

Report on Examination
of
Vista Insurance Plan, Inc.
Hollywood, Florida
as of
December 31, 2003

By The
State of Florida
Office of Insurance Regulation

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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 624.316, 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 Insurance Plan, Inc.
300 South Park Road
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 12, 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 as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (FAC), 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 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, 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.

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.

BOARD REVIEW OF EXAMINATION REPORTS

There was no indication in the Board minutes that the Company's directors reviewed the previous examination report. Resolution: During the current examination, we found that the directors' review of the previous examination report was documented in the minutes of the Board.

FINANCE AND AUDIT COMMITTEE

There was no documentation that the Finance and Audit Committee complied with the requirements of Section 624.424(8)(c), FS. The Company was directed to have its Finance and Audit Committee be responsible for reporting to the Board of Directors, and discussing audit findings and interacting with the CPA with regard to the CPA's findings, in accordance with Section 624.424(8)(c), FS. Resolution: During the current examination, we found that the Company complied with the directive.

HOLDING COMPANY REGISTRATION STATEMENT

As of December 31, 2001, the Company had not filed its holding company registration statement, as required by Section 628.801, FS, and Rule 4-143.046, FAC. Resolution: The Company filed the required holding company registration statement on October 30, 2002, and again on January 8, 2003.

ACCOUNTS AND RECORDS

The examination revealed that the data contained in the Company's lag study triangle (used in estimating its claims liability) were not reliable, and that the lag study triangle did not always agree with actual claims activity. Resolution: During the current examination, we found the Company's lag study triangle data to be reliable.

RESTRICTED CASH

The Company reported as an admitted asset restricted cash in the amount of \$800,000. Resolution: The restrictions were removed on January 9, 2003.

ACCIDENT AND HEALTH PREMIUMS DUE AND UNPAID

The Company overstated the amount of its accident and health premiums due and unpaid by \$5,892. Resolution: The current examination did not result in a similar finding.

POLICY AND CONTRACT CLAIMS: ACCIDENT AND HEALTH

The Company understated the amount of its claims liability by \$291,112. It was directed to accurately report the amount of its policy and contract claims obligation on all future statements filed with the Office. Resolution: The current examination did not result in a similar finding.

HISTORY

GENERAL

The Company was incorporated on November 14, 1994 in Florida, and received its certificate of authority from the Office 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."

At December 31, 2003, the Company was authorized to transact life and accident and health insurance coverage in Florida, in accordance with Section 624.401(1), FS.

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, 2003, 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, 2003, the Company was wholly-owned by Florida Health Plan Holdings, LLC, which is a wholly-owned member of a corporate group ultimately owned and controlled by Steven M. Scott, M.D., and Rebecca J. Scott. A simplified organizational chart is depicted on page 8.

PROFITABILITY

The Company reported net premiums of \$27.0 million and \$27.2 million in years 2003 and 2002, respectively; and net income of \$3,993,915 and \$1,019,599 in those same years.

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 628.231, 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 Company's board of directors formed board committees in accordance with Section 607.0825, FS.

At December 31, 2003, members of its principal committees were:

Audit Committee	Investment Committee	Executive Committee
Leonardo F. Garcia Steven M. Scott, M.D. Thomas C. Wyss	Leonardo F. Garcia Steven M. Scott, M.D. Thomas C. Wyss	Ronald J. Berding J. Michael Hogan, M.D. Steven M. Scott, M.D. Thomas C. Wyss

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, Board of Directors, and Audit, Investment, and Executive 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, FS, including the authorization of investments as required by Section 625.304, FS.

SURPLUS NOTES

During 2003, the Company loaned \$2.4 million to its affiliate Vista Healthplan, Inc. (VHP) in exchange for four surplus notes in the amount of \$600,000 each. In its 2003 annual statement, the Company correctly nonadmitted these notes receivable.

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:

MANAGEMENT AGREEMENT

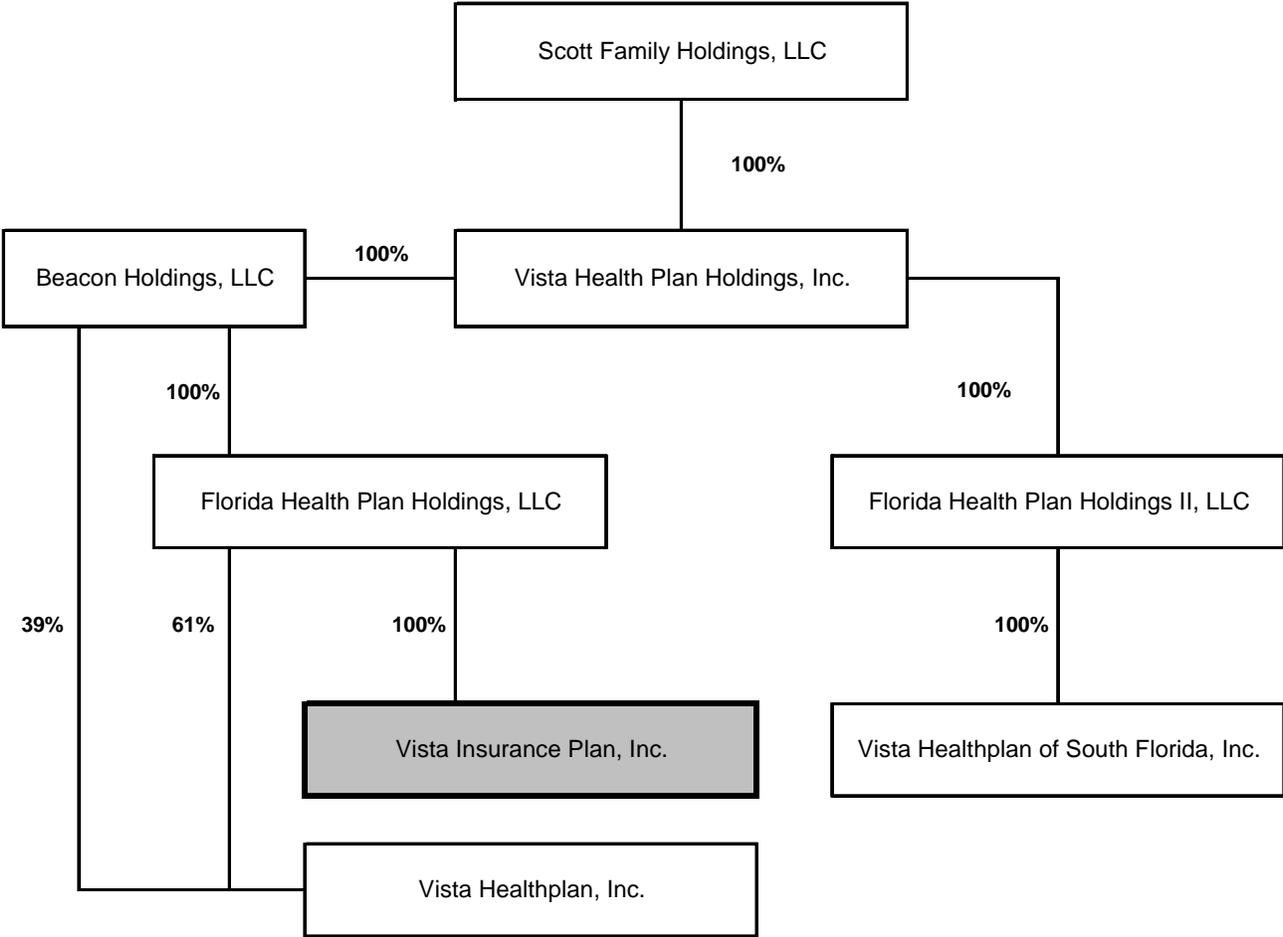
VHP provides management services to the Company pursuant to a November 15, 2002 agreement, as amended on February 19, 2003. Fees for the services amounted to approximately \$2.7 million in 2003.

LICENSING AGREEMENTS

The Company provides the indemnity health insurance portion of certain products offered by affiliates VHP and Vista Healthplan of South Florida, Inc., in return for administrative service fees and 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 Insurance Plan, Inc.
Organizational Chart
December 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage in amounts which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Management and operation of the Company are performed by employees of VHP, pursuant to the management agreement described on page 7. The Company has no pension, stock ownership, or other benefit plans of its own.

STATUTORY DEPOSITS

The Company maintains \$800,000 on deposit with the State of Florida as required by Section 624.411, FS.

INSURANCE PRODUCTS AND RELATED PRACTICES

TERRITORY AND PLAN OF OPERATION

At December 31, 2003, the Company was authorized to transact insurance in Florida only, and did not operate in any other state. It offered preferred provider organization (PPO) and point-of-sale insurance coverage, most of which was sold by VHP.

TREATMENT OF POLICYHOLDERS

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS, 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 providing coverage for 90% of the cost of hospital services in excess of \$200,000, up to \$1 million per member per contract year, with a lifetime aggregate of \$2 million per member.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements for years 2002 and 2003, pursuant to Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

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.

INFORMATION SYSTEMS CONTROLS

As part of this financial condition examination, Computer Aid, Inc., a computer audit specialist (CAS) engaged by the Office, conducted an in-depth review of the adequacy of the Company'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. 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.

RISK-BASED CAPITAL

The Company reported its risk-based capital at an adequate level.

The following agreement was in effect between the Company and non-affiliates:

INDEPENDENT AUDITOR AGREEMENT

The Company contracted with Ernst & Young 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 18.

Vista Insurance Plan, Inc.
Assets
December 31, 2003

	Per Company	Examination Adjustments	Per Examination
Bonds	\$3,944,257	\$0	\$3,944,257
Cash, cash equivalents, & short-term investments	6,120,365	0	6,120,365
Other invested assets	<u>800,000</u>	<u>0</u>	<u>800,000</u>
	10,864,622	0	10,864,622
Investment income due & accrued	16,048	0	16,048
Uncollected premiums & agents' balances	13,473	0	13,473
Net deferred tax asset	584,576	(432,062)	152,514
Receivables from parent, subsidiaries, & affiliates	<u>1,862,674</u>	<u>0</u>	<u>1,862,674</u>
Totals	<u><u>\$13,341,393</u></u>	<u><u>(\$432,062)</u></u>	<u><u>\$12,909,331</u></u>

Vista Insurance Plan, Inc.
Liabilities, Capital and Surplus
December 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Contract claims - Accident & Health	\$4,945,953	\$0	\$4,945,953
General expenses due or accrued	99,152	0	99,152
Taxes, licenses, & fees due or accrued	118,612	0	118,612
Current federal & foreign income taxes	<u>0</u>	<u>115,450</u>	<u>115,450</u>
Total liabilities	5,163,717	115,450	5,279,167
Capital and Surplus			
Common capital stock	300,000	0	300,000
Aggregate write-ins for other than special surplus funds	584,576	(432,062)	152,514
Gross paid in & contributed surplus	18,743,917	0	18,743,917
Unassigned funds (surplus)	<u>(11,450,817)</u>	<u>(115,450)</u>	<u>(11,566,267)</u>
Total capital & surplus	<u>8,177,676</u>	<u>(547,512)</u>	<u>7,630,164</u>
Total liabilities, capital & surplus	<u><u>\$13,341,393</u></u>	<u><u>(\$432,062)</u></u>	<u><u>\$12,909,331</u></u>

Vista Insurance Plan, Inc.
Statement of Income
For Year Ended December 31, 2003

Income

Premiums & annuity considerations		\$26,967,655
Net investment income		<u>120,726</u>
		27,088,381
Disability benefits & benefits under A&H contracts	\$19,842,453	
General insurance expenses	2,736,461	
Insurance taxes, licenses & fees	<u>515,552</u>	<u>23,094,466</u>
Net income		<u><u>\$3,993,915</u></u>

Capital and Surplus Account

Capital & surplus, December 31, 2002		\$6,599,141
Net income		3,993,915
Change in nonadmitted assets & related items		<u>(2,415,380)</u>
		8,177,676
Examination adjustments		<u>(547,512)</u>
Capital & surplus, December 31, 2003		<u><u>\$7,630,164</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Net Deferred Tax Asset **\$152,514**

The \$584,576 reported by the Company has been decreased by \$432,062. In its 2003 annual statement, the Company overstated its net deferred tax asset by \$432,062. The correct amount of the asset was \$152,514.

Current Federal & Foreign Income Taxes **\$115,450**

The amount reported by the Company has been increased by \$115,450. In its 2003 annual statement, the Company incorrectly failed to accrue the liability for its 2003 federal income taxes in the amount of \$115,450.

Vista Insurance Plan, 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		\$8,177,676
	<u>Per Company</u>	<u>Per Exam</u>
		<u>Increase (Decrease) In Capital & Surplus</u>
<u>Assets:</u>		
Net deferred tax asset	\$584,576	\$152,514
		(\$432,062)
<u>Liabilities:</u>		
Current federal & foreign income taxes	\$0	\$115,450
		<u>(\$115,450)</u>
Net change in capital and surplus		<u>(547,512)</u>
Capital & surplus, December 31, 2003 - per examination		<u><u>\$7,630,164</u></u>

SUMMARY OF FINDINGS

COMPLIANCE WITH PREVIOUS DIRECTIVES

The Company has taken the necessary actions to comply with the comments contained in the 2001 financial 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 of the examination as of December 31, 2003.

INFORMATION SYSTEMS CONTROLS

As more fully discussed on page 11, 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.**

NET DEFERRED TAX ASSET

As discussed on page 17, the Company overstated its net deferred tax asset by \$432,062 in its 2003 annual statement. **We recommend that, on all future statements filed with the Office, the Company accurately report its *net deferred tax asset* in accordance with Part I of Chapter 625, FS.**

CURRENT FEDERAL & FOREIGN INCOME TAXES

As discussed on page 17, the Company incorrectly failed to accrue the liability for its 2003 federal income taxes in the amount of \$115,450 in its 2003 annual statement. **We recommend that, on all future statements filed with the Office, the Company accurately report its liabilities in accordance with Part I of Chapter 625, FS.**

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, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's total capital and surplus was \$7,630,164, which was in compliance with Section 624.408, FS.

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

Respectfully submitted,

Robert Y. Meszaros
Financial Specialist
Florida Office of Insurance Regulation