The Long Term Care Business of MedAmerica

Combined Financial Statements as of and for the Years Ended December 31, 2014 and 2013, and Independent Auditors' Report

THE LONG TERM CARE BUSINESS OF MEDAMERICA

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Long Term Care Business of MedAmerica
Rochester, New York

We have audited the accompanying combined financial statements of The Long Term Care Business of MedAmerica (the "Company"), which comprise the combined balance sheets of December 31, 2014 and 2013, and the related combined statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

March 10, 2015

THE LONG TERM CARE BUSINESS OF MEDAMERICA

COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(Dollar amounts in thousands)

	2014	2013
ASSETS		
CASH AND CASH EQUIVALENTS	$ 78,557	$ 286,774
INVESTMENTS	1,834,291	1,559,357
SECURITIES LENDING COLLATERAL	48,392	87,057
RECEIVABLES	96,391	91,323
DEFERRED POLICY ACQUISITION COSTS	71,667	66,614
REAL ESTATE, SOFTWARE AND EQUIPMENT	2,600	2,729
OTHER ASSETS	6,568	10,616
TOTAL ASSETS	$2,138,466	$2,104,470
LIABILITIES AND STOCKHOLDERS' EQUITY		
AGGREGATE LIABILITY FOR POLICY AND CONTRACT CLAIMS	$1,576,684	$1,443,128
PREMIUM DEPOSITS AND UNEARNED PREMIUMS	42,740	43,247
DEFERRED INCOME TAXES	124,989	81,343
SECURITIES LENDING PAYABLE	48,392	87,057
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	16,471	200,233
Total liabilities	1,809,276	1,855,008
STOCKHOLDERS' EQUITY:		
Common stock	11,578	11,578
Additional paid-in capital	191,229	181,729
Accumulated other comprehensive income	91,566	24,765
Accumulated equity	34,817	31,390
Total stockholders' equity	329,190	249,462
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,138,466	$2,104,470

See notes to combined financial statements.

THE LONG TERM CARE BUSINESS OF MEDAMERICA

COMBINED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollar amounts in thousands)

	2014	2013
REVENUE:		
Premiums earned	$ 162,213	$ 161,284
Investment income — net of investment expenses	80,082	80,246
Net gain on investments	27,114	16,736
Total revenue	269,409	258,266
EXPENSES:		
Benefits	223,810	205,080
Operating	35,148	38,022
Total expenses	258,958	243,102
INCOME BEFORE INCOME TAXES	10,451	15,164
INCOME TAX EXPENSE	7,024	5,427
NET INCOME	$ 3,427	$ 9,737

See notes to combined financial statements.

THE LONG TERM CARE BUSINESS OF MEDAMERICA

COMBINED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollar amounts in thousands)

	2014	2013
NET INCOME	$ 3,427	$ 9,737
OTHER COMPREHENSIVE INCOME:		
Gross unrealized holding gains (losses) on investment securities during the period	129,884	(149,803)
Income tax effect	(45,459)	52,153
Total unrealized gains (losses) — net of tax	84,425	(97,650)
Gross reclassification adjustment for net realized gains included in net income	(27,114)	(16,837)
Income tax effect	9,490	5,893
Total reclassification adjustment — net of tax	(17,624)	(10,944)
OTHER COMPREHENSIVE INCOME (LOSS)	66,801	(108,594)
COMPREHENSIVE INCOME (LOSS)	$ 70,228	$ (98,857)

See notes to combined financial statements.

THE LONG TERM CARE BUSINESS OF MEDAMERICA

COMBINED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (Dollar amounts in thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Equity	Total Stockholders' Equity
BALANCE — January 1, 2013	$ 11,578	$ 171,229	$ 133,359	$ 21,653	$ 337,819
Net income				9,737	9,737
Other comprehensive loss			(108,594)		(108,594)
Capital contribution		10,500			10,500
BALANCE — December 31, 2013	11,578	181,729	24,765	31,390	249,462
Net income				3,427	3,427
Other comprehensive income			66,801		66,801
Capital contribution		9,500			9,500
BALANCE — December 31, 2014	$ 11,578	$ 191,229	$ 91,566	$ 34,817	$ 329,190

See notes to combined financial statements.

THE LONG TERM CARE BUSINESS OF MEDAMERICA

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Dollar amounts in thousands)

	2014	2013
OPERATING ACTIVITIES:		
Net income	$ 3,427	$ 9,737
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of bond discount and other	2,006	870
Deferred income taxes	7,430	32,313
Net gain on investments	(27,114)	(16,736)
Increase in receivables	(5,068)	(8,948)
Increase in deferred policy acquisition costs	(5,053)	(8,193)
Decrease (increase) in other assets	4,048	(996)
Increase in aggregate liability for policy and contract claims	133,556	90,502
(Decrease) increase in premium deposits and unearned premiums	(507)	343
(Decrease) increase in accounts payable and accrued expenses	(32,295)	28,650
Net cash provided by operating activities	80,430	127,542
INVESTING ACTIVITIES:		
Acquisition of real estate, software and equipment	(49)	(402)
Proceeds from sales and maturities of investments	533,145	693,929
Purchases of investments	(831,243)	(631,934)
Net cash (used in) provided by investing activities	(298,147)	61,593
FINANCING ACTIVITIES — Capital contribution	9,500	10,500
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(208,217)	199,635
CASH AND CASH EQUIVALENTS — Beginning of year	286,774	87,139
CASH AND CASH EQUIVALENTS — End of year	$ 78,557	$ 286,774
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES —		
Investment broker purchases included in accounts payable and accrued expenses	$ 589	$ 151,800
Premium tax credits included in accounts payable and accrued expenses	$ 256	$ 237

See notes to combined financial statements.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — The combined financial statements include MedAmerica Insurance Company of New York ("MedAmerica NY"), MedAmerica Insurance Company ("MedAmerica PA"), MedAmerica Insurance Company of Florida ("MedAmerica FL"), MedAmerica, Inc., MIG Assurance (Cayman), Ltd., ("MIG"), and Excellus Insurance Agency, Inc. (the "Agency"), (together, "the Company"). The Company underwrites and reinsures long-term care insurance, which provides coverage for chronically ill individuals. The Company is licensed to issue policies for long-term care coverage in 50 states and the District of Columbia. MedAmerica NY and MedAmerica PA are subsidiaries of MedAmerica, Inc., which in turn, is wholly owned by Excellus Health Plan, Inc. ("Excellus"), an entity that provides health and medical insurance coverage to subscribers. MedAmerica FL is a wholly owned subsidiary of MedAmerica PA. MIG, a captive reinsurer, and the Agency are wholly owned subsidiaries of Excellus Ventures, Inc. ("Ventures"). MIG reinsures policies issued or reinsured by MedAmerica PA and an unaffiliated insurer. Excellus and Ventures are members of Lifetime Healthcare, Inc. ("Lifetime"), a holding company.

On December 17, 2014, the Agency agreed to terminate the supervising general agency agreement with MedAmerica PA, MedAmerica NY and MedAmerica FL effective January 1, 2015. The Agency will return commissions to MedAmerica PA, MedAmerica NY and MedAmerica FL equal to the Agency's accumulated retained earnings based upon the prorata share of commissions paid to the Agency during 2014 by May 31, 2015.

Basis of Combination — The combined financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP). All significant intercompany transactions and balances have been eliminated in combination.

Use of Estimates — The preparation of combined financial statements in conformity with GAAP 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — Cash and cash equivalents are highly liquid investments with an original maturity of three months or less. The Company's banking arrangements allow for the Company to fund outstanding checks when presented to the financial institution for payment. This cash management practice frequently results in a net cash book overdraft position, which occurs when total issued checks exceed available cash balances at a single financial institution. The Company has recorded its cash disbursement accounts with a net cash book overdraft position in accounts payable. At December 31, 2014 and 2013, the Company had net cash book overdrafts of $273 and $380, respectively, classified in accounts payable and accrued expenses.

Included in cash and cash equivalents is a restricted cash deposit in the State of Florida of $121 and $119 as of December 31, 2014 and 2013, respectively.

Investments — The Company classifies its investments in debt and equity securities as available for sale, and accordingly, such securities are carried at fair value. The net unrealized holding gain or loss on available for sale securities is excluded from the combined statements of income and reported as a component of other comprehensive income, net of deferred income taxes.

The Company accounts for impairments in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification ("ASC") Topic 320, *Recognition and Presentation of Other Than Temporary Impairments*, which requires companies to evaluate investments in debt securities for impairment considering a company's intent to sell the security or the likelihood that it will be required to sell the security before recovery of the entire amortized cost basis or maturity of the security. If a company either intends to sell or determines it will more likely than not be required to sell a debt security before recovery of the entire amortized cost basis or maturity of the security, the entire impairment must be recognized in the statements of income. If a company does not intend to sell the security and determines it will not more likely than not be required to sell the security but does not expect to recover the entire amortized cost basis, the impairment must be bifurcated into the amount attributed to the credit loss, which must be recognized in the statements of income, and all other causes, which must be recognized in other comprehensive income(loss), the same as any other unrealized fair value adjustment.

When the fair value of equity securities is lower than its cost, and such decline is determined to be other than temporary, the cost of the investment is written down to fair value and the amount of the writedown is charged to net gain on investments.

Costs of investments sold are determined on a first-in, first-out basis.

The Company maintains a diverse portfolio of investments. The Company abides by applicable insurance laws which may place restrictions on the type, amount and quality of investments, as well as internal corporate policies which place additional restrictions on investment activity. Management does not believe that the Company has any significant concentrations of credit risk.

Fair Value Measurements — Assets and liabilities are recorded at fair value according to the provisions of FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Assets and liabilities recorded at fair value in the combined balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by FASB ASC Topic 820, are as follows:

Level Input:	**Input Definition:**
Level 1	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level 2	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.
Level 3	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

An asset's classification is based on the lowest-level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

Fair Value of Financial Instruments — The Company's financial instruments consist of cash and cash equivalents, investments, receivables, accounts payable and other liabilities. The carrying amounts of these financial instruments approximate their fair value.

Securities Lending Collateral and Payable — The Company records a securities lending asset and an offsetting securities lending payable for the underlying cash collateral received in securities lending transactions in its combined balance sheets. Collateral received by the Company which may be reinvested or repledged is recorded in accordance with the Company's investment accounting policies. Collateral received which may not be sold or repledged is excluded from the accompanying combined financial statements.

Receivables — Receivables consist primarily of reinsurance recoverables for aggregate policy and contract claim liabilities, income taxes receivable from Lifetime, investment income receivable and premiums receivable from customers.

Deferred Policy Acquisition Costs — Deferred policy acquisition costs include commissions in excess of ultimate renewal commissions, solicitation and printing costs, sales material and some support costs, such as underwriting and policy issuance expenses that are directly related to the successful acquisition of an insurance contract. Amortization is determined as a level proportion of premium based on commonly accepted actuarial methods and reasonable assumptions about mortality, morbidity, lapse rates, expenses, and future yield on investments established when the policy is issued.

Real Estate, Software and Equipment — Real estate, software and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the following useful lives:

Buildings and improvements	15-40 years
Software and equipment	3-10 years
Leasehold improvements	Shorter of lease term or estimated useful life

Expenditures that extend the useful lives of real estate are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. When items of real estate or software are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the combined statements of income.

Certain costs related to acquired and developed computer software for internal use are capitalized as incurred. Capitalized costs are amortized, generally over a three- to ten-year useful life, using the straight-line method.

The Company assesses its real estate, software and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Other Assets — Other assets consist primarily of goodwill, agent advances and prepaid expenses.

Aggregate Liability for Policy and Contract Claims — This liability represents management's estimate of future obligations on policies currently in force. The liability has been computed using the net level premium method and is based upon assumptions as to future investment yield, mortality, utilization, and withdrawal. These assumptions, which are consistent with those used for pricing purposes, have been developed from information provided by an independent consulting actuary.

Management believes that the aggregate liability for policy and contract claims at December 31, 2014 and 2013, is appropriately established in the aggregate and is adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by those dates. The establishment of appropriate liabilities is an inherently uncertain process. Such liabilities are necessarily based on estimates and the ultimate net cost may vary from such estimates. These estimates are regularly reviewed and updated using the most current information available. Any resulting adjustments are reflected in current operations.

Premium Deposits and Unearned Premiums — Premium deposits are retained by the Company until medical underwriting is complete. Upon acceptance or denial of a policy, deposits are recorded as unearned premiums or refunded to the applicant. Policyholder premiums are billed in advance of the respective coverage periods. Premiums applicable to the unexpired portion of coverage are recorded as unearned premiums in the combined balance sheets.

Premiums Earned — Premiums, which are generally billed in advance, are recognized as revenue ratably throughout the respective periods of coverage. Reinsurance premiums earned are included in premiums earned and reinsurance premiums ceded are excluded from premiums earned as described in Note 2.

Income Taxes — The Company accounts for income taxes using the liability method in accordance with the provisions of FASB ASC Topic 740, *Income Taxes.* Under Topic 740, deferred income tax assets and liabilities are determined based on temporary differences between the financial statement and income tax bases of assets and liabilities. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized.

Topic 740 also provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more likely than not recognition threshold to be recognized. This Topic also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company is included in the consolidated federal tax return of Lifetime. Income tax expense and benefit are allocated to each member in accordance with a tax allocation agreement.

The Company recognizes interest and penalties related to unrecognized tax benefits, if any, within the income tax expense line in the combined statements of income. Accrued interest and penalties, if any, are included within the accounts payable and accrued expenses line in the combined balance sheets. There were no interest and penalties recognized in 2014 or 2013. The Company does not anticipate significant increases or decreases in its uncertain tax positions within the next twelve months.

Accumulated Other Comprehensive Income — Accumulated other comprehensive income consists of unrealized gains and losses on available for sale securities that are not other than temporarily impaired, net of tax. The amounts reclassified from accumulated other comprehensive income for unrealized gains (losses) on available for sale securities are recorded in net gain on investments and the amount related to income taxes is recorded in income tax expense in the combined statement of income.

Subsequent Events — Subsequent events have been evaluated by the Company through March 10, 2015, the date of issuance of these combined financial statements and it was determined there were no subsequent events that required disclosure.

Recently Issued Accounting Pronouncements — In January 2014, the FASB issued Accounting Standards Update ("ASU") 2014-02, *Accounting for Goodwill — a consensus of the Private Company Council*. This ASU allows an accounting alternative for goodwill. An entity that elects the accounting alternative should make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level and amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is appropriate. Goodwill should be tested for impairment when a triggering event occurs that indicates that the fair value of an entity or reporting unit may be below its carrying amount. This ASU is effective for the Company beginning January 1, 2015 with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its combined financial statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 requires an entity's management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued or are available to be issued. ASU 2014-15 will become effective for the Company beginning January 1, 2016. Early application is permitted. The Company does not expect the adoption of this ASU to have a material impact on its combined financial statements.

2. REINSURANCE

The Company operates under agreements to reinsure 50%–100% of the risk for certain long-term care insurance policies issued by other insurance companies (the "Reinsureds"). As a result of transactions with the Reinsureds, the combined financial statements included the following:

	2014	2013
Combined Balance Sheets — Receivables	$ 2,033	$ 3,920
Aggregate liability for policy and contract claims	$ 526,073	$ 544,546
Combined Statements of Income — Reinsurance premiums assumed	$ 36,595	$ 39,812

Reinsurance premiums assumed are included in premiums earned in the combined statements of income.

The Company has also entered into agreements to cede the risks of certain written long term care insurance policies to other unrelated insurance companies (the "Reinsurers"), in which the Company is not relieved of its primary obligation to the policyholder. As a result of transactions with the Reinsurers, the Company's combined financial statements exclude the following:

	2014	2013
Combined Statements of Income — Reinsurance premiums ceded	$ 13,330	$ 10,751

Premiums earned in the combined statements of income are reduced by reinsurance premiums ceded in the combined statements of income.

In connection with reinsurance transactions, the Company evaluates the applicable contracts to ensure appropriate risk transfer and any needed adjustments are reflected in the combined financial statements.

3. INVESTMENTS

The cost or amortized cost and unrealized gains and losses on available for sale securities as of December 31, 2014 and 2013, were as follows:

2014	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 37,788	$ 2,840	$ 31	$ 40,597
U.S. Agency mortgage-backed securities	15,117	677	32	15,762
States and municipal obligations	52,637	9,065	226	61,476
Residential mortgage-backed securities	3,716	173	15	3,874
Commercial mortgage-backed securities	38,663	1,474	3	40,134
Other asset backed securities	14,298	1,040	12	15,326
Corporate obligations	1,255,630	141,328	7,051	1,389,907
Total debt securities	1,417,849	156,597	7,370	1,567,076
Equity securities:				
Fixed income funds	266,288	508	8,819	257,977
Mutual funds	1,566		19	1,547
Common stock	7,725	36	70	7,691
Total equity securities	275,579	544	8,908	267,215
Total	$ 1,693,428	$ 157,141	$ 16,278	$ 1,834,291

2013	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 47,022	$ 564	$ 2,590	$ 44,996
U.S. Agency mortgage-backed securities	16,598	678	141	17,135
States and municipal obligations	52,034	3,336	1,985	53,385
Residential mortgage-backed securities	4,552	195		4,747
Commercial mortgage-backed securities	53,100	3,836	411	56,525
Other asset backed securities	19,816	988	30	20,774
Corporate obligations	1,114,002	59,876	23,840	1,150,038
Total debt securities	1,307,124	69,473	28,997	1,347,600
Equity securities:				
Fixed income funds	171,979	339	2,681	169,637
Mutual funds	38,536			38,536
Common stock	3,629		45	3,584
Total equity securities	214,144	339	2,726	211,757
Total	$ 1,521,268	$ 69,812	$ 31,723	$ 1,559,357

The amortized cost and estimated fair value of debt securities at December 31, 2014, by contractual maturity, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 5,738	$ 5,790
Due after one year through five years	62,585	68,860
Due after five years through ten years	78,090	81,055
Due after ten years	1,199,642	1,336,275
Mortgage-backed securities	71,794	75,096
Total	$ 1,417,849	$ 1,567,076

Proceeds from sales and maturities of investments during 2014 and 2013 were $533,145 and $693,929, respectively. Non-cash bond conversions were $27,401 and $29,176 for the years ended December 31, 2014 and 2013, respectively. The gross realized gains and (losses) on sales of and the change in market value in investments were as follows:

	2014	2013
Available for sale securities:		
Realized gains	$ 33,011	$ 38,666
Realized losses	(5,897)	(21,829)
Subtotal	27,114	16,837
Trading securities:		
Realized gains	-	67
Realized losses		(2,011)
Subtotal	-	(1,944)
Change in fair value adjustment on trading securities		1,843
Net gain on investments	$ 27,114	$ 16,736

At December 31, 2014 and 2013, the Company no longer holds securities classified as trading. All trading securities were sold during 2013.

Investment securities available for sale in an unrealized loss position as of December 31, 2014 and 2013, are summarized as follows:

	Less than 12 months		More than 12 months		Total	
2014	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 4,659	$ 8	$ 3,714	$ 23	$ 8,373	$ 31
U.S. Agency mortgage-backed securities	2,298	12	1,038	20	3,336	32
States and municipal obligations			3,274	226	3,274	226
Residential mortgage-backed securities	1,468	15			1,468	15
Commercial mortgage-backed securities	981	3			981	3
Other asset backed securities	2,128	4	4,103	8	6,231	12
Corporate obligations	89,305	3,799	26,330	3,252	115,635	7,051
Fixed income funds	223,574	8,819			223,574	8,819
Mutual Funds	1,547	19			1,547	19
Common stocks and mutual funds	4,722	70			4,722	70
Total	$ 330,682	$ 12,749	$ 38,459	$ 3,529	$ 369,141	$ 16,278

2013	Less than 12 months		More than 12 months		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 18,106	$ 1,113	$ 7,818	$ 1,477	$ 25,924	$ 2,590
U.S. Agency mortgage-backed securities	6,007	105	525	36	6,532	141
States and municipal obligations	16,993	1,985			16,993	1,985
Commercial mortgage-backed securities	9,410	287	3,026	124	12,436	411
Other asset backed securities	4,932	30			4,932	30
Corporate obligations	377,045	20,657	17,616	3,183	394,661	23,840
Fixed income funds	148,107	2,675	3,224	6	151,331	2,681
Common stocks	3,584	45			3,584	45
Total	$ 584,184	$ 26,897	$ 32,209	$ 4,826	$616,393	$ 31,723

The Company holds a diversified portfolio of investments in the general investment categories shown above. As of December 31, 2014, in the fixed income categories there were 196 debt securities in an unrealized loss position, which were not considered other than temporarily impaired (OTTI) since the unrealized loss was due to changes in the overall level of interest rates, excessive liquidity premiums or excessive changes in credit spreads. The Company has a policy which considers historic interest rate volatility and the target and actual duration of its investments in debt securities to initially identify potentially OTTI fixed income securities.

When evaluating a debt security for OTTI, the Company analyzes relevant factors including the length of time and extent to which fair value has been less than amortized cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and whether the Company has the intent to sell or if it is more likely than not it will be required to sell a security before there is sufficient time to recover the Company's amortized cost. When the Company intends to sell or it is more likely than not it will be required to sell a security before recovery of its entire amortized cost, it records the full difference between fair value and amortized cost in results of operations. When the Company does not have intent to sell or it is not more likely than not it will be required to sell a security, and it does not expect to receive all amounts due contractually, it bifurcates the loss between a credit component, which is recorded in the results of operations, and all other causes, which are recorded in other comprehensive income. The credit component is defined as the difference between the amortized cost basis of the debt security and the net present value of its projected future cash flows.

For the years ended December 31, 2014 and 2013, the Company recorded impairment charges of $299 and $62, respectively, for bonds deemed to be OTTI. In accordance with ASC Topic 320, the Company has deemed these impairments to be credit related and therefore, the impairment charge is included in net gain on investments in the accompanying combined statements of income.

In the fixed income funds category, there were 22 securities in an unrealized loss position at December 31, 2014. In the common stocks category, there was one security in an unrealized loss position at December 31, 2014. These temporary impairments are due to general market, economic and industry fluctuations since the time of acquisition and, in some cases, factors particularly affecting the fixed income funds.

The Company regularly consults with its investment advisors and considers its intent and ability to hold to recovery when evaluating possible OTTI. When there is not an intent and ability to hold until recovery, such securities are eliminated from the portfolio or adjusted to fair value and a new cost basis is established. For the years ended December 31, 2014 and 2013, the Company recorded impairment charges of $1,574 and $1,099, respectively, for equity securities deemed to be OTTI.

For the years ended December 31, 2014 and 2013, the Company recorded impairment charges of $299 and $62, respectively, for debt securities deemed to be OTTI. The table below is a roll forward of the cumulative credit loss component of OTTI recognized in earnings on debt securities still held for which a portion of the OTTI was recognized in other comprehensive loss and are still held on December 31, 2014 and 2013:

	Years Ended December 31	
	2014	**2013**
Beginning balance	$ 1,000	$ 2,367
Increase attributable to credit component of OTTI on securities for which an OTTI was not previously recorded	299	
Increase attributable to additional credit component of OTTI on securities for which an OTTI was previously recorded		62
Credit component of OTTI previously recognized on securities that matured, paid down or were sold	(322)	(1,429)
Ending balance	$ 977	$ 1,000

The Company participates in a securities lending program whereby certain marketable securities in its investment portfolio are transferred to independent brokers or dealers based on, among other things, credit worthiness in exchange for collateral initially equal to 102% of the market value of the loaned securities. The duration of each loan is one day, which may be reset overnight. Collateral may take the form of cash or obligations issued or guaranteed by the United States Treasury or by an agency or instrumentality of the United States government. Collateral received in the form of cash is immediately reinvested in a short-term cash equivalent fund. Securities on loan are reported in the applicable investment category within the tables above. At December 31, 2014 and 2013, the Company had loaned securities with a fair value of $50,957 and $87,794, respectively, including accrued interest. The fair value of the corresponding collateral was $48,392 and $87,057, respectively, for cash collateral reinvested and $3,567 and $2,832, respectively for non-cash collateral at December 31, 2014 and 2013. As there is a corresponding payable for securities lending associated with the cash collateral, these amounts have also been excluded from the combined statements of cash flows.

4. FAIR VALUE MEASUREMENTS

Certain assets are recorded at fair value in the combined balance sheets and are categorized into levels based upon the inputs used to measure their fair value. Transfers between levels, if any, are recorded as of the end of the reporting period in which the transfer occurs.

The following methods and assumptions were used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument included in the tables below:

Cash and Cash Equivalents — The carrying value of cash and cash equivalents approximates fair value as maturities are less than three months. Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2.

Debt and Equity Securities (including Closed Ended Fixed Income Funds) — Fair values of debt and equity securities are based on quoted market prices, when available. The Company obtains one price for each security primarily from the Company's custodian which uses multiple third party pricing services. These prices are typically derived through recently reported trades for identical or similar securities making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, nonbinding broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds. The Company is responsible for the determination of fair value, therefore management performs analyses on the prices received from the custodian to determine whether the prices are reasonable estimates of fair value by comparing the prices received from the custodian to prices reported by its investment managers. The Company also compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's procedures and reviews of the values provided by the custodian have not historically resulted in material adjustments in the prices obtained from the pricing service.

Fair values of debt securities that do not trade on a regular basis in active markets but are priced using other observable inputs or for which there is a lack of transparency into the specific pricing are classified as Level 2.

Fair value estimates for Level 1 and Level 2 equity securities are based on quoted market prices for actively traded equity securities or other market data for the same or comparable instruments and transactions in establishing the prices.

Open Ended Fixed Income Funds — Open ended fixed income funds are valued using the Net Asset Value ("NAV") provided by the manager of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market.

Mutual Funds — Mutual funds are valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market.

Securities Lending Collateral — Securities lending collateral is invested in money market funds. Fair value of money market funds are based on quoted prices, which represent the net asset value of shares held.

The Company's Level 3 debt securities, if any, are primarily investments that do not have observable inputs in determining fair value and are estimated using discounted cash flow models or other information obtained from investment managers. Inputs into the discounted cash flow model include the terms and conditions of the tranche and prepayment speeds. The evaluated price is checked against securities with similar characteristics trading in the market. The discount rate is the combination of the appropriate rate from the benchmark yield curve and the discount margin determined based on quoted prices. For more distressed securities, the underlying loan performance is examined along with the deal structure in order to determine whether additional adjustments are warranted. Fair values may also be based off of recent transactions in inactive markets for identical or similar securities. Significant changes in any of these inputs could result in significantly lower or higher fair value measurements.

Throughout the procedures discussed above in relation to the Company's processes for validating third party pricing information, the Company validates the understanding of assumptions and inputs used in security pricing and determines the proper classification in the hierarchy based on that understanding.

The carrying value of the Company's investments is the same as fair value. Investments that are measured at fair value on a recurring basis at December 31, 2014 and 2013 are as follows:

	Fair Value Measurements Using			
2014	**Quoted Prices in Active Markets (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total Fair Value**
Cash and cash equivalents	$ 78,542	$ 15	$ -	$ 78,557
Available for sale securities:				
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ -	$ 40,597	$ -	$ 40,597
U.S. Agency mortgage-backed securities		15,762		15,762
States and municipal obligations		61,476		61,476
Residential mortgage-backed securities		3,874		3,874
Commercial mortgage-backed securities		40,134		40,134
Other asset backed securities		15,326		15,326
Corporate obligations		1,388,907	1,000	1,389,907
Total debt securiteis	-	1,566,076	1,000	1,567,076
Equity securities:				
Fixed income funds	257,977			257,977
Mutual funds	1,547			1,547
Common stock	7,691			7,691
Total equity securities	267,215	-	-	267,215
Total investments	$ 267,215	$ 1,566,076	$ 1,000	$ 1,834,291
Securities lending	$ 48,392	$ -	$ -	$ 48,392

2013	Fair Value Measurements Using Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
Cash and cash equivalents	$ 279,774	$ 7,000	$ -	$ 286,774
Available for sale securities:				
Debt securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ -	$ 44,996	$ -	$ 44,996
U.S. Agency mortgage-backed securities		17,135		17,135
States and municipal obligations		53,385		53,385
Residential mortgage-backed securities		4,747		4,747
Commercial mortgage-backed securities		56,525		56,525
Other asset backed securities		20,774		20,774
Corporate obligations		1,149,028	1,010	1,150,038
Total debt securities	-	1,346,590	1,010	1,347,600
Equity securities:				
Fixed income funds	169,637			169,637
Mutual funds	38,536			38,536
Common stock	3,584			3,584
Total equity securities	211,757	-	-	211,757
Total investments	$ 211,757	$ 1,346,590	$ 1,010	$ 1,559,357
Securities lending	$ 87,057	$ -	$ -	$ 87,057

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2014 and 2013.

The carrying amounts reported on the combined balance sheets for receivables, other assets, premium deposits and unearned premiums, accounts payable and accrued expenses approximate fair value because of their short term nature. These assets and liabilities are not listed in the table above.

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Corporate Obligations 2014	2013
Balance — January 1	$ 1,010	$ 2,617
Realized in earnings	(10)	(103)
Sales and disposals		(1,504)
Balance — December 31	$ 1,000	$ 1,010

Non-financial assets and liabilities or financial assets and liabilities that are measured at fair value on a nonrecurring basis are subject to fair value adjustments only in certain circumstances, such as when the Company records an impairment. There were no significant fair value adjustments for these assets and liabilities recorded during the years ended December 31, 2014 and 2013.

There were no transfers between Levels 2 or 3 of any financial assets during 2014.

5. REAL ESTATE, SOFTWARE AND EQUIPMENT

At December 31, 2014, amounts included in real estate and software are as follows:

	2014	2013
Real estate	$ 2,131	$ 2,093
Software	684	684
Equipment	47	37
Total	2,862	2,814
Less: accumulated depreciation	(262)	(85)
Real estate, software and equipment — net	$ 2,600	$ 2,729

Depreciation expense was $177 and $58 for the years ended December 31, 2014 and 2013, respectively.

The Company determined that no impairment loss was required for the years ended December 31, 2014 and 2013.

6. AGGREGATE LIABILITY FOR POLICY AND CONTRACT CLAIMS

Activity in the aggregate liability for policy and contract claims at December 31, 2014 and 2013, which includes a reserve for claim adjustment expenses calculated based on experience, is summarized as follows:

	2014	2013
Balance aggregate liability for policy and contract claims — January 1	$1,443,128	$1,352,626
Less: Liability for claims administration expenses	(9,530)	(34,634)
Plus: Adjustment to prior year liability for claims administration expenses		24,153
Beginning contract and claim reserve	1,433,598	1,342,145
Reinsurance reserve transfers		(27,930)
Modified coinsurance reserve adjustment	2,642	380
Change in reinsurance recoverable	8,568	8,105
Incurred related to:		
Current year	194,064	188,046
Prior year	29,746	17,034
Total incurred	223,810	205,080
Paid related to:		
Current year	(16,298)	(16,274)
Prior year	(85,429)	(77,908)
Total paid	(101,727)	(94,182)
Ending contract and claim reserve	1,566,891	1,433,598
Plus: Liability for claims administration expenses	9,793	9,530
Balance aggregate liability for policy and contract claims — December 31	$1,576,684	$1,443,128

As a result of changes in estimates of insured events in prior years, the aggregate liability for policy and contract claims increased by $29,746 and $17,034 in 2014 and 2013, respectively, primarily because actual lengths of stay and benefit utilization for active claimants and reported claims differed from those anticipated.

During 2013, the Company executed a reinsurance agreement whereby policies that were previously ceded to the Company were recaptured by the ceding company. Pursuant to the agreement, policy reserves were transferred in the amount of $27,930.

The Company incurred claim adjustment expenses of $1,625 and $362 in 2014 and 2013, respectively, and are included in operating expenses. The following table discloses paid claim adjustment expenses, incurred claim adjustment expenses, and the balance in the unpaid claim adjustment expenses reserve for 2014 and 2013:

	2014	2013
Total claim adjustment expenses incurred	$ 1,625	$ 362
Less current year unpaid claim adjustment liability	(9,793)	(9,530)
Less adjustment to prior year unpaid claim adjustment liability		(24,153)
Add prior year unpaid claim adjustment liability	9,530	34,634
Total claim adjustment expenses paid	$ 1,362	$ 1,313

7. STOCKHOLDERS' EQUITY

The separate components of the Company's common stock and additional paid-in capital at December 31, 2014 and 2013, are as follows:

2014	MedAmerica, Inc.	MedAmerica NY	MedAmerica PA	MIG	Excellus Insurance Agency	Total
Common stock:						
Par value per share (whole dollars)	$ 0.001	$ 300	$ 13.32	$ 1	$ 0.01	
Shares outstanding (whole amounts)	10,000,000	6,000	733,100	3,000	900	
Amount outstanding	$ 10	$ 1,800	$ 9,765	$ 3	$ -	$ 11,578
Additional paid-in capital	$ -	$111,667	$ 79,264	$ 297	$ 1	$191,229

2013	MedAmerica, Inc.	MedAmerica NY	MedAmerica PA	MIG	Excellus Insurance Agency	Total
Common stock:						
Par value per share (whole dollars)	$ 0.001	$ 300	$ 13.32	$ 1	$ 0.01	
Shares outstanding (whole amounts)	10,000,000	6,000	733,100	3,000	900	
Amount outstanding	$ 10	$ 1,800	$ 9,765	$ 3	$ -	$ 11,578
Additional paid-in capital	$ -	$104,367	$ 77,064	$ 297	$ 1	$181,729

During 2014 and 2013, Excellus contributed additional capital to MedAmerica, Inc., which in turn contributed this capital to MedAmerica PA in the amount of $2,200 and $10,500, respectively.

During 2014, Excellus contributed additional capital to MedAmerica, Inc., which in turn contributed this capital to MedAmerica NY in the amount of $7,300, which is included in additional paid-in capital above.

8. RELATED PARTY TRANSACTIONS

As of December 31, 2014 and 2013, JP Morgan Chase has issued two irrevocable letters of credit totaling $50,000 for the benefit of MedAmerica PA as additional collateral for MIG's reinsurance obligations to MedAmerica PA. The letter of credit is collateralized by $19,928 of Ventures' cash and investments at December 31, 2014, which are held in a trust account for the benefit of MedAmerica PA and recorded in the Ventures consolidated financial statements.

As of December 31, 2014 and 2013, Ventures has issued an irrevocable letter of credit of $200,000 for the benefit of MedAmerica PA as additional collateral for MIG's reinsurance obligations to MedAmerica PA. The letter of credit has been accepted and approved by the Insurance Department of the Commonwealth of Pennsylvania as of December 31, 2014 and 2013. The letter of credit is collateralized by $35,746 of Ventures' cash and investments at December 31, 2014, which are held in a trust account for the benefit of MedAmerica PA and recorded in the Ventures consolidated financial statements.

The Company believes that its claim obligations are adequately collateralized as of December 31, 2014.

Excellus has guaranteed the payment of the direct policyholder obligations associated with insurance policies directly issued by the Company after June 24, 1997 and prior to July 1, 2010.

Additionally, a capital support agreement was entered into with Excellus which requires Excellus to ensure that the Company has sufficient liquid assets for the timely payment of amounts due on policies it directly issues after July 1, 2010. This agreement defines sufficient liquid assets as cash and invested assets exceeding disabled life reserves for these applicable policies as measured annually starting December 31, 2010. No contributions were required from Excellus to satisfy this agreement at December 31, 2014 or 2013.

Under the tax allocation agreement, applicable entities within the Company pay to or receive from Lifetime, the ultimate parent corporation, the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the applicable entities within the Company in the consolidated federal return. Effectively, this results in the Company's annual income tax provision being computed as if the Company filed a separate return with adjustments for the effect of tax attributes expected to be used in the consolidated tax return. Amounts due from Lifetime as a result of this transaction were $15,926 and $17,960 as of December 31, 2014 and 2013, respectively and are included in receivables.

During 2013, the Company entered into an assignment agreement with Excellus whereby it transferred alternative minimum tax credits in the amount of $20,038 in exchange for cash.

The Company has an administrative service agreement with Excellus. As part of the agreement, the Company reimburses Excellus for the full amount of operating expenses paid on its behalf. Amounts due to Excellus as a result of these transactions were $826 and $836 at December 31, 2014 and 2013, respectively, and are included in accounts payable and accrued expenses. Also under this agreement, the Company participates in the noncontributory defined benefit pension plan and the defined contribution 401(k) plan sponsored by Excellus. The Company incurred $839 and $2,656 for the years ended December 31, 2014 and 2013, respectively, as part of these plans.

Effective October 1, 2014, Lifetime Benefits Solutions, Inc. ("LBS"), a wholly owned subsidiary of Excellus, leased office space in a building owned by the Company. Rental income related to this lease was $11 for the year ended December 31, 2014. Amounts due from LBS for rent, utilities and common area maintenance was $18 at December 31, 2014, and is included in receivables. The lease term under this agreement expires on December 30, 2015.

9. INCOME TAXES

The Company is included in the federal tax return of Lifetime, its ultimate parent corporation. Pursuant to a tax allocation agreement, the Company pays to or receives from Lifetime the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the Company in the consolidated federal return.

Components of the Company's 2014 and 2013 income taxes, are as follows:

	2014	2013
Federal:		
Current	$ (406)	$ (6,834)
Deferred	7,430	12,261
Income tax expense	$ 7,024	$ 5,427

The Company's share of the tax expense allocation was an expense of $7,024 and $5,427 for the years ended December 31, 2014 and 2013, respectively. The provision for federal income taxes incurred is different from that which would be obtained by applying the federal statutory federal income tax rate of 35% to net income before taxes. The significant items causing this difference are changes in the valuation allowance against deferred tax assets and non-deductible compensation.

The components of net deferred taxes are as follows:

	2014	2013
Deferred income tax assets	$ 65,448	$ 61,196
Less valuation allowance	(6,004)	(2,642)
Total deferred income tax assets	59,444	58,554
Deferred income tax liabilities	(184,433)	(139,897)
Net deferred income tax assets (liabilities)	$ (124,989)	$ (81,343)

A valuation allowance was established against the deferred tax assets in 2014 to reduce such assets to amounts that more likely than not will be realized. Federal net operating loss carryforwards expire beginning in 2027 through 2034.

The Company did not pay any cash for income taxes during 2014 and 2013, respectively.

There were no uncertain tax positions in 2014 and 2013. The Company does not anticipate significant increases or decreases in its uncertain tax positions within the next twelve months.

The Company is subject to US Federal income tax and income tax in various state jurisdictions. As of December 31, 2014, the Company's 2009-2011 tax years are under examination and 2012, 2013 and 2014 are subject to future examination by federal tax authorities. Tax years after 2010 are subject to examination by state tax authorities.

10. CONTINGENCIES

Litigation — From time to time the Company is involved in pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have a material effect on the financial position, results of operations, or liquidity of the Company.

Regulatory — The Company's insurance entities are subjected to regulatory examinations by their respective states of domicile. Financial examinations of the Company's domestic insurance entities are open for the year 2007 – 2013. Management cannot currently reasonably estimate the impact, if any, of the final resolution of the examinations. The respective regulators have advised that any potential adjustments as a result of the open examinations should be recorded by the respective insurance entities on a prospective basis.

11. STATUTORY RESTRICTIONS

The Company follows the National Association of Insurance Commissioners Risk-Based Capital (RBC) formula. This formula requires the insurer to calculate its total adjusted capital and RBC requirement and provides for an insurance commissioner to intervene if the insurer experiences financial difficulty. The formula includes components for asset risk, liability risk, interest rate exposure, and other factors. As of December 31, 2014 and 2013, the Company was in compliance with these requirements.

The Company is required to maintain minimum paid-in capital amounts and is subject to certain restrictions regarding the payment of dividends. The Company must also maintain restricted deposits, as required by various state insurance departments. The required deposits, which consist of U.S. Treasury bonds, were approximately $9,251 and $8,376, respectively, and are included in investments. As of December 31, 2014 and 2013, the Company was in compliance with these requirements.

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