



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF QUALIFYING FINANCIAL EXAMINATION

**ATRIO HEALTH PLANS, INC.
ROSEBURG, OREGON**

AS OF

FEBRUARY 28, 2005

TABLE OF CONTENTS

<u>SCOPE OF EXAMINATION</u>	4
<u>DESCRIPTION OF COMPANY</u>	4
<u>CAPITALIZATION</u>	4
<u>MANAGEMENT AND CONTROL</u>	5
<i>Officers</i>	7
<i>Affiliated Companies</i>	7
<i>Agreements</i>	7
<u>CONFLICT OF INTEREST</u>	7
<u>CORPORATE RECORDS</u>	8
<i>Articles of Incorporation</i>	8
<i>Bylaws</i>	8
<i>Board Minutes</i>	8
<u>FIDELITY BONDS AND OTHER INSURANCE</u>	8
<u>TERRITORY AND PLAN OF OPERATION</u>	9
<u>REINSURANCE</u>	9
<u>STATUTORY DEPOSITS</u>	9
<u>ACCOUNTS AND RECORDS</u>	9
<u>BALANCE SHEET</u>	10
<u>INCOME STATEMENT</u>	11
<u>NOTES TO THE FINANCIAL STATEMENTS</u>	12
<i>Note 1 - Investments</i>	12
<i>Note 2 - Liabilities</i>	12
<u>CONCLUSION</u>	12
<u>ACKNOWLEDGMENT</u>	13
<u>AFFIDAVIT</u>	14

March 7, 2005

Honorable Cory Streisinger, Director
Department of Consumer Business and Services
State of Oregon
350 Winter Street NE, Room 440
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, I have examined the business affairs and financial condition of

**ATRIO HEALTH PLANS, INC.
500 SE Cass Avenue, Suite 230
Roseburg, Oregon 97470**

hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

The examination included a review of the corporate records and other documents pertinent to the Company's organization and proposed operations with a valuation of the Company's assets and liabilities as of February 28, 2005. The examination was performed in accordance with procedures promulgated by the National Association of Insurance Commissioners (NAIC) and in compliance with the provisions of Oregon state insurance laws and regulations.

This report of examination includes financial statements and comments on matters which involve departure from laws, regulations or rules, or which are deemed to require special explanation or descriptions.

DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of Oregon on December 23, 2004, as a for profit stock company.

The formation of the Company combines the resources of three provider sponsored health plans serving rural Medicaid enrollees in Southern Oregon. The three plans include Doctors of the Oregon Coast South (DOCS) in Coos County, Douglas County Individual Practice Association (DICPA) in Douglas County and Cascade Comprehensive Care Inc. (CCC) in Klamath County. Each health plan (partner) will own one third of the issued preferred stock of the Company.

CAPITALIZATION

In January 2005 each partner purchased 100 shares of Series "A" preferred stock at \$1,000 per share for \$100,000. A total of \$300,000 was generated from this original sale of stock. In February 2005 each partner purchased an additional 900 shares of Series "A" preferred stock at \$1,000 per share for \$900,000. The sale of these additional

shares generated an additional \$2,700,000. The combined purchases of stock generated \$3,000,000 in capital to fund the Company. The Company meets the requirements of ORS 750.045, which require \$2,500,000 in capital and surplus and an additional \$500,000 of capital and surplus when a company applies for its initial certificate of authority.

In addition, the partners contributed an additional \$100,000 each for start up costs.

MANAGEMENT AND CONTROL

The Bylaws vest the Company's management and control in a Board of Directors consisting of at least three and no more than 24 members. One third of the Board shall be representatives of the public who are not practicing doctors or have familial or employment relationships with the company or is a shareholder of the company.

There are three classes of directors known as "Class 1", Class 2," and "Class 3." The initial term of Class 1, 2, and 3 directors will expire in three years, four years, and five years, respectively. After the initial terms expire, each class will expire in three years.

The following are directors serving the Company at February 28, 2005:

<u>Name and Address</u>	<u>Position and Affiliation</u>	<u>Representation</u>
Class 1 - Directors		
William C. Guest III* 900 Main Street, Suite K Klamath Falls, OR 97601	President/CEO Cascade Comprehensive Care	Medical
David J. Davis 10501 Washburn Way Klamath Falls, OR 97603	School District Director & Superintendent Klamath County School District	Public
William J. Moriarty, MD 1900 Woodland Drive Coos Bay, OR 97420	Physician/Internal Medicine North Bend Medical Center	Medical
Laurence Sharp, MD 311 E. Central Sutherlin, OR 97470	Self Employed Medical Practice	Medical

<u>Name and Address</u>	<u>Position and Affiliation</u>	<u>Representation</u>
Joni M. Mostert 700 S. Broadway Coos Bay, OR 97420	Vice President Commercial Banking Umpqua Bank	Public
Class II - Directors		
William H. Murray* 730 Central Avenue, Suite 202 Coos Bay, Oregon 97420	Chief Executive Officer SW Oregon IPA, Inc.	Medical
Brian H. Meneffe 2316 S. Sixth Street, Suite A Klamath Falls, OR 97601	Partner Rusth, Spires & Meneffe LLP,	Public
Vincent D. Herr 4327 Pine Grove Road Klamath Falls, OR 97603	Owner - Vincent D. Herr, MD, PC Physician/Anesthesiologist	Medical
Bradley F. Copeland PO Box 1820 Roseburg, OR 97470	Executive Vice President & Chief Credit Officer Umpqua Holding Corp.	Public
Joel R. Daven, MD 544 W. Umpqua, Suite 202 Roseburg, OR 97470	Medical Director Douglas County IPA	Medical
Class III - Directors		
Ronald F. Preston* 1813 W. Harvard, Suite 432 Roseburg, OR 97470	Owner - PR HealthCare Consultants	Medical
Stephen A. Rybolt 2865 Daggett Avenue Klamath Falls, OR 97601	Vice President/Chief Financial Officer Merle West Medical Center	Medical
James J. Sinnott, MD 790 E. Fifth Coquille, OR 97423	Physician Coquille Clinic	Medical
David L. Gilbert 580 SE Oak Roseburg, OR 97470	President Bruce Gilbert, Inc.	Public
Rodney H. Danielson 1255 Hemlock Coos Bay, Oregon 97420 * Co-Chairs	Business Manager/ Chief Executive Officer Coos Bay School District	Public

At least one third of the members of the Board of Directors are representatives of the public as required by the provisions of ORS 750.015(1).

Officers

Operating management of the Company as of February 28, 2005, was under the direction of the following person:

<u>Name</u>	<u>Office</u>
Pamela M-K Johnson	Chief Executive Officer

It appears the officer and members of the Board possess insurance experience and the ability to direct the affairs of the Company as required by ORS 731.386(1).

Affiliated Companies

There are no affiliated Companies

Agreements

There are no affiliate or other agreements in place.

CONFLICT OF INTEREST

The Company requires officers and directors to read the corporate conflict of interest policy and then disclose any conflict of interest on a signed conflict of interest statement.

From a review of the conflict of interest statements, it appeared the affected personnel performed due diligence in disclosing actual or potential conflicts of interest.

CORPORATE RECORDS

The corporate records, which included Articles of Incorporation, Bylaws and written actions of the Board of Directors, were reviewed for the period under examination.

Articles of Incorporation

The Articles of Incorporation conformed with Oregon statutes. On February 24, 2005, the Secretary of State approved an amendment to the Articles of Incorporation to change the number of directors from 14 to 15.

Bylaws

The Bylaws conformed with Oregon statutes.

Board Minutes

Minutes of the organizational meeting of directors were reviewed. The minutes support the transactions of the Company and actions taken by its officers.

FIDELITY BONDS AND OTHER INSURANCE

The Company has adequate insurance coverages in all exposed areas of risk. The examination of these coverages involved determining the methods by which the Company assesses risk, adequacy of limits and retentions, and solvency of the insurers providing the coverages.

The Company has a managed care professional liability policy which covers up to \$1,000,000 for managed care professionals and \$1,000,000 directors' and officers' liability insurance, each with a \$25,000 retention for each claim. The fidelity coverage of \$200,000 met the prescribed minimum coverage as specified by the NAIC. In addition, the Company has a business owner's policy to cover property, liability, accounts receivable, and valuable documents with a \$500 retention.

TERRITORY AND PLAN OF OPERATION

The Company will provide health care services as a Medicare risk contractor to persons eligible for Medicare once it receives its Certificate of Authority. It submitted an application to the Centers for Medicare and Medicaid Services (CMS) to provide health care services as a Medicare Advantage Contractor . That application is pending with CMS until the Company becomes a licensed health care service contractor in Oregon.

REINSURANCE

The Company has a binder from Physicians Insurance A Mutual Company which partners with Allianz Life Insurance Company of North America to furnish reinsurance coverage. This coverage will have an attachment point of \$100,000 and will have a \$2,000,000 individual contract year maximum. The coverage will be effective on June 1, 2005.

STATUTORY DEPOSITS

The Company posted a \$250,000 surety bond with the Insurance Division to comply with ORS 750.045.

ACCOUNTS AND RECORDS

The Company's books are maintained on the basis consistent with customary and general insurance accounting practices. Electronic records are kept on various computing platforms, including mainframe, mini-computers and personal computers. All records were made readily available to the examiner as required by ORS 733.170.

In general, the Company's records and source documentation supported the amounts presented in the Company's financial statements as of February 28, 2005.

ATRIO HEALTH PLANS, INC.
BALANCE SHEET
As of February 28, 2005

<u>ASSETS</u>	<u>Ledger Assets</u>	<u>Non Ledger (Nonadmitted) Assets</u>	<u>Net Admitted Assets</u>
Cash & cash equivalent	\$ 206,893	\$0	\$ 206,893
Investments – bonds (Note 1)	<u>2,997,529</u>		<u>2,997,529</u>
Total Assets	<u>\$3,204,422</u>	<u>\$0</u>	<u>\$3,204,422</u>
 <u>LIABILITIES</u>			
Payroll liabilities	<u>\$ 9,765</u>	<u>0</u>	<u>\$ 9,765</u>
Total Liabilities (Note 2)	<u>9,765</u>	<u>\$0</u>	<u>9,765</u>
 <u>CAPITAL & SURPLUS</u>			
Preferred stock	3,000,000	\$0	3,000,000
Gross paid-in & contributed surplus	432,822		432,822
Unassigned funds	<u>(238,165)</u>	<u>0</u>	<u>(238,165)</u>
Total Capital & Surplus	<u>3,194,657</u>	<u>0</u>	<u>3,194,657</u>
Total Liabilities & Capital and Surplus	<u>\$3,204,422</u>	<u>\$0</u>	<u>\$3,204,422</u>

ATRIO HEALTH PLANS, INC
INCOME STATEMENT
February 28, 2005

REVENUE

Revenue	\$ <u>0</u>
---------	-------------

EXPENSES

Salaries	20,953
Payroll taxes	1,890
Employee benefits	6,594
Bank fees and charges	15
Consultants/outside services	55,509
Fees and assessment	2,500
Insurance	53,725
Legal	83,507
Meals and entertainment	15
Office supplies	3,030
Postage	130
Rents	
Office	4,298
Equipment and other	3,902
Travel	1,670
Miscellaneous	<u>427</u>

Total Expenses	<u>238,165</u>
----------------	----------------

<u>Net Loss</u>	<u>\$(238,165)</u>
-----------------	--------------------

CAPITAL AND SURPLUS

Initial surplus contribution	\$3,000,000
Additional paid in capital	432,822
Net Loss	<u>(238,165)</u>

Surplus as of February 28, 2005	<u>\$3,194,657</u>
---------------------------------	--------------------

THE ACCOMPANYING NOTES IS AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Investments

Bonds and cash were confirmed with the respective bank or custodian as of February 28, 2005. No exceptions were noted.

Note 2 - Liabilities

The Company does not appear to have any contingent liabilities as of February 28, 2005. The Company has signed a surplus oath, whereby no part of the capital and surplus will be withdrawn, pledged, or any way impaired.

CONCLUSION

The Company has completed its application and satisfies the requirements of the Oregon Insurance Code to possess a Certificate of Authority. I recommend the Company be issued a Certificate of Authority as a health care service contractor regulated by Chapter 750 of the Oregon Insurance Code.

ACKNOWLEDGMENT

The examiner wishes to express his appreciation for the cooperation extended by the officer and employee of the Company during the course of the examination.

Respectfully submitted,

Timothy R. Hurley, CFE
Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Timothy R. Hurley, being duly sworn, deposes and says that the foregoing report of examination as of February 28, 2005, of Atrio Health Plans, Inc., Roseburg, Oregon, subscribed by him is true to the best of his knowledge and belief.

Timothy R. Hurley, CFE
Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn before me this _____ day of _____, 2005.

Notary Public in and for the State of Oregon

My commission expires _____