Filing corrections to statements as rquested by the State of Michigan

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HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDING DECEMBER 31, 2002

OF THE CONDITION AND AFFAIRS OF THE

Priority Health

NAIC Group Code 3383 (Current Period) 0000 (Prior Period) NAIC Company Code 95561 Employer's ID Number 38-2715520

Organized under the Laws of Michigan, State of Domicile or Port of Entry Michigan

Country of Domicile United States of America

Licensed as business type: Life, Accident & Health [ ] Property/Casualty [ ] Dental Service Corporation [ ]
Vision Service Corporation [ ] Other [ ] Health Maintenance Organization [X]
Hospital, Medical & Dental Service or Indemnity [ ] Is HMO, Federally Qualified? Yes [ ] No [X]

Incorporated 03/07/1986 Commenced Business 10/15/1986

Statutory Home Office 1231 East Beltline (Street and Number), Grand Rapids, MI 49525-4501 (City or Town, State and Zip Code)

Main Administrative Office 1231 East Beltline (Street and Number)
Grand Rapids, MI 49525-4501 (City or Town, State and Zip Code) 616-942-0954 (Area Code) (Telephone Number)

Mail Address 1231 East Beltline (Street and Number or P.O. Box), Grand Rapids, MI 49525-4501 (City or Town, State and Zip Code)

Primary Location of Books and Records 1231 East Beltline (Street and Number)
Grand Rapids, MI 49525-4501 (City or Town, State and Zip Code) 616-464-8235 (Area Code) (Telephone Number)

Internet Website Address www.priority-health.com

Statement Contact Malcolm Hall (Name) 616-464-8235 (Area Code) (Telephone Number) (Extension)
malcolm.hall@priority-health.com (E-mail Address) 616-942-7916 (FAX Number)

Policyowner Relations Contact (Street and Number)
, (City or Town, State and Zip Code) 616-942-1221 (Area Code) (Telephone Number) (Extension)

OFFICERS

Chief Executive Officer Kimberly K Horn Chief Financial Officer Dennis J Reese
Secretary Judith W Hooyenga #

VICE PRESIDENTS

Dennis J Reese
Judith W Hooyenga #

DIRECTORS OR TRUSTEES

Richard C. Breon	Marilyn M Brown	Gaylen J Byker
James H Childress	Dale A Dykema	Michael P Freed
Jon M Gans	David E Gast	Gail D Gwizdala
Jody D Handy	Edward A Higuera	Nicholas P Kokx
Lynn M Kotecki	Steve R Lasater	Thomas R Macholan
Charles E McCallum	George N Monsma	Shelley E Padnos
Timothy V Smith	Hilary F Snell	Luis A Tomatis
Dennis P Vanderlind		

State of Michigan
County of Kent } ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

Kimberly K Horn Chief Executive Officer	Dennis J Reese Chief Financial Officer	Judith W Hooyenga Secretary

Subscribed and sworn to before me this
15th day of July, 2003

Stacey Koning
Notary
08/26/2004

a. Is this an original filing? Yes [ ] No [X]
b. If no
1. State the amendment number 1
2. Date filed 07/15/2003
3. Number of pages attached 8

NOTES TO FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

A. Nature of Organization and Ownership

Priority Health (the Plan) is a nonprofit, nontaxable health maintenance organization owned primarily by Spectrum Health (Spectrum, the 76% shareholder), Holland Community Hospital, Munson Healthcare and Healthshare, Inc. The Plan provides coverage for medical, hospital and other health care services to its members, who are located primarily within Michigan, through contracts executed with various health care providers. Priority Health offers health coverage to commercial subscribers as a standard health maintenance organization product or a point-of-service product.

Priority Health is the 100% owner of Priority Health Government Programs, Inc, (PHGP) an HMO established effective October 1, 2002. Priority Health is the sole owner and parent of this company and reflects the operations of this company in its own financial statements in accordance with prescribed accounting practices and procedures. Priority Health Government Programs, Inc currently has over 22,000 Medicaid and MIChild members.

The agreements with certain participating providers call for reimbursement at various capitated rates or percentages of fees, less applicable member copayments, coinsurance or deductibles, on a current basis. The agreements provide for contingent reimbursement to participating providers based upon the results of operations within their defined risk pool. In the event the risk pool's utilization of medical costs is less than budgeted levels, the providers may share in the surplus, as defined in their respective agreements, and be eligible for the return of previously withheld fees. In addition, the Plan provides for a quality incentive to be paid to certain providers contingent upon achieving specified quality goals.

Priority Health's statutory-basis financial statements are prepared in accordance with accounting practices prescribed or permitted by the Michigan Insurance Bureau. Currently, prescribed statutory accounting practices are interspersed throughout state insurance laws and regulations, the NAIC's *Accounting Practices and Procedures Manual* and a variety of other NAIC publications. Permitted statutory accounting practices encompass all accounting practices that are not prescribed; such practices may differ from state to state, may differ from company to company within a state and may change in the future.

The NAIC has revised the *Accounting Practices and Procedures Manual* in a process referred to as Codification. The revised manual became effective on January 1, 2001. Michigan has not yet adopted the provisions of the revised manual for Health Maintenance Organization (HMO) as of December 31, 2002. Codification will be transitioned into the reporting required by the State of Michigan Office of Insurance and Financial Services(OFIS) beginning January 1, 2003. HMOs including Priority Health will continue to follow previous statutory accounting practices and procedures as prescribed and permitted by the regulating authority. The revised manual will change, to some extent, prescribed statutory accounting practices and will result in changes to the accounting practices that Priority Health uses to prepare its statutory-basis financial statements. The cumulative effect of changes in accounting principles adopted to conform to the revised *Accounting Practices and Procedures Manual* will be reported as an adjustment to surplus as of the first of the period upon its adoption. Management has determined that, although the implementation of Codification will have some negative effect on Priority Health's statutory-basis capital and surplus upon its adoption. The effects include, but are not limited to, the non admission of pharmacy rebates receivables and the limitation on admitted EDP equipment. However, the Plan will remain in compliance with all regulatory and contractual obligations.

B. Use of Estimates

The preparation of financial statements of insurance companies requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

C. Accounting Policy

1. All short-term investments have been classified in accordance with National Association of Insurance Commissioners (NAIC) guidelines and are stated at amortized cost for financial statement disclosure.

NOTES TO FINANCIAL STATEMENTS

2. Investments consist of bonds that are carried at amortized cost. The cost of bonds is adjusted for amortization of premiums and discounts to maturity using a level-yield method. Realized gains and losses are determined using the specific identification method and are included in operations. The fair value of investments is determined based upon quoted market prices.

3. Common Stocks are Not Applicable

4. Preferred Stocks are Not Applicable

5. Mortgage loans are Not Applicable

6. Loan-backed securities as well as other asset-backed securities are held and are reported at their amortized cost.

7. The Plan uses the equity method to account for investment in and the continuing operations of the wholly owned subsidiary Priority Health Government Programs, Inc. as described in SSAP 46. Here, SSAP No. 46 is used as guidance even though Codification is not yet effective in Michigan.

8. The Plan does not have minor ownership interests in joint ventures.

9. Derivatives are not held by the Plan and therefore this disclosure is Not Applicable.

10. and **11.** Under traditional arrangements, health care costs are recognized as expenses when services are rendered including, based on historical data, an estimate of costs incurred, but not reported at the balance sheet date. Under capitation arrangements, health care costs are recognized when accruable under the providers' respective agreements. Adjustments to previously rendered claims reserve estimates are reflected in the statement of operations in the period in which the estimates are revised. Such reserve adjustments consist of restatements of claims estimates and changes in margin associated with these estimates and could be material in the future. Given the nature of the health care costs and provider billing requirements, as defined by the participating providers' agreements, amounts accrued at year-end are paid predominantly in the following year.

2. Accounting Changes and Correction of Errors

A. Material Changes in Accounting Principles

The Plan does not have any material changes in accounting principles and/or correction of errors in the reporting period.

B. **Cumulative Effect of Changes for the Implementation of Codification**

The State of Michigan has not yet adopted the provisions of the revised manual for Health Maintenance Organization (HMO). HMOs including Priority Health will continue to follow previous statutory accounting practices and procedures until the effective date of Codification, January 1, 2003. The revised manual will change, to some extent, prescribed statutory accounting practices and will result in changes to the accounting practices that Priority Health uses to prepare its statutory-basis financial statements. The Plan will continue to follow previous statutory accounting practices and procedures through the December 31, 2002 reporting date.

3. Business Combinations and Goodwill

A. Not Applicable

B. On August 6, 1999, Northmed HMO merged with Priority Health. Munson Healthcare and Healthshare, Inc upon merger owned 279 and 31 shares of Class B stock respectively. In accordance with the merger document, additional Class B stock was transferred to Munson Healthcare (additional 192 shares) and Healthshare, Inc (additional 22 shares) as contingent consideration based upon covered lives and incremental value realized in the Northern Michigan region as of December 31, 2000. From this transaction, an additional goodwill amount of $597,416 was recorded.

C. Not Applicable

4. Discontinued Operations

The Plan has no Discontinued Operations to report.

5. Investments

A. Mortgage Loans --Not Applicable
B. Debt Restructuring -- Not Applicable
C. Reverse Mortgages -- Not Applicable

NOTES TO FINANCIAL STATEMENTS

D. Loan-backed securities –

1. The company does not have securities purchased prior to January 1, 1994.
2. Prepayment assumptions for loan-backed and asset-backed securities were obtained from broker dealer survey including Bloomberg and Solomon Yield Book.
3. The Plan has applied retrospective adjustment methodology to these investments.

E. Repurchase Agreements -- Not Applicable

6. Joint Ventures, Partnerships and Limited Liability Companies

The Plan has no Joint Ventures, Partnerships, or Limited Liabilities Companies to Report.

7. Investment Income

This note is Not Applicable to the Plan as no income due is past its due date.

8. Derivative Instruments

This note is Not Applicable to the Plan.

9. Income Taxes

The Plan is exempt from federal income taxes as an organization described under Internal Revenue Code Section 501(c)(4). Therefore, income tax expense has not been recorded.

10. Information Concerning Parent, Subsidiaries, and Affiliates

A, B, C, D, E, F, G

The Plan has a management contract with Priority Health Managed Benefits, Inc. to provide certain management services. The management fee incurred by the Plan was $ 43,423,000 in 2002 and $35,180,000 in 2001, respectively.

Rental payments for operating leases are being paid by Priority Health Managed Benefits, Inc., an organization related to the Plan through common ownership, as part of the management contract.

Premium revenues recognized from related organizations were approximately $55,912,000 during 2002 and $45,274,000 during 2001. Health care costs approximating $90,300,000 in 2002 and $83,823,000 in 2001 were provided to plan members by related organizations.

Amounts due from affiliates of $ 2,671,000 at December 31, 2002 and $0 at December 31, 2001, represent receivables from affiliated hospital providers and subsidiaries. Amounts due to affiliates of $2,405,000 at December 31, 2002 and $731,000 at December 31, 2001, are related to amounts owed under the management agreement and contractual obligations under provider participation agreements.

Of the Plan's 10,524 outstanding shares of stock, 8,000 shares are owned by Spectrum Health Corporation, the controlling party of a multi-facility hospital organization located in Grand Rapids, Michigan.

H--None
I---Investment in SCA does not meet criteria
J -- None

11. Debt

The Plan does not have Capital Notes nor any other type of debt, therefore, this note is Not Applicable.

12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

This note is Not Applicable to the Plan.

13. Capital and Surplus, Shareholder's Dividend Restrictions, and Quasi-Reorganizations

NOTES TO FINANCIAL STATEMENTS

The Plan has 10,000--Class A and 60,000--Class B authorized shares of common stock. Of these shares, 10,524 are issued and outstanding (10,000--Class A, 524--Class B). The Plan has no preferred stock outstanding. All stock is non-dividend bearing.
The remainder of this note's disclosure is Not Applicable.

14. Contingencies

A. The Plan has committed to its wholly owned subsidiary Priority Health Government Programs, Inc., additional capital as needed in order for this subsidiary to meet capital requirements as mandated by the regulating authority.
B. Assessments are likewise Not Applicable.
C. Gain Contingencies are Not Applicable.
D. All Other Contingencies are Not Applicable.

15. Leases

A. **Lessee Operating Lease**

1. In the course of business, The Plan does not enter into leases directly. The Plan's management company does lease office space, office equipment, and computer hardware/software under various operating lease agreements that expire over various periods of time. Rental expense for 2001 and 2002 was approximately $3,902,000, and $6,970,000, respectively. The Plan pays the management company for the fully allocated cost for these leases as described in the Management Agreement.

2. At January 1, 2003, the aggregate rental commitments of the Plan's management company are as follows:

Year Ending December 31 Operating Leases

1.	2003	$2,825,000
2.	2004	$2,743,000
3.	2005	$2,549,000
4.	2006	$1,372,000
5.	2007	$1,177,000
6.	Thereafter	$2,356,000

3. The company is not involved in any sales--leaseback transactions.

B. Lessor Leases
This note is Not Applicable to the Plan.

16. **Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk**

This note is Not Applicable to the Plan.

17. **Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

This note is Not Applicable to the Plan.

18. Gain of Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

This note is Not Applicable to the Plan.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

This note is Not Applicable to the Plan.

NOTES TO FINANCIAL STATEMENTS

20. September 11 Events

No direct impact to the Plan's operations has been recognized as a result of the September 11 events.

21. Other Items

The Plan does not have Extraordinary Items, Troubled Debt Restructuring, or other items indicated as a requirement for disclosure.

22. Events Subsequent

There are no subsequent events to report for the Plan.

23. Reinsurance

A. Ceded Reinsurance Report
- Section 1 - General Interrogatories
  1. No
  2. No
- Section 2 - Ceded Reinsurance Report - Part A
  1. No
     a. $0
     b. $0
  2. No
- Section 3 - Ceded Reinsurance Report
  1. $0
  2. No

B. Uncollectible Reinsurance

The Plan has not written off any reinsurance balances during the reporting year.

C. Commutation of Ceded Reinsurance

This note does not apply to the Plan.

24. Retrospectively Rated Contracts & Contracts Subject to Redetermination

This note is Not Applicable to the Plan.

25. Change in Incurred Claims and Claim Adjustment Expenses

Adjustments to previously rendered claims reserve estimates are reflected in the statement of activities in the period in which the estimates are revised. Such reserve adjustments consist of restatements of claim estimates and release of any margin associated with these estimates. Reserve adjustments were favorable by approximately $9.4 million in 2002, reducing the prior year-end claim reserve estimates of $57.5 million to $48.1 million.

26. Intercompany Pooling Arrangements

This note is Not Applicable to the Plan.

27. Structured Settlements

This note is Not Applicable to the Plan.

28. Health Care Receivables

As the State of Michigan has not formally adopted Codification to be effective at December 31, 2002, the required disclosures of SSAP No. 84 are not applicable at this time.

A. The Plan's method for estimating pharmacy rebates is consistent with prior years and relies on the information provided by the pharmacy rebates manager for invoiced rebates as well as the collection history of the invoiced amounts. The Plan's pharmacy rebates outstanding at December 31, 2002 is $8,180,305.

NOTES TO FINANCIAL STATEMENTS

B. This note is Not Applicable to the Plan.

29. Participating Policies

This note is Not Applicable to the Plan.

30. Premium Deficiency Reserves

The Plan does not record premium deficiency reserves in its financial statements.

31. Anticipated Salvage and Subrogation

The Plan does not estimate anticipated salvage and subrogation nor reduce any amount from its liability for unpaid claims or losses.

FIVE-YEAR HISTORICAL DATA

	1 2002	2 2001	3 2000	4 1999	5 1998
BALANCE SHEET ITEMS (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 23)	150,427,434	125,890,152	101,350,571	81,552,501	48,068,572
2. Total liabilities (Page 3, Line 18)	88,523,865	82,418,873	75,493,755	62,753,115	34,110,731
3. Statutory surplus	29,760,771	24,448,572	0	0	0
4. Total capital and surplus (Page 3, Line 26)	61,903,569	43,471,279	25,856,816	18,799,386	13,957,841
INCOME STATEMENT ITEMS (Page 4)					
5. Total revenues (Line 7)	606,858,726	473,735,918	392,210,473	316,911,250	233,184,025
6. Total medical and hospital expenses (Line 17)	538,740,832	420,166,305	352,667,576	284,155,358	213,394,270
7. Total administrative expenses (Line 19)	42,956,275	37,469,528	33,849,478	30,617,492	26,015,138
8. Net underwriting gain (loss) (Line 22)	12,051,448	9,659,647	5,693,419	2,138,400	(6,225,383)
9. Net investment gain (loss) (Line 25)	3,392,800	4,097,521	3,759,023	2,450,046	1,230,998
10. Total other income (Lines 26 plus 27)	304,130	112,151	0	0	0
11. Net income (loss) (Line 30)	15,748,378	13,869,319	9,452,442	4,588,446	(4,994,385)
RISK - BASED CAPITAL ANALYSIS					
12. Total adjusted capital	61,903,569	43,471,279	25,856,816	18,799,386	13,957,841
13. Authorized control level risk-based capital	19,405,421	14,385,441	12,913,573	8,293,027	4,369,728
ENROLLMENT (Exhibit 2)					
14. Total members at end of period (Column 5, Line 7)	288,535	268,585	243,241	231,328	178,365
15. Total member months (Column 6, Line 7)	3,467,361	3,081,011	2,818,212	2,528,112	2,015,708
OPERATING PERCENTAGE (Page 4) **(Item divided by Page 4, sum of Line 2, 3 and 5)**					
16. Premiums earned (Line 2 plus 3)	100.0	100.0	100.0	100.0	100.0
17. Total medical and hospital (Line 17)	88.8	88.7	89.1	89.0	91.1
18. Total underwriting deductions (Line 21)	98.0	98.0	97.7	98.5	102.2
19. Total underwriting gain (loss) (Line 22)	2.0	2.0	2.3	1.5	(2.2)
UNPAID CLAIMS ANALYSIS **(U&I Exhibit, Part 2B)**					
20. Total claims incurred for prior years (Line 11, Col. 5)	64,483,345	50,304,536	44,963,910	24,495,518	18,458,511
21. Estimated liability of unpaid claims – [prior year (Line 11, Col. 6)]	73,424,215	64,312,351	44,835,660	24,979,825	15,868,421

FIVE-YEAR HISTORICAL DATA (Continued)

	1 2002	2 2001	3 2000	4 1999	5 1998
INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES					
22. Affiliated bonds (Sch. D Summary, Line 25, Col. 1)	0	0	0	0	0
23. Affiliated preferred stocks (Sch. D Summary, Line 39, Col. 1)	0	0	0	0	0
24. Affiliated common stocks (Sch. D Summary, Line 53, Col. 2)	0	0	0	0	0
25. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11)	0	0	0	0	0
26. Affiliated mortgage loans on real estate		0	0	0	0
27. All other affiliated		0	0	0	0
28. Total of above Lines 22 to 27	0	0	0	0	0