



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

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

NAIC COMPANY CODE 10123

AS OF

DECEMBER 31, 2007

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SALUTATION

June 23, 2008

Alfred W. Gross, Commissioner
Chairman, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

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

Dear Commissioner and Director:

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

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

NAIC Company Code 10123

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

SCOPE OF EXAMINATION

The examination of the Plan was conducted as of December 31, 2007, covering the two years and ten months since the qualifying examination and included a review of material transactions or events which occurred subsequent to the examination date and were noted during the examination.

The examination was conducted pursuant to the provisions of ORS 731.300 and in accordance with procedures and guidelines prescribed by the NAIC for the purpose of determining the Plan's financial condition, ability to fulfill its obligations, nature of operations, and compliance with the Insurance Code. Accounting methods, internal control procedures, records, and other supporting evidence were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume, and complexity of the accounting system and operations utilized by the Plan. Record testing included, but was not limited to, assets, liabilities, income and expense related items.

In addition to the above, work papers were reviewed that were prepared by Malotore, Scroggin, Peterson and Company, LLP, the Plan's independent auditors, in its audit of the Plan's accounts for the year ended December 31, 2007. A portion of the auditors' work papers has been incorporated into our work papers and has been utilized in determining the scope and areas of emphasis in conducting the examination.

Scott L. Fitzpatrick, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, evaluated the Plan's unpaid claims reserves, medical incentive pools, unpaid claims adjustment expenses and liability for amounts held under uninsured accident and health plans. The results of his analysis are found under the relevant section of this report.

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 combined 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 (DCIPA) in Douglas County, and Cascade Comprehensive Care Inc. (CCC) in Klamath County. Each health plan (partner) owns 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.

Each of the partners contributed an additional \$100,000 and \$55,871 for start up costs. To ensure adequate capital, each of the three partners contributed an additional \$200,000 on April 30, 2006. The partners made a total of \$1,067,014 in additional contributions.

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 are 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, in compliance with ORS 750.015(1).

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 directors were serving the Company at December 31, 2007:

<u>Name and Address</u>	<u>Position and Affiliation</u>	<u>Representation</u>
William C. Guest, III Klamath Falls, Oregon	President/CEO Cascade Comprehensive Care	Medical
Laurence M. Sharp, MD Roseburg, Oregon	Family Practice Physician	Medical
Joni M. Mostert Coos Bay, Oregon	Vice President, Commercial Banking Umpqua Bank	Public
Alan L. Whitney, MD Coos Bay, Oregon	Physician South Coast Orthopedic Association	Medical
William H. Murray Coos Bay, Oregon	Chief Executive Officer Doctors of the Oregon Coast South	Medical
Brian H. Menefee Klamath Falls, Oregon	Partner Rusth, Spires & Menefee, LLP	Public
Joel R. Daven, MD Roseburg, Oregon	Medical Director Douglas County IPA	Medical
Ronald F. Preston Roseburg, Oregon	CEO Douglas County IPA	Medical
James J. Sinnott, MD Coquille, Oregon	Physician Coquille Clinic	Medical
David L. Gilbert* Roseburg, Oregon	President Bruce Gilbert, Inc.	Public
Rodney H. Danielson Coos Bay, Oregon	Business Manager/CEO Coos Bay School District	Public

<u>Name and Address</u>	<u>Position and Affiliation</u>	<u>Representation</u>
Russell F. Noah Roseburg, Oregon	President R. E. Noah and Company	Public
Charles M. Labuwi, MD Klamath Falls, Oregon	Pediatrics Physician	Medical
Daniel King Klamath Fall, Oregon	Financial Advisor	Public
Vincent D. Herr, MD Klamath Falls, Oregon	Physician/Anesthesiologist	Medical

*Chairman

Officers

On April 27, 2007, Pamela M-K Johnson announced her resignation as President and CEO of the Plan. On August 7, 2007, the Board appointed Victor J. Fresolone as interim President and CEO to be effective until December 2007. Subsequent to the examination date, Carole M. Pinell was hired as President and CEO of the Plan. Please see Subsequent Events below for additional personnel changes.

Affiliated Companies

There are no affiliated companies.

Agreements

The Plan is owned in equal proportions by Douglas County IPA, Inc., Cascade Comprehensive Care, Inc., and Southwest Oregon IPA. The Plan has no subsidiaries. (Shareholder Voting and Share Transfer Agreement).

The Plan has management agreements with each of its parent companies whereby the parent companies provide services that may include, but are not limited to, Credentialing and Recredentialing, Medical Case Management, performance improvements, Quality

Assessment, Utilization Management, Grievance Systems, and Medical Records Review, based upon standards adopted by the Plan. In addition, the Plan has a premium cost sharing arrangement whereby the parent companies pay the member premiums for dual eligible members (members with both Medicare and Medicaid coverage). Subsequent to the examination date, this arrangement has been discontinued.

CONFLICT OF INTEREST

The Plan does not have a formal policy for disclosing conflict of interests. The policy should reflect declarations by officer, directors and key employees of any possible conflicts of interest. **I recommend the Plan develop a formal “Conflict of Interest Policy” and require all directors, officers, and key employees to complete such forms at least once each year. This recommendation is supported by the NAIC Financial Condition Examiners Handbook and ORS 731.302(1).**

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 were amended on April 30, 2007, to include, with other language, the following:

In the event of any liquidation, dissolution or winding up of the corporation, either voluntarily or involuntarily, the assets of the corporation available for distribution to shareholders shall be distributed among the holders of the Common Stock and the Preferred Stock ratably on a per share basis.

The Articles of Incorporation conformed with Oregon statutes.

Bylaws

The Bylaws allow the Board of Directors to create one or more committees other than the Executive Committee and appoint members of the Board of Directors to serve on them. A Finance Committee was approved by the Board of Directors on August 4, 2007. The role of the Finance Committee is to oversee the financial affairs of the Plan and review and make recommendations to the Board of Directors about the financial affairs and policies of the Plan. The Bylaws conformed with Oregon statutes.

Board Minutes

Minutes of all meetings of board of directors were reviewed for the period under examination. All of the Board meetings during the examination period were conducted with a quorum of directors present. The Board minutes were recorded in sufficient detail to have an understanding of the actions taken by the Board.

The Board of Directors met on a quarterly basis to discuss the operations of the Plan. A review of the minutes reflected no approval of salaries for officers and senior management. **I recommend the Board of Directors approve the salaries for officers and senior management to comply with ORS 732.320(3).**

FIDELITY BONDS AND OTHER INSURANCE

The Plan has adequate insurance coverages in all exposed areas of risk with the exception of fidelity coverage. The examination of these coverages involved determining the methods by which the Plan 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. In addition, the Plan has a business owner's policy to cover property, liability, accounts receivable, and valuable documents with a \$500 retention. The Plan has fidelity coverage with a \$200,000 limit of coverage and a \$10,000 deductible amount. The \$200,000 limit of coverage does not meet the prescribed minimum coverage as specified by the NAIC. Based on the total assets and gross income of the Plan, the NAIC minimum prescribed coverage should be between \$350,000 to \$400,000.

I recommend the Plan increase its fidelity coverage to adhere to the suggested guidelines of the NAIC Examiners Handbook and ORS 731.302(1).

TERRITORY AND PLAN OF OPERATION

The Plan is a Medicare contracted Medicare Advantage Organization (MAO) providing affordable healthcare options to Medicare beneficiaries in Douglas, Coos and Klamath counties. The Plan was formed in 2004 by its three provider sponsored organizations: Douglas County Individual Practice Association (DCIPA), Doctors of the Oregon Coast South (DOCS) and Cascade Comprehensive Care (CCC). Atrio is locally owned and operated by the providers in the communities it serves and maintains its central office in Roseburg, Oregon. The Plan is only authorized to provide insurance in Oregon.

GROWTH OF THE COMPANY

The growth of the Company since its qualifying examination as of February 28, 2005, is reflected in the following schedule. The stated amounts were derived from the Company's filed annual statements, except in those years where a report of examination was published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Net Income (Loss)</u>
2005	\$ 8,473,728	\$ 5,944,487	\$ 2,529,241	\$ (915,626)
2006	13,343,050	8,974,735	4,368,315	1,271,095
2007*	12,866,807	7,107,149	5,759,658	1,385,282

*Per examination

Surplus increased in each year of the examination period due to net income from operations and/or reductions in non-admitted assets.

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company since its qualifying examination as of February 28, 2005. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, from the examination reports.

<u>Year</u>	<u>(1) Total Revenues</u>	<u>(2) Losses Incurred</u>	<u>(3) Expenses Incurred</u>	<u>(2)+(3)/(1) Loss Ratio</u>
2005	\$ 8,676,443	\$ 7,994,208	\$ 1,698,327	111.7%
2006	38,653,992	34,369,134	3,452,024	97.8%
2007*	42,298,692	35,935,022	4,733,189	96.1%

*Per examination

A combined loss incurred and expense to premium ratio of more than 100% indicates an underwriting loss.

REINSURANCE

The Plan had two separate reinsurance policies during the current year, a policy with Physicians Mutual Insurance Company which expired on June 30, 2007, and a policy with Berkley Insurance Company with a coverage date of July 1, 2007. The current policy is an Excess of Loss agreement. Under terms of the agreement, the reinsurer reimburses the Plan once a year based on a coinsurance basis for claims in excess of \$100,000 at 90% of eligible expenses in excess of the annual deductible for each member in the agreement year. This

coverage has an attachment point of \$2,000,000 per individual risk during the contract year maximum.

Risk Retention

The Plan did not retain risk on any one subject in excess of 10% of its surplus to policyholders as required by the provisions of ORS 731.504.

STATUTORY DEPOSIT

As of the date of the examination, the Company maintained a deposit with the Oregon Insurance Division, Department of Consumer Business Services, in the sum of \$261,000 (par value) pursuant to the provisions of ORS 750.045(2). The deposit was verified from the records of the Insurance Division. The Company did not report this deposit on Schedule E – Part 3, Special Deposits. **I recommend amounts on deposit with the Oregon Insurance Division be reported in the annual statement, on Schedule E – Part 3, in all future filings. This recommendation is supported by the NAIC Annual Statement Instructions and ORS 731.574(1).**

ACCOUNTS AND RECORDS

In general, the Plans' records and source documentation supported the amounts presented in its December 31, 2007, annual statement and were maintained in a manner by which the financial condition was readily verifiable as required by the provisions of ORS 733.170. However, the following comments or recommendation have been made as a result of this examination:

Uncollected Premiums

The Plan allows its members to pay premiums on a yearly, semi annual, quarterly, or monthly basis. The Plan recorded all premiums upon receipt of funds. This is contrary to

SSAP No. 54 paragraph 2 which states “premiums shall be recognized as income when due from the policyholder or subscriber, but no earlier than the effective date of coverage. The same SSAP states that unearned premium reserves shall be required for all accident and health contracts for which premiums have been reported for a period beyond the date of valuation other than premiums paid in advance. **I recommend the Plan record premium income only when the premium is due and to set up an unearned premium reserve when premium is reported and coverage extends beyond the end of a reporting period. This recommendation is supported by SSAP No. 54, paragraphs 2 and 12 and ORS 731.302.**

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of Atrio Health Plans, Inc., as of December 31, 2007:

- Statement of Assets
- Statement of Liabilities, Capital and Surplus
- Statement of Revenues and Expenses
- Reconciliation of Surplus Since the last Examination
- Analysis of Change in Financial Statements as a Result of the Examination

ATRIO HEALTH PLANS, INC.
STATEMENT OF ASSETS
As of December 31, 2007

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENT	BALANCE PER EXAM	NOTE
Assets				
Bonds	\$ -	\$ 261,000	\$ 261,000	1
Cash and short-term investments	11,997,793	(261,000)	11,736,793	1
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	<u>\$ 11,997,793</u>	<u>\$ -</u>	<u>\$ 11,997,793</u>	
Investment income due and accrued	42,594	-	42,594	
Premiums and considerations:				
Uncollected premiums and agent's balances in the course of collection	87,672	-	87,672	
Reinsurance				
Amounts recoverable from reinsurers	299,136	-	299,136	
Funds held by or deposited with reinsured companies	102,432	-	102,432	
Net deferred tax assets	45,005	-	45,005	
EDP equipment and software	64,697	-	64,697	
Receivables from parent, subsidiaries, and affiliates	227,478	-	227,478	
Aggregate write-ins for other than invested assets	-	-	-	
Total Assets	<u><u>\$ 12,866,807</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,866,807</u></u>	

ATRIO HEALTH PLANS, INC.
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2007

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENT</u>	<u>BALANCE PER EXAM</u>	<u>NOTE</u>
Liabilities, Capital and Surplus				
Claims unpaid	\$ 4,429,277	\$ -	\$ 4,429,277	2
Accrued medical incentive pool and bonus amounts	2,578,810	-	2,578,810	
Unpaid claims adjustment expense	64,696	-	64,696	2
Premiums received in advance	393,621	-	393,621	
General expenses due or accrued	494,533	16,460	510,993	3
Current FIT payable and interest thereon	190,346	-	190,346	
Net deferred tax liability	41,272	-	41,272	
Amounts withheld or retained for the account of others	21,775	(16,460)	5,315	3
Amounts due to parent, subsidiaries, and affiliates	248,788	-	248,788	
Liability for amounts held under uninsured plans	(1,355,969)	-	(1,355,969)	
Aggregate write-ins for liabilities	-	-	-	
Total Liabilities	<u>\$ 7,107,149</u>	<u>\$ -</u>	<u>\$ 7,107,149</u>	
Common capital stock	3,000,000	-	3,000,000	
Gross paid in and contributed surplus	1,067,614	-	1,067,614	
Unassigned funds (surplus)	1,692,044	-	1,692,044	
Total capital and surplus	<u>5,759,658</u>	<u>-</u>	<u>5,759,658</u>	
Total liabilities, capital and surplus	<u>\$ 12,866,807</u>	<u>\$ -</u>	<u>\$ 12,866,807</u>	

ATRIO HEALTH PLANS, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2007

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENT</u>	<u>BALANCE PER EXAM</u>	<u>NOTE</u>
Net premium income	\$ 42,298,692	\$ -	\$ 42,298,692	
	-	-	-	
Total Revenues	<u>42,298,692</u>	<u>-</u>	<u>42,298,692</u>	
Hospital and Medical:				
Hospital/medical benefits	18,197,597	-	18,197,597	
Other professional services	8,862,548	-	8,862,548	
Emergency room and out-of-area	911,376	-	911,376	
Prescription drugs	3,864,692	-	3,864,692	
Incentive pool, withhold adjustments and bonus amounts	4,676,645	-	4,676,645	
Subtotal:	<u>36,512,858</u>	<u>-</u>	<u>36,512,858</u>	
Less:				
Net reinsurance recoveries	577,836	-	577,836	
Total medical and hospital	<u>35,935,022</u>	<u>-</u>	<u>35,935,022</u>	
Claim adjustment expenses	887,015	-	887,015	
General administrative expenses	3,846,174	-	3,846,174	
Increase in reserves for life and accident and health contracts	-	-	-	
Total underwriting deductions	<u>40,668,211</u>	<u>-</u>	<u>40,668,211</u>	
Net underwriting gain or loss	<u>1,630,481</u>	<u>-</u>	<u>1,630,481</u>	
Net investment income earned	803,751	-	803,751	
Net realized capital gains or (losses)	-	-	-	
Net investment gains or (losses)	803,751	-	803,751	
Aggregate write-ins for other income or expense	-	-	-	
Net income or (loss) before federal income taxes	2,434,232	-	2,434,232	
Federal and foreign income taxes incurred	1,048,949	-	1,048,949	
Net Income (loss)	<u>\$ 1,385,283</u>	<u>\$ -</u>	<u>\$ 1,385,283</u>	

ATRIO HEALTH PLANS, INC.
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2007	2006	2005
Capital and surplus, December 31, previous	\$ 4,368,315	\$ 2,529,243	\$ -
Net income	1,385,282	1,271,095	(915,626)
Net unrealized capital gains or (losses)	-	-	-
Change in net unrealized capital gains (losses)	-	-	-
Change in net deferred income tax	6,061	(32,023)	(22,745)
Change in nonadmitted assets	-	-	-
Change in unauthorized reinsurance	-	-	-
Change in surplus notes	-	-	-
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:	-	-	-
Paid in	-	600,000	3,000,000
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:	-	-	-
Paid in	-	-	467,614
Transferred from surplus (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Net remittances from or (to) Home Office	-	-	-
Dividends to stockholders (cash)	-	-	-
Examination adjustment	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Change in surplus as regards policyholders for the year	<u>1,391,343</u>	<u>1,839,072</u>	<u>2,529,243</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 5,759,658</u>	<u>\$ 4,368,315</u>	<u>\$ 2,529,243</u>

ATRIO HEALTH PLANS, INC.
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS AS A RESULT OF THE
EXAMINATION
December 31, 2007

	<u>PER COMPANY</u>	<u>PER EXAMINATION</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>	<u>TOTAL</u>
Capital and Surplus, December 31, 2007 - Per Annual Statement	\$ 5,759,658			\$ 5,759,658
<u>ASSETS</u>				
Bonds	-	261,000	261,000	261,000
Cash and cash equivalents	11,997,793	11,736,793	(261,000)	(261,000)
<u>LIABILITIES</u>				
General expenses due and accrued	494,533	510,993	(16,460)	(16,460)
Amounts withheld or retained for the account of others	21,775	5,315	16,460	16,460
Change in surplus	<u>12,514,101</u>	<u>12,514,101</u>	<u>-</u>	<u>-</u>
Capital and Surplus, December 31, 2007 - Per Examination				<u><u>\$ 5,759,658</u></u>

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL
STATEMENTS**

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

The Company reported assets held in bonds, cash on deposit and short-term investments which comprise most of the Company's total invested assets. Long term bonds represented 2.2%, cash on deposit was (10.3)%, and short-term investments comprised 108.1%. Investments included U.S. Treasury Bills and CDARS (Certificate of Deposits Account Registry System). The Plan reported \$261,000 in a long-term US Treasury Note as a cash equivalent investment. The examiner reclassified this note to Bonds.

The Board of Directors approved the investment transactions, pursuant to ORS 733.740. As of December 31, 2007, invested assets totaling \$12,942,066 were invested in amply secured obligations of the United States or FDIC insured cash deposits, which exceeded the amount that must be invested in these types of assets as required by ORS 733.580.

Note 2 – Claims Unpaid and Claims Adjustment Expenses

Scott Fitzpatrick, FSA, MAAA, life and health actuary for the Department of Consumer and Business Services, Insurance Division, reviewed the actuarial liabilities for the Plan as prepared by Kevin Pedlow, ASA, MAAA, of Susquehanna Actuarial Consulting, Inc., as of December 31, 2007. He also reviewed other documentation provided by the Plan, the insurance examiners, and Mr. Pedlow. He performed independent calculations for the actuarial liabilities as of December 31, 2007.

In Mr. Fitzpatrick's opinion, his total estimate for actuarial liabilities is less than the Plans' estimate by \$268,167. This is not unusual for a start-up operation, and provides an additional margin of safety. The statement of the actual liabilities at year-end for the annual statement was therefore appropriate and adequate.

Note 3 – Amounts Withheld or Retained for Account of Others

The vacation accrual of \$16,748 was recorded as Amounts withheld or retained for the account of others. The examiner reclassified this accrual to General expenses due and accrued. The reclassification is supported by the NAIC Annual Statement Instructions for Health manual (page 36), and had no impact on surplus.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Page

- 8 I recommend the Plan develop a formal “Conflict of Interest Policy” and require all directors, officers, and key employees to complete such forms at least once each year. This recommendation is supported by the NAIC Financial Condition Examiners Handbook and ORS 731.302(1).
- 9 I recommend the Board of Directors approve the salaries for officers and senior management to comply with ORS 732.320(3).
- 10 I recommend the Plan increase its fidelity coverage to adhere to the suggested guidelines of the NAIC Examiners Handbook and ORS 731.302(1).
- 12 I recommend amounts on deposit with the Oregon Insurance Division be reported in the annual statement, on Schedule E-Part 3, in all future filings. This recommendation is supported by the NAIC Annual Statement Instructions and ORS 731.574(1).
- 13 I recommend the Plan record premium income only when the premium is due and to set up an unearned premium reserve. This recommendation is supported by SSAP No. 54, paragraphs 2 and 12, and ORS 731.302.

CONCLUSION

During the period from the qualifying examination as of February 28, 2005, through December 31, 2007, the Plan’s capital and surplus increased from \$3,194,657 as of February 28, 2005, to \$5,759,658, as shown in this report of examination.

The comparative assets and liabilities are as follows:

	<u>February 28, 2005</u>	<u>December 31, 2007</u>	<u>Change</u>
Assets	\$3,204,422	\$12,866,807	\$9,662,385
Liabilities	<u>9,765</u>	<u>7,107,149</u>	<u>7,097,384</u>
Surplus	<u>\$3,194,657</u>	<u>\$ 5,759,658</u>	<u>\$2,565,001</u>

SUBSEQUENT EVENTS

1. The amounts reflected as “Balance per Company” in the attached financial statements are the balances reflected by the Plan in its originally filed annual statement as of December 31, 2007. Subsequent to the completion of examination fieldwork and prior to the issuance of this examination report, the Plan submitted to the Oregon Insurance Division an amended annual statement. The amended annual statement included the adjustments included in this examination report. It also included minor changes in certain balances that were not considered material and did not have any impact on surplus and are not included in this examination report.

2. Four new senior managers have been hired since the examination date: Carole M. Pinell as President and Chief Executive Officer; Steven Hoffman as Chief Operations Officer; Steve Howard as Vice President of Marketing; and Matt Newey as Director of Quality Assurance and Utilization Management. In addition, the Plan hired Jeffrey Heriot as Controller, eliminating the position of Chief Financial Officer.

3. Subsequent to completion of the fieldwork, Doctors of the Oregon Coast South (DOCS) elected to terminate their association with the Plan, including their one third ownership in the Company, effective December 31, 2008. As a result, the Plan will not be offering a product in Coos County in 2009.

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Greg A. Lathrop, CFE, Supervising Insurance Examiner, and Scott Fitzpatrick, FSA, MAAA, life and health actuary, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in 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, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Atrio Health Plans, Inc.

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, and the examination of Atrio Health Plans, Inc., was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

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 _____, 2008.

NOTARY PUBLIC for the State of Oregon

My commission expires _____