

**Report on Examination**  
**of**  
**Citrus Health Care, Inc.**  
**Tampa, Florida**  
**as of**  
**December 31, 2007**

**By The**  
**State of Florida**  
**Office of Insurance Regulation**

## Contents

<b>SCOPE OF EXAMINATION</b> .....	<b>1</b>
<b>HISTORY</b> .....	<b>3</b>
GENERAL .....	3
CAPITAL STOCK .....	3
PROFITABILITY .....	4
DIVIDENDS .....	4
MANAGEMENT .....	4
CONFLICT OF INTEREST PROCEDURE .....	5
CORPORATE RECORDS .....	5
<b>AFFILIATED COMPANIES</b> .....	<b>6</b>
<b>ORGANIZATIONAL CHART</b> .....	<b>7</b>
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	<b>8</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</b> .....	<b>8</b>
<b>STATUTORY DEPOSITS</b> .....	<b>8</b>
<b>INSURANCE PRODUCTS AND RELATED PRACTICES</b> .....	<b>9</b>
TERRITORY AND PLAN OF OPERATION .....	9
TREATMENT OF MEMBERS .....	9
<b>REINSURANCE</b> .....	<b>10</b>
<b>ACCOUNTS AND RECORDS</b> .....	<b>11</b>
INFORMATION SYSTEMS CONTROLS.....	11
<b>FINANCIAL STATEMENTS PER EXAMINATION</b> .....	<b>15</b>
ASSETS .....	16
LIABILITIES, CAPITAL AND SURPLUS.....	17
STATEMENT OF REVENUE AND EXPENSES .....	18
CAPITAL AND SURPLUS ACCOUNT.....	19
<b>COMMENTS ON FINANCIAL STATEMENTS</b> .....	<b>20</b>
ASSETS .....	20
LIABILITIES .....	21
<b>COMPARATIVE ANALYSIS OF CHANGES IN CAPITAL AND SURPLUS</b> .....	<b>23</b>
<b>SUBSEQUENT EVENTS</b> .....	<b>24</b>
<b>SUMMARY OF FINDINGS</b> .....	<b>25</b>
<b>CONCLUSION</b> .....	<b>28</b>

Tallahassee, Florida

June 8, 2009

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
200 E. Gaines Street, Room 101  
Tallahassee, Florida 32399-0301

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, Florida Statutes (F.S.), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2007, of the financial condition and corporate affairs of:

**Citrus Health Care, Inc.**  
**5420 Bay Center Drive, Suite 250**  
**Tampa, Florida 33609**

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2005 through December 31, 2007. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office").

Planning for the current examination began on August 18, 2008. The fieldwork commenced on September 2, 2008 and concluded on April 22, 2009. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a statutory financial condition examination conducted in accordance with the NAIC *Financial Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions*, with due regard to the requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as they affect the Company's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Company's operations and practices. In addition, various ratio results, the Company's independent audit reports, and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2007 annual statement. Transactions subsequent to December 31, 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which require special explanation or description.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA for the following accounts:

- Current federal and foreign income tax recoverable
- Net deferred tax asset
- Aggregate write-ins for other liabilities

## HISTORY

### GENERAL

The Company was incorporated in Florida on February 14, 2003 and commenced business on December 1, 2003.

As of the date of this examination, the Company was authorized to transact business as a health maintenance organization (HMO) in accordance with Part I of Chapter 641, F.S.

The Company's bylaws were amended on August 26, 2006.

### CAPITAL STOCK

As of December 31, 2007, the Company reported its capitalization as follows:

	<b>Common Stock</b>
Shares authorized	7,500
Shares issued and outstanding	100
Total capital stock	\$100
Par value per share	\$1.00

Shares of the Company's stock were issued without stock certificates in accordance with Section 607.0626(1), F.S. However, the Company was unable to demonstrate its compliance with Section 607.0626(2), F.S., which required it to send its shareholder a written statement of the information required to be on stock certificates. The Company reported that, as of December 31, 2007, it was owned by CEF Holdings, LLC (Holdings). An abbreviated organizational chart appears on page 7.

## PROFITABILITY

For the period of this examination, the Company reported the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Year-end enrollment	27,250	16,237	13,542
<b>In millions:</b>			
Net premiums	\$96.4	\$44.9	\$28.7
Total revenues	\$96.5	\$45.2	\$29.1
Net income (loss)	(\$0.3)	\$0.7	\$0.4
Total capital and surplus	\$7.8	\$4.3	\$2.8

## DIVIDENDS

The Company reported that it did not pay shareholder dividends during the period of this examination.

## MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 607.0803, F.S. Directors serving as of December 31, 2007 were:

<b>Directors</b>	
<u>Name and Location</u>	<u>Principal Occupation</u>
Morris D. Hairston Tampa, Florida	President and Chief Executive Officer of the Company
Jayant M. Patel, M.D. Tampa, Florida	Executive Vice President and Secretary of the Company
Nandkishore V. Ranadive, M.D. Orlando, Florida	Cardiologist
Larry L. Smith Orlando, Florida	Vice President of Finance - CEF Holdings, LLC

The Company's senior officers as of December 31, 2007, as appointed by its board of directors in accordance with the Company's bylaws, were:

<b>Senior Officers</b>	
<b>Name</b>	<b>Title</b>
Morris D. Hairston	President and Chief Executive Officer
Jayant M. Patel, M.D.	Executive Vice President and Secretary
Larry L. Smith	Treasurer

**CONFLICT OF INTEREST PROCEDURE**

The Company had not adopted a policy statement requiring annual disclosure of conflicts of interest.

**CORPORATE RECORDS**

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S.; however, the minutes did not include a record of the Board's authorization of the Company's investments as required by Section 641.35(7), F.S.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code (F.A.C.). Its latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on April 1, 2009.

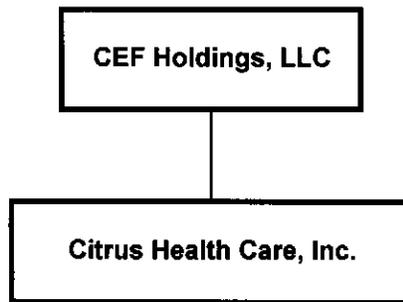
The following agreement was in force between the Company and its parent company:

### Administrative Services Agreement

Holdings provided senior executive operational and management, professional, accounting, financial, legal and other services to the Company pursuant to an October 1, 2003 administrative services agreement. The agreement provided for payment of a variable fee of up to \$500,000 per month based on premiums, and amounted to \$454,122, \$0 and \$740,000 in years 2005, 2006 and 2007, respectively.

An abbreviated organizational chart as of December 31, 2007 reflecting the holding company system is shown below. Schedule Y of the Company's 2007 annual statement provided the names of all related companies in the holding company group.

**Citrus Health Care, Inc.  
Organizational Chart  
December 31, 2007**



## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained acceptable levels of general liability insurance in compliance with Rule 69O-191.069, F.A.C., and was insured by a blanket fidelity bond as required by Section 641.22, F.S., in the amount of \$250,000. As an individual practice association (IPA) model HMO, the Company maintained adequate professional liability insurance. It required in its provider contracts that its providers certify and maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Rule 69O-191.069, F.A.C.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company provided to eligible employees fringe benefits including medical, life, dental, short- and long-term disability insurance, paid leave, a bonus program and a deferred compensation plan.

## **STATUTORY DEPOSITS**

The Company maintained on deposit with the Office an insolvency protection deposit of \$358,893 in accordance with Section 641.285, F.S., and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, F.S.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **TERRITORY AND PLAN OF OPERATION**

The Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. It held a current health care provider certificate issued by the Florida Agency for Health Care Administration pursuant to Part III of Chapter 641, F.S., valid until September 7, 2009.

The Company used a network of 22 general agents and 540 brokers, and operated as an IPA model. It provided health care services to Medicaid, Medicare, and comprehensive and other members. Its total membership at December 31, 2007 was 27,250, of which 65% was Medicaid, 28% was Medicare and 7% was comprehensive and other.

The Company operated in the Florida counties of Alachua, Broward, Citrus, Hernando, Hillsborough, Lake, Manatee, Marion, Miami-Dade, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Sarasota, Seminole, St. Lucie and Volusia. It also reported enrolled members in the following Florida counties in which it was not authorized to operate: Hamilton, Hendry, Highlands, Indian River, Lee, Okeechobee, Putnam and Sumter.

### **TREATMENT OF MEMBERS**

The Company established procedures for handling written complaints in accordance with Section 641.511, F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

## **REINSURANCE**

The Company ceded commercial and Medicare risks on a stop-loss basis to HCC Life Insurance Company, an authorized Florida insurer domiciled in Indiana, pursuant to an October 1, 2007 agreement. Under the agreement, the Company was eligible to be reimbursed for 90% of the cost of each member's annual services, subject to a \$150,000 deductible and a maximum coverage limit of \$2 million per member per contract year. The agreement complied with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory-basis financial statements annually for years 2005, 2006 and 2007, pursuant to Section 641.26(1)(c), F.S.

The Company's accounting records were maintained on a computerized system. Its balance sheet accounts were verified with the line items of its annual statement submitted to the Office.

The Company's main administrative office was located in Tampa, Florida, where this examination was conducted.

During this examination, the Company did not always provide examiners with requested information and documentation on a timely basis and in the manner requested, nor did it respond to all tentative examination findings as asked. As a result, the examination was needlessly prolonged and difficult to conduct.

### **INFORMATION SYSTEMS CONTROLS**

As a result of our review of the adequacy of the Company's information systems controls, we determined that the Company had not identified and documented its critical business functions, the requirements for sustaining them, and the maximum tolerable interruption of each function. In addition, we found that the Company had not established procedures for identifying, declaring and responding to emergencies.

The following agreements were in effect with non-affiliates:

#### Pharmacy Benefit Agreement

Pharmaceutical Technologies, Inc., d/b/a National Pharmaceutical Services (PTI), provided pharmacy benefit management services to the Company pursuant to a March 1, 2006 agreement, as amended on March 17, 2006, in return for fees of \$7,191,985 in 2007. The agreement was between the Company and PTI. However, the March 1, 2006 agreement was not signed on behalf of the Company, but was signed on behalf of PTI and "Cinco Insurance Plan, a Florida corporation." We were unable to determine the existence of a Florida corporation with the name Cinco Insurance Plan. A January 1, 2007 supplement to the agreement was signed on behalf of PTI and the Company. Services included pharmacy network administration, administrative services, formulary savings and rebate program, and drug utilization review services.

#### Consulting Services Agreement

Family Physicians of Winter Park, P.A. provided consulting services to the Company pursuant to a July 1, 2007 agreement with Holdings. The Company, which was not a party to the agreement, failed to provide examiners with the amount of fees paid during the examination period by Holdings in connection with the agreement as requested, in violation of Section 624.318(2), F.S.

#### Services Agreement

MedImpact HealthCare Systems, Inc. provided pharmacy benefit management services to the Company pursuant to a September 1, 2003 agreement. Services included claims processing, pharmacy network management, rebate administration, reporting, formulary and clinical support services. Fees related to the agreement were \$4,459,441, \$6,033,027 and \$5,291,704 in 2005, 2006 and 2007, respectively.

### Other Agreements

The Company paid fees to Availity, LLC, Compliance 360, Global Communications, LLC, GeoAccess, Inc. and Gtess Corporation during the examination period, but failed to provide examiners with the related agreements as requested, in violation of Section 624.318(2), F.S. Total payments amounted to \$11,233, \$87,998 and \$157,131 in years 2005, 2006 and 2007, respectively.

### Software License Agreement

HealthTrio, Inc. granted the Company a license to use its software pursuant to an August 13, 2003 agreement between HealthTrio, Inc. and Holdings. Fees paid by Holdings on behalf of the Company related to the agreement were \$89,187, \$91,221 and \$77,600 in 2005, 2006 and 2007, respectively.

### Global Risk Agreement

The Company contracted with Renaissance Health System of Florida, Inc. (Renaissance) to provide services to certain of the Company's members pursuant to a February 4, 2005 agreement. Under the agreement, the Company capitated Renaissance at the rate of \$50.00 per member per month. The Company failed to provide examiners with the amount of total capitation fees paid to Renaissance, in violation of Section 624.318(2), F.S.

### Independent Auditor Agreements

The Company contracted with Waters CPA Group, P.A. to conduct annual audits of its statutory-basis financial statements. Fees related to the agreements were \$37,605, \$55,236 and \$57,523 in 2005, 2006 and 2007, respectively.

### Actuarial Consulting Services Agreement

The Company contracted with Apex Management Group to provide general actuarial services. Fees related to the agreement were \$34,650, \$19,500 and \$55,000 in years 2005, 2006 and 2007, respectively. In addition, the Company contracted with Reden & Anders, Ltd. to provide general actuarial services in 2007 in return for a fee of \$16,500.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following four pages contain statements of the Company's financial position at December 31, 2007, as determined by this examination, and the results of its operations for the year then ended as reported by the Company. Adjustments resulting from this examination are summarized on page 23.

**Citrus Health Care, Inc.**  
**Assets**  
**December 31, 2007**

	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents and short-term investments	\$25,714,002	(\$1,391,107)	\$24,322,895
Aggregate write-ins for invested assets	358,893	(358,893)	0
	<u>26,072,895</u>	<u>(1,750,000)</u>	<u>24,322,895</u>
Uncollected premiums and agents' balances	1,438,872	0	1,438,872
Amounts recoverable from reinsurers	175,320	(54,855)	120,465
Current federal and foreign income tax recoverable	567,315	0	567,315
Net deferred tax asset	59,715	0	59,715
Electronic data processing equipment and software	230,814	(115,464)	115,350
Health care and other amounts receivable	299,414	0	299,414
Aggregate write-ins for other than invested assets	595,178	(12,516)	582,662
	<u>595,178</u>	<u>(12,516)</u>	<u>582,662</u>
Total assets	<u>\$29,439,523</u>	<u>(\$1,932,835)</u>	<u>\$27,506,688</u>

**Citrus Health Care, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2007**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Claims unpaid	\$17,340,000	\$1,594,442	\$18,934,442
Unpaid claims adjustment expenses	356,800	193,087	549,887
Aggregate health policy reserves	500,000	0	500,000
Premiums received in advance	111,114	0	111,114
General expenses due or accrued	3,069,399	0	3,069,399
Due to parent, subsidiaries and affiliates	0	13,005,971	13,005,971
Aggregate write-ins for other liabilities	249,735	0	249,735
Total liabilities	<u>21,627,048</u>	<u>14,793,500</u>	<u>36,420,548</u>
<b>Capital and Surplus</b>			
Common capital stock	100	0	100
Gross paid in and contributed surplus	8,537,634	(1,750,000)	6,787,634
Unassigned funds (deficit)	(725,259)	(14,976,335)	(15,701,594)
Total capital and surplus (deficit)	<u>7,812,475</u>	<u>(16,726,335)</u>	<u>(8,913,860)</u>
Total liabilities, capital and surplus	<u>\$29,439,523</u>	<u>(\$1,932,835)</u>	<u>\$27,506,688</u>

**Citrus Health Care, Inc.**  
**Statement of Revenue and Expenses**  
**For The Year Ended December 31, 2007**

Net premium income		\$96,356,570
Other health care related revenues		139,408
Other non-health revenues		34,961
Total revenues		<u>96,530,939</u>
Hospital and medical benefits	\$38,810,420	
Other professional services	10,589,277	
Outside referrals	11,867,439	
Emergency room and out-of-area	8,862,488	
Prescription drugs	14,516,876	
	<u>84,646,500</u>	
Net reinsurance recoveries	412,061	
Total hospital and medical	<u>84,234,439</u>	
General administrative expenses	12,668,815	
Increase in reserves	500,000	
Total underwriting deductions		<u>97,403,254</u>
Net underwriting gain (loss)		(872,315)
Net investment income		354,146
Income (loss) before income taxes		<u>(518,169)</u>
Federal income taxes (benefit)		(182,752)
Net income (loss)		<u><u>(\$335,417)</u></u>

**Citrus Health Care, Inc.**  
**Capital and Surplus Account**  
**For The Year Ended December 31, 2007**

Capital and surplus - December 31, 2006	\$4,283,540
Net income (loss)	(335,417)
Change in nonadmitted assets	(385,650)
Paid in surplus	4,250,000
Aggregate write-ins for gains in surplus	2
	<hr/> 7,812,475
Examination adjustments	<hr/> (16,726,335)
Capital and surplus (deficit) - December 31, 2007	<hr/> <hr/> (8,913,860)

## COMMENTS ON FINANCIAL STATEMENTS

### ASSETS

<b>Cash, Cash Equivalents and Short-Term Investments</b>	<b>\$24,322,895</b>
<b>Aggregate Write-Ins For Invested Assets</b>	<b>\$0</b>

The \$25,714,002 reported by the Company in its 2007 annual statement has been reduced by \$1,391,107. Included in the amount of cash reported by the Company as of December 31, 2007 was \$1,750,000 consisting of additional paid in capital deposited by the Company on February 8, 2008. Since we could not determine that the Company received the \$1,750,000 prior to January 1, 2008, it was nonadmitted as of December 31, 2007. Additionally, in its 2007 annual statement, the Company reported 'aggregate write-ins for invested assets' in the amount of \$358,893 consisting of cash deposited with the State of Florida which should have been reported as 'cash, cash equivalents and short-term investments'. As a result, this amount has been reclassified.

<b>Amounts Recoverable From Reinsurers</b>	<b>\$120,465</b>
--	------------------

The \$175,320 reported by the Company has been reduced by \$54,855. In its 2007 annual statement, the Company reported amounts recoverable from reinsurers in the amount of \$175,320, of which \$54,855 originated in 2008. As a result, \$54,855 has been nonadmitted.

<b>Electronic Data Processing (EDP) Equipment and Software</b>	<b>\$115,350</b>
--	------------------

The \$230,814 reported by the Company has been reduced by \$115,464. In accordance with Statement of Statutory Accounting Principles No. 16, the aggregate amount of the Company's net admitted EDP equipment and operating system software is limited to 3% of its capital and surplus as required to be shown on its balance sheet for the most recently filed statement, adjusted to exclude EDP equipment and operating system software, net deferred tax assets and net positive goodwill. Based on the Company's quarterly statement as of September 30, 2007, its net admitted EDP equipment and

operating system software was limited to \$115,350 at December 31, 2007. As a result, \$115,464 has been nonadmitted.

**Aggregate Write-Ins For Other Than Invested Assets** **\$582,662**

The \$595,178 reported by the Company has been reduced by \$12,516. Included in the amount reported by the Company as 'aggregate write-ins for other than invested assets' was a \$12,516 deposit on leased equipment. As a result, \$12,516 has been nonadmitted in accordance with Section 641.19(19), F.S.

**LIABILITIES**

**Claims Unpaid** **\$18,934,442**  
**Unpaid Claims Adjustment Expenses** **\$549,887**

The \$17,340,000 reported by the Company as claims unpaid has been increased by \$1,594,442, and the \$356,800 reported by the Company as unpaid claims adjustment expenses has been increased by \$193,087. The Company's appointed actuary rendered an opinion that the amounts carried on the Company's balance sheet as of December 31, 2007 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. However, the Office actuary reviewed work papers provided by the Company and determined that the liabilities were understated by the above amounts.

**Due to Parent, Subsidiaries and Affiliates** **\$13,005,971**

Holdings paid certain of the Company's 2006 and 2007 operating costs to include payroll, computer, marketing, insurance, lease, broker commissions, accounting and actuary expenses in the amounts of \$3,230,670 and \$9,782,486, respectively. The Company failed to respond to examiner inquiries as to the extent to which it was obligated for repayment of these amounts, in violation of Section 624.318(2), F.S. As a result, a liability has been established for the amounts paid by Holdings, net of a nonadmitted receivable from Holdings at December 31, 2007 of \$7,185.

**Gross Paid In and Contributed Surplus****\$6,787,634**

The amount reported by the Company of \$8,537,634 has been reduced by \$1,750,000 for the reason described above.

**Deficit****\$8,913,860**

The amount of capital and surplus reported by the Company in its 2007 annual statement of \$7,812,475 has been reduced by examination adjustments in the amount of \$16,726,335 to a deficit of \$8,913,860. Because the Company's deficit at December 31, 2007 after examination adjustments was \$8,913,860, which is \$12,555,915 less than its required minimum capital and surplus of \$3,642,055, the Company was insolvent and in violation of Section 641.225, F.S.

**Citrus Health Care, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2007**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

<b>Capital and surplus, December 31, 2007 - per annual statement</b>			<b>\$7,812,475</b>
	<u>Per</u> <u>Company</u>	<u>Per</u> <u>Examination</u>	<u>Increase</u> <u>(Decrease)</u> <u>In Capital</u> <u>&amp; Surplus</u>
<b>Assets:</b>			
Cash, cash equivalents and short-term investments	\$25,714,002	\$24,322,895	(\$1,391,107)
Aggregate write-ins for invested assets	\$358,893	\$0	(\$358,893)
Amounts recoverable from reinsurers	\$175,320	\$120,465	(\$54,855)
Electronic data processing equipment and software	\$230,814	\$115,350	(\$115,464)
Aggregate write-ins for other than invested assets	\$595,178	\$582,662	(\$12,516)
<b>Liabilities:</b>			
Claims unpaid	\$17,340,000	\$18,934,442	(\$1,594,442)
Unpaid claims adjustment expenses	\$356,800	\$549,887	(\$193,087)
Due to parent, subsidiaries and affiliates	\$0	\$13,005,971	(\$13,005,971)
Net change in capital and surplus			<u>(16,726,335)</u>
<b>Capital and surplus (deficit), December 31, 2007 - per examination</b>			<u><u>(\$8,913,860)</u></u>

## **SUBSEQUENT EVENTS**

On December 16, 2008, the Centers for Medicare & Medicaid Services notified the Company of its intent to impose intermediate sanctions for the Company's Medicare Advantage Organization and Prescription Drug Plan contracts, consisting of the suspension of enrollment of, and marketing activities to, Medicare beneficiaries, effective January 1, 2009.

Holdings incurred certain operating costs in 2008 on behalf of the Company such as management payroll and benefits, Medicare marketing and broker commissions, professional fees, insurance, lease and other expenses of approximately \$26.2 million which were not included in the Company's 2008 statutory-basis financial statements.

On March 29, 2009, the Company's independent auditor reported that it became aware of a misappropriation of the Company's assets by one of the Company's key management employees involving payments to vendors created and controlled by the employee for services which were not rendered.

## SUMMARY OF FINDINGS

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2007.

### Stock Certificates

As reported on page 3, the Company was unable to demonstrate its compliance with Section 607.0626(2), F.S., which required it to send its shareholder a written statement of the information required to be on stock certificates. **We recommend that the Company comply with Section 607.0626(2), F.S.**

### Conflict of Interest Statements

As reported on page 5, the Company had not adopted a policy statement requiring annual disclosure of conflicts of interest. **We recommend that the Company adopt such a policy statement.**

### Authorization of Investments

As reported on page 5, the minutes of the Company's board of directors did not include a record of the Board's authorization of the Company's investments as required by Section 641.35(7), F.S. **We recommend that the Company comply with Section 641.35(7), F.S.**

### Member Enrollment

As reported on page 9, the Company reported enrolled members in Florida counties in which it was not authorized to operate. **We recommend that the Company enroll members only in those counties in which it is authorized to operate.**

### Failure To Facilitate Examination

As reported on page 11, the Company did not always provide examiners with requested information and documentation on a timely basis and in the manner requested, nor did it respond to all tentative examination findings as asked. As a result, the examination was needlessly prolonged and difficult to conduct. The Company was in violation of Section 624.318(2), F.S., by repeatedly failing to provide examiners with requested information, documents and files. **We recommend that, during future examinations, the Company promptly respond to all examination requests.**

### Information Systems Controls

As reported on page 11, the Company's controls over its information systems were inadequate in certain areas. **We recommend that the Company identify and document its critical business functions, the requirements for sustaining them, and the maximum tolerable interruption of each function, and establish procedures for identifying, declaring and responding to emergencies.**

### Accounting and Reporting Errors

As reported beginning on page 20, the Company overstated the amounts of certain of its admitted assets and understated the amounts of certain of its liabilities in its 2007 annual statement. **We recommend that, in future statements filed with the Office, the Company accurately report its assets and liabilities in accordance with Part I of Chapter 641, F.S., and the NAIC *Annual Statement Instructions*.**

Capital and Surplus Deficiency

As reported on page 22, the Company's total capital and surplus after examination adjustments was a deficit of \$8,913,860, which is \$12,555,915 less than its required minimum capital and surplus of \$3,642,055, and the Company was insolvent and in violation of Section 641.225, F.S. **We recommend that the Company maintain at least the minimum capital and surplus required by Section 641.225, F.S., at all times.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Citrus Health Care, Inc.** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was a deficit of \$8,913,860, which was not in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2007 was \$3,642,055.

In addition to the undersigned, the following participated in this examination: Walter F. Banas, CIE, Financial Specialist; Thomas I. Cook, CISA, Financial Examiner/Analyst; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Russell K. Judge, Financial Examiner/Analyst; Darlene L. Lenhart-Schaeffer, AFE, Financial Examiner/Analyst; and Richard Tan, Actuary.

Respectfully submitted,

---

Christine N. Afolabi, Financial Specialist  
Florida Office of Insurance Regulation