

**Report on Examination**  
**of**  
**Vista Insurance Plan, Inc.**  
**Sunrise, Florida**  
**as of**  
**December 31, 2006**

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

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Tallahassee, Florida

February 11, 2008

Kevin M. McCarty, Commissioner  
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Dear Commissioners and Executive Director:

Pursuant to your instructions, in compliance with Section 624.316, 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:

**Vista Insurance Plan, Inc.  
1340 Concord Terrace  
Sunrise, Florida 33323**

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

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2004 through December 31, 2006. The Company was last examined by the Florida Office of Insurance Regulation (the "Office") as of December 31, 2003.

Planning for the current examination began on April 2, 2007. The fieldwork commenced on July 9, 2007 and concluded on November 13, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

This was a statutory financial condition examination conducted in accordance with the *NAIC Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions* as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (F.A.C.), 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, the NAIC Insurance Regulatory Information System (IRIS) ratio results, *Best's Insurance Reports*, 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:

- Uncollected premiums and agents' balances
- Health care and other amounts receivable
- Commitments and contingent liabilities

#### **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 December 31, 2003, along with resulting action taken by the Company in connection therewith.

##### **Information Systems Controls**

During the prior examination, a computer audit specialist engaged by the Office conducted an in-depth review of the Company's information systems controls and found that the Company did not have a formal disaster recovery plan or policy. Resolution: The Company has since established and incorporated a disaster recovery system into its business continuity plan.

### Net Deferred Tax Asset

During the prior examination, we found that the Company had overstated the amount of its net deferred tax asset as of December 31, 2003 by \$432,062. Resolution: The Company corrected the error in a statement subsequently filed with the Office.

### Current Federal and Foreign Income Taxes

During the prior examination, we found that the Company incorrectly failed to accrue the liability for its 2003 federal income tax in the amount of \$115,450 in its 2003 annual statement. Resolution: The Company corrected the error in a statement subsequently filed with the Office.

## HISTORY

### GENERAL

The Company was incorporated in Florida on November 14, 1994 and commenced business on April 6, 1995. On October 19, 2000, the Company was acquired by Florida Health Plan Holdings, LLC. On October 10, 2001, its name was changed from "HIP Insurance Company of Florida" to "Vista Insurance Plan, Inc."

As of the date of this examination, the Company was authorized to transact life and accident and health insurance coverage in Florida, in accordance with Section 624.401, F.S.

The Company's bylaws were amended effective January 3, 2006. The amendments were rescinded effective December 15, 2006.

### CAPITAL STOCK

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

Number of authorized common capital shares	30,000
Number of shares issued and outstanding	30,000
Total common capital stock	\$300,000
Par value per share	\$10.00

At December 31, 2006, the Company was wholly-owned by Florida Health Plan Administrators, LLC (FHPA), which was wholly-owned and controlled by Steven M. and Rebecca J. Scott. An abbreviated organizational chart is depicted on page 9.

## PROFITABILITY

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

(In millions)	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net premiums	\$8.7	\$13.2	\$15.6
Total revenues	\$10.9	\$13.4	\$15.9
Net income	\$1.8	\$0.7	\$2.5
Total capital and surplus	\$2.2	\$2.4	\$5.8

## DIVIDENDS

The Company paid dividends in the amount of \$12,868,219 during 2006. No dividends were paid in years 2004 or 2005.

## MANAGEMENT

The annual shareholder meeting for the election of directors was held in accordance with 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>
James E. Buncher Dallas, Texas	Chairman & CEO Safeguard Health Enterprise
Joseph R. Driscoll Braintree, Massachusetts	President & CEO Private Healthcare System
Steven M. Scott, M.D. Boca Raton, Florida	Member Scott Holding, LLC
Bertram E. Walls, M.D. Plantation, Florida	President & Medical Director Phoenix Obstetrics/Gynecology, LLC

A fifth member of the Board of Directors resigned in November of 2006 and was replaced effective January 3, 2007.

At December 31, 2006, members of the principal committees of the Board were:

**Audit, Investment,  
& Compensation  
Committees**

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James E. Buncher  
Joseph R. Driscoll

A third member of the Audit Committee resigned in November of 2006. At its next annual meeting, the Board appointed one new member effective January 3, 2007.

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>
Ronald J. Berding	Chief Executive Officer
Gerald M. Cohen, Esq.	Secretary
Leonardo F. Garcia	Treasurer
Jack S. Greenman	Chief Financial Officer
James M. Hogan, M.D.	Chief Operations Officer
Steven M. Scott, M.D.	Acting Chief Executive 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, Board of Directors, and Investment and Audit Committee 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 625.304, F.S. A review of the prior report of examination by the Office was not documented in the minutes of the Board.

## **REORGANIZATION**

As a result of a 2006 reorganization, FHPA became the sole shareholder of the Company.

## **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 March 14, 2007.

The following agreements were in force between the Company and its affiliates on December 31, 2006:

### **MANAGEMENT AGREEMENT**

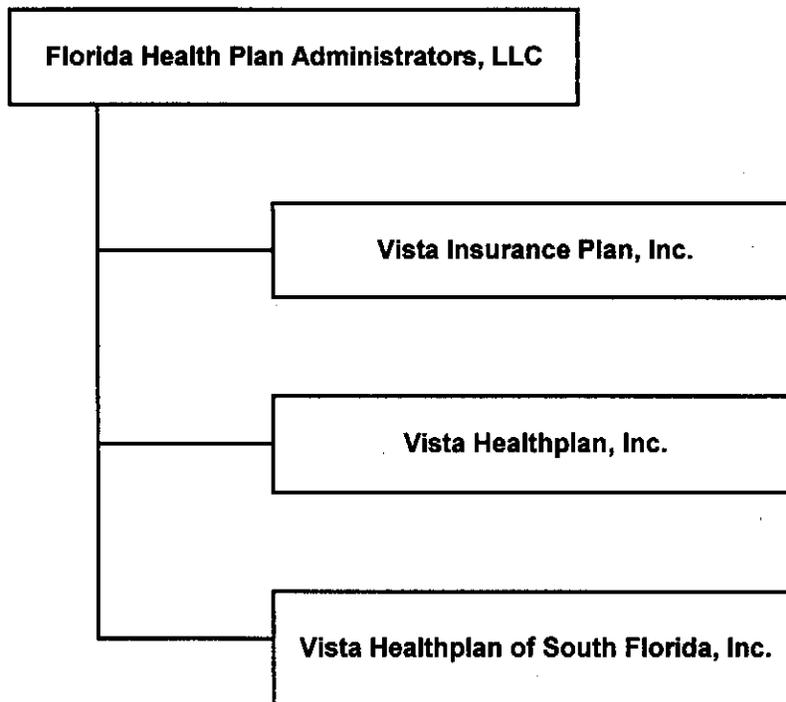
FHPA provided management services to the Company pursuant to a June 30, 2004 management agreement in return for a fee which amounted to \$1.8 million in years 2004 and 2005, and \$1.2 million in 2006. Services provided include management, financial support, marketing, claims processing, and legal services. The fee was based on a rate of up to 13.5% of premium revenues, and was payable monthly. The agreement provided for FHPA to reduce the management fee if necessary to prevent the Company's statutory surplus from falling below the minimum amount required.

### **CLAIMS PROCESSING AGREEMENT**

The Company provided the indemnity health insurance portion of dual option products, specifically PPO policies, offered by affiliates Vista Healthplan, Inc. (VHP) and Vista Healthplan of South Florida, Inc. (VHPSF), and was provided premium collection and claims processing services by VHP pursuant to an agreement dated January 1, 1996. Fees for these services were taken into account in the management agreement.

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 provided the names of all related companies in the holding company group.

**Vista Insurance Plan, Inc.  
Organizational Chart  
December 31, 2006**



## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage of up to \$10 million with a deductible of \$50,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$1.5 million.

## **PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS**

The Company had no direct employees and, therefore, no retirement or other employee benefit plans of its own. The Company was operated by FHPA pursuant to a management agreement.

## **STATUTORY DEPOSITS**

The Company maintained an \$800,000 cash deposit with the State of Florida as required by Section 624.411, F.S.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

The Company marketed traditional health and PPO insurance products to subscribers of affiliates VHP and VHPSF.

## **TERRITORY AND PLAN OF OPERATION**

At December 31, 2006, the Company was authorized to transact life and accident and health insurance solely in the State of Florida.

## **TREATMENT OF POLICYHOLDERS**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), F.S., and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

## **REINSURANCE**

The Company entered into a stop-loss insurance agreement with Munich American Reassurance Company. The agreement provided reinsurance coverage for 90% of hospital services in excess of \$350,000, up to \$2 million per member per agreement year, with a lifetime limit of \$2 million per member.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory-basis financial statements annually for years 2004, 2005, and 2006, pursuant to Section 624.424(8), F.S. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, F.A.C.

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 Sunrise, Florida, where this examination was conducted.

## **RISK-BASED CAPITAL**

The Company reported its risk-based capital at an adequate level. However, as described on page 18, the asset reported by the Company in its 2006 annual statement as "current federal and foreign income tax recoverable" in the amount of \$597,515 has been nonadmitted. As a result of this examination adjustment, the Company's risk-based capital, as restated, was at the company action level as defined by Section 624.4085, F.S.

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

### **CUSTODIAL AGREEMENT**

Securities custodial services were provided to the Company by Wachovia Bank, N.A. pursuant to an August 13, 2003 agreement.

### **PHARMACY BENEFITS MANAGEMENT SERVICES AGREEMENT**

Argus Health Systems, Inc. (Argus) provided prescription claims processing and data management services to the Company and affiliates VHP and VHPSF pursuant to a March 1, 2005 agreement. Under the agreement, the three affiliates were jointly and severally liable for all financial obligations to Argus.

## **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. Adjustments resulting from this examination are summarized on page 19.

**Vista Insurance Plan, Inc.**  
**Assets**  
**December 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Cash, cash equivalents, and short-term investments	\$1,237,060	\$800,000	\$2,037,060
Other invested assets	800,000	(800,000)	0
	<u>2,037,060</u>	<u>0</u>	<u>2,037,060</u>
Uncollected premiums and agents' balances	35,126	0	35,126
Current federal and foreign income tax recoverable	597,515	(597,515)	0
Receivables from parent, subsidiaries and affiliates	588,773	0	588,773
Health care and other amounts receivable	64,785	0	64,785
Aggregate write-ins for other than invested assets	13,141	0	13,141
	<u>588,773</u>	<u>0</u>	<u>588,773</u>
Totals	<u>\$3,336,400</u>	<u>(\$597,515)</u>	<u>\$2,738,885</u>

**Vista Insurance Plan, Inc.**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2006**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Contract claims - Accident and health	\$935,920	\$0	\$935,920
General expenses due or accrued	205,478	0	205,478
Taxes, licenses and fees due or accrued	39,158	0	39,158
Payable to parent, subsidiaries and affiliates	752	0	752
<b>Total liabilities</b>	<u>1,181,308</u>	<u>0</u>	<u>1,181,308</u>
<b>Capital and Surplus</b>			
Gross paid in and contributed surplus	18,743,917	0	18,743,917
Unassigned funds	(16,888,825)	(597,515)	(17,486,340)
Surplus	1,855,092	(597,515)	1,257,577
Common capital stock	300,000	0	300,000
<b>Total capital and surplus</b>	<u>2,155,092</u>	<u>(597,515)</u>	<u>1,557,577</u>
<b>Totals</b>	<u>\$3,336,400</u>	<u>(\$597,515)</u>	<u>\$2,738,885</u>

**Vista Insurance Plan, Inc.**  
**Summary of Operations**  
**For The Year Ended December 31, 2006**

Premiums and annuity considerations		\$8,654,084
Net investment income		2,108,006
Aggregate write-ins for miscellaneous income		147,860
		<u>10,909,950</u>
Disability benefits and benefits under A&H contracts	\$7,535,175	
General insurance expenses	1,252,045	
Insurance taxes, licenses and fees	154,128	
		<u>8,941,348</u>
		1,968,602
Federal and foreign income taxes incurred		<u>(37,497)</u>
Net gain from operations before capital gains		2,006,099
Net realized capital gains (losses)		<u>(161,040)</u>
Net income		<u><u>\$1,845,059</u></u>

**Vista Insurance Plan, Inc.**  
**Capital and Surplus Account**  
**For The Year Ended December 31, 2006**

Capital and surplus - December 31, 2005		\$2,405,122
Net income	\$1,845,059	
Change in net deferred income tax	(6,210)	
Change in nonadmitted assets and related items	10,779,340	
Dividends to stockholders	(12,868,219)	
Examination adjustments	<u>(597,515)</u>	<u>(847,545)</u>
Capital and surplus - December 31, 2006		<u>\$1,557,577</u>

## COMMENTS ON FINANCIAL STATEMENTS

### ASSETS

<b>Cash, cash equivalents, and short-term investments</b>	<b>\$2,037,060</b>
<b>Other invested assets</b>	<b>\$0</b>

In its 2006 annual statement, the Company incorrectly reported its \$800,000 cash deposit with the State of Florida as other invested assets rather than as cash. Accordingly, the amount has been reclassified.

<b>Current federal and foreign income tax recoverable</b>	<b>\$0</b>
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Statement of Statutory Accounting Principles (SSAP) No. 10 provides in part that, in the case of a reporting entity filing a consolidated income tax return with affiliates, income tax transactions between the affiliated parties shall be recognized if they are pursuant to a written income tax allocation agreement. In its 2006 annual statement, the Company reported its share of a consolidated income tax overpayment in the amount of \$597,515. However, the Company had not entered into a written income tax allocation agreement. As a result, the reported asset has been nonadmitted.

### LIABILITIES

<b>Contract claims - Accident and health</b>	<b>\$935,920</b>
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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.

**Vista Insurance Plan, 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			\$2,155,092
	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Surplus</u>
Cash, cash equivalents, and short-term investments	\$1,237,060	\$2,037,060	\$800,000
Other invested assets	\$800,000	\$0	(\$800,000)
Current federal and foreign income tax recoverable	\$597,515	\$0	<u>(\$597,515)</u>
Net change in capital and surplus			<u>(\$597,515)</u>
Capital and surplus, December 31, 2006 - per examination			<u><u>\$1,557,577</u></u>

## **SUBSEQUENT EVENTS**

On September 10, 2007, FHPA was acquired by Bethesda, Maryland-based Coventry Health Care, Inc.

## SUMMARY OF FINDINGS

### COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company had taken the necessary actions to comply with the comments contained in the 2003 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, 2006.

#### Review of Prior Examination Report

As noted on page 7, a review of the prior report of examination by the Office was not documented in the minutes of the meetings of the Board. **We recommend that the Company's board of directors document its review of regulatory examination reports in its minutes.**

#### Risk-Based Capital

As reported on page 12, the Company's risk-based capital was at the company action level as defined by Section 624.4085, F.S., as of December 31, 2006. **We recommend that the Company take immediate corrective action with respect to the level of its risk-based capital, in accordance with Section 624.4085, F.S.**

#### Classification Errors

As reported on page 18, the Company incorrectly reported its \$800,000 cash deposit with the State of Florida as other invested assets rather than as cash in its 2006 annual statement. **We recommend that the Company properly classify its cash balances in accordance with the NAIC *Annual Statement Instructions*.**

Current Federal and Foreign Income Tax Recoverable

As discussed on page 18, the Company reported in its 2006 annual statement its share of a consolidated income tax overpayment in the amount of \$597,515. However, the Company had not entered into a written income tax allocation agreement. As a result, the reported asset has been nonadmitted pursuant to SSAP No. 10. **We recommend that the Company non-admit such amounts on future statements filed with the Office in accordance with SSAP No. 10.**

## CONCLUSION

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

Per examination findings, the Company's total capital and surplus was \$1,557,577, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus at December 31, 2006 was \$1,500,000.

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

Respectfully submitted,

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M. Alison Miele, Financial Examiner/Analyst  
Florida Office of Insurance Regulation