

**STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES
INSURANCE DIVISION**



REPORT OF QUALIFYING FINANCIAL EXAMINATION

OF

**COMMUNITY CARE OF OREGON, INC.
DBA OREGON'S HEALTH CO-OP
PORTLAND, OREGON**

AS OF

JANUARY 31, 2013

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

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DBA OREGON'S HEALTH CO-OP
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January 31, 2013

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SALUTATION

February 26, 2013

Honorable Louis Savage, Commissioner
Department of Consumer Business and Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Commissioner:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**COMMUNITY CARE OF OREGON, INC.
DBA OREGON'S HEALTH CO-OP
315 SW 5th Avenue, Suite 201
Portland, Oregon 97204**

hereinafter referred to as "CO-OP." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our qualifying examination of Community Care of Oregon, Inc., dba Oregon's Health CO-OP. The examination was conducted to determine if the company is qualified to obtain a certificate of authority to conduct business as a health care service contractor pursuant to Chapter 750 of the Oregon Insurance Code. The primary focus was to verify assets, liabilities, capital and surplus and to confirm that minimum capital and surplus requirements have been met. ORS 750.045 requires that applicants for an initial certificate of authority to conduct business as a health care service contractor possess capital and surplus of at least \$3,000,000.

In addition to a verification of the Company's financial position, the following matters were reviewed:

Company description	Management and control
Conflict of interest	Corporate records
Fidelity bond and other insurance protection	Reinsurance
Accounts and records	

The examination was conducted in compliance with the Oregon Insurance Code as well as in accordance with procedures promulgated by the National Association of Insurance Commissioners.

COMPANY DESCRIPTION

Community Care of Oregon, Inc., is a not for profit public benefit corporation formed pursuant to Chapter 65 of the Oregon Revised Statutes. The corporation is organized and operated exclusively as a consumer operated and oriented health plan defined as a "CO-OP" in Section 1322 of Public Law 111-148, as amended (the "Affordable Care Act").

The Corporation was formed and will be organized to operate as a health care service contractor pursuant to the provisions of Chapter 750 of the Oregon Revised Statutes.

CAPITALIZATION

The capitalization requirements of the CO-OP are defined in ORS 750.045(1) which requires the CO-OP to keep and maintain capital and surplus of not less than \$2,500,000 and to possess an additional \$500,000 upon initial licensing, as required by ORS 750.045(4).

The CO-OP is being funded through the Center for Medicare and Medicaid Management (CMS) in order to participate on the Oregon Health Exchange beginning January 1, 2014. Pursuant to a loan agreement with CMS dated March 23, 2012, the CO-OP secured a start-up loan in the amount of \$7,014,608 and a solvency loan of \$49,500,000. The start-up loan has a 0% rate of interest and will become due five years from the initial disbursement date. The CO-OP has also secured a surplus note of \$1 million from CareOregon, Inc., to be used for marketing expenses. The note has a 0% rate of interest and is due by December 31, 2017.

CORPORATE RECORDS

Articles of Incorporation

The examiners reviewed the Articles of Incorporation and Bylaws and all amendments thereto. The most recent articles were last amended on May 21, 2012. The Articles conform to the provisions of ORS 732.095.

Bylaws

The examiners reviewed the corporate Bylaws, last amended on May 21, 2012. The Bylaws stipulate that the business and affairs of the corporation shall be controlled by the Board of Directors. The number of directors shall range three to fifteen, as determined by the Board. The initial Board of Directors shall be called the Formation Board until the corporation has begun accepting enrollment of members and conducted an election of directors to the Operational Board. No later than one (1) year after the effective date on which the

corporation provides coverage to its first member, the Board of Directors shall elect an Operational Board of Directors, who shall replace the Formation Board. This Operational Board shall consist of two classes of directors, member directors and nonmember directors. Member directors are elected to serve because of their status as members of the corporation. Nonmember directors are elected to serve because of their specialized expertise, experience or affiliation with the corporation. The majority of the Board of Directors must be Member Directors. Further, no representative of any federal, state or local government or any political subdivision thereof may serve on the Board of Directors. Each director shall hold office until his or her successor is elected or appointed, unless an earlier removal is caused by death, resignation or removal. The term of each director is three years. The Board of Directors has the authority to create staggered terms and a director can be re-elected to the same position.

MANAGEMENT AND CONTROL

Board of Directors

The CO-OP's Bylaws, in Article V, section 1, state all corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be controlled by, the Board of Directors. The Second Amended and Restated Bylaws state that the number of directors shall be a minimum of three (3) and a maximum of fifteen (15), as determined from time to time by the Board of Directors. As of January 31, 2013, these members were as follows:

Name and Address

Principal Affiliation

Edward H. Blackburn*
Portland, OR

Executive Director
Central City Concern

Shirley K. Cate
Camas, WA

President & CEO
Providence Federal Credit Union

Susan E. King
Portland, OR

Executive Director
Oregon Nurses Association

Cory Streisinger
Portland, OR

Consultant
Former Insurance Commissioner

Deborah Tompkins
West Lynn, OR

President
Tompkins Benefit Group

Dorane Wintermeyer
Damascus, OR

President
Healthcare Resources NW and Executive
Director, Adventist Health

*Chairman

Biographical affidavits have not been provided for Deborah Tompkins or Dorane Wintermeyer.

Officers

Pursuant to the Second Amended and Restated Bylaws, Article VI, the officers of the corporation shall be a Chair of the Board, President, Secretary, and such other officer as the Board of Directors may appoint. The same individual may hold more than one office. The officers shall be elected annually by the Board of Directors and terms are for one year. There is no prohibition on re-election of an officer following completion of his or her term in office. The principal officers serving at January 31, 2013, were as follows:

Name

Title

Ralph M. Prows, M.D.
Peggy M. Grunden, CPA
Bob Dickes

President, Chief Executive Officer
Treasurer, Chief Financial Officer
Director of Marketing & Sales

A biographical affidavit was not submitted for Bob Dickes. See subsequent events section of this report.

Conflict of Interest

The CO-OP's conflict of interest policy requires all directors and officers to annually identify and disclose all potential conflicts of interest as outlined in Articles I through VIII of the policy. The CO-OP also requires all Board of Directors to fill out annual board independence questionnaires in order to limit outside contacts with organizations that do business with the CO-OP.

One board member, Debbie Tompkins, disclosed she has broker/producer commission agreements with other Oregon insurance carriers in effect receiving compensation from competitors to the organization. Another board member, Dorane Wintermeyer, disclosed she is employed by Adventist Health. Adventist Health will most likely be a network provider for the CO-OP.

From a review of the completed questionnaires, the CO-OP's personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

Administrative and Management Services Agreement

The CO-OP entered into an Administrative and Management Services Agreement with CareOregon, Inc., effective March 23, 2012. Phase I Services – Effective until December 31, 2013, CareOregon will provide all services necessary and take all steps necessary to enable Community Care to establish itself as a licensed insurer in the State of Oregon and offer health insurance plans on the Exchange in order to provide health insurance coverage to members as of January 1, 2014. Phase II Services – Beginning January 1, 2014, CareOregon shall provide ongoing operational and administrative services to Community Care as necessary for Community Care to operate as a licensed insurer in the State of Oregon, offer

health insurance plans on the Exchange, and provide health insurance coverage to members. CareOregon's performance will be measured against a set of quality metrics (performance standards). The list of services and the performance standards must be mutually agreed upon no later than March 1, 2013. The performance standards will also include any quality or performance measures adopted by the Exchange.

The agreement designates CareOregon, Inc., to provide accounting, actuarial, statistical, medical, behavioral health, and pharmacy expertise in order to provide the CO-OP with necessary information to make decisions on reserving, cost containment programs, estimation of premiums, expenditures, and annual premium development and adjustments for benefit differences from the commercial market.

FIDELITY BOND AND OTHER INSURANCE

The CO-OP maintains insurance coverages through insurance policies whereby the CO-OP was a named insured. The examination of insurance coverage's involved a review of adequacy of limits and retentions and the authority to write in the State of Oregon. At January 31, 2013, the CO-OP was insured for directors and officers liability coverage for \$5,000,000, after a \$25,000 deductible for each claim. Other insurance coverage's in force at January 31, 2013, were as follows:

- Workers' compensation
- Commercial excess liability
- Business owners coverage
- Employment practices liability

The CO-OP maintains fiduciary liability coverage in the aggregate amount of \$1,000,000 and crime coverage in the amount of \$500,000 with a \$10,000 deductible for each claim. The minimum amount of coverage for the CO-OP was calculated at \$250,000, based on pro-

forma statements as of 2014, and as recommended by the NAIC Financial Condition Examiners Handbook. As a result, the CO-OP's fidelity bond appears to be adequate.

TERRITORY AND PLAN OF OPERATIONS

Commencing on January 1, 2014, the CO-OP will offer all health plans in the Oregon Health Insurance Exchange as required by State and Federal regulations. The plans will be offered at the gold, silver, and bronze benefit levels within the Exchange. The CO-OP intends to operate in the entire State of Oregon and to provide health care insurance and services to individuals and small businesses. A major target group will be Medicaid enrollees in CareOregon who lose their Medicaid eligibility but will be eligible for the subsidized coverage on the Exchange.

REINSURANCE

Ceded

Initially, the CO-OP will have two levels of reinsurance; the federal reinsurance program for the years 2014 through 2016 plus commercial reinsurance. The federal reinsurance program will have national payment parameters with an attachment point of \$60,000, when reinsurance payments would begin, and a national reinsurance cap of \$250,000, when the reinsurance program stops paying claims for high-cost individuals. The program has a coinsurance rate of 80%, meant to reimburse a proportion of claims between the attachment point and the cap.

The commercial reinsurance program is being researched and will be evaluated for cost/benefit analysis to determine the attachment point above the federal program. The CO-OP is in discussions with a commercial reinsurance broker who is seeking bids and will assist in the evaluation process. Per member, per month premium costs will be estimated by the commercial reinsurers early enough to include this cost in the premium build up due to

DCBS. For coverage to begin on January 1, 2014, the firm rates and contracting will occur during the fourth quarter of 2013.

The CO-OP will evaluate and negotiate coverage and pricing annually and seek bids from other approved carriers every third year in order to mitigate excessive concentrations of risk while managing related premium costs.

Insolvency Clause

The CO-OP has provided assurance that any reinsurance agreement into which it enters will include an acceptable insolvency clause which agrees to make payment to a statutory successor without diminution in accordance with the provisions of ORS 731.508.

Risk Retention

The CO-OP has provided assurance that any reinsurance agreement into which it enters will not allow the CO-OP to retain risk on any one subject in excess of 10% of its surplus to policyholders as required by the provisions of ORS 731.504.

ACCOUNTS AND RECORDS

In general, the CO-OP's records and source documentation supported the amounts presented in its unaudited January 31, 2013, financial statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

SUBSEQUENT EVENTS

Subsequent to the completion of examination field work but prior to the publication of this examination report, the CO-OP provided additional information. This information included acceptable biographical affidavits for Deborah Tompkins, Dorane Wintermeyer, and Bob Dicke. It also included an amended custodial agreement that satisfied the requirements of OAR 836-027-0200.

FINANCIAL STATEMENTS

The following unaudited financial statements show the financial condition of Community Care of Oregon, Inc., as of January 31, 2013:

COMMUNITY CARE OF OREGON, INC.

ASSETS

As of January 31, 2013

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Cash and cash equivalents	\$10,066,333	\$ -	\$10,066,333	1
Restricted investments	<u>260,000</u>	<u>-</u>	<u>260,000</u>	1
Total Assets	<u>\$10,326,333</u>	<u>\$ -</u>	<u>\$10,326,333</u>	

COMMUNITY CARE OF OREGON, INC
LIABILITIES, SURPLUS AND OTHER FUNDS
As of January 31, 2013

LIABILITIES AND NET WORTH	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Current Liabilities				
General payables	\$ 213,802	\$ -	\$ 213,802	
Payroll and benefits payable	<u>31,294</u>	<u>-</u>	<u>31,294</u>	
Total current liabilities	<u>245,096</u>	<u>-</u>	<u>245,096</u>	
Long-Term Liabilities				
CMS Loan - Startup	4,014,608	-	4,014,608	2
CMS Loan - Solvency	-	-	-	
CareOregon Loan	<u>-</u>	<u>-</u>	<u>-</u>	
Total Long-Term Liabilities	<u>4,014,608</u>	<u>-</u>	<u>4,014,608</u>	
Total Liabilities	<u>4,259,704</u>	<u>-</u>	<u>4,259,704</u>	
NET WORTH				
Prior year net worth	(1,689,309)	-	(1,689,309)	
Year-to-date net surplus (deficit)	(258,671)	-	(258,671)	
Gross paid in and contributed capital	<u>8,014,608</u>	<u>-</u>	<u>8,014,608</u>	3
Total net worth	<u>6,066,629</u>	<u>-</u>	<u>6,066,629</u>	
Total Liabilities and Net Worth	<u>\$10,326,333</u>	<u>\$ -</u>	<u>\$10,326,333</u>	

COMMUNITY CARE OF OREGON, INC
STATEMENT OF INCOME
For the Period Ended January 31, 2013

REVENUE	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Revenue	\$ -	\$ -	\$ -	
Other Revenues	-	-	-	
Total Revenue	-	-	-	
Medical Expenses				
Revenue over medical expenses	-	-	-	
Administrative Expenses				
Salaries and benefits	79,508	-	79,508	
Allocation in salaries and benefits	48,619	-	48,619	
Insurance	-	-	-	
Depreciation and amortization	-	-	-	
Professional services	95,518	-	95,518	
CareOregon management fee	4,774	-	4,774	
Other	30,586	-	30,586	
Total administrative expenses	<u>259,006</u>	<u>-</u>	<u>259,006</u>	
Operating surplus (deficit)	(259,006)	-	(259,006)	
Other income (expense)				
Interest and dividend income	335	-	335	
Interest expense	-	-	-	
Other	-	-	-	
Net other income (expense)	<u>335</u>	<u>-</u>	<u>335</u>	
Net surplus (deficit), before PDR adjustment	<u>(258,671)</u>	<u>-</u>	<u>(258,671)</u>	
Premium def. reserve incr (decr)	-	-	-	
Prior year IBNR adjustment incr (decr)	-	-	-	
Net Surplus (deficit)	<u><u>\$(258,671)</u></u>	<u><u>\$ -</u></u>	<u><u>\$(258,671)</u></u>	

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

The examiner verified the balances in the investment and cash accounts were held in the name of the CO-OP and confirmed the balances held with the respective custodians and banks. No procedures were performed by the examiner to determine the accuracy of reporting, pricing, or valuation. Procedures were limited to determination of ownership and existence of cash and securities.

The CO-OP provided a draft for a custody agreement with U.S. Bank. The agreement contains all the relevant protections described in OAR 836-027-0200(4)(a)-(l) with the exception of the following:

(c) The insurer's securities or a certified listing of the insurer's securities through a securities depository or a Federal Reserve book entry system shall be subject to inquiry and examination by the Director of the Department of Consumer and Business Services, either at the custodian's premises or elsewhere, as provided by ORS 731.296 and 731.308;

(f) The custodian must agree to provide written notification to the Director, within three business days of receipt by the custodian of the insurer's written notice of termination or withdrawal, if the custodial agreement has been terminated or if 100 percent of the account assets in any one custody account have been withdrawn;

See the subsequent event portion of this report.

Note 2 – CMS Loan – Start-up

Per agreement with CMS, the CO-OP will receive an additional \$3,142,292 to be paid in quarterly draws which will be paid out by December 2013. The total start-up loan to be received from CMS will be \$7,156,900.

Note 3 – Gross Paid-In and Contributed Capital

Additional paid in capital comprised of \$1,000,000 statutory loan from CareOregon, Inc., for marketing expenditures and a \$7,014,608 solvency loan from CMS. The solvency loan amount is drawn quarterly from the \$49.5 million total per agreement with CMS. This draw was based on total long-term liabilities plus an additional \$3 million in order for the CO-OP to meet required minimum statutory capital & surplus requirements.

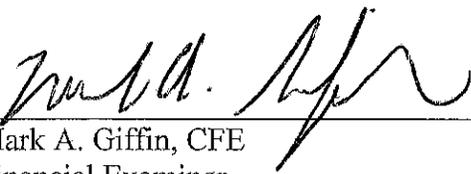
CONCLUSION

The CO-OP has submitted an application for a Certificate of Authority in accordance with the provisions of ORS 731.402(1). At January 31, 2013, the CO-OP reported net assets of \$10,326,333, liabilities of \$4,259,704, and total equity of \$6,066,629 (unaudited), as determined by this financial examination. The CO-OP met the requirements of ORS 750.045 of the Oregon Insurance Code to possess a Certificate of Authority.

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of Community Care of Oregon, Inc., dba Oregon's Health CO-OP during the examination process are gratefully acknowledged.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Mark A. Giffin", is written over a horizontal line.

Mark A. Giffin, CFE
Financial Examiner
Department of Consumer and Business Services
State of Oregon

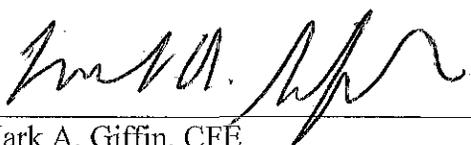
AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Mark A. Giffin, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Community Care of Oregon, Inc., dba Oregon's Health CO-OP, Portland, Oregon.
2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of Community Care of Oregon, Inc., dba Oregon's Health CO-OP was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.



Mark A. Giffin, CFE
Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this 29 day of March, 2013.



Notary Public for the State of Oregon

My Commission Expires: 3/22/2017

