

Report on Examination
of
CarePlus Health Plans, Inc.
(Formerly, Florida 1st Health Plans, Inc.)
Coral Gables, Florida
as of
December 31, 2003

By The
State of Florida
Office of Insurance Regulation

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Tallahassee, Florida

January 3, 2005

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
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, 2003, of the financial condition and corporate affairs of:

CarePlus Health Plans, Inc.
55 Alhambra Plaza, 7th Floor
Coral Gables, Florida 33134

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

SCOPE OF EXAMINATION

This examination covered the period of October 1, 2000 through December 31, 2003. The Company, formerly known as "Florida 1st Health Plans, Inc.," was last examined by the Florida Office of Insurance Regulation (formerly, the Florida Department of Insurance) (the "Office") as of September 30, 2000.

Planning for the current examination began on July 1, 2004. The fieldwork commenced on July 6, 2004 and concluded on November 5, 2004. 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 examination conducted in accordance with the Financial Examiners Handbook, NAIC Accounting Practices and Procedures Manual, and the NAIC 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 those balances affect the Company's financial 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 accountants ("CPA") were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its 2003 annual statement. Transactions subsequent to December 31, 2003 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
- Amounts recoverable from reinsurers
- Net deferred tax asset
- Aggregate write-ins for other than invested assets
- General expenses due or accrued

STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION

The following is a summary of significant adverse findings contained in the Office's prior examination report as of September 30, 2000, along with resulting action taken by the Company in connection therewith.

AFFILIATED AGREEMENTS

Certain agreements with affiliates did not contain a provision stating that the contract shall be canceled upon issuance of an order by the Office, as required by Section 641.234(3), F.S. Resolution: The Company revised the agreements to comply with Section 641.234(3), F.S.

PROVIDER NETWORK AGREEMENT

The Company capitated and performed administrative services for a provider organization, pursuant to a provider network agreement. Terms of the agreement included a requirement that the provider organization fund a trust account in the amount of \$500,000 payable to the Company for the purpose of funding any deficits which may exist in its claims payment account administered by the Company. However, the provider organization had not funded the trust account, in violation of the agreement.

Resolution: The provider network agreement is no longer in effect.

HISTORY

GENERAL

The Company was incorporated in Florida on August 2, 1985 as Florida 1st Health Plans, Inc., and commenced business on November 25, 1985. Its name was changed to CarePlus Health Plans, Inc. on August 9, 2002.

As of December 31, 2003, the Company was authorized to transact business as a health maintenance organization (“HMO”) in accordance with Part I of Chapter 641, F.S. The Company is also licensed in Florida as a third party administrator, in accordance with Part VII of Chapter 626, F.S.

The Company’s articles of incorporation were amended and restated on December 11, 2002, as a result of the reorganization and ownership change discussed on page 6.

CAPITAL STOCK

As of December 31, 2003, the Company’s capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	90,189
Total common capital stock	\$902
Par value per share	\$0.01

At December 31, 2003, the Company was wholly-owned by CPHP Holdings, Inc., which in turn was controlled by Miguel B. Fernandez. A simplified organizational chart appears on page 9.

PROFITABILITY

The Company reported net premiums of \$393.3 million and \$18.9 million in years 2003 and 2002, respectively, and \$26.6 million for the 15 months ended December 31, 2001. It reported net income of \$9.3 million in 2003, a 2002 net loss of \$2.1 million, and a net loss of \$1.3 million for the 15 month period ending December 31, 2001.

DIVIDENDS

No shareholder dividends were paid by the Company during the period of this examination.

MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.0701 and 607.0803, F.S. Directors serving as of December 31, 2003 were:

Directors

Name and Location	Principal Occupation
Miguel B. Fernandez Miami, Florida	CEO of the Company
Robert L. Koepfel Coconut Grove, Florida	Retired
Roger Medel Ft. Lauderdale, Florida	CEO of Pediatrix Medical Group, Inc.

The following senior officers were appointed by the Board of Directors in accordance with the Company's bylaws:

Senior Officers

Name	Title
Miguel B. Fernandez	CEO
Brian S. Schacker	Vice President & Chief Financial Officer
Fred W. Brown	Vice President
Peter L. Jimenez	Vice President & Chief Operating Officer
Joseph P. Abood	Secretary & Treasurer
John J. McGoohan, D.O.	Vice President & Chief Medical Officer

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, F.S. No exceptions were noted during this examination.

CORPORATE RECORDS

The recorded minutes of the shareholder 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.

ACQUISITIONS, MERGERS, ETC.

The Company was acquired by PHP Holdings, Inc. on August 1, 2002. In connection with a reorganization, ownership of the Company was transferred from PHP Holdings, Inc. to CPHP Holdings, Inc. on December 31, 2002. The acquisition of the Company by CPHP Holdings, Inc. was approved by the Office on November 21, 2002, subject to the terms and conditions of Consent Order 64109-02-CO. As of December 31, 2003, the Company was wholly-owned by CPHP Holdings, Inc.

SURPLUS NOTES

At December 31, 2003, the Company was obligated for surplus notes in the total amount of \$14,850,000, which bear interest @ 6%. 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.").

Subsequent to the date of this examination, all of the notes were repaid with the approval of the Office.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), F.A.C. On April 1, 2004, 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.

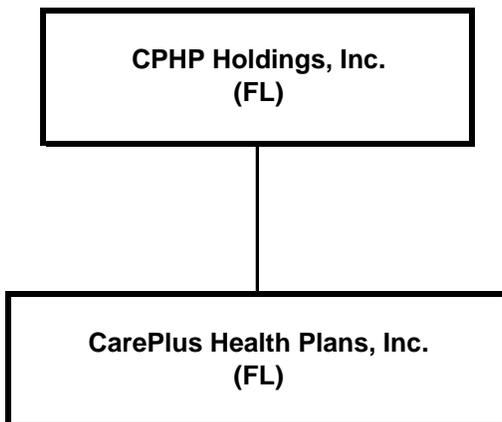
The following agreements were in force between the Company and its parent corporation:

MANAGEMENT AGREEMENT

CHPC Holdings, Inc. provided the Company with senior executive, financial, operational, and general management services in exchange for monthly fees based on the amounts of premiums and administrative costs, pursuant to a management agreement dated January 1, 2003. The fee amounted to approximately \$4.8 million in 2003.

A simplified organizational chart as of December 31, 2003 reflecting the holding company system is shown below. Schedule Y of the Company's 2003 annual statement provided the names of all related companies in the holding company group.

**CarePlus Health Plans, Inc.
Organizational Chart
December 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

The Company requires its providers to maintain appropriate levels of medical malpractice insurance or its equivalent in compliance with Rule 69O-191.069, F.A.C. The Company is a named insured on a general liability and fidelity bond insurance policy, as required by Section 641.22, F.S., and Rule 69O-191.069, F.A.C.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company makes available to eligible employees group health insurance and a 401(k) plan.

STATUTORY DEPOSITS

The Company maintained \$600,000 on deposit with the Office in accordance with Section 641.285, F.S.

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

At December 31, 2003, the Company was authorized to transact business in Florida as an HMO in accordance with Part I of Chapter 641, F.S. It holds 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., which is valid until May 23, 2006.

Prior to being acquired by PHP Holdings, Inc., the Company served enrollees in the Florida Medicaid and Healthy Kids programs and enrollees under large and small group commercial subscriber agreements. On December 31, 2002, the Company transferred to PHP Holdings, Inc. the control of its Medicaid enrollment. Effective January 1, 2003, as approved by the Centers for Medicare and Medicaid Services, the Company operates for the purpose of providing managed care services to Florida Medicare enrollees under the Medicare Choice contract previously operated by PHP Holdings, Inc. This contract is for annual periods on a calendar year basis with renewal options. The Company relies mostly on an in-house sales force to market its services, and operates as an individual practice association (“IPA”) model. It had 43,750 members at December 31, 2003.

The Company is authorized by AHCA to operate in the Florida counties of Broward, Charlotte, Collier, Dade, DeSoto, Hardee, Highlands, Hillsborough, Lee, Manatee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Sarasota, Seminole, and Volusia .

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 Company maintains stop-loss reinsurance with ReliaStar Life Insurance Company, of Minneapolis, Minnesota, for inpatient hospitalization costs that exceed \$150,000. The agreement complies with NAIC guidelines with respect to the standard insolvency and arbitration clauses, and reporting and settlement information deadlines. The Company's reinsurance expenses and recoveries during 2003 were \$1,826,283 and \$1,137,000, respectively.

The reinsurance contracts were 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 for the 15-month period ended December 31, 2001, and annually for years 2002 and 2003, 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.

During the year 2000, the Company changed its annual accounting period from a fiscal year ending on September 30 to a calendar year.

The Company's main administrative office is located in Coral Gables, Florida. During the examination, a significant portion of its books and records were located in Tampa, Florida, where this examination was conducted.

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

PROVIDER AGREEMENTS

The Company contracted with various providers to provide health care services to its members.

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with KPMG LLP to audit its financial statements.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain statements of the Company's financial position at December 31, 2003, 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 20.

CarePlus Health Plans, Inc.
Assets
December 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$0	\$25,871,139	\$25,871,139
Cash, cash equivalents, and short-term investments	88,663,481	(25,871,139)	62,792,342
Investment income due and accrued	189,970	0	189,970
Uncollected premiums and agents' balances	1,087,303	0	1,087,303
Amounts recoverable from reinsurers	345,848	0	345,848
Net deferred tax asset	159,490	0	159,490
Health care receivable	2,785,526	0	2,785,526
Aggregate write-ins for other than invested assets	<u>51,255</u>	<u>0</u>	<u>51,255</u>
Totals	<u>\$93,282,873</u>	<u>\$0</u>	<u>\$93,282,873</u>

CarePlus Health Plans, Inc.
Liabilities, Capital and Surplus
December 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$33,522,374	\$0	\$33,522,374
Accrued medical incentive pool and bonus amounts	2,658,778	0	2,658,778
Unpaid claims adjustment expenses	500,000	0	500,000
Premiums received in advance	35,488,399	0	35,488,399
General expenses due or accrued	<u>4,675,308</u>	<u>0</u>	<u>4,675,308</u>
Total liabilities	76,844,859	0	76,844,859
Capital and Surplus			
Common capital stock	902	0	902
Gross paid in and contributed surplus	23,325,979	0	23,325,979
Surplus notes	14,850,000	0	14,850,000
Unassigned funds (surplus)	<u>(21,738,867)</u>	<u>0</u>	<u>(21,738,867)</u>
Total capital and surplus	<u>16,438,014</u>	<u>0</u>	<u>16,438,014</u>
Total liabilities, capital and surplus	<u><u>\$93,282,873</u></u>	<u><u>\$0</u></u>	<u><u>\$93,282,873</u></u>

CarePlus Health Plans, Inc.
Statement of Income
For Year Ended December 31, 2003

Net premium income		\$393,338,154
Hospital/medical benefits	292,621,602	
Other professional services	7,956,813	
Emergency room and out-of-area	4,105,613	
Prescription drugs	35,630,574	
Aggregate write-ins for other hospital and medical	<u>2,207,054</u>	
	342,521,656	
Claims adjustment expenses	500,000	
General administrative expenses	<u>36,372,970</u>	
Total underwriting deductions		<u>379,394,626</u>
Net underwriting gain		13,943,528
Net investment income earned		<u>667,501</u>
Net income before federal income taxes		14,611,029
Federal and foreign income taxes incurred		<u>5,349,060</u>
Net income		<u><u>\$9,261,969</u></u>

CarePlus Health Plans, Inc.
Capital and Surplus Account
For Year Ended December 31, 2003

Capital and surplus, December 31, 2002	\$4,741,045
Net income	9,261,969
Change in nonadmitted assets	2,721,632
Change in surplus notes	2,000,000
Aggregate write-ins for gains or (losses) in surplus	<u>(2,286,632)</u>
	16,438,014
Examination adjustments	<u>0</u>
Capital and surplus, December 31, 2003	<u><u>\$16,438,014</u></u>

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Bonds **\$25,871,139**

The amount reported by the Company has been increased by \$25,871,139 as a result of a reclassification of investments in bonds incorrectly reported by the Company as cash equivalents. The bonds did not meet the definition of cash equivalents as contained in Section 641.35(1)(a), F.S.

Cash, cash equivalents and short-term investments **\$62,792,342**

The \$88,663,481 reported by the Company was decreased by \$25,871,139 as a result of the reclassification of investments in bonds incorrectly reported by the Company as cash equivalents. As stated above, the investments did not meet the definition of cash equivalents as contained in Section 641.35(1)(a), F.S.

LIABILITIES

Losses and Loss Adjustment Expenses **\$33,522,374**

An outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried in the Company's balance sheet as of December 31, 2003 reasonably provided for all of the Company's unpaid claims under the terms of its subscriber agreements. The Office actuary reviewed work papers provided by the Company and concurred with this opinion.

CarePlus Health Plans, Inc.
Comparative Analysis of Changes in Capital & Surplus
December 31, 2003

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, 2003 - per annual statement				\$16,438,014
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Capital & Surplus</u>	
Assets:				
Bonds	\$0	\$25,871,139	\$25,871,139	
Cash, cash equivalents and short-term investments	\$88,663,481	\$62,792,342	(\$25,871,139)	
Liabilities	\$76,844,859	\$76,844,859	<u>\$0</u>	
Net change in capital and surplus				<u>0</u>
Capital & surplus, December 31, 2003 - per examination				<u>\$16,438,014</u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the September 30, 2000 examination report issued by the Office.

CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION

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, 2003.

BONDS

In its 2003 annual statement, the Company incorrectly reported the value of its bonds as cash equivalents in the total amount of \$25,871,139, as discussed on page 19. **We recommend that, on all future statements filed with the Office, the Company correctly report its investments in cash and bonds in accordance with the annual statement instructions and Section 641.35, F.S.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **CarePlus Health Plans, Inc.** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$16,438,014, which was in compliance with Section 641.225, F.S.

In addition to the undersigned, Carolyn M. Maynard, Financial Specialist, and Richard Tan, Actuary, participated in this examination.

Respectfully submitted,

Robert Y. Meszaros
Financial Specialist
Florida Office of Insurance Regulation