

Report of Examination of

SummaCare, Inc.
Akron, Ohio

As of December 31, 2012

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Columbus, Ohio
July 2, 2013

Honorable Mary Taylor
Lt. Governor/Director
Ohio Department of Insurance
50 West Town Street, Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

SummaCare, Inc.

an Ohio domiciled, health insuring corporation, hereinafter referred to as the “Company.”

A report of this examination is hereby respectfully submitted.

Scope of Examination

The Department last examined the Company as of December 31, 2007. The Department’s current full scope examination covers the period of January 1, 2008 through and including December 31, 2012.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting Firm of Ernst & Young, LLP (“E&Y”) provided an unqualified opinion on the financial statements based on statutory accounting principles. The E&Y audit reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Kenneth E. Berkovitz, M.D.	Physician Cardiovascular Disease and Chairman, Summa Hospital Department of Cardiology
Bradley H. Crombie, M.D.	Physician Internal Medicine, Private Practice
Kathleen T. Geier	Manager KTG Consulting, LLC
Martin P. Hauser	President and Chief Executive Officer, The Company
Vincent H. Johnson, Jr., M.D.	Retired Physician
Thomas G. Knoll	Attorney, Stark & Knoll, L.P.A.
Richard H. Marsh	Retired Senior Vice President and Chief Financial Officer, First Energy Corporation
Richard A. Merolla	Deputy Mayor of Administration and Chief of Staff, City of Akron
Dale P. Murphy, M.D.	Physician, Summa Physicians Inc. and Vice President Medical Affairs Summa Akron City and St. Thomas Hospitals
John B. Silvers, Ph.D.	Professor, Weatherhead School of Management, Case Western Reserve University
Thomas J. Strauss	Chief Executive Officer, Summa Health System
Rajiv V. Taliwal, M.D.	Physician, Crystal Clinic Orthopedic Center-North Coast Spine Center

Norman E. Wells, Jr. Partner and Operating Executive, SFW Capital Partners

Jay C. Williamson, M.D. Physician, Chief Medical Officer and Interim President,
Summa Physicians Inc.

Officers

As of the examination date, the following officers were serving in the designated position.

Name	Title
Thomas G. Knoll	Chairman
Kathleen T. Geier	Vice Chairman
Martin P. Hauser	President and Chief Executive Officer
William A. Powel, III	Secretary
Brian K. Derrick	Treasurer
Judith A. Macro	Assistant Secretary
James E. McNutt	Assistant Treasurer

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32 and is a majority-owned subsidiary of Summa Insurance Company, Inc. (“SIC”), with 100% of the voting stock owned by SIC and preferred stock held by Summa Health System.

Territory and Plan of Operations

The Company is licensed in Ohio as a health insuring corporation (“HIC”) under ORC 1751. The Company contracts with providers to provide comprehensive health care services to a defined enrolled population (members) for a predetermined monthly fee. The population from which the Company draws its membership is predominately located in Northeast Ohio. The Company’s business is derived from insurance plans offered to Medicare eligible.

Reinsurance

Assumed

The Company does not assume any reinsurance.

Ceded

The Company pays premiums based on its membership. The Company is reimbursed by its reinsurer a percentage of charges in excess of a deductible for hospital and related services provided to individual members. The Company purchases reinsurance for losses in excess of \$225,000 per year for each enrolled Medicare member. This coverage is subject to certain contracted limits and a lifetime benefit limit of \$5 million per member.

Financial Statements

The financial condition and the results of its operations for the period under examination, as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2012**

Bonds	\$ 65,854,347
Cash, cash equivalents, and short-term investments	<u>9,742,108</u>
Subtotal, cash and invested assets	<u>75,596,455</u>
Investment income due and accrued	384,098
Uncollected premiums and agents' balances	3,965
Amounts recoverable from reinsurers	1,732
Current federal and foreign income tax recoverable	1,091,716
Net deferred tax asset	2,449,766
Receivables from parent, subsidiaries and affiliates	5,530,293
Health care and other amounts receivable	<u>3,250,797</u>
Total admitted assets	<u><u>\$ 88,308,822</u></u>
Claims unpaid	\$ 25,647,359
Accrued medical incentive pool and bonus amounts	46,000
Unpaid claims adjustment expenses	371,800
Premiums received in advance	378,877
General expenses due or accrued	9,318,398
Remittances and items not allocated	88,193
Amounts due to parent, subsidiaries and affiliates	289,425
Funds held under reinsurance treaties	<u>7,246</u>
Total liabilities	36,147,298
Common capital stock	570
Preferred capital stock	100
Gross paid in and contributed surplus	30,084,097
Unassigned funds	<u>22,076,757</u>
Total capital and surplus	<u>52,161,524</u>
Total liabilities, capital and surplus	<u><u>\$ 88,308,822</u></u>

**Statement of Revenue and Expenses
As of December 31, 2012**

Net premium income	\$ 255,417,103
Administrative services revenue	<u>27,859,948</u>
Total revenues	283,277,051
Hospital/medical benefits	193,200,892
Prescription drugs	25,469,811
Incentive pool, withhold adjustments and bonus amounts	<u>(129,324)</u>
Subtotal	218,541,379
Net reinsurance recoveries	<u>131,751</u>
Total hospital and medical	218,409,628
Claims adjustment expenses	4,681,575
General administrative expenses	<u>55,971,272</u>
Total underwriting deductions	<u>279,062,475</u>
Net underwriting gain	<u>4,214,576</u>
Net investment income earned	<u>1,435,275</u>
Net investment gains	1,435,275
Aggregate write-ins for other income or expenses:	
Rental revenue	10,967
Miscellaneous income	<u>9,011</u>
Net income before federal income taxes	5,669,829
Federal income taxes incurred	<u>1,771,360</u>
Net income	<u><u>\$ 3,898,469</u></u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	2012	2011	2010	2009	2008
Capital & surplus, December 31, prior year	<u>\$ 48,490</u>	<u>\$ 44,407</u>	<u>\$ 27,767</u>	<u>\$ 27,184</u>	<u>\$ 34,534</u>
Net income (loss)	3,898	3,647	5,146	2,943	(6,160)
Change in net deferred income tax	(175)	307	2,380	(2,687)	353
Change in nonadmitted assets	210	506	(810)	386	(957)
Capital changes	0	0	10,000	0	0
Agg. write-ins for G/(L) in surplus	(261)	(441)	(12)	(59)	(586)
Other	<u>0</u>	<u>64</u>	<u>(64)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>3,672</u>	<u>4,083</u>	<u>16,640</u>	<u>583</u>	<u>(7,350)</u>
Capital & surplus, December 31, current year	<u>\$ 52,162</u>	<u>\$ 48,490</u>	<u>\$ 44,407</u>	<u>\$ 27,767</u>	<u>\$ 27,184</u>

Notes to Financial Statements

Investments

The Company's investment portfolio consists primarily of investment grade bonds, short-term investments, and cash. The investments were in compliance with ORC Section 1751.25 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Claims Unpaid and Unpaid Claims Adjustment Expenses

Michael J. Cellini, FCA, ASA, MAAA, Principal & Consulting Actuary with Ernst & Young, LLP, analyzed the reserves of the Company and provided an actuarial opinion on the Company's reserves for the year ended December 31, 2012.

Daniel L. Moore, ASA, MAAA, Chief Health Actuary with the Office of Product Regulation and Actuarial Services of the Department, reviewed the report by the Company's appointed actuary and based on the results presented in the Company's 2012 Annual Statement determined that the reserves are good and sufficient and that any adverse development is highly unlikely.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$ 88,308,822</u>
Liabilities	\$ 36,147,298
Capital and Surplus	<u>52,161,524</u>
Total Liabilities, Capital and Surplus	<u>\$ 88,308,822</u>

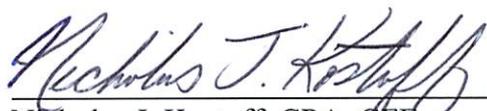
Subsequent Events

In early 2013, the Summa Health System Board of Directors approved a letter of intent with Cincinnati based Catholic Health Partners to create a strategic partnership.

Acknowledgement

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: David T. Finkler CPA, CFE, CISA, AES; Louis F. Radecky, CPA (inactive), CFE and Jeffrey J. Ferris, CFE, CISA, AES.

Respectfully,



Nicholas J. Kostoff, CPA, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2012.

Nicholas J. Kostoff 7/23/13
Examiner-In-Charge Date

g n Cook 7/24/13
Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 23 day of July, 2013.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 29 day of July, 2013.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 25, 2017

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 25, 2017