



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

March 13, 2013

Mary Quist, Senior Director and Controller  
Medica Health Plans  
401 Carlson Parkway  
Minnetonka, MN 55305

Dear Ms. Quist:

Enclosed please find a copy of original Examination Report for Medica Health Plans as of December 31, 2011, 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. Please return affidavits no later than 60 days.

If you have any questions or wish to discuss the Examination Report further, please feel free to contact Peter T. Foley II at 651-296-8541.

Sincerely,

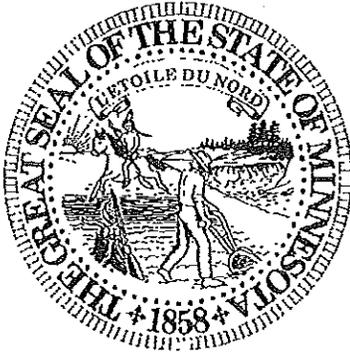
A handwritten signature in black ink, appearing to read "Edward P. Ehlinger", is written over a horizontal line.

Edward P. Ehlinger, MD, MSPH  
Commissioner

Enc.

cc: Margie Pinedo, Minnesota Department of Commerce





STATE OF MINNESOTA  
DEPARTMENT OF HEALTH  
SAINT PAUL, MINNESOTA  
REPORT OF EXAMINATION  
OF  
MEDICA HEALTH PLANS  
MINNETONKA, MINNESOTA  
NAIC # 52626  
AS OF  
DECEMBER 31, 2011



MINNESOTA  
DEPARTMENT OF  
COMMERCE

85 7th Place East, Suite 500  
St. Paul, Minnesota 55101-2198  
www.commerce.state.mn.us  
651.296.4026 FAX 651.297.1959  
An equal opportunity employer

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

**MEDICA HEALTH PLANS  
MINNETONKA, 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, 2011 as determined by a comprehensive examination made in accordance with Minnesota Statutes Section 60D.14. 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: 3/12/2013



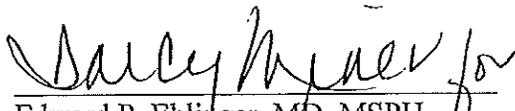
*Protecting, maintaining and improving the health of all Minnesotans*

The attached report of examination made of the condition and affairs as of December 31, 2011 of:

MEDICA HEALTH PLANS  
Minnetonka, 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 Medica Health Plans 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: 3/18/13

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

March 13, 2013

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:

MEDICA HEALTH PLANS  
NAIC # 52626  
401 Carlson Parkway  
Minnetonka, Minnesota 55305

The following report of examination is respectfully submitted.

## SCOPE OF EXAMINATION

The comprehensive examination was conducted on behalf of the Minnesota Department of Health by the Minnesota Department of Commerce (DOC). The DOC Examination Order 12-009 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. The Plan was last examined for the period January 1, 2006, to December 31, 2008. The current statutory examination by the DOC covers the intervening period from January 1, 2009, to December 31, 2011 and any material transactions and events occurring subsequent to the examination date as noted during the course of this examination.

We conducted our examination in accordance with the *NAIC Financial Condition Examiners' Handbook* (FCEH). The Handbook requires that we 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.

Representatives from the firm of INS Regulatory Insurance Services, Inc. were engaged by the DOC to assist in the examination by performing certain examination procedures at the direction and under the overall management of the DOC's examination staff.

The Plan was audited by McGladrey & Pullen, LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Plan's financial statements for 2011. A review of the certified public accountants' work papers was made and the work papers were relied upon to the extent deemed appropriate and effective. An independent actuarial review was performed by INS Consultants, Inc. An evaluation of the adequacy and effectiveness of the Plan's general information technology controls was done by INS Services, Inc. to determine the level of reliance to be placed on general system controls and on summary information generated by the data processing systems.

### Risk Assessment

The examination was conducted as a risk-focused examination. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Information about the Plan's organizational structure, business approach, and control environment was utilized to develop the examination approach that would be most appropriate for the Plan.

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.

#### Status of Prior Examination Findings

The examination included a review to determine the current status of any recommendations noted in the previous Report of Examination as of December 31, 2008. There were no recommendations made in the previous Report of Examination.

### SUMMARY OF SIGNIFICANT FINDINGS

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

### SUBSEQUENT EVENTS/CONTINGENT LIABILITIES

The examination found no indication of any contingent liabilities at or after December 31, 2011, to the date of this examination report that would have a material effect either on the Plan's operations, financial stability or management oversight.

The Plan purchased an office building it occupies at 401 Carlson Parkway, Minnetonka, Minnesota as of August 31, 2012. On December 12, 2012, the Plan also purchased an adjacent building it occupies at 301 Carlson Parkway, Minnetonka, Minnesota. The purchases were cash transactions and no debt was incurred. The total cost of the purchases was \$87 million.

### COMPANY HISTORY

The Plan is a non-profit corporation subject to the provisions of Chapter 317A of the Minnesota Statutes and is exempted from Federal tax pursuant to Section 501 (c) (4) of the Internal Revenue Code of 1986.

The Plan was created by Physicians Health Plan of Greater Minneapolis, a Minnesota non-profit corporation incorporated on December 30, 1974, for the purpose of operating as a health maintenance organization. Since incorporation, the Plan has undergone several name changes. The Plan merged with HealthSpan Health Systems Corporation on July 27, 1994, to form Allina Health System, and the Plan became a first-tier subsidiary of Allina Health System. Control of the Plan transferred to Medica Holding Company (MHC), a Minnesota non-profit corporation incorporated on December 13, 2001, effective April 30, 2002.

## MANAGEMENT AND CONTROL

### Corporate Governance

The Plan consists of two classes of membership, the voting member and consumer members. The voting member is Medica Holding Company (MHC) and consumer members are all members and enrollees of the Plan. Consumer members each have one vote in the election of consumer directors. Consumer members have no other voting rights. Plan governance is provided by the Plan's Board of Directors (Board) and is carried out by Plan management.

### Board of Directors

In accordance with the Plan's By-laws, the Board shall consist of no more than fifteen directors. At least forty percent of the Board must be consumer directors. Directors serve three year terms and are elected annually on a staggered basis. The Plan is in compliance with its By-laws regarding the membership of the Board. At December 31, 2011, the Board of the Plan consisted of the following individuals:

<u>Director</u>	<u>First Elected</u>	<u>Principal Business Affiliation</u>
John D. Buck - Chairperson	2001	Business Executive
Rajesh K. Aggarwal	2008	University Professor
Burton D. Cohen	2003	Publisher and Journalist
Daryl E. Durum	2001	Retired Insurance Company Executive
Peter H. Kelly, M.D.	2001	Surgeon
Samuel H. Leon, M.D.	2001	Physician
Krista L. Sanda Johnson	2001	State Government Regulator
Earl D. Stratton	2009	Business Executive
Austin P. Sullivan	2001	Retired Business Executive
David M. Tilford	2005	Medica President and Chief Executive Officer
Esther M. Tomljanovich	2001	Retired Minnesota Supreme Court Justice

Principal Officers

Principal officers of the Plan are elected by the President of the voting member. At December 31, 2011, the principal operating officers of the Plan and their positions were as follows:

<u>Name</u>	<u>Position</u>
David M. Tilford	President
James P. Jacobson	Assistant Secretary
Aaron L. Reynolds	Treasurer

Enterprise-Wide Risk Management

Risk management activities are coordinated with the corporate-wide strategic planning and budgeting process. The Plan has committed significant resources to monitor risk exposures.

Strategic Planning

The Plan is part of a formal corporate-wide strategic planning process 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, officers and employees. The Plan's General Counsel reviews all disclosure statements and brings potential conflict situations to the attention of the Board. The conflict of interest statements were reviewed and no material conflicts were noted for the period under examination.

**CORPORATE RECORDS**

Articles of Incorporation and By-laws

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

Board of Directors Minutes

The minutes of the Plan's Board meetings and Board Committee meetings were reviewed covering the period of this examination 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 Corporate Group has an internal audit department that has responsibility for monitoring effectiveness of the Group's internal control policies and procedures. The internal audit department has reporting responsibility to both administrative management and the Audit Committee of the Board.

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 and senior management.

### **AFFILIATED COMPANIES AND RELATED PARTIES**

#### Affiliated Companies

The Plan is one of several health insurance provider entities managed and operated by MHC. The affiliated companies within this group are as follows:

Medica Health Plans of Wisconsin is a Health Maintenance Corporation authorized to provide prepaid comprehensive health maintenance services in the state of Wisconsin.

Medica Foundation is a not-for-profit charitable organization that is funded by the Plan with the stated purpose of furthering healthcare.

Medica Research Foundation is a not-for-profit organization that is funded by the Plan with the stated purpose of furthering healthcare.

Medica Insurance Company (MIC) is a corporation offering fully insured comprehensive health plans, COBRA and conversion benefit plans, and supplemental insurance coverage for self-insured employer groups.

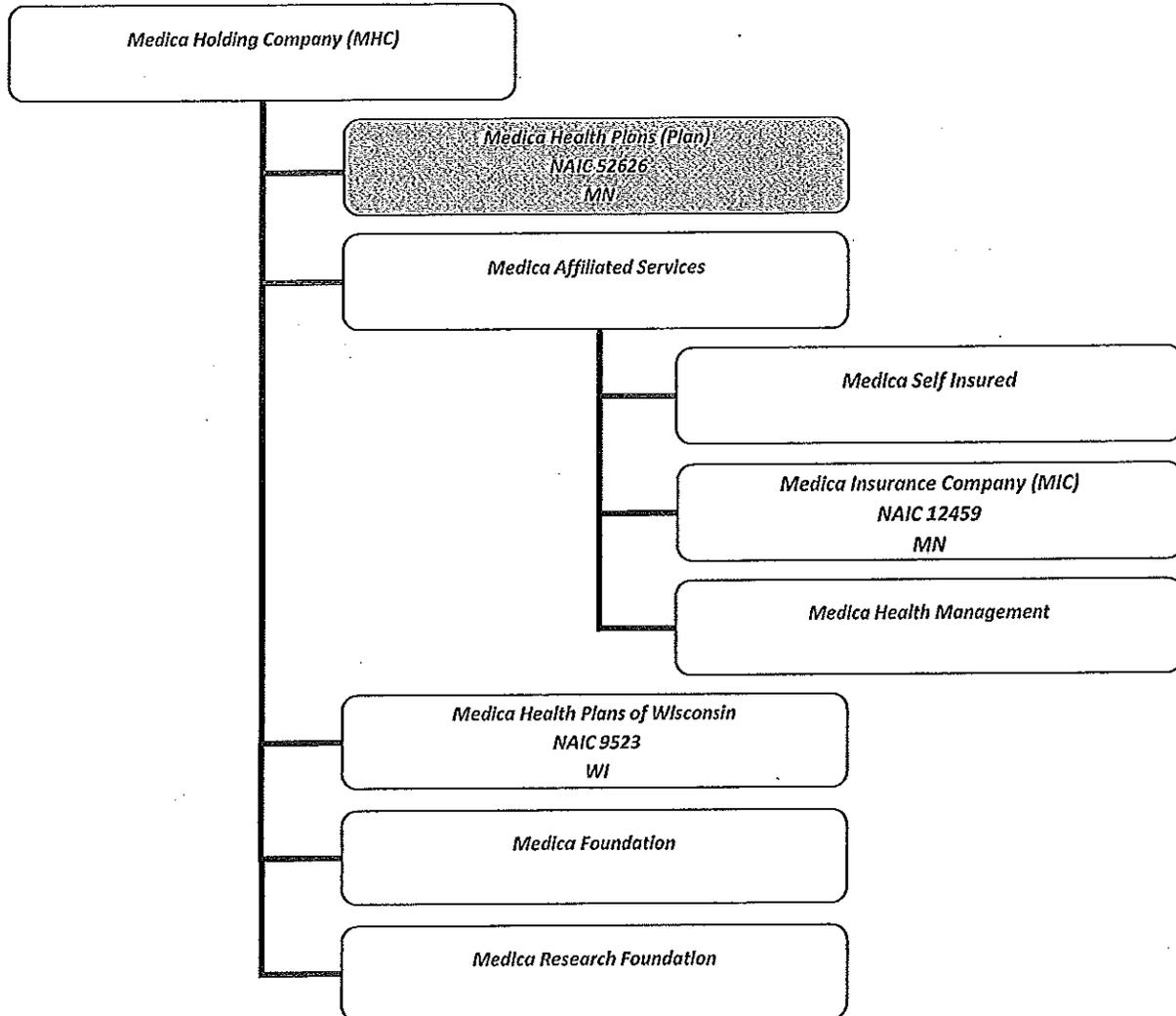
Medica Affiliated Services is a parent company of Medica Self-Insured and MIC.

Medica Self-Insured is a corporation organized to process self-insured business.

Medica Health Management is a service provider to the group.

During 2011, the Plan made contributions of \$3.5 million to the Medica Foundation and \$6.5 million to the Medica Research Foundation.

The Plan's organizational chart is provided below:



### Affiliated Company Agreements

#### *Administrative Services Agreements*

The Plan is a party to administrative and service agreements with Medica Health Plans of Wisconsin, Medica Foundation, Medica Self-Insured and MIC. The terms of each agreement include a provision for the Plan to provide personnel and administrative services for all operations of each entity. The Plan is compensated for the services on a per member per month allocation, with the exception of Medica Foundation which is compensated for actual costs using a pro rata allocation of direct and indirect costs. The allocations include no provision for profit

to the Plan. During 2011, the Plan allocated \$135.2 million in expenses to affiliated companies. As of December 31, 2011, the Plan reported net receivables from affiliates related to intercompany transactions of \$3.2 million.

#### *Surplus Notes*

On September 30, 2005, the Plan invested in a surplus note issued by MIC. The principal amount of the note was \$50.0 million and the rate of interest was 6%. In 2010, the principle amount of \$50.0 million plus the accumulated interest of \$2.5 million was repaid with the approval of the Minnesota Department of Commerce.

The Plan holds a non-admitted surplus note in the amount of \$3.25 million issued by Medica Health Plans of Wisconsin, an affiliate.

#### Unaffiliated Service Agreements

##### *UnitedHealthcare Services, Inc.*

The Plan and certain of its affiliates are parties to an administrative services agreement with United HealthCare Services, Inc. (UHC). Under the agreement, UHC agrees to provide the Plan and its affiliates with certain management services that are information technology system dependent. Services provided under this agreement include billing, enrollment, claims processing and accounting. The agreement automatically renews unless terminated with a two year notice. The fee paid to UHC for these services is calculated based on a predetermined dollar amount per member, per month. The Plan withholds a portion of the fee. The payment of the withholding is contingent upon UHC's performance under the agreement terms.

##### *Delta Dental Plan of Minnesota*

The Plan is party to an administrative service agreement with Delta Dental Plan of Minnesota (Delta). Under the agreement, Delta agrees to provide claims processing and other services related to the Plan's commercial and Medicare dental procedures. The administrative fee paid for these services is calculated based upon a predetermined dollar amount per member, per month.

##### *MedImpact Healthcare Systems, Inc.*

The Plan and certain of its affiliates are parties to an administrative services agreement with MedImpact Healthcare Systems (MHS). Under the agreement, MHS agrees to provide the Plan and its affiliates with certain administrative and operational services related to their pharmacy benefit programs. The fee paid to MHS for these services is calculated based upon a predetermined dollar amount per member, per month.

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

MHC 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.

MHC carries general insurance coverage for the corporate group which management has determined to be sufficient to cover risk exposures in the normal course of business.

### **EMPLOYEE BENEFITS**

The Plan provides personnel services for all affiliated entities under an intercompany management services agreement. Plan employees are not parties to any employment contracts or post-retirement health plans.

### **STATUTORY & SPECIAL DEPOSITS**

The Plan is required by Minnesota Statutes, section 62D.041 to deposit securities in a separate custodial account to be held in the event of insolvency. The balance in the account is required to be at least 33% of the prior year's uncovered expenses. The Plan was in compliance with this statutory requirement at year end 2011.

North Dakota Statutes require the Plan to maintain in escrow at least \$300,000. The Plan had the required amounts on deposit at year end 2011 and was in compliance with this Statute.

The Plan had no other restricted assets at December 31, 2011.

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

The Plan is authorized in Minnesota as a health maintenance organization. The Plan is also a licensed health insurer in the States of North and South Dakota. The Plan's products are marketed to fully insured employer groups. Coverage is also provided under government insurance programs. Marketing is primarily through independent brokerage firms and agents.

The Plan contracts out various administrative functions of its health insurance programs. Included in this contracted administration is the processing and payment of claims, enrollment, billing and collection of premium.

### **LOSS EXPERIENCE**

The statutory reserves and related items for 2011 were reviewed and certified by the Plan's Appointed Actuary, Timothy Courtney, FSA, MAAA, Senior Actuarial Consultant.

The consulting actuarial firm of INS Consultants, Inc. reviewed the claim liabilities carried by the Plan at December 31, 2011. The examination consisted of review of the underlying data using procedures prescribed by the FCEH and other procedures as determined necessary by the consulting actuary to provide adequate validation of the data. Based on the procedures applied, the claim liabilities appear to make reasonable provision for the Company's Loss and LAE reserves.

### REINSURANCE

The Plan entered into a 40 percent quota share reinsurance agreement with MIC, effective August 1, 2009, whereby the Plan assumes a portion of the commercial business risk written by MIC. In 2011, the Plan assumed premiums in the amount of \$385.5 million and claims in the amount of \$301.6 million. The Plan also assumed \$36.6 million of administrative expenses and \$3.7 million in investment income under the terms of the contract for 2011. In addition, under the terms of the contract an experience refund for 2011 was returned to MIC in the amount of \$45.6 million.

As part of this agreement, the Plan entered into a stop-loss agreement with MIC on the reinsured business. Under this agreement the Plan's risk exposure is limited to 110 percent of the assumed premium. The Plan ceded stop loss premiums in the amount of \$1.9 million in 2011 under this agreement.

The Plan entered into a contract with Delta to share 50 percent of the profits or losses associated with Delta's commercial products sold to Plan members. The contract requires annual settlement. In 2011, the Plan assumed \$3.1 million in premium and assumed \$2.8 million in claims.

### ACCOUNTS AND RECORDS

#### Systems/Operations Databases & Business Continuation

The Plan's primary books and supporting records are processed and maintained by UHC, a third party administrator. System and data integrity management oversight functions are performed by the corporate finance and internal audit departments. Examination review found these control oversight functions to provide reasonable assurance that insured and financial records are being processed and recorded accurately.

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 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 custodial agreements, in book entry form, with national banking associations. The terms of the custodial agreements provide for non-comingling and indemnity against physical or negligent loss.

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

The Plan is a party to investment management agreements by which it gives the investment advisors discretionary investment authority, as limited by the Plan's investment objectives and guidelines, over investment of Plan assets under the advisor's management. None of the advisors are custodians of the securities.

### 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.

### 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.

## **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 2009 through 2011, 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.

Medica Health Plans  
 Statements of Assets, Liabilities, Surplus and Other Funds  
 As of December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b><u>Admitted Assets</u></b>			
Bonds	\$ 277,678,281	\$ 197,922,686	\$ 224,880,060
Preferred Stocks	940,002	1,449,069	2,238,236
Real Estate	6,221,923	6,900,588	7,479,728
Cash and Short-term Investments	307,823,502	343,031,089	174,040,909
Other Invested Assets	0	0	50,000,000
Receivables for Securities	46,304	26,290	234,116
<b>Total Cash and Invested Assets</b>	<b>\$ 592,710,012</b>	<b>\$ 549,329,722</b>	<b>\$ 458,873,049</b>
Investment Income Due and Accrued	2,142,258	1,689,216	4,981,034
Uncollected Premiums	83,700,251	73,354,148	59,900,343
Funds Held by or Deposited with Reinsurer	29,908,735	28,979,855	30,616,487
Receivables Related to Uninsured Plans	60,000	0	0
Current Federal Income Tax Recoverable	0	0	117,331
EDP Equipment and Software	1,497,374	1,749,704	1,070,793
Receivable from Affiliates	4,180,631	15,844,380	24,484,496
Healthcare Receivables	4,688,296	4,360,028	6,282,132
<b>Total Admitted Assets</b>	<b>\$ 718,887,557</b>	<b>\$ 675,307,053</b>	<b>\$ 586,325,665</b>
<b><u>Liabilities</u></b>			
Claims Unpaid	\$ 133,558,397	\$ 148,653,382	\$ 132,822,205
Accrued Medical Incentive Pool Amounts	11,388,720	2,903,809	2,328,816
Unpaid Claims Adjustment Expenses	4,208,704	3,932,627	3,827,285
Aggregate Health Policy Reserve	37,643,582	14,073,214	16,986
Aggregate Health Claim Reserve	29,908,735	28,979,855	30,616,487
Premiums Received in Advance	259,823	601,110	1,862,169
General Expenses Due or Accrued	78,671,416	71,366,542	50,640,223
Current Federal Income Tax Payable	299,333	21,866	0
Remittances Not Allocated	1,493,893	2,313,023	746,758
Payable to Affiliates	0	2,399	2,208
Payable for Securities	3,223,724	0	0
Liabilities for Uninsured Plans	1,810,860	3,032,218	1,999,926
Aggregate Liability Write-ins	100,238	97,636	189,595
<b>Total Liabilities</b>	<b>\$ 302,567,425</b>	<b>\$ 275,977,681</b>	<b>\$ 225,052,658</b>
<b><u>Surplus</u></b>			
Unassigned Funds	\$ 416,320,132	\$ 399,329,372	\$ 361,273,007
<b>Total Surplus</b>	<b>\$ 416,320,132</b>	<b>\$ 399,329,372</b>	<b>\$ 361,273,007</b>
<b>Total Liabilities and Surplus</b>	<b>\$ 718,887,557</b>	<b>\$ 675,307,053</b>	<b>\$ 586,325,665</b>

Medica Health Plans  
 Statements of Income and Reconciliation of Surplus  
 Years ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net Premium Income	\$ 1,586,840,996	\$ 1,706,184,411	\$ 1,367,530,236
<b>Total Revenues:</b>	<b>\$ 1,586,840,996</b>	<b>\$ 1,706,184,411</b>	<b>\$ 1,367,530,236</b>
Hospital/Medical Benefits	\$ 850,186,362	\$ 989,839,532	\$ 858,669,437
Other Professional Services	23,154,224	24,885,509	31,322,576
Emergency Room & Out of Area	138,275,872	81,189,892	72,744,266
Prescription Drugs	129,510,364	139,083,878	119,504,267
Incentive Pool Amounts	8,866,478	4,871,065	4,627,032
Less: Net Reinsurance Recoveries	(304,112,273)	(313,068,089)	(150,539,089)
<b>Total Hospital and Medical</b>	<b>\$ 1,454,105,573</b>	<b>\$ 1,552,937,965</b>	<b>\$ 1,237,406,667</b>
Claim Adjustment Exp. including Cost Containment	19,072,073	22,107,035	13,738,026
General Administrative Expenses	97,684,042	108,398,201	87,585,392
Increase in Reserves	19,900,000	12,900,000	0
<b>Total Underwriting Deductions:</b>	<b>\$ 1,590,761,688</b>	<b>\$ 1,696,343,201</b>	<b>\$ 1,338,730,085</b>
<b>Net Underwriting Gain or (Loss)</b>	<b>(\$ 3,920,692)</b>	<b>\$ 9,841,210</b>	<b>\$ 28,800,151</b>
Net Investment Income Earned	10,617,293	14,905,338	19,605,242
Net Realized Capital Gains	8,010,461	4,519,152	1,192,027
Federal Income Taxes Incurred	95,138	143,583	(59,167)
<b>Net Income (Loss)</b>	<b>\$ 14,611,924</b>	<b>\$ 29,122,117</b>	<b>\$ 49,656,587</b>
<b><u>Surplus Account</u></b>			
Surplus – Beginning of Year	\$ 399,329,372	\$ 361,273,007	\$ 317,703,509
Net Income (Loss)	14,611,924	29,122,117	49,656,587
Change in Net Unrealized Capital Gains (Losses)	(80,280)	180,977	(342,336)
Change in Non-admitted Assets	2,459,116	8,753,271	(5,744,753)
Net Change in Surplus for the Year	16,990,760	38,056,365	43,569,498
<b>Surplus – End of Year</b>	<b>\$ 416,320,132</b>	<b>\$ 399,329,372</b>	<b>\$ 361,273,007</b>

Medica Health Plans  
Statements of Cash Flows  
Years ended December 31,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b><u>Cash from Operations</u></b>			
Premiums Collected Net of Reinsurance	\$ 1,598,795,093	\$ 1,707,162,407	\$ 1,309,645,218
Net Investment Income	10,662,132	16,625,666	13,923,962
<b>Total</b>	<b>1,609,457,225</b>	<b>1,723,788,073</b>	<b>1,323,569,180</b>
Benefit and Loss Related Payments	1,479,686,767	1,551,068,427	1,199,961,041
Commissions & Expenses Paid	110,456,522	108,830,878	96,794,026
Federal Income Taxes Paid	(182,329)	4,386	163,041
<b>Total</b>	<b>1,589,960,960</b>	<b>1,659,903,691</b>	<b>1,296,918,108</b>
<b>Net Cash from Operations</b>	<b>\$ 19,496,265</b>	<b>\$ 63,884,382</b>	<b>\$ 26,651,072</b>
<b><u>Cash from Investments</u></b>			
Proceeds from Investments Sold, Matured or Repaid:			
Bonds	\$ 231,220,856	\$ 125,879,153	\$ 313,736,472
Stocks	477,268	1,410,763	937,477
Other Invested Assets	0	50,000,000	0
Miscellaneous Proceeds	3,223,724	207,826	0
<b>Total Investment Proceeds</b>	<b>234,921,848</b>	<b>177,497,742</b>	<b>314,673,949</b>
Cost of Investments Acquired (Long-Term Only):			
Bonds	302,635,216	92,398,242	280,111,502
Stocks	0	0	414,712
Real Estate	198,471	294,375	499,553
Miscellaneous Applications	20,014	0	6,941,367
<b>Total Investments Acquired</b>	<b>302,853,701</b>	<b>92,692,617</b>	<b>287,967,134</b>
<b>Net Cash from Investments</b>	<b>(\$ 67,931,852)</b>	<b>\$ 84,805,125</b>	<b>\$ 26,706,815</b>
<b><u>Cash from Financing and Miscellaneous Sources</u></b>			
Other Cash Provided (Applied)	\$ 13,228,000	20,300,674	(18,115,569)
<b>Net Cash from Financing &amp; Misc. Sources</b>	<b>\$ 13,228,000</b>	<b>\$ 20,300,674</b>	<b>(\$ 18,115,569)</b>
<b><u>Reconciliation of Cash &amp; Short-Term Investments</u></b>			
Net Change in Cash and Short-Term Investments	(\$ 35,207,587)	\$ 168,990,180	\$ 35,242,318
Cash & Short-Term Investments:			
Beginning of Year	\$ 343,031,089	\$ 174,040,909	\$ 138,798,591
<b>End of Year</b>	<b>\$ 307,823,502</b>	<b>\$ 343,031,089</b>	<b>\$ 174,040,909</b>

## CONCLUSION

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

In addition to the undersigned, Peter Bliss, CFE, Examiner-in-Charge; Ryan Maxwell CFE, Staff Examiner, both from INS Regulatory Insurance Services, Inc.; Larry Lentini, CPA, Information Technology Specialist, INS Services, Inc.; Joseph Higgins, FSA, MAAA, Actuary, INS Consultants, Inc. and M. James Carr from the Minnesota Department of Commerce participated in the examination.

Respectfully submitted:

A handwritten signature in black ink, appearing to read "P. Bliss", written in a cursive style.

Peter Bliss, CFE  
Examiner-in-Charge  
Representing the State of Minnesota