

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
SAINT PAUL, MINNESOTA
REPORT OF EXAMINATION
OF
UCARE MINNESOTA
MINNEAPOLIS, MINNESOTA
NAIC # 52629
AS OF
DECEMBER 31, 2007



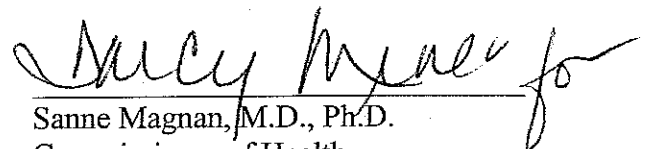
Protecting, maintaining and improving the health of all Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2007 of:

UCARE MINNESOTA
Minneapolis, 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 UCare Minnesota 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: 2/17/09

TABLE of CONTENTS

SCOPE OF EXAMINATION	2
Risk Assessment	2
Status of Prior Examination Findings	5
SUBSEQUENT EVENTS/CONTINGENT LIABILITIES	5
COMPANY HISTORY	5
MANAGEMENT AND CONTROL	5
Corporate Governance	5
Board of Directors	6
Principal Officers	7
Enterprise-Wide Risk Management	7
Strategic Planning	7
Conflict of Interest	7
CORPORATE RECORDS	7
Articles of Incorporation and By-laws	7
Board of Directors Minutes	8
Policies, Procedures and Internal Controls	8
AFFILIATED COMPANIES AND RELATED PARTIES	8
Affiliated Companies	8
Affiliated Agreements	9
Related Parties	9
FIDELITY BOND AND OTHER INSURANCE	10
EMPLOYEE BENEFITS	10
STATUTORY & SPECIAL DEPOSITS	10
TERRITORY AND PLAN OF OPERATION	11
Third Party Administrators	11
MARKET CONDUCT	12
Claims Settlement Practices	12
Complaint Procedures	12
Advertising and Sales Materials	12
REINSURANCE	12
ACCOUNTS AND RECORDS	13
Systems/Operations Databases & Business Continuation	13
Safekeeping of Assets and Investment Policy	13
Designated Independent Public Accountants	13
Loss Reserves	13
Federal and State Taxes	14
FINANCIAL STATEMENTS	14
CONCLUSION	18



Protecting, maintaining and improving the health of all Minnesotans

October 1, 2008

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

The Honorable Glenn Wilson
Commissioner of Commerce
State of Minnesota
Department of Commerce
85 7th 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

UCARE MINNESOTA

The home office of UCare Minnesota (hereinafter referred to as the Company) is located at 500 Stinson Boulevard NE, Minneapolis, Minnesota, 55413. The Company's telephone number is (612) 676-6500.

The report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The examination was a comprehensive examination, conducted 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 08-007 directed the examination to include a determination of the financial condition of the Company and a general review of its corporate affairs and insurance operations to determine compliance with Minnesota statutes.

This examination included a review of the Company'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, 2005 through December 31, 2007, 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 Company's designated certified public accountant, for the audit year 2007, 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 Company's organizational structure, business approach, and control environment were utilized to develop the examination approach that would be most appropriate for the Company. The Company'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 Company'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.

Category	<u>Risk Definition</u>	<u>Control Evaluation Level</u>	<u>Observation</u>
Pricing/ Underwriting	Pricing and underwriting practices are inadequate to provide for risks assumed.	Strong	Pricing/Underwriting risk exposure is limited due to the type of risk underwritten by the Company. The Company has adequate evaluation and oversight controls in place to effectively mitigate this risk to a reasonably low level.
Reserving	Actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.	Strong	The Company has controls in place to reasonably ensure that claim liabilities are established at an adequate level. Historically, the Company has been redundant in its claim liability reporting.
Operational	Operational problems such as inadequate information systems, breaches in internal controls, fraud or unforeseen catastrophes will result in unexpected losses.	Moderate	The Company's documentation supporting some of its management oversight procedures could be enhanced. The Company is in process of evaluating its documentation control environment as part of an extensive corporate control review.
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.	Strong	Strategic planning is managed at the Corporate level. A comprehensive formal strategic plan is in place.

Credit	Amounts actually collected or collectible are less than those contractually due.	Moderately Strong	No material credit related control deficiencies were noted. Note #1.
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. Note #2.
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	Liquidity related control environment appears sound. The Company has historically had sufficient liquidity from underwriting to meet normal operating needs.
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. Note #3.
Reputation	Negative publicity, whether true or not, causes a decline in the customer base, costly litigation and/or revenue reductions.	Strong	The Company has policies and procedures in place to effectively mitigate this exposure to a relatively low level.

Note #1: The Company has a certain degree of residual credit risk related to its invested asset portfolio. Most of the Company's receivable assets are with Federal and State government agencies. The current economic environment potentially exposes State receivables to some collection risk exposure.

Note #2: The Company retains some market reinvestment and interest rate risk after control systems mitigation.

Note #3: The Company generates, either directly or indirectly, all its business through government programs. The Company retains exposure to legal political risk to the extent that it cannot control the impact of actions taken by regulatory bodies on the Company's base of operations.

The corporate systems and internal control structure were discussed with management through questionnaires, interviews and a review of the work performed by the Company'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 Company, as determined by the examiners' risk review assessment, is considered 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, 2004. No comments or recommendations were made in the previous examination report.

SUBSEQUENT EVENTS/CONTINGENT LIABILITIES

The examination found no indication of any events subsequent to December 31, 2007 or any contingent liabilities at or after December 31, 2007, to the date of this examination report that would have a material effect on either the Company's operations, financial stability or management oversight.

COMPANY HISTORY

The Company was established, in 1984, by the Department of Family Practice at the University of Minnesota Medical School. On September 22, 1989, the Minnesota Department of Health issued the Company a certificate of authority, in accordance with Minnesota Statutes 62D, to operate as a not-for-profit health maintenance organization.

MANAGEMENT AND CONTROL

Corporate Governance

Corporate governance is provided by the Company's Board of Directors, and is carried out by Company management. The Board is made up of seven members of the University of Minnesota Medical School's Department of Family Medicine and Community Health, one member appointed by the Dean of the University of Minnesota, one member elected by the Board and six

enrollee members nominated by the Board's Governance Committee. The Board's Governance Committee is appointed by the Chairperson of the Company's Board of Directors.

Board of Directors

The Company's Board of Directors consisted of fifteen members at December 31, 2007, as required by its By-laws. The Company is in compliance with the Minnesota Statutes 62D.06 limitation on the number of directors practicing in the health services.

Directors are appointed to serve terms varying in length depending on classification type of the director. There are no limits on the number of terms that a director may serve nor are there any age limitations.

Director's fees are paid to Board members for attendance at Board and Committee meetings.

At December 31, 2007, the Board of Directors of the Company consisted of the following individuals:

<u>Director</u>	<u>First Elected</u>	<u>Principal Business Affiliation</u>
Macaran Baird, M.D. – Chair	2002	Chair, Dept of Family Medicine – U of M
Mark Bixby, M.D.	1996	Practicing Physician
William Brombach	2006	Enrollee Member
Martha Gates	2002	Enrollee Member
Catherine Godlewski	2003	Financial Officer – Dept of Family Medicine
John Harris	2004	Enrollee Member
Alison James	1999	Enrollee Member
P. Jay Kiedrowski	2007	Senior Fellow – U of M Humphrey Institute
Teresa McCarthy, M.D.	2000	Practicing Physician
Peter Mitsch	2004	Dir. Financial Svcs – U of M Medical School
William Roberts, M.D.	2007	Practicing Physician
Mary J. Schneeman	2005	Enrollee Member
Sharon Shonka	2007	Enrollee Member
James Van Vooren, M.D.	2000	Practicing Physician
Jennifer Welsh, M.D. *	2005	Practicing Physician

*Left the Board effective August 2008. Replacement is Patricia Adams M.D.

Principal Officers

At December 31, 2007, the principal operating officers of the Company and their positions are as follows:

<u>Name</u>	<u>Position</u>
Nancy J. Feldman	President and Chief Executive Officer
Mark Traynor	Senior Vice President, General Counsel & Secretary
Beth A. Monsrud	Senior Vice President, Chief Financial Officer & Treasurer
Barry Baines, M.D.	Senior Vice President & Chief Medical Officer
Terry Chism	Senior Vice President – Administration
Laurie Dean	Senior Vice President – Operations
Thomas Mahowald	Senior Vice President – Product Development
Ghitiann Worcester	Senior Vice President – Public Affairs & Development

Enterprise-Wide Risk Management

Risk management activities are coordinated with the corporate strategic planning and budgeting process through various management reporting functions. Management of risks is done on an operating and quality control basis throughout the various departmental functions.

Strategic Planning

The Company 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 is inclusive of procedures for monitoring and amending the plan on an on-going basis.

Conflict of Interest

The Company has a conflict of interest policy in place which requires completion of conflict of interest statements annually by all Board members and Senior Management. 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 were amended during 2006 to: 1) recognize the name change of the Department of Family Medicine, 2) allow Board actions to be consented to through authenticated electronic communication, 3) change the Company's home office address and 4) recognize other administrative changes.

The By-laws were amended during 2006 to: 1) recognize the Company's new office address, 2) add an at-large Director position, 3) change the responsibility for nominating the Enrollee Directors from the Nominating Committee to the Governance Committee, 4) allow notice of Board meetings to be delivered via email if the Director has consented to receive notice electronically, 5) allow Board actions to be consented to by authenticated electronic communication, 6) change the responsibility for appointing the Executive Committee from the Board to the Chair of the Board, 7) give the Board Chair the authority to appoint the Audit and Finance Committee, 8) change the name of the Nominating Committee to the Governance Committee and 9) create a Board Compensation Committee and a UCare Minnesota Fund Council.

Board of Directors Minutes

The minutes of the Board of Directors meetings for the period under examination were reviewed and indicated that all meetings were held in accordance with the By-laws and the laws of the State of Minnesota.

Policies, Procedures and Internal Controls

The Company has no formal internal audit departmental function. The Company's external auditors perform certain reviews of the corporate system of internal controls as part of the annual audits. Accountability for managing the Company's risks resided primarily at the corporate senior management level. The Company has contracted with an independent auditing firm to provide certain internal risk and control reviews.

AFFILIATED COMPANIES AND RELATED PARTIES

Affiliated Companies

The Company is the "ultimate controlling person" of a holding company system and is subject to certain filing requirements of Minnesota Statutes, Section 60D. The downstream affiliated company is UCare Wisconsin (UCW), a Wisconsin domiciled non-profit service insurance corporation. The Company has no stockholders nor is it subject to the control of any other organization.

UCW, formed in December 2006, provides medical services to qualified enrollees of the CMS Medicare Advantage program in twenty three western Wisconsin counties. The State of Wisconsin issued UCW a certificate of authority on March 5, 2007.

The Company has a 100% controlling interest in UCW. The Company provided UCW with start-up capital of a \$2 million cash contribution and an additional \$3 million in exchange for a surplus note. The Company carries its investment in UCW, on an equity basis, as an Other Long-Term Asset.

Affiliated Agreements

Administrative Services Agreement

The Company and UCW entered into an administration agreement effective June 7, 2007. The Company has agreed to provide all personnel, marketing, management and administrative needs of UCW. As compensation for these services, the Company is reimbursed for all direct costs and an allocation of indirect costs paid and/or incurred on behalf of UCW.

Related Parties

Minnesota Health Information Exchange

The Company participated in the formation of Minnesota Health Information Exchange, LLC (MnHIE), a Delaware domiciled company, formed September 7, 2007. The Company is currently one of six governing members of MnHIE. Voting rights are shared equally by the six members. MnHIE was formed to offer various electronic health information exchange capabilities and services, within Minnesota and adjacent geographic areas, to a variety of potential participants.

The Company and the other members of MnHIE are parties to a Limited Liability Company Agreement effective December 14, 2007 as amended August 1, 2008. The amended agreement states that the Company will make a discretionary initial capital contribution of \$50 thousand with a possible future capital commitment of up to \$2 million. As of year end 2007, the Company had contributed the \$50 thousand initial capital and had established a trust account for \$950 thousand of additional capital. The Company carries the net capital contributions as non-admitted assets.

Partner's Choice Network, Inc.

The Company entered into a member agreement effective 12/19/07 with five other non-profit companies to form Partner's Choice Network, Inc. (PCN), a Minnesota domiciled non-profit corporation. Under the terms of the agreement, PCN would provide managed care service coordination and other support services to individuals with disabilities. The Company has a 25% participation interest in PCN. The Company made an initial contribution into PCN of \$25 thousand.

Medical Research Contributions

The Company has made periodic contributions to help fund medical research and education projects at the University of Minnesota School of Medicine. Certain Company Board members are affiliated with medical school departments that are recipients of these contributions.

FIDELITY BOND AND OTHER INSURANCE

The Company's fidelity bond provides limits of coverage that are in excess of the minimum suggested NAIC guidelines. The Company carries general insurance coverages which it feels are sufficient to cover risk exposures in the normal course of business.

EMPLOYEE BENEFITS

The Company provides certain employee benefits to selected personnel as follows:

Post Retirement Health Plan

The Company established an early retirement health program for qualifying employees, effective July 1, 2006. The program covers retired employees, between the ages of 55 and 64, having at least 10 years of service with the Company. The Company carried an estimated liability of \$1.5 million at year end 2007 for this program. The Company's independent actuarial firm attested to the reasonableness of the year end 2007 liability.

Supplemental Executive Benefit Plan

The Company established a non-qualified Supplemental Executive Benefit Plan, effective August 1, 2002, covering Company executive management personnel, as selected by the Board of Directors. The plan administrator is the Company. The plan program includes deferred compensation and disability components. The plan is funded through split dollar flexible premium variable universal life policies and the general assets of the Company. The Company, as owner of the insurance policies to the extent of the premiums paid by it, carried an asset, at year end 2007, of \$600 thousand which was the confirmed cash surrender value of the policies.

Incentive Bonus Plan

The Company has established an annual incentive bonus program for all personnel. The Company's estimated year end 2007 liability for this program was \$1.6 million.

Executive Employment Contract

The Company has one employment contract, with the President and CEO. Provisions of this contract include, but are not limited to: retirement and severance provisions, incentive compensation and confidentiality considerations.

STATUTORY & SPECIAL DEPOSITS

The Company met the requirements of Minnesota Statute 62D.041, as of December 31, 2007, for deposits to be held in the event of insolvency. The Company had no other restricted admitted asset balances at December 31, 2007.

TERRITORY AND PLAN OF OPERATION

The Company is authorized in Minnesota as a health maintenance organization.

The Company contracts with the Minnesota Department of Human Services (DHS) and the Centers for Medicare and Medicaid Services (CMS) to provide health care services to qualified enrollees in certain DHS and CMS programs. The Company also offers individual benefit plans in conjunction with the Medicare Advantage Programs.

The Company receives monthly capitation payments from DHS and CMS for enrollees in the government sponsored plans. Medicare individual benefit plan premiums are billed directly to the contract holders.

The Company contracts out to third-party administrators the pharmacy, dental and behavioral health aspects of the programs. The pharmacy and dental administrators also process and pay claims.

With the exception of the individual Medicare plans, the Company does not market its products through traditional insurance sales channels. Coverage is available to enrollees only through that person's eligibility for one of the aforementioned public programs.

Third Party Administrators

Behavioral Healthcare Providers

Effective January 1, 2007, the Company entered into a restated management administration agreement with Behavioral Healthcare Providers (BHP). BHP is a Minnesota company in the business of administering behavioral health service programs. The agreement provides, in part, that BHP will provide the Company's enrollees with necessary behavioral health services through a network of BHP providers. Compensation to BHP for these services is on a per member per month basis plus reimbursement of certain credentialing fees and possible eligibility for other incentive payments.

RxAmerica, LLC

Effective January 1, 2008, the Company entered into a pharmacy benefits agreements with RxAmerica, LLC (Rx). This agreement replaces a similar agreement that the Company had with Procure. Rx provides management and administrative services for prescription drug benefit plans to various types of health plan/provider organizations and to certain Medicare beneficiaries. The agreements provide, in part, that Rx will provide for a network of pharmacies to dispense drugs to Company enrollees and will provide for the administration thereof. Rx administration includes but is not limited to pharmacy network oversight, network contracting, formulary services, claims processing and customer service. Compensation to Rx for core services is on a per claim basis plus reimbursement for claims paid.

Doral Dental Services of Minnesota, Inc.

Effective January 1, 2001, the Company entered into an administrative services agreement with Doral Dental Services of Minnesota, Inc. (Doral). Doral is a Minnesota corporation in the business of administering dental service programs to members of healthcare plans and employer groups. The agreement provides, in part, that Doral will provide or arrange for certain dental services for Company enrollees through Doral authorized providers and will provide for the administration thereof. Doral administration includes but is not limited to claims processing, complaint management and customer service functions. Compensation to Doral for these services is on a per member per month basis plus reimbursement for claims paid.

MARKET CONDUCT

Claims Settlement Practices

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

Complaint Procedures

The Company has formalized procedures for addressing and documenting insured member complaints. These procedures indicate that complaints are adjudicated by the Company in a fair and equitable manner.

Advertising and Sales Materials

The Company's advertising and sales materials were found to comply with Minnesota Regulation 2790.2000.

REINSURANCE

The Company cedes excess scheduled risks on a per member per year basis to an "A" rated international reinsurance carrier that is authorized in the State of Minnesota. Reinsured coverage is on a 90% coinsurance basis for amounts in excess of \$400,000. The maximum liability of the reinsurer, per member per contract year, is \$2,000,000.

The Company does not assume insured risk from any other company.

ACCOUNTS AND RECORDS

Systems/Operations Databases & Business Continuation

The Company's books and records are maintained on electronic information systems at its home office location. Company information systems functions include applications delivery, operations, logical and physical security and systems governance.

The Company has in place a formal comprehensive business continuation/disaster recovery program. The elements of the program are being tested on an incremental phase basis.

Safekeeping of Assets and Investment Policy

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

The Company has an investment policy that is reviewed annually for compliance with stated Company policy and Minnesota Statutes 60A.112. The investment policy is reaffirmed annually by the Board of Directors and a sworn affidavit is filed annually with the Minnesota Department of Commerce. This examination found the Company's investment policy to be in compliance with Minnesota Statutes 60A.112.

The investment advisor under contract with the Company is given discretionary authority, as limited by the advisor agreement and the Company's investment policy, over the investment of Company assets under its management.

Designated Independent Public Accountants

The books and records of the Company 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 LarsonAllen, LLP. The Company received unqualified audit opinions in all examination years.

Loss Reserves

The Minnesota Department of Commerce developed claim liability projections and compared them to values carried by the Company at December 31, 2007. 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 Company is exempt from Federal income taxation under IRC section 501(c)(3) and is exempt from State income taxation under Minnesota Statutes section 290.05. The Company is subject to taxation on premium.

FINANCIAL STATEMENTS

The following are the company's reported statutory statements of admitted assets, liabilities and unassigned funds as of December 31, for the years 2005 through 2007, and the related statutory statements of operations and cash flows for the years then ended, as reported by the Company. The examiners have incorporated these statements into this report without adjustments.

UCare Minnesota
 Statements of Assets, Liabilities, Surplus and Other Funds
 As of December 31,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Assets</u>			
Bonds	\$ 208,701,727	\$ 170,811,589	\$ 139,866,595
Common Stocks	47,682,353	24,969,361	0
Cash and Short-Term Investments	124,832,248	151,580,031	116,277,615
Other Invested Assets	4,168,968	0	0
Cash and Invested Assets	<u>\$ 385,385,296</u>	<u>\$ 347,360,981</u>	<u>\$ 256,144,210</u>
Investment Income Due and Accrued	1,937,527	1,777,063	1,793,736
Uncollected Premiums	708,707	1,818,650	2,361,045
Deferred Premiums	17,614,861	15,671,608	15,157,954
Recoverable from Reinsurers	275,428	8,269	249,117
Receivable from Uninsured Plans	1,031,117	0	0
Data Processing Equipment & Software	1,979,145	2,137,767	1,825,613
Furniture & Equipment	397,405	385,066	274,943
Receivable from Affiliates	327,324	0	0
Healthcare Receivables	3,309,825	2,117,873	1,054,490
Aggregate Write-ins for Non-invested Assets	599,063	526,700	332,903
Total Admitted Assets	<u>\$ 413,565,698</u>	<u>\$ 371,803,977</u>	<u>\$ 279,194,011</u>
<u>Liabilities</u>			
Claims Unpaid	\$ 118,416,342	\$ 112,605,324	\$ 79,518,018
Accrued Medical Incentive Pool	26,090,086	21,904,736	14,201,202
Unpaid Claim Adjustment Expenses	2,561,167	2,403,650	1,782,528
Aggregate Health Policy Reserves	3,663,858	7,892,074	1,073,922
Premiums Received in Advance	44,310,993	37,628,239	33,063,257
General Expenses Due or Accrued	17,097,628	14,012,948	11,992,538
Liabilities Under Uninsured Plans	1,065,428	4,138,484	0
Aggregate Write-in Liabilities	1,510,179	1,268,763	0
Total Liabilities	<u>\$ 214,715,681</u>	<u>\$ 201,854,218</u>	<u>\$ 141,631,465</u>
<u>Surplus</u>			
Unassigned Funds	\$ 198,850,017	\$ 169,949,759	\$ 137,562,546
Total Surplus	<u>\$ 198,850,017</u>	<u>\$ 169,949,759</u>	<u>\$ 137,562,546</u>
Total Liabilities and Surplus	<u>\$ 413,565,698</u>	<u>\$ 371,803,977</u>	<u>\$ 279,194,011</u>

UCare Minnesota
Statements of Income and Reconciliation of Surplus
Years ended December 31,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net Premium Income	\$ 1,015,496,449	\$ 890,285,777	\$ 704,932,425
Other Health Care Related Revenues	83,284	69,191	673,194
Total Revenues:	\$ 1,015,579,733	\$ 890,354,968	\$ 705,605,619
Hospital/Medical Benefits	\$ 482,794,981	\$ 425,652,396	\$ 329,764,154
Other Professional Services	261,518,059	221,737,382	170,762,861
Outside Referrals	20,250,080	19,677,386	18,608,429
Emergency Room & Out of Area	36,797,909	33,804,516	27,717,234
Prescription Drugs	90,674,294	81,954,834	81,882,142
Incentive Pool, Withhold Adjustments & Bonus Amts.	22,953,732	17,160,412	9,345,561
Subtotal	\$ 914,989,055	\$ 799,986,926	\$ 638,080,381
Net Reinsurance Recoveries	596,594	1,026,947	1,996,335
Total Hospital and Medical	\$ 914,392,461	\$ 798,959,979	\$ 636,084,046
Claim Adjustment Exp. including Cost Containment	8,816,035	8,102,223	8,326,216
General Administrative Expenses	78,512,216	64,561,177	49,215,114
Increase (Decrease) in Reserves	(123,216)	(556,848)	(142,955)
Total Underwriting Deductions:	\$ 1,001,597,496	\$ 871,066,531	\$ 693,482,421
Net Underwriting Gain or (Loss)	\$ 13,982,237	\$ 19,288,437	12,123,198
Net Investment Income Earned	18,265,842	14,692,666	7,804,987
Net Realized Capital Gains (Losses)	(363,603)	(171,417)	(57,626)
Net Income (Loss)	\$ 31,884,476	\$ 33,809,686	\$ 19,870,559
<u>Surplus Account</u>			
Surplus – Beginning of Year	\$ 169,949,759	\$ 137,562,546	\$ 118,801,837
Net Income (Loss)	31,884,476	33,809,686	19,870,559
Change in Non-admitted Assets	(2,984,218)	(248,090)	(1,109,850)
Aggregate Write-Ins for Gains or Losses in Surplus	0	(1,174,383)	0
Net Change in Surplus for the Year	28,900,258	32,387,213	18,760,709
Surplus – End of Year	\$ 198,850,017	\$ 169,949,759	\$ 137,562,546

UCare Minnesota
Statements of Cash Flows
Years ended December 31,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Cash from Operations</u>			
Premiums Collected Net of Reinsurance	\$ 1,017,515,618	\$ 901,596,100	\$ 706,226,655
Net Investment Income	18,031,302	14,715,137	8,203,059
Miscellaneous. Income	83,284	69,191	758,490
Total	<u>1,035,630,204</u>	<u>916,380,428</u>	<u>715,188,204</u>
Benefit and Loss Related Payments	910,866,207	753,153,012	636,565,610
Commissions & Expenses Paid	85,502,054	68,311,153	54,731,359
Total	<u>996,668,261</u>	<u>821,464,165</u>	<u>691,296,969</u>
Net Cash from Operations	\$ 38,961,943	\$ 94,916,263	\$ 23,891,235
<u>Cash from Investments</u>			
Proceeds from Investments Sold, Matured or Repaid:			
Bonds	\$ 95,047,938	\$ 51,928,600	\$ 35,212,489
Stocks	15,975,894	2,344,633	0
Total Investment Proceeds	<u>111,023,832</u>	<u>54,273,233</u>	<u>35,212,490</u>
Cost of Investments Acquired (Long-Term Only):			
Bonds	134,055,722	83,501,539	77,209,810
Stocks	37,029,735	26,863,264	0
Real Estate	61,957	640,715	56,778
Other Invested Assets	5,041,063	0	0
Total Investments Acquired	<u>176,188,477</u>	<u>111,005,518</u>	<u>77,266,588</u>
Net Cash from Investments	(\$ 65,164,645)	(\$ 56,732,285)	(\$ 42,054,098)
<u>Cash from Financing and Miscellaneous Sources</u>			
Cash Provided (Applied):			
Other Cash Provided (Applied)	(545,081)	(2,881,562)	(1,263,855)
Net Cash from Financing & Misc. Sources	(\$ 545,081)	(\$ 2,881,562)	(\$ 1,263,855)
<u>Reconciliation of Cash & Short-Term Investments</u>			
Net Change in Cash and Short-Term Investments	(\$ 26,747,783)	\$ 35,302,416	(\$ 19,426,718)
Cash & Short-Term Investments:			
Beginning of Year	\$ 151,580,031	\$ 116,277,615	\$ 135,704,333
End of Year	<u>\$ 124,832,248</u>	<u>\$ 151,580,031</u>	<u>\$ 116,277,615</u>

CONCLUSION

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

Participating in the examination were James Carr and Daniel Vogelgesang (actuarial review) of the Minnesota Department of Commerce, Alan Gutierrez-Arana (IS review) from the RSM consulting firm and Angie Hoffman from the Huff Thomas consulting firm.