



ANNUAL STATEMENT

For the Year Ending December 31, 2003

OF THE CONDITION AND AFFAIRS OF THE

MCARE INC.

NAIC Group Code	3414 <small>(Current Period)</small>	3414 <small>(Prior Period)</small>	NAIC Company Code	95449	Employer's ID Number	38-2649504
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[] Dental Service Corporation[] Other[]	Property/Casualty[] Vision Service Corporation[] Is HMO Federally Qualified? Yes[X] No[]	Hospital, Medical & Dental Service or Indemnity[] Health Maintenance Organization[X]			
Date Incorporated or Organized	01/01/1986		Date Commenced Business	10/01/1986		
Statutory Home Office	2301 Commonwealth Blvd. <small>(Street and Number)</small>		Ann Arbor, MI 48105 <small>(City, or Town, State and Zip Code)</small>			
Main Administrative Office	2301 Commonwealth Blvd. <small>(Street and Number)</small>					
	Ann Arbor, MI 48105 <small>(City or Town, State and Zip Code)</small>		(734)747-8700 <small>(Area Code) (Telephone Number)</small>			
Mail Address	2301 Commonwealth Blvd. <small>(Street and Number or P.O. Box)</small>		Ann Arbor, MI 48105 <small>(City, or Town, State and Zip Code)</small>			
Primary Location of Books and Records	2301 Commonwealth <small>(Street and Number)</small>					
	Ann Arbor, MI 48105 <small>(City, or Town, State and Zip Code)</small>		(734)747-8700 <small>(Area Code) (Telephone Number)</small>			
Internet Website Address	www.mcare.net					
Statutory Statement Contact	Elizabeth A. Bergin <small>(Name)</small>		(734)332-2623 <small>(Area Code)(Telephone Number)(Extension)</small>			
	eabergin@mcare.med.umich.edu <small>(E-Mail Address)</small>		(734)332-2177 <small>(Fax Number)</small>			
Policyowner Relations Contact	2301 Commonwealth Blvd. <small>(Street and Number)</small>					
	Ann Arbor, MI 48105 <small>(City, or Town, State and Zip Code)</small>		(734)913-2211 <small>(Area Code) (Telephone Number)(Extension)</small>			

OFFICERS

President	Zelda Geyer-Sylvia
Secretary	Larry Warren
Treasurer	Douglas L. Strong
Chief Financial Officer	Gregory A. Hawkins
Chairman	Robert P. Kelch M.D.

VICE PRESIDENTS

DIRECTORS OR TRUSTEES

Darrell A. Campbell Jr., M.D. Kyle L. Grazier PhD Robert P. Kelch M.D. Jean M. Malouin M.D. Timothy P. Slottow Larry Warren	Zelda Geyer-Sylvia Sally Joy Allen S. Lichter M.D. Richard C. Petrocelli Douglas L. Strong Miriam M. Weinger
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State of Michigan
 County of Washtenaw ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the 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.

_____ <small>(Signature)</small> Zelda Geyer-Sylvia <small>(Printed Name)</small> President	_____ <small>(Signature)</small> Larry Warren <small>(Printed Name)</small> Secretary	_____ <small>(Signature)</small> Douglas L. Strong <small>(Printed Name)</small> Treasurer
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Subscribed and sworn to before me this _____ day of _____, 2004	a. Is this an original filing? b. If no, <ol style="list-style-type: none"> 1. State the amendment number 2. Date filed 3. Number of pages attached 	Yes[] No[X] _____ 1 _____ 05/07/2004 _____ 69
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(Notary Public Signature)

ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols.1-2)	4 Net Admitted Assets
1. Bonds (Schedule D)	23,934,199		23,934,199	23,373,779
2. Stocks (Schedule D)				
2.1 Preferred stocks				
2.2 Common Stocks	13,901,667		13,901,667	10,585,389
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens				
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$..... encumbrances)				
4.2 Properties held for the production of income (less \$..... encumbrances)				
4.3 Properties held for sale (less \$..... encumbrances)				
5. Cash (\$.....4,921,900 Schedule E Part 1), cash equivalents (\$.....16,646,387 Schedule E Part 2) and short-term investments (\$.....68,629,435 Schedule DA)	90,197,722		90,197,722	96,987,859
6. Contract loans (including \$..... premium notes)				
7. Other invested assets (Schedule BA)	2,116,856		2,116,856	1,048,319
8. Receivable for securities				
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	130,150,444		130,150,444	131,995,346
11. Investment income due and accrued	315,137		315,137	508,227
12. Premiums and considerations				
12.1 Uncollected premiums and agents' balances in the course of collection	2,500,645	37,857	2,462,788	1,853,065
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (Including \$..... earned but unbilled premiums)				
12.3 Accrued retrospective premiums				
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers				
13.2 Funds held by or deposited with reinsured companies				
13.3 Other amounts receivable under reinsurance contracts				
14. Amounts receivable relating to uninsured plans				
15.1 Current federal and foreign income tax recoverable and interest thereon				
15.2 Net deferred tax asset				
16. Guaranty funds receivable or on deposit				
17. Electronic data processing equipment and software	1,589,634	1,021,591	568,043	902,124
18. Furniture and equipment, including health care delivery assets (\$.....)	189,868	189,868		352,604
19. Net adjustment in assets and liabilities due to foreign exchange rates				
20. Receivables from parent, subsidiaries and affiliates				
21. Health care (\$.....) and other amounts receivable				
22. Other assets nonadmitted				
23. Aggregate write-ins for other than invested assets	3,773,527	3,773,527		676,352
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	138,519,255	5,022,843	133,496,412	136,287,718
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	138,519,255	5,022,843	133,496,412	136,287,718
DETAILS OF WRITE-INS				
0901				
0902				
0903				
0998. Summary of remaining write-ins for Line 9 from overflow page				
0999. TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above)				
2301. Leasehold Improvements	816,150	816,150		676,352
2302. Prepaid Expenses	2,957,377	2,957,377		
2303				
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above)	3,773,527	3,773,527		676,352

LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$..... reinsurance ceded)	42,597,108		42,597,108	61,323,283
2. Accrued medical incentive pool and bonus amounts	24,914,861		24,914,861	18,995,264
3. Unpaid claims adjustment expenses	1,622,821		1,622,821	
4. Aggregate health policy reserves				
5. Aggregate life policy reserves				
6. Property/casualty unearned premium reserves				
7. Aggregate health claim reserves				
8. Premiums received in advance	8,205,743		8,205,743	10,145,878
9. General expenses due or accrued	4,615,675		4,615,675	4,235,947
10.1 Current federal and foreign income tax payable and interest thereon (including \$..... on realized capital gains (losses))				
10.2 Net deferred tax liability				
11. Ceded reinsurance premiums payable				
12. Amounts withheld or retained for the account of others				
13. Remittance and items not allocated				
14. Borrowed money (including \$..... current) and interest thereon \$..... (including \$..... current)				
15. Amounts due to parent, subsidiaries and affiliates				
16. Payable for securities				
17. Funds held under reinsurance treaties with (\$..... authorized reinsurers and \$..... unauthorized reinsurers)				
18. Reinsurance in unauthorized companies				
19. Net adjustments in assets and liabilities due to foreign exchange rates				
20. Liability for amounts held under uninsured accident and health plans				
21. Aggregate write-ins for other liabilities (including \$..... current)				
22. TOTAL Liabilities (Lines 1 to 21)	81,956,208		81,956,208	94,700,372
23. Common capital stock	X X X	X X X		
24. Preferred capital stock	X X X	X X X		
25. Gross paid in and contributed surplus	X X X	X X X		
26. Surplus notes	X X X	X X X	4,331,446	4,331,446
27. Aggregate write-ins for other than special surplus funds	X X X	X X X		
28. Unassigned funds (surplus)	X X X	X X X	47,208,758	37,214,647
29. Less treasury stock, at cost:	X X X	X X X		
29.1 shares common (value included in Line 23 \$.....)	X X X	X X X		
29.2 shares preferred (value included in Line 24 \$.....)	X X X	X X X		
30. TOTAL capital and surplus (Lines 23 to 28 minus Line 29)	X X X	X X X	51,540,204	41,546,093
31. TOTAL Liabilities, capital and surplus (Lines 22 and 30)	X X X	X X X	133,496,412	136,246,465
DETAILS OF WRITE-INS				
2101				
2102				
2103				
2198. Summary of remaining write-ins for Line 21 from overflow page				
2199. TOTALS (Lines 2101 through 2103 plus 2198) (Line 21 above)				
2701	X X X	X X X		
2702	X X X	X X X		
2703	X X X	X X X		
2798. Summary of remaining write-ins for Line 27 from overflow page	X X X	X X X		
2799. TOTALS (Lines 2701 through 2703 plus 2798) (Line 27 above)	X X X	X X X		

STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member Months	X X X	2,310,920	2,426,305
2. Net premium income (including \$..... non-health premium income)	X X X	458,020,490	488,681,852
3. Change in unearned premium reserves and reserve for rate credits	X X X		
4. Fee-for-service (net of \$..... medical expenses)	X X X		
5. Risk revenue	X X X		
6. Aggregate write-ins for other health care related revenues	X X X		
7. Aggregate write-ins for other non-health revenues	X X X		
8. TOTAL revenues (Lines 2 to 7)	X X X	458,020,490	488,681,852
Hospital and Medical:			
9. Hospital/medical benefits		311,459,417	319,917,977
10. Other professional services			
11. Outside referrals			
12. Emergency room and out-of-area		3,234,215	2,889,161
13. Prescription drugs		48,984,895	71,348,236
14. Aggregate write-ins for other hospital and medical		31,558,466	37,558,322
15. Incentive pool, withhold adjustments and bonus amounts		20,636,030	19,688,760
16. Subtotal (Lines 9 to 15)		415,873,023	451,402,456
Less:			
17. Net reinsurance recoveries			
18. TOTAL hospital and medical (Lines 16 minus 17)		415,873,023	451,402,456
19. Non-health claims			
20. Claims adjustment expenses			
21. General administrative expenses		33,683,203	35,420,712
22. Increase in reserves for life and accident and health contracts (including \$..... increase in reserves for life only)			
23. TOTAL underwriting deductions (Lines 18 through 22)		449,556,226	486,823,168
24. Net underwriting gain or (loss) (Lines 8 minus 23)	X X X	8,464,264	1,858,684
25. Net investment income earned		1,922,594	3,210,604
26. Net realized capital gains or (losses)		134,373	150,265
27. Net investment gains or (losses) (Lines 25 plus 26)		2,056,967	3,360,869
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....) (amount charged off \$.....)]			
29. Aggregate write-ins for other income or expenses		(1,343,000)	(886,000)
30. Net income or (loss) before federal income taxes (Lines 24 plus 27 plus 28 plus 29)	X X X	9,178,231	4,333,553
31. Federal and foreign income taxes incurred	X X X		
32. Net income (loss) (Lines 30 minus 31)	X X X	9,178,231	4,333,553
DETAILS OF WRITE-INS			
0601	X X X		
0602	X X X		
0603	X X X		
0698. Summary of remaining write-ins for Line 6 from overflow page	X X X		
0699. TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above)	X X X		
0701	X X X		
0702	X X X		
0703	X X X		
0798. Summary of remaining write-ins for Line 7 from overflow page	X X X		
0799. TOTALS (Line 0701 through 0703 plus 0798) (Line 7 above)	X X X		
1401. Misc Health and Mental Health		30,786,974	36,888,108
1402. Stop-Loss Insurance		771,492	670,214
1403			
1498. Summary of remaining write-ins for Line 14 from overflow page			
1499. TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above)		31,558,466	37,558,322
2901. Interest Expense on Note Payable		(1,343,000)	(886,000)
2902			
2903			
2998. Summary of remaining write-ins for Line 29 from overflow page			
2999. TOTALS (Line 2901 through 2903 plus 2998) (Line 29 above)		(1,343,000)	(886,000)

STATEMENT OF REVENUE AND EXPENSES (Continued)

	1 Current Year	2 Prior Year
CAPITAL & SURPLUS ACCOUNT		
33. Capital and surplus prior reporting year	41,546,093	40,691,101
GAINS AND LOSSES TO CAPITAL & SURPLUS		
34. Net income or (loss) from Line 32	9,178,231	4,333,553
35. Change in valuation basis of aggregate policy and claim reserves		
36. Net unrealized capital gains and losses	3,413,172	(2,183,562)
37. Change in net unrealized foreign exchange capital gain or (loss)		
38. Change in net deferred income tax		
39. Change in nonadmitted assets	(1,781,143)	(1,294,999)
40. Change in unauthorized reinsurance		
41. Change in treasury stock		
42. Change in surplus notes		
43. Cumulative effect of changes in accounting principles	(816,150)	
44. Capital Changes:		
44.1 Paid in		
44.2 Transferred from surplus (Stock Dividend)		
44.3 Transferred to surplus		
45. Surplus adjustments:		
45.1 Paid in		
45.2 Transferred to capital (Stock Dividend)		
45.3 Transferred from capital		
46. Dividends to stockholders		
47. Aggregate write-ins for gains or (losses) in surplus		
48. Net change in capital and surplus (Lines 34 to 47)	9,994,110	854,992
49. Capital and surplus end of reporting year (Line 33 plus 48)	51,540,203	41,546,093
DETAILS OF WRITE-INS		
4701. 0		
4702		
4703		
4798. Summary of remaining write-ins for Line 47 from overflow page		
4799. TOTALS (Lines 4701 through 4703 plus 4798) (Line 47 above)		

CASH FLOW

		1	2
		Current Year	Prior Year
Cash from Operations			
1.	Premiums collected net of reinsurance	455,432,773	484,866,870
2.	Net investment income	2,115,684	3,793,423
3.	Miscellaneous income		
4.	Total (Lines 1 through 3)	457,548,457	488,660,293
5.	Benefit and loss related payments	428,679,601	444,951,309
6.	Net transfers to Separate, Segregated and Protected Cell Accounts		
7.	Commissions, expenses paid and aggregate write-ins for deductions	33,403,382	36,306,713
8.	Dividends paid to policyholders		
9.	Federal and foreign income taxes paid (recovered) \$..... net tax on capital gains (losses)		
10.	Total (Lines 5 through 9)	462,082,983	481,258,022
11.	Net cash from operations (Lines 4 minus 10)	(4,534,526)	7,402,271
Cash from Investments			
12.	Proceeds from investments sold, matured or repaid:		
12.1	Bonds	19,874,528	495,000
12.2	Stocks		
12.3	Mortgage loans		
12.4	Real estate		
12.5	Other invested assets		
12.6	Net gains or (losses) on cash and short-term investments	(5,280)	11,191
12.7	Miscellaneous proceeds	204,967	
12.8	Total investment proceeds (Lines 12.1 to 12.7)	20,074,215	506,191
13.	Cost of investments acquired (long-term only):		
13.1	Bonds	20,637,345	17,002,393
13.2	Stocks	134,560	4,415,822
13.3	Mortgage loans		
13.4	Real estate		
13.5	Other invested assets	700,000	1,050,000
13.6	Miscellaneous applications	0	
13.7	Total investments acquired (Lines 13.1 to 13.6)	21,471,905	22,468,215
14.	Net increase (or decrease) in policy loans and premium notes		
15.	Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	(1,397,690)	(21,962,024)
Cash from Financing and Miscellaneous Sources			
16.	Cash provided (applied):		
16.1	Surplus notes, capital notes		
16.2	Capital and paid in surplus, less treasury stock		
16.3	Borrowed funds received		
16.4	Net deposits on deposit-type contracts and other insurance liabilities		
16.5	Dividends to stockholders		
16.6	Other cash provided (applied)	(857,922)	795,627
17.	Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(857,922)	795,627
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS			
18.	Net change in cash and short-term investments (Line 11, plus Line 15, plus Line 17)	(6,790,138)	(13,764,126)
19.	Cash and short-term investments:		
19.1	Beginning of year	96,987,859	110,751,985
19.2	End of year (Line 18 plus Line 19.1)	90,197,721	96,987,859

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS (Gain and Loss Exhibit)

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employee Health Benefit Plan	Title XVIII- Medicare	Title XIX- Medicaid	Stop Loss	Disability Income	Long- term Care	Other Health	Other Non-Health
1. Net premium income	458,020,490	390,098,227				21,611,201	46,311,062						
2. Change in unearned premium reserves and reserve for rate credit													
3. Fee-for-service (net of \$..... medical expenses)													XXX
4. Risk revenue													XXX
5. Aggregate write-ins for other health care related revenues													XXX
6. Aggregate write-ins for other non-health care related revenues		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
7. TOTAL revenues (Lines 1 to 6)	458,020,490	390,098,227				21,611,201	46,311,062						
8. Hospital/medical benefits	311,459,417	258,266,637				16,436,329	36,756,451						XXX
9. Other professional services													XXX
10. Outside referrals													XXX
11. Emergency room and out-of-area	3,234,215	2,987,449					246,766						XXX
12. Prescription drugs	48,984,895	43,793,062				4,452,290	739,543						XXX
13. Aggregate write-ins for other hospital and medical	31,558,466	26,306,409				117,845	5,134,212						XXX
14. Incentive pool, withhold adjustments and bonus amounts	20,636,030	19,429,270					1,206,760						XXX
15. Subtotal (Lines 8 to 14)	415,873,023	350,782,827				21,006,464	44,083,732						XXX
16. Net reinsurance recoveries													XXX
17. TOTAL hospital and medical (Lines 15 minus 16)	415,873,023	350,782,827				21,006,464	44,083,732						XXX
18. Non-health claims (net)		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
19. Claims adjustment expenses													
20. General administrative expenses	33,683,203	28,807,528				1,321,307	3,554,368						
21. Increase in reserves for accident and health contracts													XXX
22. Increase in reserves for life contracts		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
23. TOTAL underwriting deductions (Lines 17 to 22)	449,556,226	379,590,355				22,327,771	47,638,100						
24. Net underwriting gain or (loss) (Line 7 minus Line 23)	8,464,264	10,507,872				(716,570)	(1,327,038)						
DETAILS OF WRITE-INS													
0501													XXX
0502													XXX
0503													XXX
0598. Summary of remaining write-ins for Line 5 from overflow page													XXX
0599. TOTALS (Lines 0501 through 0503 plus 0598) (Line 5 above)													XXX
0601		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0602		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0698. Summary of remaining write-ins for Line 6 from overflow page		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0699. TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above)		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
1301. Misc. Medical and Mental Health	30,786,974	25,554,627				117,845	5,114,502						XXX
1302. Stop-Loss Insurance	771,492	751,782					19,710						XXX
1303													XXX
1398. Summary of remaining write-ins for Line 13 from overflow page													XXX
1399. TOTALS (Lines 1301 through 1303 plus 1398) (Line 13 above)	31,558,466	26,306,409				117,845	5,134,212						XXX

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

Line of Business	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Ceded	4 Net Premium Income (Columns 1 + 2 - 3)
1. Comprehensive (hospital and medical)	390,098,227			390,098,227
2. Medicare Supplement				
3. Dental only				
4. Vision only				
5. Federal Employee Health Benefits Plan	21,611,201			21,611,201
6. Title XVIII - Medicare	46,311,062			46,311,062
7. Title XIX - Medicaid				
8. Stop loss				
9. Disability income				
10. Long-term care				
11. Other health				
12. Health subtotal (Lines 1 through 11)	458,020,490			458,020,490
13. Life				
14. Property/casualty				
15. TOTALS (Lines 12 to 14)	458,020,490			458,020,490

UNDERWRITING AND INVESTMENT EXHIBIT**PART 2 - Claims Incurred During the Year**

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Payments during the year:													
1.1 Direct	412,340,348	325,699,593				11,543,393	75,097,362						
1.2 Reinsurance assumed													
1.3 Reinsurance ceded													
1.4 Net	412,340,348	325,699,593				11,543,393	75,097,362						
2. Paid medical incentive pools and bonuses	14,716,433	14,594,218					594,512	(472,297)					
3. Claim liability December 31, current year from Part 2A:													
3.1 Direct	44,219,928	36,365,551				425,639	7,428,738						
3.2 Reinsurance assumed													
3.3 Reinsurance ceded													
3.4 Net	44,219,928	36,365,551				425,639	7,428,738						
4. Claim reserve December 31, current year from Part 2D:													
4.1 Direct													
4.2 Reinsurance assumed													
4.3 Reinsurance ceded													
4.4 Net													
5. Accrued medical incentive pools and bonuses, current year	24,914,861	24,536,920					377,941						
6. Amounts recoverable from reinsurers December 31, current year													
7. Claim liability December 31, prior year from Part 2A:													
7.1 Direct	61,323,282	36,904,226				314,976	24,104,080						
7.2 Reinsurance assumed													
7.3 Reinsurance ceded													
7.4 Net	61,323,282	36,904,226				314,976	24,104,080						
8. Claim reserve December 31, prior year from Part 2D:													
8.1 Direct													
8.2 Reinsurance assumed													
8.3 Reinsurance ceded													
8.4 Net													
9. Accrued medical incentive pools and bonuses, prior year	18,995,265	18,682,552					785,010	(472,297)					
10. Amounts recoverable from reinsurers December 31, prior year													
11. Incurred benefits:													
11.1 Direct	395,236,994	325,160,918				11,654,056	58,422,020						
11.2 Reinsurance assumed													
11.3 Reinsurance ceded													
11.4 Net	395,236,994	325,160,918				11,654,056	58,422,020						
12. Incurred medical incentive pools and bonuses	20,636,029	20,448,586					187,443						

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - Claims Liability End of Current Year

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Compre- hensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Reported in Process of Adjustment:													
1.1 Direct	9,902,213	8,238,688					1,663,525						
1.2 Reinsurance assumed													
1.3 Reinsurance ceded													
1.4 Net	9,902,213	8,238,688					1,663,525						
2. Incurred but Unreported:													
2.1 Direct	34,317,715	28,126,863				425,639	5,765,213						
2.2 Reinsurance assumed													
2.3 Reinsurance ceded													
2.4 Net	34,317,715	28,126,863				425,639	5,765,213						
3. Amounts Withheld from Paid Claims and Capitations:													
3.1 Direct													
3.2 Reinsurance assumed													
3.3 Reinsurance ceded													
3.4 Net													
4. TOTALS													
4.1 Direct	44,219,928	36,365,551				425,639	7,428,738						
4.2 Reinsurance assumed													
4.3 Reinsurance ceded													
4.4 Net	44,219,928	36,365,551				425,639	7,428,738						

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID-PRIOR YEAR-NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5	6
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical)	31,893,129	293,806,464	600,320	34,142,411	32,493,449	36,903,085
2. Medicare Supplement						
3. Dental only						
4. Vision only						
5. Federal Employees Health Benefits Plan	2,482,181	9,061,212	75,876	349,763	2,558,057	316,118
6. Title XVIII - Medicare	16,962,425	58,134,937	284,447	7,144,291	17,246,872	24,104,080
7. Title XIX - Medicaid						
8. Other health						
9. Health subtotal (Lines 1 to 8)	51,337,735	361,002,613	960,643	41,636,465	52,298,378	61,323,283
10. Other non-health						
11. Medical incentive pool and bonus amounts	14,716,433		1,832,269	23,082,592	16,548,702	18,995,264
12. TOTALS (Lines 9 to 11)	66,054,168	361,002,613	2,792,912	64,719,057	68,847,080	80,318,547

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)

Grand Total

Section A - Paid Health Claims

Year in Which Losses Were Incurred		Cumulative Net Amounts Paid				
		1 1999	2 2000	3 2001	4 2002	5 2003
1.	Prior					
2.	1999					
3.	2000	X X X				
4.	2001	X X X	X X X	489		
5.	2002	X X X	X X X	X X X	36,132	
6.	2003	X X X	X X X	X X X	X X X	214,348

Section B - Incurred Health Claims

Year in Which Losses Were Incurred		Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
		1 1999	2 2000	3 2001	4 2002	5 2003
1.	Prior					
2.	1999					
3.	2000	X X X				
4.	2001	X X X	X X X	560		
5.	2002	X X X	X X X	X X X	37,022	
6.	2003	X X X	X X X	X X X	X X X	250,790

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in Which Premiums were Earned and Claims were Incurred		1	2	3	4	5	6	7	8	9	10
		Premiums Earned	Claims Payments	Claim Adjustment Expense Payments	(Col. 3/2) Percent	Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	(Col. 5/1) Percent	Claims Unpaid	Unpaid Claims Adjustment Expenses	Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	(Col. 9/1) Percent
1.	Prior to 1999	X X X			X X X		X X X				X X X
2.	1999										
3.	2000										
4.	2001		508			508				508	
5.	2002		50,829			50,829		2,792		53,621	
6.	2003	458,011	361,002			361,002	78.820	64,679	1,623	427,304	93.296
7.	TOTAL (Lines 1 through 6)	X X X	412,339		X X X	412,339	X X X	67,471	1,623	481,433	X X X
8.	TOTAL (Lines 2 through 6)	458,011	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X

12 Total

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)

Hospital and Medical
Section A - Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior					
2. 1999					
3. 2000	X X X				
4. 2001	X X X	X X X	373		
5. 2002	X X X	X X X	X X X	22,531	
6. 2003	X X X	X X X	X X X	X X X	169,586

Section B - Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior					
2. 1999					
3. 2000	X X X				
4. 2001	X X X	X X X	389		
5. 2002	X X X	X X X	X X X	23,116	
6. 2003	X X X	X X X	X X X	X X X	198,926

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9/1) Percent
1. Prior to 1999	X X X			X X X		X X X				X X X
2. 1999										
3. 2000										
4. 2001		373			373				373	
5. 2002		31,520			31,520		2,432		33,952	
6. 2003	390,089	293,806			293,806	75.318	57,185	1,623	352,614	90.393
7. TOTAL (Lines 1 through 6)	X X X	325,699		X X X	325,699	X X X	59,617	1,623	386,939	X X X
8. TOTAL (Lines 2 through 6)	390,089	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X

12 Hospital and Medical

- 12 Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Medicare Supplement NONE

- 12 Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Medicare Supplement . . . NONE

- 12 Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Medicare Supplement . . . NONE

- 12 Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Dental Only. NONE

- 12 Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Dental Only. NONE

- 12 Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Dental Only. NONE

- 12 Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Vision Only. NONE

- 12 Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Vision Only. NONE

- 12 Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Vision Only. NONE

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)
Federal Employees Health Benefits Plan Premiums
Section A - Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior					
2. 1999					
3. 2000	X X X				
4. 2001	X X X	X X X	(19)		
5. 2002	X X X	X X X	X X X	1,781	
6. 2003	X X X	X X X	X X X	X X X	9,061

Section B - Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior					
2. 1999					
3. 2000	X X X				
4. 2001	X X X	X X X	(19)		
5. 2002	X X X	X X X	X X X	1,857	
6. 2003	X X X	X X X	X X X	X X X	9,411

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9/1) Percent
1. Prior to 1999	X X X			X X X		X X X				X X X
2. 1999										
3. 2000										
4. 2001										
5. 2002		2,482			2,482		76		2,558	
6. 2003	21,611	9,061			9,061	41.928	350		9,411	43.546
7. TOTAL (Lines 1 through 6)	X X X	11,543		X X X	11,543	X X X	426		11,969	X X X
8. TOTAL (Lines 2 through 6)	21,611	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X

12 Fed Emp HBPP

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)

Title XVIII - Medicare

Section A - Paid Health Claims

Year in Which Losses Were Incurred		Cumulative Net Amounts Paid				
		1 1999	2 2000	3 2001	4 2002	5 2003
1.	Prior					
2.	1999					
3.	2000	X X X				
4.	2001	X X X	X X X	135		
5.	2002	X X X	X X X	X X X	11,820	
6.	2003	X X X	X X X	X X X	X X X	35,701

Section B - Incurred Health Claims

Year in Which Losses Were Incurred		Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
		1 1999	2 2000	3 2001	4 2002	5 2003
1.	Prior					
2.	1999					
3.	2000	X X X				
4.	2001	X X X	X X X	190		
5.	2002	X X X	X X X	X X X	12,049	
6.	2003	X X X	X X X	X X X	X X X	42,453

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9/1) Percent
1. Prior to 1999	X X X			X X X		X X X				X X X
2. 1999										
3. 2000										
4. 2001		135			135				135	
5. 2002		16,827			16,827		284		17,111	
6. 2003	46,311	58,135			58,135	125.532	7,144		65,279	140.958
7. TOTAL (Lines 1 through 6)	X X X	75,097		X X X	75,097	X X X	7,428		82,525	X X X
8. TOTAL (Lines 2 through 6)	46,311	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X	X X X

12 Title XVIII-Medicare

12 Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Title XIX-Medicaid NONE

12 Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Title XIX-Medicaid NONE

12 Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Title XIX-Medicaid NONE

12 Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Other NONE

12 Underwriting Invest Exh Pt 2C Sn B - Incur Claims - Other NONE

12 Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Other NONE

13 Underwriting Invest Exh Pt 2D - A & H Reserve - NONE

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

		1 Claim Adjustment Expenses	2 General Administrative Expenses	3 Investment Expenses	4 Total
1.	Rent (\$..... for occupancy of own building)		2,795,758		2,795,758
2.	Salaries, wages and other benefits		23,451,921		23,451,921
3.	Commissions (less \$..... ceded plus \$..... assumed)				
4.	Legal fees and expenses				
5.	Certifications and accreditation fees		69,335		69,335
6.	Auditing, actuarial and other consulting services		888,558		888,558
7.	Traveling expenses		132,157		132,157
8.	Marketing and advertising		1,726,430		1,726,430
9.	Postage, express and telephone		1,211,979		1,211,979
10.	Printing and office supplies				
11.	Occupancy, depreciation and amortization		421,601		421,601
12.	Equipment		1,767,752		1,767,752
13.	Cost or depreciation of EDP equipment and software		806,331		806,331
14.	Outsourced services including EDP, claims, and other services		197,494		197,494
15.	Boards, bureaus and association fees		213,887		213,887
16.	Insurance, except on real estate				
17.	Collection and bank service charges				
18.	Group service and administration fees				
19.	Reimbursements by uninsured accident and health plans				
20.	Reimbursements from fiscal intermediaries				
21.	Real estate expenses				
22.	Real estate taxes				
23.	Taxes, licenses and fees:				
	23.1 State and local insurance taxes				
	23.2 State premium taxes				
	23.3 Regulator authority licenses and fees				
	23.4 Payroll taxes				
	23.5 Other (excluding federal income and real estate taxes)				
24.	Investment expenses not included elsewhere			66,324	66,324
25.	Aggregate write-ins for expenses				
26.	Total expenses incurred (Lines 1 to 25)		33,683,203	66,324	(a) 33,749,527
27.	Less expenses unpaid December 31, current year		4,615,675		4,615,675
28.	Add expenses unpaid December 31, prior year		4,235,947		4,235,947
29.	Amounts receivable relating to uninsured accident and health plans, prior year				
30.	Amounts receivable relating to uninsured accident and health plans, current year				
31.	Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)		33,303,475	66,324	33,369,799
DETAILS OF WRITE-INS					
2501	.....			
2502	.....			
2503	.....			
2598.	Summary of remaining write-ins for Line 25 from overflow page				
2599.	Totals (Lines 2501 through 2503 + 2598)(Line 25 above)				

(a) Includes management fees of \$..... to affiliates and \$..... to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. Government bonds	(a)..... 30,490	..... 32,006
1.1	Bonds exempt from U.S. tax	(a).....	.....
1.2	Other bonds (unaffiliated)	(a)..... 525,897	..... 525,897
1.3	Bonds of affiliates	(a).....	.....
2.1	Preferred stocks (unaffiliated)	(b).....	.....
2.11	Preferred stocks of affiliates	(b).....	.....
2.2	Common stocks (unaffiliated) .....	..... 134,560	..... 134,560
2.21	Common stocks of affiliates .....	.....	.....
3.	Mortgage loans	(c).....	.....
4.	Real estate	(d).....	.....
5.	Contract loans .....	.....	.....
6.	Cash/short-term investments	(e)..... 2,189,820	..... 1,455,134
7.	Derivative instruments	(f).....	.....
8.	Other invested assets .....	.....	.....
9.	Aggregate write-ins for investment income .....	.....	.....
10.	Total gross investment income .....	..... 2,880,767	..... 2,147,597
11.	Investment expenses .....	.....	(g)..... 66,324
12.	Investment taxes, licenses and fees, excluding federal income taxes .....	.....	(g).....
13.	Interest expense .....	.....	(h)..... 158,679
14.	Depreciation on real estate and other invested assets .....	.....	(i).....
15.	Aggregate write-ins for deductions from investment income .....	.....	.....
16.	Total deductions (Lines 11 through 15) .....	.....	..... 225,003
17.	Net Investment income (Line 10 minus Line 16) .....	.....	..... 1,922,594
DETAILS OF WRITE-INS			
0901	.....	.....	.....
0902	.....	.....	.....
0903	.....	.....	.....
0998.	Summary of remaining write-ins for Line 9 from overflow page .....	.....	.....
0999.	TOTALS (Lines 0901 through 0903 plus 0998) (Line 9, above) .....	.....	.....
1501.	Adjustment to long term investment balance .....	.....	.....
1502	.....	.....	.....
1503	.....	.....	.....
1598.	Summary of remaining write-ins for Line 15 from overflow page .....	.....	.....
1599.	TOTALS (Lines 1501 through 1503 plus 1598) (Line 15, above) .....	.....	.....

- (a) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued interest on purchases.
(b) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued dividends on purchases.
(c) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued interest on purchases.
(d) Includes \$..... for company's occupancy of its own buildings; and excluding \$..... interest on encumbrances.
(e) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued interest on purchases.
(f) Includes \$..... accrual of discount less \$..... amortization of premium.
(g) Includes \$..... investment expenses and \$..... investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
(h) Includes \$..... interest on surplus notes and \$..... interest on capital notes.
(i) Includes \$..... depreciation on real estate and \$..... depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1	2	3	4	5
		Realized Gain (Loss) on Sales or Maturity	Other Realized Adjustments	Increases (Decreases) by Adjustment	Net Gain (Loss) from Change in Difference Between Basis Book/Adjusted Carrying and Admitted Values	Total
1.	U.S. Government bonds .....	.....	.....	..... (6,371)	.....	..... (6,371)
1.1	Bonds exempt from U.S. tax .....	.....	.....	.....	.....	.....
1.2	Other bonds (unaffiliated) .....	..... 126,970	.....	..... (118,029)	.....	..... 8,941
1.3	Bonds of affiliates .....	.....	.....	.....	.....	.....
2.1	Preferred stocks (unaffiliated) .....	.....	.....	.....	.....	.....
2.11	Preferred stocks of affiliates .....	.....	.....	.....	.....	.....
2.2	Common stocks (unaffiliated) .....	.....	.....	..... 3,181,718	.....	..... 3,181,718
2.21	Common stocks of affiliates .....	.....	.....	.....	.....	.....
3.	Mortgage loans .....	.....	.....	.....	.....	.....
4.	Real estate .....	.....	.....	.....	.....	.....
5.	Contract loans .....	.....	.....	.....	.....	.....
6.	Cash/short-term investments .....	..... 7,403	.....	..... (12,682)	.....	..... (5,280)
7.	Derivative instruments .....	.....	.....	.....	.....	.....
8.	Other invested assets .....	.....	.....	..... 368,537	.....	..... 368,537
9.	Aggregate write-ins for capital gains (losses) .....	.....	.....	.....	.....	.....
10.	Total capital gains (losses) .....	..... 134,373	.....	..... 3,413,172	.....	..... 3,547,545
DETAILS OF WRITE-INS						
0901	.....	.....	.....	.....	.....	.....
0902	.....	.....	.....	.....	.....	.....
0903	.....	.....	.....	.....	.....	.....
0998.	Summary of remaining write-ins for Line 9 from overflow page .....	.....	.....	.....	.....	.....
0999.	TOTALS (Lines 0901 through 0903 plus 0998) (Line 9, above) .....	.....	.....	.....	.....	.....

EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS AND RELATED ITEMS

	1 End of Current Year	2 End of Prior Year	3 Changes for Year (Increase) or Decrease
1. Summary of items Page 2, Lines 12 to 20, Column 2	1,249,316	926,626	(322,690)
2. Other Nonadmitted Assets:			
2.1 Bills receivable			
2.2 Leasehold improvements			
2.3 Cash advanced to or in the hands of officers and agents			
2.4 Loans on personal security, endorsed or not			
2.5 Commuted commissions			
3. Total (Lines 2.1 to 2.5)			
4. Aggregate write-ins for other assets	2,957,377	1,498,924	(1,458,453)
5. TOTAL (Line 1 plus Line 3 and Line 4)	4,206,693	2,425,550	(1,781,143)
DETAILS OF WRITE-INS			
0401. Prepaid Expenses	2,957,377	1,498,924	(1,458,453)
0402			
0403			
0498. Summary of remaining write-ins for Line 4 from overflow page			
0499. TOTALS (Lines 0401 through 0403 plus 0498) (Line 4 above)	2,957,377	1,498,924	(1,458,453)

EXHIBIT 2 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health Maintenance Organizations	155,467	160,309	161,775	162,676	161,521	1,949,754
2. Provider Service Organizations						
3. Preferred Provider Organizations						
4. Point of Service	25,200	24,358	24,352	23,966	25,021	295,163
5. Indemnity Only						
6. Aggregate write-ins for other lines of business	24,503	5,813	5,505	5,323	5,006	66,003
7. TOTAL	205,170	190,480	191,632	191,965	191,548	2,310,920
DETAILS OF WRITE-INS						
0601. Medicare	10,006	5,813	5,505	5,323	5,006	66,003
0602. Medicaid	14,497					
0603						
0698. Summary of remaining write-ins for Line 6 from overflow page						
0699. TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above)	24,503	5,813	5,505	5,323	5,006	66,003

Notes to Financial Statement

THE UNIVERSITY OF MICHIGAN
M-CARE

Notes to Statutory Filing
December 31, 2003 and 2002

Note 1-Operations and Summary of Significant Accounting Policies

Organization and Basis of Presentation: The Regents of The University of Michigan ("University") have the ultimate responsibility for M-CARE ("the Corporation"), and as part of the University, the financial statements of the Corporation are included in the combined financial statements of the University. As part of the University, the Corporation is a tax-exempt entity under the provisions of section 501(c)(4) of the Internal Revenue Code. The Corporation is regulated and licensed by the State of Michigan Office of Financial and Insurance Services ("OFIS") and must submit periodic filings under rules promulgated by the State of Michigan. The Corporation was established by the University for the purpose of operating a health maintenance organization and in connection therewith, utilizes assets, the title to which is vested in the University.

During 2002, the Corporation established a wholly owned, not for profit Health Maintenance Organization ("HMO") subsidiary named M-CAID to contract directly with the State of Michigan to administer Medicaid products. M-CAID's operations began in 2003.

Summary of Significant Accounting Policies: The financial statements have been prepared in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual except to the extent that the laws of the State of Michigan differ. The State of Michigan adopted codification guidance effective January 1, 2003.

For the purposes of the Statement of Cash Flows, highly liquid investments, excluding noncurrent investments, with an original maturity of three months or less are considered cash equivalents.

Investments in marketable securities are carried at fair value, as established by the major securities markets. Purchases and sales of investments are accounted for on a trade date basis. Investment income, including interest income, dividends, and realized and unrealized gains and losses on investments, is recorded on an accrual basis.

The Corporation wholly owns its subsidiary, M-CAID. This asset's value is stated at M-CAID's statutory capital and surplus balance, and is recorded in other invested assets.

The Corporation contracts with various health care providers for the provision of medical care services to its subscribers. The Corporation compensates providers under capitation and fee-for-service arrangements. Expenses for health care services are accrued as they are rendered, including an estimate of expenses incurred but not reported. The methods for making such estimates are regularly reviewed and updated, and any adjustments resulting therein are reflected in current operations.

Subscription premiums are recognized as revenue in the period in which the member is entitled to service. Premiums collected prior to the effective date of coverage are classified as unearned subscription income.

The preparation of financial statements in conformity with the Annual Statement Instructions and *Accounting Practices and Procedures* manual requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Accounting Changes and Corrections of Errors

The Corporation prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the State of Michigan. Effective January 1, 2003, the State of Michigan required that HMO's in the state prepare their statutory basis financial statements in accordance with the NAIC *Accounting Practices and Procedures* manual.

Accounting changes adopted to conform to the provisions of the NAIC *Accounting Practices and Procedures* manual are reported as change in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to surplus in the period of the change in accounting principle. The cumulative effect is

Notes to Financial Statement

the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. As a result of these changes, the Corporation reported a change of accounting principle, as an adjustment that decreased surplus of \$816,150 as of January 1, 2003.

Note 3 - Business Combinations and Goodwill

This note does not apply to the Corporation in this period.

Note 4 - Discontinued Operations

The Corporation discontinued operations in Medicaid after December 31, 2002. At January 1, 2003, all Medicaid operations were included under the newly formed entity M-CAID.

The Corporation discontinued operations in Medicare as of December 31, 2003. The effect of the discontinued operations on the financial statements is estimated to be immaterial and accrued for in claims payable.

Note 5 - Investments

The Corporation had no investments in mortgage loans, debt restructuring, reverse mortgages, loan-backed securities, repurchase agreements, or real estate.

Note 6 - Joint Ventures, Partnerships and Limited Liability Companies

This note does not apply to the Corporation in this period.

Note 7 - Investment Income

No amount of investment income receivable was excluded.

Note 8 - Derivative Instruments

This note does not apply to the Corporation in this period.

Note 9 - Income Taxes

The Corporation is a not-for-profit 501(C)(4) corporation, and is not subject to federal, state, or local income taxes.

Note 10 - Information Concerning Parent, Subsidiaries and Affiliates

Subscription premiums of approximately \$110,709,000 in 2003 and \$122,974,000 in 2002 were derived through group contracts with the University.

Health care expenses of \$124,622,000 in 2003 and \$145,708,000 in 2002 were incurred for services received by the Corporation's subscribers as a result of contractual arrangements with the University of Michigan Hospitals and Health Centers and Faculty Group Practice. As a result of the health care expense transactions, the corresponding amounts due to the University at December 31, 2003 and 2002 were \$18,170,000 and \$22,983,000, respectively.

The Corporation staff are employees of the University. The Corporation reimburses the University for payroll, fringe benefits, payroll taxes and payroll processing costs which amounted to \$23,452,000 and \$21,630,000 in 2003 and 2002, respectively. See Note 1 for information related to the nature of the relationship.

During 2003, the Corporation invested an additional \$700,000 in M-CAID, a wholly owned subsidiary HMO. Starting in 2003, M-CAID recorded all revenue and expense transactions related to the Corporation's Medicaid product. M-CAID incurred no activity in 2002 other than a net investment loss.

Note 11 - Surplus Note Payable

Interest on the Corporation's surplus note payable to the University totaling \$4,331,000, issued in May of 1986, is computed annually based on the lesser of 7 percent or the interest yield on long-term Treasury Notes at December 31, each year. Interest rates ranged from 3.32 percent to 4.45 percent for 2003 and 3.88 percent to 5.93 percent for 2002. Annual principal payments plus interest are subject to approval by the Corporation's Board of Directors and

Notes to Financial Statement

the OFIS and are subordinate to the payment of administrative and health care costs. No principal payments were made on the subordinated note in 2003 or 2002. Interest payments totaling \$1,343,000 and \$886,000 were paid in 2003 and 2002; respectively.

Note 12 - Retirement Plan, Postemployment Benefits

The Corporation's staff participates in the University retirement plan, a defined contribution retirement plan through the Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF), and Fidelity Management Trust Company (FMTC) for all qualified employees. All primary staff are eligible to participate in the plan of their choice based on age and service requirements. Participants maintain individual annuity contracts with TIAA-CREF or accounts with FMTC, and are fully vested. Eligible employees generally contribute 5 percent of their pay and the University generally contributes an amount equal to 10 percent of employees' pay to the plan. Participants may elect to contribute additional amounts to the plan within specified limits, which are not matched by University contributions.

Contributions in connection with the plan (excluding participants' additional contributions) and certain payroll costs for the years ended December 31, 2003 and 2002, are summarized as follows:

	<u>2003</u>	<u>2002</u>
	(in thousands)	
Corporation contributions	\$ 1,635	\$ 1,531
Employee contributions	804	757
Payroll covered under plan	17,799	16,771
Total payroll	18,247	17,093

In addition to providing retirement income benefits, the University and the Corporation provide certain health care and other post-employment benefits for retired employees. Substantially all of the University's employees may become eligible for those benefits if they reach retirement age while working for the University.

Health care benefits for retirees and survivors are provided through insurance companies and health maintenance organizations, whose premiums are based in part on the benefits paid. The University and the Corporation recognize the cost of providing these benefits on a pay-as-you-go basis.

Note 13 - Capital and Surplus

The Corporation is wholly owned by the University. There are no shares of stock authorized or issued.

Note 14 - Contingencies

This note does not apply to the Corporation in this period.

Note 15 - Leases

Total rental expense for operating leases for office space was \$2,796,000 in 2003 and \$2,626,000 in 2002. The future minimum rental payments at December 31, 2003, required in connection with operating leases that have initial or remaining non-cancelable terms in excess of one year are as follows (in thousands):

2004	\$3,075
2005	3,128
2006	3,128
2007	3,083
2008	2,236
Thereafter	<u>2,786</u>
	<u>\$ 17,436</u>

Note 16 - Financial Instruments with Off - Balance Sheet Risk

This note does not apply to the Corporation in this period.

Notes to Financial Statement

Note 17 - Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

This note does not apply to the Corporation in this period.

Note 18 - Gain or Loss from Uninsured Plans

This note does not apply to the Corporation in this period.

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

This note does not apply to the Corporation in this period.

Note 20 - Other Items

This note does not apply to the Corporation in this period.

Note 21 - Events Subsequent

This note does not apply to the Corporation in this period.

Note 22 - Reinsurance

This note does not apply to the Corporation in this period.

Note 23 - Retrospectively Rated Contracts

The Corporation had an immaterial amount of accrued retrospective premium adjustments. In 2003 and 2002, the amount of premiums earned by the Corporation that were subject to retrospective rating was \$21,611,201 and \$17,583,000, which represented 5% and 4% of total premium revenues, respectively. Such amounts represent premiums earned from the Federal Employee Health Benefit Plan.

Note 24 - Change in Incurred Claims and Claim Adjustment Expenses

This note does not apply to the Corporation in this period.

Note 25 - Intercompany Pooling Arrangements

This note does not apply to the Corporation in this period.

Note 26 - Structured Settlements

This note does not apply to the Corporation in this period.

Note 27 - Health Care Receivables

This note does not apply to the Corporation in this period.

Note 28 - Participating Policies

This note does not apply to the Corporation in this period.

Note 29 - Premium Deficiency Reserves

As a result of the Corporation's discontinuation of Medicare operations in 2003, the premium deficiency reserve was no longer required. The balance at December 31, 2002 of \$6,739,000 represented an estimate of losses expected in 2003 related to the Corporation's two remaining Medicare provider contracts.

Note 30 - Anticipated Salvage and Subrogation

This note does not apply to the Corporation in this period.

Notes to Financial Statement

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	1,098,868	0.844	1,098,868	0.844
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies				
1.3 Foreign government (including Canada, excluding mortgage-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations				
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations				
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA				
1.512 Issued by FNMA and FHLMC				
1.513 Privately issued				
1.52 CMOs and REMICs:				
1.521 Issued by FNMA and FHLMC				
1.522 Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC				
1.523 All other privately issued				
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)				
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	36,736,998	28.227	36,736,998	28.227
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company				
5.2 Property held for production of income (includes \$..... of property acquired in satisfaction of debt)				
5.3 Property held for sale (\$..... including property acquired in satisfaction of debt)				
6. Policy loans				
7. Receivables for securities				
8. Cash and short-term investments	90,197,723	69.303	90,197,722	69.303
9. Other invested assets	2,116,856	1.626	2,116,856	1.626
10. Total invested assets	130,150,445	100.000	130,150,444	100.000

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[X] 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[X] No[] N/A[]
- 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[X]
- 2.2 If yes, date of change:
 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.12/31/2000
- 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.08/30/2001
- 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).08/30/2001
- 3.4 By what department or departments?
 State of Michigan, Office of Financial and Insurance Services
- 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[X]
- 4.12 renewals? Yes[] No[X]
- 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[X]
- 4.22 renewals? Yes[] No[X]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes[] No[X]
- 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	2	3
Name of Entity	NAIC Company Code	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[X]
- 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[X]
- 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, government, manager or attorney-in-fact)

1	2
Nationality	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
..... Yes[] No[X] ..				

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
 Pricewaterhouse Coopers LLP, 400 Renaissance Center, Detroit, MI 48243-1507
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?
 Pricewaterhouse Coopers LLP, One North Wacker Drive, Chicago, IL 60622 - Actuary
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?
 11.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes[] No[X]
 11.3 Have there been any changes made to any of the trust indentures during the year? Yes[] No[X]
 11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes? Yes[] No[] N/A[X]

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[] No[X]
13. Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof? Yes[] No[X]
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 is 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 \$
 15.12 To stockholders not officers \$
 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 \$
 15.22 To stockholders not officers \$
 15.23 Trustees, supreme or grand (Fraternal only) \$
- 16.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the 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:

	1 Number of Shares Authorized	2 Number of Shares Outstanding	3 Par Value Per Share	4 Redemption Price If Callable	5 Is Dividend Rate Limited?	6 Are Dividends Cumulative?
1. Preferred	Yes[] No[] N/A[X]	Yes[] No[] N/A[X]
2. Common	X X X	X X X	X X X

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[] No[X]

19.2 If no, give full and complete information, relating thereto:
Held in trust with Mellon Bank

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 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 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
- 20.32
- 20.33
- 20.34
- 20.35
- 20.36
- 20.37
- 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 Nature of Restriction	2 Description	3 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[] N/A[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[X] No[]

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
Mellon Trust	Medford, MA 02155-1660

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)	3 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 advisers, 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	3 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
24.2999 Total

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

1 Name	2 Amount Paid
.....

- 27.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or department of government, if any? \$
- 27.2 List the name of 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 department 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 premium earned 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 \$
- 1.62 Total incurred claims \$
- 1.63 Number of covered lives \$
- All years prior to most current three years:
- 1.64 Total premium earned \$
- 1.65 Total incurred claims \$
- 1.66 Number of covered lives \$
- 1.7 Group policies - Most current three years: \$
- 1.71 Total premium earned \$
- 1.72 Total incurred claims \$
- 1.73 Number of covered lives \$
- All years prior to most current three years:
- 1.74 Total premium earned \$
- 1.75 Total incurred claims \$
- 1.76 Number of covered lives \$

2. Health Test

	1 Current Year	2 Prior Year
2.1 Premium Numerator
2.2 Premium Denominator
2.3 Premium Ratio (2.1 / 2.2)
2.4 Reserve Numerator
2.5 Reserve Denominator
2.6 Reserve Ratio (2.4 / 2.5)

- 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 \$ 200,000
- 5.32 Medical Only \$
- 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:
M-CARE currently has an insolvency arrangement with Allianz Life Insurance Company for insolvency protection.
- 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: 5866
- 8.1 Number of providers at start of reporting year 5493
- 8.2 Number of providers at end of reporting year
- 9.1 Does the reporting entity have business subject to premium rate guarantees? Yes[] No[X]
- 9.2 If yes, direct premium earned: 0
- 9.21 Business with rate guarantees between 15-36 months 0
- 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 or Bonus Arrangements in its provider contracts? 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 \$ 28,949,744
 - 10.24 Amount actually paid for year withholds \$
- 11.1 Is the reporting entity organized as:
- 11.12 A medical Group/Staff Model, Yes[] No[X]
 - 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[] No[X]
- 11.3 If yes, show the name of the state requiring such net worth.
- 11.4 If yes, show the amount required. \$
- 11.5 Is this amount included as part of a contingency reserve in stockholder's equity? Yes[] No[X]
- 11.6 If the amount is calculated, show the calculation.
12. List service areas in which the reporting entity is licensed to operate:

1 Name of Service Area
Genesee
Lapeer
Livingston
Macomb
Monroe
Oakland
St. Clair
Washtenaw
Wayne
Ingham
Jackson
Clinton
Eaton
Shiawassee

FIVE-YEAR HISTORICAL DATA

	1 2003	2 2002	3 2001	4 2000	5 1999
BALANCE SHEET ITEMS (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26)	133,496,412	136,287,718	131,567,742	128,059,965	84,822,248
2. Total liabilities (Page 3, Line 22)	81,956,208	94,700,372	90,876,641	96,448,727	67,200,538
3. Statutory surplus					
4. Total capital and surplus (Page 3, Line 30)	51,540,204	41,546,093	40,691,101	31,611,238	17,621,710
INCOME STATEMENT ITEMS (Page 4)					
5. Total revenues (Line 8)	458,020,490	488,681,852	488,779,461	417,751,891	361,011,127
6. Total medical and hospital expenses (Line 18)	415,873,023	451,402,456	446,614,852	374,996,805	329,225,625
7. Total administrative expenses (Line 21)	33,683,203	35,420,712	36,799,929	37,067,273	37,063,678
8. Net underwriting gain (loss) (Line 24)	8,464,264	1,858,684	5,364,680	5,687,813	(5,278,179)
9. Net investment gain (loss) (Line 27)	2,056,967	3,360,869	5,017,989	8,100,022	4,313,913
10. Total other income (Lines 28 plus 29)	(1,343,000)	(886,000)			
11. Net income or (loss) (Line 32)	9,178,231	4,333,553	10,382,669	13,787,835	(964,266)
RISK-BASED CAPITAL ANALYSIS					
12. Total adjusted capital	51,540,204	41,546,093	40,691,101	31,611,238	17,621,710
13. Authorized control level risk-based capital	12,490,713	13,721,645	13,660,935	11,923,089	4,947,020
ENROLLMENT (Exhibit 2)					
14. Total members at end of period (Column 5, Line 7)	191,548	205,170	197,721	183,288	180,815
15. Total members months (Column 6, Line 7)	2,310,920	2,426,305	2,353,728	2,179,112	2,166,442
OPERATING PERCENTAGE (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3 and 5)					
16. Premiums earned (Lines 2 plus 3)	100.0	100.0	100.0	100.0	100.0
17. Total hospital and medical (Line 18)	90.8	92.4	91.4	89.8	91.2
18. Total underwriting deductions (Line 23)	98.2	99.6	98.9	98.6	101.5
19. Total underwriting gain (loss) (Line 24)	1.8	0.4	1.1	1.4	(1.5)
UNPAID CLAIMS ANALYSIS					
(U&I Exhibit, Part 2B)					
20. Total claims incurred for prior years (Line 12, Col. 5)	68,847,080	58,506,923	54,582,253	27,510,924	38,133,390
21. Estimated liability of unpaid claims-[prior year (Line 12, Col. 6)] ..	80,318,547	73,867,399	64,996,566	37,864,165	41,038,760
INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES					
22. Affiliated bonds (Sch. D Summary, Line 25, Col. 1)					
23. Affiliated preferred stocks (Sch. D Summary, Line 39, Col. 1)					
24. Affiliated common stocks (Sch. D Summary, Line 53, Col. 2)					
25. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11)					
26. Affiliated mortgage loans on real estate					
27. All other affiliated					
28. Total of above Lines 22 to 27					

SCHEDULE D - SUMMARY BY COUNTRY

Long-term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value (a)	3 Actual Cost	4 Par Value of Bonds
BONDS Governments (Including all obligations guaranteed by governments)	1. United States	1,098,868	1,098,868	1,093,699	1,041,256
	2. Canada				
	3. Other Countries				
	4. Totals	1,098,868	1,098,868	1,093,699	1,041,256
States, Territories and Possessions (Direct and Guaranteed)	5. United States				
	6. Canada				
	7. Other Countries				
	8. Totals				
Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	9. United States				
	10. Canada				
	11. Other Countries				
	12. Totals				
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States				
	14. Canada				
	15. Other Countries				
	16. Totals				
Public Utilities (unaffiliated)	17. United States				
	18. Canada				
	19. Other Countries				
	20. Totals				
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States	22,835,330	22,835,330	23,010,212	2,224,300
	22. Canada				
	23. Other Countries				
	24. Totals	22,835,330	22,835,330	23,010,212	2,224,300
Parent, Subsidiaries and Affiliates	25. Totals				
	26. Total Bonds	23,934,199	23,934,199	24,103,911	3,265,556
PREFERRED STOCKS Public Utilities (unaffiliated)	27. United States				
	28. Canada				
	29. Other Countries				
	30. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	31. United States				
	32. Canada				
	33. Other Countries				
	34. Totals				
Industrial and Miscellaneous (unaffiliated)	35. United States				
	36. Canada				
	37. Other Countries				
	38. Totals				
Parent, Subsidiaries and Affiliates	39. Totals				
	40. Total Preferred Stocks				
COMMON STOCKS Public Utilities (unaffiliated)	41. United States				
	42. Canada				
	43. Other Countries				
	44. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	45. United States				
	46. Canada				
	47. Other Countries				
	48. Totals				
Industrial and Miscellaneous (unaffiliated)	49. United States	13,901,667	13,901,667	13,613,656	
	50. Canada				
	51. Other Countries				
	52. Totals	13,901,667	13,901,667	13,613,656	
Parent, Subsidiaries and Affiliates	53. Totals				
	54. Total Common Stocks	13,901,667	13,901,667	13,613,656	
	55. Total Stocks	13,901,667	13,901,667	13,613,656	
	56. Total Bonds and Stocks	37,835,866	37,835,866	37,717,566	

(a) The aggregate value of bonds which are valued at other than actual fair value is \$.....

SCHEDULE D - Verification Between Years

1. Book/adjusted carrying value of bonds and stocks, prior year. <u>33,959,168</u>	6. Foreign Exchange Adjustment
2. Cost of bonds and stocks acquired, Column 6, Part 3. <u>20,771,905</u>	6.1 Column 17, Part 1. _____
3. Increase (decrease) by adjustment:	6.2 Column 13, Part 2, Section 1. _____
3.1 Column 16, Part 1. <u>(215,432)</u>	6.3 Column 11, Part 2, Section 2. _____
3.2 Column 12, Part 2, Section 1. _____	6.4 Column 11, Part 4. _____
3.3 Column 10, Part 2, Section 2. <u>3,181,718</u>	7. Book/adjusted carrying value at end of current period. <u>37,835,866</u>
3.4 Column 10, Part 4. <u>91,032</u> <u>3,057,317</u>	8. Total valuation allowance. _____
4. Total gain (loss), Column 14, Part 4. <u>(77,996)</u>	9. Subtotal (Lines 7 plus 8). <u>37,835,866</u>
5. Deduct consideration for bonds and stocks disposed of Column 6, Part 4. <u>19,874,528</u>	10. Total nonadmitted assets. _____
	11. Statement value of bonds and stocks, current period. <u>37,835,866</u>

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

State, Etc.	1	2	Direct Business Only					
	Guaranty Fund (Yes or No)	Is Insurer Licensed (Yes or No)	3 Accident & Health Premiums	4 Medicare Title XVIII	5 Medicaid Title XIX	6 Federal Employees Health Benefits Program Premiums	7 Life & Annuity Premiums & Deposit-Type Contract Funds	8 Property/Casualty Premiums
1. Alabama (AL)	No	No						
2. Alaska (AK)	No	No						
3. Arizona (AZ)	No	No						
4. Arkansas (AR)	No	No						
5. California (CA)	No	No						
6. Colorado (CO)	No	No						
7. Connecticut (CT)	No	No						
8. Delaware (DE)	No	No						
9. District of Columbia (DC)	No	No						
10. Florida (FL)	No	No						
11. Georgia (GA)	No	No						
12. Hawaii (HI)	No	No						
13. Idaho (ID)	No	No						
14. Illinois (IL)	No	No						
15. Indiana (IN)	No	No						
16. Iowa (IA)	No	No						
17. Kansas (KS)	No	No						
18. Kentucky (KY)	No	No						
19. Louisiana (LA)	No	No						
20. Maine (ME)	No	No						
21. Maryland (MD)	No	No						
22. Massachusetts (MA)	No	No						
23. Michigan (MI)	No	Yes	390,098,227	46,311,062		21,611,201		
24. Minnesota (MN)	No	No						
25. Mississippi (MS)	No	No						
26. Missouri (MO)	No	No						
27. Montana (MT)	No	No						
28. Nebraska (NE)	No	No						
29. Nevada (NV)	No	No						
30. New Hampshire (NH)	No	No						
31. New Jersey (NJ)	No	No						
32. New Mexico (NM)	No	No						
33. New York (NY)	No	No						
34. North Carolina (NC)	No	No						
35. North Dakota (ND)	No	No						
36. Ohio (OH)	No	No						
37. Oklahoma (OK)	No	No						
38. Oregon (OR)	No	No						
39. Pennsylvania (PA)	No	No						
40. Rhode Island (RI)	No	No						
41. South Carolina (SC)	No	No						
42. South Dakota (SD)	No	No						
43. Tennessee (TN)	No	No						
44. Texas (TX)	No	No						
45. Utah (UT)	No	No						
46. Vermont (VT)	No	No						
47. Virginia (VA)	No	No						
48. Washington (WA)	No	No						
49. West Virginia (WV)	No	No						
50. Wisconsin (WI)	No	No						
51. Wyoming (WY)	No	No						
52. American Samoa (AS)	No	No						
53. Guam (GU)	No	No						
54. Puerto Rico (PR)	No	No						
55. U.S. Virgin Islands (VI)	No	No						
56. Canada (CN)	No	No						
57. Aggregate other alien (OT)	X X X	X X X						
58. TOTAL (Direct Business)	X X X	(a) 1	390,098,227	46,311,062		21,611,201		

DETAILS OF WRITE-INS

5701								
5702								
5703								
5798. Summary of remaining write-ins for Line 57 from overflow page								
5799. TOTALS (Lines 5701 through 5703 plus 5798) (Line 57 above)								

(a) Insert the number of yes responses except for Canada and Other Alien.
 Explanation of basis of allocation of premiums by states, etc.: ~

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART

PART 1---ORGANIZATION CHART

