

STATE OF MINNESOTA

DEPARTMENT OF COMMERCE

ST. PAUL, MINNESOTA

EXAMINATION REPORT

OF

PREFERREDONE COMMUNITY HEALTH PLAN

GOLDEN VALLEY, MINNESOTA

NAIC # 95724

AS OF

DECEMBER 31, 2014



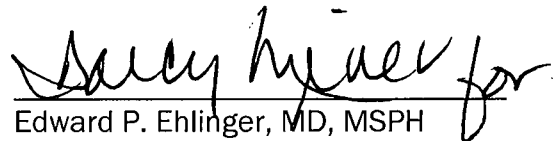
Protecting, maintaining and improving the health of all Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2014 of:

PREFERREDONE COMMUNITY HEALTH PLAN
Golden Valley, 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 PreferredOne Community Health Plan 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: 6/23/16

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

**PREFERREDONE COMMUNITY HEALTH PLAN
GOLDEN VALLEY, 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, 2014 as determined by a comprehensive examination made in accordance with Minnesota Statutes Section 62D.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: Frederick Andersen
Acting Deputy Commissioner and Life
Actuary

Dated: 6/24/16

TABLE OF CONTENTS

Subject	Page
SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
COMPANY HISTORY.....	2
CORPORATE RECORDS.....	3
MANAGEMENT AND CONTROL.....	3
AFFILIATED COMPANIES.....	5
TERRITORY AND PLAN OF OPERATION	5
REINSURANCE	5
FINANCIAL STATEMENTS	6
Assets.....	7
Liabilities, Capital and Surplus.....	8
Summary of Operations	9
Capital and Surplus Account	10
Comparative Analysis of Changes in Surplus	11
COMMENTS ON FINANCIAL STATEMENT ITEMS.....	12
Assets.....	12
Liabilities, Capital and Surplus.....	12
SUMMARY OF FINDINGS, COMMENTS AND RECOMMENDATIONS.....	13
SUBSEQUENT EVENTS.....	13
CONCLUSION	14
APPENDIX.....	15

May 31, 2016

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

The Honorable Mike Rothman
Commissioner of Commerce
Minnesota Department of Commerce
85 7th Place East, Suite 500
St. Paul, Minnesota 55101

Dear Commissioners:

Pursuant to your instructions and the statutory requirements of the State of Minnesota, a comprehensive examination has been made of the affairs and financial condition of:

PreferredOne Community Health Plan
NAIC #95724
6105 Golden Hills Drive
Golden Valley, MN 55416

hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

We have performed our risk-focused statutory financial condition examination of the Company pursuant to the Minnesota Department of Commerce (Commerce) Examination Order # 15-011. The examination was conducted by representatives of the Minnesota Department of Commerce (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 Health Maintenance Organizations on behalf of Health.

The last examination of the Company was completed as of December 31, 2011. This full-scope examination covers the period of January 1, 2012 through December 31, 2014, including any material transactions and/or events occurring subsequent to the examination date.

We conducted our examination in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (Handbook) along with specific procedures defined by Commerce. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify prospective risks of the Company and evaluate 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 included 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 the 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.

During this examination, assets were verified and/or valued and liabilities were determined, or estimated as necessary, for the period ending December 31, 2014. Both assets and liabilities were reviewed with consideration given to Minnesota Statutes.

The Company was audited annually, for the years 2012 through 2014, by the accounting firm of RSM US LLP (RSM) (f/k/a McGladrey LLP). Among the procedures incorporated into this examination was a review of the annual audit work papers prepared by RSM. Certain work papers developed by RSM were relied upon by the examiners and were incorporated into the examiners' work papers.

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.), were not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

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

Prior Examination Findings

There were no reportable findings or recommendations as a result of the prior examination performed as of December 31, 2011, which was filed as a public document on June 6, 2013.

COMPANY HISTORY

The Company was organized in December 1994 as a nonprofit Community Integrated Service Network under Minnesota Statute Chapter 62N and licensed by the State of Minnesota to provide comprehensive prepaid health care services per the provisions of the Minnesota Integrated Service Network Act.

On December 20, 1999, Health issued the Company a certificate of authority to operate as a not-for-profit health maintenance organization, under Minnesota Statute Chapter 62D.

The Company was formed by and through the contributions of two Minnesota nonprofit health service providers. The Company is owned equally by both of the nonprofit health service providers.

CORPORATE RECORDS

The recorded minutes of the meetings held by the Members and Board of Directors (Board) were reviewed for the Company for the period under examination. The minutes adequately documented approved Company transactions, in accordance with the Board's powers and authority, including the election or appointment of directors and officers, approval of the investment policy, investment transactions, and other corporate actions. The minutes also documented discussions of cash position, reserves and other key components of financial statements. The primary location of the corporate records is 6105 Golden Hills Drive, Golden Valley, Minnesota.

MANAGEMENT AND CONTROL

The Company's bylaws state that the Board shall consist of enrollee directors and non-enrollee directors. Enrollee directors are individuals who have coverage with the Plan, and comprise 40% of the Board. Each enrollee director is appointed for a term of two years and is limited to three terms.

Non-enrollee directors comprise the remaining 60% of the Board, two-thirds of whom are appointed by the contributing members and one-third of whom are appointed by the non-contributing members.

The Plan is in compliance with the Minnesota Statutes, section 62D.06 limitations on enrollee directors.

The Company indicated the following individuals were serving as Directors at December 31, 2014:

Directors

<u>Director</u>	<u>Business Affiliation</u>	<u>Director Since</u>
Donald L. Deye	PreferredOne Physicians Associates	2013
Betty F. Fedde	Ironwood Electronics	2013
Daniel M. Fromm	Fairview Health Services	2011
Patrick B. Herson, M.D.	Fairview Health Services	2012
Susan C. Niccum	Minneapolis Clinic of Neurology	2012
Ann M. Nowak	Lawrence Merchandising	2012
Todd R. Ostendorf	North Memorial Health Care	2014
Steven E. Praver, M.D.	PreferredOne Physicians Associates	2010
John E. Schuette	Franklin Press, Inc.	2013
Tiffany M. Zitzewitz	North Memorial Health Care	2013

Principal Officers of the Company are elected by the Board, at its annual meeting, for terms of one year and serve at the discretion of the Board. The following officers were elected and were serving as of December 31, 2014:

Officers

<u>Name</u>	<u>Title</u>
Paul D. Geiwitz	Interim President
Debra J. Revoir Shoemaker	Secretary
Michael S. Umland	Treasurer

The Company's bylaws allow its Board to appoint an Executive Committee and an Enrollee Nominating Committee. The Board or the Executive Committee may designate one or more other committees from time to time and may adopt such regulations as it deems advisable with respect to the membership, authority and procedures of such. The Company has the following committees as of December 31, 2014: Audit and Investment Committee; Credentialing Oversight Committee; Enrollee Nominations Committee; and Quality Management Committee. The Company also has various quality management subcommittees.

AFFILIATED COMPANIES

Members of the Company are Fairview Health Services, North Memorial Health Care, and PreferredOne Physician Associates. The Company is managed through a Management Agreement by PAS (see Appendix for organizational chart at the end of this report).

The Company participated in the following material agreement, not including reinsurance agreements, which were in-force between the Company and its affiliates during the period under examination:

Management Services Agreement:

The Company pays PAS a management fee for all managerial services, including accounting, actuarial, claims and enrollment administration, customer service, information systems, marketing, provider contracting, and other miscellaneous administrative services. For these services, the Company has agreed to pay PAS a management fee calculated as a percentage of gross premium revenues. Pursuant to the terms of the January 10, 1995 agreement and amendments, the Company pays a management fee of four percent (4%) of large group gross premiums and six percent (6%) of small group premiums. The Company paid PAS a total of \$2,965,365 under the terms of this agreement during 2014.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company was licensed only in the state of Minnesota as a health maintenance organization. The Company markets comprehensive large and small group hospital, medical and dental coverages primarily through independent brokerage firms and agents.

REINSURANCE

The Company did not actively assume or cede any premiums at December 31, 2014. Review of the annual statement indicates that the Company ceded \$(109,902) to American National Insurance Company pursuant to the terms of an agreement effective January 1, 2013.

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment was identified, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with Commerce, are reflected in the following:

(Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

PreferredOne Community Health Plan
Assets
December 31, 2014

Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	401,107
Reinsurance:	
Amounts recoverable from reinsurers	450,000
Other amounts receivable under reinsurance contracts	36,950
Receivables from parent, subsidiaries and affiliates	116,534
Health care and other amounts receivable	585,872
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	\$ 11,815,310
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0
Totals	<u><u>\$ 11,815,310</u></u>

**PreferredOne Community Health Plan
Liabilities, Capital and Surplus
December 31, 2014**

	Per Company
Claims unpaid	\$ 4,703,567
Aggregate health policy reserves, including the liability of \$0 for medical loss ratio rebate per the Public Health Service Act	95,947
Premiums received in advance	672,832
General expenses due or accrued	1,489,715
Amounts due to parent, subsidiaries and affiliates	30,261
Total Liabilities	\$ 6,992,322
Aggregate write-ins for special surplus funds	240,000
Gross paid in and contributed surplus	656,095
Unassigned funds (surplus)	3,926,893
Total Capital and Surplus	\$ 4,822,988
Total Liabilities, Capital and Surplus	\$ 11,815,310

**PreferredOne Community Health Plan
Summary of Operations
December 31, 2014**

	<u>Uncovered</u>	<u>Total</u>
Member Months	xxx	177,893
Net premium income	xxx	\$ 57,411,476
Total revenues	xxx	\$ 57,411,476
 Hospital and Medical:		
Hospital/medical benefits	\$ 19,295	\$ 40,474,707
Other professional services		1,925,367
Outside referrals	681,388	874,760
Emergency room and out-of-area	4,766	2,174,345
Prescription drugs		7,100,096
Subtotal	\$ 705,449	\$ 52,549,275
 Less:		
Net reinsurance recoveries		450,000
Total Hospital and Medical	\$ 705,449	\$ 52,099,275
Claims adjustment expenses, including \$435,011 cost containment expenses		1,099,259
General administrative expenses		7,277,483
Increase in reserves for life and accident and health contracts		95,947
TOTAL Underwriting Deductions	\$ 705,449	\$ 60,571,964
Net underwriting gain or (loss)	xxx	\$ -3,160,488
Net investment income earned		155,338
Net realized capital gains (losses) less capital gains taxes of \$0		170,352
Net investment gains (losses)		\$ 325,690
Net income, after capital gains tax and before all other federal income taxes	xxx	\$ -2,834,798
Federal and foreign income taxes	xxx	0
Net income (loss)	xxx	<u><u>\$ -2,834,798</u></u>

**PreferredOne Community Health Plan
Capital and Surplus Account
December 31, 2014**

Capital and surplus prior reporting year	\$ 7,702,328
Net income or (loss)	-2,834,798
Change in net unrealized capital gains (losses)	25,276
Change in nonadmitted assets	-69,818
Net change in capital and surplus	<u>\$ -2,879,340</u>
Capital and surplus end of reporting year	<u>\$ 4,822,988</u>

**PreferredOne Community Health Plan
Comparative Analysis of Changes in Surplus
December 31, 2014**

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

	Per Annual Statement	Per Examination	Change in Surplus
Capital and Surplus at December 31, 2014 per Company	\$4,822,988		
Assets:			
Total Assets	\$11,815,310	\$11,815,310	\$0
Liabilities:			
Total Liabilities	\$6,992,322	\$6,992,322	<u>\$0</u>
Capital and Surplus at December 31, 2014, per Examination		\$4,822,988	<u>\$0</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Assets

Funds Held or Deposited with Reinsurance Companies

There were no adjustments to assets during this examination.

Liabilities, Capital and Surplus

Loss Reserves

An actuary appointed by the Board rendered an opinion that the amounts carried in the balance sheet, as of December 31, 2014, include provisions for all actuarial reserves and related statement items which should be established, and meet the requirements of the insurance law and regulation of the State of Minnesota and are at least as great as the minimum aggregate amounts required by the State.

Merlinos & Associates, Inc. was appointed by Commerce to independently test reserves and review workpapers provided by the Company and is in concurrence with this opinion.

Unassigned Funds (Surplus)

The amount reported by the Company of \$3,926,893 has been accepted for the purposes of this examination.

SUMMARY OF FINDINGS, COMMENTS AND RECOMMENDATIONS

In addition to the Comments on Financial Statements noted in the previous section of this report, the following items were noted during the examination:

Compliance with Previous Directives

There were no reportable findings or recommendations made in the 2011 Examination Report for the Company.

Current Examination Comments and Recommendations

There are no other items of interest or corrective actions to be taken by the Company regarding findings in the examination as of December 31, 2014.

SUBSEQUENT EVENTS

During August of 2015, David P. Crosby was named as the President and Chief Executive Officer of the Company, replacing Paul D. Geiwitz as the Interim President.

On January 15, 2016, Fairview Health Services acquired all of the contributing and noncontributing ownership interests from the other members.

There were no other subsequent events noted that would have a material impact on the Company's operations, financial statements or management oversight, or that would require additional disclosures.

OTHER SIGNIFICANT EVENTS

No other significant events were noted during the examination that would have an impact on the examination report.

CONCLUSION

As a result of this examination, the financial condition of **PreferredOne Community Health Plan** as of December 31, 2014 is summarized as follows:

Admitted assets	<u>\$11,815,310</u>
Liabilities	\$ 6,992,322
Capital and surplus	<u>4,822,988</u>
Total liabilities, capital and surplus	<u>\$11,815,310</u>

Per examination findings, the Company met the minimum surplus requirements pursuant to Minnesota Statutes, Section 62D.04 as of December 31, 2014.

In addition to the undersigned, other representatives of Examination Resources, LLC and Merlinos & Associates, Inc., all appointed to represent the State of Minnesota, participated in this examination.

Respectfully submitted,



Scott R. Kalna, CFE, MCM
Examiner-in-Charge
Examination Resources, LLC
Representing the State of Minnesota,
Department of Commerce

APPENDIX

ORGANIZATIONAL CHART as of DECEMBER 31, 2014

