



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, 2006

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SALUTATION

April 21, 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 and Business 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

FAMILYCARE HEALTH PLANS, INC.
2121 SW Broadway, Suite 300
Portland, Oregon 97201

NAIC Company Code 47084

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

SCOPE OF EXAMINATION

The examination included a review of the corporate records and other records pertinent to the Plan's organization and operations with a valuation of the Plan's assets and a determination of its liabilities as of December 31, 2006. Such examination was performed in accordance with procedures promulgated by the NAIC and in compliance with the provisions of ORS 731.300 for the purpose of determining the Plan's financial condition, its ability to fulfill and the manner of fulfillment of 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.

This report of examination is confined to financial statements and comment on matters which involve departure from laws, regulations or rules, or which are deemed to require special explanation or descriptions.

In addition to the above, work papers were reviewed that were prepared by the Plan's independent auditors in their audit of the Plan's accounts for the year ended December 31, 2006. 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 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 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.

AFFILIATED COMPANIES

The Plan's sole member is FamilyCare, Inc. (FCI), an Oregon nonprofit corporation. FCI is under contract with the Oregon Department of Human Services, Division of Medical Assistance Programs (DMAP), as a fully capitated health plan. FCI contracts with individual primary care providers and hospitals to provide medical services to its members. FCI 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 2006.

FCI owns FamilyCare Medical Clinics, Inc. (FMC), an Oregon nonprofit corporation that provides osteopathic healthcare services to members of FCI, including enrollees of the

Oregon Health Plan residing in Multnomah County. FMC operated through two clinics, one of which was closed in September 2007.

CAPITALIZATION

FCI provided an additional \$800,000 and \$1,000,000 of surplus to the Plan during 2005 and 2006, respectively, so the Plan would comply with the minimum capital and surplus of \$2,500,000 in accordance with ORS 750.045 as of December 31, 2006. As of December 31, 2006, the Plan reported \$3,051,614 of capital and surplus. 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, 2006, the Plan reported only \$769,386 of qualified investments. Subsequent to the examination date, the plan showed evidence it had restructured their investments and has achieved compliance as of December 31, 2007.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws vest the Plan's management and control in a Board of Directors currently consisting of eight directors. The Bylaws provide for at least five and not more than nine directors. 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 until he or she resigns or is removed. Members of the Board of Directors duly elected and serving as of December 31, 2006, were:

<u>Name and Address</u>	<u>Position and Affiliation</u>	<u>Representation</u>
Jan Tesch Vancouver, WA	Retired	Public
Ed Goering, DO Portland, OR	Physician in private practice	Non public
Charles Kaluza West Linn, OR	Physician in private practice	Non public

<u>Name and Address</u>	<u>Position and Affiliation</u>	<u>Representation</u>
Fred Shipman* Portland, OR	President	Public
David Chen Portland, OR	President/Chief Executive Officer	Public
John Pham Portland, OR	Physician in private practice	Non public
Victoria Trabosh Lake Oswego, OR	Executive Coach	Public
Jeff Heatherington Portland, OR	President	Non public

*Chairman of the Board

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, pursuant to provisions of ORS 750.015(1).

Officers

Operating management of the Plan as of December 31, 2006, was under the direction of the following principal officers:

<u>Name</u>	<u>Office</u>
Jeff Heatherington	President
Fred Shipman	Chairperson
Jan Tesch	Vice Chairperson
Ed Goering	Secretary
Victoria Trabosh	Treasurer

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.

CORPORATE RECORDS

Bylaws

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

Articles of Incorporation

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

Board Minutes

In general, the review of 2004 to 2006 Board minutes indicated that the minutes support the transactions of the Plan and the actions taken by its 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 investment.

The Plan did not have a written record noted in the Board minutes which indicated authorization and approval of each investment made for the years 2004 to 2006. **I recommend the Plan maintain a written record showing the authorization and approval for all future investment transactions pursuant to the provisions of ORS 733.740.**

Insurance Holding Company Registration Statement

The Plan is part of an insurance holding company system. It is, therefore, required to file an insurance holding company registration statement under the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1). The Company has filed its Form B and Form C with the Oregon Insurance Division. Insurance Division financial analysts have pursued minor deficiencies.

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. Fidelity bond coverage was found to exceed the minimum coverage recommended by the NAIC. The Plan is also insured up to \$250,000 per occurrence, with a \$10,000 deductible against loss of property on the premises, loss of property in transit, losses resulting from forgery or alteration, and loss of securities.

Other insurance in force at December 31, 2006, included general business property/liability coverage of \$226,200 (personal property) and \$1,000,000 (liability) to \$2,000,000 in the aggregate, and professional liability (\$2,000,000 limit and \$50,000 deductible), and errors and omissions (\$2,000,000 limit and \$50,000 deductible). Insurance coverage was found to be adequate.

TERRITORY AND PLAN OF OPERATION

Pursuant to Chapter 750, the Plan has the ability to enter the commercial health care insurance field. The parent, FamilyCare, Inc., made the decision to diversify its products in early 2004. A decision was made to offer Medicare supplement insurance through the Plan beginning in 2005. The Plan offers two different products, a traditional Medicare advantage product and a special needs Medicare product. The traditional product will offer coverage to

any individual age 65 or over as a supplement to Medicare coverage (i.e., dental, vision, routine and preventative care). This product will be marketed to approximately 15% of the current FCI membership in the Oregon counties of Washington, Clackamas, and Multnomah, and will require the payment of a monthly premium. The special needs Medicare product will be offered as a zero premium plan to individuals who already have Medicare as their primary coverage and Medicaid as their secondary coverage. This product will be offered as primary insurance for all supplemental benefits. The main benefit here will be increased access to various providers for the insured. This product will be marketed to approximately 85% of the current FCI membership in the Oregon counties of Josephine, Jackson, Umatilla, Washington, Clackamas and Multnomah. Enrollment for both products began on September 1, 2005. The two products are marketed through the Medicare Sales department including the manager, two sales representatives and numerous independent agents. Direct services for the two products, including customer service and payment of claims, will be administered by FCI. The Plan will be responsible for member enrollment and premium collection. The Plan will also have oversight authority over FCI administration of the products. FCI will bill the Plan for services rendered as a percentage of administrative cost. A management agreement between the two entities defines the various responsibilities assumed by each party.

REINSURANCE

The Plan has a reinsurance contract with Allianz Life Insurance Company of North America. The attachment point is \$100,000 and the individual contract year maximum is \$2,000,000. The Plan is in compliance with ORS 731.504(1).

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 \$100,000 per risk. In view of the Plan's surplus of \$3,051,614 at December 31, 2006, the Plan does not retain risk on any one subject of insurance in excess of 10% of its surplus to policyholders pursuant to the maximum risk retention set by ORS 731.504.

STATUTORY DEPOSITS

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 at U.S. Bank, to maintain compliance with ORS 731.604(1) and ORS 731.608(1). The deposit was verified from the records of the Insurance Division.

ACCOUNTS AND RECORDS

In general, the Plan's records and source documentation supported the amounts presented in the Plan's December 31, 2006, Annual Statement, with certain exceptions noted below. In addition, the Plan has a system in place to account for the funds subject to escheat (a reserve for unclaimed property), as required by ORS 98.352. The Plan had no liability to escheat unclaimed property as of December 31, 2006, because of the length of time it has been in operation and issuing checks.

Bonds and Stocks

The Plan has a custodial agreement with Key Bank that holds some of the Plan's assets, but does not contain all the requirements of OAR 836-027-0200(4). **I recommend the Plan amend its custodial agreements with Key Bank to bring it into conformity with OAR 836-027-0200(4).**

Cash and Short-Term Investments

In reviewing cash and the audited financial statements, the examiner observed two significant errors: (1) An invoice for pharmaceuticals (\$114,779) which should have been paid by FamilyCare, Inc., and which was posted to that company's books, was, in fact, paid by FamilyCare Health Plans, Inc., (2) In December, 2006, the Plan mistakenly transferred \$600,000 from an account at SmithBarney to an investment account of FamilyCare, Inc., rather than to its own investment account. **I recommend the Plan reconcile all cash accounts promptly upon receipt of the statement from the bank pursuant to the provisions of ORS 732.245.**

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has taken corrective action with respect to the fourteen of the sixteen recommendations made in the 2003 report of examination.

As noted herein, the Plan is still out of compliance with ORS 733.740 regarding maintaining a written record of authorization and approval of investment purchases and OAR 836-027-0200(4) related to the required elements of a custodial agreement.

SUBSEQUENT EVENTS

Near the beginning of examination field work for this examination, the Chief Financial Officer of the Plan terminated his employment with the Plan. Prior to completion of the field work, the Controller also terminated her employment with the Plan.

A new Chief Financial Officer was hired on April 21, 2008. The new Chief Financial Officer will determine the accounting personnel structure and will determine if a new Controller will be hired. It is not anticipated that these changes in personnel will affect the ongoing operation of the Company.

The independent auditors who opined on the 2006 Statutory Financial Statements, Symonds, Evans & Co., declined to continue its appointment as auditors. The firm of Perkins & Company was engaged to conduct the independent audit of the 2007 Statutory Financial Statements.

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of FamilyCare Health Plans, Inc., as of December 31, 2006:

- 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

FAMILYCARE HEALTH PLANS, INC.
STATEMENT OF ASSETS
As of December 31, 2006

	Balance Per Company	Examination Adjustments	Balance Per Exam	Note
<u>Assets</u>				
Bonds	\$ 897,494	\$ -	\$ 897,494	1
Common stocks	1,254,431	(\$600,000)	654,431	1
Cash and short-term investments	<u>4,688,250</u>	<u>(114,779)</u>	<u>4,573,471</u>	1
Subtotal, cash and invested assets	<u>\$ 6,840,175</u>	<u>\$ (714,779)</u>	<u>\$ 6,125,396</u>	
Premiums and considerations:				
Uncollected premiums and agent's balances in the course of collection	32,088	-	32,088	
Amounts recoverable from	217,257	-	217,257	
Receivables from parent, subsidiaries, and affiliates	<u>240,772</u>	<u>714,779</u>	<u>955,551</u>	
Total Assets	<u><u>\$ 7,330,292</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,330,292</u></u>	

FAMILYCARE HEALTH PLANS, INC.
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2006

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Exam</u>	<u>Note</u>
<u>Liabilities</u>				
Claims unpaid	\$ 2,744,233		\$ 2,744,233	2
Accrued medical incentive pool and bonus arrangements	80,943		80,943	
Unpaid claims adjustment expense	30,000		30,000	2
Aggregate health policy reserves	170,550		170,550	
General expenses due or accrued	275,029		275,029	
Amounts withheld or retained for account of others	232		232	
Liability for amounts held under uninsured accident and health plans	977,691		977,691	
Aggregate write-ins for liabilities	-	-	-	
Total Liabilities	<u>\$ 4,278,678</u>	<u>\$ -</u>	<u>\$ 4,278,678</u>	
Common capital stock	-		-	
Gross paid in and contributed surplus	2,767,795		2,767,795	
Unassigned funds (surplus)	283,819		283,819	
Total capital and surplus	<u>3,051,614</u>	<u>-</u>	<u>3,051,614</u>	
Total liabilities, capital and surplus	<u>\$ 7,330,292</u>	<u>\$ -</u>	<u>\$ 7,330,292</u>	

FAMILYCARE HEALTH PLANS, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2006

	<u>Balance Per Company</u>	<u>Esamination Adjustments</u>	<u>Balance Per Exam</u>
Net premium income	\$ 10,367,083	\$ -	\$ 10,367,083
Aggregate write-ins	-	-	-
Total Revenues	<u>10,367,083</u>	<u>-</u>	<u>10,367,083</u>
Hospital and Medical:			
Hospital/medical benefits	5,314,724		5,314,724
Other professional services	383,355		383,355
Emergency room and out-of-area	1,152,712		1,152,712
Prescription drugs	882,802		882,802
Aggregate write-ins	680,190		680,190
Incentive pool, withhold adjustments and bonus amounts	80,943	-	80,943
Subtotal:	<u>8,494,726</u>	<u>-</u>	<u>8,494,726</u>
Less:			
Net reinsurance recoveries	396,263	-	396,263
Total medical and hospital	<u>8,098,463</u>	<u>-</u>	<u>8,098,463</u>
Non-health claims	-	-	-
Claim adjustment expenses	350,198	-	350,198
General administrative expenses	1,238,460	-	1,238,460
Total underwriting deductions	<u>9,687,121</u>	<u>-</u>	<u>9,687,121</u>
Net underwriting gain or loss	<u>679,962</u>	<u>-</u>	<u>679,962</u>
Net investment income earned	235,032	-	235,032
Net realized capital gains or (losses)	-	-	-
Net investment gains or (losses)	<u>235,032</u>	<u>-</u>	<u>235,032</u>
Aggregate write-ins for other income or expense	-	-	-
Net income or (loss) before federal income taxes	914,994	-	914,994
Federal and foreign income taxes incurred	-	-	-
Net Income (loss)	<u>\$ 914,994</u>	<u>\$ -</u>	<u>\$ 914,994</u>

FAMILYCARE HEALTH PLANS, INC.
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31, 2006

	2006	2005	2004
Capital and surplus, December 31, previous year	\$ 1,122,333	\$ 1,153,651	\$ 867,302
Net income	914,994	(809,371)	15,827
Net unrealized capital gains or (losses)	17,918	(17,949)	20,522
Change in net unrealized foreign exchange capital gain (loss)	-	-	-
Change in net deferred income tax	-	-	-
Change in nonadmitted assets	(3,631)	(3,998)	-
Change in provision for reinsurance	-	-	-
Change in surplus notes	-	-	-
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:	-	-	-
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:	-	-	-
Paid in	1,000,000	800,000	250,000
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Net remittances from or (to) Home Office	-	-	-
Dividends to stockholders (cash)	-	-	-
Change in treasury stock	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Examination adjustment	-	-	-
Cumulative effects of changes in accounting principles	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Change in surplus as regards policyholders for the year	<u>1,929,281</u>	<u>(31,318)</u>	<u>286,349</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 3,051,614</u>	<u>\$ 1,122,333</u>	<u>\$ 1,153,651</u>

FAMILYCARE HEALTH PLANS, INC.
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS AS A RESULT OF THE
EXAMINATION
December 31, 2006

	<u>Per Company</u>	<u>Per Examination</u>	<u>Increase (Decrease) in Surplus</u>	<u>Total</u>
Capital and Surplus, December 31, 2006 - Per Annual Statement	\$ 3,051,614			\$ 3,051,614
<u>ASSETS</u>				
Cash on deposit	4,688,250	4,573,471	(114,779)	(114,779)
Common stocks	1,254,431	654,431	(600,000)	(600,000)
Receivable from parent, subs, affiliates	240,772	955,551	714,779	714,779
<u>LIABILITIES</u>				
None	-		-	-
Change in surplus	<u>6,183,453</u>	<u>6,183,453</u>	<u>-</u>	<u>-</u>
Capital and Surplus, December 31, 2006 Per Examination				<u>\$ 3,051,614</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Investments

At December 31, 2006, the Company'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:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>Stock</u>	<u>C</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Invested</u> <u>Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Invested</u> <u>Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total Invested</u> <u>Assets</u>
2002	\$426,016	\$155,595	\$ 44,215	67.5%	24.7%	7.0%
2003*	490,977	185,189	186,142	56.6%	21.3%	21.4%
2004	720,988	358,281	74,281	62.5%	31.3%	6.4%
2005	670,746	896,979	1,136,398	24.8%	33.2%	42.0%
2006*	897,494	654,431	4,573,471	14.7%	10.6%	74.7%

*Per examination

As noted earlier in this report of examination, the approval of investment transactions was not recorded in the minutes of the Board of Directors, in violation of ORS 733.740.

The examiner noted the custodial agreement with Key Bank, NA, did not contain many of the protections required by OAR 836-027-0200(4), such as sub-section (f) requiring the custodian to notify the Director of DCBS within three business days if the agreement has been terminated or if 100% of the assets has been withdrawn.

The examiner also noted a \$600,000 redemption of common stock mutual funds was improperly deposited in an account of the parent. The Company received these funds in May, 2007. Additionally, a reconciliation of the cash account at Riverview Bank noted a deposit of \$114,779 was recorded on the books of the company but not made with the bank. A reclassification was made to Receivables From Parent in the amount of \$714,779.

Note 2 – Losses and Loss Adjustment Expenses

The DCBS actuary Scott Fitzpatrick, FSA, MAAA, performed an examination of the Company's claims unpaid and claims adjustment expense liabilities as of December 31, 2006. The scope of his examination included a review of the Company'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

- 8 I recommend the Plan maintain a written record showing the authorization and approval for all future investment transactions pursuant to the provisions of ORS 733.740.
- 11 I recommend the Plan amend its custodial agreements with Key Bank to bring it into conformity with OAR 836-027-0200(4).
- 12 I recommend the Plan reconcile all cash accounts promptly upon receipt of the statement from the bank pursuant to the provisions of ORS 732.245.

CONCLUSION

During the three-year period covered by this examination, the surplus of the Plan has increased from \$867,302 as presented in the December 31, 2003, report of financial examination to \$3,051,614 as shown in this report of examination.

	<u>2006</u>	December 31, <u>2003</u>	<u>Change</u>
Assets	\$7,330,294	\$867,302	\$6,462,992
Liabilities	<u>4,278,680</u>	<u>0</u>	<u>4,278,680</u>
Surplus	<u>\$3,051,614</u>	<u>\$867,302</u>	<u>\$2,184,312</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, AFE
Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Raymond W. Anderson, AFE, 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 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, AFE
Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this _____ day of _____, 2008.

Notary Public for the State of Oregon

My Commission Expires: _____