

Report on Examination
of
Florida MHS, Inc.
Miami, Florida
as of
December 31, 2014



**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 Florida MHS, Inc. as of December 31, 2014. Our report on the examination follows.

Florida Office of Insurance Regulation
November 19, 2015

Contents

Scope of Examination.....	1
Summary of Significant Findings.....	2
Company History.....	3
Corporate Records.....	3
Management and Control.....	4
Fidelity Bonds and Other Insurance.....	7
Pension, Stock Ownership and Insurance Plans.....	7
Territory and Plan of Operation.....	8
Company Growth.....	9
Accounts and Records.....	10
Statutory Deposits.....	11
Financial Statements.....	12
Summary of Recommendations.....	16
Subsequent Events.....	17
Conclusion.....	18

SCOPE OF EXAMINATION

We have completed a financial condition examination of Florida MHS, Inc. (the "Company"), a Florida health maintenance organization (HMO). Our examination covered the period of September 26, 2012 through December 31, 2014. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office"). The examination was conducted by Highland Clark, LLC on behalf of the Office.

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.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in findings that the minutes of the Company's board of directors meetings did not record its authorization of investments; an affiliated agreement was not reported in the Holding Company Registration Statement nor did it include the Florida required cancellation clause; and there were instances in which subscriber grievances were not timely resolved. The findings are discussed in more detail in the pages that follow. Recommendations begin on page 16.

COMPANY HISTORY

The Company was incorporated in Florida on December 14, 2011 and licensed by the Office as an HMO on September 26, 2012. 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 \$4.8 million, \$13.6 million, and \$27.9 million in years 2012 through 2014, respectively. No dividends were distributed during the period examined.

CORPORATE RECORDS

We reviewed the minutes of the Company's stockholder and board of directors meetings. The Board's approval was recorded in the minutes of its meetings except there was no record of the authorization or ratification of its investments as required by Section 641.35(7), F.S.

MANAGEMENT AND CONTROL

The Company was wholly owned by Magellan Healthcare, Inc. which was wholly owned by Magellan Health, Inc., a publicly traded company.

Its senior officers and directors were:

Senior Officers

Name	Title
Scott R. Markovich	President
Manuel A. Arisso	Chief Executive Officer
Matthew B. Peary	Chief Financial Officer
Claudia Lamazares	Chief Operations Officer
Anne M. McCabe	Senior Vice President
Jonathan N. Rubin	Vice President and Treasurer
Daniel N. Gregoire	Vice President and Secretary
Linton C. Newlin	Vice President
Barry M. Smith	Vice President

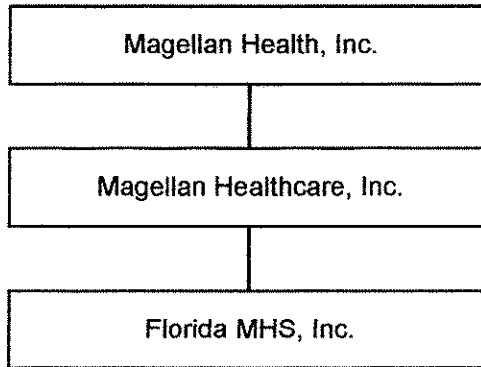
Board of Directors

Name	Location
Manuel A. Arisso	Miami, Florida
Daniel N. Gregoire	Avon, Connecticut
Scott R. Markovich	Avon, Connecticut
Jonathan N. Rubin	Avon, Connecticut
Barry M. Smith	Scottsdale, Arizona

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 April 1, 2015.

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

**Florida MHS, Inc.
Abbreviated Organizational Chart
December 31, 2014**



The following agreements were in effect between the Company and its ultimate parent:

Master Services Agreement

Magellan Health, Inc. (f.k.a. Magellan Health Services, Inc.) provided administrative services to the Company pursuant to an agreement effective April 1, 2012 and later amended.

Compensation for the costs of dedicated staff and the office facility is reimbursed based on direct cost. Compensation for non-dedicated staff services is based on a monthly administrative fee equal to two percent (2.0%) of all capitation revenue. Additionally, in the event that during any calendar year the Company experiences an underwriting loss, Magellan Health, Inc. will forgive the compensation otherwise payable under this agreement to the extent of the loss.

Tax Allocation Agreement

The results of the Company's operations were included in Magellan Health, Inc.'s consolidated federal income tax return pursuant to a tax allocation agreement effective January 1, 2013. Per the agreement, federal income taxes of the group were allocated to the Company on a separate return basis with credit given for realizable tax benefits of pre-tax losses.

The examination found that the tax allocation agreement did not include the cancellation clause required pursuant to Section 641.234, F. S.; nor was it properly reported in the Company's Holding Company Registration Statements filed with the Office as required by Rule 690-143.046(2)(c)8, F.A.C.. Subsequent to the period under examination the Company amended the agreement to include the required cancellation clause.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained general and professional liability insurance at acceptable levels and required its providers to certify and maintain appropriate levels of medical malpractice insurance or its equivalent in accordance with Rule 69O-191.069, F.A.C. The policies provided for written notification to the Office of any reduction, cancellation, non-renewal or termination of required coverage. In addition, the Company was a named insured on Magellan's commercial crime policy issued by a licensed Florida carrier, in the amount of \$15 million with a deductible of \$250,000. This adequately met the requirements of Section 641.22 (7), F.S.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and did not directly provide employee benefits nor sponsor retirement plans.

TERRITORY AND PLAN OF OPERATION

The Company provided comprehensive health care services to Medicaid members pursuant to a contract with the State of Florida. 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 23, 2016. As an IPA model HMO, the Company had 35,885 Medicaid members as of December 31, 2014. The Company was authorized to operate in the following Florida counties: Baker, Bay, Brevard, Broward, Calhoun, Clay, Duval, Flagler, Franklin, Gadsden, Gulf, Hardee, Highlands, Hillsborough, Holmes, Indian River, Jackson, Jefferson, Leon, Liberty, Madison, Manatee, Martin, Miami-Dade, Monroe, Nassau, Okeechobee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Saint Johns, Saint Lucie, Seminole, Taylor, Volusia, Wakulla, and Washington.

COMPANY GROWTH

The Company reported the following for years 2012 through 2014:

(Dollars are in millions)

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Member months	0	1,669	197,523
Year-end enrollment	0	556	35,885
Premiums	\$ -	\$ 0.6	\$ 188.9
Total revenues	\$ -	\$ 0.6	\$ 190.1
Total underwriting deductions	\$ 0.0	\$ 3.5	\$ 212.9
Net income (loss)	\$ (0.0)	\$ (1.9)	\$ (14.8)
Stockholder dividends	\$ -	\$ -	\$ -
Paid in surplus received	\$ 4.8	\$ 13.6	\$ 27.9
Admitted assets	\$ 4.8	\$ 16.9	\$ 124.5
Liabilities	\$ -	\$ 0.4	\$ 95.2
Capital and surplus (deficit)	\$ 4.8	\$ 16.5	\$ 29.3

ACCOUNTS AND RECORDS

The examination included a review of the Company's compliance with complaint and grievance policies and procedures. The examination found a number of instances in which subscriber and provider grievances were not resolved within 90 days as required by Section 641.511(5), F.S.

Subsequently, the Company revised the policy on complaints and grievances to help ensure more timely resolution in compliance with Section 641.511, F.S.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$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. The Company also maintained an insolvency protection restricted account pursuant to Section 409.912 (17), F.S., which amounted to \$3,622,937.

Florida MHS, Inc.
Admitted Assets, Liabilities, and Capital and Surplus
December 31, 2014

Admitted Assets	As Reported	Examination Adjustments	Per Examination
Cash, cash equivalents and short-term investments	\$ 115,219,475	\$ -	\$ 115,219,475
	115,219,475	-	115,219,475
Investment income due and accrued	41,870	-	41,870
Uncollected premiums and agents' balances	1,987	-	1,987
Current income tax recoverable	7,972,804	-	7,972,804
Health care and other receivables	1,221,216	-	1,221,216
Total admitted assets	\$ 124,457,352	\$ -	\$ 124,457,352

Liabilities			
Claims unpaid	\$ 75,747,852	\$ -	\$ 75,747,852
Unpaid claims adjustment expenses	566,682	-	566,682
Premiums received in advance	12,835,289	-	12,835,289
General expenses due and accrued	733,274	-	733,274
Amounts withheld or retained for accounts of others	4,158,525	-	4,158,525
Amounts due to parent, subsidiaries, and affiliates	1,120,408	-	1,120,408
Total liabilities	95,162,030	-	95,162,030

Capital and Surplus			
Common capital stock	10	-	10
Gross paid in and contributed surplus	46,340,422	-	46,340,422
Unassigned funds (deficit)	(17,045,110)	-	(17,045,110)
Total capital and surplus	29,295,322	-	29,295,322
Total liabilities, capital and surplus	\$ 124,457,352	\$ -	\$ 124,457,352

Florida MHS, Inc.
Statement of Revenue and Expenses
(As Reported By The Company)
Year Ended December 31, 2014

Net premium income	\$ 188,890,544
Aggregate write-ins for other health care related revenues	1,233,206
Total revenues	190,123,750
Hospital and medical benefits	79,702,893
Other professional services	68,282,477
Prescription drugs	38,169,125
Total hospital and medical	186,154,495
Claims adjustment expenses	8,062,060
General administrative expenses	18,712,696
Total underwriting deductions	212,929,251
Net underwriting loss	(22,805,501)
Net investment gains	17,791
Income before federal income tax	(22,787,710)
Federal income tax	(7,972,804)
Net income	\$ (14,814,906)

Florida MHS, Inc.
Statement of Changes in Capital and Surplus
Three Years Ended December 31, 2014

Capital and surplus - December 31, 2011	\$	-
Net income (loss)		(1,767)
Paid in capital		10
Paid in surplus		4,799,990
<hr/>		
Capital and surplus - December 31, 2012		4,798,233
Net income (loss)		(1,911,573)
Change in nonadmitted assets		(53,188)
Paid in surplus		13,634,931
<hr/>		
Capital and surplus - December 31, 2013		16,468,403
Net income (loss)		(14,814,906)
Change in nonadmitted assets		(263,675)
Paid in surplus		27,905,501
<hr/>		
		29,295,322
<hr/>		
Examination adjustments		-
<hr/>		
Capital and surplus - December 31, 2014	\$	29,295,322
<hr/>		

Florida MHS, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2014

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, 2014 - as reported				\$ 29,295,322
	As	Per	Increase	
	Reported	Examination	(Decrease)	
	Reported	Examination	In Capital	
	Reported	Examination	& Surplus	
Total admitted assets	\$ 124,457,352	\$ 124,457,352	\$ -	
Total liabilities	\$ 95,162,030	\$ 95,162,030	\$ -	
Net change in capital and surplus				-
Capital and surplus, December 31, 2014 - per examination				\$ 29,295,322

RECOMMENDATIONS

Corporate Records

As reported on page 3, the board of directors did not document the authorization or ratification of investments as required by Section 641.35(7), F.S. **We recommend that the board of directors document its authorization or ratification of investments in accordance with Section 641.35(7), F.S.**

Tax Allocation Agreement

As reported on page 6, the tax allocation agreement was not reported in the holding company registration statement filed by the Company as required pursuant to Rule 69O-143.046(2)(c)8, F.A.C. **We recommend that all affiliated agreements be reported in the holding company registration statement in accordance with Rule 69O-143.046, F.A.C.**

SUBSEQUENT EVENTS

On January 5, 2015, Barry Smith was removed as a Director and replaced by Sam Srivastava.

On June 5, 2015, Claudia Lamazares the Company's COO resigned and on September 4, 2015 Manuel Arriso the Company's CEO resigned. At the time of this report, the COO position had not been filled and Julia Brillhart was assigned as the Interim CEO until the position is filled permanently.

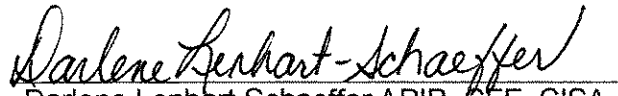
CONCLUSION

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

At December 31, 2014, the Company's capital and surplus was \$ 29,295,322 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 Jones, Financial Examiner/Analyst Supervisor; Lisa Parker, Actuary and Highland Clark, LLC.

Respectfully submitted,


Darlene Lenhart-Schaeffer APIR, CFE, CISA
Chief Examiner
Florida Office of Insurance Regulation