

Report on Examination
of
AHF MCO of Florida, Inc.
Ft. Lauderdale, Florida
as of
December 31, 2013



**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 AHF MCO of Florida, Inc. as of December 31, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation
March 27, 2015

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SCOPE OF EXAMINATION

We have completed a financial condition examination of AHF MCO of Florida, Inc. (the "Plan"), a Florida health maintenance organization (HMO). Our examination covered the period of January 1, 2009 through December 31, 2013 which took place primarily in the Plan's Ft. Lauderdale, Florida office. The last financial condition examination of the Plan by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2008.

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

SUMMARY OF SIGNIFICANT FINDINGS

The examination resulted in several findings: the minutes of the Plan's board of directors meeting did not indicate whether the Plan's appointed actuary was approved by the Board and had reported to the Board or Audit Committee on items within the scope of the actuarial opinion; the Office was not notified that the audit committee of AIDS Healthcare Foundation served as the Plan's audit committee; inappropriate classification of receivables were made within the 2013 Annual Statement; Plan insurance policies had not contained required cancellation notifications and the Plan's assets were pledged against a debt owed by their parent. The findings are discussed in more detail in the pages that follow. Recommendations begin on page 14.

COMPANY HISTORY

The Plan was incorporated in Florida as a non-profit organization on March 2, 2007. It was licensed by the Office as an HMO on June 28, 2007. 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.). On October 12, 2009 the Plan's name was changed from AIDS Healthcare Foundation MCO of Florida, Inc. to its current name of AHF MCO of Florida, Inc.

Capital Contributions

The Plan received capital contributions for the amounts of \$1,500,000, \$750,000 and \$1,000,000 during 2009, 2010 and 2011, respectively.

CORPORATE RECORDS

We reviewed the recorded minutes of the Board of Directors for the period examined. The recorded minutes of the Board of Directors adequately documented its meetings and approval of the Plan's transactions in accordance with section 617.1601, F.S.

The Board of Directors had not appointed a qualified health actuary as of December 31, 2013 and the aforementioned Board had not received and reviewed the Actuarial Opinion and Memorandum of the appointed actuary as required by the NAIC Annual Statement Instructions.

The Plan had not appointed the Audit Committee of their parent, AIDS Healthcare Foundation (AHF), to act as the Audit Committee of the Plan as of December 31, 2013, as required by Rule 69O-137.002(4), Florida Administrative Code (F.A.C.).

MANAGEMENT AND CONTROL

The Plan was organized as a non-profit corporation and managed by a board of directors. Its sole member was AIDS Healthcare Foundation (AHF).

Its senior officers, directors, and members of principal board committees were:

Name	Title
Michael Arthur Weinstein	President
Lyle Herman Honig Jr.	Chief Financial Officer
Agapito Diaz	Secretary
Judith Briggs-Marsh	Treasurer

Board of Directors

Name	Location
Michael Arthur Weinstein	Los Angeles, California
Agapito Diaz	Los Angeles, California
Judith Briggs-Marsh	San Leandro, California

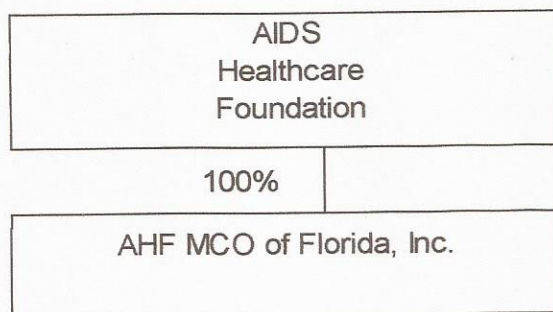
Committees of the Board

Finance	Audit
Michael Arthur Weinstein	Curley Lee Bonds, M.D.
Agapito Diaz	Agapito Diaz
Elizabeth Ureta Mendia	Diana Gloria Hoorzuk
Lawrence Douglas Peters	
Steve Lamar Carlton	

The Plan 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, F.A.C., on March 31, 2014.

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

**AHF MCO of Florida, Inc.
Abbreviated Organizational Chart
December 31, 2013**



Management Service Agreement

AHF provided managerial and administrative services to the Plan pursuant to a management service agreement effective March 7, 2007 and later amended to allow AHF reimbursement equal to 10% of the Plan's premium revenues and \$90 per member per month for the Medicare Advantage and Medicaid Reform members.

FIDELITY BONDS AND OTHER INSURANCE

As an individual practice association (IPA) model HMO, the Plan 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 Rule 69O-191.069, F.A.C. The fidelity bonds and other insurance policies did not include a clause to include 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. In addition, the Plan maintained a blanket crime policy issued by a licensed Florida insurer in the amount of \$500,000, which satisfied the requirement of Section 641.22(7), F.S.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Plan had no employees and did not directly provide employee benefits nor sponsor retirement plans. Employees of AHF performed functions on behalf of the Plan. AHF provided various benefits to eligible employees including defined benefit pension plans, health care, life insurance, and participation in a 401(k) savings plan.

TERRITORY AND PLAN OF OPERATION

As an IPA model HMO, the Plan provided managed care benefits to Medicare and Medicaid members. It held a current health care provider certificate issued by the Florida Agency for Health Care Administration (AHCA) pursuant to Part III of Chapter 641, F.S., valid until June 26, 2015. The Plan was licensed solely in the State of Florida and was authorized to operate in the Florida counties of Broward and Miami-Dade.

PLAN GROWTH

The Plan reported the following for years 2009 through 2013:

(Dollars are in millions.)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Member months	2,026	4,788	7,218	9,615	14,473
Year-end enrollment	240	523	721	899	1,448
Premiums	\$ 7.1	\$ 18.4	\$ 27.2	\$ 37.8	\$ 51.8
Total revenues	\$ 7.0	\$ 18.3	\$ 27.4	\$ 37.8	\$ 51.8
Total underwriting deductions	\$ 8.3	\$ 18.9	\$ 27.0	\$ 36.9	\$ 53.7
Net income (loss)	\$ (1.3)	\$ (0.7)	\$ 0.4	\$ 0.9	\$ (1.9)
Paid in surplus received	\$ 1.5	\$ 0.8	\$ 1.0	\$ -	\$ -
Admitted assets	\$ 4.9	\$ 7.3	\$ 9.1	\$ 9.9	\$ 9.5
Liabilities	\$ 3.1	\$ 5.3	\$ 5.8	\$ 5.8	\$ 7.2
Capital and surplus (deficit)	\$ 1.8	\$ 1.9	\$ 3.3	\$ 4.2	\$ 2.3

REINSURANCE

The Plan maintained stop loss reinsurance with HM Life Insurance Company, effective January 1, 2011. The reinsurance provided for a coinsurance of 90% of eligible expenses in excess of \$200,000 up to \$1,000,000 per member per year.

ACCOUNTS AND RECORDS

The examination found after a UCC filing review that the Plan's assets were pledged as part of a loan taken out by AHF in 2012. During the examination an amended UCC filing was issued terminating the security interest in the Plan's assets.

It was determined that the amounts reported by the Plan on their 2013 Annual Statement line #15.1 "Uncollected premiums and agents' balances in the course of collection" should have been reported under line #24 "Health care and other amounts receivables" resulting in a reclassification in the amount of \$1,029,689.

STATUTORY DEPOSITS

The Plan 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.

AHF MCO of Florida, Inc.
Admitted Assets, Liabilities and Capital and Surplus
December 31, 2013

Admitted Assets	As Reported	Examination Adjustments	Per Examination
Real Estate, properties occupied by the company	\$ 5,807,776	\$ -	\$ 5,807,776
Cash, cash equivalents and short-term investments	2,352,517	-	2,352,517
	8,160,293	-	8,160,293
Investment income due and accrued	717	-	717
Uncollected premiums and agents' balances	1,029,689	(1,029,689)	-
Health care and other amounts receivable	-	1,029,689	1,029,689
Aggregate write-ins for other than invested assets	323,068	-	323,068
Total admitted assets	\$ 9,513,767	\$ -	\$ 9,513,767
Liabilities			
Claims unpaid	\$ 5,501,697	\$ -	\$ 5,501,697
Unpaid claims adjustment expenses	69,218	-	69,218
Aggregate health policy reserves	895,896	-	895,896
General expenses due or accrued	29,149	-	29,149
Amounts due to parent, subsidiaries and affiliates	190,359	-	190,359
Liability for amounts held under uninsured plans	557,163	-	557,163
Total liabilities	7,243,482	-	7,243,482
Capital and Surplus			
Gross paid in and contributed surplus	5,502,063	-	5,502,063
Unassigned funds (surplus)	(3,231,778)	-	(3,231,778)
Total capital and surplus	2,270,285	-	2,270,285
Total liabilities, capital and surplus	\$ 9,513,767	\$ -	\$ 9,513,767

AHF MCO of Florida, Inc.
Statement of Revenue and Expenses
(As Reported By The Company)
Year Ended December 31, 2013

Net premium income	\$ 51,766,182
Total revenues	51,766,182
Hospital and medical benefits	7,648,938
Other professional services	4,855,193
Emergency room & out-of-area	982,971
Prescription drugs	33,819,527
Total hospital and medical	47,306,629
Claims adjustment expenses	33,419
General administrative expenses	5,450,605
Increase in reserve in life & accident & health	895,896
Total underwriting deductions	53,686,549
Net underwriting gain	(1,920,367)
Net investment gains	3,928
Income before federal income tax	(1,916,439)
Federal income tax	-
Net income	\$ (1,916,439)

AHF MCO of Florida, Inc.
Statement of Changes in Capital and Surplus
Five Years Ended December 31, 2013

Capital and surplus - December 31, 2008	\$ 1,648,970
Net income (loss)	(1,320,199)
Paid in surplus	1,500,000
Capital and surplus - December 31, 2009	1,828,771
Change in nonadmitted assets	(661,115)
Change in nonadmitted assets	750,000
Capital and surplus - December 31, 2010	1,917,656
Change in net unrealized capital gains (losses)	365,172
Change in asset valuation reserve	1,000,000
Capital and surplus - December 31, 2011	3,282,828
Net income (loss)	903,896
Change in nonadmitted assets	(28,414)
Aggregate write-ins for gains and losses in surplus	-
Capital and surplus - December 31, 2012	4,158,310
Net income (loss)	(1,916,439)
Change in nonadmitted assets	28,414
	2,270,285
Examination adjustments	-
Capital and surplus - December 31, 2013	<u>\$ 2,270,285</u>

AHF MCO of Florida, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2013

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

Capital and surplus, December 31, 2013 - as reported				\$2,270,285
	As Reported	Per Examination	Increase (Decrease) In Capital & Surplus	
Total admitted assets	\$ 9,513,767	\$ 9,513,767	\$ -	
Total liabilities	\$ 7,243,482	\$ 7,243,482	\$ -	
Net change in capital and surplus				-
Capital and surplus, December 31, 2013 - per examination				<u>\$2,270,285</u>

COMMENTS ON FINANCIAL STATEMENTS

Uncollected premiums and agent's balances in course of collection

The \$1,029,689 reported by the Plan in its 2013 annual statement Line 15.1 as 'Uncollected premiums and agent's balances in course of collection' has been reduced by \$1,029,689 to \$0.00. This amount represented receivables for the retroactive adjustment of premiums from Medicare and Medicaid, which should be reported under line 24 as noted below.

Health care and other amounts receivable

The \$0.00 reported by the Plan in its 2013 annual statement Line 24 as 'Health care and other amounts receivable' has been increased by \$1,029,689 to \$1,029,689. This amount was reclassified in compliance with the 2013 Health Annual Statement Instructions.

RECOMMENDATIONS

As reported on page 13, the Plan inappropriately reported the amounts of certain of its admitted assets in its 2013 annual statement. **We recommend that, in future statements filed with the office, the Plan accurately report its assets in accordance with Part I of Chapter 641, F.S. and the NAIC Annual Statement Instructions.**

As reported on page 3, the Plan's Board of Directors did not appoint the Plan's appointed actuary and audit committee. In addition, the Actuarial Opinion and Memorandum were not presented to the Board of Directors in accordance with the NAIC Annual Statement Instructions. **We recommend that the Board of Directors approve the appointment of the Plan's appointed actuary and audit committee and ensure the presentation of the Actuarial Opinion and Memorandum in accordance with the NAIC Annual Statement Instructions.**

As reported on page 6, the Plan needs to ensure that insurance policies include the appropriate notification clause as required by Rule 69O-191.069(2) F.A.C. **We recommend the Plan maintain compliance with Rule 69O-191.069(2) F.A.C.**

As reported on page 8, the Plan must keep all assets free from encumbrances in accordance with Section 641.35(1) F.S. and SSAP No. 4. **We recommend the Plan maintain compliance with Section 641.35(1) F.S. and SSAP No. 4.**

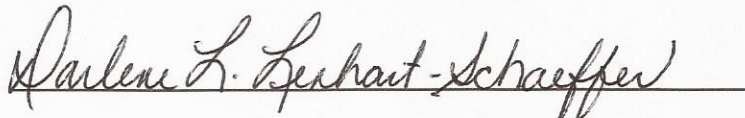
CONCLUSION

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

On December 31, 2013, the Plan's capital and surplus was \$2,270,285 and the Plan 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: Faisal Harianawalla, Financial Examiner/Analyst; Lisa Parker, Actuary; and Stephen Feliu, CFE (Fraud) Financial Examiner/Analyst.

Respectfully submitted,

A handwritten signature in cursive script, reading "Darlene L. Lenhart-Schaeffer", is written over a horizontal line.

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