

STATE OF MINNESOTA  
DEPARTMENT OF COMMERCE  
SAINT PAUL, MINNESOTA

REPORT OF EXAMINATION  
OF  
**ITASCA MEDICAL CARE**  
GRAND RAPIDS, MINNESOTA  
NAIC #29754  
AS OF  
DECEMBER 31, 2012



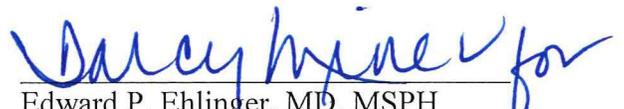
*Protecting, maintaining and improving the health of all Minnesotans*

The attached report of examination made of the condition and affairs as of December 31, 2012 of:

ITASCA MEDICAL CARE  
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 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.

  
Edward P. Ehlinger, MD, MSPH  
Commissioner

Dated: 7/2/14

Pursuant to the authority vested in the Commissioner of Commerce of the State of Minnesota, Mike Rothman, being first duly sworn, upon his oath, deposes and says that a comprehensive examination was made of the affairs and financial condition of

**ITASCA MEDICAL CARE  
GRAND RAPIDS, MINNESOTA**

an insurance company authorized under the laws of the State of Minnesota. That, to the best of his information, knowledge and belief, the attached report of examination describes the affairs and financial condition of the above named company as of December 31, 2012 as determined by a comprehensive examination made in accordance with Minnesota Statutes Section 60A.031. The examination was completed by duly qualified examiners of the State of Minnesota representing the Midwestern Zone (III) of the National Association of Insurance Commissioners.

Due consideration has been given to the comments of the examiners regarding the operations of the above named company 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.

MIKE ROTHMAN  
Commissioner

  
By: Tim Vande Hey  
Deputy Commissioner

Dated: 7/7/14

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June 26, 2014

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

The Honorable Mike Rothman  
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:

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  
NAIC #29754  
1209 SE 2<sup>nd</sup> Avenue  
Grand Rapids, MN 55744

The following report of examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

The comprehensive examination of Itasca Medical Care (hereinafter referred to as “IMCare” or “the Company”) was conducted on behalf of the Minnesota Department of Health by the Minnesota Department of Commerce (“DOC”). The DOC Examination Order #13-003 directed that the examination 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 statutes. The last examination was completed as of December 31, 2009. This examination covers the period January 1, 2010, through December 31, 2012. The examination included significant transactions and/or events occurring subsequent to December 31, 2012 that were noted during the course of this examination.

The examination was conducted in accordance with the *NAIC Financial Condition Examiners' Handbook* (Handbook). The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **FINDINGS AND RECOMMENDATIONS**

The examination did not result in any reportable findings and recommendations.

## **SUBSEQUENT EVENTS**

There were no subsequent events noted.

## **COMPANY HISTORY**

IMCare is a County Based Purchasing (CBP) organization administered by Itasca County Health & Human Service (ICHHS) that provides health care coverage for people who are eligible for Minnesota Health Care Programs and live within Itasca County. IMCare was created by ICHHS as a managed care program on July 1, 1982. In 2002, the Company was approved as a CBP pursuant to Minnesota Statutes 256B.692. This statute provides for the formation of a joint powers organization and board of directors to operate, control and manage CBP functions for persons enrolled in public healthcare programs.

## CORPORATE RECORDS

Minutes of the ICHHS meetings, covering the period of this examination, were reviewed and found to be in proper order. All significant actions taken by the Company during the examination period, including those mandated by statute, were addressed in the minutes.

## MANAGEMENT AND CONTROL

IMCare's Corporate Governance is overseen by the ICHHS Board, which is comprised of five elected county commissioners. At December 31, 2012, the ICHHS Board consisted of the following Commissioners:

### Commissioners

Davin Tinquist  
Leo Trunt  
Terry Snyder  
Mark Mandich  
Rusty Eichorn

### Officers as of December 31, 2012:

Davin Tinquist, Chairperson  
Lester Kachinske, Director ICHHS  
Brett Skyles, Director IMCare Program

In addition to the ICHHS Board of Commissioners, the Company has a Quality Improvement / Utilization Management Committee which is a staff committee that coordinates actions of the clinical committees and reports to the ICHHS Board of Commissioners. The Committee has the following responsibilities: recommend policy decisions; review and evaluate the results of quality improvement, utilization management, care coordination/ case management and disease management activities; institute needed actions; and ensure follow-up, as appropriate.

A Task Force has also been established that functions in an advisory capacity to the ICHHS Board of Commissioners. The Task Force considers program proposals regarding fiscal arrangements, issues regarding management of the programs, maintaining a comprehensive provider network of health care professionals to ensure enrollee access to services, provider quality and utilization, and other issues as necessary. The Task Force is comprised of representatives from the medical, dental, vision and chiropractic practice sites, pharmacy, ICHHS, and IMCare's Medical and Dental Directors. This advisory task force meets at least twice a year and as needed.

### Cost-Sharing Agreements

IMCare has an Administrative Services Agreement with ICHHS, a division of Itasca County. ICHHS pays general and administrative services necessary to IMCare's operations. These expenses include salary and fringe benefits, postage, telephone, data processing, office supplies and rent for use of office space and equipment owned by Itasca County.

IMCare is party to a risk sharing agreement with its providers. IMCare compensates the providers either on a capitation basis or fee for services basis during the year. As part of a cost control incentive program, IMCare retains a portion of the funds and a final settlement is completed within two years. The providers bear the risk to the extent there are any surpluses or deficits. Providers are represented on the IMCare Task Force and are involved in setting fee schedules.

**FIDELITY BOND AND OTHER CORPORATE INSURANCE**

The Company has \$50,000 in fidelity coverage with the Minnesota Counties Intergovernmental Trust.

All necessary corporate insurance coverages are carried by Itasca County.

**EMPLOYEE WELFARE**

Company personnel are all employees of Itasca County. Salary and benefits are allocated to the Company through the Administrative Services Agreement with ICHHS, a division of Itasca County.

**TERRITORY AND PLAN OF OPERATIONS**

IMCare is authorized to provide comprehensive health maintenance services to persons enrolled under public healthcare programs in Itasca County under contracts with the Minnesota Department of Human Services (DHS) and the Center for Medicare and Medicaid Services (CMS). IMCare had over 6,300 members as of December 31, 2012 and offered the following programs to enrollees in Itasca County: Medical Assistance (MA), MinnesotaCare (MNCare), Minnesota Senior Care Plus (MSC+) and Minnesota Senior Health Options (MSHO).

**OPERATING RESULTS**

Year	Admitted Assets	Capital and Surplus	Net Premium Income	Net Income
2012	\$12,897,007	\$4,787,857	\$47,274,643	\$16,203
2011	\$14,306,443	\$4,771,652	\$47,051,801	\$26,610
2010	\$12,539,417	\$4,745,044	\$43,308,319	(\$574,048)

Generally, there is no underwriting gain/loss due to the provider risk sharing agreement. Total revenue has been set to equal benefits minus expenses. A net loss was recorded in 2010 due to a bonus pool award in 2007 that was distributed to providers in 2010.

## **CLAIMS EXPERIENCE**

The statutory reserves and related items for 2012 were reviewed and certified by the Company's Appointed Actuary, Alexander Tava, FSA, MAAA of Cirdan Health Systems and Consulting.

The reserves established by the Company were reviewed for reasonableness by the examination actuary. The actuary determined the claims unpaid, unpaid claims adjustment expenses and aggregate health policy reserves presented in the 2012 annual statement appear reasonable.

## **REINSURANCE**

IMCare does not cede or assume any reinsurance.

## **ACCOUNTS AND RECORDS**

### **General**

The Company's responses to the NAIC Information Technology Planning Questionnaire (ITPQ) were reviewed by the IT examiner. There were no deficiencies noted. Data center operations are located at the Company's home office facility and the Itasca County Courthouse in Grand Rapids, MN. The Company utilizes purchased vendor packages for its general ledger and claims software.

### **Designated Certified Public Accountant**

The Company was audited annually by the accounting firm of CliftonLarsonAllen LLP in accordance with Minnesota Statutes, section 62D.08. The Company received an unqualified opinion in all years under exam. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination.

## **STATUTORY DEPOSITS**

Minnesota Statutes 256B.692 require county based purchasing units to comply with the net worth requirements of the Minnesota Health Maintenance Organizations Statute Chapter 62D. Until January 1, 2013, the CBP's can satisfy net worth requirements by use of the provisions of Minnesota Statutes 62N.28 and 62N.29. Minnesota Statutes 62N.29 allows the Department of Health to allow participating organizations to guarantee the net worth/deposit requirements of CBP's. ICHHS Board passed a resolution, dated February 22, 2000, stating that Itasca County will be the guaranteeing organization for the Company's solvency and capitalization requirements.

## FINANCIAL STATEMENTS

The financial statements consist of a statement of assets, liabilities, capital and surplus; a statement of revenue and expenses; and a reconciliation of surplus for the period since the last exam. The examination team reviewed and accepted the work of the Designated Certified Public Accountant related to these financial statements. The examiners have incorporated these statements into this report without adjustment.

IMCARE  
Assets, Liabilities, Capital and Surplus  
December 31, 2012

<u>ASSETS</u>	
Cash and short-term investments	9,715,567
Subtotals, cash and invested assets	<u>9,715,567</u>
Premiums and considerations:	
Uncollected premiums and agents' balance	3,091,384
Health care and other amounts receivable	<u>90,056</u>
<b>Total Assets</b>	<b><u><u>12,897,007</u></u></b>

<u>LIABILITIES, CAPITAL AND SURPLUS</u>	
Claims unpaid	6,913,029
Unpaid claims adjustment expenses	199,119
Aggregate health policy reserves	29,993
General expenses due or accrued	764,426
Amounts due to parent, subsidiaries and affiliates	123,968
Liability for amounts held under uninsured plans	<u>78,614</u>
<b>Total Liabilities</b>	<b><u>8,109,149</u></b>
Unassigned funds (surplus)	<u>4,787,857</u>
Total Capital and Surplus	<u>4,787,857</u>
<b>Total Liabilities, Capital and Surplus</b>	<b><u><u>12,897,007</u></u></b>

IMCARE  
Statement of Revenue and Expenses  
December 31, 2012

Member months	<u>75,776</u>
Net premium income	\$47,274,643
Misc. other revenues	35,718
Rebates/incentive payments	<u>146,444</u>
Total revenues	47,456,805
Hospital and Medical:	
Hospital/medical benefits	15,555,628
Other professional services	16,293,615
Outside referrals	1,061,084
Emergency room and out-of-area	4,828,158
Prescription drugs	6,594,322
Stop loss & reserve escrow	285,115
Provider settlements	<u>(1,295,560)</u>
Total Hospital and Medical	43,322,362
Claims adjustment expenses	199,119
General administrative expenses	<u>3,935,324</u>
Total underwriting deductions	<u>47,456,805</u>
Net underwriting gain or (loss)	-
Net investment income earned	<u>16,203</u>
<b>Net income</b>	<b><u><u>\$16,203</u></u></b>

IMCARE  
Reconciliation of Surplus  
December 31, 2012

<u>SURPLUS ACCOUNT</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and Surplus, December 31, previous year	\$179,722,168	\$175,688,331	\$148,101,856
Net income	8,771,994	22,444,115	34,415,121
Change in net unrealized capital gains or (losses)	(1,411,845)	(15,474,624)	(6,363,290)
Change in non-admitted assets & related items	2,921,273	(2,935,654)	(465,356)
Statutory exam adjustment	(18,994,903)	-	-
Net change in surplus of the year	<u>(8,713,481)</u>	<u>4,033,837</u>	<u>27,586,475</u>
<b>Surplus, December 31, current year</b>	<b><u><u>\$171,008,687</u></u></b>	<b><u><u>\$179,722,168</u></u></b>	<b><u><u>\$175,688,331</u></u></b>

## CONTINGENCIES AND COMMITMENTS

No material commitments or contingent liabilities were identified during the course of this examination that would be considered to be either outside the course of its normal business activities or significant to its financial stability.

## ACKNOWLEDGEMENT

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

In addition to the undersigned, examiners for Minnesota, represented by Risk & Regulatory Consulting, LLC participated in the examination.

Respectfully submitted:

A handwritten signature in cursive script, appearing to read 'S. Carroll', written in dark ink.

Susan L. Carroll, CFE  
Examiner-in-Charge  
Representing the State of Minnesota