

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

ROSEBURG HEALTH ENTERPRISES, INC.
dba SURECARE HEALTHPLANS
ROSEBURG, OREGON

NAIC COMPANY CODE 47030

AS OF

December 31, 1996

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January 22, 1998

Honorable Deborah Lincoln, Deputy Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440-4
Salem, Oregon 97310

Dear Director:

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

**Roseburg Health Enterprises, Inc.
dba SureCare HealthPlans
1813 W. Harvard Avenue
Roseburg, Oregon 97470**

NAIC Company Code 47030

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

Roseburg Health Enterprises, Inc.
dba SureCare HealthPlans
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SCOPE OF EXAMINATION

This regular triennial examination of the Company was conducted as of December 31, 1996, covering the period since the qualifying examination, conducted as of September 30, 1994. The scope of examination also included a review of material transactions or events which occurred subsequent to the date of examination.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition, ability to fulfill its obligations, the nature of its 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 Company. The record testing included, but was not limited to, assets, liabilities, income and expense related items.

In addition to the above, the examiner reviewed work papers prepared by Coopers & Lybrand, the Company's independent auditors, in their examination of the Company's accounts for the year ended December 31, 1996. A portion of the auditors' work papers have been incorporated into the work papers of the examiners, and have been utilized in determining the scope and areas of emphasis in conducting the examination.

A management affirmation attesting to the Company's compliance with Oregon laws relating to location of accounts and records, conduct of the Company's affairs in a non-hazardous manner, and exercise of managerial control by a duly qualified and

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constituted Board of Directors, was signed by and received from the Chairperson of the Board of Directors.

HISTORY AND CAPITALIZATION

The Company commenced business on May 13, 1993, and was organized for the purpose of providing healthcare services to participants of the Oregon Health Plan. The Company received a Certificate of Incorporation from the Oregon Secretary of State on March 1, 1994. On April 5, 1995, the Company received a Certificate of Authority to transact the business of health insurance pursuant to the provisions of ORS Chapter 750. On April 2, 1997, the Company amended its certificate of authority in order to conduct business under a dba name - SureCare HealthPlans.

The Company's articles of incorporation authorize 100,000 shares of common stock with a par value of \$.01 per share. As of December 31, 1996, the Company had 20,000 shares of common stock issued and outstanding. The Company's parent, Douglas County Independent Physicians Association (DCIPA), owns 100 percent of the issued and outstanding shares.

MANAGEMENT AND CONTROL

Board of Directors

The bylaws vest management and control of the Company in a board of directors consisting of 9 members. The board of directors meet all of the requirements of ORS 750.015(1). The directors serving at December 31, 1996, were as follows:

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<u>Name and Address</u>	<u>Affiliation</u>	<u>Director Since</u>
Harold Anderson, MD* 1813 W. Harvard, Suite 423 Roseburg, OR 97470	Physician	1995
Laurence Sharp, DO PO Box 660 Sutherlin, OR 97479	Physician	1995
Jerry Warren, MD 1887 W. Harvard Avenue Roseburg, OR 97479	Physician	1995
Dennis Ihara, MD 554 W. Umpqua, Suite 102 Roseburg, OR 97470	Physician	1995
E. Lee Hockman 621 W. Madrone Roseburg, OR 97470	Director Douglas County Health Department	1995
Steven May 445 SE Main Roseburg, OR 97470	Senior Vice President South Umpqua State Bank	1995
Daryl Fisher 140 NW Hill Place Roseburg, Oregon 97470	Rose Haven Nursing Center	1996
Brad Seely, MD 1813 W. Harvard, Suite 343 Roseburg, OR 97470	Physician	1995
Dale Lamberton, MD 1813 W. Harvard, Suite 206 Roseburg, OR 97470	Physician	1995

*Chairperson

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Officers

Officers elected and serving the Company at December 31, 1996, were as follows:

<u>Name</u>	<u>Title</u>
Susan J. Scheufele	President and Chief Executive Officer
Bruce Mulligan	Vice President and Chief Operating
John Prehm	Vice President and Chief Financial Officer
Bruce Wiegman	Vice President and Chief Legal Officer
Jesse Anderson	Vice President and Chief Information Officer

None of the officers are shareholders of the Company or DCIPA.

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MANAGEMENT AFFIRMATION

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INTERCOMPANY AGREEMENTS

Management Agreements

The Company entered into a panel rental fee agreement with its parent, DCIPA, effective January 1, 1996. The terms of this agreement provide that DCIPA perform various functions for the Company such as utilization review, provider credentialing, and other administrative services. In exchange for services, the agreement provides that the Company shall pay DCIPA a fixed monthly fee on a per member per month basis.

In addition to this agreement, the Company and DCIPA are party to a contract administration agreement whereby the Company agrees to provide certain administration services pertaining to DCIPA's contract with Health Maintenance Organization of Oregon. In exchange for services, the agreement provides DCIPA shall pay the Company a fixed monthly fee on a per member per month basis.

Tax Allocation Agreement

The Company files its federal income taxes through its parent's consolidated tax return. However, as of the date of this examination, the Company had not entered in to a tax allocation agreement with its parent. **I recommend the Company enter into a tax allocation agreement with DCIPA that establishes a method of tax liability allocation and sets forth settlement provisions in accordance with Internal Revenue Code 1552(A)(1).** This recommendation is supported by ORS 732.552(H).

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As of December 31, 1996, the Company did not have any management contract or exclusive agency contracts in effect that are prohibited by ORS 732.215 and ORS 732.220 respectively.

CONFLICT OF INTEREST

Although the Company had an established conflict of interest policy as of December 31, 1996, it did not require directors and officers to periodically sign conflict of interest statements to affirm continuing compliance with the provisions of the conflict of interest policy. During the course of this examination, the board of directors and officers signed conflict of interest statements and agreed to complete these statements on an annual basis.

From a review of the completed conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. No conflicts were noted.

CORPORATE RECORDS

Board of Director Minutes

In general, a review of the board of director minutes indicated the board performed its designated duties in managing the affairs of the Company as specified in the bylaws.

However, although the Company had an investment policy established by the Board of Directors, the minutes for the years 1994 to 1996 did not indicate that the Board approved the purchases and sales of investments as required by the provisions of ORS 733.730. At a Board of Directors meeting held September 27, 1997, the Board instituted

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a policy whereby it would begin to approve investment transactions in accordance with the provisions of ORS 733.730. As a result, no recommendation concerning Board approval of investments is considered necessary for purposes of this examination.

Articles of Incorporation

The articles of incorporation were in conformity with Oregon statutes. No amendments were made to the articles during the period covered by this examination.

Bylaws

The Company amended its bylaws at a meeting of the board on January 24, 1996. The amended article now reads as follows:

3.2 Number, Tenure and Qualifications. The number of directors of the Corporation shall be nine. At least three directors shall be "representatives of the public who are not practicing doctors or employees or trustees of a participant hospital" as defined in ORS 750.015(1). Directors shall be elected at the annual meeting of the shareholders. Each director shall hold office until the next annual meeting of the shareholders and until a successor shall have been elected and qualified. Directors need not be residents of the state of Oregon.

FIDELITY BONDS AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The Company's insurance coverages are provided through its parent's insurance policies whereby the Company is a named insured. The Company is covered against directors and officer's liability for \$3,000,000. In addition, effective September 22, 1997, the Company is insured up to \$250,000 per occurrence against losses from acts of dishonesty and fraud by its contract employees. The increased fidelity bond coverage meets the minimum

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coverage recommended by the NAIC. Other insurance coverages in force at December 31, 1996, were as follows:

Commercial general liability	Workers' compensation
Property	Errors and omissions
Commercial auto liability and physical damage	

The above coverages were found to be adequate as of December 31, 1996.

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

The Company does not have any employees and therefore, no direct liability for employee benefits. The Company was charged its allocable share of contributions to the fund providing these benefits from its parent.

The Company does not provide any other post-retirement benefits to its employees.

GROWTH OF THE COMPANY

The growth of the Company is reflected in the following schedule. The statistics were derived from Company filed annual statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income</u>
1994 ^a	\$5,156,343	\$4,754,839	\$ 401,504	\$ 220,351
1995	5,645,841	4,264,363	1,381,478	718,080
1996 ^b	5,992,706	3,925,172	2,067,534	868,772

^a -Prior to receiving a certificate of authority to write commercial business. Figures include only Oregon Health Plan business.

^b - Per examination

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LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company since 1994. The amounts were compiled from copies of the Company's filed annual statements.

<u>Year</u>	<u>Premiums</u>	<u>Claims Incurred</u>	<u>Ratio</u>
1994 ^a	\$ 9,253,080	\$ 7,392,580	79.89%
1995	18,891,703	14,809,583	78.39%
1996 ^b	21,151,878	16,612,087	78.54%

^a -Prior to receiving a certificate of authority to write commercial business. Figures include only Oregon Health Plan business.

^b - Per examination

TERRITORY AND PLAN OF OPERATION

The Company has a contract with the State of Oregon to provide healthcare services to enrollees of the Oregon Health Plan (OHP). As of December 31, 1996, the OHP business comprised approximately 83% of the Company's total membership. In addition to the OHP business, the Company offers two commercial products: SureCare and SureCare Plus (Plus). Plus is a "24 hour coverage" product offered in conjunction with the SAIF Corporation which covers work related injury and illness as well as traditional health coverage.

Healthcare services are provided by the DCIPA provider panel primarily on a capitated fee basis. The Company arranges hospital services on both a discounted fee for service basis and capitated payment basis through contracts with local area hospitals. Out of area services, and ancillary services are provided through separate contracts. As of December 31, 1996, the Company operated exclusively in Douglas County.

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HOLDING COMPANY REGISTRATION

The Company did not submit a holding company registration statement to DCBS in accordance with the provisions of ORS 732.551(2) which requires insurers to file an annual holding company registration statement on or before April 30 for the previous year. In addition, the statement did not contain all of the information required by ORS 732.552. **I recommend the Company begin to file timely and complete holding company registration statements in accordance with the provisions of ORS 732.551(2) and ORS 732.552.**

REINSURANCE

The Company is afforded excess of loss coverage as follows:

<u>Coverage</u>	<u>Limit</u>	<u>Retention or Underlying Limit</u>
Physician Services	90% of eligible services per covered person in excess of the Company's retention up to \$1,000,000	\$10,000
Hospital Services	90% of eligible services per covered person in excess of the Company's retention up to \$1,000,000	\$50,000

Risk Retention

The Company's maximum retention on any of its policies is \$50,000 per risk. As such, the Company does not retain risk on any one subject in excess of 10% of its surplus to policyholders as prohibited by ORS 731.504.

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Intermediary Clause

The Company utilizes an intermediary organization, Managed Care Options, to perform its transactions with its reinsurer including the payment of premiums and receipt of reinsurance recoverables. However, the reinsurance contract did not include a provision for the use of an intermediary. With respect to credit for reinsurance involving reinsurance intermediaries, the NAIC Examiners Handbook, page 5-9, states the following.

Credit will not be granted to a ceding company for reinsurance effected on or after January 1, 1980, where payments are made to an intermediary unless the reinsurance agreement includes a provision whereby the reinsurer assumes all credit risks of the intermediary related to payments to the intermediary.

As a result, **I recommend the Company amend its reinsurance agreement to include a clause which addresses the use of a reinsurance intermediary and include a provision whereby the reinsurer will assume all credit risks of the intermediary related to payments to the intermediary.** This recommendation is made in accordance with NAIC Examiners Handbook, page 5-9 and ORS 731.302.

Insolvency Clause

As of December 31, 1996, the reinsurance agreement did not contain an insolvency clause. The provisions of ORS 731.508(3)(a) require that a reinsurance agreement contain an insolvency clause that specifies payment to a statutory successor without diminution, otherwise, credit for reinsurance recoverables is not permitted. On December 17, 1997, the Company amended its reinsurance contract which added an insolvency clause that included the language necessary to permit reinsurance

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recoverables under the provisions of ORS 731.508(3)(a). In consideration of this amendment, no recommendation or financial adjustment is necessary for purposes of this examination.

STATUTORY DEPOSIT

The Company has \$ 250,000 in the form of a certificate of deposit held at US Bank on behalf of the Oregon Insurance Division for the purpose of satisfying the requirements of ORS 750.045.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the December 31, 1996, annual statement and were maintained in a manner by which the financial condition was readily verifiable as required by ORS 733.170. In addition, the Company has a system in place to account for the funds subject to escheat pursuant to the provisions of ORS 98.352. However, attention is directed to the following issues as a result of this examination.

Real Estate

The Company's investment in real estate includes two adjoining parcels of land with a book value of \$389,830 at December 31, 1996. This reported balance was \$94,942 in excess of the amount allowable under the provisions of ORS 733.610(1)(h). The excess balance was less than the amount considered material by DCBS, therefore, no adjustment to the December 31, 1996, annual statement was made as a result of this examination. However, for all future statutory financial statements, **I recommend the Company report investments in real estate in accordance with the provisions of ORS 733.610(1)(h).**

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Short-term Investments

At December 31, 1996, the Company held an investment in a money market fund with a balance of \$1,164,432. The year end balance was \$627,957 in excess of the investment limitations permitted by ORS 733.770. Since March 27, 1997, the Company has maintained its money market fund investment within the limits permitted by ORS 733.770, therefore, no adjustment to the financial statements is considered necessary for purposes of this examination. However, **I recommend the Company not admit assets in excess of the limits established by ORS 733.770.**

Safekeeping of Investments

As of December 31, 1996, most of the Company's securities were held by a brokerage firm located outside the State of Oregon which is prohibited by the provisions of ORS 732.245. However, during the course of this examination, on January 9, 1998, the Company entered into a custodian agreement with an Oregon bank for the safekeeping of its securities. The agreement contained the language prescribed by the NAIC Examiners Handbook, page 2G-2, and ORS 731.302. As a result, the Company is in compliance with the provisions of ORS 732.245 and no recommendation is necessary for purposes of this examination.

Uncollected Premiums

At December 31, 1996, the Company reported January 1997 premiums received in advance as a credit to the uncollected premiums balance. Although the premiums received in advance were only \$4,729, **I recommend the Company properly report these advance premiums as unearned premiums.** This recommendation is made in accordance with the provisions of ORS 733.080.

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EDP Equipment

As of December 31, 1996, the Company reported an investment in the EDP equipment in the amount of \$280,034. This amount was calculated using the straight line depreciation method with a 10% salvage value. This is contrary to the provisions of ORS 733.660 which states, in part, that funds of an insurer may be invested in mechanical and electronic computers and equipment which constitute a data processing system used by an insurer, if the cost of such system is at least \$50,000 and is to be amortized *in full* in not more than 10 years. No adjustment was made to this account since such an adjustment would be less than that considered material by DCBS. However, **I recommend the Company comply with the provisions of ORS 733.660 by fully depreciating its EDP equipment.**

Internal Controls

From a review of the Company's internal controls, the following control deficiencies were noted:

- Several fixed asset purchases were not supported by purchase orders or check requests.
- Numerous expenses charged to miscellaneous staff benefits and office supplies were paid without prior authorization.
- Employee expense reports were not approved by supervisors, and in some cases, the employee had not signed the request for reimbursement.

In view of these findings, **I recommend the Company establish and follow written policies and procedures that ensure the resources of the Company are used in accordance with management's directions.** This recommendation is made in

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accordance with the internal controls prescribed by the NAIC Examiners Handbook, page 2H-3, and ORS 731.302(1).

Annual Statement Schedules

The following portions of the December 31, 1996, annual statement were not completed by the Company in accordance with the NAIC Annual Statement Instructions for HMDI Corporations (Instructions):

- The Company did not complete the annual statement reinsurance Schedule S in accordance with the Instructions, page 147. Schedule S, Part 1A, Section 1 should have shown the name of the Company's reinsurer and the amount of reinsurance recoverable at December 31, 1996.
- Schedule Y, Part 1, did not include all affiliate companies in accordance with the Instructions, page 151. Schedule Y, Part 2, did not disclose transactions among the holding corporation system members as required by the Instructions, page 152.
- The Company's general ledger indicated expenditures related to lobbying. These expenses are required to be reported on Schedule K pursuant to the Instructions, page 146.
- The Company's legal expenses were not properly reported on Schedule J in accordance with the Instructions, page 146.

I recommend the Company complete all future annual statements as required by the NAIC Annual Statement Instructions for HMDI Corporations and ORS 733.210(2).

PRIOR EXAMINATION RECOMMENDATIONS

The Company has complied with all recommendations made in the qualifying report of examination made as of September 30, 1994.

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STATEMENT OF ASSETS, LIABILITIES, RESERVES AND OTHER FUNDS

<u>ASSETS</u>	<u>Ledger Assets</u>	<u>Nonadmitted(-)/ Non-ledger(+) Assets</u>	<u>Net Admitted Assets</u>
Bonds (Note 1)	\$2,776,639	\$	\$2,776,639
Real estate (Note 1)	389,830		389,830
Cash (Note 1)	1,933,555		1,933,555
Uncollected premiums	162,920		162,920
Reinsurance recoverables	274,000		274,000
EDP equipment	280,034		280,034
Investment income due and accrued	51,264		51,264
Receivable from parent	533,675	\$(533,675)	0
Other assets	239,180	(239,180)	0
Aggregate write-ins for other than invested assets	<u>160,775</u>	<u>(36,311)</u>	<u>124,464</u>
TOTAL ASSETS	<u>\$6,801,872</u>	<u>\$(809,166)</u>	<u>\$5,992,706</u>
 <u>LIABILITIES</u>			
Claims unpaid			\$3,433,482
Unpaid claims adjustment expenses			90,000
Other expenses due or accrued			299,323
Aggregate write-ins other liabilities			<u>102,367</u>
TOTAL LIABILITIES			<u>3,925,172</u>
 <u>RESERVES AND OTHER FUNDS</u>			
Statutory reserve			500,000
Unassigned funds			<u>1,567,534</u>
Total reserves and unassigned funds			<u>2,067,534</u>
TOTAL LIABILITIES, RESERVES AND UNASSIGNED FUNDS			<u>\$5,992,706</u>

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STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$21,151,878
Claims incurred	16,612,087
Claims adjustment expenses incurred	631,720
Administrative expenses incurred	2,659,416
Soliciting expenses incurred	<u>299,577</u>
Total underwriting deductions	<u>20,202,800</u>
Net underwriting gain	949,078

INVESTMENT INCOME

Net investment income earned	265,244
Net realized capital gains	<u>0</u>
Net investment gain	265,244
Net gain before Federal income taxes	1,214,322
Federal income taxes incurred	<u>345,550</u>
Net gain	<u>\$ 868,772</u>

RESERVES AND UNASSIGNED FUNDS

Reserves and unassigned funds December 31, 1995	\$ 1,381,478
Net gain	868,772
Change in nonadmitted assets	<u>(182,716)</u>
Change in reserves and unassigned funds for the year	<u>686,056</u>
Reserves and unassigned funds December 31, 1996	<u>\$ 2,067,534</u>

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NOTES TO FINANCIAL STATEMENTS

Note 1 - Location of the Assets

Bonds, real estate, cash, and short-term investments accounted for 85.10% of the total admitted assets as of December 31, 1996. The invested assets were held at the following locations:

Bonds

South Umpqua State Bank PO Box 1820 Roseburg, Oregon 97470	\$2,776,639
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Real Estate

The documents related to real estate are located at the Company's office.	389,830
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Cash

Petty cash located at the Company's office	600
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US Bank PO Box 4412 Portland, Oregon 97208	250,000
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South Umpqua Bank PO Box 6995 Portland, Oregon 97228	(44,312)
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Short-term Investments

South Umpqua Bank PO Box 6995 Portland, Oregon 97228	<u>1,727,267</u>
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TOTAL INVESTED ASSETS	<u>\$5,100,024</u>
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SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following are issues and concerns the examiner believes should be brought to management's attention as a result of this examination.

Page

- 9 I recommend the Company enter into a tax allocation agreement which establishes a method of tax liability allocation and sets forth settlement provisions in accordance with Internal Revenue Code 1552(A)(1). This recommendation is supported by ORS 732.552(H).
- 15 I recommend the Company begin to file timely and complete holding company registration statements in accordance with the provisions of ORS 732.551(2) and ORS 732.552.
- 16 I recommend the Company amend its reinsurance agreement to include a clause which addresses the use of a reinsurance intermediary and includes a provision whereby the reinsurer assumes all credit risks of the intermediary related to payments to the intermediary. This recommendation is made in accordance with NAIC Examiners Handbook, page 5-9 and ORS 731.302.
- 17 I recommend the Company report investments in real estate in accordance with the provisions of ORS 733.610(1)(h).
- 18 I recommend the Company not admit assets in excess of the limits established by ORS 733.770.
- 18 I recommend the Company properly report advance premiums as unearned premiums. This recommendation is made in accordance with the provisions of ORS 733.080.
- 19 I recommend the Company comply with the provisions of ORS 733.660 by fully depreciating its EDP equipment.
- 19 I recommend the Company establish and follow written policies and procedures that ensure the resources of the Company are used in accordance with management's directions. This recommendation is made in accordance with the internal controls prescribed by the NAIC Examiners Handbook, page 2H-3, and ORS 731.302(1).
- 20 I recommend the Company complete all future annual statements as required by the NAIC Annual Statement Instructions for HMDI Corporations and ORS 733.210(2).

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CONCLUSION

During the period covered by this examination, the surplus of the Company has increased from \$423,036 as presented in the September 30, 1994, qualifying report of examination, to \$2,067,534 as shown in this report of examination. The comparative assets and liabilities are shown below:

	<u>December 31,</u> <u>1996</u>	<u>1994</u>	<u>Change</u>
Assets	\$5,992,706	\$4,391,648	\$1,601,058
Liabilities	<u>3,925,172</u>	<u>3,968,612</u>	<u>(\$43,440)</u>
Surplus	<u>\$2,067,534</u>	<u>\$ 423,036</u>	<u>\$1,557,618</u>

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SUBSEQUENT EVENTS

Subsequent to the period covered by this examination, the Company filed a February 1998 financial statement that showed the Company's surplus to be below the minimum statutory limit. As a result, the Department of Consumer and Business Services issued an Order to Cure Impairment and Increase Capital and Surplus Case No. INS 98-03-013 (Order). Under the provisions of the Order, the Company was required to increase its capital and surplus to \$1,256,324 by April 3, 1998. As determined by a target examination, the Company complied with the Order by increasing its capital and surplus to \$1,545,527. In addition to the increased surplus, the Company made changes to its operations that included increased premium rates, changes to senior management, and the elimination of unprofitable business in Lincoln County.

For more details, see Appendices A and B.

ACKNOWLEDGMENT

The examiners wish to express their appreciation for the cooperation extended by the officers and employees of the Company during the course of the examination.

In addition to the undersigned, Pat Neesham, CFE, CPA, and Michael P. Phillips, CFE, CPA, examiners for the State of Oregon, Department of Consumer and Business Services, Insurance Division, and Robert MacLennan, FSA, MAAA, consulting actuary for DCBS, participated in the examination.

Respectfully submitted,

D. Patrick Huth, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

D. Patrick Huth, being duly sworn, deposes and says that the foregoing report of examination as of December 31, 1996, of Roseburg Health Enterprises, Inc., dba SureCare HealthPlans, Roseburg, Oregon, subscribed by him is true to the best of his knowledge and belief.

D. Patrick Huth, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn before me this _____ day of _____ 1998.

Notary Public in and for the State of Oregon
My commission expires _____

APPENDIX A

APPENDIX B