

Report on Examination
of
Healthy Palm Beaches, Inc.

West Palm Beach, Florida

as of

December 31, 2008

By The
Florida Office of Insurance Regulation

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

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, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation
May 10, 2010

Contents

Scope of Examination	1
History	2
Corporate Records	2
Management and Control	3
Fidelity Bonds and Other Insurance	4
Pension, Stock Ownership and Insurance Plans	4
Territory and Plan of Operation	5
Plan Growth	5
Reinsurance	5
Statutory Deposits	6
Financial Statements	7
Summary of Recommendations	12
Subsequent Events	13
Conclusion	14

SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2008 of Healthy Palm Beaches, Inc. (the "Plan"), a Florida health maintenance organization (HMO). The last financial condition examination of the Plan by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2004.

This examination covered the period of January 1, 2006 through 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.

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

HISTORY

The Plan was incorporated in Florida as a corporation not for profit 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 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 was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.), and approved as a health flex plan entity pursuant to Section 408.909, F.S.

CORPORATE RECORDS

The recorded minutes of the meetings of the District's board of directors and audit committee 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.

MANAGEMENT AND CONTROL

The Plan's senior officers and directors were as shown below.

Senior Officers

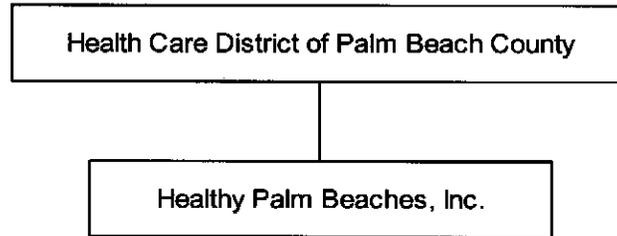
Name	Title
Dwight D. Chenette	Chief Executive Officer
Debra Gavras	Chief Operating Officer
Ronald J. Wiewora, M.D.	Chief Medical Officer

Board of Directors

Name	Location
Patrick J. DiSalvo	Delray Beach, Florida
C. David Goodlett	West Palm Beach, Florida
Effie C. Gear, Ed.D.	Belle Glade, Florida
Richard A. Machek	Delray Beach, Florida
Jean Marie Malecki, M.D.	Jupiter, Florida
Carol A. Roberts	West Palm Beach, Florida
Jonathan R. Satter	West Palm Beach, Florida

An abbreviated organizational chart is shown below.

**Healthy Palm Beaches, Inc.
Abbreviated Organizational Chart
December 31, 2008**



The District provided administrative and support services to the Plan pursuant to a 2006 agreement. The District guaranteed financial obligations of the Plan up to \$5 million pursuant to a 2006 agreement. It provided financial support to the Plan pursuant to the agreement in the amounts of \$2 million, \$1.5 million and \$3.45 million in years 2006, 2007 and 2008, respectively.

FIDELITY BONDS AND OTHER INSURANCE

The Plan maintained acceptable levels of general liability insurance as required by Rule 69O-191.069, Florida Administrative Code (F.A.C.), and was insured by a blanket fidelity bond, as required by Section 641.22(7), F.S., in the amount of \$250,000. As an individual practice association (IPA) model HMO, the Plan 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 as required by Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Plan had no direct employees and, therefore, did not provide employee benefits or sponsor retirement plans.

TERRITORY AND PLAN OF OPERATION

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 24, 2010. It provided health care services to Medicaid and health flex plan recipients. It had 9,154 members at December 31, 2008, 80% of which were Medicaid members. The Plan operated solely in Palm Beach County, Florida.

PLAN GROWTH

The Plan reported the following for years 2006, 2007 and 2008:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Year-end enrollment	4,639	4,692	9,154
In millions:			
Net premiums	\$6.3	\$6.3	\$7.7
Total revenues	\$8.3	\$7.8	\$11.1
Net income (loss)	\$0.7	(\$0.2)	(\$1.4)
Capital and surplus	\$4.3	\$4.1	\$4.2

REINSURANCE

Effective January 1, 2008, the Plan maintained excess of loss reinsurance with OneBeacon Insurance Company. Minimum annual premiums were \$60,000. The reinsurance covered 90% of eligible Medicaid expenses up to \$1 million per member per year, with a Plan retention amount of \$75,000 per member per year. The agreement had not been filed with the Office for approval as required by Rule 69O-191.072, F.A.C.

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.

Healthy Palm Beaches, Inc.
Assets
December 31, 2008

	Per Plan	Examination Adjustments	Per Examination
Cash, cash equivalents and short-term investments	\$8,922,926	\$0	\$8,922,926
Investment income due and accrued	1,713	0	1,713
Total assets	\$8,924,639	\$0	\$8,924,639

Healthy Palm Beaches, Inc.
Liabilities, Capital and Surplus
December 31, 2008

Liabilities	Per Plan	Examination Adjustments	Per Examination
Claims unpaid	\$1,370,031	\$0	\$1,370,031
Unpaid claims adjustment expenses	27,713	0	27,713
Aggregate health policy reserves	1,993,710	0	1,993,710
Premiums received in advance	1,076,138	0	1,076,138
General expenses due or accrued	221,726	0	221,726
Amounts withheld or retained for others	3,248	0	3,248
Total liabilities	4,692,566	0	4,692,566
Capital and Surplus			
Gross paid in and contributed surplus	1,500,000	0	1,500,000
Unassigned funds	2,732,073	0	2,732,073
Total capital and surplus	4,232,073	0	4,232,073
Total liabilities, capital and surplus	\$8,924,639	\$0	\$8,924,639

Healthy Palm Beaches, Inc.
Statement of Revenue and Expenses
(As reported by the Plan)
For The Year Ended December 31, 2008

Net premium income	\$7,660,248
Aggregate write-ins for other revenues	3,468,166
Total revenues	11,128,414
Hospital and medical benefits	4,997,554
Other professional services	1,629,985
Outside referrals	985,367
Emergency room and out-of-area	623,897
Prescription drugs	1,289,847
	9,526,650
Claims adjustment expenses	779,183
General administrative expenses	1,165,138
Increase in reserves	1,211,998
Total underwriting deductions	12,682,969
Net underwriting gain (loss)	(1,554,555)
Net investment income	151,937
Net income (loss)	(\$1,402,618)

Healthy Palm Beaches, Inc.
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2008

Capital and surplus - December 31, 2005	\$5,184,292
Net income (loss)	685,702
Change in nonadmitted assets	(1,607,017)
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Capital and surplus - December 31, 2006	4,262,977
Net income (loss)	(231,453)
Change in nonadmitted assets	90,137
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Capital and surplus - December 31, 2007	4,121,661
Net income (loss)	(1,402,618)
Change in nonadmitted assets	1,513,030
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	4,232,073
Examination adjustments	0
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Capital and surplus - December 31, 2008	\$4,232,073
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Healthy Palm Beaches, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2008

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

Capital and surplus, December 31, 2008 - per annual statement				\$4,232,073
	Per Plan	Per Examination	Increase (Decrease) In Capital & Surplus	
Total assets	<u>\$8,924,639</u>	<u>\$8,924,639</u>	<u>\$0</u>	
Total liabilities	\$4,692,566	\$4,692,566	\$0	
Net change in capital and surplus				<u>0</u>
Capital and surplus, December 31, 2008 - per examination				<u>\$4,232,073</u>

SUMMARY OF RECOMMENDATIONS

Reinsurance Agreement

As reported on page 5, the Plan's reinsurance agreement had not been filed with the Office for approval. **We recommend that the Plan file the agreement with the Office as required by Rule 69O-191.072, F.A.C.**

Cash Management Arrangement

As reported on the following page as a subsequent event, the Plan began transferring its cash to a District account on a daily overnight basis as part of a consolidated cash management arrangement beginning in 2009, in violation of Rule 69O-191.090, F.A.C. **We recommend that the Plan discontinue the practice and, in its statements filed with the Office, report any amount of its assets consisting of funds on deposit in the District's consolidated cash account as a nonadmitted asset in accordance with Section 641.35(2)(i), F.S.**

SUBSEQUENT EVENTS

Beginning in 2009, the Plan began transferring its cash to a District account on a daily overnight basis as part of a consolidated cash management arrangement. Because the Plan did not maintain title to and control over the transferred funds while the funds were on deposit in the District's account, the practice was in violation of Rule 69O-191.090, F.A.C. Any amount of the Plan's assets consisting of funds on deposit in the District's account was not allowable as an admitted asset in accordance with Section 641.35(2)(i), F.S.

In its 2009 annual statement, the Plan reported net premiums of \$22,939,788 and net income of \$1,857,059 for the year. It reported total capital and surplus of \$7,588,582 as of December 31, 2009.

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, 2008, consistent with the insurance laws of the State of Florida.

The Plan's total capital and surplus at December 31, 2008 was determined to be \$4,232,073, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$1,500,000.

In addition to the undersigned, the following individuals participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Robert Y. Meszaros, Financial Specialist; and Richard Tan, Actuary.

Respectfully submitted,

Stephen Feliu, CFE (Fraud)
Financial Examiner/Analyst
Florida Office of Insurance Regulation