

**Report on Examination**  
**of**  
**Optimum HealthCare, Inc.**

**Tampa, Florida**

**as of**

**December 31, 2007**

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

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Tallahassee, Florida

May 26, 2009

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, 2007, of the financial condition and corporate affairs of:

**Optimum HealthCare, Inc.**  
**5403 N. Church Avenue**  
**Tampa, Florida 33614**

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

## SCOPE OF EXAMINATION

This examination covered the period of February 21, 2005 through December 31, 2007. This was the first financial condition examination of the Company by the Office of Insurance Regulation (the "Office").

Planning for the current examination began on October 6, 2008. The fieldwork commenced on October 20, 2008 and concluded on March 31, 2009. 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, 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 2007 annual statement. Transactions subsequent to December 31, 2007 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 in the following areas:

- General expenses due or accrued
- Commitments and contingent liabilities

## HISTORY

### GENERAL

The Company was incorporated in Florida on July 1, 2004 and commenced business on August 1, 2004.

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.

The Company's articles of incorporation were amended on February 6, 2006 and again on June 14, 2006 in order to change the number of its authorized common shares to 150,000 and 10,000,000, respectively. The Company's bylaws were not amended during the period covered by this examination.

### CAPITAL STOCK

As of December 31, 2007, the Company's capitalization was as follows:

	<b>Common Stock</b>
Shares authorized	10,000,000
Shares issued and outstanding	188,350
Total capital stock	\$147,125

## PROFITABILITY

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Year-end enrollment	716	0	0
<b>In millions:</b>			
Net premiums	\$6.0	\$0.0	\$0.0
Total revenues	\$6.0	\$0.0	\$0.0
Net loss	\$1.9	\$0.7	\$0.8
Total capital and surplus	\$1.0	\$2.7	\$1.9

## DIVIDENDS

The Company did not pay 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, 2007 were:

<b>Directors</b>	
<u>Name and Location</u>	<u>Principal Occupation</u>
Dan B. Polen Brooksville, Florida	President and CEO of Optimum HealthCare, Inc.
Naresh P. Menezes, M.D. Brooksville, Florida	Physician

The Company's senior officers as of December 31, 2007, as appointed by its board of directors in accordance with the Company's bylaws, were:

<b>Senior Officers</b>	
<u>Name</u>	<u>Title</u>
Dan B. Polen	President and Chief Executive Officer
Naresh P. Menezes, M.D.	Secretary and 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 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.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained acceptable levels of general liability insurance in compliance with Rule 690-191.069, Florida Administrative Code (F.A.C.), and was insured by a blanket fidelity bond in the amount of \$100,000 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 compliance with Rule 690-191.069, F.A.C.

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

The company did not provide pension or employee benefit plans.

## **STATUTORY DEPOSITS**

The Company maintained on deposit with the Office an insolvency protection deposit of \$342,874 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**

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 December 27, 2010.

The Company used a network of general agents and brokers, and operated as an IPA model. It provided health care services to Medicare members. Its total membership at December 31, 2007 was 716.

The Company operated in the Florida counties of Hernando and Sumter.

### **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**

The Company maintained stop-loss reinsurance coverage with One Beacon Insurance Company of up to \$1,250,000 per member per year with an annual retention limit of \$175,000. The premium rate was \$6.21 per member per month subject to a minimum annual premium of \$100,000. The reinsurance contract was reviewed by the Company's appointed actuary and utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

Independent CPA's audited the Company's 2005, 2006 and 2007 statutory-basis financial statements, 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 Tampa, Florida, where this examination was conducted.

A single individual performed accounting services for the Company, made its bank deposits, received its signed checks for mailing, reconciled its bank statements, and made entries to the Company's general ledger. This lack of segregation of duties constituted a weakness in the Company's internal controls over cash.

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

Independent Auditor Agreements

The Company contracted with Gerald L. Birch, CPA, P.A., to audit the Company's 2005 and 2006 statutory-basis financial statements, and with Gregory, Sharer & Stuart, P.A. to audit its 2007 statutory-basis financial statements.

TPA Agreement

Royal Health Care of Long Island, LLC provided management and administrative services to the Company pursuant to an agreement dated August 17, 2006 as amended on January 1, 2007 and March 1, 2007. Services provided included claims processing, provider maintenance, member, utilization management, enrollment processing, premium billing, reporting, technical support, software maintenance, system availability, backup and recovery, and disaster recovery services.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following four pages contain statements of the Company's financial position at December 31, 2007, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

**Optimum HealthCare, Inc.**  
**Assets**  
**December 31, 2007**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Cash, cash equivalents and short-term investments	\$2,547,845	\$0	\$2,547,845
Investment income due and accrued	4,949	0	4,949
Electronic data processing equipment and software	51,376	0	51,376
Total assets	<u>\$2,604,170</u>	<u>\$0</u>	<u>\$2,604,170</u>

**Optimum HealthCare, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2007**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Claims unpaid	\$686,910	\$0	\$686,910
Accrued medical incentive pool and bonuses	171,452	0	171,452
Unpaid claims adjustment expenses	30,344	0	30,344
General expenses due or accrued	526,951	0	526,951
Ceded reinsurance premiums payable	62,529	0	62,529
Borrowed money and interest thereon	108,937	0	108,937
Total liabilities	<u>1,587,123</u>	<u>0</u>	<u>1,587,123</u>
<b>Capital and Surplus</b>			
Common capital stock	147,125	0	147,125
Gross paid in and contributed surplus	5,598,875	0	5,598,875
Unassigned funds (deficit)	<u>(4,728,953)</u>	<u>0</u>	<u>(4,728,953)</u>
Total capital and surplus	<u>1,017,047</u>	<u>0</u>	<u>1,017,047</u>
Total liabilities, capital and surplus	<u><u>\$2,604,170</u></u>	<u><u>\$0</u></u>	<u><u>\$2,604,170</u></u>

**Optimum HealthCare, Inc.**  
**Statement of Revenue and Expenses**  
**For The Year Ended December 31, 2007**

Net premium income		\$6,034,082
Hospital and medical benefits	\$3,193,291	
Other professional services	57,554	
Emergency room and out-of-area	155,201	
Prescription drugs	863,793	
Incentive pool, withhold adjustments and bonuses	675,766	
Total hospital and medical	<u>4,945,605</u>	
Claims adjustment expenses	30,344	
General administrative expenses	<u>3,084,029</u>	
Total underwriting deductions		<u>8,059,978</u>
Net underwriting gain (loss)		<u>(2,025,896)</u>
Net investment income		<u>119,113</u>
Net income (loss)		<u><u>(\$1,906,783)</u></u>

**Optimum HealthCare, Inc.**  
**Capital and Surplus Account**  
**For The Year Ended December 31, 2007**

Capital and surplus - December 31, 2006	\$2,654,500
Net loss	(1,906,783)
Change in nonadmitted assets	260,330
Paid in capital	9,000
	<u>1,017,047</u>
Examination adjustments	0
	<u>0</u>
Capital and surplus - December 31, 2007	<u><u>\$1,017,047</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Losses and Loss Adjustment Expenses

**\$888,706**

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2007 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.

### Capital and Surplus

**\$1,017,047**

The \$1,017,047 reported by the Company as its total capital and surplus at December 31, 2007 is \$482,953 less than its required minimum amount of capital and surplus of \$1,500,000 and, as a result, the Company was in violation of Section 641.225, F.S. On April 1, 2008, the Company received \$700,000 from America's 1<sup>st</sup> Choice Holdings of Florida, LLC in exchange for a surplus note.

**Optimum HealthCare, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2007**

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

<b>Capital and surplus, December 31, 2007 - per annual statement</b>			<b>\$1,017,047</b>
	<u>Per</u> <u>Company</u>	<u>Per</u> <u>Examination</u>	<u>Increase</u> <u>(Decrease)</u> <u>In Capital</u> <u>&amp; Surplus</u>
Total assets	\$2,604,170	\$2,604,170	\$0
Total liabilities	\$1,587,123	\$1,587,123	<u>\$0</u>
Net change in capital and surplus			<u>0</u>
<b>Capital and surplus, December 31, 2007 - per examination</b>			<b><u><u>\$1,017,047</u></u></b>

## SUBSEQUENT EVENTS

In April of 2008, the Company was acquired by America's 1st Choice Holdings of Florida, LLC, following approval by the Office.

## SUMMARY OF FINDINGS

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings from this examination.

### Internal Control Weakness

As discussed on page 8, the Company's internal controls over cash were inadequate. **We recommend that the Company establish adequate internal controls over its cash including segregation of duties in its accounting department.**

### Capital and Surplus

As reported on page 15, the Company's total capital and surplus at December 31, 2007 was \$482,953 less than its required minimum amount of capital and surplus of \$1,500,000 and, as a result, the Company was in violation of Section 641.225, F.S. On April 1, 2008, the Company received \$700,000 from America's 1<sup>st</sup> Choice Holdings of Florida, LLC in exchange for a surplus note. **We recommend that the Company maintain at least the minimum amount of capital and surplus required by Section 641.225, F.S., at all times.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Optimum HealthCare, Inc.** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$1,017,047, which was not in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2007 was \$1,500,000. On April 1, 2008, the Company received \$700,000 from America's 1<sup>st</sup> Choice Holdings of Florida, LLC in exchange for a surplus note.

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

Respectfully submitted,

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