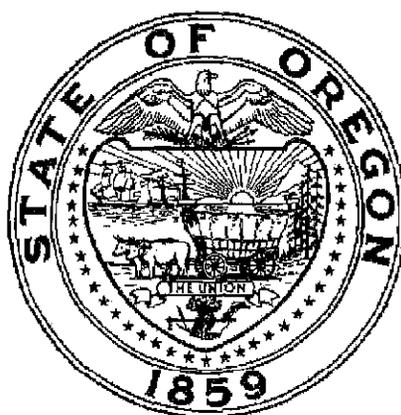


**STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES
INSURANCE DIVISION**



REPORT OF QUALIFYING FINANCIAL EXAMINATION

OF

**FREELANCERS CONSUMER OPERATED AND ORIENTED
PROGRAM OF OREGON, INC.
PORTLAND, OREGON**

AS OF

JANUARY 31, 2013

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF QUALIFYING FINANCIAL EXAMINATION

**FREELANCERS CONSUMER OPERATED AND ORIENTED PROGRAM OF
OREGON, INC.
PORTLAND, OREGON**

AS OF

January 31, 2013

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SALUTATION

February 7, 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

**FREELANCERS CONSUMER OPERATED AND ORIENTED PROGRAM OF
OREGON, INC.
3835 SW Kelly Avenue, Suite 260
Portland, Oregon 97239**

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

SCOPE OF EXAMINATION

We have performed our qualifying examination of Freelancers Consumer Operated and Oriented Program of Oregon, Inc. 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

Freelancers Consumer Operated and Oriented Program of Oregon, Inc. is a not-for-profit corporation formed pursuant to Chapter 65 of the Oregon Revised Statutes. The organization was formed as a mutual benefit corporation for the purposes of assisting individuals who do not currently have health insurance and to create a consumer operated and oriented plan to provide healthcare coverage for individuals through an insurance exchange, in accordance with 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 maintain capital and surplus of not less than \$2,500,000 and to possess an additional \$500,000, 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. Start up-up loans in the amount of \$9,091,000 will become due five years from the date of draw (beginning 2017) with a 0% rate of interest. Solvency will be maintained through surplus notes sold to CMS with deferred interest through 2018, interest only payments in 2019 and 2020, and a target repayment of principle and interest by 2033.

CORPORATE RECORDS

Articles of Incorporation

The Articles of Incorporation and all amendments thereto were reviewed. The most recent articles were amended on July 31, 2012. The Articles conform to the provisions of ORS 732.095.

Bylaws

The examiners reviewed the corporate Bylaws, last amended on November 29, 2012. The Bylaws stipulate that the management of the affairs, property, and business of the Corporation shall be vested in a Board of Directors. At least one third of the directors must be individuals who are neither practicing doctors nor employees, directors, or trustees of a hospital. At least one quarter of directors must be residents of the State of Oregon.

The initial Board of Directors shall be called the Formation Board who will oversee the initial operations of the CO-OP and shall initially consist of at least five and no more than nine directors as determined by the Formation Board. No later than one year after the Corporation provides health insurance coverage to its first enrollee, the number of members of the Formation Board shall increase by two, and the members shall elect two initial Operational Board members to these additional positions. No later than the second anniversary of the date that the Corporation provides health insurance coverage to its first enrollee, the Formation Board will be replaced by the Operational Board of Directors. The Operational Board shall have nine voting directors, and initially shall include two individuals serving as the transition operational board members, who shall serve out the remainder of their respective terms. The Formation Board and Operational Board shall each have nine members.

MANAGEMENT AND CONTROL

Board of Directors

The CO-OP's Articles of Incorporation, in Article VIII, state the Bylaws of the corporation shall establish the number of directors. The Bylaws stipulate that the initial Board of Directors shall consist of at least five and no more than nine directors as determined by the Formation Board. As of January 31, 2013, these members were as follows:

Name and Address

Principal Affiliation

Kyle Zimmer*
Silver Spring, Maryland

Founder & CEO
First Book

Robert J. Imbriano, II
Portland, Oregon

Freelancers Union Member
Self-employed Producer/Writer/Director

Name and Address

Principal Affiliation

James R. Patterson
Vancouver, Washington

Clinical Professor of Medicine
Oregon Health & Science University

David C. Brown
Portland, Oregon

Founder
Context Partners

*Chairman

A fifth Board member resigned on January 16, 2013, and the CO-OP is actively recruiting for her replacement. The CO-OP must fill the vacancy on its Board of Directors to satisfy the requirements contained in its Bylaws. See Subsequent Event portion of this examination report.

Officers

Pursuant to the Bylaws, Article V, the Board of Directors shall elect a president, treasurer, and a secretary and such other officers as it may determine. Any two or more offices may be held by the same person.

The principal officers serving at January 31, 2013, were as follows:

Name

Title

Steven A. Flack
Sarah Couey

Executive Director*
Director of Finance**

*Steve Flack resigned effective February 4, 2013, and was replaced by Dawn Bonder. However, Mr. Flack will continue to serve the CO-OP in the upcoming weeks in order to help Ms. Bonder transition into her position.

**Sarah Couey resigned effective February 8, 2013. Her replacement has not been named. In addition to this position, the CO-OP is also actively recruiting for a Director of Operations.

As a result, the CO-OP management currently lacks sufficient insurance experience in accordance with the requirements of ORS 731.386(1). The CO-OP must fill the positions of Director of Finance and Director of Operations with persons who have sufficient experience in managing an insurance company in accordance with the requirements of ORS 731.386(1). See Subsequent Event portion of this examination report.

Conflict Of Interest

The CO-OP's conflict of interest policy requires all directors and officers to review the policy and to permit the CO-OP and its Board members and officers to identify, evaluate, and address any real, potential, or apparent conflicts of interest that might call into question their duty of undivided loyalty to the CO-OP.

One Board member, James Patterson, M.D., disclosed that he is a part-time paid employee at the Oregon Clinic on his conflict of interest statement signed June 13, 2012. However, he does not have a material financial interest in the clinic.

No individual reported a material conflict.

INTERCOMPANY AGREEMENTS

The CO-OP entered into a services agreement with Independent Worker Services (IWS) on February 17, 2012, to provide certain services related to enabling the CO-OP to offer health plans in the State of Oregon. IWS is an affiliate of Freelancers Union, which was the sponsor of the plan's application for financing under the CO-OP Program, has experience in designing, developing and establishing health plans offered to individuals who cannot obtain health insurance coverage through their employer. The CO-OP is awaiting final approval of the agreement from CMS.

The examiner reviewed the related party agreement, but performed no testing of the expenses related to intercompany transactions.

FIDELITY BOND AND OTHER INSURANCE

The CO-OP maintains insurance coverages through its 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 \$3,000,000, after a \$10,000 deductible for each claim. Sub-limits for antitrust violations and regulatory wrongful acts had higher deductibles ranging from \$25,000 to \$50,000. Other insurance coverages in force at January 31, 2013, were as follows:

- Property and general liability
- Employment practices liability

The CO-OP did not report any coverage for fiduciary liability or crime coverage. Fidelity bonds are written to cover material acts of theft or dishonesty by bonded employees or agents. Thus, if a crime is committed by an individual who is not bonded, the company may have to bear the costs of that loss. Alternatively, companies may buy a general fidelity insurance policy commonly referred to as crime coverage. The minimum amount of coverage for the CO-OP was calculated at \$600,000, based on pro-forma statements as of 2014, and as recommended by the NAIC Financial Condition Examiners Handbook.

The CO-OP must obtain adequate fidelity liability or crime coverage prior to transacting insurance. This requirement is supported by the provisions of ORS 731.574(6) and the NAIC Financial Condition Examiners Handbook. See Subsequent Event portion of this examination report.

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. These plans may also be offered outside the Exchange on the open market in Oregon. The plans will be offered at the gold, silver, bronze benefit levels within the Exchange. The CO-OP will include the use of network or preferred providers offered through the Providence Health Services network. The CO-OP will also include utilization review, case management and pharmacy management programs in order to control costs.

The CO-OP has contracted with Providence Health Services for third party claims administration services (including pharmacy claims) effective January 1, 2014. A service contract between Freelancers and Providence Health Systems has been finalized. However, they are still waiting for final approval from CMS.

REINSURANCE

Ceded

The CO-OP provided an illustrative proposal for stop-loss reinsurance from RGA Reinsurance Company, NAIC #93572, authorized in Oregon on May 25, 1982. Per Steve Flack, former executive director, they are still looking at other reinsurers and will not finalize an agreement until their product plan designs are finalized. An agreement should be finalized by July 2013.

Insolvency Clause

The proposal did not include an insolvency clause. However, per Steve Flack, the exclusion means that the reinsurer will not cover all CO-OP claims in the event of insolvency. However, reinsurer will pay for all claims above the attachment point during the coverage

period and as long as premiums are paid and the CO-OP is operating as a licensed health plan in Oregon.

Any agreement entered into between the CO-OP and a reinsurer must contain an acceptable insolvency clause which agrees to make payment to a statutory successor without diminution in accordance with the provisions of ORS 731.508. See Subsequent Event portion of this examination report.

Any reinsurance agreement entered into between the CO-OP and a reinsurer must 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. See Subsequent Event portion of this examination report.

SUBSEQUENT EVENTS

Subsequent to the completion of examination field work but prior to the publication of this examination report, the CO-OP performed the following:

1. Appointed Mr. Tom Kuhn and Mr. Josh Franke to the Board of directors on March 13, 2013. Biographical affidavits were provided to the Division on April 17, 2013. No concerns were noted in review of the biographical affidavits.
2. CO-OP hired Meredith Johnson, as Director of Finance, who started on April 15, 2013, and Ms. Nancy Voelsch, as Director of Operations, who started on April 2, 2013. Ms. Johnson and Ms. Voelsch have the experience required to meet the requirements of ORS 731.386(1). Biographical affidavits were provided to the Division on April 17, 2013. No concerns were noted in review of the biographical affidavits.

3. The CO-OP provided a statement on April 18, 2013, that it will have adequate fidelity liability or crime coverage in place prior to transacting insurance.
4. The CO-OP provided a statement on April 18, 2013, that it will sign a Reinsurance Contract that contains the required insolvency clause sufficient to meet the requirements of ORS 731.508, when the contract is executed.
5. The CO-OP provided a statement on April 18, 2013, indicating it will sign a stop loss Reinsurance Contract that will have an attachment point specifying the CO-OP will not retain risk in any one subject in excess of 10% of its surplus to policyholders as required by ORS 731.504.
6. The CO-OP provided a copy of the of the unsigned Custodial Agreement with US Bank on April 16, 2013, for review, and the signed Custodial Agreement with US Bank, executed April 18, 2013. The Custodial Agreement contains all of the relevant protections described in OAR 836-027-0200(4)(a)(1).

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.

FINANCIAL STATEMENTS

The following financial statements show the unaudited financial condition of Freelancers Consumer Operated and Oriented Program of Oregon, Inc., as of January 31, 2013.

**FREELANCERS CONSUMER OPERATED AND ORIENTED PROGRAM OF
OREGON, INC.**

ASSETS

As of January 31, 2013

Current Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Cash & Cash Equivalent				
Checking/Operating	\$ 248,682	\$ -	\$ 248,682	1
Savings	519,822		519,822	1
Investments	11,525,109		11,525,109	1
U.S. Bank	<u>260,000</u>	<u>-</u>	<u>260,000</u>	1
Total Cash & Cash Equivalent	<u>12,553,612</u>	<u>-</u>	<u>12,553,612</u>	
Other Current Assets				
Security Deposit	1,200	(1,200)	-	2
Prepaid Insurance	4,648	(4,648)	-	2
Prepaid Expenses - Other	<u>600</u>	<u>(600)</u>	<u>-</u>	2
Total Other Current Assets	<u>6,448</u>	<u>(6,448)</u>	<u>-</u>	2
Total Current Assets	<u>12,560,060</u>	<u>(6,448)</u>	<u>12,553,612</u>	
Fixed Assets				
Computer Equipment	1,202		1,202	
Less Accumulated depreciation	<u>(140)</u>	<u>-</u>	<u>(140)</u>	
Total Fixed Assets	<u>1,061</u>	<u>-</u>	<u>1,061</u>	
Total Assets	<u>\$12,561,122</u>	<u>\$ (6,448)</u>	<u>\$12,554,673</u>	

**FREELANCERS CONSUMER OPERATED AND ORIENTED PROGRAM OF
OREGON, INC.**

LIABILITIES, SURPLUS AND OTHER FUNDS

As of January 31, 2013

LIABILITIES & EQUITY	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Current Liabilities				
Accounts Payable	\$ 9,457	\$ -	\$ -	
Accrued Expenses	<u>4,750</u>	<u>-</u>	<u>4,750</u>	
Total Current Liabilities	<u>14,207</u>	<u>-</u>	<u>14,207</u>	
Long Term Liabilities				
Notes Payable	<u>5,290,032</u>	<u>-</u>	<u>5,290,032</u>	
Total Long Term Liabilities	<u>5,290,032</u>	<u>-</u>	<u>5,290,032</u>	
Total Liabilities	<u>5,304,239</u>	<u>-</u>	<u>5,304,239</u>	
Equity				
Surplus Notes	8,290,032		8,290,032	
Net Income	(33,334)		(33,334)	
Net Assets (Deficit)	<u>(999,815)</u>	<u>(6,448)</u>	<u>(1,006,263)</u>	
Total Equity	<u>7,256,883</u>	<u>(6,448)</u>	<u>7,250,438</u>	
Total Liabilities & Equity	<u>\$12,561,122</u>	<u>\$ (6,448)</u>	<u>\$12,554,674</u>	

**FREELANCERS CONSUMER OPERATED AND ORIENTED PROGRAM OF
OREGON, INC.**

STATEMENT OF INCOME

For the Period Ended January 31, 2013

Income	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Earned Revenue	\$ (5,431)	\$ -	\$ (5,431)	
Total Income	(5,431)		(5,431)	
 Expenses				
Office Expenses/Supplies	600		600	
Depreciation Expense	20		20	
Liability Insurance	1,478		1,478	
Plan Management Service Fees	-		-	
Salaries/Tax Expenses	23,596		23,596	
Travel Expenses	<u>2,208</u>	<u>-</u>	<u>2,208</u>	
Total Expense	<u>27,903</u>	<u>-</u>	<u>27,903</u>	
 Net income	 <u>\$ (33,334)</u>	 <u>\$ -</u>	 <u>\$ (33,334)</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.

As of January 31, 2013, the CO-OP had not entered into a custodial agreement which contained all the relevant protections described in OAR 836-027-0200(4)(a)-(1). The CO-OP must enter into a custody agreement that contains all of the relevant protections described in OAR 836-027-0200(4)(a) to (1). See Subsequent Event portion of this examination report.

Note 2 – Prepaid Expenses

The CO-OP reported assets for prepaid expenses such as a security deposit, prepaid insurance and other prepaid expenses, which are nonadmissible pursuant to SSAP No. 29, paragraph 2 and ORS 733.020. These assets typically are not readily available to satisfy policyholder obligations and should be nonadmitted for statutory reporting purposes. The examiner reduced net assets by \$6,448 and decreased the CO-OPs equity by the same amount.

SUMMARY OF COMMENTS

The examiner reduced surplus by \$6,448 as a result of this qualifying examination. See Subsequent Event portion of this examination report for additional comments.

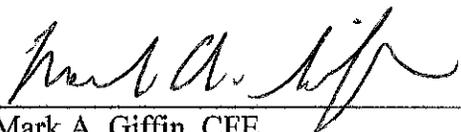
CONCLUSION

At January 31, 2013, the CO-OP reported net assets of \$12,554,673, liabilities of \$5,304,239, and total equity of \$7,250,438 (unaudited), as determined by this financial examination. The CO-OP met the minimum capital and surplus requirements of ORS 750.045. At April 15, 2013, the CO-OP meets the requirements of ORS 731.386. As a result, a certificate of authority can currently be issued.

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the 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

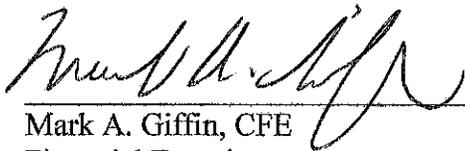
AFFIDAVIT

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 Freelancers Consumer Operated and Oriented Program of Oregon, Inc., 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 Freelancers Consumer Operated and Oriented Program of Oregon, Inc., 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 18 day of April, 2013.



Notary Public for the State of Oregon

My Commission Expires: 3/22/2017

