Report on Examination

of

Vista Healthplan, Inc.

Hollywood, Florida

as of

December 31, 2003

By The

State of Florida

Office of Insurance Regulation

CONTENTS

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, 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, 2001 through December 31, 2003. It was the first financial condition examination of the Company by the Florida Office of Insurance Regulation (formerly, the Florida Department of Insurance) (the "Office"). In lieu of conducting a statutory financial examination of the Company for the year 2000, the Office accepted the independent certified public accountant's (CPA) audit report on the Company's statutory-basis financial statements for that year pursuant to Section 641.27(1), FS.

Planning for the current examination began on November 1, 2004. The fieldwork commenced on November 9, 2004 and concluded on April 29, 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 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.

HISTORY

GENERAL

The Company was incorporated in Florida on December 16, 1999 as “HHPF, Inc.”, and received its certificate of authority to operate in Florida as a health maintenance organization (HMO) on October 17, 2000. Its name was changed on October 19, 2000 to “HIP Health Plan of Florida, Inc.”, and again on September 25, 2001 to “Vista Healthplan, 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 September 25, 2001 as a result of its name change to “Vista Healthplan, Inc.”

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

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 39% owned by Beacon Holdings, LLC, and 61% owned by Florida Health Plan Holdings, LLC, a wholly-owned subsidiary of Beacon Holdings, LLC. In turn, Beacon Holdings, LLC was wholly-owned by Vista Health Plan Holdings, Inc., as depicted on page 7.

PROFITABILITY

For the year 2003, the Company reported net income of $519,474. For the years 2002 and 2001, it reported net losses of $23.8 million and $18.1 million, respectively. For the four (4) years ended December 31, 2003, the Company reported aggregate net losses of $47.5 million. It reported premiums of $603.0 million, $583.8 million, and $425.6 million in years 2003, 2002, and 2001, 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.

ACQUISITIONS AND MERGERS

On December 12, 2002, Beacon Health Plans, Inc. and Healthplan Southeast, Incorporated, affiliated HMOs, were merged into the Company, and ownership of the Company was transferred to Beacon Holdings, LLC, and Florida Health Plan Holdings, LLC.

SURPLUS NOTES

At December 31, 2003, the Company was obligated for surplus notes in the total amount of $54,018,299. All of the notes were issued during the period under examination, 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 OF SOUTH FLORIDA, INC.

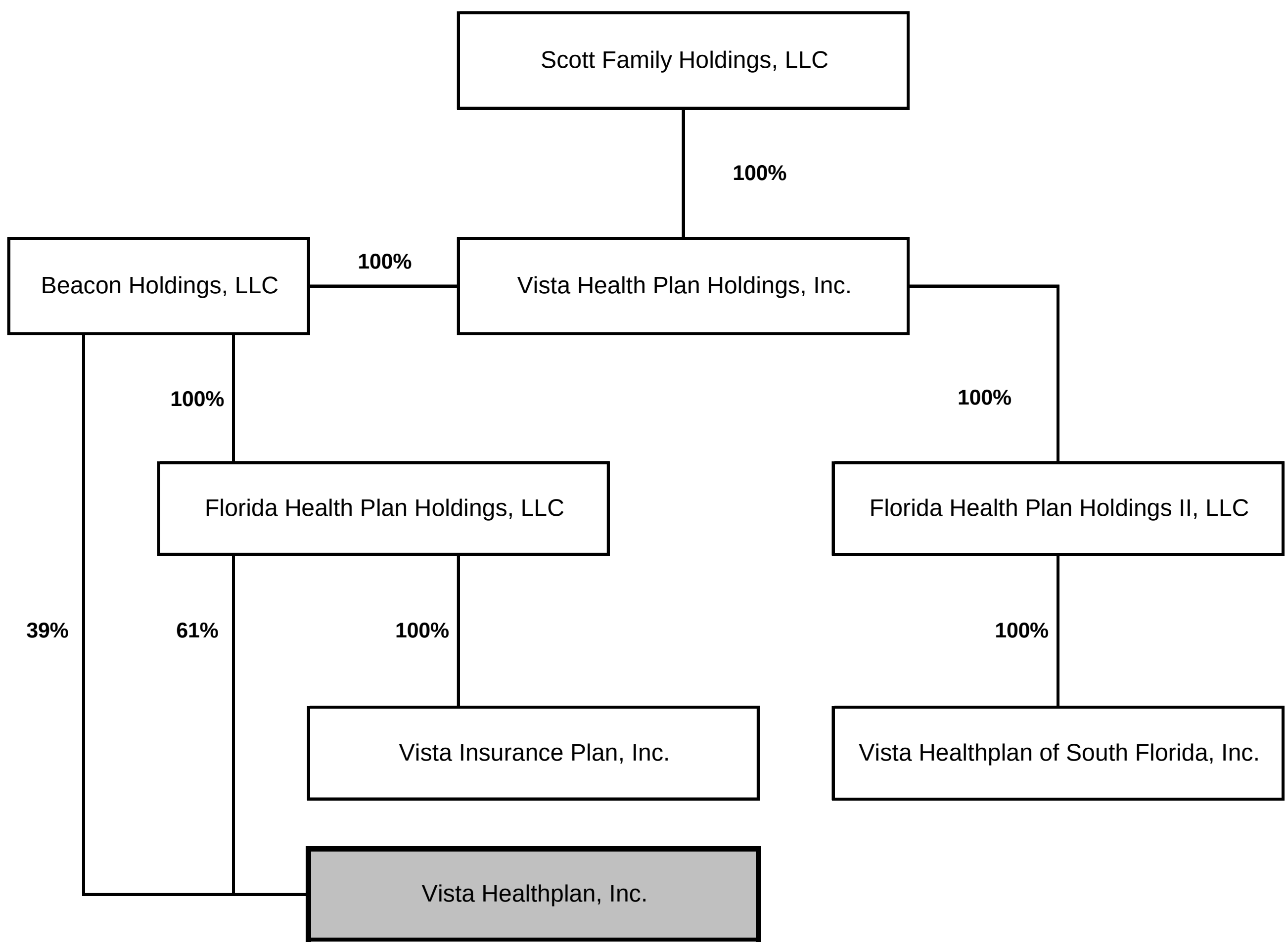
The Company performs administrative services for Vista Healthplan of South Florida, Inc. (VHPSF) pursuant to a November 2002 agreement. The Company receives fees for services provided in the amount of 10% of billed premiums, which fees amounted to approximately $34 million in 2003.

AGREEMENTS WITH VISTA INSURANCE PLAN, INC.

The Company provides administrative services to Vista Insurance Plan, Inc. (VIP) pursuant to a November 15, 2002 agreement, as amended on February 19, 2003. The Company receives fees for services provided, which amounted to approximately $2.7 million in 2003. Under a separate agreement, 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, 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

The Company offers to eligible employees a deferred compensation plan, insurance and other employee benefits.

STATUTORY DEPOSITS

The Company maintained $5,352,085 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 May 23, 2006.

The Company uses a network of approximately 200 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 259,615 at December 31, 2003.

The Company is authorized by AHCA to operate in Alachua, Bradford, Broward, Calhoun, Columbia, Dixie, Escambia, Franklin, Gadsden, Gilchrist, Hamilton, Hendry, Jefferson, Lafayette, Leon, Levy, Liberty, Madison, Marion, Miami-Dade, Palm Beach, Santa Rosa, Suwannee, Union, and Wakulla Counties.

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.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory-basis financial statements annually for years 2001, 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 VHPSF 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 19.

Vista Healthplan, Inc.
Assets
December 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	$32,814,621	$0	$32,814,621
Properties occupied by the company	5,395,424	0	5,395,424
Cash, cash equivalents, & short-term investments	37,684,859	0	37,684,859
Aggregate write-ins for invested assets	1,629,380	0	1,629,380
	77,524,284	0	77,524,284
Investment income due & accrued	194,347	0	194,347
Uncollected premiums & agents' balances	5,696,750	0	5,696,750
Amounts recoverable from reinsurers	4,545,452	(1,430,347)	3,115,105
Net deferred tax asset	1,173,910	0	1,173,910
Electronic data processing equipment & software	1,001,093	0	1,001,093
Furniture and equipment including health care delivery assets	128,243	0	128,243
Health care & other amounts receivable	2,689,432	0	2,689,432
Totals	$92,953,511	($1,430,347)	$91,523,164

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

Liabilities	Per Company	Examination Adjustments	Per Examination
Claims unpaid	$58,743,725	$3,473,703	$62,217,428
Accrued medical incentive pool & bonus payments	323,820	0	323,820
Unpaid claims adjustment expenses	1,362,759	0	1,362,759
Premiums received in advance	10,436,454	0	10,436,454
General expenses due or accrued	7,785,029	0	7,785,029
Amounts due to parent, subsidiaries & affiliates	1,880,558	0	1,880,558
Aggregate write-ins for other liabilities	700,724	0	700,724
Total liabilities	81,233,069	3,473,703	84,706,772
Capital and Surplus			
Common capital stock	3,601	(3,600)	1
Gross paid in & contributed surplus	111,506,426	3,600	111,510,026
Surplus notes	54,018,299	0	54,018,299
Unassigned funds (surplus)	(153,807,884)	(4,904,050)	(158,711,934)
Total capital & surplus	11,720,442	(4,904,050)	6,816,392
Total liabilities, capital & surplus	$92,953,511	($1,430,347)	$91,523,164

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

Income

Net premium income		$602,990,736
Hospital/medical benefits	$425,522,948	
Other professional services	17,014,076	
Outside referrals	2,565,250	
Prescription drugs	81,987,797	
	527,090,071	
Net reinsurance recoveries	(127,507)	
Total medical & hospital	526,962,564	
General administrative expenses	78,548,421	
Total underwriting deductions		605,510,985
Net underwriting gain or (loss)		(2,520,249)
Net investment income earned		3,072,610
Net realized capital gains or (losses)		(32,887)
Net income		$519,474

Capital and Surplus Account

Capital & surplus, December 31, 2002	$6,146,468
Net income	519,474
Change in nonadmitted assets	(2,701,634)
Change in surplus notes	7,756,134
	11,720,442
Examination adjustments	(4,904,050)
Capital & surplus, December 31, 2003	$6,816,392

COMMENTS ON FINANCIAL STATEMENTS

Amounts Recoverable From Reinsurers **$3,115,105**

The $4,545,452 reported by the Company has been decreased by $1,430,347. The Company has filed certain claims with its stop loss insurer in the total amount of $2,404,775 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 $1,430,347 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 $1,106,197, or 46% of $2,404,775, 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 $324,150, and reclassified $1,106,197 to *claims unpaid*.

Claims Unpaid **$62,217,428**

The $58,743,725 reported by the Company has been increased by $3,473,703. 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 $4,579,900. Therefore, we have increased the *claims unpaid* liability by that amount. In addition, we have reduced the *claims unpaid* liability in the amount of $1,106,197 for the estimated collectible portion of subrogation receivables, as discussed in the preceding paragraph.

Common Capital Stock **$1**

The $3,601 reported by the Company has been decreased by $3,600. In its 2003 annual statement, the Company incorrectly reported its common capital stock in the amount of $3,601, rather than at the correct amount of $1.00. As a result, we have reclassified $3,600 from *common capital stock* to *gross paid in and contributed surplus*.

Capital and Surplus **$6,816,392**

As of December 31, 2003, the Company was required by Section 641.225, FS, to maintain surplus of $12,059,815, or 2% of its net premiums of $602,990,736. As a result of examination adjustments, the Company's total capital and surplus at December 31, 2003 has been reduced to $6,816,392. Because the Company's actual capital and surplus after examination adjustments is $5,243,423 less than the required amount, the Company was not in compliance with Section 641.225, FS.

Vista Healthplan, 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.

	Per Company	Per Exam	Increase (Decrease) In Capital & Surplus	
Capital & surplus, December 31, 2003 - per annual statement				$11,720,442
Assets:				
Amounts recoverable from reinsurers	$4,545,452	$3,115,105	($1,430,347)	
Liabilities:				
Claims unpaid	$58,743,725	$62,217,428	($3,473,703)	
Net change in capital and surplus				(4,904,050)
Capital & surplus, December 31, 2003 - per examination				$6,816,392

SUMMARY OF FINDINGS

Compliance With Previous Directives

There were no directives or significant findings from a prior examination on which to comment, since this was the first financial condition examination of the Company 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 12, 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.**

Amounts Recoverable From Reinsurers

As discussed on page 17, the Company reported $1,430,347 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 $324,150. In addition, the correct amount of the item, or $1,106,197, 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.**

Claims Unpaid

As reported on page 17, 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 $4,579,900. **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.**

Common Capital Stock

As reported on page 18, the Company incorrectly reported its common capital stock in the amount of $3,601 in its 2003 annual statement, rather than at the correct amount of $1.00. **We recommend that, on all future statements filed with the Office, the Company accurately report the amount of its common capital stock.**

Capital and Surplus

As reported on page 18, the Company was required by Section 641.225, FS, to maintain surplus of $12,059,815, or 2% of its net premiums of $602,990,736 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 $6,816,392. Because the Company's actual capital and surplus after examination adjustments is $5,243,423 less than the required amount, the Company was not in compliance with Section 641.225, FS. **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, 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 $6,816,392, 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