

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 as of
December 31, 2006

ORDER

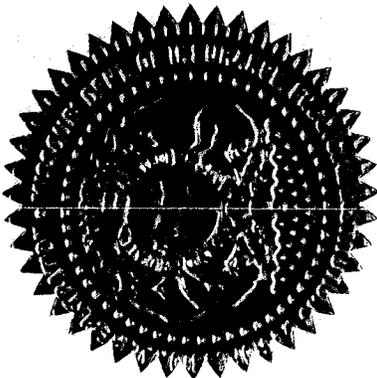
After full consideration and review of the report of the financial examination of Children's Mercy's Family Health Partners for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Children's Mercy's Family Health Partners, 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 mentioned in the General Comments and/or 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 August 9, 2007.

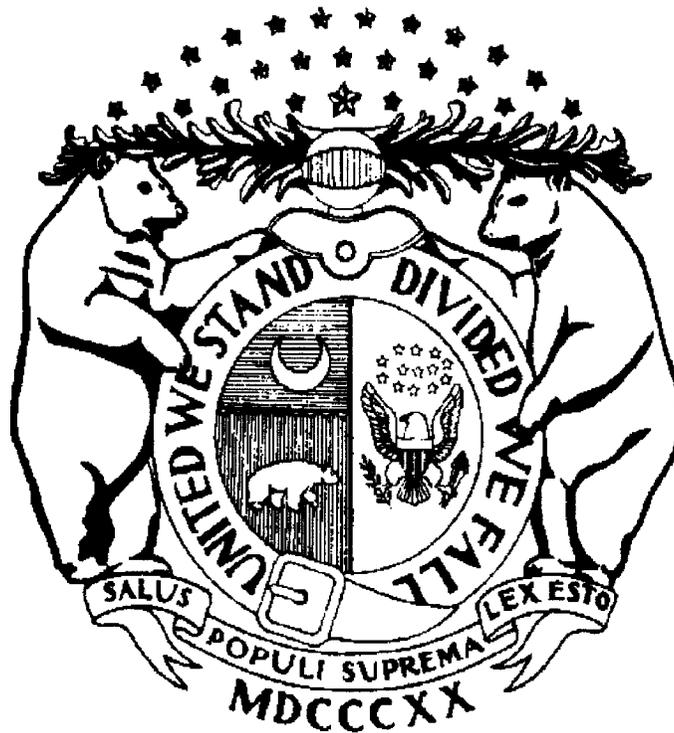
A handwritten signature in black ink, appearing to read "Douglas M. Ommen".

DOUGLAS M. OMMEN, 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, 2006**



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

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Kansas City, Missouri
May 31, 2007

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, (E) Financial Condition Committee, NAIC

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable Douglas M. Ommen, 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 Family Health Partners, or as the Company. Its administrative office is located at 215 West Pershing Road, Kansas City, Missouri 64108, telephone number 816-855-1870. This examination began on March 19, 2007 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Family Health Partners was made as of December 31, 2003 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 covers the period from January 1, 2004 through December 31, 2006 and was also 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 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 Company's independent audits for the examination period were conducted by the Kansas City, Missouri office of KPMG, LLP. The independent auditor was conducting the year-end 2006 statutory audit concurrently with our examination. As a result, the independent auditor's workpapers for the 2006 audit were not available during our examination fieldwork. We did rely upon information supplied by KPMG, LLP for its audit covering the period from January 1, 2005 through December 31, 2005. Information relied upon was primarily limited to fraud risk assessments and narrative descriptions of processes and controls.

Comments - Previous Examination

Listed below are the comments, recommendations, and notes from the previous examination report, dated as of December 31, 2003, the Company's response, and the findings in the current examination.

Nurse Advice Agreement

Comment: The Company should amend the Administrative Service Agreement for Nurse Advice Services so that it reflects the intentions of the parties.

Company's Response: The Company concurs and will amend the agreement to specifically state our intent, that is, that the rate of compensation is based only on pediatric membership.

Current Finding: The Administrative Service Agreement for Nurse Advice Services was amended to clarify compensation is only based on pediatric members.

Guaranty Agreement

Comment: The Company was directed to file its Guaranty Agreement with the DIFP as required by Section 382.195, RSMo (Prohibited transactions, exceptions). This requires a Form D filing in accordance with 20 CSR 200-11.101.

Company's Response: The Company concurs and will file Form D in accordance with 20 CSR 200-11.101 to formally file the agreement with the DIFP pursuant to Section 382.195 RSMo.

Current Finding: The Guaranty Agreement was filed with the DIFP in February 2005.

Asthma Grant Agreement

Comment: The Company failed to file its Asthma Grant Agreement and was directed to ensure that any future intercompany agreements of this type be filed with the DIFP as required by Section 382.195 RSMo. In addition, the Company should ensure that such agreements are properly disclosed on its Insurance Holding Company System Annual Registration Statement.

Company's Response: The Company considered the terms and conditions of the Asthma Grant Agreement inclusive with its Administrative Services Agreement for Personnel and General Services and reported accordingly in the Annual Registration Report. The Asthma Grant Agreement has subsequently expired; however, the Company agrees that future agreements of this type should be filed with the DIFP.

Current Finding: The Asthma Grant Agreement was submitted to the DIFP in March 2005. The agreement was terminated in November 2006, and therefore, is no longer in effect.

Premium Deficiency Reserve

Comment: The Company's management should ensure that the certifying actuary opines on the premium deficiency reserve (PDR) in future opinions even if the PDR is determined to be zero.

Company's Response: The Company concurs it should have ensured the actuary opined on the adequacy of the PDR even if the reserve was determined to be zero. The actuary opined on the zero PDR established on December 31, 2003 and believed his written opinion and scope paragraph was adequate pursuant to the Quarterly and Annual Statement Instructions for the year 2004.

Current Finding: The Company's opining actuary included the premium deficiency reserve in his opinions for the years under examination.

Custodial Agreements

Comment: The Company should amend or restate its custodial agreements so that they contain all of the NAIC safeguard provisions specified in Part 1, Section IV of the NAIC Financial Condition Examiners Handbook.

Company's Response: The Company has amended its custodial agreements Central Bank so that it contains the NAIC safeguard provisions specified in Part 1, Section IV of the NAIC Financial Condition Examiners Handbook. The Company has requested a similar restatement of its custodial agreement with Bank of America.

Current Findings: The Company has amended its custodial agreements to comply with the provisions specified in the NAIC Financial Condition Examiners Handbook.

HISTORY

General

The Company was organized as a not-for-profit corporation under the Missouri Non-Profit Corporation Law (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 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 part 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

Family Health Partners does not have any capital stock ownership because of its 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

No dividends or cash distributions were made or declared during the examination period.

Management

The management of the Company is vested in a Board of Directors that is appointed by the sole owner, Children’s Mercy Hospital. The Company’s Bylaws specify that the Board of Directors shall consist of nine voting members and of 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 (Community Directors) and not more than three of the voting directors shall be employees of CMH or Family Health Partners. As of December 31, 2006, the Board of Directors consisted of only eight members as one of the voting members had resigned and not yet been replaced. The Board of Directors appointed and serving as of December 31, 2006 were as follows:

Name and Address

Randall O’Donnell, Chairman
Leawood, KS

Principal Occupation and Business Affiliation

President and Chief Executive Officer, CMH

Jo Stueve, President
Kansas City, MO

Vice President Managed Care, CMH

George W. Morris, Jr. Mission Hills, KS	Executive Vice President, Country Club Bank
B. Spencer Heddens Shawnee Mission, KS	Senior Vice President, Bank of America
Robert Cross Mission Hills, KS	Executive, The Cross Foundation
John Ovel Mission Hills, KS	Trust Division Manager, Commerce Bank
John Wood Kansas City, MO	Mortgage Bank Manager, Wells Fargo
Robert Welling Warrensburg, MO	Self Employed Attorney

Non-Voting Members

V. Fred Burry, M.D. (Secretary/Treasurer) Kansas City, MO	Executive Medical Director, CMH
Robert Finuf Lenexa, KS	Chief Executive Officer, Family Health Partners

The Company's Bylaws were restated effective October 17, 2006 partly to allow for the establishment of a Governance Committee consisting of the Chairman of the Board and the Community Directors with the CEO acting as a consultant without a vote.

The Company's Bylaws also provide that the Board of Directors may designate committees which do not have the authority of the Board of Directors. These committees are not formal committees of the Board of Directors, and are utilized primarily to aid management. The Board of Directors does not elect any of the members of these committees. The committees designated as of December 31, 2006 were as follows:

Medical Oversight
Medical Management
Credentialing Committee
Pharmacy & Therapeutics

Administrative Oversight
Health Plan Outreach
Transportation

Conflict of Interest

The Company has procedures that require all officers and directors to complete a conflict of interest statement each year. Signed conflict of interest statements were reviewed for the examination period. No significant conflicts were disclosed.

Corporate Records

The Articles of Incorporation and Bylaws were reviewed. There have been no changes to the Articles of Incorporation since the prior examination. The Bylaws were restated effective October 17, 2006 to create a Governance Committee and to require that the majority of the Company's officers be Community Directors.

The Board of Directors' meeting minutes, Unanimous Written Consents of the Sole Member, and the Committee meeting minutes were reviewed for the examination period and subsequent periods. The meeting minutes and consents, in general, appear to properly reflect and approve the Company's transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

No acquisitions, mergers or major corporate events were noted for period under examination.

Surplus Debentures

No surplus debentures were issued or outstanding by Family Health Partners for the period under examination.

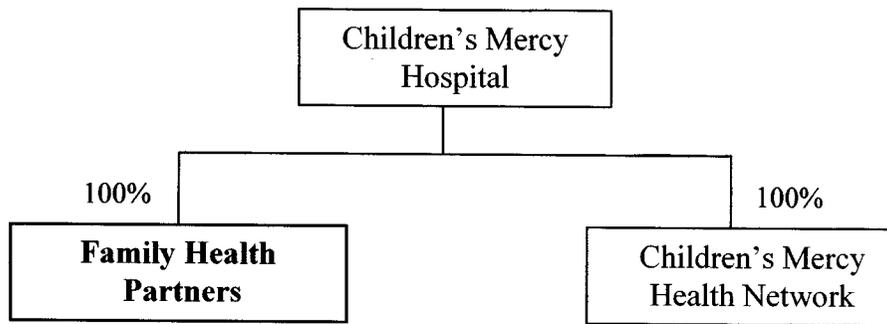
AFFILIATED COMPANIES

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). Besides 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 Family Health Partner's ownership and holding company system, as of December 31, 2006:



Intercompany Transactions

The Company's significant intercompany agreements as of December 31, 2006 are outlined below.

1. Type: Administrative Service Agreement (ASA) for Personnel and General Services

Affiliate: Children's Mercy Hospital

Effective: April 1, 1996; revised and restated June 1, 1999; restated February 1, 2002 and revised January 1, 2007

Terms: CMH will provide personnel for the operation of Family Health Partners. The employees shall remain employees of CMH, and salaries of the employees will be determined upon mutual agreement of the parties. Family Health Partners will reimburse CMH, on a monthly basis, for 119% of the salaries of the applicable employees. The 19% add-on represents compensation for the cost of employee benefits. Family Health Partners will also reimburse CMH for recruitment and food service costs of employees.

Effective January 1, 2007, this agreement was revised to incorporate Medical Director services and disease management physician services. Prior to incorporation into this agreement, the Medical Director services were provided under a separate ASA for Medical Director Services which was terminated in conjunction with this revision and is described in item #4 below. Disease management services were provided under a separate Asthma Disease Management Agreement, a Term Weight Management Pilot Agreement and an ADHD Disease Management Agreement Pilot Program Agreement. Each of these agreements was terminated effective November 30, 2006. The terms of the Asthma Disease Management Agreement are described in item # 6 below. There were no cost or expense reimbursements stated in any of the disease management agreements.

- 2. Type:** Participating Provider Agreement
- Affiliate:** Children's Mercy Health Network
- Effective:** January 1, 1997; revised and restated June 1, 1999; restated February 1, 2002; amended October 1, 2003, January 1, 2004, July 1, 2004, July 1, 2005 and August 1, 2006
- Terms:** CMHN shall arrange for the provision of hospital and medical services for the members of Family Health Partners. Family Health Partners will compensate CMHN a rate of 70% of billed charges for certain outpatient services, a specified per diem rate for inpatient stays which is currently \$1,865, and the Missouri Medicaid scheduled fees or a percentage thereof for all other services.
- 3. Type:** Administrative Services Agreement for Nurse Advice Services
- Affiliate:** Children's Mercy Hospital
- Effective:** January 1, 1997; revised and restated June 1, 1999; restated February 1, 2002, April 1, 2005 and January 1, 2007
- Terms:** CMH will establish and maintain a telephone system, which will allow the members of Family Health Partners to call nurse advisors with questions regarding medical care. The phone line will be available 24 hours a day, 7 days a week. Family Health Partners will pay CMH \$0.53 per member per month for MC+ Pediatric (under age 17) members.
- Effective January 1, 2007, the agreement was restated to reduce the rate to \$0.12 per member per month. This change was made to reflect increases in membership as a result of the Company's Medicaid contract with the State of Kansas.
- 4. Type:** Administrative Services Agreement for Medical Director Services
- Affiliate:** Children's Mercy Health Network
- Effective:** January 1, 1997; revised and restated June 1, 1999; restated February 1, 2002; restated May 1, 2005; terminated January 1, 2007
- Terms:** CMHN will employ or contract for a Medical Director(s) to provide services for Family Health Partners. Family Health Partners will pay \$12,500 per month to CMHN for these services. The monthly amount paid per the May 1, 2005 restatement was \$16,667. Effective January 1, 2007, this agreement was terminated and the provisions were incorporated into the ASA for Personnel and General Services described in item #1 above.

- 5. Type:** Guaranty Agreement
- Affiliate:** Children's Mercy Hospital
- Effective:** February 1, 2002
- Terms:** CMH shall be responsible for ensuring Family Health Partners maintains the necessary capital reserves and surplus required to support the HMO products offered by the Company. CMH shall review the financial condition of Family Health Partners on a monthly basis and make necessary capital contributions upon approval of CMH's Board of Directors.
- 6. Type:** Asthma Grant Agreement
- Affiliate:** Children's Mercy Hospital
- Effective:** October 15, 2001
- Terms:** Agreement is for asthma disease management. Service shall be provided to Family Health Partner's members through Primary Care Provider (PCP) offices. PCP office staff shall be trained by CMH's Health Management department on appropriate asthma management. Family Health Partner's shall pay CMH \$0.43 per member per month for each member over the age of one year old for the services provided. This agreement was cancelled on November 30, 2006 and subsequently, effective January 1, 2007, incorporated into the ASA for Personnel and General Services described in item #1 above.
- 7. Type:** Technology License Agreement
- Affiliate:** Children's Mercy Hospital
- Effective:** November 30, 2006
- Terms:** CMH grants Family Health Partners a perpetual and unlimited license to use the Medical Action System (MAS). The MAS is a coded multiple-card system to assist patients suffering from chronic disease. The system includes a plurality of interconnected cards imprinted with information about the chronic disease and treatment. There is no cost or expense reimbursement stated in the agreement.

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 parent, affiliates and subsidiaries during the period under examination under the above agreements were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Administrative Service Agreement for Personnel and General Services:			
Paid to Children’s Mercy Hospital	\$ 5,205,699	\$ 4,853,549	\$ 4,670,872
Participating Provider Agreement:			
Paid to Children’s Mercy Health Network	28,546,075	27,798,515	27,583,828
Administrative Service Agreement for Nurse Advice Services:			
Paid to Children’s Mercy Hospital	214,253	233,203	234,382
Administrative Agreement for Medical Director Services:			
Paid to Children’s Mercy Health Network	200,004	179,169	150,000
Asthma Grant Agreement			
Paid to Children’s Mercy Hospital	<u>210,320</u>	<u>228,264</u>	<u>445,180</u>
Net Amount (Paid) or Received	<u>\$ 34,376,351</u>	<u>\$ 33,292,700</u>	<u>\$ 33,084,262</u>

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: directors and officers liability, property and excess liability, commercial general liability, managed care organization errors and omissions, commercial general 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.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the DIFP as of December 31, 2006, 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 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 Note	\$1,993,000	\$1,979,049	\$1,980,393

Deposits with Other States

The Company does not maintain funds on deposit with any other state.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Family Health Partners is licensed in the state of Missouri under Chapter 354 RSMo, as it relates to Health Maintenance Organizations. The service territory, as of December 31, 2006, was concentrated in nine counties in western Missouri. The Company's only product is Medicaid managed care. The Company has applied for and has been awarded contracts by the State of Missouri Division of Medical Services (DMS) to provide managed care services to Medicaid recipients in Missouri. The latest contract awarded to the Company was for a one-year term starting July 1, 2006 with two additional one-year renewal periods at the sole option of DMS. The Company had 41,403 members as of December 31, 2006 enrolled through the Missouri MC+ Program.

The Company is also licensed in the State of Kansas and was awarded a Kansas Medicaid, HealthWave contract effective January 1, 2007 for a four year term, with two optional one year renewal periods which would complete the contract in the year 2013. The contract service territory covers 74 counties concentrated in eastern Kansas. Rates are to be renegotiated after 18 months as of June 1, 2008.

Marketing

The Company obtains members one of two ways, either a Medicaid eligible individual will select Family Health Partners over its competitors or members will be automatically assigned to Family Health Partners by DMS. The Company's marketing activity is primarily focused on attending festivals, community outreach programs, newsletters, publications and distributing pamphlets containing information about its products. During the fall of 2006, the Company employed TV, radio and billboards for advertising in Kansas before the start of the HealthWave contract.

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. The Company's Director of Government Relations and Public Affairs coordinates marketing activities and the Director of Customer Service and Community Outreach coordinates the community outreach activities. 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 contract with the State of Missouri.

Provider Contracts

The Company has provider contracts with primary care physicians, specialists, ancillary providers and hospitals. Primary care physician services in Missouri are compensated at 110% of the Missouri Medicaid rate, with the exception of Children's Mercy Hospital physicians, who are reimbursed at 100% of the Medicaid rate. Specialist and ancillary providers are compensated at 100% of the Missouri Medicaid rate or on a case by case basis. 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 has also entered into provider contracts with providers in the State of Kansas to provide services under its new contract with the State of Kansas. The Kansas primary care physician services are generally contracted at 100% of the Medicaid fee schedule, with a few exceptions. Specialist and ancillary providers are also contracted at 100% of the Medicaid fee schedule and or on a case by case basis. The majority of the hospital rates follow existing State of Kansas Medicaid reimbursement methodology and rates with a few exceptions depending upon the service rendered.

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

The Company subcontracts with CaremarkPCS, L.P., a licensed TPA in the State of Missouri, 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 contract for Missouri coverage was amended to only cover diabetic supplies effective July 1, 2006. The contract continues to cover all prescription services for the Kansas HealthWave contract effective January 1, 2007.

Rates

Premium rates throughout the examination period were established through a bid and negotiation process with the State of Missouri, and prior to the examination period were subject to maximum levels as determined by the State. Beginning January 1, 2004, premium rates are subject to actuarial soundness testing per guidance provided by DMS and are no longer subject to maximum levels.

Prior to July 1, 2006, the Company received a supplemental lump-sum premium for each live birth delivery to a member. Beginning with the July 1, 2006 Missouri Medicaid contract, the supplemental, lump-sum premium was replaced by a per member capitation payment. All premiums due to Family Health Partners are paid entirely by the State of Missouri on behalf of the members.

Grievance Procedures

The Company distributes a Member Handbook to each member, which describes the procedures for complaints, grievances, and appeals. Members have the option of submitting complaints to Family Health Partners, DMS, or both. The Company maintains a register to monitor the status of pending complaints. The Company's Medical Management Committee also discusses and addresses member complaints and service issues.

Quality Assurance, Utilization Review, and Provider Credentialing

The Company is not accredited by the National Committee for Quality Assurance (NCQA). The Company does not plan to seek NCQA accreditation because of its small size and specialization as a Medicaid only HMO. However, the Company does follow the NCQA's guidelines for quality assurance, utilization, and credentialing. The Company's policies and plans are reviewed and approved annually by the State of Missouri.

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. Recredentialing reviews are scheduled for every three years. For some providers, the Company relies on the credentialing procedures performed by CMH or other organizations which meet 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.

REINSURANCE

General

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Direct Business	\$ 97,080,424	\$ 109,806,762	\$ 99,650,634
Reinsurance Ceded:			
Affiliates	-0-	-0-	-0-
Non-affiliates	<u>(317,275)</u>	<u>(396,748)</u>	<u>(257,350)</u>
Net Premiums Written	<u>\$ 96,763,149</u>	<u>\$ 109,410,014</u>	<u>\$ 99,393,284</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 Employers Reinsurance Corporation. The original agreement was effective January 1, 2005 for a one year period and was renewed effective January 1, 2006 for another one year term. Pursuant to the agreement, the Company cedes 80% of its Medicaid inpatient claims subject to a retention limit of \$225,000. The reinsurer's maximum liability is limited to \$2,000,000 per covered member per agreement year. The reinsurance premium rate is \$0.62 per member per month. The agreement was amended effective January 1, 2007, to cover the Company's Kansas members.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements for the years under examination were audited by the CPA firm of KPMG, LLC, of Kansas City, Missouri.

Independent Actuary

Claims payable reserves for each of the years under examination were certified by Clark Slipher, MAAA of Milliman, USA, Inc. in Brookfield, Wisconsin.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Family Health Partners for the period ending December 31, 2006. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to 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 differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

Assets as of December 31, 2006

	<u>Assets</u>	Non Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$ 5,500,000		\$ 5,500,000
Cash and short-term investments	4,734,371		4,734,371
Investment income due and accrued	36,123		36,123
Uncollected premiums and agent's balances	7,394,670		7,394,670
Amounts recoverable from reinsurers	8,063		8,063
EDP equipment and software	573,041	\$ 234,267	338,774
Furniture and equipment	191,767	95,883	95,884
Receivables from parent, subs. and affiliates	2,261	2,261	-0-
Health care and other amounts receivable	151,158	151,158	-0-
Aggregate write-ins for other than invested assets:			
Prepaid expenses/start-up costs	560,528	560,528	-0-
Leasehold improvements	99,631	99,631	-0-
Automobile	45,479	45,479	-0-
Deposits	<u>8,379</u>	<u>8,379</u>	<u>-0-</u>
Total Assets	<u>\$19,305,471</u>	<u>\$1,197,586</u>	<u>\$18,107,885</u>

Liabilities, Capital and Surplus as of December 31, 2006

Claims unpaid	\$ 7,401,350
Unpaid claims adjustment expenses	112,671
General expenses due and accrued	1,337,248
Amounts due to parent, subsidiaries and affiliates	745,308
Aggregate write-ins for other liabilities:	
Liability for escheat funds	<u>47,060</u>
Total Liabilities	\$ 9,643,637
Contributed Capital	4,605,000
Unassigned funds	<u>3,859,248</u>
Total Capital and Surplus	\$ 8,464,248
Total Liabilities and Surplus	<u>\$18,107,885</u>

Statement of Revenue and Expenses For the Year Ended December 31, 2006

Member Months	512,012
Net premium income	\$96,763,149
Aggregate write-ins for other health related revenues:	
Other revenue	<u>24</u>
Total Revenues	<u>\$96,763,173</u>
Medical and Hospital:	
Hospital/medical benefits	\$57,912,216
Other professional services	5,800,908
Emergency room and out-of-area	9,584,749
Prescription drugs	8,350,210
Aggregate write-ins for other expenses:	
Transportation expense	548,945
Net reinsurance recoveries	<u>(122,561)</u>
Total medical and hospital expense	<u>\$82,074,467</u>
Claims adjustment expense	2,962,999
General administrative expenses	<u>11,098,408</u>
Total Underwriting Deductions	96,135,874
Net Underwriting Gain or (Loss)	627,299
Net investment gains or (losses)	<u>508,678</u>
Net Income (Loss)	<u>\$ 1,135,977</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2005	\$ 8,102,091
Net Income or (Loss)	1,135,977
Change in non-admitted assets	<u>(773,820)</u>
Capital and Surplus, December 31, 2006	<u>\$ 8,464,248</u>

NOTES TO THE FINANCIAL STATEMENTS

-- None --

EXAMINATION CHANGES

-- None --

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Intercompany Agreements (page 9)

Although the Company filed each of the intercompany agreements and related amendments that became effective during and subsequent to the examination period with the DIFP, the agreements and amendments 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 that 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.

Subsequent Events (page 18)

The Company's net worth requirements will increase significantly as a result of its new Medicaid contract with the State of Kansas. The Company should ensure that it adequately monitors the Kansas business and accounts for the increased net worth requirements.

SUBSEQUENT EVENTS

As noted in the Insurance Products and Related Practices section of this report, in 2006 Family Health Partners was awarded a Medicaid managed care contract with the State of Kansas. The contract became effective January 1, 2007, and its coverage area includes the central and eastern portions of the State of Kansas. As a result of the contract, the Company's membership has increased approximately three fold since the examination date with similar increases in premium revenues and expenses.

The increased business resulting from the Kansas contract will affect both the Company's risk based capital ratio and the Company's net worth requirements. Per 20 CSR 200 – 1.040, the Company's net worth requirement is two percent of net premiums per the most recent filed Annual Statement; therefore, the Company's net worth requirements for 2008 will increase significantly as a result of the Kansas business. The Company should ensure that it adequately monitors the Kansas business and its impact on the Company's net worth requirements.

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, CFE, CPA, Alvin Garon, CFE and Angela Campbell, CFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration participated in this examination. The Chicago, Illinois office of PriceWaterhouseCoopers, LLP also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

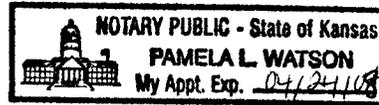
I, Mark A. Nance, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Family Health Partners, Inc., its agents or other persons examined or as ascertained 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.

Mark A. Nance

Mark A. Nance, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 13th day of July, 2007.

My commission expires: 04/24/08 Pamela L. Watson
Notary Public



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.

A handwritten signature in black ink, appearing to read "Frederick G. Heese". The signature is written in a cursive style with a horizontal line underneath the name.

Frederick G. Heese, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration