



STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
SAINT PAUL, MINNESOTA

EXAMINATION REPORT

OF

ITASCA MEDICAL CARE
GRAND RAPIDS, MINNESOTA

NAIC # 29754

AS OF

DECEMBER 31, 2015



Protecting, Maintaining and Improving the Health of All Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2015 of:

**ITASCA MEDICAL CARE
NAIC #29754
1219 SE 2nd Avenue
Grand Rapids, MN 55744**

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.

A handwritten signature in black ink, appearing to read 'Ehlinger' followed by a flourish and the word 'for' written below it.

Edward P. Ehlinger, MD, MSPH
Commissioner

Dated: 07/14/2017

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
NAIC #29754
1219 SE 2nd Avenue
Grand Rapids, MN 55744**

a county based purchasing organization 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, 2015 as determined by a comprehensive examination made in accordance with Minnesota Statutes Section 62D.24. 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: Frederick Andersen
Acting Deputy Commissioner and Life
Actuary

Dated: _____

6/21/12

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May 5, 2017

Honorable Mike Rothman
Commissioner of Commerce
Minnesota Department of Commerce
85 7th Place East, Suite 280
St. Paul, Minnesota 55101-2198

Honorable Edward Ehlinger, M.D.
Commissioner of Health
Minnesota Department of Health
625 N. Robert St.
St. Paul, Minnesota 55155-2538

Dear 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
1219 SE 2nd Avenue
Grand Rapids, MN 55744

(Hereinafter referred to as "IMCare" or the "Company")

The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The examination of Itasca Medical Care, (IMCare), was a comprehensive examination, conducted by representatives of the State of Minnesota Department of Commerce (hereinafter referred to as Commerce), on behalf of the Minnesota Department of Health (Health). Pursuant to Minn. Stat. 62D.24 Health and Commerce have entered into an Interagency Agreement whereby Commerce conducts financial examinations of County Based Purchasing Organizations on behalf of Health.

The examination was conducted observing the guidelines and procedures in the NAIC Financial Condition Examiners Handbook (hereinafter referred to as the Handbook). Examination Order #16-014 directed that the examination includes a determination of the Company's financial condition and a general review of its corporate affairs and insurance operations to determine compliance with statutes. The last exam was completed as of December 31, 2012. This full-scope examination covers the three-year period from January 1, 2013, through December 31, 2015. In accordance with the Handbook, the examination included significant transactions and/or events occurring subsequent to December 31, 2015 that were noted during the course of this examination. Key activities of the Company, which was, reviewed as part of the examination included Premiums, Related Parties, Reserving/Claims Handling, and General and Administrative Expenses.

We conducted our examination in accordance with the Handbook as adopted by the National Association of Insurance Commissioners (NAIC), along with specific procedures defined by Commerce. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of IMCare 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 identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company was audited annually, for the years 2013 through 2015, by the accounting firm of CliftonLarsonAllen (CLA or the CPA). Among the procedures incorporated into this

examination was a review of the annual audit work papers prepared by CLA. Certain work papers developed by the CPA were relied upon by the examiners and were incorporated into the examiners' work papers.

STATUS OF SIGNIFICANT FINDINGS FROM PRIOR EXAM

The prior examination report contained no findings or adjustments.

SUMMARY OF SIGNIFICANT FINDINGS

IMCare reported a \$610,336 payable to Itasca County Health & Human Service ("ICHHS") in Line 9 "General expenses due or accrued" and reported the provider settlements receivable balance of \$4,548,971 in line 23 "Amounts due from parent, subsidiary & affiliates" in its December 31, 2015 annual statement. This error was mentioned in the previous examination's management letter and has not been corrected. It continued to be erroneously reported in 2016.

In accordance with Annual Statement Instructions, the Company should report amounts due to/from ICHHS in the "Amounts due to/from parent, subsidiary & affiliates". Amounts due to non-affiliates should not be reported in line 23 "Amounts due to parent, subsidiary & affiliates".

COMPANY HISTORY

General

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 health care programs.

MANAGEMENT AND CONTROL

Corporate Governance

IMCare's Corporate Governance is overseen by the ICHHS Board, which is comprised of five elected county commissioners. At December 31, 2015, the ICHHS Board consisted of the following Commissioners:

Commissioners:

Davin Tinquist
Leo Trunt
Terry Snyder
Mark Mandich
Rusty Eichorn

Officers as of December 31, 2015:

Rusty Eichorn, Chairperson
Eric Villeneuve, 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.

TERRITORY AND PLAN OF OPERATION

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). Minnesota Health Care Programs (MHCP) include the following:

- Medical Assistance (MA)
- Minnesota Senior Care Plus (MSC+)
- MinnesotaCare
- Minnesota Senior Health Options (MSHO)
- Special Needs Basic Care (SNBC)

REINSURANCE

IMCare did not cede or assume any reinsurance during the period under examination; however, it entered into a stop-loss reinsurance agreement with Summit Re in July 2016.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the company with the Minnesota Department of Commerce and present the financial condition of the company for the period ending December 31, 2015. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

ITASCA MEDICAL CARE
 Statement of Assets, Liabilities, Surplus and Other Funds
 December 31, 2015
 (in 000)

ASSETS	
Cash and short-term Investments	\$ <u>11,168</u>
Cash and invested assets	\$ 11,168
Uncollected premiums and agents balances	\$ 3,834
Amounts receivable relating to uninsured plans	267
Receivable from parent, subsidiaries, and affiliates	<u>4,549</u>
Net admitted assets	\$ 19,818
Total Assets	<u>\$ 19,818</u>
LIABILITIES	
Claims unpaid	\$ 9,181
Unpaid claims adjustment expense	262
Aggregate health policy reserves	4
Premiums received in advance	3,804
General Expenses due or accrued	1,018
Total Liabilities	<u>\$ 14,269</u>
Gross Paid in and Contributed Surplus	<u>5,548</u>
Surplus	<u>\$ 5,548</u>
Total Liabilities and Surplus	<u>\$ 19,818</u>

ITASCA MEDICAL CARE
Statement of Revenue and Expenses
December 31, 2015
(in 000)

Member months	101
Net premium income	\$ 59,921
Aggregate write-ins for health care related revenues	250
Aggregate write-ins for non-health care related revenues	<u>256</u>
Total Revenue	<u>\$ 60,427</u>
Hospital/medical benefits	\$ 12,162
Other professional benefits	19,318
Outside referrals	1,014
Emergency room and out-of-area	16,228
Prescription drugs	10,819
Aggregate write-ins for other hospital and medical	<u>\$ (5,404)</u>
Sub-total	<u>\$ 54,137</u>
Claims adjustment expenses	\$ 2,795
General administrative expenses	3,324
Total Underwriting	<u>\$ 60,257</u>
Net underwriting gain	\$ 170
Net investment income earned	<u>15</u>
NET INCOME	<u>\$ 185</u>
SURPLUS ACCOUNT	
Surplus, December 31, previous year	\$ 5,364
Net income	<u>185</u>
Change in surplus for year	<u>\$ 185</u>
Surplus as of 12/31/15	<u>\$ 5,549</u>

ITASCA MEDICAL CARE
Statement of Cash Flow
December 31, 2015
(in 000)

Cash from operations:	
Net premiums collected	\$ 60,087
Net investment income	15
Miscellaneous income	213
Total	<u>\$ 60,316</u>
Benefit and loss related payments	\$ 59,203
Expenses and Write Ins for Deductions	6,405
Total	<u>\$ 65,608</u>
Net cash from operations	<u>\$ (5,293)</u>
Cash from investments:	
Total investment proceeds	\$ 0
Cash for investments acquired:	
Total investments acquired	\$ 0
Net cash from investments	\$ 0
Cash from financing and miscellaneous	
Net cash from financing and miscellaneous	\$ 0
Net change in cash, cash equivalents, and short-term investments	<u>\$ 5,293</u>
Cash and short-term investments:	
Beginning	\$ 16,460
Ending	<u>\$ 11,168</u>

ITASCA MEDICAL CARE
 Comparative Analysis of Changes in Surplus
 December 31, 2015

The following is a reconciliation of surplus between the amount reported by the Company and as determined by examination:

	Per Annual Statement	Per Examination	Change in Surplus
Total Assets	\$19,817,845	\$19,817,845	\$ -0-
Total Liabilities	\$14,269,365	\$14,269,365	\$ -0-
Surplus at December 31, 2015	\$5,548,480	\$5,548,480	\$ -0-

SUBSEQUENT EVENTS

Brett Skyles was named the Itasca County Administrator on August 28, 2016, and relinquished his position as CEO of IMCare. Sarah Duell, IMCare's CFO, accepted the position of IMCare CEO effective November 20, 2016.

IMCare is currently in the process of reviewing its risk model with the Itasca County Board. IMCare's current risk model has been to share risk with a majority of network providers. IMCare is exploring the possibility of assuming full risk for all of its business. The outcome of the potential risk model change and its future impact on IMCare is unknown at the date of this report.

CONCLUSION

As a result of this examination, the financial condition of Itasca Medical Care as of December 31, 2015 is summarized as follows:

Admitted assets	\$19,817,845
Liabilities	\$14,269,365
Surplus	\$ 5,548,480
Total liabilities and surplus	\$ 19,817,845

Per examination findings, the Company met the minimum surplus requirements pursuant to Minnesota Statutes, Section 256B.692 as of December 31, 2015.

In addition to the undersigned, Grace Kelly, State of Minnesota Assistant Chief Examiner; Mary Hartell, State of Minnesota Examination Supervisor, and Waheed Zafer, Risk and Regulatory Consulting, participated in this examination.

Respectfully submitted,



Jan M. Moenck, CFE
Examiner-in-Charge
Representing the State of Minnesota,
Department of Commerce