

Report on Examination
of
Florida Health Care Plan, Inc.

Holly Hill, Florida

as of

December 31, 2003

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

May 25, 2005

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0326

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, 2003, of the financial condition and corporate affairs of:

**FLORIDA HEALTH CARE PLAN, INC.
1340 RIDGEWOOD AVE.
HOLLY HILL, FLORIDA 32117**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2001 through December 31, 2003. The Company was last examined by the Florida Office of Insurance Regulation (formerly, the Florida Department of Insurance) (the "Office") as of June 30, 1995. In lieu of conducting statutory financial examinations of the Company for the period July 1, 1995 through December 31, 2000, the Office accepted the independent certified public accountant's ("CPA") audit reports on the Company's statutory-basis financial statements for those periods pursuant to Section 641.27(1), F.S.

Planning for the current examination began on November 3, 2004. The fieldwork commenced on November 8, 2004 and concluded on April 8, 2005. 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 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 those balances affect the Company's financial 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 A.M. Best Report, the Company's independent audit reports, and certain work papers prepared by the Company's independent CPA were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its 2003 annual statement. Transactions subsequent to December 31, 2003 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.

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The prior examination report did not contain any significant adverse findings or recommendations related to the Company's solvency.

HISTORY

GENERAL

The Company was incorporated in Florida on June 2, 1971 as a not-for-profit corporation, and commenced business on July 1, 1974. In 1994, it was acquired by Halifax Hospital Medical Center (HHMC), a Volusia County, Florida, special taxing district.

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 articles of incorporation were amended on December 5, 2003.

CAPITAL STOCK

As a not-for-profit organization, the Company has not issued any capital stock. At December 31, 2003, its sole member was HHMC. A simplified organizational chart appears on page 7.

PROFITABILITY

The Company reported net premiums of \$223.8 million, \$193.9 million, and \$244.6 million in years 2003, 2002, and 2001, respectively; and net income of \$9.8 million, \$7.5 million, and \$6.2 million in those same years.

DISTRIBUTIONS

The Company distributed \$300,000 and \$1 million to its parent, HHMC, from its surplus in years 2003 and 2001, respectively.

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, 2003 were:

Directors

Name and Location	Principal Occupation
Luckey M. Dunn, M.D. Daytona Beach, FL	Physician
Nora Hall Ormond Beach, FL	Director - Halifax Community Health Systems
James E. Huger Daytona Beach, FL	Retired
Timothy J. Huth Ormond Beach, FL	Deputy Superintendent, Volusia County School Board
Noah C. McKinnon Flagler Beach, FL	Attorney
Mary J. Stansfield Ormond Beach, FL	Former Commissioner, Halifax Community Health Systems

The following senior officers were appointed by the Board of Directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
Edward F. Simpson, Jr.	Chief Executive Officer
Wendy A. Myers, M.D.	President & Chief Medical Officer
David C. Schandel	Chief Operating Officer & Secretary
David L. Williams, M.D.	Vice President & Medical Director
Alice M. Carlton	Treasurer

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

CORPORATE RECORDS

The recorded minutes of the 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., including the authorization of 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 2, 2004.

The Company wholly-owns Atlantic Institute of Clinical Research, Inc. (AICR), which conducts clinical research for pharmaceutical companies; and Florida Health Care Plan - Provider Option, Inc., an inactive corporation created for possible future use. In its 2003 annual statement, the Company properly nonadmitted its investments in these subsidiaries.

The following agreements were in force between the Company and its affiliates:

SERVICE AGREEMENT - AICR

The Company makes available to AICR the use of its staff, facilities, equipment, and supplies, in return for a fee which amounted to \$369,000 for the year 2003.

PROVIDER AGREEMENTS

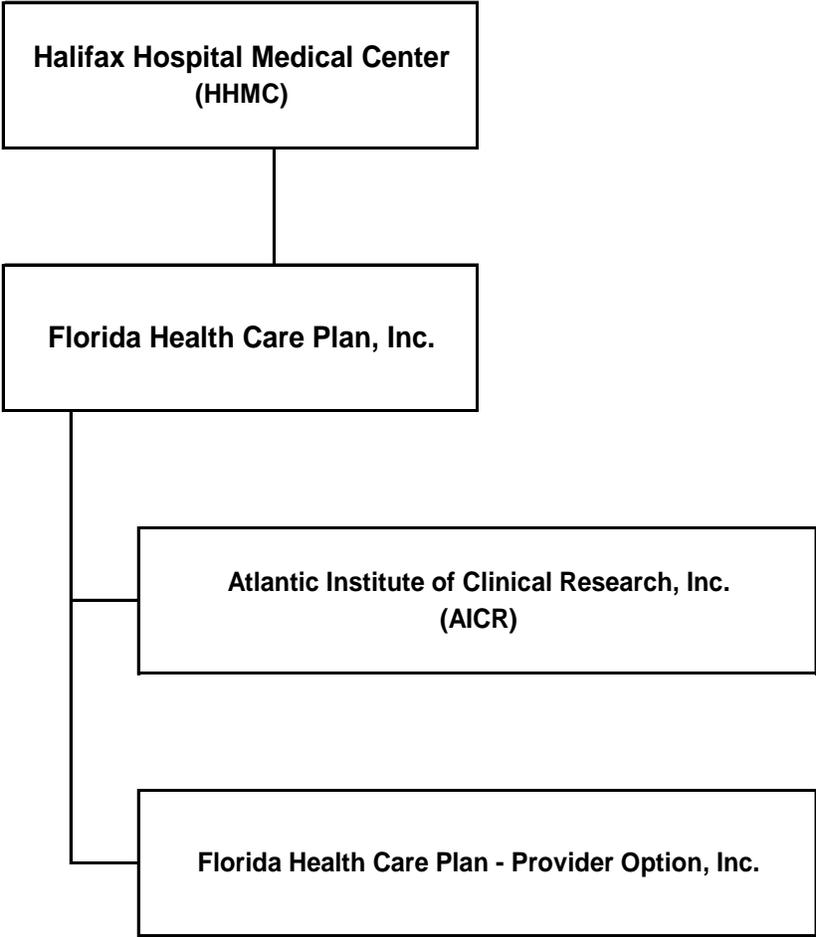
The Company paid approximately \$49.5 million to HHMC and other affiliates for hospital inpatient and other medical services during 2003, pursuant to provider agreements with those affiliates.

CREDENTIALING SERVICE AGREEMENT

Halifax Community Health System evaluates the professional competence of licensed health care professionals for the Company pursuant to a credentialing service agreement.

A simplified organizational chart as of December 31, 2003 reflecting the holding company system is shown below. Schedule Y of the Company's 2003 annual statement provided the names of all related companies in the holding company group.

**Florida Health Care Plan, Inc.
Organizational Chart
December 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

At December 31, 2003, the Company maintained medical malpractice insurance coverage of \$1 million for single occurrences and \$6 million in the aggregate, which was in compliance with Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company sponsors a defined contribution retirement plan for its employees. Eligible employees may elect to make salary reduction contributions to the plan. The Company makes discretionary matching contributions to the plan in amounts determined by it annually. In addition, the Company offers to eligible employees group life, disability, and health insurance benefits.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$300,000 in accordance with Section 641.285, F.S.

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

At December 31, 2003, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. It holds a current health care provider certificate issued by the Florida Agency for Health Care Administration, pursuant to Part III of Chapter 641, F.S.

The Company operates as a combined model HMO serving mostly large and small commercial group, Medicare, and Healthy Kids enrollees in the Florida counties of Volusia and Flagler. At December 31, 2003, its total membership was 65,579. It owns and operates clinical and pharmacy sites throughout those counties.

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

ASSUMED

The Company does not assume reinsurance.

CEDED

The Company cedes commercial risk to Allianz Life Insurance Company of North America on a stop-loss basis. The coverage is subject to a \$130,000 deductible for facility claims, and a \$25,000 deductible for emergency out-of-area claims, with a maximum lifetime coverage limit of \$2 million on each member. In 2003, reinsurance premiums and recoveries totaled approximately \$711,000 and \$719,000, respectively. The reinsurance agreements reviewed contained the required termination and insolvency clauses.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for years 2001, 2002, and 2003, 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 is located in Holly Hill, Florida, where this examination was conducted.

The following agreements were in effect between the Company and non-affiliates:

GASTROENTEROLOGY SERVICES AGREEMENT

Advanced Gastroenterology Healthcare Center provides gastroenterology services to patients pursuant to an agreement with the Company.

NETWORK ACCESS AGREEMENT

In return for a monthly fee, the Company was granted access to a network of independent health care providers pursuant to an agreement between the Company and Volusia Health Network.

IMAGING AGREEMENT

East Central Florida Outpatient Imaging, LLC, provides outpatient screening and diagnostic imaging services to the Company's members pursuant to an agreement with the Company. East Central Florida Outpatient Imaging, LLC, operates four imaging sites in Daytona Beach, Palm Coast, Port Orange, and St. Augustine, Florida.

ACUTE CARE FACILITIES AGREEMENT

The Bert Fish Medical Center provides acute care facilities to the Company's members pursuant to a hospital services agreement with the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain statements of the Company's financial position at December 31, 2003, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

Florida Health Care Plan, Inc.
Assets
December 31, 2003

	Per Company	Examination Adjustments	Per Examination
Properties occupied by the company	\$19,931,900	\$0	\$19,931,900
Properties held for the production of income	1,679,567	0	1,679,567
Properties held for sale	304,714	0	304,714
Cash, cash equivalents, & short-term investments	48,748,370	0	48,748,370
Investment income due and accrued	34,411	0	34,411
Uncollected premiums and agents' balances in the course of collection	1,511,793	0	1,511,793
Electronic data processing equipment and software	1,287,335	0	1,287,335
Furniture and equipment including health care delivery assets	1,938,033	0	1,938,033
Health care and other amounts receivable	138,618	0	138,618
Aggregate write-ins for other than invested assets	<u>1,398,400</u>	<u>0</u>	<u>1,398,400</u>
Totals	<u><u>\$76,973,141</u></u>	<u><u>\$0</u></u>	<u><u>\$76,973,141</u></u>

Florida Health Care Plan, Inc.
Liabilities, Capital & Surplus
December 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$16,772,907	\$0	\$16,772,907
Unpaid claims adjustment expenses	750,000	0	750,000
Premiums received in advance	11,623,990	0	11,623,990
General expenses due or accrued	1,465,504	0	1,465,504
Amounts withheld or retained for the account of others	129,479	0	129,479
Borrowed money	<u>7,800,000</u>	<u>0</u>	<u>7,800,000</u>
Total liabilities	38,541,880	0	38,541,880
Capital and Surplus			
Unassigned funds (surplus)	<u>38,431,261</u>	<u>0</u>	<u>38,431,261</u>
Total liabilities, capital and surplus	<u><u>\$76,973,141</u></u>	<u><u>\$0</u></u>	<u><u>\$76,973,141</u></u>

Florida Health Care Plan, Inc.
Statement of Income
For Year Ended December 31, 2003

Net premium income		\$223,820,426
Fee-for-service income		<u>179,944</u>
		224,000,370
Hospital/medical benefits	\$97,145,315	
Other professional services	59,483,338	
Outside referrals	3,720,001	
Emergency room & out-of-area	16,257,520	
Prescription drugs	11,050,833	
Aggregate write-ins for other hospital & medical	<u>8,381,471</u>	
	196,038,478	
Net reinsurance recoveries	<u>(718,980)</u>	
Total hospital & medical	195,319,498	
Claims adjustment expenses	2,947,330	
General administrative expenses	18,048,925	
Increase in reserves for life and A&H contracts	<u>(1,100,000)</u>	
Total underwriting deductions		<u>215,215,753</u>
Net underwriting gain		8,784,617
Net investment income earned	653,958	
Net realized capital gains or (losses)	<u>(14,416)</u>	639,542
Aggregate write-ins for other income or expenses		<u>333,048</u>
Net income		<u><u>\$9,757,207</u></u>

Florida Health Care Plan, Inc.
Capital & Surplus Account
For Year Ended December 31, 2003

Capital and surplus, December 31, 2002	\$30,493,455
Net income	9,757,207
Change in nonadmitted assets	(1,519,401)
Aggregate write-ins for gains or (losses) in surplus	<u>(300,000)</u>
	38,431,261
Examination adjustments	<u>0</u>
Capital and surplus, December 31, 2003	<u><u>\$38,431,261</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Borrowed money

\$7,800,000

In 1998, HHMC issued to a commercial bank \$9.0 million in tax-exempt, variable rate health care facilities revenue bonds to finance the acquisition of managed care software, the construction, renovation, and equipping of health care facilities, and to retire the Company's then existing debt of \$6.1 million. The principal balance due on the bonds was \$7.8 million at December 31, 2003. The bonds are limited obligations of HHMC, and are payable solely from, and secured by, a pledge of payments to be made by the Company to the bank pursuant to a loan agreement between HHMC and the Company. The loan agreement requires the Company to comply with certain restrictive terms and conditions and to meet certain prescribed financial ratios. Annual principal installments of \$1.1 million are required from December 2007 through December 2013. Interest is payable monthly at a variable rate, which was 1.10% at December 31, 2003.

Florida Health Care Plan, Inc.
Comparative Analysis of Changes in Capital & Surplus
December 31, 2003

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

Capital & surplus, December 31, 2003 - per annual statement			\$38,431,261
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Capital & Surplus</u>
Assets	\$76,973,141	\$76,973,141	\$0
Liabilities	\$38,541,880	\$38,541,880	<u>\$0</u>
Net change in capital and surplus			<u>0</u>
Capital & surplus, December 31, 2003 - per examination			<u><u>\$38,431,261</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The prior examination report did not contain any significant adverse findings or recommendations related to the Company's solvency.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The current examination did not result in any significant adverse findings or recommendations related to the Company's solvency.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Health Care Plan, Inc.** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$38,431,261, which was in compliance with Section 641.225, F.S.

In addition to the undersigned, Stephen Feliu, Financial Examiner/Analyst, Cathy Jones, Financial Examiner/Analyst, and Richard Tan, Actuary, participated in this examination.

Respectfully submitted,

Carolyn M. Maynard, CFE
Financial Specialist
Florida Office of Insurance Regulation