

Report on Examination
of
Healthy Palm Beaches, Inc.
West Palm Beach, Florida
as of
December 31, 2004

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

June 7, 2006

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, 2004, of the financial condition and corporate affairs of:

Healthy Palm Beaches, Inc.
324 Datura Street, Suite 401
West Palm Beach, Florida

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2002 through December 31, 2004. The Plan was last examined by the Florida Office of Insurance Regulation (the "Office") as of September 30, 1999. In lieu of conducting statutory financial examinations of the Plan for the years 2000 and 2001, the Office accepted the independent certified public accountant's (CPA) audit reports on the Plan's statutory-basis financial statements for those years pursuant to Section 641.27(1), F.S.

Planning for the current examination began on December 12, 2005. The fieldwork commenced on December 27, 2005 and concluded on March 17, 2006. 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 Plan's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Plan's operations and practices. In addition, various ratio results, *Best's Insurance Reports*, the Plan's independent audit reports, and certain work papers prepared by the Plan's independent CPA were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Plan's assets and liabilities as reported by the Plan in its 2004 annual statement. Transactions subsequent to December 31, 2004 were reviewed where relevant and deemed significant to the Plan'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 Plan's control environment and the materiality level set for this examination, we relied on work performed by the Plan's CPA in the area of contingent liabilities.

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The following is a summary of significant adverse findings contained in the Office's prior examination report as of September 30, 1999, along with resulting action taken by the Plan in connection therewith.

AFFILIATED PARTY AGREEMENTS

Neither the guarantee agreement nor the administrative services/employee lease agreement between the Plan and the Health Care District of Palm Beach County (the "District") contained a provision that the agreements shall be cancelled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. As of December 31, 2004, the agreements had not been amended to include the aforementioned provision, and the Plan remained in violation of Section 641.234(3), F.S.

REINSURANCE AGREEMENT

The Plan entered into a reinsurance agreement without first obtaining the approval of the Office, in violation of Section 641.22(8), F.S. Resolution: The Plan received the required approval of its current reinsurance agreement from the Office.

HISTORY

GENERAL

The Plan was incorporated in Florida as a non-profit corporation on July 8, 1994, and commenced business on November 21, 1996. It was created by the District, which is a political subdivision of the State of Florida, and is governed by a board consisting of members of the District's board of directors.

The Plan is authorized to transact business as a health maintenance organization (HMO) in accordance with Part I of Chapter 641, F.S.

The Plan's articles of incorporation were not amended during the period covered by this examination; however, its bylaws were amended on February 27, 2002.

At December 31, 2004, the Plan was controlled by the District. An abbreviated organizational chart appears on page 7.

PROFITABILITY

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

(\$ Millions)	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net premiums	\$6.4	\$10.7	\$8.8
Total revenues	\$6.4	\$12.1	\$10.4
Net income (loss)	\$0.2	\$0.4	\$0.1
Total capital & surplus	\$2.7	\$2.5	\$2.2

MANAGEMENT

The annual member meeting for the election of directors was held in accordance with Sections 617.0701 and 628.231, F.S. Directors serving as of December 31, 2004 were:

Directors

Name and Location	Principal Occupation
Elizabeth Fago Palm Beach Gardens, Florida	Chairman - Healthcare Acquisition, Inc.
Effie Greer Belle Glade, Florida	Retired high school principal
C. David Goodlett West Palm Beach, Florida	Vice President - Government and Community Relations Sugar Cane Growers Cooperative of Florida
Jean-Marie M. Malecki Jupiter, Florida	Director - Palm Beach County Health Department
Stanley Pierce Boca Raton, Florida	Retired attorney and biologist
Randee S. Schatz Delray Beach, Florida	Self-employed attorney
Irving Slosberg Boca Raton, Florida	Florida state representative

The following were the Plan's senior officers as of December 31, 2004, as appointed by its board of directors in accordance with the Plan's bylaws:

Senior Officers

Name	Title
Dwight Chenette	Chief Executive Officer
Craig Jenkins	Chief Financial Officer
Debi Gavras	Chief Operating Officer
Ronald Wiewora, M.D.	Chief Medical Officer

CORPORATE RECORDS

The recorded minutes of the Board of Directors and Finance/Audit Committee meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Plan transactions in accordance with Section 617.1601, F.S., including the authorization of investments as required by Section 641.35(7), F.S.

AFFILIATED COMPANIES

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

ADMINISTRATIVE/EMPLOYEE LEASE AGREEMENT

The District provided administrative and support services to the Plan pursuant to a December 10, 1997 agreement, in return for annual fees in the amounts of \$110,543, \$445,215, and \$345,240 in years 2004, 2003, and 2002, respectively.

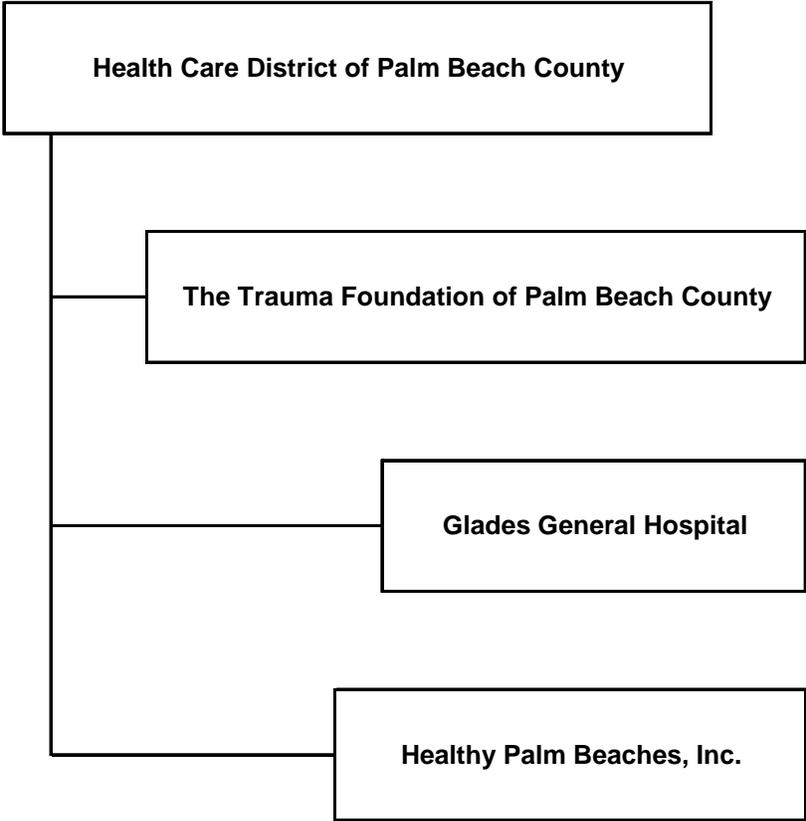
GUARANTEE AGREEMENT

The District guarantees financial obligations and minimum surplus requirements of the Plan up to \$5 million pursuant to an October 22, 1997 agreement. The District provided financial support to the Plan pursuant to the agreement in the amounts of \$1,400,000 and \$1,651,320 in years 2003 and 2002, respectively.

Neither the guarantee agreement nor the administrative services/employee lease agreement contained a provision that the agreements shall be cancelled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

An abbreviated organizational chart as of December 31, 2004 is shown below.

**Healthy Palm Beaches, Inc.
Organizational Chart
December 31, 2004**



FIDELITY BOND AND OTHER INSURANCE

The Plan maintains acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and has a blanket fidelity bond in the amount of \$250,000, as required by Section 641.22, F.S.

STATUTORY DEPOSITS

The Plan maintained on deposit with the Office an insolvency protection deposit of \$300,000 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

At December 31, 2004, the Plan 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., which is valid until October 26, 2006.

The Plan provides health care services to Medicaid members only. Its total membership at December 31, 2004 was 5,148. The Plan operates solely in Palm Beach County, Florida.

TREATMENT OF MEMBERS

The Plan 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 reinsurance agreement reviewed was found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines.

The Plan entered into a reinsurance agreement with ReliaStar Life Insurance Company on January 1, 2004, covering a portion of losses in excess of a deductible amount. The agreement provides for a deductible amount of \$75,000 per member per agreement period for all losses, and a reinsurance limit of \$1 million per member per agreement period.

ACCOUNTS AND RECORDS

An independent CPA audited the Plan's statutory-basis financial statements annually for years 2002, 2003, and 2004, pursuant to Section 641.26(1)(c), F.S.

The Plan'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 Plan's main administrative office is located in West Palm Beach, Florida, where this examination was conducted.

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

INDEPENDENT AUDITOR AGREEMENT

The Plan contracted with Caler, Donten, Levine, Druker, Porter & Veil, PA., for the audits of its statutory-basis financial statements, pursuant to Section 641.26(1), F.S. Fees related to the agreements were \$58,942, \$37,580, and \$51,801 in years 2004, 2003, and 2002, respectively.

PHARMACY AGREEMENT

The Plan uses Pharmacy Provider Services Corp. as a pharmacy benefits manager. Fees related to the agreement between them were \$1.6 million, \$1.4 million, and \$380,000 in years 2004, 2003, and 2002, respectively.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Plan's financial position at December 31, 2004, as determined by this examination, and the results of its operations for the year then ended as reported by the Plan.

Healthy Palm Beaches, Inc.
Assets
December 31, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents, & short-term investments	\$4,420,414	\$0	\$4,420,414
Investment income due & accrued	<u>6,277</u>	<u>0</u>	<u>6,277</u>
Totals	<u><u>\$4,426,691</u></u>	<u><u>\$0</u></u>	<u><u>\$4,426,691</u></u>

Healthy Palm Beaches, Inc.
Liabilities, Capital and Surplus
December 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$629,557	\$0	\$629,557
Aggregate health policy reserves	400,000	0	400,000
Premiums received in advance	513,019	0	513,019
General expenses due or accrued	<u>158,379</u>	<u>0</u>	<u>158,379</u>
Total liabilities	<u>1,700,955</u>	<u>0</u>	<u>1,700,955</u>
Capital and Surplus			
Gross paid in and contributed surplus	1,500,000	0	1,500,000
Unassigned funds (surplus)	<u>1,225,736</u>	<u>0</u>	<u>1,225,736</u>
Total capital and surplus	<u>2,725,736</u>	<u>0</u>	<u>2,725,736</u>
Total liabilities, capital and surplus	<u><u>\$4,426,691</u></u>	<u><u>\$0</u></u>	<u><u>\$4,426,691</u></u>

Healthy Palm Beaches, Inc.
Statement of Revenue and Expenses
For the Year Ended December 31, 2004

Net premium income		\$6,426,783
Hospital/medical benefits	\$1,999,584	
Other professional services	512,609	
Outside referrals	739,094	
Emergency room and out-of-area	355,290	
Prescription drugs	<u>1,621,979</u>	
Total hospital and medical	5,228,556	
General administrative expenses	<u>1,057,085</u>	
Total underwriting deductions		<u>6,285,641</u>
Net underwriting gain		141,142
Net investment income earned		<u>57,359</u>
Net income		<u><u>\$198,501</u></u>

Healthy Palm Beaches, Inc.
Capital and Surplus Account
For the Year Ended December 31, 2004

Capital and surplus, December 31, 2003	\$2,529,074
Net income	198,501
Change in nonadmitted assets	(1,839)
Examination adjustments	<u>0</u>
Capital and surplus, December 31, 2004	<u><u>\$2,725,736</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Claims unpaid	\$629,557
Aggregate health policy reserves	\$400,000

An outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried in the Plan's balance sheet as of December 31, 2004 reasonably provided for all unpaid loss and loss expense obligations of the Plan under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Plan and concurred with this opinion.

Based on the results of the Office actuary's review and analysis of work papers and data provided by the Plan, we concluded that the aggregate claims reserves and unpaid losses were not materially misstated.

Healthy Palm Beaches, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2004

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

Capital & Surplus - December 31, 2004, per annual statement				\$2,725,736
	Per Company	Per Exam	Increase (Decrease) in Surplus	
Assets	\$4,426,691	\$4,426,691	\$0	
Liabilities	\$1,700,955	\$1,700,955	\$0	
Net change in capital & surplus				0
Capital & Surplus - December 31, 2004, per examination				\$2,725,736

SUMMARY OF FINDINGS

The Plan has taken the necessary actions to comply with the comments contained in the prior examination report issued by the Office, except as follows. As discussed on page 2, the prior financial condition examination report issued by the Office as of September 30, 1999 contained a finding that neither the Plan's guarantee agreement nor its administrative services/employee lease agreement with the District included a provision that the agreements shall be cancelled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. As of December 31, 2004, the agreements had not been amended to include the aforementioned provision, and the Plan remained in violation of Section 641.234(3), F.S., as discussed on page 6. **We recommend that the Plan comply with Section 641.234(3), F.S.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Healthy Palm Beaches, Inc.** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Plan's total capital and surplus was \$2,725,736, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2004 was \$1.5 million.

In addition to the undersigned, Kenneth V. Carroll, Financial Examiner/Analyst, Steven A. Steele, Financial Specialist, and Richard Tan, Actuary, participated in this examination.

Respectfully submitted,

David C. Schleit, CPA,
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation