

Report on Examination

of

AvMed, Inc.

d/b/a AvMed Health Plans

Miami, Florida

as of

December 31, 2007

**By The
State of Florida
Office of Insurance Regulation**

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Tallahassee, Florida

June 8, 2009

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

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, 2007, of the financial condition and corporate affairs of:

AvMed, Inc.
d/b/a AvMed Health Plans
9400 S. Dadeland Blvd.
Miami, Florida 33156

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2005 through December 31, 2007. The Plan was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2003.

Planning for the current examination began on December 15, 2008. The fieldwork commenced on December 22, 2008 and concluded on April 8, 2009. 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 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.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as they affect the Plan's solvency.

The examination included a review of corporate and other selected records deemed pertinent to the Plan's operations and practices. In addition, various ratio results, *Best's Insurance Reports*, the Plan's independent audit reports, and certain work papers prepared by the Plan's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the Plan's assets and liabilities as reported by the Plan in its 2007 annual statement. Transactions subsequent to December 31, 2007 were reviewed where relevant and deemed significant to the Plan'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.

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The prior examination report did not contain any significant adverse regulatory disclosures or findings related to the Plan's solvency.

HISTORY

GENERAL

The Plan 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 Plan changed its name to AvMed, Inc. It currently operates as AvMed, Inc., d/b/a AvMed Health Plans. The Plan merged with St. Augustine Health Care, Inc. on October 1, 1999, with the Plan being the surviving entity.

As of the date of this examination, the Plan was authorized to transact business as a health maintenance organization (HMO) in accordance with Part I of Chapter 641, F.S. It was also licensed as an administrator pursuant to Part VII of Chapter 626, F.S.

The Plan's articles of incorporation were amended on December 5, 2005. Its bylaws were amended on February 16, 2005, May 11, 2005 and August 17, 2005. The amendments were for the purposes of updating and clarifying the articles and bylaws.

CONTROL

As a Florida not-for-profit corporation organized under Chapter 617, F.S., the Plan had no issued capital stock. It was controlled by SantaFe HealthCare, Inc. (SantaFe), also a not-for-profit corporation. An abbreviated organizational chart appears on page 9.

PROFITABILITY

For the period of this examination, the Plan reported the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Year-end enrollment	215,804	209,338	200,536
In millions:			
Net premiums	\$960.2	\$880.7	\$760.0
Total revenues	\$961.6	\$882.5	\$760.2
Net income	\$56.5	\$33.2	\$37.1
Total capital and surplus	\$194.1	\$147.5	\$137.5

DISTRIBUTIONS

The Plan distributed \$23.5 million and \$12.3 million to SantaFe in 2006 and 2007, respectively, following approval by the Office.

MANAGEMENT

The annual membership meeting for the election of directors was held in accordance with Section 617.0701, F.S. Directors serving as of December 31, 2007 are as shown on the following page.

Directors

<u>Name and Location</u>	<u>Principal Occupation</u>
Harris A. Berman, M.D. Newton, Massachusetts	Professor & Chairman of Tufts University School of Medicine
Douglas G. Cueny Miami, Florida	President and CEO of AvMed, Inc.
Joseph W. Davis Gainesville, Florida	Certified Public Accountant, Davis Monk & Company
Joe G. Dunlap Gainesville, Florida	Retired Business Executive
Robert L. Epling Homestead, Florida	President & CEO of Community Bank of Florida
Hugh J. Floyd Sarasota, Florida	Retired President & CEO of Sarasota Memorial Hospital
Michael P. Gallagher Gainesville, Florida	President & CEO of SantaFe Health Care, Inc.
Glenda E. Hood Orlando, Florida	Former Florida Secretary of State Former Mayor of Orlando
Robert C. Hudson Gainesville, Florida	Retired Health Care Executive
John M. Ludden, M.D., FACPE Lincoln, Massachusetts	Director, MD/MBA in Health Management Program, Tufts University Medical School
Pamela J. Mooney, Ph.D. Chicago, Illinois	Retired CEO of PRIDE Enterprises
Paul R. Phillip Weston, Florida	Management & Law Enforcement Consultant
George E. Williamson, II Miami, Florida	President, Williamson Cadillac Company of Miami

At December 31, 2007, members of the principal committees of the Board were:

Finance Committee

Douglas G. Cueny
Joe G. Dunlap
Robert L. Epling
Hugh J. Floyd
Michael P. Gallagher
Glenda E. Hood
Robert C. Hudson
John M. Ludden, M.D., FACPE
Pamela J. Mooney, Ph.D.
Paul R. Phillip
George E. Williamson, II

Quality Committee

Harris A. Berman, M.D.
Douglas G. Cueny
Joseph W. Davis
Joe G. Dunlap
Hugh J. Floyd
Michael P. Gallagher
Glenda E. Hood
Robert C. Hudson
John M. Ludden, M.D., FACPE
Pamela J. Mooney, Ph.D.
Paul R. Phillip

Executive Committee

Harris A. Berman, M.D.
Douglas G. Cueny
Joe G. Dunlap
Robert L. Epling
George E. Williamson, II

Audit Committee

Douglas G. Cueny
Joseph W. Davis
Joe G. Dunlap
Robert L. Epling
George E. Williamson, II

The Plan's senior officers as of December 31, 2007, as appointed by its board of directors in accordance with the Plan's bylaws, were:

Senior Officers

<u>Name</u>	<u>Title</u>
Douglas G. Cueny	President & Chief Executive Officer
Kennie M. Still	Vice President of Finance
Stephen J. deMontmollin	Senior Vice President & General Counsel
Edwin W. Hannum	Senior Vice President of Marketing
Catherine E. Ayers	Senior Vice President of Member Services & Human Resources

CONFLICT OF INTEREST PROCEDURE

The Plan 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 meetings of the Plan's board of directors and Finance, Audit, Quality and Executive Committees, and SantaFe's Governance and Nominating Committee 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., including the authorization of investments as required by Section 641.35(7), F.S. A review of the prior report of examination by the Office was documented in the minutes of the Board.

AFFILIATED COMPANIES

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 April 3, 2008.

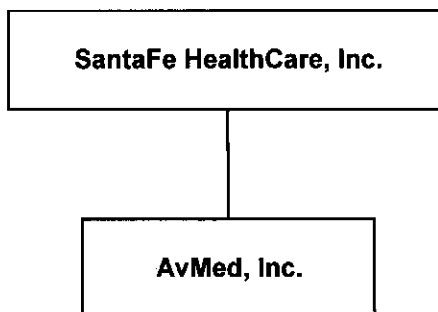
The following agreement was in force between the Plan and its affiliate:

Management Agreement

The Plan provided services to SantaFe pursuant to a January 1, 2002 agreement in return for fees of \$527,200, \$540,400 and \$507,996 in years 2005, 2006 and 2007, respectively. Services provided to SantaFe related to the areas of finance and accounting, human resources, legal, training and development, information systems oversight and support, and general management oversight.

An abbreviated organizational chart as of December 31, 2007 reflecting the holding company system is shown below. Schedule Y of the Plan's 2007 annual statement provided the names of all related companies in the holding company group.

**AvMed, Inc.
Organizational Chart
December 31, 2007**



FIDELITY BOND AND OTHER INSURANCE

The Plan maintained acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and had a blanket fidelity bond as required by Section 641.22, F.S., in the amount of \$1 million. 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 AND INSURANCE PLANS

Employees of the Plan were eligible to participate in a defined benefit pension plan sponsored by SantaFe which covered all employees with at least one year of service and attainment of age 21. Benefits were based on years of service and employee compensation during the highest 60 consecutive months out of the last 120 months of employment. The Plan offered to qualified employees long- and short-term disability, medical and group life insurance coverage.

STATUTORY DEPOSITS

The Plan maintained on deposit with the Office an insolvency protection deposit of \$305,000 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.

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

At December 31, 2007, the Plan was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. It 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 27, 2010.

The Plan used a network of general agents, brokers and consultants as its primary distribution channel for marketing its group products. It used an internal sales force to sell its Medicare product. The Plan operated as an IPA and provided health care services to comprehensive, Federal Employees Health Benefit Plan and Medicare members. Its total membership at December 31, 2007 was 215,804, of which 89% was comprehensive, 2% was Federal Employees Health Benefit Plan and 9% was Medicare.

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

TREATMENT OF MEMBERS

The Plan 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 Plan entered into a specific excess loss reinsurance agreement with Ace American Insurance Company effective January 1, 2007 to provide coverage for its commercial and Medicare products. The Plan's retention limits for the commercial and Medicare products were \$750,000 and \$500,000, respectively.

On January 1, 2007, the Plan entered into a human organ and bone marrow transplant reinsurance agreement with United Healthcare Insurance Company pursuant to which the Plan was responsible for the first \$5 million of medical expenses.

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. The reinsurance contracts were reviewed by the Plan's appointed actuary and utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Plan's statutory-basis financial statements annually for years 2005, 2006 and 2007, pursuant to Section 641.26(1)(c), F.S.

The Plan'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 Plan's main administrative office was located in Miami, Florida. Most of its books and records were located in Gainesville, Florida, where this examination was conducted.

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

Custodial Agreements

Wachovia Bank, N.A. provided custodial services for the safekeeping of the Plan's assets pursuant to a November 18, 2005 agreement. U.S. Bank, N.A. provided the custodial services in 2006 and 2007. Fees related to the agreements were \$1,475, \$0 and \$2,694 in 2005, 2006 and 2007, respectively.

The Plan entered into a custodial agreement with LaSalle National Bank Trust Company, N.A. for the safekeeping of securities on January 2, 2001. Fees related to this agreement were \$35,198, \$38,436 and \$36,830 in years 2005, 2006 and 2007, respectively.

Independent Auditor Agreement

The Plan contracted with Deloitte & Touche LLP to audit its statutory-basis financial statements. Fees related to the agreement were \$330,000, \$323,425 and \$342,000 in years 2005, 2006 and 2007, respectively.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Plan's financial position at December 31, 2007, as determined by this examination, and the results of its operations for the year then ended as reported by the Plan.

AvMed, Inc.
Assets
December 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$234,727,325	\$0	\$234,727,325
Common stocks	35,093,219	0	35,093,219
Properties occupied by the company	9,071,909	0	9,071,909
Properties held for the production of income	10,370,316	0	10,370,316
Cash, cash equivalents and short-term investments	53,461,646	0	53,461,646
	<u>342,724,415</u>	<u>0</u>	<u>342,724,415</u>
Investment income due and accrued	2,664,466	0	2,664,466
Uncollected premiums and agents' balances	14,330,575	0	14,330,575
Amounts recoverable from reinsurers	830,560	0	830,560
Electronic data processing equipment and software	680,070	0	680,070
Health care and other amounts receivable	1,532,674	0	1,532,674
Aggregate write-ins for other than invested assets	477,941	0	477,941
	<u>477,941</u>	<u>0</u>	<u>477,941</u>
Total assets	<u><u>\$363,240,701</u></u>	<u><u>\$0</u></u>	<u><u>\$363,240,701</u></u>

AvMed, Inc.
Liabilities, Capital and Surplus
December 31, 2007

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$124,613,513	\$0	\$124,613,513
Unpaid claims adjustment expenses	3,787,221	0	3,787,221
Aggregate health policy reserves	473,361	0	473,361
Premiums received in advance	5,580,045	0	5,580,045
General expenses due or accrued	31,529,433	0	31,529,433
Remittances and items not allocated	1,560,392	0	1,560,392
Liability for amounts held under uninsured plans	1,637,322	0	1,637,322
Total liabilities	<u>169,181,287</u>	<u>0</u>	<u>169,181,287</u>
Capital and Surplus			
Gross paid in and contributed surplus	6,057,501	0	6,057,501
Unassigned funds	188,001,913	0	188,001,913
Total capital and surplus	<u>194,059,414</u>	<u>0</u>	<u>194,059,414</u>
Total liabilities, capital and surplus	<u>\$363,240,701</u>	<u>\$0</u>	<u>\$363,240,701</u>

AvMed, Inc.
Statement of Revenue and Expenses
For The Year Ended December 31, 2007

Net premium income		\$960,155,547
Aggregate write-ins for other health care revenues		207,268
Aggregate write-ins for other non-health revenues		1,202,768
Total revenues		<u>961,565,583</u>
Hospital and medical benefits	\$622,487,456	
Emergency room and out-of-area	46,855,073	
Prescription drugs	109,095,714	
Aggregate write-ins for other hospital and medical	28,682,592	
	<u>807,120,835</u>	
Net reinsurance recoveries	767,344	
Total hospital and medical	<u>806,353,491</u>	
Claims adjustment expenses	21,777,632	
General administrative expenses	92,355,730	
Increase (decrease) in reserves	(2,128,000)	
Total underwriting deductions		<u>918,358,853</u>
Net underwriting gain		43,206,730
Net investment income earned	12,844,290	
Net realized capital gains	490,562	
Net investment gains		<u>13,334,852</u>
Net income		<u><u>\$56,541,582</u></u>

AvMed, Inc.
Capital and Surplus Account
For The Year Ended December 31, 2007

Capital and surplus - December 31, 2006	\$147,521,785
Net income	56,541,582
Change in net unrealized capital gains	1,001,459
Change in nonadmitted assets	1,143,115
Transferred from capital	(12,300,000)
Aggregate write-ins for gains in surplus	151,473
	<u>194,059,414</u>
Examination adjustments	<u>0</u>
Capital and surplus - December 31, 2007	<u><u>\$194,059,414</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$128,874,095

The Plan's appointed actuary rendered an opinion that the amounts carried in the Plan's balance sheet as of December 31, 2007 reasonably provided for all unpaid loss and loss expense obligations of the Plan under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Plan and concurred with this opinion. Based on the results of the Office actuary's review and analysis of work papers and data provided by the Plan, we concluded that the aggregate liability was not materially misstated.

AvMed, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2007

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

Capital and surplus, December 31, 2007 - per annual statement			\$194,059,414
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>
Total assets	\$363,240,701	\$363,240,701	\$0
Total liabilities	\$169,181,287	\$169,181,287	\$0
Net change in capital and surplus			<u>0</u>
Capital and surplus, December 31, 2007 - per examination			<u><u>\$194,059,414</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

There were no directives or significant findings from the prior examination on which to comment.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

The current financial condition examination did not result in any material findings of non-compliance with statutes, rules or other requirements on the part of the Plan.

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, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Plan's total capital and surplus was \$194,059,414, which was in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2007 was \$19,203,111.

In addition to the undersigned, the following participated in this examination: Christine N. Afolabi, Financial Specialist; Thomas I. Cook, CISA, Financial Examiner/Analyst; Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Darlene L. Lenhart-Schaeffer, AFE, Financial Examiner/Analyst; and Richard Tan, Actuary.

Respectfully submitted,

Walter F. Banas, CIE, Financial Specialist
Florida Office of Insurance Regulation