

Report on Examination
of
Freedom Health, Inc.

Tampa, 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 Freedom Health, Inc. as of December 31, 2011. Our report on the examination follows.

Florida Office of Insurance Regulation
May 1, 2013

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2011 of Freedom Health, 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 Tampa, 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.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in findings that the Company overstated its capital and surplus at December 31, 2011 by \$7.3 million and failed to maintain the minimum amount of capital and surplus required by Section 641.225, Florida Statutes (F.S.). Recommendations relating to these and other findings of the examination are included in this report beginning on page 15.

COMPANY HISTORY

The Company was incorporated in Florida on February 27, 2004 and licensed by the Office as an HMO on February 14, 2005. It was authorized by the State of Florida to operate as an HMO in accordance with Part I of Chapter 641, F.S.

Dividends and Capital Contributions

The Company did not distribute dividends or receive capital contributions during the period examined.

CORPORATE RECORDS

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

MANAGEMENT AND CONTROL

As of December 31, 2007, the Company was owned 70% by Health Management Services of USA, LLC and 30% by Liberty Acquisition Group, LLC. In 2008, the Company was sold to America's 1st Choice Holdings of Florida, LLC (Holdings) subject to the terms and conditions of Consent Order 94389-08-CO (the "Consent Order") filed by the Office on March 6, 2008. As of December 31, 2011, the Company was wholly owned by Holdings. In its 2011 annual statement, the Company reported that Holdings was owned 55% by Liberty Acquisition Group, LLC, and that Liberty Acquisition Group, LLC was owned by Dr. Kiran C. Patel. However, the Company indicated during the examination that Liberty Acquisition Group, LLC actually owned 52.8% of Holdings. The report on our prior examination of the Company included a finding that it incorrectly reported its ownership as of December 31, 2007. The Company was affiliated with various other entities through common ownership and control including Global TPA, LLC (Global), a Florida third party administrator, and Optimum HealthCare, Inc., a Florida HMO.

The Company's senior officers and directors were:

Senior Officers

Name	Title
Rupesh R. Shah	Chief Executive Officer
Bijal Patel	Secretary
Jigar J. Desai	Treasurer and Chief Financial Officer
Ace M. Hodgins, M.D.	Chief Medical Officer

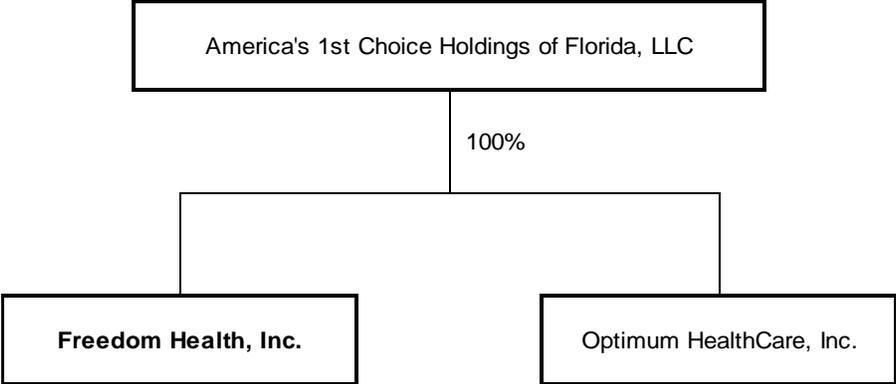
Board of Directors

Name	Location
Joseph Idicula, M.D.	Spring Hill, Florida
Devaiah Pagidipati, M.D.	Ocala, Florida
Hardev D. Patel	Tampa, Florida
Hitesh C. Patel, M.D.	Clearwater, Florida
Kiran C. Patel, M.D.	Tampa, Florida
Vijay Patel, M.D.	Munster, Indiana
Danny B. Polen	Trinity, Florida
Walter L. Presha, Sr.	Palmetto, 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 April 1, 2013. The registration statement did not provide complete current information about in-force agreements with affiliates and transactions currently outstanding between the Company and certain of its affiliates as required by Rule 69O-143.046(2)(c), F.A.C. The report on our examination of the Company as of December 31, 2007 included a finding that the Company failed to include in its registration statement the names of all affiliates as required by the rule.

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

**Freedom Health, Inc.
Abbreviated Organizational Chart
December 31, 2011**



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

Management Services and Marketing Agreements

Global provided services to the Company in accordance with management and marketing agreements effective January 1, 2008 and later amended. Services provided by Global under the agreements included general and administrative, marketing, management, claims management and administration, customer service, utilization management, grievance and appeals, enrollment, contract management, information systems, provider relations, network development, credentialing, and payroll and human resource services.

Group Participation Agreements

Florida Medical Associates, LLC, Sunstate Managed Care Services, Inc., and FIPA, LLC provided medical, hospital and other services to the Company's members pursuant to group participation agreements effective January 1, 2007, December 1, 2007, and January 1, 2008, respectively. The agreements did not contain provisions that they would be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

Prescription Drug Benefit Administration Agreement

Spectral Solutions, LLC provided pharmacy benefits management services to the Company pursuant to a January 1, 2009 prescription drug benefit administration agreement.

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. However, its general liability insurance policy did not provide for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage, as required by Rule 69O-191.069(2), F.A.C. The Company was a named insured on the crime policy of its parent in the amount of \$1,500,000 which 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. Employees of Global performed functions on behalf of the Company. Global provided various benefits to eligible employees of the Company including health care, life insurance, and participation in a section 401(k) savings plan.

TERRITORY AND PLAN OF OPERATION

The Company provided managed health care services to Medicare and Medicaid 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 January 20, 2015. The Company had 74,015 members as of December 31, 2011, of which 63% were Medicare members and 37% were Medicaid members. It operated in the Florida counties of Brevard, Broward, Charlotte, Citrus, Clay, Collier, DeSoto, Duval, Escambia, Hernando, Hillsborough, Indian River, Jefferson, Lake, Lee, Leon, 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	240,031	440,969	688,877	838,745
Year-end enrollment	25,344	41,428	66,563	74,015
Premiums	\$ 182.8	\$ 332.8	\$ 472.6	\$ 551.8
Revenues	\$ 182.8	\$ 332.8	\$ 472.6	\$ 551.8
Underwriting deductions	\$ 179.3	\$ 330.2	\$ 466.7	\$ 549.3
Net income	\$ 4.4	\$ 2.9	\$ 4.9	\$ 3.2
Shareholder dividends	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 43.2	\$ 70.2	\$ 82.7	\$ 81.1
Liabilities	\$ 37.3	\$ 61.1	\$ 67.4	\$ 64.6
Capital and surplus	\$ 5.9	\$ 9.1	\$ 15.3	\$ 16.6

REINSURANCE

The Company maintained reinsurance with an unaffiliated reinsurer. The reinsurance agreement provided for reimbursement to the Company of 90% of the cost of specified health care services, and 50% of the cost of certain unapproved transplants, in excess of \$500,000 and up to \$2,000,000 per member per year.

ACCOUNTS AND RECORDS

The Company was required by the Consent Order to appoint an independent director to its board of directors and audit committee. During the examination, we found that the Company had not done so.

The Company submitted to the Department of Financial Services, Division of Insurance Fraud (DIF) a description of the anti-fraud investigative unit (SIU) the Company maintained pursuant to Section 626.9891(1), F.S., and Rule 69D-2.003, F.A.C., stating that the SIU would report suspected insurance fraud to DIF. However, the Company did not report known instances of suspected insurance fraud to DIF during the period examined.

The Company was required by Rule 69O-191.030(3), F.A.C., to submit to the Office biographical statements and character reports on its corporate officers. However, it failed to submit the required documents on Bijal Patel, the Company's corporate secretary.

SURPLUS NOTES

At December 31, 2011, the Company was obligated for a 5% surplus note in the amount of \$6,100,000. The note was approved by the Office and complied with the requirements of Rule 69O-191.088, F.A.C. In accordance with Section 641.19(19), F.S., and Statement of Statutory Accounting Principles (SSAP) No. 41, the debt was included in the Company's surplus.

STATUTORY DEPOSITS

The Company maintained on deposit with the Office an insolvency protection deposit of \$625,500 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.

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

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 5,047,918	\$ 6,178,000	\$ 11,225,918
Preferred stocks	300,000	-	300,000
Common stocks	6,120,066	-	6,120,066
Cash, cash equivalents and short-term investments	50,631,425	(13,461,050)	37,170,375
	62,099,409	(7,283,050)	54,816,359
Investment income due and accrued	59,717	-	59,717
Accrued retrospective premiums	8,498,809	-	8,498,809
Amounts receivable relating to uninsured plans	4,526,465	-	4,526,465
Current income tax recoverable	950,002	-	950,002
Net deferred tax asset	1,869,404	-	1,869,404
Health care and other amounts receivable	2,865,806	-	2,865,806
Aggregate write-ins for other than invested assets	268,167	-	268,167
Total admitted assets	\$ 81,137,779	\$ (7,283,050)	\$ 73,854,729
Liabilities			
Claims unpaid	\$ 50,820,530	\$ -	\$ 50,820,530
Accrued medical incentive pool and bonuses	11,551,383	-	11,551,383
Unpaid claims adjustment expenses	1,012,172	-	1,012,172
Premiums received in advance	1,099,573	-	1,099,573
Amounts due to parent, subsidiaries and affiliates	94,613	-	94,613
Total liabilities	64,578,271	-	64,578,271
Capital and Surplus			
Common capital stock	1,435	-	1,435
Gross paid in and contributed surplus	11,202,077	-	11,202,077
Surplus notes	6,100,000	-	6,100,000
Unassigned funds (deficit)	(744,004)	(7,283,050)	(8,027,054)
Total capital and surplus	16,559,508	(7,283,050)	9,276,458
Total liabilities, capital and surplus	\$ 81,137,779	\$ (7,283,050)	\$ 73,854,729

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

Net premium income	\$ 551,768,214
Hospital and medical benefits	360,012,721
Other professional services	16,997,447
Emergency room and out-of-area	5,896,200
Prescription drugs	66,204,394
Incentive pool, withhold adjustments and bonuses	28,629,745
	<hr/> 477,740,507
Net reinsurance recoveries	227,592
Total hospital and medical	<hr/> 477,512,915
Claims adjustment expenses	4,963,214
General administrative expenses	66,810,677
Total underwriting deductions	<hr/> 549,286,806
Net underwriting gain	2,481,408
Net investment gains	<hr/> 703,528
Income before federal income tax	3,184,936
Federal income tax	<hr/> 27,664
Net income	<hr/> <hr/> \$ 3,157,272

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

Capital and surplus - December 31, 2007	(5,715,382)
Net income	4,369,614
Change in net unrealized capital gains or losses	(747,708)
Change in net deferred income tax	(1,630,466)
Change in nonadmitted assets	3,474,567
Change in surplus notes	6,100,000
<hr/>	
Capital and surplus - December 31, 2008	5,850,625
Net income	2,924,344
Change in net unrealized capital gains or losses	760,342
Change in net deferred income tax	(78,078)
Change in nonadmitted assets	(384,326)
<hr/>	
Capital and surplus - December 31, 2009	9,072,907
Net income	4,859,748
Change in net unrealized capital gains or losses	147,554
Change in net deferred income tax	(867,908)
Change in nonadmitted assets	2,094,528
<hr/>	
Capital and surplus - December 31, 2010	15,306,829
Net income	3,157,272
Change in net unrealized capital gains or losses	(294,845)
Change in net deferred income tax	(594,347)
Change in nonadmitted assets	(1,015,401)
<hr/>	
	16,559,508
Examination adjustments	(7,283,050)
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Capital and surplus - December 31, 2011	\$ 9,276,458
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Freedom Health, 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			\$ 16,559,508
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>
Bonds	\$ 5,047,918	\$ 11,225,918	\$ 6,178,000
Cash, cash equivalents and short-term investments	\$ 50,631,425	\$ 37,170,375	<u>\$ (13,461,050)</u>
Net change in capital and surplus			<u>(7,283,050)</u>
Capital and surplus, December 31, 2011 - per examination			<u><u>\$ 9,276,458</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Cash, Cash Equivalents and Short-Term Investments

The \$50,631,425 reported by the Company in its 2011 annual statement as 'cash, cash equivalents and short-term investments' has been reduced by \$13,461,050 to \$37,170,375. The \$50,631,425 reported amount included \$13,461,050 in long-term bonds incorrectly reported as short-term investments. We found that \$6,178,000 of the investments were bonds with maturity dates of more than one year from their acquisition dates. Upon examination, these investments were reclassified to bonds in accordance with the annual statement instructions and SSAP Nos. 2 and 26. In addition, we found that \$7,283,050 of the bonds were unrated and not of investment grade as required by Section 641.35(13)(j), F.S. As a result, the investments have been non-admitted. The prior examination of the Company by the Office resulted in a finding that the Company incorrectly classified and overstated the amount of its investments as of December 31, 2007.

Capital and Surplus

The \$16,559,508 reported by the Company as capital and surplus in its 2011 annual statement has been reduced by the above-described examination adjustment to \$9,276,458. After the adjustment, the Company's capital and surplus was \$1,758,906 less than the minimum capital and surplus of \$11,035,364 required by Section 641.225, F.S. The report on our previous examination of the Company as of December 31, 2007 included a finding that, with a capital and surplus deficit of \$5,715,382, the Company was insolvent and in violation of Section 641.225, F.S.

SUMMARY OF RECOMMENDATIONS

Authorization of Investments

As reported on page 2, there was no record in the minutes of the Board of Directors meetings of the authorization or ratification of the Company's investments. **We recommend that the Company's board of directors, or a committee, department or section of the Company charged with the duty of supervising investments, authorize or ratify the Company's investments as required by Section 641.35(7), F.S., and that the Board of Directors record or acknowledge the action in the minutes of its meetings.**

Company Ownership

In its 2011 annual statement, the Company incorrectly reported that Liberty Acquisition Group, LLC owned 55% of Holdings rather than 52.8%, as reported on page 3. **We recommend that, in future statements filed with the Office, the Company accurately report the ownership of the Company and its parent.**

Holding Company Registration Statement

The Company's registration statement did not provide complete current information about in-force agreements with affiliates and transactions currently outstanding between the Company and certain of its affiliates, as reported on page 4. **We recommend that, in future registration statements filed with the Office, the Company include all information required by Rule 69O-143.046(2)(c), F.A.C.**

Agreements With Affiliates

As reported on page 6, certain of the Company's agreements with affiliates did not contain provisions that they would be canceled upon issuance of an order by the Office. **We recommend**

that the Company amend the agreements and add the provision required by Section 641.234(3), F.S.

Liability Insurance Policy

The Company's general liability insurance policy did not provide for the Office to receive written notification of any reduction, cancellation, non-renewal or termination of required coverage, as reported on page 7. **We recommend that the Company amend or replace its policy so that the Company complies with Rule 69O-191.069(2), F.A.C.**

Compliance With Consent Order

As reported on page 9, the Company failed to appoint an independent director to its board of directors and audit committee. **We recommend that the Company appoint an independent director to its board and audit committee as required by the Consent Order.**

Reporting of Suspected Insurance Fraud

The Company failed to report known instances of suspected insurance fraud to DIF during the period examined, as reported on page 9. **We recommend that the Company report all known instances of suspected insurance fraud to DIF in accordance with its SIU description filed with DIF.**

Biographical Statements and Character Reports

As reported on page 9, the Company failed to submit to the Office biographical statements and character reports on Bijal Patel, the Company's corporate secretary. **We recommend that the Company submit the required documents to the Office as required by Rule 69O-191.030(3), F.A.C.**

Bonds and Short-Term Investments

As reported on page 14, the Company incorrectly reported certain long-term bonds as short-term investments, and certain other investments as allowable assets when they did not qualify as such. **We recommend that, in future statements filed with the Office, the Company correctly report its investments in accordance with SSAP Nos. 2 and 26 and Section 641.35, F.S.**

Capital and Surplus

The Company failed to maintain the required minimum amount of capital and surplus, as reported on page 14. At December 31, 2011, the Company's capital and surplus was \$9,276,458, which is \$1,758,906 less than its minimum capital and surplus of \$11,035,364. **We recommend that the Company maintain at least the minimum amount of capital and surplus required by Section 641.225, F.S., at all times.**

SUBSEQUENT EVENTS

In its annual statement, the Company reported total capital and surplus of \$20.1 million as of December 31, 2012, and net premium income and net income of \$587.4 million and \$5.8 million, respectively, for the year then ended.

As reported on page 14, the examination resulted in a finding that, in its 2011 annual statement, the Company incorrectly reported as admitted assets \$7,283,050 of bonds which were unrated and not of investment grade as required by Section 641.35(13)(j), F.S. Upon examination, the bonds were not admitted. Once the company was notified by the Office that the bonds could not be admitted, the Company disposed of the bonds within 30 days of the notification in accordance with Section 641.35(1), F.S.

CONCLUSION

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

At December 31, 2011, the Company's capital and surplus was \$9,276,458 and the Company was not 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: Walter F. Banas, CIE, Financial Specialist; Faisal Harianawalla, Financial Examiner/Analyst; Cathy S. Jones, CPA, CFE, Financial Examiner/Analyst Supervisor; Darlene L. Lenhart-Schaeffer, CFE, CISA, Financial Examiner/Analyst; Robert Y. Meszaros, AFE, Financial Specialist; Richard Tan, Actuary; and Michael D. Young, CFE, Financial Examiner/Analyst.

Respectfully submitted,

Christine N. Afolabi, CPA
Financial Specialist
Florida Office of Insurance Regulation