

**Report on Examination**  
**of**  
**Healthy Palm Beaches, Inc.**  
**Palm Springs, Florida**  
**as of**  
**December 31, 2013**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
Tallahassee, Florida

Dear Sir:

In accordance with Section 641.27, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Healthy Palm Beaches, Inc. as of December 31, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation  
December 18, 2014

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## SCOPE OF EXAMINATION

We have completed a financial condition examination of Healthy Palm Beaches, Inc. (the "Plan"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2009 through December 31, 2013 and took place primarily in the Plan's Palm Springs, Florida office. The last financial condition examination of the Plan by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2008.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Plan. It required that we do so by obtaining information about the Plan including corporate governance, identifying and assessing inherent risks within the Plan, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Plan were considered in accordance with the risk-focused examination process.

## **PLAN HISTORY**

The Plan was incorporated in Florida on July 8, 1994 and licensed by the Office as an HMO on November 21, 1996. It was created by the Health Care District of Palm Beach County (the "District"), a Florida political subdivision, and was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.). In addition, the Plan was approved as a Health Flex Plan entity pursuant to Section 408.909, F.S.

### Capital Contributions

The Plan received a capital contribution in the amount of \$1.5 million in 2009. No other capital contributions were received during the period examined.

## **CORPORATE RECORDS**

We reviewed the minutes of meetings held by the Plan's board of directors, and by its finance and audit and compliance committees. The Board's approval of Plan transactions, including the authorization of its investments as required by Section 641.35(7), F.S., was recorded in the minutes of its meetings.

## MANAGEMENT AND CONTROL

The Plan's senior officers and directors were:

### Senior Officers

<b>Name</b>	<b>Title</b>
Carol A. Roberts	Chairperson
Philip H. Ward, III	Vice Chairperson
Brian R. Lohmann	Secretary
Ronald J. Wiewora, M.D.	Chief Executive Officer & Medical Director
Darcy J. Davis	Chief Financial Officer
Thomas W. Cleare, M.B.A., Ph.D.	Chief Program Officer

### Board of Directors

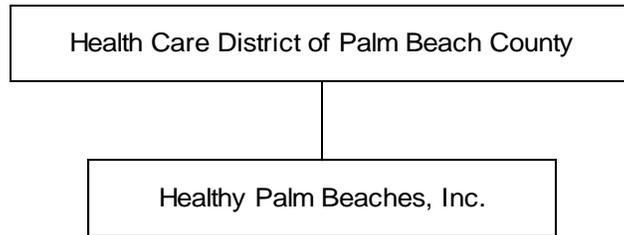
<b>Name</b>	<b>Location</b>
Alina M. Alonso, M.D.	West Palm Beach, Florida
Nancy C. Banner	Palm Beach Gardens, Florida
Leslie B. Daniels	Palm Beach, Florida
Angeleta E. Gray	Delray Beach, Florida
Brian R. Lohmann	Belle Glade, Florida
Carol A. Roberts	West Palm Beach, Florida
Philip H. Ward, III	West Palm Beach, Florida

### Committees of the Board

<b>Audit &amp; Compliance</b>	<b>Finance</b>
Nancy C. Banner	Juan C. Cocuy
Sandra Featherman, Ph.D.	Michael T. B. Dennis, M.D.
James T. Howell, M.D.	L. Neil Fogel
Douglas Mann	Brian R. Lohmann
Carol A. Roberts	Joan E. Roude
Milena L. Walinski	R. Michael Smith
Frederick Weinstein	Philip H. Ward, III

An abbreviated organizational chart is shown below.

**Healthy Palm Beaches, Inc.  
Abbreviated Organizational Chart  
December 31, 2013**



Administrative Services/Employee Lease Agreement

The District provided administrative and support services to the Plan pursuant to an agreement effective in 2006 in return for monthly compensation.

Intercompany Guarantee Agreements

Pursuant to an agreement effective in 2006, the District guaranteed the financial obligations of the Plan including surplus requirements and obligations incurred from Medicaid providers up to \$5.0 million.

Pursuant to an agreement effective in 2009, the District pledged to subsidize the premium for the Vita Health Plan to the full extent necessary to assure that neither enrolled members nor the State of Florida would be liable for the financial obligations of the Vita Health Plan.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Plan maintained general and professional liability insurance at acceptable levels and required its providers to certify and maintain appropriate levels of medical malpractice insurance or its equivalent in accordance with Rule 69O-191.069, Florida Administrative Code. The policies provided for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Plan was insured by a blanket fidelity bond issued by a licensed Florida carrier, as required by Section 641.22(7), F.S., in the amount of \$250,000.

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

The Plan had no employees and did not provide employee benefits nor sponsor retirement plans.

## **TERRITORY AND PLAN OF OPERATION**

The Plan provided health care services to residents of Palm Beach County, Florida. In addition, the Plan 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 October 25, 2014. As an IPA model HMO, the Plan had 27,286 members as of December 31, 2013, of which 52% were Medicaid and 48% were Health Flex Plan members.

## PLAN GROWTH

The Plan reported the following for years 2009 through 2013:

(Dollars are in millions.)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Member months	141,094	198,550	227,368	261,674	306,981
<b>Year-end enrollment</b>	<b>14,987</b>	<b>17,732</b>	<b>20,267</b>	<b>23,427</b>	<b>27,286</b>
Premiums	\$ 22.9	\$ 39.1	\$ 37.3	\$ 41.9	\$ 51.2
<b>Total revenues</b>	<b>\$ 24.1</b>	<b>\$ 39.1</b>	<b>\$ 37.3</b>	<b>\$ 42.0</b>	<b>\$ 51.2</b>
Underwriting deductions	\$ 22.2	\$ 29.0	\$ 38.5	\$ 42.5	\$ 53.2
<b>Net income (loss)</b>	<b>\$ 1.9</b>	<b>\$ 10.2</b>	<b>\$ (1.2)</b>	<b>\$ (0.4)</b>	<b>\$ (1.9)</b>
Paid in surplus received	\$ 1.5	\$ -	\$ -	\$ -	\$ -
<b>Admitted assets</b>	<b>\$ 15.0</b>	<b>\$ 25.3</b>	<b>\$ 23.9</b>	<b>\$ 23.7</b>	<b>\$ 23.1</b>
Liabilities	\$ 7.4	\$ 7.5	\$ 7.3	\$ 7.5	\$ 8.8
<b>Capital and surplus</b>	<b>\$ 7.6</b>	<b>\$ 17.8</b>	<b>\$ 16.6</b>	<b>\$ 16.2</b>	<b>\$ 14.3</b>

## REINSURANCE

Effective January 1, 2013, the Plan maintained excess of loss reinsurance with Atlantic Specialty Insurance Company. The reinsurance covered 90% of eligible Medicaid expenses up to \$1,000,000 per member per year with Plan retention of \$150,000 per member per year.

## ACCOUNTS AND RECORDS

Examiners found that the Plan had not establish policies and procedures necessary to detect and prevent prohibited transactions with individuals and entities identified as terrorists by the U.S. Department of the Treasury, as required by Executive Order 13224 signed by the President on September 23, 2001.

## **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. In addition, the Plan maintained an insolvency deposit with the Florida Agency for Health Care Administration in the amount of \$399,768.

**Healthy Palm Beaches, Inc.**  
**Admitted Assets, Liabilities, Capital and Surplus**  
**December 31, 2013**

<b>Admitted Assets</b>	<b>As Reported</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Cash, cash equivalents and short-term investments	\$ 23,116,412	\$ -	\$ 23,116,412
Investment income due and accrued	13,671	-	13,671
<b>Total admitted assets</b>	<b>\$ 23,130,083</b>	<b>\$ -</b>	<b>\$ 23,130,083</b>

<b>Liabilities</b>			
Claims unpaid	\$ 3,941,000	\$ -	\$ 3,941,000
Aggregate health policy reserves	2,324,000	-	2,324,000
Premiums received in advance	1,697,715	-	1,697,715
General expenses due or accrued	471,642	-	471,642
Amounts withheld or retained for the account of others	9,062	-	9,062
Amounts due to parent, subsidiaries and affiliates	360,250	-	360,250
<b>Total liabilities</b>	<b>8,803,669</b>	<b>-</b>	<b>8,803,669</b>

<b>Capital and Surplus</b>			
Gross paid in and contributed surplus	3,000,000	-	3,000,000
Unassigned funds	11,326,414	-	11,326,414
<b>Total capital and surplus</b>	<b>14,326,414</b>	<b>-</b>	<b>14,326,414</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 23,130,083</b>	<b>\$ -</b>	<b>\$ 23,130,083</b>

**Healthy Palm Beaches, Inc.**  
**Statement of Revenue and Expenses**  
**(As Reported By The Plan)**  
**Year Ended December 31, 2013**

Net premium income	\$ 51,205,413
Aggregate write-ins for other health care related revenues	37,651
<hr/> Total revenues	<hr/> 51,243,064
Hospital and medical benefits	30,283,019
Other professional services	6,980,097
Outside referrals	2,012,623
Emergency room and out-of-area	4,028,473
Prescription drugs	5,013,685
<hr/> Total hospital and medical	<hr/> 48,317,897
Claims adjustment expenses	1,727,135
General administrative expenses	2,828,483
Increase in reserves for life and accident and health contracts	336,003
<hr/> Total underwriting deductions	<hr/> 53,209,518
Net underwriting gain (loss)	(1,966,454)
Net investment gains	91,703
<hr/> Net income (loss)	<hr/> <hr/> \$ (1,874,751)

**Healthy Palm Beaches, Inc.**  
**Statement of Changes in Capital and Surplus**  
**Five Years Ended December 31, 2013**

Capital and surplus - December 31, 2008	\$ 4,232,073
Net income (loss)	1,857,059
Change in nonadmitted assets	(550)
Paid in surplus	1,500,000
<hr/>	
Capital and surplus - December 31, 2009	7,588,582
Net income (loss)	10,209,208
Change in nonadmitted assets	(780)
<hr/>	
Capital and surplus - December 31, 2010	17,797,010
Net income (loss)	(1,177,660)
Change in nonadmitted assets	4,010
<hr/>	
Capital and surplus - December 31, 2011	16,623,360
Net income (loss)	(416,945)
Change in nonadmitted assets	(7,750)
<hr/>	
Capital and surplus - December 31, 2012	16,198,665
Net income (loss)	(1,874,751)
Change in nonadmitted assets	2,500
<hr/>	
	14,326,414
Examination adjustments	-
<hr/>	
Capital and surplus - December 31, 2013	\$ 14,326,414
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**Healthy Palm Beaches, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2013**

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

	<u>As Reported</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital &amp; Surplus</u>	
<b>Capital and surplus, December 31, 2013 - as reported</b>				\$ 14,326,414
Total admitted assets	\$ 23,130,083	\$ 23,130,083	\$ -	
Total liabilities	\$ 8,803,669	\$ 8,803,669	\$ -	
Net change in capital and surplus				-
<b>Capital and surplus, December 31, 2013 - per examination</b>				<u>\$ 14,326,414</u>

## RECOMMENDATIONS

### Prohibited Transactions

As reported on page 6, the Plan failed to establish policies and procedures necessary to detect and prevent prohibited transactions with individuals and entities identified as terrorists by the U.S. Department of the Treasury, as required by Executive Order 13224 signed by the President on September 23, 2001. **We recommend that the Plan comply with Executive Order 13224.**

## SUBSEQUENT EVENTS

On August 1, 2014, the Plan sold its Medicaid business to Molina Healthcare of Florida, Inc.

## **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. consistent with the insurance laws of the State of Florida.

At December 31, 2013, the Plan's capital and surplus was \$14,326,414 and the Plan was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, Actuarial Group, Inc. and Faisal Harianawalla, Financial Examiner, participated in the examination.

Respectfully submitted,

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Darlene L. Lenhart-Schaeffer, CFE, CISA, APIR  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation