

Report on Examination

of

Argus Dental & Vision, Inc.

Tampa, Florida

as of

June 30, 2018



**FLORIDA OFFICE OF
INSURANCE REGULATION**



OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

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

Dear Sir:

In accordance with Sections 624.316 and 636.039, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Argus Dental & Vision, Inc. as of June 30, 2018. Our report on the examination follows.

Florida Office of Insurance Regulation
April 22, 2019

FINANCIAL SERVICES

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of June 30, 2018 of Argus Dental & Vision, Inc. (Company), a Florida Prepaid Limited Health Service Organization (PLHSO). The examination covered the period of January 1, 2014 through June 30, 2018 and took place at the Company's Tampa, Florida office and in Tallahassee, Florida. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (Office).

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (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.

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 Statute (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 the Company.

SUMMARY OF SIGNIFICANT FINDINGS

The Company failed to properly exclude all income and expenses related to premiums and claims received or paid on behalf of its one Administrative Services Only (ASO) Uninsured Plan in accordance with Statement of Statutory Accounting Principles (SSAP) No. 47 during the years 2015 and 2016. Refer to Accounts and Records for further discussion.

The Company paid management fees for leased property and professional services to related parties not supported by written agreements in accordance with Section, 636.008, F.S. Refer to Affiliated and Other Agreements for further discussion.

COMPANY HISTORY

The Company was incorporated in Florida on November 16, 2006 and licensed by the Office as a PLHSO on August 3, 2007. It was authorized by the State of Florida to operate as a PLHSO in accordance with Part I of Chapter 636, F.S. The Company added the Discount Medical Plan Organization (DMPO) line of business under its PLHSO license, as of November 4, 2008 and received its Third Party Administrator (TPA) license in Florida on April 2, 2010.

The Company's failure to maintain the minimum surplus at all times pursuant to Section 636.045(1), F. S., resulted in the Office issuing a Consent Order on August 11, 2017. In response, the Company increased surplus through a capital contribution and agreed to deposit with the Office \$25,000 each month until the deposit reached \$250,000.

CORPORATE RECORDS

We reviewed the minutes of meetings attended by the Company's sole Board of Director (Board) and the operational leadership team. The Company did not engage in transactions involving investment securities or loans that require Board authorization under Section 641.35(7) F.S.

DIVIDENDS AND CAPITAL CONTRIBUTIONS

The Company distributed dividends of \$1,080,000 to its stockholder in the first half of 2018. The Company received the following capital contributions during the examination period:

<u>Year</u>	<u>Capital Contribution</u>
2014	\$626,200
2015	\$200,000
2016	\$100,000
2017	\$1,598,465
2018	\$0

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Argus Holdings, LLC, a Florida limited liability company, of which 100% is owned by one private individual. As of June 30, 2018, the Company's officers and sole director were:

Officers

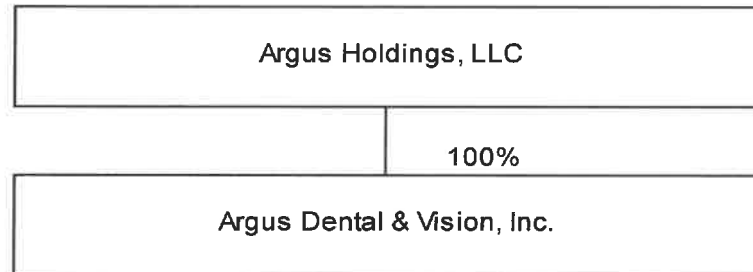
<u>Name</u>	<u>Title</u>
Nicholas M. Kavouklis, DMD	President
Jeffrey E. Parslow	Chief Financial Officer

Board of Directors

<u>Name</u>	<u>Location</u>
Nicholas M. Kavouklis, DMD	Tampa, Florida

An abbreviated organizational chart reflecting related entities is shown below:

**Abbreviated Organizational Chart
June 30, 2018**



AFFILIATED AND OTHER AGREEMENTS

For these agreements, there were no written agreements in place as of the examination date. The transactions relating to these agreements were discovered during the examination period. Subsequently, the Company executed written agreements on February 14, 2019 in accordance with Section 636.008, F.S.

Lease Agreement

The Company leased approximately 4,200 square feet of space from 4010 State Street, LLC and approximately 17,000 square feet of space from US Patriot Properties, LLC . In addition to rent, the Company also paid a monthly management fee for the maintenance and management of the buildings.

Management Services Agreement

The Company had an agreement with Dr. Nick's White & Healthy, Inc. (DNWH). Under this agreement Dr. Kavouklis served as the Company's Dental Director and receives a set fee per month, plus expenses, in compensation for his services.

TERRITORY AND PLAN OF OPERATION

The Company was exclusively engaged in providing dental and vision benefits and maintains three licensures in Florida (PLHSO, DPMO and TPA). Additionally, in Texas, the Company is licensed as a Discount Health Care Program Operator, and in New York as an Independent Practice Association. As of June 30, 2018, the Company had 9,171 dental and 8,882 vision members.

The Company also contracts with third party payors such as insurance companies, health maintenance organizations and self-funded employer groups. Under these scenarios, the Company provides fully delegated services including claims administration, customer service, provider services, appeals and grievances, network management and credentialing, utilization management and reporting services to its health plan partners, commercial accounts and government agencies.

COMPANY GROWTH

The Company reported the following for years 2014 through 2017 and June 30, 2018 (reported in thousands):

(In thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total revenue	\$ 15,078	\$ 37,640	\$ 68,414	\$ 42,889	\$ 31,187
Net income	\$ 193	\$ 68	\$ (133)	\$ 2,363	\$ 2,466
Dividends	\$ -	\$ -	\$ -	\$ -	\$ (1,080)
Paid in capital	\$ 626	\$ 200	\$ 100	\$ 1,598	\$ -
Assets	\$ 2,165	\$ 3,895	\$ 4,702	\$ 7,017	\$ 10,823
Liabilities	\$ 1,825	\$ 3,511	\$ 4,676	\$ 3,505	\$ 6,044
Capital & surplus	\$ 341	\$ 384	\$ 26	\$ 3,512	\$ 4,779

REINSURANCE

The Company did not assume or cede any reinsurance during the period of this examination.

ACCOUNTS AND RECORDS

The Company failed to properly exclude all income and expenses related to premiums and claims received or paid on behalf of its one Administrative Services Only (ASO) Uninsured Plan in accordance with (SSAP) No. 47 during the years 2015 and 2016. The Company improperly classified this plan as an At-Risk business type, instead of an Administrative Services Only business. Therefore, the corresponding Underwriting Exhibit accompanying the Annual Statements did not properly report the Company's ASO business. Effective January 1, 2017, the Company changed its accounting treatment and disclosure for this contract to be consistent with SSAP No. 47.

SURPLUS NOTES

The Company had no surplus note obligations during the period covered by this financial examination.

STATUTORY DEPOSITS

The Company maintained an insolvency protection deposit of \$250,000 in accordance with Section 636.046, F.S.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was 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:

Argus Dental & Vision, Inc.
Admitted Assets, Liabilities, Capital and Surplus
June 30, 2018

	Per Company	Examination Adjustments	Per Examination
Admitted Assets			
Cash, cash equivalents and short-term investments	\$ 8,473,968	\$ -	\$ 8,473,968
	8,473,968	-	8,473,968
Uncollected premiums and agents' balances	268,979	-	268,979
Amounts receivable related to uninsured plans	780,716	-	780,716
Guaranty funds receivable or on deposit	1,000,000	-	1,000,000
Health care and other amounts receivable	300,000	-	300,000
Total assets	\$ 10,823,663	\$ -	\$ 10,823,663
Liabilities			
Claims unpaid	\$ 4,954,065	\$ -	\$ 4,954,065
Unpaid claims adjustment expenses	102,213	-	102,213
Premiums received in advance	105,634	-	105,634
General expenses due or accrued	574,794	-	574,794
Amounts withheld or retained for the account of others	244,576	-	244,576
Borrowed money	29,572	-	29,572
Amounts due to parent, subsidiary and affiliates	33,474	-	33,474
Total liabilities	\$ 6,044,328	\$ -	\$ 6,044,328
Capital and Surplus			
Preferred capital stock	\$ 324,737	\$ -	\$ 324,737
Gross paid in and contributed surplus	2,284,933	-	2,284,933
Unassigned funds (surplus)	2,169,665	-	2,169,665
Total capital and surplus	\$ 4,779,335	\$ -	\$ 4,779,335
Total liabilities, capital and surplus	\$ 10,823,663	\$ -	\$ 10,823,663

Argus Dental & Vision, Inc.
Statement of Revenue and Expenses
For The Period Ended June 30, 2018

Member Months	103,630
Net premium income	\$ 671,010
Risk revenue	30,489,822
Aggregate write-ins for other health care related revenues	26,060
Total revenues	<u>31,186,892</u>
Hospital/medical benefits	<u>24,592,615</u>
Total hospital and medical	24,592,615
Claims adjustment expenses, including \$0 cost containment	3,686,890
General administrative expenses	447,665
Total underwriting deductions	<u>28,727,170</u>
Net underwriting gain	<u>2,459,722</u>
Net investment income earned	5,945
Net investment gains	5,945
Net Income	<u>\$ 2,465,667</u>

Argus Dental & Vision, Inc.
Statement of Changes in Capital and Surplus
Five Years & For The Period Ended June 30, 2018

Capital and surplus - December 31, 2013	\$ (435,800)
Net income	192,637
Change in nonadmitted assets	(41,954)
Paid in capital	<u>626,200</u>
Capital and surplus - December 31, 2014	341,083
Net income	68,027
Change in nonadmitted assets	(224,971)
Paid in capital	<u>200,000</u>
Capital and surplus - December 31, 2015	384,139
Net income	(132,876)
Change in nonadmitted assets	(325,172)
Paid in capital	<u>100,000</u>
Capital and surplus - December 31, 2016	26,091
Net income	2,363,094
Change in nonadmitted assets	(475,227)
Paid in capital	<u>1,598,465</u>
Capital and surplus - December 31, 2017	3,512,423
Net income	2,465,667
Change in nonadmitted assets	(118,755)
Dividends to the Stockholder	<u>(1,080,000)</u>
	4,779,335
Examination adjustments	<u>-</u>
Capital and surplus - June 30, 2018	<u>\$ 4,779,335</u>

Argus Dental & Vision, Inc.
Comparative Analysis of Changes in Capital & Surplus
June 30, 2018

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

Capital & surplus, June 30, 2018 - per Quarterly Statement \$ 4,779,335

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Total assets	\$ 10,823,663	\$ 10,823,663	\$ -	
Total liabilities	\$ 6,044,328	\$ 6,044,328	\$ -	
Capital & surplus, June 30, 2018 - per examination				<u><u>\$ 4,779,335</u></u>

COMMENTS ON FINANCIAL STATEMENTS

The examination actuary concluded that the assumptions and methodologies used by the Company to develop the Claims Unpaid liabilities were reasonable.

SUMMARY OF RECOMMENDATIONS

The Company should take the appropriate steps to ensure its financial statements are presented in accordance with Statutory Accounting Principles and the related disclosures. Additionally, the Company should ensure written agreements are executed for transactions in accordance with Section, 636.008, F.S.

SUBSEQUENT EVENTS

The examination also considered notable subsequent events occurring after the June 30, 2018 examination date.

The Company filed an amended 2018 Annual Statement correcting the reporting of their uninsured and partially insured plans in accordance with SSAP No.47.

CONCLUSION

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

At June 30, 2018, the Company's capital and surplus was \$4,779,335 and the Company was in compliance with the minimum capital and surplus requirement of Section 636.045, F.S.

The following individuals participated in the examination: Jeff Ebert, CFE, Examiner-in-Charge; Scott Eady, CPA, CFE, Participating Examiner and Kristina Gaddis, AES, CISA, CFE, IT Specialist of Risk & Regulatory Consulting, LLC.

The following individuals from the Florida Office of Insurance Regulation also participated in the examination: Marshay Spencer, APIR, Financial Examiner/ Analyst Supervisor; Shantia Simmons, APIR, Financial Specialist and Lisa Parker, ASA, MAAA, PIR, Actuary.

Respectfully submitted,



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