

**Report on Examination**

**of**

**AvMed, Inc.**

**Gainesville, Florida**

**as of**

**December 31, 2003**

**By The**

**State of Florida**

**Office of Insurance Regulation**

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Tallahassee, Florida

May 16, 2005

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, 2003, of the financial condition and corporate affairs of:

**AvMed, Inc.**  
**4300 NW 89<sup>th</sup> Blvd.**  
**Gainesville, Florida 32606**

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, 2001 through December 31, 2003. The Company was last examined by Arthur Andersen LLP on behalf of the Florida Office of Insurance Regulation (formerly, the Florida Department of Insurance) (the Office) as of December 31, 2000.

Planning for the current examination began on November 4, 2004. The field work began on November 15, 2004 and concluded on April 12, 2005. 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 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 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 certified public accountant (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 2003 annual statement. Transactions subsequent to December 31, 2003 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:

- Bonds
- Cash
- Contingencies & commitments

### **STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION**

The following is a summary of significant adverse findings contained in the report of the prior examination by Arthur Andersen LLP on behalf of the Office as of December 31, 2000, along with resulting action taken by the Company in connection therewith.

### **INTERNAL ACCOUNTING CONTROLS**

The prior examination of the Company resulted in a finding that its internal accounting controls were inadequate. Resolution: During the current examination, we found the Company's internal accounting controls to be adequate.

## **HISTORY**

### **GENERAL**

The Company was incorporated in Florida on August 27, 1986 as Florida Health Plan, Inc., and on December 30, 1986, changed its name to Av-Med, Inc. On February 5, 1996, the Company changed its name to AvMed, Inc. It currently operates as AvMed, Inc., d/b/a, "AvMed Health Plans." The Company merged with St. Augustine Health Care, Inc. on October 1, 1999, with the Company being the surviving entity.

The Company was authorized to transact business as a health maintenance organization (HMO), in accordance with Part I of Chapter 641, F.S.

The Company amended and restated its articles of incorporation on March 17, 2003.

### **ORGANIZATION**

The Company is organized as a not-for-profit corporation under Chapter 617, F.S. As of December 31, 2003, its sole member was SantaFe HealthCare, Inc., also a Florida not-for-profit corporation. A simplified organizational chart appears on page 8.

### **PROFITABILITY**

The Company reported net premiums of \$753.4 million, \$783.3 million, and \$690.4 million in years 2003, 2002, and 2001, respectively; and net income or (loss) of \$46.2 million, (\$6.2 million), and (\$8.7 million) in those same years.

## MANAGEMENT

The annual member meeting for the election of directors was held in accordance with Sections 617.0701 and 617.0721, F.S. Directors serving as of December 31, 2003 were:

| <b>Directors</b>                                  |   |
|---|---|
| <b>Name and Location</b>                          | <b>Principal Occupation</b>                                   |
| Harris A. Berman, M.D.<br>Boston, Massachusetts   | Professor & Chairman -<br>Tufts University School of Medicine |
| Pamela J. Davis, PhD<br>St. Petersburg, Florida   | President - ITC Industries                                    |
| Joe G. Dunlap<br>Gainesville, Florida             | President - Chesnut Office Supply                             |
| Hugh J. Floyd<br>Sarasota, Florida                | Retired Hospital Administrator                                |
| Maria C. Leiva<br>Coral Gables, Florida           | President -<br>Miami Free Zone Management Company             |
| John M. Ludden, M.D.<br>Lincoln, Massachusetts    | Physician & Professor -<br>Harvard University                 |
| George E. Williamson, II<br>Coral Gables, Florida | Automobile dealer operator -<br>Williamson Cadillac           |
| E. Travis York, PhD<br>Gainesville, Florida       | Retired Educator - University of Florida                      |

The Company's board of directors formed committees in accordance with Section 617.0825, F.S. At December 31, 2003, members of its principal committees were:

| <b>Quality &amp; Finance<br/>Committees</b>   | <b>Executive &amp; Planning<br/>Committee</b>  |
|---|--|
| Harris A. Berman, M.D.<br>Pamela J. Davis, PhD<br>Joe G. Dunlap<br>Hugh J. Floyd<br>Maria C. Leiva<br>John M. Ludden, M.D.<br>George E. Williamson, II<br>E. Travis York, PhD | Joe G. Dunlap<br>Maria C. Leiva<br>John M. Ludden, M.D.<br>George E. Williamson, II<br>E. Travis York, PhD |

The Company utilized the audit committee of SantaFe HealthCare, Inc.

At December 31, 2003, the Company's senior executives and officers were as follows:

**Senior Executives & Officers**

| <b>Name</b>             | <b>Title</b>   |
|-------------------------|--|
| Joe G. Dunlap           | Chairman   |
| Maria C. Leiva          | Vice Chairman & Treasurer  |
| Robert C. Hudson        | Chief Executive  |
| Michael P. Gallagher    | Executive Vice President, Chief Financial Officer, & Assistant Treasurer |
| Douglas G. Cueny        | Executive Vice President, Network & Medical Operations                   |
| Stephen J. deMontmollin | Sr. Vice President, General Counsel, & Assistant Secretary               |
| Edwin W. Hannum         | Sr. Vice President, Marketing  |
| Catherine E. Ayers      | Sr. Vice President, Human Resources & Member Services                    |
| John R. Higbee          | Chief Information Officer  |
| George E. Williamson    | Secretary  |

**CONFLICT OF INTEREST PROCEDURE**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 617.0832, F.S. No exceptions were noted during this examination.

**CORPORATE RECORDS**

The recorded minutes of the member; Board of Directors; and Quality, Finance, and Executive and Planning Committee meetings were reviewed for the period examined, as were those of the SantaFe HealthCare, Inc. Nominating Committee. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions.



**SURPLUS NOTES**

As of December 31, 2003, the Company was obligated for surplus notes in the total amount of \$43 million to the following affiliates:

| Holder                                 | Maturity | Interest Rate | Amount              |
|--|----------|---------------|---------------------|
| SantaFe HealthCare, Inc.               | None     | 5% - 7.5%     | \$39,700,000        |
| North Florida Retirement Village, Inc. | None     | 7.5%          | 1,000,000           |
| North Central Florida Hospice, Inc.    | None     | 7.5%          | <u>2,300,000</u>    |
|  |          |               | <u>\$43,000,000</u> |

The notes were approved by the Company’s board of directors and the Office, and comply with the provisions of Rule 69O-191.088, Florida Administrative Code (F.A.C.). In accordance with Section 641.19(19), F.S., the surplus note debt is included in the Company’s surplus.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), F.A.C. Its latest holding company registration statement was filed with the Office, as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on March 31, 2004.

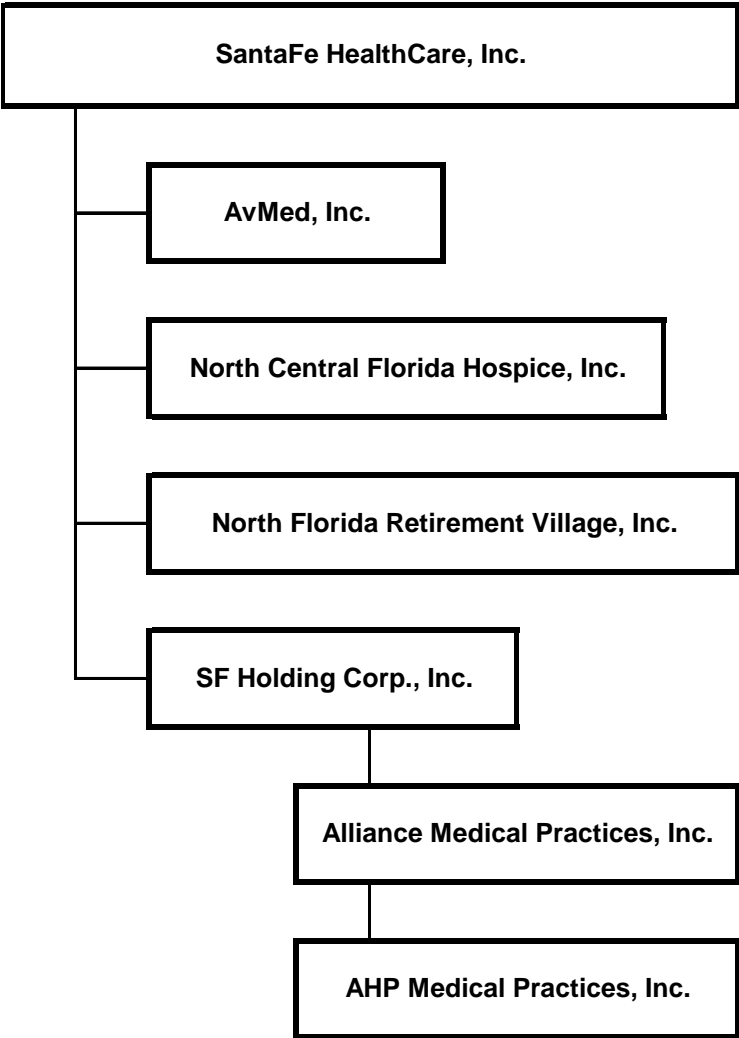
The following agreements were in force between the Company and its affiliates at December 31, 2003:

### **MANAGEMENT AGREEMENTS**

Pursuant to separate management agreements, the Company performs services for three of its affiliates in return for monthly fees. Services provided include accounting, tax, audit, human resources, procurement, risk management, insurance, legal, training, purchasing, information systems, and management services. Fees from SantaFe HealthCare, Inc. amounted to \$108,000 in each of years 2003 and 2002, and \$96,000 in 2001; fees from North Central Florida Hospice, Inc. amounted to \$150,000 in each of years 2003, 2002, and 2001; and fees from Alliance Medical Practices, Inc. amounted to \$27,500 in 2003, and \$55,000 in each of years 2002 and 2001.

A simplified organizational chart as of December 31, 2003 reflecting the holding company system is shown below. Schedule Y of the Company's 2003 annual statement provided the names of all related companies in the holding company group.

**AvMed, Inc.  
Organizational Chart  
December 31, 2003**



## 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. On May 28, 2003, the Office approved an errors and omissions self-insurance plan for the Company, with a total funding requirement of approximately \$6,594,000. Upon approval of the plan, the Company funded an escrow account pursuant to the provisions of Section 69O-191.069(5), F.A.C.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company offers to qualified employees long-term and short-term disability, medical, and group life insurance coverage. Other benefits offered include annual leave, paid holidays, a 401(k) savings plan, and a noncontributory retirement plan.

## STATUTORY DEPOSITS

The Company maintained the following deposits with the State of Florida as required by law:

| <b>Description</b>                         | <b>Par Value</b>   | <b>Market Value</b> |
|--|--------------------|---------------------|
| Cash on deposit with the Office            | \$715,000          | \$715,000           |
| Money market fund; AHCA insolvency deposit | <u>755,295</u>     | <u>755,295</u>      |
| Total special deposits                     | <u>\$1,470,295</u> | <u>\$1,470,295</u>  |

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

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

At December 31, 2003, 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 June 27, 2006.

The Company uses a network of general agents and brokers, and operates as an individual practice association (IPA) model HMO. It provides health care services to commercial, Medicare and Medicaid members, which numbered 207,366 at December 31, 2003.

The Company sold its St. Augustine Medicaid product line effective June 30, 2003.

The Company operates in the Florida counties of Alachua, Baker, Bradford, Broward, Citrus, Clay, Columbia, Dixie, Duval, Gilchrist, Hamilton, Hernando, Hillsborough, Lee, Levy, Marion, Miami-Dade, Nassau, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Sarasota, Seminole, St. Johns, Suwannee, and Union.

### **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 reinsurance agreements reviewed were found to comply with NAIC standards with respect to the standard insolvency and arbitration clauses, transfer of risk, and reporting and settlement information deadlines.

### **CEDED**

The Company ceded insurance on a stop-loss basis to two unaffiliated reinsurers authorized in Florida. The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statements annually for years 2001, 2002, and 2003, 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 Gainesville, Florida, where this examination was conducted.

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

### **PROVIDER AGREEMENTS**

As an IPA model HMO, the Company does not maintain its own medical facilities. Rather, it has contracted with approximately 13,387 individual physicians, hospitals, and ancillary care providers that are compensated on a fee-for-service or capitation basis.

### **INDEPENDENT AUDITOR AGREEMENT**

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

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain statements of the Company's financial position at December 31, 2003, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.



**AvMed, Inc.**  
**Assets**  
**December 31, 2003**

|  | Per<br>Company              | Examination<br>Adjustments | Per<br>Examination          |
|--|-----------------------------|----------------------------|-----------------------------|
| Bonds  | \$116,657,664               | \$0                        | \$116,657,664               |
| Properties occupied by the company                                     | 10,682,037                  | 0                          | 10,682,037                  |
| Properties held for the production of income                           | 13,563,326                  | 0                          | 13,563,326                  |
| Cash, cash equivalents, & short-term investments                       | 66,944,189                  | 0                          | 66,944,189                  |
| Aggregate write-ins for invested assets                                | <u>2,262,669</u>            | <u>0</u>                   | <u>2,262,669</u>            |
|  | 210,109,885                 | 0                          | 210,109,885                 |
| Investment income due & accrued  | 819,105                     | 0                          | 819,105                     |
| Uncollected premiums & agents' balances in the<br>course of collection | 5,393,344                   | 0                          | 5,393,344                   |
| Amounts recoverable from reinsurers                                    | 391,378                     | 0                          | 391,378                     |
| Electronic data processing equipment & software                        | 704,213                     | 0                          | 704,213                     |
| Furniture & equipment  | 237,855                     | 0                          | 237,855                     |
| Health care & other amounts receivable                                 | 1,007,858                   | 0                          | 1,007,858                   |
| Aggregate write-ins for other than invested assets                     | <u>2,900,900</u>            | <u>0</u>                   | <u>2,900,900</u>            |
| Total assets   | <u><u>\$221,564,538</u></u> | <u><u>\$0</u></u>          | <u><u>\$221,564,538</u></u> |

**AvMed, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2003**

|   | Per<br>Company              | Examination<br>Adjustments | Per<br>Examination          |
|---|-----------------------------|----------------------------|-----------------------------|
| Claims unpaid                             | \$95,371,710                | \$0                        | \$95,371,710                |
| Unpaid claims adjustment expenses         | 2,775,000                   | 0                          | 2,775,000                   |
| Premiums received in advance              | 18,627,468                  | 0                          | 18,627,468                  |
| General expenses due or accrued           | 1,606,724                   | 0                          | 1,606,724                   |
| Aggregate write-ins for other liabilities | <u>21,900,032</u>           | <u>0</u>                   | <u>21,900,032</u>           |
| Total liabilities                         | 140,280,934                 | 0                          | 140,280,934                 |
| <br>                                      |                             |                            |                             |
| Gross paid in & contributed surplus       | 6,057,501                   | 0                          | 6,057,501                   |
| Surplus notes                             | 43,000,000                  | 0                          | 43,000,000                  |
| Unassigned funds (surplus)                | <u>32,226,103</u>           | <u>0</u>                   | <u>32,226,103</u>           |
| Total capital and surplus                 | <u>81,283,604</u>           | <u>0</u>                   | <u>81,283,604</u>           |
| Total liabilities, capital and surplus    | <u><u>\$221,564,538</u></u> | <u><u>\$0</u></u>          | <u><u>\$221,564,538</u></u> |

**AvMed, Inc.**  
**Statement of Income**  
**For Year Ended December 31, 2003**

|  |                   |                            |
|--|-------------------|----------------------------|
| Net premium income   |                   | \$753,367,222              |
| Aggregate write-ins for other health care related revenues |                   | <u>100,092</u>             |
|  |                   | 753,467,314                |
| Hospital & medical benefits                                | \$512,057,433     |                            |
| Other professional services                                | 3,978,530         |                            |
| Emergency room & out-of-area                               | 31,475,706        |                            |
| Prescription drugs   | 60,724,633        |                            |
| Aggregate write-ins for other hospital & medical           | <u>23,358,859</u> |                            |
|  | 631,595,161       |                            |
| Net reinsurance recoveries                                 | <u>3,432,820</u>  |                            |
| Total hospital & medical                                   | 628,162,341       |                            |
| Claims adjustment expenses                                 | 18,389,964        |                            |
| General administrative expenses                            | <u>71,392,701</u> |                            |
| Total underwriting deductions                              |                   | <u>717,945,006</u>         |
| Net underwriting gain                                      |                   | 35,522,308                 |
| Net investment income earned                               | 1,888,972         |                            |
| Net realized capital gains                                 | <u>423,033</u>    |                            |
| Net investment gains                                       |                   | 2,312,005                  |
| Aggregate write-ins for other income or expenses           |                   | <u>8,723,564</u>           |
| Net income before federal income taxes                     |                   | 46,557,877                 |
| Federal & foreign income taxes incurred                    |                   | <u>407,458</u>             |
| Net income   |                   | <u><u>\$46,150,419</u></u> |

**AvMed, Inc.**  
**Capital and Surplus Account**  
**For Year Ended December 31, 2003**

|  |                            |
|--|----------------------------|
| Capital and surplus, December 31, 2002               | \$34,106,473               |
| Net income   | 46,150,419                 |
| Change in nonadmitted assets                         | (45,547)                   |
| Aggregate write-ins for gains or (losses) in surplus | <u>1,072,259</u>           |
|  | 81,283,604                 |
| Examination adjustments                              | <u>0</u>                   |
| Capital and surplus, December 31, 2003               | <u><u>\$81,283,604</u></u> |

## **COMMENTS ON FINANCIAL STATEMENTS**

No recommendations or financial statement adjustments resulted from the examination of the Company as of December 31, 2003.

**AvMed, Inc.**  
**Comparative Analysis of Changes in Capital & Surplus**  
**December 31, 2003**

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

|  |                        |                     |   |
|--|------------------------|---------------------|---|
| <b>Capital &amp; surplus, December 31, 2003 - per annual statement</b> |                        |                     | \$81,283,604  |
|  | <u>Per<br/>Company</u> | <u>Per<br/>Exam</u> | <u>Increase<br/>(Decrease)<br/>In Capital<br/>&amp; Surplus</u> |
| Assets   | \$221,564,538          | \$221,564,538       | \$0   |
| Liabilities  | \$140,280,934          | \$140,280,934       | <u>\$0</u>  |
| Net change in capital and surplus                                      |                        |                     | <u>0</u>  |
| <b>Capital &amp; surplus, December 31, 2003 - per examination</b>      |                        |                     | <u><u>\$81,283,604</u></u>                                      |

## **SUMMARY OF FINDINGS**

### **COMPLIANCE WITH PREVIOUS DIRECTIVES**

The Company has taken the necessary actions to comply with the comments contained in the December 31, 2000 examination report issued by the Office.

### **CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION**

The current examination did not result in any adverse findings or recommendations related to the Company's solvency.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **AvMed, Inc.** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$81,283,604, which was in compliance with Section 641.225, F.S.

In addition to the undersigned, Stephen Feliu and Russell K. Judge, Financial Examiner/Analysts, Carolyn M. Maynard, CFE, and Steven A. Steele, Financial Specialists, and Richard Tan, Actuary, participated in this examination.

Respectfully submitted,

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Walter F. Banas, CIE  
Financial Examiner/Analyst  
Florida Office of Insurance Regulation