



**NC DEPARTMENT**  
*of* **INSURANCE**  
**MIKE CAUSEY, COMMISSIONER**

**COMPANY SERVICES GROUP**  
**FINANCIAL EXAMINATION DIVISION**

Tel 919.807.6602 Fax 919.807.6635

I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused Liberty Advantage, LLC 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 13th day of June, 2023.



Mike Causey  
Commissioner of Insurance

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

**Liberty Advantage, LLC**

Wilmington, North Carolina

**Report on Examination**

As of December 31, 2021

# TABLE OF CONTENTS

<b>SCOPE OF THE EXAMINATION</b> .....	<b>1</b>
<b>REPORT ACRONYMS</b> .....	<b>3</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>4</b>
1. Analysis of Examination Adjustments.....	4
2. Comments, Recommendations and Directives .....	5
<b>ORGANIZATIONAL STRUCTURE</b> .....	<b>6</b>
Organizational Chart .....	6
<b>COMPANY HISTORY</b> .....	<b>6</b>
<b>MANAGEMENT AND CONTROL</b> .....	<b>7</b>
Corporate Governance.....	7
Code of Conduct and Conflict of Interest.....	8
Corporate Records.....	8
Statutory Deposits .....	8
Fidelity Bonds .....	8
Related Party Agreements .....	9
Third Party Administrator .....	9
<b>TERRITORY AND PLAN OF OPERATION</b> .....	<b>9</b>
Trends of the Company .....	10
Actuarial Opinion .....	10
<b>REINSURANCE PROGRAM OVERVIEW</b> .....	<b>11</b>
Reinsurance Ceded .....	11
<b>FINANCIAL STATEMENTS</b> .....	<b>11</b>
<b>SUBSEQUENT EVENTS</b> .....	<b>20</b>
<b>DISTRIBUTION OF REPORT ON EXAMINATION</b> .....	<b>21</b>
<b>CONCLUSION</b> .....	<b>22</b>

May 17, 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 and GS § 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

### **Liberty Advantage, LLC**

(Hereinafter referred to as the “Company”), at its main administrative office and statutory home office located at 2334 South 41<sup>st</sup> Street, Wilmington, 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, 2017, to December 31, 2021, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. This is the Department’s first examination of the Company.

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.

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:

Pricing and Underwriting  
Claims Handling and Reserving  
Reinsurance  
Related Parties  
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) pursuant to GS § 58-67-171. BKD, LLP of Little Rock, Arkansas, the designated independent public accountant of the Company, issued an unmodified opinion for the year ended December 31, 2021. LMBC, PC of Brentwood, Tennessee, the prior designated independent public accountant of the Company, issued an unmodified opinion for each year from 2018 through and including the year ended December 31, 2020. The Company received an exemption from the Department for the year ended December 31, 2017.

## REPORT ACRONYMS

General Statutes of North Carolina	“GS”
North Carolina Department of Insurance	“Department”
National Association of Insurance Commissioners	“NAIC”
North Carolina Administrative Code	“NCAC”
Financial Condition Examiners Handbook	“Handbook”
Board of Directors	“Board”
Conflict of Interest	“COI”
Liberty Advantage, LLC	“Company”
Liberty Healthcare Insurance, LLC	“Liberty Healthcare”
Liberty Healthcare Management Inc.	“LHM”
Health Maintenance Organization	“HMO”
Medicare Advantage	“MA”
Annual Statement	“AS”
Deferred Income Tax Assets	“DTA”
Institutional Special Needs Plans	“I-SNP”
Dual Eligible Special Needs Plans	“D-SNP”
Chronic Condition Special Needs Plans	“C-SNP”
Centers for Medicare and Medicaid Services	“CMS”
Patient Protection and Affordable Care Act	“PPACA”
Access Health Services, LLC	“AHS”
Statements of Statutory Accounting Principles	“SSAP”

## SUMMARY OF SIGNIFICANT FINDINGS

### 1. ANALYSIS OF EXAMINATION ADJUSTMENTS

	December 31, 2021			
	Assets	Liabilities	Surplus	Net Income
As originally reported to the Department	\$ 8,684,094	\$ 4,715,096	\$ 3,968,997	\$ 1,142,787
a. Cash and short-term investments	177,266			
b. Accrued retrospective premiums and contracts subject to redetermination	(14,253)			
c. Amounts receivable relating to uninsured plans	(20,542)			
d. Deferred tax asset	136,868			
e. Claims unpaid		177,266		
f. General expenses due or accrued		176,891		
g. Liability for amounts held under uninsured plans		14,776		
h. Unassigned funds			(89,593)	
i. Net premium income				(49,573)
j. Income tax expense				(176,890)
As adjusted	\$ 8,963,433	\$ 5,084,029	\$ 3,879,404	\$ 916,326

- a. To increase cash for overpaid claims in January 2022 by third party payment processor. (Refer to Note 2.c)
- b. To record premium adjustment for contracts subject to redetermination, which is estimated for the portion of the policy period that has expired and shall be considered an immediate adjustment to premium. (Refer to Note 2.a)
- c. To increase the amount of Medicare reimbursement for services rendered at year-end 2021. (Refer to Note 2.a)
- d. To record a deferred tax asset. (Refer to Note 2.b)
- e. To decrease claims unpaid for an overstatement of claims expense at year-end 2021. (Refer to Note 2.c)
- f. To accrue for federal income tax payable as a result of the combined adjustments and properly reflect federal income taxes payable at year-end 2021. (Refer to Note 2.a)
- g. To increase funds owed by the administrator in connection with the administration of uninsured plans at year-end 2021. (Refer to Note 2.a)
- h. To record unassigned funds due to adjustments to net income, change in net deferred income tax and change in non-admitted assets. (Refer to Note 2.a)
- i. To decrease net premium income for an error in deposit accounting for reinsurance premium differences at year-end 2021. (Refer to Note 2.a)

- j. To increase income tax expense for the increase in the federal income tax payable at year-end 2021. (Refer to Note 2.a)

## **2. COMMENTS, RECOMMENDATIONS AND DIRECTIVES**

- a. The Company's audited financial statements as of December 31, 2021, contained various differences from amounts reported in the 2021 Annual Statement filed with the Department due to audit adjustments made by the independent auditor. The audit adjustments were deemed to be immaterial to our examination on an individual basis; therefore, no specific comment, recommendation or directive is provided for each adjustment. The Company is directed to ensure accurate financial reporting in future filings to the Department in accordance with GS § 58-2-165(c) pursuant to GS § 58-67-100.
- b. The Company did not report Deferred Income Tax Assets ("DTAs") in accordance with Statements of Statutory Accounting Principles ("SSAP") No. 101 – Incomes Taxes. The Company incorrectly determined the need for a valuation allowance and did not record current year taxes for the taxable income expected to exceed the net operating loss carryforward into the current year. The federal income tax payable, federal income tax expense, deferred tax balance sheet account, and change in deferred tax is not accurately presented on the Company's Annual Statement as of December 31, 2021. The Company is directed to comply with SSAP 101 in future filings to the Department.
- c. The Company did not properly record claims totaling \$177,265 that were approved for payment in 2021 but were not actually paid until after December 31, 2021. The Company's independent auditor recorded an adjustment to correct the error by increasing cash and claims unpaid at December 31, 2021. The Company is directed to comply with GS § 58-2-165(c) pursuant to GS § 58-67-55 to ensure accurate reporting in financial statements filed with the Department.
- d. The Company is not in compliance with North Carolina Administrative Code ("NCAC") 11C.0117, which states that, "Conflict of Interest ("COI") statements shall be executed annually by the officers, directors, trustees, attorneys-in-fact, and administrative personnel of every domestic insurer subject to GS 58, Articles 1 through 67." The Company did not complete COIs for years 2017 through 2021 and does not require periodic declarations by officers, directors, and key employees. The Company is directed to comply with NCAC 11C.0117 by maintaining executed COIs annually.
- e. The Company has an audit committee that does not include any members of its Board of Directors ("Board"), which is a violation of GS § 58-10-245(c), which states, "Each member of the audit committee shall be a member of the Board of the insurer or a member of the board of directors of an entity elected pursuant to GS § 58-10-190(3)." The Company is directed to comply with GS § 58-10-245(c) pursuant to GS § 58-67-171.
- f. The Company provided a signed attestation that the Actuarial Opinion was received; however, there was no indication in the minutes that it was presented to the Board in accordance with the 2021 Health Annual Statements Instructions (page 9) which states, "The Actuarial Opinion and the Actuarial Memorandum must be made available to the Board of Directors. The minutes of the Board of Directors should indicate that the Appointed Actuary has presented such information to the Board of Directors or the Audit Committee and that the Actuarial Opinion and the Actuarial Memorandum were made available." The Company is directed to comply with the Health Annual Statement Instructions in accordance with GS § 58-2-165(c) pursuant to GS § 58-67-55. In addition, we recommend that the Company include documentation of the Board's review of the Actuarial Opinion and Actuarial Memorandum in the meeting minutes.



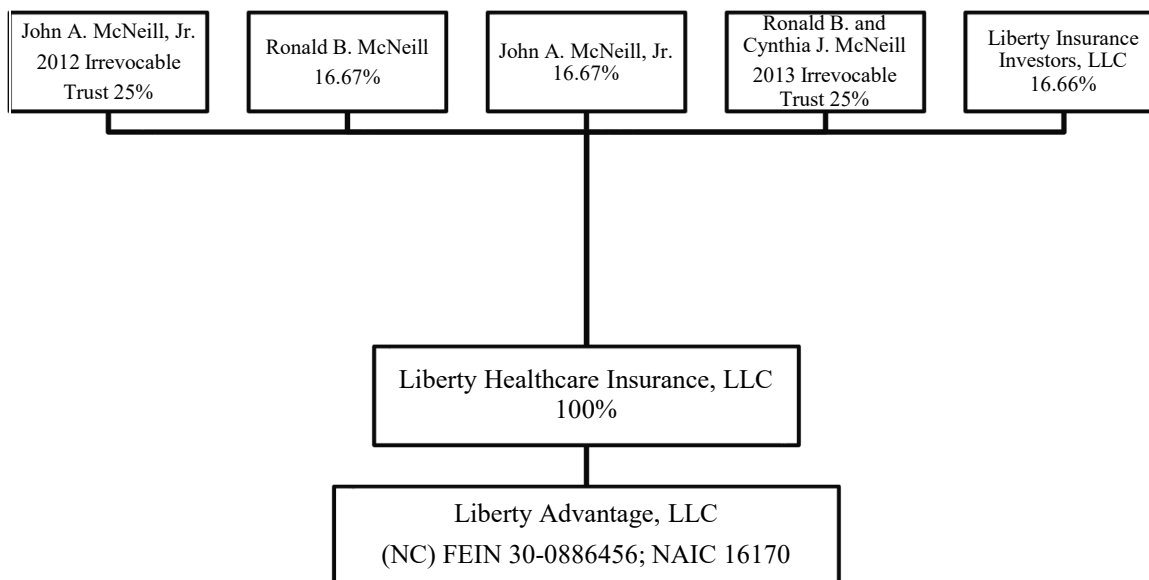
## ORGANIZATIONAL STRUCTURE

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is a wholly owned subsidiary of Liberty Healthcare Insurance, LLC (“Liberty Healthcare”) as of December 31, 2021. John A. McNeill, Jr. and Ronald B. McNeill each individually owns 16.67% of Liberty Healthcare. In addition, John A. McNeill, Jr. has a 2012 Irrevocable Trust, which owns 25% of Liberty Healthcare, and Ronald B. McNeill and Cynthia McNeill have a 2013 Irrevocable Trust, which also owns 25% of Liberty Healthcare. The remaining 16.67% of Liberty Healthcare is owned by Liberty Insurance Investors, LLC.

John A. McNeill and Ronald B. McNeill are the ultimate controlling persons for the Company.

### ORGANIZATIONAL CHART

The Company’s 2021 Annual Statement Schedule Y did not contain an organizational chart. The following is an organizational chart of the Company within the holding company group as of December 31, 2021:



### COMPANY HISTORY

Liberty Healthcare and AllyAlign Health, Inc. (“AllyAlign”) formed the Company on August 25, 2015, and the Company became licensed as a Health Maintenance Organization (“HMO”) on January 1, 2017. At the Company’s inception, Liberty Healthcare and AllyAlign were members with ownership percentages totaling 60% and 40%, respectively. In 2017, the Company received surplus contributions totaling \$1,060,000 from AllyAlign and \$1,590,000 from Liberty Healthcare. In 2018, Liberty Healthcare and AllyAlign contributed additional surplus totaling \$318,000 and \$212,000, respectively. In 2019, the Company received surplus contributions totaling \$1,700,000 from Liberty Healthcare. On December 31, 2020, Liberty Healthcare acquired AllyAlign’s 40% ownership interest in the Company for \$921,570 and became 100% owner of the Company.

# MANAGEMENT AND CONTROL

## CORPORATE GOVERNANCE

### Members

The bylaws of the Company provide that meetings of members shall not be mandatory but may be called by any member of the Board or by any member. Any such meetings will be held at the principal place of business of the Company, or at such other locations as determined by the Board or the members or may be held by means of conference telephone.

### Board of Directors

The business and affairs of the Company will be managed by the Board. The Board shall have the right to manage the business of the Company and to make decisions regarding the Company. The Board may also delegate certain management functions to be performed by third-parties pursuant to a written agreement. The bylaws specify that the number of directors will be initially composed of three (3) members appointed by the Company.

A Board member holds office until the member resigns, dies, becomes permanently disabled, or is removed. The Board may increase the size of the Board upon admission of new members or at such a time it's deemed advisable.

The following individuals served as directors as of December 31, 2021:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
John A. McNeill	Wilmington, NC	Company Owner / President
Ronald B. McNeill	Wilmington, NC	Company Owner / Secretary
David J. Oliver	Wilmington, NC	Executive Director

The Board has established an Audit Committee to act on behalf of the Company. (Refer to the Summary of Significant Findings)

The following individuals served on the Audit Committee as of December 31, 2021:

#### Audit Committee

Jospeh V. Calcutt, Chair  
Mike Torres  
David Oliver  
Leesa Fawson

### Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a chief financial officer, and any other officers deemed necessary by the Board. Officers may be appointed and removed by a majority vote of the Board. Officers will have the

authority granted to them by the Board and the powers and duties as are usual and customary and as would be incident to his or her office if he or she served as a comparable officer of a North Carolina corporation.

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

<b>Name</b>	<b>Title</b>
John A. McNeill	President
Ronald B. McNeill	Secretary
Joseph V. Calcutt	Chief Financial Officer

## **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 director 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 for conflicts of interest. (Refer to the 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 January 1, 2021, the Company amended its articles of incorporation and bylaws to remove AllyAlign as a member and to increase Liberty Healthcare's ownership percentage from 60% to 100%.

## **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**

The Company has fidelity bond coverage totaling \$2,500,000 in aggregate, which exceeds the minimum amount of fidelity bond coverage recommended by the Handbook.

## **RELATED PARTY AGREEMENTS**

The Company has a Capital Management Agreement with Liberty Healthcare, effective January 1, 2021, whereby Liberty Healthcare agrees to provide capital to the Company as needed to maintain compliance with GS § 58-67-110 for the protection against insolvency, a minimum \$1 million net worth, and at least a 300% authorized control level risk based capital ratio. There were no surplus contributions made pursuant to this agreement in 2021.

The Company has an Administrative Support Agreement with Liberty Healthcare Management Inc. (“LHM”), effective January 1, 2018, and amended on January 1, 2021, whereby LHM provides administrative support services for the Company and its products for Medicare programs. Under this agreement, the Company incurred management fees totaling \$588,055 in 2021.

The Company has a Facility Provider Services Agreement with Long Term Care Management Services, effective January 1, 2018, and amended January 1, 2021, for the provision of Skilled Nursing Services (Part A) and Outpatient Therapy Services (Part B), other than Outpatient services, and separately reimbursable coverable services provided to its I-SNP members. Under this agreement, the Company paid fees totaling \$2,337,940 in 2021.

The Company has a Nurse Practitioner & Physician Assistant Provider Agreement with Liberty Medical Care Services, effective January 1, 2018, whereby the Company operates a network of skilled nursing facilities, traditional nursing homes, home health agencies, personal care service providers, and physicians who work together to improve the quality and efficiency of care they collectively provide to patients. Under this agreement, the Company paid fees totaling \$1,417,390 in 2021.

The Company has an Ancillary Provider Participation Agreement with Liberty Homecare Group, LLC and Home Care Management Services, LLC, effective January 1, 2018, whereby the provider agrees to provide or arrange for professional medical services and/or related healthcare services to individuals designated by payor with identification as members and covered under self-funded or insured health benefit plans to which the provider has agreed to participate. Under this agreement, the Company paid fees totaling \$15,001 in 2021.

The Company has an Ancillary Provider Participation Agreement with Liberty Medical Specialties Inc., effective January 1, 2018, and amended October 1, 2021, whereby the Company pays the provider at 100% of prevailing Medicare rates less applicable copayments, deductibles, and coinsurances. Under this agreement, the Company paid fees totaling \$9,817 in 2021.

## **THIRD PARTY ADMINISTRATOR**

The Company had an Administrative Agreement with a Third Party Administrator, Access Health Services, LLC (“AHS”), effective October 1, 2020, whereby AHS provides, facilitates or directs specific administrative services on behalf of the Company in the service areas as mutually agreed upon by the parties and as amended from time to time. Under this agreement, the Company incurred fees totaling \$586, 905 in 2021.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to write Medicare Advantage (“MA”) business only in the state of North Carolina. The Company offers Institutional Special Needs Plans (“I-SNP”), Dual Eligible Special Needs Plans (“D-SNP”), and Chronic Condition Special Needs Plans (“C-SNP”). I-SNP plans limit enrollment to members

with specific characteristics; D-SNP plans provide specialized care and wrap-around services for dual eligible beneficiaries who are eligible for both Medicare and Medicaid; and C-SNP plans limit enrollment to members with specific severe or disabling chronic conditions. The Company’s I-SNP plan limits enrollment to Medicare patients who meet an institutional level of care and live or are expected to live in a long-term medical facility for 90 days or longer. The Company began writing business on January 1, 2018, through an MA contract with the Centers for Medicare and Medicaid Services (“CMS”).

The Company solicits business through independent agents located throughout the various counties in which it is licensed. As of December 31, 2021, the Company was licensed to write MA business in 61 counties in North Carolina and served approximately 764 members.

## 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:

<b>Year</b>	<b>Net Admitted Assets</b>	<b>Capital and Surplus</b>	<b>Gross Premiums Written</b>	<b>Net Earned Premiums</b>	<b>Net Income(loss)</b>
2021	\$8,684,094	\$3,968,997	\$19,514,034	\$19,435,055	\$1,142,787
2020	\$6,950,122	\$3,111,151	\$18,646,737	\$18,561,237	\$694,999
2019	\$6,899,359	\$3,420,285	\$17,560,346	\$17,491,672	(\$363,915)
2018	\$4,862,040	\$2,165,820	\$15,343,447	\$15,263,874	(\$523,162)
2017	\$2,193,553	\$2,187,196	\$0	\$0	(\$520,056)

## ACTUARIAL OPINION

Every health insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary in accordance with GS § 58-2-165(c) pursuant to GS § 58-67-55.

The statutory reserves and related items for 2021 were reviewed and certified by the Company’s Appointed Actuary, Nick J. Ortner, FSA, MAAA of Milliman, Inc. 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 reserve 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 CEDED**

The Company has a specific excess of loss reinsurance contract with various reinsurers effective January 1, 2021, whereby the reinsurers provide benefits to covered persons or individual subscribers eligible for covered expenses under the Membership Services Agreement. The Company has a deductible of \$200,000 per covered person per agreement, with a maximum payable of \$2 million per covered person per agreement. The Company ceded written premiums totaling \$78,979 and \$85,500 in 2021 and 2020, 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.

**Liberty Advantage, LLC**  
**Statutory Statement of Admitted Assets**  
**December 31,**

	<b>2021</b>	<b>2020</b> <i>(unexamined)</i>
Bonds	\$500,234	\$501,634
Cash and short-term investments	7,542,284	4,641,021
<b>Total cash and invested assets</b>	<b>8,042,518</b>	<b>5,142,655</b>
Investment income due and accrued	2,344	3,185
Uncollected Premiums and agents' balances in course of collection	333	149
Accrued retrospective premiums and contracts subject to redetermination	65,493	1,314,574
Amounts receivable relating to uninsured plans	279,125	145,107
Furniture and equipment, including health care delivery assets	8,304	-
Health care and other amounts receivable	233,416	344,452
Prepaid Expenses	52,561	-
<b>Total Admitted Assets</b>	<b>\$8,684,094</b>	<b>\$6,950,122</b>

**Liberty Advantage, LLC**  
**Statutory Statement of Liabilities and Surplus**  
**December 31,**

	<b>2021</b>	<b>2020</b> <i>(unexamined)</i>
Claims unpaid	\$2,397,847	\$2,735,971
Accrued medical incentive pool and bonus amounts	328,078	102,600
Unpaid claims adjustment expenses	88,752	92,321
Premiums received in advance	54,499	162,930
General expenses due or accrued	344,797	19,986
Amounts due to parent, subsidiaries, and affiliates	449,077	157,178
Liability for amounts held under uninsured plans	1,052,046	567,985
<b>Total liabilities</b>	<b>4,715,096</b>	<b>3,838,971</b>
Gross paid in and contributed surplus	4,307,930	4,308,430
Unassigned funds	(338,933)	(1,197,279)
<b>Total surplus</b>	<b>3,968,997</b>	<b>3,111,151</b>
<b>Total Liabilities and Surplus</b>	<b>\$8,684,093</b>	<b>\$6,950,122</b>



**Liberty Advantage, LLC**  
**Statutory Statement of Operations**  
**December 31,**

	<b>2021</b>	<b>2020</b> <i>(unexamined)</i>
<b>Underwriting Income</b>		
Net premium income	\$19,514,034	\$18,561,237
<b>Deductions</b>		
Hospital/medical benefits	10,738,661	11,967,464
Other professional services	1,342,139	1,637,588
Emergency room and out-of-area	116,865	188,620
Prescription drugs	4,101,675	1,064,720
Durable medical equipment	56,853	58,863
Incentive pool, withhold adjustments, and bonus amounts	98,824	104,312
Total hospital and medical	16,455,017	15,021,567
Claim adjustment expenses	296,282	635,813
General administrative expenses	1,628,677	2,246,269
Total underwriting deductions	18,379,976	17,903,649
Net underwriting gain	1,134,058	657,588
Net investment income earned	8,729	37,411
Net income after capital gains tax and before all other federal income taxes	1,142,787	694,999
<b>Net Income</b>	<b>\$1,142,787</b>	<b>\$694,999</b>

**Liberty Advantage, LLC**  
**Statutory Statement of Surplus**  
**December 31,**

	<b>2021</b>	<b>2020</b> <i>(unexamined)</i>
Surplus, beginning of year	\$3,111,151	\$3,420,285
Net income	1,142,787	694,999
Change in non-admitted assets	(284,441)	(82,563)
Surplus adjustments to paid-in capital	(500)	(921,570)
Net change in surplus	857,846	(309,134)
Surplus, end of year	\$3,968,997	\$3,111,151

**Liberty Advantage, LLC**  
**Statutory Statement of Cash Flow**  
**December 31,**

	<b>2021</b>	<b>2020</b> <i>(unexamined)</i>
<b>Cash From (Used By) Operations</b>		
Premiums collected net of reinsurance	\$20,654,485	\$18,476,204
Net investment income	10,190	38,795
Total	20,664,675	18,514,999
Benefit and loss related payments	16,540,903	14,403,926
Commissions, expenses paid and aggregate write-ins	1,253,675	2,889,783
Total	17,794,578	17,293,709
<b>Net cash from (used by) operations</b>	<b>2,870,097</b>	<b>1,221,290</b>
<b>Cash From (Used By) Financing and Miscellaneous Sources</b>		
Cash from capital and paid-in surplus	(500)	(921,570)
Other cash (applied) provided	31,666	(45,331)
<b>Net cash from (used by) financing and miscellaneous sources</b>	<b>31,166</b>	<b>(966,901)</b>
<b>Reconciliation of Cash and Short-Term Investment</b>		
Net change in cash and short-term investments	2,901,263	254,389
Cash and short-term investments, beginning of year	4,641,021	4,386,632
Cash and short-term investments, end of year	<b>\$7,542,284</b>	<b>\$4,641,021</b>

## 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 straight-line 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.

**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.

**Premiums:** Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

**Reinsurance:** Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

**Business acquisition costs:** Charged to income as incurred.

**Non-admitted assets:** Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses, are “non-admitted” and are charges against surplus.

**Claims unpaid and unpaid claims adjustment expenses:** Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

### Analysis of Assets:

The following represents an analysis of the Company's net admitted assets at December 31, 2021:

	<b>Assets</b>	<b>Assets not Admitted</b>	<b>Net Admitted Assets</b>
Bonds	\$500,234	-	\$500,234
Cash and short-term investments	7,542,284	-	7,542,284
<b>Total cash and invested assets</b>	<b>8,042,518</b>	-	<b>8,042,518</b>
Investment income due and accrued	3,125	781	2,344
Uncollected premiums and agents' balances in course of collection	697	364	333
Accrued retrospective premium	65,493	-	65,493
Amounts receivable relating to uninsured plans	279,125	-	279,125
Furniture and equipment	8,304	-	8,304
Healthcare and other amounts receivable	462,667	229,252	233,416
Prepaid expenses	222,835	170,274	52,561
Other receivables	88,161	88,161	-
Intercompany receivable	204	204	-
<b>Total admitted assets</b>	<b>\$9,173,129</b>	<b>\$489,036</b>	<b>\$8,684,094</b>

### Reinsurance Activity:

The Company has a specific excess of loss contract 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 and ceded premiums written and earned are as follows:

	<b>2021</b>	<b>2020</b>
Direct written	\$19,543,440	\$21,780,737
Ceded written	(78,979)	(85,500)
<b>Net written</b>	<b>19,464,461</b>	<b>21,695,237</b>
Direct earned	16,751,299	18,791,381
Ceded earned	-	-
<b>Net earned</b>	<b>\$16,751,299</b>	<b>\$18,791,381</b>

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 claims unpaid and unpaid claims adjustment expenses, beginning of year	\$2,735,971	\$2,096,368
<b>Add:</b>		
Provision for claims unpaid and unpaid claims adjustment expenses, current year	16,240,590	18,567,049
Change in estimated claims unpaid and unpaid claims adjustment expenses, prior years	214,427	(515,794)
<b>Total incurred</b>	16,455,017	18,051,255
<b>Deduct:</b>		
Claims unpaid and unpaid claims adjustment expenses paid, current year	13,697,952	16,356,858
Claims unpaid and unpaid claims adjustment expenses paid, prior year	2,917,924	1,054,794
<b>Total paid</b>	16,615,876	17,411,652
Reserve for claims unpaid and unpaid claims adjustment expenses, end of year	2,575,112	2,735,971
Increase (decrease) in reserve for claims unpaid and unpaid claims adjustment expenses	(\$160,859)	\$639,603

The Company did not reduce reserves by anticipated salvage and subrogation in 2021 or 2020.

Reserves for claims unpaid and unpaid claims adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2021 and 2020, there were no recoverables reported on paid and unpaid losses.

### Surplus:

The following, in conjunction with the Statutory Statement of Revenue and Expenses, and Surplus Account, represents the changes in the Company's surplus since December 31, 2017.

	2019	2018	2017
Surplus, beginning of year	\$2,165,820	\$2,187,196	\$(26,004)
Net loss	(363,915)	(523,162)	(520,056)
Change in non-admitted assets	(81,620)	(28,214)	83,256
Surplus adjustments to paid-in capital	1,700,000	530,000	2,650,000
Change in surplus as regards policyholders for the year	1,254,465	(21,376)	2,213,200
Surplus, end of year	\$3,420,285	\$2,165,820	\$2,187,196

## SUBSEQUENT EVENTS

On September 13, 2022, the Company notified the Department of a change to its third-party administrator from Access Health Care to Mirra Health Care, LLC, to be effective October 1, 2022. The agreement has been approved by the Department on January 23, 2023.

The Company filed a request with the Department on September 23, 2022, seeking approval to add one new county, Haywood County, to its service area in North Carolina beginning in 2024. In addition, the filing includes information concerning a modification to the Company's business plan to expand by becoming licensed in South Carolina. The Department approved the Company's service area expansion to include Haywood County in North Carolina and expansion into South Carolina for plan year 2024 on November 18, 2022. Approval of the expansion to South Carolina is also subject to review and approval by the South Carolina Department of Insurance.

**Liberty Advantage, LLC**  
**DISTRIBUTION OF REPORT ON EXAMINATION**  
**December 31, 2021**

John McNeill, President  
2334 South 41<sup>st</sup> Street  
Wilmington, NC, 28403

Ronald McNeill, Secretary  
2334 South 41<sup>st</sup> Street  
Wilmington, NC, 28403

DJ Oliver, Executive Director  
2334 South 41<sup>st</sup> Street  
Wilmington, NC, 28403

Joseph Calcutt, Chief Financial Officer  
2334 South 41<sup>st</sup> Street  
Wilmington, NC, 28403

Mike Torres, Chief Accounting Officer  
2334 South 41<sup>st</sup> Street  
Wilmington, NC, 28403

Leesa Fawson, Director of Finance  
2334 South 41<sup>st</sup> Street  
Wilmington, NC, 28403



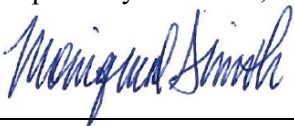
## CONCLUSION

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

We conclude that the Company complies with the minimum net worth requirements of GS § 58-67-110(b) for the kinds of insurance that the Company has been authorized to write, which is \$1,000,000 or the amount required pursuant to the risk-based capital provisions of Article 12 of Chapter 58.

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

Respectfully submitted,



---

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

May 17, 2023

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Tonneta Drummond, Insurance Company Manager, 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: Tonneta Drummond Date: 5/17/23

Sworn and subscribed before me this 17 day of May, 2023.

Notary Public Signature: Christine M. Williams Notary Public Seal:

