

**Report on Examination**  
**of**  
**HealthSun Health Plans, Inc.**

**Miami, Florida**

**as of**

**December 31, 2006**

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

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Tallahassee, Florida

June 2, 2008

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, 2006, of the financial condition and corporate affairs of:

**HealthSun Health Plans, Inc.**  
**1205 S.W. 37<sup>th</sup> Ave.**  
**Miami, Florida 33135**

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

## SCOPE OF EXAMINATION

This examination covered the period of May 26, 2005 through December 31, 2006. This was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office").

Planning for the current examination began on January 2, 2008. The fieldwork commenced on January 14, 2008 and concluded on March 27, 2008. 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 Company's solvency.

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

We valued and/or verified the Company's assets and liabilities as reported by the Company in its 2006 annual statement. Transactions subsequent to December 31, 2006 were reviewed where relevant and deemed significant to the Company'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.

After considering the Company's control environment and the materiality level set for this examination, we relied on work performed by the Company's CPA for the following accounts:

- Health care and other amounts receivable
- General expenses due or accrued

## HISTORY

### GENERAL

The Company was incorporated in Florida on March 18, 2004, and commenced business on August 1, 2005.

As of the date of this examination, the Company was authorized to transact business as a health maintenance organization (HMO) in accordance with Part I of Chapter 641, F.S.

Neither the Company's articles of incorporation nor its bylaws were amended during the period covered by this examination.

### CAPITAL STOCK

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	1,500
Total common capital stock	\$15
Par value per share	\$0.01

At December 31, 2006, the Company was wholly-owned and controlled by Healx, LLC, Racor, LLC, and Health Management Services, LLC. An abbreviated organizational chart appears on page 8.

## PROFITABILITY

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

	<u>2006</u>	<u>2005</u>
Year-end enrollment	2,439	1,278
In thousands:		
Net premiums	\$23,039.7	\$4,902.8
Total revenues	\$23,039.7	\$4,902.8
Net income (loss)	\$569.2	(\$239.1)
Total capital and surplus	\$851.3	\$1,612.4

## DIVIDENDS

The Company did not pay any shareholder dividends during the period of this examination.

## MANAGEMENT

The annual shareholder meeting for the election of directors was not held as required by Section 607.0701, F.S. Directors serving as of December 31, 2006 were:

<b>Directors</b>	
<u>Name and Location</u>	<u>Principal Occupation</u>
Claudio I. Alvarez, M.D. Miami, Florida	Physician
Ramon Corona Miami, Florida	Executive Vice President HealthSun Health Plans, Inc.
Alexander Fuster Miami, Florida	President and Chief Executive Officer HealthSun Health Plans, Inc.



The following were the Company's senior officers as of December 31, 2006, as appointed by its board of directors in accordance with the Company's bylaws:

**Senior Officers**

<u>Name</u>	<u>Title</u>
Alexander Fuster	President and Chief Executive Officer
Ramon Corona	Executive Vice President
Claudio I. Alvarez, M.D.	Chief Medical Officer

**CONFLICT OF INTEREST PROCEDURE**

As of December 31, 2006, the Company had not adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. However, during the course of this examination, the Company adopted the required policy statement.

**CORPORATE RECORDS**

The recorded minutes of the Board of Directors meetings were reviewed for the period examined. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 641.35(7), F.S.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code (F.A.C.). As of December 31, 2006, the Company had not filed a holding company registration statement with the State of Florida, in violation of Section 628.801, F.S., and Rule 69O-143.046, F.A.C. The required statement was subsequently filed in March of 2008.

During 2006, the Company made rental payments to C.Y.A. Acquisitions, Inc., an affiliate, in varying amounts which totaled \$44,601. However, it was unable to provide examiners with a corresponding lease agreement in effect at the time of the payments, or an explanation of the basis on which such payments were made. The Company entered into a lease agreement with C.Y.A. Acquisitions, Inc. providing for the lease of the Company's Miami offices effective January 1, 2007. The agreement had not been submitted to the Office for written approval as required by a Consent Order filed by the Office on May 26, 2005, and did not contain a provision requiring that it be cancelled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.

The following agreements were in force between the Company and its affiliates:

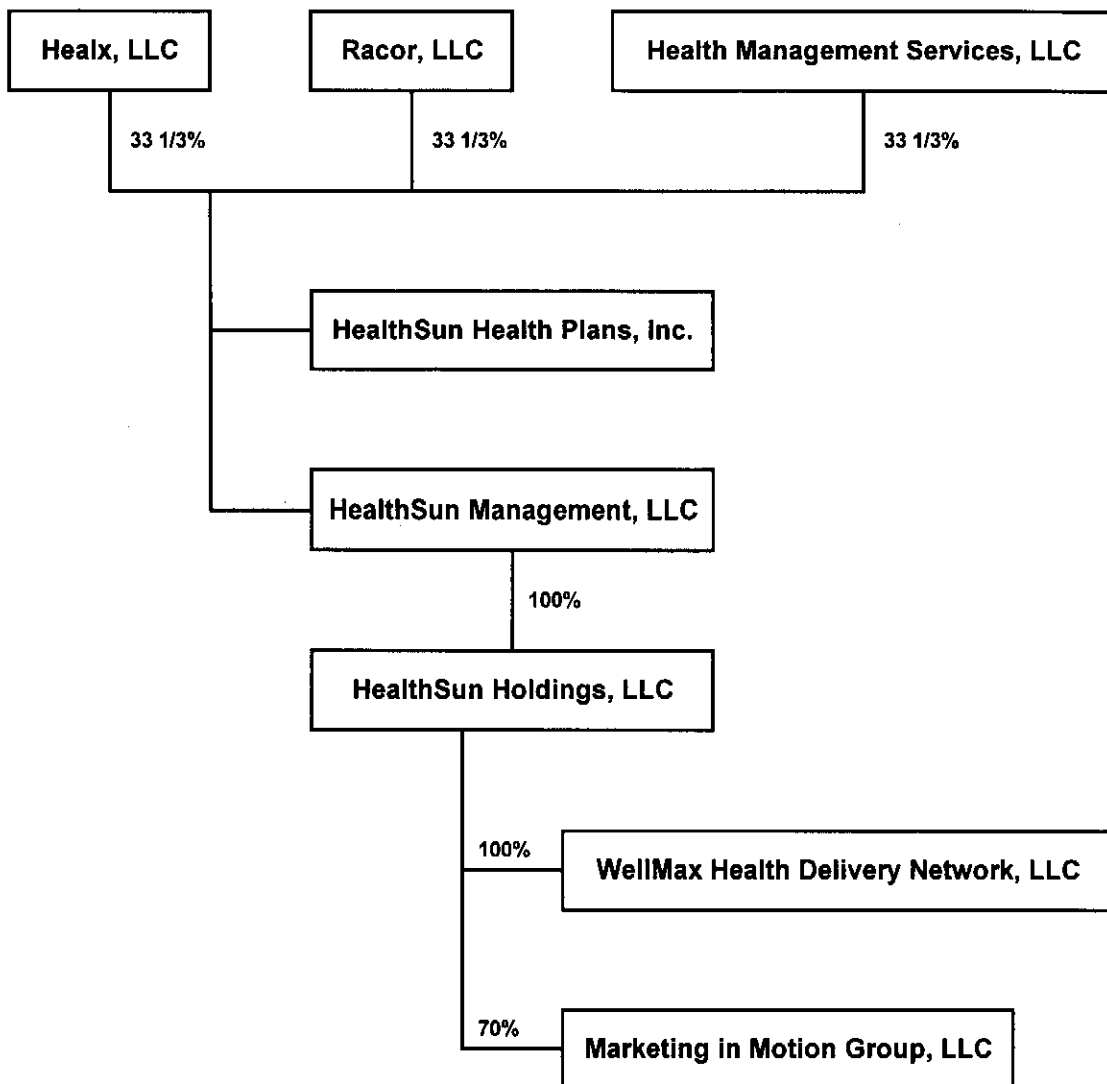
### **NETWORK RISK AGREEMENTS**

Affiliates WellMax Health Delivery Network, LLC (WellMax) and Solera Health Services, LLC (Solera) provided health care services to the Company's members pursuant to agreements effective February 1, 2005 and March 1, 2006, respectively. Fees for the WellMax agreement were \$4,169,207 and \$19,525,052 in years 2005 and 2006, respectively, and were based on WellMax earning 85% and the Company earning 15% of premium income for the members assigned to WellMax. Fees for the Solera agreement were \$11,620 for 2006, and were based on Solera earning 83% and the Company earning 17% of the premium income for the members assigned to Solera. Services provided included network provider services, covered members services, and services related to licensure and participation in

Medicare. The agreement with Solera included a requirement for it to maintain general liability, professional liability, and other insurance in connection with services provided under the agreement. Solera did not maintain the insurance during 2006, but obtained it on March 5, 2008.

An abbreviated organizational chart as of December 31, 2006 reflecting the holding company system is shown below. Schedule Y of the Company's 2006 annual statement did not disclose the names and interrelationships of the Company, its parent, and all of its affiliates, as required by the NAIC *Annual Statement Instructions*.

**HealthSun Health Plans, Inc.  
Organizational Chart  
December 31, 2006**



## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained acceptable levels of general liability insurance, in compliance with Rule 69O-191.069, F.A.C., and was insured by a blanket fidelity bond in the amount of \$100,000, as required by Section 641.22, F.S. As an individual practice association (IPA) model HMO, the Company 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, STOCK OWNERSHIP, AND INSURANCE PLANS**

The Company provided to eligible employees fringe benefits including medical and dental insurance and paid leave.

## **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.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **TERRITORY AND PLAN OF OPERATION**

At December 31, 2006, the Company 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 May 17, 2007.

The Company employed internal agents and operated as an IPA. It provided health care services solely to Medicare members. Its total membership at December 31, 2006 was 2,439.

The Company operated solely in Miami-Dade County, Florida.

### **TREATMENT OF MEMBERS**

The Company 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 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 Company maintained an excess of loss reinsurance policy with Allianz Life Insurance Company of North America. The policy covered 90% of the Company's eligible expenses with an attachment point per member of \$75,000 per contract year, up to a maximum of \$2 million per individual. Transplant costs were also reimbursable at the rate of 90% of Company's eligible expenses, but the attachment point was \$65,000 per member per contract year. The premium rate was \$15.46 per member per contract month, subject to a minimum annual premium of \$75,000.

## **ACCOUNTS AND RECORDS**

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

The Company'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 Company's main administrative office was located in Miami, Florida, where this examination was conducted.

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

### **ANCILLARY SERVICES AGREEMENT**

All-Med Management Systems, Inc. provided ancillary services to the Company's members on capitated and fee-for-services bases pursuant to an August 1, 2005 agreement. Fees related to the agreement were \$62,288 and \$306,114 in years 2005 and 2006, respectively.

### **PHARMACY SERVICES AGREEMENT**

Envision Pharmaceutical Services, Inc. provided to the Company's eligible members a pharmacy network which included a managed care pharmaceutical program, the processing and payment of prescription drug claims, and an online national pharmacy program. Fees related to the January 1, 2005 agreement were \$409,463 and \$2,844,480 in years 2005 and 2006, respectively.



#### **INDEPENDENT AUDITOR AGREEMENT**

The Company contracted with Smith, Ortiz, Gomez and Buzzi, P.A. and Goldstein Schechter Price Lucas Horwitz & Co., P.A. to conduct annual audits of its statutory-basis financial statements for years 2005 and 2006, respectively. Fees related to the agreements were \$22,000 and \$39,969 in years 2005 and 2006, respectively.

#### **ACTUARIAL CONSULTING SERVICES AGREEMENT**

The Company contracted with Wakely Consulting Group, Inc. to provide general actuarial services. Fees related to the agreement were \$5,885 and \$57,396 in years 2005 and 2006, respectively.

#### **SOFTWARE LICENSE AGREEMENT**

HSS, Inc. granted the Company a nonexclusive, nontransferable license to use HSS, Inc. software pursuant to an October 12, 2005 agreement. Fees related to the agreement were \$11,550 and \$13,000 in years 2005 and 2006, respectively.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following four pages contain statements of the Company's financial position at December 31, 2006, as determined by this examination, and the results of its operations for the year then ended as reported by the Company.

**HealthSun Health Plans, Inc.**  
**Assets**  
**December 31, 2006**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Cash, cash equivalents, and short-term investments	\$3,187,885	\$0	\$3,187,885
Uncollected premiums and agents' balances	319,405	0	319,405
Electronic data processing equipment and software	24,796	0	24,796
Health care and other amounts receivable	78,809	0	78,809
Totals	<u>\$3,610,895</u>	<u>\$0</u>	<u>\$3,610,895</u>

**HealthSun Health Plans, Inc.**  
**Liabilities, Capital and Surplus**  
**December 31, 2006**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Claims unpaid	\$2,397,865	\$0	\$2,397,865
Premiums received in advance	207,362	0	207,362
General expenses due or accrued	154,337	0	154,337
Total liabilities	<u>2,759,564</u>	<u>0</u>	<u>2,759,564</u>
<b>Capital and Surplus</b>			
Common capital stock	15	0	15
Gross paid in and contributed surplus	2,147,249	0	2,147,249
Unassigned funds (deficit)	(1,295,933)	0	(1,295,933)
Total capital and surplus	<u>851,331</u>	<u>0</u>	<u>851,331</u>
Total liabilities, capital and surplus	<u><u>\$3,610,895</u></u>	<u><u>\$0</u></u>	<u><u>\$3,610,895</u></u>

**HealthSun Health Plans, Inc.**  
**Statement of Revenue and Expenses**  
**For The Year Ended December 31, 2006**

Net premium income		\$23,039,721
Hospital/medical benefits	\$11,221,370	
Other professional services	1,254,860	
Outside referrals	3,844,001	
Emergency room and out-of-area	398,828	
Prescription drugs	2,814,410	
Aggregate write-ins	46,159	
Total hospital and medical	<u>19,579,628</u>	
Claims adjustment expenses	154,708	
General administrative expenses	<u>2,816,195</u>	<u>22,550,531</u>
Net underwriting gain		489,190
Net investment income		<u>80,011</u>
Net income		<u><u>\$569,201</u></u>

**HealthSun Health Plans, Inc.**  
**Capital and Surplus Account**  
**For The Year Ended December 31, 2006**

Capital and surplus - December 31, 2005		\$1,612,445
Net income	\$569,201	
Change in nonadmitted assets	(1,330,315)	
Examination adjustments	<u>0</u>	<u>(761,114)</u>
Capital and surplus - December 31, 2006		<u><u>\$851,331</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### **Claims Unpaid**

**\$2,397,865**

The Company's appointed actuary rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2006 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The Office actuary reviewed work papers provided by the Company 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 Company, we concluded that the aggregate liability was not materially misstated.

### **Surplus**

**\$851,331**

At December 31, 2006, the Company was in violation of Section 641.225, F.S., which required it to maintain at all times minimum surplus in an amount that is the greater of \$1,500,000, 10% of its total liabilities, or 2% percent of its annualized premiums. At December 31, 2006, the Company's surplus was \$851,331, which was \$648,669 less than its required minimum surplus of \$1,500,000.

**HealthSun Health Plans, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2006**

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, 2006 - per annual statement				\$851,331
	<u>Per</u>	<u>Per</u>	<u>Increase</u>	
	<u>Company</u>	<u>Examination</u>	<u>(Decrease)</u>	
			<u>In Capital</u>	
			<u>&amp; Surplus</u>	
Assets	\$3,610,895	\$3,610,895	\$0	
Liabilities	\$2,759,564	\$2,759,564	<u>\$0</u>	
Net change in capital and surplus				<u>0</u>
Capital and surplus, December 31, 2006 - per examination				<u><u>\$851,331</u></u>



## **SUBSEQUENT EVENTS**

In the first quarter of 2007, the Company received payments from WellMax, an affiliate, which totaled \$1.8 million, of which \$1,227,234 was accelerated payment of amounts owed to the Company which had been reported by the Company as a non-admitted asset.

## SUMMARY OF FINDINGS

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

### Annual Shareholder Meeting

As reported on page 4, the Company did not conduct an annual meeting of its shareholders for the election of directors and transaction of other business, as required by Section 607.0701, F.S. **We recommend that the Company conduct annual meetings of its shareholders as required by Section 607.0701, F.S.**

### Holding Company Registration Statement

As of December 31, 2006, the Company had not filed a holding company registration statement with the State of Florida, in violation of Section 628.801, F.S., and Rule 69O-143.046, F.A.C., as reported on page 6. The required statement was subsequently filed in March of 2008. **We recommend that the Company file holding company registration statements on a timely basis as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C.**

### Lease Agreement With Affiliate

As reported on page 6, the Company made rental payments during 2006 to C.Y.A. Acquisitions, Inc., an affiliate, in varying amounts which totaled \$44,601. However, it was unable to provide examiners with a corresponding lease agreement in effect at the time of such payments or an explanation of the basis for which such payments were made. The Company entered into a lease agreement with C.Y.A. Acquisitions, Inc. providing for the lease of the Company's Miami offices effective January 1, 2007. The agreement had not been submitted to the Office for written approval as required by a Consent Order filed by the Office on May 26, 2005, and did not contain a provision requiring that it be cancelled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. **We recommend that all of**

**the Company's agreements with affiliates be written. We also recommend that the Company submit the lease agreement with C.Y.A. Acquisitions, Inc. to the Office for written approval as required by the May 26, 2005 Consent Order, and that the agreement be modified to contain a provision requiring that it be cancelled upon issuance of an order by the Office, as required by Section 641.234(3), F.S.**

#### Network Risk Agreements

As reported on page 7, a network risk agreement between the Company and Solera included a requirement for Solera to maintain certain insurance in connection with services provided under the agreement. Solera did not maintain the insurance during 2006, but obtained it on March 5, 2008. **We recommend that the Company enforce the provisions of its agreements.**

#### Annual Statement Schedule Y

As reported on page 8, the Company did not disclose in Schedule Y of its 2006 annual statement the names and interrelationships of the Company, its parent, and all of its affiliates, as required by the NAIC Annual Statement Instructions. **We recommend that, in future statements filed with the Office, the Company correctly complete Schedule Y of its annual statement in accordance with the NAIC *Annual Statement Instructions*.**

#### Minimum Surplus

As reported on page 19, at December 31, 2006, the Company was in violation of Section 641.225, F.S., which required it to maintain at all times minimum surplus in an amount that is the greater of \$1,500,000, 10% of its total liabilities, or 2% percent of its annualized premiums. At December 31, 2006, the Company's surplus was \$851,331, which was \$648,669 less than its required minimum surplus of \$1,500,000. As discussed on page 21, in the first quarter of 2007, the Company received payments from WellMax, an affiliate, which totaled \$1.8 million, of which \$1,227,234 was accelerated

payment of amounts owed to the Company which had been reported by the Company as a non-admitted asset. **We recommend that the Company maintain at all times the required minimum amount of surplus, in accordance with Section 641.225, F.S.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **HealthSun Health Plans, Inc.** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total surplus was \$851,331, which was not in compliance with Section 641.225, F.S. Its required minimum surplus at December 31, 2006 was \$1.5 million. As discussed on page 21, in the first quarter of 2007, the Company received payments from WellMax, an affiliate, which totaled \$1.8 million, of which \$1,227,234 was accelerated payment of amounts owed to the Company which had been reported by the Company as a non-admitted asset.

In addition to the undersigned, the following participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor, and Richard Tan, Actuary.

Respectfully submitted,

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Christine N. Afolabi, Financial Examiner/Analyst  
Florida Office of Insurance Regulation