



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF QUALIFYING FINANCIAL EXAMINATION

**TRILLIUM COMMUNITY HEALTH PLAN, INC.
EUGENE, OREGON**

AS OF

MARCH 27, 2006

TABLE OF CONTENTS

SCOPE OF EXAMINATION	4
COMPANY DESCRIPTION	4
CAPITALIZATION	5
MANAGEMENT AND CONTROL	5
INTERCOMPANY AGREEMENTS	7
<i>Administrative Services Agreement</i>	<i>7</i>
CONFLICT OF INTEREST	7
CORPORATE RECORDS	7
FIDELITY BONDS AND OTHER INSURANCE	8
REINSURANCE	8
ACCOUNTS AND RECORDS	8
BALANCE SHEET	9
<i>Note 1 – Investments</i>	<i>10</i>
<i>Note 2 – Gross Paid in and Contributed Surplus</i>	<i>10</i>
CONCLUSION	10
ACKNOWLEDGMENT	11
AFFIDAVIT	12

March 30, 2006

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 731.402, I have examined the business affairs and financial condition of

**TRILLIUM COMMUNITY HEALTH PLAN, INC.
1800 Millrace Drive
Eugene, Oregon 97403**

hereinafter referred to as “Trillium” or the “Plan.” The following report is respectfully submitted.

SCOPE OF EXAMINATION

This examination was conducted to determine if Trillium Community Health Plan, Inc., is qualified to obtain a certificate of authority to conduct business as a health care service contractor pursuant to Chapter 750 of the Oregon Insurance Code (ORS 750).

The examination valuation date is March 27, 2006. The primary focus was to verify assets, liabilities, capital and surplus, and to confirm that minimum capital and surplus requirements have been met. ORS 750.045 requires that applicants for an initial certificate of authority to conduct business as a health care service contractor possess capital and surplus of at least \$3,000,000.

The following matters were reviewed, in addition to a verification of financial position:

Company description	Management and control
Conflict of interest	Corporate records
Fidelity bond and other insurance protection	Reinsurance
Accounts and records	

The examination was conducted in compliance with the Oregon Insurance Code as well as in accordance with procedures promulgated by the National Association of Insurance Commissioners.

COMPANY DESCRIPTION

Trillium Community Health Plan, Inc., is a newly formed corporation, a direct subsidiary of Lane Individual Practice Association, an independent physicians association incorporated in the State of Oregon on January 29, 1996, and Agate Resources, Inc., a Third Party Administrator (TPA) licensed in Oregon.

Lane Individual Practice Association (“LIPA”) owns 3,000 shares, or 75% of the issued and outstanding common capital stock of the Plan. LIPA writes Medicaid business in Oregon

through a fully capitated plan with the Oregon Health Plan, which is administered by the Office of Medical Assistance Program (OMAP), a division of the Oregon Department of Human Resources.

Agate Resources, Inc. (“Agate”), owns the remaining 1,000 shares, or 25% of the issued and outstanding common capital stock. Agate is a physician-owned employee leasing company, providing administration and computer services for LIPA to manage their OHP contract.

Trillium was incorporated in Oregon on February 14, 2006, as a for-profit health care service contractor to market group and individual health plans and related products and services to the general public. Specifically, the Plan will cover those enrollees of LIPA whose Medicaid coverage is provided under their OMAP contract. An application process is underway with the Centers for Medicare and Medicaid Services (CMS) for appointment as a Medicare Advantage plan. The federal government requires that Medicare contractors hold a license as an insurer in the states in which they intend to write business, and this application for a certificate of authority is to meet that requirement. Management anticipates that operations will begin January 1, 2007.

CAPITALIZATION

The Plan is authorized by its Articles to issue 10,000 shares of non-par voting common stock. At inception, the Board of Directors issued 3,000 shares to LIPA and 1,000 shares to Agate. Each share has a stated value, established by the Board of Directors, of \$1,000 per share.

MANAGEMENT AND CONTROL

The Bylaws specify that the business and affairs of the corporation shall be managed by a Board of Directors, and that the Board shall have the authority to represent the corporation on all business aspects. The Bylaws specify the number of directors of the corporation shall be between three and twelve, with each director serving a term of one year. The Bylaws further

state that, at all times, at least one-third of the Board members must be representatives of the public who are not practicing physicians or employees or trustees of a hospital with which the corporation participates or contracts. The Plan is in compliance with ORS 750.015(1).

The initial directors of the Plan are:

<u>Name</u>	<u>Affiliation</u>	<u>Representing</u>
Thomas Kurt Wuest, MD 1200 Hilyard Street S-600 Eugene, OR 97401	Surgeon Orthopedic HealthCare Northwest	Medical
Terry Wayne Coplin 1800 Millrace Drive Eugene, OR 97403	Chief Executive Officer Lane Individual Practice Assn. Agate Resources, Inc.	Company
David Lavern Cole 1800 Millrace Drive Eugene, OR 97403	Chief Financial Officer Lane Individual Practice Assn. Agate Resources, Inc.	Company
Peter Fletcher Davidson 1580 Valley River Drive Eugene, OR 97401	Chief Executive Officer Oregon Medical Group/ Symbion, Inc.	Medical
Dean Raymond Kortge* 450 Country Club Road Eugene, OR 97401	Agent Pacific Benefit Consultants	Public
Mary Frances Theresa Spilde* 4000 E. 30 th Avenue Eugene, OR 97405	President Lane Community College	Public

*Identified as representatives of the public

Executive officers are as follows:

Thomas K. Wuest, MD	President
Terry W. Coplin	Secretary
David L. Cole	Chief Financial Officer
Rhonda J. Busek	Director of Governmental Affairs
Robert R. Wheeler	Chief Medical Officer
Kent M. Noah	Chief Administrative Officer

INTERCOMPANY AGREEMENTS

Administrative Services Agreement

Trillium is party to an administrative service agreement with Agate. Under the terms of the agreement, Agate will perform certain services for the Plan, including: employee leasing; medical management; utilization review; data processing; records maintenance and other services. Agate is party to an agreement with LIPA to maintain a provider network of physicians and hospitals, and Agate agrees to provide credentialing services to providers, respond to inquiries and complaints, as well as maintain a process for peer review of quality care issues. In consideration of the services performed, the Plan will remit to Agate a monthly administrative fee equal to \$1,000 per month during 2006 and 12% of the Medicare Advantage premiums paid by CMS beginning in 2007.

CONFLICT OF INTEREST

Each member of the Board of Directors, each of the officers and each key employee will be subject to a conflict of interest policy in which they will acknowledge that they owe duties to the corporation and pledge to perform them in good faith, with the care an ordinary prudent person in a like position would exercise under similar circumstances, and which is in the best interests of the organization. The acknowledgment calls for the disclosure of conflicts between the directors' personal and financial interests and the interests of the corporation.

CORPORATE RECORDS

Articles of Incorporation were filed with the Oregon Secretary of State, Corporation Division, on February 14, 2006. Corporate Bylaws were adopted by the Board on the same date.

The Board of Directors of Trillium approved steps necessary for the formation of the new entity. This was evidenced by a unanimous written consent in lieu of an organizational meeting.

Both the Articles of Incorporation and the Bylaws were in compliance with the Oregon Insurance Code.

FIDELITY BONDS AND OTHER INSURANCE

Trillium is covered by a \$500,000 fidelity bond, after a \$1,000 deductible, under a policy issued to Agate by Travelers Casualty & Surety Company of America. Fidelity coverage meets or exceeds the minimum limit recommended by the National Association of Insurance Commissioners for companies of comparable size. Other protections include an errors & omissions and a directors & officers policy. These policies are in the name of the Plan.

REINSURANCE

Management expects that a reinsurance program will be effective when operations begin. The Plan has secured a proposal from Allianz Life Insurance Company of North America, a Minnesota domiciled life and health insurer currently authorized in the State of Oregon. Trillium was informed that the provisions of ORS 731.504 prohibit an insurer from retaining any one subject of insurance in excess of 10% of its surplus to policyholders. Trillium has agreed to comply with this statute.

ACCOUNTS AND RECORDS

A general ledger system is in place. No significant transaction other than the deposit of the required capitalization and security deposit was made since the inception. Financial statements were maintained in a manner by which the financial condition was readily verifiable as required by ORS 733.170.

TRILLIUM COMMUNITY HEALTH PLAN, INC.
BALANCE SHEET
AS OF MARCH 27, 2006

<u>ASSETS</u>	<u>Per Plan</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds (Note 1)	\$ 257,192	\$	\$ 257,192
Cash and short-term investments (Note 1)	<u>3,745,632</u>	<u>0</u>	<u>3,745,632</u>
Total Assets	<u>\$4,002,824</u>	<u>\$ 0</u>	<u>\$4,002,824</u>
 <u>LIABILITIES</u>			
Total Liabilities	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
 <u>CAPITAL AND SURPLUS</u>			
Common capital stock (Note 2)	4,000,000		4,000,000
Unassigned funds (surplus)	<u>2,824</u>	<u>0</u>	<u>2,824</u>
Total Capital and Surplus	<u>4,002,824</u>	<u>0</u>	<u>4,002,824</u>
Total Liabilities, Capital and Surplus	<u>\$4,002,824</u>	<u>\$ 0</u>	<u>\$4,002,824</u>

NO ADJUSTMENTS WERE MADE AS A RESULT OF THIS EXAMINATION

NOTES TO THE FINANCIAL STATEMENT

Note 1 – Investments

A US Treasury Note with a par value of \$260,000 was on deposit at US Bank, NA, pursuant to ORS 750.309 which requires the health care service contractor maintain a deposit of not less than \$250,000 with the Department of Consumer and Business Services. An additional \$3,745,632 was confirmed as on deposit in a money market account with Pacific Continental Bank in Eugene, Oregon.

The Plan is exploring investment strategies to comply with the required capitalization of ORS 733.580 and limitations on investments of ORS 733.770. See subsequent event comment below.

Note 2 – Gross Paid in and Contributed Surplus

The Plan has issued 4,000 shares of non-par voting common stock to LIPA and Agate. The NAIC Accounting Practices and Procedures manual, in SSAP No. 72, paragraph 3, requires that; “when no par value is set forth, the reporting entity shall declare a "stated value" and record such amount in the capital stock account.” The Plan’s Board of Directors has set the stated value at \$1,000 per share.

SUBSEQUENT EVENT

Subsequent to completion of fieldwork, the Plan has taken steps to comply with ORS 733.580 and 733.770 by purchasing a U.S. Treasury Bill with a par value of \$2,750,000.

CONCLUSION

Trillium Community Health Plan, Inc., has capital and surplus of \$4,002,824. This exceeds the \$3,000,000 minimum required for initial licensure as a health care service contractor in Oregon. The Plan has completed its application and satisfies the requirements of the Oregon Insurance Code to possess a Certificate of Authority. I recommend the Plan be issued a Certificate of Authority as a health care service contractor regulated by Chapter 750 of the Oregon Insurance Code.

ACKNOWLEDGMENT

The examination was facilitated by the cooperation and assistance of the staff of Trillium Community Health Plan, Inc. I gratefully acknowledge their support.

Respectfully submitted,

Greg A. Lathrop, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Greg A. Lathrop, being duly sworn, deposes and says that the foregoing report of examination as of March 27, 2006, of Trillium Community Health Plan, Inc., Eugene, Oregon, subscribed by him is true to the best of his knowledge and belief.

Greg A. Lathrop, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn before me this _____ day of _____, 2006.

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