

Report on Examination
of
Vista Healthplan of South Florida, Inc.
(Formerly, “Foundation Health, a Florida Health Plan, Inc.”)

Hollywood, Florida

as of

December 31, 2003

By The
State of Florida
Office of Insurance Regulation

CONTENTS

SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION.....	2
PHARMACY REBATE AGREEMENT.....	2
ACCOUNTS AND RECORDS.....	3
ANNUAL STATEMENT.....	3
AMOUNTS RECOVERABLE FROM REINSURERS.....	3
AGGREGATE WRITE-INS FOR OTHER THAN INVESTED ASSETS.....	3
CAPITAL AND SURPLUS.....	4
HISTORY.....	5
GENERAL.....	5
CAPITAL STOCK.....	5
PROFITABILITY.....	6
DIVIDENDS.....	6
MANAGEMENT.....	6
CONFLICT OF INTEREST PROCEDURE.....	7
CORPORATE RECORDS.....	7
SURPLUS NOTES.....	7
AFFILIATED COMPANIES.....	8
AGREEMENT WITH VISTA HEALTHPLAN, INC.....	8
AGREEMENT WITH VISTA INSURANCE PLAN, INC.....	8
ORGANIZATIONAL CHART.....	9
FIDELITY BOND AND OTHER INSURANCE.....	10
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS.....	10
STATUTORY DEPOSITS.....	10
INSURANCE PRODUCTS AND RELATED PRACTICES.....	11
TERRITORY AND PLAN OF OPERATION.....	11
TREATMENT OF MEMBERS.....	11
REINSURANCE.....	12

ACCOUNTS AND RECORDS	13
PROVIDER AGREEMENTS	13
INDEPENDENT AUDITOR AGREEMENT	13
INFORMATION SYSTEMS CONTROLS.....	14
FINANCIAL STATEMENTS PER EXAMINATION.....	15
ASSETS	16
LIABILITIES, CAPITAL AND SURPLUS.....	17
STATEMENT OF INCOME	18
COMMENTS ON FINANCIAL STATEMENTS.....	19
ASSETS	19
LIABILITIES.....	20
CAPITAL AND SURPLUS.....	20
COMPARATIVE ANALYSIS OF CHANGES IN CAPITAL AND SURPLUS.....	21
SUMMARY OF FINDINGS.....	22
COMPLIANCE WITH PREVIOUS DIRECTIVES.....	22
CURRENT EXAMINATION COMMENTS AND CORRECTIVE ACTION.....	22
INFORMATION SYSTEMS CONTROLS	22
AGGREGATE WRITE-INS FOR INVESTED ASSETS.....	23
AMOUNTS RECOVERABLE FROM REINSURERS	23
FURNITURE & EQUIPMENT	23
CLAIMS UNPAID.....	24
CAPITAL AND SURPLUS.....	24
CONCLUSION	25

Tallahassee, Florida

June 27, 2005

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 641.27, Florida Statutes (FS), 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:

**Vista Healthplan of South Florida, Inc.
300 South Park Road – 4th Floor
Hollywood, Florida**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2002 through December 31, 2003. The Company was last examined by the Florida Office of Insurance Regulation (formerly, the Florida Department of Insurance) (the "Office") as of December 31, 2001.

Planning for the current examination began on November 1, 2004. The fieldwork commenced on November 9, 2004 and concluded on May 4, 2005. 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 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 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 A.M. Best Report, 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 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 *net deferred tax asset* and *general expenses due or accrued* accounts.

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, 2001, along with resulting action taken by the Company in connection therewith.

PHARMACY REBATE AGREEMENT

The Company was unable to provide a written contract between it and Florida Health Plan Management, Inc. (FHPM), an affiliate, setting forth their pharmacy rebate arrangement and containing the cancellation provision required by Section 641.234(3), FS. In addition, it reported health care receivables consisting of pharmacy rebates in the amount of \$754,468 which were actually amounts due from an affiliate, and which did not meet the requirements for admission as set forth in SSAP No. 84. Resolution: As of December 31, 2003, the agreement with FHPM was no longer in effect and none of the Company's health care receivables were due from affiliates.

ACCOUNTS AND RECORDS

There were instances noted during the prior examination in which the Company's accounts and records did not clearly disclose the nature of the underlying transactions, and in which it was unable to provide basic documentation supporting certain of its transactions and account balances. Resolution: During the current examination, we found that these conditions had been corrected.

ANNUAL STATEMENT

In its 2001 annual statement, the Company did not complete, or incorrectly completed, various schedules. In addition, the Company incorrectly reported its bonds as *other long-term invested assets*. Resolution: The current examination did not result in similar findings as of December 31, 2003. In its 2003 annual statement, the Company correctly reported its bonds.

AMOUNTS RECOVERABLE FROM REINSURERS

The Company reported \$18,709,623 as being due from FH Assurance Company, an unauthorized reinsurer, of which only \$13,142,535 was secured in a trust account in accordance with Section 624.610(3), FS. Resolution: The trust account was fully funded in January of 2002.

AGGREGATE WRITE-INS FOR OTHER THAN INVESTED ASSETS

In its 2001 annual statement, the Company reported pharmacy rebates of \$496,026 due from Healthnet Pharmaceutical Services which amounts were nonadmitted upon examination on the basis that the Company could not demonstrate that they qualified as *pharmacy rebates receivable* in accordance with SSAP No. 84. The Company also reported amounts due from its former parent Healthnet and related companies, in the total amount of \$1,292,303, which the Company could not substantiate. Resolution: The current examination did not result in similar findings.

CAPITAL AND SURPLUS

At December 31, 2001, the Company was in violation of Section 641.225, FS, in that its actual capital and surplus, after examination adjustments, was \$2,692,481, which is \$8,139,197 less than its then-required minimum capital and surplus of \$10,831,678. The Company was directed to comply at all times with the minimum capital and surplus requirements of Section 641.225, FS. As further discussed on page 20, this has not been corrected. Because the Company's actual capital and surplus after examination adjustments at December 31, 2003 was \$5,601,231, which is \$1,295,699 less than its required amount of capital and surplus of \$6,896,930, the Company was again in violation of Section 641.225, FS.

HISTORY

GENERAL

The Company was incorporated in Florida on September 9, 1993 as a for-profit corporation, and commenced business on November 1, 1994. It received its certificate of authority to operate as a health maintenance organization (HMO) on February 28, 1995. On August 1, 2001, Florida Health Plan Holdings II, LLC, acquired the Company from Health Net, Inc. Effective January 1, 2003, its name was changed to "Vista Healthplan of South Florida, Inc."

In accordance with Part I of Chapter 641, FS, the Company was authorized to transact business as an HMO.

The Company's articles of incorporation were amended on July 17, 2002 and again on November 15, 2002.

CAPITAL STOCK

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

Number of authorized common capital shares	50,000,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1.00
Par value per share	\$0.001

In its 2003 annual statement, the Company incorrectly reported its total capital stock at \$10.00.

The Company is a member of an affiliated corporate group ultimately owned and controlled by Steven M. Scott, M.D., and Rebecca J. Scott. At December 31, 2003, it was wholly-owned by Florida Health Plan Holdings II, LLC, which was wholly-owned by Vista Health Plan Holdings, Inc., as depicted on page 9.

PROFITABILITY

For the year 2003, the Company reported net income of \$432,762; for the year 2002, it reported a net loss of \$7.6 million. The Company reported premiums of \$344.8 million and \$411.5 million in years 2003 and 2002, respectively.

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 held in accordance with Sections 607.0701 and 607.0803, FS. Directors serving as of December 31, 2003 were:

Directors

Name and Location	Principal Occupation
Ronald J. Berding Miramar, Florida	President of the Company
Gerald M. Cohen Miami, Florida	General Counsel of the Company
J. Michael Hogan, M.D. Davie, Florida	Chief Operations Officer of the Company
Steven M. Scott, M.D. Boca Raton, Florida	Chairman of the Company's board of directors
Thomas C. Wyss Ft. Lauderdale, Florida	Chief Financial Officer of the Company

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

Senior Officers

Name	Title
Ronald J. Berding	President
Gerald M. Cohen	Secretary
Leonardo F. Garcia	Treasurer
Thomas C. Wyss	Chief Financial Officer
J. Michael Hogan, M.D.	Chief Operations Officer

CONFLICT OF INTEREST PROCEDURE

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, FS. 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, FS, including the authorization of investments as required by Section 641.35(7), FS.

SURPLUS NOTES

At December 31, 2003, the Company was obligated for four (4) surplus notes in the total amount of \$5,660,000. All of the notes were approved by the Company's board of directors and the Office, and comply with the provisions of Rule 69O-191.088, Florida Administrative Code (FAC). In accordance with Section 641.19, FS, the surplus note debt was included in the Company's surplus.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. Its latest holding company registration statement was filed with the State of Florida, as required by Section 628.801, FS, and Rule 69O-143.046, FAC, on January 8, 2003.

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

AGREEMENT WITH VISTA HEALTHPLAN, INC.

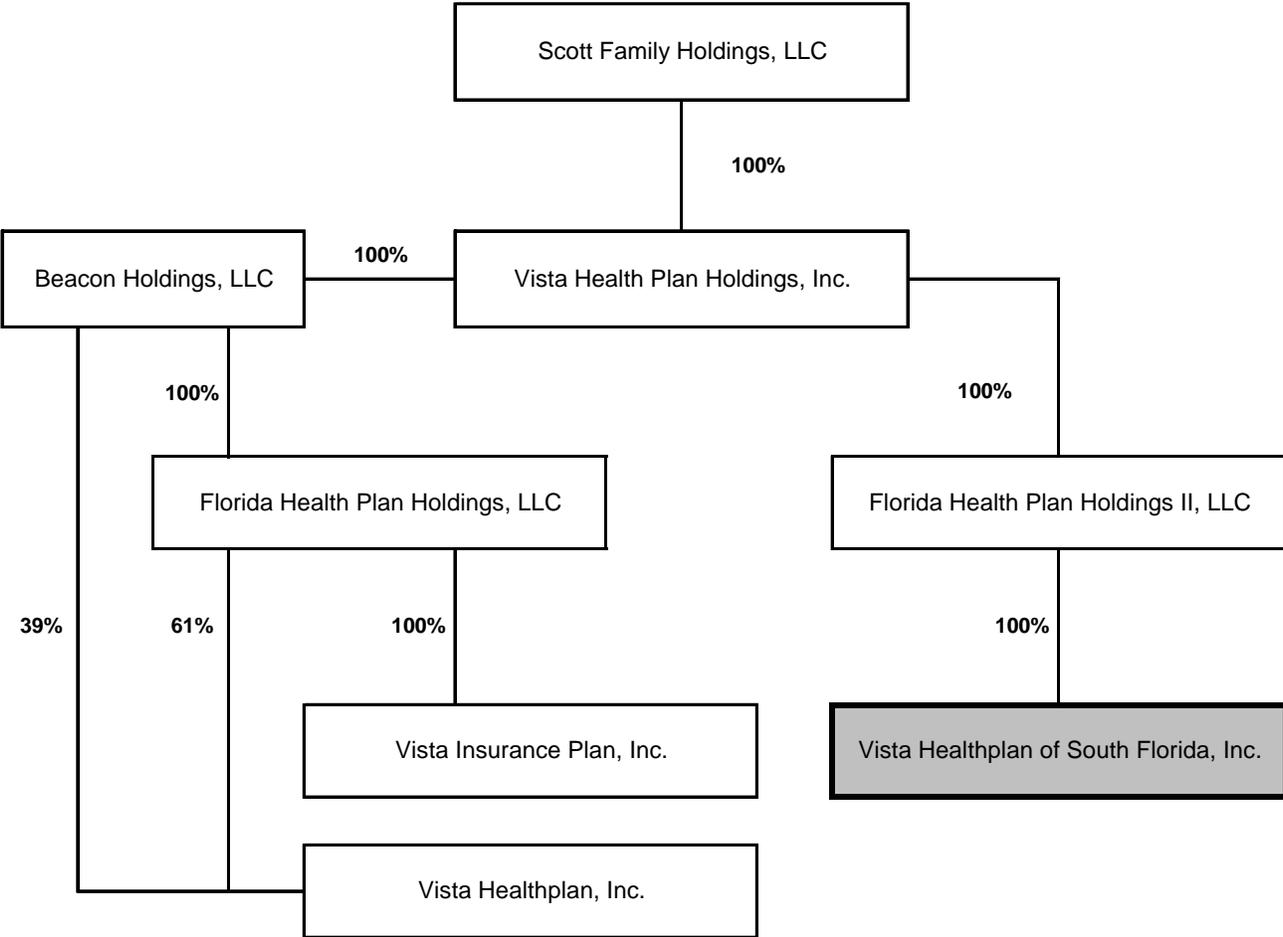
Vista Healthplan, Inc. (VHP) performs administrative services for the Company pursuant to a November 2002 agreement, in return for fees in the amount of 10% of billed premiums, which fees amounted to approximately \$34 million in 2003.

AGREEMENT WITH VISTA INSURANCE PLAN, INC.

Vista Insurance Plan, Inc. (VIP) provides the indemnity health insurance portion of certain products offered by the Company. The Company pays to VIP administrative service fees plus a portion of the gross premiums attributable to the products.

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.

**Vista Healthplan of South Florida, 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, FAC. The Company is a named insured on general liability and fidelity bond insurance policies, as required by Section 641.22, FS, and Rule 69O-191.069, FAC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Company employees are eligible to participate in deferred compensation, insurance and other employee benefit plans of VHP.

STATUTORY DEPOSITS

The Company maintained \$2,030,000 on deposit with the Office in accordance with Section 641.285, FS; and \$10,000 in accordance with Section 641.227, FS.

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, FS. 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, FS, which is valid until February 26, 2005.

The Company uses a network of general agents and brokers for its commercial services, and its own employees for marketing its Medicare and Medicaid services. It operates as an individual practice association (IPA) model, and provides health care services to commercial, Medicare, and Medicaid members, which numbered 77,356 at December 31, 2003.

The Company is authorized by AHCA to operate in the Florida counties of Broward, Martin, Miami-Dade, Palm Beach, and St. Lucie.

TREATMENT OF MEMBERS

The Company established procedures for handling written complaints in accordance with Section 641.511, FS, and maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

During 2002, the Company maintained stop loss insurance coverage with Continental Assurance Company. The Company was insured for 90% of the cost of covered hospitalization services in excess of \$200,000, up to a lifetime benefit of \$2 million per member. During 2003, the Company maintained stop loss insurance coverage with Centre Insurance Company. The Company was insured for 90% of the cost of covered hospitalization costs in excess of \$200,000, up to \$1 million per member per year. Under this policy, the insurer's maximum liability was \$12 million or 150% of gross premiums. Subsequent to the period of this examination, the Company entered into a reinsurance agreement with Employers Reinsurance Corporation.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2002 and 2003, pursuant to Section 641.26(1)(c), FS.

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 is located in Hollywood, Florida, where this examination was conducted. A significant portion of the Company's records are located in Sunrise, Florida.

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 Ernst & Young LLP to audit its financial statements.

INFORMATION SYSTEMS CONTROLS

As part of the financial condition examination of VIP as of December 31, 2003, Computer Aid, Inc., a computer audit specialist (CAS) engaged by the Office, conducted an in-depth review of the adequacy of VIP's information systems controls. The CAS review was based on the NAIC's Exhibit C (Evaluation of Controls in Information Systems Questionnaire), and was conducted in the Company's Sunrise, Florida, offices from November 29, 2004 through December 3, 2004. Since the Company, VIP, and VHP utilize the same information systems, the findings of the CAS are equally applicable to each of the three companies. The CAS found the Company's information systems controls to be generally effective except in the area of contingency planning. Specifically, the CAS found that, while the Company's system backup, recovery, and off-site storage procedures were adequate to provide limited assurance that it could recover from routine limited disaster situations such as equipment failure, the Company did not have a formal disaster recovery plan or policy addressing possible significant disasters such as hurricanes.

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 21.

Vista Healthplan of South Florida, Inc.
Assets
December 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$30,952,562	\$0	\$30,952,562
Cash, cash equivalents, & short-term investments	21,581,001	0	21,581,001
Aggregate write-ins for invested assets	<u>408,389</u>	<u>(50,889)</u>	<u>357,500</u>
	52,941,952	(50,889)	52,891,063
Investment income due & accrued	137,223	0	137,223
Uncollected premiums & agents' balances	658,069	0	658,069
Amounts recoverable from reinsurers	8,833,542	(867,654)	7,965,888
Net deferred tax asset	760,448	0	760,448
Electronic data processing equipment & software	176,094	0	176,094
Furniture and equipment including health care delivery assets	79,873	(39,059)	40,814
Health care & other amounts receivable	1,144,195	50,889	1,195,084
Aggregate write-ins for other than invested assets	<u>677,932</u>	<u>0</u>	<u>677,932</u>
Totals	<u><u>\$65,409,328</u></u>	<u><u>(\$906,713)</u></u>	<u><u>\$64,502,615</u></u>

Vista Healthplan of South Florida, Inc.
Liabilities, Capital and Surplus
December 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	\$39,266,844	(\$573,354)	\$38,693,490
Accrued medical incentive pool & bonus payments	1,437,377	0	1,437,377
Unpaid claims adjustment expenses	892,122	0	892,122
Aggregate health policy reserves	721,775	0	721,775
Premiums received in advance	15,769,672	0	15,769,672
General expenses due or accrued	1,258,169	0	1,258,169
Amounts due to parent, subsidiaries & affiliates	<u>128,779</u>	<u>0</u>	<u>128,779</u>
Total liabilities	\$59,474,738	(573,354)	58,901,384
Capital and Surplus			
Common capital stock	10	0	10
Gross paid in & contributed surplus	72,743,506	0	72,743,506
Surplus notes	5,660,000	0	5,660,000
Unassigned funds (surplus)	<u>(72,468,926)</u>	<u>(333,359)</u>	<u>(72,802,285)</u>
Total capital & surplus	<u>5,934,590</u>	<u>(333,359)</u>	<u>5,601,231</u>
Total liabilities, capital & surplus	<u><u>\$65,409,328</u></u>	<u><u>(\$906,713)</u></u>	<u><u>\$64,502,615</u></u>

Vista Healthplan of South Florida, Inc.
Statement of Income
For Year Ended December 31, 2003

Income

Net premium income		\$344,846,508
Risk revenue		<u>1,030</u>
		344,847,538
Hospital/medical benefits	\$259,007,862	
Other professional services	6,960,774	
Outside referrals	1,321,537	
Prescription drugs	<u>36,090,886</u>	
	303,381,059	
Net reinsurance recoveries	<u>(4,015,409)</u>	
Total medical & hospital	299,365,650	
General administrative expenses	<u>46,521,933</u>	
Total underwriting deductions		<u>345,887,583</u>
Net underwriting gain or (loss)		(1,040,045)
Net investment income earned		<u>1,472,807</u>
Net income		<u><u>\$432,762</u></u>

Capital and Surplus Account

Capital & surplus, December 31, 2002		\$6,705,542
Net income		432,762
Change in nonadmitted assets		<u>(1,203,714)</u>
		5,934,590
Examination adjustments		<u>(333,359)</u>
Capital & surplus, December 31, 2003		<u><u>\$5,601,231</u></u>

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Aggregate Write-Ins For Invested Assets **\$357,500**

The \$408,389 reported by the Company has been decreased by \$50,889. In its 2003 annual statement, the Company incorrectly reported as *aggregate write-ins for invested assets* a health care receivable in the amount of \$50,889, which has been reclassified to *health care and other amounts receivable*.

Amounts Recoverable From Reinsurers **\$7,965,888**

The \$8,833,542 reported by the Company has been decreased by \$867,654. The Company has filed certain claims with its stop loss insurer in the total amount of \$1,458,746 which have been denied by the insurer. The Company and the insurer are engaged in arbitration over the disputed claims. Of the total amount of these claims, the Company admitted as an asset \$867,654 as of December 31, 2003, representing its estimate of the collectible portion. However, because the Company has historically collected only 46% of disputed subrogation claims, we have determined that the Company should have only admitted \$671,023, or 46% of \$1,458,746, as required by SSAP No. 55. In addition, the collectible portion of these receivables should have been reported by the Company as a reduction of its liability for unpaid claims, as required by SSAP No. 55. As a result, we have non-admitted \$196,631, and reclassified \$671,023 to *claims unpaid*.

Furniture & Equipment **\$40,814**

The \$79,873 reported by the Company has been decreased by \$39,059. In its 2003 annual statement, the Company reported furniture and equipment purchased after June 30, 2001 having a net book value of \$39,059. Such assets are not allowable as admitted assets pursuant to Section 641.35(2)(e), FS.

LIABILITIES

Claims Unpaid **\$38,693,490**

The \$39,266,844 reported by the Company has been decreased by \$573,354. An outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried on 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. However, the Office actuary reviewed work papers provided by the Company and determined that the liability was understated by \$97,669. In addition, the *claims unpaid* liability was decreased by \$671,023 as a result of the reclassification of subrogation receivables, as discussed on the preceding page. The net adjustment to the *claims unpaid* account was, therefore, \$573,354.

CAPITAL AND SURPLUS **\$5,601,231**

As of December 31, 2003, the Company was required by Section 641.225, FS, to maintain surplus of \$6,896,930, or 2% of its net premiums of \$344,846,508. As a result of examination adjustments, the Company's total capital and surplus at December 31, 2003 has been reduced to \$5,601,231. Because the Company's actual capital and surplus after examination adjustments is \$1,295,699 less than the required amount, the Company was not in compliance with Section 641.225, FS.

**Vista Healthplan of South Florida, Inc.
Comparative Analysis of Changes in Capital and 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			\$5,934,590
	<u>Per Company</u>	<u>Per Exam</u>	<u>Increase (Decrease) In Capital & Surplus</u>
<u>Assets:</u>			
Aggregate write-ins for invested assets	\$408,389	\$357,500	(\$50,889)
Amounts recoverable from reinsurers	\$8,833,542	\$7,965,888	(\$867,654)
Furniture and equipment	\$79,873	\$40,814	(\$39,059)
Health care & other amounts receivable	\$1,144,195	\$1,195,084	\$50,889
<u>Liabilities:</u>			
Claims unpaid	\$39,266,844	\$38,693,490	<u>\$573,354</u>
Net change in capital and surplus			<u>(333,359)</u>
Capital & surplus, December 31, 2003 - per examination			<u><u>\$5,601,231</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the prior examination report issued by the Office as of December 31, 2001, except as follows. At December 31, 2001, the Company was in violation of Section 641.225, FS, in that its actual capital and surplus, after examination adjustments, was \$2,692,481, which is \$8,139,197 less than its then-required minimum capital and surplus of \$10,831,678. The Company was directed to comply at all times with the minimum capital and surplus requirements of Section 641.225, FS. However, as further discussed on pages 20 and 24, the Company remained in violation of Section 641.225, FS, as of December 31, 2003.

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 of the examination as of December 31, 2003.

INFORMATION SYSTEMS CONTROLS

As more fully discussed on page 14, a computer audit specialist engaged by the Office conducted an in-depth review of the adequacy of the Company's information systems controls and found that the Company did not have a formal disaster recovery plan or policy. **We recommend that the Company establish a formal disaster recovery plan and policy addressing possible significant disasters such as hurricanes.**

AGGREGATE WRITE-INS FOR INVESTED ASSETS

As discussed on page 19, the Company incorrectly reported as *aggregate write-ins for invested assets* a health care receivable in the amount of \$50,889 in its 2003 annual statement, which has been reclassified to *health care and other amounts receivable*. **We recommend that, on all future statements filed with the Office, the Company properly classify its health care receivables in accordance with the annual statement instructions.**

AMOUNTS RECOVERABLE FROM REINSURERS

As discussed on page 19, the Company reported \$867,654 as *amounts recoverable from reinsurers* consisting of the Company's estimate of the collectible portion of disputed claims made by the Company to its stop loss insurer. The amount reported by the Company was overstated by \$196,631. In addition, the correct amount of the item, or \$671,023, should have been reported as a reduction to its *claims unpaid liability*. **We recommend that, on all future statements filed with the Office, the Company report amounts due from its stop loss insurer at collectible amounts offset against its *claims unpaid liability*, as required by SSAP No. 55.**

FURNITURE & EQUIPMENT

As discussed on page 19, the Company reported furniture and equipment purchased after June 30, 2001 having a net book value of \$39,059 in its 2003 annual statement. Such assets are not allowable as admitted assets pursuant to Section 641.35(2)(e), FS. **We recommend that, on all future statements filed with the Office, the Company non-admit furniture and equipment purchased after June 30, 2001, and admit only those assets allowed by Part I of Chapter 641, FS.**

CLAIMS UNPAID

As reported on page 20, an outside actuarial firm appointed by the Board of Directors rendered an opinion that the amounts carried on 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.

However, the Office actuary reviewed work papers provided by the Company and determined that the liability was understated by \$97,669. **We recommend that, on all future statements filed with the Office, the Company accurately report its *claims unpaid* liability in accordance with Section 641.35(3), FS.**

CAPITAL AND SURPLUS

As reported on page 20, the Company was required by Section 641.225, FS, to maintain surplus of \$6,896,930, or 2% of its net premiums of \$344,846,508, at December 31, 2003. As a result of examination adjustments, the Company's total capital and surplus at December 31, 2003 has been reduced to \$5,601,231. Because the Company's actual capital and surplus after examination adjustments is \$1,295,699 less than the required amount, the Company was not in compliance with Section 641.225, FS. As discussed on page 4, the Company was in violation of Section 641.225, FS, as of December 31, 2001, as well, in that its actual capital and surplus at that time was \$2,692,481, which is \$8,139,197 less than its then-required minimum capital and surplus of \$10,831,678. **We recommend that the Company maintain at all times at least the minimum capital and surplus required by Section 641.225, FS.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Vista Healthplan of South Florida, 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 \$5,601,231, which was **not** in compliance with Section 641.225, FS.

In addition to the undersigned, Computer Aid, Inc.; Kenneth V. Carroll, Financial Examiner/Analyst; Richard J. Schaaf, CPA, Financial Specialist; and Richard Tan, Actuary; participated in this examination.

Respectfully submitted,

Robert Y. Meszaros
Financial Specialist
Florida Office of Insurance Regulation