company is part of an insurance holding company system as defined in GS 58-19. The Company is owned by two members: CHA Holdings, Inc. (“CHA”), which owns eighty percent (80%), and FirstHealth of the Carolinas, Inc. (“FirstHealth”), which owns twenty percent (20%). CHA is a wholly owned subsidiary of the Carle Foundation, a not-for-profit health care network headquartered in Urbana, Illinois. FirstHealth is a not-for-profit health care network headquartered in Pinehurst, North Carolina.

ORGANIZATIONAL CHART

The Company’s 2021 Annual Statement Schedule Y contains a complete organizational chart. The following is a summarized organizational chart of the holding company group as of December 31, 2021:



COMPANY HISTORY

The Company, formerly 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, non-stock corporation on January 1, 2004. Effective April 30, 2007, FirstCarolinaCare, Inc. merged with and into FirstCarolinaCare Insurance Company. After the merger, the Company commenced operations as a taxable, for-profit HMO.

On December 5, 2007, the Company established FirstCarolinaCare Insurance Services, LCC (“FCCIS”), an insurance agency, which is a joint venture with FirstHealth. The Company owns 49% and FirstHealth owns 51% of FCCIS.

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 was the sole member of the Company through March 31, 2020.

In November 2019, CHA and FirstHealth agreed to an ownership interest sale in the Company where FirstHealth would sell 80% of the Company to CHA, and FirstHealth would retain a 20% ownership stake. The Department approved the 80% sale in March 2020 and the sale closed on April 1, 2020.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Members

CHA and FirstHealth are the only members of the Company. The bylaws of the Company provide that an annual meeting of the members be held at such time and place as designated by the Board. Special meetings of the members may be called at any time by a member, the Board, or the President.

Board of Trustees

The business of the Company is conducted by its management team and subject to review by the Board. The bylaws specify that the number of trustees shall be seven (7). Trustees are elected annually, at the meeting of the members, and each trustee elected shall hold office until a successor is elected and qualified.

The following individuals served as trustees at December 31, 2021:

Name	Location	Principal Occupation
Ryan Porter	Mahomet, Illinois	Physician and Medial Director, The Carle Foundation
Mark Czys	Champaign, Illinois	Chief Operating Officer, Green Street Realty
Jon Stewart	Austin Texas	President, TSM Ventures
Paul Tucker	Champaign, Illinois	Partner, Solar Sense, Inc.
Sheila Welch	Pinehurst, North Carolina	Retired
Jeffrey Casey	Southern Pines, North Carolina	Chief Financial Officer, FirstHealth
Mike Devocelle	Champaign, Illinois	Associate Dean, University of Illinois

The Board has the authority to establish committees to manage the business of the Company. The Board designated the Carle Audit Committee to act on behalf of the Company. The Board has established an Executive Committee and a Nominating Committee.

The following individuals served on committees at December 31, 2021:

Carle Audit Committee

Meredith Mills, Chair
Naveed Adoni
Donna Greene
Charles Craddock
Michael Martin
Maryjane Wurth
James Leonard, Ex officio

Executive Committee

Paul Tucker, Chair
Mark Czys
Shelia Welch
Dennis Hesch, Ex officio

Nominating Committee

Paul Tucker, Chair
Mark Czys
Shelia Welch
Denis Hesch, Ex officio

Officers

The bylaws provide that the Board will elect the officers of the Company, which consist of a chair, a vice chair, a secretary, a treasurer, and a president and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices, except chair, president and secretary, may be held by the same person.

The following individuals served as officers of the Company at December 31, 2021:

Name	Title
Paul Tucker	Chair
Mark Czys	Vice Chair
Dennis Hesch	Chief Executive Officer and President
Craig Humphrey	Chief Operating Officer
Sheila Welch	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 the same 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 that the Company did not act in accordance with its policies and procedures for disclosure of conflicts of interest. (Refer to Summary of Significant Findings)

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committees 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 directors approved these transactions and events.

The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. On March 13, 2020, the Company amended its articles of incorporation to modify the name of the registered agent, to increase the number of members to two and to modify the distribution of assets to the two members in the event of a dissolution. The amended articles of incorporation were approved by the Department on March 26, 2020.

On April 1, 2020, the Company amended its bylaws to add CHA as a new member due to their 80% membership interest in the Company and to allow CHA to appoint five (5) trustees to the Board while FirstHealth is allowed to appoint two (2) trustees. The amended bylaws were approved by the Department on July 15, 2021.

On December 10, 2021, the Company amended its bylaws to change the required Risk Based Capital ratio from 250% to 300%. The amended bylaws were approved by the Department on January 3, 2022.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2021 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state. The Company only maintains a statutory deposit in North Carolina.

FIDELITY BONDS AND OTHER INSURANCE

Carle and its affiliates are covered under fidelity bond coverage totaling \$5,000,000 in aggregate, which meets the minimum amount of fidelity bond coverage recommended by the Handbook.

In addition, the Company is a named insured on various corporate property and liability policies issued to Carle, which appeared to be adequate to cover risks in the normal course of business.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company employees are covered under a defined contribution plan sponsored by Carle. The terms of the plan allow employees to contribute the maximum allowed by the U.S. government. One hundred percent (100%) of this contribution, up to a maximum of 2% of salary, is matched by Carle. All expenses associated with the plan are allocated to the Company in accordance with the terms of its management services agreement. The Company has no legal obligation for benefits under the plan. The Company's allocation of 401(k) plan expenses totaled \$101,620 in 2021.

RELATED PARTY AGREEMENTS

The Company had an Administrative Services Agreement with FirstHealth, effective October 1, 2015, and amended on April 1, 2020, 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. Settlements are to be made monthly. This contract was terminated on December 31, 2020. Under this agreement, the Company incurred fees totaling \$360,000 in 2020.

The Company has a Management Services Agreement with HAMP, effective August 28, 2020, and amended on October 1, 2020, whereby HAMP provides various management services to the Company, including actuarial services, human resource support, payroll services, legal services, financial services, marketing support and services, information technology services, and business analytics. Settlements are

to be made monthly. Under this agreement, the Company incurred fees totaling \$11,475,433 in 2021 and \$22,319 in 2020, respectively.

The Company has an Operating Lease Agreement with FirstHealth, effective December 1, 2003, whereby the Company paid FirstHealth monthly rent for 10 years, from December 1, 2003, through November 30, 2013. The Company has paid rent on a month-to-month basis since December 31, 2013. Under this agreement, the Company incurred rent expense totaling \$157,741 and \$138,622 in 2021 and 2020, respectively.

The Company is included in a consolidated income tax return in accordance with a Tax Allocation Agreement between CHA and its subsidiaries including the Company effective April 1, 2020. The agreement sets forth the parties' obligations in connection with their filing as a consolidated tax group. Each entity shall remit to CHA any amount determined to be due in accordance with the agreement. Tax benefits for taxable losses will be allocated in proportion to the Company's relative tax losses.

The Company has a FirstHealth Fitness Centers Agreement with FirstHealth, effective November 2003 for commercial business and January 2013 for Medicare Advantage business, whereby 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. Settlements are to be made monthly. Under this agreement, the Company incurred fees totaling \$248,607 and \$211,054 in 2021 and 2020, respectively.

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. Settlements are to be made monthly. Under this agreement, the Company incurred fees totaling \$111,377 and \$113,580 in 2021 and 2020, respectively.

The Company has a Wellness Service Agreement with FirstHealth, effective October 1, 2020, whereby commercial and Medicare advantage plan participants receive onsite medical wellness screenings at locations selected by the Company. Settlements are to be made monthly. Under this agreement, the Company incurred fees totaling \$14,905 and \$10,382 in 2021 and 2020, respectively.

HAMP and its affiliates, including the Company, have an agreement effective October 1, 2021, with the Carle Foundation Specialty Pharmacy to provide specialty pharmacy services to its enrolled members.

The Company has various provider agreements with its affiliates, whereby affiliated hospitals and/or medical centers provide health services to member groups. The Company incurred fees under these affiliated agreements totaling \$43,329,716 and \$48,597,774 in 2021 and 2020, respectively.

TERRITORY AND PLAN OF OPERATION

The Company offers one-year health insurance to employer groups under statewide Preferred Provider Organization plans and HMO/Point-of-Services plans. The Company offers HMO Medicare Advantage ("MA") products in the following twenty counties in North Carolina: Brunswick, Buncombe, Chatham, Cumberland, Harnett, Henderson, Hoke, Johnston, Lee, Madison, McDowell, Montgomery, Moore, Pender, Richmond, Robeson, Scotland, Transylvania, Wake, and Yancey. The Company also offers PPO

Medicare Advantage (“MA”) products in the following seven counties in North Carolina: Chatham, Hoke, Lee, Montgomery, Moore, Richmond, and Scotland. At December 31, 2021, the Company was licensed in two (2) states, North Carolina and South Carolina, with all of its business being written in North Carolina.

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 2021:

Year	Net Admitted Assets	Surplus	Gross Premiums Written	Net Earned Premiums	Net Loss
2021	\$34,881,975	\$14,008,396	\$114,217,726	\$112,126,645	\$(2,453,297)
2020	\$29,554,165	\$14,197,144	\$117,584,674	\$116,581,616	\$(6,714,720)
2019	\$28,764,894	\$15,293,591	\$124,810,293	\$123,748,507	\$(5,677,839)
2018	\$26,911,278	\$12,108,068	\$133,156,375	\$132,232,534	\$(5,015,647)
2017	\$34,052,051	\$17,014,493	\$135,507,139	\$134,374,292	\$(9,704,299)

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 for 2021 were reviewed and certified by the Company’s Appointed Actuary, Kelly Backes, FSA, MAAA of Milliman. Actuarial opinions regarding the Company’s reserves for losses and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the losses and loss adjustment expense reserves. According to the actuarial opinions, the Company’s reserves on the losses and loss adjustment expenses 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 losses and loss expense obligations of the Company.

REINSURANCE PROGRAM OVERVIEW

REINSURANCE ASSUMED

The Company has a stop loss reinsurance agreement with Moore County government (“Moore”), effective July 1, 2021, whereby the Company provides specific stop loss coverage and aggregate stop loss coverage on health insurance claims for Moore employees under Moore’s self-funded plan (“Plan”).

For the specific stop loss coverage, the Company assumes claims incurred and paid during the agreement period above a \$80,000 specific loss deductible per employee and a plan aggregate deductible of \$150,000. There is an unlimited lifetime maximum per employee.

For the aggregate stop loss coverage, the Company assumes claims incurred and paid during the agreement period, above a plan aggregate losses deductible of \$7,103,843. The Company's maximum exposure is 115% of the aggregate loss deductible of \$7,103,843.

The Company assumed \$839,784 and \$753,998 in premiums in 2021 and 2020, respectively. The Company reported reinsurance payables of \$0 and \$229,107 as of December 31, 2021, and 2020, respectively. (Refer to Summary of Significant Findings)

REINSURANCE CEDED

The Company has an excess of loss reinsurance contract with RGA Reinsurance Company effective January 1, 2021, which provides coverage for the Company's commercial and Medicare Advantage health plan members. The agreement also covers the FirstHealth employees administered and medically managed by the Company. The Company retains 10% of the cost of covered services, and the reinsurer pays 90% after a specific deductible has been satisfied. For 2021, the required calendar year deductible per individual commercial health plan member was \$425,000, and \$275,000 per individual Medicare Advantage health plan member. In 2021 and 2020, the Company ceded premiums totaling \$2,091,081 and \$1,003,058 respectively, under this contract.

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, 2021. 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, 2020, are unexamined and are presented for comparative purposes only.

FirstCarolinaCare Insurance Company
Statutory Statement of Admitted Assets
December 31, 2021

	2021	2020 <i>(unexamined)</i>
Bonds	\$11,773,281	\$11,471,072
Preferred stocks	15,306	25,778
Common stocks	3,741,659	3,390,882
Cash and short-term investments	7,756,109	3,561,663
Other invested assets	15,132	15,364
Receivables for securities	35,849	2,945
Total cash and invested assets	23,337,335	18,467,704
Investment income due and accrued	106,425	106,383
Uncollected premiums and agents' balances in course of collection	407,982	333,654
Accrued retrospective premiums	525,897	406,673
Reinsurance recoverable	373,489	2,060,803
Amounts receivable relating to uninsured plans	3,788,420	2,484,571
Net deferred tax asset	-	73,503
Guaranty funds receivable	-	370,874
Receivable from parent, subsidiaries, and affiliates	2,515,984	5,250,000
Health care and other amounts receivable	3,826,443	-
Total Admitted Assets	\$34,881,975	\$29,554,165

FirstCarolinaCare Insurance Company
Statutory Statement of Liabilities and Surplus
December 31, 2021

	2021	2020 <i>(unexamined)</i>
Claims unpaid	\$12,584,939	\$9,002,000
Unpaid claim adjustment expenses	352,070	270,060
Aggregate health policy reserves	865,994	3,400,000
Premiums received in advance	537,233	-
General expenses due or accrued	1,760,263	1,211,351
Current federal income taxes payable	1,766,830	-
Amounts withheld or retained for the account of others	2,722	-
Amount due to parent, subsidiaries, and affiliates	1,796,739	1,473,610
Liability for amounts held under uninsured plans	1,206,789	-
Total liabilities	20,873,579	15,357,021
Gross paid in and contributed surplus	83,860,098	81,860,098
Unassigned funds (surplus)	(69,851,702)	(67,662,954)
Total surplus	14,008,396	14,197,144
Total Liabilities and Surplus	\$34,881,975	\$29,554,165

FirstCarolinaCare Insurance Company
Statutory Statement of Revenue and Expenses
December 31, 2021

	2021	2020 <i>(unexamined)</i>
Underwriting Income:		
Net premium income	\$112,126,645	\$116,581,616
Change in unearned premium reserves and reserves for rate credit	2,534,006	-
Miscellaneous	-	(142)
Total revenues	114,660,651	116,581,474
Hospital and Medical		
Hospital/medical benefits	78,739,740	84,218,513
Other professional services	2,230,788	-
Outside referrals	1,814,192	-
Emergency room and out-of-area	3,264,027	-
Prescription drugs	9,940,934	18,196,575
Other medical	-	2,472,162
Reinsurance claim expense	-	350,517
Subtotal	95,989,681	105,237,767
Less		
Net reinsurance recoveries	(51,221)	2,499,160
Total hospital and medical	96,040,902	102,738,607
Claims adjustment expenses	3,538,694	3,917,718
General administrative expenses	18,133,890	16,949,717
Total underwriting deductions	117,713,486	123,606,042
Net underwriting loss	(3,052,835)	(7,024,568)
Net investment income earned	228,874	327,869
Net realized capital gains (losses)	370,664	(18,021)
Net investment gains	599,538	309,848
Net Loss	\$(2,453,297)	\$(6,714,720)

FirstCarolinaCare Insurance Company
Statutory Statement of Surplus
December 31, 2021

	2021	2020 <i>(unexamined)</i>
Surplus, beginning of year	\$14,197,144	\$15,293,591
Net loss	(2,453,297)	(6,714,720)
Change in net unrealized capital gains	234,134	452,900
Change in net deferred income tax	(5,316,253)	1,290,450
Change in nonadmitted assets	5,347,405	(1,375,093)
Surplus adjustments:		
Paid in	2,000,000	5,250,000
Other	(738)	16
Net change in surplus	(188,749)	(1,096,447)
Surplus, end of year	\$14,008,395	\$14,197,144

FirstCarolinaCare Insurance Company
Statutory Statement of Cash Flow
December 31, 2021

	2021	2020 <i>(unexamined)</i>
Cash From Operations		
Premiums collected net of reinsurance	\$112,398,010	\$120,043,428
Net investment income	331,667	420,371
Miscellaneous income	-	(142)
Total	112,729,677	120,463,657
Benefit and loss related payments	94,597,092	105,531,326
Commissions, expenses paid and aggregate write-ins	20,767,848	22,219,728
Federal income taxes paid	(1,766,830)	-
Total	113,598,110	127,751,054
Net cash used by operations	(868,433)	(7,287,397)
Cash From Investments		
Total investments proceeds	3,873,723	3,091,413
Total investments acquired	3,893,680	3,504,651
Net cash used by investments	(19,957)	(413,238)
Cash From Financing and Miscellaneous Sources		
Paid in surplus	2,000,000	5,250,000
Other cash provided	3,082,836	1,826,989
Net cash from financing and miscellaneous sources	5,082,836	7,076,989
Reconciliation of Cash and Short-Term Investments		
Net change in cash, cash equivalent and short-term investments	4,194,446	(623,646)
Cash and short-term investments, beginning of year	3,561,663	4,185,309
Cash and short-term investments, end of year	\$7,756,109	\$3,561,663

COMMENTS ON FINANCIAL STATEMENTS

There were no proposed adjustments to the Company's financial statements filed with the Department as a result of this examination.

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 interest method.

Preferred stocks: Carried at amortized cost.

Common stocks: Carried at market value.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year. Short-term investments are stated at amortized cost.

Premiums: Insurance premiums, net of premiums ceded to reinsurers, are earned in the period to which healthcare coverage relates.

Reinsurance: Reinsurance premiums are reported as a reduction of premium revenue. Reinsurance recoveries are recorded as a reduction of medical benefits under accident and health policies.

Loan-backed securities: Stated at either amortized cost or the lower of amortized cost or fair market value. The retrospective adjustment method is used to value all securities.

Non-admitted assets: Certain assets, such as premiums over 90 days past due and furniture, are "non-admitted" and are charges against surplus.

Claims unpaid & claims unpaid adjustment expense: Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported.

Joint Venture: The Company has a minority interest in FCCIS and carries the investment based on the Generally Accepted Accounting Principles (GAAP) equity of FCCIS. FCCIS is included in the GAAP audit of FirstHealth.

Analysis of Assets:

The Company reported the following assets as non-admitted assets at December 31, 2021: premiums and agents' balances in the course of collection totaling \$74,598 and furniture and equipment totaling \$9,906.

Reinsurance Activity:

The Company has reinsurance 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. The Company utilizes Aon Benfield, Inc. as the reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

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

	2021	2020
Direct and assumed written	\$114,217,726	\$117,584,674
Ceded written	2,091,081	1,003,058
Net written	112,126,645	116,581,616
Direct and assumed earned	114,217,726	117,584,674
Ceded earned	2,091,081	1,003,058
Net earned	\$112,126,645	\$116,581,616

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.

Summary of Reserves:

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

	2021	2020
Reserve for unpaid claims and unpaid claims adjustment expenses beginning of year	\$9,002,000	\$9,987,000
Add:		
Provision for claims and claims adjustment expenses, current year	100,158,923	102,729,605
Change in estimated claims and claims adjustment expenses, prior years	514,323	9,002
Total incurred	100,673,246	102,738,607
Deduct:		
Claims and Unpaid Claims adjustment expenses paid, current year	87,573,984	93,533,388
Claims and Unpaid Claims adjustment expenses paid, prior year	9,516,323	10,190,219
Total paid	97,090,307	103,723,607
Reserve for unpaid claims and unpaid claims adjustment expenses, end of year	\$12,584,939	\$9,002,000
Increase (decrease) in reserve for unpaid claims and unpaid claims adjustment expenses	\$3,582,939	(\$985,000)

Reserves for unpaid claims and unpaid claims adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. There were no amounts reported as recoverable for unpaid claims and unpaid claims adjustment expenses in 2021 and 2020.

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:

	2019
Surplus, beginning of year	\$12,108,608
Surplus increases (decreases):	
Net loss	(5,677,839)
Change in net unrealized capital gain	400,671
Change in net deferred income tax	(8,848,212)
Change in non-admitted assets	9,310,871
Surplus adjustments to paid-in surplus	8,000,000
Other	31
Change in surplus as regards policyholders for the year	3,185,522
Surplus, end of year	\$15,293,591

SUBSEQUENT EVENTS

In February 2022, the Company received a capital contribution of \$1,600,000 from CHA and \$400,000 from FirstHealth. The \$2,000,000 capital contribution was recorded as a receivable at December 31, 2021, in accordance with Statement of Statutory Principles ("SSAP") No. 72 paragraph 8 and approval from the Department.

On February 11, 2022, the Company amended its bylaws to change the President/Chief Executive Officer title to Chief Executive Officer and to change the Chief Operating Officer title to President/Chief Operating Officer. The Company submitted the amended bylaws to the Department for approval on August 20, 2022. The amended bylaws were approved on August 30, 2022.

In August 2022, the Company received a capital contribution of \$800,000 from CHA and \$200,000 from FirstHealth.

On August 15, 2022, Sinead Madigan was named as Chief Executive Officer replacing Dennis Hesch.

In October 2022, the Company received a capital contribution of \$1,200,000 from CHA and \$300,000 from FirstHealth.

On December 30, 2022, FCCIS filed articles of dissolution with the North Carolina Secretary of State Office.

FirstCarolinaCare Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2021

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

Jerry Bradford, Chief Financial Officer
3310 Fields South Drive
Champaign, Illinois 61822

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75(2)(a) 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,



Monique D. Smith, CPA, CFE
Deputy Commissioner
North Carolina Department of Insurance

February 3, 2023

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Porsha Jackson, Senior Insurance Company 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: P. Jackson Date: 10/20/2022

Sworn and subscribed before me this 20 day of October, 2022.

Notary Public Signature: Samantha Tanck Notary Public Seal:

SAMANTHA TANCK
NOTARY PUBLIC
WAKE COUNTY, NC
My Commission Expires 8-3-2027