

Report on Examination
of
Preferred Medical Plan, Inc.

Coral Gables, Florida

as of

December 31, 2005

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

May 3, 2007

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, 2005, of the financial condition and corporate affairs of:

**Preferred Medical Plan, Inc.
4950 S. W. 8th Street
Coral Gables, Florida 33134**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2003 through December 31, 2005. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 1999.

Planning for the current examination began on August 28, 2006. The fieldwork commenced on September 5, 2006, and concluded on December 7, 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 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 2005 annual statement. Transactions subsequent to December 31, 2005 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:

- Aggregate write-ins for other liabilities
- Amount due from affiliate
- Commitments and contingent liabilities

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The prior examination report did not contain any significant adverse regulatory disclosures or findings related to the Company's solvency.

HISTORY

GENERAL

The Company was incorporated in Florida on October 4, 1972, and commenced business on April 1, 1975 as Greater Miami Health Care Center, Inc. The Company changed its name to Preferred Medical Care, Inc. on June 26, 1991.

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. It was also authorized to operate as a Florida health flex plan and a prepaid health clinic.

The Company's articles of incorporation and its bylaws were amended on March 27, 2003, to change the requirements for the signing of stock certificates.

CAPITAL STOCK

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	100
Number of shares issued and outstanding	25
Total common capital stock	\$2,500
Par value per share	\$100

As of December 31, 2005, the Company was wholly-owned by Sylvia Ulrich. An organization chart appears on page 7.

PROFITABILITY

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Year-end enrollment	57,551	56,098	49,593
In millions:			
Net premium income	\$102.8	\$88.3	\$68.1
Total revenues	\$102.8	\$88.4	\$68.1
Net income	\$10.1	\$6.6	\$4.1
Total capital & surplus	\$11.5	\$7.9	\$5.4

DIVIDENDS

The Company paid dividends in the amount of \$6,596,926, \$4,076,280, and \$3,465,214 in years 2005, 2004, and 2003, respectively.

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, 2005 were:

Directors

Name and Location	Principal Occupation
Albert Arca Miami, Florida	Treasurer and CFO of the Company
Tamara Meyerson Miami, Florida	President and CEO of the Company
Gabriel Novoa, M. D. Miami, Florida	Medical Director of the Company
Sylvia Urlich Miami, Florida	Chairman of the Company's Board of Directors

At December 31, 2005, members of the principal committee(s) of the Board were:

Investment Committee	Executive Committee
Albert Arca Tamara Meyerson Sylvia Urlich	Albert Arca Doris Marcellus, R.N. Tamara Meyerson Gabriel Novoa, M.D.

The following were the Company's senior officers as of December 31, 2005, as appointed by its board of directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
Tamara Meyerson	President & Chief Executive Officer
Albert Arca	Treasurer & Chief Financial Officer
Gabriel Novoa, M.D.	Medical Director

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, Board of Directors, and Finance and Investment Committee 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 affiliated with Westchester General Hospital ("WGH") and Health Care Management Systems, Inc. ("HCMS") through common control and ownership. The Company was also affiliated with Physicians Associates, P.A. ("PA") and Pavilion for Women's Care, LLC ("PWC") through immediate family relationships.

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

HOSPITAL SERVICE AGREEMENT

WGH provided medical services to enrolled HMO members of the Company pursuant to a January 1, 2003 agreement. Fees amounted to \$7.7 million, \$7.9 million, and \$9.6 million in years 2003, 2004, and 2005, respectively.

CONSULTING SERVICES AGREEMENT

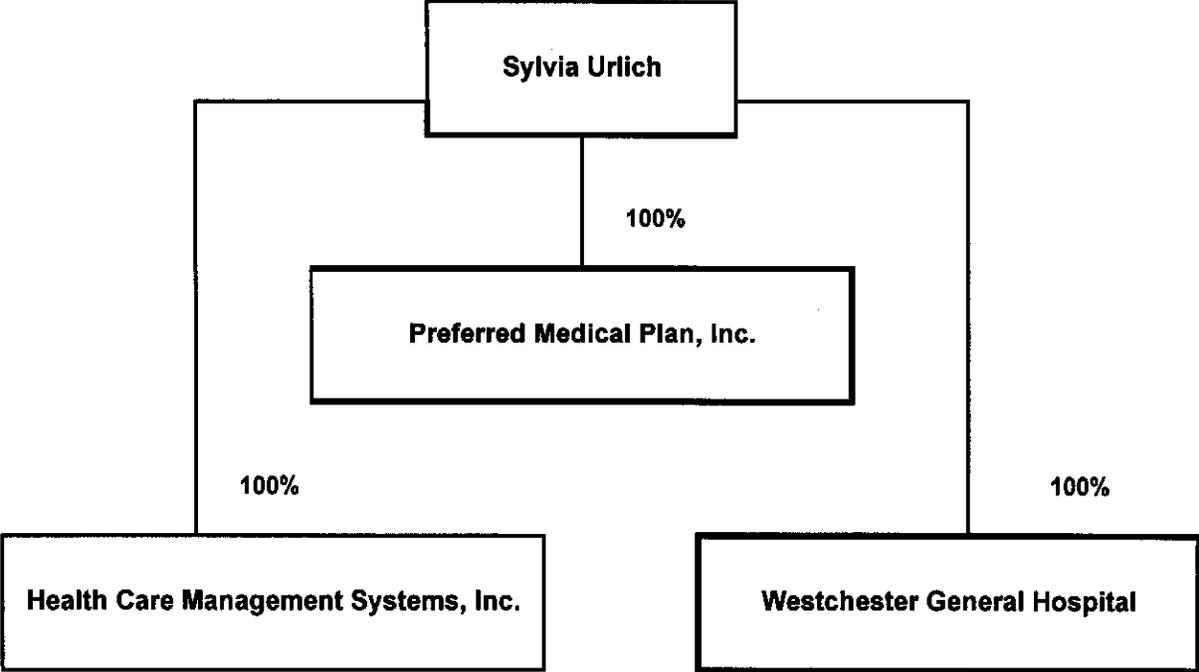
HCMS provided consulting and management services pursuant to an agreement dated January 11, 2005. Fees paid amounted to \$550,000, \$550,000, and \$750,000 in years 2003, 2004, and 2005, respectively.

PHYSICIANS SERVICES AGREEMENTS

PA provided medical services to enrolled HMO members of the Company pursuant to an agreement dated January 1, 2001. Fees paid for these services amounted to \$6.9 million, \$8.5 million, and \$9.1 million in years 2003, 2004, and 2005, respectively. PWC provided medical services to enrolled HMO members of the Company pursuant to an agreement dated January 1, 2004. Fees paid for these services amounted to \$575,000, \$424,000, and \$764,000 in years 2003, 2004, and 2005, respectively.

An abbreviated organizational chart as of December 31, 2005 reflecting the holding company system is shown below. Schedule Y of the Company's 2005 annual statement provided the names of all related companies in the holding company group.

Preferred Medical Plan, Inc.
Organizational Chart
December 31, 2005



FIDELITY BOND AND OTHER INSURANCE

The Company maintained acceptable levels of general liability insurance in compliance with Rule 690-191.069, F.A.C., and had a blanket fidelity bond in the amount of \$500,000, as required by Section 641.22, F.S. As an individual practice association (IPA) model HMO, the Company maintained adequate professional liability insurance.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company offered to eligible employees a 401(k) retirement plan.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$300,000 in accordance with Section 641.285, F.S., an insolvency protection deposit of \$30,000 in accordance with Section 641.409, 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, 2005, the Company 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 February 23, 2008.

The Company used a combination of internal and external agents and operated as an individual practice association. It provided health care services to individual commercial and Medicaid members. Its total membership at December 31, 2005 was 57,551, of which 71% was commercial and 29% was Medicaid.

The Company operated in the Florida counties of Broward and Miami-Dade.

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 renewed an excess risk reinsurance agreement with Allianz Life Insurance Company of North America on June 1, 2005. The agreement was reviewed during the examination and 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 reinsurance contract was reviewed by the Company's appointed actuary and was utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for years 2003, 2004, and 2005, 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 is located in Coral Gables, Florida, where this examination was conducted.

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

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with an independent CPA firm Berkowitz Dick Pollack & Brant LLP to conduct annual audits of the Company's statutory-basis financial statements.

SERVICE AGREEMENT

MedImpact Healthcare Systems, Inc. provided prescription services to eligible HMO members of the Company, pursuant to an agreement dated September 16, 2002, and addenda dated February 11, 2003 and May 19, 2004.

FINANCIAL STATEMENTS PER EXAMINATION

The following three pages contain statements of the Company's financial position at December 31, 2005, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

Preferred Medical Plan, Inc.
Assets
December 31, 2005

Classification	Per Company	Examination Adjustments	Per Examination
Real estate	\$1,534,535	\$0	\$1,534,535
Cash, cash equivalents, and short-term investments	<u>27,585,978</u>	<u>0</u>	<u>27,585,978</u>
	29,120,513	0	29,120,513
Investment income due and accrued	546	0	546
Uncollected premiums and agents' balances	58,577	0	58,577
Electronic data processing equipment and software	42,993	0	42,993
Aggregate write-ins for other than invested assets	<u>1,600</u>	<u>0</u>	<u>1,600</u>
Totals	<u><u>\$29,224,229</u></u>	<u><u>\$0</u></u>	<u><u>\$29,224,229</u></u>

**Preferred Medical Plan, Inc.
Liabilities, Capital and Surplus
December 31, 2005**

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$14,894,024	\$0	\$14,894,024
Aggregate health claim reserves	575,000	0	575,000
Premiums received in advance	1,166,282	0	1,166,282
General expenses due or accrued	416,379	0	416,379
Amounts withheld or retained for others	23,224	0	23,224
Amount due to affiliate	122,414	0	122,414
Aggregate write-ins for other liabilities	553,933	0	553,933
Total liabilities	<u>17,751,256</u>	<u>0</u>	<u>17,751,256</u>
Capital and Surplus			
Common capital stock	2,500	0	2,500
Gross paid in and contributed surplus	17,500	0	17,500
Unassigned funds (surplus)	11,452,973	0	11,452,973
Total capital and surplus	<u>11,472,973</u>	<u>0</u>	<u>11,472,973</u>
Total liabilities, capital and surplus	<u>\$29,224,229</u>	<u>\$0</u>	<u>\$29,224,229</u>

Preferred Medical Plan, Inc.

**Statement of Revenue and Expenses
For Year Ended December 31, 2005**

Net premium income		\$102,763,928
Hospital/medical benefits	\$50,432,791	
Other professional services	5,972,306	
Emergency room and out-of-area	19,720,560	
Prescription drugs	4,006,920	
Aggregate write-ins for other hospital and medical	406,616	
Net reinsurance recoveries	<u>(24,750)</u>	
	80,514,443	
Claims adjustment expenses	3,073,970	
General administrative expenses	<u>9,679,775</u>	
Total underwriting deductions		<u>93,268,188</u>
Net underwriting gain		9,495,740
Net investment income earned		<u>652,522</u>
Net income		<u>\$10,148,262</u>

**Capital and Surplus Account
For Year Ended December 31, 2005**

Capital and surplus, December 31, 2004	\$7,938,466
Net income	10,148,262
Change in nonadmitted assets	(16,829)
Dividends to shareholder	<u>(6,596,926)</u>
	11,472,973
Examination adjustments	<u>0</u>
Capital and surplus, December 31, 2005	<u>\$11,472,973</u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$15,469,024

An outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2005 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.

Preferred Medical Plan, Inc.
Comparative Analysis of Changes in Capital & Surplus
December 31, 2005

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

Capital & surplus, December 31, 2005 - per annual statement			\$11,472,973
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Capital & Surplus</u>
Assets	\$29,224,229	\$29,224,229	\$0
Liabilities	\$17,751,256	\$17,751,256	<u>\$0</u>
Net change in capital and surplus			<u>0</u>
Capital & surplus, December 31, 2005 - per annual statement			<u><u>\$11,472,973</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

There were no directives or significant findings from the prior examination on which to comment.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The current financial condition examination did not result in any material findings of non-compliance with statutes, rules, or other requirements on the part of the Company.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Preferred Medical Plan, Inc.** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$11,472,973, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2005 was \$2,055,279.

In addition to the undersigned, the following participated in this examination: M. Alison Miele, Financial Examiner/Analyst; David C. Schleit, AFE, CPA, Financial Examiner/Analyst Supervisor; and Richard Tan, Actuary.

Respectfully submitted,

Cathy S. Jones, CPA
Financial Examiner/Analyst
Florida Office of Insurance Regulation