



*Protecting, maintaining and improving the health of all Minnesotans*

January 7, 2010

Mr. Jon Carlson, Director of Accounting  
PreferredOne Community Health Plan  
6105 Golden Hills Drive  
Golden Valley, MN 55416

Dear Mr. Carlson:

Enclosed please find a copy of original Examination Report for PreferredOne Community Health Plan as of December 31, 2008, as prepared by the Minnesota Department of Commerce.

In accordance with Minnesota Statutes, § 62D.14, a copy of the Examination Report is also to be delivered to each member of the Board of Directors and executed affidavits should be forwarded to us for each Director.

A copy of an illustrated affidavit is enclosed for your information.

If you have any questions or wish to discuss the Examination Report further, please feel free to contact Jacqueline L. Gardner at 651-297-7030.

Sincerely,

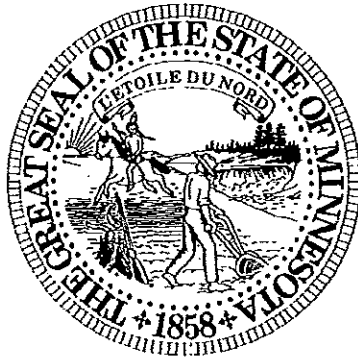
A handwritten signature in black ink that reads "Sanne Magnan" followed by a checkmark and the word "for".

Sanne Magnan, M.D., Ph.D.  
Commissioner of Health

Enc.

cc: Margie Pinedo, Minnesota Department of Commerce





**STATE OF MINNESOTA**  
**DEPARTMENT OF HEALTH**  
**SAINT PAUL, MINNESOTA**

**REPORT OF EXAMINATION**  
**OF**  
**PREFERREDONE COMMUNITY HEALTH PLAN**

**GOLDEN VALLEY, MINNESOTA**  
**NAIC # 95724**  
**AS OF**  
**DECEMBER 31, 2008**



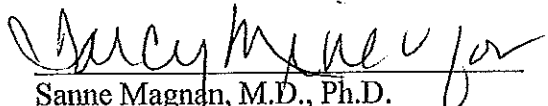
*Protecting, maintaining and improving the health of all Minnesotans*

The attached report of examination made of the condition and affairs as of December 31, 2008 of:

PREFERREDONE COMMUNITY HEALTH PLAN  
Golden Valley, 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 PreferredOne Community Health Plan 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.

  
Sanne Magnan, M.D., Ph.D.  
Commissioner of Health

Dated: 1/11/2010



TABLE of CONTENTS

<b>SCOPE OF EXAMINATION</b> .....	2
Risk Assessment.....	2
Status of Prior Examination Findings.....	5
<b>SUBSEQUENT EVENTS/CONTINGENT LIABILITIES</b> .....	5
<b>PLAN HISTORY</b> .....	5
<b>MANAGEMENT AND CONTROL</b> .....	6
Plan Governance.....	6
Board of Directors.....	6
Principal Officers.....	7
Enterprise-Wide Risk Management.....	7
Strategic Planning.....	7
Conflict of Interest.....	7
<b>CORPORATE RECORDS</b> .....	7
Articles of Incorporation and By-laws.....	7
Board of Directors Minutes.....	8
Policies, Procedures and Internal Controls.....	8
<b>AFFILIATED COMPANIES</b> .....	8
Affiliated Companies.....	8
Affiliated Agreements & Transactions.....	8
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	9
<b>EMPLOYEE BENEFITS</b> .....	9
<b>STATUTORY &amp; SPECIAL DEPOSITS</b> .....	9
<b>TERRITORY AND PLAN OF OPERATION</b> .....	9
<b>MARKET CONDUCT</b> .....	10
Claims Settlement Practices.....	10
Complaint Procedures.....	10
Advertising and Sales Materials.....	10
<b>REINSURANCE</b> .....	10
<b>ACCOUNTS AND RECORDS</b> .....	10
Systems/Operations Databases & Business Continuation.....	10
Safekeeping of Assets and Investment Policy.....	11
Designated Independent Public Accountants.....	11
Loss Liabilities.....	11
Federal and State Taxes.....	11
Risk Based Capital Ratio.....	11
<b>FINANCIAL STATEMENTS</b> .....	12
<b>CONCLUSION</b> .....	16



*Protecting, maintaining and improving the health of all Minnesotans*

January 7, 2010

The Honorable Sanne Magnan  
Commissioner of Health  
State of Minnesota  
Department of Health  
85 7<sup>th</sup> Place East, Suite 400  
St. Paul, Minnesota 55101

The Honorable Glenn Wilson  
Commissioner of Commerce  
State of Minnesota  
Department of Commerce  
85 7<sup>th</sup> Place East, Suite 500  
St. Paul, Minnesota 55101

Dear Honorable Commissioners:

In compliance with your instructions and pursuant to statutory provisions, an association examination has been made of the affairs and financial condition of

**PREFERREDONE COMMUNITY HEALTH PLAN**

The home office of PreferredOne Community Health Plan (hereinafter referred to as the Plan) is located at 6105 Golden Hills Drive, Golden Valley, Minnesota, 55416. The Plan's telephone number is (763) 847-4000.

The report of examination is respectfully submitted.

## SCOPE OF EXAMINATION

The examination was a comprehensive examination, conducted, on behalf of the Minnesota Department of Health, by the Minnesota Department of Commerce, observing the guidelines and procedures in the NAIC Examiners' Handbook 2006 (hereinafter known as "the Financial Examiners' Handbook"). The Department of Commerce Examination Order 09-009 directed the examination to include a determination of the financial condition of the Plan and a general review of its corporate affairs and insurance operations to determine compliance with Minnesota statutes.

This examination included a review of the Plan's systems and internal control environment and an assessment of its risk exposure level and the adequacy of its current and planned surplus to support future operations.

The examination covered the period January 1, 2006 through December 31, 2008, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The work papers of the Plan's designated certified public accountant, for the audit year 2008, were reviewed and copies included as part of the examination files where utilized.

### Risk Assessment

The examination was conducted as a risk-focused examination. Information about the Plan's organizational structure, business approach, and control environment were utilized to develop the examination approach that would be most appropriate for the Plan. The Plan's risks and management activities were evaluated based upon the NAIC's nine branded risk categories. The categories below represent a measure of the risk areas judgmentally evaluated by the examiners to determine the Plan's exposure to prospective risk that could potentially result in hazardous financial condition. The Control Evaluation Level, as indicated in the table below, is defined in the Financial Condition Examiner's Handbook as:

- Strong Risk Management - Management effectively identifies and controls all material types of risk posed by the relevant activity.
- Moderate Risk Management – The insurer's risk management practices, although largely effective, may be lacking in some modest degree.
- Weak Risk Management – Risk management processes that are lacking in important ways and therefore, are a cause for above normal supervisory attention.

<b>Category</b>	<b><u>Risk Definition</u></b>	<b><u>Control Evaluation Level</u></b>	<b><u>Observation</u></b>
Pricing/ Underwriting	Pricing and underwriting practices are inadequate to provide for risks assumed.	Moderately Strong	The Plan has adequate evaluation and oversight controls in place. Competitive risk is mitigated through niche marketing. The extent of pricing and underwriting risks related to potential governmental initiatives are currently unknown.
Reserving	Actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.	Strong	The controls in place reasonably ensure that claim liabilities are established at an adequate level. Historically, the Plan has been redundant in the establishment of claim liabilities.
Operational	Operational problems such as inadequate information systems, breaches in internal controls, fraud or unforeseen catastrophes will result in unexpected losses.	Strong	The Plan has adequate operations evaluation and oversight controls in place. The information systems were reviewed and found to have no significant deficiencies. A business continuation plan has been developed and is periodically tested.
Strategic	Inability to implement appropriate business plans, to make decisions, to allocate resources or to adapt to changes in the business environment will adversely affect competitive position and financial condition.	Moderately Strong	The Plan has a formal strategic planning and risk assessment program. The Plan does not have a formal succession plan for management and key operating personnel.

Credit	Amounts actually collected or collectible are less than those contractually due.	Strong	No material credit related control deficiencies were noted. The investment portfolio is relatively conservative with good management oversight. Business credit exposures are adequately controlled.
Market	Movement in market rates or prices such as interest rates, foreign exchange rates or equity prices adversely affect the reported and/or market value of investments.	Moderately Strong	No material market related control deficiencies were noted. The Plan has some degree of residual market reinvestment, asset value and political risk.
Liquidity	Inability to meet contractual obligations as they become due because of an inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.	Strong	The Plan's investment program includes provisions that address liquidity concerns.
Legal	Non-conformance with laws, rules, regulations, prescribed practices or ethical standards in any jurisdiction in which the entity operates will result in a disruption in business and financial loss.	Moderate	No material legal related control deficiencies were noted. The Plan has residual legal regulatory and political risk due to potential Federal/State statutory changes to the health care administrative system.
Reputation	Negative publicity, whether true or not, causes a decline in the customer base, costly litigation and/or revenue reductions.	Strong	The Plan has quality control, training and fraud prevention policies and procedures in place to effectively mitigate this exposure to a relatively low level.

The corporate systems and internal control structure were discussed with management through questionnaires, interviews and a review of the work performed by the Plan's independent public accountants.

The systems and internal control environment are considered adequate to provide reasonable assurance that corporate assets are adequately protected and that financial and insured data is being accurately processed and reported. The overall enterprise risk exposure of the Plan, as determined by the examiners' risk review assessment, is considered moderately low.

#### Status of Prior Examination Findings

The examination included a review to determine the current status of the recommendations noted in the previous Report of Examination as of December 31, 2005. The Plan has adequately addressed all prior examination report recommendations.

### **SUBSEQUENT EVENTS/CONTINGENT LIABILITIES**

The examination found no indication of any subsequent events or contingent liabilities at or after December 31, 2008, to the date of this examination report that would have a material effect either on the Plan's operations, financial stability or management oversight.

### **PLAN HISTORY**

The Plan was organized in December 1994 as a nonprofit Community Integrated Service Network under Minnesota Statute Chapter 62N and licensed by the State of Minnesota to provide comprehensive prepaid health care services per the provisions of the Minnesota Integrated Service Network Act.

On December 20, 1999, the Minnesota Department of Health (hereinafter referred to as "MDH") issued the Plan a certificate of authority to operate as a not-for-profit health maintenance organization, under Minnesota Statute Chapter 62D.

The Plan was formed by and through the contributions of two Minnesota nonprofit health service providers.

## MANAGEMENT AND CONTROL

### Plan Governance

The Plan consists of two classes of membership, contributing members and non-contributing members.

Contributing members contribute capital to the Plan, have one vote per member, exercise approval over various financial matters and may be admitted upon the affirmative vote of two-thirds of the existing contributing members of the Plan. There are currently two contributing members.

Non-contributing members are entitled to one vote per member, except for approval of certain financial matters. There is currently one non-contributing member.

Plan governance is provided by the Plan's Board of Directors, and is carried out by Plan management.

### Board of Directors

The Board consists of enrollee directors and non-enrollee directors.

Enrollee directors are individuals who have coverage with the Plan. Enrollee directors make up 40% of the Board. Each enrollee director is appointed for a term of two years and is limited to three terms.

Non-enrollee directors make up 60% of the Board two-thirds of whom are appointed by the contributing members and one-third of whom are appointed by the non-contributing members.

The Plan is in compliance with the Minnesota Statutes 62D.06 limitations on enrollee directors.

At December 31, 2008, the Board of Directors of the Plan consisted of the following individuals:

<u>Director</u>	<u>First Elected</u>	<u>Principal Business Affiliation</u>
Patrick J. Boran	2005	VP, Finance & CFO-Contributing Member
George T. Chresand	2005	Senior VP & General Counsel-Contributing Member
Crystal J. Wileman	2005	Human Relations Specialist-Enrollee Group
Maureen P. Utz, M.D.	2006	Physician-Non Contributing Member
Mark E. Hansberry	2008	Planning/Marketing VP-Contributing Member
Ryan D. Johnson	2008	Treasurer-Contributing Member
Lyle J. Swenson, M.D.	2008	Physician-Non Contributing Member
David A. Brenner	2008	Partner & CFO-Enrollee Group

Martin P. Champion	2008	VP-Enrollee Group
Deborah M. Gephart	2008	Associate Senior VP-Enrollee Group

Principal Officers

Officers of the Plan are elected by the Board of Directors, at its annual meeting, for terms of one year and serve at the discretion of the Board. At December 31, 2008, the principal operating officers of the Plan and their positions were as follows:

<u>Name</u>	<u>Position</u>
Marcus A. Merz	President
Debra J. R. Shoemaker	Secretary
Michael S. Umland	Treasurer

Enterprise-Wide Risk Management

Risk management activities are coordinated with the corporate-wide strategic planning and budgeting process.

Strategic Planning

The Plan has a formal corporate wide strategic planning process in place that incorporates strategies and objectives that includes both the current and prospective operating environment. The planning process includes procedures for monitoring and amending the plan on an on-going basis.

Conflict of Interest

The corporate group has a conflict of interest policy in place which requires completion of conflict of interest statements annually by all directors and officers. The Plan's Board of Directors reviews all potential conflict situations. The conflict of interest statements, for the period under examination, were reviewed and no material conflicts were noted.

**CORPORATE RECORDS**

Articles of Incorporation and By-laws

The Articles of Incorporation and By-laws of the Plan were not amended during the period under examination.

### Board of Directors Minutes

The minutes of the Plan's Board of Directors' and Audit and Investment Committee meetings, covering the period of this examination, were reviewed and found to be in proper order. All significant actions taken by the Plan during the examination period, including those mandated by statute, were addressed in the meeting minutes.

### Policies, Procedures and Internal Controls

The Plan has no formal internal audit departmental function. The Plan's external auditors perform certain reviews of the corporate system of internal controls as part of the annual audits. Accountability for managing the Plan's risks resides with its Board of Directors and senior management.

## **AFFILIATED COMPANIES**

### Affiliated Companies

Members of the Plan are Fairview Health Services, North Memorial Health Care and PreferredOne Physician Associates. The Plan has provider agreements with the Members.

PreferredOne Administrative Services, Inc. (PAS) is a third party administrator providing management services to the Plan. The Plan Members are the controlling parties of PAS.

PreferredOne Insurance Company (PIC) is a Minnesota domiciled health insurance company wholly owned by PAS.

### Affiliated Agreements & Transactions

#### *Administrative Services Agreement*

The Plan and PAS entered into an Amended and Restated Management Agreement, effective January 1, 1998. Per the terms of the agreement, PAS provides the Plan with all managerial services, including human resources, accounting, actuarial, claims, enrollment administration, customer service, information systems, marketing, provider contracting and other miscellaneous administrative services. As compensation, the Plan pays PAS a fee on a percentage of gross premium revenue and net investment income on a large group and small group basis. These fees were \$10,935,010 for 2008, \$11,258,266 for 2007 and \$10,305,278 for 2006.

#### *Surplus Distribution*

The Plan received a surplus distribution of \$1,077,911 during 2006 from the dissolution of PreferredOne PPO, a former non-profit affiliate.

### *Repayment of Paid-in Surplus*

The Plan received permission from MDH in 2005 to return up to \$6 million of contributed surplus to the contributing members. During 2006, the Plan returned \$2 million of contributed surplus. An additional \$2 million was returned during 2009.

### **FIDELITY BOND AND OTHER INSURANCE**

PAS carries fidelity coverage for the corporate group of companies that provides limits of coverage that are in excess of the minimum suggested NAIC guidelines for the Plan.

PAS carries general insurance coverages for the corporate group, which it feels is sufficient to cover risk exposures in the normal course of business.

### **EMPLOYEE BENEFITS**

The Plan has no employees. All Plan personnel are provided and paid by PAS under an intercompany management services agreement. No specific personnel costs are charged back to the Plan.

The Plan is not a party to any employment contracts, deferred compensation plans or post-retirement health plans.

### **STATUTORY & SPECIAL DEPOSITS**

The Plan met the requirements of Minnesota Statute 62D.041, as of December 31, 2008, for deposits to be held in the event of insolvency. The Plan had no other restricted admitted asset balances at December 31, 2008.

### **TERRITORY AND PLAN OF OPERATION**

The Plan is authorized in Minnesota as a health maintenance organization. The Plan markets comprehensive large and small group hospital, medical and dental coverages primarily through independent brokerage firms/agents.

The Plan contracts out to an affiliated third-party administrator the pharmacy and dental portions of its health insurance programs. Included in this contracted administration is the processing and payment of claims.

## MARKET CONDUCT

### Claims Settlement Practices

Procedures performed in conjunction with the claims review work indicated that the Plan investigates and settles claims on a timely and equitable basis.

### Complaint Procedures

The Plan has formalized procedures for addressing and documenting insured member complaints as required by Minnesota Statutes 62D.11. These procedures indicate that complaints are adjudicated by the Plan in a fair and equitable manner.

### Advertising and Sales Materials

The Plan maintains files of all advertising and sales materials in compliance with the provisions of Minnesota Regulation 2790.2000.

## REINSURANCE

The Plan is a reinsured party to an excess of loss reinsurance agreement with a Minnesota authorized reinsurer, covering the Plan's commercial members. The 2008 retention was \$325,000 plus 10% of the excess over the retention per member per year. The reinsurer's lifetime limit of liability is \$2,000,000 or \$3,000,000 per member at the election of each insured employer group. The reinsurance agreement passes risk. The agreement has an experience refund provision.

## ACCOUNTS AND RECORDS

### Systems/Operations Databases & Business Continuation

The Plan's primary books and supporting records are processed and maintained by PAS. PAS subcontracts investment and pharmaceutical record-keeping.

The Plan's regulatory reporting forms were reviewed for proper completion in accordance with Minnesota Rule 4685.1910 and the related NAIC Annual Statement Instructions. No material deviations were found.

The Plan has no formal internal auditing staff.

The Plan is part of the corporate group's formal comprehensive business continuation/disaster recovery program. The elements of the program are tested on a periodic basis.

### Safekeeping of Assets and Investment Policy

The Plan's securities investments are held, under a custodial agreement, in book entry form with a national banking association.

The Plan was not involved in any securities lending activities during the period under examination.

The Plan has an investment policy that is in compliance with the provisions of Minnesota Statutes 62D.045 and 60A.112. The Plan's investment policy is reviewed and re-affirmed annually by the Board of Directors.

The Plan is a party to an investment management agreement by which it gives the investment advisor sole discretionary investment authority, as limited by any written directions or guidelines from the Plan, over the investment of Plan assets under the advisor's management.

### Designated Independent Public Accountants

The books and records of the Plan are audited annually by independent public accountants in accordance with Minnesota Statutes 62D.08. During the period under examination, the designated independent public accounting firm was McGladrey & Pullen, LLP. The Plan received unqualified audit opinions in all examination years.

### Loss Liabilities

The Minnesota Department of Commerce developed claim liability projections and compared them to values carried by the Plan at December 31, 2008. The examination consisted of review of the underlying data using procedures prescribed by the NAIC Financial Condition Examiners Handbook and other procedures as determined necessary by the Department actuary to provide adequate validation of the data. Based on the procedures applied, the claim liabilities appear to be reasonably stated and have been accepted for the purposes of this report.

### Federal and State Taxes

The Plan is exempt from Federal income taxation under IRC section 501(c)(4) and is exempt from State income taxation under Minnesota Statutes section 290.05. The Plan is subject to taxation on premium and income from unrelated business activities.

### Risk Based Capital Ratio

The Plan's year end 2008 total adjusted capital was 239% of its authorized control level. The RBC ratios for year ends 2007 and 2006 were 311% and 386% respectively.

## **FINANCIAL STATEMENTS**

The following are the Plan's reported statutory statements of admitted assets, liabilities and unassigned funds as of December 31, for the years 2006 through 2008, and the related statutory statements of operations and cash flows for the years then ended, as reported by the Plan. The examiners have incorporated these statements into this report without adjustments.

PreferredOne Community Health Plan  
 Statements of Assets, Liabilities, Surplus and Other Funds  
 As of December 31,

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>Assets</u></b>			
Bonds	\$ 25,073,325	\$ 30,259,538	\$ 30,444,369
Common Stocks	6,087,808	7,664,699	9,287,597
Cash and Short-term Investments	110,008	1,404,260	(994,239)
	<hr/>	<hr/>	<hr/>
	\$ 31,271,141	\$ 39,328,497	\$ 38,737,727
Investment Income Due and Accrued	303,039	288,523	323,303
Uncollected Premiums	449,308	539,957	589,269
Recoverable from Reinsurers	1,273,205	351,207	206,000
Receivable from Affiliates	20,366	0	0
Healthcare Receivables	691,600	67,132	265,595
	<hr/>	<hr/>	<hr/>
<b>Total Admitted Assets</b>	<b>\$ 34,008,659</b>	<b>\$ 40,575,316</b>	<b>\$ 40,121,894</b>
<b><u>Liabilities</u></b>			
Claims Unpaid	\$ 14,680,658	\$ 16,050,315	\$ 15,375,550
Premiums Received in Advance	2,695,720	2,559,952	878,787
General Expenses Due or Accrued	95,680	89,054	104,639
Payable to Affiliates	27,059	18,729	31,520
Aggregate Write-in for Other Liabilities	1,794,466	2,721,214	1,747,052
	<hr/>	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>\$ 19,293,583</b>	<b>\$ 21,439,264</b>	<b>\$ 18,137,548</b>
<b><u>Surplus</u></b>			
Gross Paid-in and Contributed Surplus	\$ 4,656,095	\$ 4,656,095	\$ 4,656,095
Unassigned Funds	10,058,981	14,479,957	17,328,251
	<hr/>	<hr/>	<hr/>
<b>Total Surplus</b>	<b>\$ 14,715,076</b>	<b>\$ 19,136,052</b>	<b>\$ 21,984,346</b>
	<hr/>	<hr/>	<hr/>
<b>Total Liabilities and Surplus</b>	<b>\$ 34,008,659</b>	<b>\$ 40,575,316</b>	<b>\$ 40,121,894</b>

PreferredOne Community Health Plan  
Statements of Income and Reconciliation of Surplus  
Years ended December 31,

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net Premium Income	\$ 157,002,612	\$ 153,182,232	\$ 134,803,259
<b>Total Revenues:</b>	<b>\$ 157,002,612</b>	<b>\$ 153,182,232</b>	<b>\$ 134,803,259</b>
Hospital/Medical Benefits	\$ 108,565,306	\$ 103,712,263	\$ 93,183,102
Other Professional Services	3,042,224	2,323,427	2,376,568
Outside Referrals	4,888,733	6,285,161	5,810,034
Emergency Room & Out of Area	1,530,239	984,551	893,085
Prescription Drugs	21,554,981	22,616,602	20,545,358
<b>Subtotal</b>	<b>\$ 139,581,483</b>	<b>\$ 135,922,004</b>	<b>\$ 122,808,147</b>
Net Reinsurance Recoveries	2,643,606	1,212,841	665,465
<b>Total Hospital and Medical</b>	<b>\$ 136,937,877</b>	<b>\$ 134,709,163</b>	<b>\$ 122,142,682</b>
Claim Adjustment Exp. including Cost Containment	3,938,193	4,205,398	3,925,662
General Administrative Expenses	19,838,571	19,557,084	14,763,336
<b>Total Underwriting Deductions:</b>	<b>\$ 160,714,641</b>	<b>\$ 158,471,645</b>	<b>\$ 140,831,680</b>
<b>Net Underwriting Gain or (Loss)</b>	<b>(\$ 3,712,029)</b>	<b>(\$ 5,289,413)</b>	<b>(\$ 6,028,421)</b>
Net Investment Income Earned	1,516,864	1,703,618	1,706,102
Net Realized Capital Gains	(2,066,132)	1,528,078	145,376
<b>Net Income (Loss)</b>	<b>(\$ 4,261,297)</b>	<b>(\$ 2,057,717)</b>	<b>(\$ 4,176,943)</b>
<b><u>Surplus Account</u></b>			
Surplus – Beginning of Year	\$ 19,136,052	\$ 21,984,346	\$ 26,511,669
Net Income (Loss)	(4,261,297)	(2,057,717)	(4,176,943)
Change in Net Unrealized Capital Gains (Losses)	(839,510)	(884,383)	633,619
Change in Non-admitted Assets	679,831	93,806	(61,910)
Paid-in Surplus Adjustments	0	0	(2,000,000)
Aggregate Surplus Write-ins	0	0	1,077,911
Net Change in Surplus for the Year	(4,420,976)	(2,848,294)	(4,527,323)
<b>Surplus – End of Year</b>	<b>\$ 14,715,076</b>	<b>\$ 19,136,052</b>	<b>\$ 21,984,346</b>

PreferredOne Community Health Plan  
Statements of Cash Flows  
Years ended December 31,

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>Cash from Operations</u></b>			
Premiums Collected Net of Reinsurance	\$ 157,246,870	\$ 154,930,911	\$ 134,299,775
Net Investment Income	1,572,837	1,891,723	1,767,688
Miscellaneous. Income	(624,468)	198,463	(85,120)
Total	<u>158,195,239</u>	<u>157,021,097</u>	<u>135,982,343</u>
Benefit and Loss Related Payments	138,577,964	134,102,671	120,405,853
Commissions & Expenses Paid	23,770,138	23,778,067	18,619,705
Total	<u>162,348,102</u>	<u>157,880,738</u>	<u>139,025,558</u>
<b>Net Cash from Operations</b>	<b>( \$ 4,152,863 )</b>	<b>( \$ 859,641 )</b>	<b>( \$ 3,043,215 )</b>
<b><u>Cash from Investments</u></b>			
Proceeds from Investments Sold, Matured or Repaid:			
Bonds	\$ 33,571,969	\$ 34,031,585	\$ 37,806,482
Stocks	4,650,266	9,468,434	5,369,682
Total Investment Proceeds	<u>38,222,235</u>	<u>43,500,019</u>	<u>43,176,164</u>
Cost of Investments Acquired (Long-Term Only):			
Bonds	28,491,620	33,987,119	38,821,294
Stocks	5,944,471	7,214,801	5,083,909
Miscellaneous Applications	0	0	4,705
Total Investments Acquired	<u>34,436,091</u>	<u>41,201,920</u>	<u>43,909,908</u>
<b>Net Cash from Investments</b>	<b>\$ 3,786,144</b>	<b>\$ 2,298,099</b>	<b>( \$ 773,744 )</b>
<b><u>Cash from Financing and Miscellaneous Sources</u></b>			
Cash Provided (Applied):			
Paid-in Surplus	\$ 0	\$ 0	( \$ 922,089 )
Other Cash Provided (Applied)	(927,533)	960,041	(4,484,869)
<b>Net Cash from Financing &amp; Misc. Sources</b>	<b>( \$ 927,533 )</b>	<b>\$ 960,041</b>	<b>( \$ 5,406,958 )</b>
<b><u>Reconciliation of Cash &amp; Short-Term Investments</u></b>			
Net Change in Cash and Short-Term Investments	( \$ 1,294,252 )	\$ 2,398,499	( \$ 9,183,917 )
Cash & Short-Term Investments:			
Beginning of Year	\$ 1,404,260	( \$ 994,239 )	\$ 8,189,678
End of Year	<u>\$ 110,008</u>	<u>\$ 1,404,260</u>	<u>( \$ 994,239 )</u>

## CONCLUSION

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

Participating in the examination were James Carr and Daniel Vogelgesang (actuarial review) of the Minnesota Department of Commerce and Eric Kegler and Emilie Brady of the EideBailly auditing firm.