

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Children's Mercy's Family Health Partners, Inc.
as of December 31, 2009

ORDER

After full consideration and review of the report of the financial examination of Children's Mercy's Family Health Partners, Inc. for the period ended December 31, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Children's Mercy's Family Health Partners, Inc. as of December 31, 2009, be and is hereby ADOPTED as filed and for Children's Mercy's Family Health Partners, Inc. to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 16th day of June, 2011.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration



REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
**CHILDREN'S MERCY'S
FAMILY HEALTH PARTNERS, INC.**

AS OF

DECEMBER 31, 2009



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

FILED
JUN 9 6 2011
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

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Kansas City, Missouri
April 26, 2011

Honorable Joseph Torti, III, Deputy Director and
Superintendent of Banking and Insurance
Rhode Island Department of Business Regulation
Chair, NAIC Financial Condition (E) Committee

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
Midwestern Zone Secretary

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Children's Mercy's Family Health Partners, Inc.

hereinafter referred to as such, as Family Health Partners, or as the Company. Its administrative office is located at 2420 Pershing Road, Garden Level, Suite G10, Kansas City, Missouri 64108, telephone number (816) 559-9400. This examination began on September 7, 2010, and was completed on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Children's Mercy's Family Health Partners, Inc., was made as of December 31, 2006, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covered the period from January 1, 2007, through December 31, 2009, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that the DIFP plan and perform the examination to evaluate the financial condition and identify prospective risks of Family Health Partners by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks.

This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Key Activities reviewed during the course of the examination included: Investments; Corporate Governance and Related Parties; Premium Accounting; Claims and Reserving; and Provider Relations, Regulations and Compliance.

The examiners relied upon information supplied by the Company's independent auditor, KPMG, LLP, of Kansas City, Missouri for its audit covering the period from January 1, 2009, through December 31, 2009. Information relied upon included narrative descriptions of processes and controls and tests of control documentation with respect to premium accounts, investment accounts, paid claims and attorney letters.

SUMMARY OF SIGNIFICANT FINDINGS

Although each of the Company's related party agreements and the related amendments were filed with the DIFP, the majority of the agreements and amendments that became effective during and subsequent to the examination period were not filed 30 days in advance of the effective date as required by Section 382.195, RSMo (Prohibited transactions, exceptions).

HISTORY

General

The Company was organized as a not-for-profit corporation under the Missouri Non-Profit Corporation Law at Chapter 355, RSMo, on July 11, 1995 under the name "TruCare, Inc." At the incorporation date, the sole owner of the Company was Truman Medical Center, Inc. (TMC). The name of the Company was later changed to TrumanCare, Inc. on December 20, 1995.

Subsequently, Children's Mercy Hospital (CMH) became a 50% owner of the Company and, the name was changed again on March 26, 1996, to Children's Mercy Hospital/Truman Medical Center d/b/a Family Health Partners, Inc. A Certificate of Authority to operate as a Health Maintenance Organization under Chapter 354, RSMo (Health Services Corporations – Health Maintenance Organizations – Prepaid Dental Plans), was issued by the DIFP on May 6, 1996.

Effective February 1, 2002, TMC withdrew as 50% owner of the Company leaving CMH as the sole remaining owner. The Company's name was then changed to Children's Mercy's Family Health Partners, Inc. to reflect the new ownership.

Capital Stock and Contributions

Family Health Partners does not have any capital stock ownership because of its formation and organization as a not-for-profit corporation. The ownership interest of CMH in Family Health Partners is authorized in the Company's Articles of Incorporation.

Dividends

Extra-ordinary cash distributions were paid to the sole owner, CMH during the examination period as follows: 2007 - \$0, 2008 - \$22,500,000 and 2009 - \$22,500,000. In addition, an extra-ordinary cash distribution of \$10,000,000 was paid during 2010. These extra-ordinary cash distributions were approved by the DIFP prior to payment.

Acquisitions, Mergers and Major Corporate Events

Effective January 1, 2007, the Company was awarded the State of Kansas Medicaid HealthWave contract for a four year term with two optional one year renewal periods. The Kansas contract

covers 74 counties concentrated in the eastern two-thirds of Kansas. The award of this contract has significantly expanded the Company's business in terms of member insureds and premium revenue.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. The Articles of Incorporation were amended and restated effective June 24, 2008, to change the structure of the Company from a member corporation to a corporation with no members. Article Three of the Articles of Incorporation was amended effective February 17, 2009, to change the registered address of the Company.

The Bylaws were amended and restated several times during the examination period. The Bylaws were amended and restated effective May 23, 2008 to change the structure of the Company from a member corporation to a corporation with no members and to change the description of certain Board members from "Community Director" to "Independent Director." The Bylaws were amended and restated again effective May 19, 2009 to establish a Compensation Committee of the Board. Finally, the Bylaws were amended and restated effective September 2, 2010 to describe the responsibilities of the Board of Directors related to the annual audit process of the Company.

The Board of Directors' meeting minutes, committee meetings and Unanimous Written Consents of the Sole Member were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that is appointed by the sole owner, Children's Mercy Hospital. Family Health Partner's Bylaws specify that the Board of Directors shall consist of nine voting members and non-voting members who are employees of CMH or Family Health Partners. Not less than six of the voting directors must be lay persons representing the community (Independent Directors) and not more than three of the voting directors shall be employees of CMH or Family Health Partners. As of December 31, 2009, the Board of Directors consisted of nine voting members and one non-voting member. The Board of Directors elected and serving as of December 31, 2009, was as follows:

<u>Name</u>	<u>Address</u>	<u>Occupation and Business Affiliation</u>
Randall L. O'Donnell, PhD Jo W. Stueve	Leawood, KS Kansas City, MO	President and CEO, CMH Vice President Managed Care, CMH and President, Family Health Partners
Cordell D. Meeks, III. Robert R. Cross	Kansas City, KS Mission Hills, KS	CEO, Meeks Multicultural Consulting Retired, (former Employers Reinsurance Corporation Executive)
Robert L. Welling	Warrensburg, MO	Self Employed Attorney and Chairman of the Board, Family Health Partners
Keith W. Ashcraft, MD David Goebel	Mission Hills, KS Overland Park, KS	Retired, (former Pediatric Surgeon) Partner, Merryck & Co and Former President, Applebee's International
David A. Smith	Kansas City, MO	President, Boys & Girls Clubs of Greater Kansas City
Lisa Ginter	Blue Springs, MO	Chief Operating Officer, Community America Credit Union
Robert Finuf*	Lenexa, KS	Chief Executive Officer, Family Health Partners

*Robert Finuf serves on the Board as a non-voting member.

Committees

The Company's Bylaws authorize a Governance Committee and a Compensation Committee and any other committees as necessary. The established committees and the members elected and serving as of December 31, 2009, are as follows:

Governance Committee

Robert L. Welling, Chairman
Lisa Ginter
David Goebel
David A. Smith
Keith W. Ashcraft, MD
Cordell D. Meeks, III
Robert R. Cross

Compensation Committee

David Goebel, Chairman
Lisa Ginter
Robert R. Cross
Jo W. Stueve
Daniel R. Wright
Robert Finuf

Officers

Article Six of the Bylaws requires the Board of Directors to elect certain officers for the management of the Company. The following officers were serving as of December 31, 2009:

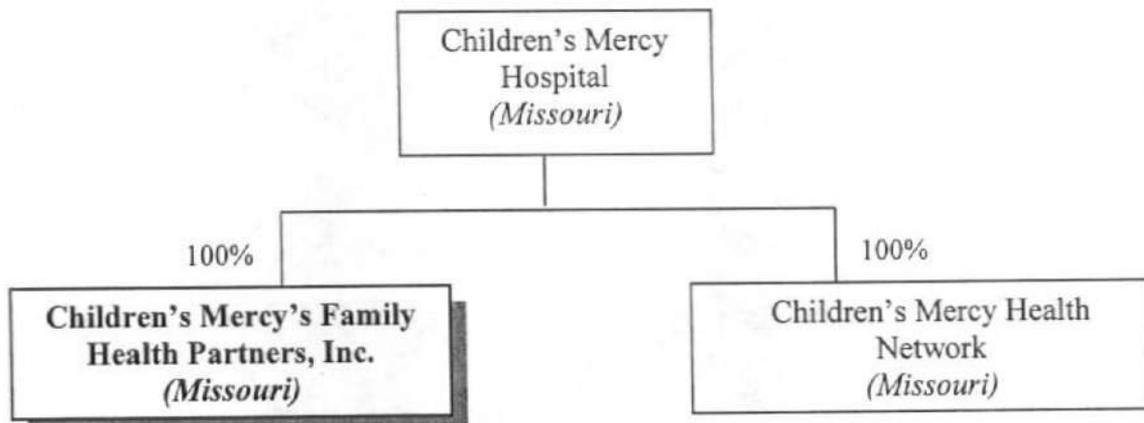
Robert L. Welling	Chairman of the Board
Jo W. Stueve	President
Keith W. Ashcraft, MD	Secretary/Treasurer
Robert Finuf	Chief Executive Officer

Holding Company, Subsidiaries and Affiliates

Family Health Partners is wholly owned by Children’s Mercy Hospital. CMH is a not-for-profit teaching hospital for children located in Kansas City, Missouri and is supported by The Children’s Mercy Hospital Foundation, Inc. CMH is a holding company as defined by Section 382.010 RSMo (Definitions). In addition to Family Health Partners, the CMH holding company system includes Children’s Mercy Health Network (CMHN) which is a corporation formed for the purpose of contracting and administering the managed care contracts of CMH.

Organizational Chart

The following organizational chart depicts the relevant portion of Family Health Partners holding company structure, as of December 31, 2009:



Intercompany Transactions

The Company’s intercompany agreements as of December 31, 2009 are outlined below. Note that several of the agreements were rewritten and restated effective February 1, 2002, as a result of ownership restructuring of the Company. As a result, the effective date for these restated agreements is shown as February 1, 2002, not the date of the original agreement.

- 1. **Type:** Guaranty Agreement
- Affiliate:** Children’s Mercy Hospital (CMH)
- Effective:** February 1, 2002

- Terms:** CMH will review the financial condition of Family Health Partners on a monthly basis and make necessary capital contributions to cover losses of the Company, subject to CMH's board approval.
2. **Type:** Participating Provider Agreement – MO HealthNet
- Affiliate:** Children's Mercy Health Network (CMHN)
- Effective:** February 1, 2002. However, the agreement has seven amendments with various effective dates.
- Terms:** CMHN arranges for the provision of hospital and medical services to Family Health Partners members. Family Health Partners pays CMHN a flat rate for each authorized inpatient day and additional amounts for various other services including outpatient, physician and home health services. The term is one year, with automatic one-year renewals. The various amendments updated the capitation and other services fees when Medicaid reimbursement rates changed. Amendment 7 also added durable medical equipment as a provided service. Inpatient rates are a flat rate, included in each amendment. Rates for other services are based on a percentage of Missouri Medicaid rates, also detailed in each amendment.
3. **Type:** Technology License Agreement
- Affiliate:** CMH
- Effective:** November 30, 2006
- Terms:** CMH grants Family Health Partners a perpetual, non-exclusive, non-transferable, non-sub-licensable, geographically unlimited license for the use of the Medical Action System that CMH developed and patented. The agreement will automatically renew for successive one year terms unless terminated. There are no fees associated with the agreement.
4. **Type:** Administrative Services Agreement for Nurse Advice Services
- Affiliate:** CMH
- Effective:** February 1, 2002, replaced and effective January 1, 2007
- Terms:** CMH maintains a telephone system staffed with nurse advisors who answer calls from Family Health Partners members on a 24-hour a day, 7-day a week basis. Family Health Partners pays CMH \$0.12 per member per month for the service for each member under the age of seventeen.

5. Type: Administrative Services Agreement

Affiliate: CMH

Effective: February 1, 2002 and replaced effective January 1, 2007

Terms: CMH will provide personnel, services and supplies for the operation of Family Health Partners. The personnel shall remain employees of CMH, and their salaries will be determined upon mutual agreement of both parties to the agreement. Family Health Partners pays monthly reimbursement of salary costs plus 19% for employee's benefits. Services and supplies will be reimbursed at cost.

6. Type: PHIT Kids Weight Management Program Agreement

Affiliate: CMH

Effective: July 1, 2007

Terms: CMH will provide certain pediatric obesity management services to Family Health Partners members. CMH's program will provide two treatment phases: an active and a maintenance phase. The active phase will provide a combination of multidisciplinary clinic visits and intensive weekly group behavioral education for tweens (ages 9 – 12) or teens (ages 13 – 18) and their parents for 24 weeks. The maintenance phase provides a PHIT KIDS (Pediatric Obesity service) clinic for these children and adolescents to be seen periodically and continued monthly attendance of group behavioral education. The two phases span 24 months; however, at this time, Family Health Partners is choosing to limit the coverage of the patients in this program to the first 12 months. Family Health Partners pays \$150/month per eligible member for active participation in the program.

7. Type: Corporate Service Agreement

Affiliate: CMH

Effective: January 1, 2010

Terms: CMH will provide certain corporate level services, not covered under the Administrative Services Agreement (see #5 above). Family Health Partners pays the lesser of 1% of total revenue or the calculated costs of the services provided.

Kansas Medicaid Specific Participating Provider Agreements:

8. Type: Ancillary Provider Agreement

Affiliate: CMH

Effective: February 1, 2008

Terms: CMH will provide certain ophthalmology and optometry services, eyeglasses and contracts to Family Health Partners members. Family Health Partners pays 100% of Kansas Medicaid Payment Levels for these services.

9. Type: Specialist Provider Group Agreement

Affiliate: CMH

Effective: January 1, 2007 and amended effective July 1, 2009

Terms: CMH will provide certain specialty health care services to Family Health Partners members on a fee-for-service basis. Family Health Partners pays the lesser of 105% of the Kansas Medicaid allowable amount or the eligible billed charges.

10. Type: Participating Hospital Agreement

Affiliate: CMH

Effective: January 1, 2007 and amended effective July 1, 2009

Terms: CMH will provide inpatient, outpatient, and physician, including emergency room services to Family Health Partners members. Family Health Partners pays the lesser of 110% of the Kansas Medicaid allowable amount or the eligible billed charges.

11. Type: Primary Care Provider Group Agreement

Affiliate: CMH

Effective: January 1, 2007 and amended effective July 1, 2009

Terms: CMH will provide certain health care services related to primary care to Family Health Partners members on a fee-for-service basis. Family Health Partners pays the lesser of 105% of the Kansas Medicaid allowable amount or the eligible billed charges.

Although each of the agreements noted above and their related amendments were filed with the DIFP, the majority of the agreements and amendments that became effective during and subsequent to the examination period were not filed 30 days in advance of the effective date as required by Section 382.195, RSMo (Prohibited transactions, exceptions). The Company should

ensure it files all intercompany agreements and amendments to such agreements at least 30 days prior to the execution date of the agreement or amendment as required by the Section 382.195, RSMo.

The amounts paid to CMH annually during the period under examination pursuant to the above agreements were as follows. Note that the three Kansas agreements were combined in a single line, since all payments are made to the same provider, CMH:

Agreement	2009	2008	2007
ASA for Personnel and General Services	\$ 14,027,666	\$ 12,359,527	\$ 9,822,614
Participating Provider Agreement – Missouri	43,818,817	39,048,150	32,010,295
ASA for Nurse Advice Services	198,512	189,996	191,256
PHIT Kids Weight Management Program	18,500	18,400	
Participating Provider Agreements – Kansas	18,906,067	18,253,577	11,934,422
Net Amount Paid or (Received)	\$ 76,969,562	\$ 69,869,650	\$ 53,958,587

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a crime insurance policy maintained by its parent, Children's Mercy Hospital. The policy provides fidelity coverage with a liability limit of \$3,000,000 and a \$10,000 deductible. This level of fidelity coverage complies with the suggested minimum amount of insurance according to NAIC guidelines and Section 354.425, RSMo (Surety Bond Requirements).

The Company is also a named insured on other standard types of coverages which include, but are not limited to: fiduciary liability, directors and officers liability, commercial general liability, automobile liability, excess/umbrella liability, and workers compensation.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Family Health Partners does not have any direct employees. The Company's business operations are performed by employees of its parent, Children's Mercy Hospital. The Company reimburses CMH for the salaries of the employees that work exclusively on the business of Family Health Partners. In addition, a benefit loading of 19% of the salaries of these employees is also paid to CMH. The salary and benefit payments are in accordance with the provisions of an Administrative Services Agreement for Personnel and General Services explained in greater detail in the Intercompany Transactions section of this report.

The CMH employees receive standard benefits, which include but are not limited to: paid vacation and sick days, educational assistance, health insurance, vision and dental insurance, life insurance, short and long-term disability benefits, accidental death and dismemberment insurance, long term care insurance, critical illness insurance, tax deferred annuities and flexible spending accounts. In addition, employees are provided a defined contribution retirement plan fully funded by CMH.

TERRITORY AND PLAN OF OPERATION

General

Family Health Partners is licensed in the State of Missouri under Chapter 354, RSMo, as it relates to Health Maintenance Organizations. The Company is also licensed in the State of Kansas.

The Company's only insurance product is Medicaid managed care. The Company applied for and was awarded a contract by the State of Missouri Division of Medical Services to provide managed care service to Medicaid recipients in Missouri. The service territory, as of December 31, 2009, was concentrated in thirteen counties in Western Missouri. The latest contract awarded to the Company was for a nine month term starting October 1, 2010 with two optional one-year renewal periods ending on June 30, 2012. The Company had 55,197 insured members as of December 31, 2009 enrolled through the Missouri Medicaid (MC+) Program.

Effective January 1, 2007, the Company was awarded a Kansas Medicaid HealthWave contract for a four year term with two optional one year renewal periods ending on June 30, 2013. The Kansas contract covers 74 counties concentrated in the eastern two-thirds of the State of Kansas. The Company had 119,942 members enrolled in the Kansas HealthWave Medicaid program as of December 31, 2009.

Marketing

Member-insureds are primarily provided to the Company by the Missouri and Kansas Medicaid programs. However, membership can also be obtained through eligible members who choose the Company over its competitors. The Company does not utilize any brokers or agents and does not have any direct solicitation for membership, which is in compliance with the Medicaid contracts with the States of Missouri and Kansas.

The Company's marketing activity is primarily focused on attending festivals, community outreach programs, newsletters, publications and distributing pamphlets containing information about its products. The community outreach programs include school education programs, seminars for providers to educate about disease preventative measures and programs held by the Company's owner hospital, Children's Mercy Hospital.

Providers

The Company has contracts with an extensive network of providers, comprising primary care physicians, specialists, ancillary providers and hospitals. These providers are compensated at agreed upon Missouri Medicaid and Kansas Medicaid rates. Hospital rates are based upon negotiated per diem rates, percentage of discounts from billed charges or fee for service rates, depending on the services rendered.

The Company subcontracts through provider agreements, to a dental managed care services organization and a behavioral managed care organization for dental and mental health care services for members. A per member per month capitation fee is paid for these services.

The Company subcontracts with Caremark PCS, L.P., a licensed third-party administrator to cover all prescription services for the Kansas HealthWave contract effective January 1, 2007. The contract provisions are for the management of prescription drug benefits which include providing a network of retail pharmacies, mail service, claims processing, customer service, formulary services and drug utilization reviews. The Missouri MC+ program does not include drug prescription services as part of the benefit package.

Member and Provider Grievance Procedures

Each insured member is provided a Member Handbook and each provider is provided a Provider Administration Manual which describes the procedures for handling complaints, grievances, and appeals. Members have the option of submitting complaints to Family Health Partners or directly to the Missouri and Kansas Medicaid programs. The Company maintains a register to monitor the status of pending complaints. The Company has an internal Medical Management Committee that reviews and process member complaints and service issues, when necessary. There is also a Medical Oversight Committee that reviews and addresses provider complaints and service issues, when needed.

Quality Assurance, Utilization Review, and Provider Credentialing

The Company is in the process of becoming accredited by the National Committee for Quality Assurance (NCQA). According to information provided by the Company, its examination for accreditation is scheduled in June 2011. It should be noted the Company has followed the NCQA's guidelines for quality assurance, utilization, and credentialing for several years. The Company's policies and plans are also reviewed and approved annually by the States of Missouri and Kansas.

The Company has a Quality Management (QM) plan to monitor, evaluate, and improve the quality, accessibility and availability of the health care services that are provided to members. The QM plan includes policies and procedures for the review of data collected from peer reviews, utilization data, medical records, member satisfaction surveys, and other quality of service areas.

The Company has a Utilization Management (UM) plan to monitor and evaluate the specific health care provided to members. The UM plan includes procedures for monitoring referrals, prior authorizations, hospital admissions, case management, discharge planning, and other procedures relative to the management of the medical services received by members. Monthly utilization summaries are prepared to monitor the hospital admissions and length of stays. A Pharmacy and Therapeutics Subcommittee monitors prescription drug utilization and a Medical Management Subcommittee reviews the medical status and care plans for significant claims in progress.

The Company has established policies and procedures for credentialing and recredentialing of providers. Primarily, the Company uses the services of contracted organizations to perform the credentialing and recredentialing functions. The Company periodically audits the credentialing process performed by these organizations to ensure they are in accordance with the requirements of the NCQA. Providers must be approved by the Company's Board of Directors subsequent to credentialing and recredentialing reviews in order to participate in Family Health Partner's network. A Medical Oversight Committee meets to discuss all quality of service, utilization management and credentialing and recredentialing issues.

COMPANY GROWTH

During the examination period, total assets of the Company grew from \$91 million as of December 31, 2007 to \$114 million at year-end 2009. During the same period, total capital and surplus also increased from \$35 million as of December 31, 2007 to \$62 million at year-end 2009.

Total premium income recorded rapid growth since the last examination, growing from \$349 million as of December 31, 2007 to \$402 million at year-end 2009. Majority of the premium growth was generated from the Kansas Medicaid block of business, which represented over 65% of the Company's premium income at year-end 2009.

The Company reported a Risk-based Capital (RBC) ratio of 450% at year-end 2009, a decrease from 473% at year-end 2008. However, the RBC was 290% at year end 2007, which indicates that overall, RBC ratio has increased substantially during the examination period.

LOSS EXPERIENCE

During the period under examination, the Company consistently generated net operating gains, net income, and positive cash flow from operations. Family Health Partners reported a net income of \$23.9 million at year-end 2009, a decrease from \$50.2 million at year-end 2008 and \$27 million at year-end 2007.

The Company's medical loss ratio fluctuated during the examination period from a low of 81.2% in 2008 to a high of 86.5% in 2007 and 85.7% at year-end 2009. Combined ratio was 93.4%, 87.8% and 93.0% for 2009, 2008 and 2007, respectively.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Direct Business	\$402,278,305	\$390,398,047	\$349,838,747
Reinsurance Ceded:			
Affiliates	0	0	0
Non-affiliates	(737,355)	(1,218,311)	(1,279,914)
Net Written Premiums	<u>\$401,540,950</u>	<u>\$389,179,736</u>	<u>\$348,558,833</u>

Assumed

The Company does not assume any business.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

The Company has an Excess of Loss Reinsurance Agreement with OneBeacon Insurance Company (OneBeacon), a Pennsylvania domiciled company. This agreement was entered into effective January 1, 2009 for a one year period ending on January 1, 2010 with right of renewal. Pursuant to the terms of the agreement, the Company's retention is \$300,000 per member per policy period subject to the reinsurer's coverage limit of \$2,000,000 per member per policy period.

The agreement further provides for the coverage or reimbursement of reinsured claims as follows:

- Inpatient Service claims provided by a Participating Hospital: the reinsurer will provide coverage up to the amount paid by FHP subject to the contracted rates.

- Inpatient Service claims provided by a Non-Participating Hospital: the reinsurer will provide coverage to the lesser of: the amount paid by FHP, the Medicaid allowable reimbursement amount or 100% of the billed charges.
- Organ Transplants (Kansas only): the reinsurer will provide coverage for 100% of the cost if the procedure is performed in an approved transplant facility subject to an 80% reimbursement limit. However, if the procedure is performed in a non-approved facility the reimbursement is limited to 60% reimbursement. The agreement further limits transplant reimbursement to 100% of Medicare allowable reimbursement. All Outpatient Services are specifically excluded by the terms of the agreement.

The reinsurance premium rate is \$0.37 per member per month for both the Kansas insureds and Missouri Medicaid MC+ members. The Company was previously reinsured by Swiss Re under a lower retention level and higher per member per month reinsurance premium rates. The current agreement has been renewed for another one year period ending on January 1, 2011.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institution and Professional Registration as of December 31, 2009, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 354.410, RSMo (Trust Deposits and Capital Requirements). The Company's minimum required deposit was \$1,616,204. The funds on deposit were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$1,380,000	\$1,384,133	\$1,388,067
MO St Dev Fin Bond	400,000	400,784	400,788
Totals	<u>\$1,780,000</u>	<u>\$1,784,917</u>	<u>\$1,788,855</u>

Deposits with Other States

The Company has no funds on deposit with any other state.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements were audited by the CPA firm, KPMG, LLP, of Kansas City, Missouri, for all years in the examination period.

Appointed Actuary

Claims Payable and other related actuarial items were reviewed and certified by Clark E. Slipher, F.S.A. for the 2009 year and Douglas A. Proebsting, F.S.A. for the years 2008 and 2007. Both appointed actuaries are with Milliman USA, consulting actuaries, of 15800 Bluemound Road, Suite 400, Brookfield, Wisconsin 53105

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Family Health Partners for the period ending December 31, 2009. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$22,642,322		\$22,642,322
Cash and short-term Investments	64,822,574		64,822,574
Investment Income Due and Accrued	27,240		27,240
Uncollected Premiums and Agents' Balances in the Course of Collection	25,342,723		25,342,723
Amounts Recoverable from Reinsurers	53,955		53,955
Electronic Data Processing Equipment and Software	903,364	\$392,630	510,734
Furniture and Equipment	1,695,051	1,509,862	185,189
Health Care and Other Amounts Receivable	1,253,320	818,322	434,998
Aggregate Write-Ins for other than Invested Assets:			
Other Assets	<u>499,839</u>	<u>499,839</u>	<u>0</u>
TOTAL ASSETS	<u>\$117,240,388</u>	<u>\$3,220,653</u>	<u>\$114,019,735</u>

Liabilities, Surplus and Other Funds

Claims Unpaid	\$44,713,652
Unpaid Claims Adjustment Expenses	944,778
General Expenses Due or Accrued	3,907,385
Remittances and Items Not Allocated	258,500
Amounts Due to Parent, Subsidiaries and Affiliates	1,599,336
Aggregate Write-Ins for Liabilities:	
Liability for Escheat Funds	<u>28,582</u>
TOTAL LIABILITIES	<u>\$51,452,233</u>
Gross Paid in and Contributed Surplus	4,605,000
Unassigned Funds (Surplus)	<u>57,962,501</u>
Capital and Surplus	<u>\$62,567,501</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$114,019,734</u>

Summary of Operations

Member Months	<u>1,989,583</u>
Net Premium Income	\$401,540,950
Aggregate Write-ins for Other than Non-Health Revenues	<u>(24,696)</u>
TOTAL REVENUE	\$401,516,254
Hospital/Medical Benefits	260,123,573
Other Professional Services	10,420,484
Emergency Room and Out-of-Area	31,472,618
Prescription Drugs	41,327,572
Aggregate Write-Ins for Other Hospital and Medical:	
Transportation Expense	1,835,139
Less: Net Reinsurance Recoveries	<u>(990,557)</u>
TOTAL HOSPITAL AND MEDICAL	\$344,188,829
Claims Adjustment Expenses	12,083,123
General Administrative Expenses	<u>18,692,094</u>
TOTAL UNDERWRITING DEDUCTIONS	<u>\$374,964,046</u>
NET UNDERWRITING GAIN OR (LOSS)	\$26,552,208
Net Investment Income Earned	789,972
Net Realized Capital Gains and (Losses)	<u>(3,448,750)</u>
NET INCOME	<u>\$23,893,430</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2008	\$60,951,113
Net Income or (Loss)	23,893,430
Change in Nonadmitted Assets	222,959
Aggregate Write-ins for Gains or (Losses) in Surplus:	
Extra-ordinary Distribution to Parent	<u>(22,500,000)</u>
Net Change in Capital and Surplus	<u>\$1,616,389</u>
CAPITAL AND SURPLUS, DECEMBER 31, 2009	<u>\$62,567,502</u>

**CHANGES IN FINANCIAL STATEMENTS RESULTING FROM
EXAMINATION**

None

COMMENTS ON FINANCIAL STATEMENTS

None

SUMMARY OF RECOMMENDATIONS

The majority of the Company's related party agreements and amendments that became effective during and subsequent to the examination period were not filed 30 days in advance of the effective date as required by Section 382.195, RSMo (Prohibited transactions, exceptions). The Company should ensure it files all intercompany agreements and amendments to such agreements at least 30 days prior to the execution date of the agreement or amendment as required by the Section 382.195, RSMo.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Children's Mercy's Family Health Partners, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Barbara Bartlett, CPA, CFE, examiner for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Timothy Carroll, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment. Leon L. Langlitz, FSA, of Lewis & Ellis, Inc. also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Levi N. Nwasoria, CPA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 21 day of April, 2011.

My commission expires: 10/25/2014 Robert Clark
Notary Public



ROBERT CLARK
My Commission Expires
October 25, 2014
Jackson County
Commission #10076459

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Mark Nance, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration



Children's Mercy
FAMILY HEALTH PARTNERS
www.fhp.org

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Kansas Toll Free (877) 347-9363

June 1, 2011

Frederick G. Heese, CFE, CPA
Acting Chief Financial Examiner
Missouri Division of Insurance Solvency and Company Regulation
301 West High Street, Room 530, P. O. Box 690
Kansas City, MO 64108

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JUN 07 2011

DEPT OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

Dear Fred,

Please accept this letter as our response to the Report on Examination of Children's Mercy's Family Health Partners, Inc. as of December 31, 2009.

We agree with the examination report as written with the following exception related to Intercompany Transactions noted on page 9 and in the Summary of Significant Findings of the Examination Report.

Finding:

"Although each of the agreements noted above and their related amendments were filed with the DIFP, the majority of the agreements and amendments that became effective during and subsequent to the examination period were not filed 30 days in advance of the effective date as required by Section 382.195 RSMO (Prohibited transactions, exceptions). The examiners comment the Company should ensure it files all intercompany agreements 30 days in advance of execution date."

Management Response:

We do not agree with the finding as written in the examination report. Specifically, we believe the examiner erroneously used the "effective" date and not the "execution" date of the agreements to test compliance with Section 382.195 RSMo.

Section 382.195. 1 requires *"transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the director in writing of its intention to enter into such transaction at least thirty days prior thereto..."*

Exhibit 1 attached provides evidence that all intercompany transactions executed subsequent to the prior (2006) exam and beginning June 27, 2007 were "executed" or signed at least 30 days after the date of submitting Form D or the notification required per Section 382.195 RSMo.

Finally, it is our wish that this finding be removed or corrected or that our written response be included in the final report as a public document.

Please contact us for further questions,

Sincerely,

Robert Finuf, CEO