



# HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDING DECEMBER 31, 2003  
OF THE CONDITION AND AFFAIRS OF THE

## Cape Health Plan, Inc.

NAIC Group Code 0000 0000 NAIC Company Code 95759 Employer's ID Number 38-2455176  
(Current Period) (Prior Period)

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 04/29/1982 Commenced Business 04/29/1982

Statutory Home Office 26711 Northwestern Highway, Suite 300, Southfield, MI 48034  
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office 26711 Northwestern Highway, Suite 300  
Southfield, MI 48034 248-386-3000  
(City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address 26711 Northwestern Highway, Suite 300, Southfield, MI 48034  
(Street and Number or P.O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records 26711 Northwestern Highway, Suite 300  
Southfield, MI 48034 248-386-3000-3003  
(City or Town, State and Zip Code) (Street and Number) (Area Code) (Telephone Number)

Internet Website Address www.capehealth.com

Statutory Statement Contact THOMAS A MURAR 248-386-3000-3003  
(Name) (Area Code) (Telephone Number) (Extension)  
tmurar@capehealth.com 248-945-9149  
(E-mail Address) (FAX Number)

Policyowner Relations Contact 26711 Northwestern Highway  
Southfield, MI 48034 248-386-3003  
(City or Town, State and Zip Code) (Street and Number) (Area Code) (Telephone Number) (Extension)

### OFFICERS

President Nancy Wanchik Secretary William Brodhead  
Treasurer Ralph Woronoff

### VICE PRESIDENTS

Steve Stein MD Michele Lundberg Thomas Murar  
Rodger Prong

### DIRECTORS OR TRUSTEES

Nancy Wanchik William Brodhead Ralph Woronoff  
Janis Coleman Susan Sarin Etrue Bryant  
Shirley Lightsey Thomas Murar Shirley Salazar #

State of Michigan }  
County of Macomb } 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.

Nancy Wanchik  
President  
(President & Chief Operating Officer)

Susan Sarin  
Secretary  
(Chief Executive Officer)

Thomas Murar  
Treasurer  
(Chief Financial Officer)

Subscribed and sworn to before me this  
02 day of June, 2004

a. Is this an original filing? Yes [ ] No [ X ]  
b. If no,  
1. State the amendment number 1  
2. Date filed 06/02/2004  
3. Number of pages attached \_\_\_\_\_

Linda Rusie  
Notary Public  
March 26, 2007

## NOTES TO FINANCIAL STATEMENTS

### ANNUAL STATEMENT FOR THE YEAR 2003 OF THE CAPE HEALTH PLAN NOTES TO FINANCIAL STATEMENTS

#### 1. Summary of Significant Accounting Policies

##### A. Accounting Practices

The financial statements of the CAPE Health Plan have been completed in accordance with NAIC Accounting Practices and Procedures manual except for implementation of codification for all entities. By Order 00-086-M dated November 15, 2000, the Commissioner adopted the NAIC Accounting Practices and Procedures Manual effective January 1, 2001, including appendices A - F and excluding Actuarial Guideline XXXV in Appendix C. This order applied to fire and casualty insurers, life, accident, and health insurers, non-U.S. insurers, title insurers and fraternal benefit societies. For health maintenance organizations and alternative financing and delivery systems and dental service corporations, the Commissioner had delayed adoption of the NAIC Accounting Practices and Procedures Manual with an effective date of January 1, 2002. Effective January 1, 2003, these procedures were adopted to be applied to HMOs in a phased manner. Following are the salient features, per letter dated December 4, 2002, of the transitional application of these procedures:

1) SSAP 16: Electronic Data Processing Equipment and Software:

The aggregate amount of admitted EDP equipment and operating system software (net of depreciation) shall be limited to the following percentage of the reporting entity's capital and surplus:

Effective January 1, 2003	25%
Effective January 1, 2004	15%
Effective January 1, 2005	5%

Effective January 1, 2006, the requirements of SSAP 16 will be fully adopted.

2) SSAP 19: Furniture and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements

The reporting entity will be permitted to report as an admitted asset the following percentage of its book value of furniture and equipment and leasehold improvements:

Effective January 1, 2003	85%
Effective January 1, 2004	55%
Effective January 1, 2005	25%

Effective January 1, 2006, the requirements of SSAP 19 will be fully adopted.

3) SSAP 84: Certain Health Care Receivables and Receivables Under Government Insured Plans

Loans or advances to large hospitals or other providers are not permitted.

SSAP 84 assumes states would adopt codification effective 2001 and therefore, NAIC transitions no longer apply effective January 1, 2003. OFIS will extend these transitions another year. For pharmaceuticals and risk sharing receivables, the transitions will expire on invoices prior to January 1, 2004. Entities are expected to renegotiate their contracts with pharmacy benefit managers and providers to comply with the requirements of SSAP 84 for future reporting periods.

##### B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenue and expenses during the period results could differ from those estimates.

##### C. Accounting Policy

The Plan uses the following accounting policies:

The Plan recognizes premiums for its members as income in the period to which health care coverage relates. The Plan's only source of premium revenue is Michigan Department of Community Health (MDCH). The revenues are recognized in the period in which they are earned. No premiums are collected in advance. Premiums for retroactive adjustments are recorded when received. Settlements with MDCH for medical claims from previous periods are reported as changes in estimates and classified as adjustments to medical expenses. The expenses incurred for the payment of claims and the administration of the Plan are charged to the operation.

The amount of dividends to be paid to the shareholder is determined annually by the Company's Board of Directors. The dividends declared are related to the overall profitability of the current year's operation and meeting the statutory earned surplus requirements of the State of Michigan.

## NOTES TO FINANCIAL STATEMENTS

In addition, the company uses the following accounting policies:

- 1) Short term equivalents: The company recognizes investments with an original maturity of three months or less as cash equivalents.
- 2) Bonds stated are the statutory deposits required by the State of Michigan Office of Financial and Insurance Services. This deposit is restricted and is held in a jointly administered trust fund with Michigan Insurance Bureau. These are stated at their par value.
- 3) Common Stock - Not Applicable.
- 4) Preferred Stock – Not applicable
- 5) Valuation basis of Mortgage Loan – Not applicable
- 6) Loan backed securities - Not applicable
- 7) Investment in subsidiaries, controlled and affiliated companies – Not applicable.
- 8) Investment in Joint Ventures, partnerships and Limited Liability Companies – Not applicable.
- 9) Derivatives – Not applicable
- 10) Investment Income as a factor in the premium deficiency calculation – Not applicable.
- 11) A summary of management’s policies and methodologies for estimating liabilities for losses and loss/claim adjustment expense

The plan estimates for accrued medical claims include claims billed and received and those incurred but unbilled for services provided up to the balance sheets date. The estimate is primarily based on historical payment patterns using actuarial techniques and these estimates are regularly reviewed and updated. Any adjustments resulting from such reviews are reflected in current operations and include modification for current trends. Management believes claims payable at December 31, 2003 and 2002 are adequate to cover the ultimate cost of settling all claims incurred to date. Because profits and losses depend upon factors such as cost trends and inflation, the process used to establish the liability for claims payable is based on estimates. Adjustments resulting from revisions of those estimates are charged or credited to operations in the period in which the revisions are made.

- 12) The Plan records furniture and equipment at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets range from 3 to 15 years.

**2. Accounting Changes and Corrections of Errors - Not Applicable**

**3. Business Combinations & Goodwill**

None

**4. Discontinued Operations - Not Applicable**

**5. Investments - Not Applicable**

**6. Joint Ventures, Partnerships and Limited Liability Companies - Not Applicable**

**7. Investment Income - Not Applicable**

**8. Derivative Instruments - Not Applicable**

**9. Income Taxes**

A. The components of the net deferred tax asset/ (liability) at December 31 are as follows:

	<u>2003</u>	<u>2002</u>
1. Total of all DTA (admitted and nonadmitted)	\$ 0.00	\$0.00
2. Total of all Deferred Tax Liabilities	\$100,072.00	\$36,995.00
3. Total DTA nonadmitted in accordance with SSAP No. 10 Income Taxes	\$ 0.00	\$0.00
4. Total of all DTA		
5. Increase (decrease) in DTA non admitted		

B. Deferred tax liabilities are not recognized:

None

C. Current income taxes consist of the following major components:

## NOTES TO FINANCIAL STATEMENTS

	<u>2003</u>	<u>2002</u>
0199 Current tax expense	<u>\$2,096,635</u>	<u>\$ 9,019</u>
0299 Total DTAs	None	
0399 DTAs nonadmitted	None	
0499 Total DTLs	<u>\$ 100,072</u>	<u>\$ 36,995</u>

The main changes in components of DTAs and DTLs are as follows:

	<u>2003</u>	<u>2002</u>
DTAs	None	
DTLs resulting from Book/Tax Differences in Change	<u>\$ 63,097</u> <u>\$ 54,058</u>	<u>\$ 9,019</u>

D. Among the more significant book to tax adjustments were the following:

None

E.

1. Operating loss carry forward = None
2. The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:
  - i. 2003 – current year = \$ 2,096,635
  - ii. 2002 – current year – 1 = \$ 9,019
  - iii. 2001 – current year – 2 = \$1,198,885

F.

1. CAPE's federal income tax return is consolidated with the following entities:
  - i. HCLB, Inc (Parent) – 38-3535959
  - ii. Springwater Management (Subsidiary) – 38-3300867
  - iii. Cape management, Inc. (Subsidiary) – 38-3511552
2. The method of allocation between the companies is subject to written tax sharing agreement, approved by the Board of Directors. The intent of this agreement is to establish a method for allocating the consolidated federal income tax liability of the affiliated group among its members; for reimbursing the parent for payment of such liability; for compensating any member for use of its net operating loss or tax credits in arriving at such tax liability; and to provide for the allocation and payment of any refund arising from a carryback of net operating losses or tax credits from subsequent taxable years.

**10. Information Concerning Parent, Subsidiaries and Affiliates**

CAPE Health Plan is a subsidiary of a holding company, HCLB, Inc. The holding company owns two other additional non-insurance affiliated companies, Springwater Management, Inc. and Cape Management, Inc. CAPE holds no investments in either the affiliates or the parent company and has no guarantees or contingent exposure with these entities. CAPE did not pay any dividends to HCLB, Inc. in the calendar year 2003.

**11. Debt - Not Applicable**

**12. Retirement Plans, Deferred Compensation, Post employment Benefits & Compensated Absences and Other Postretirement Benefit Plans**

The company sponsors a fully-funded 401(k) plan covering substantially all employees. Participants may defer gross compensation up to federal limitations. The company makes matching contributions up to a maximum of 6% of employee compensation. The expense for the matching contribution was approximately \$158,000 in 2003. Profit sharing is also accrued to the 401(k) plan. The profit sharing expense for 2003 was \$190,000.

**13. Capital and Surplus, Shareholders Dividend Restrictions and Quasi-Reorganizations**

State law provides that dividends or other distributions may be paid only to the extent of surplus in excess of \$1,500,000 as reported in the most recent financial statements filed with the Department of Insurance and may be paid only out of positive retained earnings. In addition, legislation requires Department of Insurance approval of any dividend or other distribution exceeding greater of 10% of net worth or net income for the prior year. CAPE did not make any dividend distribution during 2003.

## NOTES TO FINANCIAL STATEMENTS

There was neither any Quasi-reorganization nor a receipt of surplus notes during 2003.

- 14. Contingencies – Not applicable.**
- 15. Leases:**  
The company leases the office space that it occupies. In September 2001, the company moved from its Detroit location to Southfield, Michigan. The lease was signed for a six year term with an annual escalation clause of 50 cents per square foot. The lease expense for 2003 and 2002 was \$369,647 and \$415,989 respectively.
- 16. Information about Financial Instruments with Concentrations of Credit Risk - Not Applicable**
- 17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities - Not Applicable**
- 18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans - Not Applicable**
- 19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators - Not Applicable**
- 20. Other items**  
A. Related Parties - Legal, accounting and management fees of approximately \$ 460,000 were incurred to companies who employ members of the management executive committee of the company.
- 21. Subsequent Events - Not Applicable**
- 22. Reinsurance**  
Under a reinsurance agreement with ReliaStar Life Insurance Company, the Plan is liable for the first \$150,000 per member per contract years for 2003 and 2002 respectively. 50% of the excess amount is the liability assumed by the reinsurer. The maximum coverage is limited to \$1,000,000 per member per contract year, with lifetime coverage limited to \$2,000,000 per member. The contract covers the period effective April 1, 2003 through March 31, 2004.
- 23. Retrospectively Rated Contracts & Contracts Subject to Redetermination - Not Applicable**
- 24. Change in Incurred Claims and Claim Adjustment Expenses**  
  
Reserves for incurred claims and claim adjustment expenses attributable to insured events of prior years has decreased by \$2.5 million from \$ 13,750,000 in 2002 to \$ 11,226,570 in 2002. This is as a result of reestimation of unpaid claims and claim adjustment expenses. This decrease was generally the result of ongoing analysis of recent loss development trends. These directly impact the surplus of the company.
- 25. Intercompany Pooling Arrangements**  
  
CAPE is not a part of any Intercompany Pooling Arrangement system.
- 26. Structured Settlements**  
  
Not Applicable
- 27. Health Care Receivables**

### Pharmacy Rebates Receivable

CAPE does not book Pharmacy rebate receivables due to the size of the company. All rebates are booked when received and are recorded to offset the pharmacy expense. The following schedule provides the quarterly receipts of the rebates for the past three years.

Quarter	Estimated Receivable On Financial Statement	Pharmacy Rebates Billed	Actual Received
12/31/2003	0	0	\$ 49,265.69
09/30/2003	0	0	\$ 40,556.68
06/30/2003	0	0	\$ 165,799.89
03/31/2003	0	0	0
12/31/2002	0	0	\$ 74,313.57
09/30/2002	0	0	\$ 71,678.34
06/30/2002	0	0	\$ 45,476.05

**NOTES TO FINANCIAL STATEMENTS**

03/31/2002	0	0	\$ 24,763.36
12/31/2001	0	0	\$ 16,473.26
09/30/2001	0	0	\$ 19,478.34
06/30/2001	0	0	\$ 34,447.93
03/31/2001	0	0	\$ 48,323.26

Risk Sharing Receivables

CAPE does not record any risk sharing receivables from its operations with the various providers.

**28. Participating Policies**

There are no participating policies.

**29. Premium Deficiency Reserves**

There are no Premium Deficiency Reserves

**30. Anticipated Salvage and Subrogation**

Not applicable

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

### GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? ..... Yes [  ] No [  ]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent, or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? ..... Yes [  ] No [  ] NA [  ]
- 1.3 State Regulating? ..... MICHIGAN
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? ..... Yes [  ] No [  ]
- 2.2 If yes, date of change: ..... 09/10/2003  
 If not previously filed, furnish herewith a certified copy of the instrument as amended.
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. .... 12/31/2002
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. .... 12/31/1999
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). .... 10/06/2000
- 3.4 By what department or departments? OFFICE OF FINANCIAL AND INSURANCE COMMISSIONER, STATE OF MICHIGAN
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity), receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? ..... Yes [  ] No [  ]
- 4.12 renewals? ..... Yes [  ] No [  ]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? ..... Yes [  ] No [  ]
- 4.22 renewals? ..... Yes [  ] No [  ]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? ..... Yes [  ] No [  ]
- 5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.) ..... Yes [  ] No [  ]
- 6.2 If yes, give full information .....
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? ..... Yes [  ] No [  ]
- 7.2 If yes,
- 7.21 State the percentage of foreign control; .....
- 7.22 State the nationality(s) of the foreign person(s) or entity(s) or if the entity is a mutual or reciprocal, the nationality of its manager or attorney in fact; and identify the type of entity(s) (e.g., individual, corporation or government, manager or attorney in fact).

1 Nationality	2 Type of Entity

## GENERAL INTERROGATORIES

(continued)

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? ..... Yes [ ] No [ X ]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? ..... Yes [ ] No [ X ]
- 8.4 If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC) and identify the affiliate's primary federal regulator.]

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
DELOITTE & TOUCHE, DETROIT, MICHIGAN
10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?  
DAVID O. THOEN, FSA, MAAA, SENIOR MANAGER, DELOITTE & TOUCHE
11. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 11.1 What changes have been made during the year in the United States Manager or the United States Trustees of the reporting entity?  
Not Applicable
- 11.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? ..... Yes [ ] No [ ]
- 11.3 Have there been any changes made to any of the trust indentures during the year? ..... Yes [ ] No [ ]
- 11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes? ..... Yes [ ] No [ ] NA [ ]

### BOARD OF DIRECTORS

12. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? ..... Yes [ X ] No [ ]
13. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? ..... Yes [ X ] No [ ]
14. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or likely to conflict with the official duties of such person? ..... Yes [ X ] No [ ]

### FINANCIAL

- 15.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 15.11 To directors or other officers .. \$ .....0
  - 15.12 To stockholders not officers ... \$ .....0
  - 15.13 Trustees, supreme or grand (Fraternal only) ..... \$ .....
- 15.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 15.21 To directors or other officers ... \$ .....0
  - 15.22 To stockholders not officers ... \$ .....0
  - 15.23 Trustees, supreme or grand (Fraternal only) ..... \$ .....
- 16.1 Were any of the assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in this statement? ..... Yes [ ] No [ X ]
- 16.2 If yes, state the amount thereof at December 31 of the current year:
- 16.21 Rented from others ..... \$ .....
  - 16.22 Borrowed from others ..... \$ .....
  - 16.23 Leased from others ..... \$ .....
  - 16.24 Other ..... \$ .....
- Disclose in Notes to Financial the nature of each obligation.
- 17.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? ..... Yes [ ] No [ X ]
- 17.2 If answer is yes,
- 17.21 Amount paid as losses or risk adjustment ..... \$ .....
  - 17.22 Amount paid as expenses ..... \$ .....
  - 17.23 Other amounts paid ..... \$ .....

## GENERAL INTERROGATORIES

(continued)  
INVESTMENT

18. List the following capital stock information for the reporting entity:

Class	1	2	3	4	5		6	
	Number of Shares Authorized	Number of Shares Outstanding	Par Value Per Share	Redemption Price if Callable	Is Dividend Rate Limited?		Are Dividends Cumulative?	
					Yes	No	Yes	No
Preferred					[ ]	[ X ]	[ ]	[ X ]
Common	1,000	10	100.000	XXX	XXX	XXX	XXX	XXX

19.1. Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits? ..... Yes [ X ] No [ ]

19.2 If no, give full and complete information relating thereto:

20.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on the Schedule E - Part 3 - Special Deposits; or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 16.1) ..... Yes [ ] No [ X ]

20.2 If yes, state the amount thereof at December 31 of the current year:

20.21	Loaned to others .....	\$ .....
20.22	Subject to repurchase agreements .....	\$ .....
20.23	Subject to reverse repurchase agreements .....	\$ .....
20.24	Subject to dollar repurchase agreements .....	\$ .....
20.25	Subject to reverse dollar repurchase agreements .....	\$ .....
20.26	Pledged as collateral .....	\$ .....
20.27	Placed under option agreements .....	\$ .....
20.28	Letter stock or other securities restricted as to sale .....	\$ .....
20.29	Other .....	\$ .....

20.3 For each category above, if any of these assets are held by other, identify by whom held:

20.31 .....	20.35 .....
20.32 .....	20.36 .....
20.33 .....	20.37 .....
20.34 .....	20.38 .....
	20.39 .....

For categories (20.21) and (20.23) above, and for any securities that were made available for use by another person during the period covered by this statement, attach a schedule as shown in the instructions to the annual statement.

20.4 For category (20.28) provide the following:

1	2	3
Nature of Restriction	Description	Amount
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

21.1 Does the reporting entity have any hedging transactions reported on Schedule DB? ..... Yes [ ] No [ X ]

21.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? ..... Yes [ ] No [ ] NA [ X ]  
If no, attach a description with this statement.

22.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? ..... Yes [ ] No [ X ]

22.2 If yes, state the amount thereof at December 31 of the current year. .... \$ .....

## GENERAL INTERROGATORIES

(continued)

### INVESTMENT

23. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 – General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? .....

Yes [ ] No [ X ]

23.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address

23.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	2 Complete Explanation(s)

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year? .....

Yes [ ] No [ X ]

23.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

23.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	2 Address

24.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? .....

Yes [ ] No [ X ]

24.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
9999999. TOTAL		0

24.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding Of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation

## GENERAL INTERROGATORIES

(continued)

### OTHER

25.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any?.....\$ .....

25.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

1 Name	2 Amount Paid
.....	.....

26.1 Amount of payments for legal expenses, if any?.....\$ .....427,155

26.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Plunkett & Cooney.....	259,788
William Brodhead.....	128,000

27.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?.....\$ .....

27.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
.....	.....

# GENERAL INTERROGATORIES

(continued)

## PART 2 - HEALTH INTERROGATORIES

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? ..... Yes [ ] No [ X ]  
 1.2 If yes, indicate premium earned on U. S. business only ..... \$ .....  
 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? ..... \$ .....  
     1.31 Reason for excluding .....

- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above ..... \$ .....  
 1.5 Indicate total incurred claims on all Medicare Supplement Insurance. .... \$ .....

- 1.6 Individual policies:  
     Most current three years:  
     1.61 Total premium earned ..... \$ .....0  
     1.62 Total incurred claims ..... \$ .....0  
     1.63 Number of covered lives ..... \$ .....0  
     All years prior to most current three years:  
     1.64 Total premium earned ..... \$ .....0  
     1.65 Total incurred claims ..... \$ .....0  
     1.66 Number of covered lives ..... \$ .....0

- 1.7 Group policies:  
     Most current three years:  
     1.71 Total premium earned ..... \$ .....0  
     1.72 Total incurred claims ..... \$ .....0  
     1.73 Number of covered lives ..... \$ .....0  
     All years prior to most current three years:  
     1.74 Total premium earned ..... \$ .....0  
     1.75 Total incurred claims ..... \$ .....0  
     1.76 Number of covered lives ..... \$ .....0

2. Health Test:

		1	2
		Current Year	Prior Year
2.1	Premium Numerator	\$ .....125,390,275	\$ .....101,434,147
2.2	Premium Denominator	\$ .....125,390,275	\$ .....101,434,147
2.3	Premium Ratio (2.1/2.2)	.....1.000	.....1.000
2.4	Reserve Numerator	\$ .....17,100,995	\$ .....14,230,000
2.5	Reserve Denominator	\$ .....17,100,995	\$ .....14,230,000
2.6	Reserve Ratio (2.4/2.5)	.....1.000	.....1.000

- 3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits? ..... Yes [ ] No [ X ]

3.2 If yes, give particulars:

- 4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and departments been filed with the appropriate regulatory agency? ..... Yes [ X ] No [ ]  
 4.2 If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? ..... Yes [ ] No [ X ]  
 5.1 Does the reporting entity have stop-loss reinsurance? ..... Yes [ X ] No [ ]  
 5.2 If no, explain:

- 5.3 Maximum retained risk (see instructions)  
     5.31 Comprehensive Medical ..... \$ .....  
     5.32 Medical Only ..... \$ .....450,000  
     5.33 Medicare Supplement ..... \$ .....  
     5.34 Dental ..... \$ .....  
     5.35 Other Limited Benefit Plan ..... \$ .....  
     5.36 Other ..... \$ .....

6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:  
 Hold harmless and continuation clause in contracts

- 7.1 Does the reporting entity set up its claim liability for provider services on a service data base? ..... Yes [ X ] No [ ]  
 7.2 If no, give details:

8. Provide the following Information regarding participating providers:

- 8.1 Number of providers at start of reporting year .....7,248  
 8.2 Number of providers at end of reporting year .....5,134

- 9.1 Does the reporting entity have business subject to premium rate guarantees? ..... Yes [ ] No [ X ]

9.2 If yes, direct premium earned:

- 9.21 Business with rate guarantees between 15-36 months .....  
 9.22 Business with rate guarantees over 36 months .....

# GENERAL INTERROGATORIES

(continued)

## PART 2 - HEALTH INTERROGATORIES

- 10.1 Does the reporting entity have Incentive Pool, Withhold and Bonus/ Arrangements in its provider contract? ..... Yes [ X ] No [ ]
- 10.2 If yes:
- 10.21 Maximum amount payable bonuses ..... \$.....
- 10.22 Amount actually paid for year bonuses ..... \$.....
- 10.23 Maximum amount payable withholds ..... \$.....1,200,000
- 10.24 Amount actually paid for year withholds ..... \$.....784,567
- 11.1 Is the reporting entity organized as:
- 11.12 A Medical Group/Staff Model, ..... Yes [ ] No [ ]
- 11.13 An Individual Practice Association (IPA), or, ..... Yes [ X ] No [ ]
- 11.14 A Mixed Model (combination of above) ?..... Yes [ ] No [ X ]
- 11.2 Is the reporting entity subject to Minimum Net Worth Requirements? ..... Yes [ X ] No [ ]
- 11.3 If yes, show the name of the state requiring such net worth. ....State of Michigan
- 11.4 If yes, show the amount required. .... \$.....8,364,450
- 11.5 Is this amount included as part of a contingency reserve in stockholders equity? ..... Yes [ ] No [ X ]
- 11.6 If the amount is calculated, show the calculation.
- Per RBC Requirements accordng to Section 3551 (4) of Michigan Insurance Code
12. List service areas in which reporting entity is licensed to operate:

1 Name of Service Area
WAYNE, OAKLAND, WASHTENAW AND MACOMB COUNTIES IN THE STATE OF MICHIGAN.....