



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**COMPLEMENTARY HEALTHCARE INSURANCE, INC.
PORTLAND, OREGON**

NAIC COMPANY CODE 10094

AS OF

DECEMBER 31, 2001

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July 2, 2002

Mary C. Neidig, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440
Salem, Oregon 97301-3883

Dear Director:

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

**COMPLEMENTARY HEALTHCARE INSURANCE, INC.
5319 SW Westgate Drive, Suite #130
Portland, Oregon 97221**

NAIC COMPANY CODE 10094

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

SCOPE OF EXAMINATION

The examination of the Plan was conducted as of December 31, 2001, covering the one year and three month period then ended, and included a review of material transactions or events which occurred subsequent to the examination date.

The examination was conducted pursuant to the provisions of 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 Plan'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 Plan. The 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 Perkins and Company, PC, the Company's independent auditors, in their audit of the Plan's accounts for the year ended December 31, 2001. A portion of the auditors' work papers have been incorporated into our work papers, and have been utilized in determining the scope and areas of emphasis in conducting the examination.

A management affirmation attesting to the Plan's compliance with Oregon laws relating to location of accounts and records, conduct of the Plan's affairs in a nonhazardous manner, and exercise of managerial control by a duly qualified and constituted Board of Directors was signed by and received from the Chairman of the Board of Directors.

PLAN HISTORY

The Plan was incorporated under the laws of the State of Oregon on February 26, 1999 and commenced business on December 14, 2000, as a for-profit health care service contractor under ORS 750.003. The Company's Articles of Incorporation authorize 1,000 shares of common stock, with no par value. As of December 31, 2001, Complementary HealthCare Plans, Inc., owned 100 shares.

AFFILIATED COMPANIES

Complementary HealthCare Plans, Inc. – Parent and 100% owner of Complementary Healthcare Insurance, Inc.

FUNDING AGREEMENT

Funding Agreement

On July 17, 2000, Complementary Healthcare Insurance, Inc., signed a funding agreement with its parent, whereby, the parent agrees to undertake to pay the operating expenses of the Plan including, but not limited to, salaries, rents, licenses, and taxes, until such time the Company generates sufficient revenue to support its operating expenses without drawing on capital or surplus. The funds provided by the parent for the operating expenses of the Plan pursuant to this funding agreement shall not be liabilities of the Plan nor shall the Plan be required, at any time to repay such funds to the parent. The Plan shall notify the Oregon Insurance Division at least thirty days in advance before it undertakes responsibility and payment for its operating expenses in whole or in part. In addition, the parent agrees to provide any and all funds to the Plan as needed to maintain the capital and surplus of the Plan, as required by the Oregon Insurance Code. Funds provided by the parent pursuant to

this funding agreement shall not be liabilities of the Plan nor shall the Plan be required, at any time, to repay such funds to the parent.

CAPITALIZATION

The Plan's initial capitalization was completed in April 1998 by receiving funds from Complementary HealthCare Plans, Inc., for \$300,324 in exchange for 100 shares of common stock.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws vest the Plan's management and control in a Board of Directors consisting of at least three nor more than seven members of which one third (1/3) of the Board shall be representatives of the public who are not practicing doctors or have a familial or employment relationship with the Plan. As of December 31, 2001, the Board was comprised of six members of which 1/3 were representatives of the public pursuant to the provisions of ORS 750.015(1). The directors serving the Plan at December 31, 2001, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>	<u>Representative</u>
Richard H. Tilden, DC* 6865 SW Canyon Drive Portland, OR 97225	Doctor of Chiropractic Medicine Private Practice	Medical
Bruce CD. Chaser, DC 3754 SE Harrison Portland, OR 97214	Doctor of Chiropractic Medicine Private Practice	Medical
Richard D. Brinkley 8329 SW Hawkins Blvd. Portland, OR 97229	President Complementary HealthCare Insurance, Inc.	Company
Andrea M. Gioia 22559 Oregon City Lp. West Linn, OR 97068	Vice President Complementary HealthCare Insurance, Inc.	Company

<u>Name and Address</u>	<u>Business Affiliation</u>	<u>Representative</u>
Karin M. Shepard 1820 NW Miller Road Portland, OR 97229	Consultant	Public
Chris CS. Blattner 7634 SE 36 th Portland, OR 97202 *President	Attorney Private Practice	Public

Officers

Operating management of the Plan as of December 31, 2001, was under the direction of the following principal officers:

Richard D. Brinkley	President
Andrea M. Gioia	Secretary/Treasurer
Pamella J. Marchand	Chief Operating Officer
Charles A. Simpson	Chief Medical Officer

In view of the Plan's reliable state of records, and substantial compliance with the Oregon Insurance Code, it appears the Board of Directors and officers possess the insurance experience to manage the affairs of the Plan as required for the Company to hold a certificate of authority under the provisions of ORS 731.386.

MANAGEMENT AFFIRMATION

CONFLICT OF INTEREST

A resolution of the Board of Directors requires that any officer, director, or responsible employee disclose to the Board of Directors any material interest or affiliation which conflicts with the duties of such person on behalf of the Plan. Each officer, director or responsible employee is required to complete a questionnaire yearly. The questionnaires are reviewed by the Board of Directors. No exceptions were noted in a review of such forms for the period under examination.

CORPORATE RECORDS

Board Minutes

Minutes of the Board of Directors meetings were reviewed for the period under examination. Although the meetings were held in accordance with the Plan's Bylaws and a quorum was achieved at all meetings, the minutes did not always support the transactions of the Company and the actions taken by its officers. As an example, the Board did not specifically approve all investment transactions made during the course of this examination as required by ORS 733.730(1). **I recommend the Board of Directors authorize and approve investments in order to comply with ORS 733.730(1) and ORS 733.740.** In addition the Board minutes were not always recorded in sufficient detail to have an understanding of the actions taken by the Board. No recommendation will be made as the subsequent to the date of this examination and prior to the completion of field work the Plan has initiated steps to record the minutes in more detail.

Articles of Incorporation

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

Bylaws

The Bylaws were in conformance with Oregon Statutes. No changes were made to the Bylaws during the period covered by this examination.

FIDELITY BONDS AND OTHER INSURANCE COVERAGES

The examination of insurance coverages included a review of adequacy of limits, retentions, and the solvency of the insurers providing the coverages.

The Plan, through its parent, is covered up to \$1,000,000 aggregate limit for directors and officers liability insurance. The Plan is insured for up to \$25,000 per occurrence against losses from acts of dishonesty and fraud by its employees. Fidelity bond coverage was found to exceed the minimum coverage recommended by the NAIC. In addition, the Plan is insured under a commercial package, which includes commercial general liability protection, business personal and commercial umbrella protection.

Other types of coverages provided to the Plan include:

Commercial general policy	Errors and omissions
Workers' compensation	Automobile liability

The coverages listed above were found to be adequate as of December 31, 2000.

PENSION PLANS AND OTHER EMPLOYEE BENEFITS

Employee Retirement Plans

The Plan's parent, Complementary HealthCare Plan, Inc., offers a Simple IRA Retirement Plan, covering substantially all of its employees. The plan allows an employee to contribute up to \$7,000 of their salary with a match of 3%.

Postretirement Benefit Plan

The Plan does not provide postretirement benefit plans.

TERRITORY AND PLAN OF OPERATION

The Plan operates through-out the state of Oregon as health care service contractor. Its primary goal is to provide fully insured limited benefit, supplemental policies that provide complementary healthcare benefits (acupuncture, chiropractic, naturopathic medicine and massage therapy) to self-funded ERISA groups, and to other fully insured employer groups that are not able to purchase complementary healthcare benefits through their fully insured major medical carriers.

GROWTH OF THE PLAN

The Plan received its Certificate of Authority on December 14, 2000, and wrote only one policy during 2001. The policy generated \$715 in net revenue. Subsequent to year-end 2001, the Plan has issued several new policies. Assets have grown \$22,857 and surplus has increased by \$22,487 since the qualifying examination.

LOSS EXPERIENCE

The Plan, during the period under examination, has written only one policy. They have incurred \$349 in claims expenses. Subsequent to the date of this examination the Company has written several more policies.

STATUTORY DEPOSIT

As of the date of this examination, the Plan maintained a surety bond with the Oregon Insurance Division, Department of Consumer and Business Services in the sum of \$250,000. The surety bond was verified from the records of the Insurance Division.

REINSURANCE

The Plan does not currently have any reinsurance contracts in effect due to the low coverage limits offered relative to the minimum capital requirements. The Plan is in compliance with the provisions of ORS 731.504, which limits the risk on any one subject to ten percent of surplus.

ACCOUNTS AND RECORDS

In general, the Plan's records and source documentation supported the amounts presented in the Plan's December 31, 2001, 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 recommendations have been made as a result of this examination:

Custodial Agreement

1. The custodial agreement at U.S. Bank has the proper safeguards, however, it does not include the following wording as suggested by the NAIC Examiners Handbook

Part 1, Page 70 and OAR 836.027.0200 which states in part “The insurers securities or a certified listing of the insurer’s securities through a securities depository or a Federal Reserve book entry system shall be subject to inquiry and examination by the director of the Department of Consumer and Business Services, either at the custodian’s premises or elsewhere. No recommendation will be made as subsequent to the date of this examination and prior to the end of field work, the custodial account agreement was amended to include the proper wording.

COMPLEMENTARY HEALTHCARE INSURANCE, INC.
STATEMENT OF ASSETS, LIABILITIES AND NET WORTH
As of December 31, 2001

<u>ASSETS</u>	<u>Ledger Assets</u>	<u>Examination Adjustments</u>	<u>Examination Balance</u>
Bonds (Note 1)	\$311,073	\$0	\$311,073
Cash and short-term investments	31,181		31,181
Interest due and accrued	1,715		1,715
Aggregate write-ins for other than invested assets	<u>40</u>	<u>0</u>	<u>40</u>
Total Assets	<u>\$344,009</u>	<u>\$0</u>	<u>\$344,009</u>
 <u>LIABILITIES</u>			
Claims unpaid (Note 2)	\$ 366	0	\$ 366
Total Liabilities	<u>\$ 366</u>	<u>0</u>	<u>\$ 366</u>
Common capital stock	\$325,204		\$325,204
Unassigned funds	<u>18,439</u>	<u>0</u>	<u>18,439</u>
Total Capital and Surplus	<u>\$343,643</u>	<u>0</u>	<u>\$343,643</u>
Total Liabilities, Capital and Surplus	<u>\$344,009</u>	<u>0</u>	<u>\$344,009</u>

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

**No Adjustments Were Made To The Financial Statements As A Result Of This
Examination**

**COMPLEMENTARY HEALTHCARE INSURANCE, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ending December 31, 2001**

REVENUES

Net premium income	\$ 715
Aggregate write-ins for other health care related revenues	<u>40</u>
Total Revenue	\$ 755
Medical and Hospital	
Other professional services	<u>715</u>
Subtotal	\$ 715
<u>Less</u>	
General administrative expenses	<u>84,566</u>
Total underwriting deductions	<u>\$ 85,281</u>
Net underwriting gain or (loss)	\$(84,526)
Net investment income earned	<u>18,002</u>
Net investment gains or (losses)	18,002
Aggregate write-ins for other income or expenses	<u>84,537</u>
Net income or (loss) before Federal income taxes	18,013
Federal income tax incurred	<u>-0-</u>
Net gain	<u>\$ 18,013</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus prior reporting year	\$325,630
GAINS AND LOSSES TO CAPITAL AND SURPLUS	
Net income	<u>18,013</u>
Net change in capital and surplus	<u>18,013</u>
Capital and surplus end of reporting year	<u>\$343,643</u>

After evaluation of the assets and providing for all known liabilities and reserves, there were no changes made to the financial statements of the Plan.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

The Plan holds two U.S. Treasury Notes with a total par value of \$310,000. U.S. Treasury Notes are rated "1" (Investment Grade) by the NAIC Securities Valuation Office.

<u>Year</u>	<u>Total Book Value</u>	<u>Market Value</u>	<u>Noninvestment Grade Securities</u>	<u>Percentage of Portfolio</u>
2000*	\$250,000	\$251,125	0	0
2001**	\$311,073	\$316,607	0	0

*Amounts were derived from the qualifying examination

**Amounts were derived from filed annual statement of the Plan.

Note 2 - Claims Unpaid, and Unpaid Loss Adjustment Expenses

No actuarial work was performed as the Plan received a waiver from the State of Oregon, Department of Consumer and Business Services. The Plan as of December 31, 2001 had written only one policy.

CONCLUSION

During the one year and three month period covered by this examination, the net worth of the Plan has increased from \$321,152 as presented in the September 30, 2000 qualifying report of examination, to \$343,643, as shown in this report of examination.

The comparative assets and liabilities are shown below:

	<u>September 30, 2000</u>	<u>December 31, 2001</u>	<u>Change</u>
Assets	\$321,152	\$344,009	\$22,857
Liabilities	<u>0</u>	<u>366</u>	<u>366</u>
Net worth	<u>\$321,152</u>	<u>\$343,643</u>	<u>\$22,491</u>

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.

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SUBSEQUENT EVENTS

1. On May 23, 2002, Richard D. Brinkley, resigned as president, and the Board appointed Andrea M. Gioia as his successor. Mr. Brinkley has been retained as a consultant and still serves on the Board.

2. The Company has approached the Insurance Division to become a Limited Health Care Service Contractor and as a result reduce the minimum capitalization required by Senate Bill 267.

ACKNOWLEDGMENT

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

Respectfully submitted,

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

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Timothy Hurley, CFE, being duly sworn, deposes and says the preceding report of financial examination as of December 31, 2001, of Complementary Healthcare Insurance, Inc., Portland, Oregon, subscribed by him is true and correct to the best of his knowledge and belief.

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

Subscribed and sworn to before me this _____ day of _____, 2002.

Notary Public for the State of Oregon