



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**FAMILYCARE HEALTH PLANS, INC.  
PORTLAND, OREGON**

**NAIC COMPANY CODE 47084**

AS OF

DECEMBER 31, 2009

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## **SALUTATION**

November 9, 2010

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

Dear 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

**FAMILYCARE HEALTH PLANS, INC.  
825 NE Multnomah, Suite 300  
Portland, Oregon 97232**

**NAIC Company Code 47084**

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

## **SCOPE OF EXAMINATION**

The full scope single-state examination of the Plan was conducted as of December 31, 2009, covering the three year period then ended, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

We conducted our examination pursuant to ORS 731.300 and in accordance with the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Plan by obtaining information about the Plan including corporate governance, identifying and assessing inherent risks within the Plan and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instruction when applicable to domestic state regulations.

All accounts and activities of the Plan were considered in accordance with the risk focused examination process.

Scott Fitzpatrick, FSA, MAAA, for the State of Oregon, Department of Consumer and Business Services, participated in this examination by evaluating losses and loss adjustment expenses unpaid. The results of his evaluation are found under the relevant section of this report.

## **PLAN HISTORY**

The Plan was incorporated as a nonprofit corporation under the laws of the State of Oregon on June 19, 1997, to become a domestic health care service contractor as defined by Chapter 750 of the Oregon Insurance Code. The Plan received a certificate of authority to transact the business of accepting prepayment for health care services on November 24, 1997. The Plan commenced business in September, 2005.

On July 23, 2001, the Plan changed its registration from a mutual benefit nonprofit corporation to a nonprofit public benefit corporation pursuant to ORS 65.001(31)(a) and as directed by the Oregon Department of Justice, Charitable Activities Section. The Plan is exempt from Federal income taxes under section 501(a) of the Internal Revenue Code. Subject to section 501(c)(4), the Plan is expressly prohibited from allowing any part of its net earnings to inure to the benefit of any private shareholder or individual.

## **CORPORATE RECORDS**

### **Board Minutes**

In general, the review of 2007 through 2009 Board minutes indicated that the minutes support the transactions of the Plan and the actions taken by its directors and officers.

Pursuant to ORS 733.740, an insurer shall make a written record in permanent form, signed by a person authorized by the Board of Directors or by committee thereof charged with the duty of investing the funds. The record shall show the authorization and approval of the investments. The Finance Committee minutes included the required authorization.

### **Articles of Incorporation**

There were no changes to the Plan's Articles of Incorporation during the period under examination. The Articles of Incorporation conformed to Oregon statutes.

### **Bylaws**

There were no changes to the Plan's Bylaws during the period under examination. The Bylaws conformed to Oregon statutes.

### **Parent, Subsidiaries and Affiliated Companies**

The Plan filed an Insurance holding company registration statement in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020.

The Plan's sole member is FamilyCare, Inc. (FCI), an Oregon nonprofit corporation. FCI contracts with the Oregon Department of Human Services, Division of Medical Assistance Programs (DMAP), as a fully capitated health plan under the Oregon Health Plan. FCI in turn contracts with individual primary care providers and hospitals to provide medical services to its members, and pays capitated rates or negotiated fees for services provided by certain physicians and hospitals in the Oregon counties of Multnomah, Clackamas, Josephine, Umatilla, Jackson, Washington, and Morrow. FCI generated 100% of its premium revenue from the DMAP contract during 2009.

### **Statutory Deposit**

As of the date of the examination, the Plan maintained a deposit with the Oregon Insurance Division, Department of Consumer and Business Services, in the sum of \$260,000, to maintain compliance with ORS 731.604(1) and ORS 731.608(1). The deposit was verified from the records of the Insurance Division.

### **Capitalization**

The Plan is a non-stock nonprofit public benefit corporation whose sole member is FCI. As of December 31, 2009, the Plan reported surplus, both contributed and retained, totaling \$6,277,886. The provisions of ORS 733.580 require funds of an insurer equal to its required capital and surplus be invested in certain types of investments. As of December 31, 2009, the Plan was in compliance with this statute.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The Bylaws vest the Plan's management and control in a Board of Directors numbering at least five and not more than nine members. Not less than one-third of the Board shall be representatives of the public who are not practicing doctors or have a familial or employment relationship with the Plan or a member. Once elected, each director shall serve three years, or until he or she resigns or is removed. Members of the Board of Directors duly elected and serving as of December 31, 2009, were:

<b><u>Name and Address</u></b>	<b><u>Position and Affiliation</u></b>	<b><u>Representation</u></b>
Karen L. Carnahan* Wilsonville, OR	President, Carnahan, Smith & Gunter	Public
Janet F. Tesch Vancouver, WA	Retired	Public
Jeffrey L. Pawlowski Portland, OR	Treasurer, FamilyCare, Inc.	Non-public
Robert K. Carus West Linn, OR	Certified Public Accountant, R. K. Carus	Public
Ross H. Ronish Toppenish, WA	Medical Doctor, Yakima Valley Farm Workers Clinic	Medical
Robin L. Richardson Milwaukie, OR *Chairman of the Board	Doctor of Osteopathy, Family Medical Associates	Medical

Of the directors listed above, Janet F. Tesch is the only board member that served on the Board of Directors as of December 31, 2006, the previous examination date. All other individuals were added to the Board during the period of this examination.

At least one third of the members of the Board of Directors are representatives of the public who are not salaried officers of the company nor practicing physicians, in compliance with the provisions of ORS 750.015(1).

**Officers**

Operating management of the Plan as of December 31, 2009, was under the direction of the following principal officers:

<b><u>Name</u></b>	<b><u>Office</u></b>
Jeffrey S. Heatherington	President
Jeffrey L. Pawlowski	Treasurer
Douglas Luther	Medical Director
Robin L. Richardson	Secretary

Of the officers listed above, Jeffrey S. Heatherington, president, is the only officer that was an officer as of December 31, 2006, the previous examination date. All other individuals became officers during the period of this examination.

**Intercompany Agreements**

As of December 31, 2009, the Plan was party to the following agreement with its direct parent:

**Management Agreement**

Effective January 1, 2007, the Plan entered into a management agreement with FCI, its direct parent, in which the parent will provide the following services to the Plan: provider network development and administration, credentialing, accounting, legal, claims processing, human

resources, and other management functions. The Plan agrees to pay \$55,000 per month, or the calculated sum of total FCI administrative costs multiplied by the ratio of total members of the Plan and FCI, whichever is greater. Payment is due 90 days from the beginning of the month in which services were rendered.

### **CONFLICT OF INTEREST**

The Plan requires officers and directors to read the corporate conflict of interest policy and disclose any conflict of interest on a signed conflict of interest statement. The Plan provided signed copies of the conflict of interest statements for each officer and director.

From a review of the conflict of interest statements, it appeared the affected personnel performed due diligence in disclosing all and any potential conflicts of interest. No conflicts were noted.

### **FIDELITY BONDS AND OTHER INSURANCE**

The Plan is insured up to \$250,000 per occurrence, with a \$10,000 deductible, against losses resulting from acts of dishonesty or fraud by its employees or agents. However, the fidelity bond coverage was below the minimum coverage recommended by the NAIC. **I recommend the Plan increase its fidelity coverage to at least \$300,000 to meet minimum protection limits recommended by the NAIC. The Plan should consider obtaining a greater amount of protection based on future growth projections of assets and premiums.**

The Plan was unable to provide evidence of other insurance coverage to protect its general business operations. At a minimum, company management should evaluate its business needs for other insurance coverage, such as directors and officers (D&O), errors and omissions (E&O), as well as general business liability and property coverage, if applicable. **I recommend management evaluate its business needs for other insurance coverage**

pursuant to ORS 731.302 and guidelines and procedures in the NAIC Examiner Handbook.

### TERRITORY AND PLAN OF OPERATION

The Plan offers three commercial plans and a special needs plan for persons who are dual eligible for Medicare and Medicaid, who are individuals age 65 and above. Two of the commercial plans had a premium in addition to that paid by the Center of Medicare and Medicaid Services (CMS) to provide supplemental coverage to the traditional Medicare (i.e., dental, vision, routine and preventative care). The commercial plans are marketed to citizens of Josephine, Jackson, Umatilla, Washington, Clackamas and Multnomah counties. They are marketed through the Plan's Medicare Sales department, comprised of a manager, two sales representatives, and numerous independent agents. The Plan has expanded rapidly since 2005. Enrollment was reported as follows:

<u>Year</u>	<u>Enrollment</u>
2005	356
2006	950
2007	1,573
2008	2,096
2009	2,580

### GROWTH OF THE COMPANY

The growth of the Plan over the last five years is reflected in the following schedule. The stated amounts were derived from the Plan's filed annual statements, except in those years where a report of examination has been published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Capital and Surplus</u>	<u>Net Income/ (Loss)</u>
2005	\$ 2,704,124	\$1,581,792	\$1,122,333	\$ (809,371)
2006*	7,330,292	4,278,678	3,051,614	914,994
2007	9,684,879	5,475,554	4,209,325	2,254,227
2008	9,290,433	4,972,388	4,318,045	145,945
2009*	12,385,975	6,108,089	6,277,886	998,924

\*Per examination

The significant increase in assets and surplus during 2005 and 2006 was primarily attributed to surplus infusions totaling \$2,517,795, as reported in the prior report of examination.

### **LOSS EXPERIENCE**

The following exhibit reflects the annual underwriting results of the Plan over the last five years. The amounts were compiled from copies of the Plan's filed annual statements and, where indicated, from the examination reports.

<b><u>Year</u></b>	<b>(1) <u>Total Revenues</u></b>	<b>(2) <u>Total Hospital and Medical</u></b>	<b>(3) <u>CAE and General Expenses</u></b>	<b>(2)+(3)/(1) <u>Combined Loss Ratio</u></b>
2005	\$ 1,028,898	\$ 881,417	\$1,008,773	183.7%
2006*	10,367,083	8,098,463	1,588,658	93.4%
2007	14,076,433	10,272,988	1,983,109	87.1%
2008	20,408,808	17,030,207	3,588,252	101.0%
2009*	26,908,046	22,853,725	3,315,494	97.3%

\*Per examination

A combined loss incurred and expense to premium ratio of more than 100% could indicate an underwriting loss, which this Plan did report in 2005 and 2008.

### **REINSURANCE**

During the period under examination, the Company's reinsurance program was comprised of an HMO Specific Excess of Loss reinsurance agreement with ACE American Insurance Company (NAIC #22667 and authorized in Oregon on July 1, 1966). Under the terms of the agreement, the reinsurer reimburses the Company for losses per member up to \$1,000,000 after retention of \$200,000. Lifetime benefit per member is \$1,000,000. It was determined the Company's reinsurance agreement clearly specified the risk taken by the reinsurer, with no unusual provisions reducing the reinsurer's risk.

### **Insolvency Clause**

The reinsurance agreement contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded.

### **Risk Retention**

The Plan's reinsurance agreement requires the Plan to retain a maximum of \$200,000 per risk. In view of the Plan's surplus of \$6,277,886 at December 31, 2009, the Plan did not retain risk on any one subject of insurance in excess of 10% of its surplus to policyholders, and complied with the maximum risk retention set by ORS 731.504.

## **ACCOUNTS AND RECORDS**

In general, the Plan's records and source documentation supported the amounts presented in the Plan's 2009 Annual Statement. However, the Plan did not have a method in place to account for the funds subject to escheat (a reserve for unclaimed property), as required by ORS 98.352. **I recommend the Plan provide in its accounting system for the tracking of funds subject to escheatment as required by ORS 98.352.**

## **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The Plan has taken corrective action with respect to all of the recommendations made in the 2006 report of examination.

## **SUBSEQUENT EVENTS**

Subsequent to the date of the financial statements, the Director of Finance resigned to take another position. She was replaced by Katherine Ellis, CPA. This change has had no impact on the continuing operation of the Plan.

## **FINANCIAL STATEMENTS**

The following examination financial statements show the financial conditions of FamilyCare

Health Plans, Inc., as of December 31, 2009:

Statement of Assets

Statement of Liabilities, Capital and Surplus

Statement of Revenues and Expenses

Reconciliation of Surplus Since the last Examination

**FAMILYCARE HEALTH PLANS, INC.**  
**STATEMENT OF ASSETS**  
**As of December 31, 2009**

<u>Assets</u>	<b>Balance per Company</b>	<b>Examination Adjustments</b>	<b>Balance per Exam</b>	<b>Note</b>
Bonds	\$ 9,588,685	\$ -	\$ 9,588,685	1
Common stocks	342,072	-	342,072	1
Cash and short-term investments	<u>1,416,466</u>	<u>-</u>	<u>1,416,466</u>	1
Subtotal, cash and invested assets	\$11,347,223	\$ -	\$11,347,223	
Investment income due and accrued	19,350	-	19,350	
Premiums and considerations:				
Uncollected premiums and agent's balances in the course of collection	678,224	-	678,224	
Accrued retrospective premiums	5,551	-	5,551	
Amounts recoverable from reinsurers	91,324	-	91,324	
Amounts receivable relating to uninsured plans	167,898	-	167,898	
Health care and other amounts receivable	<u>76,405</u>	<u>-</u>	<u>76,405</u>	
Total Assets	<u>\$12,385,975</u>	<u>\$ -</u>	<u>\$12,385,975</u>	

**FAMILYCARE HEALTH PLANS, INC.**  
**STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS**  
**As of December 31, 2009**

<u>Liabilities</u>	Balance per Company	Examination Adjustments	Balance per Exam	Note
Claims unpaid	\$ 5,725,141	\$ -	\$ 5,725,141	2
Unpaid claims adjustment expense	56,862	-	56,862	2
Premiums received in advance	20,201	-	20,201	
General expenses due or accrued	148,109	-	148,109	
Amounts withheld or retained for account of others	1,920	-	1,920	
Amounts due to parent, subsidiaries and affiliates	<u>155,856</u>	<u>-</u>	<u>155,856</u>	
Total Liabilities	<u>\$ 6,108,089</u>	<u>\$ -</u>	<u>\$ 6,108,089</u>	
Common capital stock	-	-	-	
Gross paid in and contributed surplus	2,767,795	-	2,767,795	
Unassigned funds (surplus)	<u>3,510,091</u>	<u>-</u>	<u>3,510,091</u>	
Total capital and surplus	<u>6,277,886</u>	<u>-</u>	<u>6,277,886</u>	
Total liabilities, capital and surplus	<u>\$12,385,975</u>	<u>\$ -</u>	<u>\$12,385,975</u>	

**FAMILYCARE HEALTH PLANS, INC.**  
**STATEMENT OF REVENUE AND EXPENSES**  
**For the Year Ended December 31, 2009**

	<b>Balance per Company</b>	<b>Examination Adjustments</b>	<b>Balance per Exam</b>
Net premium income	\$26,908,046	\$ -	\$26,908,046
Aggregate write-ins	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>26,908,046</u>	<u>-</u>	<u>26,908,046</u>
<b>Hospital and Medical:</b>			
Hospital/medical benefits	16,736,358	-	16,736,358
Other professional services	438,660	-	438,660
Emergency room and out-of-area	2,530,891	-	2,530,891
Prescription drugs	2,434,022	-	2,434,022
Aggregate write-ins	738,850	-	738,850
Incentive pool, withhold adjustments and bonus amounts	<u>195,130</u>	<u>-</u>	<u>195,130</u>
Subtotal:	23,073,911	-	23,073,911
<b>Less:</b>			
Net reinsurance recoveries	<u>220,186</u>	<u>-</u>	<u>220,186</u>
Total medical and hospital	22,853,725	-	22,853,725
Non-health claims	-	-	-
Claim adjustment expenses	579,851	-	579,851
General administrative expenses	<u>2,735,643</u>	<u>-</u>	<u>2,735,643</u>
Total underwriting deductions	<u>26,169,219</u>	<u>-</u>	<u>26,169,219</u>
Net underwriting gain or loss	<u>738,827</u>	<u>-</u>	<u>738,827</u>
Net investment income earned	312,586	-	312,586
Net realized capital gains (losses)	<u>(52,489)</u>	<u>-</u>	<u>(52,489)</u>
Net investment gains or (losses)	<u>260,097</u>	<u>-</u>	<u>260,097</u>
Aggregate write-ins	-	-	-
Net income or (loss) before federal income taxes	998,924	-	998,924
Federal income taxes incurred	<u>-</u>	<u>-</u>	<u>-</u>
Net Income (loss)	<u>\$ 998,924</u>	<u>\$ -</u>	<u>\$ 998,924</u>

**FAMILYCARE HEALTH PLANS, INC.**  
**RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION**  
**For the Year Ended December 31, 2009**

	2009	2008	2007
Capital and surplus, December 31, previous year	<u>\$ 4,318,045</u>	<u>\$ 4,209,325</u>	<u>\$ 3,051,614</u>
Net income	998,924	145,945	2,254,227
Net unrealized capital gains or (losses)	-	-	-
Change in net unrealized capital gain (loss)	-	(56,729)	6,102
Change in net deferred income tax	-	-	-
Change in nonadmitted assets	950,909	19,504	(1,102,939)
Change in provision for reinsurance	-	-	-
Capital changes:			
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:			
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>10,008</u>	<u>-</u>	<u>321</u>
Change in surplus as regards policyholders for the year	<u>1,959,841</u>	<u>108,720</u>	<u>1,157,711</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 6,277,886</u>	<u>\$ 4,318,045</u>	<u>\$ 4,209,325</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Investments

At December 31, 2009, the Plan's investment portfolio was comprised of common stocks, US Treasury obligations, corporate bonds, and cash and short-term investments. A comparison of the investments classes over the past five years is as follows:

<b>Year</b>	<b>A Bonds</b>	<b>B Common Stock</b>	<b>C Cash and Short term</b>	<b>Ratio A/ Total Invested Assets</b>	<b>Ratio B/ Total Invested Assets</b>	<b>Ratio C/ Total Invested Assets</b>
2005	670,746	896,979	1,136,398	24.8%	33.2%	42.0%
2006*	897,494	654,431	4,573,471	14.7%	10.7%	74.7%
2007	4,352,389	263,243	4,023,984	50.4%	3.0%	46.6%
2008	5,772,122	895,493	1,709,736	68.9%	10.7%	20.4%
2009*	9,588,685	342,072	1,416,466	84.5%	3.0%	12.5%

\*Per examination

The Plan has a custodial agreement with US Bank that holds some of the Plan's assets. The custodial agreement contains all the requirements of OAR 836-027-0200(4).

### Note 2 – Losses and Loss Adjustment Expenses

The DCBS actuary Scott Fitzpatrick, FSA, MAAA, performed an examination of the Plan's claims unpaid and claims adjustment expense liabilities as of December 31, 2009. The scope of his examination included a review of the Plan's valuation methodology, reserving assumptions, and external actuarial reports. Based on these procedures, he concluded that the liabilities for claims unpaid and claims adjustment expenses were sufficient and in compliance with Oregon law. The detailed results of the actuarial findings are summarized in the actuarial examination letter contained in the supporting work papers.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Page

- 9 I recommend the Plan increase its fidelity coverage to at least \$300,000 to meet minimum protection limits recommended by the NAIC. The Plan should consider obtaining a greater amount of protection based on future growth projections of assets and premiums.
- 9 I recommend management evaluate its business needs for other insurance coverage pursuant to ORS 731.302 and guidelines and procedures in the NAIC Examiner Handbook.

Page

- 12 I recommend the Plan provide in its accounting system for the tracking of funds subject to escheatment as required by ORS 98.352.

**CONCLUSION**

During the three-year period covered by this examination, the surplus of the Plan has increased from \$3,051,614 as presented in the December 31, 2006, report of financial examination to \$6,277,866 as shown in this report of examination.

	<b><u>2009</u></b>	<b>December 31,</b> <b><u>2006</u></b>	<b><u>Change</u></b>
Assets	\$12,385,975	\$7,330,294	\$5,055,681
Liabilities	<u>6,108,089</u>	<u>4,278,680</u>	<u>1,829,409</u>
Surplus	<u>\$ 6,277,886</u>	<u>\$3,051,614</u>	<u>\$3,226,272</u>

## ACKNOWLEDGMENT

The examiner wishes to express his appreciation for the cooperation and assistance extended by the officers and employees of the Plan during the course of the examination.

In addition to the undersigned, Greg Lathrop, CFE, supervising insurance examiner, and Mr. Scott Fitzpatrick, FSA, MAAA, participated in the examination. Each of these individuals is an employee of the State of Oregon, Department of Consumer and Business Services, Insurance Division.

Respectfully submitted,

---

Raymond W. Anderson, CFE  
Insurance Examiner  
Insurance Division  
Department of Consumer and Business Services  
State of Oregon

**AFFIDAVIT**

STATE OF OREGON            )  
  )  ss  
County of Marion            )

Raymond W. Anderson, CFE, being duly sworn, states as follows:

1.     I have authority to represent the state of Oregon in the examination of FamilyCare 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 FamilyCare 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.

\_\_\_\_\_  
Raymond W. Anderson, CFE  
Financial Examiner  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to me this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

\_\_\_\_\_  
Notary Public for the State of Oregon

My Commission Expires: \_\_\_\_\_