

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
SAINT PAUL, MINNESOTA

REPORT OF EXAMINATION
OF
ITASCA MEDICAL CARE (IMCare)
GRAND RAPIDS, MINNESOTA

AS OF
DECEMBER 31, 2006



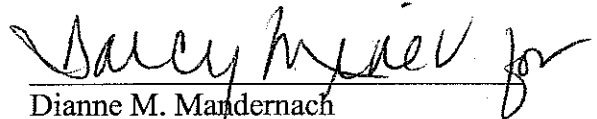
Protecting, maintaining and improving the health of all Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2006 of:

ITASCA MEDICAL CARE D/B/A IMCARE
Grand Rapids, Minnesota

was recently completed by duly qualified examiners of the State of Minnesota.

Due consideration has been given to the comments of the examiners regarding the operations of Itasca medical Care d/b/a IMCare and its financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.


Dianne M. Mandernach
Commissioner of Health

Dated: 9/13/07

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Protecting, maintaining and improving the health of all Minnesotans

August 13, 2007

The Honorable Dianne M. Mandernach
Commissioner of Health
State of Minnesota
Department of Health
85 7th Place East, Suite 400
St. Paul, Minnesota 55101

Dear Commissioner:

Pursuant to your instructions and the statutory requirements of the State of Minnesota, a comprehensive examination has been made of the books, records, business affairs and financial condition of

Itasca Medical Care d/b/a IMCare
1209 Southeast Second Avenue
Grand Rapids, Minnesota 55744

The following examination report is respectfully submitted.

SCOPE OF EXAMINATION

The examination was conducted by the Minnesota Department of Commerce, observing the applicable guidelines and procedures in the *NAIC Financial Condition Examiners' Handbook*. The Department of Commerce Examination Order #07-008 directed that the examination include a determination of the financial condition of Itasca Medical Care (hereinafter referred to as IMCare) relative to its managed care program.

The examination covered the three-year period from January 1, 2004 through December 31, 2006 and included significant transactions and/or events occurring subsequent to December 31, 2006 that were noted during the course of this examination.

The Minnesota Department of Commerce examination, as of December 31, 2003, had one recommendation relating to IMCare executing a formal administrative services agreement with Itasca County. This recommendation has been addressed.

FINDINGS AND RECOMMENDATIONS

<u>Finding #</u>	<u>Page #</u>	
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1	4	<u>Finding: Conflict of Interest</u>
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IMCare has a formal conflict of interest policy. IMCare's Board of Commissioners and officers are required to complete conflict of interest statements annually. Executed statements for the years under examination were not provided for review.

Recommendation:

It is recommended that the IMCare Board and officers maintain complete and executed conflict of interest statements on file for regulatory review.

Management Response:

IMCare management has added this to our annual list of required signatures by the County Board. Signatures are due January of each year.

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6 Finding: Internal Control

IMCare's independent auditing firm made recommendations that accounting controls be periodically reviewed and consideration be given to developing procedures to further mitigate potential segregation of duties risks.

Recommendation:

It is recommended that IMCare's management discuss with its auditing firm methods for reviewing its system of internal controls and begin a program for identifying and mitigating significant areas of risk.

Management Response:

IMCare has discussed with our auditing firm methods for reviewing its system of internal controls. Direct oversight of IMCare Director's expenditures by the ICHHS Director was instituted in 2006. Further controls were implemented first quarter 2007. We will continue to work with our auditing firm to assure risk areas identified are appropriately addressed.

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6 Finding: Internal Control

IMCare does not currently maintain its automated financial accounts on a full statutory accrual basis.

Recommendation:

It is strongly recommended that procedures be adopted to convert the financial accounting system from the current modified cash basis of accounting to a statutory accrual accounting basis.

Management Response:

Due to our fully county integrated financial system, making the change to convert to an accrual accounting basis presents challenges. IMCare will research the possibility with the ICHHS Fiscal Division Manager and elected County Treasurer of morphing from a cash-based accounting system.

HISTORY

IMCare was created by the Itasca County Health & Human Services Board (hereinafter referred to as ICHHS), as a managed care program thereunder, on July 1, 1982. IMCare was approved as a county-based purchasing program, pursuant to Minnesota Statutes 256B.692, in 2002. IMCare exists as an enterprise fund of Itasca County.

CORPORATE STRUCTURE AND MANAGEMENT

Itasca County

Itasca County is an instrumentality of the State of Minnesota, which functions as a metropolitan governmental unit. IMCare is an enterprise fund within Itasca County.

Itasca County, through its health and human services division (ICHHS), provides for the general and administrative services necessary for IMCare to operate. The cost to IMCare for these services was \$1,170,459, \$925,230 and \$815,250 for the years 2006, 2005 and 2004 respectively. Employees of ICHHS staff IMCare. ICHHS is responsible for the administration of salaries, wages and employee benefits. The allocation of employee costs is made under an administrative services contract between ICHHS and IMCare.

IMCare, operating as an enterprise fund of Itasca County, has no legal corporate structure and therefore has no Articles of Incorporation or By-laws. IMCare is governed by the Itasca County Board of Commissioners which consisted of the following five individuals at December 31, 2006:

Mark Mandich, Chair
Russell Klegstad *
John Dimich *
Rusty Eichorn
Catherine McLynn

* Replaced by Lori Dowling and Karen Burthwick, effective January 1, 2007.

Program Officers

The following individuals served as principal officers of IMCare at December 31, 2006:

<u>Name</u>	<u>Position</u>
Mark Mandich	Chairperson, ICHHS Board
Lester Kachinske	Director, ICHHS
Brett Skyles	Director, IMCare Program

Conflict of Interest

IMCare's Board of Commissioners and officers are required to complete conflict of interest statements annually. The Plan could not locate executed statements for the years under examination.

It is recommended that the IMCare Board and officers complete and execute conflict of interest statements at least annually. These statements should be maintained on file for regulatory review.

STATUTORY DEPOSITS

IMCare, as a county based purchasing program, must meet the financial solvency requirements of either Minnesota Statute Section 62D.041 or 62N.28. In lieu of the net worth and deposit requirements of these Statutes, the Department of Health has allowed a guaranteeing entity to fund this deposit. Itasca County agreed by resolution, on February 22, 2000, to serve as the guaranteeing organization for IMCare's required deposit.

INSURANCE PRODUCTS AND RELATED PRACTICES

IMCare contracts with the Minnesota Department of Human Services (DHS) and the Center for Medicare and Medicaid Services (CMS) to provide comprehensive health maintenance services to enrollees in public healthcare programs. IMCare does not offer its services to the general public.

IMCare participates in the General Assistance Medical Care, Prepaid Medical Assistance, MinnesotaCare, Minnesota Senior Options and Medicare Part D programs. The Minnesota Senior Options and Medicare Part D coverages were added effective January 1, 2006.

Health care coverages are available to eligible residents of Itasca County, Southern Koochiching County and Northern Aitkin County. Coverage is provided through contracted health care providers.

IMCare finances these coverages through monthly capitation payments received from DHS and CMS. IMCare compensates its providers either on a monthly capitation basis or on a fee for service basis. Experience settlements are made with the providers after a one-year lag period. The providers are at risk for any deficit experience.

REINSURANCE

IMCare does not currently reinsure any of its risk exposure. It does provide for a self-insured stop-loss escrow fund as part of its invested asset account.

ACCOUNTS AND RECORDS

IMCare's books and supporting records are processed and maintained in conjunction with those of Itasca County.

IMCare has administrative services agreements with two management contractors to provide pharmaceutical benefit services for its insureds and certain claims servicing functions.

Internal Control

IMCare's independent auditing firm has made recommendations that accounting controls be periodically reviewed and consideration be given to developing procedures to further mitigate potential segregation of duties risks.

It is recommended that IMCare's management discuss with its auditing firm methods for reviewing its system of internal controls and begin a program for identifying and mitigating significant areas of risk.

IMCare does not currently maintain its automated financial accounts on a full statutory accrual basis. It is noted that the deviation from a statutory accrual accounting basis is specific to this organization and its structural affiliation with the Itasca County, and not typical of HMO organizations in general.

Designated Certified Public Accountant

IMCare was audited annually, for the years 2004 through 2006, by the accounting firm of Larson, Allen, Weishair & Co., LLP. IMCare received an unqualified opinion in all three years. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination.

COMMITMENTS AND CONTINGENCIES

IMCare has no known commitments or contingent liabilities that would be considered outside the normal course of business activities. All known contingent liabilities within the normal course of business have been reflected within IMCare's financial statements.

SUBSEQUENT EVENTS

No events subsequent to the date of examination were found that would be considered to have a material impact on the financial statements presented in this Report of Examination.

FINANCIAL STATEMENTS

Following are the IMCare statutory statements of admitted assets, liabilities and capital and surplus for the calendar years ending 2004 through 2006. Comparative statements of operations, reconciliation of surplus and cash flow for those years follow the statements. No adjustments have been made to the IMCare reported financial statements as a result of this examination.

ITASCA MEDICAL CARE STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31,

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash and short-term investments	\$ 8,278,041	\$ 5,270,322	\$ 6,941,812
Subtotal, cash and invested assets	<u>8,278,041</u>	<u>5,270,322</u>	<u>6,941,812</u>
Uncollected premium	1,098,541	1,010,276	867,708
EDP equipment	835,299	429,863	0
Healthcare receivables	90,065	90,065	34,021
Total Admitted Assets	<u>\$ 10,301,946</u>	<u>\$ 6,800,526</u>	<u>\$ 7,843,541</u>
<u>LIABILITIES</u>			
Claims unpaid	\$ 3,971,412	\$ 2,781,426	\$ 2,573,320
Unpaid claims adjustment expenses	114,694	77,358	72,459
General expenses due or accrued	631,003	573,344	544,344
Amounts due to affiliates	2,191,602	300,285	1,654,781
Aggregates write-in for other liabilities	0	0	132,864
Total Liabilities	<u>6,908,711</u>	<u>3,732,413</u>	<u>4,977,768</u>
Unassigned funds (surplus)	3,393,235	3,068,113	2,865,773
Total - Capital & Surplus	<u>3,393,235</u>	<u>3,068,113</u>	<u>2,865,773</u>
Total Liabilities, Surplus & Other Funds	<u>\$ 10,301,946</u>	<u>\$ 6,800,526</u>	<u>\$ 7,843,541</u>

**ITASCA MEDICAL CARE
STATEMENT OF REVENUE AND EXPENSES
FOR PERIOD ENDING DECEMBER 31,**

<u>STATEMENT OF REVENUE AND EXPENSE</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net premium income	\$ 31,494,335	\$ 22,502,293	\$ 19,070,357
Aggregate write-ins for other revenues	528,194	789,289	1,512,206
Total Revenues	32,022,529	23,291,582	20,582,563
Hospital/medical benefits	10,073,839	6,582,083	5,446,121
Other professional services	9,416,850	6,152,817	5,090,939
Outside referrals	529,355	541,748	516,071
Emergency room and out-of-area	2,408,961	1,573,977	1,302,333
Prescription drugs	4,019,315	4,698,907	4,334,123
Aggregate write-ins for other medical and hospital	3,111,175	1,707,165	2,175,723
Total Medical and Hospital	29,559,495	21,256,697	18,865,310
Claims adjustment expenses	114,964	0	0
General administrative expenses	2,348,070	2,034,885	1,717,253
Total Underwriting Deductions	32,022,529	23,291,582	20,582,563
Net underwriting gain or (loss)	0	0	0
Net investment income earned	325,122	202,340	94,387
Net Income	\$ 325,122	\$ 202,340	\$ 94,387
 <u>CAPITAL AND SURPLUS ACCOUNT</u>			
Capital and surplus, prior reporting year	\$ 3,068,113	\$ 2,865,773	\$ 2,771,386
Net income	325,122	202,340	94,387
Net change in capital and surplus for the year	325,122	202,340	94,387
Capital and Surplus End of Reporting Year	\$ 3,393,235	\$ 3,068,113	\$ 2,865,773

**ITASCA MEDICAL CARE
STATEMENT OF CASH FLOWS
FOR PERIOD ENDED DECEMBER 31,**

<u>Cash from Operations</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Premiums collected	\$ 31,494,335	\$ 22,502,293	\$ 19,070,357
Net investment income	325,122	202,340	94,387
Miscellaneous income	2,331,246	(763,819)	399,288
Total income from operations	34,150,703	21,940,814	19,564,032
Benefit and loss payments	28,369,509	21,048,591	18,343,126
General administrative expenses	2,368,039	2,133,850	1,678,015
Total expenses from operations	30,737,548	23,182,441	20,021,141
Net cash from operations	\$ 3,413,155	(\$ 1,241,627)	(\$ 457,109)

<u>Cash from Investments</u>			
Cost of investments acquired			
Miscellaneous applications	\$ 405,436	\$ 429,863	\$ 0
Net cash from investments	(\$ 405,436)	(\$ 429,863)	\$ 0

<u>Reconciliation of Cash & ST Investments</u>			
Net change in cash and ST investments	\$ 3,007,719	(\$ 1,671,490)	(\$ 457,109)
Cash and short-term investments			
Beginning of year	5,270,322	6,941,812	7,398,921
End of period	\$ 8,278,041	\$ 5,270,322	\$ 6,941,812

COMMENTS ON FINANCIAL STATEMENTS

Invested Assets

IMCare's invested assets consist of cash and cash equivalents including highly liquid debt instruments with maturities of less than one year. These assets are held in a pooled account with Itasca County. IMCare's interest in the account balance is determined monthly, on a cash flow basis, by the Itasca County Auditor's Office. All cash deposits are secured by either insurance or financial institution collateral.

Premium Income

Premium income increased by approximately 38% during 2006. This increase is attributable, in most part, to the addition of the Minnesota Seniors Option and Medicare Part D lines of business.

Reserves for Losses and Loss Adjustment Expenses

Testing of reserve factors utilizing procedures prescribed in the *NAIC Financial Condition Examiners Handbook*, and other procedures as determined necessary, were performed by the Minnesota Department of Commerce actuary.

The Minnesota Department of Commerce developed reserve projections and compared them to values carried by IMCare at December 31, 2006. The examination consisted of a review of testing done by IMCare's independent auditors on the underlying data and other procedures as determined necessary by the department actuary to provide adequate validation of reserves. Based on the procedures applied, the Loss and Loss Adjustment Expense reserves, in total, appear to be reasonably stated and have been accepted for the purposes of this report.

Taxation

IMCare, as a government program, is subject neither to federal or state income taxation nor to state premium taxation.

Net Underwriting Gain/Net Income

IMCare is a party to profit sharing arrangements with its providers whereby, the providers share in 100% of the underwriting profits and are at risk for 100% of the underwriting losses. IMCare accrues for these future payments/receipts and therefore, there is never any reported underwriting gain or loss.

Due to the provisions of its provider profit sharing arrangements, IMCare's reported net income is always its net investment income.

Net Worth/Working Capital

IMCare, as a county based purchasing managed care program, must meet the financial solvency requirements of either Minnesota Statute Section 62D.041 or 62N.28. In lieu of the net worth and deposit requirements of these Statutes, the Department of Health has allowed a guaranteeing entity to fund this deposit.

IMCare is also required by statute to maintain positive net working capital. IMCare is in compliance with this requirement as of December 31, 2006.

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by the personnel of IMCare during the course of this examination.

Participating in the examination were M. James Carr and Daniel Vogelgesang of the Minnesota Department of Commerce.