

Report on Examination
of
AIDS Healthcare Foundation
MCO of Florida, Inc.

Ft. Lauderdale, Florida

as of

December 31, 2008

By The
Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street, Room 101
Tallahassee, Florida 32399-0301

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 AIDS Healthcare Foundation MCO of Florida, Inc. as of December 31, 2008. Our report on the examination follows.

Florida Office of Insurance Regulation
May 13, 2010

Contents

Scope of Examination	1
Summary of Significant Findings.....	2
Plan History	2
Capital Contributions	2
Corporate Records	2
Management and Control	3
Fidelity Bonds and Other Insurance	4
Pension, Stock Ownership and Insurance Plans	5
Territory and Plan of Operation	5
Reinsurance	5
Statutory Deposits	5
Financial Statements	6
Comments on Financial Statements	11
Summary of Recommendations	12
Subsequent Events	13
Conclusion	14

SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2008 of AIDS Healthcare Foundation MCO of Florida, Inc. (the "Plan"), a Florida health maintenance organization (HMO). This was the first financial condition examination of the Plan by the Florida Office of Insurance Regulation (the "Office").

This examination covered the period of June 28, 2007 through December 31, 2008. 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 and identify prospective risks of the Plan. It required that we do so by obtaining information about the Plan including corporate governance, identifying and assessing inherent risks within the Plan, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Plan were considered in accordance with the risk-focused examination process.

The Plan's main administrative office was in Ft. Lauderdale, Florida, where this examination was conducted.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in findings that, in its 2008 annual statement, the Plan overstated its cash by \$1.7 million, and that it failed to maintain the required minimum amount of capital and surplus and to maintain in eligible assets an amount equal to its required minimum surplus. Recommendations relating to all significant findings of the examination are summarized beginning on page 12.

PLAN HISTORY

The Plan was incorporated in Florida as a non-profit corporation on March 2, 2007 and was licensed by the Office as an HMO on June 28, 2007. The Plan was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.)

CAPITAL CONTRIBUTIONS

The Plan received capital contributions of \$1,800,000 and \$452,063 in 2007 and 2008, respectively.

CORPORATE RECORDS

The recorded minutes of the Board of Directors meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Plan transactions in accordance with Section 617.1601, F.S.

MANAGEMENT AND CONTROL

The Plan was organized as a non-profit corporation and managed by a board of directors. Its sole member was AIDS Healthcare Foundation (AHF).

The Plan's senior officers and directors were as shown below.

Senior Officers

Name	Title
Michael Weinstein	President
Laura Nelson	Chief Financial Officer
Agapito Diaz	Secretary
Judith Briggs-Marsh	Treasurer

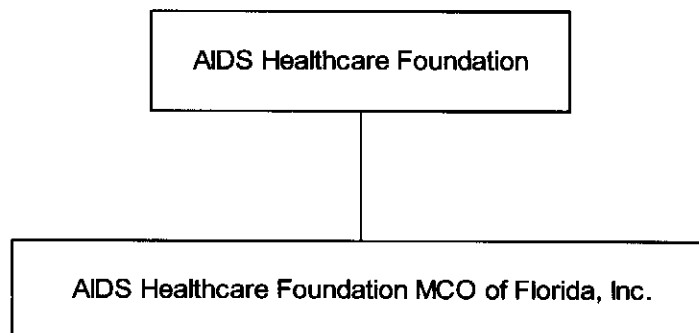
Board of Directors

Name	Location
Judith Briggs-Marsh	Alameda, California
Agapito Diaz	Los Angeles, California
Michael Weinstein	Los Angeles, California

The Plan 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 October 31, 2008.

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

**AIDS Healthcare Foundation MCO of Florida, Inc.
Organizational Chart
December 31, 2008**



AHF provided managerial and administrative services to the Plan pursuant to a management services agreement effective March 7, 2007. The agreement provided for AHF to receive reimbursement for costs incurred during the Plan's start-up period and a monthly fee of 10% of premiums thereafter. In addition, AHF incurred pharmacy costs on behalf of the Plan and passed those costs on to the Plan.

FIDELITY BONDS AND OTHER INSURANCE

The Plan maintained acceptable levels of general liability insurance in accordance with Rule 69O-191.069, F.A.C., and was insured by a blanket fidelity bond, as required by Section 641.22(7), F.S., in the amount of \$500,000. As an individual practice association (IPA) model HMO, the Plan 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 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Plan had no direct employees and, therefore, did not provide employee benefits or sponsor retirement plans.

TERRITORY AND PLAN OF OPERATION

The Plan 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 June 25, 2011. It was authorized to operate in the Florida counties of Broward and Miami-Dade. As an IPA model HMO operating solely in Florida, the Plan provided health care services to 108 members, all of which were Medicare members.

REINSURANCE

The Plan maintained excess of loss reinsurance with ACE American Insurance Company, effective January 1, 2008. The reinsurance provided for an attachment point of \$100,000 per member and covered 90% of eligible expenses up to \$1,000,000 per member per year. The policy required a minimum annual premium of \$50,000.

STATUTORY DEPOSITS

The Plan maintained on deposit with the Office an insolvency protection deposit of \$300,000 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.

AIDS Healthcare Foundation MCO of Florida, Inc.
Assets
December 31, 2008

	Per Plan	Examination Adjustments	Per Examination
Cash, cash equivalents and short-term investments	\$1,999,709	(\$1,694,466)	\$305,243
Investment income due and accrued	10,092	0	10,092
Health care and other amounts receivable	597,124	0	597,124
Total assets	\$2,606,925	(\$1,694,466)	\$912,459

AIDS Healthcare Foundation MCO of Florida, Inc.
Liabilities, Capital and Surplus
December 31, 2008

Liabilities	Per Plan	Examination Adjustments	Per Examination
Claims unpaid	\$238,700	\$560,572	\$799,272
Unpaid claims adjustment expenses	10,850	0	10,850
Amounts due to parent, subsidiaries and affiliates	708,405	(371,615)	336,790
Total liabilities	957,955	188,957	1,146,912
Capital and Surplus			
Gross paid in and contributed surplus	2,252,063	0	2,252,063
Unassigned funds (deficit)	(603,093)	(1,883,423)	(2,486,516)
Total capital and surplus (deficit)	1,648,970	(1,883,423)	(234,453)
Total liabilities, capital and surplus	\$2,606,925	(\$1,694,466)	\$912,459

AIDS Healthcare Foundation MCO of Florida, Inc.
Statement of Revenue and Expenses
(As reported by the Plan)
For The Year Ended December 31, 2008

Net premium income	\$2,594,604
Hospital and medical benefits	467,259
Other professional services	263,307
Emergency room and out-of-area	27,254
Prescription drugs	1,220,822
Total hospital and medical	1,978,642
Claims adjustment expenses	10,850
General administrative expenses	995,994
Total underwriting deductions	2,985,486
Net underwriting gain (loss)	(390,882)
Net investment income	37,095
Net income (loss)	(\$353,787)

**AIDS Healthcare Foundation MCO of Florida, Inc.
Statement of Changes in Capital and Surplus
For The Two Years Ended December 31, 2008**

Capital and surplus - December 31, 2006	\$0
Net income (loss)	(249,306)
Paid in capital	1,800,000
<hr/>	
Capital and surplus - December 31, 2007	1,550,694
Net income (loss)	(353,787)
Paid in capital	452,063
<hr/>	
	1,648,970
Examination adjustments	(1,883,423)
<hr/>	
Capital and surplus - December 31, 2008	(\$234,453)
<hr/>	

**AIDS Healthcare Foundation MCO of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus (Deficit)
December 31, 2008**

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

Capital and surplus, December 31, 2008 - per annual statement			\$1,648,970
	Per Plan	Per Examination	Increase (Decrease) In Capital & Surplus
Cash, cash equivalents & short-term investments	\$1,999,709	\$305,243	(\$1,694,466)
Claims unpaid	\$238,700	\$799,272	(\$560,572)
Amounts due to parent, subsidiaries and affiliates	\$708,405	\$336,790	\$371,615
Net change in capital and surplus			<u>(1,883,423)</u>
Capital and surplus (deficit), December 31, 2008 - per examination			<u>(\$234,453)</u>

COMMENTS ON FINANCIAL STATEMENTS

Cash, Cash Equivalents and Short-Term Investments **\$305,243**

The amount reported by the Plan in its 2008 annual statement as cash has been reduced by \$1,694,466. The amount reported by the Plan incorrectly included \$1,694,466 which had been transferred on an overnight basis to a Cayman Islands bank. The amount of the funds transferred to the offshore account did not qualify as an admitted asset pursuant to Section 641.35, F.S., and has been nonadmitted as of December 31, 2008. According to the Plan, it discontinued its use of the offshore account in December of 2009.

Claims Unpaid **\$799,272**
Amounts Due To Parent, Subsidiaries and Affiliates **\$336,790**

The amount reported by the Plan as 'claims unpaid' has been increased by \$560,572 and the amount it reported as 'amounts due to parent, subsidiaries and affiliates' has been decreased by \$371,615. Obligations for pharmacy claims in the amount of \$371,615 have been reclassified to claims unpaid, and the total obligation for claims unpaid has been further increased by \$188,957.

Deficit **\$234,453**

The amount reported by the Plan in its 2008 annual statement as total capital and surplus has been reduced by \$1,883,423 to a deficit of \$234,453 as a result of the examination adjustments described above. Because the Plan's total capital and surplus at December 31, 2008 was less than its required minimum amount of capital and surplus of \$1,500,000, the Plan was in violation of Section 641.225, F.S. In addition, the Plan was in violation of Section 641.35(9), F.S., which required that it maintain an amount equal to its required minimum surplus in eligible assets.

SUMMARY OF RECOMMENDATIONS

Accounting and Reporting Errors

As reported on the previous page, the Plan overstated its cash and understated its unpaid claims liability in its 2008 annual statement. **We recommend that, in future statements filed with the Office, the Plan accurately report its assets and liabilities in accordance with Part I of Chapter 641, F.S., and the NAIC annual statement instructions.**

Total Capital and Surplus (Deficit)

As of December 31, 2008, the Plan did not maintain the minimum amount of total capital and surplus required by Section 641.225, F.S., and did not maintain an amount equal to its required minimum surplus in eligible assets as required by Section 641.35(9), F.S., as reported on the previous page. **We recommend that the Plan maintain the minimum amount of total capital and surplus required by Section 641.225, F.S., and comply with Section 641.35(9), F.S., at all times.**

SUBSEQUENT EVENTS

On October 12, 2009, the Plan changed its name to AHF MCO of Florida, Inc.

In its 2009 annual statement, the Plan reported net premiums of \$7,002,290 and a net loss of \$1,320,199 for the year. It reported total capital and surplus at December 31, 2009 of \$1,828,771, which included capital contributed by AHF of \$1,500,000. However, only \$250,000 of the contributed capital was received in cash during 2009; the balance of \$1,250,000 was accrued as of December 31, 2009 and collected in March of 2010. The Plan received authorization from the Office to report the accrued capital contribution as an admitted asset as of December 31, 2009.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of AIDS Healthcare Foundation MCO of Florida, Inc. as of December 31, 2008, consistent with the insurance laws of the State of Florida.

The Plan's total capital and surplus at December 31, 2008 was determined to be a deficit of \$234,453, which was not in compliance with Section 641.225, F.S. Its required minimum capital and surplus was \$1,500,000.

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

Respectfully submitted,

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