

Report on Examination
of
America's Health Choice Medical Plans, Inc.
Vero Beach, Florida
as of
June 30, 2005

By The
Office of Insurance Regulation
Florida Department of Financial Services

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Tallahassee, Florida

December 22, 2005

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines St.
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), a limited-scope examination has been made as of June 30, 2005 of the financial condition and corporate affairs of:

America's Health Choice Medical Plans, Inc.
1175 S. U.S. Highway One
Vero Beach, Florida 32962

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

BACKGROUND

The Company was incorporated in Florida on November 23, 1998. It was originally licensed by the Florida Office of Insurance Regulation (the "Office") on February 7, 2000 as a health maintenance organization (HMO) pursuant to Part I of Chapter 641, Florida Statutes (FS). As a provider-sponsored organization (PSO), the Company was granted this authority pursuant to a consent order with the Office for the limited purpose of providing Medicare+Choice health care program services as authorized by the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), pursuant to Title 42, Part 422, Code of Federal Regulations. On March 31, 2004, the Company was authorized by the Office to operate as an HMO without the requirement to operate solely as a PSO. Substantially all of the Company's members remain Medicare members and, consequently, CMS is currently its primary source of revenue.

The Company's main administrative office is located in Vero Beach, Florida, where this examination was conducted.

The last full-scope financial condition examination of the Company by the Office was conducted as of December 31, 2000. The Office conducted a limited-scope examination of the Company as of December 31, 2002.

SCOPE OF EXAMINATION

This was a limited-scope 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.

The sole objectives of this limited-scope examination were to determine the adequacy of the Company's reported liability for claims unpaid as of June 30, 2005; and to assess the adequacy of the Company's internal controls over its claims system as of that date.

A limited-scope examination is less comprehensive than a full-scope examination. Because this report is of a limited-scope examination, it is not intended to communicate all matters necessary for a complete understanding of the Company's financial condition or the extent of its regulatory compliance.

The fieldwork for this examination began on July 25, 2005, and concluded on October 14, 2005.

Claims Unpaid

We conducted examination procedures, including an analysis of data and review of pertinent records, intended to determine the extent to which the Company's reported liability for claims unpaid as of June 30, 2005 was adequate. No significant adjustments or adverse findings resulted.

Claims System Internal Controls

We conducted examination procedures, including analyses of policies, procedures, and practices, and tests of transactions, intended to identify any weaknesses in the Company's internal controls over its claims system. No significant adjustments or adverse findings resulted.

EDP Equipment & Software

Examination objectives did not initially include a determination of whether the Company's EDP equipment and software was properly reported. However, during the examination we noted that, in its quarterly statement as of June 30, 2005, the Company reported EDP equipment & software in an amount in excess of that allowed by Statement of Statutory Accounting Principles (SSAP) No. 16. According to SSAP No. 16, the aggregate amount of admitted EDP equipment and operating system software (net of accumulated depreciation) shall be limited to three percent of the Company's capital and surplus, adjusted to exclude any EDP equipment and operating system software, net deferred tax assets, and net positive goodwill. As a result, the Company's EDP equipment and software was limited to \$62,976 at June 30, 2005. Therefore, an examination adjustment in the amount of \$347,199 was made to decrease the amount reported by the Company at June 30, 2005. **We recommend that, in future statements filed with the Office, the Company report its EDP equipment and software in accordance with SSAP No. 16.**

Capital & Surplus

The \$2,509,391 reported by the Company as its total capital and surplus at June 30, 2005 is reduced by \$347,199 to \$2,162,192 as a result of the examination adjustment described above. Because the Company's actual capital and surplus after examination adjustments is \$2,162,192, which is \$990,008 less than its required minimum capital and surplus of \$3,152,200, the Company was in violation of Section 641.225, FS, at June 30, 2005. On August 1, 2005, the Company received a contribution to its capital and surplus in the amount of \$1 million. **We recommend that the Company maintain at all times the minimum capital and surplus required by Section 641.225, FS.**

FINANCIAL STATEMENTS PER EXAMINATION

The following three pages contain statements of the Company's financial position at June 30, 2005, as determined by this examination, and the results of its operations for the six months then ended as reported by the Company.

America's Health Choice Medical Plans, Inc.
Assets
June 30, 2005

| | Per Company | Examination Adjustments | Per Examination |
|--|----------------------------|------------------------------------|----------------------------|
| Bonds | \$12,336,551 | \$0 | \$12,336,551 |
| Common stocks | 2,610,049 | 0 | 2,610,049 |
| Properties occupied by the company | 740,075 | 0 | 740,075 |
| Cash, cash equivalents, & short-term investments | <u>6,701,228</u> | <u>0</u> | <u>6,701,228</u> |
| | 22,387,903 | 0 | 22,387,903 |
| Investment income due & accrued | 132,115 | 0 | 132,115 |
| Electronic data processing equipment & software | 410,175 | (347,199) | 62,976 |
| Health care & other amounts receivable | 143,481 | 0 | 143,481 |
| Aggregate write-ins for other than invested assets | <u>1,681</u> | <u>0</u> | <u>1,681</u> |
| Totals | <u><u>\$23,075,355</u></u> | <u><u>(\$347,199)</u></u> | <u><u>\$22,728,156</u></u> |

America's Health Choice Medical Plans, Inc.
Liabilities, Capital and Surplus
June 30, 2005

| Liabilities | Per Company | Examination Adjustments | Per Examination |
|---|----------------------------|------------------------------------|----------------------------|
| Claims unpaid | \$18,637,184 | \$0 | \$18,637,184 |
| Unpaid claims adjustment expenses | 347,360 | 0 | 347,360 |
| General expenses due or accrued | 666,194 | 0 | 666,194 |
| Borrowed money | 9,028 | 0 | 9,028 |
| Amounts due to parent, subsidiaries, & affiliates | <u>906,198</u> | <u>0</u> | <u>906,198</u> |
| Total liabilities | 20,565,964 | 0 | 20,565,964 |
| Capital and Surplus | | | |
| Common capital stock | 750 | 0 | 750 |
| Gross paid in & contributed surplus | 1,482,481 | 0 | 1,482,481 |
| Unassigned funds (surplus) | <u>1,026,160</u> | <u>(347,199)</u> | <u>678,961</u> |
| Total capital & surplus | <u>2,509,391</u> | <u>(347,199)</u> | <u>2,162,192</u> |
| Total liabilities, capital & surplus | <u><u>\$23,075,355</u></u> | <u><u>(\$347,199)</u></u> | <u><u>\$22,728,156</u></u> |

America's Health Choice Medical Plans, Inc.
Statement of Revenue & Expenses
For The Six Months Ended June 30, 2005

| | | |
|--|------------------|-----------------------------|
| Net premium income | | \$78,805,009 |
| Fee-for-service | | 66,122 |
| Aggregate write-ins for other health care revenues | | <u>12,765</u> |
| Total revenues | | 78,883,896 |
| Hospital/medical benefits | \$26,724,190 | |
| Other professional services | 40,053,263 | |
| Outside referrals | 3,271,530 | |
| Prescription drugs | <u>4,111,483</u> | |
| | 74,160,466 | |
| Net reinsurance recoveries | <u>394,424</u> | |
| Total hospital & medical | 73,766,042 | |
| General administrative expenses | <u>9,601,525</u> | <u>83,367,567</u> |
| Net underwriting gain or (loss) | | (4,483,671) |
| Net investment income earned | 282,488 | |
| Net realized capital gains | <u>14,538</u> | <u>297,026</u> |
| Net income (loss) | | <u><u>(\$4,186,645)</u></u> |

Capital and Surplus Account

| | |
|--|---------------------------|
| Capital & surplus, December 31, 2004 | \$8,408,461 |
| Net income (loss) | (4,186,645) |
| Change in net unrealized capital gains | 88,470 |
| Change in nonadmitted assets | 3,199,105 |
| Dividends to stockholders | <u>(5,000,000)</u> |
| | 2,509,391 |
| Examination adjustments | <u>(347,199)</u> |
| Capital & surplus, June 30, 2005 | <u><u>\$2,162,192</u></u> |

SUBSEQUENT EVENTS

On August 1, 2005, the Company received a contribution to its capital and surplus in the amount of \$1 million.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been applied to the specific areas described in this report of limited-scope examination of **America's Health Choice Medical Plans, Inc.** as of June 30, 2005, consistent with the insurance laws of the State of Florida.

At June 30, 2005, the Company's capital and surplus after examination adjustments was \$2,162,192, which was not in compliance with Section 641.225, FS. Its required minimum capital and surplus at June 30, 2005 was \$3,152,200. On August 1, 2005, the Company received a contribution to its capital and surplus in the amount of \$1 million.

In addition to the undersigned, Robert Y. Meszaros, Financial Specialist, David C. Schleit, CPA, Financial Examiner/Analyst Supervisor, and Richard Tan, Actuary, participated in this examination.

Respectfully submitted,

C. Alan Irvin, Financial Administrator
Office of Insurance Regulation