

**Report on Examination**  
**of**  
**AHF MCO of Florida, Inc.**  
**Fort Lauderdale, Florida**  
**as of**  
**December 31, 2018**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**



## OFFICE OF INSURANCE REGULATION

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COMMISSIONER OF AGRICULTURE

David Altmaier, Commissioner  
Florida Office of Insurance Regulation  
200 East Gaines Street  
Tallahassee, Florida 32399

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 AHF MCO of Florida, Inc., as of December 31, 2018. Our report on the examination follows.

Florida Office of Insurance Regulation  
May 26, 2020

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## SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2018 of AHF MCO of Florida, Inc. (Company), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2014 through December 31, 2018 and took place primarily in the Company's offices in Los Angeles, CA and Fort Lauderdale, Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (Office) was as of December 31, 2013.

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, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. Our examination also included identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes (F.S.) and general information about the insurer and its financial condition.

There may be other items identified during the examination that, due to their nature (e.g.

subjective conclusions, proprietary information, etc.), are not included within the examination report but were separately communicated to other regulators and/or the Company.

### **SUMMARY OF SIGNIFICANT FINDINGS**

The Company was not in compliance with Section 641.35 (7), F.S., Directors Must Authorize or Ratify Investments. Recommendation relating to this examination finding is summarized beginning on page 12.

The Company's affiliated management services agreement was not in compliance with Statements of Statutory Accounting Principles (SSAP) 25, Affiliates and Other Related Parties. The Company was not in compliance with Section 641.19 (19), F.S., Surplus, as the Company's assets, included in surplus, were pledged to secure debt owed by its parent. Resolutions relating to these examination findings are summarized beginning on page 12 under Subsequent Events section.

### **COMPANY HISTORY**

The Company was incorporated in Florida on March 2, 2007 and licensed by the Office as an HMO on June 28, 2007. It was authorized by the State of Florida to operate as an HMO in accordance with Part 1 of Chapter 641, F.S.

#### Mergers and Acquisitions

There were no mergers or acquisitions to report during the examination period.

### **CORPORATE RECORDS**

We reviewed the minutes of meetings held by the Company's Board of Directors (Board) for the period under examination. The Company was not in compliance with Section 641.35 (7), F.S.,

Directors Must Authorize or Ratify Investments, regarding the Board's authorization of investments. A recommendation relating to this finding is shown on page 12.

### **DIVIDENDS AND CAPITAL CONTRIBUTIONS**

The Company received capital contributions in the following amounts: \$10.6 million in 2014, \$7.8 million in 2015, \$18.1 million in 2016, \$6.5 million in 2017, and \$10.0 million in 2018. The Company did not distribute dividends during the examination period.

### **MANAGEMENT AND CONTROL**

The Company's sole member was AIDS Healthcare Foundation (AHF), a California non-profit organization.

Its senior officers and directors were:

#### **Senior Officers**

<b>Name</b>	<b>Title</b>
Michael Weinstein	President
Lyle Honig	Chief Financial Officer
Agapito Diaz	Secretary
Cynthia Davis	Treasurer

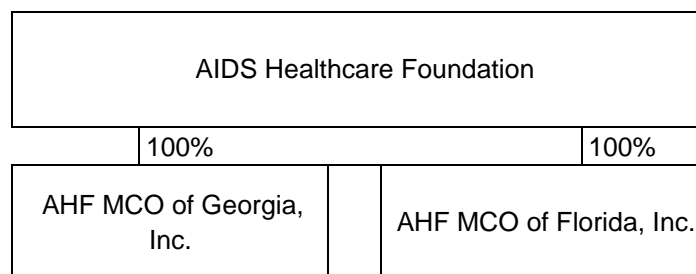
#### **Board of Directors**

<b>Name</b>	<b>Location</b>
Cynthia Davis	Los Angeles, California
Agapito Diaz	Los Angeles, California
Michael Weinstein	Los Angeles, California

The Company was a member of an insurance holding company system. 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, Florida Administrative Code (F.A.C.), on April 1, 2019.

An abbreviated organizational chart reflecting the holding company system is shown below.

**AHF MCO of Florida, Inc.  
Organizational Chart  
December 31, 2018**



**AFFILIATED AND OTHER AGREEMENTS**

The following agreements were in effect between the Company and its affiliates.

Management Services Agreement

Effective March 7, 2007, the Company entered into a management services agreement with AHF. Pursuant to the agreement, AHF provided managerial and administrative services to the Company. The agreement did not comply with SSAP 25 as the terms of the agreement did not provide for a specified due date of settlement amounts owed. Additionally, the agreement terms for determining monthly amounts owed for services were vague. The agreement stated the Company shall pay a monthly fee equal to 10%; however, the agreement did not clearly define the basis of the 10%. During the examination the agreement was amended in order to comply with SSAP 25.

### Provider Services Agreement

Effective January 1, 2010, the Company entered into an affiliated provider services agreement with AHF whereby AHF served on the Company's panel of providers for specified products. The agreement was terminated as of January 1, 2017.

### **TERRITORY AND PLAN OF OPERATION**

During the examination period, the Company provided managed care benefits exclusively to Medicare Advantage and Medicaid HIV positive members. The Company's Medicare Advantage plan was offered in Broward and Miami-Dade for the entire period under examination. In 2015, the Medicare Advantage plan was extended to Duval County. The Company's Medicaid plan was offered in Broward, Miami-Dade and Monroe counties.



## COMPANY GROWTH

The Company reported the following for years 2014 through 2018:

*(Dollars are in millions)*

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Member months	26,667	36,496	38,912	42,322	41,756
Year-end enrollment	2,741	3,161	3,463	3,595	3,129
Revenues	\$ 87.9	\$ 111.2	\$ 121.8	\$ 135.9	\$ 138.9
Underwriting deductions	\$ 94.3	\$ 122.4	\$ 135.6	\$ 135.0	\$ 153.9
Net income (loss)	\$ (6.6)	\$ (11.3)	\$ (13.9)	\$ 1.0	\$ (14.5)
Paid in surplus received	\$ 10.6	\$ 7.8	\$ 18.1	\$ 6.5	\$ 10.0
Admitted assets	\$ 20.1	\$ 18.9	\$ 37.9	\$ 51.4	\$ 39.1
Liabilities	\$ 13.8	\$ 16.1	\$ 30.9	\$ 36.9	\$ 29.1
Capital and surplus	\$ 6.3	\$ 2.8	\$ 7.1	\$ 14.5	\$ 9.9

## REINSURANCE

The Company maintained excess stop loss reinsurance coverage with HM Life Insurance Company effective January 1, 2018. The policy covered 90% of eligible expenses for services other than transplants, 90% of eligible expenses for approved transplants, and 50% of eligible expenses for non-approved transplants, in excess of \$225,000 per member per agreement year, up to \$1,000,000 per member per agreement year.

## ACCOUNTS AND RECORDS

The examination found after a review of UCC filings that the Company's assets, included in surplus, were pledged to secure debts owed by AHF, which was not in compliance with Section 641.19 (19), F.S., Surplus. During the examination an amended UCC filing was issued terminating the security interest in the Company's assets.

## **SURPLUS NOTES**

There were no surplus notes to report during the examination period.

## **STATUTORY DEPOSITS**

The Company maintained on deposit with the Office an insolvency protection deposit of \$300,000 in accordance Section 641.285, F.S. and a Rehabilitation Administrative Expense Fund deposit of \$10,000 in accordance with Section 641.227, F.S. The Company also maintained a deposit with the Florida Agency for Healthcare Administration of \$400,000.

## **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included herein. If, during the examination an adjustment were identified, the impact of such adjustment would be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Office, are reflected in the following pages:

**AHF MCO of Florida, Inc.**  
**Admitted Assets, Liabilities, Capital and Surplus**  
**December 31, 2018**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
<b>Admitted Assets</b>			
Bonds	\$ 11,998,494	\$ -	\$ 11,998,494
Common stocks	1,265,989	-	1,265,989
Properties occupied by the company	2,251,769	-	2,251,769
Cash, cash equivalents and short-term investments	18,374,436	-	18,374,436
	33,890,688	-	33,890,688
Health care and other amounts receivable	5,165,144	-	5,165,144
<b>Total admitted assets</b>	<b>\$ 39,055,832</b>	<b>\$ -</b>	<b>\$ 39,055,832</b>
<b>Liabilities</b>			
Claims unpaid	\$ 16,682,748	\$ -	\$ 16,682,748
Unpaid claims adjustment expenses	163,909	-	163,909
Aggregate health policy reserves	4,145,841	-	4,145,841
Premiums received in advance	6,658,288	-	6,658,288
General expenses due or accrued	138,678	-	138,678
Amounts due to parent, subsidiaries and affiliates	1,358,193	-	1,358,193
<b>Total liabilities</b>	<b>\$ 29,147,657</b>	<b>\$ -</b>	<b>\$ 29,147,657</b>
<b>Capital and Surplus</b>			
Gross paid in and contributed surplus	\$ 58,512,353	\$ -	\$ 58,512,353
Unassigned funds (surplus)	(48,604,178)	-	(48,604,178)
<b>Total capital and surplus</b>	<b>9,908,175</b>	<b>-</b>	<b>9,908,175</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 39,055,832</b>	<b>\$ -</b>	<b>\$ 39,055,832</b>

**AHF MCO of Florida, Inc.**  
**Statement of Revenue and Expenses**  
**Year Ended December 31, 2018**

Net premium income	\$ 137,589,640
Change in unearned premium reserves	1,335,721
<b>Total revenues</b>	<b>138,925,361</b>
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Hospital and medical benefits	25,335,545
Other professional services	11,354,724
Emergency room and out-of-area	2,182,588
Prescription drugs	98,497,884
<b>Total hospital and medical</b>	<b>137,370,741</b>
Claims adjustment expenses	31,319
General administrative expenses	14,894,544
Increase for reserves for life and accident and health	1,621,774
<b>Total underwriting deductions</b>	<b>153,918,378</b>
<b>Net underwriting loss</b>	<b>(14,993,017)</b>
Net investment gains	463,051
<b>Net loss</b>	<b>\$ (14,529,966)</b>

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**AHF MCO of Florida, Inc.**  
**Statement of Changes in Capital and Surplus**  
**Five Years Ended December 31, 2018**

Capital and surplus - December 31, 2013	\$ 2,270,285
Net loss	(6,600,755)
Paid in surplus	10,560,292
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Capital and surplus - December 31, 2014	6,229,822
Net loss	(11,255,718)
Paid in surplus	7,849,998
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Capital and surplus - December 31, 2015	2,824,102
Net loss	(13,856,369)
Paid in surplus	18,100,000
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Capital and surplus - December 31, 2016	7,067,733
Net income	959,177
Change in net unrealized capital gains	137
Paid in surplus	6,500,000
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Capital and surplus - December 31, 2017	14,527,047
Net loss	(14,529,966)
Change in net unrealized capital losses	(88,906)
Paid in surplus	10,000,000
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	9,908,175
Examination adjustments	-
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Capital and surplus - December 31, 2018	\$ 9,908,175
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**AHF MCO of Florida, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2018**

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, 2018 - per annual statement</b>				\$ 9,908,175
	<b>Per</b>	<b>Per</b>	<b>Increase</b>	
	<b>Company</b>	<b>Examination</b>	<b>(Decrease)</b>	
			<b>In Capital</b>	
			<b>&amp; Surplus</b>	
Total assets	\$ 39,055,832	\$ 39,055,832	\$ -	
Total liabilities	\$ 29,147,657	\$ 29,147,657	\$ -	
<b>Capital and surplus, December 31, 2018 - per examination</b>				<b>\$ 9,908,175</b>

## COMMENTS ON FINANCIAL STATEMENTS

The actuarial reserves and claims liabilities were reviewed and it was determined that the reserves as reported by the Company are acceptable. There were no material changes required to be made to the Company's financial statements.

## SUMMARY OF RECOMMENDATIONS

### Investments

As reported on page 2, the Company was not in compliance with Section 641.35 (7), F.S. Per review of the Board meeting minutes, the examination was unable to verify evidence of the Board's or designee's authorization or ratification of investments as required by Florida Statutes.

**We recommend the Company document and maintain records of the Board's or designee's authorization or ratification of investments in accordance with Section 641.35 (7), F.S.**

## SUBSEQUENT EVENTS

### Medicaid Contract

During the examination period, the Company offered a Medicaid plan in Broward and Miami-Dade counties. The Agency for Health Care Administration did not renew the Company's Medicaid contract in 2019 and the Company ceased offering Medicaid effective February 2019.

### Management Services Agreement

As reported on page 2 and page 4, the Company was not in compliance with SSAP 25 as the terms of the Company's affiliated management services agreement do not provide for a specified due date of amounts owed. Additionally, the agreement terms for determining monthly amounts owed for services were vague. The agreement stated the Company shall pay a monthly fee equal

to 10%; however, the agreement did not clearly define the basis of the 10%. During the examination the Company amended the management services agreement in order to comply with SSAP 25. Finding was subsequently resolved.

#### UCC Filing – Pledged Assets

As reported on page 2 and page 6, the Company was not in compliance with Section 641.19 (19), F.S. as the Company's assets, included in surplus, were pledged to secure a debt owed by AHF. During the examination an amended UCC filing was issued terminating the security interest in the Company's assets. Finding was subsequently resolved.

#### COVID-19 Impact

In March 2020, the World Health Organization recognized the coronavirus (COVID-19) outbreak as a pandemic. While the complete effects of COVID-19 on the economy and financial markets are still unknown, the Office recognizes that it could have a significant impact on all domestic insurers, including the Company. The Office will continue to closely monitor this situation and share information with the Company as appropriate regarding these developments.



## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of AHF MCO of Florida, Inc., consistent with the insurance laws of the State of Florida.

At December 31, 2018, the Company's capital and surplus was \$9,908,175 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, the following individuals participated in the examination: Dale Miller, CPA, CFE, CFF Examiner-in-Charge; Francois Houde, CPA, CA, CFE, CISA, AES, IT Specialist; Sharon Stuber, CPA, Participating Examiner; Robin Brown, CFE, Participating Examiner, associated with the firm of Carr, Riggs & Ingram, LLC; as well as Kirk Braunius, ASA, MAAA, associated with the firm of Merlinos & Associates, Inc.; and from the Florida Office of Insurance Regulation: Shantia Simmons, APIR, Financial Examiner/Analyst Supervisor; and Emmaculate Muambo, CFE (Fraud), APIR, Financial Control Specialist.

Respectfully submitted,



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Carolyn M. Morgan, APIR  
Director, Life & Health Financial Oversight  
Florida Office of Insurance Regulation