

Report on Examination
of
Freedom Health, Inc.
Tampa, Florida
as of
December 31, 2015



**FLORIDA OFFICE OF
INSURANCE REGULATION**

David Altmaier, 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, 2015. Our report on the examination follows.

Florida Office of Insurance Regulation
April 21, 2017

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2015 of Freedom Health, Inc. (the "Company"), a Florida health maintenance organization (HMO). The examination covered the period of January 1, 2012 through December 31, 2015 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, 2011.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the 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. An examination also includes 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 may include 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. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

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 other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in findings that the Company entered into a contract for vendor services that did not contain a cancellation clause pursuant to Section 641.234 (3), F.S. and the Company did not maintain evidence of the Board of Director's or appointed committee's authorization or ratification of investments purchased in accordance with Section 641.35 (7) F.S. Recommendations relating to these examination findings are summarized beginning on page 17.

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.

CORPORATE RECORDS

The examination reviewed the minutes of meetings by the Company's Board of Directors ("Board") and Audit Committee. The Company had investment transactions that required authorization or ratification from the Board or a Board appointed committee in accordance with Section 641.35 (7), F.S. However, it was found that the Company did not maintain formal evidence of the Board's or an appointed committee's authorization or ratification of investments purchased in accordance with Section 641.35 (7), F.S. The report on our prior examination of the Company contained a similar finding. See recommendation relating to this examination finding beginning on page 18.

Dividends and Capital Contributions

The Company neither distributed dividends nor received capital contributions during the period examined.

MANAGEMENT AND CONTROL

The Company was wholly owned by America's 1st Choice Holdings of Florida, LLC ("ACHF"). Liberty Acquisition Group, LLC ("Liberty") owned approximately 51% of ACHF and Health Management Services of USA, LLC owned approximately 18% of ACHF. The remaining ownership of ACHF was owned by private investors. Liberty was 41% owned by America's 1st Choice Group and the remaining ownership was held by private investors. The Company was affiliated with various other entities through common ownership and control including Optimum Healthcare, Inc. and Global TPA, LLC ("Global").

Its senior officers and directors were:

Senior Officers

<u>Name</u>	<u>Title</u>
Rupesh R. Shah	Chief Executive Officer
Jigar J. Desai	Chief Financial Officer and Treasurer
Christopher J. O'Connor	Senior Vice President of Operations
Bijal Patel	Secretary
Ace M. Hodgins, M.D.	Chief Medical Officer

Board of Directors

<u>Name</u>	<u>Location</u>
Hitesh P. Adhia, CPA	Tampa, Florida
Joseph Idicaula, 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

Audit Committee

<u>Name</u>	<u>Title</u>
Hitesh P. Adhia, CPA	Director
Jigar J. Desai	Chief Financial Officer and Treasurer
Hitesh C. Patel, M.D.	Director
Danny B. Polen	Director

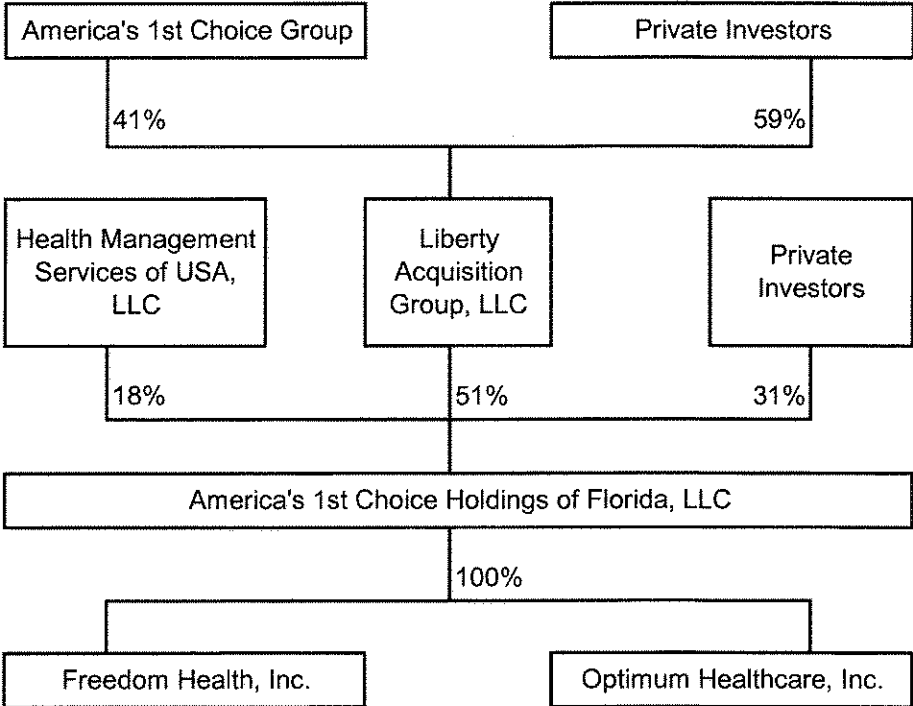
Compliance Committee

<u>Name</u>	<u>Title</u>
Walter L. Presha, Sr.	Director
Danny B. Polen	Director

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 March 1, 2016.

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

**Freedom Health, Inc.
Abbreviated Organizational Chart
December 31, 2015**



The following significant agreement(s) were in effect between the Company and its affiliates.

Management Services and Marketing Agreements

The Company entered into a Management Services Agreement and a Marketing Agreement with Global effective January 1, 2008. The agreements had an initial term of five years with an option to renew through mutual agreement of the parties. Fees paid by the Company under the Management Services Agreement and Marketing Agreement were 10% of the total premium collected during the year, and 6% of the total premium collected for the first month of the year and 1% for the subsequent 11 months of the year, respectively. Services provided by Global under the agreements included general and administrative, marketing, management, claims management and administration, customer service, utilization management, grievances and appeals, enrollment, contract management, information systems, provider relations, network development, credentialing, and payroll and human resources.

Pharmacy Benefit Management Agreement

The Company entered into a Pharmacy Benefit Management Agreement with Spectral Solutions, LLC, effective January 1, 2009, which sponsored a prescription drug benefit program that offered prescription drug coverage to eligible members. The agreement provided for automatic renewal every 12 months.

Supply Vendor Agreement

The Company entered into a Supplier Vendor Agreement with Renew Medical Supplies, Inc. ("Renew"), effective January 1, 2013. Renew supplied over-the-counter diabetic medical supplies. The agreement will continue in effect until terminated by the Company. The agreement did not contain a provision that it would be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. as of December 31, 2015.

Group Participation Agreements

The Company entered into group participation agreements with Sunstate Managed Care Services, Inc., FIPA, LLC, and Physicians Partners, LLC, effective December 1, 2007, January 1, 2008, and October 1, 2012, respectively. The agreements provided for medical, hospital and other services to members, and included a risk sharing component.

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 insured by a blanket fidelity bond issued by a licensed Florida carrier, as required by Section 641.22 (7), F.S., in the amount of \$1,500,000.

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

Pursuant to an agreement with the Centers for Medicare & Medicaid Services (CMS), the Company provided health care services to Medicare members in the following Florida counties: Hernando, Citrus, Broward, Brevard, Charlotte, Collier, Miami-Dade, Hillsborough, Indian River, Lake, Lee, Pasco, Manatee, Marion, Martin, Orange, Osceola, Palm Beach, Pinellas, Polk, Sarasota, Saint Lucie, Seminole, Sumter, and Volusia. The Company was also authorized and provided dual eligible Medicaid in 11 Florida regions. 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, 2017. As an Individual Practice Association (IPA) model HMO, the Company had 64,324 members as of December 31, 2015, of which approximately 99% were Medicare members and less than 1% were dual eligible Medicaid and Medicare members.

COMPANY GROWTH

The Company reported the following for years 2012 through 2015:

(In millions except member months and year-end enrollment)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Member months	900,258	989,379	778,639	759,470
Year-end enrollment	76,556	84,376	54,136	64,324
Premiums	\$ 587.4	\$ 651.0	\$ 663.7	\$ 770.8
Revenues	\$ 587.4	\$ 651.0	\$ 663.7	\$ 770.8
Underwriting deductions	\$ 580.0	\$ 647.4	\$ 658.9	\$ 747.8
Net income	\$ 5.8	\$ 2.7	\$ 0.5	\$ 10.4
Shareholder dividends	\$ -	\$ -	\$ -	\$ -
Paid in surplus received	\$ -	\$ -	\$ -	\$ -
Admitted assets	\$ 82.8	\$ 95.7	\$ 103.6	\$ 135.0
Liabilities	\$ 62.6	\$ 72.1	\$ 78.6	\$ 101.3
Capital and surplus	\$ 20.2	\$ 23.6	\$ 25.0	\$ 33.7

REINSURANCE

The Company maintained reinsurance with Atlantic Specialty Insurance Company. 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 a maximum benefit of \$2,000,000 per member per agreement period.

SURPLUS NOTES

At December 31, 2015, the Company was obligated for 5% surplus notes in the total 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.

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:

Freedom Health, Inc.
Admitted Assets, Liabilities, Capital and Surplus
December 31, 2015

Admitted Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 16,375,371	\$ -	\$ 16,375,371
Preferred stocks	556,744	-	556,744
Common stocks	4,418,754	-	4,418,754
Cash, cash equivalents and short-term investments	92,194,207	-	92,194,207
Aggregate write-ins for invested assets	(6)	-	(6)
Cash and invested assets	113,545,070	-	113,545,070
Investment income due and accrued	119,697	-	119,697
Uncollected premiums and agents' balances	1,343,010	-	1,343,010
Accrued retrospective premiums	12,282,500	-	12,282,500
Amounts receivable relating to uninsured plans	11,745	-	11,745
Net deferred tax asset	2,555,631	-	2,555,631
Health care and other amounts receivable	5,123,297	-	5,123,297
Total assets	\$ 134,980,950	\$ -	\$ 134,980,950
Liabilities			
Claims unpaid	\$ 54,783,961	\$ -	\$ 54,783,961
Accrued medical incentive pool and bonus amounts	36,481,019	-	36,481,019
Unpaid claims adjustment expenses	1,471,782	-	1,471,782
Aggregate health policy reserves	2,125,920	-	2,125,920
Current federal and foreign income taxes	3,452,409	-	3,452,409
Payable to parent, subsidiaries and affiliates	134,856	-	134,856
Liability for amounts held under uninsured plans	2,864,654	-	2,864,654
Total liabilities	101,314,601	-	101,314,601
Capital and Surplus			
Aggregate write-ins for special surplus funds	12,606,591	-	12,606,591
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 (surplus)	3,756,246	-	3,756,246
Total capital and surplus	33,666,349	-	33,666,349
Total liabilities, capital and surplus	\$ 134,980,950	\$ -	\$ 134,980,950

Freedom Health, Inc.
Statement of Revenue and Expenses
(As reported by the Company)
Year Ended December 31, 2015

Net premium income	\$ 770,766,911
Total revenues	770,766,911
Hospital/medical benefits	454,026,756
Other professional services	21,655,766
Emergency room and out-of-area	6,995,175
Prescription drugs	70,530,169
Incentive pool, withhold adjustments and bonus amounts	84,374,434
Total hospital and medical	637,582,300
Claims adjustment expenses	6,089,905
General administrative expenses	104,176,762
Total underwriting deductions	747,848,967
Net underwriting gain or (loss)	22,917,944
Net investment income earned	613,713
Net realized capital gains (losses)	(69,123)
Net investment gains (losses)	544,590
Net income or (loss) after capital gains tax and before all other federal income taxes	23,462,534
Federal and foreign income taxes incurred	13,089,050
Net income	\$ 10,373,484

Freedom Health, Inc.
Statement of Changes in Capital and Surplus
Four Years Ended December 31, 2015

Capital and surplus - December 31, 2011	\$ 16,559,508
Net income	5,809,601
Changes in net unrealized capital gains (losses)	243,220
Change in net deferred income tax	369,890
Change in nonadmitted assets	(2,832,138)
<u>Aggregate write-ins for gains and losses in surplus</u>	<u>1</u>
Capital and surplus - December 31, 2012	20,150,082
Net income	2,669,349
Changes in net unrealized capital gains (losses)	(228,417)
Change in net deferred income tax	(490,000)
Change in nonadmitted assets	1,520,608
<u>Aggregate write-ins for gains and losses in surplus</u>	<u>(8)</u>
Capital and surplus - December 31, 2013	23,621,614
Net income	521,978
Changes in net unrealized capital gains (losses)	11,396
Change in net deferred income tax	(419,103)
Change in nonadmitted assets	1,305,285
<u>Aggregate write-ins for gains and losses in surplus</u>	<u>5</u>
Capital and surplus - December 31, 2014	25,041,175
Net income	10,373,484
Changes in net unrealized capital gains (losses)	(285,107)
Change in net deferred income tax	1,281,952
Change in nonadmitted assets	(2,745,156)
<u>Aggregate write-ins for gains and losses in surplus</u>	<u>1</u>
Capital and surplus - December 31, 2015 per Company	33,666,349
<u>Examination adjustments</u>	<u>-</u>
<u>Capital and surplus - December 31, 2015</u>	<u>\$ 33,666,349</u>

Freedom Health, Inc.
Comparative Analysis of Changes in Capital & Surplus
December 31, 2015

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

Capital & surplus, December 31, 2015 - per annual statement			\$ 33,666,349
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>
Total admitted assets	\$ 134,980,950	\$ 134,980,950	\$ -
Total liabilities	\$ 101,314,601	\$ 101,314,601	<u>\$ -</u>
Capital & surplus, December 31, 2015 - per examination			\$ 33,666,349

SUMMARY OF RECOMMENDATIONS

Company Records and Management and Control

As reported on page 12, the Company entered into a contract for supply vendor services that did not contain a provision that the contract may be canceled upon issuance of an order by the Office pursuant to Section 641.234 (3), F.S. as of December 31, 2015. **We recommend that the Company amend the agreement to ensure compliance with Section 641.234(3), F.S.**

During the examination process, the Company amended the agreement in order to comply with Section 641.234 (3), F.S.

As reported on page 12, the Company did not maintain formal evidence of the Board's or appointed committee's authorization or ratification of investments purchased in accordance with Section 641.35 (7), F.S. The report on our prior examination of the Company contained a similar finding. **We recommend the Company maintain formal evidence of the Board's or appointed committee's authorization or ratification of investments purchased in accordance with Section 641.35 (7) F.S.**

SUBSEQUENT EVENTS

No significant subsequent events noted.

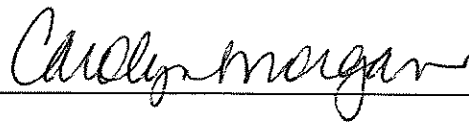
CONCLUSION

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, 2015, the Company's capital and surplus was \$33,666,349 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: Dale Miller, CPA, CFE, Examiner-in-Charge; Sharon Stuber, CPA; Andrew Mole, CPA; Robin Brown, CFE, Participating Examiners of Carr, Riggs & Ingram, LLC. We also recognize Margaret M. McCrary, CPA, CGMA, Financial Examiner/Analyst Supervisor; Shantia Simmons, Financial Specialist; Marshay Spencer, Financial Specialist; Lisa Parker, ASA, MAAA, Actuary; and Shawn Steinly, ASA, Actuary, participating in the examination.

Respectfully submitted,

A handwritten signature in cursive script, reading "Carolyn Morgan", is written over a solid horizontal line.

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