

Report on Examination
of
Medica HealthCare Plans, Inc.

Coral Gables, Florida

as of

December 31, 2007

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

March 23, 2009

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, 2007, of the financial condition and corporate affairs of:

Medica HealthCare Plans, Inc.
4000 Ponce De Leon Blvd., Suite 650
Coral Gables, Florida 33146

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

SCOPE OF EXAMINATION

This examination covered the period of June 1, 2005 through December 31, 2007. 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 March 24, 2008. The fieldwork commenced on March 31, 2008 and concluded on October 9, 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 2007 annual statement. Transactions subsequent to December 31, 2007 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:

- Investment income due and accrued
- Electronic data processing equipment and software
- Health care and other amounts receivable
- General expenses due or accrued
- Surplus notes

HISTORY

GENERAL

The Company was incorporated in Florida on June 19, 2003 as 'Doctors Choice HealthCare Plans, Incorporated', changed its name to 'Medica HealthCare Plans, Inc.' on April 30, 2004, and commenced business on June 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, 2007, the Company's capitalization was as follows:

	Common Stock	Cumulative Convertible Preferred Stock
Shares authorized	99,150,000	850,000
Shares issued and outstanding	165,150	850,000
Total capital stock	\$17	\$85
Par value per share	\$0.0001	\$0.0001

In its 2007 annual statement, the Company incorrectly completed Note 13 to its financial statements in that it failed to disclose (1) the number of its issued and outstanding shares of common and preferred stock; (2) that any payment by it of shareholder dividends was subject to the restrictions contained in Section 641.365, F.S.; and (3) that it had reserved 100,000 shares of its common stock for employee stock options.

PROFITABILITY

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Year-end enrollment	10,290	9,097	5,549
In millions:			
Net premiums	\$136.7	\$84.8	\$30.4
Total revenues	\$136.7	\$84.8	\$30.4
Net income (loss)	\$3.9	(\$1.2)	(\$2.2)
Total capital and surplus	\$6.0	\$0.5	\$1.9

DIVIDENDS

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

MANAGEMENT

The 2007 annual shareholders meeting for the election of directors was not held as required by Section 607.0701, F.S.; however, the Company elected its directors at its 2008 meeting of its shareholders.

Directors serving as of December 31, 2007 were:

Directors	
Name and Location	Principal Occupation
Armando Cruz, M.D. Miami, Florida	Physician
Adolfo Henriques Coral Gables, Florida	Banker
Alberto M. Hernandez, M.D. Coral Gables, Florida	Physician
Martiniano J. Perez Coral Gables, Florida	Chief Financial Officer and Treasurer Medica HealthCare Plans, Inc.
Rafael P. Perez Coral Gables, Florida	Chief Executive Officer and President Medica HealthCare Plans, Inc.
Gerardo F. Santos, M.D. Coral Gables, Florida	Physician

The Company's senior officers as of December 31, 2007, as appointed by its board of directors in accordance with the Company's bylaws, were as follows:

Senior Officers	
Name	Title
Rafael P. Perez	Chief Executive Officer and President
Martiniano J. Perez	Chief Financial Officer and Treasurer
Mario Justo	Vice President of Administration
Enrique Acevedo, M.D.	Medical Director
Ivonne Garrote-Torra	Finance Director
Nilda Lopez	Vice President of Sales and Marketing
Jose Moralejo	Support Services Director
Mathew Cruse	Compliance Officer

CONFLICT OF INTEREST PROCEDURE

As of December 31, 2007, the Company had not adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S.; however, such a policy statement was adopted by the Company during the course of this examination.

CORPORATE RECORDS

The recorded minutes of the shareholders and 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.

The Company was required by Sections 641.3915 and 626.9891, F.S., to file its anti-fraud plan with the Department of Financial Services Division of Insurance Fraud. In addition, it was required by Consent Order 77726-04-CO to file the plan by November 1, 2004. However, the Company did not file its anti-fraud plan until May 21, 2008.

SURPLUS DEBT

As of December 31, 2007, the Company was obligated for surplus notes bearing interest at the annual rate of 8.25% in the total amount of \$1,528,000 as follows:

<u>Holder</u>	<u>Amount</u>
Martiniano J. Perez	\$628,000
Rafael P. Perez	300,000
Gerardo F. Santos, M.D.	300,000
Alberto M. Hernandez, M.D.	<u>300,000</u>
	<u>\$1,528,000</u>

The notes were approved by the Company's board of directors and the Office, and complied with the provisions of Rule 69O-191.088, Florida Administrative Code (F.A.C.). In accordance with Section 641.19(19), F.S., the surplus note debt was included in the Company's surplus. The Company repaid \$1 million and then \$528,000 of the surplus notes in July and August of 2008, respectively, without the approval of the Office, in violation of Rule 69O-191.088, F.A.C.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), F.A.C. 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 April 25, 2008.

The Company was affiliated with various entities through common ownership and/or control to include: Medica Care of Florida, Inc., Medica Health Plans of Florida, Inc., Medical Transportation Services, LLC, JSP Billing Services, Inc., SHP Enterprises, LLC (SHP), and South Florida Physicians Network, LLC. Schedule Y of the Company's 2007 annual statement did not provide the names of all related companies in its holding company group, as required by the *Annual Statement Instructions*.

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

SERVICES AGREEMENT

Medica Care of Florida, Inc. provided management, administrative and medical services to the Company's members pursuant to a January 1, 2007 agreement. Fees related to the agreement amounted to \$789,406 in 2007.

ANCILLARY SERVICES AGREEMENT

Medical Transportation Services, LLC provided non-emergency transportation services, including ambulatory, wheelchair and stretcher services, to the Company's members pursuant to an August 1, 2005 agreement. Fees related to the agreement were \$364,308, \$956,711, and \$1,337,601 in years 2005, 2006, and 2007, respectively.

DELEGATED ACTIVITIES AGREEMENT

The Company provided credentialing, finance, member, network development, provider relations, quality assurance and utilization management services to Medica Health Plans of Florida, Inc. pursuant to an August 26, 2006 agreement in return for fees of \$46,690 and \$691,735 in years 2006 and 2007, respectively.

SERVICES AGREEMENT

The Company provided executive management, consulting and administrative services to Medica Health Plans of Florida, Inc. pursuant to a July 1, 2006 agreement which was amended on April 1, 2007. Fees related to the agreement were \$450,000 in 2007.

PROPERTY MANAGEMENT AGREEMENT

SHP provided property management services to the Company in connection with the Company's medical office building pursuant to a September 2006 agreement. The agreement provided for the allocation of the property's rental proceeds to SHP to pay for the property's expenses. However, while SHP did collect and retain the rental income, the Company paid some of the expenses related to the building. In its 2007 annual statement, the Company understated the amount of rental income and rental expenses associated with the property by the amount of the rental income collected and retained by SHP. The agreement with SHP 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.

MANAGEMENT AGREEMENT

South Florida Physicians Network, LLC provided services to the Company related to the development of the Company's provider network, its claims adjudication and payment system, the hiring of its staff, and obtaining required approval from the Centers for Medicare & Medicaid Services (CMS) pursuant to

a November 1, 2004 agreement. Fees related to the agreement amounted to \$125,000 and \$94,714 in years 2005 and 2006, respectively.

RISK ADJUSTMENT SERVICES

JSP Billing Services, Inc. provided Medicare risk adjustment services to the Company. There was no written agreement between the parties, in violation of paragraph 6 of Statement of Statutory Accounting Principles (SSAP) No. 25. With respect to the unwritten agreement, the Company was in violation of Section 641.234(3), F.S., which required that any agreement with an affiliate contain a provision that the agreement shall be canceled upon issuance of an order by the Office. The fees related to the agreement amounted to \$275,000 in 2007.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained acceptable levels of general liability insurance in compliance with Rule 69O-191.069, F.A.C. As of December 31, 2007, the Company did not have a blanket fidelity bond in the amount of \$100,000, as required by Section 641.22, F.S.; however, the Company was added to the policy of its affiliate on March 15, 2008. As an individual practice association 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, life, vision care and dental insurance and paid leave. In addition, it granted stock options to certain of its employees. As of December 31, 2007, the Company had granted 65,450 stock options, of which 15,150 had been exercised.

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, 2007, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S., and operated as a Medicare Plus Choice provider-sponsored organization. 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 August 20, 2010.

The Company utilized a network of general agents and brokers and operated as an individual practice association model providing health care services to Medicare members. Its total membership at December 31, 2007 was 10,290.

The Company operated in the Florida counties of Broward and Miami-Dade.

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

On November 1, 2007, the Company renewed a one year stop-loss reinsurance agreement with Ace American Insurance Company. The Company's retention limit was \$200,000 per member and the maximum limit of liability was \$1 million per member per agreement year. The premium rate was \$4.67 per member per month, subject to a minimum annual premium of \$430,000. The Company was eligible for an experience refund if the annual premium exceeded \$300,000. The agreement was 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 reinsurance contract was reviewed by the Company's appointed actuary and utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2005, 2006, and 2007, 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 Coral Gables, Florida, where this examination was conducted.

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

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with Rachlin LLP to conduct annual audits of its statutory-basis financial statements for years 2005, 2006, and 2007, respectively. Fees related to the agreements were \$24,500, \$56,612 and \$75,186 in years 2005, 2006, and 2007, respectively.

ACTUARIAL CONSULTING SERVICES AGREEMENT

The Company contracted with Wakely Consulting Group, Inc. to provide general actuarial services. Fees related to the agreement were \$31,670, \$63,130, and \$67,870 in years 2005, 2006, and 2007, respectively.

PROFESSIONAL SERVICES/CONSULTING AGREEMENT

Confidata, Inc. provided information services to the Company pursuant to an August 22, 2005 agreement. Fees related to the agreement were \$195,170, \$29,430, and \$118,840 in years 2005, 2006, and 2007, respectively.

SOFTWARE LICENSE AGREEMENT

The Company obtained the rights to use MMC 20/20 Systems, Inc. (MMC) computer software through a November 23, 2004 licensing agreement with MMC. Fees related to the agreement were \$37,285, \$112,375, and \$195,415 in years 2005, 2006, and 2007, respectively.

RISK ADJUSTMENT CONSULTING AGREEMENT

Coleman Consulting Group, Inc. provided consulting services to the Company related to the Company's Medicare Advantage program risk adjustment reimbursement pursuant to an August 1, 2006 agreement. Fees related to this agreement were \$66,392 and \$221,443 in years 2006 and 2007, respectively.

BANDWIDTH SERVICES AGREEMENT

Telephonica Data USA, Inc. provided bandwidth services to the Company pursuant to a November 1, 2004 agreement. Fees related to the agreement were \$42,720, \$55,246, and \$68,247 in years 2005, 2006, and 2007, respectively.

CMS AGREEMENT

The Company contracted with CMS to operate as a Medicare Plus Choice Organization pursuant to a June 1, 2005 agreement. The contract was augmented effective October 19, 2005 in order to authorize the Company to operate as a Medicare Advantage Organization and provide Part D drug benefits coverage, and was effective until December 31, 2008.

PHARMACY BENEFIT AGREEMENT

Express Scripts Senior Care, Inc. provided pharmacy benefit management services to the Company pursuant to a January 1, 2007 agreement. Services included pharmacy network administration, mail service and specialty pharmacy, rebate contracting, formulary management, and claims processing services. Total claims paid pursuant to the agreement amounted to \$21,238,282 in 2007.

FINANCIAL STATEMENTS PER EXAMINATION

The following four pages contain statements of the Company's financial position at December 31, 2007, as determined by this examination, and the results of its operations for the year then ended as reported by the Company. Adjustments resulting from this examination are summarized on page 24.

Medica HealthCare Plans, Inc.
Assets
December 31, 2007

	Per Company	Examination Adjustments	Per Examination
Properties occupied by the company	\$1,274,387	\$0	\$1,274,387
Cash, cash equivalents and short-term investments	1,807,357	0	1,807,357
	<u>3,081,744</u>	<u>0</u>	<u>3,081,744</u>
Investment income due and accrued	2,827	0	2,827
Accrued retrospective premiums	15,233,416	(3,624,040)	11,609,376
Amounts recoverable from reinsurers	250,621	0	250,621
Net deferred tax asset	556,292	(321,754)	234,538
Electronic data processing equipment and software	44,745	0	44,745
Health care and other amounts receivable	448,659	0	448,659
Total assets	<u><u>\$19,618,304</u></u>	<u><u>(\$3,945,794)</u></u>	<u><u>\$15,672,510</u></u>

Medica HealthCare Plans, Inc.
Liabilities, Capital and Surplus
December 31, 2007

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$11,117,168	\$694,781	\$11,811,949
Unpaid claims adjustment expenses	104,101	0	104,101
Premiums received in advance	2,328	0	2,328
General expenses due or accrued	1,711,645	0	1,711,645
Current federal income tax payable	697,057	0	697,057
Total liabilities	<u>13,632,299</u>	<u>694,781</u>	<u>14,327,080</u>
Capital and Surplus			
Common capital stock	17	0	17
Preferred capital stock	85	0	85
Gross paid in and contributed surplus	6,106,721	0	6,106,721
Surplus notes	1,528,000	0	1,528,000
Unassigned funds (deficit)	<u>(1,648,818)</u>	<u>(4,640,575)</u>	<u>(6,289,393)</u>
Total capital and surplus	<u>5,986,005</u>	<u>(4,640,575)</u>	<u>1,345,430</u>
Total liabilities, capital and surplus	<u><u>\$19,618,304</u></u>	<u><u>(\$3,945,794)</u></u>	<u><u>\$15,672,510</u></u>

Medica HealthCare Plans, Inc.
Statement of Revenue and Expenses
For The Year Ended December 31, 2007

Net premium income		\$136,697,461
Hospital and medical benefits	\$72,573,254	
Other professional services	15,163,513	
Outside referrals	6,503,701	
Emergency room and out-of-area	3,182,524	
Prescription drugs	21,624,127	
Aggregate write-ins	472,006	
	<u>119,519,125</u>	
Net reinsurance recoveries	451,504	
Total hospital and medical	<u>119,067,621</u>	
Claims adjustment expenses	(9,481)	
General administrative expenses	<u>13,249,655</u>	
Total underwriting deductions		<u>132,307,795</u>
Net underwriting gain		4,389,666
Net investment income earned		<u>165,045</u>
Income before income taxes		4,554,711
Federal income taxes		<u>693,645</u>
Net income		<u><u>\$3,861,066</u></u>

Medica HealthCare Plans, Inc.
Capital and Surplus Account
For The Year Ended December 31, 2007

Capital and surplus - December 31, 2006		\$517,546
Net income	\$3,861,066	
Change in net deferred income tax	716,355	
Change in nonadmitted assets	(844,387)	
Change in surplus notes	1,528,000	
Paid in capital and surplus	207,425	
Examination adjustments	<u>(4,640,575)</u>	
		<u>827,884</u>
Capital and surplus - December 31, 2007		<u><u>\$1,345,430</u></u>

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Properties Occupied By The Company **\$1,274,387**

In its 2007 annual statement, the Company failed to disclose in the notes to its financial statements the basis on which the fair value of its real estate was determined, and on Part I of Schedule A, it failed to disclose the correct amount of depreciation and amounts paid or accrued for taxes, repairs and other related expenses, as required by the *Annual Statement Instructions*. In addition, as discussed on page 9, the Company understated the amount of rental income and rental expenses by the amount of the rental income collected and retained by an affiliate.

Cash and Securities **\$1,807,357**

The Company was required by Section 641.35(9), F.S., to maintain an amount equal to its required minimum capital and surplus in cash and/or eligible securities. At December 31, 2007, the total amount of the Company's cash and eligible securities was \$1,807,357 which was \$854,111 less than the required amount of \$2,661,468.

Accrued Retrospective Premiums **\$11,609,376**

The amount of accrued retrospective premiums reported by the Company in its 2007 annual statement has been decreased by \$3,624,040 to \$11,609,376. In its 2007 annual statement, the Company incorrectly accrued a Medicare Risk Adjustment amount due from CMS in the amount of \$15 million and included that amount in its 2007 premium income. The actual amount due and later collected from CMS was \$11,375,960. As a result, the Company's "accrued retrospective premiums" account has been decreased by \$3,624,040, and its required minimum capital and surplus as of December 31, 2007 has been determined based on net premium income of \$133,073,421, which is \$3,624,040 less than the amount reported by the Company.

Net Deferred Tax Asset**\$234,538**

The \$556,292 reported by the Company has been decreased by \$321,754. In its 2007 annual statement, the Company overstated the amount of its net deferred tax asset by \$321,754.

LIABILITIES, CAPITAL AND SURPLUS**Losses and Loss Expense Obligations****\$11,811,949**

The \$11,117,168 reported by the Company in its 2007 annual statement has been increased by \$694,781. The Company's appointed actuary rendered an opinion that the amounts carried on the Company's balance sheet as of December 31, 2007 reasonably provided for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. However, the Office actuary reviewed work papers provided by the Company and determined that the liability was understated by \$694,781. This amount consists of the Company's obligation under Section 641.35(3)(a), F.S., which provides in part that, "If a health maintenance organization, through a health care risk contract, transfers to any entity the obligation to pay any provider for any claim arising from services provided to or for the benefit of any subscriber, the liabilities of the health maintenance organization under this section shall include the amount of those losses and claims to the extent that the provider has not received payment. No liability need be established if the entity has provided to the health maintenance organization a financial instrument acceptable to the office securing the obligations under the contract or if the health maintenance organization has in place an escrow or withhold agreement approved by the office which assures full payment of those claims. Financial instruments may include irrevocable, clean, and evergreen letters of credit."

Capital and Surplus**\$1,345,430**

The \$5,986,005 reported by the Company as its total capital and surplus at December 31, 2007 has been reduced by \$4,640,575 to \$1,345,430 as a result of examination adjustments. Because the Company's actual capital and surplus after examination adjustments was \$1,316,038 less than its required minimum amount of capital and surplus of \$2,661,468, the Company was in violation of Section 641.225, F.S.

Medica HealthCare Plans, Inc.
Comparative Analysis of Changes in Capital and Surplus
December 31, 2007

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, 2007 - per annual statement				\$5,986,005
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Assets:				
Accrued retrospective premiums	\$15,233,416	\$11,609,376	(\$3,624,040)	
Net deferred tax asset	\$556,292	\$234,538	(\$321,754)	
Liabilities:				
Claims unpaid	\$11,117,168	\$11,811,949	<u>(\$694,781)</u>	
Net change in capital and surplus				<u>(4,640,575)</u>
Capital and surplus, December 31, 2007 - per examination				<u><u>\$1,345,430</u></u>

SUBSEQUENT EVENTS

On January 25, 2008, the Company purchased a 20% interest in Medica Health Plans of Florida, Inc. for \$1 million.

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, 2007.

Capital Stock Disclosures

As reported on page 3, the Company incorrectly completed Note 13 to the financial statements included in its 2007 annual statement in that it failed to disclose (1) the number of its issued and outstanding shares of common and preferred stock; (2) that any payment by it of shareholder dividends was subject to the restrictions contained in Section 641.365, F.S.; and (3) that it had reserved 100,000 shares of its common stock for employee stock options. **We recommend that, in future annual statements, the Company disclose all information pertaining to its capital stock required by the NAIC Annual Statement Instructions.**

Annual Shareholder Meeting

As reported on page 5, the 2007 annual shareholders meeting for the election of directors was not held as required by Section 607.0701, F.S.; however, the Company elected its directors at its 2008 meeting of its shareholders. **We recommend that the Company hold annual shareholder meetings as required by Section 607.0701, F.S.**

Anti-Fraud Plan

As reported on page 6, the Company did not timely file its anti-fraud plan with the Department of Financial Services Division of Insurance Fraud in violation of Consent Order 77726-04-CO and

Sections 641.3915 and 626.9891, F.S. **We recommend that the Company comply on a timely basis with the Consent Order and all applicable provisions of the Florida Insurance Code.**

Surplus Notes

As reported on page 7, the Company repaid its surplus notes without the approval of the Office, in violation of Rule 690-191.088, F.A.C. **We recommend that the Company not repay any portion of its surplus notes except to the extent that such repayment is in accordance with the provisions of Rule 690-191.088, F.A.C.**

Schedule Y

As reported on page 8, Schedule Y of the Company's 2007 annual statement did not provide the names of all related companies in its holding company group. **We recommend that the Company correctly complete Schedule Y in future annual statements in accordance with the *Annual Statement Instructions*.**

Property Management Agreement

As discussed on page 9, the Company failed to abide by the terms of its property management agreement with SHP, understated in its 2007 annual statement the amount of its rental income and rental expenses associated with the agreement, and entered into the agreement without including a provision that it would be canceled upon issuance of an order by the Office, in violation of Section 641.234(3), F.S. As discussed on page 21, in its 2007 annual statement the Company failed to disclose in the notes to its financial statements the basis on which the fair value of its real estate was determined, and on Part I of Schedule A, it failed to disclose the correct amount of depreciation and amounts paid or accrued for taxes, repairs and other related expenses, as required by the *Annual Statement Instructions*. **We recommend that the Company abide by the stated terms of its agreement with SHP, accurately state in future annual statements the amount of its rental**

income and rental expenses, modify the agreement by including in the agreement the cancelation provision required by Section 641.234(3), F.S., and complete all portions of future annual statements related to owned real estate in accordance with the *Annual Statement Instructions*.

Unwritten Agreement

As reported on page 10, the Company entered into an unwritten agreement with JSP Billing Services, Inc. which was in violation of paragraph 6 of SSAP No. 25 and Section 641.234(3), F.S. **We recommend that the Company reduce to writing its agreement with JSP Billings Services, Inc. and include in the agreement the cancelation provision required by Section 641.234(3), F.S.**

Fidelity Bond

As reported on page 11, as of December 31, 2007, the Company did not have a blanket fidelity bond in the amount of \$100,000, as required by Section 641.22, F.S.; however, it was added to the policy of an affiliate on March 15, 2008.

Cash and Securities

As reported on page 21, the Company failed to maintain an amount equal to its required minimum capital and surplus in cash and/or eligible securities as required by Section 641.35(9), F.S. **We recommend that the Company comply with Section 641.35(9), F.S., at all times.**

Accrued Retrospective Premiums

As reported on page 21, the Company overstated in its 2007 annual statement the amounts of its accrued retrospective premiums and premium income by \$3,624,040. **We recommend that, in future annual statements, the Company accurately report the amounts of those items.**

Net Deferred Tax Asset

As reported on page 22, in its 2007 annual statement, the Company overstated the amount of its net deferred tax asset by \$321,754. **We recommend that, in future annual statements, the Company accurately report the amount of its net deferred tax asset.**

Losses and Loss Expense Obligations

As reported on page 22, the Company understated the amount of its liability for unpaid claims in its 2007 annual statement by \$694,781. **We recommend that the Company accurately report the amount of its liability for unpaid claims in future annual statements.**

Capital and Surplus

As reported on page 23, the Company's total capital and surplus after examination adjustments was \$1,345,430, which was \$1,316,038 less than its required minimum amount of capital and surplus of \$2,661,468 and, therefore, the Company was in violation of Section 641.225, F.S. **We recommend that the Company maintain at all times at least the minimum amount of capital and surplus required by 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 **Medica HealthCare Plans, Inc.** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus after examination adjustments was \$1,345,430, which was not in compliance with Section 641.225, F.S. Its required minimum capital and surplus at December 31, 2007 was \$2,661,468.

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

Respectfully submitted,

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