

**Report on Examination**  
**of**  
**Metcare Health Plans, Inc.**  
**West Palm Beach, Florida**  
**as of**  
**December 31, 2006**

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

## Contents

SCOPE OF EXAMINATION .....	1
HISTORY .....	3
GENERAL .....	3
CAPITAL STOCK .....	3
PROFITABILITY .....	4
DIVIDENDS .....	4
MANAGEMENT .....	4
CONFLICT OF INTEREST PROCEDURE .....	5
CORPORATE RECORDS .....	5
AFFILIATED COMPANIES .....	6
ORGANIZATIONAL CHART .....	8
FIDELITY BOND AND OTHER INSURANCE .....	9
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS .....	9
STATUTORY DEPOSITS .....	9
INSURANCE PRODUCTS AND RELATED PRACTICES .....	10
TERRITORY AND PLAN OF OPERATION .....	10
TREATMENT OF MEMBERS.....	10
REINSURANCE .....	11
ACCOUNTS AND RECORDS.....	12
FINANCIAL STATEMENTS PER EXAMINATION .....	14
ASSETS .....	15
LIABILITIES, CAPITAL AND SURPLUS .....	16
STATEMENT OF REVENUE AND EXPENSES.....	17
CAPITAL AND SURPLUS ACCOUNT .....	18
COMMENTS ON FINANCIAL STATEMENTS .....	19
COMPARATIVE ANALYSIS OF CHANGES IN CAPITAL AND SURPLUS .....	20
SUMMARY OF FINDINGS.....	21
CONCLUSION .....	22

Tallahassee, Florida

June 10, 2008

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, 2006, of the financial condition and corporate affairs of:

**Metcare Health Plans, Inc.**  
**250 South Australian Ave. – Suite 400**  
**West Palm Beach, Florida 33401**

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

## SCOPE OF EXAMINATION

This examination covered the period of April 22, 2005 through December 31, 2006. It 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 November 15, 2007. The fieldwork commenced on November 26, 2007 and concluded on April 7, 2008. 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, *Best's Insurance Reports*, 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 2006 annual statement. Transactions subsequent to December 31, 2006 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:

- Electronic data processing equipment and software
- General expenses due or accrued
- Commitments and contingent liabilities

## HISTORY

### GENERAL

The Company was incorporated in Florida on August 31, 2001, and commenced business on July 1, 2005.

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.

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

### CAPITAL STOCK

As of December 31, 2006, the Company's capitalization was as follows:

	<u>Common Shares</u>	<u>Preferred Shares</u>
Shares authorized	40,000,000	10,000,000
Shares issued and outstanding	18,100,200	0
Total capital stock	\$18,100	\$0
Par value per share	\$0.001	\$0.001

At December 31, 2006, the Company was wholly-owned and controlled by Metropolitan Health Networks, Inc. (Metropolitan). An abbreviated organizational chart appears on page 8.

## PROFITABILITY

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

	<u>2006</u>	<u>2005</u>
Year-end enrollment	3,773	1,401
In millions:		
Net premiums	\$28.0	\$2.8
Total revenues	\$28.0	\$2.8
Net loss	\$5.2	\$6.6
Total capital and surplus (deficit)	(\$1.7)	\$4.8

## DIVIDENDS

The Company did not pay any shareholder dividends during the period of this examination.

## MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Section 607.0701, F.S. Directors serving as of December 31, 2006 were:

<b>Directors</b>	
<u>Name and Location</u>	<u>Principal Occupation</u>
Michael M. Earley Boca Raton, Florida	Chairman & Chief Executive Officer of Metropolitan Health Networks, Inc.
Debra A. Finnel West Palm Beach, Florida	President & Chief Operating Officer of Metropolitan Health Networks, Inc.

The following were the Company's senior officers as of December 31, 2006, as appointed by its board of directors in accordance with the Company's bylaws:

**Senior Officers**

<u>Name</u>	<u>Title</u>
Michael M. Earley	Chief Executive Officer
Debra A. Finnel	President & Chief Operating Officer
Robert J. Sabo	Sr. Vice President, Chief Financial Officer & Treasurer
Roberto L. Palenzuela	General Counsel & Secretary

**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 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., 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 June 29, 2007.

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

### **Management Services Agreement**

Metropolitan provided administrative, legal, financial, marketing, and accounting services to the Company pursuant to a July 1, 2004 agreement, in return for monthly fees based on premiums. No fees were payable pursuant to the agreement for the year 2005. Fees for the year 2006 were \$279,776.

### **Employee Leasing Agreement**

Metcare of Florida, Inc. provided the Company with part-time employees having health services and information technology skills pursuant to a January 3, 2005 agreement. Fees for the services were \$781,547 and \$1,021,547 in years 2005 and 2006, respectively.

### **Global Capitation Agreement**

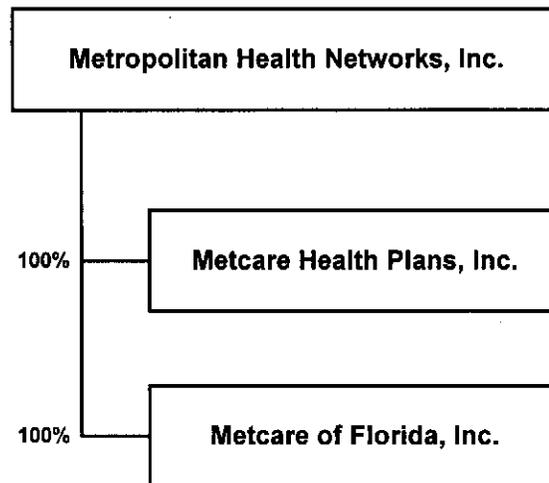
Metcare of Florida, Inc. provided medical, hospital and other services to the Company's members pursuant to an October 1, 2004 capitation agreement which was amended on July 1, 2007. Fees were based on the amount of collected premiums and totaled \$24.3 million in the year 2006.

### Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax return of Metropolitan pursuant to a tax sharing agreement dated November 1, 2004. The income tax liability of the consolidated group was allocated to its members on a pro rata basis according to each member's separate return tax liability. Settlement of tax liabilities was required promptly and at least within one quarter of the filing of the consolidated tax return.

An abbreviated organizational chart as of December 31, 2006 reflecting the holding company system is shown below. Schedule Y of the Company's 2006 annual statement provided the names of all related companies in the holding company group.

**Metcare Health Plans, Inc.  
Organizational Chart  
December 31, 2006**



## **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 had a blanket fidelity bond in the amount of \$1 million as required by Section 641.22, F.S. 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 accordance with Rule 69O-191.069, F.A.C.

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

The Company offered benefits to eligible employees including health and dental insurance, education assistance, paid leave, and a 401(k) retirement plan.

## **STATUTORY DEPOSITS**

The Company maintained on deposit with the Office an insolvency protection deposit of \$500,000 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, 2006, 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 March 14, 2009.

The Company used a network of general agents and brokers, and operated as an IPA model. It provided health care services to 3,773 Medicare members as of December 31, 2006.

The Company operated in the Florida counties of Charlotte, Lee, Martin, Okeechobee, Sarasota, and St. Lucie.

### **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**

On July 1, 2006, the Company renewed a one year stop-loss reinsurance agreement with OneBeacon Insurance Company. The Company's retention limit was \$125,000 per member. The maximum reinsurance coverage provided under the agreement for eligible services was \$1,000,000 per member per service year. Under the terms of the agreement, the reinsurer insured 90% of eligible facility costs in excess of \$125,000 for non-transplant services and organ/tissue transplants performed in contracted transplant facilities, and 50% of eligible facility costs in excess of \$125,000 for all other organ/tissue transplants. The agreement 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.

## ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2005 and 2006, 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 West Palm Beach, Florida, where this examination was conducted.

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

### Administrative Services Agreement

HF Administrative Services, Inc. provided claims and membership processing and support services to the Company pursuant to a five-year agreement effective July 1, 2005. Fees for the services were \$487,000 and \$750,579 in years 2005 and 2006, respectively.

### CMS Agreement

The Company contracted with the Centers for Medicare & Medicaid Services to operate as a Medicare Advantage Organization. The contract originated on July 1, 2005, was augmented effective January 1, 2006 to include Part D drug benefits coverage, and is effective until December 31, 2007.

### Pharmacy Benefit Services Agreement

Innoviant, Inc. provided pharmacy benefit management services to the Company pursuant to a pharmacy benefit services agreement. Fees under the agreement were \$212,045 and \$2,359,756 in years 2005 and 2006, respectively. On March 16, 2006, the Company contracted with AmeriHealth

Mercy Health Plan, d.b.a. AmeriHealth Mercy PerformRx, for pharmacy benefit management services.  
The agreement was amended on December 1, 2006 and was effective January 1, 2007.

Independent Auditor Agreement

The Company contracted with Thomas Howell Ferguson LLP to conduct annual audits of the Company's statutory-basis financial statements.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following four pages contain statements of the Company's financial position at December 31, 2006, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

**Metcare Health Plans, Inc.**  
**Assets**  
**December 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents, and short-term investments	\$6,474,921	\$0	\$6,474,921
Uncollected premiums and agents' balances	277,682	0	277,682
Amounts recoverable from reinsurers	64,039	0	64,039
Electronic data processing equipment and software	121,257	0	121,257
Health care and other amounts receivable	102,075	0	102,075
Totals	<u>\$7,039,974</u>	<u>\$0</u>	<u>\$7,039,974</u>

**Metcare Health Plans, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2006**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Claims unpaid	\$4,836,024	\$0	\$4,836,024
Unpaid claims adjustment expenses	138,000	0	138,000
Aggregate health policy reserves	749,805	0	749,805
General expenses due or accrued	1,022,259	0	1,022,259
Liability for amounts held under uninsured plans	1,953,020	0	1,953,020
<b>Total liabilities</b>	<u>8,699,108</u>	<u>0</u>	<u>8,699,108</u>
<b>Capital and Surplus</b>			
Common capital stock	18,100	0	18,100
Gross paid in and contributed surplus	18,865,645	0	18,865,645
Unassigned funds (deficit)	(20,542,879)	0	(20,542,879)
<b>Total capital and surplus (deficit)</b>	<u>(1,659,134)</u>	<u>0</u>	<u>(1,659,134)</u>
<b>Total liabilities, capital and surplus</b>	<u>\$7,039,974</u>	<u>\$0</u>	<u>\$7,039,974</u>

**Metcare Health Plans, Inc.**  
**Statement of Revenue and Expenses**  
**For The Year Ended December 31, 2006**

Net premium income		\$27,977,600
Hospital/medical benefits	\$7,968,277	
Other professional services	4,890,582	
Outside referrals	7,757,476	
Emergency room and out-of-area	463,762	
Prescription drugs	3,021,950	
Aggregate write-ins for other hospital and medical	518,242	
Total hospital and medical	<u>24,620,289</u>	
Claims adjustment expenses	1,316,633	
General administrative expenses	<u>7,653,048</u>	
Total underwriting deductions		<u>33,589,970</u>
Net underwriting gain (loss)		(5,612,370)
Net investment income earned		<u>424,395</u>
Net income (loss)		<u><u>(\$5,187,975)</u></u>

**Metcare Health Plans, Inc.**  
**Capital and Surplus Account**  
**For The Year Ended December 31, 2006**

Capital and surplus (deficit) - December 31, 2005		\$4,800,993
Net income (loss)	(\$5,187,975)	
Change in nonadmitted assets	(8,072,152)	
Paid in capital changes	6,800	
Paid in surplus adjustments	6,793,200	
Examination adjustments	<u>0</u>	
		<u>(6,460,127)</u>
Capital and surplus (deficit) - December 31, 2006		<u><u>(\$1,659,134)</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Losses and Loss Adjustment Expenses

**\$5,723,829**

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2006 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company 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 Company, we concluded that the aggregate liability was not materially misstated.

### Deficit

**\$1,659,134**

The Company was required by Section 641.225, F.S., to maintain at all times minimum surplus in an amount that is the greater of \$1,500,000, 10% of its total liabilities, or 2% of its annualized premiums. In addition, the Company was required by Consent Order 81261-05 issued by the Office on April 22, 2005, to maintain minimum surplus in an amount equal to its projected surplus. As of December 31, 2006, the Company was insolvent and in violation of Section 641.225, F.S., and Consent Order 81261-05. Its surplus was a deficit of \$1,659,134, which was \$3,159,134 less than the \$1,500,000 of minimum surplus required by Section 641.225, F.S., and \$4,954,034 less than the \$3,294,900 of minimum surplus required by Consent Order 81261-05. On March 19, 2007, the Company collected \$6.5 million from Metropolitan in satisfaction of a receivable balance which the Company had reported as a non-admitted asset at December 31, 2006.

**Metcare Health Plans, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2006**

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

Capital and surplus (deficit), December 31, 2006 - per annual statement			(\$1,659,134)
	<u>Per</u>	<u>Per</u>	Increase (Decrease)
	<u>Company</u>	<u>Examination</u>	<u>In Capital &amp; Surplus</u>
Total assets	\$7,039,974	\$7,039,974	\$0
Total liabilities	\$8,699,108	\$8,699,108	<u>\$0</u>
Net change in capital and surplus			<u>0</u>
Capital and surplus (deficit), December 31, 2006 - per examination			<u><u>(\$1,659,134)</u></u>

## SUMMARY OF FINDINGS

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings of the examination as of December 31, 2006.

### Deficit and Minimum Surplus

As reported on page 19, the Company was insolvent and in violation of Section 641.225, F.S., and Consent Order 81261-05 as of December 31, 2006. Its surplus was a deficit of \$1,659,134, which was \$3,159,134 less than the \$1,500,000 of minimum surplus required by Section 641.225, F.S., and \$4,954,034 less than the \$3,294,900 of minimum surplus required by Consent Order 81261-05. On March 19, 2007, the Company collected \$6.5 million from Metropolitan in satisfaction of a receivable balance which the Company had reported as a non-admitted asset at December 31, 2006. **We recommend that the Company comply with Consent Order 81261-05 and maintain at all times the minimum amount of surplus required by Section 641.225, F.S.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Metcare Health Plans, Inc.** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was a deficit of \$1,659,134, which was not in compliance with Section 641.225, F.S., or Consent Order 81261-05. On March 19, 2007, the Company collected \$6.5 million from its parent corporation in satisfaction of a receivable balance which the Company had reported as a non-admitted asset at December 31, 2006.

In addition to the undersigned, the following participated in this examination: Stephen Feliu, Financial Examiner/Analyst; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; and Richard Tan, Actuary.

Respectfully submitted,

---

Robert Y. Meszaros, Financial Specialist  
Florida Office of Insurance Regulation