

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
SAINT PAUL, MINNESOTA

REPORT OF EXAMINATION
OF
ITASCA MEDICAL CARE d/b/a IMCARE
GRAND RAPIDS, MINNESOTA
AS OF
DECEMBER 31, 2009



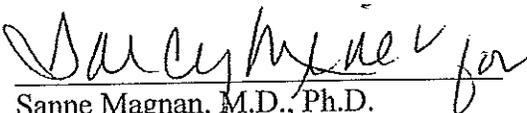
Protecting, maintaining and improving the health of all Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2009 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.


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

Dated: 10/14/10

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Protecting, maintaining and improving the health of all Minnesotans

September 10, 2010

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:

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 SE 2nd Avenue
Grand Rapids, Minnesota 55744

The following examination report is respectfully submitted.

SCOPE OF EXAMINATION

The examination was a comprehensive examination, 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 #10-009 directed that the examination include a determination of the financial condition of Itasca Medical Care (hereinafter referred to as the Company) and a general review of its corporate affairs and insurance operations to determine compliance with statutes.

The examination covered the three-year period from January 1, 2007 through December 31, 2009. In accordance with the *NAIC Financial Condition Examiners' Handbook*, the examination included significant transactions and/or events occurring subsequent to December 31, 2009 that were noted during the course of this examination.

The prior examination, conducted by the Minnesota Department of Commerce as of December 31, 2006, had three report findings which have been addressed by the Company.

HISTORY

The Company was created by the Itasca County Health & Human Services Board (hereinafter referred to as ICHHS), as a managed care program there under, on July 1, 1982. The Company was approved as a county-based purchasing program, pursuant to Minnesota Statutes 256B.692, in 2002.

SUBSEQUENT EVENTS/CONTINGENT LIABILITIES

There were no events subsequent to year end 2009, identified during this examination, that would have a material effect on the operations or management of the Company. The Company had no contingent liabilities at year end 2009 that are considered outside the normal course of business.

MANAGEMENT

Corporate Governance

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

Itasca County, through its health and human services division, provides for the general and administrative services necessary for the Company to operate. Employees of ICHHS staff the Company. 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 the Company.

The Company is governed by the Itasca County Board of Commissioners which consisted of the following five individuals at December 31, 2009:

Commissioners

Catherine McLynn – Chairperson
Karen Burthwick
Lori Dowling
Rusty Eichom
Mark Mandich

Company Officers

The following individuals served as principal officers of the Company at December 31, 2009:

<u>Name</u>	<u>Position</u>
Catherine McLynn	Chairperson
Lester Kachinske	Director – ICHHS
Brett Skyles	Director – IMCare Program

Conflict of Interest

The Company Board of Commissioners complete conflict of interest statements annually. The executed statements for the years under examination were reviewed with no conflicts noted.

Corporate Records

The Company, as an enterprise fund of Itasca County, does not have Articles of Incorporation and By-laws.

The Company's Board minutes were reviewed and found to be in order.

AFFILIATED ENTITIES AND TRANSACTIONS

ICHHS provides for the general and administrative services necessary for the Company to operate. The cost to the Company for these services was \$1,419,211, \$1,418,783 and \$1,362,235 for the years 2009, 2008 and 2007 respectively.

The Company 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. Settlements are made on a two-year experience basis.

FIDELITY BOND AND OTHER COMPANY INSURANCE

All necessary Company corporate insurance coverages are carried by Itasca County.

EMPLOYEE WELFARE

Company personnel are all employees of Itasca County. All employee benefits are provided by the County the costs of which are allocated back to the Company through the administrative services agreement with the County.

STATUTORY DEPOSITS

The Company, 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 the Company's required deposit.

TERRITORY AND PLAN OF OPERATIONS

The Company 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. The Company does not offer its services to the general public.

The Company 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 were available to eligible residents of Itasca County, Southern Koochiching County and Northern Aitkin County through 2008. Beginning in 2009, the Company provided coverage only to eligible residents of Itasca County. Coverage is provided through contracted health care providers.

The Company finances these coverages through monthly capitation payments received from DHS and CMS. The Company 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 two-year lag period. The providers are at risk for any deficit experience.

The Company has no appointed agents, except as required by law or agency contracts and has no liability for commissions.

REINSURANCE

The Company 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

Financial Reporting

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

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

Independent Certified Public Accountant

The Company was audited annually, for the years 2007 through 2009, by the accounting firm of LarsonAllen, LLP. The Company 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.

FINANCIAL STATEMENTS

Following are the Company's statutory statements of admitted assets, liabilities and capital and surplus for the calendar years ending 2007 through 2009. Comparative statements of operations, reconciliation of surplus and cash flow for those years follow the statements. No adjustments have been made to the reported financial statements of the Company as a result of this examination.

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

<u>ADMITTED ASSETS</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash and short-term investments	\$ 8,480,287	\$ 6,497,819	\$ 10,061,625
Subtotals, Cash and Invested Assets	8,480,287	6,497,819	10,061,625
Uncollected premiums	1,706,387	1,326,806	1,130,564
Receivable from uninsured plans	67,940	140,000	0
Receivable from affiliates	946,015	2,088,107	0
Health care receivable	90,064	90,064	110,008
Total Admitted Assets	<u>\$ 11,290,693</u>	<u>\$ 10,142,796</u>	<u>\$ 11,302,197</u>
	<u>LIABILITIES</u>		
Claims unpaid	\$ 5,085,353	\$ 4,128,553	\$ 4,658,458
Unpaid claims adjustment expenses	149,768	107,888	121,177
Aggregate health policy reserves	31,066	0	81,000
General expenses due or accrued	705,413	628,421	716,105
Amounts due to affiliates	0	0	611,076
Total Liabilities	5,971,600	4,864,862	6,187,816
Unassigned funds (surplus)	5,319,093	5,277,934	5,114,381
Total Surplus	5,319,093	5,277,934	5,114,381
Total Liabilities and Surplus	<u>\$ 11,290,693</u>	<u>\$ 10,142,796</u>	<u>\$ 11,302,197</u>

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net premium income	\$ 41,685,990	\$ 36,995,869	\$ 34,789,148
Aggregate write-ins for other revenues	525,107	511,474	1,384,076
Total Revenues	<u>42,211,097</u>	<u>37,507,343</u>	<u>36,173,224</u>
Hospital/medical benefits	14,201,694	13,540,390	11,781,353
Other professional services	13,275,497	12,657,321	11,013,003
Outside referrals	633,796	615,268	568,209
Emergency room and out-of-area	3,396,058	3,237,919	2,817,280
Prescription drugs	5,566,926	5,262,388	4,563,841
Aggregate write-ins medical & hospital	1,574,839	(1,092,572)	(406,583)
Total Medical and Hospital	<u>38,648,810</u>	<u>34,220,714</u>	<u>30,337,103</u>
Claims adjustment expenses	149,768	107,888	121,177
General administrative expenses	3,412,519	3,178,741	4,335,965
Total Underwriting Deductions	<u>42,211,097</u>	<u>37,507,343</u>	<u>34,794,245</u>
Net underwriting gain or (loss)	0	0	1,378,979
Net investment income earned	41,159	163,553	342,167
Net Income (Loss)	<u>\$ 41,159</u>	<u>\$ 163,553</u>	<u>\$ 1,721,146</u>
 <u>SURPLUS ACCOUNT</u>			
Surplus, prior reporting year	\$ 5,277,934	\$ 5,114,381	\$ 3,393,235
Net income	41,159	163,553	1,721,146
Net change in surplus	41,159	163,553	1,721,146
Surplus End of Reporting Year	<u>\$ 5,319,093</u>	<u>\$ 5,277,934</u>	<u>\$ 5,114,381</u>

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

<u>Cash from Operations</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net premiums collected	\$ 41,306,409	\$ 36,799,627	\$ 34,789,148
Net investment income	41,159	163,553	342,167
Miscellaneous income	1,770,325	(2,388,765)	(167,416)
Total income from operations	43,117,893	34,574,415	34,963,899
Benefit and loss payments	37,692,010	34,750,619	29,650,057
General administrative expenses	3,443,415	3,387,602	3,530,258
Total expenses from operations	41,135,425	38,138,221	33,180,315
Net cash from operations	\$ 1,982,468	(\$ 3,563,806)	\$ 1,783,584
 <u>Reconciliation of Cash & ST</u>			
<u>Investments</u>			
Net change in cash and ST investments	\$ 1,982,468	(\$ 3,563,806)	\$ 1,783,584
Cash and short-term investments			
Beginning of year	6,497,819	10,061,625	8,278,041
End of period	\$ 8,480,287	\$ 6,497,819	\$ 10,061,625

EXAMINATION NOTES TO FINANCIAL STATEMENTS

Invested Assets

The Company'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. The Company'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.

Reserves for Losses and Loss Adjustment Expenses

Reserve projections developed by the Company as of December 31, 2009 were accepted based on the examiners' review of underlying data and reserving methods. No exceptions were noted.

During the review of the underlying data used in the projections, the examiners performed procedures prescribed in the NAIC Financial Condition Examiners Handbook and other procedures as determined necessary by the Department actuary, to provide adequate validation of reserves. As a result, the Loss and Loss Adjustment Expense reserves appear to be reasonably stated and have been accepted for the purposes of this report.

Information provided to the examiners was further reviewed for consistency with the Annual Statement and compliance with related laws and regulations of the State of Minnesota.

Taxation

The Company, as a government program, is not subject to federal or state income taxation or to state premium taxation.

Net Underwriting Gain/Net Income

The Company's profit sharing arrangements with its providers normally result in no net underwriting gain or loss to the Company. The Company did realize a net underwriting gain in 2007 as a result of a payment received that was considered outside the provisions of the profit sharing arrangements.

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

Net Worth

The Company met the net worth requirements of Minnesota Statute 62N.28 at December 31, 2009.

CONCLUSION

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

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