

Report on Examination
of
Citrus Health Care, Inc.
Maitland, Florida
as of
December 31, 2011



**FLORIDA OFFICE OF
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
Tallahassee, Florida

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 Citrus Health Care, Inc. as of December 31, 2011. Our report on the examination follows.

Florida Office of Insurance Regulation
March 25, 2013

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2011 of Citrus Health Care, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2008 through December 31, 2011 and took place primarily in the Company's Maitland, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2007.

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 Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, 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 Company were considered in accordance with the risk-focused examination process.

COMPANY HISTORY

The Company was incorporated in Florida on February 14, 2003 and licensed by the Office as an HMO on November 19, 2003. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, Florida Statutes (F.S.).

Dividends and Capital Contributions

The Company received capital contributions in the amounts of \$11.1 million, \$14.4 million, \$3.2 million, and \$15.1 million in years 2008 through 2011, respectively. During the period examined, it did not distribute shareholder dividends.

CORPORATE RECORDS

We reviewed the minutes of the Company's board of directors meetings held during the period examined. The Board's approval of Company transactions, including the authorization of its investments as required by Section 641.35(7), F.S., was recorded in the minutes of its meetings.

MANAGEMENT AND CONTROL

At December 31, 2011, the Company was wholly owned by PHC Holdings of Florida, Inc., a subsidiary of United HealthCare Services, Inc. (UHS), and affiliated with numerous other entities through common ownership and control. Headquartered in Minnetonka, Minnesota, UnitedHealth Group Incorporated (UHG) was the sole shareholder of UHS. The common stock of UHG traded on the New York Stock Exchange. Prior to January 20, 2011, the Company was a subsidiary of WellMed Medical Management, Inc. (WellMed).

The Company's senior officers and directors were:

Senior Officers

Name	Title
Kathy A. Winans	President
Timothy J. Noel	Chief Financial Officer
Valerie H. Ruttenberg	Secretary
Robert W. Oberrender	Treasurer

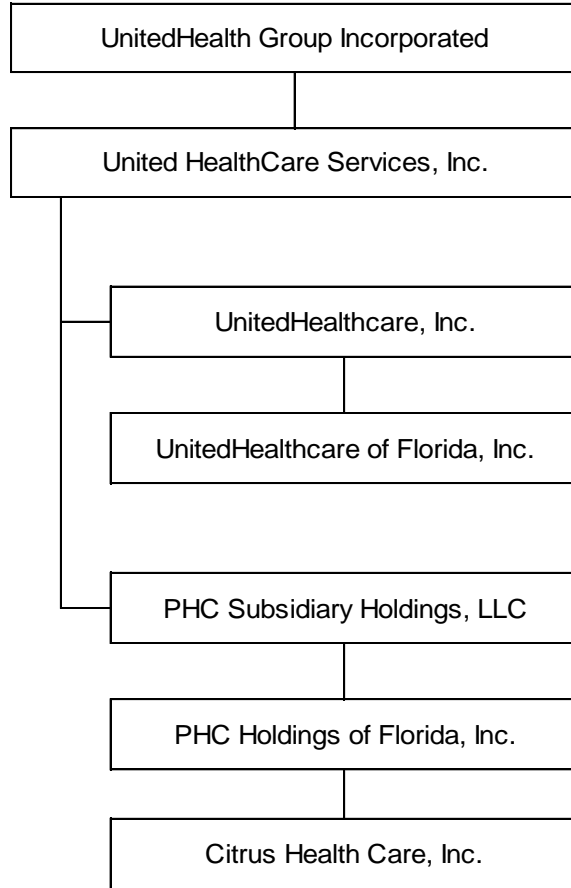
Board of Directors

Name	Location
David B. Orbuch	Plymouth, Minnesota
Cynthia L. Polich	Tucson, Arizona
Kathy A. Winans	Port Richey, Florida

The Company was a member of an insurance holding company system. 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, Florida Administrative Code (F.A.C.), on February 27, 2012.

An abbreviated organizational chart reflecting a holding company system is shown below.

**Citrus Health Care, Inc.
Abbreviated Organizational Chart
December 31, 2011**



PHC Subsidiary Holdings, LLC and WellMed provided management and administrative services to the Company pursuant to August 1, 2010 agreements that were amended on January 1, 2011. WellMed Medical Management of Florida, Inc. provided management and administrative services to the Company pursuant to a January 1, 2011 agreement, and provided and arranged for covered health care services to the Company's members in accordance with an August 1, 2010 network access agreement. Effective March 1, 2012, the agreements were replaced with a management services agreement between the Company and UHS. Fees under the new agreement were based on UHS's expenses for services or use of assets provided to the Company.

The results of the Company's 2011 operations were included in the consolidated federal income tax return of UHG pursuant to a tax sharing agreement. Under the agreement, income tax was allocated to the Company in the approximate amount that the Company would have paid had it filed on a separate company basis with the exception of net operating and capital losses. For those losses, the agreement provided that the Company would receive a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent losses could be utilized in the consolidated federal income tax return. The results of the Company's 2010 operations were included in the consolidated federal income tax return of WellMed in accordance with a tax sharing agreement under which income tax was allocated to the Company in the approximate amount that the Company would have paid had it filed on a separate company basis.

FIDELITY BONDS AND OTHER INSURANCE

As an individual practice association (IPA) model HMO, the Company maintained an adequate amount of professional liability insurance and required its providers to maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Florida Statutes, as required by Rule 69O-191.069, F.A.C. The policies provided for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company maintained a blanket crime policy issued by a licensed Florida insurer in the amount of \$25 million, which satisfied the requirement of Section 641.22(7), F.S.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

TERRITORY AND PLAN OF OPERATION

As an IPA model HMO, the Company provided managed health care benefits to comprehensive and Medicare members. In addition, it provided health care services to Medicaid participants through November 30, 2010. At December 31, 2011, the Company's membership consisted of 5,403 Medicare members to whom it offered Medicare Advantage and Medicare Part D prescription drug insurance coverage under an agreement with the Centers for Medicare & Medicaid Services, and 16 comprehensive members. 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 September 8, 2013. The Company was licensed solely in the State of Florida and was authorized to operate in the following Florida counties: Alachua, Brevard, Broward, Citrus, Duval, Hernando, Hillsborough, Indian River, Lake, Manatee, Marion, Martin,

Miami-Dade, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Saint Lucie, Sarasota, Seminole, Sumter, and Volusia.

COMPANY GROWTH

The Company reported the following for years 2008 through 2011:

(Dollars are in millions.)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Member months	576,883	568,912	679,738	73,197
Year-end enrollment	48,674	56,271	9,802	5,419
Premiums	\$ 310.5	\$ 285.7	\$ 273.0	\$ 83.4
Revenue	\$ 314.7	\$ 289.5	\$ 274.9	\$ 83.3
Underwriting deductions	\$ 338.3	\$ 288.5	\$ 287.8	\$ 91.3
Net income (loss)	\$ (14.0)	\$ 1.7	\$ 14.2	\$ (4.2)
Stockholder dividends	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ 11.1	\$ 14.4	\$ 3.2	\$ 15.1
Admitted assets	\$ 63.3	\$ 47.8	\$ 52.3	\$ 27.8
Liabilities	\$ 70.1	\$ 42.7	\$ 27.0	\$ 13.4
Capital and surplus (deficit)	\$ (6.8)	\$ 5.1	\$ 25.3	\$ 14.4

REINSURANCE

During 2011, the Company maintained specific excess loss reinsurance with Zurich American Insurance Company. The agreement covered a portion of certain health care costs in excess of \$150,000 and \$250,000 for commercial and Medicare members, respectively, up to \$2,000,000 per covered individual.

SURPLUS NOTES

In 2010, the Company issued \$20 million in surplus debentures to PHC Subsidiary Holdings, LLC. The debt was repaid in 2011.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$2,300,000 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.

Citrus Health Care, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2011

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Common stocks	\$ 1,356	\$ -	\$ 1,356
Cash, cash equivalents and short-term investments	25,963,133	-	25,963,133
	25,964,489	-	25,964,489
Investment income due and accrued	17,719	-	17,719
Uncollected premiums and agents' balances	153,390	-	153,390
Amounts recoverable from reinsurers	735,295	-	735,295
Current income tax recoverable	648,449	-	648,449
Electronic data processing equipment and software	56,113	-	56,113
Health care and other amounts receivable	271,192	-	271,192
Total admitted assets	\$ 27,846,647	\$ -	\$ 27,846,647
Liabilities			
Claims unpaid	\$ 9,138,405	\$ -	\$ 9,138,405
Accrued medical incentive pool and bonus amounts	2,064,517	-	2,064,517
Unpaid claims adjustment expenses	304,279	-	304,279
Aggregate health policy reserves	160,209	-	160,209
Premiums received in advance	516,663	-	516,663
General expenses due or accrued	52,449	-	52,449
Amounts due to parent, subsidiaries and affiliates	7	-	7
Liability for amounts held under uninsured plans	492,900	-	492,900
Aggregate write-ins for other liabilities	668,140	-	668,140
Total liabilities	13,397,569	-	13,397,569
Capital and Surplus			
Common capital stock	999	-	999
Gross paid in and contributed surplus	52,329,121	-	52,329,121
Unassigned funds (deficit)	(37,881,042)	-	(37,881,042)
Total capital and surplus	14,449,078	-	14,449,078
Total liabilities, capital and surplus	\$ 27,846,647	\$ -	\$ 27,846,647

Citrus Health Care, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2011

Net premium income	\$ 83,396,429
Change in unearned premium reserves and reserve for rate credits	(139,471)
<hr/> Total revenue	<hr/> 83,256,958
Hospital and medical benefits	34,748,078
Other professional services	27,803,661
Outside referrals	619,770
Emergency room and out-of-area	5,388,739
Prescription drugs	7,284,401
Incentive pool, withhold adjustments and bonus amounts	2,350,152
	<hr/> 78,194,801
Net reinsurance recoveries	(698,876)
<hr/> Total hospital and medical	<hr/> 78,893,677
Claims adjustment expenses	1,487,393
General administrative expenses	10,907,546
<hr/> Total underwriting deductions	<hr/> 91,288,616
Net underwriting gain (loss)	(8,031,658)
Net investment gains	108,648
<hr/> Income (loss) before federal income tax	<hr/> (7,923,010)
Federal income tax (benefit)	(3,690,449)
<hr/> Net income (loss)	<hr/> <hr/> \$ (4,232,561)

Citrus Health Care, Inc.
Statement of Changes in Capital and Surplus
Four Years Ended December 31, 2011

Capital and surplus - December 31, 2007	\$ 7,812,475
Net income or (loss)	(14,013,395)
Change in nonadmitted assets	(11,686,257)
Paid in surplus	11,089,316
<hr/>	
Capital and surplus (deficit) - December 31, 2008	(6,797,861)
Net income or (loss)	1,669,509
Change in net unrealized capital gains	17,357
Change in net deferred income tax	1,039,147
Change in nonadmitted assets	(5,242,676)
Paid in surplus	14,400,000
Aggregate write-ins for gains or (losses) in surplus	7,304
<hr/>	
Capital and surplus - December 31, 2009	5,092,780
Net income or (loss)	14,192,457
Change in net deferred income tax	(8,875,425)
Change in nonadmitted assets	15,358,887
Change in surplus notes	20,000,000
Paid in surplus	3,242,170
Aggregate write-ins for gains or (losses) in surplus	(23,672,800)
<hr/>	
Capital and surplus - December 31, 2010	25,338,069
Net income or (loss)	(4,232,561)
Change in net deferred income tax	(963,864)
Change in nonadmitted assets	(752,566)
Change in surplus notes	(20,000,000)
Paid in surplus	15,060,000
<hr/>	
	14,449,078
Examination adjustments	-
<hr/>	
Capital and surplus - December 31, 2011	<u>\$ 14,449,078</u>

Citrus Health Care, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2011

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, 2011 - per annual statement				\$ 14,449,078
	Per	Per	Increase	
	Company	Examination	(Decrease)	
			In Capital	
			& Surplus	
Total admitted assets	\$ 27,846,647	\$ 27,846,647	\$ -	
Total liabilities	\$ 13,397,569	\$ 13,397,569	\$ -	
Net change in capital and surplus				-
Capital and surplus, December 31, 2011 - per examination				<u>\$ 14,449,078</u>

SUBSEQUENT EVENTS

For the year 2012, the Company reported net income of \$1.8 million.

As reported on page 6, most of the Company's members at December 31, 2011 were Medicare members. Effective January 1, 2013, the Company discontinued offering the Medicare product.

CONCLUSION

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

At December 31, 2011, the Company's capital and surplus was \$14,449,078 and the Company was in compliance with the minimum capital and surplus requirement of Section 641.225, F.S.

In addition to the undersigned, the following individuals participated in the examination: Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; Robert Y. Meszaros, AFE, Financial Specialist; and Richard Tan, Actuary.

Respectfully submitted,

Darlene L. Lenhart-Schaeffer, CFE, CISA
Financial Examiner/Analyst
Florida Office of Insurance Regulation