

Report on Examination
of
United HealthCare of Florida, Inc.
Maitland, Florida
as of
December 31, 2002

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

June 11, 2004

Kevin M. McCarty, Director
Office of Insurance Regulation
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, 2002, of the financial condition and corporate affairs of:

**United HealthCare of Florida, Inc.
495 N. Keller Rd., Suite 200
Maitland, Florida 32751**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2000 through December 31, 2002. The Company was last examined by the Florida Office of Insurance Regulation (formerly, the Florida Department of Insurance) (the "Office") as of December 31, 1997. In lieu of conducting statutory financial examinations of the Company for the years 1998 and 1999, the Office accepted the independent certified public accountant's ("CPA") audit reports on the Company's statutory-basis financial statements for those years pursuant to Section 641.27(1), F.S.

The examination fieldwork commenced on October 20, 2003, and concluded on April 7, 2004. 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 examination conducted in accordance with the Financial Examiners Handbook, NAIC Accounting Practices and Procedures Manual, and the NAIC 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 those balances affect the Company's financial 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 A.M. Best Report, the Company's independent audit reports, and certain work papers prepared by the Company's independent CPA were reviewed and utilized where applicable within the scope of this examination. We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its 2002 annual statement. Transactions subsequent to December 31, 2002 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:

- Health care receivables
- Aggregate policy reserves

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 May 26, 1970, and commenced business on March 6, 1973.

In accordance with Part I of Chapter 641, F.S., the Company was authorized to transact business as a health maintenance organization at December 31, 2002.

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

CAPITAL STOCK

As of December 31, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	9
Number of shares issued and outstanding	9
Total common capital stock	\$45.00
Stated value per share	\$5.00

At December 31, 2002, the Company was wholly-owned by UnitedHealthcare, Inc., which in turn was wholly-owned by United HealthCare Services, Inc. ("UHS"), which is owned by UnitedHealth Group Incorporated, a publicly traded company. A simplified organizational chart appears on page 8.

PROFITABILITY

The Company reported net premiums of \$2.2 billion, \$2.6 billion, and \$2.2 billion in years 2002, 2001 and 2000, respectively; and net income or (loss) of \$20.9 million, (\$29.7 million), and \$7.7 million, in those same years.

DIVIDENDS

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

Subsequent to the date of this examination, on April 8, 2003, the Company's board of directors declared a dividend in the amount of \$20,922,669, which was approved by the Office on May 9, 2003.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 607.0803, F.S. Directors serving as of December 31, 2002 were:

Directors	
Name and Location	Principal Occupation
Matthew M. Davies Maitland, Florida	President of the Company
William A. Munsell Maitland, Florida	Vice President of the Company
Robert J. Sheehy Edina, Minnesota	Executive Vice President of the Company

The following senior officers were appointed by the Board of Directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
Matthew M. Davies	President
Robert J. Sheehy	Executive Vice President
John W. Kelly	Vice President
Daniel J. McAthie	Vice President
William A. Munsell	Vice President
Christina Palme-Krizak	Secretary
David J. Lubben	Assistant Secretary
Allen J. Weiss	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.

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 on March 31, 2003, as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C.

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

MANAGEMENT AGREEMENT

UHS provides management, administrative, and financial services to the Company pursuant to a management agreement. Services are provided in return for a fee based primarily on a percentage of member premium and government program revenues. Fees related to this agreement were \$260.9 million, \$284.4 million, and \$259.6 million in years 2002, 2001, and 2000, respectively.

UNITED BEHAVIORAL HEALTH AGREEMENT

Pursuant to an agreement with the Company, United Behavioral Health, a wholly-owned subsidiary of UHS, provides mental health and substance abuse services to the Company's members. Fees related to this agreement are calculated on a per member per month basis, and were \$35.5 million, \$39.5 million, and \$34.3 million in years 2002, 2001, and 2000, respectively.

OPTUM AGREEMENT

The Company contracted with UHS for OPTUM, a division of UHS, to provide 24-hour call-in service to the Company's members. Fees related to this agreement, which are calculated on a per member per month basis, were \$7.2 million, \$7.7 million, and \$6.1 million in years 2002, 2001, and 2000, respectively.

REINSURANCE AGREEMENT

The Company is a party to a reinsurance agreement with United HealthCare Insurance Company ("UHIC") to cover certain of the Company's hospital inpatient claims in excess of defined limits. UHIC is an indirect subsidiary of UHS. Reinsurance premiums are calculated on a per member per month basis, and were \$5.8 million, \$7.6 million, and \$6.9 million in years 2002, 2001, and 2000, respectively.

MEDICAL SERVICES AGREEMENTS

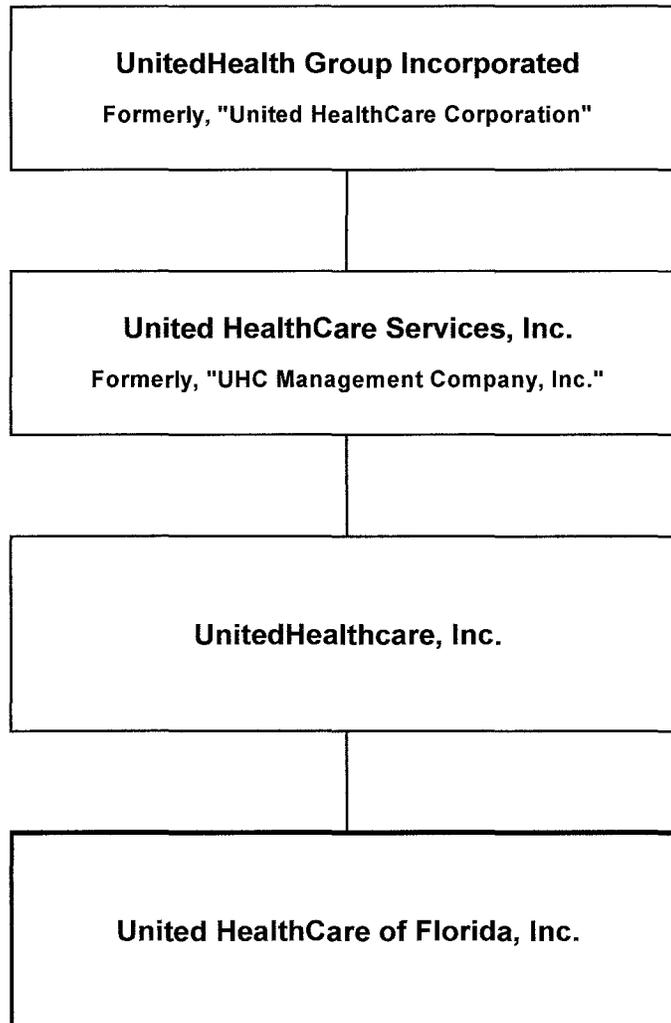
The Company contracted with various affiliates for the provision of chiropractic, vision, dental, pregnancy, mental health, substance abuse, and other medical services.

TAX ALLOCATION AGREEMENT

The results of the Company's operations are included in the consolidated Federal income tax return of UnitedHealth Group Incorporated pursuant to a tax allocation agreement. Federal income taxes are paid to or refunded by UnitedHealth Group Incorporated based on the amount that would have been computed on a separate company basis.

A simplified organizational chart as of December 31, 2002 reflecting the holding company system is shown below. Schedule Y of the Company's 2002 annual statement provided the names of all related companies in the holding company group.

**United HealthCare of Florida, Inc.
Organizational Chart
December 31, 2002**



FIDELITY BOND AND OTHER INSURANCE

The Company requires its providers to maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Rule 69O-191.069, F.A.C. The Company is a named insured on a general liability and fidelity bond insurance policy, as required by Section 641.22, F.S., and Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company has no direct employees and, therefore, no employee benefit plans.

STATUTORY DEPOSITS

The Company maintained \$300,000 on deposit with the Office in accordance with Section 641.285, F.S.

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

At December 31, 2002, the Company was authorized to transact business in Florida as a health maintenance organization 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 May 22, 2005.

The Company uses a network of general agents and brokers, and operates as an individual practice association model. It provides health care services to commercial, Medicare, and Medicaid members, which numbered 687,868 at December 31, 2002.

The Company operates in the Florida counties of Alachua, Bradford, Brevard, Broward, Charlotte, Clay, Columbia, DeSoto, Duval, Escambia, Flagler, Hernando, Highlands, Hillsborough, Lake, Lee, Manatee, Marion, Miami-Dade, Nassau, Okaloosa, Okeechobee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Putnam, Santa Rosa, Seminole, St. Johns, Suwannee, Union, and Volusia.

TREATMENT OF MEMBERS

The Company established procedures for handling written complaints in accordance with Section 641.511, F.S. It maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The Company entered into a reinsurance agreement with UHIC to cover certain hospital inpatient claims in excess of defined limits.

ACCOUNTS AND RECORDS

Deloitte & Touche LLP, an independent CPA, audited the Company's statutory-basis financial statements for the year 2002 pursuant to Section 641.26(1)(c), F.S. Arthur Andersen LLP, an independent CPA, audited the Company's statutory-basis financial statements for the years 2000 and 2001, 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 statutory home office is located in Maitland, Florida, where this examination was conducted.

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

PROVIDER AGREEMENTS

The Company contracted with various entities to provide health care services to its members.

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with Deloitte & Touche LLP to audit its statutory-basis financial statements.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain statements of the Company's financial position at December 31, 2002, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

United HealthCare of Florida, Inc.
Assets
December 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$370,288,888	\$0	\$370,288,888
Cash	54,921,301	0	54,921,301
Receivable for securities	9,504	0	9,504
Accident and health premiums due and unpaid	9,484,063	0	9,484,063
Health care receivables	65,484	0	65,484
Investment income due and accrued	4,861,419	0	4,861,419
Federal and foreign income tax recoverable and interest thereon	<u>8,807,374</u>	<u>0</u>	<u>8,807,374</u>
Totals	<u><u>\$448,438,033</u></u>	<u><u>\$0</u></u>	<u><u>\$448,438,033</u></u>

United HealthCare of Florida, Inc.
Liabilities, Capital and Surplus
December 31, 2002

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$253,423,382	\$0	\$253,423,382
Accrued medical incentive pool and bonus payments	2,111,976	0	2,111,976
Aggregate policy reserves	10,003,346	0	10,003,346
Aggregate claim reserves	4,268,974	0	4,268,974
Premiums received in advance	72,911,323	0	72,911,323
General expenses due or accrued	9,195,530	0	9,195,530
Federal and foreign income tax payable and interest thereon	6,723,617	0	6,723,617
Amounts due to parent, subsidiaries and affiliates	<u>1,627,074</u>	<u>0</u>	<u>1,627,074</u>
Total liabilities	360,265,222	0	360,265,222
Capital and Surplus			
Common capital stock	45	0	45
Gross paid in and contributed surplus	184,913,731	0	184,913,731
Unassigned funds (surplus)	<u>(96,740,965)</u>	<u>0</u>	<u>(96,740,965)</u>
Total capital and surplus	<u>88,172,811</u>	<u>0</u>	<u>88,172,811</u>
Total liabilities, capital and surplus	<u><u>\$448,438,033</u></u>	<u><u>\$0</u></u>	<u><u>\$448,438,033</u></u>

United HealthCare of Florida, Inc.
Statement of Income
For Year Ended December 31, 2002

Income

Net premium income		\$2,070,313,867
Change in unearned premium reserves		<u>98,031,140</u>
Total revenues		2,168,345,007
Hospital/medical benefits	\$1,561,448,865	
Other professional services	3,110,371	
Prescription drugs	263,552,691	
Incentive pool and withhold adjustments	<u>1,321,152</u>	
	1,829,433,079	
Net reinsurance recoveries	<u>12,936,787</u>	
Total medical and hospital	1,816,496,292	
Claims adjustment expenses	55,728,632	
General administrative expenses	282,179,244	
Increase in reserves for accident and health contracts	<u>10,000,000</u>	
Total underwriting deductions		<u>2,164,404,168</u>
Net underwriting gain or (loss)		3,940,839
Net investment income earned	19,999,738	
Net realized capital gains or (losses)	<u>2,868,294</u>	
Net investment gains or (losses)		22,868,032
Aggregate write-ins for other income or expenses		<u>104,798</u>
Net income or (loss) before federal income taxes		26,913,669
Federal and foreign income taxes incurred		<u>5,991,000</u>
Net income (loss)		<u><u>\$20,922,669</u></u>

Capital and Surplus Account

Capital and surplus, December 31, 2001		\$74,466,659
Net income or (loss)		20,922,669
Change in net deferred income tax		2,200,828
Change in nonadmitted assets		<u>(9,417,345)</u>
		88,172,811
Examination adjustments		<u>0</u>
Capital and surplus, December 31, 2002		<u><u>\$88,172,811</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Claims Unpaid; Aggregate Claim & Policy Reserves

\$267,695,702

An outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried on the Company's balance sheet as of December 31, 2002 reasonably provided for all of the Company's unpaid claims under the terms of its subscriber agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion.

United HealthCare of Florida, Inc.
Comparative Analysis of Changes in Capital & Surplus
December 31, 2002

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, 2002 - per annual statement		\$88,172,811																
	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;"></th> <th style="width: 33%; text-align: center;"><u>Per Company</u></th> <th style="width: 33%; text-align: center;"><u>Per Exam</u></th> <th style="width: 33%; text-align: center;"><u>Increase (Decrease) In Capital & Surplus</u></th> </tr> </thead> <tbody> <tr> <td>Assets</td> <td style="text-align: right;">\$448,438,033</td> <td style="text-align: right;">\$448,438,033</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Liabilities</td> <td style="text-align: right;">\$360,265,222</td> <td style="text-align: right;">\$360,265,222</td> <td style="text-align: right;"><u>\$0</u></td> </tr> <tr> <td>Net change in capital and surplus</td> <td></td> <td></td> <td style="text-align: right;"><u>0</u></td> </tr> </tbody> </table>		<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Capital & Surplus</u>	Assets	\$448,438,033	\$448,438,033	\$0	Liabilities	\$360,265,222	\$360,265,222	<u>\$0</u>	Net change in capital and surplus			<u>0</u>	
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Capital & Surplus</u>															
Assets	\$448,438,033	\$448,438,033	\$0															
Liabilities	\$360,265,222	\$360,265,222	<u>\$0</u>															
Net change in capital and surplus			<u>0</u>															
Capital & surplus, December 31, 2002 - per examination		<u><u>\$88,172,811</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

There are no significant findings from the current examination on which to comment.

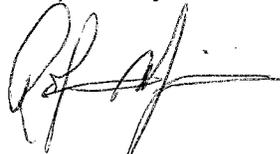
CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **United HealthCare of Florida, Inc.** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus account was \$88,172,811, which was in compliance with Section 641.225, F.S.

In addition to the undersigned, Kenneth V. Carroll, Financial Examiner/Analyst II, Ruth L. Lieberman, Financial Specialist, Steven A. Steele, Financial Specialist, and Richard Tan, Actuary, participated in this examination.

Respectfully submitted,



Robert Meszaros
Financial Specialist
Florida Office of Insurance Regulation